

Effective Strategies for Shipping Companies



- Three key dilemmas for Shipping in International Context
 1. Supercompetitive
 2. Increasing complexity
 3. Shipping clusters – how robust?
- Four elements of successful Shipping Strategies
 1. Commodity
 2. Niche
 3. Portfolio
 4. Organization

1. Supercompetitive

- Mobile assets, few/no frictional barriers
- Open markets; access to capital
- Key, therefore: Each nation must make it at least as attractive as it is in other nations to do shipping activities

2. Increasing Complexity

- In general, is becoming more complicated!
- Financing
 - Risk management; Basel II
 - Currencies; tax-shelters; options; hedging
- Futures freight markets trading
 - IMAREX
- Stakeholder Management, and emerging requirements re.
 - Health
 - Safety
 - The environment
 - ...
- Not clear that we have the organizational capabilities in a given country

3. Shipping clusters – how robust?

- Shipowning is “the heart”!
 - If the shipowners leave – then the cluster is also weakened
- The customers – close relationships – “the body”
- Other key elements “the clothing”
 - Banks, yards, brokers, consultants, classification
- The relevant environment (“the accessories”)
 - Taxation, government policy, yard subsidies, crewing subsidies and regulation, etc.
- The clusters are becoming global networks!
 - Run from where?

Let me now touch briefly upon Four aspects of Successful Shipping Strategies.

1. **Commodity Strategies**
 - (e.g. The Tanker Market; the Dry Bulk Market)
2. **Niche Strategies**
 - (e.g. Emerging Niche Markets)
3. **Overall Portfolio Strategies**
 - (e.g. Risk Management Applications)
4. **The People and the Organization**
 - (e.g. Organizational Effectiveness)

1. Commodity Strategies

- Chartering: understand the markets: Timing
 - In / out
 - Long / short
 - Turning points
- Purchase + sale of ships – many of the same issues
- AND, Cost Focus: Operations
 - Squeeze the costs out

A Strategy Model, applied to Commodity Business

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

Source: Chakravarthy and Lorange

2. Niche Strategies

Key Elements of Niche Strategies in Shipping

- 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 – build on already established strengths

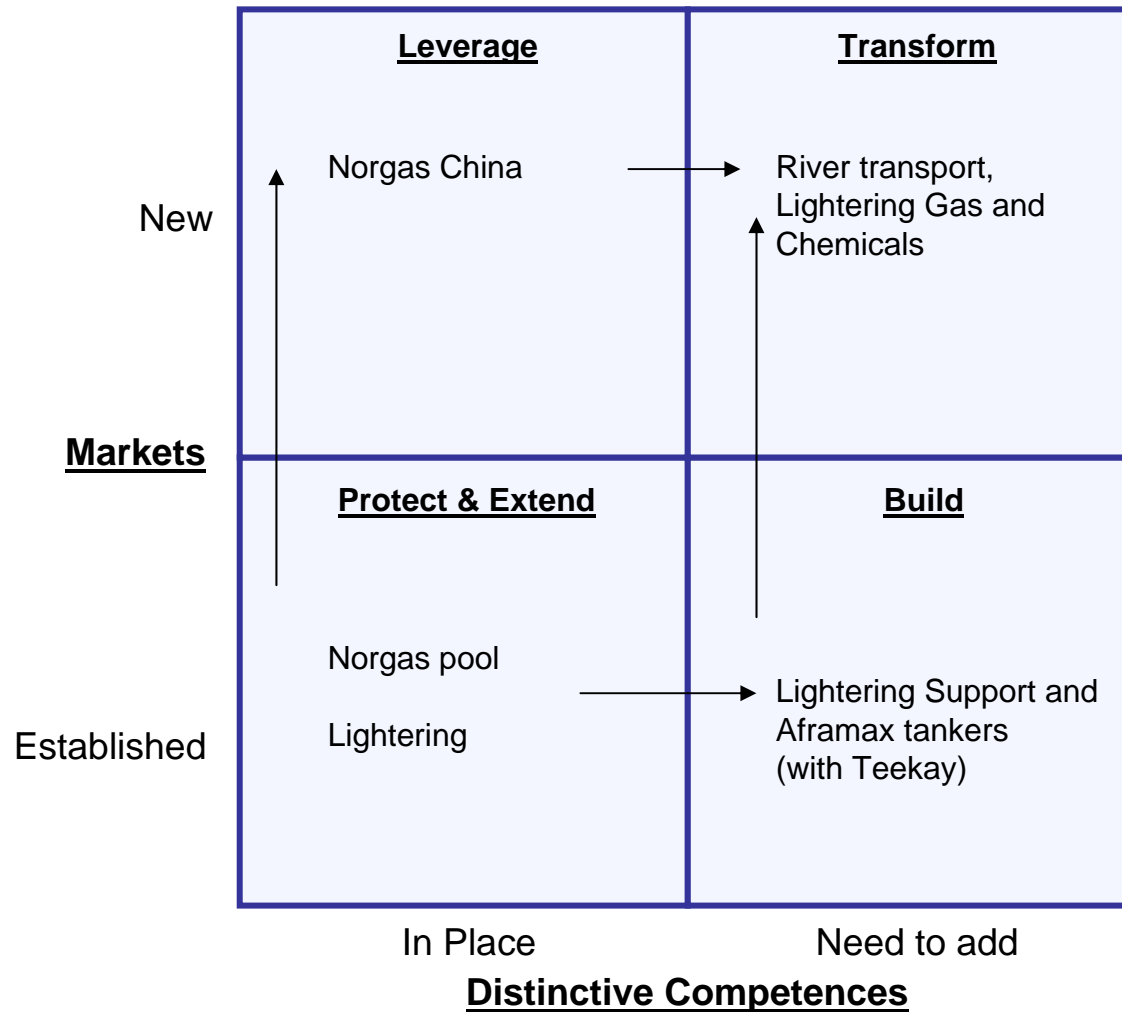
All Shipping Niche Business Platforms will become more mature over time – copying issue

- Ships / shipbuilding capacity – **easy** to copy!
- Technical advances easy to copy!
- The speed of new-buildings! Yard capacity-immense!
- Technological advances in ship-building have led to even more capacity!
 - But, constraints re. key components, eg. main propulsion engines!
- Implication: you must order new ships that are:
 - Cheap (in dollar!) Lowest ordering cost!
 - Good delivery time – relative to the freight market cycles!

Capital intensity

- Huge investments in specialized fleet and infrastructure would be least easy to copy!
- Ex: AP Möller – Maersk – The Line
 - Global office structure
 - Mega Ships (“Emma Maersk Class”)
 - IT
 - Terminals
- Ex: Heerema
 - Dockwise-heavy lift ships (now to be sold)
 - 3 super-mega-crane ships – out of 5 in the world
 - 1 super large oil pipe layer – out of 2 in the world

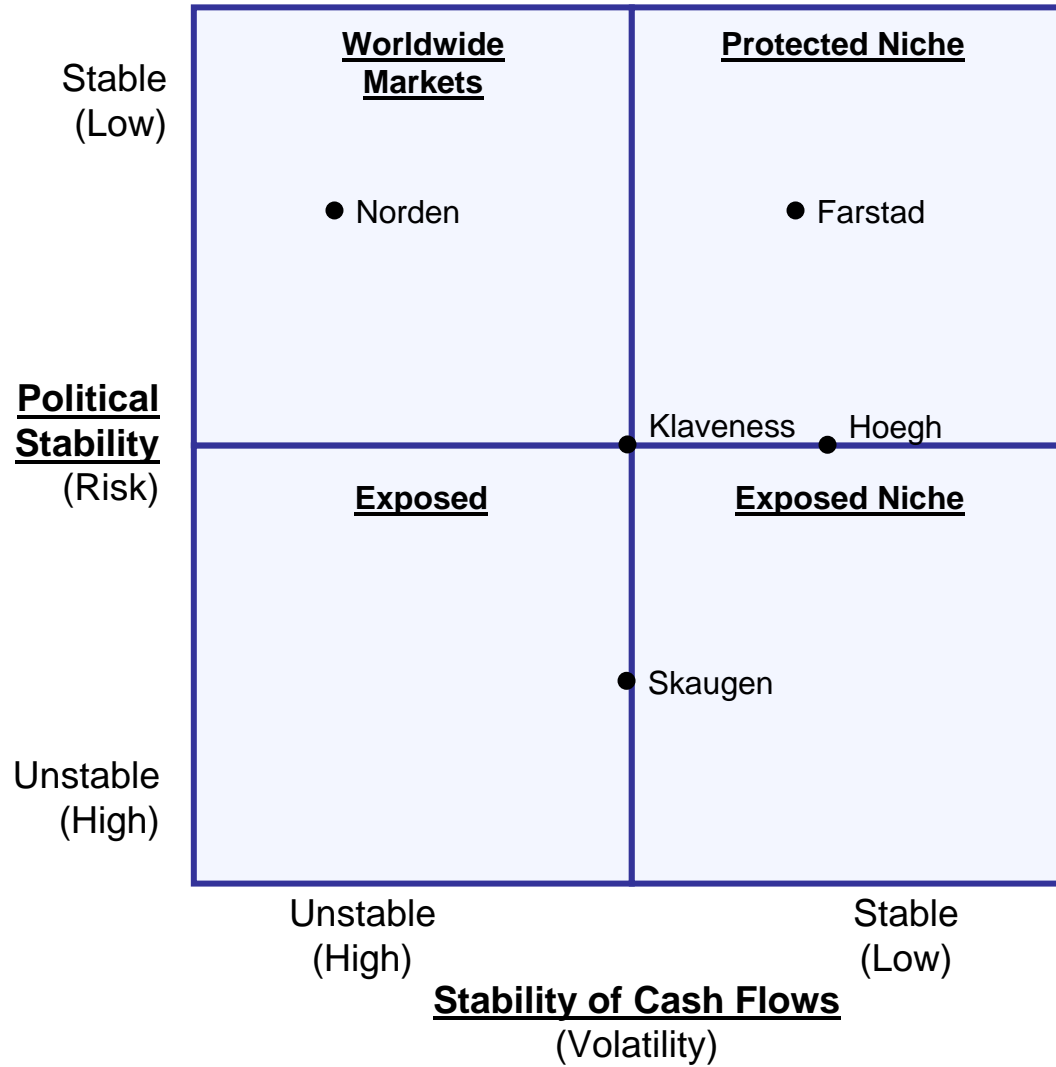
Example: I.M. Skaugen



3. The Overall Portfolio Strategy: Three Questions

- How many shipping niches/business platforms can we handle?
- What is the interrelationship among these shipping platforms/business niches?
- For each shipping niche/business platform – what is the degree of maturity ?
- Note: all niches must be seen as full-blown businesses – for top-and bottom – line growth, not as cash-cows, stars, etc.

Corporate Portfolio



4. The Organization – A Map of Key Actors

- Internal entrepreneurs: Bottom-up
 - “see” business opportunities
 - Non-family members **and** family members: A dilemma?
- The owner / CEO: Top-down
 - “walk-the-talk”; involvement
 - How avoid total dominance? : A dilemma!
- Process: Top-down **and** Bottom-up
 - Planning, control and HRM processes are becoming key!

The Organization – 5 “tests” that it is working

- 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