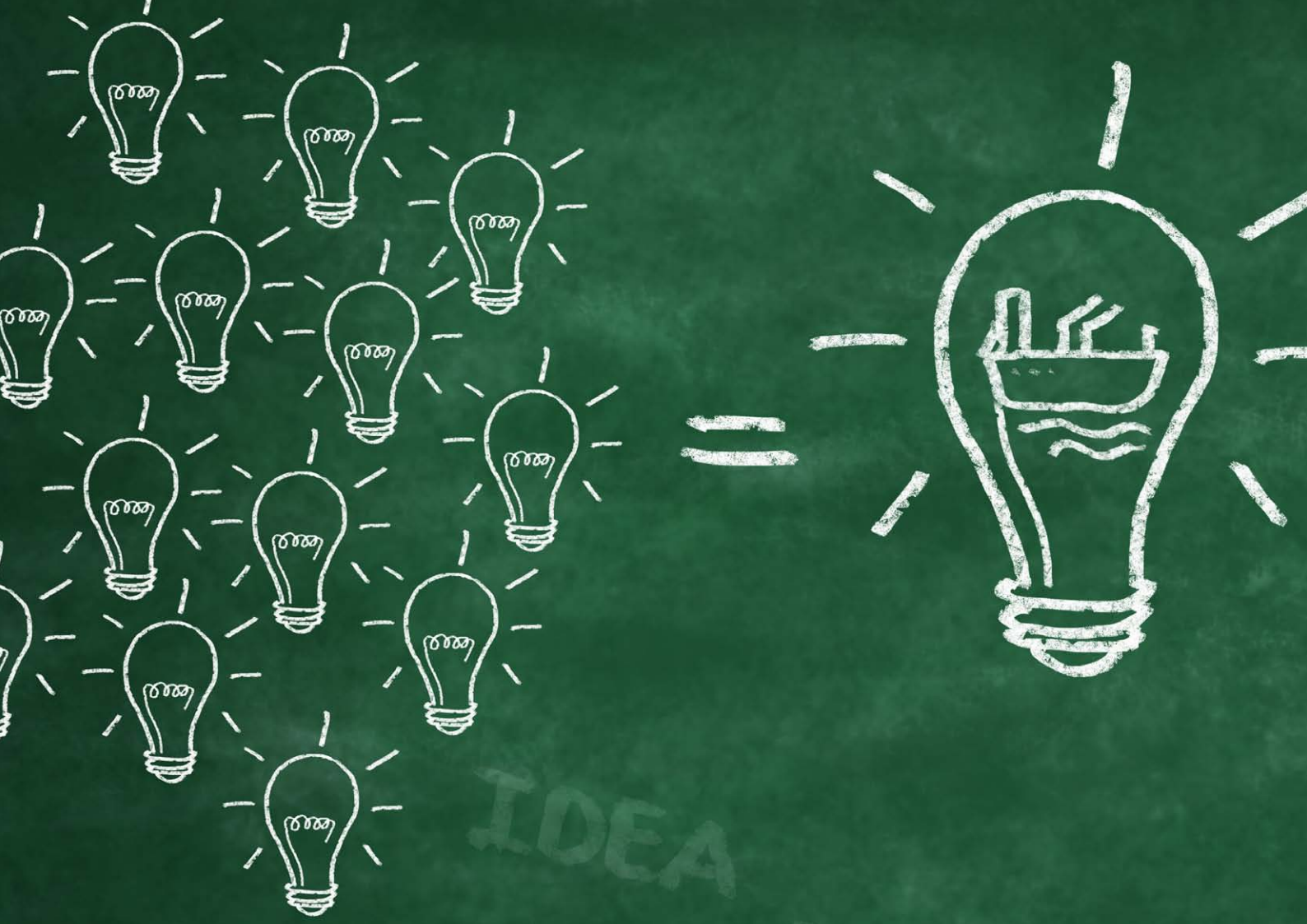


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# innovation resize

## Changing the shipping game?

In interconnected global markets, non-linear dynamics contribute to sustain or break existing resource flows and associated (often dominant) thinking patterns. Some might remind this of Schumpeter's thesis referring to the process of 'creative destruction'. In these times, it's not only the shipping industry that calls for quality in leadership, innovation and strategy as these factors are generally considered critical guiding organizations through challenging, stormy waters. We like to take this opportunity to discuss current challenges and thinking with Peter Lorange, a thought leader in the field of shipping strategies, innovation management and leadership issues. Peter is heading the 'Lorange Institute of Business', formerly known as GSBA Zürich, and dedicates his work both the shipping industry and leadership education.

**Raymond Fisch:** Thanks again Peter, for being here with us. Let me start with the question how you view the role of innovation in the shipping industry?

**Peter Lorange:** My pleasure, Raymond. Today, shipping companies are challenged more than ever to innovate, not only regarding their assets, products and services but also their cultures, organizations and structures if they strive to stay as top performing companies. For that to happen, they need to question and enhance their repertoire of relevant action that helps them to maneuver through these turbulent times and remain competitive in the future. It's about developing the abilities to 'understand' what's happening, to see what's really 'relevant', to identify goal oriented action, and to develop, instill and cultivate the ability to execute on these. To be even closer



to the customer than before is key – and, to come up with innovations that he / she can appreciate!

**RF:** What do you view as the core challenges for the management of shipping companies?

**PL:** We have observed various factors and saw at least six aspects where we see the management of shipping companies challenged. The first, as I said, is to improve their understanding of key customers and their needs. The second is to implement innovations that the customer appreciates and views as valuable, often client specific small things, continuously. The third is to stay competitive, above all vis-à-vis Asia. The fourth is to create simpler organization, less bureaucracy, more speed. The fifth is to develop effective ‘meeting places’, both internally and

‘And I looked upon the true sea –the sea that plays with men till their hearts are broken, and wears stout ships to death.’

*(Joseph Conrad)*

with key clients. And the sixth is to instill even higher awareness and understanding of the business cycles and the possibilities to take advantage of them.

**RF:** What do you mean e.g. by developing ‘effective meeting places’ internally?

**PL:** With that I like to focus on the relationship and tensions between new ideas and established management thinking. On the one side there are new thoughts, often radical propositions and on the other side there are experiences and best-practice prescriptions. Progressive forces meet conservative, often more, protective forces. But the two must meet, dialogue and debate, in the best interest of the business, openly but not an endless discussion – the leadership decides at the end.

**RF:** In a recent article you elaborated on shipping strategies, niches and innovation. What is the essence of your thinking?

**PL:** Where in the past ‘playing the market’ for shipping firms was driven by actions along ‘in/out’ and ‘long/short’ decision today this strategy is not sufficient any more. In order to compete, the entrepreneurial core process in shipping now needs to be enhanced. The challenge is to create advantages, even temporary ones, requiring organizations to instill more innovation culture in their business. The goal is to create niches to operate in that are not fully exposed to the cycles of the open shipping markets.

**RF:** Can you give us an idea on what determines niches?

**PL:** Many shipping firms are searching for ways to isolate at least some of their activities from the cycles of the shipping markets. Such efforts might include working more closely with the customer, so as to attempt to meet specific needs of these. Specialized ships to satisfy the unique requirements of specific customers may be the result. Parallel efforts might focus on developing specialized technologies, which might be difficult to copy, also resulting in specialized ship service offerings.



In essence if we have a high level of customer intimacy in combination with a high level of technical uniqueness, we may consider this a niche business.

I am also impressed with what some companies are doing today regarding having more fuel-efficient ships – potentially benefitting their customers as well as themselves. On the other extreme if both levels are low, this can be called a commodity business. If only one of the dimensions is leveled high, we may talk about a semi-niche. We know that a commodity strategy, which is typical for traditional shipping looks different from a niche strategy.

**RF:** How stable are niches really, Peter?

**PL:** A big challenge for companies that have been successful in developing a niche strategy is the fact that such strategies often do not tend to last, non-the-least due to the typical relative easiness of copying when it

comes to the technical side, combined with the almost impossible task to protect oneself from this, say through patents. It is typically relatively easy to copy the design of a particular ship.

Also, to keep relationships with key customers exclusive over time may be hard due to competitive pressures. This implies that the price for a particular niche-based service will tend to come down often rather quickly – and soon we may be talking about another commodity. So, the message is: never to stagnate – always come up with new ways to re-launch one's niche position.

**RF:** How about entry barriers e.g. through high investments, would that not keep competitors away?

**PL:** Certainly to a degree it will, however in relative terms in the shipping business it is more important to look at the degree of remaining debt when a specialized asset comes off charter. Needless to say, the remaining debt

should be reduced to as low a level as possible. Certainly today financing becomes an issue and financiers look at the cash-flow implications of a project.

A safe cash-flow, say, as represented by a long term charter from a solid customer in a niche business would be highly preferred over financing of a ship in the open market, based on a ship's asset value as such.

**RF:** What do your observations imply regarding the management of shipping companies?

**PL:** Successful niche development requires executives who can understand customers, but it also implies strategic leaders. This demands logistical experts who can bond with the customer, dialogue, be creative. And this demands technical expertise which must also be cutting-edge, both for being able to come up with technological solutions for creating niches, as well as for spearheading new designs. Also finance expertise would be very different from the past, with the focus now being on cash-flow based financing rather than assets.

This also would mean that risk must be monitored and assessed differently. As a point in mind the new generation of more fuel-efficient ships may make relatively new ships of 'old' design prematurely obsolete! And last leadership expertise is needed for strategy definition and implementation, employing a communication driven steering processes that can put strategy into action.

**RF:** What would you recommend a shipping company today how this should be reflected in its organization?

**PL:** We can perhaps delineate the difference between a traditional commodity based strategy, with its top-down focus and a more current bottom-up focused industrial strategy. What is important is that skills from both areas are critical parts of a given strategy. What definitely is needed is one team, where the CEO must have around him particular skills for communication and marketing, for effective technical design, as well as for cash flow based financing. Further developing capabilities to innovate in both areas are needed to succeed both in open shipping markets and niches.

**RF:** And how can this be realized?

**PL:** Any organization, but especially shipping businesses that have significant structural catch-up potential, are asked to make educated use of leadership driven management systems. It's not crucial what such an approach is called; what matters is the philosophy of leadership that is behind it. If applied correctly, this can help to refine the management process of any organization.

A prerequisite of a successful strategy implementation is

to understand implementation as an ongoing, executive process. It is decisive to understand how formulating and planning of a strategy are connected. Only if there is a direct link between strategy and daily routine, will co-workers understand how they can contribute and reach strategic company goals.

**RF:** Is this approach the secret behind high performing shipping companies?

**PL:** (Laughs) Well, Raymond, as we know there is never a single or a few factors that determines performance. One thing however seems for sure. We can only get what we measure. And if a high performing company is able to define what performance means, e.g. on a resource and potential level, a process level, a client and market level, it will result in financial results that can be managed and expected. With that a company is asked to be more specific regarding company culture, co-workers qualifications, cost saving actions, unique market propositions, vis-à-vis clients and markets. This manifests a growth strategy and a productivity strategy which together contributes to the company's top goal: value creation.

**RF:** Thanks Peter, very enlightening indeed. I hope we will have the opportunity to continue talking in the future.

**PL:** My pleasure - anytime. For questions I will be available and I would also like to highlight our shipping and leadership programs here in Zurich. Anyone interested can contact me under: [p.lorange@lorange.org](mailto:p.lorange@lorange.org)

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Kind regards,  
Peter Lorange

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