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American Association of Port Authorities

Session 16 – Surviving the Competitive  
Marine Terminal Industry – Economics of  
Marine Terminal OPS

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- ★ Survival partnering is when both parties fates are intertwined to the extent that their individual survivals are mutually dependent. In other words, one can not survive in the long term without the other
- ★ More than any time in our maritime history, partnerships are being forged to ensure mutual survival and establish long term interdependent relationships
- ★ The NEED of going to the well of across the board price reductions from vendor, in most cases, does have limits and a fast approaching bottom.
- ★ Cost increase deferment and offsets are short term solutions. They can have large price tags at the worst time.
- ★ Long term success is dependent on Win-Win solutions that remove waste and decrease operating costs and improve productivity.

# What is this Carriers perspective?

- ★ Most carriers are in 'survival' mode given the unprecedented losses of the last two years
- ★ Carriers have downsized, cut costs, reorganized debt, shed non-core assets, and are running leaner than ever
- ★ Carriers are looking to the MTO's and Port Authorities to reduce operating costs and become more efficient partners
- ★ While rates are always important, we are focusing on finding Network and Handling efficiencies that yield long term savings

- ★ Let's look at three real illustrative cases
  - Case 1 - A Port Authority seeks more volume
  - Case 2 – A Port Authority seeks more reefer volume
  - Case 3 – We needed to reduce our excess through put costs with an MTO/Port Authority

- ★ A port authority with new leadership approached us on how we could work together to increase our volumes at their port
- ★ We evaluated our handling and storage costs. Then we benchmarked the costs versus nearby ports and the target market
- ★ We made a proposal that involved closing our off-site depot, moving our volumes to the port based on seeking parity in cost and additional free time
- ★ We worked hand in hand with the port to effect the changes in such a way that the port immediately saw additional volumes, we reduced our over all handling costs. This led to us becoming more cost effective in the market
- ★ THE WINS - Based on a lower cost model, we jointly solicited with the Port Authority. Our partnership with the Port Authority increased our joint market share in less than 60 days at a lower cost

- ★ We were approached by a Port Authority looking to increase their reefer volumes
- ★ We evaluated the market and worked with the port to create an on-dock handling process through a very small foot print. We agreed to remain in the foot print and turn every slot twice per week.
- ★ We then adjusted our pre-trip and dispatch process to become more efficient
- ★ As we grew the business our cost per unit lowered and our efficiencies grew. As we grew we met with the Port Authority and incrementally grew our foot print.
- ★ THE WINS - In less than one year we more than quadrupled the volume while operating on a smaller foot print than ever before ensuring space for future growth without additional expense



- ★ In review of our through put cost metrics, we found the loaded through-put cost well above of our other ports
- ★ We sat down with the MTO/PA and reviewed the cost components
- ★ After a through review we found the formula used to calculate excess gate ratio was based on a calendar month.
- ★ After further discussions and a review of how the vessels worked and how the formula was calculated, we agreed to a rolling average based a three month rolling average.
- ★ THE WINS – We were able to reduce our costs to remain competitive in the market while the port maintained its requirement to ensure an efficient gate ratio
- ★ Side Note – As a result of this series of discussion, we put the MTO into other businesses and worked to grow their business and diversify their income sources

# What are the CASE 'take aways'

- ★ In each case the Port/MTO and Carrier had created a relationship wherein they could honestly dialog on their respective needs.
- ★ Each case required research and the willingness on both sides to openly review the facts (metrics) and costs.
- ★ Both parties compromised and worked to find a WIN
- ★ Both parties worked expeditiously to execute the plan (in each case no more than one month from conversation to execution)
- ★ Each WIN was a **mutual** win based on the needs of the respective parties



# 'Fortune Cookie' Notes and Cautions

- ★ Not every idea is a good one but, every idea should be discussed as these discussions often lead to good ideas
- ★ No matter how great the process or 'WIN', we must be ever vigilant because 'Network' changes often have serious unforeseen secondary effects.
- ★ Desperate one-sided demands never last in the long run and usually only serve to reduce efficiency and increase costs
- ★ Those that negotiate looking for a one sided win at the cost of someone else may accomplish their goal ONCE but, will rarely see long term success as they have violated trust.



Questions?

