

Shipping industry analysis: a.p mollar- maersk



**ASSIGN
BUSTER**

The global shipbuilding industry has changed in the last two decades, the demand and supply of goods in the international market, that many sectors in the market of shipbuilding in force. The transport of goods in bulk can only be transported by large commercial cargo ships. Shipping industry is a huge industry that requires a lot of skilled and cheap labour. Shipping industry requires expensive investments. In the 1960s in Europe were dominant in this industry. Globalization and free trade have opened up opportunities for new life to the shipping industry.

There are many factors that directly or indirectly affects to the present day companies such as government policies, regulations, laws, competition, technology, international organizations, institutions of world trade, minimum wage, accidents, risk, violence, safety, labour, supplies, etc. So for any company to survive they have to plan the strategies accordingly to overcome those factors. But in practice it is virtually impossible to consider all these various factors. There are certain models like “ Michael Porter five forces” that determine to the external factors to the environments of shipping industry. As a managing consultant of “ A P Mollar-Maersk” shipping company I found that, in most of the countries the government is providing enormous support to promote foreign trade for the economic development, as well as my personal experience in shipping industry under “ A P Mollar-Maersk” group gave me thrust to explore more about the shipping industry. Here I analysed the company’s [A P Mollar- Maersk] growth and present situation using Porters five force model.

The five forces determine industry profitability because they influence the prices, costs, and required investment of firms in an industry — the elements

of return on investment. Buyer power influences the prices that firms can charge, for example, as does the threat of substitution. The power of buyers can also influence cost and investment, because powerful buyers demand costly service. The bargaining power of suppliers determines the costs of raw materials and other inputs. The intensity of rivalry influences prices as well as the costs of competing. The threat of entry, places a limit on prices, and shapes the investment required to determine entrants.

INTRODUCTION

Shipping is the primary means of international transportation of any essential raw material or finished goods. There are three main segments consisting of bulk carriers, specialised cargo shipping as well as container shipping. This industry is fundamental to trade, globalisation and economic growth of a country. Out of the shipping industry “ A. P Mollar-Maersk” group became the world’s largest container ship operator.

About the company

The “ A P Moller – Maersk” group is the largest container ship operator and supply vessel operator in the world since 1996.

“ Maersk Line” offers a truly global network of containerization and services providing shipping solutions for cargo imports and exports. Maersk Line India is the leading Container Shipping Line in the region with footprints across 16 offices and close to 400 employees covering all major locations and cargo hubs. “ Maersk’s” activities are organised in different business segments, they are container shipping and related activities, A P Mollar terminal, tankers, offshore and other shipping activities.

“ Maersk” established its foothold in India on August 6, 1990 and has since expanded its operations in the business across the supply chain. “ Maersk” Line India carries cargo to and from all major Indian ports. “ Maersk” Line India major exports include Garments and Apparel from Tirupur, Mumbai and New Delhi; Cotton from Mumbai, Tuticorin and Gujarat; Iron and Steel from Kolkata, Mumbai and New Delhi and auto products from Mumbai, Chennai and Ludhiana.

Container shipping activities is the largest business area for “ Maersk” groups, providing half of the group’s revenue in 2008. Since 1996, “ Maersk” is the largest container shipping company in the world. “ Maersk” Line operates over 550 vessels and has a capacity of 2. 2 million TEU (Twenty-foot Equivalent Units).

2. Analysis of Porter’s Five Forces for Shipping Industry

Porter’s five forces is a framework for analysis of industry and development of business strategy, it also determines the competitive intensity and attractiveness of a market. Attractiveness is referred to overall profitability of industry while unattractiveness drives down profitability. This model implies that profitability or return should be constant across firms and industries; however studies have affirmed that different industries can have different levels of profitability due to their varied structure. The model can be used by organizations to develop edge over rivals. Conventionally, this tool is used to identify whether new products, services or businesses have the potential to be profitable.

2. 1 ATTRACTIVENESS FOR SHIPPING INDUSTRIES

Government of most of the countries are liberal towards the licensing and development of shipping business. Major part of the countries economic profit will be evolved from the shipping business. So the threat of new entrance is high, but as the profit margin is high, the attractiveness is also high. Many competitors are available in the market and they provide perfect substitution in terms of services, freight rates etc, but the resources are also easily available. So the attractiveness is also high. Suppliers are more in this field and the available facility is very less so the cost is high, which makes suppliers in weak and buyers in strong position. So the industry attractiveness is low in this case. The bargaining power of buyer is high and potentiality of business is high then many buyers will be there in the market. This will increase the attractiveness. Existing players are many, but constant technological advancement and updated services and facilities will increase the attractiveness.

3. Threat of New Entry

Every person would like to do business in shipping industry due to large profits involved in it. It may seem easy, but practically it is more difficult and virtually impossible to set up in container line business. The main problem involves in the large capital investments in the form of vessel, operating risk of a vessel and the container availability. In the case of “ Maersk”, we can understand that it had taken more than 100 years to establish themselves to reach at the top level. Still there can be threat from existing companies like APL and MSC to expand into new sectors which will reduce the share of the company operating in that region. “ Maersk” is generally operating in every

part of the world. In certain regions it may be the only player operating, in such case its profit margins from those operations would be huge. But the profit can be severely affected, if APL or MSC introduce their service in those regions. If there are any new potential companies who would like to jump into this sector with huge capital then other factors like licensing, government rules, regulations, policies are all secondary.

Capital requirement is high.

Profit margin is high.

Chance of expansion into new sector is less.

Switching cost is less.

Government restriction is less.

Capital requirement of the shipping industry is very large, so the threat from the new entrants is less. As the capital is very large the profit is also too high in shipping industry. Because all exporters and importers know the best mode of transport their goods is the shipping line. Switching cost of the customer is high because of the lack of experience of the new entrants. Most of the countries main economy evolves from the shipping industry. So the government will give full support for the new entry.

So overall threat for the new entry is high.

4. Threat of Substitution

Substitution threat is also an important factor especially when something is going wrong in an organization. Competitors are waiting to catch that

<https://assignbuster.com/shipping-industry-analysis-ap-mollar-maersk/>

opportunity for their benefit. Substitution threat is the result of change in buyer behaviour towards competitor or against company. Substitution may also result because of change in quality of service, increase in freight rates and increase in transit time. From view point of switching costs, buyers are not affected at all due to higher number of suppliers and freight forwarders available in market. While it may affect the company to certain extent as they have to start new search of customer, establish strong relations and educate them on company policies and systems. Switching costs become even more at times of downturn due to decrease in supply of business from customers. Cost factor is primarily responsible for substitution while service specification comes secondary.

In case due to the delay of service or quality become poor and at the same time the wagon rates are also similar, then the customers will switch on to the new substitutes [wagon]. If the oil price [crude oil/diesel oil] shoots up then the company is forced to increase their delivery charges. Due to the increased rates in shipping and delayed timing to reach the destination on time, customers will go for the substitutes like airline, wagon or even trucks [for certain limited destinations]. If the airline or wagon [goods train] can almost cost the same rates of the shipping companies but can reach on time then customers will think for such substitutes.

Substitution threat will be major problem for a reputed company like “Maersk”. If any service or the goods are not delivered in a proper manner then the customer trust on company will go down. In this present world people won't compromise for any thing. If they are not satisfied by the

service they will jump to other substitutes who can give better rates and services.

Availability of the substitutes is high.

Price of substitutes is high.

Quality and performance of the substitutes is high.

Switching cost is high.

Cost factor is less.

More number of market players is available, but they all are dealing in different prices, performance and quality will increase the attractiveness of shipping sector. As the switching cost is high, customer stick to their present seller will increase attractiveness. Cost factor is less important because all players will play a role of defender in market will moderate the attractiveness.

So overall threat of substitutes is high.

5. Bargaining Power of Supplier

Suppliers barely make any difference to companies involved in shipping line business, especially who are leading players like “ Maersk” in this business. While it may affect to certain extent to small players like Five star shipping company, Varun Shipping company etc. who are struggling to establish within the industry. Many suppliers are such which are borne directly by customers but arranged by shipping lines like pesticide, wooden pallets, container repairs and truck transportation due to corporate contract or link <https://assignbuster.com/shipping-industry-analysis-ap-mollar-maersk/>

ups of companies with service providers. While there are cases when these same services are borne by shipping lines but then these charges are included in freight rate which would be higher if the suppliers were not arranged by company. “ Maersk” supply service expects a lower result than in 2010 due to lower contract coverage and weaker spot market rates than at the beginning of 2010.

Another supply which is related to loading of containers on third party vessels is very important here because this is the only supply where shipping lines have to face the bargaining of suppliers. Not all shipping lines own the vessel and therefore they hire the service of other companies, to load their containers for different destinations. “ Maersk” is the largest container operator in Kandla port. But its own vessels are not operating from Kandla due to drift problem and therefore they hire the services of third party feeder vessels to load its containers till JNPT [Jawaharlal Nehru] port in Mumbai, from where “ Maersk” mother vessels are operating across continents. In this case “ Maersk” may have to pay extra money if demanded by ship operators. While this is not the case with MSC [Mediterranean Shipping Company] which has its own small vessels operating from Kandla to different gulf locations. But if we move to location like JNPT port in Mumbai, the situation is totally different. “ Maersk” vessels are the biggest here operating among other carriers and those small carriers are using slot on “ Maersk” vessels for transporting their cargo. There are other supplies like loading/unloading of containers from vessel ie, movement of containers to CFS (container freight station) and vessel towing which are provided by port authorized suppliers and companies. Port authority charges fixed amount

towards these handling from shipping lines and shipping company charges the same from customers after adding their profit margin.

Number of the suppliers is high.

Price factor of the suppliers is high.

Profit of the supplier is less.

Switching cost of the supplier is high.

Operating cost is high.

So overall power of suppliers are low.

6. Bargaining Power of Buyer

Buyer is one of the strongest factors in shipping line business. Buyers may be in form of importer or exporter, clearing agent, freight forwarder or manufacturer of goods. Sometimes manufacturer himself acts as an exporter or importer if not, then trader acts on behalf of manufacturer of goods.

Container line business is based on two main core factors price and quality of service. Price refers to freight rate at which one container is decided by shipping company to transport from one place to another. Due to much competition in this sector and limited number of operators, bargaining power of buyer has increased in relation to freight price. Almost all shipping lines have service to Jebel Ali (an important transit hub in Dubai) from India, and customer is sure to get very competitive rate for this location from market.

For such locations customer are virtually like king but when it comes to transporting cargo to far Europe or America, then this power is transferred to

<https://assignbuster.com/shipping-industry-analysis-ap-mollar-maersk/>

companies operating in those regions. Therefore “ Maersk” has strategized the businesses in such a way to get maximum profits from service to odd or far reaching areas and make normal profits from operation to common areas like Jebel Ali.

Another factor Service refers to fast processing of documents, bill of lading and prompt loading and movement of containers etc. It is rather difficult for customers to get better quality of service than getting competitive freight rates. In this world of technology every company is trying to adapt to new technology in their day to day businesses like e-processing of documents and fastest data entry to name a few. “ Maersk” is so technologically advanced in this field, that all its data processing is being done electronically by back office and customers are able to access all information relevant to shipment though dedicated space available on company website. Electronic processes are shipping bills, vessel certificates, freight invoices and bill of lading in encrypted format, once the payment is done by customer either electronically or at “ Maersk” local office.

Companies like APL and MSC do have electronic processing systems but are not fully fledged and as a result much of the work is still being done manually. Other sections of buyers which may affect container line business are freight forwarders or clearing agents, with rapid expansion of shipping industry and import/export businesses. Many agents acting as freight forwarders have come up in market to share the profit in form of commission. These agents earn commission by way of collecting excess freight from exporter than charged by shipping lines. It is relatively easy for

shipping lines to entertain these agents, so there is no difficulty of approaching different small exporters.

Numbers of the customers are high.

Switching cost is low.

Customer's information and awareness is less.

Customer's ability to demand is high.

Freight forwarders and clearing agents are high.

Number of customers is high in this field due to the export and import of goods from different parts of the world. But the similar price and quality will lessen the attractiveness. Customer's ability for demand during purchasing will be high, because suppliers are in threat of losing customer. Switching cost of customers is low because of more number of suppliers. Due to easy availability of containers through agents instead of searching by the shipping companies in different places the bargaining power of freight forwarders and agents will be more.

So overall bargaining power of buyer is high.

7. Competitive Rivalry

Rivalry exists in every field be it business, science, space, technology, education etc; actually speaking it is a part of the day to day businesses. It is sometimes bad because companies have to share hard earned profits with competitors and sometimes goods because it gives opportunities to one company to stand in line with another in terms of quality of service, business

<https://assignbuster.com/shipping-industry-analysis-ap-mollar-maersk/>

strategy, job satisfaction etc. Considering the rivalry in shipping industry, it will be held valid due to enormous margins of available profits combined with continuous growth of around 14% since last couple of years. If we consider the rivalry between our top of the table players (Maersk, MSC and APL) we will find that all these players are good in some and bad in some and therefore stiff competition exists between them. “ Maersk” dominates the market due to its wide area coverage, better connectivity, best business practices, and cost controlling measures. But on other side, its strict and non flexible policies and highly technological advancement at very base levels which is not digested by people working in lower educated market. MSC on other hand has balance of advantages and disadvantages. It has done well in recent times in attracting business due to its competitive pricing model and better connectivity of services. In contrast it has failed to control administrative, operational and higher output costs. It has been seen practically at Kandla port location where “ Maersk” is having higher outputs compared to MSC but staff recruited to control that output and time for completing the tasks was almost double compared to “ Maersk”. APL on other hand has much controlled costs measures and highly technological advanced processes as in “ Maersk” but it doesn’t have far reaching connectivity like “ Maersk” and therefore relies on third party services in certain regions. Also it has lagged behind in attracting customers due to non availability of killing marketing strategies.

Number of competitors is high.

Cost leadership is high.

Switching cost is low.

Industry growth is high.

Competitor's move to new customer is low.

More number of competitors is high in shipping industry, because of the thought that the profit margin very high in this industry. Cost leadership is high for the market leader (MAERSK), because the new entrants and the minor players in this industry can't sustain with very low cost of the market leader. Industry growth is high, so the chance of exit from the industry is less. Competitor's move to new customers is very low because of the non-awareness of their profile. Switching cost is low, because of the less familiarisation of the new suppliers may lead to argument or disagreement.

So overall competitors of the industry is high.

8. Conclusion

Container line business is a flamboyant industry in the whole world. Due to rapid economic development since recent past, trade between developed and developing countries has increased significantly. Maersk Supply Service expects a lower result than in 2010 due to lower contract coverage and weaker spot market rates than at the beginning of 2010. In 2010, A P Mollar entered into a joint venture agreement to establish a new terminal in Santos, Brazil. So that company don't want to keep their cargos in any of the external port. Thus by paying money to the other ports for keeping the cargos can be avoided and then the profit can be increased. The terminal is

expected to open in 2012 and when completed have capacity to handle 2.2 million containers in a year.

In the wake of the worst year ever for container activities in 2008 & 2009, the Group continued its focus on strengthening Maersk Line's competitiveness. In 2010, the Group's container shipping companies shipped practically the same number of containers with the same average rate as in 2008, but nevertheless generated a profit that was USD 2.2 billion higher than in 2008, primarily due to streamlining and cost savings. Maersk Line should set a new industry standard for on-time delivery, and customer satisfaction will reach the highest level ever measured by Maersk Line.

It is also essential that "Ministry of Shipping" of each country in particular should take more proactive steps like, regulations in free movement of foreign exchange and international trade to be more liberal, easing export/import duties to make this industry work more freely and contribute even more to the economic development of country. Companies at same time should adapt more technology to make easy and efficient work environment for the customers and employees.