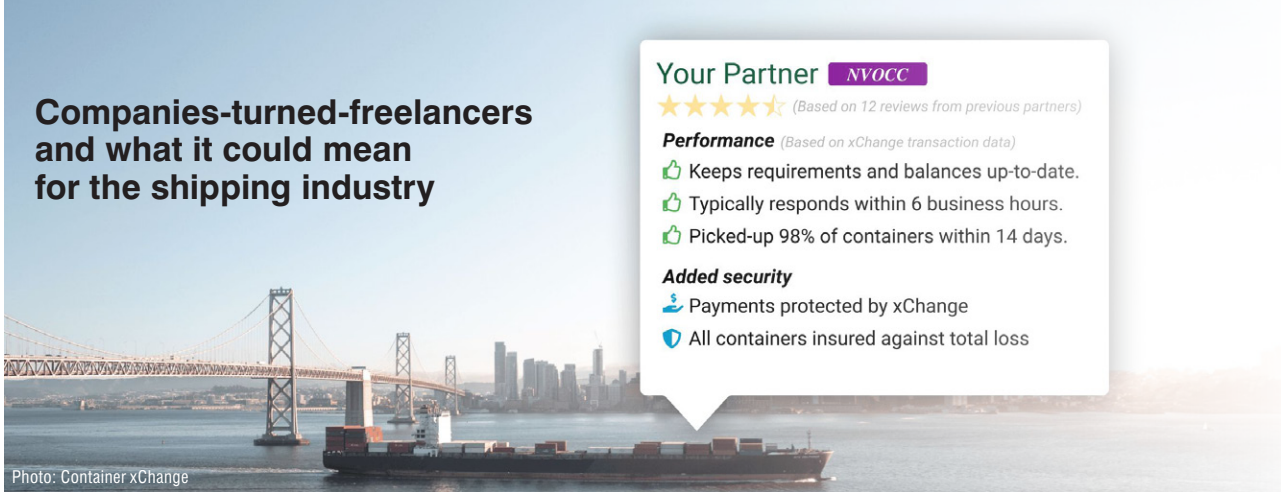

Deconstruction of the value chain

by **Dr Johannes Schlingmeier**, *CEO, Container xChange*

In the past, companies tried to optimize and unearth efficiency gains through value chain integration. The reason was that it is easier to communicate and optimize within a company than with external partners. Examples from container logistics include Maersk Line acquiring Damco as part of the P&O Nedlloyd acquisition, or Amazon's aim to consolidate the entire value chain from factory to last-mile delivery.

xChange

the Hamburg-based company stands behind xChange, an online platform enabling container users to find third-party equipment for their freight and container owners to supply their equipment to save on empty repositioning costs. For more info as well as to book a free demo how the whole solution works, please check https://container-xchange.com

In the literature, the explanations focus on lower transaction costs when communicating within an organization compared to the outside, and the risk of "holdups" being more manageable with the ability to observe the entire value chain compared to just a small fraction. In fact, one could argue that these factors and risks are the only reason why we have companies at all, a way for humans to work together and communicate efficiently. In a sense, a company is just a collection of specialists who work together on a "platform" called a company.

Power to the platforms!

Today, technology and digital platforms reduce transaction costs and remove risks. This makes the traditional "company borders" obsolete. We see that in the so-called "gig" economy. Here, specialists, from highly paid professionals such as lawyers and consultants to poorly paid, uneducated "hands," chose not to get a job in a company; instead, they offer their workforce on platforms like Uber, Fiverr, and even Deliveroo. Interestingly, this does not quite fit into the B2B vs B2C vs C2C logic of the past. Rather, we're dealing with a P2B/C model: as a company/consumer, I only have to join a platform to get access to a wide range of services without further needing to search, compare, or contract.

As such, mergers & acquisitions are likely to lose their status of the only logical way to increase efficiency along the value chain and to achieve economies of scale. Instead, platforms and digital technologies allow companies (no matter how small or specialised) to work together across company borders. On successful platforms, this is not only powered by efficient online processes, but it is supported by platform activities that increase trust such as peer reviews, performance information, always-on troubleshooting, or payment handling (the last one, again, through impartial blockchain-enabled

platforms). Examples include a "simulated large, consolidated company" which operates equipment in an efficient, market-driven pool or platforms focused on the optimisation of intermodal traffic thanks to improved communication between container carriers, freight forwarders, and truckers.

Deconsolidation

Thinking about the future of the shipping industry, we'll witness further deconstruction taking place. Multiple "neutral" platforms will link together specialised actors along the value chain. This will be the reverse of what's currently the state of play, namely carriers pushing for vertical integration. The future value chain will comprise many more parties, not only the all-mighty carriers but also niche lines, shipowners, vessel operators, equipment owners, slot marketer, port agents, technology suppliers, ports, terminals, truckers, depots, etc.

From an economic viewpoint (and when removing transaction costs/communication barriers and "holdup risks") it makes only very little sense to have "vessel operation" and "equipment ownership" done by the same party. In the case of equipment, managing a pool allows to even out company-specific imbalances and, e.g., reduce empty container moves. Container leasing companies are a prime example of an area where this has already started to happen.

Why shouldn't forwarders or shippers bring their own containers and only book the vessel slot? The so-called shipper-owned containers (SOC) increase flexibility and create a win-win for shippers and carriers: forwarders save demurrage charges, while carriers avoid time-consuming planning and can focus on what they're good at, i.e., moving goods between continents and the sale of vessel slots. More and more shipping companies increase their SOC activities because online platforms provide them with access to global capacity and streamline processes of booking containers separately to the vessel slot.

Of course, this does not need to be fragmented down to the individual micro-service at all stages. There will be companies taking care of multiple "chains," so to speak. Some clients will continue to prefer buying from a consolidated entity instead of plugging-and-playing services on a platform. In this instance, think of a large shipper who wants to have a reliable long-term contract with stable rates and a single point of contact. That said, deconsolidation makes sense by and large, because in the wake of the digital revolution individual on-demand platform freelancing companies promise greater efficiency, be it cost- or performance-wise. The question is whether the trend will be potent enough to deconsolidate even the strongest of today's transport & logistics integrators.

Eco-systematisation

The "race to be the largest and most integrated actor" could be stopped. In the future of shipping that we're painting, one will need to be super specialised and able to play multiple platforms, with no room left for "conglomerate cover-ups," as every activity will have to be performed on par with, or better than, the best. Because markets will be so efficient, customers won't be willing to pay for sub-optimal solutions anymore.

This will be a "battle for services" or to put it differently – who'll have the upper hand when deciding on the shape of the future business eco-system. Just imagine parties like Amazon or Alibaba rekindling the shipping industry. Will we see more companies disinvesting what used to be their core activities, as when COSCO had let go of its shipbuilding arm? What to leave in the portfolio and what to drop or outsource has already become a major headache, not to mention the need to design, implement, and follow through new not only technical but also business plug-and-play architectures and practices (e.g., shorter duration contracts). Atop of that lies interoperability – being sure the value chain speaks the same language. Zapier is a really good example in this regard, as the company is an online service that "connects" distinct services of other parties to provide additional user value. Easyjet is another illustration of "unbundling" an offer into micro-services; the platform allows to book virtually everything for holidays (incl. the vacation package itself) but gives the possibility to pick the individual items at the user's pleasure.

Lastly, going full circle to the transportation business, we as Container xChange are also an example of how companies can work together on a neutral platform and share capabilities/assets. It is also possible to add further services from third parties to a transaction, such as container insurance or surveying, to further drive down transaction costs. It is not necessary anymore to take over your competitor to leverage a shared pool of containers. More than 300 companies use this chance to access the world market and to have eyes and ears across the entire globe. ■