Worlds apart?

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Carriers are dependent on customers who justify their existence. Shippers, in turn, depend on carriers moving their cargo from one port to the other. But do both parties really get the best out of their relationship? Do they even understand each other's needs and challenges?

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It is usually a historically grown connection. On the shippers' side, it's often the procurement specialists who "own" the relationship, so to say. This sometimes niche activity is targeted at reducing the costs along the supply chain, e.g. by taking advantage of the historically low freight rates the market got stuck with over the past couple of years. Carriers, for their part, often do not value the role of a single shipper nor are they aware of their customers' end-to-end supply chain setup. Why should they be? Isn't it enough to carry thousands of their shipments all around the world?

Similar relationships can be found between other actors in the maritime business. Decisions are taken in isolation and the technology they use has essentially remained unchanged for at least 30 years. All these visible inefficiencies coincide with turbulent times for the industry, where almost each and every actor is trying to prune. But instead of focussing on sustainable business improvements based on trustful relationships, existing action plans are used as fallback scenarios.

There is, therefore, a clear need to improve the relationship between shippers and carriers (for that matter, among all actors in the maritime business). A lot of learnings can be adopted from other industries where building trust and engaging in collaboration are key to business success. In the following paragraphs, based on my book *Container Logistics. The Role of the Container in the Supply Chain*, I'll bring forth an industry proven best practise approach of a sustainable relationship between an ocean carrier and a shipper, along with presenting the required steps to reach this form of cooperation.

#Inside
#Shippers#Carriers
#Collaboration#Guidelines
#Freight rates#Overcapacity
#Slow steaming

Fixated on cost cutting

The container shipping line industry has for many years benefited from growing trade and containerisation of thereof, as well as from the deployment of ever-larger container ships which made it possible to significantly cut the cost of carrying a single box – all supported by low oil prices. However, post-crisis global trade can no longer keep pace with the overcapacity ocean carriers have created in their heyday and the negative effects – crippling freight and charter rates, for instance – it still brings about today (as shipyards continue to deliver the excess tonnage ordered years ago).

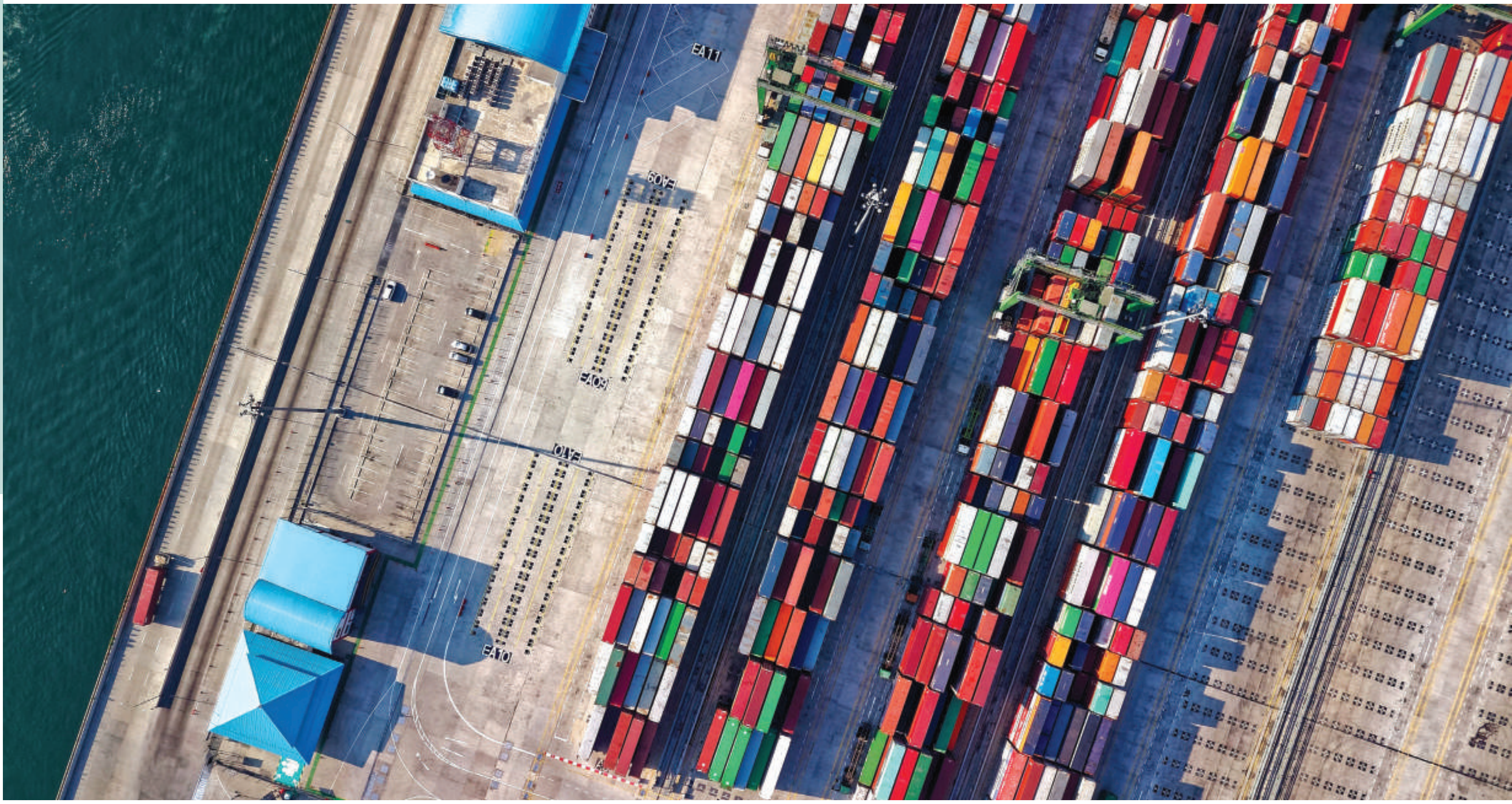
Year 2017, which ended with a cumulative industry profit, was only the exception that proves the rule. The past years and 2018 didn't go well, leading to heavy losses. For 2019, thanks to alliances becoming more mature (Tab. 1), industry experts are forecasting a modest improvement. Ocean carriers will continue to seek opportunities to reduce costs, mainly through strategic alliances and mergers and acquisitions. This concentration process will most likely continue in the near future; though, some less promising partners might eventually find themselves left outside the playing field.

Companies can also try to trim their Excel sheets by adding bigger vessels to their fleets. If there's one thing we've learned over the past several years, it's that there seems to be no cap on how long and wide companies want their container ships to get, at least for the foreseeable future. The 21,413 TEU-big *OOCL Hong Kong* is currently the world's biggest, but larger carriers are already on order. The size is driven by economies of scale – the greater the number of containers being carried is, the lower the costs per TEU are. Drewry has calculated that for the trans-Pacific trade lane the potential cost difference between a Panamax (4,000 TEU) and a mega Post-Panamax (10,000) is 50%/TEU.

Last but not least, the industry has strived to squeeze out the most of internal operations. Slow steaming was most probably the most spectacular cost reduction scheme they got engaged in, although not the only one (many carriers have reduced their sales and customer-service teams). The idea is

Tab. 1. Major alliances in the container shipping industry– as of April 2017

Name	Share of worldwide carrying capacity	Members	Characteristics
2M	34% (7.8m TEUs)	Maersk Line (incl. Hamburg Süd), MSC, Hyundai Merchant Marine	A 10-year vessel-sharing agreement/slot exchanges with the possibility of an extension.
THE Alliance	16% (3.7m TEUs)	Hapag-Lloyd (incl. UASC), Ocean Network Express (ONE), Yang Ming	Members can share their vessels, charter, and exchange spaces on each other's ships
The Ocean Alliance	30% (6.7m TEUs)	CMA CGM, COSCO Group (incl. OOCL), Evergreen	A five-year vessel-sharing agreement with the possibility of an extension.



simple and proved to be highly effective. By decreasing sailing speed from around 27 knots to 18 during an Asia-Europe-Asia round trip, one can achieve fuel savings of up to 59%. Bloomberg and Lloyd's Register reported in 2012 that Maersk Line's whole fleet sailed at about 16-18 knots. To put this into perspective, clippers *sail*ed with a peak average of 16 knots in the 19th century.

All these activities were aimed at making the container shipping business leaner. Doing so, carriers weren't over sympathetically concerned with shippers' needs or interest, let alone with building and retaining relationships with their customers. Slow steaming, for instance, has substantially increased the transit time and added considerable costs to shippers' supply chains. Bigger ships can also lead to delays, either because sailings are cancelled (the vessel is not loaded sufficiently) or several mega carriers call to the port at the same time, causing congestion. As the lines gather together in alliances, shippers don't have the option to vote with their wallets by going to the competitor (apart from the increasing number of boxes sent via rail on the New Silk Road), not to mention understanding all the changes forming, deforming, and reforming an alliance produces.

While shippers had to deal with the fallout brought about by carriers' troubles, they also saw that a different approach is possible. Logistics service providers have kicked off meaningful customer engagement service initiatives aimed at using innovation to boost the quality of their offerings. Interestingly, according to a study by McKenzie, container lines can both increase profitability and improve their customers' experience. The reality, however, is that shippers have up-to-date benefited from lower freight rates only; McKenzie has estimated that the fall in freight rates have saved US shippers some $23b in 2010-2015. At the same time, they have experienced a widening gap between the service they'd like to receive from container companies and what they're getting.

Tab. 2. A seven step guideline to collaboration in practice

1	Gain senior management commitment
2	Commonly develop the objectives and targets
3	Appoint on both sides persons responsible for the relationship (ownership)
4	Define the appropriate governance
5	Continuously develop the teams – include all members
6	Agree on a common business calendar
7	Jointly define your processes and your ways of working (KPIs, channels of communication, tools, etc.)

Photo: Pexels

A higher level of customer service does not necessarily mean higher costs, as shown in the McKenzie study. In fact, organizations with best-in-class customer service often have a lower-than-average cost base. Knowing exactly where each container is and communicating it to the customer via web and mobile apps could reduce the number of unnecessary box moves, lower the number of calls from unsatisfied customers, and make turnarounds happen more quickly – and ultimately lower costs.

To summarize, there is a big need for better cooperation between shippers and carriers. Existing partnerships, be they between shippers and logisticians or examples taken from other industries, can serve as benchmarks. What's of utmost importance, it takes two to tango.

Collaboration in practise – a seven step guideline

A win-win partnership does not come out of thin air. It requires a great deal of effort and commitment from all partners involved. The more structure is behind this process, the better it works. The following seven steps (Tab. 2) should be taken to develop a trustful and long-lasting vertical collaboration between an ocean carrier and a shipper. These guidelines are based on the lessons I've learned during several relationship building exercises, both internally within a company between different functions (incl. supply chain) as well as in supplier relationship management and customer relationship management.

First, gain senior management commitment. Moreover, this commitment should be cascaded down the organisations and extended across functions. It should be visible, too, as the recognition of the need for change must be translated into managerial support for collaboration. Next, it is often useful to have a senior manager acting as the sponsor of the relationship on the board-level. It is also helpful to define the importance of collaboration and its meaning for a company in guiding principles which should be defined by the management board and known by the whole organization.

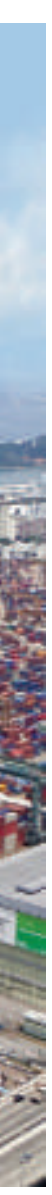
Second, commonly develop the objectives and targets you want to reach thanks to the collaboration. Alike the first step, this is also a multi-functional process, covering all hierarchical levels on both sides of the deal. The list should be reviewed on a regular basis, resulting in pinpointing areas in need of improvement and designating project teams to work on them. It should also be clear to both parties, how they participate in the success of a given initiative.

Third, appoint on both sides a person responsible for the relationship (ownership). This could be a customer engagement manager on the carrier's and the responsible supplier relationship manager at the shipper's side. It is essential that both managers have a good understanding of one another's


Photos: Pixabay

businesses. They should be able to drive forward the relationship in line with the commonly defined objectives. These two persons are also acting as the advocates for the relationship in their own organisations and the ones who are sharing the success stories.

Fourth, define the appropriate governance. Collaborative relationships can be governed either by informal understanding or written contracts. Irrespective of the form, trust is almost always a governing principle of a mutually successful collaborative relationship. The governance model includes a clear escalation level process to pre-empt any misunderstandings. It is often useful to establish an advisory board in charge of the relationship as well as hold annual strategic meetings.



Fifth, develop the teams. Here, ensure that sufficient time is given to the team members to meet and understand each other. This is a prerequisite of a trustful collaboration and it includes common team events and social teambuilding exercises. Training to develop employees and managers who know how to collaborate and are aware of opportunities to do so should be a permanent part of the relationship. Such investments keep the momentum for transformation alive and promote the behaviour that leads to a real change over the long haul. It will also help to overcome resisting forces in the organisation and support risk averse employees. When all of this hard work starts to bear fruit, don't forget to celebrate success stories.

Sixth, define a common business calendar for all involved employees. The agenda should include an annual strategic meeting (this is a typical senior level meeting to align priorities and give business direction), quarterly business review meetings (on a more tactical level to prioritise activities and to review progress; this is the main gathering organised and driven by the two relationship managers to understand how the collaboration is evolving); monthly operational meetings (which can vary in nature – a performance review/logistics execution/customs meeting; ideally these are linked with the sales and operations planning to ensure updated information is available and shared).

And lastly, jointly define your processes and your ways of working. This step includes key performance indicators (KPIs), measured monthly, such as shippers' On Time In Full (OTIF) results and carriers' records of shippers' payment behaviours; it is also important to use cross-functional measures to understand all consequences of the relationship (an example would be the impact of OTIF measures on inventory levels). The benefits brought by the KPIs should be documented, supporting long-term collaboration. Communication is vital, too, so actions undertaken by one party won't find the other unpleasantly surprised (as was the case with slow steaming, not communicated to shippers well in advance). It is essential to have common ways of working. Incentives like gainsharing agreements, a system of management used to increase profitability by motivating employees to improve their performance through involvement and participation, might help to drive a continuous improvement culture. Last but not least in this regard, use tools wherever appropriate. Sharing of real-time, accurate, and relevant information is a prerequisite of a trustful collaboration. Advanced information systems are available in the market, which, when put to use by both parties, can greatly streamline the works (if there's an actual willingness to share information across functions and between organizations, that is).

Can and should

True, based on trust collaboration is rare in the change-resistant shipping world. While they are called "alliances", it's hard to get rid of the impression that these are at best marriages of convenience, almost all of their time preoccupied with internal games. But, at the same time, mistrust isn't inherently embedded into a relationship between a carrier and a shipper. These two entities can – and should – go hand-in-hand in creating a sustainable solution that works for both parties, one that is part of their DNAs, not another corporate invention the top presses against the bottom.

Hopefully, the presented model will gain traction in the maritime world. Perhaps someone will give it a shot before ordering another container carrying behemoth that will get stuck in a port after arriving at the berth slower that the *Cutty Sark* would do. ■

Dr Rolf Neise was the Global Head of Logistics Operations at British American Tobacco (BAT) responsible for defining logistics excellence in the end-to-end supply chain. Prior to BAT, Dr Neise worked in several consultancies where he gained in-depth experience in reorganization and optimisation projects in different industries (automotive, telecommunication, chemistry) and companies across the world. He currently works as a Lecturer at the International School of Management (ISM) in Germany and as a senior consultant supporting multinational companies in optimising their supply chain management and logistics structures.