

## **A PROPOSED APPLICATION OF THE MARKETING MIX CONCEPT TO TRAMP & LINER SHIPPING COMPANIES**

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*The concept of the marketing mix has attracted attention from both academics and managers and has been widely used in the marketing discipline. Despite the increasing literature being focused on services marketing in general, there is a lack of literature explaining the application of the marketing mix theory in shipping services. This paper presents the tools of the marketing mix of shipping companies active in merchant shipping. It argues that the marketing strategies are the means by which a company achieves its marketing objectives and are related to the tools of the marketing mix. An empirical research was carried out for the top 10 tanker shipping companies and for the top 10 liner operators of container ships in order to confirm that the companies understand the importance of marketing and apply improved marketing strategies. Some of the data, which were gathered in the above-mentioned research, are used in this presentation to exemplify the strategies related to the tools of the shipping marketing mix. The article concludes that the shipping company must organize its resources in such a manner as to be able to apply improved strategies of effective marketing in order to achieve a long-lasting and more effective commercial operation of its vessels.*

### **1. INTRODUCTION**

The marketing of shipping companies activating in merchant shipping (Plomaritou, 2006) is the science of Business to Business Marketing, which deals with the satisfaction of charterer's – shipper's needs for the carriage of goods by sea, with the main aim being the profit of the enterprise. This satisfaction presupposes, on the one hand, correct diagnosis of the shipping

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market and, on the other hand, appropriate organization, planning and control of the shipping enterprise's means. The more the shipping enterprise tries to discover what its clients need to adapt the chartering policy to their requirements, to offer appropriate transport services and to negotiate the freight as a function to what it offers, the more the possibilities are to achieve the most appropriate, efficient and long-lasting commercial operation of its vessels.

All shipping enterprises have limited capabilities concerning the means, resources and management abilities for their ships. This means that it is impossible to exploit all the chances of the shipping market with equal effectiveness. The matching of the shipping enterprise's capabilities with the needs and desires of its clients is fundamental for the provision of the desired transport services, the satisfaction and retention of charterers and thus the commercial success of the enterprise (Goulielmos, 2001).

According to Kotler (1997), marketing strategies are the means by which a company achieves its marketing objectives and are related to the tools of the marketing mix. The tools of the marketing mix for a shipping enterprise activated in the tramp and liner shipping market are presented in Figure 1 (Plomaritou, 2006):

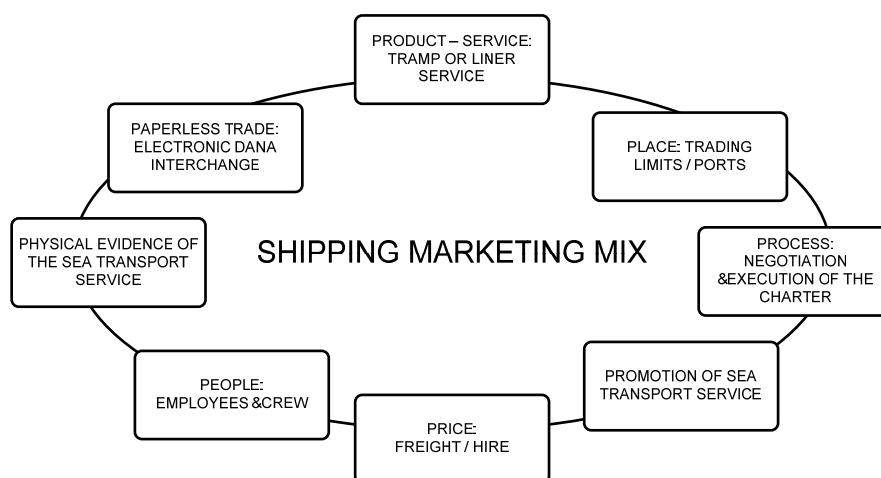


Figure 1. Shipping marketing mix

At this point, it should be mentioned that the services offered by a tramp shipping company are differentiated from those services provided by a liner shipping company. A liner service implies today a fleet of ships under

common ownership or management, which provides a fixed service, at regular intervals, between named ports. The liner vessel sails, whether full or not, on the date fixed by the public schedule. The tramp vessel may be employed in any geographical area in accordance with the demand for sea transport services. The differences between tramp and liner services play a vital role in the design of marketing tools as well as in the planning of marketing strategies.

## 2. PROBLEM DESCRIPTION

The concept of the marketing mix has attracted attention from both academics and managers and has been widely used in the marketing discipline. Despite the increasing literature being focused on services marketing in general, there is a lack of literature explaining the application of the marketing mix theory in shipping services. In such circumstances, an empirical research was carried out (Plomaritou, 2006) for the 10 largest tanker shipping companies and for the 10 largest liner operators of container ships in order to confirm that the companies – organization models in the world understand the importance of marketing and apply improved marketing strategies. According to Hoffman D. and Bateson (1997), the study process of the most successful enterprises in the world and the effort for interpreting their strategy is called “benchmarking”. According to “benchmarking”, the question of which strategies related to the marketing mix should be applied by the merchant shipping companies is an important issue not only for ship owners but also for liner operators, ship managers and policy makers. Therefore, the purpose of this paper is to present the marketing mix tools of shipping companies activated in merchant shipping.

An empirical research was carried out concerning the marketing philosophies adopted, the marketing policies selected and the marketing strategies implemented by the leading tanker and liner shipping companies in the world. Some of the data, which were gathered in the above-mentioned research, are used for the purpose of the present paper.

After the introduction of key definitions (concerning the shipping marketing mix and the distinctive characteristics of tramp and liner services), the paper presents the research methodology and displays the research findings in a way which exemplifies the strategies related to the tools of the shipping marketing mix. At the end of the paper, considerable conclusions and recommendations are taken place.

### **3. RESEARCH METHODOLOGY**

An empirical research was carried out (Plomaritou, 2006) for the 10 largest tanker shipping companies and for the 10 largest liner operators of container ships in order to confirm that the companies – organization models in the world understand the importance of marketing and apply improved marketing strategies. According to Hoffman and Bateson (1997), the study process of the most successful enterprises in the world and the effort for interpreting their strategy is called “benchmarking”. According to “benchmarking”, the best enterprises in a market are determined as organization models and as a comparison measure for the strategies adopted by the smaller enterprises of the branch. It is hereby noted that within the context of this article, only the marketing strategies of the leading shipping companies are presented. The analysis of their marketing policies and marketing philosophies is out of the scope of this paper. From the presentation of the empirical research’s results, it is revealed that tanker shipping companies adopt different marketing strategies compared to those adopted by liner operators.

The formation of the sample was based on the top 10 largest shipping companies list made out by two of the most reliable sources of information, INTERTANKO (International Tanker Owners’ Association) and Clarkson (Clarkson Research Studies). Both organizations are well-known throughout the shipping industry for producing qualitative shipping information.

The tanker shipping companies participating in the research were Frontline, Mitsui OSK Lines, Teekay Shipping, Worldwide, Overseas Shipholding, Bergesen, Tanker Pacific Management, A. P. Moller – Maersk Group, Nippon Yusen Kaisha and Angelicoussis Shiphold, which manage 73.8 mil. dwt (440 tankers), i.e. 33% of the total tankers tonnage in the world (Intertanko 2005). The liner companies participating in the research were A.P.Moller – Maersk Group, Evergreen, Cosco, P&O Nedloyd, NOL/APL, MSC, NYK, KLine, YangMing, and Hapag Lloyd, which manage 1,988,980 mil. TEU (703 containerships), i.e. 47.6% of the total number of containerships in the world and 35% of the total TEU (Clarksons, 2005).

Descombe M. (2000) argues that empirical research offers useful information, which is drawn out of observation and emanates from experience. Rose G. (1982) maintains that this kind of research is useful when empirical data are used in order to verify a theory (theory testing), or to create a new theory (theory construction). According to Bickman and Rog (1998), empirical

research is based on secondary data, gathered in the past in order to serve other purposes and not to resolve the matter under investigation. The most important advantages of secondary data are the low cost of its collection and the short time period of its gathering. Secondary data, despite its usefulness, have four disadvantages. These are: accuracy, availability, suitability and sufficiency. Therefore, the evaluation of secondary data before its use becomes necessary. The more secondary data respond to the needs of research work and their credibility is affirmed, the more the problems associated with its use are eliminated.

The present empirical research was based on advertising material of the above enterprises, as well as on data requested directly from the companies such as their annual reports, minutes of meetings, management plans, company profiles, mission statements, business strategies reports, press releases, etc. In addition, the research was based on market analyses, which were conducted by external sources such as Intertanko, Lloyds, Oil Majors, Clarksons, Marsoft, Ernst & Young, etc.

From the above-mentioned material, necessary information was gathered for the competitive advantages of the examined companies, their business relationships to charterers, their ships' performance, their safety systems, their advertising programs, etc. The data were appropriate and sufficient for drawing significant conclusions regarding the marketing strategies they apply.

The collected data were compared with researches and market analyses, which were conducted by external reliable sources such as Intertanko, Lloyds, Oil Majors, Clarksons, Marsoft, Ernst & Young, etc. Therefore, the reliability of the Companies' Annual Reports was confirmed by the Auditors' Reports (e.g. the Annual Report of Bergesen was verified by the Ernst & Young Audit Report). The Companies' Reports concerning their vessels' performance are compared with the Oil Majors' Reports (e.g. Teekay's Report was attested by BP's Assessments). The companies' statements concerning their clients' requirements were compared with the conducted researches concerning the ship owners' selection criteria by charterers in the tramp and liner market (e.g. Cosco's Report concerning the shippers' needs is attested by the research of Murphy, Daley and Hall concerning the selection criteria of carrier by shipper). Additionally, the comparison of companies' statements with their clients' statements was considered necessary (e.g. Mission Statement of Overseas was compared with BP's Report which ascertained that OSG has enjoyed a strong commercial relationship with BP since the 1960s. This cooperation ended in the establishment of the "Alaska Tanker Company",

which was created in 1999 by OSG Ship Management and BP Oil Shipping Company to consolidate all of BP's Alaskan crude oil shipping requirements into one operating company). The above-mentioned comparisons of sources confirmed the reliability of the information given by the shipping companies.

The accuracy of collected information is not questioned, to the degree that this was drawn out of its initial source of gathering. The companies, from which the data were gathered, maintain separate market research centres, which are manned with appropriate trained analysts. The work of these analysts is the systematic collection of the necessary information concerning the shipping market's trends, the position of the companies in the market, the financial state of the companies and the business strategies of the companies. Further to the systematic collection, the information is distributed to the decision-makers of the enterprise, as well as to other third parties. For example, Frontline and Overseas Shipholding are followed by a number of independent analysts who undertake the accomplishment of researches on behalf of the shipping companies.

After critical appreciation of the sufficiency, reliability and accuracy of the collected data, and after careful study of the records, considerable conclusions ensued regarding the manner by which the leading shipping companies perceive their clients' requirements, the segmentation, differentiation and promotion strategies they apply and the marketing philosophies they intend to adopt.

### **3. RESEARCH FINDINGS**

The strategies - related to the marketing mix – which are applied by the shipping companies under the present research, are the following:

- **Product/Service Strategy**, such as expansion strategies of company activities in the tramp as well as in the liner market. Shipping is a complex industry and the conditions, which govern its operations in one sector, do not necessarily apply to another; it might even, for some purposes, be better regarded as a group of related industries. Its main assets, the ships themselves, vary widely in size and type; they provide a whole range of services for a variety of goods, whether over shorter or longer distances. Although one can usefully isolate sectors of the industry providing particular types of service, there is usually some interchange at the margin which cannot be ignored. Although there are commercial divisions within the shipping market – the liner business

carries different cargoes, provides different services and has a different economic structure from bulk shipping – the shipping market can also be considered as a single market. Some shipping companies are active in both the bulk and liner markets and many ships (such as combined carriers and multipurpose vessels) are designed to operate in several different markets; indeed, this is one of the important ship owning decisions which is related to the service strategy. It must be recognized that in a depressed market, owners can move their investment from one market sector to another in order to avoid the market's threats and to exploit the market's opportunities. As a result, supply/demand imbalances in one part of the market can ripple across to other sectors. Mitsui OSK Lines implements such an expansion strategy by possessing a large and modern fleet of tramp as well as of liner vessels and by servicing the needs of trade throughout the world.

- **Promotion Strategy**, such as advertising programs, policies for maintaining good relations with charterers, etc. The purpose of advertising is to get a message across to the charterer. Advertising operates at three levels – informs, persuades and reinforces. Advertising to inform normally relates to the promotion of new transportation services offered by new vessels of the company. There is also the public relations side of advertising, which includes media relations and exhibitions. The shipping companies use advertising as a basic competition tool. The companies, which provide high quality transport services, have a motive to reveal this quality through advertisements. Hanjin Shipping has developed various advertising programs that include a web page on the Internet, brochures, advertisements in the shipping press and participation at maritime exhibitions.
- **People Strategy**, such as programs of continuous crew training. According to this strategy, a company's personnel and crew participate in training programs in order to be aware of the new developments of the international shipping industry (such as developments of a charter's legal framework, developments of the shipbuilding industry, developments of a ship's sale and purchase market, etc.). A.P.Moller – Maersk Group maintains a simulation center for the training of its personnel and crew
- **Process Strategy**, such as improvement strategies of negotiation procedures as well as strategies of voyage execution with speed and safety. The chartering industry is very demanding. It is difficult to think

of any other industry in which contracts are negotiated within a few days, if not hours. Under the pressure of difficult negotiations conducted with speed, often by telephone or e-mails, mistakes and errors can have disastrous consequences. In this demanding and competitive environment, care must be taken to present a professional image, negotiations must be conducted in a serious and business-like way and charter parties' clause must complement the contracting parties (Thorstensen O., 1996). When the guidelines of negotiations are ignored, the parties may well become liable for substantial claims. On the other hand, the strategies of voyage execution concern the reliability of the voyage. The reliability includes the frequency of sailings, directness of sailings, scheduling flexibility, on-time pick up & delivery of the cargo, fast execution of the voyage, reduction of turn-around time to minimum, appropriate cargo handling procedures during the loading and discharging operations and safe transport of goods. Cosco won the "Sailing Schedule Reliability Reward on Australia – East Asia Trade" for applying improved process strategies.

- **Price Strategy:** In the shipping industry, there are two main pricing regimes: the tramp market and the liner market. According to Stopford (1997), liner shipping provides transport for small quantities of cargo for many customers and is essentially a retail shipping business. The liner company is a common carrier accepting cargo from any customer at prices set out in the rate book. The published rate book sets the framework for pricing, which involves differing degrees of discrimination by commodity and owner. That is not suggesting that the business is not competitive. On the contrary, it has spent most of its 125 – year history in deep competition. In contrast, bulk shipping is a wholesale operation (Stopford, 1997). It sells its services in large quantities, by contract to a much smaller number of industrial customers at individually negotiated prices. Ship owners and charterers negotiate to establish a freight rate, which reflects the balance of ships and cargoes available in the market. If there are too many ships, the freight rate is low; while if there are too few ships, it will be high. In both cases, the pricing system is central to the supply of transport. In the short run, supply responds to prices as ships change their operation speed and move to and from lay-up, while liner operators adjust their services. In the longer term, freight rates contribute to the investment decisions, which result in the scrapping and ordering of ships.

- **Place Strategy:** In case of a time charter engagement, the charterers wish to employ vessels without trading and geographical limits. Instead of that policy, the time charter party usually specifies that the vessel must be used only within a certain geographical area and that the charterers have the privilege of breaching the trading limits by paying an extra insurance premium (Bonnick, 1998). Where a charter party states that the loss of time, due to breach of warranty limits, is caused by the charterer, this provision does not only mean the time lost on passage due to average (e.g. damage), but also the time wasted by the ship owner while the damage is being repaired. Place strategy includes the policy of operating vessels without trading and geographical limits, such as the operation of well-built and maintained tankers, which can be used in the environmentally strict areas of the West Coast of America. Frontline possesses a large and modern fleet of tankers, which can meet the strict legislation of the extremely environmentally regions and can be employed in any sea, without trading and geographical restrictions.
- **Physical Evidence Strategy** such as strategies of the improvement of a vessel's performance and efficiency. Physical evidence strategies are the strategies of a company's compliance to the international regulations concerning vessels' design and operation, strategies of proper maintenance of fleet, strategies of continuous crew training, etc. The ship owner is obliged to provide a ship built, equipped, supplied and manned in such a manner as to carry safely the cargo to its destination and to overcome the ordinary perils of the sea. Teekay Shipping has created a marine management system, called the "Marine Operations Management System", which imparts the philosophy of safety management to the entire organization. The system includes efficiency indicators for constant monitoring and improvement of all the enterprise's operations. In 2003, Teekay obtained the "Certificate of Environment Management International Standards - ISO 14001".
- **Paperless Trade Strategy** such as the implementation of the EDI system. Many shipping companies, particularly in the liner shipping market, have realized that the investment in information technology and electronic commerce should be seen not simply as a corporate overhead to be absorbed as part of the cost of doing business, but as a competitive weapon in its own right. This requires managers to view information technology not as a part of the infrastructure servicing the rest of the organization to be left to computer specialists, but as a strategic resource. A clear paperless trade strategy is needed to allow the firm to

recognize the relevance of the information to gaining the stated marketing objectives. The information should be stored in the database on a need-to-know basis rather than a nice-to-know basis. At the same time, it should be recognized that the data must be constantly updated if they are to be of use. Evergreen applies a technologically advanced EDI System between the company and the shippers. The system provides fast and valid information, while time and effort are saved. The company won the "E-Commerce Excellence Award 2004".

#### **4. CONCLUSIONS & RECOMMENDATIONS**

All shipping enterprises have limited capabilities concerning the means, resources and management abilities for their ships. This means that it is impossible to exploit all the chances of the shipping market with equal effectiveness. Matching the capabilities of the shipping enterprise with the needs and desires of its clients is fundamental for the provision of the desired transport services, the satisfaction and retention of charterers and thus the commercial success of the enterprise. The shipping company must organize its resources in such a manner as to be able to apply improved strategies of effective marketing in order to achieve a long-lasting and more effective commercial operation of its vessels.

The marketing strategies are the means by which the company achieves its marketing objectives and are related to the tools of the marketing mix. The tools of the marketing mix for a shipping enterprise which is activated in the tramp or liner shipping market are: Product (Tramp or Liner Service), Price (Freight or Hire), Process (Negotiation Procedure & Execution of the Charter), People (Office Personnel & Ship's Crew), Place (Ports & Geographical Area of Ship's Employment), Promotion (Advertising Programs), and Physical Evidence (Ship's Characteristics & Seaworthiness of the Vessel). Additionally, a new tool of the shipping marketing mix is "Paperless Trade" and constitutes the eighth tool of the shipping marketing mix. In order to respond fully to the demands of the competitive shipping market, it is necessary that shipping companies use modern electronic communication means by which time, cost and effort are saved and quality improvement of services is achieved.

The correct drawing up of a shipping enterprise's strategy is achieved through the company's planned rational actions. The action plans must be applied correctly so that the proper transport service is provided to the appropriate charterer, at the right time and port with the appropriate vessel and at freight levels that satisfy not only the shipping company but also its client

(charterer/shipper). Marketing is the provision of the appropriate maritime transport services, from the right people (personnel of shipping enterprise and crew of a company's vessels), to the appropriate clients (charterers or shippers), at the right place and moment of time, and at the appropriate freight levels, with the suitable promotion.

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## **PRIJEDLOG APLIKACIJE KONCEPTA MARKETING MIKSA NA TERETNE I LINIJSKE BRODARSKE KOMPANIJE**

### **Sažetak**

Koncept marketinškog miksa privlači pažnju znanstvenika i menadžera, te se često koristi u marketingu kao disciplini. Iako se sve veći udjel marketinške literature usredotočuje na marketing usluga, postoji nedostatak literature koji objašnjava primjenu teorije marketinškog miksa na brodarske usluge. Ovaj rad predstavlja instrumente marketing miksa brodarskih kompanija koje se bave pomorskim prijevozom. U članku se polazi od toga da su marketinške strategije sredstvo pomoću kojih tvrtka postiže svoje marketinške ciljeve, te da su povezana sa instrumentima marketing miksa. Empirijsko je istraživanje provedeno na 10 najvećih tankerskih kompanija i linijskih brodara za prijevoz kontejnera, kako bi se potvrdilo da kompanije shvaćaju značenje marketinga i primjenjuju poboljšane marketinške strategije. Neki od podataka, prikupljenih u okviru empirijskog istraživanja, koriste se da bi ilustrirali implementaciju strategija uz pomoć instrumenata brodarskog marketinškog miksa. U zaključku rada ukazuje se da brodarske kompanije moraju organizirati svoje resurse tako da mogu primijeniti poboljšane strategije marketinga, s ciljem dugoročije i učinkovitije komercijalne uporabe svoje flote.

