

Shipping Company Strategies

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SHIPPING COMPANY STRATEGIES

Global Management under Turbulent Conditions

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INVESTOR IN PEOPLE

FOREWORD

The shipping industry is both special and fascinating. It is special, above all, because of its truly global nature, the huge discrete investments needed, the highly cyclical markets at play, and the unique competitive structure, with many determined players. It is fascinating, above all, because fortunes are made—and lost—at a fast pace, with some of the most risk-willing owners also serving as decision makers.

This book is the result of at least seven forces that have shaped my interest in shipping corporations and their strategies. The first is purely personal. Early on, my grandfather, Rudolf Ugelstad, co-founder of the Norwegian shipping company Olsen & Ugelstad, awakened my interest. In the 1950s and 1960s Olsen & Ugelstad was one of Norway's largest shipping companies, with a fleet of more than 50 wholly owned ships. I also had many interesting conversations on shipping strategies with my uncles, Trygve and Rolf, and with my cousins, Rudolf and Paal. My mother's cousin, Sam Ugelstad, who ran his own shipping company, S. Ugelstad, also provided me with many important ideas early on.

During my graduate studies in the United States, I met Victor Norman, and we both had a common interest in shipping management issues. We were particularly interested in the question of attitude toward risk taking among ship owners. We co-organized a conference on shipping management and shipping strategies in 1972, which led to an early book on the topic, *Shipping Management* (Lorange and Norman, 1973). Previously we undertook initial research on shipowners' propensity toward risk (Lorange and Norman, 1971a and 1971b).

A third important influence on my interest was my cooperation with Paul L. Eckbo and Arlie Sterling on the forecasting of shipping market cycles in an attempt to better understand the development of such cycles, particularly "turning points." This collaboration led to the formation of the forecasting company Marsoft in 1982. I have thus worked with Paul Eckbo for approximately 30 years on issues relating to how the ship markets work, and I know the evolving development of Marsoft and its methodology. Occasionally, I have also contributed to Marsoft. I therefore feel confident regarding Marsoft and its usefulness, which has been a major reason for the relatively extensive use of Marsoft as the basis for examples and illustrations in this book. Marsoft's approaches must, of course, be *complemented* with other approaches, above all judgmental inputs. The owner and his/her feel for the market is critical. Marsoft can only provide simulations that give the owner better confidence in the end that he/she is well adjusted to the market. Today, Marsoft is, arguably, the world's leading ship market forecasting company. Over the years I have had stimulating conversations with many of Marsoft's staff, including Paul L. Eckbo, Arlie Sterling, Paal Monsen, Tasos Aslidis, Costas Bardjis, Kevin Hazel and Evangelos Efstathiou.

A fourth important influence on my interest in shipping was a number of assignments as director on several shipping company boards:

Olsen & Ugelstad, Oslo, Norway: I served as a director from 1974 until the discontinuation of business in 2003. It should be noted that this company ceased operations in 1980, as a result of the worldwide shipping crisis at the time. Here, I would like to point out that Olsen & Ugelstad never went bankrupt, but merely ceased to operate. Kristoffer Olsen, Ole Lund, as well as the many Ugelstads already mentioned, all influenced my understanding.

Jebsens, Bergen, Norway: I served on the board of this company, which specializes in smaller bulk carrier ships, from 1990 to 1993. Jebsens' dynamic CEO, Atle Jebsen, has been a great source of inspiration to me.

Knud I. Larsen (KiL), Copenhagen, Denmark: I served as board member in this publicly traded company from 1994 to 1998. KiL focused on contained feeder ships, gas carriers and smaller special-purpose tankers. I learned important messages at this Danish firm, particularly from KiL's chairman, Jan Erlund, from board members Steen Krabbe and Jens Christian Lorentzen, and from CEO Finn S. Larsen.

Royal Caribbean Cruise Lines (RCCL), Miami, Florida: I served as a director of this company from 1995 to 2000. RCCL is the world's second largest cruise company, now with 14 large cruise ships operating worldwide. Being on the board was tremendously stimulating and provided a lot of learning, particularly from the major shareholders and board members, Arne Wilhelmsen, the late Jay Pritzker, and Samuel Ofer; the chairman/CEO, Richard Fain; and fellow board members Kaspar Kielland and Thor Arneberg.

Fifth, I have benefited from deep discussions with leading practitioners in the shipping industry. Here I would like to mention in particular Tom Erik Klaveness, Morits Skaugen, Jr., and Jens Ulltveit-Moe.

The final, and perhaps the most important, industry-specific source of influence for my interest in shipping strategies comes through my involvement on the ownership side with the ship owning company S. Ugelstad, founded in Oslo, Norway in 1929. I inherited 50% of the company in 1987, and subsequently purchased the remaining shares. The company now owns and operates a fleet of four platform supply ships (PSVs) for the offshore industry as well as one reefer ship in worldwide trade. I have been influenced by several sources here:

- The board of directors, in particular the stimulating cooperation with Hans G. Haga, Thure Svensson and the late Kaare Wikborg.
- S. Ugelstad's leaders—with its managing director Odd Settevik, my son, Per F. Lorange, and Per Lindseth—have been critically important in developing my own understanding of the shipping business.

- The relationship with ship brokers, particularly R. S. Platou. Here, Per Engeset has played a major role. My understanding of the offshore supply shipping business is largely a function of all my discussions with him.
- The banks, in particular Nedship Bank. Here, I have gained important insights through discussions with Jan Hjellestad and Oyvind Holte.

This brings me to the last and most general reason why I think I might have something to add to the subject of strategic management of shipping companies—namely, more than thirty years of academic work in the area of strategic management. My three decades of teaching and researching strategy have given me an exposure to many of the current theories in strategy, organizational behavior and finance. They have also given me a chance to discuss various industry-specific strategic challenges in broader contexts with colleagues at leading academic institutions with which I have been affiliated, such as the Sloan School of Management (MIT), the Wharton School and IMD. Over the years I have studied and discussed many industries, many companies and their key leaders. In this book I have drawn on my years of thought, reading, research and discussion around the theme of growth in organizations—either you grow or you stagnate, even die. Particularly important here has been my work with Professor Bala Chakravarthy.

The rationale for the book, in a narrower sense, is understanding the success of global shipping corporations, i.e., how to become a winner in this industry. As such, it is relevant to those active in shipping—practitioners and academicians alike. In a broader sense, the book is also about how to manage in the face of global turbulence. Understanding how to deal with the growing forces of instability will be key, not only for executives from the shipping industry but also for many executives from a wider set of industries and corporations.

In Chapter 1 we shall briefly set out some key strategic challenges of a shipping corporation. A conceptual model for developing strategies in shipping companies will be developed, illustrated by a historical exposé of the successful, but turbulent, evolution of two leading shipping companies, A. P. Moller-Maersk and Leif Hoegh & Co.

The next three chapters deal with the specifics of strategy formulation and implementation in shipping firms. In Chapter 2 we shall discuss commodity-based shipping strategies, underscoring how the shipping firm must adapt to volatile market conditions to proactively take advantage of movements in the market. Speed and flexibility will be critical here. In Chapter 3, we shall discuss the move toward niche strategies, where the shipping firm attempts to position itself *away* from the commodity markets and instead to develop services vis-à-vis specific customers, which in turn may allow the firm to charge higher prices and secure stable returns. In Chapter 4, we shall discuss the overall portfolio strategies of the shipping firm, where the key challenge will be to put a set of chosen business strategies together in a deliberate way to create a better balance. These may be commodity-based business approaches and/or niche business approaches. The key is to develop an overall

balance that provides an acceptable overall risk profile and overall better long-term stability for the firm.

In Chapter 5 we shall discuss several organizational issues, largely to do with the implementation of the shipping firm's flexible strategies. After all, it is people, working together in organizational teams that make strategies happen, particularly in today's turbulent world. We shall thus discuss how the shipping firm might choose different strategic forms, depending on the types of strategies it wishes to pursue. The role of key players and personalities, including the owners, the chief executive, the internal entrepreneurs and the board of directors will also be discussed.

Chapter 6 deals with the ownership side, with particular emphasis on whether the shipping firm can benefit from being public, or whether it might have a better opportunity as a privately held corporation. We note that privately held firms are still rather prominent the shipping industry. The pros and cons will be discussed. Perhaps heavy risk-taking and coping with extreme turbulence can be better handled in privately held firms? Finally, we discuss the future of the industry and outline the contours of the shipping company of tomorrow. Focus on speed, agility and flexibility will be key hallmarks.

Many people in addition to those previously mentioned have provided specific inputs to the book, including: Terje Andersen, Eric André, Per-Ola Baalerud, Gerhard Binder, Michael Bonner, Lars-Erik Brenøe, Didier Cossin, Sean Day, Jan-Erik Dyvi, Sverre Farstad, Richard Fain, Arvid, Grundekjøn, Thor Jorgen Guttormsen, Robert A. Ho, Leif Hoegh, Westye Hoegh, Kevin Irvine, Maersk Mc-Kinney Møller, Bjørn Möller, Carsten Mortensen, Nobuyoshi Norimoto, Henning Oldendorff, Oscar Rosendahl, Tor Ståle Moen, John Syvertsen, Tonny Thorsen, Sigurd Thorvildsen, Felix Tschudi, Alex Wilhelmsen, and others. Lindsay McTeague edited the manuscript, supported by Gordon Adler. Eva Ferrari and Annette Polzer typed the many versions of the manuscript. I would like to thank all of the abovementioned people. And there are many others I cannot mention here for lack of space, but who have, nevertheless, made significant, if anonymous, contributions. I hope that this book will not only offer insights that are practically relevant but also lead to the stimulation of new strategies and further breakthrough research in shipping.

Peter Lorange

Lausanne, Switzerland

August 2004

*This book is dedicated to
Maersk Mc-Kinney Møller, outstanding leader and entrepreneur,
in recognition of his outstanding contribution
to the development of the field of shipping strategy.*