More efficient: as with many small operators, Borchard Lines works hard to balance cargoes in each direction, and vessel sizes are chosen according to their suitability for particular trade lanes and ports.

Small lines show resilience amid box trades downturn

Shortsea, feeder and niche container operators say their greater focus on customer care has helped them weather the slump better than the deepsea lines, writes Janet Porter

EXTRAORDINARY as it may seem, not every container line lost a fortune last year. A fair number of shortsea, feeder, and niche carriers are emerging relatively unscathed from the worst slump in the history of containerisation. Some even made a bit of money.

Global operators dominated the headlines throughout the year as a combination of massive newbuilding programmes and an unprecedented contraction in demand sent freight rates crashing. But smaller lines kept their heads down and managed to avoid the pitfalls that befell most of the industry heavyweights.

"We are doing reasonably well," said the head of a European shortsea operator towards the end of last year. "We are in black numbers."

Others had much the same message. "We are okay," the boss of a line ranked way down the league table concurred. "We are profitable."

Atlantic Container Line, the transatlantic operator of multipurpose ships, is one of those that expects to produce an overall profit for 2009, even though the line slipped into the red towards the end of the year as trade conditions deteriorated. But crucially, according to chief executive Andrew Abbott, "our cash flow is still positive".

Another transatlantic specialist Independent Container Lines, which will celebrate a quarter of a century in the business this year, is also quietly satisfied with its 2009 performance.

"Our business model has been sorely tested like in no other year, but ICL has weathered the storm," chief executive John Kirkland told Lloyd's List.

European shortsea operator MacAndrews is among those that has kept in the black, even if parent company CMA CGM had a stormy year that forced the French line to seek a bank bailout as debts mounted. As far as MacAndrews is concerned, "we are profitable", said managing director Geoffrey Smith.

That has been achieved despite a dramatic slide in volumes in the first quarter of last year as UK businesses, in particular, de-stocked

Another container line boss, whose company is likely to make a small loss in 2009-2010, is nevertheless unruffled by a slight deterioration in its bottom line. "It is not so much about profit as cash flow, and we pay our bills on time," he said.

So how have these relative minnows managed to keep a grip on their finances when the big ocean carriers, with all their resources, have so dismally failed to run their businesses well?

If there is one common theme throughout, it is the focus on customer service. Take Borchard Lines, the low-profile carrier that currently operates a fleet of 14 ships of up to 1,000 teu in the intra-Mediterranean trades and on routes between northern Europe and the Mediterranean. Some shippers have been using the London-headquartered line since the 1930s.

During harvest time, Borchard Lines is likely to call customers to confirm the next ship call so that farmers can start picking the fruit and deliver their fresh produce to the port punctually.

When time-sensitive cargo is being shipped, reliability is what matters most, according to Borchard Lines director Richard Borchard. Customers want to know that their produce will arrive "on the appointed hour" at the supermarket or in the warehouse, and feel more secure using a small line than a big one.

"We really do know our clients and they will always hear a real voice at the end of the phone, not a recorded message," he said.

Others such as ICL make the same promise. "You will always speak to a local person, and not get voice mail during office hours," Mr Kirkland said in a recent interview.

It is hard to imagine any of the global players providing such a bespoke service.

Customer care is probably what most distinguishes the smaller operators from the global giants, they all agree. "We offer an old-fashioned personalised service," said Mr Smith of MacAndrews, which can trace its roots back to 1770 and operates mostly in the UK/Ireland-Spain/Portugal trades, competing against truck transport, as well as other shipping lines. "We are close to our customers. That is our strength."

The same point is made by Mr Abbott. "I know every one of my top 100 customers personally," said the ACL chief executive, who makes sure to visit each of them once a year.

Mr Kirkland is also a great believer in personal contact and called all of his major customers as container shipping's woes deepened last year to reassure them about ICL.

That is not to say second or third-tier lines escaped the slump. ICL, for example, has taken steps to cut costs through measures such as slower ship speeds where possible and some changes to the port rotation.

ACL's ro-ro cargo collapsed as the recession worsened on both sides of the Atlantic. But, niche operators reckon they are better placed to cut their cloth to suit changing market conditions than the leviathans.

The transatlantic duo have been hammered by soaring fuel costs and a decline in the dollar that has pushed up their euro-denominated costs, as well as weak demand.

But as Mr Abbott explained: "It is far easier for a small guy like me" to cope with a drop in volumes than the big carriers that have a much larger market share, and a correspondingly "enormous appetite" for cargo.

When times are really good, "we can make decent money", and when conditions are bad, "we make a little bit of money", he said. But there is no huge swing from vast profits to huge losses that the global players have experienced over the past couple of years.

Neither did these lines overreach themselves or embark on ambitious expansion programmes. Both ACL and ICL, ranked 69 and 122 respectively in terms of container slot space, continue to concentrate on the transatlantic trades in which they have unrivalled experience. Others, too, have stayed with what they know.

"We have stuck to and focused on our core business although our competencies give us a number of additional options," said Jens Holger Nielsen, chief executive of Samskip Multimodal Container Logistics. "And we have worked intensely with our core suppliers to create quite a flexible cost basis, which, however, also tries to cater for the needs of the suppliers in terms of stability."

Cost flexibility is vital, with smaller lines mostly chartering rather than owning tonnage. MacAndrews, for example, operates six chartered ships in the 500-900 teu size range, while Borchard Lines, number 72 in the world measured by fleet capacity, is also able to operate a modern, flexible fleet by chartering rather than owning tonnage.

These lines have benefited from record low charter rates, while those operating in the intra-Europe trades have suffered less from the dollar's decline since freight rates are often charged in euros.

Unifeeder managing director Jesper Kristensen is another who believes smaller lines can outdo global carriers during a recession.

"Due to our flexibility and ability to scale upwards and downwards relatively fast, we can cope with situations like this a little bit better," he said of Unifeeder, which, with a workforce of fewer than 200 people, handles 1.3m teu a year.

"Because we are focused on exactly what we are doing, we can run a slimmer product and turn the wheel a little bit faster and more accurately than a big line [covering] all corners of the world."

There are other differences that have enabled the minnows of container shipping to outperform their global rivals. Just as the big lines enjoyed several years of bumper results after China burst on to the world stage, so they have been battered by the collapse in Chinese exports to Europe and North America.

However, lines with no exposure to China have seen relatively stable volumes, particularly those that have a higher share of foodstuffs than consumer goods in their cargo mix. In the case of Borchard Lines, many of the countries it serves in the eastern Mediterranean steered clear of the banking excesses that plunged the US and western Europe into recession. That, too, helped to prevent a plunge in cargo liftings which devastated the deepsea trades in 2009.

Borchard also works hard to balance cargoes on each trade leg, and to avoid a mismatch of 20 ft and 40 ft containers. Vessel sizes are chosen according to their suitability for particular trade lanes and ports.

"Carrying cargo one way does not pay," said Mr Borchard, who fully endorses the banker's mantra: "Turnover is vanity, profit is sanity, cash is reality."

Shortsea or regional lines also believe they are better equipped to provide efficient door-to-door deliveries than the bigger companies. Neither do the global players have a full grasp of their costs, their critics claim, unlike the more-manageable small lines.

A recent survey by Alphaliner of container lines ranked number 26 to 50 in the world found that the capacity operated by this group had declined by just 3.2% between January and early December, considerably less than the fleet contraction of most of the bigger ocean carriers.

Despite the downturn, some of these smaller carriers have fared better than their counterparts, said Alphaliner, with 13 carriers adding tonnage including TS Lines, Korea Marine Transport, STX-Pan Ocean, Unifeeder and Sinotrans Container Lines. Three carriers kept capacity unchanged, while nine shed tonnage.

Most of those that have expanded during the downturn were operating in the intra-Asia and feeder trades, while there have even been a few newcomers to the liner industry, including Singapore-based Hartmann Asia Lines and Taiwan-headquartered Pacific Orient Lines.

Not all have done so well, with carriers such as the South American pair Compania Chilena de Navegacion Interoceanica and Maruba cutting right back, while Swire Shipping has shrunk its capacity by 30% since terminating two services in the summer.

No line has been completely immune from declines in cargo volumes and freight rates, but in general, many smaller lines have held their ground during the toughest year the liner trades have ever been through. "Small is beautiful" may be a tired old cliche, but in the case of container shipping, it carries a ring of truth.

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