

# Future Developments of the Container Business Lessons to be learnt from the Global Recession

## *'Cooperation better than Confrontation'*

### 1. Overview

Although the majority of the world's major container carriers have returned to operating profits during 2010, the financial pain of the previous 12 months is still very fresh in people's memories, there is some doubt as to whether the lessons learnt have been clearly identified let alone carved into the board room tables. For the company's future direction, this short paper has attempted to identify some of the lessons involved and to encapsulate these into Ten Golden Rules which shall be adopted should the spectre of another economic recession loom over the liner shipping's horizon. In summary, these rules have been listed as follows:

- Continually match supply and demand ratios on all trade lanes
- Cooperate on the consolidation of services and asset deployment
- Continuous focus on operational cost and performance indicators
- Concentrate on revenue enhancement rather than market share retention
- Maximise the opportunities provided by current communication and IT processes
- Optimise the financial advantages of asset pooling
- Build strong and lasting customer service relationships
- Offer a range of service options and freight tariffs
- Negotiate mutually binding service contracts
- Focus on efficient profit oriented organisational structures

Whilst these rules are by no means finite, they do provide a basic structure for the longer term survival of the container carriers and if observed, may better position them for possible future financial turbulence. This would also provide interested industry observers with a more favourable impression than in the 4<sup>th</sup> quarter of 2008 when the carriers' senior management were categorised as only one level above 'headless chickens'. The period also coincided with the abolition of liner shipping conferences for the European trades, but given the constraining 'anti-trust' shackles which are globally imposed on these organisations, it is questionable whether even they could have staunched the subsequent financial 'blood shed' experienced by the container carriers.

At least by observing all, or even part of the Ten Golden Rules, carriers would have a better chance of financial survival. The rules themselves have been further amplified in the section which follows.

## **2. The Ten Golden Rules**

- **First Golden Rule - 'Continually match supply and demand ratios on all trade routes'**
  - Forecast trade lane cargo volumes
  - Continually analyse vessel utilisation levels
  - Monitor port pair traffic flows
  - Progressively analyse competitors' vessel deployment and schedule patterns
  - Collaborate with trade and shipper associations
  - Evaluate container freight derivatives
- **Second Golden Rule - 'Cooperate on the consolidation of services and asset deployment'**
  - Continually evaluate political and commercial considerations
  - Maximise the use of ultra-large container carriers
  - Development of legally binding commercial and operating arrangements
  - Eliminate overlapping port pair schedules
  - Progressively monitor port-pair supply/demand requirements
- **Third Golden Rule - 'Continuous focus on operational costs and performance indicators'**
  - Focus on rolling financial forecasts
  - Undertake regular audits of costs
  - Prepare meaningful charts of accounts and standard costs
  - Preparation and monitoring of KPIs
  - Regular industry-wide benchmarking analysis
- **Fourth Golden Rule - 'Concentrate on revenue enhancement rather than market share retention'**
  - Establish and monitor revenue guidelines
  - Maximise contribution analysis reporting
  - Analyse trade lane market shares
  - Switch to time-based accounting
- **Fifth Golden Rule - 'Maximise the opportunities provided by current communication and IT processes'**
  - Review and evaluate existing business processes
  - Maximise use of decision aiding IT processes
  - Capitalise on e-commerce business opportunities
  - Optimise use of infomediary portals for greater customer reach
- **Sixth Golden Rule - 'Optimise the financial advantages of asset pooling'**
  - Grey Box' container pools
  - Utilise common hinterland logistical services
  - Negotiate linking feeder and terminal contracts
  - Consolidate 'back-room' services

- **Seventh Golden Rule - 'Build strong and lasting customer service relationships'**
  - Maintain comprehensive analysis of customer networks
  - Monitor customers' perception of service performance
  - Establish customer focused organisational structures
  - Involve senior company executives to improve customer relations
- **Eighth Golden Rule - ' Offer a range of service options and freight tariffs'**
  - Reversion to commodity oriented pricing
  - Adopt service offerings to better suit customers' needs
  - Develop a total range of supply chain services
  - Coordinate with carrier partners to provide different service options and remember that *"One size does not fit all"*
- **Ninth Golden Rule - 'Negotiate mutually binding service contracts'**
  - Maintain continual record of carrier and customer performance levels
  - Spend time to understand customers' requirements
  - Conduct regular carrier/customer progress meetings
  - Avoid the introduction of all surcharges during contractual period
- **Tenth Golden Rule - 'Focus on efficient profit oriented organisational structures'**
  - Stimulate work ethos through promotional activities
  - Promote on-going training programmes
  - Convert cost centres to profit centres
  - Continually assess business related processes

### 3. Conclusion

It is relatively easy to have perfect 20/20 vision by looking backwards, and in reality, very few of the liner shipping's key executives had previously had the depth of experience to confront the many issues with which the industry was faced in the 4<sup>th</sup> quarter of 2008. However, the fact that virtually all the major container carriers survived says more for the support of financial institutions than in the foresight of the majority of the industry's own specialist managers. However, this financial support came at a high price and the effects of this will be felt for many years to come.

So far as the liner shipping industry itself is concerned, whilst some trades such as those involving the intra-Asian basin have rebounded at an encouraging rate; other routes involving the trans-Pacific and Asia-Europe have shown less sustained recovery. This comes at a time when the delivery of large new cellular vessels is continuing at a high level throughout 2010 and will continue into 2011. The narrowing of the supply/demand equation is still some way from being realised, but conversely, container carriers also commit themselves to the longer

term trade projections and therefore a degree of over capacity has always been a feature of their strategic planning.

The cyclical financial fortunes of the container shipping industry has been a feature of liner shipping since the First Container Revolution in the early 1960s and certainly many carriers were in the doldrums during the Second Container Revolution in the late 1980s early 1990s. The present situation can perhaps be heralded as the Third Container Revolution, when considerable economic instability faces many countries, shippers and not least, the container carriers. This paper therefore suggests that were the carriers to adopt at least some of the 'Ten Golden Rules' as outlined above, then their longer term financial survival might be better assured.

*"Tomorrow will give much food for thought"*

Cicero

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