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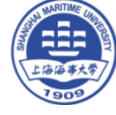
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SHANGHAI MARITIME UNIVERSITY
WORLD MARITIME UNIVERSITY



Shanghai, china

**Research on Development Strategy of Shipping
Company HF in the Shipping industry Recession**

By

Li Yunxuan

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

In

INTERNATIOANL TRANSPORT AND LOGISTICS

2013

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DECLARATION

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

Li Yunxuan (Print Name)

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Supervised by

Professor Liu Wei (/Associate Professor)

Shanghai Maritime University

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Abstract

Title of research paper: **Development Strategy of Shipping Company HF in the Shipping Industry Recession**

Degree: **Master of Science in International Transport and Logistics**

Since the 2009 financial crisis, shipping industry suffered a great impact, and the depression phenomenon appears increasingly which marked the beginning of recession of shipping industry. Even during the process of writing, there are still so many shipping companies struggling to survive in the post-crisis era.

The development of strategy that suits for recession starts from the 1996. Considering the fact that a ship's building cycle is commonly 2 ~ 3 years, the lag of fluctuation between the economy and shipping industry is guaranteed. Therefore, to locate a optimal strategy for the shipping company in the post-crisis era is very valuable.

The main purpose of this dissertation is to locate the optimal solution for company HF to break through the fierce global competition and achieve not only its own survival but also the further self-development. To accomplish this target, firstly this dissertation will analyze the forming reason and unique characteristics of the economic crisis this time. Then, the research will be made on the corresponding strategy toward the crisis that has been taken by past Chinese shipping company. After that, there will be a deep discussion about its practice in the recession that starts from early 2009, especially for the HF Company's case here. Finally, through the AHP model, an optimal strategy for counteract the economic crisis for HF Company shall be revealed.

Key words: development strategy, shipping industry recession, economic crisis

Chapter one: Introduction

1.1 Backgrounds of this dissertation

Since the 2008 winter, the global economic has been drastically affected by the crisis. Also, the shipping market received great impact, which leads to a substantially reduce of the freight rate. The shipping company had to face operating loss. At this late hour, even the influence of economic crisis has been daily weaken and the global economic start to revive, insuring the profitability is still a hard question, we call it a post-crisis era.

At the beginning of 2013, the shipping industry seems to show a trend of gradual recovering. The BDI of the first season had a fluctuant raise, rising from 706 in January to 858 in April; the overall situation has obvious improvement than in 2012. At the same time, the shipowner of the freight had raised prices for 4 times in the first season, the consciousness of unity is agreed, raised the rate level in a certain extent. In addition, the second season as the traditional peak season of the freight market is worthy of expectation with the increasing demand. However, excess capacity and insufficient demand is still the current state of the industry, the downturn will continue throughout 2013. Each enterprise shall not be the Pollyanna, keep the fund, and do the cost control is still necessary.

And under this situation, the new challenge and opportunity rises.

1.2 Content and Structure

This paper is divided into six chapters:

Chapter 1 described the research background of this thesis

Chapter 2 mainly introduced current domestic and international research literature review on against the financial crisis, and analyzed present research problems.

Chapter 3 systematically described the status of shipping recession summarized the crisis phenomenon caused by economic impact in 2013. Explained the reason why it appears periodically and also listed the effective counter measure that had been taken in the past several times.

Chapter 4 analyzed the advantages, disadvantages and the range of application of four possible choice: “assets restructuring”, “diversified operation”, “Strategic alliances” and “Cost leadership strategy” for Chinese shipping company

Chapter 5 established the AHP model to locate the optimal solution for HF Company and made several advices for the practice of final answer.

Chapter 6 was conclusion and prospect

1.3 Practical purpose and the related methodology

This dissertation aimed to locate the optimal developing strategy for the HF Company. Although so many studies about the developing strategy all over the world, only few of them will fit the real condition of Chinese shipping company. This paper will gather the first-handed data about the HF Company, and improve the production the former research had made to have a strategy set that really works on HF Company’s situation.

To achieve this goal, there will have some summary and an inductive classification of the former strategy that worked during the past recession; there also will have

some deep discuss about the feasibility and pros & cons of each strategy in order to find out the strategy set that is doable for Chinese shipping company especially in HF's case.

With the result of the analysis above, it will be obvious to find out that each strategy have it own advantage and we will need a methodology which can give a clear answer of the optimal choice. To have a quantitative conclusion, AHP is the methodology this dissertation will choose. Start from building the AHP model, use the reference standard of each strategy as criterion; then calculate the weight of each criterion according to the opinion given by the predecessors of shipping industry; get the final answer of optimal strategy for HF Company though the total score.

Chapter two: Literature review

2.1 Recent research of developing strategy in the recession

2.1.1 Research status on coping strategy during the recession

First, a lot of efforts have been paid to face the fact of economic crisis. Liao (2010) systemically reorganized the kind of crisis phenomenon started from the 2009 recession and made some forecast about the change that may appear in the next 10 years. In Yang's paper, she point out that when a given industry reached a high level compared with the record, after a transition period its operation trend will inevitably enter into a declining curve. Due to the fact that American subprime mortgage crisis made the financial crisis turned into a global economic crisis, the shipping downturn will be rougher. Since the overall situation and main features were revealed by people gradually. There was also more and more research carried on solving this problem. LL Pasinetti's article (2012) shows that we should reform the enterprise, change the strategy we used and precede the merger and acquisition. R Maurer, et al's research shows change from the macro level will be more effective. Such as build the eco-crisis prevent team, put limit on the securities market especially the stock index futures. Dong (2010) thinks if the next crisis needs to be prevented the most important thing to do is to reform the whole global economic system.

From the China's side, so many researchers such as Lei Hai (2011) et al point out that only the politics, law and supervise affect at the same time; the impact of the crisis

could be reduced. And Xing (2005) point out that optimize the policy system and let the government play the role of macro-control will prevent the market from economic crisis effectively.

2.2.2 Research status on the practice of coping strategy in China

Due to the special situation of the shipping market, so many researchers had given their own advice on the practice of the theory above. Qiu Guo-xuan (2012) considers it is necessary for the shipping industry to enhance the strategic cooperation with the client and the one of the same business; increase the competitive power and reduce the managing risk and operation cost at the same time. Use stronger supervision power to block off the irrational shipping capacity. Others, like Gao Jiang-hong (2012) et al think that put restrict on investing independent fleet and freight to avoid the “sacrifice” price competition. In 2013, Ling et al collected the strategy that worked on COSCO and made several analyses on the efficiency against the recession of these strategies.

At the same time, some studies focused on one strategy and discuss its reaction speed, profit margin and other characteristics. For example, Meng (2001) put a detailed discussion on the liner conference and shipping alliance with the case of Sinotrans. Huang (2010) concentrated in the study of M&A and use Maersk as a example. To deal with the problem of increasingly raised oil price, Yang (2011), Sun(2010) and other researcher put their attention on the cost-control strategy.

With the progress of the strategy system, more and more study is around particular cases, especially China here. Up to now, like Gao Qiu-yin(2012) et al had described, turning the price competition of shipping industry into a value competition; changing the ship owner to the ship operator; Adjust the structure of fleet and industrial; Lei Yun(2012)replace the old ship with the new one and build that ship when the market

price is low. Start the international ship management business as Li Chunhua (2010) said. But Zheng(2011)'s research paper is a worth mentioning one which gives a clear plan and abundant thoughts for shipping industry in PingTan. Although it has a restrict field of application, just like other solutions, is a great trial for Chinese shipping industry's to recover.

2.2 Existing problems

However, there are still several problem need to be solved.

First, most research focus on reducing the cost, not take advantage of the special character.

Just like the article of Wen-Hsiang Hsieh (2011) and Liao Chuan-bo (2010), they pay a lot of attention to cutting the cost effectively instead of finding more efficient way to create profit. Or, like the research of Man Ying (2011) thought that the shipping company should stay on the variable cost not to have diversified operation. Since the 2008, 5 years time for a downturn is long enough; obviously it will be better to have new profit margin and a new developing strategy to maintain not only the survival but also the every possible development.

Second, articles about developing strategy in the Chinese shipping market still remain on the theory level.

With the proceeding of the research, although so many topics are around the solution of the shipping recession in china, most solution given by them is hard to apply. It is because their final conclusion only point out the thing needs to be done if the shipping company wants to overcome the recession, and there is no describe

about how to achieve it. Some of them haven't consider even it is possible for shipping company to operate their advise. What is more, although some area have recover their shipping industry successfully, there are still very limited example of a specific company that had successfully solved the problem or have an obvious successful result, which makes it harder to be a reference for the later research.

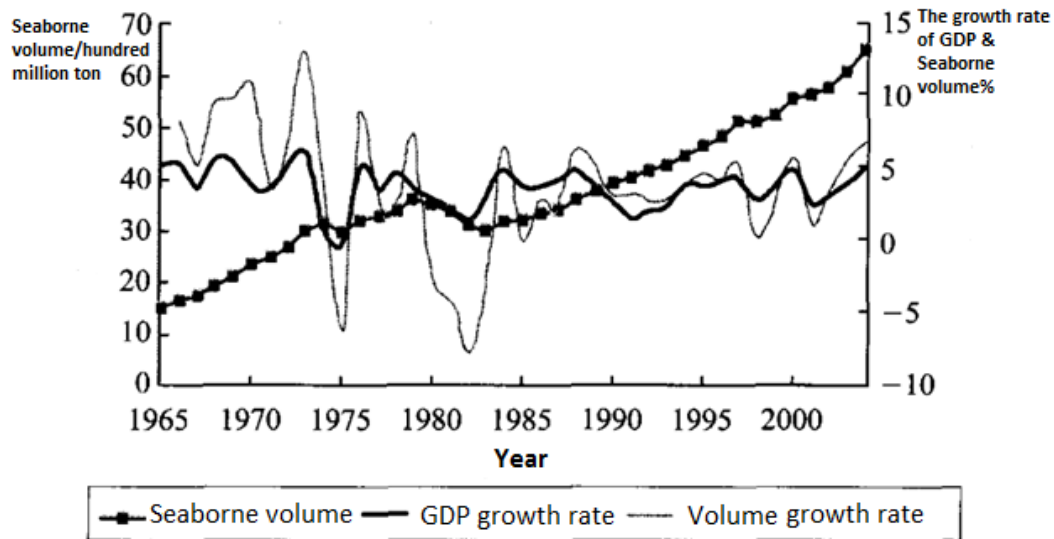
As a conclusion, the economic crisis, as a permanently question have already being studied for a long time and so many solution having risen. But at different places the question differs, the problem in china still need to be put into practice and more analyze need to be done in order to make it suitable for the specific corporation.

Chapter Three: Evolution and general pattern of coping strategy in the shipping industry Recession

3.1 The reason that recession occurs

Shipping market is a industrial chain market that including ship transport, shipbuilding, ports and other related business. Shipping market is a market that derived from trade, and the level of trade development will depend on the economic needs, so the shipping cycle is closely connected with the economic cycle. Fluctuations in shipping market are formed from the interactions of two aspects, demand and supply. Shipping demand is directly influenced by the economic growth and the development of domestic and foreign trade. But shipping supply has a lot of its own characteristics. The interaction between them, lead to shipping cycle.

Relevant data shows that in the last five years, whenever the world GDP increases by 1%, the global container trade will accordingly rise by about 2.8% In China, the container trade volume have even higher growth rate compare with the GDP growth, GDP increases 1%, container volume will grow by about 3.5%



It is thus clear evident that, the fluctuate of the world economy's influence on ocean shipping trade has a magnified effect, which means the change of the growth rate of world seaborne trade volume is far greater than the change of economic growth. So from a certain sense, the condition of the economic development decides the shipping cycle. While the shipping market cycle is lag behind the change of economic growth, because from the perspective of supply, the price elasticity of the shipping supply is very weak

Due to the fact that a ship's building cycle is commonly 2 ~ 3 years, its increase and decrease have obvious lag, therefore makes the shipping market cycle have its certain uniqueness which is different from the economic development cycle. From 2001, the Federal Reserve adopted a policy of low interest rates and tax cuts, promoting American loan demand and house prices rising, commercial Banks carried out a lot of capital securitization and constantly introduce new financial tools structure in the pursuit of high profits. Asset-backed securities' repeated derivative and leveraged deals had met the market demand. But it also caused the accumulation of potential risks.

Since June 2004, the FED back into the cycle of raises interest rates because of the

pressure of inflation. That leads to real estate prices falling since June 2006, the basis of prosperity of subprime mortgage market and the financial derivatives market no longer exist. In August 2007, the nation's fifth largest investment bank Bear Stearns announced a halt to the redemption of hedge fund, which sparked investor withdrawals and the triggering of liquidity crisis. This is seen as a sign of the outbreak of the subprime crisis. After that, the outbreak of the subprime crisis gradually turns into the financial crisis. What is more, this crisis also fully spread from the U.S. financial markets to Europe and the emerging countries' financial market. The national crisis authentically becomes a global financial market crisis. Financial market crisis also affect the real economy through the wealth effect, the credit crunch, and cut off the sources of business financing channels in the world. And that finally become a prelude to the 2009 recession of shipping industry.

3.2 The current recession of the shipping industry

Typical short cycle of shipping markets generally experienced four stages: the bottom, the recovery, the peak and the slump, each stage has its relatively fixed characteristics.

(1) The market's bottom phase. ¹

Reduce speed become a common phenomenon, part of freight rate fell below the cost of operating, and idle ships appears; Because of the lack of working capital and bank loans, some shipowner sell their vessel at low price; Depression of the new ship market, and prosperity of the demolition market.

¹ This definition and previous figure about GDP and seaborne trade is described at the related research like Gan Ai-ping, Qu Lin-chi et al (2012)" Confirm the Chinese '12.5' Shipping Developing Strategy from the View of the Relationship of Economic Growth and Shipping Cycle" SHIPPING MANAGEMENT

(2) The market's recovery phase.

Supply and demand tend to be balanced; Freight rise to more than most of the ship's operating cost, idle ships are reduced; Secondhand ship price rise; Although uncertainties still exist, market increasingly restore confidence; Markets sometimes appear false or temporarily restored, but will truly recovered only after several fluctuations.

(3) The market peak phase.

Ships have insufficient supply, the repairing or scrapping is postponed as late as possible, shipping speed is raised as far as possible; Freight rate becomes 2 ~ 3 times or more of operating costs; 5 years old ships have same price with new ship ; Bank loans is keen on shipbuilding, the shipyard full with orders, new ship price increases, time of delivery extend to 3 ~ 4 years, scrapping market face the depression.

(4) The market decline phase.

Oversupply of the ships, freight rate declines; the phenomenon that ships are waiting for cargo at main port appears in spot market ; Slow down of the ships' speed Begins ;The transaction volume of used boat decrease.

But the outbreak of the 2008 financial crisis caused the speculative money in the shipping market to withdraw. With the fact that global financial crisis gradually spread to the substantial economy, the global economy will fall into recession. And the decrease of global demand and the deterioration of Chinese terms of trade, will lead to China's export growth continued to decline. In the first half of 2009, Chinese shipping industry experienced a reduced demand, increased capacity, rising cost and declined freight rate, which means its losses will also continue further. At present, a

large number of small and medium shipping enterprises are facing the risk of bankruptcy.

The shipping recession this time mainly act on the following three aspects

First, imbalance between supply and demand of the shipping market lead to excess capacity and falling prices, thus operating profit dropped;

Second, the weak global economy causes a downturn of the need of shipping transport;

Third, rising oil prices increase the cost of shipping companies

At present, the crisis phenomenons appear in China's shipping industry mainly has two points: One is shipping companies suffer great losses on operating.

Since the financial crisis start, some part of the domestic shipping enterprise have heavy losses, even some enterprises have to choose suspension in order to minimize losses.

Another one is the shipping companies has excess capacity.

Zhong Shenhua the industry researcher of ASKCI point out that "The shipping industry development too fast a few years ago. The vessels brought by shipping companies were delivered all in these two years, lead to serious excess capacity. And the result is cut-throat competition will cause decline of the profit." in an interview with CIEN.

3.3 The counter measure that worked on Chinese shipping company

In the past several times of financial volatility, each big shipping enterprise had made various coping strategies to be accustomed to the rapidly changing market

environment and the cycle of shipping market, which can be mainly attributed to the following aspects.

3.3.1. The dynamic adjustment for implementation of the past developing strategy

Any the development strategy of an enterprise need a lot of steps, however, in the implementation process of each step, any kinds of unexpected changes of conditions and timing may occur. Past shipping companies, therefore, firstly do the dynamic adjustment to the implementation of the development strategy. And the typical strategy they used as follows

(1) Based on the main business, carry out diversified investment carefully.

The industry pattern of the world is both diverse and specialized. From the perspective of economic competition, the development trend of the world that division of labor based on specialization is shown increasingly clear. Specialization development has become the industrial strategy of many countries in the world. From the point of enterprise competition strategy, the most sensible choice is to seek specialized industrial development strategy, at least chase the diversification of products in the same or related industry development, rather than the industrial diversification. It is the development trend of the world. Past, of course, Chinese companies did not totally negate diversification investment. But they consider only with a strong major business, they will have enough capital to develop. An enterprise without strong business backing, but fantasy with diversified development to keep the enterprise, the result will mostly be regrettable.

(2) Perfect enterprise management system to ensure that the enterprises don't change development strategy as one pleases because of the change of leaders.

Many China enterprises have a characteristic that its leaders change quickly. After the leadership succession, the "direction" must be changed, because it looks like only by doing this can show the new leader is capable, have great ability and with a reformational thoughts. However, this kind of enterprise is in fact any strategy cannot exist. When facing the shipping industry downturn, in order to make the implementation of the enterprise development strategy effectively, the enterprise management system shall be improved, ensure that enterprises are not randomly change the strategy because of the change of leadership. The assets of the enterprise and employees' fate cannot turn into the "experimental field" of all kinds of claims because the changes of leaders. Ensure the enterprise strategy that leading companies' operating direction depends on the company's actual situation rather than the individual's subjective opinion.

(3) Use the capital operation opportunities effectively, and actively expand the enterprise scale, improve the anti-risk ability and competitive power.

The role of capital operation, from the macroscopic side, mainly is to use the allocation of resources efficiently, promote the flow of inventory assets, achieve not only complementary advantages between enterprises but also regional investment rationalization so as to reduce the influence of pulled out assets during the recession of shipping industry; In terms of industrial side, the main target is to adjust industrial structure and integrate the development of the industry. That is conducive to improve the efficiency of the industry, let them work as a whole part to solve the problem of excess capacity; from the microcosmic aspect, mainly is to expand the enterprise scale rapidly, improve enterprise's management efficiency, and enhance the competitiveness of enterprises and increasing the resistance of the financial crisis at the same time.

3.3.2. The promotion of science and technology to enterprise development

With the rapid development of world economy, the economics' networking, informatization and globalization has become a trend. The information technology revolution and informatization construction are making the capital economy into the knowledge economy and information economy, and will change the traditional mode of economic and trade. All this will promote China's transition from industrial society to information society, and speed up the economic structure adjustment and reorganization. Therefore, making full use of scientific and technological progress to drive the enterprise modernization and shorten the gap with developed countries enterprises, thus counteract the downturn's influence on enterprises better. Through technical innovation to realize cost control and efficiency was the strategic direction that many shipping enterprises had chosen.

(1) Expand the application range of information technology; improve the application level of information technology.

Information technology is the main way to improve the production efficiency and competitive ability. The exploitation and utilization of information technology plays an important role on the development of shipping enterprises in the future and its marketization. At the moment that shipping market is facing huge impact, the most important thing to keep the competitive advantage is combine the demand of shipping companies and the current information technology closely together.

(2) Speed up the introduction, development and application of new technology.

The modern high-technology brought efficiency to shipping companies. Shipping

companies should speed up the introduction development and application of new technology, vigorously promote technological progress. Gathering development by technological progress, make sure the companies can get out of the bottom at the first time.

(3) Improve the operating efficiency of shipping company and transport capacity through the technological transformation.

Technological transformation is mainly through the adoption of advanced craft, equipment and technology to replace the existing craft, equipment and technology. This will bring the upgrading that may reduce the consumption and cost, obtain great achievement on economic efficiency, social efficiency and environmental efficiency. Chinese shipping enterprises' technical innovation begin with the need of its own existing strengths and development, so as to hold the key point and do the best they can; And detailed investigation will be arranged on each item of technical renovation so as to not only fully expound and prove the feasibility but also scheme optimization, in order to make full use of limited capital, achieve the maximum effectiveness.

3.3.3. Enhanced management of human resource

Enterprise competition, technological competition, resources competition and financial resources competition, in the final analysis is the talent competition. The one who has the talents, science and technology will occupy the market. Enterprises that want to survive and development in the environment full of fierce competition must establish and perfect the system of human resource management, activate the creativity of the one with talents. To achieve that, one major is human resource

planning.

Human resources planning means turn the enterprise business strategy and goals into manpower needs, do the analysis and set some specific goals of human resource management from the perspective of quantitative and enterprise overall. That makes human resource planning an important measure to make full use of human resources. Human resource planning can optimize the internal personnel structure of enterprise, make the talent flow rationally and extremely realizes that each person will make full use of their talent and any talent will find its best place to apply. All this will provides the enterprise basis and guarantee for getting advantage in market competition.

3.3.4. From “ship owner” to "ship operator"

The best example of this transformation is the history of COSCO group. 1961 - 1979 is the founding stage of COSCO. In the 1980s, business philosophy start to shift for the first time, rely on "borrowed loans to buy or build ships and use the profit they create to repay, operation on borrowings, rolling development" business model, rapidly expand the scale of fleet, which covers break-bulk cargo ship, multi-purpose ship, heavy-lift ship, oil tanker, bulk carrier, ro-ro ship, container ship, semi-submersible vessel, and another various kinds of ship type, greatly enhanced the company strength. When 1993 the COSCO group was founded, there are 560 international maritime vessels, more than 17 million dead weight tons capacity totally.

Since 1996, the business philosophy of COSCO experienced a second shift, "the operator of state-owned assets instead of owner". After the 2008 financial crisis impact on the shipping industry, the major shipping company of COSCO took the "both innovation of thoughts and control of risk" of "paying equal attention to

innovation and standard operation" strategy, in order to progress steady and have scientific management. When markets are at high level, they will strictly control the charting and other risky business' expanding; start the negotiations of reduce charting and stop charting in full swing. Study the charter party thoroughly, try to negotiate about the retreat of charter earlier on the basis of mining any favorable terms. After the Normal expiration, any contract shall not be renew, so as to ensure their own capacity's productivity and profitability. Before make arrangements about the voyage charter party, they sharpen the evaluation and verification of charterers' background and their performance ability. To the one with poor performance ability, no cooperation is determined. Freight and charter hire's collection work were executed strictly. They will take the necessary legal action in a timely manner to the one who don't pay the rent money for period of time. At the same time, adjust the fleet timely; complete the risk assessment plan for the rent out boat. Rent the boat without delay, and make tracking management earnestly, to prevent the ship encountered surrender of charter at a high price. Since 2009, COSCO group realized that the global economy step into the "post-crisis era", and timely put forward the slogan "build the permanent COSCO" to achieve the sustain ability of groups' basic business; Keep a clear mind, do all they can to catch up and survive in the battle of shipping "post-crisis era". COSCO claimed that focus on the economic benefits to start the action of adjust structure, grasp opportunity, innovate continuously, deployment actively, plan carefully; realize the scientific development of the China ocean shipping. On the specific measures, continue to enhance the confidence of the ability to create profit, carry out the opportunity management vigorously, optimize the structure of capacity scientifically, seize the market rebound opportunities, and constantly enhance the competitiveness of their fleet and digging a new growth point of the profit. Pay most attention on the following two goals: Substantially reduce the loss of container transport, to the container ship, scrapping a part of them, sell a part

of them, leave a part of them unused and delay the refund of some new ship; Significantly increase the profit of bulk transport, according to the great import of ore, coal and grain in China, using the volatility of bulk carrier market, chartering some part of the bulk carrier at low price, and remove some part of the carrier that rented at the high price and sold some part of its own aging ship. Try to standing on the starting point of the "post-crisis era", and strive to achieve COSCO's sustainable development. These series of combination of action have unprecedented strength and incredible complete set of form. All this bring COSCO fleet a leapfrog development. As of 2010, the enterprise own and control 792 ships (56.2 million dead weight tons), as the world's second shipping group. This marks COSCO has entered into the phase of take-off, its dry-bulk fleet becomes the best one in the world, and its container fleet is the sixth in the world. COSCO logistics ranked the top in China for five consecutive years, COSCO Pacific port's container throughput ranked fifth in the world. At the same time, COSCO group ranked 327th in the fortune global 500, from 2005 to 2010 its profit is over 100 billion RMB.

3.3.5. Overseas development

With the comparative advantage of cheap labor costs, China was labeled as "world factory" and "maritime power". The forces of traditional manufacturing led by America and manufacturing and the one rise in China have a violent collision. At the same time, those countries already got strong shipping power (e.g. Europe and the United States) had a fierce battle with the one have new rise powers of shipping. To become the global logistics operator, COSCO build up a network station all over the five continents four oceans, the typical case "Greek port, China boss" appears. The

COSCO Pacific under the COSCO group got 35 years franchise of Piraeus port container terminal no. 2 and 3. Since COSCO Pacific smoothly take over Greece Piraeus port container terminal, port throughput increase 25% from a year earlier. Piraeus port becomes the first big container hub port of the Mediterranean.

3.3.6. Mergers and Acquisitions

In the "post-crisis era", shipping enterprises which belong to the government of China proposed restructuring, mergers and acquisitions, and improve enterprise competitiveness and ability to resist the risk with the support of government. As early as in 1994, COSCO group's head office combined five subordinate container departments to establish COSCO container shipping company, namely, COSCON. In November 1997, COSCON's headquarter moved to Shanghai, merged with Shanghai ocean shipping company, specializing in container transport business from the head office of COSCO. In 2009 recession, the two big shipping group Sinotrans and Changhang shipping group merged, and the new company's total assets reached 110 billion RMB, focus on the development of integrated logistics, shipping, building and repairing three big main business, the scale of operation is more than 1,00 billion RMB. And restructuring proceed into the shipping sector such as structural adjustment of the several major parts (oil, bulk cargo, ro-ro and container). Not only effectively enhance the anti-risk ability, but also pave the way for ensure market share and the allocation of macro resources.

3.3.7. Shipping alliance

Shipping strategic alliance appeared in early 1996, its purpose is to set up cooperation agreement based on a global scale. At that time the shipping market had

surplus capacity for a long time, the market competition is fierce, and, the competition of shipping industry is not only limited to the freight rate. In the downturn with excess capacity and shortage of customer source, the pursuit of customer loyalty is more important, which means the competition of service quality, thus make quality of service become the life source of shipping companies. In addition, with the acceleration of international economic integration, international direct investment scale expands increasingly; more and more region and the National were covered. A lot of transnational enterprises with subsidiaries and holding companies in multiple countries appeared, they had centralized decision all over the world, and that has prompted cargo flow moves more frequently, more decentralized and fewer throughputs. Therefore, they always choose those shipping company with high density of shift, wide coverage of port and fast speed of transport. Shipping alliance could increase density and expand coverage for ports just by sharing shipping space and coordination with the shift, so as to service the owner better. Different from the scope of alliance venture, the content of the agreement are not limited to a specific one or several routes, but involves different routes of one specific carrier, namely in the strategic alliance, members of the company is to operate all-round cooperation on a global scale including the use of the vessel the increase and decrease of capacity, the renting of the container ship's space, etc. In the China case, for example: in 1995, Sinotrans had a joint venture with the ZIM shipping company on China/ Mediterranean line. In 1996 they providing Shanghai/West America route by renting the space of Hanjin. In 1998, Sinotrans put five 2300 TEU container ship into Far East/China routes together with Hanjin; CSCL made an agreement on exchange the shipping space with CMA CGM and ZIM.

In the financial crisis this time, the famous shipping alliance that include Chinese shipping companies are CKYH (from alliance member says the COSCO \ K 'line \ YANGMING\HANJIN) and the grand alliance which consist of OOCL/NYK/HAP,

both of which were among the world's four big shipping alliance, at the time of the shipping trough they still show a strong performance.

Chapter Four: Possible choice for Chinese shipping company in this recession

Since the 2008 global financial crisis, China's shipping market has been in the doldrums, during that period it had recovered slightly, but it is difficult to recover the situation that all the way down. Due to high dependence of foreign trade, both exports and imports as long as there is a weak, shipping industry is bound to be thwarted. Coincided with the fact that in 2012 import and export in not only China but also the whole world is not ideal, most shipping companies can only continue to live with the bad situation, many shipping companies have to sell their ships just to survive. In 2012, Changhang Phoenix, CSDC, CSCL and some other shipping companies have to survive by selling finance "fortune" such vessel or container. At the same time, many inland river small shipping enterprises are eliminated, and exit the market. After the previous research on the historical of shipping recession, integration of the development strategy for Chinese shipping company to choice according to current situation is listed as following kinds. The article below will also discuss the present situation of the shipping industry downturn, and not only the further impact of each decision but also analysis in view of the pros and cons.

4.1 Assets restructuring

Restructuring is a broader concept than the M&A; it includes the process of mergers and acquisitions even it's before and after. It is a integration of business

restructuring, assets restructuring, debt restructuring, equity restructuring, human resource restructuring and their management system, Which is divided into two aspects: internal restructuring and external restructuring

Internal restructuring: Optimize the company's own assets and resources

External restructuring: The M&A between companies.

Internal asset optimization including reduce the number of the company own vessels and turn them into leased vessels; The replacement of old ships; Obsolete the boats rented at high price and rent new ships when the market price is still low; The leasing and sale of spare empty container of the container carrier; On the bulk carrier and tanker side, due to the situation that overall capacity have surplus there, modifying the ship's type to adjust the structure of its capacity. And phase out 20000-30000t class old ship.

On the other hand, do the M&A with other companies, will form the super professional company with intensification and large scale. Its representative example is once in the 1990s, P&O and NED ranked fifth and eighth of the world respectively. After the merger, P&O Nedlloyd raised to third of the world. After that, P&O Ned was acquired by Maersk in 2005. Now, the space for China's shipping companies' mergers and acquisitions is very big cause there are more than 5000 domestic small and medium-sized shipping companies in China. Through restructuring, joint, merger, lease, reduction, joint venture, selling and other way, on one hand can save these small shipping companies, on the other hand can also strengthen the large shipping enterprises with good benefits. Compared with the M&A trend in western developed countries, mergers and acquisitions of shipping in China is still in a state of "warm", to let small and medium-sized enterprises survive the cold winter, let large-scale enterprises participate in international competition, merger and acquisition integration will be the first level strategy. Zhen Hong, the secretary-general of Shanghai international shipping research center Said: "If small

and medium-sized shipping companies want to save themselves, the first thing to do is to enlarge the business scale, so the ability to resist risk will be improved. Company has large scale represents it has large capacity, has a stable resource of cargo, multiple route, low cost and other advantage. The second thing for enterprise to do is to improve management ability. Including establish long-term relationships with customers and ensure a steady supply of goods. At the same time, to strengthen the company's marketing ability, so as to reducing cost "although COSCO, CSCL two big container liner companies have reach the world top ten, but they only have about 7% of global container transport capacity. While the total account of container transport in China is roughly 20% of the world. That is to say, most of China's international container shipping is borne by the foreign companies. And the main point in the international competition is who has more strength. In the competition for international market, even COSCO, CSCL combined their capacity together; they still cannot meet the level of Maersk Company, which means Maersk has stronger bargaining power and more customers. Zhen Hong thinks if China's shipping industry can realize the integration, it will be more conducive to have competition in the world.

To increase the size of the shipping companies are not only merger this path, shipping enterprise can also use joint operation or additional investment to increase the scale. But in the present moment, M&A is a more reasonable choice. Mergers and acquisitions use assets as a link, to form a stable enterprise, and it is more conducive to cost savings. In the rapidly changing market, M&A will allow companies make their own decision quickly, thus obtain higher financial interests. But the joint operation is formed by agreement, and the agreement is not protected by law, and has poor stability. If through additional investments to implement reasonable economic scale, it will need a lot of capital and technology strength, most small and medium-sized shipping companies do not have such power. What is more,

excess capacity still remains to be the first problem of shipping market, increasing investment will only make more chaos to market order. In spite of the fact that shipping enterprise take various measures to cost savings, the only truth we can see is transportation costs of shipping are still rising. So improve the bargaining power becomes the key to dealing with high cost. Along with the trend of merge port , port industry preliminarily show the sign of monopoly. The world's top four ports operator control port rate, price for the shipping company increase again and again. Rising fuel costs is also a problem for shipping company to deal with. In this kind of embattled conditions, drop space for costs is very limited. At the same time, under the current situation of excess capacity, Chinese small and medium-sized shipping companies slash price to fight for market share, improve the bargaining power seems to be impossible. But if mergers and acquisitions are taken, with the expanded scale and enhanced strength, the bargain with upstream suppliers can achieve.

Although M&A's advantage is play economic of scale more effectively, ensure market share and have better resource allocation so as to revise and hedge the effects of shipping recession, the disadvantage is that measure's implementation takes time, and to replace old vessels with new one or replace high rental vessels with lower one need to invest a lot of money and do extra research to the market, is a burden to operating costs, cannot release the enterprise from the financial crisis at the first time. Also, there are some big risk for mergers and acquisitions. For example, integration after mergers and acquisitions is not easy. Only the two groups have mutual understanding and the people of two groups are familiar with each other, they are willing to exchange information, technology and experience. And only by this, they may join the big collective joint and produce a wide range of synergistic effect; otherwise it will just be theoretical. Especially in transnational merger and acquisition, Two enterprise with totally different background, irregular conflicting,

or the inevitable situation of change the enterprise culture rapidly will lead to the phenomenon that two factions appear in the new company, rather than cooperation each other as expected.

4.2 Diversified operation

With the diversification of trade way, the mode of transportation also tends to be diversified. The customer won't simply satisfy by just transport their goods to the destination. Especially in these days, shipping rates have been falling and the operating cost is rising. To facilitate maximum cost control and provide the best service, they gradually focus on the whole delivery process and way to delivery. At same time, competition between shipping enterprises make them will no longer confine their business to the transportation between ports, and major shipping companies trying to develop into a "door to door", "point-to-point" integrated logistics provider from a simple "port to port" goods transport carrier. From the point of the whole logistics industry chain, the shipping company's past marine transport business actually is just a link in the logistics chain. In the background of logistics' globalization, the one provide customers with a full range of logistics services can be in an impregnable position in the competition of enterprise, which forces shipping enterprise extends their service range upwards along the logistics industry chain downstream, become a comprehensive logistics service provider.

Shipping enterprise develops logistics have a series of advantages: shipping group has good international logistics network and certain customer base, typically COSCO and China shipping, etc.; they have traditional source markets, a sound global network of advice. In terms of shipping enterprises in China, accurate understanding the situation and get into the field in a timely manner can win the rare development opportunity for themselves. Looked from the development of logistics

in developed countries, transportation enterprise are the main booster and logistics service provider. The shipping company has the advantage and conditions of developing logistics service, this is because:

(1) After long-term operation, shipping companies have advantages on relatively perfect shipping agency network in coastal, along the river and inland cities; some also have port terminals, warehouse, yard and onshore infrastructure, which create the basic hardware conditions of logistics services.

(2) Shipping companies have trained a large number of talents in the fierce market competition. They have a pioneering consciousness and are proficient in management and marketing, that makes them the backbone of the shipping enterprise's development of logistics business.

(3) Compared to other logistics service providers, shipping companies have a solid financial strength and management level. In the process of operation, they have been cultivating their own brand, to win the trust of logistics demand.

(4) Shipping companies contact with a wide range of customers, established long-term cooperative relations with many customers, it is an important resource for the future development of logistics market.

In addition to the development of logistics industry itself, there is a way of vertical mergers and acquisitions on Logistics Company, and this is also a wise choice. First of all, through the vertical merge the logistics companies, shipping companies can get the related key technologies and management experience to avoid detour; Secondly, through mergers and acquisitions, the change from a single transport enterprises to integrated logistics service provider can be realized in a short period, not only saves time, but also to get advantage in the competition. For example, NOL bought APL to expand its Logistics business, then in early 2001 use more than \$200 million buying American New Logistics Holdings' 100% stake through APL, which owns two excellent Logistics company. The deal makes APL

logistics provided services have significant progress at cost, delivery time and the supply chain management. Under the trend of shipping enterprises gradually transition to comprehensive logistics enterprises, the merger NOL taken for APL will let NOL have a complete service system, and it is conducive to its high quality value-added services that provided to customers. But on the other hand, this needs enterprise have large scale, broad customer base and a huge financial support, although as a transformation development way it is fruitful ,but a high threshold for small and medium enterprises which is suffered in the financial crisis, it may not be suitable way.

4.3 Strategic alliances

The main reason that shipping companies enter the strategic alliance is when enterprise will inevitably bring excess capacity problem in the pursuit of economies of scale. By the enterprise itself alone is difficult to eliminate the result of business is not economic that caused by the contradiction. But participate in the strategic alliance can consolidating internal resources while sharing external resources.

Shipping alliance cooperation have diversified forms, the most basic one is slot charter. Slot charter is in the case of not put in its own ship, but renting part of the fixed number of shipping space from the other operator who already have slot in the line they want to run so as to operate the related route. Shipping company may compose a network structure of new transport lines from different shipping companies' route through slot charter. In downturn of shipping market that plagued by financial impact, slot charter between each enterprise may retain the market share and cancel the excess or inefficient shifts more effectively and more conveniently.

In general, strategic alliance is the early shipping pool that developed with slot charter, slot exchange, agreement on sharing vessels, routes' joint venture and share

the onshore facilities then changed into today's shipping company achieve long-term cooperation arrangement based on the strategic purpose. Strategic alliance essentially is the advanced stage of shipping joint operation. Considering the shipping trough and the crisis phenomenon appears in Chinese shipping enterprise, slot charter is easy to implement and need less input costs, but can effectively keep the market share. Once alliance agreement achieved, the effect will show immediately. But relatively, in order to reach the alliance goal needs negotiation with the same trade; From decision to the practice needs turnaround time. Due to the situation that different companies have different aspect of interests, in order to reach an agreement, the strategy terms of the agreement will also cause a burden to the company's original business.

4.4 Cost leadership strategy

The outbreak of the financial crisis caused a sharp fall of shipping market and brought great impact to shipping companies. The 2008 operation revenue of COSCO is 115.9 billion RMB and the net profit of 11.9 billion RMB, while in 2009, the operation revenue fell to 55.7 billion RMB, and the net profit is a loss of 6.7 billion RMB. CSDC's operation revenue in 2008 is 17.6 billion RMB and net profit of 5.4 billion RMB, but in 2009 operating revenue fell to 8.9 billion RMB, and net profit fell to 1.1 billion RMB. It still seems to be profitable due to CSDC's domestic high profits on crude oil and coal transportation. Although the shipping market has somewhat recovered, it is still a low level of recovery, cost control remains to be necessary. It is the fundamental of shipping company to deal with crisis, survive and start a new round of development, as well as an important management tool of value creation and risk prevention.

Shipping companies expand their scale in the way of developing can improve

the bargaining power and negotiation power in the purchase of ships, in order to lower the new purchase ship's price as far as possible or improve ship's configuration under the condition of same price. To the booked vessel, should start from the current actual situation. Have negotiations with shipyards suggest them to spare some part of interest to overcome the difficulties together, so as to reduce the cost of shipping order. In financing negotiations of purchase ship, the rising power and expanding scale of the enterprise can also improve the bargaining power. What is more, they also can bind several ships for financing, so as to have lower financing price and reduce the cost. Operating division shall strengthen the analysis of the trend of fuel market, find the price space of fuel market timely, through inquiry, negotiation and other ways to choose a larger, qualified fuel supplier, locking a certain proportion of the fuel costs, strive for the preferential price, ensure the quality of supply and work hard to reduce fuel costs. Strengthen the analysis of tax-free oil market in China, according to the ship's working characteristics, find reasonable filling-up area for enterprise's ship timely, increase the quantity of duty-free oil going to add, pay effort to reduce fuel costs. Having technical evaluation and analysis on the ship fuel oil usage, any vessel that is suitable for burning inferior fuel shall change the using oil into inferior fuel, to increase the proportion of fuel oil in the total consumption of the ship. Operating division shall strengthen the collection understand and study of any domestic or international laws and regulations that related to port charge and other information of port collectable that charges such as the rates, the standards and the policy, thereby refuse to pay unreasonable fees; Strengthen analysis and communication with the local maritime sector of each regions, so as to have agreement on the withheld of harbor dues in the scope that policy allows, making convenience for shipping operation, lower cost as much as possible. The department that directly operate the ship shall strengthen the analysis of ship repairing market , establish the qualified ship repairing manufacturers list,

choose the repair factory with better perform or cheaper price, reduce the cost of ship repair.

In addition, under the present situation with no need of additional capacity, vessels can use the optimum speed, in order to minimization the cost of fuel. Having forecast according to customer demand, cancel some shift with lower transport demand in order to reduce maintenance costs. But cost leadership strategy will have a huge impact to the past operation mode of the company, and have lower compatibility with other strategies. After all, it is a strategy just to prevent profits deficit from further expand, increase resilience to the "winter" of market. Just "stop spending" won't have the effect of "raise earning"; passively waiting for market to change can't actively lead enterprises get out of the crisis.

Chapter Five: Locate the optimal solution for HF Company

5.1 Brief introduction of HF Company



HF Company is Asia's leading shipping logistics companies, business scope involved in container liner shipping, freight forwarding, customs inspection agency, ship agents, ship broker, ship management, trucks, LCL, etc. As of December 31, 2012, the company operated 60 container vessel, including 27 its own container ship; 52 routes, network covering China, Japan, South Korea and southeast Asia 46 main port, 10 countries and regions. Is one of the largest private container shipping enterprises in China, and ranked the third in foreign trade container transport industry of China. Company has enough capital to develop multi-aspect business, and have certain resistance to the risk. At the same time, HF Company has the bargaining power when face upstream and downstream. Just like any other shipping companies, company HF also suffered from the impact of financial crisis, at present, company's major container business is facing the loss, but its emerging small scale logistics

industry have earned a profit recently. In addition to this, company management strategy is not to develop ocean shipping for the moment, in order to practice the professional transportation in Taiwan and Southeast Asia.



5.2 The applicability of the solution above for HF Company

5.2.1 Asset restructuring

After the baptism of the financial crisis, the container transportation as HF Company's main business is at a loss. As of December 31, 2012, company own 27 container ships, and the other 33 ships is leased, the average age of them is 7.2 years. Considering that vessels' age is very low, and the present situation of the excess capacity, the internal restructure strategy that scrap old ships and purchase new one will have limited effect. Through survey of HF Company's employees, although company is in the situation of excess capacity for most time, it will still face the shortage of capacity at the holidays and other travel season, consider the contrast of maintenance fee and abandoned waybill comprehensively, sell the old ship and extra containers is probably do more harm than good.

But on the other hand, HF Company as the carrier, they have to provide customers with a full range shipping transportation services, in order to deliver the

customers' products to even the most remote places as cheap as possible. And customer prefer to leave all its requirements to one carrier rather than several, because so that him can understand the carrier further. In order to meet customer demand on the maximum limit, the shipping enterprise itself must also be global, to become "global carrier". In this case, the merger integration became the HF Company's another development path of globalization. HF Company has a corresponding capital for the external assets restructure: the vertical M&A. Through mergers and acquisitions can achieve. Shipping industry is a industry that scale effect is very significant, through mergers and acquisitions shipping industry can reach economies of scale on routes, ships' purchase and other aspects, the fortune that HF Company realize scale expansion by M&A is promised.

5.2.2 Diversified operation

Through the extension of industrial chain, HF Company may transform into a comprehensive logistics enterprises. Actually, ocean transportation is just a link in international logistics industry chain. With the aggravation of competition inside the industry, extension through the upstream and downstream of industrial chain seems to be the inevitable trend of developing of shipping enterprises. HF Company, in fact, only paid a small effort on the logistics industry, and there has been a real harvest. With the prove of precedent and the support of the reserve assets, HF Company can provide customers with a full range of value-added services through vigorously develop the logistics industry and transform into a logistics shipping enterprise by vertical mergers and acquisitions, in order to improve the comprehensive competitiveness of shipping enterprises

5.2.3 Strategic alliances

Container transport market is a competitive market, especially in recent years; the market in general is in a state of oversupply and makes competition more intense. Shipping companies frequently use reduction means to compete for the resource of goods, the result is lose-lose. Thus, the shipping companies had strong motivation to join up and control the price on a route together; it is good for all parties. As a shipping company that takes container transportation as the main business, have global shipping network is market's objective requirement to the HF Company. But due to the current coverage of route and market access restrictions, HF Company cannot build such global network based on its own capability a lot of shipping company have the same problem, so there is motives for cooperation between each other. Through slot charter, joint venture of each fleet and other methods to build a global shipping network, and it is also one of the basic motivations of shipping alliance's formation. In addition, through these methods, HF Company may increase the loading rate of the vessel, to avoid the vicious competition between other companies; all of these will help to improve the efficiency of HF Company.

5.2.4 Cost leadership strategy

Due to the fact that HF Company is facing the loss on its main business, having cost management is also a top priority. In the HF Company's situation, considering fleets' low average age, purchase of ship should not be the focus of cost management, on the contrary, positive disposition to inefficient or ineffective assets and reduce the invalid cost spending is the effective control of future cost. To achieve this, company can set up leading group for cost control which will take the responsibility of the management, coordination, supervision and examination work in the enterprise

cost control. To the upstream fuel oil supply of enterprise, a certain degree of negotiation can also be taken through the company's bargaining power. HF Company can also refer to the fuel hedging example of United States southwest airlines to avoid oil prices further increases caused by the recovery of industry in the post-crisis era. At the same time, both looking for tax-free oil and increase the proportion of inferior oil for the ship type that is adapt to inferior oil is feasible. In addition, according to the examples provided by company internal staff, there is the phenomenon that on operating time in harbor increased because of the change or inconformity of the foreign holiday arrangements. The company's operating departments should have fully contact with the proxy, charterer and the consignee to get the ship attached at the first time, so as to shorten the non operation time in harbor. Similarly, increase the communication with ship management department, will shorten ship's emergency repair time, reduce the non working days and improve the efficiency of the ship in a tense period.

Company also can realize data sharing through the information platform, further adjust and optimize enterprise's management process, improve the efficiency of enterprise's production and management as well as reduce the management cost effectively. What is more, start from the energy saving management, technology, and other aspects, using the latest scientific achievements, absorbing advanced technology, equipment and management methods constantly will promoting HF Company's energy management in line with international standards, apply the advanced productivity in specific management work. Pay efforts to reduce energy consumption of the ship can also reduce the energy costs.

5.3 Determine the optimal strategy

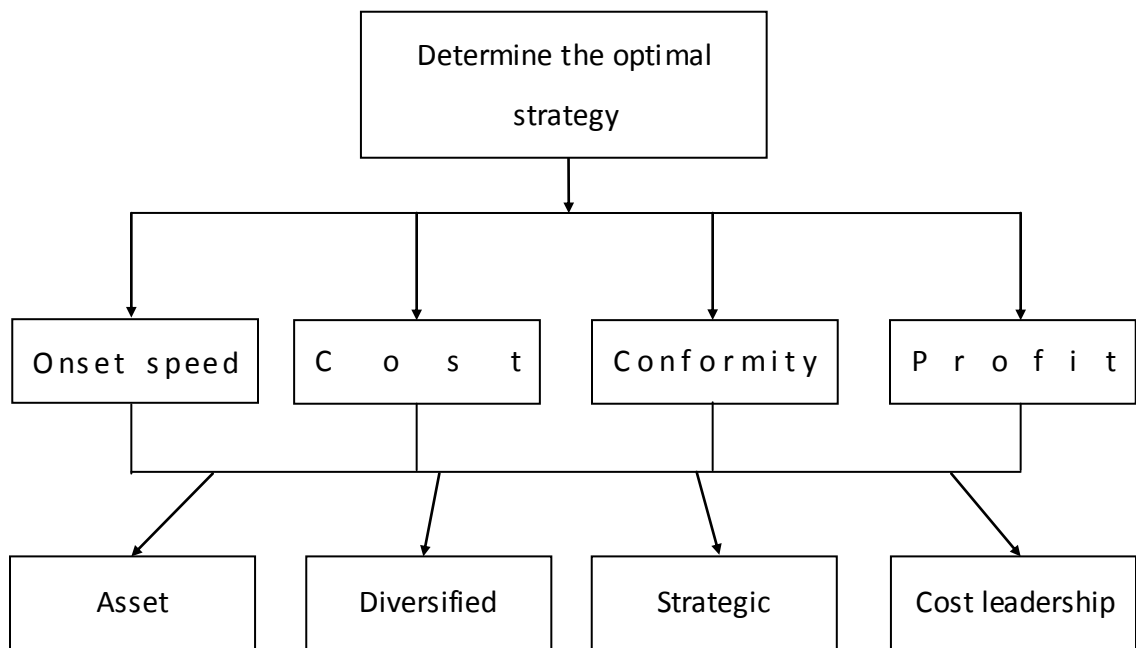
To analysis the merits of the above several decisions scientifically, and find out the optimal development strategy for HF Company in the post-crisis era, I chose to use the AHP model here.

5.3.1 Establish the AHP model

According to the description above, there are four available strategies for HF Company. And for each strategy, set up the following four main reference standards.

1. The application and effect time of the target strategy
2. The input cost that target strategy required
3. The applicability of the target decision
4. The income level that target strategy will create

Then build the AHP model as below.



5.3.2 Determine each criterion's weight.

And for each strategy, set up the following four main reference standards.

1. The application and effect time of the target strategy
2. The input cost that target strategy required
3. The applicability of the target decision
4. The income level that target strategy will create

I formulate the questionnaire according to the four indicators, inquired several predecessors of shipping industry, and about 20 practitioners of shipping industry. According to the requirement of the AHP model, I list their opinions about the level of importance of each parameter for HF Company' developing strategy in pairwise comparison matrix as follows:

A	Onset speed	Cost	Conformity	Profit
Onset speed	1	1/3	1/5	1/9
Cost	3	1	1/4	1/5
Conformity	5	4	1	1/2
Profit	9	5	2	1

The matrix created here will be called matrix A, and each unit of it will be a_{ij} .

Among them, the value a_{ij} represent the importance when horizontal axis criterion compare with the vertical axis one, for example:

$a_{12}=3$, then it means the cost of target strategy is slightly more important than its onset speed.

$a_{14}=9$, that represents the profit that target strategy will bring to HF Company is absolutely more important than its onset speed.

$a_{21}=1/3$, contrast to $a_{12}=3$, shows that the indicator “onset speed” is slightly

less important than the indicator “cost” etc.

Then normalize pairwise comparison matrix A to get the adjoint matrix A* through the following formula

$$a_{ij}^* = \frac{a_{ij}}{\sum_{i=1}^n a_{ij}}$$

A*	Onset speed	Cost	Conformity	Profit
Onset speed	0.0556	0.0323	0.0580	0.0613
Cost	0.1667	0.0968	0.0725	0.1104
Conformity	0.2778	0.3871	0.2899	0.2761
Profit	0.5000	0.4839	0.5797	0.5521

After that, calculate the weight for each criterion

$$W_i = \frac{\sum_{j=1}^n a_{ij}^*}{n}$$

W
0.0518
0.1116
0.3077
0.5289

5.3.3 Checking for consistency

Define the Column we got as matrix W

Multiply A with W to compute AW

AW		W	(AW) _i /4W _i
0.209288483	/4	0.0518	1.010399796
0.449645885	/4	0.1116	1.007420023
1.277418841	/4	0.3077	1.037874126
2.168303543	/4	0.5289	1.024849689

Get the ratio of each element of AW to the corresponding weight in W and average these ratios, their summation will be λ_{MAX}

λ_{MAX}	4.080543633
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Compute the constancy index (CI) by λ_{MAX}

$$CI = \frac{\lambda_{MAX} - n}{n - 1}$$

CI
0.026847878

The constancy ratio (CR) = CI/RI

Devide CI by the random index (RI) in following table with the appropriate value of n.

n	1	2	3	4	5	6	7	8	9	10	11
RI	0	0	0.58	0.90	1.12	1.24	1.32	1.41	1.45	1.49	1.51

Calculate the constancy ratio and checking for consistency. Satty suggests that if $CR = CI/RI < 0.10$, then the degree of consistency is satisfactory.

CR
0.029830975 <= 0.10

Since the pairwise comparison matrix A has passed the check, it won't exhibit any serious inconsistencies.

5.3.4 Determine the scores of each strategy on each criterion

Value the scores of reference standard for every strategy from 0 to 5

	Onset speed	Cost	Conformity	Profit
Asset restructuring	2	4	3	2
Diversified operation	3	3	4	4
Strategic alliances	1	4	4	2
Cost leadership strategy	4	5	3	1

5.3.5 Calculate an overall score for each strategy, determining the best alternative.

Multiply the score of each strategy with the corresponding weight (W_i) and the final answer is the overall score for each strategy

	Onset speed	Cost	Conformity	Profit		W_i			
Asset restructuring	2	4	3	2 *		0.0518	=	2.530867849	THIRD
Diversified operation	3	3	4	4 *		0.1116	=	3.838632899	FIRST
Strategic alliances	1	4	4	2 *		0.3077	=	2.786785078	SECOND
Cost leadership strategy	4	5	3	1 *		0.5289	=	2.217086444	FORTH

The optimal strategy is the one with highest score, which means the diversified operation here.

So the final choice is	Diversified operation
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5.4 Practical advice for the solution above

After obtaining the optimal development strategy for HF Company by AHP model, I put forward the following Suggestions according to the actual circumstance of HF Company and current market situation.

1. Take advantage of the company's brand, expanding scope of logistics services

In the logistics system, the strongest part must be the major shipping companies. HF Company as a shipping company has set up good reputation in the long-standing business dealings and created its own brand. They should make full use of it to expand scope of logistics services. Measures can be adjusted to local conditions, not only have cooperative logistics business with railway, highway, aviation and warehousing enterprise through contract; But also invest manpower and fund to build their own independent integrated logistics business; What is more, they can be

combined with foreign logistics operator, receiving capital and technology as well as to identify and expand their markets.

2. Integrate existing functions of shipping affiliated industry, organize the comprehensive logistics services

According to the definition of the world trade organization (WTO), shipping affiliated industry including ship agency, freight forwarding, loading and unloading, warehousing, container depot and customs clearance these six businesses. The characteristics of these services is have wide channels of information, strong integrity, little fixed investment and limited management risk. From a practical perspective, many Marine affiliated entities have composite many functions; some even has direct property right relations with shipping company and port. The problem these entities need to solve is how to integrate existing function, using the complementarity of existing elements to mining the whole potential. Another advantage of affiliated services is the talent, HF Company can take advantage of the low cost of China's human resource, provide the goods packaging, storage, spell devanning and customs clearance, inspection declaration and other services in the form of "labor services output" according to customer needs.

3. Set up logistics base near the port; expand the breadth and depth of value-added services

Port is the center of the distribution of goods and information exchange, the emerging logistics services relying on the port mainly reflects on the logistics distribution. Obviously, the role ports played in modern logistics is much more than these, because the function of the logistics itself is not only produce space and time utility. In addition to the traditional function, HF Company should make full use of advantages of port, expand the scope of product value-added services based on the

traditional handling and storage function, such as providing goods packaging, labeling, parts assembly, repair, return processing, simple processing and other value-added services.

Moreover, the information exchange that centering on the port should be able to change the fragment situation into a focus, value-added process. Port's information platform should be armed with large capacity, high precision electronic information system so as to synthesizing, processing, sorting and releasing the information of the logistics service providers, customers, customs, Banks, etc, in order to maximize the role of information resources, so as to improve the value-added function of the logistics. Although HF Company decided to achieve professional by the offshore container transport specialization, the neighboring countries also can have Development of the internationalization on logistics, and set up global logistics system. Therefore, comprehensively enhance the cultivation of the logistics related professional talents also needs to improve and improve.

4. Occupied the logistics market rapidly through M&A or other joint alliance

HF Company can quickly have other companies' enterprise resources through mergers. This is developing mode for enterprises to increase the scale, expanding the market and reducing competition rapidly. After China became a formal member of WTO, shipping companies may have cooperation with foreign logistics enterprises in a more open and fair environment. Foreign logistics enterprises have the advantage of capital, technology and management, while Chinese shipping companies not only have a lot of local talents that familiar to the national conditions, and have a relatively complete domestic network. They can use each other's strengths to establish logistics alliance, achieve complementary in cooperation which has made it possible to develop domestic and international logistics market jointly. Cooperation of shipping companies also includes cooperation with domestic enterprises that have

advantage in the particular field to realize alliance between giants, strengthen competition ability and the logistics service advantage in specific areas.

Chapter six: Conclusion and Prospect

6.1 Research conclusion

Due to the fact that the fluctuation of the world economy has a magnified influence on ocean shipping trade, the condition of the economic development decides the shipping cycle. And ship's building cycle makes the increase and decrease of shipping market have obvious lag. Although since the 2009 crisis, 4 years passed, there still are so many shipping companies facing the lost even collapse. The shipping industry need to deal with the post-crisis era.

The counter measure that works in the financial crisis had evolved a lot, and most of them had been taken by Chinese shipping enterprise to break the hard situation of recession. Considering the current situation of Chinese shipping market, these four strategies will possibly work: Asset restructuring, Diversified operation, Strategic alliances, and Cost leadership strategy.

Although there are so many strategies for HF to choose, the best one that suits the condition of HF is diversified operation. And in HF Company's case, enhance the logistic service will be a reasonable one because HF have its own brand and enough assets to support the diversified operation and timing for M&A in China is just good enough. By developing its own logistic service and purchasing other logistics service companies, HF can start its diversified operation in a certain scale at the first time, create a lot profit, get rid of the influence of shipping industry recession as well as achieve its further development.

6.2 Prospect

In view of the limitation of author's expertise and time, there are also many issues on locating the optimal strategy can be deepening in the coming research. Based on the research conducted here, several further analyses related to the following area can be motivated:

(1) Implement a forecasting on the trend of freight rate and the price of vessels according to the execute time of the strategy. Use the result to value the score of criterion so as to get the result more precisely.

(2) Analyze the compatibility of strategy between each other, value the compatibility and use it as the ratio of strategy set. Calculate the overall score of the strategy set to locate the optimal strategy set for HF.

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