Steamship agency is as old as shipping — and as subject to evolution.

Traditionally, shipping companies maintained a series of relationships with general agents throughout the world. General agents managed a range of matters for the line (the "principal"), including sales functions, like customer solicitation, advertising and customer service, and traditional traffic functions like vessel husbanding, booking, documentation, inland movement, freight cashiering and line accounting.

Agents traditionally earned commissions that were a percentage of the ocean revenue.

But the "real money" was in the larger earnings that also came with the business. For example, agents had huge cash flow gains from funds held — revenue not promptly remitted or expenses not disbursed. Agents also could direct their principal's business to companies owned by the agency or by members of the agency's management.

This gave rise to the saying, "You make money on shipping, not in shipping."

And, because steamship agents often represented lines competing in the same trades, conflict of interest was always a suspicion. Agencies maintained that it was cost-effective to have a single sales clerk representing many lines because no line could afford to bear the full expense.

This was the situation through the 1980s. Breakbulk shipping and all-water container service made shipping a port-to-port business, and agencies and their affiliated companies were concentrated in ports.

The advent of inland intermodal transport changed the requirements. Suddenly, agencies could not provide the sophisticated systems and personnel to manage these services.

Recognizing their agencies' deficiencies, steamship lines started to establish companies in North America to manage the new intermodal requirements. Eventually, trans-Pacific lines established general agency companies in North America. (The transition was not always so clear. Many of the companies may have been their former agents.)

Once these companies were established, money really began to be spent. Attempts were made to upgrade the operations. Many moved into lavish offices. Personnel quality was improved, causing a sharp rise in salaries. Everyone wanted better computer systems, but most projects failed.

In addition, the International Longshore and Warehouse Union became very active. Steamship office staff became a very attractive target for union organizing.

Some lines tried centralizing staff in right-to-work states, but the union pressure became intense. No steamship line is willing to withstand the threat of its vessel not being loaded or unloaded. As a result, clerical salaries can often exceed $100,000 a person, plus benefits, a year.

When containerization started in the late 1960s, lines had to invest in vessels and containers. Lines then invested in their own terminals. In the 1980s, intermodal became important. Lines had to offer their own double-stack train as an extension of the ship.

Lately this has changed.

With the introduction of alliances, vessel-sharing agreements and slot charter/exchange, asset ownership has become completely muddled. Steampship Line 1 will sell a service that moves on the vessel of Steampship Line 2 and through the terminal of Steampship Line 3.

Crucial today is the commercial relationship with the customers and time-definite delivery. Confidential contracts between steamship lines and customers will reinforce the need for close customer contact. Computer systems have become critical.

However, there does not appear to be any steamship line with a robust system that is not a legacy system requiring very expensive maintenance.

It is for that reason that non-vessel-operating common carriers have become so successful. It is not asset ownership; it is strong sales and excellent EDP.

Liner companies are in a terrible quandary. There is no longer the option of high-cost/high-quality versus low-cost/low-quality. Surplus capacity has caused such rate deterioration that the traditional rate spread based on quality level is gone.

Lines are frantically seeking to reduce costs, but their options are limited. Long-planned new vessels and terminals are coming on line. So right now steamship lines are trying to reduce the only other costs they can: North American administrative.

Most Asian steamship lines have set up their U.S. companies as wholly owned subsidiaries financed by the traditional commission structure.

This was necessary to satisfy IRS transfer pricing requirements. Costs have gone up at the same time commissions have gone down due to rate erosion.

With impending deregulation, lines need to concentrate on their commercial relationships. Sales, booking, customer service and documentation are all functions close to the customer.

This can be done from a few offices. Most sales clerks can work "virtual" (from home). On the other hand, operational support is too expensive.

Perhaps a paradigm shift is imminent whereby steamship lines are willing to outsource operational support while retaining commercial control.