



An analysis of the current situation for Polish ferry operators in a transitional environment

Elzbieta Kapsa¹, Michael Roe^{2*}

¹ Department of Management and Economy, Technical University of Gdansk

² The Business School, University of Plymouth

Abstract

This paper begins with an analysis of the situation in Polish ferry shipping as it enters the new millennium and faces increasing tension caused by the extended process of transition. It goes on to present a SWOT analysis conducted amongst experts within the sector to identify the strengths, weaknesses, opportunities and threats that face the sector. This reveals the severity of problems that exist and which in particular are faced by the state operator Polferries. Discussion then follows of the proposed strategy for the industry from the Polish government before looking at the role of price in particular. Finally conclusions are drawn from the analysis.

Keywords: Ferry; Shipping; Poland; Baltic; Transition.

1. Introduction

This paper has a number of objectives which are all centred upon the Polish ferry sector during the period of transition from the state controlled Communist era to the current market led environment:

- To examine the current situation in the Polish Baltic Sea ferry market and in particular the condition and prospects of the Polish owned industry;
- To present the results of research into the market for Polish ferries through the use of a SWOT analysis;
- To examine the role of pricing in the Polish ferry market.
- To provide a broad interpretation of the Polish Baltic Sea ferry industry, its prospects in the immediate future and the role that domestic operators can hope to play.

* Corresponding author: Michael Roe (mroe@plymouth.ac.uk)

The paper begins with an assessment of the current background to the industry and then goes on to examine the results of a SWOT analysis carried out on the sector at the turn of the millennium. The role of pricing in particular is then discussed. The paper concludes with suggestions for future strategy and a discussion of the prospects for the sector.

2. Background to the Polish ferry situation

The Baltic Sea contains one of the largest concentrations of ferry lines in the world. In 2005, around 270 ferries of different types operated on more than 130 lines across the Baltic Sea. Ferry carriage amounted to 25% of the world market of passenger loadings, over 40% of cars and over 25% of trucks in 2001.¹ The biggest ferry movement takes place in countries located in the West and North of the Baltic Sea. This results on the one hand, from the shape of the coastline and the natural conditions of the sea and on the other, as a consequence of the level of economic development in a number of Baltic countries that creates intensive trade exchange and passenger movements.

The largest flows are generated by the countries of Denmark, Germany, Norway and Sweden characterised by:²

- A relatively high level of standard of living (defined by GNP);
- A high level of motorization;
- A high level of mobility of citizens;
- A tendency towards export orientation of production.

In contrast the countries of Central and Eastern Europe have a much lower standard of living. These countries are characterized by smaller ferry carriers (if any) resulting from lower mobility of citizens accompanied by lower international trade exchange.³

Baltic ferry shipping is characterised by a limited number of carriers servicing specific ferry routes. Each operator varies by size, capitalisation, vessel tonnage, organization and competition in quality of services and prices.

One characteristic feature of ferry shipping in general is the lack of cartelisation and shipping conferences the result of which is an increase in competition between operators on each route. Ultimately access to the market becomes difficult particularly if the dominant ferry operators offer complex services of high standard and undertake intense marketing activity. This commonly now involves cooperation with travel agencies, railway, ports, banks etc.

¹ ShipPax Statistics 01. *The Yearbook for Passenger Shipping Traffic Figures*. Halmstad, Sweden 2001, p.150.

² *Encyclopedia of Polish Publishers of Science in Three Volumes. Volume 1*. D. Kalisiewicz (ed.), Polish Publishers of Science, Warsaw 1999, p. 424 and *Investiguide 2001-2002. Project opportunities and contacts for the CEI Region*. United Nation. Economic Commission for Europe, pp. 52 and 54.

³ An exception is Tallinn-Helsinki. Intensive movements of citizens of Finland occur looking for cheap shopping balanced by intensive movement of inhabitants from Estonia traveling to Scandinavian countries to work. [ShipPax Statistics 01. *The Yearbook for Passenger Shipping Traffic Figures*. Halmstad, Sweden 2001, p. 148-150.]

The biggest ferry operators in the Baltic Sea have emerged from consolidation of a number of smaller firms. They carry the largest number of passengers on the lines they operate and usually they are too competitive for the remaining smaller carriers. Examples are Silja Line and Viking Line offering on the Baltic Sea some of the largest and most modern ferries in the world reflected in their shares in the market.

Table 1: Comparison of ferry carriage from Poland 1990 and 2000 [000].

Line	Passengers		Cars		Trucks		Rail Wagons	
	1990	2000	1990	2000	1990	2000	1990	2000
Swinoujscie-Ystad	354	324.4	101.7	73.7	52.6	94.8	32.4	18.8
Swinoujscie-Copenhagen	86.7	101.3	99.9	13.3	5.3	7.0	-	-
Swinoujscie-Rønne	-	10.7	-	1.4	0.06	0.003	-	-
Swinoujscie-Sassnitz	-	69.7	-	-	-	-	-	-
Swinoujscie-Malmö	-	57.7	-	13.8	8.9	1.6	-	-
TOTAL FROM SWINOUJSCIE	440.7	563.1	201.6	102.2	66.9	103.5	32.3	18.8
Gdansk-Nynäshamn	-	130.6	-	25.1	1.8	4.0	-	-
Gdansk-Öxelosund	50.0	-	9.1	-	0.3	-	-	-
Gdansk-Helsinki	34.6	-	5.1	-	3.2	-	-	-
TOTAL FROM GDANSK	84.6	130.6	14.1	25.1	5.3	4.0	0	0
Gdynia-Karlskrona	-	267.0	-	36.2	-	16.8	-	-
Seasonal lines	38.2	-	8.0	-	-	-	-	-
TOTAL	563.5	961.6	133.7	163.5	98.6	124.2	32.3	18.8

Sources: O. Dębicka, *Ferry Shipping on the Baltic Sea, Polish Case. Transit chains in the Baltic Sea Region*, J. Vainio, Turku 1996, p. 55-53 and *ShipPax Statistics 01. The Yearbook for Passenger Shipping Traffic Figures*. Halmstad, Sweden 2001, s. 86 and 122.

3. The Potential of the Polish ferry industry

Polish ferry shipping, summarised in Table 1, possesses potential for development evidenced by a number of trends. The forecasts of national and international tourism in Poland are now highly optimistic. It is predicted that the number of arrivals of foreigners in Poland and departures of Polish citizens abroad will grow on average about 2.5% a year for at least the next ten years. Passenger travel between Poland and Scandinavia and Denmark is also expected to grow substantially. The indication is that until 2010, the increase of passenger movements will be 2-3 million for Poland-Denmark and 1.3 million for Poland-Sweden and the existing capacity of Polish ferry operators can accommodate this growth (Table 2). At present, Polish ferries carry less than 20% of this potential and in comparison with carriers from Scandinavian countries it represents a relatively small figure.

Forecasts for the Polish market indicate a number of trends which will have a positive influence for the growth of tourist movement of Polish citizens:⁴

- increase in the number of women, singles, citizens of larger cities, persons earning middle and higher salaries and the better educated particularly aged between 25 and 40 years;

⁴ Ibidem

- a general ageing of European inhabitants and growth in the number of people aged over 65;
- growth of package holidays;
- increased demand for short-stay trips and weekend cruises;
- growth in event cruising (e.g. party and conference trips);
- growth of internet sales and consequential market extension.

Table 2: Potential of the Polish ferry fleet (2000).

Ferry operator	Ferry	Line	Beds	Departures	Annual Potential [000]	Pax Carried [000]	Utilised potential [%]
Polferries	Pomerania	Copenhagen - Rønne-Swinoujscie	1000	540	540.0	112.0	20.75
	Nieborow	Swinoujscie-Ystad	1100	721	793.1	104.2	13.14
	Rogalin	Gdansk-Silesia	984	451	443.8	130.6	29.43
Stena Line	Stena Europe	Gdynia-Karsklona	2076	616	1 278.8	267.0	20.88
Unity Line	Polonia	Swinoujscie-Ystad	1000	2 106	2 106.0	220.2	10.46
Total			7144	4 434	5 161.7	834.1	16.16

Source: E. Kapsa, *Perspectives of ferry shipping in Poland on the base of development of Baltic market*. Technical University of Gdansk, Gdansk 2003, p. 127.

Meanwhile, before the period of transition commenced in 1989, cargo carriage between Eastern and Central Europe and Scandinavian countries and Denmark was small. In recent years, significant growth of trade exchange between these countries has taken place. In the case of Sweden the share of trade with Central and Eastern Europe is now about 17%, with exports increased by 55% and imports 88% between 1996 and 2000. The share of Polish trade with Sweden is small at 1.6% of total Swedish exports and 1.78 % of imports. However there is evidence of growth which is likely to accelerate following Poland's entry to the EU. Exports from Sweden to Poland have increased 3 times and imports 5 times since 1993 (Tables 3 and 4).

Other than Germany, Denmark is now the most important partner in trade for Poland amongst the Baltic countries and marine transport plays the biggest role in international trade of these countries accounting for 90%, of Polish exports but only 48% of imports implying a considerable potential for intensification of trade exchange by sea.

Another significant potential market for Poland is Norway as up to now, Poland has had no ferry connection with the Norwegian market. Norway is one of the countries with the highest level of economic development in the world and is characterized by considerable movement of its citizens, who like to travel to South Europe. Many from the continent travel to Norway for tourism, too.

However, Poland still has very little trade exchange with Norway. In 2000 the share was just 0.83% of the total international trade exchange of Norway.⁵ However amongst Central and Eastern European countries Poland is the most important partner for Norway for exports and the second – after Russia (2%) - for imports. There is thus some potential for opening a new line from Poland to Norway.

⁵ B. Jeliński, *Norway. More and more important partner. Foreign markets*, 8-11 April 2003 nr 41-42, p. 4.

Table 3: Sweden foreign trade (1996 and 2000).

Specification	Export					Import				
	1996		2000		change 02/96	1996		2000		change [%]
	ml SEK	share [%]	ml SEK	share [%]		ml SEK	share [%]	ml SEK	share [%]	
Countries of EU (before 1 st of May 2004)	325.2	57.1	424.8	54.0	30.63	315.7	70.4	429.2	66.8	35.95
Other European countries	88.4	15.5	136.3	17.3	54.18	61.2	13.6	108.9	16.9	77.94
Africa	9.1	1.6	12.3	1.6	35.16	2.9	0.6	2.4	0.4	-17.24
North and South America	64.5	11.3	116.7	14.8	80.93	32.7	7.3	42.6	6.6	30.28
Asia	73.4	12.9	89.1	11.3	21.39	34.6	7.7	57.2	8.9	65.32
Oceania	8.6	1.5	9.6	1.2	11.63	1.6	0.4	2.4	0.4	50
Total	569.2	100.0	786.6	100.0	38.19	448.7	100.0	642.7	100.0	43.24

Source: Ministry of Foreign Affairs, Sweden.

Table 4: Share of Poland in Swedish trade of Sweden (1994-2002) [ml SEK].

Specification										change [%]
	1994	1995	1996	1997	1998	1999	2000	2001	2002	
<i>POLAND</i>										
Export	4 589	6 602	7 159	10 126	10 660	12 682	13 234	12 800	12 627	175.17
Import	3 575	4 201	3 968	4 902	5 751	5 900	7 926	9 583	11 474	220.93
Balance	1 014	2 401	3 190	5 224	4 909	6 782	5 308	3 217	1 153	
<i>CENTRAL AND EAST EUROPE</i>										
Export	13 569	17 659	18 909	25 405	28 471	30 795	35 684	35 534	37 140	173.72
Import	12 089	12 390	11 461	14 834	18 721	20 448	28 327	28 712	32 813	171.42
Balance	1 480	5 268	7 448	10 572	9 751	10 346	7 357	6 822	4 327	
TOTAL										
Export	472 000	568 000	569 000	633 000	675 000	701 000	797 000	787 000	787 000	66.8
Import	399 000	461 000	449 000	501 000	545 000	567 000	667 000	655 000	643 000	61.02
Balance	72 000	107 000	120 000	132 000	130 000	134 000	130 000	133 000	144 000	

Source: Ministry of Foreign Affairs, Sweden.

Possibilities also exist in the return of Polish ferries on lines to Finland. The most serious threat to this route is the newly developing services from St. Petersburg, Riga and Tallinn and from existing services from the ports of Finland to Western Europe (rail ferries from Helsinki to Travemünde, Lubeck and Kilonia and from Kotka to Rostock). However Poland possesses a strategic advantage compared with the location of German ports, because of the shorter distances across the Baltic and by land connection across Poland to South Europe.

The Czech and Slovak Republics and Hungary play only a small role in the international trade of Scandinavia and Denmark. Their trade lies between 0.15 and 2% of the total for Sweden, Denmark, Finland and Norway together. However, they are countries which following entry to the EU, have enormous potential for economic development and increased trade exchange. Poland would benefit through increased freight transit and passenger movement.

Polish trade and consequently opportunities for the ferry industry have increased after entry to the European Union. Economic and political changes across the rest of Central and Eastern Europe along with the reunification of Germany have already increased

tourism links across the Baltic Sea with Scandinavia and growth in international trade between these countries and the number of ferry connections.

The rapidly increasing number of cars in Poland creates positive conditions for the future of ferry shipping as well and Polish citizens have greater possibilities of travel abroad by car. In the case of travel to Scandinavia, ferries provide the only means of transport.

However, not all is good and a number of different barriers will also influence the functioning of ferry shipping in Poland:

- internal competition between Polferries and Unity Line and competition from foreign ferry operators acting in Poland;
- permanent rail and road connections across the Danish straits;
- competition from others forms of marine transport;
- the need for capital;
- strong competition from German ferry operators.

One of the biggest barriers for Polish ferry operators noted above is the strong competition of existing foreign based, large and experienced ferry operators. Unlike Polish operators, these companies can afford to sustain losses for considerable periods of time from other profitable markets.

In terms of the macro-environment for Polish ferry shipping the following conditions exist:

- *geographical*;
 - location of Poland on the Baltic Sea on major communication routes;
- *economic and social*;
 - level and rate of economic development;
 - increasing standard of living of citizens;
 - intensification of international trade by sea between Baltic countries;
- *political*;
 - economic policy of Poland towards marine transport;
 - entering the European Union;
 - adapting Baltic Sea ferries to international rules concerning safety on the sea and protection of the environment;
- *technical and technological*;
 - technical progress in shipbuilding facilitating bigger units;
 - technical progress in organization of loading, shortening time in port;
 - development of railway infrastructure;
 - urgent need for development of road infrastructure;
- *demographic*;
 - population size, age structure and education.

The strategic geographical location of Poland, across transit routes of Europe, is one of the most important conditions determining the development of ferry shipping in Poland. According to experts from the EU Transport Commission and the United Nations, transit through Poland east-west will increase by 60 % and north-south 30% by

2015.⁶ However, the location of Poland, away from the shorter sea connections across the Baltic, may well be a barrier to development of the ferry sector. Despite this, there are possibilities of exploiting middle distance and longer routes.

The Swedish and Finnish markets have clear potential. Silja Line and Viking Line, operating between Turku-Stockholm and Helsinki-Stockholm together carry over 9.5 million passengers a year, mainly for tourist purposes. (Table 5).

Table 5: Passenger market share Finland and Sweden ferry services – 2000.

<i>Ferry Operator</i>	<i>% Share</i>
Silja Line	45
Viking Line	39
Eckero Linien	7
Birka Line	7
Anedin Linien	2
SeaWind Line	1.15

Source: Authors

However Poland is characterised by a lower level of economic development than the countries of south-west and the north Baltic Sea. The GNP per person of Poland is several times lower than in the Scandinavian countries and Denmark. This has a negative influence on the quantity of travel to these countries simply because of financial reasons. However, increases in economic development in Poland are occurring rapidly and will improve this situation.

The corollary of this is that prices for Swedish, Finnish, Norwegian and Danish travellers are much lower in Poland and thus there is considerable potential for marine tourism in this direction. Scandinavian tourists are exacting costumers and in order to satisfy there needs, modern ferries will have to be provided as they are in the northern Baltic Sea. Intensification of this market is possible thanks to the relatively short distances and the exploitation of fast ferries. The example of the Tallinn-Helsinki route is evidence of this carrying almost 6 million passengers annually.

An important factor in the development of ferry shipping belongs to political conditions including those of international trade. Before Poland joined the EU, development of Polish ferry shipping was limited by extensive border rules and custom duties encouraging passenger and drivers to avoid Poland and transit between Scandinavia and south Europe by German ports. Liberalisation of international trade is a positive move in the development of international exchange for Poland.

Amongst the conditions that determine development of ferry shipping in Poland are international regulations concerning safety and protection of the environment. Ferry enterprises have to fulfil all present rules of the International Convention concerning safety on sea (SOLAS) as well as the Stockholm Convention annex, the ISM Code and MARPOL, the latter relating to marine pollution. In many cases – especially in the case of older ships – it necessitates rebuilding. For Polferries this presents severe problems and one vessel - *Nieborow* - was too old for modernisation and was sold.

The economic policies of Poland also influence the condition and operation of ferry shipping. At present, a difficult situation is worsened by existing fiscal, monetary and credit policies and the lack of indirect help by the government to the industry. Examples

⁶ K. Klimek, Motorways in Poland – opportunity for success or threat ... , in *Competitiveness of Marine Transport of Poland*. Science Exercises of The University of Gdansk, Economics of Marine Transport, Gdansk 1999, s. 130.

of policy support used elsewhere in the EU include tax reduction, state investment, government guarantees for credits for tonnage investments, zero VAT for marine services and exemption from VAT for ship construction in domestic shipyards. None of these are available in Poland.

One very important condition for the development of ferry shipping is adequate transport infrastructure. The ports of the Baltic Sea that possess the most positive conditions for ferry shipping are Frederikshaven, Rostock, Malmö, Helsinki, Turku and Copenhagen largely thanks to their well developed network of roads and motorways and connections between ferry terminals and their hinterland.

However, in Poland the existing infrastructure is a major barrier to development. The present problems of Polish transport systems are a result of limited financial resources for modernisation and building new lines for car, truck and rail movements and this situation has a poor influence upon the international exchange and development of tourism. The Polish road infrastructure is far worse than in West European countries. Poland has just 300km of motorways compared with Germany's 11,000 km. Virtually all other Polish roads need modernization.

The key role for Polish ferries is building motorways, especially the A1 motorway (running south from the Gdansk/Gdynia region) which is a major section of the international north-south route. Even though it is more than 30 years since the initiation of the idea to build the A1, the project has not been finished. Transit cargo more than anything else is likely to be affected by this situation with severe competition not only from ferry services in Germany but increasingly from Russia, Lithuania, Latvia and Estonia. Polish ferry ports also suffer from inadequate investment with facilities developed under Communist times which fail to compare with ports in Germany, Denmark, Sweden, Finland or even Estonia and Lithuania reflected in port traffic elsewhere (Table 6).

Poland's entry to the European Union in 2004 is a major stimulus for the ferry sector. One of the aims of the EU is integration of the transport network, introducing new technologies for multimodal transport (including ferries) and the creation of European transport corridors which will encourage an increase in transit movements between Scandinavia and the European continent in particular the north-south motorway link.

Central and Eastern European ports exhibit countries with much lower levels of demand (Table 7) with the only exception the Tallinn-Helsinki route.

Technical progress in shipbuilding and in the organization of loading will also play an important role in the Polish ferry shipping industry. These include an increase in the size of ferries, the speed of conventional ships, an increase in vessel quality for passengers, shorter stays in ports, modern technology for vessel loading and improvements in the standards of safety.

Internal conditions also play an important role in the functioning of Polish ferry shipping. These conditions concern the specific activities of ferry operators. They include: the quality of the ferry fleets; its number and technical level; the quantity and level of professional education and experience of staff; the structure of prices and management processes including marketing and research and development.⁷

⁷ S. Marciniak (ed.), *Macro and Micro Economics. Basic Problems*. Polish National Publishers, Warsaw 1998, p. 234.

Table 6: Passengers, cars and trucks movements, major Baltic Sea terminals (2000).

Ferry Terminal	Passengers	Market share [%]	Cars	Market share [%]	Trucks	Market share [%]
Helsingborg	14 425 255	9.20	2 235 072	4.48	392 776	7.40
Stockholm	8 612 368	5.50	557 256	1.12	195 580	3.68
Helsinki	8 000 149	5.10	292 768	0.59	129 762	2.44
Göteborg	4 337 029	2.78	724 615	1.45	260 102	4.90
Copenhagen	4 130 092	2.64	101 651	0.20	15 438	0.29
Malmö	3 308 909	2.11	0	0	165 055	3.11
Trelleborg	1 341 222	0.86	251 607	0.50	266 630	5.02
Travemünde	742 135	0.47	119 573	0.24	229 510	4.32

Source: ShipPax Statistics 01. *The yearbook for passenger shipping traffic figures*. Halmstad, Sweden 2001.

Table 7: Passengers, cars and trucks Central-Eastern European ports (2000)

Ferry Terminal	Passengers	Market Share [%]	Cars	Market Share [%]	Trucks	Market Share [%]
Tallinn	6 353 156	4.05	214 462	0.43	114 775	2.16
Gdynia	181 858	0.11	25 672	0.05	16 117	0.30
Gdansk	96 832	0.06	17 408	0.03	1 786	0.03
Klajpeda	53 779	0.03	13 292	0.03	75 380	1.42
Riga	52 054	0.03	3 321	0.007	2 289	0.04
Liepaja	0	0	730	0.001	9 000	0.17

Source: ShipPax Statistics 01. *The Yearbook for passenger shipping traffic figures*. Halmstad, Sweden 2001.

In terms of Polish ferry operators, Polferries faces the greatest difficulties. Its financial condition does not allow for new tonnage investment and the quality of services is not good despite its long history and experience. In much better condition is Unity line, which as a young ferry operator, employing young and well educated personnel, functions reasonably efficiently in the market.

4. The strengths and weaknesses of Polish ferry operators

The position of the Polish ferry shipping industry is poor in the context of competition in the Baltic Sea market. Polish ferry operators occupy a small place in Baltic Sea operations serving just 1 % of passenger movement and 5 % of cargo carriage.⁸ In this section we shall use a SWOT analysis in an attempt to better understand the causes of this. Following the transition of Poland from a planned to a competitive economy from 1989 the company was suddenly deprived of half its market share by new entries to the Polish market. In recent years the carriage of passengers, cars and trucks by the main

⁸ Poland has more than 3% of cargo market share thanks to railway carriage on ferries belonging to Unity Line [ShipPax Statistics 01. *The Yearbook for Passenger Shipping Traffic Figures*. Halmstad, Sweden 2001, s. 86, 122 and 150].

state-owned Polferries has decreased by 30%.⁹ The greatest problems have been felt on the Swinoujscie-Ystad route, where Polferries competes directly with the Polish privately owned Unity Line which entered the market in 1994.

In assessing the marketing environment for Polish ferry operators on the Baltic Sea, a number of issues were considered: political and economic, technical, organisational and social conditions, capacity of the market, forecasts of market change, and analysis of customer behaviour. A SWOT analysis was carried out in 2003 by one of the authors for the two major Polish ferry operators Unity Line and Polferries based on the opinions of experts in the region. These two operators dominate the Polish owned ferry industry and were selected for the SWOT analysis for this reason. Senior managers from a range of companies with interests in the ferry sector (hauliers, travel agents, port managers, freight forwarders, policy-makers) were asked to rate their agreement or otherwise to the strengths, weaknesses, opportunities and threats presented in the following sections and average points scores were calculated to indicate their opinions overall.

Table 8: Strengths and Weaknesses of unity line

Strengths (S)		Points
S1	Servicing a line that meets natural land transport corridors	5
S2	Young and qualified staff	5
S3	Possessing one of the most modern ferries on the Baltic Sea	4
S4	High quality of services	4
S5	Systematic market research into the structure of customers and their needs	4
S6	Ability to transport railway wagons	3
Weaknesses (W)		Points
W1	Servicing only one line	-5
W2	Possessing two old cargo units, unadapted to the needs of the market	-5
W3	Low frequency of departures	-4
W4	Insufficient promotion	-4
W5	Insufficient sales network	-4

Source: E. Kapsa, *Perspectives of ferry shipping in Poland on the base of development of Baltic market*. Technical University of Gdansk, Gdansk 2003, p. 185.

Table 9: Strengths and Weaknesses of Polferries

Strengths (S)		Points
S1	Servicing a line that meets natural land transport corridors	5
S2	Good experience of staff	4
S3	Long tradition of activity in Poland	3
Weaknesses (W)		Points
W1	Poor financial situation	-5
W2	Lack of proper tonnage for needs of market	-5
W3	Complicated organisational structure	-5
W4	Low quality and narrow range of services	-4
W5	Low frequency of departures, which is insufficient for cargo demands	-4
W6	Extended processes of transitional reorganisation and privatisation	-4
W7	Insufficient promotion	-4
W8	Limited range of market research	-4
W9	Insufficient sales network	-4

Source: E. Kapsa, *Perspectives of ferry shipping in Poland on the base of development of Baltic market*. Technical University of Gdansk, Gdansk 2003, p. 185.

⁹ ShipPax Statistics 01. *The Yearbook for Passenger Shipping Traffic Figures*. Halmstad, Sweden 2001, p. 112 and 133.

A scale from 1 to 5 points for strengths and opportunities and from –1 to –5 points for weaknesses and threats was used as the basis of the analysis following the work of Kramer (undated).¹⁰ Tables 8 and 9 present the results for the first two stages of the SWOT exercise for Unity Line and Polferries for strengths and weaknesses. Unity Line has positive results overall (+3) but Polferries achieved a very poor negative result (-27). Polferries scored negative results for the majority of categories with positive reaction only to the company's history and tradition and the benefits of their port locations. Of particular concern were the poor scores for quality of service, the paucity of service frequencies, the low level of marketing and utilisation of the wrong sort of tonnage. By comparison Unity Line showed far more strengths which included market analysis, quality of service and marketing knowledge and capabilities. Unity Line is also the only ferry operator in Poland that has passenger, vehicle and railway ferries the latter on contract with Polish National Railway (PKP) and there is market potential particularly for the latter as environmental concerns in the EU increase. However, the company also failed to take issues of promotion and sales seriously enough and were still operating some very old vessels.

In the case of Polferries, the results of the analysis confirm a difficult situation. The most significant weaknesses are the low quantity and quality of tonnage stemming from a poor financial situation including substantial debt and lack of financial resources for modernisation. In turn this leads to insufficient departures and low carriage potential in relation to needs. One of the most serious problems is the extended processes of reorganisation and privatisation combined with poor decisions unrelated to conditions in the market. The prime example was the purchase of the fast ferry (*Boomerang*), which was inappropriate for Polish operating conditions. Services are also characterised by low quality and narrow range lack of strong marketing activity. The firm does not undertake any market research. This difficult situation is intensified by competition from domestic and foreign ferry operators.

5. Opportunities and threats for Polish ferry operators

An analysis of the opportunities and threats for the two companies was conducted in the same way and the results are presented in Tables 10 and 11. Summing the marks for both operators for opportunities and threats the result is overall positive (+4), which means that in the Polish market as a whole there are more opportunities than threats and thus some limited reason for optimism.

In spite of the generally poor situation indicated in the strengths and weaknesses section, opportunities for the development of ferry shipping in Poland do exist. Forecasts of increased demand of passengers and cargo are clearly based on the projected economic development of Poland, increased wealth of citizens and a growing interest in marine tourism. There are also hopes for technical progress, finding expression in the purchase of modern tonnage improving quality in passenger and cargo carriage. This will be determined by the economic and shipping policy of the country and the entry of Poland to the European Union. It is also connected with different means of financial help for shipping enterprises.

¹⁰ T. Kramer, *SWOT analysis as a base of strategic decisions of a firm*. Economic Academy, Katowice, s. 137.

Table 10: Opportunities for Polish ferry operators.

Opportunities (O)		Points
O1	Increased demand for marine tourism	5
O2	Increased demand for short one and two-day cruises	5
O3	Increased demand from passenger carriage	5
O4	Increased demand from transit cargo through Polish ports	5
O5	Anticipated increases in the Polish economy and living standards	5
O6	Liberalisation of international trade following Poland's entry to the EU	5
O7	Tonnage renewal of tonnage, modernisation of ports, development of short sea shipping and cabotage shipping, and additional connections between Poland and other Baltic Sea countries	5
O8	Modernisation of access roads to ferry terminals in Poland	5
O9	New ferry terminal in Gdynia	5
O10	Strategic location of Poland, situated at crossroads of Europe	4
O11	Increased trade exchange with Scandinavian countries and Denmark following Poland's entry to the EU	4
O12	Increased share of trucks in cargo carriage of Polish foreign trade and transit	4
O13	European Union funding support	4
O14	Increased motorisation in Poland	4
O15	Modernisation of railway infrastructure	4
O16	Rebuilding of roads and motorways, particularly Motorways A1 and A3	3
O17	Increased ship size	3
O18	Technological progress in ship loading reducing port time	3
O19	Fast ferries	3

Source: E. Kapsa, *Perspectives of ferry shipping in Poland on the base of development of Baltic market*. Technical University of Gdansk, Gdansk 2003, p. 186.

Table 11: Threats for Polish ferry operators.

Threats (T)		Points
T1	Competition from foreign ferry operators entering the Polish market	5
T2	Intensification of competition from German ferry operators	5
T3	Internal "ferry war" between Polferries and Unity Line between Swinoujscie (Poland)-Ystad (Sweden)	5
T4	Lower level of economic development of Poland compared with countries of South West and North Baltic Sea	5
T5	Difficulties over border rules and custom duties	5
T6	Lack of economic policy for shipping in Poland (fiscal polities, finance and credit policy and lack of forms of indirect help)	5
T7	Lack of financial sources for modernisation and building of roads and motorways	5
T8	Shortage of finance for investment in the modernisation of rail rolling-stock and main communication routes	5
T9	Lack of financial sources for new and reconstruction of ferry terminals	5
T10	Growing concentration of capital	4
T11	Increased competition from land and sea transport systems from Moscow, St. Petersburg, Riga, Tallinn via ports of Finland to ports of West Europe	4
T12	Development of modern rail, road and water connections in Europe that encourages high quality services offered by foreign ferry operators	4
T13	Complex procedures and criteria for EU investment in marine transport	4
T14	Increased costs of investment in marine transport from stricter rules and technical standards	4
T15	Seasonal passenger carriage	3
T16	Growth of competition of other forms of marine transport	3
T17	Growth of competition of land (road and railway) transport including new crossings of the Fehrman Belt, Öresund and Big Belt	3
T18	Decrease of demand for railway ferry carriage	3

Source: E. Kapsa, *Perspectives of ferry shipping in Poland on the base of development of Baltic market*. Technical University of Gdansk, Gdansk 2003, p. 187.

Finance needs to be found for the modernization of roads, railway and port infrastructure connecting ferry terminals with their hinterland. This will enhance connections with Scandinavian countries and South Europe for tourists and freight travelling in the north-south corridor, a market currently dominated by the ports of eastern Germany.

However the threats for the industry are substantial and in particular are faced by Polferries rather than Unity Line. Table 11 indicates the range that exist some of which appear to be intractable in the context of competition from foreign ferry operators. It needs to be re-emphasised that these threats are particularly faced by Polferries who already face a wide range of weaknesses identified above. The prospects do not look good in the long term and particularly when vessels need to be replaced.

6. The marketing environment for Polish ferry operators

Taking Polish ferry shipping as a whole, the mission for the sector stems from the function which ferry shipping plays in the market. This aim is broadly speedy, safe and regular carriage by sea, of people (mainly with cars) and cargo on dedicated and modern ferries, ensuring the highest quality of services and frequency of carriage adapted to the needs of the market.

The following strategies have been identified by the Polish Government:¹¹

- increasing the role of Polish ferry shipping in the Baltic market;
- increasing the effectiveness of Polish ferry enterprises;
- increasing the share of Polish ferry shipping both of passenger and truck carriage to 5% by 2010. The present share is small and insufficient in relation to the development needs and economic cooperation between Poland and other Baltic countries.

These strategic aims will require a development strategy - both organisational and in terms of capital. Consolidation will be needed around the existing two Polish ferry operators - Polferries and Unity Line. To achieve this it might well be necessary to encourage collaboration between Polish operators as well as with competitors - for example Stena Line and other enterprises with interests in ferry shipping: railways, shipyards, freight forwarders, travel agencies, banks, insurance offices and others. Only strong and effective ferry operators have a chance of surviving in the Baltic Sea marketplace and somehow an internal war of competition has to be prevented.

The specific aims identified by the Government to achieve a 5% of share in the Baltic marketplace are:

- increasing the market share of Polish citizens traveling to and from the Scandinavian countries and Denmark and transit passengers traveling between North and South Europe;

¹¹ *Assumption of development strategy of Polish ferry shipping*. Ministry of Transport and Marine Economics, Warsaw, October 1999, p. 17.

- increasing the share of international cargo between Poland and the Scandinavian countries and Denmark and transit cargo between the Nordic countries and countries located along the north-south European transport corridor;
- developing new market segments such as conference passengers;
- entering the Norwegian market;
- returning to the Finnish market.

To achieve this, a new development model will need to be adopted characterized by:

- maximising sector activity through introduction of modern systems of management, logistics and marketing;
- improvement in quality of services;
- reducing and controlling costs.

Taking into consideration the earlier SWOT analysis a series of proposals for Polish ferry operators can be suggested:

- *tasks for Unity Line;*
 - Intensification of ferry services for transit cargo between Scandinavian countries and countries located in the hinterland of ports of the South Baltic.
 - Intensification of passenger carriage of Polish and foreign tourists;
 - Intensification of rail cargo carriage on existing and new markets for example to Finland.
- *tasks for Polferries;*
 - Increasing share of existing markets and intensification of cargo carriage;
 - Intensification of passenger carriage in existing markets and the development of new markets.

Table 12 indicates a strategy to realise these aims and suggests that a change of direction and attitude in Polish ferry operators and the introduction of experiences from overseas operators would be beneficial. In particular Stena Line entered the market between Poland and Sweden based on the (so far unrealized) plan for the Polish north-south A1 motorway creating new strategic opportunities for Scandinavian countries. Despite the continued absence of the motorway Stena has been a notable success in competition with Polish ferry operators partly as a consequence of its global strategy including new investments in their fleet. This includes buying up other firms in the Baltic region - Scandlines AB (Trelleborg-Sassnitz and Trelleborg-Rostock) and HH Ferry (Helsingor-Helsingborg).

Clearly the Polish government will play a very important role in developing appropriate conditions for building roads, motorways and ports and possibly helping in the expensive purchase of new tonnage. Meanwhile, the processes of restructuring and privatisation are also necessary to ensure:

- reduction of financial debt;
- growth of income;
- increased competitiveness;
- increased attractiveness of ferry services; and
- improved effectiveness.

One of the most important tasks is the building of a new ferry terminal in Gdynia Port creating new possibilities with modern loading technologies and shaping new logistical solutions for Gdansk/Gdynia in the north-south transport corridor.

Table 12: Formulation and realisation of strategies.

<i>Aim</i>	<i>Strategy</i>	<i>Realisation</i>
Increase the role of Polish ferry shipping on the Baltic Sea. Increase effectiveness of Polish ferry operators. Increase market share to 5% by 2010	Increase ferry connections.	Capital investment in Polish ferry enterprises concentrated around the existing Polish ferry carriers - Polferries and Unity Line.
Improve competitive position.	Competitive.	Decrease costs. Increase productivity. Look for partners for cooperation. Improve quality.
Increase share in passenger market.	Product development.	Purchase several new modern units of different size and profile. Rebuild and modernise ferries. Improve quality of services. Adapt the frequency of departures to market needs. Develop land tourism and cruise services with hotel facilities. Intensify promotional activities.
Increase share in cargo market.	Product development.	Modernise fleet and improvement of loading technologies. Improve ferries of ro-pax type. Improve service quality. Adapt frequency of departures to market needs. Intensify promotion.
Develop new market segments.	Diversification.	Adapting offers to the new market segment, for example business passengers (conferences). Purchase several new modern units of different size and profile. Improve service quality. Adapt to market needs. Intensify promotion. Develop distribution network.
Enter Norwegian market.	Diversification.	Open new lines to Norway. Improve ferries of ro-pax type. Modernise the fleet and improve loading technologies. Improve service quality. Adapt departures to market needs. Intensify promotion. Develop distribution network.
Return to Finnish market	Diversification.	Open new lines to Finland. Improve ferries of ro-pax type. Improve service quality. Adapt departures to market needs. Intensify promotion. Develop distribution network.

Source: E. Kapsa, *Perspectives of ferry shipping in Poland on the base of development of Baltic market*. Technical University of Gdansk, Gdansk 2003, p. 195.

The Polish government has other strategic reasons to become involved in the Baltic ferry sector and provide support for its development. Although now constrained by Poland's entry into the EU, measures might include:

- the most effective use of natural strengths of the location of Poland on the Baltic Sea in Central Europe;
- the development of Polish ferry operators as modern economic units playing an important role in the economic development of Poland;

- creating an effective transport policy for Poland recognizing ferry shipping as a link in land transport chains ensuring coordinated development;
- improvement in economic policies particularly in the context of competition from German ferry operators;
- creating an effective but controlled framework for competition for ferry operators in Poland to the benefit of operators and the national economy;
- increase income from the export of marine transport.

These tasks should be realised first of all by units of public administration,¹² to which we can include primarily the Ministry of Transport and Marine Economics along with support from municipal administrations from the marine regions.

7. Pricing policy for Polish ferry shipping

The Polish ferry market exhibits all the traditionally accepted price characteristics of ferry shipping around the world. One of characteristic features of pricing in ferry shipping is the integrated package of services offered as one price. Tickets might include carriage, cabin, food and car transport. More and more often hotel accommodation is included as well.

The present situation in the Baltic Sea ferry market for passengers is characterized by strong competition between operators along with modal competition by, road, railway and air and also alternative forms of tourism. The movement of cargo is also characterized by intense competition. Consequently operators have to adapt themselves to market demand and have flexible pricing policies that can react quickly to changes in the environment. The ferry market is additionally characterized by a market that is in many ways optional (e.g. tourism) and seasonal along with substantial fixed costs.¹³ Hence price plays a very important role. Price discounts can induce potential customers to use services particularly out of season thereby flattening expensive peaks and troughs in demand.

Price plays different roles on strategic and tactical levels. On a strategic level, price reflects the strategies of the firm, positioning products and creating a service image and reveals to potential customers values concerning quality. Ferry enterprises can use two basic alternative price strategies; penetration and skimming. Penetration focuses on setting prices at a lower level than competition, normally rapidly increasing customer numbers and deterring others entering the market. Skimming is characterised by high prices, rapidly maximising income and improving image.

In the case of existing ferry services, the enterprise can use other price strategies. In order to gain new customers, a compensatory strategy can be applied. This is based on fixing the price of basic services at a low level (for example travel in an inside cabin for four persons). Discount prices are set at the lowest cost level.

Calculation of prices is the result of analysis of competitive prices, the elasticity of demand and the potential for market segmentation. Prices of other services are

¹² Public administration – institutions involving in organization of process of satisfy aggregate needs, in Antoszewski, A. Herbut R. (ed.), *Lexicon of Politology*. Agency of Publishers and Advertisement, Wroclaw 1998, p. 9.]

¹³ In ferry shipping, fixed costs amount to 80% of the total.

established at a higher level in order to compensate for losses at the basic price (for example, for external two-person cabins in business class).

The level of prices used by Polish ferry operators depend, amongst others, upon the range of added services. The price differs dependent upon the number in the cabin and the equipment offered. Prices applied by Polferries can be used as an example where the cheapest tickets are for 4-person cabins and the most expensive for 2-person cabins with a WC and shower. A similar situation is found at Unity Line which offers a wide range of cabin classes; from the cheapest 4-person cabin without WC to one more than 5 times expensive: a 2-person external cabin of De Luxe class (with 2-person bed) (Table 13).

Ferry shipping might also set prices by comparison with the competition. However this may be unsafe because the quality of services may not be taken into consideration. However if administrative costs, quality and the range of services offered are taken into consideration, then prices can be set on a similar, lower or higher level dependent on strategy. In this way there is no risk of losses and at the same time it facilitates positioning of products in relation to the competition. This is clearly the case for the two Polish ferry operators Unity Line and Polferries, which between Swinoujscie (Poland) and Ystad (Sweden) have identical base prices for individual and group passengers and their cars.¹⁴

Another price strategy is orientated to demand. The price is set on an estimation of consumption of potential customers for passenger or freight carriage although this limits prices to those adopted by competitors otherwise the enterprise may not withstand the competition.

Table 13: Prices unity line Swinoujscie-Ystad (June 2002 – January 2003).

<i>Cabins</i>	<i>01.06.02 - 31.08.02</i>	<i>01.09.02 - 12.01.03</i>
	Price for a person / Night (SEK)	
2 Person External De luxe Class	998	998
2 Person External Business Class	380	370
2 Person Internal Business Class	350	340
3 Person External Business Class	290	280
3 Person Internal Business Class	260	250
4 Person External Tourist Class	220	210
4 Person Internal Tourist Class	190	180
4 Person Internal Without WC*	100	90

*other cabins with WC and shower

Source: Unity Line.

Overall prices of ferry shipping services should be set at a level that will achieve the following effects:

- will ensure earning capacity, covering full costs of the operator;
- will ensure a realistic relationship with the financial possibilities of potential customers;
- will sustain competition with other ferry operators, alternative transport modes and different forms of tourism;
- will ensure a close relationship of price to quality; and
- will ensure consistent sales during the year, not only in the high season.

¹⁴ Following comparison of the published price-lists of both ferry operators.

8. The tactical role of pricing in Polish ferry shipping

For ferry operators price plays a tactical as well as strategic role. For example, through lowering prices, commonly at the last minute, enterprises can influence ultimate demand. Such tactics are based initially on setting prices for services according to the main price strategy but failure to sell sufficiently creates losses (for example empty cabins). In a way used by low cost airlines, price tactics in ferry shipping need to be adapted to the actual demand and the Polish market is no exception. Price differentiation is another significant approach and takes place when two or more of the same products are sold at different prices, adapting them to the differential demands of different groups of passengers. This is reflected in seasonal prices whereby during the summer period, prices are higher than in the low season reflecting the change in demand by the tourist market. Consequently ferry companies divide the year into high season (June, July, August) and low season (other months) calculating an average profitable price for the year. High season prices are often 5 to 15% higher (or more dependent on route) than in other months.

Differential pricing can also be applied for different days of the week. Taking into consideration the greater demand over weekends, higher prices may be set. Prices may also be varied depending on the hour, including reductions for day returns. Stena Line is an excellent example which has proved very successful in the Polish market. Different tariffs exist depending on the day of week and hour of the day. Cheap tickets exist for day cruises from Gdynia (Poland) on Mondays, Wednesdays and Fridays, and the most expensive are for night travel on Wednesdays and Saturdays (Table 14).

Table 14: Differentiation in pricing by Stena Line (June-August 2002)

Tariff	Price (SEK)	Departure from Gdynia		Departure from Karlskrona	
		Hour	Day of week	Hour	Day of week
A	290	9.00	Monday, Thursday, Friday	9.00	Tuesday, Wednesday, Thursday, Sunday
B	345	9.00	Tuesday, Wednesday, Saturday, Sunday	9.00	Monday, Tuesday, Wednesday, Saturday
C	365	21.00	Thursday, Friday	21.00	Tuesday, Friday, Saturday
		21.00	Wednesday, Saturday	21.00	Thursday

*car one way

Source: Stena Line

One of the criteria for the differentiation of prices is based on the likely financial situation of customers. Ferry operators from Poland offer discounts for youths, students and pensioners. Polferries, gives lower prices for children and youths under 16 years and students under 26 and pensioners. Children under 7 travel free (Table 15).

Another price differentiation criterion relates to the number of tickets sold to a customer, for example family tickets, multi journeys tickets etc.). Examples of such tactics come from Polferries (Gdansk (Poland)-Nynäshamn (Sweden)):

- discounts for two-way journeys for 2 persons in 2-person cabin with breakfast or for 4 persons in 4-person cabin;
- discounts for departures on Thursday for passengers with car;
- discounts for multi-journeys tickets for regular customers traveling by car below 2 meters height and 6 meters length.

Table 15: Differentiation in Pricing by Polferries (January 2002-January 2003).

	<i>Low Season</i>		<i>High Season</i>	
	One way	Two way	One way	Two way
Adult	450	750	520	820
Children under 7 years	Free	free	free	free
Youths 8-16 years, students under 26 years, pensioners	370	640	430	700

Source: Polferries.

Thus price positioning in the Polish market could also be set according to the following elements and it is this sort of area that urgently needs to be addressed particularly by Polferries if it is to survive:

- quality of service and the scale of additional offers;
- time - season, day of week, hour;
- market segmentation - students, businessmen, retired, youth;
- time of travel - weekend, multi-trips, day-trips;
- frequency of travel.

Price decisions are important in the strategic sense but in a tactical sense their significance is perhaps even greater, exacerbated by the inability to store transport provision and the costs associated with unused capacity.

9. Conclusions

Clearly there is much happening in the Polish ferry sector and many opportunities exist for the coming years. However, the environment is highly competitive and issues such as price and strategy will remain paramount. Polferries in particular faces some very difficult decisions in the coming years as the need for new vessels becomes urgent. Unity Line has more opportunity to adapt and develop as its current position is that much stronger but in both cases the role of foreign competitors is likely to increase as the burgeoning freight and passenger market on the Baltic Sea becomes more significant in the light of EU membership for Poland.

The SWOT analysis identified a number of significant problems especially for Polferries and these are now becoming so intense that it seems unlikely that the company can survive in its present form. It is indicative that the Polish government remains the owner and has failed in repeated attempts to sell the company so far. Competitors (including Unity Line) await its demise before absorbing its market into their operations.

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