

Assessing the Role of Marketing Mix in International Shipping Services: 8 P's in Ethiopian Context

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Abstract

The concept of the marketing mix has attracted attention from both academics and managers and has been widely used in the marketing discipline. Traditionally, marketing mix for 'product' (4P's) has been widely accepted in literature and practice. This paper presents the tools of the marketing mix of shipping companies (service) active in merchant shipping along with focus on the basic fundamentals of service marketing. It argues that the marketing strategies are the means by which a company achieves its marketing objectives and are related to the tools of the marketing mix. Further, it also brings the trends set up the strategies adopted by the leading shipping companies of the world in order to confirm that the companies understand the importance of marketing and apply improved marketing strategies. Some of the data, which were gathered in an empirical research (by Evi Plomaritou, Institute of Chartered Ship Broker's-Greek Branch) carried out for the top 10 tanker shipping companies and for the top 10 liner operators of container ships used in this paper to exemplify the strategies related to the tools of the shipping marketing mix. The article concludes that the shipping company must organize its resources in such a manner as to be able to apply improved strategies of effective marketing in order to achieve a long-lasting and more effective commercial operation of its vessels.

Introduction

Shipping is a service industry that by general acknowledgement provides the lifeline of international trade. Suffice it to say that, due to the morphology of

our planet, 95% of international trade takes place by sea. Technological developments in ship design and construction, and the ensuing economies of scale of larger ships, have also promoted trade particularly that of developing nations- by making economical the transportation of goods over long distances. This has expanded markets for raw materials and final products and has facilitated the industrialization of many countries around the world.

Shipping is a complex industry and the conditions, which govern its operations in one sector, do not necessarily apply to another; it might even, for some purposes, be better regarded as a group of related industries. Its main assets, the ships themselves, vary widely in size and type; they provide a whole range of services for a variety of goods, over shorter or longer distances. Although one can usefully isolate sectors of the industry providing particular types of service, there is usually some interchange at the margin which cannot be ignored. In practice, the core of marketing is considered to be the marketing mix. For service Industries, like shipping, it was observed that traditional marketing mix was inadequate because of three main reasons. The first reason was that the original marketing mix was developed for manufacturing industries, which implies that the services offered by service companies ought to be changed to a product like manner so that the existing marketing tools can be applied. This was practically difficult.

The second need was that marketing practitioners in the service sector found that the marketing mix does

not address their needs. They observed that service has certain basic characteristics (as discussed below) which, in turn have marketing implications. The third reason was that since services are basically different in comparison to physical products, the marketing models and concepts have therefore, to be developed in direction of this service sector. The above three reasons suggested a revised framework for service marketing mix with dimensions of each of the mix elements to be redefined. The marketing mix has extended beyond the 4P's for marketing of services. These additional P's are added to meet the marketing challenges posed by the characteristics of services.

A brief discussion of service characteristics and their marketing implications followed by the tools of marketing mix in shipping services are given below.

Service Characteristics

- INTANGIBILITY
- INSEPARABILITY
- PERISHABILITY
- HETEROGENITY

Intangibility means that unlike goods, services can't be seen, touched and felt, tasted or smelled or even heard before they are purchased. Inseparability suggests that services are produced, distributed, and goods consumed simultaneously. In the case of manufactured goods, production takes place in the production unit, thereafter the good sare kept in inventory and transported to the distribution outlet from where the consumers pick up for consumption. Heterogeneity means that services delivered generally vary in quality, time consumed in delivery, and the extent of service provided. Since people deliver most services they are variable. Perishability means that services can't be stored. For example, in shipping in Liner services, unoccupied slots remain unsold, whereas in the case of manufactured goods, unsold items can be put into inventory and can be sold the next day. Marketers have to find ways to 'tangibilise' the 'intangible' to increase the productivity of providers who are inseparable from the product, to

standardize the quality in the face of variability; and to influence demand movements and supply capacities in the face of service perishability.

Service Characteristics and Marketing Implications

Marketers have to find ways to develop appropriate strategies to deal with the challenges posed by the service characteristics. Some of these challenges are as follows:

- a) To 'tangibilize the intangible
- b) To increase the productivity of providers who are inseparable from the product.
- c) To standardize the quality in the face of variability.
- d) To influence the demand movements and supply capacities better in the face of service perishability.

For example, in hotel Marketing, services are tangibilized by the building architecture, it's location and aesthetics. Further many hotels run a number of branches world over to increase their customer base. Highly trained / ethnic chefs are employed to serve the best quality of meals. Special packages are announced to restore the demand during off season. Any service process is a combination of both complexity and divergence. Services such as hotel, with low complexity and high divergence are known as customized services. However, shipping services are much more complex as there are multiple players with each one to fulfill their own set of objectives. It doesn't have its own demand but it derives the demand from the goods traffic, comprising of exports and imports, in the world trade. Such services with high complexity and low divergence are known as standardized services.

The Tools of Shipping Marketing Mix (8 P's)

Marketing strategies are the means by which a company achieves marketing objectives and is related to the tools of marketing mix. Marketing mix is the sum of marketing tools.

Shipping marketing mix used by the enterprise in order to achieve it's objectives in the target - market. The tools of marketing mix for a shipping enterprise which is activated in tramp or liner shipping market

are: the Product (Tramp or Liner Service), the Price (Freight or Hire), the Process (Negotiation's Procedure & Execution of the Charter), the People (Office Personnel & Ship's Crew), the Place (Ports and geographical Area of Ship's Employment), the Promotion (advertising programs), and the Physical Evidence (Ship's characteristics and seaworthiness of the vessel). Additionally a new tool of the shipping marketing mix is the "Paperless Trade" and constitutes the eighth tool of the Shipping marketing mix.

1. Product (Tramp or Liner Service)

Shipping services are organized according to the nature and trading requirements of goods traffic in international trade. World trade can be divided into two broad categories, namely bulk and break-bulk and general cargoes. Bulk cargoes whether dry or liquid, by and large, belong to the category of primary commodities or raw materials, for example, ores, fertilizers, food grains, crude oils, petroleum, edible oils, etc. and move as ship loads. The break-bulk or general cargoes are the manufactured or semi-manufactured, processed goods and materials and move invariably in different types of packing, for example, cases, bales, drums, rolls, bags etc. The shipping services catering to the requirement of bulk commodities movement in world trade is known as 'tramp shipping' or 'chartering', while the shipping services required for the movement of break-bulk or general cargoes is known as liner 'shipping'. Fixed itinerary, regular service, & obligation to accept cargo from all & to sail, filled or not, on date fixed by a published schedule distinguish liner shipping from tramp shipping.

2. The Price (Freight or Hire)

Price Strategy: In the shipping industry, there are two main pricing regimes: the tramp market and the liner market. According to Stopford (1997), liner shipping provides transport for small quantities of cargo for many customers and is essentially a retail shipping business. The liner company is a common carrier accepting cargo from any customer at prices set out in the rate book. The published

rate book sets the framework for pricing, which involves differing degrees of discrimination by commodity and owner. That is not suggesting that the business is not competitive. On the contrary, it has spent most of its 125 year history in deep competition. In contrast, bulk shipping is a wholesale operation (Stopford, 1997). It sells its services in large quantities, by contract to a much smaller number of industrial customers at individually negotiated prices. Ship owners and charterers negotiate to establish a freight rate, which reflects the balance of ships and cargoes available in the market. If there are too many ships, the freight rate is low; while if there are too few ships, it will be high. In both cases, the pricing system is central to the supply of transport. In the short run, supply responds to prices as ships change their operation speed and move to and from lay-up, while liner operators adjust their services. In the longer term, freight rates contribute to the investment decisions, which result in the scrapping and ordering of ships. Liner shipping and conference system have largely developed hand in glove with each other. A conference is an association of two or more liner shipping companies operating in a well defined trade, playing a fixed route or routes within certain geographical limits, who agree to abide by its regulations to the mutual benefits of shippers and themselves and to quote the same rates and other agreed conditions. The main purpose of the conference is to eliminate price competition (but not service competition between member lines, which is achieved by maintaining a common tariff and rules for the application of the same. However conferences are believed to be monopolistic in nature relating to fixation of freight rates, provision of services etc. In USA, the government has established Federal Maritime Commission to protect the interest of exporters and importers against the monopolistic practices of the shipping conferences. A few months ago, the Trans-Atlantic Conference Agreement held its final meeting and the outcome was that Far Eastern Freight Conference will close in October on the eve

of the Brussels deadline. Thus, more than 130 years after the Calcutta Steam Traffic Conference (the world's oldest shipping conference subsequently renamed India/Pakistan/Bangladesh/Ceylon Conference, IPBC) was set up by the ship-owners in an effort to achieve stability in freight rates on the London-Calcutta trade route, then the world's most prosperous trade route, these price-fixing associations are about to disappear, at least in Europe. The abolition of the conference system thus is to enhance economic efficiency. The expected outcome is an environment where shipping services and freight rates will be negotiated by the buyer and the seller and will not be settled unilaterally among competitors. That is precisely the way the free market operates and to argue for special case exemptions ultimately smacks of special pleading or an oligopolistic move inevitably working against consumer interest. However, the question that remains to answer is what will be a possible abolition of price fixing authority mean to the industry? In the Post Conference Era, without price fixing authority, any information about market going rate levels on given trades has to be taken from public sources and market intelligence. Further, no special rights for the industry also mean no special obligations for the industry players. There will be absolute freedom to set rates at levels and at conditions negotiated with the customers. Additionally, there will be no obligation to maintain a tariff (unless required by national / regional regulators such as FMC) and no need to respect any notice periods for increases of freight rates (other than perhaps "usual business practices"). In short it will be a challenging new environment which also has its opportunities.

3. The Process (Negotiation's Procedure & Execution of the Charter)

Process Strategy, such as improvement strategies of negotiation procedures as well as strategies of voyage execution with speed and safety. The chartering industry is very demanding. It is difficult to think of any other industry in which contracts are negotiated within a few days, if not hours. Under

the pressure of difficult negotiations conducted with speed, often by telephone or e-mails, mistakes and errors can have disastrous consequences. In this demanding and competitive environment, care must be taken to present a professional image, negotiations must be conducted in a serious and business like way and charter parties' clause must complement the contracting parties. When the guidelines of negotiations are ignored, the parties may well become liable for substantial claims. On the other hand, the strategies of voyage execution concern the reliability of the voyage. The reliability includes the frequency of sailings, directness of sailings, scheduling flexibility, on-time pick up & delivery of the cargo, fast execution of the voyage, reduction of turn-around time to minimum, appropriate cargo handling procedures during the loading and discharging operations and safe transport of goods. Cosco won the "Sailing Schedule Reliability Reward on Australia - East Asia Trade" for applying improved process strategies.

4. The People (Office Personnel & Ship's Crew)

People Strategy, such as programs of continuous crew training. According to this strategy, a company's personnel and crew participate in training programs in order to be aware of the new developments of the international shipping industry (such as developments of a charter's legal framework, developments of the shipbuilding industry, developments of a ship's sale and purchase market, etc.). The Global shipping industry is facing a huge crisis of seafarer's. According to the study by the Baltic and international Maritime Council (BIMCO) and the International Shipping Federation (ISF), the current moderate officer shortage will become severe unless maritime training is increased and measures are taken to address wastage rates. By 2015, the shortage of marine officers is likely to nearly treble to 27,000. On the other hand, the number of ratings will rise to 167,000 in 10 year's time from the current figure of 135,000 according to global study. This puts a huge impetus on the industry and pressure will only mount. In the short term the task

of 'filling the gap' can be resolved by appealing to retired mariners to return to sea, to personnel from related industries, to serving and former member of the armed forces, or defense related industries facing a transition to civilian employment who have transferable skills. In the long term the industry has to undertake serious measures, paying special attention to training of personnel. When it comes to comparing different types of education, training on board a real vessel (OJT) has its disadvantages namely high costs, while theoretical courses do not provide the ability to demonstrate watch keeping capabilities in reality (for example standard and emergency operations). At the same time, marine simulation systems provide real time operation training, extensive environmental effects, and generate various system faults ensuring team procedural training using visuals for greater realism. Simulation based training advantages are self evident. However there are some obstacles. Government and shipping companies are not always willing to invest in the expansion of training. There is no clear guidance from regulators; moreover the lack of suitable qualified instructors is critical. These difficulties have to be overcome if the industry wants to avoid serious crises. Considering the estimated surplus of ratings, simulator training gains new meaning. It allows a rating to gain necessary competence, underpinning knowledge and skills to qualify as an officer in a relatively short period of time. Simulator driven computer based training and assessment enables training to be delivered even at sea. Overall to boost the number of qualified sailors, it is vital to set up comprehensive education, training, examination and certification system. **A.P.Moller - Maersk** Group maintains a simulation center for the training of its personnel and crew.

5. Place (Trading Limits / Ports)

In case of a time charter engagement, the charterers wish to employ vessels without trading and geographical limits. Instead of that policy, the time charter party usually specifies that the vessel must be used only within a certain geographical area

and that the charterers have the privilege of breaching the trading limits by paying an extra insurance premium. Where a charter party states that the loss of time, due to breach of warranty limits, is caused by the charterer, this provision does not only mean the time lost on passage due to average (e.g. damage), but also the time wasted by the ship owner while the damage is being repaired. Place strategy includes the policy of operating vessels without trading and geographical limits, such as the operation of well-built and maintained tankers, which can be used in the environmentally strict areas of the WestCoast of America. **Frontline possesses a large and modern fleet of tankers, which can meet the strict legislation of the extremely environmentally regions and can be employed in any sea, without trading and geographical restrictions.** A port is an interface between sea transport and inland transport and as such is considered to be important sub-systems within the total transport system. As a nodal point for exchange of import and export cargoes, the port always plays a key role in physical supply and physical distribution management. While the principle function of port is to provide entry and exit for cargoes (and passengers to some extent), other auxiliary but important activities at the ports include custom inspection, warehousing, preparation of cargo shipment etc. As such the ports play a significant role in a country's economic development and prosperity by providing the necessary infrastructure for handling goods traffic and in the fulfillment of her people's aspirations towards economic progress and prosperity. The efficiency of ports not only helps in increasing the efficiency of the overall transport system of a country, but also reduces the cost of transporting goods from one point to another.

6. Promotion (Advertising Programs)

Promotion Strategy, such as advertising programs, policies for maintaining good relations with charterers, etc. The purpose of advertising is to get a message across to the charterer. Advertising operates at three levels - informs, persuades and

reinforces. Advertising to inform normally relates to the promotion of new transportation services offered by new vessels of the company. There is also the public relations side of advertising, which includes media relations and exhibitions. The shipping companies use advertising as a basic competition tool. The companies, which provide high quality transport services, have a motive to reveal this quality through advertisements. **Hanjin Shipping** has developed various advertising programs that include a web page on the Internet, brochures, advertisements in the shipping press and participation at maritime exhibitions.

7. Physical Evidence (Ship's characteristics and seaworthiness of the vessel)

Physical Evidence Strategy such as strategies of the improvement of a vessel's performance and efficiency. Physical evidence strategies are the strategies of a company's compliance to the international regulations concerning vessels' design and operation, strategies of proper maintenance of fleet, strategies of continuous crew training, etc. The ship owner is obliged to provide a ship built, equipped, supplied and manned in such a manner as to carry safely the cargo to its destination and to overcome the ordinary perils of the sea. A study conducted on the world's largest tanker shipping companies showed that they have a very clear picture of their client's requirements. All companies classify the charter's requirements in the same manner with the one charterers rank their needs. The tanker companies believe that the selection criteria from a charterer is the provision of safe carriage of goods by sea and the compliance of company with international safety standards, regarding the construction, operation and management of ship. The freight, though it is taken seriously into consideration by the charters, doesn't constitute the decisive factor for selecting a ship owner. The largest tanker companies in the world have perceived that the decisions of the charters are oriented towards safety and not towards freight. Teekay Shipping has created a marine management

system, called the "Marine Operations Management System", which imparts the philosophy of safety management to the entire organization. The system includes efficiency indicators for constant monitoring and improvement of all the enterprise's operations. In 2003, Teekay obtained the "Certificate of Environment Management International Standards - ISO 14001".

8. Paperless Trade (EDI)

Paperless Trade Strategy such as the implementation of the EDI system. EDI is defined as the computer to computer transfer using a predefined standard to structure the data related to the transaction. In such case transaction means carrying out functions like consignments instructions, payment of customs duty, processing of duty draw back applications, DEPB applications etc. The need for such electronic link between various agencies involved in logistics operations was felt world wide, because of increasing number of transactions. United Nations Trade Data Elementary Directory (UNTDDED) contains the "data elements" which are assembled into 'segments', which are further grouped into a message using 'syntax rules'. These rules are devised by the United Nations for computerization of trade for Electronic Data interchange for Administration, Commerce and Transport (EDIFACT). EDI can be best described as an inter- organizational computer to computer exchange of business documentation in a standard machine process able format. EDI takes place through proprietary, value added networks (VANS). Many shipping companies, particularly in the liner shipping market, have realized that the investment in information technology and electronic commerce should be seen not simply as a corporate overhead to be absorbed as part of the cost of doing business, but as a competitive weapon in its own right. This requires managers to view information technology not as a part of the infrastructure servicing the rest of the organization to be left to computer specialists, but as a strategic resource.

A clear paperless trade strategy is needed to allow the firm to recognize the relevance of the information to gaining the stated marketing objectives. The information should be stored in the database on a need-to-know basis rather than a nice-to-know basis. At the same time, it should be recognized that the data must be constantly updated if they are to be of use. **Evergreen** applies a technologically advanced EDI System between the company and the shippers. The system provides fast and valid information, while time and effort are saved. The company won the "E-Commerce Excellence Award 2004".

CONCLUSIONS & RECOMMENDATIONS

For service Industries, like shipping, it was observed that traditional marketing mix was inadequate because of three main reasons. The first reason was that the original marketing mix was developed for manufacturing industries, which implies that the services offered by service companies ought to be changed to a product like manner so that the existing marketing tools can be applied. This was practically difficult. The second need was that marketing practitioners in the service sector found that the marketing mix does not address their needs. They observed that service has certain basic characteristics which in turn have marketing implications. The third reason was that since services are basically different in comparison to physical products, the marketing models and concepts have therefore, to be developed in direction of this service sector. The above three reasons suggested a revised framework for service marketing mix with dimensions of each of the mix elements to be redefined. The marketing strategies are the means by which the company achieves its marketing objectives and are related to the tools of the marketing mix. The tools of the marketing mix for a shipping enterprise which is activated in the tramp or liner shipping market are: Product (Tramp or Liner Service), Price (Freight or Hire), Process (Negotiation Procedure & Execution of the Charter), People (Office Personnel & Ship's Crew), Place (Ports & Geographical Area of Ship's Employment), Promotion (Advertising

Programs), and Physical Evidence (Ship's Characteristics & Seaworthiness of the Vessel). Additionally, a new tool of the shipping marketing mix is "Paperless Trade" and constitutes the eighth tool of the shipping marketing mix. In order to respond fully to the demands of the competitive shipping market, it is necessary that shipping companies use modern electronic communication means by which time, cost and effort are saved and quality improvement of services is achieved. The correct drawing up of a shipping enterprise's strategy is achieved through the company's planned rational actions. The action plans must be applied correctly so that the proper transport service is provided to the appropriate charterer, at the right time and port with the appropriate vessel and at freight levels that satisfy not only the shipping company but also its client (charterer/shipper). Marketing is the provision of the appropriate maritime transport services, from the right people (personnel of shipping enterprise and crew of a company's vessels), to the appropriate clients (charterers or shippers), at the right place and moment of time, and at the appropriate freight levels, with the suitable promotion.

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