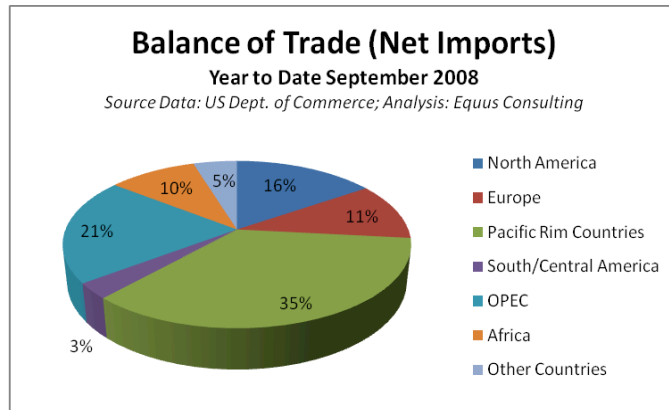


Transpacific Strategy in a New World

By Deep Parekh

There seem to be so many new economic developments every day, that rises and falls of 400 or 500 points on the Dow Jones Index seem normal. Each week, we find new companies as victims of the economic disaster that is being euphemistically termed as a 'downturn'. Factories across China have been shuttering their loading docks and machinery for lack of demand. Retailers in the US are suffering as consumers tighten their belts. The transpacific lane (between the Pacific Rim countries and the US) represents the largest slice in the balance of trade pie (35% of the net imports), as shown in Figure 1.



According to Matt Frei, reporting for BBC News recently, "A few years ago shipping companies in South Korea, Italy or Scandinavia were enjoying an unprecedented boom. There simply wasn't enough capacity to ship all the cars, washing machines and lap top computers the world was snapping up. The shipping companies built new ships, more expensive and bigger than ever before - now they don't need them. The port of Los Angeles is the nexus between Asian mass production and American mass consumption, the strange relationship that had fuelled the unprecedented boom of recent years which now seems but a fading memory." The ports of Long Beach and Los Angeles are witnessing a decline in activity of about 15% this year, a figure people think will rise as the economy worsens and several more thousands of containers return empty to Asia.

But whereas the economic downturn is a reality of today, Shippers and Logistics Service Providers (LSP) must take advantage of this situation to regroup and re-evaluate their strategies. The playbooks that companies have used during the last decade can be thrown away, as they will not be used again for quite a while. We need to take a new approach to how to operate during the next 3-5 years in the current marketplace. According to a recent McKinsey & Company article titled 'Strategy under Uncertainty', authors Hugh Courtney, Jane Kirkland, and S. Patric Viguier postulate that "at the heart of the traditional approach to strategy lies the assumption that executives, by applying a set of powerful analytic tools, can predict the future of any business accurately enough to choose a clear strategic direction for it." In times where history has no bearing on the future, and previous models have grossly underperformed, developing workable and sustainable strategies becomes difficult. "When the future is truly uncertain, this approach is

at best marginally helpful and at worst, downright dangerous.” The authors offer a framework to help develop a strategy for the uncertain future, which we have adapted with modifications that we consider relevant for this industry.

Strategy Under Uncertainty Framework

There are 3 key elements to understanding the future of your business and developing a strategy to deal with uncertainty:

- **THE CURRENT FACTS:** Fact-based indicators and trends (even using a very short period of recent history that is relevant to your industry)
- **ALTERNATIVE FUTURES:** These are the various possible outcomes that you could achieve through your business strategy – they provide direction but also provide ‘safe harbors’ that you could direct your company towards, if the strategy becomes irrelevant through network externalities
- **RANDOMNESS:** These are the factors that you will never be able to predict or have a handle on, or even know of. They are out there lurking in the future, but you may not have the ability to understand how / when they will impact your business

The Current Facts

Gather all the data you possible can about your business and your industry, including ancillary industries and start understanding how they all map and link together. Have a very clear understanding of how the facts link with each other, and how they impact you. For instance, let’s assume we are an LSP – what are the facts? Well, let’s see: Trade with China is down – FACT; There are containers returning empty to Asia – FACT; Trade with China is based on US consumption – FACT; US consumption is down – FACT; US consumption is anticipated to be down for a while – FACT. You get the general idea.

Alternative Futures

This involves figuring out where you want your business to go in the future. You may have laid out your plans and goals such as growth rates, market expansion, etc. Put all those aside – develop a new set of your alternative futures. What is a likely future for your business? What is a pessimistic case, and what is an optimistic case? Not only that, but what are the contingencies if other factors should occur. For instance, if you are an LSP focusing on Transpacific trade, you know the market is not going to be good for you, so start thinking about alternate ways of generating business. What are your options? You could, for instance, start looking at other lanes to work on, but there’s already stiff competition from others who already have a market presence there. There are alternate futures for you – you could start extending your business services to related areas – such as offering demand & supply collaboration services for your shippers, information visibility, legally trading information where possible, creating different revenue streams associated to what you currently have. We bring you back our diagram from a previous issue, as

