

4. Preparing for the next 25 years

Extract from Brave new world?
Container transport in 2043

Preparing for the next 25 years

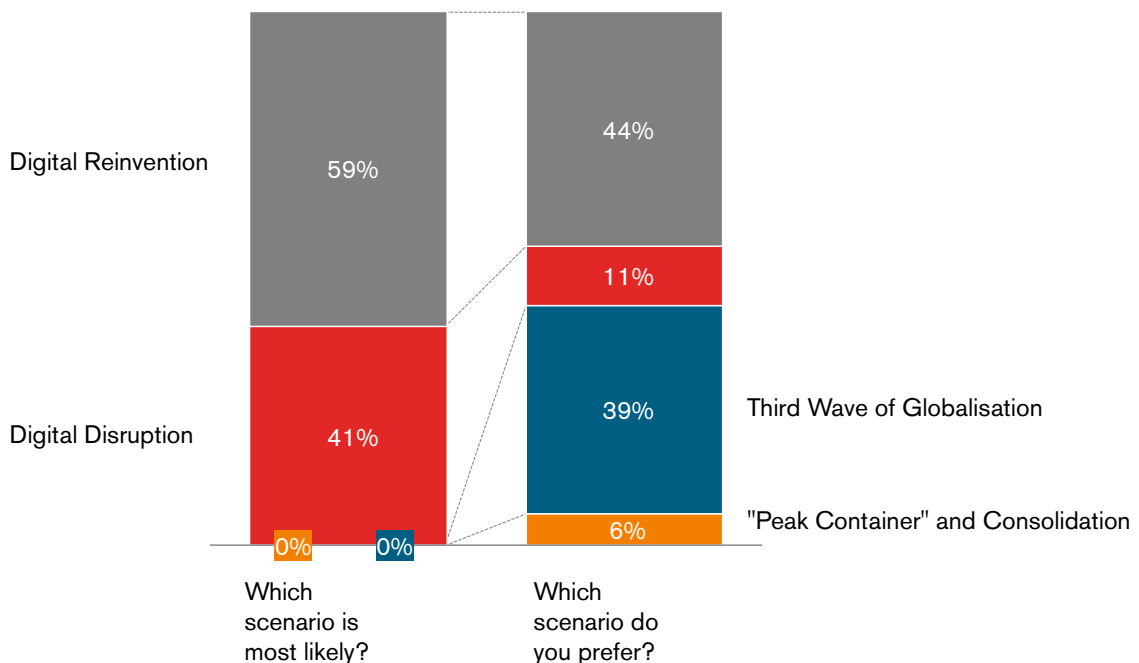
The container transport industry is approaching a crossroads. The external environment is rapidly changing, and it is clear the long-standing formula for value-creation will have to change as well.

The directors of TT Club were polled in late 2017 about these futures, and a few things stood out (Exhibit 7). First, the future is digital: every one of the respondents thought the most likely scenario would be either Digital Reinvention or Digital Disruption, with a modest lean towards the former. Second, many would prefer a world in which the demand side continues to drive the industry forward, as described in Third Wave of Globalisation, but no one saw this scenario as likely. Third, while only 11 percent of respondents preferred it, 41 percent thought Digital Disruption was most likely – perhaps a sign of resignation to trends that may seem inexorable.

Exhibit 7

The future is digital

Responses of TT Club directors (8 November 2017)



Preparing for such a range of outcomes would be taxing for even the most agile and foresighted of companies. It may however offer a ray of hope: some of the trends on the horizon, like digital, have the potential to change the industry's dynamics fundamentally.

There are a few things players in the container transport industry can do today to prepare for an uncertain future:

- **Focus on the real end-customer: the consumer.** The container transport industry has historically focused on serving its immediate customers – beneficial cargo owners – but has perhaps not paid as much attention as it should have to what was happening a few links further along the chain. The real “customer” of the container transport industry – even if separated by last-mile distribution providers – is the everyday consumer, who is increasingly enjoying the speed, flexibility, convenience, and low cost associated with online shopping. The e-commerce revolution is only just beginning to disrupt supply chains, especially in last-mile delivery, and there is much more to come. The dynamism required of today's container transport industry to keep up with the pace of development will only intensify. One shift for container transport players would be to measure success not only by how well or inexpensively they have delivered their own services, but also how much they contribute towards optimising the end-to-end supply chain to the consumer's benefit. Taking a holistic view is likely to reveal opportunities for additional efficiencies through “win-win” collaborations with other players.
- **Monitor the “trigger points.”** US President Dwight Eisenhower once said, “Plans are worthless, but planning is everything.” Perfect preparation for an uncertain future is impossible, but the act of planning – and retrospectively assessing where trends or discontinuities were over-looked – is an important discipline. Across our four futures, there are a number of “trigger points” that a foresighted company might carefully monitor: infrastructure investment and unit-labour costs in major economies, the number of SMEs selling globally on e-commerce platforms, 3D printing adoption, venture-capital funding for container transport start-ups, the latest order for the next-largest ship, the speed of adoption of digital platforms, among many others. Furthermore, stress-testing the company's financials against a range of market and industry outcomes can help build resilience and ensure risks are appropriately mitigated.

- **Digitise radically.** Standing still on the question of digital, data, and analytics is out of the question. The potential for value-creation is enormous, and the costs of not doing anything at all are very high. The battle for the customer relationship should not be ceded lightly by any player. Use cases for step-changes in efficiency and performance should be piloted, refined, and quickly scaled: predictive maintenance, “smart” stowage, seamless document flow, and omniscient cargo tracking, among others are all vital areas to explore. Players should actively form partnerships to build the industry-standard platform and ecosystem. It’s potentially a “winner take all” dynamic, but even for those who are not aspiring to win it all, staying one step ahead of the direct competition will be an important differentiator for the foreseeable future.
- **Automate and innovate.** Over the long run, cost pressures are not going to subside. Leading companies will continue to reduce their cost bases, improve productivity, and enhance safety. Autonomous technologies available today and in the not-too-distant future are extremely promising for the industry. There remains an exceptional learning curve in terms of adopting these technologies and maximising their value. Similarly, other innovations like propulsion technologies, advanced materials, Internet of Things solutions, modularised shipping concepts, and so on could change the game unexpectedly – and to the great benefit of the first-mover or fast-follower.



The future is unknowable, but that is not an excuse for inaction; rather it should prompt companies to invest in strategic thinking to best position themselves for the future as it unfolds. There are a number of things the container transport industry can do to prepare for the next 25 years: focus more closely on the end consumer; systematically monitor and discuss “trigger points”; pursue digitisation with conviction and pace; and automate and cultivate a spirit of experimentation and innovation. The container transport industry has enjoyed a dramatic and dynamic past – and the future looks no less exciting or demanding.

About TT Club

TT Club is the leading provider of insurance and related risk management services to the international transport and logistics industry. As a mutual insurer, TT Club exists to provide its policyholders with benefits, which include specialist underwriting expertise, a world-wide office network providing claims management services, and first class risk management and loss prevention advice.

Customers include some of the world's largest shipping lines, busiest ports, biggest freight forwarders and cargo handling terminals, to companies operating on a smaller scale but whose operations face similar risks. TT Club specialises in the insurance of Intermodal Operators, NVOs, Freight Forwarders, Logistics Operators, Marine Terminals, Stevedores, Port Authorities and Ship Operators.

For further details, please see our website at www.ttclub.com.

About Thomas Miller

Thomas Miller is an international provider of market leading insurance services, and is the manager of TT Club. Founded in 1885, Thomas Miller's origins are in the provision of management services to mutual organisations, particularly in the international transport and professional indemnity sectors. Today Thomas Miller manages a large percentage of the foremost insurance mutuals and is increasingly bringing knowledge and expertise to the development of specialist insurance services businesses.

Principal activities include:

- Management services for transport and professional indemnity insurance mutuals
- Managing General Agency
- Professional services including legal and technical services, claims and captive management
- Investment management for institutions and private clients

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Note on methodology

This research combines the insights of the TT Club Board of Directors and other TT Club members; perspectives of customers and suppliers to the container transport industry, including “digital natives” and other start-ups; and McKinsey experts and analysis. During 2017 we interviewed over 30 industry leaders and experts, representing a wide cross-section of the industry including container liner operators, terminals operators, port authorities, freight forwarders, container lessors, financial intermediaries, suppliers of digital solutions to the transport and logistics industry, e-commerce companies, and law firms, among others. We ran a joint workshop with the TT Club Board members to further develop future scenarios. No proprietary data from the participants was exchanged or used to produce this report.

For the purposes of this report, we define the “container transport industry” as container shipping (container lines), container terminals, and freight forwarding. While freight forwarders participate in a wider part of the logistics space than containerised cargo transport, trends in container transport have a significant impact on freight forwarders.

This report is structured in four chapters. Chapter One (“Where we have been”) outlines the incredible history of container transport. Chapter Two (“Where we are going”) explores the points of fundamental agreement and disagreement about the outlook for the container transport industry. Chapter Three (“Four visions of the future”) weaves together these elements to construct four potential futures that each present very different strategic implications. Chapter Four (“Preparing for the next 25 years”) provides some closing ruminations on what the container transport industry should be doing now to anticipate a range of uncertain futures.

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