SeaIntelligence Consulting

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Liner Shipping Consolidation

More consolidation ahead

Status of consolidation in liner shipping

The container shipping industry has seen a slow, gradual consolidation over the past couple of decades. 20 years ago the top-20 container lines controlled 65% of the global capacity. As of the beginning of 2016, the top-20 carriers control 86% of the global capacity.

Looking at an even more narrow range of carriers, the top-5 carriers controlled 27% of the capacity 20 years ago, whereas today they control 47%.

Despite this growth in market concentration, the industry remains fragmented at a global level, but using the measurement methodology from the US Federal Trade Commission, it can be characterized as unconcentrated.

The consolidation has come about as a combination of some carriers growing by mergers and acquisitions and other carriers which have organically grown significantly faster than the overall industry. One example is Maersk Line which in 1997 was the world's largest carrier and since has acquired P&O Nedlloyd, SeaLand and Safmarine – carriers which in 1997 themselves were the world's 2nd, 4th and 20th largest carriers. Another example is MSC, which in 1997 was the world's 9th largest carrier, but in 2016 took the position as the largest global carrier purely through organic growth. Hence there are multiple viable paths toward industry consolidation.

Value for the carriers

Consolidation is driven by a range of factors which all have one common denominator: A drive to improve efficiency and reduce shipping costs. Let us explore 3 of these factors in further detail.

Factor #1: Vessel size

Increasing vessel size leads to a reduction in unit costs. The development in vessel size has not only been rapid, but has even increased in pace over the past 5 years as the industry has been quick to step into the range of 18 - 20,000TEU vessels.

However, the efficiencies related to increasing vessel sizes can only be achieved if these vessels can be fully utilized. This in turn puts pressure on the carriers to grow fast enough to fill the vessels, spurring industry consolidation.

Factor #2: Network reach

A carrier with a large market share has the ability to deploy multiple services on the same trade lane. This allows for more direct port-to-port services, in turn reducing the costs associated with transshipment and feeder services.

Factor #3: Administration and automation

Consolidation provides the opportunity to share costs which to some degree is independent of company size. One example would be some elements of back-office functions where the merger of two carriers leads to a consolidation of agency functions in each country. Another example would be the development of IT and e-Commerce tools for both internal and external benefit. The development costs are to some degree not dependent on the size of the carrier, and hence the larger carriers have the potential to deploy more cost effective IT and e-Commerce solutions when seen from a unit cost perspective.

Alliances and Vessel Sharing Agreements

The use of Alliances and Vessel Sharing Agreements are commonplace in the liner shipping industry. These operational arrangements are aimed at achieving part of the cost benefits associated with previously mentioned factors 1 and 2, although in practice the magnitude of the cost savings achievable are reduced compared to a full consolidation across the carriers involved. In this context it should be noted that these arrangements only allow for operational cost savings. Anti-trust legislation prevents coordination of sales and pricing efforts toward individual customers.

What is the impact on shippers?

The key benefit to the carriers is very clear: reduction of costs. The question is, what impact does consolidation have on shippers?

The answer to this question can be divided into effects which are beneficial to the shippers and effects which can be seen as detrimental to the shippers. Both of these will be explored in some detail.

Beneficial impact

Container shipping markets historically see more time in a state of overcapacity than of balanced capacity. Furthermore, the key deep-sea trades between major ports are becoming commoditized. This means that the operational savings obtained through consolidation to a high degree is passed on to the shippers in the form of lower freight rates.

Additionally, the broader networks provided either through direct mergers or through alliances results in a wider variety of direct port-to-port service coverage. Not only will direct services be associated with lower costs, they will also in general provide faster transit times and a higher degree of reliability.

From a shipper perspective, the use of alliances instead of direct consolidation leads to increased power in contract negotiations for freight in main commoditized trade corridors – simply because multiple carriers will share the same operational product on a pure port-to-port basis, and hence provide shippers with the opportunity to select the most attractive offer from the participating carriers.

Detrimental impact

From a shipper perspective, consolidation also brings a few negative side effects.

One of the effects of consolidation is that the large carriers have ordered, and are deploying, very large vessels. In an environment where cargo demand grows slowly, this results in carriers blanking individual sailings as well as entire services. The net effect becomes one of fewer products to choose from. This effect can be seen as the consequence of the beneficial effect of lower unit costs and hence lower freight rates.

However, for a specific set of shippers, namely the freight forwarders and NVOCCs, the reduction in the number of services by both individual carriers as well as by alliances is an opportunity. As carriers and/or alliances offer less variety, forwarders can provide that variety to individual shippers by combining carriers' service offerings.

Finally, mergers between carriers operating in different alliances can induce a temporary detrimental impact on shippers beyond the carriers which are directly involved. When such a merger takes place, the affected alliances will have to adjust their networks reflecting the new status of their combined tonnage. It takes time to design new networks, and in the interim period this will present shippers with a challenge in the form of uncertainty pertaining to their future supply chains.

Conclusions

From a carrier perspective, consolidation has been a slow but inexorable drive towards higher efficiency and lower costs. The current mergers between CMA CGM and APL as well as between COSCO and CSCL will not be the last mergers we will see in the coming years.

From a shipper perspective, consolidations have on balance had a beneficial effect thus far. The efficiency gains have resulted in lower freight rates, but despite the consolidation the market remains fragmented in turn providing shippers significant pricing power.

In terms of context it is important to note that even though conditions might vary on specific trade lanes, the liner shipping industry globally is still unconcentrated.

The drive towards more consolidation is expected to continue over the next 10 years. The key driver will remain an effort to improve efficiency and lower unit costs. Judging from the past few decades, these savings will for the most part be passed onto shippers in the form of reduced prices.

Further concentration would also serve to bring the industry back to a point where carriers consistently become profitable again. At the end of the day, the carrier industry has to be profitable over time in order to provide an underpinning of services that provide a stable supply chain. Presently that is not the case, with the consequence being both highly volatile freight rates as well as a market wherein service cancellations and blank sailings have become the norm.

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SeaIntelligence Consulting is a leading consultancy in the container shipping industry that develops original information and analysis for all container market stakeholders. Information only adds value if it is being actively used. SeaIntel Consulting collaborates with SeaIntel Maritime Analysis and utilizes their standard reports and tailor-made date services to provide consultancy services directly useable by the receiver.

The company's core belief is that anything can be analyzed - and analyzed well. Information always exists. However the solution to a particularly difficult problem often rests in the ability to think out of the box and develop new analytical viewpoints.

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