Any game follows a strategy. Still, strategy is a word that often seems to be used by many on an inflationary basis. Reasons for this may be manifold and they reach often from targeted confusion, via pure unconscious bragging to the backing of actions that actually are nothing else but mere activities of which some are even only ‘strategic’ to simply excuse their unprofitable existence.

Wikipedia states that ‘strategy’ is a word of military origin, referring to a plan of action designed to achieve a particular goal. In military usage strategy is distinct from tactics, as they are concerned with the execution of an engagement, while strategy is concerned with how different engagements are linked and relate to each other.

What are strategies in shipping then? And what actions can be taken to follow such strategies? What implications may this have on the organizing principles of shipping companies? Questions that we thought should be addressed to a thought leader, entrepreneur, author and teacher in the industry, Peter Lorange.

Raymond Fisch: Peter, first I like to thank you for taking the time to talk to us about your experiences and your thoughts as you see strategy being influenced in shipping. Let me start with the question as what you see as the primary battlefields in the shipping business?

Peter Lorange: My pleasure, Raymond. I think that we look at two basic focus types of businesses that act as players either in a market setting environment or in market niche environment. The first type of player runs an operation in relative mass markets, e.g., container, tanker, bulk shipping. These freight markets can be characterized as rather transparent, rather effective, and as such they are comparably volatile. On the other side, a company following a niche strategy seeks to distance herself from the typical cycles of the major shipping markets maneuvering in less volatile waters.

RF: What drives a shipping mass market? What do you see as an interesting example?

PL: Players of that type have a very good economic understanding of the shipping markets they are active in. You can mention any large tanker operator e.g., like Teekay,
or Hartmann from Leer, or container operator like MSC or Maersk that would very closely follow their markets.

As we know, shipping markets tend to be highly volatile. When supply of shipping capacity is higher than demand, this forces the markets to go down. With demand higher than supply, then the markets go up.

Today’s new building capacity at shipyards is high. Hence, we see a period of higher freight rates in these markets. This is because corresponding new buildings as well as second-hand ship prices tend to be short. New capacity will bring the market back down.

RF: What do you suggest to organizations in that type of setting, what should they consider as effective strategies?

PL: One of the secrets to succeed in such markets is to be ready to cash in when there is a good deal, and in general, one should always take a viewpoint that is relative to the majority of owners. Secondly it is recommendable to only focus on one or very few segments, and try to understand such in more depth. Responding to our cognitive limits, we cannot effectively handle too much complexity. And thirdly these companies are well advised to follow the order books of new buildings within a given segment relative to ship tonnage in the water. If this ratio shoots up, then exit!

RF: Speaking about exit tactics...what else does it mean on a tactical level, what key decisions have to be taken in this game?

PL: Frankly, it’s in/out, long/short! One can buy ship capacity or sell. And one can enter into long-term time charters or go spot. It all depends on one’s market expectations. There are of course additional factors at work that have to be considered, too.

Tonnage should always be bought when it is relatively cheap, i.e. at the bottom of the cycles. Also, as we see fuel prices climb higher, modern tonnage tends to be associated with lower fuel cost. Running a high number of similar ships helps on saving maintenance cost, spare parts, new training cost, etc. Most importantly however, is to have enough liquidity reserves so the ship-owner is able to ride it out, so he is not forced to sell at the bottom of the market.

RF: What characterizes a niche market and respective niche strategies?

PL: To develop niche strategies aims at the owner distancing himself from the typical cycles of the major shipping markets. The focus would thus be on identifying niches and developing projects where the owner seeks to leverage unique propositions. This implies e.g. that an owner possesses more in-depth understanding of a particular customer’s needs than other competition. It might also be the case that the owner will have unique competences to apply - primarily of technical nature, where the benefit might be a unique proprietary know how, at least in the short run! Although getting more difficult today, this can give the owner the possibility for longer term financing and hence a higher gearing. The nature of the niche is that it is more stable, and therefore has a more predictable cash flow. This implies also that liquid financial reserves might be reduced, relative to a market setting environment.

RF: This sounds very intriguing – should there be only positives for that type of set-up? Can this setting really be independent?

PL: Well, one may wish, but we all know there is no such thing! There are of course several potential negatives associated with this type of strategy, and we know that any system has interrelations.

Regarding the downsides, one is that the timing regarding exiting would typically be limited, or constrained. Also a risk is, if evaluations regarding cost >>>
might not be fully built in. Moreover, the prize for a specialized ship, at the end of a longer charter might be relatively low, i.e. one may not be able to take advantage of the second-hand market cycles.

With niche strategies there will of course still be an important exposure to the main shipping markets, mainly the new building market in particular. It is of key importance that a specialized ship should be ordered at an appropriate time – simply to avoid a too expensive order.

**RF:** Peter, you are also known for your work on the organizational structure and the building of high performance teams. How can you introduce us to your thoughts?

**PL:** We can increasingly observe that many industries split the ownership of major physical capital-intensive assets from the more multi-faceted, marketing, operating, and trading of competences and assets. Hotels, restaurants, soft-drinks and airlines are some obvious examples – but we increasingly see this split of organizational focus in other fields. IBM, for example, has transformed successfully from being predominantly a manufacturing company to a more service-driven company. Its PC manufacturing has been taken over by Lenovo of China/Hong Kong. And Swedish car maker Volvo developed its new S70 cabriolet with Pininfarina that took a 60% interest in Volvo’s Uddavalla plant in Sweden. Volvo, itself, does all the marketing for the S70.

**RF:** …and now we see the same trends in the shipping industry?

**PL:** Yes, that’s correct. For instance, in container shipping, companies such as Seaspan operate almost the same way as aircraft leasing companies. In contrast, container liner companies run logistics/marketing networks. AP Möller-Maersk now owns only about 50% of its container ships; the rest is on charter, which makes the company more of a logistics firm. Similarly, many charterers such as Cargil, BP or Statoil, no longer own ships, and some own only fractions of their fleet. Finally, amongst reefers, Seatrade runs a world-wide marketing organization, with more than two dozen shipowners participating in its pools.

**RF:** So what do you take out of this observation as implications for the organization for shipping companies?

**PL:** Frankly, we can conclude that ‘owning steel’ and ‘marketing, operating, and trading steel’ require different competences. Traditionally shipping companies were both ship-owners and operators. But there are two key reasons why, in my view, this strategy should be revised.

First is, that the time horizons for the two sides of the business differ widely. ‘Owning steel’ implies a long-term horizon and the willingness to adjust to a typically long market cycle. The ‘use of steel’, on the other hand implies a short-term focus, and uses trading decisions to adjust for both the long term and the short term of the business cycle.

‘Steel owning’ implies the running of ships and asset play timing. The ‘use of steel’ implies financial engineering, chartering and trading of freight derivatives and focus on communication, marketing and branding.

**RF:** Understandably, the two sides of the business have their own critical success factors. Does this mean the one-size fits all approach is on its course to extinction?

**PL:** So we can say. From a cognitive point of view it is becoming increasingly hard – perhaps almost impossible – to continue handling the two sides in a single organization. Moreover there is an emerging difference between marketing creativity, financial engineering, trading exploration and the exploitation of cost and scale benefits associated with running ships. Both types of organization can create value, of course. The key question is, however, how to achieve the benefits from both – i.e. the exploration of the short-term market, and exploitation of the long-term owning commitments and lowest cost?

**RF:** How does this relate to the industry cycles that we talked about in the beginning?

**PL:** We know that classical shipping markets typically follow a cyclical pattern. But in order to achieve a meaningful return on invested capital investors need to be present over time, covering longer periods of relatively low earnings, interspersed with shorter periods with strong earnings.

However this type of cyclical pattern is perhaps not the best for most ‘use of steel’ firms, which are working in typical capital markets, where stability and predictability, although still key, will be fewer. For such market-based, finance and trading driven shipping firms an income stream pattern portraying a more stable growth from low earnings, interspersed with shorter periods with strong earnings.

The ‘owners of steel’ can and will of course also operate in special segments of the financial markets. For long term ship financing, this type of income stream will still be feasible to handle, but the in/out decisions, although still key, will be fewer. All is based on an understanding of the industry cycles.

**RF:** What do you conclude on the tasks of a leader in shipping?

**PL:** The leader is key! No question that a strong, insightful...
most charismatic leaders also have significant ownership positions. The leadership tasks are however very different when we are contrasting market cycles driven strategies and niche shipping strategies.

If the focus is a cyclical main shipping market the most effective organizing mode is top-down oriented and work is executed in small coherent teams. Inventories and cash are managed very actively and the market-time-horizon is short-term.

If the focus is on niche shipping markets, the organizing mode is more effective through bottom-up learning and work execution in comparably large teams. Inventories and cash are minimized and the market-time-horizon is long-term. However building high performance teams in any setting is also the challenge any leader faces.

Besides experience, awareness of the market cycles and the ‘right’ personality he has to bring in a communicating talent that at the end helps to get things done.

RF: In 2009 we have learned about the L’orange Institute of business Zürich, being the successor of the executive education school formerly known as GSBA Zürich. What is your educational offering there that will help shipping companies to build such high performance teams?


These modules can also be visited on a freestanding basis - i.e. they can be attended independent of the others, not requiring the student to book the whole two-week program.

I would like to conclude that shipping is an industry with a lot of opportunities – for those who are prepared. For many others, this industry represents an almost certain way of losing money. The key to success is successful, focused leadership, combined with a clear strategy. To invest in the development of one’s own organization is definitely an important move – leading to a better understanding and more in-depth feel for the business.

RF: Thank you for this, Peter. Last question: How can we reach you?

PL: Anyone interested in more information can contact me on peter.lorange@lorange.org. Thank you, Raymond.
»Speed and focus is more important today than ever.«
Born in 1943 in Norway he was educated at the Norwegian School of Economics and Business Administration and in the USA at Yale and Harvard.

In addition to five Honorary Doctorates he received a Honorary Award from the International Academy of Management and is a Honorary member of the European Foundation for Management Development. Peter began his academic career as a researcher in Norway and at Harvard Business School. Through IMD in Lausanne and the Sloan School of MIT he joined Wharton in 1979. At The Wharton School he was Professor of International Management, Chairman of the Management Department, Director of the Wurster Center for International Management Studies and Director of the Lauder Institute.

In 1989 he became President of the Norwegian School of Management and in 1993 President of IMD in Lausanne. In 2009 he bought the former GSBA in Zurich and renamed it in Lorange Institute of Business. As a professor he is mainly interested in management of multinational enterprises, strategic alliances, business policy, strategic planning and implementation and strategic control.

For much of his business life, Peter Lorange has had three careers running in parallel:

• as a business academic leading some of the most important business schools in the world,
• as the head of a shipping company
• as a Board member for several multinational companies.

Today he serves on the board of directors of several corporations including: Zaruma Resources, Preferred Global Health and Seaspan Corporation.

Selected recent publications:

• Article - Optimists have a bright future, Lorange, Peter, Financial times, 2009, p. 8
• Article - Mind the culture gap: engaging in deep, non-judgemental learning, Lorange, Peter, Tomorrow’s challenges, 2008, 5 p.
• Contribution - The chief executive officer: orchestrating the whole; Lorange, Peter, Cambridge: Cambridge University Press, 2008, p. 348-364
• Book - Thought leadership meets business: how business schools can become more successful; Lorange, Peter, Cambridge: Cambridge University Press, 2008, 240 p.
• Book - Profit or growth?: why you don’t have to choose; Chakravarthy, Balaji S., Lorange, Peter, Harlow: Pearson Education, 2007, 173 p.
• Contribution - Shipping organizations - the ultimate global players; Lorange, Peter, Chichester: J. Wiley and Sons, 2007, p. 61-74
• Article - The power of learning: lifelong executive learning for value creation; Lorange, Peter, Tomorrow’s challenges, 2007, 5 p.

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