An overview of koreas hanjin shipping economics essay

Hanjin is a shipping company based in Korea. It started as a container line trading in-between Korea and Middle East. It gradually increased its trading areas and started trading its container ships on all major trade routes of the world (Hanjin shipping, 2010). It merged with Korea Shipping Corporation in 1988 to form Hanjin Shipping co., Ltd. In 1997 it acquired majority interest in DSR-Senator Line to make its mark as a major container shipping line. As of date Hanjin Shipping is Korea's largest carrier that operates some 60 liner and trampers services transporting over 100 million tons of cargo annually all over the world (Hanjin shipping, 2010).

Source: Hanjin, 2010.

As see from the above chart 77% of Hanjin's earnings is from its container business and rest 23% comprise bulk revenue. Hanjin currently operates more than 200 ships all around the world, out of which almost 50% are container ships and the rest are bulk carriers, crude tanker, LPG and LNG ships. Hanjin is ranked 9th in the container ship market with 96 ships and capacity of 427, 720 TEU. (Hanjin shipping, 2010) Hanjin Shipping has a comprehensive global business network with three regional headquarters, 200 overseas branch offices, and 30 local corporations. Hanjin is also operating 12 container terminals around the world with 5 terminals in Korea 3 terminals in USA. Hanjin has a total of 4003 employees working onboard and ashore. It has around 24 subsidiary companies around the world. It is also affiliated with logistics IT specialist Cyber Logitec, and Hanjin Shipping Management (Hanjin shipping, 2010).

Source: Hanjin, 2010

Hanjin’s container trading routes are shown in diagram below

Hanjin Container Trade routes

Source: Hanjin, 2010

Source: Hanjin, 2010

Hanjin goals are ‘ to become a premier logistics company which is recognized and trusted by the global community’. (Hanjin shipping, 2010, p. 1) Hanjin posted revenue of 9, 356 billion Korean won and a profit of 320 billion Korean won for the year 2008. Hanjin is now venturing into different markets other than shipping. It has developed its information technology solutions to change the company into a 3rd party logistics provider (Hanjin shipping, 2010). Hanjin’s mission is to ‘ become one of the leading global shipping and logistics company’ (Hanjin shipping, 2010, p. 1).

Source: Hanjin, 2010.

Porter 5 forces Theory

Porter’s 5 Forces provides a framework that models an industry as being influenced by five forces. It assesses the organisations specific environment and assumes that some industries are more attractive that others with more profit potential by considering the five forces as mentioned below (Porter, 1997).

Source: Porter, 1997

Porters 5 forces can be used for development of business decisions, marketing strategies and planning. Managers can use this analysis to develop an edge over their competitors. As per Porter (1997, p. 1) ‘ awareness of these forces can help a company stake out a position in its industry that is less vulnerable to attack’. To gain a competitive advantage business has to focus on a broader perspective. The porter 5 forces will give the analysis of the external forces affecting the company.

Why Hanjin

Hanjin Company is a growing company which has proved to be successful over the years. It is a good example, how it has grown from a small company in 1977 to a leading shipping company in 2010. Shipping by nature is a highly competitive market. Hence it is very important for a company to understand its external factors to sustain in this highly capital intensive industry. We will analyse the external environment of Hanjin using the porter five forces theory and later see the diversification strategy used by the company to grow in shipping and logistics markets.

Hanjin Porter 5 forces

Hanjin external environment is analysed using the porter 5 forces model. By using the porter 5 forces the companies’ analysis of its weakness and strengths in the business environment can be done. This will also give a good sight into what are Hanjin’s threats and who are the main competitors.

Threat of New entrant: – Moderate threat

The global trade is ever increasing, resulting in increase of profits and turn over. As per estimates shipping trade is going to increase by 8. 5% by volume (Bonney, 2010). This increase in cargo flow is likely to attract new entrants especially from the fast developing nations such as China and India (Threat – YES).

Hanjin faces a threat from government assisted container lines. Many countries across the world have shipping lines operated by the governments. This is mainly due to two reasons, high cash flows and as a matter of pride or second line of defence in case of war. Governments in developing countries will want to enter into container markets to make the most of the opportunities. Governments such as China, India or Malaysia have their own container lines. They can enter the markets in a big way and affect the trade in the markets. (Threat – YES)

Container shipping is by nature a high capital intensive industry. The fixed costs of a company and the assets required to run a shipping line are very huge. Moreover the logistic support required to operate a global market is also large. These factors act as a deterrent to entry for the competitors. (Threat – NO)

The current market situation where freight rates have seen an all time low. Most of the liner companies are operating at minimum costs or sometimes at a loss. Hence the current economic conditions will deter new entrants in the market. (Threat – NO)

Hanjin has a moderate threat of new entrants majorly because of the high cost involved in operating a shipping company and due to economics of scale. Their main threat will be companies operated by governments from developing countries such as SCI or COSCO.

Threat of Substitutes: Low threat

Ocean transport is the cheapest means of transport. Almost 90% of goods are being transported by sea. More over it is very difficult to move good which are very large in volume or heavy goods. Hence in the near future it is unlikely that any alternate means of transports will be a threat to Hanjin. Air transport can take up a small part of the market with the new cargo planes being used. But it is hardly going to make a difference in terms of cargo volume. (Threat – NO)

Many companies are setting up their manufacturing units where they have a big market share. Companies such as Toyota or Honda have set up their plants in developed nations such as USA and developing nations such as India. This will result in less trade for these finished goods. (Threat – YES)

In contrary to the above point there has been a shift of manufacturing goods from Europe and Americas to Far East. This has resulted in improved trade from Far East to Europe and Americas. Hence there will be a decrease of substitutes for shipping as the western world has no other option than import manufactured goods from Far East. (Threat – NO)

Hanjin has a low threat of substitutes as there is hardly any alternative for sea transport. As compared to other modes of transport, transport by sea is the cheapest means.

Bargaining power of Supplier – Low threat

Suppliers for Hanjin are from all around the world. Hanjin is not relying on any one supplier to support its business. Suppliers for Hanjin range from container trucking company to bunker delivery to provision supplier etc. As Hanjin is a global company with trade routes all around the world it is very unlikely that supplier can overpower Hanjin. Hanjin has started its own logistics solutions which will assist their container operations, hence they have to rely less on suppliers. (Threat – NO)

Supplier is normally based and trading in fixed locations. Even if the supplier company becomes big in a certain part of the world E. g. Port in India, Hanjin has the option of skipping the port in India and shift its trade somewhere else. (Threat – NO)

Hanjin faces a low threat from supplier power due the very nature of the business. Suppliers normally have geographically fixed location and Hanjin is trading all over the world. The only place where Hanjin have to be careful is in ports such as Singapore, Hong Kong and New York where terminal operators may have the power due to strategic location of the port and congestion in the port. Hanjin has their presence in the logistics market; in countries such as USA they have their own logistics division. They also own some container terminals across the world which will also add to the strengths of the company.

Bargaining power of Buyer – Moderate to High threat

The varying size and diversity of buyers indicates that the buyer's power is low. There may be cases where big buyers in certain areas pose a threat but that is limited to that port. E. g. Private ports in UK such as Felixstowe. (Threat – NO)

There are some shippers which have a considerable share of market, but for these shippers it is not easy to take over a shipping company due to the high operating cost of running a shipping company. (Threat – NO)

Hanjin faces a threat from buyers which have a considerable trade with them. It is very easy to switch trade in-between shipping companies due to low switching cost. Hence Hanjin may lose from these buyers. (Threat – YES)

If Hanjin does not have good relations or deals with the buyers the they can switch to different liner companies easily. Hanjin faces a moderate to high threat from the buyer due to easy switching option for the buyer

Industry competitors: Rivalry among existing firms – High threat

Concentration of markets: As seen from the list below the difference between top 10 container lines carrying capacity is not much. Hence there is fierce competition in-between all the container lines. Hanjin is ranked 9th in the world with companies like MOL, NYK and OOCL not far way behind. (Hanjin Shipping, 2010). More over there is very less barriers for entry. Hence rivalry among container lines is very intense which will result in strategies such as low cost and differentiation.(Threat- YES)

Source: Hanjin, 2010.

Industry consolidation: There has been a trend in the industry where mergers and acquisitions are used as a means to stay in the market. Companies such as Maersk or APL can merger with big shipping and in a way reduce competition in-between shipping companies.(Threat- YES)

High concentration on major trade routes: Trade routes are more or less defined and new entrants to the markets such as government owned carriers will run away with low freight rates on major trade routes. Hanjin also has major container lines such has MOL, NYK and OOCL which have a capacity to increase their frequency on the trade routes on which Hanjin ships are plying. (Threat- YES)

As per IMF (2010) World GDP is set to increase by 2. 9% for the next year. This is mainly due to increase in GDP because of the emerging economies such as China, India and Brazil. Sea- borne trade is going to increase from Far East due to this. This increase in sea-borne trade will reduce the rivalry in-between container lines.(Threat – NO)

Current over capacity of ships. Hanjin will face the brunt of current over capacity in the supply of ships as seen from the table below. Currently there is a 2. 9% surplus of ships (UNCTAD, 2008). This will result in intense rivalry among container lines, resulting in strategies such as cost cutting. This factor will seriously hamper Hanjin’s business and Hanjin may face losses. (Threat – YES)

Source: UNCTAD, 2009

Hanjin faces tough competition from its rivals especially during times of recession where most of the major carriers will use cost cutting strategy. Current over capacity of ships is the immediate threat to Hanjin. Hanjin has a strong hold in trade routes from Korea to other parts of the world, but it will face tough competition from MOL, NYK lines for other trade routes from Far East to Europe and Americas.

Diversification strategy theory

Diversification strategy is mainly used to create value or wealth in excess of what firms earn with the current setup. The firm grows by diversifying into new business by developing new products for new markets. Diversification is a growth strategy which requires both product and market development. There are four dimensions of diversification strategy

New industries for diversification should be selected where favorable conditions are present or can be created.

Diversification is most likely to succeed when the company extends its own business into new sectors.

Internal development of new business has more chances of sustaining than acquisition of a new or big company.

Diversification into new business should be in such a way that there are common buyers, channels and suppliers.

Internal Diversification: Internal diversification facilitates a transfer of skills and resources that is quite difficult to accomplish when acquiring an independent firm with its own history and way of operating. It is used to attain a desired market position on an international scale.

Diversification should lead to a synergy effect. This means benefits gained when assets complement each other. E. g. ‘ the value of the combined firm after acquisition should be greater than the value of the two firms prior to acquisition’ (Georgia state university, 2010, p. 10).

- Related diversification: It can be defined as corporate development beyond current products and markets, but within the capabilities or the value network of organization.

Diversification of the company is mainly used to satisfy certain goals of the company

Growth – Company may want to move from their core business and venture into something different. This is normally because management wants to venture into new business, but in such cases share holders are not satisfied. To grow the easiest option sought by the management is to acquire companies, and in most cases it tends to destroy shareholder values. (Georgia state university, 2010).

Risk – Diversification reduces risks and the variance of profits flows

Spreading – Does not normally create value for shareholders

Profit – ‘ For diversification to create shareholder value, the act of bringing different business under common owner-ship must somehow increase their profitability’. (Georgia state university, 2010, p. 23).

Hanjin Diversification strategy

Hanjin shipping started as a container line and since then has diversified its portfolio ranging from transporting containers to Bulk shipping and recently it has ventured into new business. (Hanjin Shipping, 2010).

As a part of their mid-term and long term objectives till 2017 is to focus on it core business, the container business and expand its bulk and terminal business. (Hanjin Shipping, 2010). Hanjin will try to invest more into 3PL (Third party logistics), ship yard business and renewable energy business. Hanjin will also invest in ship chartering business and offshore natural resources development business. (Hanjin Shipping, 2010). Hanjin has over the years used its diversification strategy to increase the growth of the company.

Mergers and alliances – Initially started as a container line Hanjin went on to merge with companies to increase its presence in the container business. It merged with Korea shipping corp. in 1988 and in 1997 acquired majority interest in DSR-senator lines. This acquisition gave a boost to Hanjin's container business. In 2001 Hanjin made a strategic move of going in alliance with CKYH, which gave Hanjin access to major container trade routes of the world. Hanjin went on to buy new and big container ships to size upto 7500 TEU's. They used the mergers as a part of their diversification strategy (Hanjin Shipping, 2010).

New terminals – As a strategy to diversify Hanjin started opening up its container terminals all over the world. IT opened up its first container terminal in Long Beach USA. It maintained its policy of diversifying over the years and currently have 13 container terminals situated all around the world and 3 new terminals coming by 2012. (Hanjin Shipping, 2010).

LNG and Bulk- Hanjin also invested in its bulk shipping which helped Hanjin to earn profits during the boom time in 2007 when Dry bulk shipping freight rates reached an all time high. As a part of its internal diversification strategy it ventured into the new and emerging LNG market. It currently owns 4 LNG ships and some crude and product tankers. (Hanjin Shipping, 2010).

3PL (Third party Logistics) – Hanjin's diversification of its business portfolio main stay is its 3PL business. This business will work in conjunction with its core container shipping business. Hanjin will make its mark into global logistics in Europe, and Korea. It also has plans to go in joint venture with Chinese Logistics Corporation and takeover of small logistics companies. Hanjin Shipping has continued to upgrade its solutions so that it can meet customer needs related to cargo collection, delivery, depots, air transport etc. If required Hanjin Shipping will be able to increase its service capacity and, form strategic alliances with their partners. As a strategy to diversify they have tried to create a synergy effect by developing into shipping logistics. (Hanjin Shipping, 2010).

Ship Repair Yard Business – Hanjin has a joint venture with Shunhe Shipping Co., Ltd. to build a ship repair yard in china. Once the yard is completed it will help Hanjin to improve its profits by guaranteeing repair space and service for its own fleet as well as to other companies. (Hanjin Shipping, 2010).

Renewable energy business- Hanjin Shipping has invested in renewable energy company. This investment will help the company to contribute itself in the supply and commercialization of the green equipment (Hanjin Shipping, 2010).

Hanjin has used related and internal diversification strategy to grow in shipping business. They have tried to increase the shareholders wealth by venturing into logistics business and trying to create a synergy effect. The fact that Hanjin has given dividends to its share holders for 10years in row also gives indication of Hanjin making good profits in its business. (Hanjin Shipping, 2010).

Conclusion

The use of Porter's 5 forces helps to identify the company's competitive status in the market. It helps to identify the external factors that will affect the company's profitability and its position in the market. The forces also identify the strengths of the company and the threats posed by the company from its competitors, supplies, buyers etc.

Shipping by its nature is a very competitive industry and analysis of porter forces suggests that Hanjin has the biggest threats from its competitors. Hanjin does not face a big threat from other factors in the industry i. e. from suppliers, buyers or new entrants. This is mainly due to the fact that shipping industry is a highly capital intensive industry. Large capital investments act as a major barrier for entry into the market which will affect Hanjins business. The growth in world trade will continue and new entrants will be attracted towards shipping, Economics of scale may play an important part to capture higher market share and may also act as barriers to entry.

Hanjin has a developed a diversified business portfolio with its core business as container shipping. Hanjin has used related diversification as their main stay for over the years which have helped them grow as a company. They have shared their risk by venturing in different markets in shipping. This helped them to successfully defend their position even during the economic slowdown in container market. By starting their own logistics company and their own container terminals worldwide, Hanjin has reduced the bargaining power of buyers and suppliers in ports. Its 3PL business is going to be Hanjins main stay for future and would be a profit making business.

Due to the economic down turn in 2008, next few years are going to be difficult for container industry. Hanjin’s main business is container transportation and related activities. As a recommendation Hanjin would have been better off to diversify more into Dry bulk or Oil markets to give more stability to its core business.