



2020: THE FUTURE IS NOW

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When it comes to the transformation of the container shipping industry, the past 20 years can be considered a gradual “warm-up” leading to the stark changes which are now rapidly beginning to make their mark. This also means that 2020 and the years following will see more rapid and profound changes in business and operating models than we have been accustomed to.

A number of different forces have been gradually moving into position and are now all coming to maturity at more or less the same time. As space is limited in an article such as this the following are merely a few examples and should not even be seen as exhaustive.

Anyone who has been involved in the container shipping industry will recognize a series of topics which has been the cause for much talk and contemplation over the past two decades. Of note are the topics of consolidation, ever larger vessels, digitalization and automation as well as environmental performance.

MERGERS AND ACQUISITIONS

Since the turn of the century, one of the key drivers for many liner shipping companies

has been growth through acquisition. While every deal done in and of itself did not change the overall consolidation much, the compounded effect has completely revamped the landscape. At the turn of the century the 10 largest carriers controlled 11% of the capacity. Now this has increased to above 80%. Furthermore 60 out of the 100 largest carriers in the year 2000 has now either entirely disappeared or is owned and controlled by one of the remaining carriers.

This means that the market, at least for the main deep-sea carriers, has become an oligopoly and the carriers are now beginning to learn how to effectively use the increased market power which comes with this. It does not mean that they will suddenly control the power – the internal competition between the carriers is too intense for that – but it does mean an increased level of negotiation power versus ports and terminals as well as towards shippers. For the shippers, the primary tool being honed presently is the increased use of blank sailings to manage the supply/demand balance. For the ports and terminals, it is an increasing concentration

of multiple services into the same terminal hubs. With only seven to nine truly large global carriers remaining (depending on definition), we have come to the endpoint of this journey for the main carriers. The 2020's are going to be about utilizing the power which comes with consolidation.

BIGGER NOT ALWAYS BETTER

The second change is the increase in vessel sizes. The largest vessels have tripled in size to 24,000 TEU. As the normal annual demand growth has dropped from 8.5% per year to 2-3% per year the response has been a drastic decline in the number of weekly services as well as continued enlargement of the operational alliances to the point where three large alliances now control the key east-west trades. Whilst a case can be made that even larger vessels are more efficient when compared directly to a smaller vessel, these gains are more than negated when network effects and land-side externalities are considered. Hence, we are seemingly also at the endpoint of getting larger vessels and the 2020s can well see a retrograde movement



towards slightly smaller, technologically more advanced, vessels to better tap into network value.

DIGITAL DRIVERS

In the past 20 years there has been much talk about the potential of digitalization. However, beyond the adoption of Electronic Data Interchange (EDI) for basic message transmissions, the first couple of decades saw actual traction being slow. Many digital concepts were launched in 2000-2010 only to fail in getting any meaningful adoption. In the past five years, investment funds increased sharply into freight technology leading to a plethora of pilot projects on digital and automated tools across shipping lines and terminals. In the past couple of years the speed has ramped up significantly – shifting away from pilot tests to actual full-scale implementation. Just as a simple example, true online sales of freight on a carrier website was essentially non-existent 18 months ago, at least no meaningful volumes were booked this way. Now, at the edge of the 2020's this has shot up to cover 9% of Hapag-Lloyd's bookings and 12% of Maersk's spot bookings. Hence, we are at the endpoint of the experimental phase of digital technologies and are now in a rapid adoption phase.

BUSINESS OF CHANGE

The boundaries of the business models amongst the industry stakeholders are being tested. That carriers want to provide inland logistics services – most clearly for Maersk and CMA CGM – is not new,

it has been tried a few times before, but the digital push behind it to regain direct control of the small and mid-sized cargo owners creates an interesting commercial battlefield. At the same time, we have seen how a terminal operator, DP World, acquired container line Unifeeder. A complete mirror-reversal of the past trend wherein it was the lines which acquired terminals. In addition, we now see a deliberate move by several terminal operators to create value propositions directly to the cargo owners, by-passing the carriers. Hence, we are the endpoint of the old traditional way of dividing up the market between the different main players.

CONCLUDING THOUGHTS

Finally, there is the aspect of the environment. This is an element where we are not at the endpoint – on the contrary we are only at the beginning. The ambitious targets laid out by the IMO to reduce total carbon emission by 50% in 2050 cannot be done by incrementally improving existing operations. This requires large-scale investment in entirely new propulsion technologies which will take a decade or more to ramp up to a size where it is commercially viable for the major vessels and trade lanes.

With all of these elements changing dramatically, the entire industry is facing an exciting – and challenging – new decade. There are large opportunities for those willing and able to embrace and master these rapid changes.

READ MORE FROM LARS JENSEN

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 SeaIntelligence Consulting.

ABOUT THE ORGANIZATION

SeaIntelligence 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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