POINT OF VIEW

Automated answers

Arjun Vikram-Singh, md and ceo of Mumbai- based Quantum BSO, a global IT solutions provider for the ocean transport industry, says that liner companies need to embrace the latest software solutions to survive in the current difficult trading environment.

How many people involved in the ocean transport sector will remember the prediction made five years ago by Arjun "Spike" Murthy that the then USD30 barrel of oil would reach USD80? Probably not many, but the prescient 38-year-old md of Goldman Sachs again predicted a 2005 barrel at USD50 would breach USD100. But once again few people took notice.

But hear this – the executive recently upgraded his prediction to USD200 per barrel.

Considering the implications of this for the container industry, the absence of serious discussion is now deafening!

For those who are listening, we are already hearing the distinct change in pitch as super-sized container ships wind down their revs and trade off fuel costs for relatively smaller increases in charter hire costs and longer transit times.

For many years, the container industry's innovation has stood on the platform of economies of scale. Mainstream carriers have mostly marched to battle by operating larger ships as their weapon of choice.

Bigger seemed the way to go, with the average liner company manager reasoning that a larger denominator meant lower costs. However, the strategy has ushered in enormous vessels that gobble fuel.

The horizon of opportunity seemed endless, but history demonstrates that the primacy of the ocean carrier gave way first to the freight forwarder and then to various guises of logistics companies. As a consequence the distance and layers between ocean carriers and their clients have increased, but profits have not improved.

Liner companies, therefore, are operating a large number of ships that incur dramatic capital expenditure but make a sliver of margin on their top lines.

A closer look is called for: the fact that first, there is a dramatic lack of differentiation between operators. Some have tried, ie by developing larger networks, using different types of container, refining customer service, adopting e-commerce solutions, pricing and/or saving a day or so in transit times.

All things being equal, perhaps the biggest differentiator is which carrier gets things least wrong. There are, for instance, more containers shut-out and/or rolled over in a day than the entire volume of misplaced luggage at the height of London Heathrow T5's recent woes.

Comparatives for the document rework or invoicing and calculation error are hard to find, just as it is near impossible to get robust track and trace information from most ocean carriers.

As a global IT solutions provider, Quantum's largest competitor is its potential clients' in-house IT. This scenario has been brought about by the lack of credible and competent off-the-shelf software.

While technology is called for in every line's core operating system, it is in the areas of business intelligence, yield management and service optimisation, where it is imperative and where it can have a direct impact on a company's bottom line and business sustainability.

Some years ago when I headed a region and had a corporate position in a large container line, senior management seemed to manage by gut instinct.

Now, however, it seems many managers are 'at sea.' All the assumptions and familiar indices are no longer valid, and the consequences and ramifications on each aspect of the transport chain are monumental.

Transactions in volume and income terms are significantly larger than previous years, as are the operational costs. The current liner executive faces huge challenges, yet IT systems and decision-support tools remain woefully inadequate.

Pricing is a big issue, with most managers (still) not having clarity regarding a carrier's cost base.

Consequently, many price their services within the market range rather than with regard to specific margins/yields.

There are of course solutions, and carriers need to embrace them.

First, there is an urgent need for most container shipping lines to bring in high quality integrated core-operating (ERP) systems that are capable of handling multi-billion dollar transactions and eliminate key strokes and duplication, which also provides results in efficiencies at the bottom line.

Second, carriers need to invest in Decision Support Systems (DSS), that may range from independent components or a suite of the following:

- Contribution Management
- Capacity Management
- Yield Management
- Stock (Equipment
- Fleet Optimisation
- Business Intelligence

At this moment in time it is my good fortune that I run a business solutions and technology company, and not a large container shipping line.

Yet for all of us serving the container industry, Murthy has perhaps provided the catalyst to one of the most important debates – will the container business as we now know it make sense of the likely cost of fuel?

This is not an easy argument, because while BAFs are direct recovery surcharges where carriers feel they may have an offset, actually they are only skimming the surface of the effect of a high priced barrel of oil.

Let's face it, there is a dramatic cost push in all facets of the business – from buying new tonnage and/or chartering vessels to renting containers, running landside operations, processing documents, recruiting and employing staff, and let's not leave out business travel – in short, just about everything.

The liner shipping industry faces, in my opinion, too many variables to apply a knee-jerk chasing of recovery measures. More fundamental mechanisms need to be put in place.

Neither will bigger ships be the 'all-competitive' solution in this chaotic business environment.

Real-time costing and pricing models will be the best tools, for navigating today's turbulent tradelanes.