MOVING GOODS

DIVIDED WE STAND

LIVING IN VIRGINIA, the biggest sports news I read often revolves around the Atlantic Coast Conference. Although rumors of conference changes were swirling throughout the country, the ACC admitted Syracuse and Pittsburgh on Sept. 18. The two universities cited the need for “more long-term financial stability,” and the ACC became the first major conference with 14 football teams.

The day after the ACC announcement, the universities of Texas and Oklahoma confirmed they were looking at alternatives to the Big 12. College sports seem poised to consolidate around a small number (the number most frequently mentioned is four) of super conferences.

FOR SHIPPERS,
IT IS A SIMPLE
“ALL MAERSK, ALL THE TIME” OPPORTUNITY.

By coincidence, this is the number of major vessel alliances in the liner shipping industry. These alliances are the result of liner shipping companies seeking economies of scope and scale over the past 20 years.

The Pac-12 Conference is considering expansion through a “Noah’s Ark” model. Texas would join with Texas Tech, and/or Oklahoma and Oklahoma State. The same model was applied 20 years ago, when the first vessel-sharing agreements were initiated. The first pairings were between lines with common traditions of service (APL-OOCL and Maersk-Sea-Land.) In the resulting game of musical chairs, many other lines scurried to find a partner.

This all occurred in liner shipping’s “good old days.” Conferences were still legal; however, the conference lines found their previously unassailable market share under attack from independent carriers. The paired-up lines hoped trading slots on each other’s vessels could help them withstand the competitive forces of “new” entrants such as Evergreen Line, Hanjin Shipping and Hyundai Merchant Marine.

The strategy didn’t work. In recognition of the limited economic benefits, lines went on to form even larger VSAs as they sought to withstand the competitive forces of still-newer entrants such as Cosco, China Shipping, Mediterranean Shipping and CMA CGM. The one exception was that Maersk acquired its partner, Sea-Land Service, to gain otherwise unattainable overhead savings.

The result was that some conference and non-conference lines aligned, making for some interesting arrangements. A friend once recounted how he was severely criticized for “losing” very high-paying cargo. He responded it was still on the vessel — just moving with the competitor/partner who had slashed the rate. That shouldn’t have happened, he was advised, because “they had promised not to do that.”

The passage of the Ocean Shipping Reform Act in 1998, followed by China’s entrance into the World Trade Organization, changed everything. Shippers, who had learned about deregulation in air, rail and truck, forced rates down as they demanded new services. The top 15 carriers grouped together into four-plus alliances. In some cases, alliances even grouped together on some services.

Conference changes in college sports have attracted much interest. There is some fear it also could raise the interest of Congress. The liner industry faces the same problem. Although conferences disappeared, there have been concerns — not just in the United States — the ensuing discussion agreements seek similar, non-competitive outcomes. While ocean carriers cite significant operational efficiencies that benefit all, some shippers view collective action on accessorials charges as anti-competitive behavior.

In the college football sphere, Brigham Young and Notre Dame have run counter to the conference trend by remaining independent, at least in football. Maersk Line has gone somewhat independent in the Asia-Europe trade, with its Daily Maersk product. It will provide daily service between four ports in Asia and three ports in Europe — with identical service commitments. For shippers, it is a simple “all Maersk, all the time” opportunity, as Maersk has eschewed working with its alliance partners, although they remain together in other services.

No other carrier could immediately replicate this bold move. However, the issue involves more than sufficient capacity and schedule simplicity. Maersk is simultaneously implementing a series of penalties for service delays (on their part) and load no-shows (on the part of shippers). It’s highly improbable other lines will agree to pay penalties due to service failures on the part of their vessel partner.

Liner shipping alliances and college sports share some similar challenges.

Competitive histories and geopolitical sensitivities mean nothing in a market characterized by instability, angst and a seemingly endless search for financial stability. Many executives undoubtedly feel the need to “do something” — even if it’s wrong — so as not to be accused later of missing out on new opportunities.

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