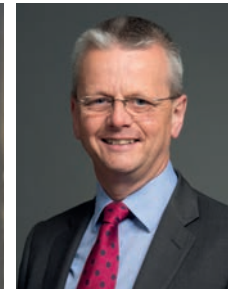




STEVE SAXON AND MATT STONE,
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TT Club, in conjunction with global management consulting firm McKinsey, recently published the ‘Brave new world? – Container transport in 2043’ report, which summarises the passionate thoughts and opinions of industry leaders on what the future holds for the container industry over the next 25 years.

Laurence Doe (LD) asked Matt Stone (MS), Associate Partner at McKinsey & Company; Steve Saxon (SS), Expert Partner, Shanghai, at McKinsey & Company and Peregrine Storrs-Fox (PSF), Risk Management Director at TT Club to elaborate on some of the report’s theories.

LD: AS THE PURSUIT FOR GREATER ECONOMIES OF SCALE GOES ON IN CONTAINER SHIPPING, WHAT MIGHT TERMINAL OPERATORS HAVE TO DO IN ORDER TO SURVIVE?

SS: There is no doubt the past few years have been challenging for ports and terminals. The ever-larger ships ordered by the liners have needed investment in larger cranes, yards, stronger quay walls, and so on.

Although the increase in ship size has slowed down, the fundamental economics mean that in some of the futures we envisage in the report, ships are likely to continue to enlarge.

It’s not all doom and gloom for terminals though. Remember, through the last eight years while the liners have been struggling to return their cost of capital, the terminals industry has remained healthy.

Some ports and terminals have been able to pass on the cost of investment through tariffs and surcharges. And, for

some ports or terminals where there are limited other choices for the liners to serve the hinterland, they can defer upgrading.

The liners will still come, just with same-size ships as today.

LD: HOW DO YOU ENVISAGE THE OCEAN-SHIPING LEG OF THE SUPPLY CHAIN CHANGING TO FIT FUTURE CUSTOMER NEEDS?

PSF: The overwhelming conclusion of the report is that the future is digital. Most of the industry players interviewed in the research recognise that a tipping point is being reached.

The potential exists to take advantage of digital advances, satisfying customer needs in new ways, including greater reliability and transparency in e-commerce-driven supply chains. The capability exists to provide greater flexibility while integrating deeply into customers’ process flows.

Of course players need to think through questions like “who is actually our ‘customer’?”; “what customer needs will generate value?”; and “who owns the customer relationship?”.

Emerging technologies can help incumbent players create value, either through creation of more organic ecosystems integrating disparate IT platforms or by more thorough vertical integration that seeks to benefit from end-to-end demand.

As much as anything, container liners, freight forwarders, and terminal operators alike may need to develop coordinated defensive strategies to get ahead of disruption from one or more “digital natives.”

LD: WHAT CAN THE CONTAINER SHIPPING INDUSTRY LEARN FROM THE WAY AIRLINES HAVE EVOLVED?

SS: It’s true that plane size has increased only marginally. Boeing launched the first B747 in 1978, seating approximately 300 passengers.

An Airbus A380 of today – forty years later – seats over 500. Over the same time, the largest container ships have exploded from just over 1,000 TEU to 22,000 TEU capacity.

But, while the comparison is interesting, it shows some of the core differences between container shipping and airlines. Most notably, the need for speed.

Products moving by container ship are, by their nature, not the most time-critical goods. A few days extra on a several-week voyage means little to the shipper, who welcomes the lower costs that larger ships bring.

Plus, ships can easily aggregate cargoes for multiple destination ports on one ship. Air passengers, by comparison, absolutely demand frequency. Even if possible, one 5,000-person plane per day to New York would not win over ten 500-person planes.

The airline customer demands – and is willing to pay for – direct service and frequency. A few hours matter to the crucial business traveller.

Still, container lines can learn from their airborne brethren. For example, airlines have innovated far more than the container transport industry in using data to understand their customers and, as a result, to up-sell and cross-sell various add-ons and other products and services.

As container transport players get better



at collecting and analysing data, they might be able to find services that command a price premium with their customers.

LD: HOW WILL MANUFACTURING AUTOMATION CHANGE OUR END-TO-END SUPPLY CHAINS?

MS: The narrative in many circles is that manufacturing supply chains are driven almost entirely by labour cost arbitrage, and therefore automation - by reducing labour costs - will result in more “local for local” supply chains.

We think this view is too simplistic. Only 15% of seaborne containerised trade is generated from sectors where supply chains are driven primarily by labour costs. Many recent studies have shown the “re-shoring” narrative is ambiguous at best.

But that doesn’t mean automation and robotics won’t have a profound impact on the manufacturing footprint and trade.

What manufacturing automation does do is allow manufacturers to become even more specialised and productive, which might unlock new sources of trade even while some traditional products are manufactured closer to the consumer.

LD: WHAT DO KEY STAKEHOLDERS IN THE SUPPLY CHAIN NEED TO BE WARY OF WHEN ADOPTING THE NEW ‘GREENER’ SHIPPING TECHNOLOGIES?

PSF: The imperative for the container transport industry to push further faster on environmental performance is striking, and this clearly came through in our interviews with industry players. For one, consumers are increasingly demanding “clean” products.

You see this with the recent withdrawal of plastic straws from many food and beverage establishments, or consumers asking questions about the provenance of the materials that go into their iPhones.

At some point, the carbon-intensity of the logistics behind a product will become a major focus. Second, regulatory changes are not far off with upcoming MARPOL restrictions and perhaps further actions by governments on carbon emissions.

Terminals have already felt many of these societal and regulatory pressures because they are often located close to densely populated urban areas. So major change is coming and players that lead on this dimension might find themselves in an advantageous position.

“Going green” does not need to be a burden and may help the shipping industry. Regulation applies to all. Additional costs – for example, of cleaner fuels – may be passed on to customers.

And the cost of upgrades may lead to a wave of retirements of older ships in the global fleet, potentially helping rebalance supply and demand.