



STUDY ON THE CORE COMPETENCIES OF THE MAJOR SHIPPING LINES THROUGH THE FREIGHT FORWARDERS OF CHENNAI

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Abstract

Shipping is the fulcrum of the Indian economy. More than 85% of the international trade happens through ships. Without shipping, container trade, the bulk transport of raw materials, and the import/export of affordable food and manufactured goods would simply not be possible. Seaborne trade continues to expand, bringing benefits for consumers across the world as well as India through low and decreasing freight costs. In the current study, the researcher has done a competitor analysis of major shipping lines and their core competencies in the Chennai sector. The future growth of major shipping lines has also been predicted by the researcher. The services offered by the shipping lines have been analyzed through their Freight Forwarders by using survey method. Most of the shipping lines are offering competitive freight rates and less transit time for the export & import of containerized cargo.

Keywords: Core Competencies, Shipping Lines, Freight Forwarders, Ports, Shipping Services.

1. Introduction

India is one of the oldest maritime nations and historically has had a large and vital shipping industry. India is among the top 20 maritime nations in the world. The long coastline and the large number of ports have made shipping a crucial activity for the rapidly growing Indian economy. India's greatest strengths as a maritime nation are its ship breaking facilities and the high quality maritime manpower. The Indian Shipping Industry is worth \$8 Billion (Coastal + Overseas) - The fact that 68% of Indian exports (in value terms) and 90% (in volume terms) is carried out through shipping bears testimony to the fact that the development of the shipping industry in India is pivotal to the overall growth of the Indian economy.

Shipping is a global industry and its prospects are closely tied to the level of economic activity in the world. A higher level of industrial activity would generally lead to higher demand for industrial raw materials. This in turn would boost imports and exports. The shipping market is cyclical in nature and freight rates generally tend to be highly volatile. Freight rates and earnings of shipping companies are primarily a function of demand and supply in the markets. While demand drivers are a function of trade growth (growth in world trade) and trade patterns, the supply drivers are a function of new ship building orders as well as scrapping of existing tonnage.

India has got an extensive coastline of 7,517 kilometers. The Indian shipping industry and major ports have been thrown open to the private sector. Shipping activity is buoyant and the number of ships registered under the Indian flag has gone over 500. The average age of the shipping fleet in India is 14 years, compared to 18 years of the international shipping fleet. India is also among the few countries that offer fair and free competition to all shipping companies for obtaining cargo. There is no cargo reservation policy in India. However, the shipping industry doesn't move faster. The Indian shipping industry needs to ensure a level playing field. The biggest challenge in the future will not be the quality of ships, but the sea-farers who are moving to tax-free havens. Global shipping majors, like other segments of the conventional transport industry, are increasingly getting integrated with the emerging global logistics and supply chain activities, owing to both external and internal dynamics. Many firms are entering into the enhanced canvas of offering logistics solutions, such as door-to-door delivery systems, integrating with rail/road haulage movements of cargo, customs brokerage, cargo consolidation, packaging/re-packaging, and distribution services, thereby substantially consolidating their market position, and supplementing their ocean freight income. The global shipping industry is thus going through a major redefinition by undertaking logistic integration of their cargo operations.

A Freight Forwarder is an agent for the exporter in moving cargo to an overseas destination. These agents are familiar with the import rules and regulations of foreign countries, the export regulations of the home country, the methods of shipping, and the documents related to foreign trade. Freight forwarders assist exporters in preparing price quotations by advising on freight costs, port charges, consular fees, costs of special documentation, insurance costs, and their handling fees. They recommend the packing methods that will protect the merchandise during transit or can arrange to have the merchandise packed at the port or containerized. If the exporter prefers, freight forwarders can reserve the necessary space on a vessel, aircraft, train, or truck. The cost for their services is a legitimate export cost that should be included in the price charged to the customer.



Once the order is ready for shipment, freight forwarders should be reviewing all documents to ensure that everything is in order. This is of particular importance with letter of credit payment terms. They may also prepare the bill of lading and any special required documentation. After shipment, they can route the documents to the seller, the buyer, or to a paying bank. Freight forwarders can also make arrangements with customs brokers overseas to ensure that the goods comply with customs export documentation regulations. A customs broker is an individual or company that is licensed to transact customs business on behalf of others. Customs business is limited to those activities involving transactions related to the entry and admissibility of merchandise; its classification and valuation; the payment of duties, taxes, or other charges assessed or collected; or the refund, rebate, or drawback thereof.

2. Review of Literature

Viet Linh Danga & Gi Tae Yeo have specified that the importance of planning strategies to achieve higher competitiveness has become more apparent in the context of seaports since seaports have been encountering quickly changing and highly competitive business environments. Therefore, the strategic competitive position of seaports needs to be investigated using strategic positioning methods.

Contestable market refers to a market where there are only a few companies that behave in competitive manner because of the threat of new entrants. A market deems to be contestable if entry and exit are relatively easy. A market is perfectly contestable if entry is absolutely free and exit is costless (Baumol, 1982).

Soo Yong Shin & Myong Sop Pak has specified that the roles of freight forwarders as intermediaries continue to expand and become significant in international logistics. Purchasing negotiation is considered an important business process for freight forwarders and achieving a successful negotiation outcome should help forwarders to manage their business more effectively. This study used the analytical hierarchy process (AHP) approach to identify the critical factors for successful purchasing negotiation for freight forwarders in Korea. A three-level AHP structure was constructed to examine the successful purchasing negotiation.

The paper of Heejung Yeo (2016) finds that liquidity is closely related to the leverage of shipping companies. The negative association between the asset liquidity and the leverage level implies that there exist conflicts of interest between managers and investors. Shipping firms have a comfortable high liquidity position, but they have a high degree of leverage. They need to take steps to reduce debts. There is evidence of heterogeneity in the determinants of leverage level.

A buyer and seller relationship always exists in industrial markets, and the negotiation that they establish as the terms of purchase agreement is a fundamental phenomenon in inter-firm exchange behaviors, according to Dobler et al. (1984). Industrial purchases have been best viewed as “negotiated settlements” (Bonoma & Johnston, 1978) and, as such, negotiation is commonly a major component of comprehensive models of industrial buyer-seller relationships (Kutschker, 1985).

The first shipping alliance formed between Maersk and Sea-Land in the 1990s. Compared to liner conferences, shipping alliances are also coalitions of carriers, but are not involved in price setting. One of the shipping alliances’ main objectives is to offer shippers greater geographical coverage through cooperation (Haralambides & Veenstra, 2000).

3. Research Objectives

- To study the core competencies of shipping lines through the freight forwarders
- To study the mean scores of core competencies of shipping lines

The research hypothesis of the study is given below:

H_0 : There is no significant difference in the mean scores of the core competencies of shipping lines

4. Research Methodology

The target population of the current study happens to be the freight forwarders of Chennai who are the middlemen between the shipping lines and the exporter/importer. The researcher has considered 12 major shipping lines that are transporting the value-oriented cargo in the containers to various destinations of the world through Chennai Port. The Primary data are collected from the freight forwarders who are utilizing the services of the major shipping lines in the Chennai sector. The information from the freight forwarders has been collected with the help of a structured questionnaire. Here Samples are collected based on multi-stage sampling with the sample size of 80. The researcher has collected information from 80 freight forwarders in Chennai who are doing freight forwarding business with 12 major shipping lines. The hypothesis has been tested by using Student’s t-test at 5% level of significance.



5. Data Analysis & Interpretations

5.1 Descriptive Data Analysis

The descriptive data analysis of the freight forwarders to identify the core competencies of the major shipping lines are discussed below.

Table 1: Descriptive Data Analysis

Descriptive Factors	Frequency	Percentage
Length of Service in the Freight Forwarding		
<2 years	5	6.25
2-5 years	9	11.25
5-10 years	28	35.00
10-15 years	21	26.25
>15 years	17	21.25
Shipping Line used for Exports & Imports		
APL	9	11.25
CMA-CGM	10	12.5
HANJIN	4	5
HL	5	6.25
HMM	2	2.5
KLINE	4	5
MAERSK	17	21.25
NYK	8	10
PIL	4	5
PONL	12	15
RCL	3	3.75
SCI	2	2.5
Frequency of Sales Personnel Visit		
Weekly	18	22.5
Fortnightly	16	20
Monthly	5	6.25
On request	41	51.25
Never	0	0
Time Taken to Provide the Freight Rates		
Instantly	18	22.5
Few hours	2	2.5
One day	5	6.25
More time	17	21.25
Depends	38	47.5
Satisfaction of Transit Time Provision		
Very much satisfied	10	12.5
Satisfied	46	57.5
OK	22	27.5
Dissatisfied	2	2.5
Very much dissatisfied	0	0

From Table-1, it can be inferred that out of 80 respondents, 35% of the respondents are doing the freight forwarding business for 5-10 years. 21% of the respondents are utilizing the services offered by MAERSK line and this is followed by PONL, CMA, APL and NYK with 15%, 13%, 11% & 10% respectively. 51% of the respondents have specified that the frequency of Sales personnel visit to their company is based “on request”. 48% of the respondents have specified that the time taken by the shipping line to provide the Freight Rates “Depends” on various factors that are normally considered. 58% of the respondents are satisfied with the Transit Time provided by their shipping lines.



5.2 Cronbach's Alpha & Student's t-test

The core competencies of shipping lines were studied through the 5-point Likert Scale. In order to test the consistency and reliability of the scale, Cronbach's Alpha values were calculated. All the Cronbach's Alpha values were above 0.86 and hence it can be concluded that the scales are consistent and reliable.

The result of the Questionnaire survey regarding the core competencies of shipping lines shows that the p-values of all the competency factors are less than 0.05 (Table-2). Hence the null hypothesis H_0 is rejected. This clearly indicates that the freight forwarders expect a sort of competitive freight rates and lesser Transit Time in taking the containerized cargo in both exports & imports. The freight forwarders would never mind in switching to the rival shipping line if the rival is going to offer better freight rates and lesser transit time. Hence these two options are considered to be the most sought-after Core Competencies in the selection of the shipping line. In the technology oriented world, the freight forwarders expectations are more towards the provision of online services of various shipping lines. The freight forwarders would like to complete their operations at a faster pace and also with higher accuracy. To satisfy their requirements, each and every shipping line has come out with an array of online/internet services. Using these online services, it would be possible for the freight forwarders to accomplish their tasks at great ease. This might be the reason for the selection of this service by the freight forwarders. Moreover the freight forwarders expectations with their shipping lines are more oriented towards the provision of information on-time. The reason may be due to the urgency of taking the containerized cargo to their due destinations at the quickest possible time with less money spent on the freight rates. Apart from the above, the freight forwarders are also bothered about the whereabouts of the containerized cargo while they are in transit.

Table 2: t-test values for testing the core competencies of shipping lines

Competency factors	t	p
Availability of Containers	4.08	0.014
Container Tracking	3.65	0.007
Online Services	3.52	0.006
Offering Best Freight Rates	3.64	0.002
Less Transit Time	3.37	0.003
Feedback Services	4.56	0.012
Customer Services	2.45	0.016
Documentation Services	2.12	0.014
Port Services	2.01	0.011

6. Conclusion

The Core competencies of the major shipping lines have been analyzed through the Freight forwarders. The core competencies of the shipping lines are Freight Rates, Transit Time, Availability of containers, Online services and Container tracking. The decision to fix up a particular shipping line largely depends on the Freight rates offered by the line. It essentially means that the shipping line which offers lesser freight rates would obviously be selected by the freight forwarders in the container trade. This will force all the shipping lines to set a sort of competitive freight rates to stay alive in the market. Transit time is also given an equal importance in the selection of a shipping line. Hence the shipping lines have seamlessly increased the transit time to take the containerized cargo from Chennai sector to various destinations of the world.

The containers are made available to the freight forwarders by the shipping line through Container Freight Station (CFS) or Inland Container Depots (ICD). The CFS/ICD service offered by the shipping line will dramatically reduce the burden of loading/unloading of cargo into the containers. Nowadays, this service is given a predominant importance in the selection of the shipping line in the container trade and has ultimately become a core competency. The online/internet services offered by the shipping line will facilitate the accomplishment of various activities/operations that are connected with the export and import of containerized cargo in the container trade. The freight forwarders have started giving more importance to the Container tracking facility offered by the shipping line. The container tracking facility will put the freight forwarder to know the exact location of the containers which are loaded with the cargo. This facility will be immense use in the process of identifying the whereabouts of the containers and hence this service has also become a core competency in the selection of the shipping line.



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