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## The analysis of Shanghai Broad Shipping Company's development strategy

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**WORLD MARITIME UNIVERSITY**

Shanghai, China

**The analysis of Shanghai Broad shipping company's  
development strategy**

By

**ZHANG LU**

China

A research paper submitted to the World Maritime University in partial Fulfillment of  
the requirements for the award of the degree of

**MASTER OF SCIENCE**

**2008**

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***FORMAT OF THE DECLARATION***

I certify that all the material in this research paper that is not my own work has been identified, and that no material is included for which a degree has previously been conferred on me.

The contents of this research paper reflect my own personal views, and are not necessarily endorsed by the University.

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### **Abstract**

Title of dissertation: **The analysis of Shanghai Broad shipping company's development strategy**

Degree: **Master of Science in international transport and logistics**

After entering into the WTO, the competition becomes more and more fierce. As a small and medium-size shipping enterprise, Broad Shipping Company's development is encountering more and more threat.

The paper use the strategic management theory and mode, closely related with the Shanghai Broad Shipping Company's conditions, broadly explain and comment to the development strategic of Broad Shipping Company.

The paper mainly analyzes the internal environment and external environment of the Broad Shipping Company and indicates the opportunities and threats the company faced with, and competitive advantage and disadvantage of the company. And the paper also based on strategic management theory to provide a focus costs and differentiation strategy to the company. That is, the Broad Shipping should mainly operate on dry bulk transportation in the Southeast Asia region, then strengthen the company's scale, and operate on economic of scale in future.

The paper also gives suggestions of risk prevention and financing in shipbuilding, and deal with these problems for a small and medium-size shipping enterprise at the expanding time.

**KEY WORDS:** Strategy Management, Broad Shipping, Environmental Analysis.

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## **1. Introduction**

### *1.1 Background of the dissertation*

The development of economic globalization correspondingly changed the world industry structure. The core of the world trade has already started moving to Asia-pacific region, and the developing countries accelerate the processes of industry, the demand of raw material goes up continuously. The value-added weight of finished goods become higher and higher. Asia has become the biggest region of raw material and finished goods export. With China gradually becoming a big world manufacturing and processing plant, transport industry develops rapidly in almost entirely costal region in China. And shipping industry becomes one of the representatives of international transport providers. With the effects of WTO and Chinese policy of opening to outside world, Chinese shipping industry has entered into a critical, golden explosion stage. And new Chinese shipping companies spring up like mushrooms in recent 10 years.

Shanghai Broad Shipping Limited (Broad Shipping/Broad company) was established in Shanghai, China in 2003. Its registered capital is RMB20 million. It is a limited liability company, which is professional engaged in international shipping with its own independent ship management. When the company had just been set up, they used their own transport capacity to operate the dry bulk charter transport business of South-East Asian region. The company has two dry bulk carriers, respectively 7,500 dwt and 3,600 dwt, and is now making another one for 3,900 dwt dry bulk carrier. And within five years in the future, the company also plans to develop three dry bulk carriers which are two 3,900 dwt and a 7,500 dwt. In order to ensure the good ship operators, the company has outstanding management team, which includes the Shipping Department, Maintenance Department, Crew Department and Finance Department. And the managers, which are in charge of these departments with more

than 10 years experience, are professional management backbones in the company.

In 2005, Broad shipping invested over RMB 20 million to construct the first offshore vessel of the company in Hubei, which hoisted five-star red flag, named “BO DUN 1”. It has longer voyage capacity and more amount of loading than the same type of vessels. And it is formally putted into operation in early 2007. At present, the company’s operating scale has been expanded from Southeast Asia region only to the region including Southeast Asia and Northeast Asia dry bulk cargo network, covering more than 10 countries and 40 ports in the region.

With the expansion of the capacity and the scope of business, the company’s delivering dry bulk cargo kinds increase to more than 10, including steel, other pieces of equipment, as well as groceries asphalt, cassava tablets, fertilizers, ores, and so on.

These events marked the Shanghai Broad Shipping Limited has entered another new higher stage of development.

Today, the company maintained good development trend, and the company also faced the pressing problem what will be the track of development. The author is starting from this issue, in the background in this enterprise, checking the internal information to complete the study

### *1.2 Objectives of the dissertation*

Strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage.(H.I.H,2004)

In this paper the objectives to choose development strategy as the direction of research are,

1. Strategic management is to help the company formulate a better strategy in the strategic choice process through using more systematic, logical and theoretical methods.

2. The company's management and staff can be fully understood enterprises, and assume their responsibilities.

3. To establish an internal staff communication system, to integrate the personal conduct into the company's force so as to create enterprise culture.

4. The enterprises that use of the strategic management have more competitive advantages than those who do not carry out the strategic management.

5. With Broad shipping as the background, to provide a strategy to the development of Chinese shipping companies, and to make China's shipping enterprises to be more competitiveness in the market.

### *1.3 Research methodology and structure*

This paper based on the theories of strategic management, through the analysis of status and trends of domestic and international shipping market, the analysis of the international dry bulk market's current situation and development trend, and the analysis of the status and demand forecasts of the Southeast Asian transport capacity, analyzes the internal strengths and weaknesses, the opportunities and threats of external environment of the Broad Shipping in detail. According to this, Broad shipping company identifies its business focus competitive strategy that mainly operating dry bulk cargo transport in Southeast Asia, and operating freight forwarding, shipping agents as the supporting business. This paper will analyze the steps to the implementation of the strategy, and their facing risks and preventive measures in the process of expansion.

This paper will use the method of linking theory with practice, PEST analysis, SWOT analysis, the Porter's five forces model and so on. And this dissertation includes six Chapters. In the beginning, the paper will introduce the background and objectives of the research, and literature review. In the main body of the dissertation, the paper will divide the environmental analysis contents into two parts: the first is external environment analysis, which introduces the development of international shipping environment, the impact of national policy on the shipping industry, the driving force of the rapid development of the domestic economy on the shipping industry, the impact of high-speed development of information technology and shipbuilding technology on the shipping industry, and the impact of social and cultural factors. The second is internal environment analysis, which includes Broad Shipping competitors' analysis, the attraction of international dry bulk market for Broad Shipping, and the status and demand of Southeast Asian transport capacity for the past five years. After this chapter, the paper will decide Broad Shipping target market. And then, according to environmental analysis, the paper will analyze the situation of the Broad Shipping Company, which introduces its finance, management structure, and core competitiveness of the enterprise. Then the paper will point out the company's competitive strengths and weaknesses. At the last step, the paper will sum up the company's overall strategy, which includes strategic positioning, company's mission, strategic objectives, and the choice of development strategy the objective of the development strategic system. Then the paper will mention that the steps and methods of implementation of the strategy and the risk analysis and circumvent of Broad company in expansion process.

## **2. Literature Review**

### *2.1 Strategic Management Theory*

Strategy, as we just mentioned, is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. (H.I.H,2004)

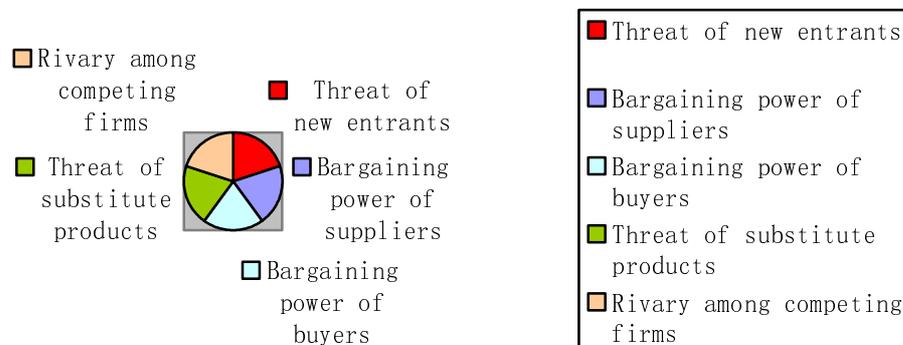
Strategic management is defined as the development of corporate strategy, and the management of an organization according to that strategy. It involves the application of corporate strategy to all aspects of the organization, and especially to decision making. As a discipline, strategic management developed in the 1970s, but it has evolved in response to changes in organization structure and corporate culture. With greater empowerment, strategy has become the concern not just of directors but also of employees at all levels of the organization. (BENT business dictionary, 2006)

In the United States, strategic management theory can be divided into three schools:

#### (1) Competitive Strategy School

The basic viewpoint of Competitive Strategy School is : Strategic management focuses on achieving and maintaining a strong competitive advantage. Therefore, enterprises generally use three basic types of competitive strategy: Cost Leadership Strategy, Differentiation Strategy, and Focus Strategies. Principal representative of the school is the United States Harvard Business School Professor Michael E. Porter, the main representative works are “Competitive Strategy” and “Competitive advantage”. His view is that the Rivalry among competing firms is the main force of competition, and it and the threat of potential entrants, the threat of substitute products, as well as the bargaining power of suppliers and buyers together constitute the five competitive forces. It is these forces and status and its comprehensive strength, influence and determine the company's competitive position. (Zhang

Xiuyu,2002)



### (2) Resource Allocation Strategy School

The basic viewpoint of the Resource Allocation Strategy School is: the core of business strategy is the allocation of resources. Through planning, the study of the future allocation of resources and its interaction with the external environment, the company can guide and resolve all of important issues in operation and development process. The school's principal representative is an American Professor and management expert---Igor Ansoff. Representative works include Corporate Strategy (1965), Strategy and Structure (Cambridge, Mass., MIT Press, 1962). He said: business strategy is the basic model of interaction of the layout of existing and planned resources and the external environment. He stressed: the three factors "Structure - Strategy - Environment" should be harmonized and adapted to each other.

### (3) Goal Strategy School

The basic viewpoint of the Goal Strategy School is: the theme of business strategy is to identify and implement the long-term goals and objectives of the enterprise. The main representative of the school is Andrews, his representative works include

"Business Strategy". He thinks that strategy is the model consisted of the target, the will, the aim as well as the plan which is formulated to achieve these objectives. The school representative also has the American Alfred D. Chandler Jr, and his representative works include "strategy and structure" He thinks that the research problem of business strategy is to determine long-term corporate goals and objectives, and to achieve the objectives through business activities and allocation of resources. In general, the school explains the objectives of business strategy, which not only include the identification of both long-term business goals and objectives, but also include the process of implementation of the goals and objectives. (Zhang Xiuyu, 2002)

## *2.2 Analysis process of the strategic management*

Strategic management process means the full set of commitments, decisions and actions required for a firm to achieve strategic competitiveness and earn above-average returns. (H.I.H, 2004)

Strategic management includes the following four basic modules: Environmental Analysis, Strategy Formulation, Strategy Implementation, Evaluation and Control.

(1) Environmental Analysis Stage: the major works in the company include that on the basis of the analysis of external and internal environment, to determine the company's mission, operating objectives, management goals, and to evaluate the strengths and weaknesses of the company.

(2) Strategy Choosing Stage: the main works include that,

1) According to the external and internal environment and companies mission to develop several alternative development strategies

- 2) To analyze and evaluate the above strategies
  - 3) To elect a final executable strategy
  - 4) To formulate the implementation plans and policies for this strategy
- (3) Strategy Implementation Stage: the main works include that,
- 1) To allocate the resources between the sectors in the corporate;
  - 2) To design the organizational structure in accord with strategy;
  - 3) To ensure the consistent between corporate culture and strategy
  - 4) To play a strategic leadership role
  - 5) To deal with the contradictions and conflicts
- (4) Strategy Control Stage: the main works include that,
- 1) To develop efficiency standards
  - 2) To measure actual effectiveness
  - 3) To evaluate the actual benefits
  - 4) To formulate corrective measures and contingency plans

To sum up, the principles and objectives of the strategic management are different at different stages. Strategic management can make the right choice only when it is an integrated whole.

### *2.3 Types of strategic management*

The strategic direction of the company is divided into three types:

- (1) Expansion strategy: Expansion of the company's activities
- (2) Stable strategy: Do not change the company's existing activities
- (3) Contracting strategy: Compression of the company's activities

In this paper, it focuses on the Broad Shipping Company's expansion strategy as a small shipping company.

#### *2.4 Analysis approaches of the strategic management*

Seen from the strategic management process, it is necessary to analyze the environment before the formulation of strategy. Research methods include PEST Analysis, SWOT Analysis, Porter's five competitive forces model and Value Chain Analysis method.

(1) PEST Analysis: For external environment analysis

Political environment: is the arena in which organizations and interest groups compete for attention, resources, and a voice in overseeing the body of laws and regulations guiding the interactions among nations. (H.I.H,2004)

Economic environment: refers to the nature and direction of the economy in which a firm competes or may compete. (H.I.H, 2004)

Sociocultural environment: is concerned with a society's attitudes and cultural values.(H.I.H, 2004)

Technological environment: includes the institutions and activities involved with creating new knowledge and translating that knowledge into new outputs, products, processes, and materials.(H.I.H, 2004)

(2)Porter's five forces model: For industry environment analysis.

Industry environment often has a more direct effect on the firm's strategic competitiveness and above-average returns. The intensity of industry competition

and an industry's profit potential are functions of five forces of competition: the threats posed by new entrants, the power of suppliers, the power of buyers, product substitutes, and the intensity of rivalry among competitors.(H.I.H, 2004)

(3)SWOT Analysis: to analyze the Strengths, Weaknesses, Opportunities and Threats of the company.

### *2.5 Summary of this Chapter*

The dissertation according to the Competitive Strategy School's strategic management theories connects with Broad Shipping Company's actual operating, and gradually does the environmental analysis, strategic choice, strategic formulation and the control of implementation of the strategy. And in each process, the paper integrated uses PEST analysis, SWOT analysis, Porter's five forces model analysis, and strives to provide a viable development strategy to Broad Shipping Company.

## **3. Analysis of Broad Shipping international macroeconomic environment**

### *3.1 The development of international shipping environment*

The world economy has experienced the most robust expansion since the early 1970s oil crisis. And it is growing diversity, the economy focus has shift to the eastward.

Reviewing the world economy in recent years, the development trend of international environment shows some characteristics that political multi-polarization and world economic integration, liberalization of international trade, market competition intensified, and so on. In 2006, although the global economy caused by a series of the negative impact of unfavorable factors such as oil price fluctuating in high level, interest rates rising up, the rate of inflation increasing, social unrest in the Middle

East aggravating and natural disasters occurring frequently, but these factors could not stop the good run and fast growth of global economy.

The main reasons of economic growth include: First, the world's consumer demand boosts. In the view of the demand, the world consumer demand in 2006 maintained the high growth not only in energy, but also in the needs of non-ferrous metal products. This demand will undoubtedly promote the recovery and prosperity of the international shipping market. Second, economic behavior becomes active. Global economic activity was very active, especially in the commercial and services industries (such as tourism, business travel, transportation, retail and other related industries). Economic activities didn't reduce because of the rampant terrorist activities and the frequent occurrence of natural disasters, but became further active. Third, the growth of global trade accelerates its pace. As oil prices continue to rise, while other energy resources driven by price increases, which undoubtedly made oil, resource export volume soared up and promote their global trade position to rise up. And this situation makes some developing countries which have rich energy and mineral resources benefit by strong demand in the market. As the business of multinational companies produced a huge intercontinental shipping volume, the proportion of the volume of transnational corporations in the world container shipping volume has gradually increased. Based on this point, international shipping industry has also developed in a considerable degree. Fourth, international investment goes further recovery. Since from 2006, the fund which international investment flows to developing countries has increased further more. In the view of the resources strategy, the international investment flows to developing countries which have rich natural resources. The international investment prospects of Asia and Eastern Europe will be better and better. Because of a source of funds, shipbuilding and other capital-intensive industries will receive large-scale expansion. Fifth, more and more global multinational corporations began to merger and acquisition. The

multinational corporations in developing countries goes from strength to strength, they also began to enter the markets of developed countries in the direct way through mergers and acquisitions, their proportion of mergers and acquisitions in the world continue to rise. China and India become focus countries of merger and acquisition in multinational corporations. This trend also deeply promoted the merger and acquisition activity of international shipping companies between each other.

But in recent two years, with the growth of world economy, the problems of global economy are still exists. Many factors have huge impact on the international shipping industry such as increasing oil price, the subprime mortgage crisis in the United States, the inflation and rising continually interest rates, the U.S. dollar devaluation and the RMB revaluation, and so on.

In 2006, the instable situation in the Middle East lead to global oil demand grow steadily, international market oil prices fluctuated in high level. The fluctuating scope of oil prices from 60 U.S. dollars a barrel in the end of 2005 to more than 75 U.S. dollars. Despite in October 06, the international oil price once dropped to 55 or 60 dollars, and there have been some small fluctuations. But in the next two years, oil prices gradually climbed all the way until recently has exceeded 130 U.S. dollars per barrel. In recent years, oil price has reached to the highest point in history. Whether the global economy can grow rapidly, it still largely depends on international oil prices. We predict that the demand for oil in the international market remains strong, and oil price will maintain a higher price in a very long period because of its uncertainty and the influence of current continued deteriorate situation in the Middle East. However, the impact of high oil price on the shipping industry will become strength and strength because the transportation costs and freight will increase substantially, which will lead to intense competition in the international shipping

industry.

In addition, trade protectionism, the fragile stock market and financial markets, inflation and interest rates, terrorist activities, the worst natural environment, are also undoubtedly important factors that influence the international shipping industry. In such a complex environment of international shipping, making a shipping company to develop harmoniously and sustainably is not an easy task.

### *3.2 The impact of national policy on the shipping industry*

Chinese shipping industry has deep impact on the development of Asia as well as global shipping industry. And Chinese maritime policy also plays a pivotal role for the Chinese shipping industry. So we have to concern the Chinese government's attitude and measures on the shipping industry.

Reviewing the trend of Chinese shipping policy, it is not difficult to found that its shipping policy has been gradually developed from protectionism shipping policy to the liberal shipping policy. Maritime policy of protectionism is mainly based on shielding the competitive disadvantages of domestic shipping enterprises. It uses administrative, legal, economic and other means to support the development of domestic shipping industry, and its policies usually include shipbuilding subsidies, operating subsidies, tax preferences, cargo retention policy, secured financing, coastal shipping rights. And liberal shipping policy is based on respecting the owner's right to operate independently, and avoiding the government's administrative intervention. So the government subsidies will be reduced to the minimum. (Maritime Affairs, 2006)

Since the 1981 decision from the Ministry of Transportation, the state-owned

shipping companies' investment of ship buying and shipbuilding has changed from the original plan to grant to enterprises to finance from bank loans by enterprises themselves. But at that time, government still had given some preferential policies in loans. However, after 1990, the government implemented the macro-control, rise up the interest rates of ship loan. In loans respects, the environment that Chinese owner encountered is fiercer than foreign ship owners'. The governments of the world's major shipping countries have to provide the long-term low-interest loans to ship owners. And Chinese interest rates of shipbuilding loan suffered a process from declining to rising, and then dropping again. In recent years, the over-high interest rates of shipbuilding loan have some negative impacts on Chinese shipbuilding industry.

In tax policy aspects, on December 31, 1994, the government abolished some preferential policies including that the owner of the domestic shipbuilding exempt from value-added tax, import tariffs on equipment, value-added tax in production processes. Therefore, after the implementation of this new tax policy in 1994, the Chinese ship owners have to levy when they build a Chinese ship, and even based on all the production costs of the entire vessel, which result in the secondary taxes on steel, equipment and so on. When the domestic ship owners build Chinese ships, they should levy 27.6% import tariffs and value-added tax rate of machinery and equipment. (Hu Yaqin, 2006). But the import equipments of export shipping are duty-free.

In shipbuilding subsidies aspects, other maritime countries still retain the shipbuilding subsidies, while China has already completely abolished these subsidies.

In operating subsidies aspects, according to the survey of 57 major maritime

countries in the world provided from Maritime Administration of U.S. Department of Transportation in 1993, recently, there were nine countries including that the United States, Sweden, France, Italy, Korea, Portugal, Mexico, Morocco and Romania subsidizing the operation of the ship. The United States is the most important country providing operating subsidies of all, and its main form of subsidies is the ODS (Operating Differential Subsidy). And China basically has no operating subsidy policies, so ship owners only depend on the strength of themselves to compete in the market.

In the cargo retention policy aspects, the United States is a representative country of implementing cargo retention policy. In their policies, 50 percent of the government supplies, 100 percent of war-related materiel and 75 percent of aid food must be carried by American shipping carrier. But in contrast, before 1988, the share of the import and export of Chinese shipping carriers were almost allocated by the Government rationing plan, basically depend on implementing “native goods, native carriers” policy. After the Chinese Government formally had proposed the resumption of GATT status in 1986, the Chinese government has taken a series of reform measures in the maritime industry and has deleted the clause of share of cargo in the new signed maritime bilateral agreement. Chinese shipping company began to collect cargo, and cargo owners chose carriers freely, ocean freight began to fluctuate in line with market condition. (Hu Yaqin, 2006) In fact, some Chinese companies did not only use the Chinese ship to transport strategic commodities, such as the COSCO and China Shipping, but also use ships of flags of convenience to transport, so long as the Chinese companies has the ultimate right to transport.

In the ship financing aspects, since July 1995, the People's Bank of China has implemented a unified loan standard to all enterprises, so the shipping companies

have no longer enjoyed any preference.

In the reservation of rights of costal transportation, before 1992, China government, in principle, forbid foreign shipping companies to enter into the transport market in Chinese coastal and river. But after July 25th, 1992, the document of the ministry of transport and communication indicated that "allow Sino-foreign joint ventures of water transportation in moderate engaging in coastal and inland waterway transport ", so the policy had loosened. According to Article 4 of Chinese "Maritime Law" in 1992, Chinese coastal transportation and towing should be undertaken by the vessel of national flag in principle, but allow exceptions when they have approval by the Ministry of Transportation in State Council.

These shipping policies' changing significantly changed the original preferential policy for domestic ship-owners, and lead the domestic shipbuilding market, second-hand ship market to become more international and liberal. The liberalization of Chinese ocean shipping can make the shipping enterprises in China more strength and able to adapt to the intense competitive environment after they enter into the WTO, and able to find the core competitiveness and competitive advantage which is suitable to the enterprise, and able to operate by them selves not only just rely on the support of national policies and assistance. This paper tries to help Broad shipping company to find an independent business strategy and to achieve the expansion and growth of the enterprise in such a national policies.

### *3.3 The driving force of the rapid development of the domestic economy on the shipping industry*

In recent years, in the face of the turbulence in world financial market, Chinese economy still maintained a strong momentum of growth.

According to the latest report of World's Bank, the world economy suffered the impact of the U.S. subprime mortgage crisis and the rising of international oil price, and there have been obvious signs of economic declining. However, the rapid growth of Chinese economy to some extent slows down this trend. The report also pointed out that Chinese sustained development of economy will be effective buffer the world economic crisis caused by the U.S. subprime mortgage crisis.

The report said that during the first half of 2007, in the regions that developing countries gathered, and particularly in the East Asian region, the industrial production growth rate have increased generally by 20 percent compared with corresponding period last year. Chinese and Indian economic performance performed very well. And the report predicted that Chinese economic growth rate last year and this year will be 11.3 percent and 10.8 percent respectively, and Indian will be 9 percent and 8.4 percent. Although the U.S. subprime mortgage crisis caused the world financial market turbulence, the Chinese economy will still maintain a strong momentum of growth. In fact, the United States subprime mortgage crisis has a limited impact on Chinese economy. China has huge foreign exchange reserves and the rapid growth rate of investment in fixed assets and other factors all can be quickly resolved the adverse effects on Chinese economy development caused by U.S. subprime mortgage crisis. With such a trend of development of the domestic economy, Chinese shipping industry will also be sustained robust trend of development in supporting of the domestic economic environment.

At the same time, the rapid development of Chinese economy and the weak U.S. economy also aggravated the imbalance of global economic development gradually. The world economic growth differences expanded gradually. For example, in 2007,

the U.S. GDP growth rate is lower 3 percent than expectations, while Chinese GDP growth rate reached up to as much as 11 percent. Statistics show that in 2007 the U.S. cumulative trade deficit is 711.6 billion U.S. dollars. () And the Chinese trade surplus in 2007 reached up to 262.2 billion U.S. dollars, and has increased by 47.7 percent compared with corresponding period last year. It is expectation that Chinese trade surplus in 2008 will reach up to 332 billion U.S. dollars. () Despite the U.S. economy is weak, the gap of economic growth rate between U.S. and China goes further widen, which will impeded the development of international maritime transport to a certain extent, and the unreasonable situation such as empty container will go further deteriorate. However, the imbalance of the World Trade development has always been a driving force for development of the international shipping industry. In the imbalance of world trade, Chinese shipping industry has to bring forth new technology, to expand the fleet and enhance the core competitiveness, and to come out first in the world shipping industry.

#### *3.4 The impact of high-speed development of information technology and shipbuilding technology on the shipping industry*

In the operating process of enterprises, because the scope of the Internet application has expanded to all aspects of social life, e-commerce also developed in an alarming rate in the world. Many famous domestic and foreign shipping companies are also not hesitate to make a rapid response, to put a lot of human and financial resources to build hardware and software systems of e-commerce network, in order to occupy the high ground in this area of the industry. They try them best to meet customer needs with more efficient, convenient, cheap and good service, and to enhance enterprise's core competitiveness of the business. For example, they announce timetable on the network, book, send, receive and print bills of lading, track cargo, do customs clearance and electronic payments, such as e-commerce. For the complexity,

standard features of shipping industry, e-commerce also has a very effective solution - the use of EDI (electronic data interchange systems). Users can carry on several business activities through international common standards. The application of EDI has clear results include that increasing market share, reducing paper processing costs, lowering labor costs, promoting the rationalization of the internal operation of business and management departments. Therefore, based on shipping its own characteristics and the current situation, shipping companies must actively develop e-commerce using Web as an information platform, business platform and management platform, or they would be eliminated. (Wen wenching, 2002)

The rapid development of satellite technology has gradually affected the communications, broadcasting, ship navigation and tracking, and other sea life in all areas. Particularly in the shipping industry, satellite technology reflects its value for the information revolution in a broader extent. As the development of container and the digitalization of ships, the high standards of ship safety and security make the relations with information technology become closer and closer. So far, the ship has been applied to the Global positioning system, the Global Maritime Distress and Safety System (GMDSS), the global ship Long range identification and tracking system, the global satellite broadband system and the broadband global area network (BGAN) and so on, which has had a huge influence in the management and operation of the ship. (Ye Ming-Jun 2007)

The international shipping market competition brought by the ship upsizing and globalization of routes network will become fiercer. And Chinese shipping industry still has many problems on e-commerce and application of satellite communication technology, which include that, first, it is an old concept that seeing this technology just as an equipment. They didn't study it in the enterprise development strategy,

business and decision-making process analysis aspects. The second is the lack of high-tech professionals who know the shipping. The third is insufficient funds and equipment investment, especially in small and medium shipping companies. They still preferred using aged vessels and over-aged vessels, they do not pay attention to the development of ships' technology. It is expectation that in the next 10 years, China will maintain its high economic growth rate, and the social concepts about the choice of transport mode and behavior will continue to change and develop. The transport values including convenient, fast, comfortable and safe will be significantly enhanced. So how to adapt to the development of high-tech maritime technology, how to cultivate a new generation of professionals of shipping and maritime, are our pressing issues.

### *3.5 The impact of social and cultural factors*

Shanghai Broad Shipping Co., Ltd. is located in Shanghai which is the Chinese largest financial centre. And in the objectives of the Shanghai municipal government, Shanghai will also be built to be a Chinese logistics center and a shipping center. It is undoubted that this measure will provide a lot of opportunities to the shipping enterprises in Shanghai.

According to preliminary statistics, Shanghai has nearly 20 million populations, so Shanghai is rich in human and labor resources. Shanghai also has professional shipping and transportation universities - Shanghai Maritime University and Shanghai Jiao Tong University. Such educational institutions also mean that Shanghai shipping industry is rich in maritime and shipping human resources. Because of these talents, it is not impossible that Shanghai will become Chinese and even Asian shipping center. In addition, on the policy of retaining talents, the Government has done corresponding measures. For highly educated people, their

income is much higher than the general labor wages. And in Shanghai, the average income level is far higher than that in other provinces and cities. Such generous salaries and conditions retained a lot of elite of the industry for Shanghai enterprises. In their joint efforts, the shipping enterprises in Shanghai will also be full-grown.

In market point of view, as many other small and medium-sized shipping companies, Broad shipping company is the Southeast Asian shipping market-oriented enterprises. The ASEAN countries have 500 million populations, 4.5 million square kilometers land, and their gross national product are more than 700 billion U.S. dollars. (Wu's, 2000) Southeast Asia is a huge market and is very attractive to China and even the world. The main types of goods in Southeast Asia focus on the cheap raw materials. Despite the value of exports in Southeast Asian countries increased year after year, the transnational transport groups did not focus entirely on this market cake. For example, Europe and the United States are eager for more traffic rights in China, but did not intend to put more capacity in Southeast Asian market, and even their selves' airlines in Southeast Asia prefer to choose to explore freight market in other areas. (Hu Yue, 2007) And the conflict between South-East Asian high economic growth rate and the lack of the volume of freight traffic eventually led to the imbalance between capacity and market demand in the best times of the market, which is undoubtedly to provide a freer shipping environment for the Shanghai Broad Shipping Companies such a the small shipping company, so that they can gain more Southeast Asian shipping market share depending on their own strength under equal conditions, and then achieve above average return.

### *3.6 Opportunities and Challenges*

Through the PEST analysis of the macroeconomic environment of Broad Shipping Company, we can see that the opportunities and challenges of Broad Shipping

Company.

*Opportunities:*

(1) The target market has great potential. Southeast Asian shipping market has great potential, especially for the competition of small and medium enterprises to carry dry bulk cargo as the main types of goods.

(2) Shanghai is rich in human resources, and has good policy environment. The company is situated in Shanghai which a city being rich in maritime human resources. The recruitment of high-tech talent of shipping can effectively promote the development of the company. The Shanghai government's policy goals – to build international shipping centre, its opening up policy and its strong support for the private undertaking all provide a larger space for future development of the company.

(3) The liberal attitude of competition supported by national shipping policy geared to international standards, and provide a fair competitive environment for Broad Shipping Company which is an enterprise that is overseas international shipping oriented, and make it more adaptable to face the highly competitive international environment after entering to WTO, and promote the formation of core competitiveness of the company.

(4) Chinese strong momentum of economic development attracts a lot of investors. It provides a prerequisite for further financing and developing of Broad Shipping Company and the expectation of developed trend of Chinese continually growing in future provide the strategic basis for the company to continue to develop and expand.

*Challenges:*

(1) Although global economy is still developing, the economic imbalances gap during regions is widening, and the competition becomes fierce increasingly. The factors that oil crisis, inflation, depreciation of the U.S. dollar make small and medium-sized enterprises such as Broad Shipping Company increase transport costs substantially and their competition become more intense.

(2) Although Chinese shipping policy becomes more liberal and international, there is no any national policy to protect domestic shipping business. In terms of young Broad Shipping Company, because its core competitiveness has not been fully established, its operational risk is big and its competitive environment is tough.

(3) It is greater pressure for Broad Shipping Company which has not much experience that the e-commerce technology needs to be provided door-to-door logistics services and high value-added transportation services. And during the development and expansion process of Broad Shipping Company, the applications of high-tech satellite technology in various ships is a huge challenge for the company's financing and investment capacity.

#### **4. Broad company industry environmental Analysis**

##### *4.1 Broad Shipping competitors analysis*

###### *4.1.1 The bottlenecks of new small companies joining to the shipping in recent years*

China is a big world's shipping country, and there are more than 300 existing international shipping enterprises, more than 1,300 coastal shipping companies, and more than 5,100 inland shipping enterprises. It is a large scale! But apart from

COSCO, China Shipping Group, China Ocean Marine, and other major shipping companies which have Larger scale, strong management and competitiveness, most of the shipping companies are very small, and among these companies, the shipping business which only has one ship are over 60 percent. They can not develop the advantages of economies of scale and they are also difficult to withstand market risks. According to statistics, Chinese international shipping companies have less than 10,000 tons average capacity, and coastal shipping enterprises have less than 4,000 tons average capacity. In more than 300 international shipping companies, the enterprises which have above 100,000 dwt capacity are less than 3 percent, and their ship form are mess, their level of technology are low, and their average tonnage are small which are only 10 percent of developed countries shipping. (Liu Yang, 2001) In such a industry situation, the majority of small and medium-sized enterprises most choose more small tonnage ship, boat or over-aged vessel in the process of entering to this industry and development, because of their high risk and lack of funding support. Therefore they can not provide high-tech ship. In such circumstances, it will inevitably lead to higher fuel and maintenance costs. And in the current environment which the RMB rise its value, their competition becomes fiercer. And in the ship management aspects, these companies are difficult to have advanced ship management level and technical levels because of insufficient funds and lack of experience.

As any shipping company no matter how large-scale, the number of traffic capacity is free of accessing to tramp shipping market, while the liner shipping need a series of matching hardware and software facilities and a huge cargo collection network, and in China, the liner company must be built based on the approval of Ministry of transportation and the support of government. So as for most small and medium-sized shipping enterprises, they do not have an independent strength to open

up the liner transport, and mainly involve in the charter transport market, particularly in the dry bulk market. According to statistics, Chinese shipping enterprises, especially international shipping companies, more than 70 percent of them are operating the tramp shipping market. In this market, it is inevitable that the good and bad are intermingled. Especially in 2003 and 2004, when the shipping market in the peak period, many new entry investors and the shipping operators do not know the professional operating approach of dry bulk cargo. They are lack of knowledge of related industries, such as freight forwarding, shipping agency, port, shipbuilding industry, and so on. They are also lack of long-term customer relationships and effective business networks. And they do not understand the relevant laws, government policies and the restrictions of safety supervisory authorities. This caused many companies difficultly to be sustainable development in long-term, and can not overcome market fluctuations, even lead to shipping accidents caused by the phenomenon of “Beach Vessel”.

Broad Shipping Company’s leadership has nearly 20 years management experience for shipping companies. During the crucial moment of the 1990s Asian financial crisis, most small and medium-sized shipping companies went bankrupt, while Broad Shipping Company survived depend on outstanding management level and cargo collection ability, and steadily developed in the following few years. Comparing to a large number of new entry shipping companies in recent years, Broad Shipping Company has rich management experience and high level of shipping technical management. Because the company operated dry bulk transport in Southeast Asia for a long time period, it has established a more stable customer networks, and be familiar with the characteristics of this market. Therefore, all of these factors are the potential advantages of Broad Shipping Company for a long-term development.

#### *4.1.2 Analysis of competitors*

In the capacity aspects, the coastal international transport capacity mainly concentrated in COSCO, China Shipping Group, China ocean group, and so on. Their capacities occupy 70% of coastal capacity. With Chinese trade expansion and economic development, the operating profit of China Shipping increased by 1.6 times in 2007. The main international shipping business in Southeast Asia has also increased the Asian route, for example, so far the Hanjin Shipping has doubled the number of flights in two years time. And Hanjin Shipping also decided to merge the subsidiary JuYang shipping company in April this year which operates bulk cargo transportation, then to strengthen their non-container ship sector. China Ocean Shipping is also expanding intra-Asia transportation. They are ready to expand the China-Japan route of the container transport and to study the transit transport between Japan and Southeast Asia, Australia. COSCO are recently massive building large container ships and dry bulk carrier which include eight 13310 TEU container ships, total price is 1.334 billion U.S. dollars; Nine 57,000 tons dry cargo ship, will be delivered from March to July in 2009. Korean Shipping in South Korea also order to the Chinese shipbuilding enterprises two 320,000 DWT VLCC.(Maritime intelligence, 2008)

In addition to the major international transportation company, the other 60 percent of the international shipping companies are single-ship companies, and Chinese average capacities of international shipping companies are less than 10,000 tons. And in early years Broad Shipping Company has already have totally a 7,500 tons dwt bulk carrier. And on April 2007 the company has independently invested, completed and put into operation a totally 3,950 tons dwt bulk carrier. The total capacity reached 10,500 tons, has been more than the average level of shipping companies in China.

In the ship structure aspects, in recent, 98 per cent of the coastal transports are motor ships, and are mainly the dry bulk and the tanker fleet. Company boldly imagined transforming fuel combustion system of the 7,500 tons bulk carrier, from burning light oil to burning heavy oil so that the sailing ship only burned 0.8 tons light oil, saving the fuel costs significantly. This ship has stronger competitiveness than any other ship in freight price aspects.

In the ship size aspects, 81 percent of bulk carriers, oil tankers and about 40 percent of the grocery carriers are more than 20 years old. In addition to the 7,500 tons dwt bulk carrier, the company is also building new ships boldly. And the company also has attempted that when constructed 3,600 tons dwt bulk carrier, it has more innovation in design than other shipping companies, which changed the capacity from 3,600 tons to 3,950 tons, so that enhanced the capacity of the ship greatly.

#### *4.2 The attraction of international dry bulk market for Broad Shipping*

##### *4.2.1 The characteristics analysis of the world dry bulk shipping market*

In world trade, 85% to 90% goods transports come true through the maritime transport. And the international dry bulk shipping market is an important part of international shipping market. Its freight traffic occupied 3 percent weight of the world's freight traffic.

Reviewing the development process of the international dry bulk market, we can sum up following two characteristics of international dry bulk market:

(1)The derivatives characteristics of international shipping dry bulk market. Because the international dry bulk market is the derivatives markets of international trade, the dry bulk market are roughly in line with trade rules of the market in the long-term

trend. If the global economy is in a period of prosperity, the volume of freight in shipping market will increase substantially, thus the demand for ships will increase and the capacity will grow up. Instead, the market will fall down. Each 1 percent of World economic grows, shipping freight volume will increase about 1.5 percent, and dry bulk will increase about 2.5 percent. Because the global containerization has already reached 60 percent, the freight volume carried by dry bulk carrier vessel actually increased only 1 percent, while the containerization rate in the developing countries is only 40 per cent, so the freight volume carried by dry bulk carrier vessel in these countries will increase 1.5 percent (Yin Hong, 2004). This is the derivative features of dry bulk market. At the same time, because the international dry bulk market has a high degree sensitivity for weather, port status and political factors, the dry bulk market is often more difficult to be predicted.

(2) The seasonal characteristics of international dry bulk shipping market. International dry bulk shipping market has obvious seasonal characteristics, which has close relationship with the trend of the world economy. Because of the global economic recession and the oil crisis, it caused the first recession during 1982 to 1987, which caused many owners unbearable and to be bankruptcy. The second and third recession respectively happened in 1990 and the period from 1992 to 1994, which are the regional recession and not much serious as the first. The fourth depression is in the period from 1997 to 1999, fluctuations in this time are the most intense of all. The reasons include that the cooling down of global economic growth and the soft landing of developing economy, and the direct reason is that the Asian financial crisis affected the world. Of course, there were several prosperity period of this market. In 1980, the freight surged up several times than in 1978. And it appeared a second peak in 1989 and a third peak in 1995. At that time, the daily charter hire of three kinds of ship reach up to the highest record of history. The time

period from 2003 to 2004 is the fourth peak time, and the delivery of new ships hits an all-time high record. Obviously, the rule of international dry bulk shipping market is the cycle----"economic recovery - increased freight volume – increased freight rate- increased capacity - supply over demand- - economic downturn – freight rate goes down - reduced capacity -- -- demand over supply – freight rate rise again.”. The fluctuations of the market are closely linked with the shipping capacity and the level of the balance of supply and demand.

#### *4.2.2 Forecast of international dry bulk cargo market*

Since 2007, the international dry bulk becomes the focus of international shipping market, rising up continually and breakthrough the early highest point. Since the third quarter of 2006, the BDI index has risen up nearly three times than previous and has fluctuated on the perch totally. (SU Ping, 2007)

Bulk cargo means that the cargo transported by sea in large consignments in order to reduce the unit cost.(Martin Stopford,1997)and it is also means the cargo unpacked and can be directly load on the ship, mainly includes some raw materials, such as iron ore, coal, grain, agricultural products, timber, steel, fertilizers and so on. In these types of cargo, iron ore, coal, grain and steel are the main cargo in today’s international dry bulk shipping market.

Because of the rapid development of global economy, the demand of dry bulk transportation boosted recent years. The world economy has maintained rapid growth of consecutive four years, becomes the longest economic expansion cycle for the past 30 years. The demand of dry bulk shipping has usually a strong correlation with the world economic growth; the world's economic development played a great role in promoting the dry bulk shipping to be sustainable growth. During 2000 to 2006, the

freight volume of the world's dry bulk shipping increased 5 percent in each year, especially the increased new demand for steel lead to sustainable high international steel price, the demand volume of iron ore shipping has accelerated noticeably. During from 2000 to 2006, the average annual growth rate of the iron ore shipping volume reached to 8.2percent. By the impact of these factors, the transport demand of international dry bulk cargo rise rapidly in the market, which is also the main reason that support the current high price of dry bulk shipping.

At the same time, in recent years, the average distance of international shipping market is in an increasing trend. The dry bulk shipping volume increased 6.0% and 5.7%in 2005 and 2006 respectively, while the turnover rate increased 6.3% and 7.1% respectively in the same time. (SU Ping, 2007) It means that the average distance has extended trend because the increasing turnover rate is higher than the increasing shipping volume. Taking iron ore transport for an example, because the steel industry of India that the third largest iron ore exporting country developed rapidly, the demand of themselves significantly increase, in 2007 they reduced exports by increasing export tariffs gradually, and the main new ore production capacity in Australia will be released in 2009. Therefore, China and other major importing countries change to import iron ore from Brazil and South Africa, however, the shipping distance between Brazil and China is two or three times longer than the shipping distance between Australia, India and china. Taking the transport of coal as an example, with Chinese energy demand growing, China, as a traditional coal-exporting country will be gradually transformed into coal importing countries. In 2007, it has been shown this trend. It is a greater impact on Japan and other countries which import coal from China in long-term. And the sharp drop in Chinese coal exports made Japan and South Korea import coal from Australia and Indonesia, which made shipping distance longer on the whole. The future market share of

Australia, Latin America, and other coal exporting countries will increase further. All these factors will cause the growth of the average shipping distance and the transport turnover rate.

Moreover, in recent years, due to the substantial growth of maritime transport, shipping capacity growth has been lagged behind. The shipbuilding enthusiasm of dry bulk carrier is not high due to the downturn market in 2005. According to statistics, in 2007, the world dry bulk fleet capacity has reached up to 380 million tons and increased 5 percent than in 2006. The net capacity went up to 1,800 million tons, although the growth rate of capacity slowed down than in 2006, it still lags behind the growth demand of transport.

Besides that, the growth of ocean freight volume has also brought the port traffic jam and lead to capacity supply becomes tenser. This phenomenon makes a number of important ports of iron ore and coal exports have serious traffic jams, and consume much more capacities. The world's largest coal port - Australian Newcastle port has the most serious traffic jams. In this port, the average wait time for the dry bulk carrier was from 8.5 days in 2006 to 24 days in 2007, the most serious situation was that about 70 ships waited for Loading and unloading in anchorage. It is expectation that there will be no change in the demand of the international dry bulk shipping market and high freight rate trend next few years. With the global economy, especially with the steady economic growth of emerging economies in Asia, the demand of global iron, steel and coal and the demand of the Asia-Pacific region will maintain steady growth. And the increasing of global oil prices will enable the price advantages of coal to become more prominent, and the focus of energy consumption will continue to shift toward to Coal. It is expectation that it will reach up to the peak of shipping capacity growth during the period from 2009 to 2010. In

the ship size aspects, the Capesize ships have rapid growth, Panamax ships maintain steady growth, the handysize ships increase minimum. It is expectation that from 2008 to 2009, dry bulk carrier capacity still shows a slight tension between supply and demand. With some port project putted in to operation such as Shanghai Yangshan port, it is expectation that port traffic jam problem will be alleviated in 2009. But in the short term, it will be very difficult to solve the problem of port traffic jam.

The Statistics and Forecasts  
of World Seaborne Dry Bulk Cargo Trade Volume

	2006(R)	2007(F)	2008(F)	01.07(R)	02.07(P)	03.07(P)	04.07(F)	01.08(F)
Iron Ore	721.8	779.9	838.5	194.8	192.4	198.5	194.2	210.2
Steam Coal	488.5	534.1	555.6	138	126	134.9	135.2	143.6
Coking Coal	220.9	231.8	236.7	54.3	58.3	61	58.2	55.4
Grain	262	270	280	63.9	66.1	69.2	70.8	66.3
Minor Bulks	1,103.40	1,043.80	1,090.80	287.8	282.5	295.8	292.5	301.3
Total Trade	2,796.60	2,974.40	3,121.50	738.9	725.3	759.4	750.9	776.8

(R) Revised Data (P) Provisional Data (F) Forecast Data

Stem from: Drewry dry bulk forecast 07.3、Drewry dry bulk insight 07.11

#### *4.2.3 Recent situation of Chinese dry bulk cargo transport*

In the international dry bulk shipping market, China established the special status in the world's dry bulk transport depending on its outstanding performance. The significant expansion of global iron ore seaborne trade was mainly driven by the Chinese factor. In 2003, Chinese iron ore imports volume firstly exceeded Japan the steel production country, which caused widespread attention in the shipping industry. From 2000 to 2006, Chinese iron ore import growth rate reached up to 29 percent in 2006, the weight of increment of Chinese iron ore imports accounted for more than 80 percent of the increment of the global iron ore trade, so that the increment of global iron ore trade was contributed from China in majority. In 2007, Chinese dry bulk shipping volume of foreign trade still maintained a momentum of rapid growth.

##### *a, High growth of iron ore imports*

As the stimulation of higher international steel price, in 2006, Chinese steel exports volume surge to 43 million tons, and in 2007, from January to July, steel exports volume reached to 39.7 million tons, increased 92.2 percent comparing with the same period last year. The steel products volume exported through the coastal port were 35 million tons, increased 76.4 percent comparing with the same period last year. Because of the high demand of foreign steel market and the rapid development of domestic economy in the first half of 2007(GDP growth rate was 11.5 percent), the demand of domestic steel market was unabated, these factors led to high import volume of iron ore in China last year. In the first half of last year, total iron ore imports volume was 221.5 million tons, rise up 19 percent comparing with the same period last year. (SU Ping, 2007)

##### *b, reversion of coal imports and exports*

Since 2007, Chinese coal shows a trend of net imports. In the first half of last year, China exported 28.86 million tons coal, decreased down 21.2 percent comparing with the same time in 2006; and imported 30.96 million tons coal, increase by 49.6 percent comparing with last year. Net imports are 2.1 million tons. (SU Ping, 2007)

*c, A substantial increase in grain exports*

In 2007, the average price of major grain varieties in the international market has a large degree of upgrading than ever before. Comparing with the same period of 2006, the rice, wheat, corn, and soybean prices in the international market on July 2007 rose by 6.2 percent, 56.8 percent, 33.7 percent and 44.3 percent respectively. And in July the mainly varieties of grain import prices in the international market are still significantly higher than the delivery prices of domestic market. This has brought that in 2007 Chinese grain export volume increased significantly and imports have slowed down the growth rate. The main variety of importing grain is soybean in China. In the first half of 2007, the importing volume of soybean is 16.88 million tons, while the number of volume increased by only 2.6 percent, but because of prices rising, the monetary amount of imports rose by nearly 30 percent comparing with the same period last year. The major grain exports variety in China is the corn. In the first half of 2007, total exports volume is 3.92 million tons, which growth rate reached up to 72.2 percent, while the monetary amount growth rate of exports reached up to 129 percent comparing with the same period last year. (SU Ping, 2007)

*4.2.4 The future of Broad shipping in the dry bulk cargo transport market*

According to the analysis and forecasting of the international and domestic dry bulk market, the analysis of cargo situation and Broad Shipping Company's competitors, we can analyze that Broad Shipping Company's perspective in the dry bulk shipping market as follows:

1, On the premise that the company continued to introduce more advanced management experience of shipping companies and ship management technology, the company's competitiveness will continue to rise in the industry, operating profits will increase year by year, the market competitiveness will be further enhanced.

2, with the substantial increase of the seaborne trade volume of the world's iron ore, coal, grain cereals, and other major dry bulk cargo, maritime transport volume will continue to rise up, and relatively shipping capacity will be lack. The international dry bulk market still has great potential for development. Broad Shipping Company's main business will also develop greatly. As the driving force of Chinese economy and the substantial growth of the import and export trade of Chinese iron ore, steel, coal and grain, Broad Shipping Company has more operation space in the dry bulk market and also can consider dry bulk feeder transport in river and even multimodal transport in future development.

3, The phenomenon of traffic jam caused by the growth of seaborne trade volume will enable Broad Shipping Company to reform its management system, through scientific and reasonable arrangements for scheduling, to avoid the shipping delays caused by port traffic jam and then affect the company's efficiency. At the same time, the completion of Yangshan Deepwater Port in Shanghai in recent years, the opening to traffic of East China Sea Bridge as well as the good trend of development in Chinese ports and berths, all bring to Broad Shipping Company a stronger driving force.

#### *4.3 The status and demand of Southeast Asian transport capacity for the past five years - the market scale of Broad shipping*

In recent years, after 1997 Asian financial crisis, Southeast Asia had great economic

recovery, the import and export trade volume of many Southeast Asian countries and regions have substantially increased, maritime transport volume also increased.

The trade in Southeast Asian regions has its own characteristics. And most of the countries export agricultural raw materials, while import industrial products, such as Thailand and Vietnam. Singapore is the largest transit port of the Asia-Pacific region; more than 80 countries, over 150 shipping companies are all using this port. Indonesia is one of the Eastern largest oil-producing countries. Hong Kong and Singapore is Asia's Trade Centre. Malaysia, Thailand, Indonesia and other ASEAN countries are not only the production base of primary products, but also the processing production base of other regions of Asia such as Japan, Taiwan, Hong Kong and other places.

In recent years, the development of international trade led to the international exchanges between raw materials and finished products, which provide a large number of transport demand to the shipping companies operating in the Southeast Asian region. There are not only the global transports like Asian, European, American, but also region transports between the Asian countries.

The Far East region that north from Japan and south to Indonesia in the North Asia-Pacific region, especially the Southeast Asian region become the world's most active region now. "Pacific" era has arrived. The rise of the Asia-Pacific region is a miracle in economic history. According to analysis, in 1990s, the world GNP and the average annual growth rate of foreign trade were three per cent and 5 per cent respectively, while the Asia-Pacific region were 5 percent and 9 percent, and in the first decade of the 21st century the region has maintained and even expanded the gap. It is a forecast in 2010 that the weight of the Asia-Pacific region's GNP accounting

for the world's total GNP ratio will increase from the current 25 percent to 40 percent. (Wang Lujun, 2001) The growth gap among all the regions' economy in the world will inevitably lead to a further shift of world centre towards to the Asia-Pacific region, and the weight of the trade and maritime transport volume of this region in the world will also rise up further.

As the regional development of world economy, inter-regional and regional transport will develop further. And the Southeast Asian region which has become the world's processing factories and shipbuilding center has become the area that world seaborne trades are the most prosperous, trade vessels are the largest, shipping routes are the densest. There are both the maturity network of container transportation and huge market of dry bulk transport.

#### *4.4 The choice of Broad Shipping target market*

According to the analysis of international and domestic shipping market and the dry bulk shipping market in Southeast Asia, Broad Shipping Company suitable to use the Southeast Asian region as the major dry bulk operating market, use the inter-regional transport in the Southeast Asian, time charter and trip charter as the main mode of operation to focus on the dry bulk and to open up the shipping market in Southeast Asia.

Although Broad Shipping Company is a small shipping business in the market, they have their own vessels, their own operating characteristics and specific f operating mode. And they are familiar with the Southeast Asian market prices, has a stable client base and customer networks. On the basis of being familiar with the operating mode of dry bulk cargo transport, they continue to develop their own management skills. In the competition of shipping industry, they adhere to bring forth new ideas to

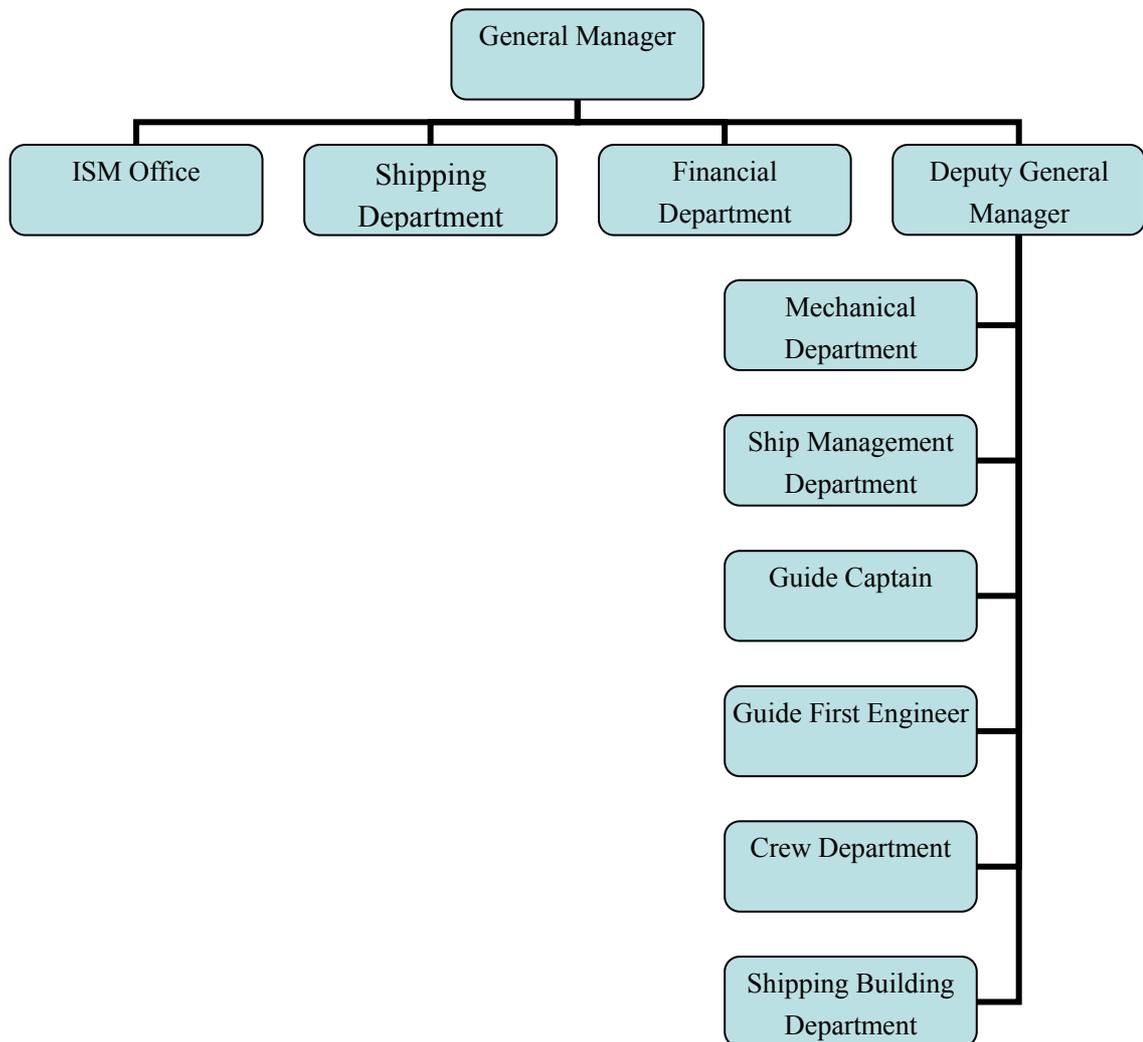
their ship's technology and management prudently and boldly. Today, Broad Shipping Company has relatively stable charterer network and freight shipping volume comparing with other small shipping companies in the same industry. Today in the uncertain political situations of Korea, Taiwan, such a market orientation has provided more space and potential to the development of the company.

## **5. Broad company Internal environmental analysis**

### *5.1 Enterprise management structure*

Shanghai Broad Shipping Company consist of seven sectors, fixed positions and the operating ships. The basic management staff is eight persons, and one person sales staff, 36 crew members. Enterprise organizations see figure below:

(Figure 2)



### 5.2 Analysis of the core competitiveness of the enterprise

The core competitiveness of enterprises are the resources and capabilities that serve as a source of a firm's competitive advantage over rivals.(H.I.H,2004) It enables the enterprises to earn more profit. Resources control by the entity and ability to manage and organise made up the entity's core competitiveness. Take Broad Shipping Company as an example, its core competitiveness are summarised as the following:

1.The situation of enterprise:

As a fast-growing shipping company mainly engaged in ocean freight shipping, especially scattered dry bulk transport in Southeast Asia, Broad Shipping Company is characterised by its adequate customer resources, broad and healthy network of agent and good reputation. It is a growing company that developed rapidly and has great potential. The company has abilities that expanding market by itself, cargo collection, designing and transforming engine of the ships. And they established long-term good relations of cooperation with numerous domestic and foreign shippers, port agents and brokers. All of these factors have laid a good foundation for the development of Shanghai Broad Shipping Co., Ltd.

## 2. Employees:

### Management team

Broad Shipping Company has a strong but young management team which comprises more than 20 persons with collage and above education, including one master and several bachelors. The average age of the management is 35 years old. The company's senior management has systematic knowledge of enterprise management as well as rich experience in shipping business. The middle management were all graduated from maritime universities and have years of working experience in shipping industry.

### Crew

Broad Shipping Company has its own strategy to in recruiting the crew. As the company has the qualification to apply for seafarer certification, it was able to establish a relatively stable and good team of seafarers in the past. In addition, Broad Shipping Company planned to set up a seafarer management company to train up the new seafarers. In doing so, the entity could have a stable source of qualified seafarers.

### 3. Customer network:

Broad Shipping Company operating strategy is mainly based on voyage charter, and time charter for trip, supplemented by the mode of time charter. With years of operation and market exploration, the customers of Broad Shipping Company are mainly those have long-term relationship in Southeast Asia, such as Korean Daewoo Group, Korean Bright Shipping Company and Singapore Skyline Company, all of which have above 5-year relationship with the company.

### 4. Operating strategy:

According to the ship operating costs and the characteristics of import and export trade, the ships of different tonnage have there inherent characteristics: dry bulk carriers of 1-3000 tonnage, because of their small tonnage, small shipping time of endurance and short shipping voyage distance, basically are operated on the route in the region like China - Japan - Korea – Russia. The carriers that above 10,000 tons, because of their large capacity, have high demand for supply stability, they often service for the long-term trade contracts between the owner and the shipper. And because of the demand for economies of scale, they must be engaged in long distance routes.

However, the dry bulk cargo of Southeast Asian that Broad Shipping Company delivered in long-term, such as grain, fertilizer etc., is usually more than 3,000 tons and less than 10,000 tons in trade volume. And their voyage time is usually in the range of 10-15 days. According to the above characteristics, the company's 3500 -7000 DWT ships is the most suitable for shipping companies operating in Southeast Asia in terms of operating costs and shipping time of duration.

### *5.3 Broad company's competitive strengths and weaknesses*

#### Strength

1. The company has strong ability in maintenance, renovation and design of the ship. The company's Engineering Department comprises a lot of experienced engineers. In the past years, the company involved in several significant design and renovation projects, for example, the projects in connection with converting fuel from diesel oil to heavy oil, electrical system renovation and heavy oil particulate. With continuous efforts of the Engineering Department, the operating ratio of the company's ships is above 94%, that is, except for planned maintenance and annual inspection, the company's ships were able to keep running throughout the years.

2. The company has strong ability in market exploration and cargo collection. With 10 years of operation, Broad Shipping Company has built up reputation as well as agent network in Southeast Asia. It can provide high quality service and network support in the operation of port and cargo, transportation, insurance and security inspection. All these help the company to obtain stable customer resources in the region. As a result, the company's transportation income increased by 62% in 2004 and in 2005, even when the national industry was in a down trend due to change of China's export policy, the company still sighted a 22% growth of transportation income.

3. As a fast growing company, it was able to provide clear career path to employees. Meanwhile, staff's salary is directly linked to the company's operating performance. These made the company more attractive to those talents.

#### Weakness

1. Broad Shipping Company is a small owner-managed company. It is the General Manager who has the decisive power. Without the General Manager's approval, the departments cannot make any decision. In addition, the company has not established

an effective control system to monitor its operation. With development of business, such management method would probably impact the company in a great degree.

2. As a small company, Broad Shipping Company only has a few ships. Although the company was in process of building new ship, it lost a lot of commercial opportunities in the recent recovery of the shipping industry.

### Opportunity

1. Based on stable customer resources, the company can further develop long-term strategic relationship with customers and extend the co-operations.

2. With fast development of national economy, the industry was in an upward track. The company has the opportunity to expand its operation with banking facilities.

3. The local government was intended to develop Shanghai as a regional shipping centre of Asia. As such, it gives great support to the private shipping enterprises.

### Threat

1. Political uncertainties, especially in Taiwan and the Democratic People's Republic of Korea, constitute the primary potential market risks of the company.

2. Keen competition was another challenge the company must face in Southeast Asia. In recent years, due to recovery of shipping industry, shipping companies started investing heavily in this market. New comers will probably threat the existing business of Broad Shipping Company.

3. As a development trend, many middle and small shipping companies sought for combination to quickly improve its operation and financing. This kind of trend also impact on the development of Broad Shipping Company.

## **6. Broad company's overall strategy**

### *6.1 Broad company's strategic positioning*

According to the research about dry bulk markets in the fourth part of this paper, especially the analysis of the Southeast Asian dry bulk market, we can see that the market Broad Shipping Company faced is a very large, and the number of customer and dry bulk cargo sources also increase constantly, at the same time, the cooperation opportunities become more and more. In view of these factors, the paper designs the marketing strategy as follows:

1, Marketing strategy: Starting from a few large customers, to segment the market, to establish a smooth operation platform in the supply market based on strategic cooperative partnership. The company needs to develop large tonnage capacity in Southeast Asia positively, and to actively involve in the coastal shipping services, and to carry out the marketing activities in all directions with the modern logistics concept.

2, competitive advantages:

A, To develop the shipping capacity so that operate in economies of scale

B, To establish a long-term strategic cooperation with shippers, and to establish the supply advantages

C, To innovate boldly, so that form a leading-edge technology advantage of the ship.

D, To using new concept, and then establish a brand advantage of shipping service

E, To establish the flexibility advantage of price

### *6.2 Broad company's mission*

Strategic mission is a statement of a firm's unique purpose and the scope of its operations in product and market terms. (HIH, 2004)

Depending on long-term and large-scale customers, Broad Shipping Company aim to

develop the coastal and ocean shipping, to become a major dry bulk transport capacity in the Southeast Asian region, to strive to become the fastest growing company in small and medium-sized shipping enterprises, and to become a most stable company delivering high quality professional ocean transportation services, so that maximize shareholders' interests.

Its core business are as follows:

- (1) Coastal foreign dry bulk cargo transport services
- (2) Dry bulk cargo transport in Southeast Asia
- (3) Providing programs of transport and logistics
- (4) International ocean freight forwarding business
- (5) Sale and leasing of ships,
- (6) Crew management and training
- (7) Supply and recovery of ship spare parts

### *6.3 Broad company's strategic objectives*

Based on the foregoing analysis on the market capacity, customers, competitors and the operations of Broad Shipping Company, take BODUN 1 (3600 dwt) as an instance, its gross margin for the period from April 2007 to April 2008 has been far beyond the original budget. Averagely, its monthly gross profit was RMB 840 thousand. Its daily charter hire even reached USD4,000. Golden High (7500 dwt) is another ship of the company. Its average monthly gross profit was RMB 1.2 million. Its daily charter hire is USD5,600.

(1)Gross profit forecast: Golden High and BODUN 1 shall have RMB 16 million and RMB 10 million gross profit, respectively.

(2)Customer development plan: the company shall have 10 to 15 customers by 2012, including 5 to 6 long-term strategic big customers.

(3) Operating scale: the company shall put four 3600 dwt vessels and one 7500 dwt vessel into use by the end of 2012.

#### *6.4 The choice of Broad company's development strategy*

Enterprises have different strategies in different industries and different development phases, such as stable strategy, development strategy and exit strategy. The development strategy can be further break down to specialization strategy, diversification strategy, and vertical and horizontal integration strategies. Normally, an enterprise has the following four basic competition strategies in a certain industry:

- (1) Cost leadership strategy
- (2) Differentiation leadership strategy
- (3) Focused cost and focused differentiation strategy
- (4) Integrated cost leadership/Differentiation

Focus strategies is an integrated set of actions taken to produce goods or services that serve the needs of a particular competitive segment. (H.I.H,2004) From the analysis of Broad Shipping Company, we understood that:

The cargo collected by the company is primarily steels, iron ores, fertilizers, grain and other raw materials.

(1) As the company located in Shanghai, it has economical and geographical advantages compared with peer companies at other locations. It mainly engaged in the dry bulk cargo transport in Southeast Asia (Japan, Korea, Vietnam, Indonesia and Hong Kong).

(2) adopted flexible strategy to accommodate the development and change of economy. This made it more competitive.

(3) As Shanghai Yangshan deep water port was built recently, Shanghai has sighted

a fast growth in the local shipping industry. Broad Shipping Company grasped this opportunity to obtain more cargo and customer resources.

(4) As the company is currently in a development phase, it has great potential in the future operation.

Generally speaking, focused cost and focused differentiation strategy is more suitable for Broad Shipping Company. The company should focus on dry bulk cargo freight in Southeast Asia and Chinese coastal regions. At meantime, the company could gradually develop its ability to undertake international ocean freight in the future.

#### *6.5 The objective of Broad company's development strategic system*

Enterprise strategy management implementation is a long-term project. It refers to management techniques, metrics and related tools that companies can use to make strategic decisions. It involves all management activities of the companies. For instance, the strategies management of Broad Shipping Company is as follows:

(1) Standardization strategy: the company is standardizing its operation for further expand and potential financing arrangement.

(2) Technology leadership strategy: the company is keen on development and implementation of new technology in ship design and renovation.

(3) Logistic strategy: the company is intended to build up a logistic system through multimodal transport for dry bulk cargo in Southeast Asia.

(4) Financing strategy: Make reasonable ship investment plan and raise funds through banking facilities, financing leases or private placement.

(5) Human resource strategy: Focus on recruiting experienced personnel and developing systematic training for new graduates.

(6) Co-operation strategy: establish strategic co-operation relationship with customers, suppliers, ports, agents and ship yards.

(7) Cost leadership strategy: Reduce cost of fuel, spare parts and administration as well as ship acquisition.

(8) Large-scale strategy: Increase shipping capacity to obtain economies of scale.

#### *6.6 The steps and methods of implementation of Broad Company's strategy*

In order to realize the focused strategy of Broad Shipping Company, management has introduced the following five-year plan:

(1) Fast development phase from June 2008 to June 2010. The company should increase its shipping capacity, expanded its operation scale and built up reputation in the market.

(2) Stable development phase from July 2010 to June 2011. The primary task of the company is to improve its control and develop its own enterprise culture.

(3) Financial restructuring phase after 2011. Seeking opportunity to restructure the company in order to quickly expanded the company's operation and increase its capital. Management may consider private placement, business combination and public listing.

#### *6.7 The risk analysis and circumvent of Broad company in expansion process*

The enterprise, operating in the shipping industry, whether large or small, will face various sorts and varieties, different degree risks. To avoid these risks, shipping companies often take their own measures to prevent risks from happening.

For example, in the beginning of operations, Broad Shipping Company covered the two ships. Take BODUN1 as an example, the company covered the hull risk in the Chinese People and Property Insurance Company, the insurance amount is as high as RMB 25 million and RMB 80,000 for the franchise. Once the vessel is total loss or technical total loss, the shipping company will be compensated by the insurance

company in sum. when the hull is damaged, the insurance company will compensate after deducting the corresponding franchise; In addition, the company's ships are also insured in the Japanese Ship owners Mutual Insurance Association, covering the risk of the cargo, crew and oil pollution. These insurances greatly reduced the company's operating risk.

In the aspects of management of safety and security, as a shipping company, it must comply with various international conventions and domestic laws and regulations, such as the "International Safety Management System Code" (ISM CODE), "International Convention on the Safety of Life of the Sea" (SOLAS), "MARPOL 73 / 78 ", and so on. In September 2007, Broad Shipping Company passed the safety management system inspection from the Ministry of Transportation and the Bureau of Marine. And then, the company was awarded the DOC certificate. This marks that the Broad Shipping Company has a qualified healthy Safety Management System, in line with the qualification of international ship safety management. Such security measures not only strengthen the ship safety management, but also enhance the company's image.

In the future, the company will also face a number of risks. The paper lists some parts of the risk and their preventive measures as follows:

(1)Goods market risks and measures:

Broad Shipping Company mainly engaged in dry bulk cargo transport and goods. The mainly cargos are raw materials such as steel, iron ore, grain.

**Risk:** The restriction to the development of raw materials from States government, increasing steel prices will lead to reduced the volume of such goods; Shipper's

berths does not match company's ship; Other competitors provide logistics services such as multimodal transport; Government controls the freight rate of such goods transport.

**Measures:** To provide integrated logistics services, to establish stable partners' relations with clients, constantly to expand the customer network, and to minimize transportation costs.

(2)Risks and measures in capacity market:

The company is in a rapid development period, so that need to construct substantial new vessels, and to expand its scale. At the same time, it will be at risk.

**Risk:** The risks include that a number of safety standards inspection from Ministry of Transport, the steel price fluctuations for new shipbuilding, the transaction price fluctuation of second-hand ships.

**Measures:** To arrange the timetable for expanding capacity scale, to avoid build new ship in the peak period of steel prices, to adjust the mode of the development of transport capacity, and to try to take the mergers and acquisitions way to develop, to establish a long-term relationship with the shipyard.

(3)Risk and measures of management:

Human resources are the important resources in the company. Handling the management of human resources faced many problems.

**Risk:** Because of mobility of the crew, the company did not form its own crew teams. The company's welfare system is not perfect, and the company's management staff

age has serious polarization.

**Measures:** To establish the relations of cooperation with the crew members management companies, or to establish the company's own crew management companies, to establish the corporation relationship with the professional crew training institutions, to establish the company's welfare system in accordance with national policy as soon as possible. The company also should recruit the excellent and experienced shipping management talent and provide training opportunities to train young managers of the company.

## **Conclusion**

The paper represents the focus costs and differentiation strategy based on all aspects of analysis of the Shanghai Broad Shipping Co., Ltd -the representative of modern small and medium shipping enterprises.

According to the analysis of the international economic environment and domestic market, the paper proposes the opportunities and challenges that Broad Shipping Company face. On the basis of the analysis of industry's competitive environment, the paper reveal the current situation of the domestic shipping industry, indicates the Broad Shipping Companies segment market in the domestic shipping industry, and it also explains the scale of the market and competitors of this company. All these methods enable the company to position market correctly. Then, depending on the internal analysis of company's own characteristics, the paper sums up the company's competitive advantages and disadvantages. Finally, the paper analyzes the strategic objectives and the risk of Broad Shipping, and establishes the methods and steps of implementing this strategy.

In short, this article summarizes the points as follows:

- (1) Combining the strategic management theory and the small and medium-sized shipping company- Broad Shipping Company in the modern market. And it is guidance for the small and medium-sized enterprises in the development process.
- (2) Providing a viable foundation of strategic development for Broad Shipping Company, and having a large number of latest information to support that, and having reference value.

(3) Providing the practical operational developing method and business philosophy to Broad Shipping Company, comprehensive analyzing the opportunities and challenges that Broad Shipping Company faced, and providing response measures. The paper also provided valuable information for the development of other shipping companies.

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