

Innovations in Shipping

Innovations are dramatically changing the traditionally conservative global ocean shipping industry as it works to become more efficient and more sustainable. Academic and former shipping company owner Peter Lorange is best placed to make sense of how to approach and keep ahead of these changes. This book explains what the key innovations are, how to ensure a return on investment, the barriers to innovation, and how to overcome them. Drawing on a number of specialist case studies, Lorange outlines the specific analytical and decision-making steps to consider, and actions to take to arrive at a new strategic blueprint for modern shipping companies. This book is invaluable for practicing shipping company executives, advanced students of shipping, logistics, port management, and maritime economics, and investors deciding whether to invest in a particular shipping firm.

Peter Lorange is Chairman of the Lorange Network, Zurich, and was the Nestlé Professor of Strategy and Kristian Gerhard Jebsen Professor of International Shipping at IMD in Lausanne, Switzerland, as well as former President of both IMD and the Norwegian School of Management. A former owner of and investor in several shipping companies, his industry and academic credentials make him a widely respected expert on the global shipping industry.

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Peter Lorange
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Preface

There is a lot of discussion these days about traditional industries becoming less prominent, or even disappearing. The advent of new technology, particularly the Internet, seems to be the key driver behind this.

Traditional shipping companies are an example of this trend. In their place, we are seeing the emergence of logistics companies, of which sea transportation is only one part. Land transportation, warehousing, even packaging and the distribution of goods to the end consumer, are key features of these new-style companies. This has been made feasible through the development of closer and faster links between the players in a value chain. The traditional roles in such value chains are also changing. For example, many European manufacturers have now outsourced these to low-cost countries in Asia.

Another factor that has fundamentally changed the shipping industry is access to capital. Capital has always been a scarce resource in shipping. Banks specializing in providing capital to traditional shipping companies in this generally capital-intensive industry have been integral factors in the shipping industry. Now, all of this has changed. Capital is now more freely available through new sources such as venture funds, various governmental funding institutions, private investors new to the shipping industry, and better-developed capital markets (for raising share capital, bond financing, etc.). As a result, we see the emergence of large groups that can consist of several publicly incorporated entities, where the key entrepreneur behind such agglomerations might not have absolute control over all firms in the network, despite holding a major stockholding position. The best example of this is John Fredriksen, a citizen of Cyprus of Norwegian descent who operates out of London. Fredriksen controls the world's largest VLCC tanker group (Frontline/Ship Finance) as well as one of the world's largest large bulk carrier firms (Golden Ocean), and has many other controlling interests, such as offshore drilling (Seadrill), salmon farming (Marine Harvest), etc. A key feature of Fredriksen's approach is the emphasis on dividend payments to the large number of independent shareholders and strict adherence to servicing debts.

Financial stakeholders are key to what might be called the Fredriksen Group.

Shipping has been a central focus for me for more than four decades, both as a field of research as well as managerially – I was on several shipping company boards (Seaspan, Royal Caribbean Cruise Lines, Knud I. Larsen), and was a shipowner as well (S. Ugelstad), and an independent investor in shipowning projects (primarily through Sole Shipping). I have also been involved in teaching shipping for several decades, both to executives (at IMD, the Lorange Institute, The Norwegian School of Management, Copenhagen Business School, Frankfurt School of Finance and Management, Nanyang University Singapore), and I was a cofounder and am a minority shareholder of Marsoft, Boston, with which I still cooperate. Finally, and perhaps most significantly, I have been active in research on shipping-related issues for more than 45 years, having published or edited three books and around a dozen articles on the topic.

Several people have offered inputs and insights to this book, some of them significant. While I cannot mention them all here, I must highlight a few: Dr Arlie Sterling, President of Marsoft, has been a central inspirational force. Others include Nils Smedegaard Andersen, Svend Andersen, Costas Badjis, Rolf Briese, Robert Brinberg, Evangelos Chatzis, Sai Chu, Peter Curtis, Jan Willian Denstad, Paul Eckbo, Raymond Fisch, Morten Fon, John Hatley, Jens Ismar, Kristian Jebsen, Chris Jephson, Jacob Meldegaard, Henning Morgen, Trygve Munthe, Victor Norman, Graham Porter, Ian Robinson, Didier Salomon, Marcel Saucy, Sören Skou, Peter Sulzer, Stig Tenold, Eirik Uboe, Gerry Wang, and Gregory Zikos.

I must also thank the many executives who contributed their time through interviews, especially in connection with the case studies included here. Finally, I have benefited a great deal from discussions with my son-in-law, Frode Lervik, and my son, Per F. Lorange. The preparation of this manuscript, including typing – at times tedious – was very ably done by Patricia Bähr and Leda Nishino. Sally Simmons provided invaluable editorial support, as did Valerie Appleby at Cambridge University Press.

It goes without saying, however, that I alone take full responsibility for the content of this book.