

# New hinterland strategies in port competition in Europe

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## Background

A changing economic landscape, trends with shippers and transport operators and the implementation of new innovative logistic concepts lead to significant impacts on European supply chains. With the expansion of the EU underway, more companies establish manufacturing and logistics operations in Central and Eastern Europe. The centre of gravity of the European production base shifts towards the east. As the origins and destination of transport flows in Europe are changing rapidly, West-European seaports are facing new challenges to maintain their competitive position. New hinterland strategies are vital for West-European seaports. But how can they anticipate on these trends and develop a successful hinterland strategy to attract and maintain their cargo flows and port users?

## Trends

Speaking with our clients such as major shippers, transport operators and port authorities in our day-to-day business and based on our analysis of important reports regarding economic development, transport, trade and investments, we see the following major trends in the European hinterland of seaports:

### Market growth and perspectives

The European consumer market is growing fast after the expansion of the European Union with 10 new members. The new member states offer an interesting combination of new domestic consumer markets and low cost production possibilities. This creates challenges in re-defining logistics chains between new manufacturing locations in the East and traditional markets in the West. Large companies search for the combination of fast and reliable entrance to local markets together with low cost manufacturing and services. Furthermore, also non-EU countries, such as Bulgaria, Romania, Russia, and the Ukraine are considered to be upcoming low cost locations with attractive market potential. Access to the new member states and upcoming markets is not easy as the transportation connections over land are still poor and need improvement. Developing fast and reliable routes to these markets are very important for seaports to have access to the new European hinterland. Seaports offering safe and fast connections to the new hinterland locations will create new competitive edge. Investing in the hinterland connections or developing strategic co-operation with partners in the hinterland should be considered.

### New investment hot spots in Central and Eastern Europe.

Each day large companies announce plans to relocate or expand their manufacturing and service operations. Companies focus on low cost operations in combination with a high level of service. Investment in Central and Eastern Europe is not only growing for traditional manufacturing projects, but also for high-tech and complicated manufacturing processes. This is enabled by the use of more standardised transparent mean and lean production processes. New investments are also observed in logistics centres. Although most of the logistics centres are located close to the market (capital cities), second tier locations (large cities, cities at the border) are coming up. The changing locations of production and logistics have an impact on the supply chains of

the companies, which require access to main (multi-) transport corridors in Europe and the position of the seaports. Seaports have to respond to this trend. Mapping the new investment hot spots in Europe is crucial to stay ahead of the game.

### Logistics as a viral tool in commercial strategies

More demanding customers, logistics as a vital tool in commercial strategies and the world as a market place are important challenges requiring their own logistics solution. These solutions become more sector specific and depend on the type of product, type of shipments (bulk, conventional, container, etc), and direction of the transport flow (inbound or outbound). This changes the way that shippers and transport operators do their business. Shippers and transport operators are driven by continuously creating more economies of scale, reduction of stocks, supply chain acceleration, and network optimisation. Meanwhile, outsourcing of business functions and ongoing mergers and acquisitions continue to take place. To respond to these trends, companies have to reconsider their logistics operations and the use of seaports. Seaports should anticipate on this by offering new tailor made logistics solutions between the new hinterland locations and the seaports.

In summary, seaports have to reconsider their hinterland strategies. The market is changing, new hot spots are on the rise and supply chains are being redesigned.

This results in the following strategic, tactical and operational questions for seaports:

- Where are the new hot spots in the European hinterland?
- Which markets or market segments are being developed?
- What can we offer as logistics solutions for the changing business cases?
- What is competition doing? What is our position?
- How to facilitate the interests of key stakeholders?
- How to attract new potential port users in this changing landscape?
- What drives our existing clients and how to anticipate on these to maintain and make them expand in our port?

## Towards a new approach in hinterland strategies and port competition

Strengthening the competitive position and focussing on market segments is one of the top priorities in port development strategies. However, many mainports allocate their resources to port expansion projects and pay less attention to the acquisition of new port users or enabling expansions of existing port users. In the very competitive environment of port competition, a market-oriented hinterland strategy and marketing plan is necessary to survive.

But how to achieve this? Is your hinterland strategy future proof? Answer the following questions and one finds the keys towards a new approach in hinterland strategies and port competition.

### 1 What do large international companies in automotive, business services, chemicals, electronics, high-tech engineering, machine building, plastics processing, etc have in common?

They have relocated or set up new operations in Central and Eastern Europe in the last five years. Most of them started in

the more mature economies in Central and Eastern Europe, such as the Czech Republic, Hungary, Poland, Slovakia and Slovenia. Nowadays, these companies also consider other countries, such as Bulgaria, Romania, Russia, and the Ukraine. New hot spots of manufacturing centres are emerging. In their decision to establish operations, companies trade off low labour cost against higher logistics cost and restrictions in the lead times to the market. Monitoring and mapping the hot spots and upcoming regions, knowing where investors are going and co-operating with the right local parties are the keys towards success in the development of the first stage of your hinterland strategy.

## 2 What do all seaports in Europe have in common?

To keep it short: All seaports present themselves as ‘Gateways to Europe’. But this is not true, because each seaport has its own specific role/position in the supply chain structures of companies. Each port holds its own unique position, depending on the sector of industry, type of shipment (bulk, container, pallet, etc), lead times in the market, and sourcing of raw materials and semi-finished products. In fact this means that as a seaport you have to focus on those segments in the market where the logistics solutions offered via your port are the most effective (lowest cost, highest quality). This requires a good understanding of the competition, your own product (logistics solution), and quality of the hinterland connections. Port competition is severe, especially among mainports in Western Europe. All ports are fighting to attract cargo from Central and Eastern Europe, but what is the logistics solution you can provide and win the competition?

## 3 What do all hinterland locations in Europe have in common?

Every region in Europe wants to have high quality and fast connections (shortest possible lead times) to the main ports in Europe and offer a high level of services to the companies in the region. Sustainable and environmental connections by road, rail and water are hot issues. The implementation of new innovative transport concepts and multimodal transport can improve the competitive positions of ports in their hinterland regions. Co-operation and strategic alliances with hinterland regions are to build in order to control and maintain sustainable transport corridors.



Figure 1. Developing winning hinterland strategies.

## Conclusions

Changing hotspots in Europe, fast changing supply chains and increasing port competition require new hinterland strategies for the mainports. Port authorities have to develop tailored marketing and action plans to structure their marketing efforts at those market segments where the mainport can offer a winning logistics solution to their new and existing clients in the changing hot spots of Europe. Winning hinterland strategies require an updated strategic marketing plan and include:

1. Mapping hotspots: Monitoring cargo potential in existing and new hot spots in the hinterland
2. Developing business cases with logistics solutions via your port to and from the hinterland
3. Determining your position towards other seaports in the established and new European markets
4. Selection of target groups (sector of industry, target countries), matching your logistics solutions
5. Action plans to attract new port users, including the marketing tools and techniques to get in touch with the decision makers in the target audience
6. Retainment strategies to make existing port users innovate, invest and expand in your port
7. Setting up co-operation/alliances with hinterland regions and develop sustainable multimodal transport corridors

Figure 1 presents five steps to develop your winning hinterland strategy and stay ahead of competition.

### ABOUT THE AUTHORS AND THE COMPANY

**Paul J. Mittertreiner** is Commercial Director with DHV with a focus on the international activities of the Environment & Transportation Group. He holds an MBA from the University in Groningen and has over 20 years experience in the Maritime and Logistics field. He was the Commercial Director for the Port of Rotterdam from 2001 until 2005 and held senior international management positions in the Netherlands, Australia, Hong Kong & China for the Van Ommere/Vopak Group from 1989 until 2001 involved in Shipping, Transportation & Tankstorage. From 1986-1989 he was involved in various consultancy assignments in the public and private transportation field for Ernst & Young Management Consultants.

**Hans Vermij** is Senior Manager with DHV Environment and Transportation. He is a very experienced international economist and has 20 years of professional experience in transport and regional development in Europe, Middle East and Africa

(EMEA). He has carried out over 75 international assignments. His experience includes economic assessment, financial feasibility, international business and strategy development, marketing and acquisition strategies, regional development strategies, technical assistance, and training.

DHV has been involved in a large number of national and international ports, maritime and logistics projects for over 40 years. DHV is one of the leading Dutch firms in the fields of ports, maritime and logistics infrastructure. The company executes projects in all phases: feasibility studies, master planning, preliminary and final designs, detailed designs, contract documents, contracting of the works, contract management, and supervision of the works. DHV's projects are often multi-disciplinary and often involve a large range of disciplines such as financial, economical, civil, structural, mechanical, electrical, landscape, architectural, etc.

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