Reliability, accuracy, speed

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Today, the quality of products is assumed. The delta on quality is getting smaller and smaller, and technology is getting so advanced that you can duplicate superior products with ease. So the adage is that in the future, products won't compete. Market share used to be based on product differentiation, but winning will increasingly depend on your efficiency in moving products from raw material through to point of sale or delivery – or what's become known as “supply chain management”. Think about how much sophistication typically goes into cutting a cent out of the production of a widget, but how little sophistication goes into its delivery. Most people are surprised to learn that 30 percent of product pricing is often based on supply chain costs. As a port, our company does a lot of thinking about supply chains and the best way for us to position our services. I'll use this example to illustrate the kinds of issues we're facing, and how and why the country needs to accelerate its capabilities.

First, let me provide some background. Like most other industries, the pace of change has accelerated and the context is changing. Thirty years ago, a great number of shipping companies were owned and run by governments. In the post-war days, nations felt they had to own a shipping company to remain attached to the world – the same way that countries invested in airlines. Eventually there was a transition into corporatisation, followed by privatisation. Generally governments have cashed up and most shipping companies now have very commercially-driven objectives.

Globalisation is taking hold and we're seeing a huge transformation of the shipping industry. And it's not just China. There was nearly 20 percent trade growth in African imports and European exports in 2004. As an example of the growth, there are two types of containers – 20 footers and 40 footers – and the biggest ships in the world carry about 10,000 TEU (twenty foot equivalent unit) containers. There are about 300 container ships under construction, and more than half of those will hold 5,000 containers or more. The biggest ship that currently comes into New Zealand holds 4,100. The number of container slots on the ships in construction constitute a 30 percent increase in the world's capacity of container slots.

In terms of container volumes, 303 million TEUs went across terminals around the world in 2004, and that was a 10 percent increase over the previous year. That's an extra 2.5 million a month (the whole of New Zealand does less than 2 million in a year). You're looking at adding 5 to 10 extra container terminals in the world a month to handle that volume and that kind of infrastructure growth is unsustainable. You simply can't fill in every city's harbour, so there has to be more sophistication in our operations.

However, there are immense advantages in scale and global coverage for big players and we've seen a huge number of mergers and acquisitions in the shipping world. The changes are dramatic and the global players can generate more options for customers and better utilisation of their assets.

There are three key elements that customers demand in our industry. First, they're looking for reliability; they're looking for accurate information to generate the location and vital information about their goods (such as the temperature at which they are stored); and finally it's increasingly all about speed – particularly with high-value cargo.

In New Zealand's case, imports tend to be higher value than exports, and they generally have more time intensity.

The ports are keeping pace with those demands and the need for increased capacity (the Port Companies Act has set up a governance structure whereby our ports are allowed to fail – and my belief is that if you're allowed to fail, there's no better motivation to succeed.)

The upper North Island is by far the biggest marketplace in New Zealand and a recent economic impact assessment showed that 32 percent of Auckland's GDP and 173,000 jobs depend on our port. So there is a great interdependency between cities and ports. The investment in roads and rail is very topical at the moment, and there's not enough money flowing into those areas. They've
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got to be modernised to keep pace with the demands of the supply chain and the characteristics of the marketplace. In that sense, roads are a real concern because the funding gap is getting wider and wider – and it will ultimately have a big impact on the overall supply chain capacity of the country. There is also a lot of latent capacity in the existing rail infrastructure. The public purse funding isn’t keeping pace in these areas and it’s going to have a huge negative impact on the future economy of New Zealand. If you want Auckland to compete with the other cities in the Pacific Rim, and if you want New Zealand to compete with other economies of the world, the government purse has got to play its role. If our infrastructure is inadequate, costs will rise and we won’t compete. Roads and rail are an essential part of NZ’s supply chain; that chain is only as good as its weakest link.

Speed to market becomes more important, and that’s where New Zealand’s location puts us at a disadvantage. The big ships are typically travelling at 24-26 knots, and to increase the speed by a couple of knots simply costs a fortune. So it’s critical for New Zealand to get better than its foreign competitors on the land side of the supply chain. We’ve got to get faster at moving goods or we’ll be left behind. I think that a lot of the developing countries are truly starting to understand this necessity. India and China are putting huge investments into infrastructure as they can see that an efficient supply chain ultimately improves wealth and the quality of life. If you limit the capacity for trucks to move, you’re limiting the growth of society. I do a bit of work in Wellington espousing our views on these issues and I’ve discussed this with senior ministers. Treasury is interested in the subject and they definitely have an appreciation of the fact that roads and rail are critical to the supply chain and not just about moving passengers from A to B.

But do we have the port capacity? In reality, there shouldn’t need to be many more trucks coming in and out of our port during peak-hour traffic (between 7.00 am and 9.30 am, and 4.00 pm and 6.00 pm, Monday to Friday). If we utilise the port 24 hours a day we have a great deal of opportunity to grow. Ships are just like buses, they work on a fixed-day weekly service, but most of the freight is not minute-sensitive. Some of it is hour-sensitive, but the majority of it has a 24-hour window for delivery. So you can work off-peak and utilise what we call “night,” which is 7pm to 7am, plus the weekends. In the last four years we’ve increased our night activity from 1,000 containers a week to 4,000 containers. We’ve found that the trucking companies enjoy using their assets over a greater part of the 24-hour clock. In fact, it’s a little frustrating that ports tend to get a bad rap in terms of creating traffic. Whenever people see a truck around the city they tend to associate it with the port. In fact, most of the trucks people see aren’t going anywhere near a port. Around the clock activity also helps us with the utilisation and maintenance of our plant, simply by distributing the workload.

Theoretically, there is a lot more capacity at our port. Using our current *modus operandi*, with straddle carriers, we’re currently doing about 700,000 containers per annum. Our existing infrastructure could handle about another 150,000. We have averaged 8 percent growth over the last 15 years, so – allowing for inevitable changes in market share from time to time – that’s an extra 50,000 a year. So there’s not a lot of spare capacity if we make no changes. However, the theoretical capacity is obviously dependent on how many ground slots you have available, how high you stack containers, and how long they stay at the port. It’s a multiple of those things.

There’s also the potential to reclaim more of the seabed within the existing area of the port, and that would more than double the land space for containers. We’re currently reclaiming some land beside Ferguson Terminal, about another 10 hectares in total. But there are other options related to machinery. We’re currently using what are called straddle carriers, we only stack containers two-high. A lot of the machinery that’s currently being introduced to ports around the world is for stacking containers five-high or higher. Our straddle carriers are also limiting in that you can’t place containers immediately side-by-side. With gantry cranes, you can stack containers an inch from each other, so you end up with more ground slots. The other element is dwell time, and our average is about 4 days. Imported containers average 2.5 days and exports are five days. About a third of the imports are moved within 24 hours, though exports often arrive here ten days before the ship. We’re constantly trying to reduce that average, and it could potentially be reduced by half. Combine these potential changes and the Auckland Port can handle many times its current throughput.

A port is a real washing machine of information. Given our need for information flows, we’ve developed a suite of electronic interface products to improve the interaction between us and our customers. For instance, we have software to handle the assessment of imports electronically, with no paper. It has reduced the amount of paper we produce by 7 tonnes a year. In the past, if somebody wanted to investigate something that had happened 4 years ago, there was 50 tonnes of paper out in a warehouse that somebody had to sift through. Now you push a few buttons. The number of phone calls has reduced by about 3,000 a day.

When a ship leaves Los Angeles, within seconds we’ve downloaded everything we need to know about its cargo. Customers can also track their cargo and change delivery or pick-up instructions in real time, without any human contact at our end.

In summary, there are a lot of positive developments and opportunities in trading and its supply chains – but it’s going to take some dynamic thinking and action to keep us competitive beyond the next few decades.
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