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## **Strategic Alliances in Container Lines**

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# Strategic Alliances in Container Lines

## Introduction

Over 60% of world trade in goods runs out of the sea, the container system, the percentage exceeding 80% for industrialized countries. The first shipment of containers dating from the mid-1950s, when the first boat modified to carry container 58 made its first trip between New York and Houston. Since then, container ships substantially altered for the purpose of increasing the number of containers transported and medium size.

In 2011 compared to 2010, container ships had the highest growth in terms of transport volume reaching to 183 million dwt [4]. In this context, competition between shipping companies serving this market is very high. Carriers were continuing their pursuit of lower unit costs.

Long known fact that most of the shipping is based on a series of relationships established between shipowners and charterers and cargo or ship searching is available with brokers that may work preferentially with certain partners, to bring best transport offers for shipowners 'friends'.

Partnership relations can be both in the product chain or channel, depending on the type of cargo or vessel type, but mostly medium and long term. In some situations after close links with certain business partners have established new companies, holding shipping companies. These partnerships can not succeed without an open and direct exchange of information, so companies must communicate their operational data, financial projections and planning. Making strategic alliances is not easy in maritime transport as members of an alliance are, as a rule, companies in different countries, and these alliances are multinational in nature. This is a goal that requires attention, coordination with suppliers and customers full support from their staff that will actually keep in touch with partners. Alliance formation in the early stages will mean spending some preparation and support operational changes and active involvement of company management.

Over the last decade, significant links were welded in shipping, especially in terms of container traffic, where 25 owners took control of 60% of fleet capacity ship port containers. This consolidation container transport sector has led to the expansion of alliances among trade carriers by dividing vessel, sharing terminals and supply services have provided better services and greater efficiency. Acquisition and merger activity is the next step that will direct the alliance concept to final stage "a single owner a single corporate".

## Strategic Alliances

Container traffic increased by 10% after the economic crisis and is expected to continue at this pace for the next 10 years. Liner suffered a significant period of fall, followed by a period of consolidation. Top 25 companies now control 85% of shipping (see fig.1).

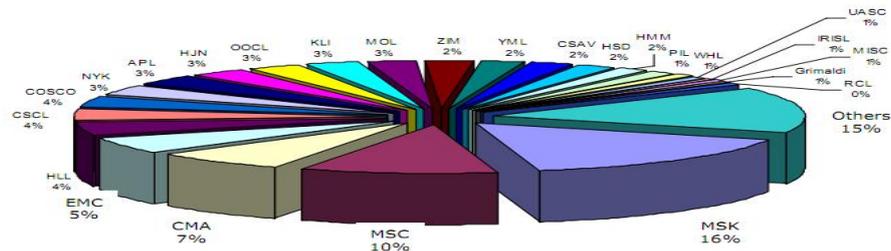


Fig. 1 Market share for container-shipping lines

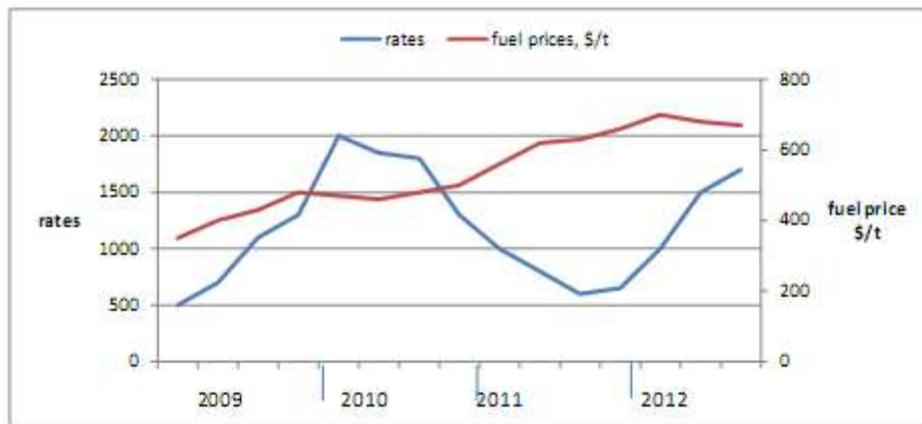
The biggest threat to container shipping's recovery, is if the euro crisis gets even worse and causes a slump in European imports from Asia.

Global rates had dropped as the industry added ships in anticipation of an economic recovery, causing overcapacity. Container lines began cutting capacity and raising rates to restore profitability.

Back in the mid-2000s, when world trade was booming, the world's big container-shipping lines had ordered fleets of huge new boxships, only to take delivery of them during a downturn. This led to overcapacity, and an all-out price war in 2011, as container lines sought to fill their new ships and defend their market share.

The container-shipping lines must find ways to make money in periods of oversupply by exercising all options to achieve capacity discipline. These actions may include slow steaming, idling vessels, and scrapping tonnage but also clever pricing services. Furthermore, carriers must not hesitate to shut down a business that doesn't deliver profits.

As an industry with low margins, container shipping is inherently sensitive to cost and rate volatility. Fuel prices were soaring despite the weak world economy, adding greatly to the shippers' running costs (see fig.2).



**Fig. 2 Rates (Shanghai Containerised Freight Index) vs. fuel prices (Rotterdam 380 centistoke bunker fuel) in container-shipping lines [1], 2009-2012**

In 2010, container-shipping lines made profits of around 7 billion \$, but in 2011 these profits fell to about 5 billion \$ [4]. Overall, the major carriers survived 2011 through slow steaming and organizational and debt restructurings. Several carriers also received massive cash injections from owners and governments, however, their combined cash reserves decreased by almost 20% [3].

So, faced with the prospect of sinking further in the next years, the container-shipping lines began loafing or scraping older vessels and cutting their speeds to save fuel.

A way of avoiding for companies maritime market fluctuations and increasing opportunities of success in the event of a fierce competition is a strategic alliance.

Advantages strategic alliances for shipping company may be [2]:

- Reduce search costs for transportation of goods.
- Improve operational management.
- Increase market share since become the company is a preferred supplier by customers.
- Increasing profits.

Carriers should consider three main types of alliances in order to achieve advantages of collaboration [3]:

- Operational alliances entail operating vessel strings that comprise ships from multiple carriers.
- Procurement alliances allow for reducing costs by bundling purchases to take advantage of volume discounts.
- Commercial alliances improve cost efficiency by having carriers' sales forces and commercial agencies work together, especially in markets where carriers have a small presence and service portfolios are complementary.

In recent years, first alliances that have been formed in container transport was Grand Alliance — Hapag-Lloyd, NYK and OOCL — and the New World Alliance — APL, Hyundai Merchant Marine and MOL.

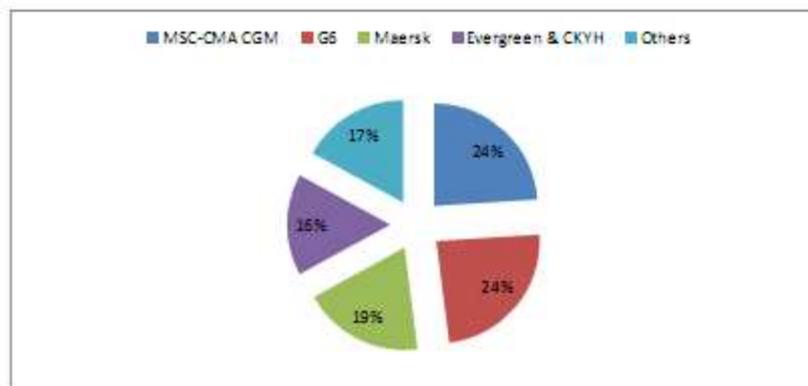
At the end of 2011 have announced new strategic alliances. Rival lines agreed to share space on board their vessels, allowing them to idle more of their surplus ships. Two of the biggest lines, MSC of Switzerland and France's CMA CGM, banded up together.

Two weeks after the announcement of the CMA CGM-MSK partnership, has developed another alliance. Two earlier tie-ups, Grand Alliance and New World Alliance, form G6, bringing together firms from Japan, South Korea, Hong Kong, Singapore and Germany. The G6 carriers will operate 90 ships with capacities up to 14000 TEU covering 40 ports. The alliance launch six services between Asia and north Europe. A seventh service, providing direct coverage to the Bohai Bay ports in Dalian and Xingang, will follow when it can be supported by sustainable trade conditions.

And Taiwan's Evergreen line said it would co-operate more closely with CKYH otherwise known as the Green Alliance, an East Asian alliance that includes Cosco Container Line, K Line, Yang Ming and Hanjin Shipping. With this alliance the volume transported will range to 13,000 TEU.

All these alliances had as goal to compete with the "Daily Maersk" service that the Danish firm launched in 2011, with more frequent voyages and guaranteed delivery schedules (an attractive proposition given the shipping industry's reputation for unreliability).

All these alliances has consolidated a fragmented industry. On the routes from Asia to northern Europe the three super-alliances, plus Denmark's Maersk Line, the industry's alpha male, together have a market share of about 83%, divided as shown in figure 3.



**Fig. 3 Market share on the routes from Asia to northern Europe [2]**

Maersk is the only company still has not completed a strategic alliance and that because of the position taken on the market. For Maersk, first-quarter of 2012, was a fall in the volume of goods transported with the factors determined by a 9% drop in freight rates and 31% higher fuel prices.

Maersk's global market share grew to 15.5% in 2011 after it boosted traffic by 11%, and hit an all-time high of 19.4% on the Asia-Europe trade, even better than in 2006, which was a very good year for company.

While it was concluded that no clear evidence was found as regards unlawful practices by carriers, the alliances been formed began to announce rate rises one by one.

Slow steaming has created work for a lot of container-shipping lines and so a busy route between Asia and Europe may now take six or seven days longer, so it may need perhaps 12 ships instead of nine to provide the same capacity.

The oversupply of new container ships is ending, one reason being the current order book, which is only 24% of the existing fleet, down from 60% in 2008 [1]. And the newest ships, being bigger, are more efficient to run.

In nowadays, mostly of alliances are collaborations aimed at filling ever-larger ships, increasing network coverage and departure frequency from key ports. There are few truly effective alliances that enable carriers to jointly strengthen their negotiating position so they can achieve more favorable outcomes when dealing with suppliers and customers.

## **Conclusion**

The need to generate enough cargo for ever-larger ships may lead to further consolidation among container-shipping lines. Recent years have seen relative stability, but the new wave of large container ships entering service force carriers to either strengthen their operational alliances or to pursue further growth through mergers and acquisitions.

Shipping companies demonstrate how they can be full partners of manufacturers and retailers in the supply chain. Those companies that will grow best strategic alliances with suppliers, shippers, intermediaries and customers will get higher profits than firms that do not take into account such alliances.

Oversupply can lead to a price wars for container-shipping lines. Rather than fight it out alone, these companies may join in an alliance and so they can share costs, ships, and more if possible.

In 2011 we can see a battle between container-shipping lines for rates, but with the organization in strategic alliances, they are seeking profits, not market share.

To get the full value of alliances, container-shipping lines should form "smart alliances" that operate on multiple dimensions. This kind of alliances will be decisive to enabling carriers of all sizes that lack regional scale to dramatically increase their competitiveness.