Going round and round on vessel rotations

The profitability of most carriers depends on asset utilization. But to steal a term from psychology, steamship lines are somewhat schizophrenic about asset utilization. Their focus most often lands on load factor, and maximizing the utilization of that most expensive asset — the vessel — while the less significant container and equipment turns go ignored.

At one recent industry meeting, Andy Rosener, director of international logistics for Hasbro, criticized the common steamship-line practice of quoting a rapid transit time from the Far East, assuring a high load factor, and then not making the loads available for pickup for several days, thus reducing asset velocity and disrupting customer product distribution. Several factors are at play here.

Let us first consider schedule integrity. Many steamship lines post schedules that offer days of the week only — but no times. Obviously, this can easily help to create the impression that service is better than it is.

For example, a line may schedule its vessel arriving at 11:59 p.m. Saturday so it can publish a Saturday arrival. The arrival may be at a pilot station hours from the marine terminal. Furthermore, arrival at the berth may be followed by hours of scheduled idle time until the start of the next labor shift.

Such misleading tactics were necessary in the environment that predated the Ocean Shipping Reform Act. During the time of conference contracts, every line charged the identical rate and customers based their decisions on the fastest published transit time.

But OSRA allows for differential pricing, and lines may now charge different rates for different services. Airlines have been doing this for two decades. Nonstop flights at times attractive to business travelers are more expensive than fares for off-peak travel involving plane changes.

Terminal delays will remain a problem as ships get larger and the peak surges at the facilities become more acute. Many of the most stressed terminals simply were not designed to handle such peak volumes.

Related problems exist outside the terminals, as well. A year ago, Barry Michaels of Union Pacific urged steamship lines to space out vessel arrivals on the West Coast so that railroad infrastructure — train slots, locomotives, crew and flat cars — could be utilized more effectively.

But vessel schedules are not likely to change quickly. Rather, modifications will probably be made as new vessels are introduced. Changing deployments is a monumental task, involving a host of factors.

Existing deployments are usually designed around certain markets. Traditionally, import markets want to provide a Sunday cutoff in Hong Kong to allow for weekend consolidation of South China merchandise. For export cargoes, refrigerated commodities, lines sought to arrive in Hong Kong and Taiwan in time for the Thursday market shopping.

For many lines, it took years to get their vessel rotations to accommodate these service requirements. Some are still trying. These changes cannot be easily undone. Many of the lines are part of a vessel-sharing alliance and deployment changes must be approved by all parties. Often, one VSA partner has its vessel in a more desirable position and does not wish to give its competitor an advantage.

In some cases, a single customer may affect an entire deployment. For example, Toyota delivers automotive parts for each U.S. assembly plant to the Nagoya terminal five days a week for connection to five different vessel services. The lines cannot deviate from their appointed day, even if this 2% of cargo distorts the schedule for the remaining 98%. The fixed day at Nagoya literally dictates the rest of the vessel deployment.

Some lines have vessels of different capabilities in a single string, and the schedule must be designed around the slowest vessel. A $50,000 cost savings in a single vessel engine may slow down $600 million in assets. Deployments are also designed to interface with feeder services.

Some trunk-line routes may also serve as feeders or intracontinent services. Many lines operate their own terminals, and deployments must accommodate the limited available terminal space. Finally, local issues, such as the “prior consultation” requirement enforced in Japan, may prevent vessel rotation changes.

OSRA should allow market forces to encourage change. Steamship lines should be encouraged to declare the scheduled day and time for vessel berthing, and for first-off and last-off container-discharge. Gate hours should be declared as well.

Service performance issues can be included in confidential contracts. Customers increasingly require time-definite delivery, and steamship lines will need to accommodate these requirements. Ultimately, in order to improve their profitability, steamship lines will need to improve asset utilization.

Fulfilling customer requirements can and should be a win-win proposition. Every deregulation success story has been a combination of customer satisfaction and carrier asset utilization. There is no reason the ocean liner business should be the exception.

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