Remember US Lines

Georg Wilhelm Friedrich Hegel once wrote "What experience and history teach is this — that people and governments never have learned anything from history, or act on principles deduced from it."

In the wake of the Ocean Shipping Reform Act of 1998, liner shipping companies — and their customers — might wish to ponder these words.

The last significant legislative change was the Shipping Act of 1984. That legislation, and the market conditions that followed, was highlighted by the spectacular bankruptcy of United States Lines.

The similarities between then and now are so striking as to be positively eerie. The actions taken by many liner shipping companies today seem practically to imitate the U.S. Lines strategy.

First, steamer lines seem determined to reflight the last war, rather than to prioritize realistically for the future.

U.S. Lines' management experienced problems with fast ships that used prodigious amounts of fuel. So they developed the Econships, which used minute quantities of fuel but were very slow. The market did not accept the service.

Rather than recognize fundamental changes in the environment, steamer lines today are still trying to figure out how to incorporate traditional practices, such as conferences and discussion agreements, into tomorrow's world. But these organizations won't exist because customers don't want them.

Confidential contracts will destroy the information and discipline necessary to enforce group behavior. Yet lines still try to make that square peg fit the round hole.

Second, lines seem intent on achieving economies of scale. The unquestioned belief is that big must be better.

The U.S. Lines Econships were monuments to false economy. After being subjected to bankruptcy arrest throughout the world, they were sold for less than 20% of their original cost.

Lines today are building and buying vessels of equally uneconomic proportions — they cannot serve many trades due to their size, and they seem to represent diseconomies of scale. The minute savings of ships with capacity of 6,000 20-foot equivalent units, estimated at $27 per TEU per vessel leg, are more than consumed by landside diseconomies and rate reductions taken to fill the additional capacity.

Third, lines are all scrambling to become global carriers.

In 1985, the round-the-world service forced U.S. Lines to enter trades it had never served. Management insisted on overseeing trades it couldn't understand. This was especially a problem for trades that did not involve U.S. points.

The identical situation exists today. Lines are entering trades by either organic growth or merger, yet many lack management qualified to oversee the new trade lanes.

Fourth, there was a belief that sales quantity could compensate for sales quality.

Sales turnover at U.S. Lines was legendary. Graduates were recruited fresh from college, outfitted (literally, with clothes acquired by U.S.L. from its Asia offices) and sent out on the street to get business.

Salespeople had a strict quota of customer entertainment they were expected to meet — a set number of breakfasts, lunches, dinners and weekend events. Salespeople were so intent on getting customers to go out that they sometimes couldn't bother them to ship any profitable cargo.

The situation is similar today. The industry is confronted by a dearth of qualified salespeople. Rather than seeking to attract and retain qualified sales personnel, most lines practice the "economy" of cheap — but constantly changing — field sales.

Fifth, pricing discipline by U.S. Lines was lost due to the poor sales effort and lack of coherent marketing. Rate cuts followed rate cuts. Any load seemed better than losing a vessel slot.

The same situation exists today, in many trades, line profitability would be enhanced by moving containers empty, rather than pursuing cargo at any price. Despite this, lines continue to ignore economic reality by seeking to place loads on their vessels no matter how low the rates.

These five points are merely the most striking similarities. It is apparent to most industry observers that liner shipping is entering very perilous times. The trade economics are weak. Not a single trade is profitable in both inbound and outbound directions, and many trades are weak in both. Recently enacted legislation is changing the go-to-market rules.

United States Lines had one of the great innovative minds in the industry behind it — that of Malcolm McLean — and still failed.

In the coming months, customers will have great opportunity, but they need to exhibit great caution. Although some lines may conduct orderly trade withdrawal, we should still expect a certain level of bankruptcy activity.

Shippers will want to avoid the trauma that comes from the intersection of bankruptcy and admiralty law, if at all possible. In the past, shippers have demanded proof of financial viability from customers. In the future, customers may want to demand the same from their steamer lines.

Theodore Prince (TedPrince@aol.com) is a transportation consultant based in Richmond, Va. He writes a weekly column for The Journal of Commerce.