# Responding to COVID-19: Global shipping industry (1/2)

COVID-19 has had an unprecedented impact on global trade, bringing major challenges to the shipping industry with falling demand and disruption to the supply chain globally. The WTO expects a c. 15-30% contraction worldwide in 2020, and even if demand recovers in 2021, the crisis will have significant impacts on the industry

## COVID-19 has created global imbalances in shipping capacity and demand







Capacity suppression (non-exhaustive)

- Increased regulation to prevent the spread of COVID-19 has affected the supply chain. India: a 14-day quarantine is enforced for any vessels from China
- Reduced productivity due to limited employment capacity from social distancing restrictions and quarantine enforcements. New Zealand: maritime staff must quarantine for 14 days once leaving the vessel
- Restricted cross-border transport has reduced movement of products across borders. Universal Postal Union: has suspended delivery of parcels from the US to many countries
- Prioritisation of goods has resulted in the transportation of life-essential items over non-essentials. Amazon: has prioritised shipping of household goods and medical supplies

Capacity shrinkage is expected to be a short term impact that will ease as Government restrictions are lifted 🌈 Dema

### **Demand disruption** (non-exhaustive)

- Economic disruption caused by the economic impact of lockdown restrictions, e.g. increasing unemployment, SME collapse. US: employment has risen to historic highs
- Behaviour change due to long-term changes to people's attitudes post-lockdown. UK: the population increasingly performing at-home activities (e.g. baking) is expected to continue as lockdown is eased
- **Restriction-induced change** with social distancing measures forcing certain shops to close, there is reduced demand in the supply chain. *Worldwide: Restaurants and pubs have been forced to close, reducing wholesale goods demand*

Long-term impacts on demand are expected, and some flows may never return to pre-COVID levels

# Supply chain disruptions have emphasised the importance of resilience and agility

## All Stakeholders are looking to reduce overdependency on a singular location/country



Changing suppliers

Example: Moving away from China to Mexico, India, Vietnam and other countries COVID-19 has highlighted:

- Issues in complex, lengthy supply chains: nearshoring offers reduced lead times and more agile supply chains, enabling quicker turnaround times
- Dependency on manufacturing in a sole country/location, particularly China: companies may now look to diversify and develop manufacturing hubs in other countries

### Case study

Japan has set aside \$2.3bn to help companies move production from China back to Japan, or elsewhere. Iris Ohyama is the first company to use this stimulus to increase production of face masks in Japan

# Assessing the risk vs. reward trade-off in the supply chain

Reducing inventory risk

### Example:

Increase inventory stock, moving away from 'just-in-time' logistics strategy

- 'Just-in-time' logistics has been an increasingly favourable strategy, however COVID-19 highlighted issues in trading-off no/limited inventory with the associated cost of having inventory
- For some, this is **expected to be a short-term trend due to the increase in working capital**, however, in the immediate future this trend may be seen

#### Case study

Segro (property group) is looking to raise £650m to expand across the UK and Europe as a result of increasing demand for warehouse space driven by COVID-19



# Responding to COVID-19: Global shipping industry (2/2)

In a contracting market, ports will need to increase their focus to survive. A more targeted strategy needs high level political support, and must have a clear pricing strategy to protect yield and embrace digital transformation to reduce costs and enhance margins

# Implementing technology to reduce human interaction and improve efficiencies

## Improving technology

#### Example:

Factory and fulfilment automation, data analytic capabilities, social distancing enforcement technology

- The pandemic has highlighted the need to **automate processes** in order to reduce human interaction in the supply chain and to adhere to social distancing restrictions
- Predicting travel times, inventory stock, and port congestion has become immensely challenging; **investing in data analytics capabilities** allows for increased and sustained operating capacity

### Case study

To keep workers safe, Amazon and Interserve have introduced and trailed a wearable device which alerts staff who are within two meters



# Ports should adopt one of three strategies to survive in this challenging market



- For service quality, the focus is shifting towards reliability of shipments, transparency and safety of operations as well as strong customer orientation, one solution being port automation. Despite the requirement for initial investment to establish the command centre, arrange data collection and analysis, in the long run it will cut costs
- Currently suppressed demand will allow businesses to focus on the required transformation without significant impact on the market share, however increased competition may impact the ability to keep that market share in the long run



- Whilst freezing unnecessary expenditure, identifying new "cheaper" routes, reducing prices is a good strategy for the short-term, this can be risky in the longer term due to limited development budget and depreciation of infrastructure
- While some customers will be willing to pay more to integrate shipping into their value chains, others will still be looking for the cheapest option. Nonetheless, both will expect transparency and reliability of shipping to be the "new normal"



- Between these two extremes some may choose to capitalise on commodities where demand has increased. For this, business operations could potentially be downsized and acquisitions may be considered.
- This strategy is beneficial for smaller businesses however it creates the risk of putting all bets on one horse which, if trends change, could be less successful

### Teneo can support across many of the core activities required to execute these new strategies



## **Government support**

- Given the importance of the ports and shipping industry to the government, and reliance of shipping lines on debt capital, there is a political case for support
- We can see multiple examples of port support in the SEA region already (Taiwan, Singapore, South Korea and others) and expect to hear of more across the globe
- Teneo advises clients on making the case for state support, and understands the importance of reputational management as politicians respond to public perceptions



- Ports can take this opportunity to review their pricing structures to ease pressure on shipping lines, improve productivity, and maximize return on assets
- Our experience shows that effective pricing strategy takes into consideration a range of issues from customer satisfaction to the political environment
- Our pricing plus framework draws on Teneo's unique breadth of capabilities and allows us to consider the opportunity through the eyes of the Csuite



- The global shipping industry needs to embrace digitalization to improve efficiency and reduce costs in global supply chains
- Teneo can provide independent and expert advice to the C-Suite on the opportunities for digital transformation across the value chain



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