Alliance angst

The recent trend of alliances started in late 1990 when Sea-Land and Maersk announced a vessel-sharing agreement in the trans-Pacific. APL, which had believed it was forging an alliance with Sea-Land, then created a similar agreement with OOC. Most of the other conference lines followed.

Over time, independent, non-conference lines began to join together as well. With the exception of Evergreen, a notorious loner, almost all lines joined some sort of alliance.

Today, the scope of these alliances has expanded, many are global. There are five major alliances, and they run the gamut from those that strive to achieve operating integration to those that slot-exchange and slot-charter on each other’s vessels.

None of these alliances are exclusive. Some lines are involved in other alliances with other lines, and sometimes they are even in competing trades.

Alliances are not unique to liner shipping. They have become common in the international airline industry, with the Star Alliance and OneWorld being two leading examples today.

These alliances make sense because they have been designed as revenue-enhancement arrangements. They have been customer-focused in their development, deployed as separate brands, and marketed to consumers as a new and improved product. They have also taken advantage of cost-reduction opportunities whenever possible.

The liner shipping alliances are driven by a desire to reduce expense, with the original motivation having been the deployment of post-Panamax vessels. The result is significant expansion of available capacity.

The only way to fill these new vessels by themselves would have been to stop at so many ports that transit time would become unacceptable to their customers. So lines have turned to their competitors, many of whom have faced the same dilemma.

Because this arrangement offers no revenue enhancement, these alliances would seem to make sense only if they could actually reduce expense. However, the opposite is true.

First, since the alliances are viewed as temporary solutions, no line will relinquish terminals. As a result, most alliances call at multiple terminals in the Pacific Southwest and Northwest. This is very expensive — and it is confusing to customers.

Additionally, the management time necessary to negotiate deployments and resolve disputes is often extensive.

Third, any possible savings from equipment rationalization is lost because all lines are in the same trades with very similar surplus and deficits.

Finally, intermodal and inland cooperation is excluded as proprietary.

Ironically, steamship lines have succeeded in trivializing the extensive asset network they have spent years — and billions of dollars — developing. Lines used to brag about their proprietary network of vessels, containers, terminals and trains. The customer now sees a service with a leased container moving on Line A’s bill of lading on Line B’s vessel through Line C’s terminal.

Given the industry’s turmoil and liner companies’ generally poor financial results, the alliance future seems dim.

Despite all the positive public relations, alliance partners remain competitors. For example, even Sea-Land and Maersk are deploying competitive services against each other in the Caribbean and South American trades.

It is no accident that recent mergers (for example, APL-NOL and P&O-Nedlloyd) have been across alliances and not between alliance partners. Each merger has disrupted all the alliances, and this will continue. Industry consolidation is inevitable. Over time, the resulting lines will be large enough in their own right to stand by themselves without any alliance.

Europe lost an entire generation as a result of the Great War; the results of alliances in liner shipping remain to be seen.

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