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Ocean Carriers Move Beyond the Ports

by Dan McCue

More than 40 years after U.S. flag carrier Sea-Land Service, Inc. took the unprecedented step of founding Buyers and Shippers Enterprises, a logistics division, oceans carriers continue to mine that frontier in the hope of providing broader supply chain solutions for their customers.

And make no mistake, four decades on, the convergence zone between logistics and carriers is still very much a frontier, with new services and new partnerships seeming to emerge all the time. Take, for instance, APL Logistics' four-year-old partnership with Con-way Freight for a service called OceanGuaranteed.

Moving beyond traditional port-to-port service, the collaboration has APL providing less-than-container-load service from China to the U.S., and Con-way Freight handling the domestic less-than-truckload "port-to-door, day-definitive" deliveries.

In March, Horizon Lines, the U.S. domestic ocean shipping and logistics firm, announced that it too would soon be offering integrated, door-to-door services between Asia and the U.S.

Starting in December, the company plans to begin its own weekly trans-Pacific liner service to the U.S. West Coast. In doing so, the company will leverage both its significant freight-forwarding operations in Asia and its longstanding relationship with an astounding number of twenty-six LTL carriers in the U.S.

Duncan Wright, Horizon Lines' director of business strategy, said the move exemplifies just one that the company has taken in recent years that was driven by its customer base asking them to do more.

"They're basically coming to us and saying, 'Help me solve my problems,'" Wright said. "They'll say, 'You're already handling all the ocean freight I move that doesn't fit in a container, I'd like you to help me with my warehousing' or 'help me with my LTL.'"

Strengthening ties with other providers

Charlie McGee, vice president of development at Averitt Express, a transportation and supply chain management company, which rolled out a less-than-containerload service between Asia and Memphis in 2008, described the increasing number of asset-based carriers moving beyond their traditional bailiwick as a "slow evolution that's been trying to take root for a very long time."

Most of the partnerships in the past have been confined to a single mode, such as the steamship lines establishing vessel sharing agreements, and alliances such as the Grand Alliance with NYK, Hapag Lloyd, and OOCL offering joint services in specific trade lanes, McGee said.

Other partnerships of note are between steamship lines and motor carriers, most often tied together by the logistics arm of the steamship line, like the Con-way Freight/APL alliance and the Old Dominion/Hanjin alliance, he said.

“Both developed to allow the steamship lines the ability to compete in the LCL segment of the ocean freight market through asset-based partners who have a U.S. infrastructure,” McGee explained.

Asset-based alliances have also become popular in the trucking and intermodal markets. One example of this is The Reliance Network, a consortium of regional LTL carriers providing cross-continent LTL freight services. Another example is emerging alliances between trucking providers such as Averitt Express and major U.S. railroads.

“These alliances represent both single mode and multimodal alliances/partnerships to provide an overall solution to our customer,” McGee said.

While a desire to maximize the return on investments is one factor driving the merging of talents and assets, another seems to be a feeling among some asset-based carriers that they were somewhat marginalized by the rise and proliferation of the independent 3PL over the past decade.

“I think there were some who thought ocean-based carriers were going to go the way of rail where during the early years of intermodal development, the railroads decided that they were not effective at marketing their intermodal services and willingly passed on that role to Intermodal Marketing Companies to grow the business,” McGee said.

“The steamship lines have many times shown early signs of moving in this direction,” he said, particularly at times when there was overcapacity in the market and rates were low.

During those times, McGee said, the steamship lines tend to leave the marketing of their services to forwarders and NVOs until rate levels improve and “the ocean carriers begin revitalizing their own marketing efforts anew.”

“For 3PLs—forwarders and IMCs included—it kind of became an environment where, ‘You move the cargo, we’ll do the thinking, and tell you how, where, and when,’” he said.

“What we’re seeing with the expansion of services on the part of ocean-based and other asset-based carriers is an attempt to try to benefit from and maintain the best of both worlds,” McGee added.

To illustrate his point, McGee mentioned Averitt Express’ Asia to Memphis service.

“We didn’t just partner with one steamship line, we partnered with fourteen, and in that way we’ve been able to tailor the services we offer to the specific customer’s needs,” he said. “In effect, we turn the ocean part of their supply chain over to the carrier who can provide the fastest service over a given network.”

Adding carbon monitoring to the mix

One of the newest players in the expanded services arena—new, at least, in terms of branding—is Damco.

Established last September by A.P. Moller-Maersk, the new company is a merger of two subsidiaries: Maersk Logistics, the Danish shipping giant’s supply chain management arm, with Damco, its global freight forwarding service.

The integration is intended to provide customers with a one-stop service, while also allowing Damco to develop additional logistics services in response to market demand, said Marc Heeren, senior director of supply chain development at Damco.

“Basically, customers were looking beyond the traditional transactional shipment from point A to point B to something that extended from A to B to E or D, with the addition of a lot of supply chain management services,” Heeren said of the factors that drove the merger.

As a result, Damco's portfolio of services now includes ocean freight, customs clearance, tracking, supply chain management, IT management, purchase order management services, warehousing and distribution.

"We're also very strong in vendor management in large originating countries like China, obviously, as well as the Far East and the Indian subcontinent, making sure vendors accurately deliver against the purchase orders shippers issue," Heeren said.

"On top of that, we also provide consultancy services aimed at supply chain optimization," he said. "These range from the simple—what we describe as a health check that basically identifies opportunities for improvement and optimization—to a total global supply chain redesign."

Another area that Damco has delved heavily in—even before the merger—is carbon-related services.

"Our basic product is a carbon dashboard that allows shippers to identify what their carbon footprint is and reduce it, with us, obviously, participating in the reduction effort," Heeren said.

While carbon emission management might seem to have come completely out of left field when compared to many of Damco's other offerings, Heeren said it's actually inextricably tied to supply chain optimization.

"Carbon emissions for ocean freight were something most people never looked at until a few years ago," he said. "People would ship from Port A to B, provide direct service or make many calls with a single ship, without taking their carbon emissions into account.

"Now, however, as people become more concerned about emissions, they're also seeing that addressing that issue has a profound effect on other dynamics in optimization, sometimes significantly," Heeren said.

But that's not to suggest Damco has ignored or forgotten its more traditional service. In fact, the company has been engaged in a tremendous push to roll those services out into what Heeren called, "other verticals."

"I think we've long been a leader in global retail channels, where we have over 20 years of experience," he said. "Based on our retail supply chain expertise, what we see is, let's call it 'cross fertilization,' into other sectors like chemicals, electronics, the government and defense vertical, refrigerated, reefer, and the food and beverage industry.

"So, I guess what I'm saying is that being engaged in many different areas has allowed us to expand not only in terms of products and services, but also into different business segments," Heeren explained.

Mario Lopez, director of tender management at Damco, added that the development has allowed the company to further develop its internal expertise.

"We've always been engaged in many of these areas, but as the customer demand for certain services has increased, it's allowed us to go in, assign more resources and delve deeper into them than we have in the past," he pointed out.

Steering clear of commoditization

At Horizon Lines, Wright said the expansion of its services has included the development of a significant cross-border, warehousing and LTL trucking operation in and out of Mexico; the purchasing of warehouses in seven locations across the U.S.; and the assembly of its significant network of LTL carriers.

"Interestingly, the more we expand on the domestic services we offer, the more partnerships we've formed with existing customers of our ocean business," Wright said. "So, companies like FedEx and

others who move containers with us to Alaska, Hawaii, Puerto Rico and Guam, are now helping us develop our domestic pricing model and the structure of our North American LTL network."

Over the past three years, Horizon Lines has made a massive investment in technology, and has also been developing its sales force to further expand its North American LTL distribution network.

The network is structured around Horizon's "Three-V distribution model"—the Vs standing for velocity, value-added, and visibility, Wright said.

"What we are referring to is our ability to take the freight out of the containers in our warehouses in the port area, scan it, bar code it, and then manage that freight, either as full truckloads or LTLs moving inland," he said. "We do the whole delivery piece and manage that for our customers."

Wright described the service as a "tremendous growth area," particularly when compared to the ocean side of the business.

"The thing about the domestic ocean trade is it's a very stable market; there's not a lot of growth on the pure ocean side," he explained. "For us as a company, to grow the company, moving into these new areas was a natural expansion."

Over the year, Wright said, many ocean carriers have become more commoditized in their services.

"We didn't want to go down that path, so these moves in this area have been part of a longer term strategy, driven by customer input," he said. "As [customers] came looking for more and more value-added services, we embraced their requests, not so much as challenges, but as opportunities.

"Our new Asian inbound service is a perfect example of that; not only does it satisfy a customer need, but it ties nicely into our U.S. West Coast distribution model," he said.

An opportunity to rebuild relationships

When Sea-Land established Buyers and Shippers Enterprises in the 1960s, the initial impetus was to satisfy a need of U.S. retailers who were buying in small quantities in Asia and needed to have an independent entity consolidate imports from multiple shippers into full container loads.

Not only did Buyers and Shippers Enterprises bring more efficiency to the system, it also allowed for greater control of tracking small shipments and simplified the document flow through myriad banking systems.

Like Horizon Lines today, Sea-Land looked at the challenges to satisfying these needs and embraced them as an opportunity—in Sea-Land's case it was the opportunity to "capture" the entire retail market by offering this unique service.

Initially, if a customer used Buyers and Shippers Enterprises, they had to use Sea-Land as the carrier. Later, as the market started to mature, Buyers and Shippers Enterprises became more of an independent entity and customers began to work with other lines.

In an interview that appeared in the August 4, 1992 issue of Business Times, Susan Hough, then-general manger of the company, described yet another bolstering of its Asia to Europe service through partnerships with Paul Gunther Cargo, Gmbh in Germany, Network Warehousing and Distribution BV in Belgium, the Netherlands, and Luxembourg, Agence Maritime Martin in France, and Gateway Cargo Systems in the UK and Ireland.

At that time, Hough said forming the partnerships, rather than simply employing agents in Europe, was indicative of the company's level of commitment to the European market.

Although Hough conceded the cost of establishing the partnerships was higher than employing a single agent per market, the investment was worth it because, “Buyers (referring to Buyers and Shippers Enterprises) is in it for the long term.”

“We have teamed up with what we feel are the best forwarders in each of these countries, each with expertise in forwarding within their own countries,” she went on to say. “This allows Buyers to tap the best services available for their clients, and thus provide better overall service.”

“Sea-Land didn’t call Buyers and Shippers Enterprises a 3PL, but that’s really what it was,” McGee said.

While the trend was long in the making, McGee said he believes the recent recession accelerated movement in this direction, for a couple of reasons.

“One is that ocean carriers, I think, have recently done a terrible job of marketing their services,” he explained. “For instance, over the past several months, they took their rates down so low that it almost put them out of business. Then, realizing their mistake, they dramatically raised them again.

“What’s happened is these moves have inspired quite a bit of grumbling and controversy,” McGee continued. “Some went along with the rate changes, but others baulked and said, ‘We’ve got a contract with you at these lower rates and we’re going to hold you to it.’ In response, some of the shipping lines have said, ‘Fine, then we’ll leave your shipments behind.’ And, they did.”

“These deteriorating customer relationships have created a lot of new opportunities,” he said.

Taking that comment a step further, McGee said this deterioration of relationships has actually pushed many ocean carriers more toward commoditization of their services as many of their customers would “rather not deal directly with them any longer.”

“This has created more opportunities for logistics companies, ocean forwarders, and NVOs as well as the in-house logistics companies that are owned by the ocean carriers, if the customers’ perception of the carrier-owned logistics company is one of neutrality from their parent carrier,” McGee explained. “The carriers recognize that their credibility with the customer is at its lowest point ever, so it will be interesting to see what moves are made by the carriers to mend those broken relationships.

“Personally, I think the biggest current opportunity lies with the possibility of the lines partnering with one or more entities, either asset-based on non-asset-based, whose reputation was not tarnished by the rate and capacity issues over the last 18 months,” he continued, which would essentially allow the ocean carriers to “present their capabilities to their target customers without the baggage that they now carry.”

But this, it turns out, is only part of the tensions that form the undercurrent of a global supply chain slowly being revived.

For months, the world’s shipping lines simply ‘parked’ vessels to remove access capacity. Now, many are slowly returning ships to service, but in doing so, they’re trying to prevent a capacity glut by moving in lockstep with demand, carefully doling out capacity to meet only current demand.

“It’s a tough call,” McGee said. “I hope they have a good crystal ball, because if they project wrong, we’re going to see a return of capacity issues. I mean, how do you peg that?” he wondered aloud.

Indeed, major Asian ports like Korea’s Busan have seen as much as 15 percent of containers delayed due to capacity shortages. And, the U.S. Federal Maritime Commission has launched an investigation into the matter.

And then, there’s the natural tension between asset-based entities and 3PLs.

Third-party logistics providers, McGee said, basically make money two ways: by simply operating smarter

and making profits by creating supply chain efficiencies, and by pooling volume and squeezing revenue dollars from asset-based carriers based on larger purchasing power.

"The win-win-win scenario for the asset-based provider, the 3PL, and the shipper is when the 3PL engages his expertise and technology to re-engineer the shipper's supply chain to maximize efficiencies and take down costs without simply cutting the rates for existing moves that the asset-based provider is handling," McGee said. "The tension begins when the 3PL simply pools the volumes of many shippers to drive down rates without creating any efficiencies for the asset-based provider in the process."

To McGee's mind then, moves like that of Horizon Lines to establish both an Asian service and logistics division only serve to validate the trend of shipping lines extending their reach.

"Again, it's certainly not a new phenomenon, since many of the large ocean carriers like Maersk, NYK, APL and others have long since established their logistics divisions, but when carriers the size of Horizon Lines, Seaboard Marine, and Crowley make moves to establish their own logistics/3PL operations, that really says something," he concluded.

Educating the Supporting Players

With ocean carriers and other asset-based entities continuing to look beyond the wharf to develop new services for existing and prospective clients, the obvious question is just what impact these activities are having on ports, real estate brokers, and economic developers in port communities.

Russell J. Held, deputy executive director of development for the Virginia Port Authority, said while the expansion of asset-based carriers into the realm of logistics, and what has come to be known as 3PL services is far from new, what is new is a willingness by these companies to market their services as such.

"In the beginning, going back to Sea-Land and Buyers and Shippers Enterprises, and continuing through to the recent past, I think asset-based companies didn't heavily advertise these additional services out of a concern that they would alienate freight forwarders and other industry partners," Held said.

"What's changed, I think, is the amount of compression we've seen in the industry over the past few years," he said.

"It used to be the logistics side of the business was almost shielded by the use of all kinds of different names—for instance, K Line called its outfit Century Distribution Systems. Today, asset-based companies don't feel the need to 'hide' their other activities anymore."

For this, Held credits the shippers, whom he said have become more sophisticated in their own operations and have been pushing traditional carriers of their goods to help them be smarter in their supply chain through better technology, better inventory control, and better market and transportation forecasting.

"A lot of it goes back to Asia, and shippers wanting better control of the Asian sourcing of their goods," Held said. "They started off by relying on ocean carriers to simply move their stuff over the water, and then they began to ask them to help consolidate shipments from multiple vendors, which naturally led to greater interaction with those vendors and the transportation networks they used to bring things to overseas ports.

"As time went on and companies like Lowe's and Home Depot and other major retailers began to seek greater control over their entire supply chain, the asset-based logistics companies developed niches to meet specific client needs," he said. "It also led to an expansion of these services on the domestic side.

"Today, thanks to technology and tighter inventory control, it's almost gotten to the point of science fiction, where something can be sold at a Chicago store, and the vendor almost instantly knows they need to

send another to fill that shelf space," he added. "As a result, there's a box leaving (the origin) containing that product almost every day. That's how fast things have gotten, and to run a network like that, you need someone who has contacts everywhere, like these shipping lines have."

Held said where this impact ports is in fostering the development of distribution centers around them.

"If a DC is run by Maersk or NYK or APL, you'd naturally expect their logistics arms to have dozens of customers or more supplying those centers through the nearest port," he said. "As a result, we look to attract those guys as port users.

"Unless, you're a 'New York' or 'Los Angeles,' with a huge direct market, you're going to be a distribution port to some degree," Held added. "So what you want as a port is to attract those logistics arms of the big shipping lines that are looking to service large population centers like the Northeast, western Pennsylvania, and the Ohio Valley.

"That's certainly true in Virginia, and it's also what's happening at ports like Savannah," he added.

But for all this activity, Held said getting the economic development community to understand the importance of distribution centers can be difficult.

"Working closely with state, regional, city, and county economic development officials is something I think we do well, but when looked at from a broader perspective, I think economic development people generally don't understand transportation—and that is especially true when it comes to international transportation," he said.

"As a result, I think as the industry continues to evolve, it's incumbent upon us to help them understand just what an economic engine the ports are to the state, and that if you reach out to these asset-based companies and their logistics side, it benefits all of us, driving more business through the port, and by extension, pulling in benefits for the larger economy as well.

"The other thing, which I think is sometimes overlooked, is that as the asset-based logistics companies not only bring new shippers to your community, they help the smaller or seasonal shipper establish a presence that they wouldn't otherwise be able to afford," Held noted.

"Because the ocean lines and their logistics arms have multiple customers, they can afford to invest in a 200,000-square-foot, cross-dock facility and can keep it busy, year-round, whereas a retailer with a more or less seasonal business couldn't do that by themselves," he explained.

As an example of the latter, Held pointed to Michael's, the arts and crafts retailer, which has sales peaks during the holidays and during the back-to-school season.

"Because of the type of business they are and their sales cycle, the couldn't and probably shouldn't invest in a whole year cycle; but the ocean carrier/logistics company, with its market awareness and its relationship with multiple players, can make a facility work by balancing the seasonal needs of a Michael's with the different supply chain needs of somebody else," he said. "That's good for the local economy, because it keeps the port, the warehouses, the truckers and everybody busy in a sustainable way."

Lance Ryan, vice president of marketing and leasing of the Watson Land Company, based in Carson, California, said that similar to the Port of Virginia, the area around the Ports of Los Angeles and Long Beach have also benefited from the synergy between ocean lines and their logistics arms.

On the one hand, multiple companies are sharing and trading off space, meaning greater efficiencies in moving cargo through and out of these port communities.

At the same time, Ryan conceded that convincing the local economic development community of the

value of these firms is an “ongoing education.”

“Like anything else related to ports, there’s a negative connotation when it comes to trucks and truck traffic, but I think the logistics jobs that these partnerships are creating—whether it be an ocean carrier having its own 3PL or their partnering with an outside firm for greater efficiencies—is changing that perception,” he said.

Ryan said Watson’s primary audience in recent months has been companies in need of new distribution facilities, with the majority of growth being in the Inland Empire surrounding Riverside and San Bernardino, California.

“Basically, we have two kinds of activity out here: companies that need to be near the terminals, in the South Bay region (near the LA/LB port complex), and therefore are looking at infill and brown field redevelopment projects, and others who are looking to the Inland Empire where vacant land is more readily available and the costs are lower,” Ryan said.

“These companies include not only logistics firms, but also major retailers,” he continued. “Over the last three months particularly, demand for land seems to be driven by larger 3PLs and logistics companies affiliated with ocean lines, who themselves are being pushed by multinational retailers.”

Contributing writer Dan McCue lives in Charleston, SC, where he writes on global trade, foreign direct investment, and port-related issues.