

# Strategic Approaches are Necessary to Shipping and Port industry to become a Maritime Power

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Supply Chain Management (SCM) is a process of connecting cargo from shippers to customers, in other words, a process in which companies produce and sell products. In recent days, SCM is going through a significant change; whereas shippers, who are the manufacturer of products, used to be the center of the chain in the past, customers, the purchaser of products, are now playing a central role. This changing trend is attributed to technological innovation, such as smart phones. Such a small device allows customers to make a decision on the whole process by simultaneously carrying out shopping, taking orders and purchase at one place. Therefore, shippers, logistics and distribution companies are all starting to pay attention to the trends of customers. As a result, the center of logistics value is shifting from shippers, such as shipping and ports industry etc. towards logistics and distribution companies which are located closer to customers.

Amid these changes, shipping companies and terminal operators are facing a serious competition for survival as they undertake projects based on large logistics infrastructures. With customers emerging as a new center of SCM, shipping and port companies, who used to be the center in the past, are now competing through the economies of scale and economies of scope. This is why top ranking global shipping companies continue to carry out M&A, while mid-sized shipping companies are undergoing consolidation.

South Korea's new administration has unveiled a plan to establish (tentatively named) the Korea Ocean Business Corporation. The plan aims to help shipping and port companies overcome the crisis, serving as a source for national wealth keeping up with the changes of global logistics environment. This is a much anticipated policy, which should be materialized at once. In order to make this organization to fulfill its own functions, it is important to understand and analyze the changing logistics market. After that, roles and functions of the organization should be designated. Keeping the demand cycle of the shipping industry in mind, the government should appropriately reflect its financial characteristics by selling vessels around the time

of boom period and purchasing them around the time of slump. Furthermore, roles and functions of the organization should be assigned after understanding its relative relationship with the shipping and port industry as well as changing broad trends of the logistics industry. Rather than a simple combination between finance and shipping, it is necessary to establish a direction for the organization by understanding broad changes of logistics and considering relevant industries.

Meanwhile, the Korean government plans to implement (tentatively named) K-GTO policy, aiming to enhance the competitiveness of Korean terminal operators and establish global network. In doing so, the government intends to promote mutual growth of the shipping and port industry. This policy also requires clear designation of roles and functions. Basically, global network should be established by combining shipping and port networks and further to inland logistics networks. Only then, the benefits of the network would go to all national companies, along with Korean logistics companies. This policy is timely in the right direction. However, there are certain limitations for Korean companies to explore and develop foreign ports, as they have almost no relevant experience.

Looking into cases of expanding global port networks, Singapore has been able to achieve today's success by allocating appropriate roles between a holding company 'Temasek' and its domestic port operator, PSA. Equipped with finance and information functions, Temasek has taken a leading role in expanding global networks by working as brain, while allocating the role of hands and feet to PSA based on hands-on experience and networks. Having fully recognized the limitations of its capital and experience in foreign businesses, the Port of Rotterdam Authority of the Netherlands, which is a latecomer, is implementing a phased strategy to expand global networks over 10 years. The strategy follows the order of consulting, education, equity investment of ports and logistics centers, joint investment in ports and port operation. Both cases have successfully made inroads into foreign markets through strategic approaches such as selection and concentration and a phased strategy. Keeping this in mind, it is time to think about our strategy.

The newly established Korea Ocean Business Corporation should have a financial design considering the special characteristics of the shipping industry, while serving to recover the struggling shipping industry. Meanwhile, the purpose of K-GTO is to allow Korean port operators to establish a global port network, maximizing the profits of Korean companies that entered foreign markets. However, securing foreign port bases is not easy without adequate experience in foreign markets and understanding of port logistics markets. This is the very reason the Port of Rotterdam Authority have invested nearly 10 years, implementing a phased-strategy.

The establishment of Korea Ocean Business Corporation and the implementation of K-GTO should be carried out as soon as possible to make South Korea a global maritime power, as the government announced. However, it is of importance to clearly define its purpose, principal agents, and functions. The purpose is to establish

a system for creating a virtuous cycle of securing vessels and expanding a global logistics network. In doing so, the shipping and port industry will be able to leap forward through mutual growth. Connected with finance and SCM, public agents who fully understand the changes of shipping and port logistics industry should play a central role in this effort. Therefore, public financial institutions should play a central role in the shipping industry while port-related public institutions should be the main agent for the port industry. And now is the time to take a giant step forward to become a global maritime power.