

Propeller Club, Geneva

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To order Mr Lorange's book:

<http://books.elsevier.com/elsevier/?isbn=0080446116>

# Strategic Challenges in the Shipping Industry



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The Nestlé Professor

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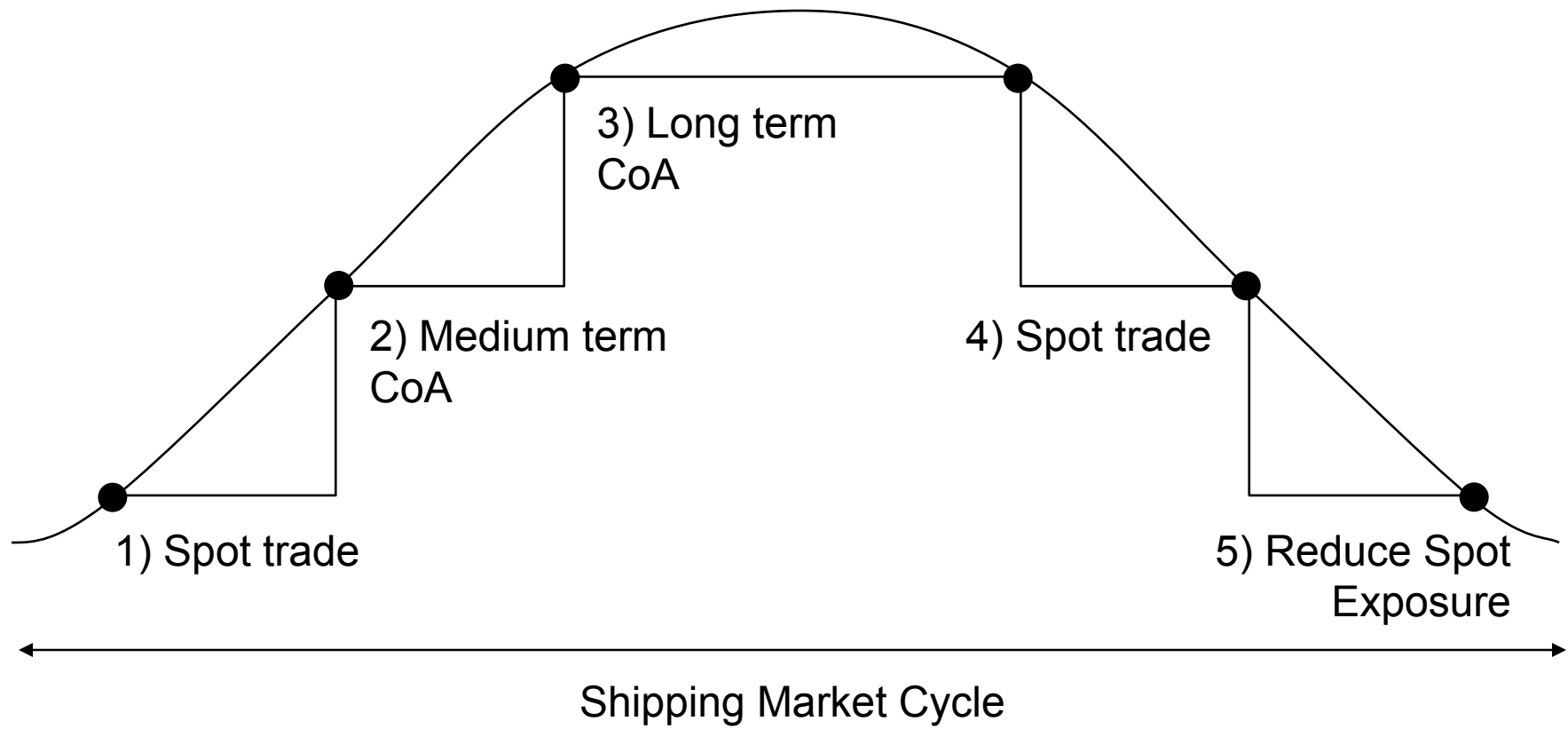
# Let me touch upon Four aspects of Successful Shipping Strategies:

- Commodity Strategies
- Niche Strategies
- Overall Portfolio Strategies
- The People and the Culture

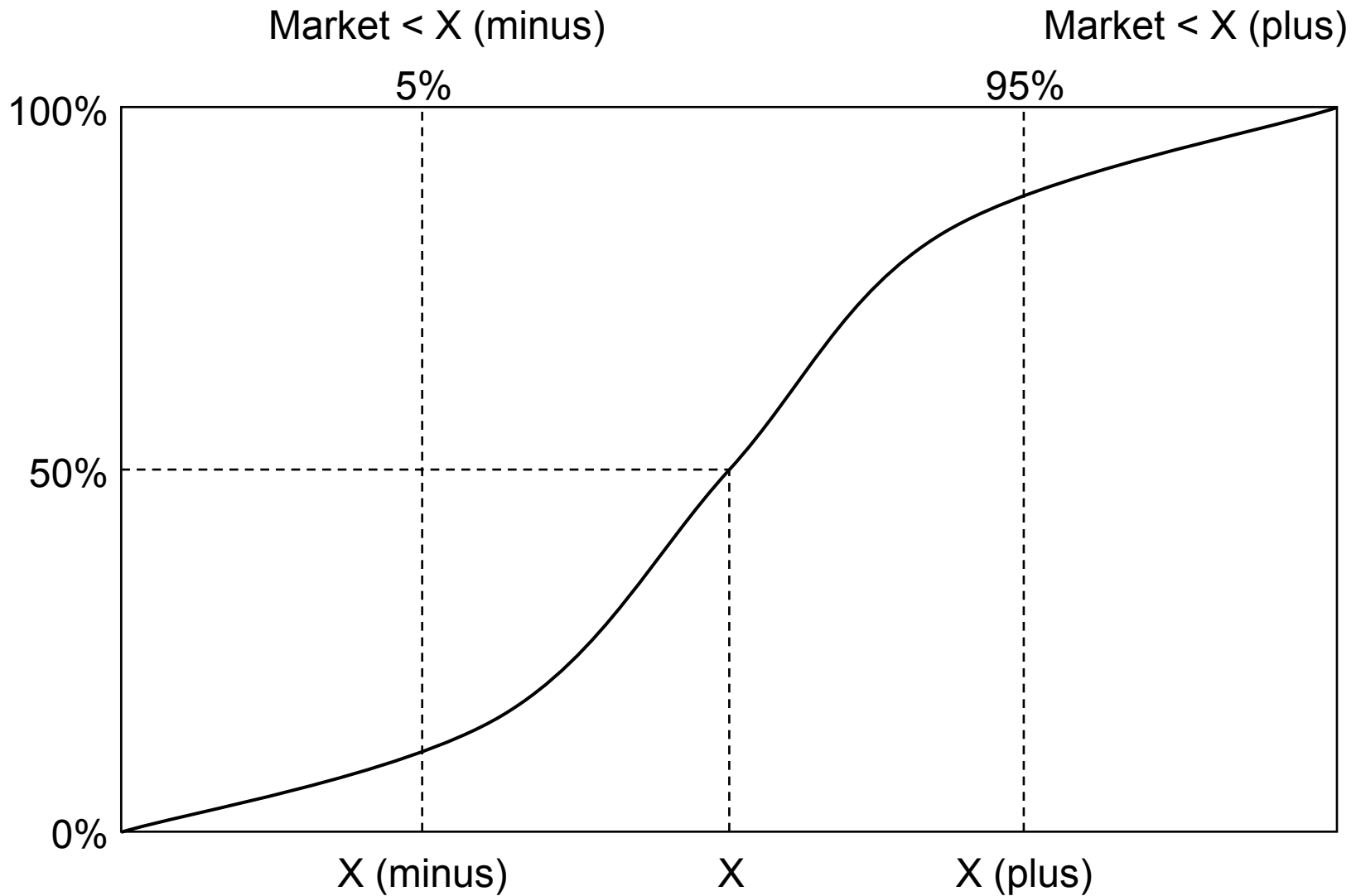
First, a need to develop a Successful Commodity Strategy!

We know that Successful Commodity Shipping Strategies must build on:

- Chartering: understand the markets: Timing
  - In / out
  - Long / short
  - Turning points
- Purchase + sale of ships – many of the same issues
- Cost Focus: Operations, crewing, the value chain and technology
  - Squeeze the costs out
- Take advantage of the macro-environment
  - Exceptional economic growth
  - Be sensitive to political risk
  - A dilemma (?): Operations and/or asset play



# Future Expectations – Cumulative Distribution of Spot Rates



# A Strategy Model, applied to Commodity Business

	<b><u>Leverage</u></b>	<b><u>Transform</u></b>
New		
<b><u>Shipping Markets</u></b>	<b><u>Protect and Extend = Commodity</u></b> “Understand the market” - Timing decisions – in/out; long/short - turning points “Do good better; Improve market position”  “Improve market position”  <b><u>Managerially:</u></b> - Strengthen existing competencies - Take out the last costs	<b><u>Build</u></b>
Established		
	In Place	“Must Build”
	<b><u>Distinctive Competences</u></b>	

Source: Chakravarthy and Lorange

# We Also Know that There Are Niches:

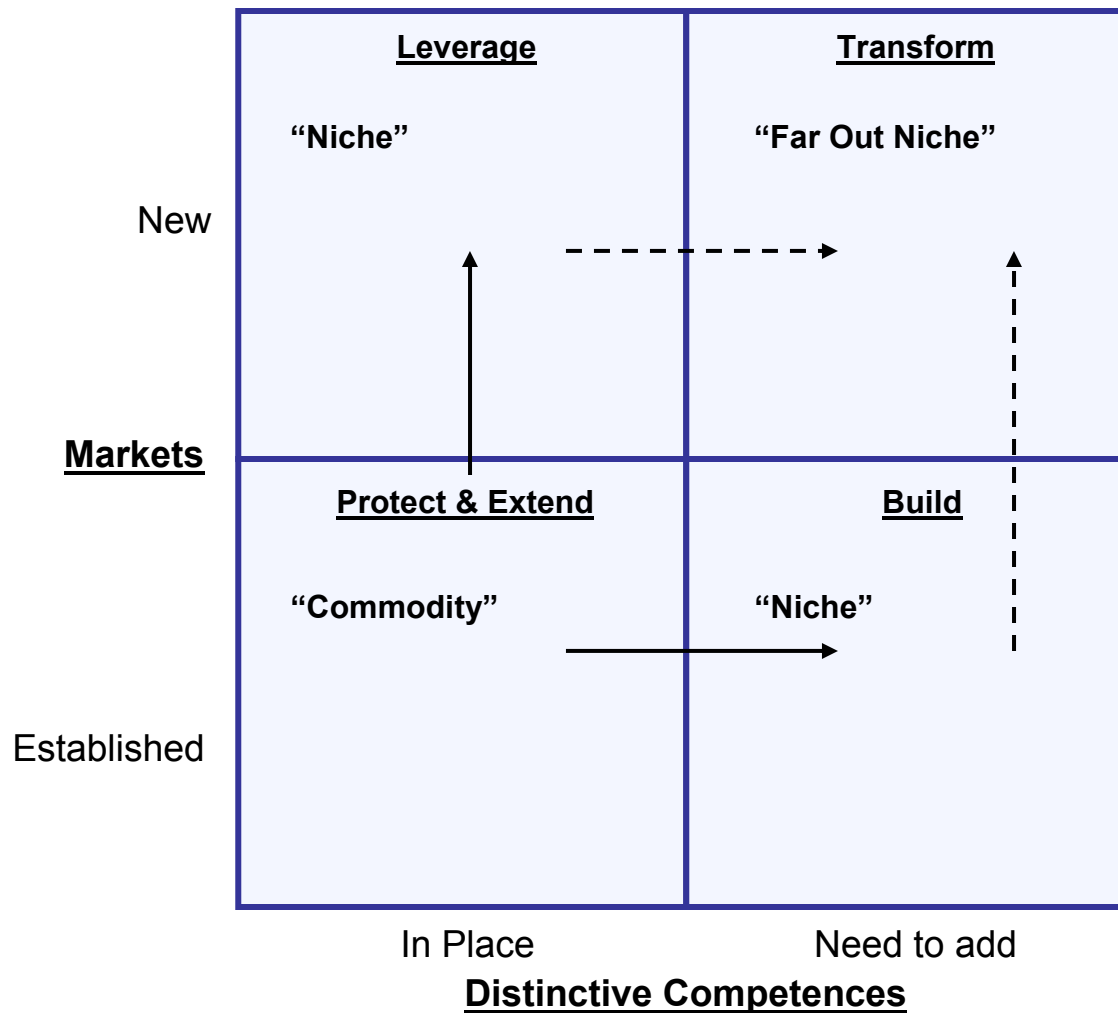
## Key Elements of Niche Strategies in Shipping

- For Niche Markets: See opportunities before they are obvious to everyone else
  - Customer relationships
    - closeness
    - understanding
    - continuity
    - trust
- Key to have: Unique know-hows that the customer can appreciate!
  - Technological
  - IT
  - Commercial
- A good Niche Strategy – does it build on already established strengths?

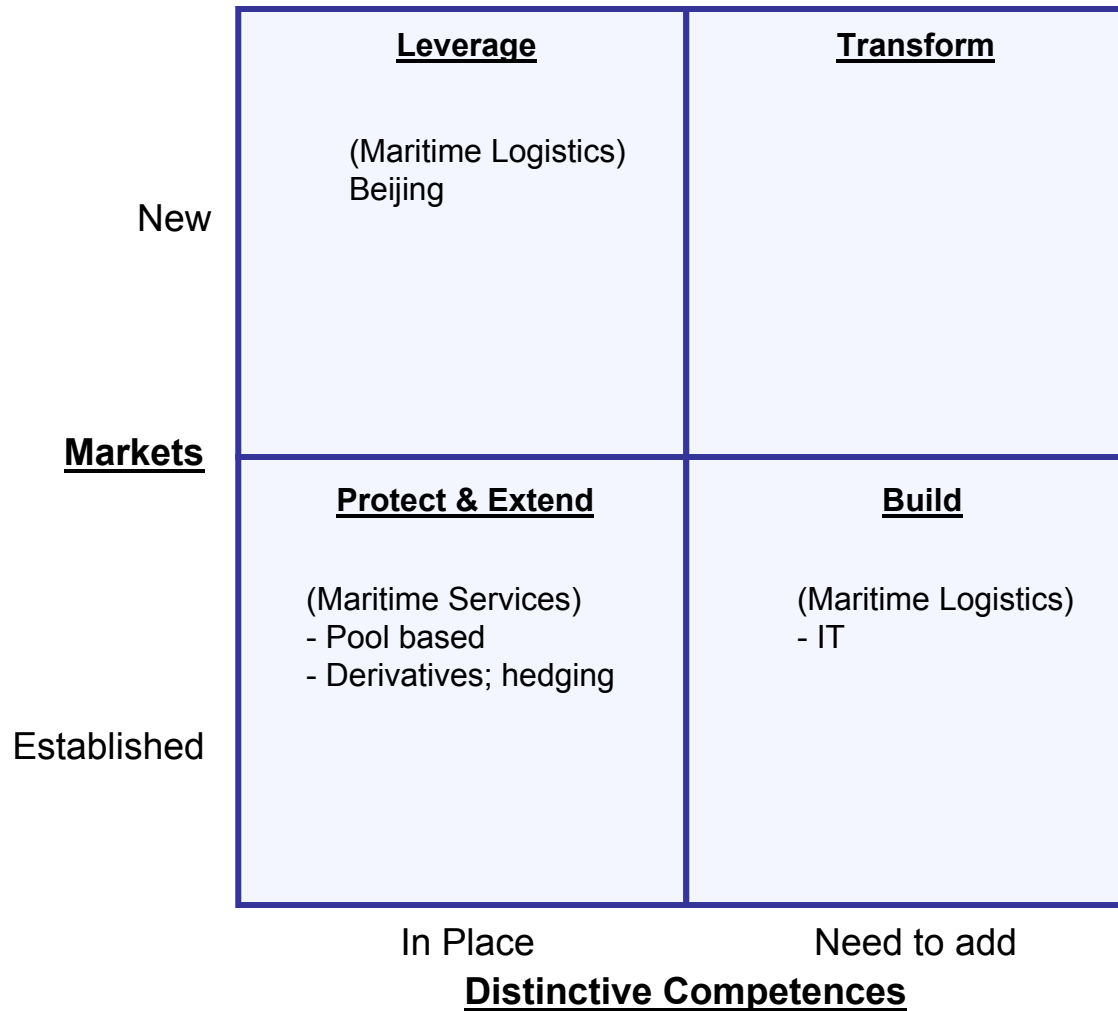
# All Shipping Niche Business Platforms Will Become More Mature Over Time

- Ships / shipbuilding capacity – **easy** to copy !
  - The speed of new-buildings!
  - Technological advances have led to even more capacity!
  - Implication: You must order new ships that are:
    - Cheap (in dollar!) Lowest ordering cost!
    - Good delivery
- Know-hows must constantly be updated/developed
  - in persons' heads
  - systems – IT; logistical support
  - This is Less easy to copy !
- Huge investments in specialized fleet and infrastructure: Least easy to copy
  - Ex.: Heerema's crane ships

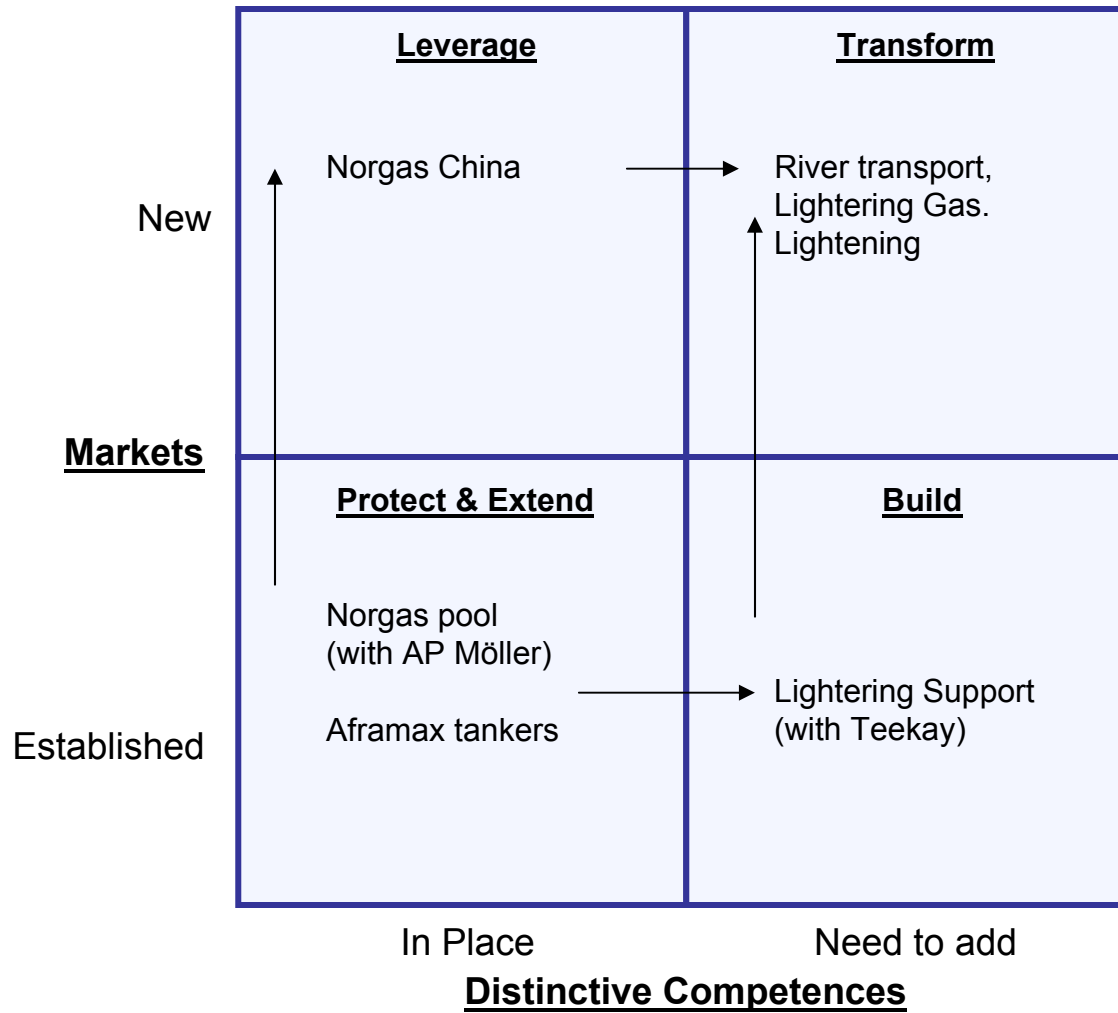
# A Model for Niche-based Strategic Development in Shipping Firms



# Example: Klaveness



# Example: I.M. Skaugen



# Examples of Least Easy to Copy Niche Strategies

- **From Freestanding Ships to Integrated Value Chain**
- Ex: Maersk – SeaLand
  - Global Sales Force
  - Terminals
  - IT
  - Trucks
  - **and** huge ships, with top schedules and speed
  - **and** leads in the industry consolidation of players – merged with Sea-Land, Safmarine, and now P&O/Nedloyd (?)
- **Extreme Capital Intensity**
- Ex: Heerema
  - Dockwise heavy lift ships
  - 3 super-mega-crane ships – out of 5 in the world
  - 1 super large oil pipe layer – out of 2 in the world

# Third, The Portfolio Strategy Issue

- Number of business platforms – and relative sizes
- Interrelationship among the platforms: Risks
  - Cash flows stability
  - Political stability
  - Market cycle stability
- Complement “steel” (ships) with paper
  - Shipping stocks – hedge
  - IMAREX – freights hedge

# Two Overriding Portfolio Strategy Questions

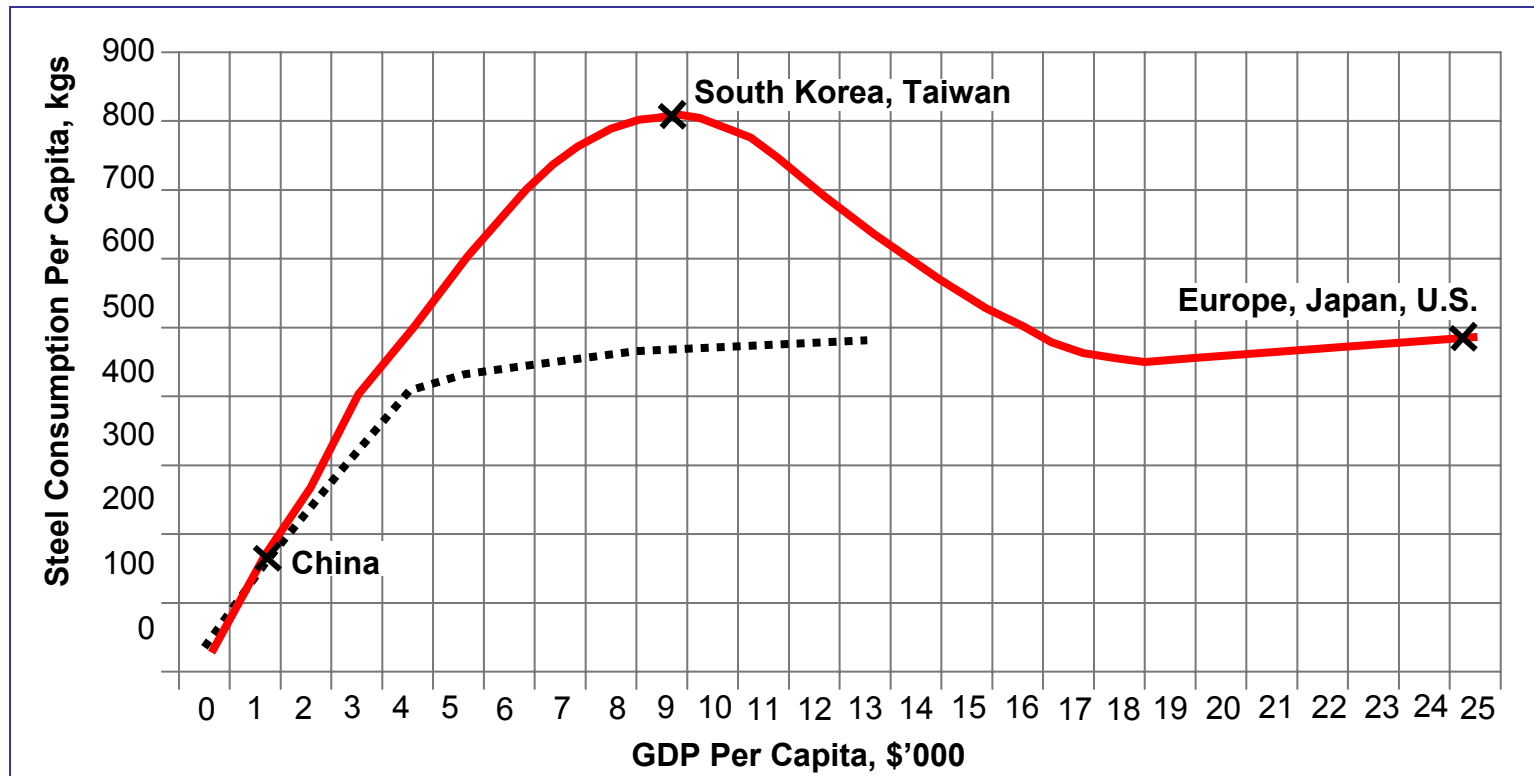
- For each shipping niche, business platform – what is the degree of maturity ?
- What is the number of business platforms, and interrelationship among these ?

# Are these some common Key Risk Issues Today for many/all business platforms/segments?

## **CHINA**

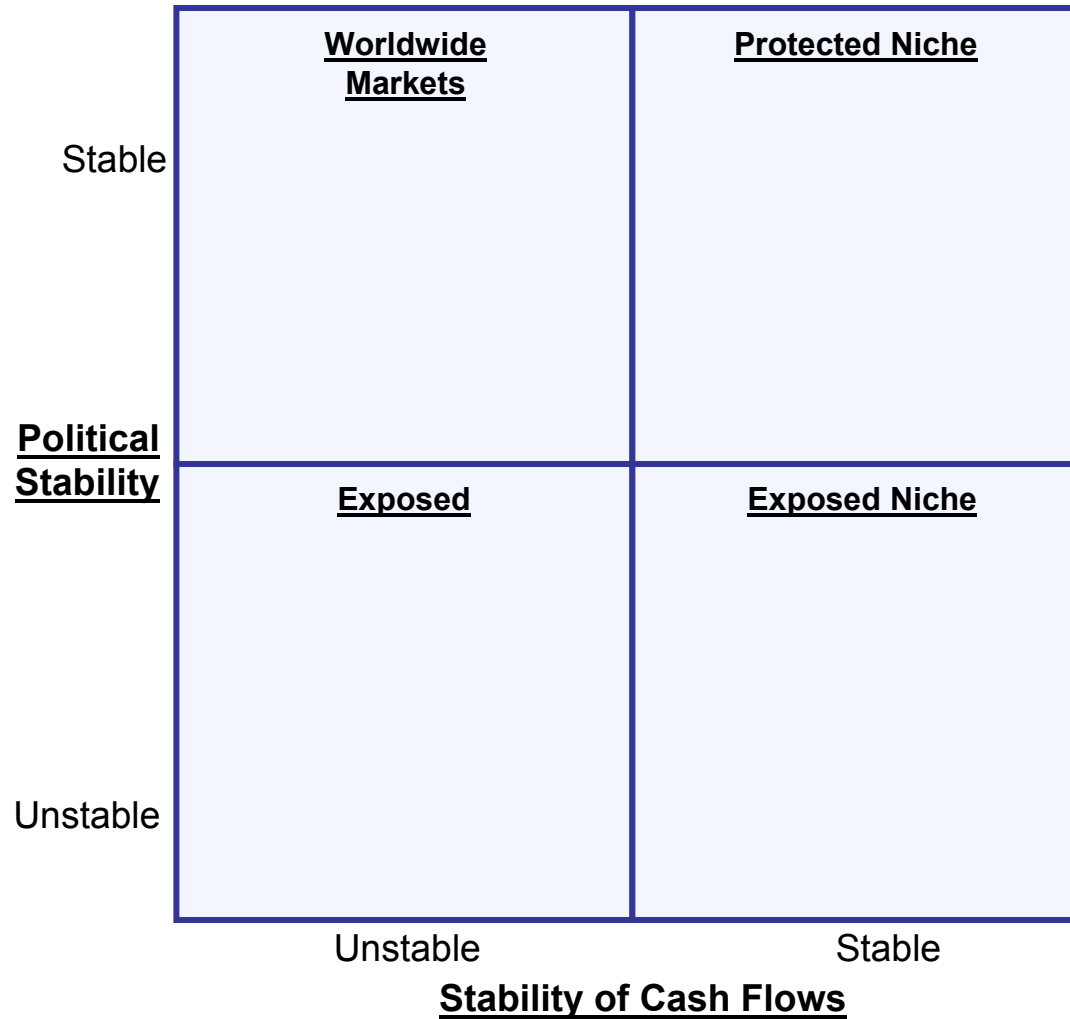
- Infrastructure - congestion
  - Harbours
  - Roads
- Steel manufacturing – can it drive the growth?
  - Steel imports
  - Ore imports
- Energy consumption – can it be sustained?
  - Oil imports
  - Environmental limitations?
- Consumer durables exports
  - Container ship market – Terrorism?
- Political stability

# Steel Intensity Rises as Countries Get Richer

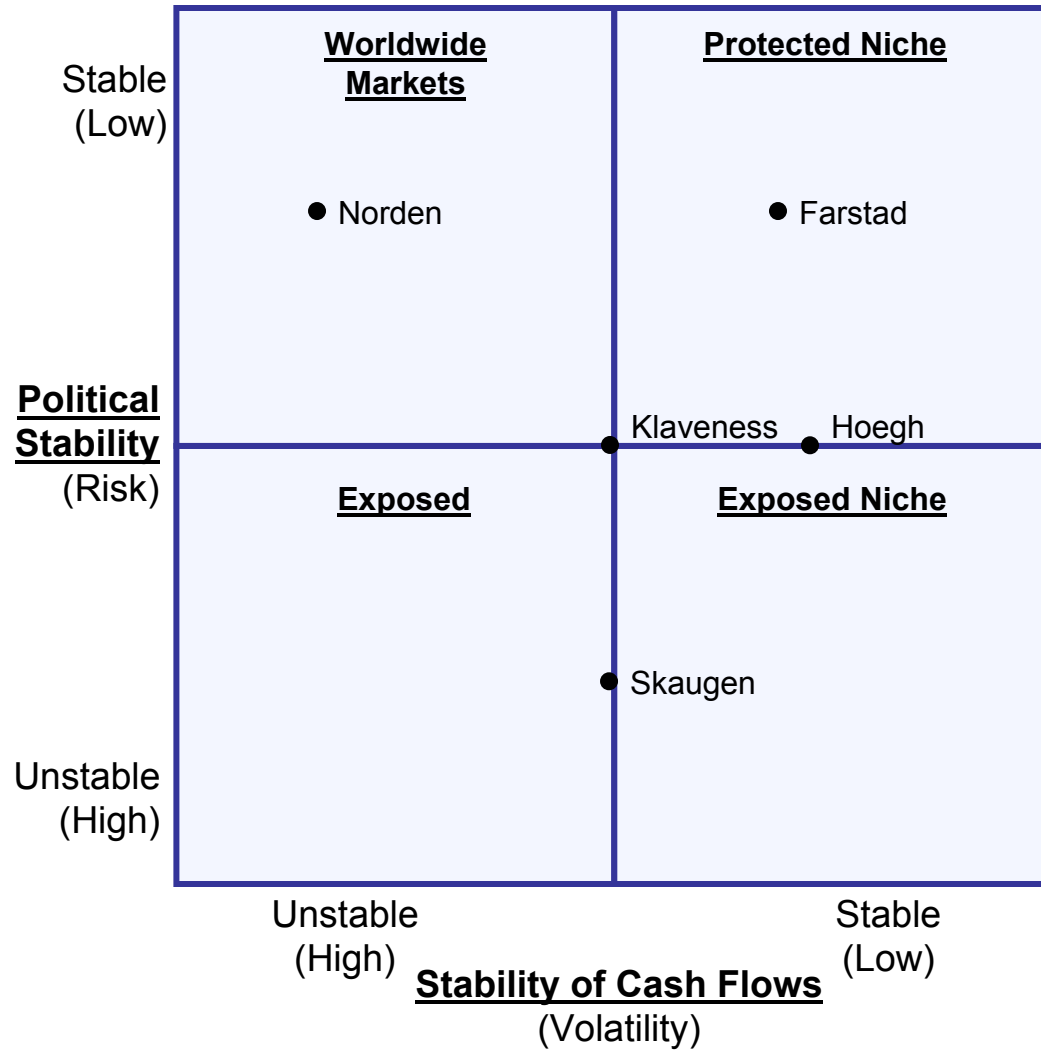


- ..... Expected Chinese Consumption (UBS Warburg)
- Average Consumption for Developed Countries

# Portfolio Strategy Model



# Corporate Portfolio (Subjective Plots)



In the end its all about People – and Culture!  
General Organizational Design Requirements to Shipping Organizations

- Have the necessary know-how base
- Dynamism; an ability to change – incl. internationally
- Focused; simple
- Keep it all at low costs
- From hierarchy to networks – “meeting place”; non-political

# Key Organizational Culture Issue in Shipping Firms

- Allow people to “see” business opportunities
- Meeting places between “problems” and “solutions”
- Experimentation
- More systematic learning
- Juxtapose traditional vs. radical

# A Map of Key Actors in Successful Shipping Firms

## A. Internal entrepreneurs: Bottom-up

- “see” business opportunities
- Find key know-hows within firm and at the outside !
- Lead inspirationally

## B. The owner / CEO: Top-down

- “walk-the-talk”; involvement
- “Strategic budget” for speedy business development
  - “Pump resources into non-commoditization !”

## C. Process: Top-down **and** Bottom-up

- Interactive
- Iterative

*“It is not the strongest of the species  
that survive,  
nor the most intelligent,  
but the most responsive to change”*

*Darwin*

