Strategic management of overseas ship holding group business essay

At the end of the last financial year OSG, owned or managed a state-of-the-art, advanced fleet of 111 vessels (cumulatively measuring about 864, 800 cubic meters and a 11. 3 million deadweight tons). 23 vessels of OSG operated in the U. S. Flag market and 88 operated in the international market. OSG's new-building setup of possessed and chartered-in vessels amounted to 11 International and U. S. Flag vessels, thereby carrying the Company's total owned, operated and new build fleet to 122 vessels.

OSG is regarded as only major company with a significant international flag & US flag fleet. OSG has a business strategy which enables it to maintain a balance portfolio of vessel types & charter mix options i. e. long term time charter employment as well as spot voyage commitments.

OSG has 3500 employees worldwide out of which 3050 are seafarers, who are regarded as contractual employees or project based employees. OSG operates office at Athens, Houston, London, Manila, Montreal, Newark, Newcastle, Singapore and Tampa, hence giving the organization a worldwide shore presence. The corporate headquarters of the company is located in New York, the financial capital of United States of America.

Business Strategy

OSG is committed to providing safe, reliable transportation services to its customers while ensuring the safety of its crews, vessels and the environment. The Company is also committed to creating long-term shareholder value by executing on a growth strategy designed to diversify its revenue sources across its chosen sectors and thereby maximize returns and reduce risk over shipping cycles.

OSG’s growth strategy is focused on four elements:

- Sector Leadership – OSG seeks to preserve or attain market-leading status in each of the primary markets it operates: crude oil, products and U. S. Flag. The Company has expanded its fleet through organic growth and acquisitions of companies that have expanded its market presence, the scale of its fleet and service offerings.

- Fleet Optimization – The Company believes that it can improve returns in any shipping cycle by taking a portfolio approach to managing its business. This approach includes operating a diverse set of vessels that trade in different markets; participating in commercial pools that maximize vessel utilization; managing a fleet of owned and chartered-in tonnage that provides for flexibility and optionality; and trading its fleet in both the spot and time charter markets to enhance returns.

- Superior Technical Ship Management – OSG is committed to operational excellence across its fleet. Experienced crews supported by skilled shore side personnel operate the Company’s high-quality, modern fleet. OSG’s Safety Management System (” SMS”) is designed to ensure that operational practices and procedures are standardized fleet wide and those seafarers and

Vessel operations meet or exceed all applicable safety, regulatory and environmental standards established by International and U. S. maritime laws.

- Financial Flexibility – The Company believes its strong balance sheet, ample liquidity, proven access to the capital markets and a significant unencumbered asset base provide significant financial flexibility. OSG has access to substantial amounts of debt capital on an unsecured basis in both the bank and public debt markets, thereby reducing its issuance of secured debt, which typically has collateral maintenance requirements. This financial flexibility permits the Company to pursue attractive business opportunities.

Strategic Organization Arrangement

Organized Strategic business units of the Company's vessel operations are intensively fixed on wide-ranging market segments namely crude oil, refined petroleum products, and U. S. Flag. Suezmax, VLCC, International Flag ULCC, Aframax, Panamax, and Lightering tankers are all collectively managed by International Flag Crude Tanker unit; LR1 and MR product carriers are in the management domain of International Flag Product Carrier unit and the Company's U. S. Flag vessels is managed by the U. S. unit. Through joint venture partnerships, the Company operates four LNG carriers and two Floating Storage and Offloading (" FSO") service vessels.

Specific fleets within the company are managed by committed chartering and commercial personnel while the Global Operations are handled by the technical ship management operations and corporate departments support.

Multi-business organizations use a variety of structures; multidivisional strategic business unit, or a form of matrix structure often described as transitional. With the multidivisional structure, individual exists as autonomous units, with each unit manager reporting to corporate head quarters. When an organization is broadly diversified with several businesses in its portfolio, management may choose to form strategic business units, with each unit incorporating a few businesses having something in common or commonality. (Harrison, 2007) Page 150

Business Strategy for Trading Ships

Vessels are chartered by OSG to customers either at spot rates or for clear-cut well-defined voyages or for specified periods of time at fixed daily amounts. Spot market rates are highly volatile, while time and bareboat charter rates, because they are fixed for specific periods of time, provide a more predictable stream of Time Charter Equivalent revenues (” TCE” revenues).

Charters in the tanker market are mainly oil majors which charter in part of their transportation requirements on a long term basis, and enter into the spot market hire vessels for the their short-term requirements only, mostly during the peak oil trading season. This type of chartering strategy, when followed by group of charters such as oil majors, can intensify the spot rates. (Cullinane, 2011) Pg. 136

Strategic Key Financial Facts

Yahoo. (2011). Overseas Shipping Group Inc. (OSG). Retrieved May 20, 2011 from Yahoo! Finance.: http://sg. finance. yahoo. com/q/ks? s= OSG

Competition

The shipping industry is highly fragmented and OSG is involved in a cut-throat competition with other owners of U. S. and International Flag tankers.

Independent ship-owners, oil traders with logistical undertakings, state owned entities with their own fleets, and pipelines and united oil companies are also competitors of OSG.

In addition all other vessels that fill the size, type and availability requisite for the customer are also competitors of OSG's Vessels. Competition in the spot market, is primarily based on price, however charterers are also becoming more discerning with respect to the attributes of the vessels they hire considering other key factors such as the reliability and quality of operations and a partiality towards the modern double hull vessels founded on concerns regarding environmental risks accompanying older vessels. In the time charter market, factors such as the age and quality of the vessel and reputation of its owner and operator tend to be even more significant when competing for business.

OSG's fleet of VLCCs and ULCCs is commercially managed through Tankers International. Tankers International, with a total of 43 VLCCs and 2 ULCCs as of December 31, 2010, is a leading player in this highly competitive and fragmented market. Its main competitors include Frontline Ltd., BW Shipping Managers, Mitsui OSK Lines Ltd., Malaysian International Shipping Corporation Berhad, Nippon Yusen Kabushiki Kaisha and Maran Tankers Management.

OSG formed the Suezmax International pool in 2008. There were four tankers in the pool as of December 31, 2010 that trade primarily in the Atlantic Basin. The main competitors of the Suezmax International pool include the Gemini Tankers, Stena Sonagol and Blue Fin Tankers pools. Other competitors include non-pool owners such as Dynacom Tankers Management, Ltd., OAO Sovcomflot and Thenamaris Ships Management, Inc.

OSG is a founding member of Aframax International, which consists of 46 Aframaxes trading primarily in the Atlantic Basin, North Sea, Baltic and the Mediterranean areas. Aframax International is one of the largest operators in this market sector. Aframax International's main competitors include Teekay Corporation, General Maritime Corporation and Sigma Tankers Inc.

OSG's main competitors in the highly fragmented Panamax trade include owners, traders relets and pool operators. Substantially all of OSG's fleet of Panamax tankers is commercial managed by Panamax International, which commercially manages 24 double hull vessels. Main competitors include Star Tankers Heidmar Inc., A/S Dampskibsselskabet Torm and Jacob-Scorpio Pool Management S. A. M.

In the MR Product Carrier segment, OSG owns or charters-in a fleet of 32 vessels that competes in a highly fragmented market. Eight of the OSG vessels are operated in the Clean Products International Pool. Main competitors include Handytankers K/S, Glencore International AG, Dorado Tankers Pool Inc., Trafigura, Vitol Group, A/S Dampskibsselskabet Torm, Navig8 and OAO Sovcomflot.

Detailed Analysis of OSG's Strategic Management

In this section we will closely review the strategies of OSG. Also in this part, we will evaluate on internal & external analysis of strategic management of OSG.

Drivers

Drivers

Value Drivers

Commercial

Optimize earnings by operating assets in pools &collaborations. Provide attractive returns to share holders

Operations

Deliver safe, efficient and reliable transportation.

Technical

Set the gold management for technical management

Financial

Strong balance sheet &access to capital.

(Scott, 1998) Pg. 149

Strategic Business Units

SBU STRATEGIES

SBU is defined by Johnson and Scholes(1999), as " A part of the organisation for which there is a distinct external market for goods and services." (Johnson & Scholes, 1999) (Langford & Male, 2001)further explain that " Large firms…set up strategic business units…[that] have the authority to make its own strategic decisions within corporate guidelines that will cover a particular product, market client or geographic area”.

ACHIEVING COMPETITIVE ADVANTAGE

SPECIALISED CUSTOMER FOCUS BASIS BRAND EG DISTILLATES

POOL PARTNERSHIPS EASIER TO FORM, SIMILAR TYPE OF SHIPS

BRAND IMAGE CAN BE MICRO MANAGED, AS DICATED BY THE MARKET REQUIRMENTS

BASES OF COMPETITIVE STRATEGY

CLEAR BENCHMARK INDICATION, IN THE RESPECTIVE MARKET SEGMENTS EG. SUEZMAX ATLANTIC BASIN TD5

EASIER TO DECIPHER SHIP QUALITY VS COMPETITOR BASIS AGE, OIL MAJOR APPROVALS, STRUCTURE, ETC

SWOT Analysis

The starting point in formulating a strategy is typically SWOT analysis. “ SWOT is an acronym that stands for strength, weakness, opportunities and threats. SWOT analysis is a careful evaluation of an organizations internal strengths & weakness as well its environmental opportunities & threats.”

“ The technique is credited to Albert Humphrey who led a research project at Stanford University in the 1960s and 1970s using data from leading companies” involved in long range planning processes. (Griffin, 2007) Page 67

SWOT ANALYSIS

STRENGTHS

-Largest US flag fleet operator, hence giving it sustaining competitive advantage in the domestic US market, in accordance of Jones Act.

-Very High standards of technical management, hence enhance asset value in the SNP market for OSG floating assets

– 6 decades of tanker operation experience, which attracts safety conscious oil majors such as ExxonMobil, shell, chevron, Conoco, etc. to prefer OSG tonnage, relative to smaller ship operators.

-Strong public image as OSG is the 2ndlargest publicly traded oil tanker company in the world, measured by number of vessels

– Number 1 market position in very large crude oil carrier sector

– Number 2 market position in the Aframax Sector

WEAKNESS

-Primary business shipping, which has lean cycles for long stretches due to subdued demand &sensitive to world trade. E. g. Due to continued weakness in the financial &credit markets since 2008, the freight spot market has not been still able to achieve same freight levels, as witnessed in pre-financial era of 2007 &prior to that

-Trades primarily in spot market which mean vessels chartered basis voyage, hence this encourages unpredictable earnings &skewed financial projections

-Shipping is a business with inherent risk, hence higher insurance premiums &more unpredictable overheads e. g. BP Oil Spill in US Gulf

OPPORTUNITIES

-Open minded to participation in commercial pools enhances OSG's fleet utilization &TCE revenues

-Long term contracts with south American oil exporting countries basis strategic alliance, which provides higher &consistent earnings

-Enter the fastest growing global shipping segment i. e. LNG &countering risk of market entrance, thru 25 years term contracts for respective assets

THREATS

-Market value of shipping assets has been of late fluctuating significantly, due to sudden rise &fall in commodity prices including base metals.

-Terrorists attacks on oil tankers, especially for a company which is incorporated in United States of America

-Hijacking πrate attacks in piracy prone areas, Gulf of Aden &Indian ocean regions on the rise, especially for Very large crude carriers for which the biggest load area is middle east

PESTLE Analysis

A well-established type of analysis to identify significant factors in the remote business environment is PEST analysis. PEST itself is an acronym for political, economic, social & technological factors. PEST is a well-known framework often used when conducting a market analysis to support business planning & strategy development. (Smith & Raspin, 2008) Page 63

PESTLE ANALYSIS

POLITICAL ISSUE

-Company's business would be adversely affected if failed to comply with Jones act provisions on United coastwise trade

-OSG's operating market might considerately shrink due to UN sanctions spearheaded by United states of America. Such UN sanctions have been imposed on big oil exporting countries such as Iran, Libya.

– OSG's operating cost could increase drastically, in wake of strict US government laws by US government such as OPA 90, special fuel emission areas, environmental policies in wake of BP oil spill, etc.

ECONOMIC ISSUE

-OSG's financial condition would be materially adversely f affected if the shipping income OSG's foreign subsidiaries subject to current taxation in the US

-OSG’s liquidity &cash flow position may get affected due to fluctuating cost of commodities such as base metals.

-Fuel costs spiking due to crude oil volatility

-Termination of strategic alliances with south American business partners due to change in economic policies

-Inherent trading risk evolving from forward freight agreements

-Rise in inflation in Asian countries, from where predominantly the seafarers are coming to operate OSG fleet

SOCIAL ISSUE

-Culture bridge when commercial trading in far east

-HR policies may not be linear, due to extreme cultural diversity in the organization

-Shortage of competent &proficient seafarers, due to lesser aspirants for sea going career

– Piracy, security &hijacking of vessels is becoming a major concern, in the Indian ocean region due to poor economic conditions in east African countries

TECHNOLOGICAL ISSUE

-Shifting to alternative sources of energy &growing economies reducing dependability on oil energy

– Development of strategic long distance computerised underground pipelines

-E Governance &E Trading making small operators compete with larger well established operators, easily

-Better refining techniques being constantly developed hence reducing dependability on crude oil carriers

Critical Evaluation & Strategic Management Assessment

The heart of an organization is its knowledge, its experience, and its technology. These are the key strategic foundations. (Morden, 2007) Page 399

Financial Facts

Please refer Appendix 1 + 2 & we compare OSG financial strength with competitors such as " Frontline, Teekay, Torm.

Market Cap OSG – 903. 62 Million

Market Cap Frontline – 1. 61 Billion

Market Cap Teekay – 2. 37 Billion

Qtrly Revenue Growth OSG – -2. 30%

Qtrly Revenue Growth Frontline – -13. 70%

Qtrly Revenue Growth Teekay – -13. 60%

EBITDA OSG – 56. 40 Million

EBITDA Frontline – 490. 01 Million

EBITDA Teekay – 583. 89 Million

EPS OSG – -5. 30

EPS Frontline – 2. 07

EPS Teekay – -3. 90

Strategic and Tactical Competitive Actions

OSG uses both strategic and tactical actions when forming their competitive actions and competitive responses in the course of engaging in competitive rivalry. A competitive action is a strategical or tactical action the firm takes to build or defend its competitive advantages or improve market position. (Hitt, Ireland, & Hoskisson, 2009) Page 136

STRATEGIC AND TACTICAL COMPETITIVE ACTIONS

STRATEGIC ACTIONS

ENTERING NEW MARKETS

NEW MARKET SEGMENTS

AVERAGE FLEET AGE

MERGERS / ALLIANCES

TACTICAL ACTIONS

REGULATING OVERHEADS

FLEET CONVERSION

FAR EAST MARKETS

Conclusion

Summary

The propensity for strategies to develop incrementally, based on historical and cultural influences without managing to keep pace with a changing environment is known as Strategic drift. OSG needs to diversify rapidly into LNG segment rather than concentrating only bulk oil liquids. What if emerging markets shift to LNG for their growing needs?

The tactic by which an organisation grasps increased share of its existing markets with its existing services range is known as Market penetration. It seems OSG has been very systematically been focussed on US domestic market. According to BMI model, united states energy requirements will remains almost consistent, so is it right to only penetrate this market?

The extent to which the centre of an organisation assigns and allocates decision making to units and managers, lower down in the chain of command, is also known as Devolution. Is OSG corporate supporting its BSU's or still the (Hitt, Ireland, & Hoskisson, 2009) decision-making is based out of New York?

Recommendations

Exploiting the profit pool concept for competitive advantage. Explore pool partnerships with global players.

Information technology tools should be deployed to increase the coherence & smoother work flow with strategic business units

In times of geo political uncertainties, risk mitigation should be well regulated through fuel hedging & forward freight agreements. Bing exposed to big cost spikes can affect bottom line.

Target market segment of BRIC economies, more aggressively

Minimize exposure to risk segments such as lightering business in United states gulf area

Critical Success Factors

Leveraging from Strength in US Oil markets presently

Strategical partnerships with growing economies such as Brazil, Venezuela.

Less systematic & political barriers

Successful pool partnerships on very large crude carriers