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## A study on development strategy of shipping company C Dalian branch

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**WORLD MARITIME UNIVERSITY**

Shanghai, China

**A Study on Development Strategy of Shipping  
Company C Dalian Branch**

**By**

**Xu Minghui**

**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**

**INTERNATIONAL TRANSPORT AND LOGISTICS**

2009

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## DECLARATION

I certify that all the material in this dissertation 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 dissertation reflect my own personal views, and are not necessarily endorsed by the University.

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## **ABSTRACT**

Title of dissertation: **A Study on Development Strategy of Shipping Company C  
Dalian Branch**

Degree: **MSc**

North-east China have drawn more attention in shipping and academic community in recent years, as central government launched a series of policies to promote regional economic revitalization and build international shipping center in Dalian. Under such situation, C shipping company Dalian branch confronts new opportunities and challenges. Aiming to be positioned more accurately in the dynamic market, this paper, by utilizing forefront strategic management theory, scrutinize the external and internal environment of the target company in order to find proper development strategy for the future.

**Keyword:** North-east Revitalization, international shipping center, development strategy, PEST analysis, SWOT analysis, shipping company

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## **LIST OF ABBREVIATIONS**

SCCDB: shipping company C Dalian Branch

APL: America President line

COSCO: China Ocean Shipping Corporation

DISC: Dalian International Shipping Center

FCL: Full Container Load

GDP: Gross Domestic Production

LCL: Less than Container Load

MOL: Mitsui O.S.K. line

RMB: Ren Min Bi

SOE: State Owned Enterprise

SOC: Shipper's Own Container

TEU: Twenty-foot Equivalent Unit

WTO: World Trade Organization

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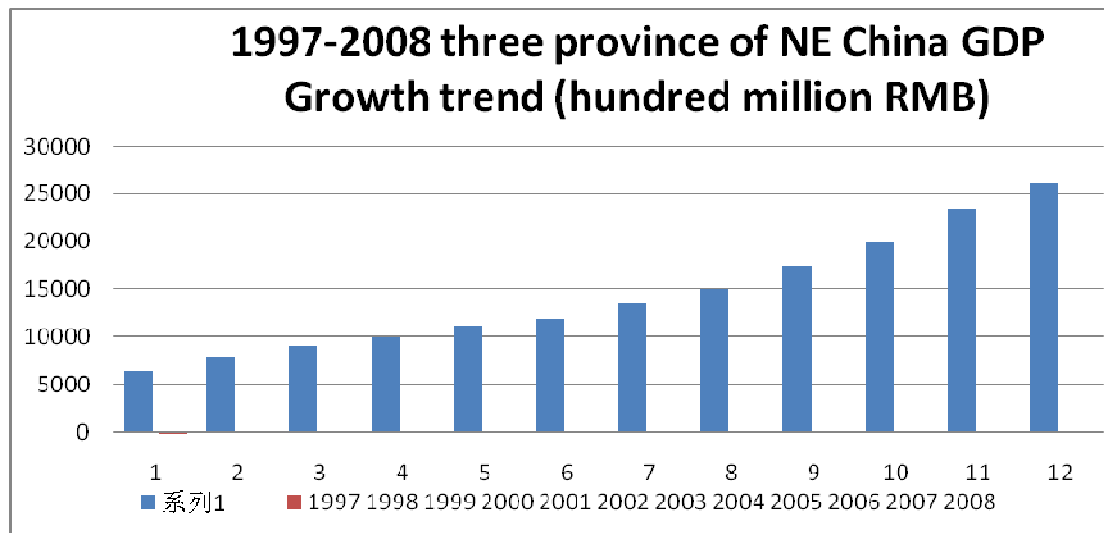
Fig 4.7 SWOT matrix

## **Chapter 1 Introduction**

### **1.1 Research purpose**

North-east China gradually evolves into next economic hotspot as central government, from the viewpoint of national strategy, launched the blueprint of “The Revitalization of North-east China and Other Old Industry Bases” and “The Outline of Plan on Speed up Establishing International Shipping Centre in Dalian” to encourage industrial restructuring, technology transformation and upgrading of modern shipping / logistic service in such area. More preferable policies such as income tax refund, upholding of high technology industry, were introduced ,and as a result the three provinces: Liaoning, Jilin and Heilongjiang, reported an average GDP growth rate of 13.1%,12.7%,14.4% respectively in the past five years ,which is 20% higher than that of the other regions within China mainland (see figure1.1). Under such uncommon macro environment, shipping and logistics industry participants are facing tremendous opportunities and challenges. Meanwhile the micro surrounding gets more complexity and uncertainty since the great influence of financial crisis has filtered into each corner of economy. So the questions arise for each manager in shipping and logistic community: how to efficiently integrate his resources and capability and how to more accurately position him in the dynamic market in order to sustain organic development in the next decade. What sounds interesting, the case company(C shipping group company Dalian branch), his business domain and network location in North-east region well coincides with the development perspective of Dalian international shipping center. Thus with the help of forefront strategic management tools, such PEST, SWOT, to make a scrutiny on development strategy of C company (Dalian) seems meaningful and timely. Known as a large scale state-owned company, he holds the responsibility not only to solidify his

leading position in shipping market, but also to facilitate economic restructuring and stimulate foreign trade development. To my best knowledge, the research related to a branch company of giant shipping organization is scarce, and the author hopes that such attempt can present managerial applications for decision-maker and small- or medium-size local shipping company as well.



**Fig1.1: three province in North-east China GDP growth trend**  
**source:processing statistic data**

## 1.2 The profile of C Shipping company (Dalian)

Headquartered in Beijing, C shipping group company is a fastest growing container transportation service provider in China. He is currently among top ten container shipping company worldwide in term of operating TEU capacity. C company (Dalian) is an affiliated branch to parent company that offers comprehensive service portfolio to local customers that include: international/domestic coastal liner shipping, shipping agency, forwarding, in-land truck, customs declare, quarantine, logistic management, storage, and transshipment. C company (Dalian) extended his service to eighteen commercial cities in the three provinces of Northeast China, as well as east part of Inner Mongolia. Acting as an asset based service provider, C company (Dalian) possesses his own terminal and container yard in Dalian seaport. Through cooperation with railway,

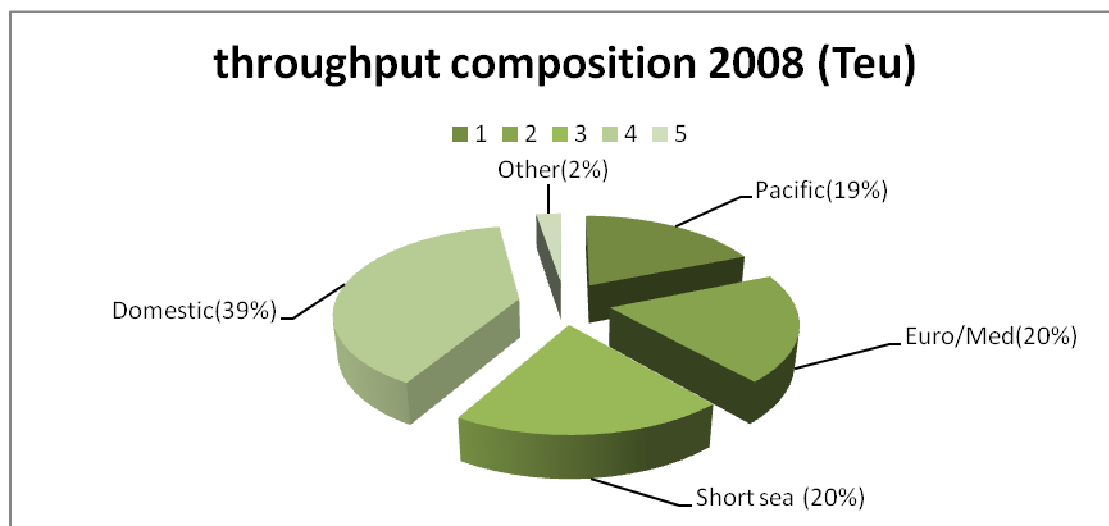
container train connecting hinterland depots is under operation. All these factors combined to consolidate the role of C company (Dalian) as a leading major player in shipping and logistics market in North-east China.

See table 1.1, figure 1.2

**Table 1.1 Throughput compositions in 2008**

<b>C Group Company throughput</b>	
<b>Lane</b>	<b>TEU</b>
<b>Pacific</b>	<b>1303937</b>
<b>Europe/med</b>	<b>1376178</b>
<b>Short sea/trans Asia</b>	<b>1370933</b>
<b>Domestic</b>	<b>2709947</b>
<b>Other</b>	<b>181128</b>
<b>total</b>	<b>6942123</b>

Source: company annual financial report



**Figure 1.2 Throughput compositions in 2008**

Source: company annual financial report

### 1.3 The definition and function of Dalian International Shipping Center (DISC)

Located on the east coast of Eurasian continent, and in the junction of Yellow sea and

BoHai rim, Dalian stands out for his geographic advantage, natural deep sea water, convenient communications system, and open-oriented economy. The ambitious plan is to construct Dalian as combination of hinterland- and transshipment-oriented important hub port that radiates his service to North-east Asia. The feature of Dalian International Shipping Center can be perceived as: full-range, multi-function, and high degree of efficiency. Furthermore, by driving the capital flow, information flow, intellectual flow, the ultimate goal of DISC is to be a manufacture center, financial center, logistics center, information center, and business center. The annual throughput is estimated to 80 million tons of petroleum, 90 million tons of ore, and 10 million TEU by 2010 (processing data collected from Dalian municipal government).

#### **1.4 Organization & Structure of the Dissertation**

Chapter 1 is the introduction of the profile of the C Shipping Company (Dalian) and the research purpose. This Chapter also shows the definition and function of Dalian International Shipping Center (DISC).

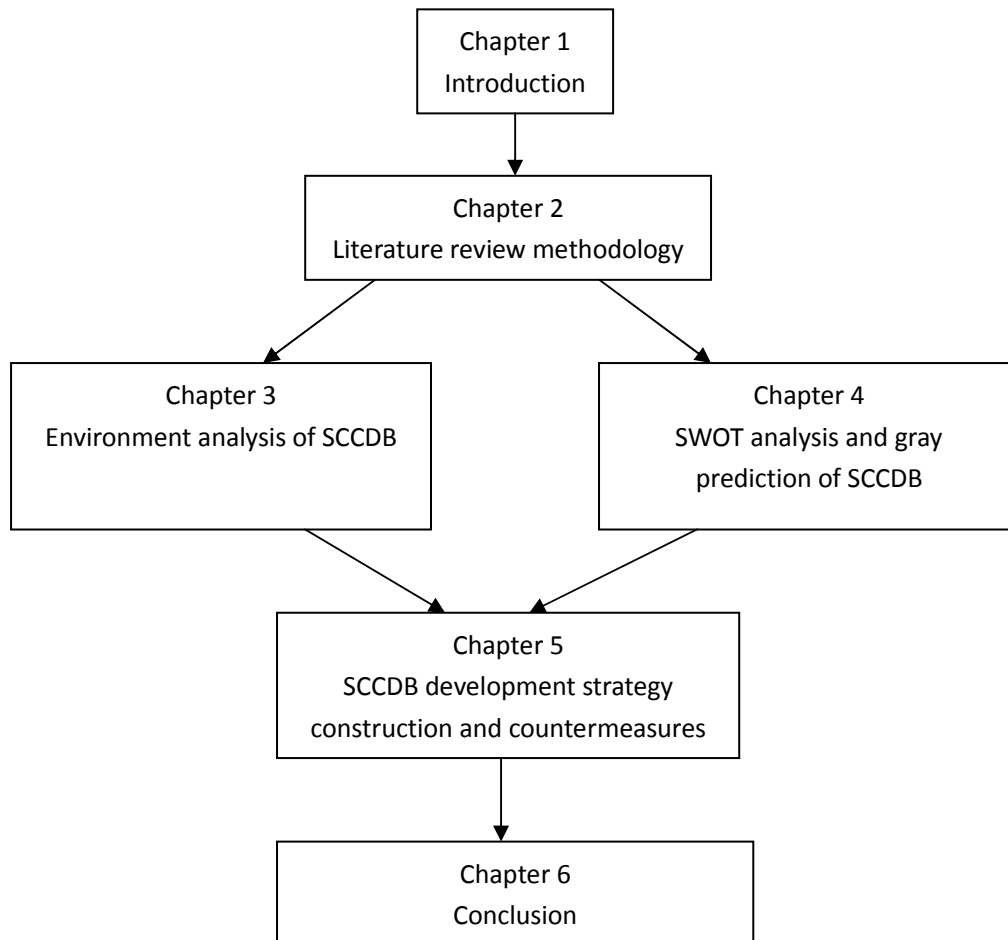
Chapter 2 sums up strategic management theories and the methods applied on the case company.

Chapter 3 & Chapter 4 make some deeply research in the SCCDB respectively based on the PEST and SWOT analysis. Especially in Chapter 4, some valuable points will be got with Grey model. In view of the economic crisis, the forecast results have been regulated.

Chapter 5 highlights SCCDB development strategy construction and countermeasures. It contains account customer marketing strategy, resources integration strategy and so on. Based on the organization aspect, financial aspect, and culture aspect analysis, it will give proper measure that ensures implementation of development strategy.

Finally, chapter 6 gives the conclusions that have been derived from the research. Also, recommendations which the author want to advise to the SCCDB will be

presented. At the same time, he suggests the further research can focus on other branch of C Group Company.



**Figure 1.3 Structure of the Research Paper**

Source: Drawn by author



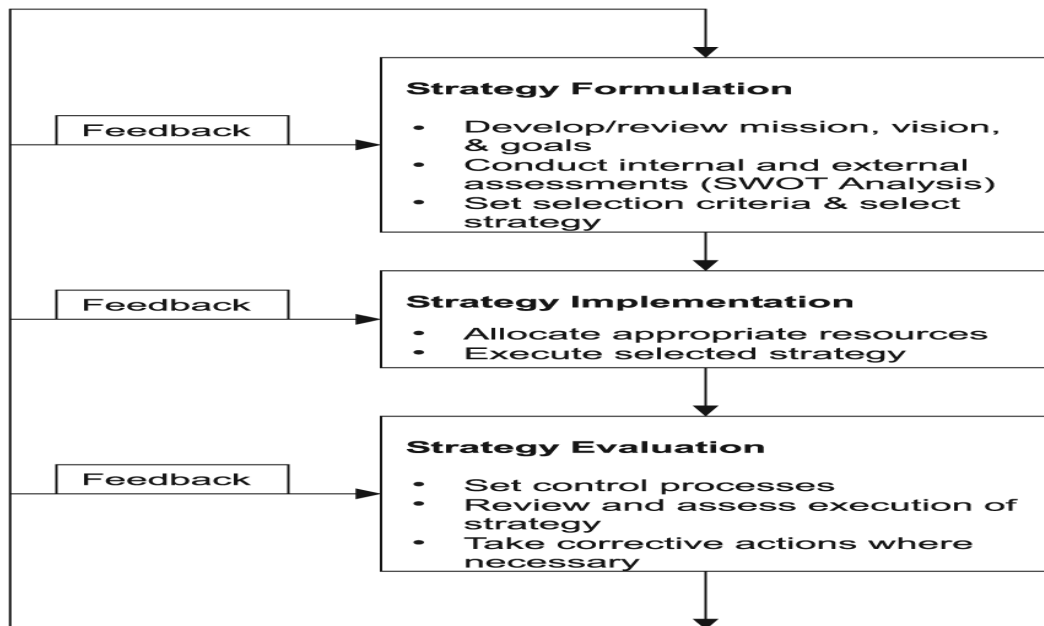
## **Chapter 2 Literature Review and Methodology**

### **2.1 Strategic management theory**

Strategic management draws ample attention in the past decades. David (1989) depicted it as “conduct of drafting, implementing, and evaluating cross-functional decision that enables an organization to achieve its long-term objectives.” From the industry perspective, Lamb(1994) enriches the content of the definition that “Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment.”

The strategic management process is made up by three key stages (see figure2.1):

- Strategic formulation
- Strategic implement
- Strategic evaluation



**Fig.2.1 strategic management process**

Source: Harvard Business review

The target of implement such process is to achieve the competitive advantage and earn above-average return (Rumelt, 1994).

From the organizational behavior's view, the strategic management can be categorized into sub-strategies, namely: corporate strategy, business strategy, and functional strategy. In the business strategy level, Porter highlighted that there are four possible alternatives: cost leadership, differentiation, focus, and integration of cost leadership and differentiation. What is more, Porter(1979)conducts an useful tool: five force competition model that is applied in industry environment analysis, as industry environment has more direct influence on strategic competitiveness of the company(Hitt,2005) . Druker also contributes a lot in this area, on the one hand he insisted that operational level strategy should be added into the strategic hierarchy, and on the other hand, he emphasized the intellectual capital will act as a decisive factor in each organization for a sustainable development.

## **2.2 Shipping/logistic research review**

Liner shipping services play a crucial part in the global trading network, carrying over 60 percent of the value of goods shipping by sea (Drewry shipping consultant, 2006). The merit of liner container shipping service is well recognized and can be summarized as:

- Simplify package—cost saving
- Reduce cargo damage
- Reliable frequency
- Fast/timely
- Easy to connect to other transport mode/convenience to intermodal transportation
- Improve the load and unload productivity

For the sake of liner shipping become more important for country and world economy, related research is booming in the near recent years, of which illustrates the development trends in each segment sector:

Heaver (2001), examined the roles of liner shipping industry and suggested three strategic direction for them to adapt to the challenges of changing market environment:

- 1) Increase geographical service coverage to meet the global outsources requirements while using reduced carrier.
- 2) Expand the range of services offered to meet shipper's logistics need and help them to improve the supply chain performance.
- 3) Operate at a cost advantage by obtaining the economies of scale and scope.

Stoford (1997), depict the economic principle of liner shipping. Further, he listed three means in liner service pricing: marginal cost price, fixed cost price and discrimination price.

Facanha (2003), uses a case study of APL to explain empty container repositioning solution in transpacific market. As empty container is important assets to liner shipping company and a cost-absorbing factor in whole transportation system, properly handle

and arrangement can certainly reduce the burden of cost in some extent.

Notteboom (2005), pointed out that liner shipping companies and ports, of whom facing a turbulent and ever-changing market situation, are supposed to re-shape their mindset and organizational structure to create more customer value in terms of maintaining a sustainable development. In addition, he recommended that landside logistics can act as new revenue resource and service differentiation for liner shipping company in case that other cost saving potential is getting limited.

Cullinane (1999), tested the economic benefits of utilization of large-ship in a quantity manner. Above that he believed that such leadership derives from that can only sustained for a litter period of time as the competitor will immediately imitate that strategy.

Other than above research, from corporate strategy aspect, two kinds of horizontal integration source step into the center stage: Alliance; Merge and Acquisition(Cullinane,2004). Such alternative is a proactive adaptation that conforming to the new global customer requirements that could be as following: (Sato, MOL ,2002):

- More frequent service
- Direct port call coverage by mother vessel
- Smooth and seamless door to door service
- Accurate container tracking
- Competitive freight rate

Successful stories can be found in Maersk Vs Sealand, as well as NOL vs APL. The incentive of such strategic integration is growth to obtain economic of scale and scope, gain instant access to market/new technology (Notteboom, 2006).

Wang (2007) discussed the new trend in China that traditional carrier gathers way to transform from pure transportation domain to the intermodal service/comprehensive logistics solution provider. Intensified competition squeezes the profit margin of those company(eg: During off-season, the freight rate of one twenty foot container from Dalian to Osaka can even sustain zero for two months).Through offering value-added services, the liner carrier improves significantly toward more customer-focus, betters the financial performance and reduces the business risk to some extent. Such transformation also reflects the change from demand side of customer, owing to increasing number manufacturer realized that outsourcing third-party logistics is an effective way to capture competitive advantage. From this perception, the liner shipping is more likely a component of supply chain, rather than an isolated function.

### **2.3 Methodology**

As mentioned above, the three strategic management tools: PEST, FIVE FORCE OF COMPETITION MODEL, AND SWOT ANALYSIS will be applied on the target case company. Resorting to qualitative analysis, valuable finding is expected. Also, time series and some quantitative forecast method will be used when needed.

The following conceptual tool is the fundamental of subsequent discussion:

**PEST analysis** stands for “political, economic, social, and technological analysis” and describes a framework of macro-environmental factors used in environmental scanning component of strategic management. Pest is a part of environment analysis when conducting a strategic analysis or doing market research and gives a certain overview of the different macro environment that ought to be considered. As known, PEST is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operation.

**SWOT analysis** is a strategy planning method used to evaluate the strength, weakness,

opportunity and threaten involved in a project or business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective.

**Five force of competition model** (see figure 2.2) is a framework for industry analysis and business strategy development. Five forces include three forces from 'horizontal' competition: threat of substitute products, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the bargaining power of suppliers, bargaining power of customers. The function of five force analysis is to identify the intensity of industry competition and profit potential.

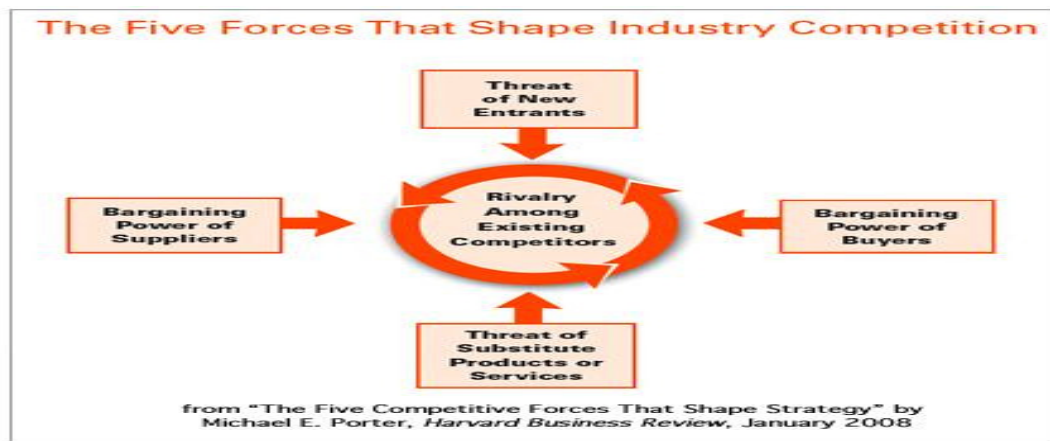


Fig2.2 The Five Forces that Shape industry Competition

Source: Harvard Business Review

## **Chapter 3 Environment Analysis of SCCDB**

### **3.1 PEST analysis**

Social-, political-, economic-, technical-, ecological-factor interacts and constitutes the external macro-environment that will be combined to affect the participants in the industry. Any company will eventually be washed out the market in case they disregard potential opportunities. The path of shipping industry evolution has been depicted its close relationship with international trade, business trend/pattern and political circumstance.

#### **3.1.1 Political**

The so-called political and legal surrounding refers to all kinds of regulation and provision issued by government agency.

- As China steps into WTO family, China holds the commitment to open the shipping and logistics industry within 2 years. In the meantime, the central government cuts off the entrant barrier to international shipping and logistic company(registration system takes place of approval system)
- A serious backup policies to promote shipping industry development: Number of views on accelerating the development of modern shipping and logistics industry in China (jointly issued by 9 departments of the State Council in 2001)
- Shipping and logistic industry technology standardization (State Standardization Commission)
- International maritime regulation and maritime law of PRC

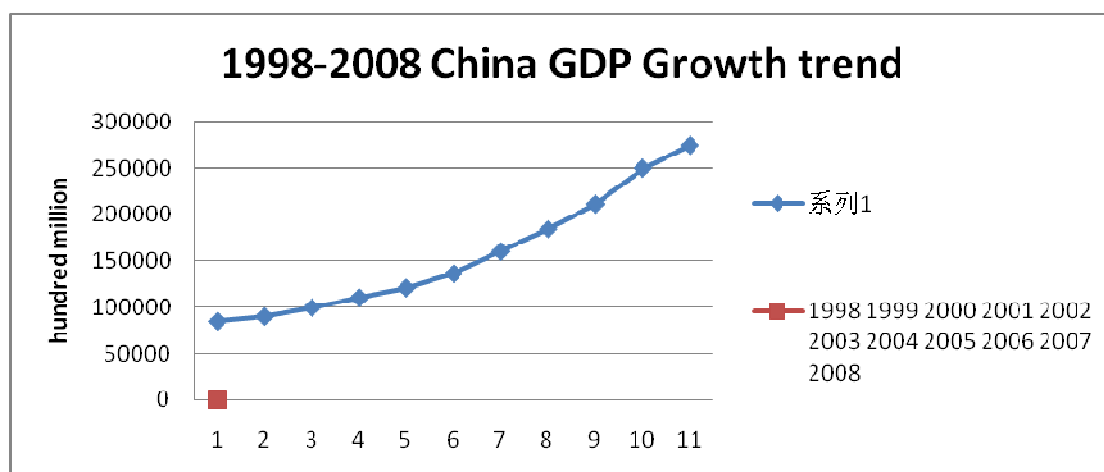
In short, all the policies and regulations aim to enhance transparency and conform to international practice.

### 3.1.2 Economy

Firstly, China's national economy has developed at high speed, with its overall national strength increased notably and people's living standards greatly improved (see figure3.1). Back to North-east China, with the Revitalization strategy and outline of DISC was put into force, vigorous demand for shipping and logistics will be released. Industrial restructure will pull the focus to so-called high-end manufacture field (eg: petro and its product, heavy industry equipment, automobile, shipbuilding, telecommunications, etc), by which it will generate ample trade volume both domestically and internationally.

Second, North-east region, in itself, is rich in raw material and serves for whole nation and neighbor country. Such hinterland economic character can support container shipping with constant cargo flow for a long period. Actually, North-east region is deemed as next economic zone that foreign direct investment will focus.

Third, with the attempt to cope with the great recession, central government selected shipping industry, among other nine industries, as the national level development priority. So far, the role of shipping and logistic in national economy is lifted to a new height.





### **Figure 3.1 China GDP growth trend source: processing statistic data**

#### **3.1.3 Society**

Thirty years regime and economic reform and open to outside, enable consumption transformation in the whole society. Globalization, as a concept, was accepted by increasingly wider scope. Outsourcing across border was a well recognized method for many companies to achieve world-wide advantage in competition. North-east region, encompass one eighth of national land area, and count one hundred and ten million populations, so inherent consumption flow can be perceived as huge. Take the dragon city, Dalian as an example, on the one side, he has completed the construction of full-range industry (eg.: semi-conductor, consumer electronic, textile, foodstuff, ship building, petro-chemical etc), on the other side, he has and will utilize manufacture-swing from Japan and Korea which can greatly expand import and export trade volume.

#### **3.1.4 Technology**

- From the sea side, the application of mega-ship and efficient loading/unloading equipment make it possible to obtain economic scale and improve productivity. As a result, it lowers the unit cost and improves the industrial attractiveness.
- From the land side, advanced technology, for instance, the EDI custom clearance system, RFID, Track & Trace, helps to facilitate cargo flow and nurtures a seamless supply chain.

### **3.2 Industry competitive environment analysis**

In this section, we will, utilize Porter five force technique to examine the industry competitive environment, especially from a North-east china perspective.

### 3.2.1 The threatening of entry

In spite of economic slowdown affecting China negatively, it still keep the dominant position of manufacture center(Mult,2009).Optimistic prediction from World Bank indicate that China's economy will first step out recession by the end of 2009. North-east China, driven by favorable-policy, ought to generate extra trade volume in the course of industry upgrading and export-oriented economic forming process. All these elements can act as catalyst to attract newcomer to rush into local liner shipping market. A case in point is in the segment market, for instance, Dalian to Korea/Japan basic port service, the actors altered repeatedly in the past ten years.

Meanwhile, we should not ignore the capital-consuming nature of liner shipping industry. Regular weekly arrangement and related landside assets need numerous initial input and make it difficult to reach the break-even point. Consequently, the high threshold deterred the entry of newcomers.

### 3.2.2 The threat of established rivalry

For the sake of distinct business character, international and domestic liner market will be talked separately.

#### 3.2.2.1 International market

All the players (eg.: Maersk, Msc, CMA, OOCL, EVERGREEN, NYK, MOL, K-LINE, COSCO) strive to share a slice of the cake of the North-east shipping market. Among them, Maersk, CMA and Cosco all provide direct call in Dalian, while the rest utilize SOC (shipper's own container) under capacity-share agreement to the former carrier. Feeder service is used by two Korean counterparties, Hanjin and Hyundai, by means of which to connect mother vessel in Pusan for east and west lane.

All the carriers' pricing policy targets at key clients by long-term stable freight rate

agreement. What sounds different is the foreign carrier put more efforts on FOB cargo. Together with oversea network, they achieved the role of nominated carrier. On the contrary, Cosco and C company (Dalian) focus more on CIF cargo that the shipper holds the decisive right. Under such condition, continuous improvement of service quality (eg: on-time schedule) and act more adaptively to the feature of supply chain of clients will become the critical factors in competition.

#### 3.2.2.2 short-sea market

The competitors are those who called themselves pure niche players, such as Da-in, Lufeng, Zhongtong. Overlapped route push the supply capacity overwhelmingly surplus the demand in short-term, and as a result, the rate fluctuates severely at one year interval. Even though rate conference like organization was put forward by SCCDB, all the terms only stay on the paper level.

#### 3.2.2.3 Domestic market (coastal shipping)

C shipping company is the earliest explorer in domestic shipping market. Eight years massive capacity input and cultivation help him establish the leading edge even monopoly. The main followers are Cosco and other native medium-size company: Nanqing liner. By now, both SCCDB and Cosco intend updating of the service level by mega vessels (3000teu or above), while Nanqing has no such expand plan due to capital limitation. As the most cargo is of no time-sensitive, competition focus is laid on rate and service interval.

#### 3.2.3 The threat of substitute

The close substitute of container transportation is railway, and bulk carrier according to local economic and geographical characters. Indeed, container transportation is the most cost-efficient pattern compared with other alternatives. China railway system is undergoing the way to be market-oriented, and treat passenger flow as the priority. Low efficient and uncertain service quality pushes the clients towards rival's side. Furthermore, with lean manufacture concept prevailing and the requirement of

reducing inventory, the business sphere of bulk carrier is limited to a few types of cargoes (e.g.: coal, ore, etc).

#### 3.2.4 The buyer power

As we know, processing with imported material or given material compose 55% of foreign trade volume in China. Such conditions determine that profit margin of those shipper (exporter) is rather low. Moreover, overlapped routine, ceaseless capacity release, and no clear-cut distinction in service provision, all contribute to form buyer's market and enhance bargain power of customer.

#### 3.2.5 The supplier power

Possessing fixed assets: dedicated terminal, transit warehouse, and hauler fleet, leverage great power to SCCDB. In addition to that, considerable annual throughput and over plus of port capacity in economic downturn, are all of favorable elements in negotiation with supplier.

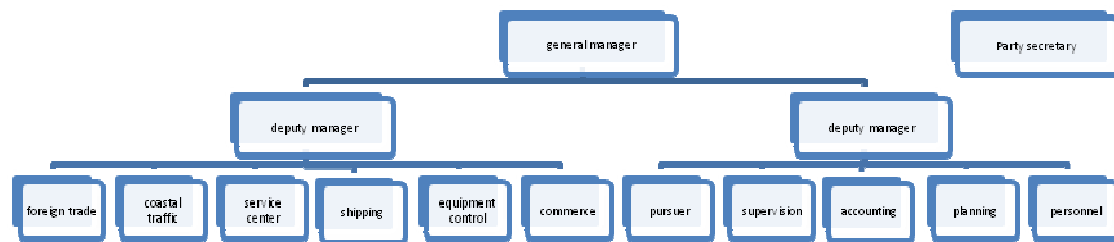
## **Chapter4 SWOT Analysis of SCCDB**

### **4.1 Business status of SCCDB**

#### **4.1.1 Organizational Structure**

Since the establishment, with the business development, SCCDB has undertaken reform and optimization of its organizational structure for a couple of times in order to gain gradual consummation and perfection of his departments and offices. For the time being, the company has a total of 259 employees, and there are 174 male employees and 85 female employees. Among them the proportion of the employees with college diploma or above is 96% and the employees whose age is under 30 accounts for 75% of the total. The setup of the institutional framework is divided into twelve departments, respectively is: department of foreign trade, coastal traffic department, trade service center, shipping department, equipment control division, department of commerce, general accounting department, planning department, personnel department, purser department, Party affair department, supervision department. Meanwhile there are three coastal subsidiary companies: Jinzhou, Yingkou and Dandong; three inland companies at Shenyang, Changchun and Harbin.

The organizational structure is just as followed:



**Fig4.1 company structure of SCCDB**

Among them the functions of various departments are:

- (1) Department of foreign trade is mainly responsible for sales and marketing of international liner service, and customer service in the foreign trade related business.
- (2) Trade service center takes charge of the documents management in import and export operation.
- (3) Coastal traffic department is mainly in charge of sales and marketing of domestic liner service, project management, customer service.
- (4) Equipment control division is responsible for dynamic tracking of containers, and administration of on-hire, off-hire containers.
- (5) Shipping department is mainly responsible for dynamic management of ships, realization of dock plan, handling of frontier control procedures, and communication and co-ordination with ports, docks and customs.
- (6) Department of commerce plays a main role in connection between business operations and financial affairs, and is responsible for budget, auditing, collection of overdue receivables, management of contract, protection and indemnity and the like.
- (7) General accounting department is in charge of financial accounting, financial planning, financial management, capital management and so on.
- (8) Personnel department is mainly responsible for personnel administration and management.

(9)Purser department is mainly responsible for file management, management of office stationary and office cars dispatching and other administrative affairs.

(10)Party affair department is the undertaking of Party-mass relationship under the leadership of Party committee.

(11)Planning department is mainly responsible for fixed assets management, capability management, achievement checking, network management, preservation and management of company information system and so on.

(12)Supervision department is responsible for monitoring of economic activities conducted by the subsidiaries, representative offices and audit of managers before leave the post.

#### 4.1.2 Network and resources

SCCDB has four port companies in northeast of China, namely, Dalian, Jinzhou, Yinkou and Dandong, which can cater to diversified shipping needs in various area of northeast China with lowest cost. While the major inland branch companies are located in Shenyang, Changchun, Harbin. By covering scores of representative offices locally, and penetrating into the hinterland markets effectively, such network resource makes it possible for SCCDB to grasp the local economic trends with deep insight, master the mainstream of logistics industry and market demands with pertinence and guidance scientifically and pertinently.

In the development process of the past decade, scientific layout of business operation networking is not only the powerful guarantee of rapid development of the company but also the solid foundations for its future expand.

With the buildup of business operation networking, mountains of work in the construction of software and hardware resources have been done by SCCDB for these years. The focuses laid mainly on the construction and investment in terminal, C/Y, in-land depot, and sea-rail intermodal transport resources. Most of the customer can

share the benefit of such massive investment now. By dedicated shipping related asset, SCCDB can serve them in a cost efficient way.

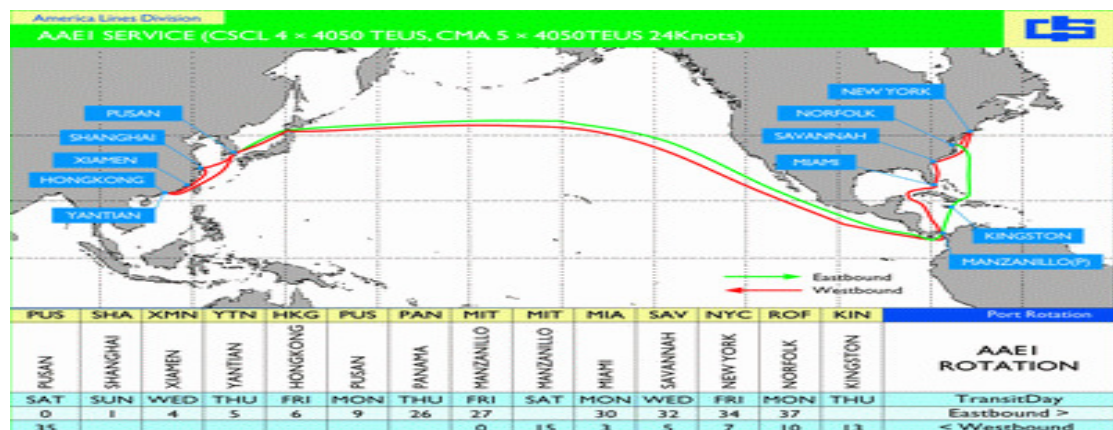
#### 4.1.3 Status quo of shipping business

##### (1) International container liner services

SCCDB now is capable to provide service in most trade lanes at a weekly interval.

##### 4.1.3.1 North America Line

- Visible advantages derive from shortest lead time comparing with competitors.
- 13 days to west coast and 34 days to east coast
- the occupancy rate ranks top in Dalian port
- input over-8500 TEU vessel dispel the worriers of space, especially in peak season
- customer clusters from furniture, metal, mineral, auto, tyres , grain and frozen food industry with constant demand.



**Fig4.2 North America Line**

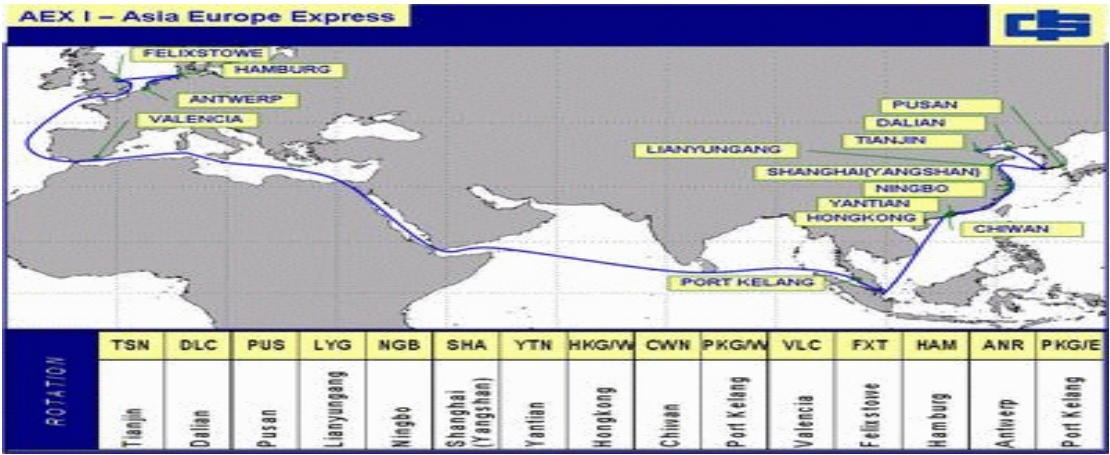
Source: SCCDB's web site

##### 4.1.3.2 Europe line

Europe line was initiated in April, 1998, which is with direct calls and the largest devotion of capacity among all service portfolios. It provides the weekly direct call



service that can reach large portion of ports and hinterlands of Europe. At present five ships of 8000TEU as well as four ships of 5500 TEU were put into Europe line.



**Fig4.3 Europe line**

Source: web site

#### 4.1.3.3 short-sea line

Short-sea line from China to Japan, South Korea, Southeast Asia, Middle East, and Australia is opened up with bigger density of coverage and the service network is relatively mature. Differentiation is the highlight of this segment market, for example, Dalian to Inchon express only consumes 20 hours at sea, and the frequency is thrice a week. At the same time, a variety type of container is available (eg: reefer, garment special, open top and so on). Such positioning caters to the multi requirement of customer utmost and naturally become their prior choice in those trade lanes.

### 3 Coastal line

#### 1).South China lane

Based on the multiple advantages of vessel capacity, corporation with dock, warehouse by SCCDB, the original shipping lines will be upgraded to top quality ones with schedule change from a shift per week to a shift per 4 days and the sailing time is shortened to 72 hours. By far it covers the major ports like Huangpu, Nansha, Haikou, Fangcheng, Zhanjiang, Shekou in South China, and through radiating to the whole

water system of Pearl River ,connected North China with South China by most efficient way.

## 2).Shanghai lane

With call at major ports like Shanghai, Ningbo and corporation with Wuhan shipping line and Jiangsu shipping line, SCCDB extend the service to whole water system of Yangtze River which is the most active economic factor by now in China.

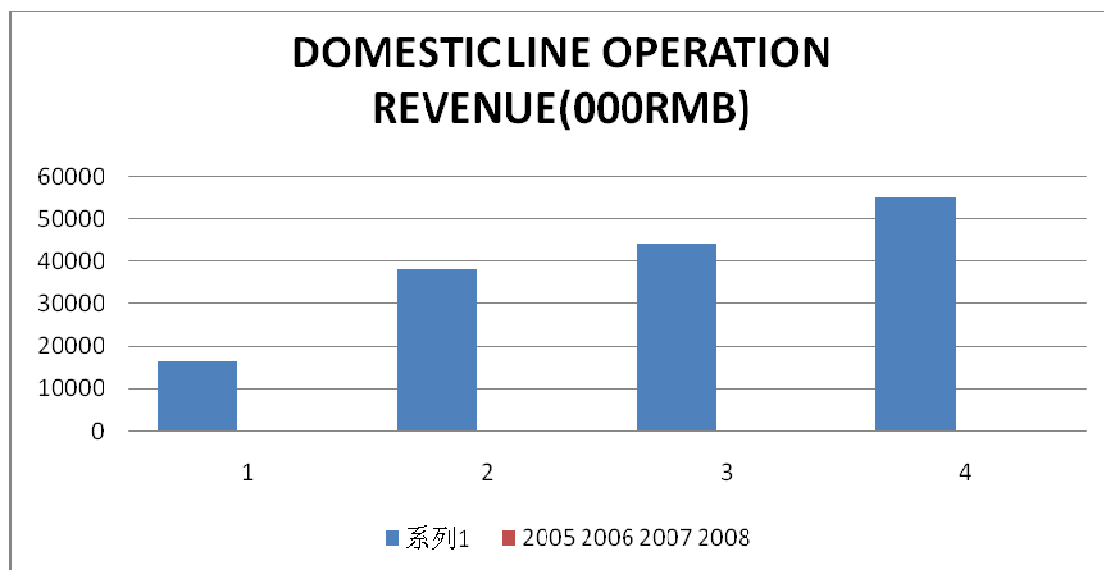
## 3).Bohai rim feeder-line

Through loop arrangement, such feeder-line connects most ports located in Bohai rim. This structure enables all other ports to choose Dalian as their prior transshipment hub for international and domestic cargo.



**Figure 4.4     Bohai rim service net work**

Source: web site



**Figure 4.5 SCCDB's Domestic line revenue from 2005 to 2008**

Source: processing company annual financial report

#### 4) sea-rail intermodal transportation

Featuring in the characteristics of fixed place, fixed time, fixed line, fixed price, fixed arrival and departure time and competitive prices, sea-rail intermodal transportation can cover most commercial city within Northeast region. Sea-rail intermodal transport eliminates the shipper's vast cost which was spent on in-land truck, therefore becomes most active element in service portfolio in the past four years.



**Figure 4.6 sea-rail service networks**

Source: web site

## 4.2 Business volume forecast

The business volume is essentially a gray system, not only includes many identified factors, but also involves many unknown factors. Many scholars apply the grey model method to forecast business volume and achieved good results. There are many advantages in the grey model, such as do not require many samples, high forecasting accuracy etc.

Forecast steps of GM (1, 1) forecasting model:

Assume that time sequence data is  $X^{(0)} = \{X^{(0)}(t) | t = 1, 2, 3 \dots n\}$

Make  $X^{(0)}$  accumulate once and then get (1-AGO), that is  $X^{(1)}(k) = \sum_{t=1}^k X^{(0)}(t)$

That is  $X^{(1)} = \left\{ X^{(0)}(1), \sum_{k=1}^2 X^{(0)}(k), \dots, \sum_{k=1}^n X^{(0)}(k) \right\}$

Assume that differential equation is

$$\frac{dx^{(1)}}{dt} + ax^{(1)} = u$$

In this equation

$$\begin{aligned} \hat{a} &= (a, u)^T = (B^T B)^{-1} B^T Y_N \\ Y_N &= \{X^{(0)}(2), X^{(0)}(3) \dots X^{(0)}(n)\}^T \\ B &= \begin{bmatrix} Z(2) & 1 \\ Z(3) & 1 \\ \vdots & \vdots \\ Z(n) & 1 \end{bmatrix}, Z(k) = \frac{1}{2} \{X^{(1)}(k) + X^{(1)}(k-1)\} \end{aligned}$$

Get the result of  $\hat{a}$  then get

$$\hat{X}^{(1)}(t) = \left\{ X^{(0)}(1) \cdot \frac{u}{a} \right\} \cdot e^{-a(t-1)} + \frac{u}{a}$$

$$\hat{X}^{(0)}(t) = \hat{X}^{(1)}(t) - \hat{X}^{(1)}(t-1)$$

$$e(t) = \frac{X^{(0)}(t) - \hat{X}^{(0)}(t)}{X^{(0)}(t)} \cdot 100\%$$

In which,  $t=1, 2, \dots, n$

Assume that residual error is  $e(t) = X^{(0)}(t) - \hat{X}^{(0)}(t)$ , number sequence of residual error

is  $\{e\} = \{e(1), e(2), \dots, e(n)\}$ . Original number sequence  $X^{(0)}$  and number sequence of residual error  $e$ 's variance are  $S_1^2$  and  $S_2^2$  respectively, among which

$$S_1^2 = \frac{1}{n} \left\{ X^{(0)}(t) \cdot \bar{X}^{(0)} \right\}^2, \quad S_2^2 = \frac{1}{n} \sum_{t=1}^n \left\{ e(t) \cdot \bar{e} \right\}^2,$$

in which  $\bar{X}^{(0)}$  and  $\bar{e}$  are the typical value of original number sequence of  $X^{(0)}$  and residual error number sequence of  $e$  respectively.

Calculate the posterior error ratio  $C$  and tiny error probability, the latter is a proportion, which is to satisfy the  $|e(t) - \bar{e}| < 0.6745 S_1$ 's number occupy total number's proportion,

that is  $C = \frac{S_2}{S_1}$ ,  $P = P\{|e(t) - \bar{e}| < 0.6745 S_1\}$

To carry out forecast, get the result of forecast year  $t$  is  $\hat{X}^{(0)}(t)$

$$\hat{X}^{(1)}(t) = \left\{ X^{(0)}(1) \cdot \frac{u}{a} \right\} \cdot e^{-a(t-1)} + \frac{u}{a}$$

$$\hat{X}^{(0)}(t) = \hat{X}^{(1)}(t) \cdot \hat{X}^{(1)}(t-1)$$

The business volume from 2003 to 2008 is as following,

Tab 4.1 business volume from 2003 to 2008

Year	2003	2004	2005	2005	2007	2008
Volume(TEU)	132570	165384	205944	293053	370088	382100

Source: financial report

Make use of software Matlab 7.0 to calculate and get the residual error test  $e(t)$  and  $e$  are very low, and  $C \leq 0.35$ ,  $p \geq 0.95$ , so this model is good to use, we can carry out the forecast.

According to table 4.1, get the forecast result from 2009 to 2015 is as following,

Table 4.2 business volume forecast

Year	2009	2010	2011	2012	2013	2014	2015
Vol(TEU)	423076.9	500279.7	568502.2	615795.4	656963.1	698980.5	734238.7

### 4.3 SWOT analysis

In previous chapters we have already analyzed the environments of SCCDB and their impact on the development, and next we will further probe into their surrounding by means of SWOT analysis and figure out the orientation for future from the perspective of its strength, weakness, opportunities and threatens.

#### 4.3.1 Strength

S1 reliable service and frequency density evolve into core competence in liner shipping for SCCDB. Through the world-wide coverage network, customer can enjoy “one-stop shopping” and the most convenient operation.

#### S2 Massive release mega-vessel to achieve economies of scale

At present, more than 50% vessel of the fleet is 4000TEU or above, which easily leads to achieve greater economies of scale, lower unit transportation costs, and better profit space.

#### S3 Stable and smooth channel for cargoes collection

At present, SCCDB has already established a relatively stable sales and market channel. Holding the good relationship with partner, such as forwarding company, secure an above-average fill rate of each voyage. The in-house marketing function is underlined as the vital role than other function, and the corresponding sales staff in the whole system is directly in charge of SCCDB.

#### S4 comprehensive logistics system has been forging

In recent years, SCCDB, in the development of liner shipping as the core business, has

begun to realize the importance of landside value added service. Fully integrating his existing assets, and incorporating into customer's value chain can both increase business turnover and add the shift cost of customer.

#### S5 Conspicuous brand advantage

C group company is one of the state-owned backbone enterprises under the direct leadership and management of the central government, and the exceptionally large comprehensive enterprise group with cross-section, cross-region, cross-ownership characters. Reputation of its brand is well-known both inside and outside the industry. Depending on the overall strength of the Group, SCCDB has a considerable influence in the North-east region and the nationwide as well. Some of the leading manufacturing enterprises, with its brand equivalent tend to choose him as first consideration when outsourcing transportation function or supply chain management business.

#### S6: comparatively higher overall quality of the management and operation team

Years of cross-border operation and competition in the market enabled SCCDB to accumulate a lot of experience in its operation, and also produce a group of employees with higher qualities that can meet the requirements of international standards at home and abroad, which lay a solid foundation and potential for the further development. In such process, a team with strong effectiveness has been cultivated in terms of management, marketing, customer services or the basic operation of container transportation.

#### 4.3.2 Weakness analysis

W1: The ability to offer comprehensive logistics solution still needs to be improved  
Comparing with foreign shipping industry, there is still a certain gap in the integrated logistics services for SCCDB to fill. Although C company established a number of integrated logistics services with supporting functions and the relatively sound service network in the North-east region, the solution design and operational capacity of the logistics service still need to be improved. Moreover comprehensive logistics customers are not taken as key development targets, and in the cooperation with large

customers, the links between all aspects of the logistics as well as communication and coordination have to be perfected in its mechanism. The straighten-out of the processes and service ability needed to be further increased in order to achieve the real core competitiveness.

W2 Service quality supervision system needs to be consummated.

The situation like unsound system and not enough qualitative assessment in the daily management process of service quality still exist. There is the lack of a more scientific approach to performance appraisal for monitoring overall operation of the business as well as the work quality of the personnel at posts, which cannot raise the level of internal management and external service image.

W3 Information management level still in a poor stage

In the past few years, the gradual application of the world's relatively advanced technology in the communications, navigation, information management by SCCDB is initially forming a global information network and land-based service system, but comparing with world-class international liner companies, there is still a lag-behind in between, which inevitably puts a dent in the competitiveness. Based on different business need within the company, a number of independent management software are developed, and independent use of these software is totally contrary to management concept of information integration, and the corresponding cost of management will dramatically be increased. Under the premise of realization of such conditions, the technology integration planning should be considered to all of the existing information systems and software.

#### 4.3.3 Opportunity analysis

O1 favorable policy drive regional economy forward

New opportunities of the development were brought about by the Revitalization of old industrial bases in North-east, and the plan of building Dalian as an international shipping center. The economy in north-east China has entered a new historical stage of



development, and all sectors are in the rapid development under the background of such a good situation. The shipping and logistics are supposed to be the premise for Revitalization plan. Dalian's positioning as international shipping center of North-east Asia has brought new vitality to the shipping market competition. Liner shipping and related industries share the same view, and adjust development strategies with an aim to adapt to the new development environment. The operating areas and the functions layout at hinterland by SCCDB is in line with development and construction needs of Dalian international shipping center. How to develop the enterprise itself and enlarge market share is not only a corporate level strategy. As a large-scale state-owned integrated shipping and logistics enterprise, more responsibility and obligation is to develop the regional economy, stimulate the upgrade of related industries, and to speed up the internationalization process of the domestic shipping and logistics industry.

#### O2 Transport Demands will recover to a relatively high level

Chinese government has launched 4,000 billion investment plans to stimulate domestic demand, and without question, the foreign trade domain and liner shipping industry is of first beneficial section. Such huge incentive plan can help China crawl out of the recession sooner than other main economic body. Industry reshuffle is inevitable as some participants phase out the market, and the complete re-allocated market share will help SCCDB to enhance his leading edge.

#### O3 Bulk to container mode shift

SCCDB try a number of way to explore new box-fit cargo, and one of them is mode-shift from bulk cargo (eg: mineral, grain) to container-fit cargo. For that, special vanning flow was devised for those customer clusters. The virtues of container transport push those types of cargo toward containerization, hence bring the new chance to the market especially domestic North-to-South coastal lane.

### 4.3.4 Threat Analysis

#### T1 Intensified competition in the industry

Intense competition tends to be fiercer by far as the over-capacity is input in both international line and domestic line. Over-lapped route and no distinct differentiation of service make the price as prior tool to gain market share and retain them, and as such most carriers operate at a poor profit margin.

T2 Global economic slowdown, fluctuating oil prices poses a threat to the development prospects of the liner shipping industry.

The world economic slowdown, as well as rising global oil prices, is some uncertainties over the shipping market in 2009. IMF down rate global economic growth rate in 2009-2010, and CLARKSON reduced predicted growth rate of global demand for container transportation in 2009 and 2010. The new rate is of -1.1% and 1.3 %, a figure of significantly decline than former prediction. Under such condition, most liner company will have to face the question: how to still secure business development in a market with decreased demand.

#### 4.4 SWOT Matrix Analysis

It can be seen from above analysis, both opportunities and challenge coexists in the total market environment that SCCDB engaged in. SCCDB must stand on its feet, play up strengths and avoid weaknesses, grab the opportunities to enhance their competitiveness in the shipping market both at home and abroad .see figure 4.5

	<i>Internal Strengths</i>	<i>Internal Weaknesses</i>
<i>External Opportunities</i>	<b>S-O Strategies</b>	<b>W-O Strategies</b>
<i>External Threats</i>	<b>S-T Strategies</b>	<b>W-T Strategies</b>

**Fig 4.7 SWOT matrix**

Source: processing web site material

S0 strategy: to exert its strengths, seize the opportunity to integrate more aspects of the superior resources, rely on the brand strengths and rich liner shipping industry experience, endeavor to develop into an integrated logistics services provider, and provide customers with better quality service through the refinement of internal management.

ST strategy: To exert strengths to deal with outside threats to relying on the resources and provide more differentiated service, in another word is to steadily expand its operations to “Blue Ocean”. Meanwhile SCCDB should improve the business management to a hard-to-be-copied level. In international shipping liner market, co-share vessel slots should be encouraged, by which it can sustain service quality while reduce capacity input. Other than that, the author suggests the laid-up vessels could be added into domestic line to upgrade service frequency.

W0 strategy: To improve its deficiency listed above, utilize the opportunity to enhance the ability to consolidate resources advantage and boost the level of internal control. In the process of the revitalization of the Northeast China as well as the construction of Dalian international shipping center, W0 strategy aims to improve the quality of basic operation performance and achieve the better development in such precious chance.

WT strategies: To overcome its weaknesses from the aspect of internal management and avoid threats by continuing widen more value added service portfolio.

Strengthen its capability in dealing with external responses faster and precisely, and enhance marketing function and sales management.

## **Chapter 5 SCCDB Development Strategy construction and the Countermeasures**

### **5.1 Strategic selection and decision**

The previous two chapters conduct a detailed analysis into the company's internal and external environment and a scrutiny into his current strengths, weaknesses, opportunities and threats through SWOT. Finally, constitution the development strategies of SCCDB based on that conclusion is as follow:

#### **5.1.1 Strategic thinking on the development of the company**

Through analysis, the author believe, SCCDB should take the positive growth as a major strategic direction in a five years period, make full use of their own resources, network, brand, avail itself of the golden opportunity of the revitalization of the North-east as well as construction of Dalian as international shipping center, to be market-oriented and efficiency-centered, continue to exert the advantage of the container as core competence, develop into an comprehensive logistics service domain that can offer integrated door-to-door logistics services. But such growth strategy cannot be understood as blindly expanding capacity in "Red Ocean". On the contrary, optimizing the existing business route and timely expansion of corresponding capacity in some segment domain is appropriate.

Through the key customer marketing strategy, improvement of the quality of service system, refinement of management, enhancement of team building and tailor-made corporate culture, the ultimate goal of such strategy is to promote good and fast growth.

### 5.1.2 Development strategy targeting

In the next two years , SCCDB, relying on container transport as the key business and with the brand advantage, is expected to be more active in local shipping and industry market, and to expand its business to comprehensive logistics service that mainly offer door-to-door integrated logistics services. The annual throughput of container transport is anticipated to reach 734 thousand TEUs by 2015.

## 5.2 Implementation focus of the company development strategy

### 5.2.1 Account (key) customer marketing strategy

- Key clients marketing are of an important condition for achieving the company development strategies.

Be customer-centered, needs an effective use of company resources, and relying on the powerful advantages of existing main container route, good corporate image and brand to dig into the existing and potential market. To take industry customer and third-party logistics service as the priority, the company need to devise a suitable and practical service plan to obtain long-term contract with customer, and maintain high customer satisfaction.

In the process of acquiring new customers, SCCDB ought to depend on the target customer's service needs, study the distinctive character between upstream and downstream partners in supply chain, and finally improve service level by total logistic solution rather than simple transport function. To integrate material flow, capital flow, personnel flow, and to concentrate resource advantages on their core operational aspects is strongly recommended.

SCCDB should target firstly in the company's existing customer base, from which discover and excavate deep-level logistics demand of customer, and expand scope of cooperation to improve the single-box revenue through a full range integrated logistics services for such customers.

In addition, conducting comprehensive and in-depth market research on the logistics market is necessary. To grasp the transitional trend of logistics function in the industry of North-east china, such as: petrochemical, steel, automobile, coal, building materials industry, enable SCCDB position a clear target market, then support them by effective network coverage, distribution channels and necessary operating facilities,.

- Optimize the container volume structure, and enhance the core competitiveness

Marketing efforts should focus on improving the supply structure, adjusting the ratio of TEU and FEU, with a reasonable set to improve the space utilization of the various routes and single-voyage. Foreign trade lane should find a new growth point to maintain the market share of key routes. At the same time, focus should be paid to expand the proportion of consolidation cargo (LCL cargo), and raise the single box profitability to ensure the achievement of development goals.

For the service of the company's major customers, business can be raised to the level of strategic cooperation (partnership) .By such measures, we can expect not only the stability of the cargo volume, but also increased brands effect, and the expansion of industry influence.

### 5.2.2 Resources integration strategy

Integration of resources is a prerequisite for development. Effective use of external resources can expand new competence to serve new customer /new business, or new market coverage. For example, the fixed-schedule container train elongates the service

to east Inner-Mongolia, which is traditional business domain of Tianjin Port. Similarly, efficient utilization internal resource can improve financial performance dramatically. In case of international and domestic cargo are loaded in same vessel, Which is approved by customs authority recently, positive result is found on the one hand, reduced total input vessel, on the other hand, advanced on-time rate for domestic cargo.

Integration of resources, whether domestically or internationally, also refers to utilize alliance, sub-contract, corporation to increase company competitiveness. For a long-term vision, development of forward-looking decision should not merely expand its own resources. That is to say SCCDB is more likely to play as an integrator than a function player.

### 5.2.3 Refinement management strategy

- Refinement of management is an important foundation for the implementation of the strategy.

Company-wide service functions need to continue to be improved, as well as building of related management control system. Aiming at improving the internal management, no doubt, the company should ensure the effectiveness of management covering each of the targeted service sectors. Meticulous management is to clarify the responsibilities of each position for each task based on performance evaluation. Refinement of management, from the customers' point of view, reflects the ability to cater the multi requirement of customer in a prompt and right manner.

In terms of business operations, it is necessary to strictly control the quality of documents, for instance, bills of lading issued. Accuracy rate should reach 100% and other shipping documents: loading plan of a vessel, T / S and Cargo manifest should also be handled strictly careful in data entry.

Only if such improvement is achieved, brand effect can shape step by step through the

refinement of the management.

- Strengthen information system management; focus on the application of advanced technology and equipment.

Through the refinement to these nodes, the company can significantly improve the organizational efficiency in daily routine business. Advanced information technology and equipment can speed up the process of business operation and streamline the communication with ports, terminal operator, and other stakeholders. For instance, SCCDB is now spreading on-line booking system to his customers cluster, which is to improve operational efficiency and standardize the business model very well. The tally, inventory management and terminal services are all expected to be incorporated into such system in the near future.

#### 5.2.4 Human resource based development strategy

- Human resources development strategy is a key guarantee of the implementation of the development strategy by the SCCDB.

Human resources strategy takes a great import function in corporate strategy. As we know, human resources are the first resources of the enterprises that can backup business expand and provide different expertise in every business section. In brief, such strategy is to encourage a competition and corporation atmosphere within company, and also to devise personal development plan according to individual character. By all means, the final goal is to retain them and ensure synchronous growth with company. Such strategy make more sense in the context that increasing foreign liner competitor crowd into local market and adopt “buy-and-use” human resource policy.

- Building of learning organization to facilitate the innovation and overall improvement.



Learning organization, or an innovative organization can not only build up healthy interactive environment between employees and the company, but also creates more chances for the them to improve themselves. All in all, such organization can help the SCCDB to create more innovative services faster and advancer than competitor, so that can preserve the leading position in liner shipping market.

### **5.3 Proper measure that ensure implementation of development strategy**

#### **5.3.1 Strategy implementation guarantee from organization aspect**

- **Top level involvement**

The decision-making body in the company should have an awareness of integrated development strategy, and try to pass the concept that keep company stand head and shoulders above competitor through company hierarchy, whereby gain the driving force of sustainable development.

- **Organizational coordination, cooperation**

The implementation of strategy necessitates the corresponding adjustment of organizational structure at the whole company, and establishing the strategic-directed organization at proper time to realize the communication and coordination between departments of sales, project management, operation, commerce, accounting and so on. Unified mentality is a precondition for building the integrated mode of administration and marketing work. Duties of various departments should be clarified and business flows should be straightened out. Standardization and unification of service and administration yardstick also ought to be realized.

#### **5.3.2 Strategy implementation guarantee from financial aspect**

##### **(1) Capital ability**

The implementation of enterprise development strategy necessitates the input of large amount of capital. Especially, relating to the infrastructure construction like storage yard, load and unload machinery, warehousing equipment, the investment in such projects will be comparatively bigger, the economic benefits will be hard to be realized fully and the retrieval of assets tend to be slow as well. More often, such project investment accompanies certain risks. Thus, scientific analysis into the feasibility and pay-off time of investment is quite necessary, and investment should be cautious to ensure the smooth implementation of long-term strategy.

## (2) Cost management control

Management and control of cost must be intensified aiming at the realization of development goal of the company. Cost control is supposed to pin pennies with its focus on the administration expenses, assessment of manpower cost, and the control of total amount of overhead expenditure. Only through the effective cost control, can the cost per capita be reduced and profits margin be improved and thus service target customer in cost efficient way.

### 5.3.3 Strategy implementation guarantee from enterprise culture aspect

- Exalt the fame of competition and brand influence

With the white heat of competition, different enterprise has begun to imitate and draw on modes and patterns of other enterprises. The homogeneous trend tends to be more conspicuous in shipping market. Brand becomes the key symbol for the customers to identify the liner service and to differentiate one from other enterprises. Obviously it becomes much more important that long-lasting intangible assets should be lifted into corporate strategic level.

Competitive edge is supposed to be enhanced in various sides to ensure effective implementation of strategy, and the current brand effect should enhanced its influence through multi channels and loyalty of customers to brand. Through the upgrading of

brand advantages, new customers will be easily attracted, in particular, the customer whose size is equivalent of the SCCDB. In addition, sales and market scale will be expanded from the perspective of long-term specific interests and unified brand.

- Development of company culture with SCCDB characteristics

Company culture is gradually formed with the passage of time as sediment. As the enterprises with background of the central government, SCCDB should attach great importance to its sense of mission in education and cultural construction. Meanwhile SCCDB is supposed to direct the employees to develop the same outlook on value with company. Emphasis should be paid to promote the exchange among employees of various departments, which can indirectly intensify the construction of teamwork cooperation and facilitate the internal communication. Equally important, open and fair competition on the basis of merits should be uphold and from corporation level, encourage employee to prepare promotion and demotion which is totally different with traditional SOE.

## **Chapter 6 Conclusion**

Regional economic revitalization and establishment of Dalian international shipping center bring tremendous new competitive element into local shipping market of North-east China. All the service providers are supposed to re-position and re-allocate his internal and external resource and capability to cope with such opportunity and challenge. As talked in the former chapter, one-fold liner service can not realize long-term development for SCCDB, thus extend to value added service domain and transform to a comprehensive logistics solution provider is inevitable.

This paper, by applying leading strategic management tool, after analysis into the changing environment that SCCDB confront, concludes that positive growth should be chosen as the development strategy. Key customer marketing, refinement management, upgrade service system and enterprise culture are effective measures to ensure achieving such goals.

As the strategic management is a gradual advancing process, each company that intends to be more successful should constantly adjust his corporation direction to better fit new trend in liner shipping industry and changing requirement from customers.

The author also suggests that further research can focus on other branch of C group company such as C company (Shanghai), C company (Shenzhen) whose external environment and local business pattern is total different with the case company in this paper. By achieving such result, the overall strategic blueprint of C group company will be more scientific and practical.

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