Maritime reform

Losing sight of customers

BY TED PRINCE

Before we bury the maritime reform bill (S. 414), as so many seem bent on doing, let’s take a look at the basic economic issues, which have been largely ignored in the debate on the legislation so far.

Recently, Federal Reserve Board Chairman Alan Greenspan testified that “increased deregulation of motor and rail transport...has been a factor restraining prices.” At the same time, Wall Street has been pushing the stock valuations for these companies to all-time highs.

Clearly, these transportation companies have learned to prosper in a new world. Regulation, by its very nature, fostered inefficiency and overcapacity. Cost-based pricing was established so that carriers could raise their prices as their costs increased. In a world of “cost-plus” the higher the cost, the higher the price. Carriers had no incentive to hold down costs and customers had to pay the freight.

Under deregulation, the roles are reversed. Customers enforce price-based costing. Depending on the value of the service, customers determine the price that they are willing to pay. Carriers decide whether to handle the business or not. If they handle it, they need to develop a cost structure that will enable them to make money.

When U.S. railroads were being deregulated, the predictions of industry Armageddon were just as pronounced as the maritime industry pundits predict today. The doomsayers were wrong.

Deregulation forced the railroads to deal with inefficiencies that had existed for years. Asset utilization and customer satisfaction became established ways of doing business.

The same thing was happening in the truck and air industries. The miraculous effects of the marketplace knew no bounds. Just several years after deregulation, Conrail went from seeming financial doom to self-sufficiency — and ultimately to significant stock market success. In fact, many industry leaders feel that the industry would not have survived the recession in the early 1980s had it not been for deregulation.

What about the maritime industry? I am intrigued by claims of industry leaders who maintain that the laws of economics (and perhaps common sense) do not apply to the steamship industry.

The industry seems prepared to work under any regulatory scheme mandated by legislation. Currently, we are working under the worst of two worlds. We have customers wishing to do business as if the market were deregulated and carriers constrained by regulatory requirements.

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We live in a global economy growing daily. Customers are used to market freedoms that already exist elsewhere, and they find it hard to understand why ocean carriers cannot conduct business with the same ease other transportation providers offer. After financial restructuring, re-engineering, downsizing, right-sizing and outsourcing, traffic departments are a shadow of their former self. At the same time, logistics, supply-chain management and other related options are becoming commonplace in mainstream business periodicals and these greatly reduced traffic departments are being called upon to do much more with much less.

The maritime industry has a clearly defined service chain which starts and ends with the customer. Within this chain, however, are participants — chief among them ports and organized labor — completely removed from the customers; they are the most vocal opponents of change. They object to S. 414 because carriers struggling to keep up with customer demands will force them to reduce their expenses.

I understand why so many ocean carriers are afraid of a free market. The recent wave of their investment in large ships seems driven more by ego than economics. Some ocean carriers seem to feel that bigger is best and must be aggressively pursued at any cost. Perhaps they feel that such investment will be protected in a regulated marketplace.

The same problem faces electric utilities. It is estimated that 20% of the electricity generating capacity in this country is unable to produce a cost-effective product. Fortunately, this did not prevent electrical deregulation, and all industries are starting to enjoy the benefits. This is another means by which U.S. companies are able more effectively to compete in the global market — and to provide jobs and wealth for American citizens.

“K” Line America has recently reorganized in order to bring the customer into sharper focus. While recognizing that we are an international ocean carrier and we need to think globally, we are concentrating on acting locally with our customers.

Regardless of legislation, we will continue to support our customers because their success is intertwined with ours. We are glad to see that most of our competitors have not yet figured out the only key to success lies in customer satisfaction.

Theodore Prince is senior vice president and chief operating officer for “K” Line America Inc.