



WHY IS IT SO HARD TO COLLABORATE?

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A modern supply chain is dependent on the work of a large number of diverse stakeholders, each of which are specialists in their own fields and, at least ideally, constantly looking to improve and optimize their part of the supply chain. It will be difficult to find any one of these specialists who deliberately try to slow down or impede the supply chain – rather the norm is that each, within their own confines, have shown improvements over the years.

That being said, anyone involved in the supply chain will have heard the mantra “if only we had more collaboration across the supply chain”, with the underlying implication clearly being that optimization is very much impeded by the lack of such collaboration. From a simplistic point of view, this should be an easy problem to solve. The different stakeholders talk to each other, share the relevant data and everything will become much better. But why, then, is this not happening?

COLLABORATION CURRENTLY

First of all, let's be clear that collaboration is indeed taking place – otherwise the container travelling from Kathmandu, Nepal to Billings, Montana carrying salted yak meat would never be able to complete its journey. During that journey, dozens of entities have collaborated: a Nepalese trucking company, German forwarder, Indian port authority, Singaporean terminal operator, Thai feeder carrier, Emirati terminal operator, French deep-sea carrier, Danish Terminal Operator, US railway, US customs authorities, and US health inspectors – not to mention the Nepalese exporter, US importer and their Hong Kong and Swiss bank connections.

This is only the simplified view of what is going on – an even closer look would reveal many more parties involved. From that perspective, the level of collaboration taking place in the supply chain is already staggering. Herein lies the

fundamental challenge – how to further improve on the collaboration between all these entities?

FURTHERING COOPERATION

First of all, it is important to note that these entities do not have the same objective. Many – but not all – would agree in principle that the ultimate goal is indeed to move the cargo from Kathmandu to Billings as efficiently as possible. However, looking at their own daily operations, the objective quickly becomes one of ensuring their own operation runs as efficiently as possible. Unfortunately, the optimization of one specific step in the chain does not necessarily lead to an overall improvement.

For example, it might be more efficient for the receiving port to put heavy penalties on late pick-up of containers to improve the flow through the terminal and free up space to avoid congestion issues. However, this might lead to an

effect whereby the need for trucks and chassis get concentrated on a few single days rather than spread out over the week, creating inefficiencies which are potentially more costly than the improvement seen in the terminal.

This also serves to illustrate that the supply chain faces two fundamentally different elements of collaboration. The first concerns the sharing of timely data, and will be dealt with later in this paper. The second is related to the hypothetical scenario above and is related to collaboration around how value generation and negative externalities are distributed within the supply chain.

SUPPLY CHAIN OBSTACLES

In the aforementioned example, the carrier might have pushed for lower rates – something the terminal then accomplished through increased productivity. If the importer is responsible for inland freight, he or she will be the one directly faced with the higher costs from the trucking company. In this case, it will be exceedingly difficult to match the gains generated by the terminal, which are passed onto the carrier, with the added costs the importer pays to the trucking company. Further compounding the problem is that the gains seen between the terminal and carrier are not related to that one specific shipment but is rather an overall average effect impacting all cargo – import, export as well as full and empty containers. This is even a very simple example.

The other type of collaboration – and the one implicitly referred to in many digitalization projects – is the timely sharing of information. This is a type of collaboration which would appear to be the simplest one to accomplish. In a digital age, how hard can it be to let the computers exchange the relevant information?

A key problem here is the lack of standards. The different stakeholders have all developed their own digital systems and methodologies over the past decades, and these have been designed for their own specific uses. Some have indeed been developed in line with specific data standards, but it should be kept in mind that industries throughout the supply chain are different. The banks involved, for example, have their own set of standards. The government organizations, like customs and health inspectors, also have different standards.

Within the container shipping industry itself, the lack of standards is a problem. For instance, carriers do not always use the same codes for something as simple as a port or a specific commodity, and when a freight forwarder needs to deal with multiple carriers, ports and commodities,



this becomes a problem. But, by the same token, when a carrier needs to deal with hundreds of forwarders, they are often faced with dozens of different standards depending on how the forwarder has chosen to establish its own data structures.

FACING THE CHALLENGE

To link all of this back to the starting point of the article: why is it so hard to collaborate? It is difficult because the industry has neglected to develop and implement robust data standards over the past couple of decades - and because the different supply chain stakeholders have diverging economic interests. What is the solution then, or at least a path forward?

In terms of standards, this has recently been brought to the forefront with nine of the largest container lines having established the Digital Container Shipping Association, with the sole purpose of agreeing on – and implementing – common standards. The easy part of that task will be for the nine to agree on the standards, but the challenge will be to implement them in their own systems, and, looking past this, the hardest task of all: getting a majority of the other supply chain stakeholders to also adopt them.

In terms of collaboration in relation to shifting value within the supply chain, this is more of a competitive issue than a collaboration issue. On the one hand, it indicates that supply chain stakeholders who own or control a large part of the different links in the chain will be better positioned to perform such holistic optimization – provided they can collaborate within their own company.

Alternatively, it could also signal even more of a specialization if the individual parties become more transparent in their cost and pricing structures.

ABOUT THE AUTHOR

Lars has nearly 20 years’ worth of experience in the shipping industry, having held a number of executive positions across a spectrum of different disciplines, including eight years as Director of Driving and Developing Market Intelligence & Analysis for Maersk Line, Maersk Logistics and The Containership Company. Currently, Lars serves as CEO and Partner of SealIntelligence Consulting.

ABOUT THE ORGANIZATION

SealIntelligence Consulting is specialised within the container shipping industry. Key expertise fields include market analysis, strategic outlook, shipping network design, process optimization, eCommerce, digitization and training. Our clients are shipping lines, cargo owners, freight forwarders, IT companies and portals in the industry as well as financial investors and institutions.

ENQUIRIES

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