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Crisis Survival strategies in the Dry Bulk Shipping
Industry: The cases of SwissMarine Inc. and Diana
Shipping Inc.

by

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*“It is not the strongest of the species
that survive,
nor the most intelligent,
but the most responsive to change”*

Darwin

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Abstract

One of the most important issues affecting the proper function of the global economy during the last two years is the financial crisis of 2008, having consequences for every sector of the economy and production. The capital intensive character of shipping industry and its derived demand from the production couldn't be unaffected (from the crisis) dragging them in a severe decline, creating the need for careful strategic planning and management due to the huge expansion of this type of industry during the previous years.

The purpose of this project in a first level is to present an analysis of the shipping market and its course during the period 2007-2010, in order to be declared the basic conditions which affected the strategy of the companies. In a second level the thesis using the previous analysis in relation to case studies is extracting conclusions about the potential shipping strategies during the period 2007-2010 and how these were affected by this severe downturn of the market.

The main aim of this study is to state and analyze the main strategies followed by the shipping companies during the pre crisis period in the different sectors of the company's operation and how they have been adopted to the new market standards(financial crash) protecting their profitability.

The dissertation concludes with two case studies in order to be examined from a practical aspect all the possible strategies that were followed by companies of different sizes and which contributed to their survival and responsiveness during the crisis. The main focus is in chartering strategies during the pre crisis period, during the crisis period and to show how this crisis is affecting the future chartering planning. An effort to distinct and differentiate the strategies of these two companies is made and an analysis to their contribution to the survival of the companies is realized.

List of Abbreviations and Acronyms

BDI: Baltic Dry Index

BCI: Baltic Capesize Index

BPI: Baltic Panamax Index

BSI: Baltic Supramax Index

BHSI : Baltic Handysize Index

ROFR: Right of first refusal

RFR: Right of first refusal

OECD: Organization for Economic Co-Operation and Development

FED: Federal Reserve

UNCTAD: United Nations Conference on Trade and Development

INC: Incorporation

U.S.: United States

FOC: Flag of Convenience

DWT: Deadweight Tonnage

GDP: Gross Domestic Product

DESA: Department of Economic and Social Affairs

WESP: World Economic Situation and Prospects

UN: United Nations

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Chapter 1 : Thesis Introduction

1.1 Introduction to the topic

During the last three years, one of the most important and frequently discussed topics of our daily life is the financial crisis, the lack of liquidity and the shrinking of the economy. Until the first burst of this crisis and the propaganda followed by every mean of communication around the world, the majority of the global financial system was optimistic and thankful about the over wealth that was facing for the last few years. The ironic part in our case is that the financial community in it's effort to become wealthier, totally forgot the fact that every action always has a reaction and in our case a very bad one, due to the massive distortion of the financial system in favor of profit.

Feeling the consequences of this financial crisis all the people and especially the ones related to globalised business activities were badly affected by this financial under slide, have in mind and question themselves about this new situation. What went wrong? Or how far will this go? Or are we undergoing a post crisis period?

Questions like these constitute daily considerations and anxieties of simple people who are still afraid that this crisis will lead to a total failure and collapse of the financial system and as a consequence of their wellbeing.

One answer to the initial immergence of this financial crisis could have been the phenomenon of cyclicity in economies (OECD ,2010) but in this particular case, it was accentuated by the malfunction of the financial system and the over risk -taking implemented by the majority of the banks during the past years.

The pre above mentioned situation led to the collapse of a large number of financial institutions affecting in the same time the majority of all the capital intensive sectors of the economy drugging them in an endless effort of survival and adjustment. Shipping industry being the fuelling power of the economy and one of the most capital intensive sectors where a lot of investments are bounded followed this domino situation.

The key subject here is to identify the strategies that were followed by the shipping companies in order to reduce the risk of collapse due to their huge expansion and debts. The purpose of these strategies is to minimize the risks of all the actions of

shipping companies before the crisis, during the crisis and to have the potentials of giving new future perspectives to the companies. In addition to the former one the shipping companies must implement new strategies, less risky and which will give them the ability to react faster and safer to future crisis situations.

1.2 Thesis objectives

The starting point of this thesis was given by stating that *it is not the strongest of the species that survives nor the most intelligent but the most responsive to change* (Darwin). This statement asserted by Darwin was based on observations concerning the life of the majority of all animal species and, is representing a situation similar to what is happening within human societies.

As the financial crisis constitutes a new business reality producing long term consequences for the majority of the world's countries, the construction and implementation of planning strategies for survival are essential. The fueling power of every economy and one of the most significant sectors, for the implementation of economies of scale in transportation, is the shipping business. The consequences of a financial crisis did not leave it unaffected, due to the fact that is one of the most capital intensive sectors and its demand is derived from production. These factors in relation to the excess supply of tonnage and the lack of liquidity turned the shipping sector into one of the most affected sectors by this financial collapse.

Thus, from the above mentioned facts the true question here is how the shipping companies managed to handle this crisis and survive from it. In order to answer this question we have to search their responsiveness to change.

This thesis aims at making a research, analysis and evaluation of the strategies followed by the shipping companies which operate in dry bulk shipping industry and describe their effort to surf on the current financial mega-wave.

1.3 Research Question

The main question dealt in this thesis is the following:

Which are the strategies followed by dry shipping companies, in operational and investment level, in order to survive and further expand during the crisis period(mainly since 2007 until today)?

From a logical viewpoint this question cannot stand alone during this thesis and has to be supported by a number of secondary questions, related to the powers of supply and demand, which will be introduced to the following chapters of the thesis and will lead to the final answer- conclusion.

I. The impact of financial crisis to the shipping industry

As known from real life, every activity has an initiation point and a source of existence. The main factor which contributed to the deviation of shipping business from the excess welfare to an effort for survival is the detrimental consequences that the financial crisis had to the economy. An analysis of the impacts in relation to risky choices made by the ship owners during the pre-crisis period, helps us draw conclusions about the burst of the shipping crisis in general and dry bulk shipping in particular. Thus, this part is essential for the development of this research, as it points out the course of the downturn in shipping business

II. Analysis and evaluation of Dry bulk Market(Market indices)

The most representative sample of the shipping industry is the analysis and forecasting of the market. In order for us to explain the main tactics and strategies of the ship-owners and ship-management companies, during the last two years, it is important to present a market review giving the progress of the most representative Baltic indices. This market review will be useful for the interpretation and tracking of the ship owners' tactics in relation to the market and will be done in the framework of the all the factors of supply and demand.

III. Extract conclusions from the daily market reports

This field responds to recording the daily operations and announcements of greek shipping companies and correlate them with the existing crisis situation. The basic point of this part is to make an effort to realize the basic reactions and strategies through crisis and use them as guide for a more in-depth analysis and comparison between a small and a big company.

IV. Evaluation of market strategies

This title examines and compares the theory with practice. More analytically describes which of the strategies mentioned in the previous chapters, produced an improved market position, as well as, an amelioration of operational and investment strategic management, depending on company's size. This endeavor was

implemented through an internship in a small bulk shipping company and interviews realized in a large bulk shipping company.

V. Evaluation and comparison of Adjustability

This subject is covered with the realization of two case studies which lead to the examination of all the shipping strategies in practice evaluating the adjustability of small and big shipping companies by producing a comparison between them, focusing mainly in their chartering strategies and secondly to the other type of strategies.

This part is essential for the movement of the analysis from a theoretical level to what was actually happened and changed to the operation of two chosen shipping companies.

1.4 Research Methodology

The basic research methodology used in this thesis is the method of case study. This is due to the fact that in order to extract conclusions about the shipping companies an extensive examination of the companies and their staff must be made. This research methodology will use a variety of sources for its realization and for the collection of the primary and secondary data that will be utilized for the extraction of conclusions. The conclusions of this critical case (Yin, 2003) will be given by testing the clearly determined hypothesis of this project in order to allow a better understanding of the key factors that explain the hypothesis or not.

1.4.1 Primary Data

In this particular project the case units are two shipping companies of different size Swissmarine Inc. and Diana Shipping Inc. The primary data of this thesis will be based on an internship in Swissmarine INC and interviews of key personnel in Diana shipping Inc. With the internship will be made an effort to be traced the basic strategies implemented by a small company during the period 2007-2010. This effort will lead to the bridge of the gap between the theoretical analysis of the market and its decline with a small company's reaction by using its assets and capabilities. Thus, this method(internship) from one side is necessary from the other side isn't enough to extract significant conclusions about the strategies of the companies during the crisis. For giving a holistic view of all the potential strategies used, in this thesis it was decided as well to be made a comparison between small and big

companies in order the basic differences of their strategies to be declared and better conclusions to be reached. The identification of the basic strategies in large companies will be based on interviews of the key personnel.

1.4.2 Secondary Data

This thesis makes also use of information from various sources that can be described as daily shipping reports, academic articles and handouts, presentations and general information based on solid bibliographical foundations. These data are supplemented by daily shipping articles of the year 2010, by market reports from a variety of shipbroking firms and working papers related to the financial crisis and it's impact on shipping. All these data can be defined as our secondary data.

1.5 Thesis Overview

This thesis is constituted by a number of components that are strongly correlated and interdependent to each other providing the ground for the main analysis of the thesis topic, leading to reasonable conclusions. The thesis provides an extensive review and analysis of the basic direction powers of the dry shipping market(Chapter 2) by stating the elements of supply and demand, offering an up- to- date analysis in order to explain the main factors which are responsible for the strategic planning implemented by shipping companies.

Following this analysis, a detailed chapter about strategic management in general and shipping in particular is found in this dissertation. Chapter 3 aims at providing information about the basic elements that are taken into consideration when strategic planning is needed to exit a crisis or re organize a company. Research on the basic dry shipping strategies was made on the basis of daily shipping articles about all the shipping actions and their reasons. This chapter tried in relation to the theory, to identify any patterns during the crucial time period of 2007-2010 in order to compare it with the practice as it is given by the case studies.

Chapter 4 functions as a link between the market analysis and strategies with the case studies. In more details, as the case studies discriminate the strategies followed by small and large companies it is considered appropriate to define the large and small companies in order the distinction between the strategies followed to have a basis. In concluding words this chapter integrates the discussion related to the strategies from the perspective of the size of the companies by defining them and stating their main characteristics which lead to different planning.

The last part of this dissertation expands the analysis by moving from a theory level and general patterns of strategies to a more specified and adjusted to specific size of companies strategic planning. More specifically, chapter 5 describes the different strategies followed by Swissmarine INC and Diana Shipping during the crisis period until today and concludes with a comparison of these two different types of strategies identifying the weak and the strong points of each company. The analysis in Chapter 5 emphasizes on chartering strategies mainly, the opportunities expansion in new markets and the finance strategies followed by these two types of companies.

Chapter 2: Dry shipping market model

2.1 Introduction

The shipping industry and its survival depend on a number of macroeconomic factors which affect, in different degree, the strategic management implemented by the shipping companies at different market phases (cycles).

In order to explain and justify the strategic management followed by the majority of the shipping companies, in this part of the thesis, we will present all the variables that contribute to the shipping market model (demand and supply) and analyze the most important of them. The first step is the citation of all the factors which affect the supply and demand side of the shipping industry and their further analysis and correlation to the shipping management will follow. According to Haralambides (2009), the main contributors which affect the shipping market model can be examined from their impact to the demand or the supply of shipping services.

The main factors (Haralambides, 2009) which affect the demand for shipping services are: a) World economy and the level of economic wealth, b) The seaborne commodity trade, c) Average haul, d) Political events, e) Transport costs related to the level of freight rates.

As we know from the economic theory when we have a demand we always have a supply and as the shipping market is a world-wide market, this does not differ. According to Haralambides (2009) the main factors which influence the supply of shipping services are: a)The level of world fleet b)The shipbuilding levels c)The Scrapping and losses d)The freight rates and fleet productivity.

Chapter 2 presents an effort to assemble an up-to-date analysis of some of these factors in order to realize how they affect and affected the plans and the decisions of the dry shipping industries. A description of the demand and supply side factors is essential for this thesis as it declares and justifies the direction of shipping strategic planning. Before all these are analyzed it is important to make a reference to the cyclicity of the markets focusing mainly to the shipping market cycles.

2.2 Business Cycles

Economists have paid a lot of attention to the nature of the modern cycles in comparison to the business cycles and recessions observed during the start of this century. Following this, it can be stated that the modern cycles in economy are not

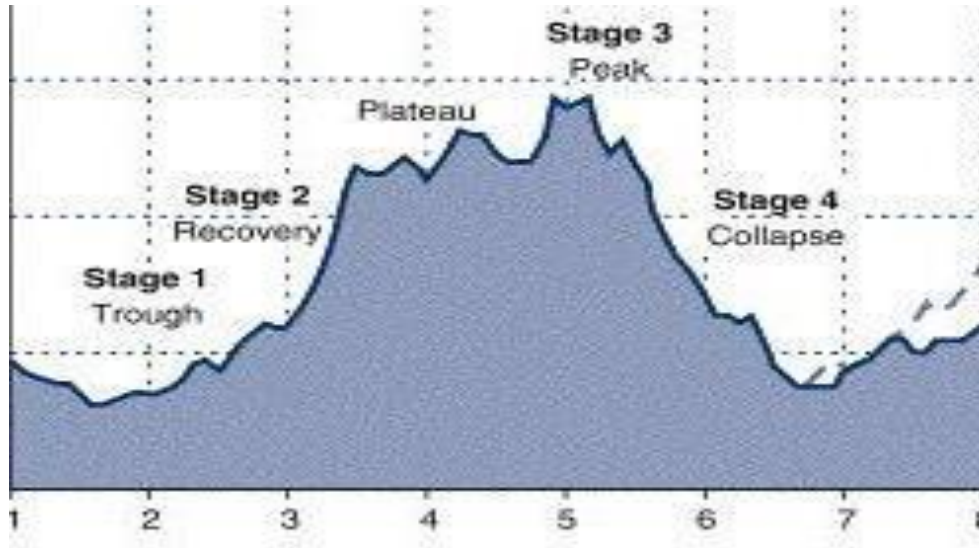
so wide, have longer expansion phases and lead to less recessions (OECD, 2010). The cyclical and the recessions caused by it, are almost equally distributed across and within different countries due to the phenomenon of globalization. In addition, high risk taking and introduction of new innovative financial instruments for higher profits from economic activities has led to the over-growing of this financial state.

2.3 Shipping cycles

The cyclical can be defined as the state where different market business cycles in the shipping industry can be identified. In reference to this, it can be stated that in order a shipping cycle to be completed, four different stages are required (Azari, 2006).

The first step is witnessed when the market is at its lowest level, with low optimism from the markets' players and where the downturn is so severe that no significant changes can be observed during this period. In other words, the market is under a recession. This step is always followed by a gradual and proportional increase of market levels presenting really optimistic samples of the positive direction of the company. The third stage of the cycle is driving the market through the progressive inclines viewed at the second stage, to its peak, where the freight rates are on their highest levels and the majority of the shipping business is experiencing over-profitability. In such a good market the investments are huge, trying to take advantage of this situation and in the majority of the times in a speculative way, leading the market to its collapse for one more time (4th stage). The writing of this thesis mainly focuses on this 4th step which is the most dangerous for the shipping companies, since the majority of economists consider the present cycle to be the worst recession after the great depression of 1929 (Soros, 2008). The cyclical created from the powers of demand and supply and its abovementioned steps can be graphically represented by the following figure.

Figure 1: The four stages of the shipping Cycles

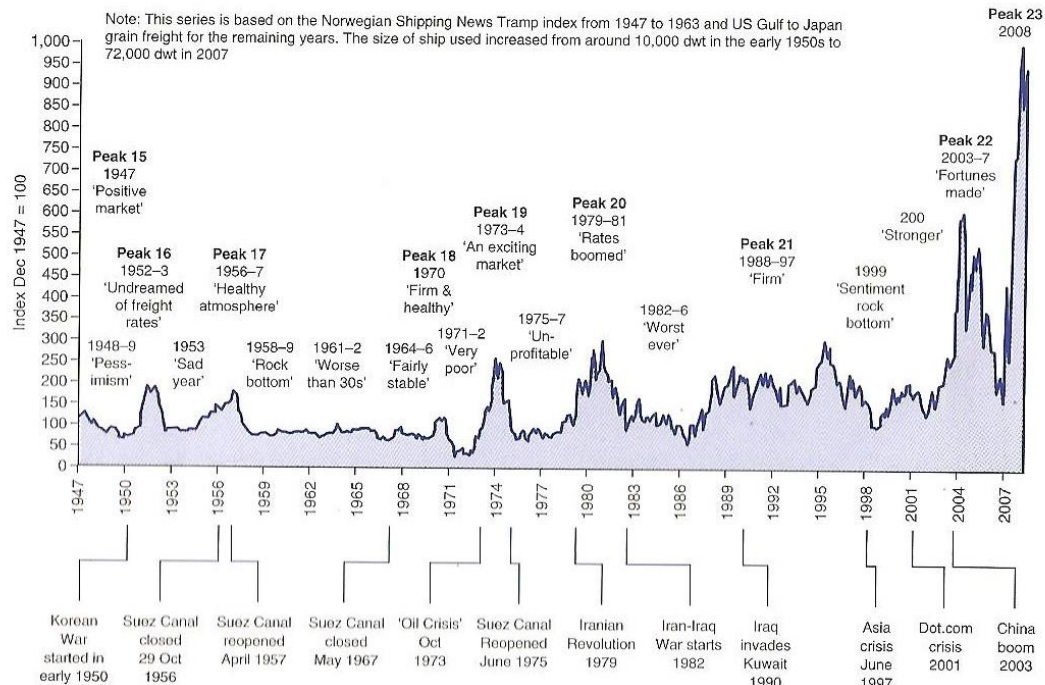


Source: Dr. Martin Stopford, 2003

In the situation described, point 1 stands for the situation where the market is at its lowest level, probably followed after a severe collapse of the peak of the market. Point 2 describes and includes all the positive changes that lead to the progressive upturn of the market and the situation where it reaches its peak point. Reaching its peak point will sooner or later lead to the collapse of the market, presenting a considerable decline, reaching its lowest level where it finally stabilizes and remains flat until its upturn again (point 4).

Historically, the main cycles in shipping and the elements that contributed to their existence and evolution are presented in the following graph (figure 2).

Figure 2 :Bulk carrier shipping market cycles 1947-2008



Source: Dr.Martin Stopford 3rd Edition

From the above figure(2) we can see clearly the evolution of freight rates and the related shipping cycles in accordance with the different events occurring in the world. The graph mainly represents the dry bulk shipping industry and is accompanied with a brief analysis of its peaks which explain the events that led shipping market to the present situation.

An analysis of the cycles will enable the reader to understand how things were driven in a crisis by the ship-owners for the period 2008-2010. For the purposes of this thesis it is important to focus only to the shipping cycles during the period of 1980-2008 where the main developments occurred.

From the figure 2 it is clearly understood that during these 20 years the freight rates in dry bulk industry reached their bottom level in 1986 (Stopford,2008), attained their peak after 3 years in 1989, which is mainly attributed to the peak of the business cycle (Stopford, 2008). The majority of the economists expect, in a peak of the market cycle, huge investments in the shipping industry but nothing like this happened in such a size, making things easier for an upward cycle observed from 1986-1993 reaching that peak in 1995. The good market environment immediately caused the burst of new investments in the dry bulk sector with the supply at its

highest point in 1995. This supply of new orders did not bring long term stability to the industry, and two years later this upward market was followed by the Asian crisis, which drove the freight rates to their bottom (Stopford, 2008). This down slope of the market had not been a real obstacle for the shipping industry, which rapidly rose again until 2000, when a new crisis presented itself in the global scene, pushing again the freight rates down, but this time, not to their lowest levels (Stopford, 2008) leaving the shipping companies with room for optimism, since they were not that affected by the dot. com crisis.

As it can be clearly viewed in the previous figure, the real boom for the shipping market occurred during the period of 2003- 2008, where China increased its demand for raw materials; this necessity boosted the need for shipping services (where the supply was in low levels), driving the freight rates to their highest levels, creating a new boom in new investments to the shipping industry. From one point of view, this could be considered as a shipping bubble that burst after 2008 leaving the majority of the shipping companies trying to survive and searching for new strategies to protect themselves in the present and future.

From the set out of all economic activities, the regional and the global economies have witnessed the phenomenon of cyclicity, which constitutes and represents the whole economy and the revenues produced inside it. Searching through the modern history, the researcher can see that all businesses as well as all the social environments have been always tortured by a number of recessions and financial crises which were followed by new (optimistic) waves of economic wellbeing and development.

The main element that all the business, financial and shipping community has to keep in mind that there must always keep the balance between the two factors of demand and supply. As long as this balance is kept, profitability will rise in stable values and crashes will eliminate.

2.4 Financial crisis

2.4.1 Definitions and key concepts

Describing above the cyclicity in shipping industry, in this point it is important the factors of the demand for shipping services to be stated. The first factor of the demand side is the analysis of the situation of the world economy and its impact on the demand for shipping services. According to certain researchers, the literature does not provide us with a precise definition of the financial crisis that we are facing for the last two years (Jickling, 2008:2) but a lot of key concepts can be offered to define this new phenomenon. In the past, a number of monetarists (Friedman and

Schartz, 1986) have correlated the financial crisis with the banking panics created by sharp declines in money supply, which in the majority of the times were attracting the intervention of the Central bank, leading to a pseudofinancial crisis (Schartz, 1986). This situation also caused the survival of companies which did not deserve saving creating a number of implication for the economy (Schartz, 1986). As it will be explained in the following subchapters, it is our belief that the aforementioned statement constitutes the reason for the enormous expansion of the present crisis from its mediocre early stage (internet bubble) to the existing huge level.

From an another viewpoint it is argued that the financial crisis is considered and viewed as *sharp declines in asset prices, failure of large financial and non-financial firms, deflations, disinflations, disruptions in foreign exchange markets or a combination of all of these* (Kindleberger 1978, Minsky 1972). A more modern definition for the financial crisis, is that: *financial markets rise to the level of a crisis when the flow of credit to households and businesses is constrained and the real economy of goods and services is adversely affected.*(Jickling, 2008).

These definitions despite the fact that were published lots of years before the financial crisis of 2008, are criticized(Brunnermeier, 2001) for having the disadvantage of focusing on banks crisis and government intervention; in relation to the present situation, we find them valid, since this is exactly what happened.

2.4.2 Historical development

The official starting year of the current economic crisis is considered to be 2007 (Soros, 2008) as it became more clear through the first bankruptcies of huge financial organizations (i.e. American Home Mortgage). From the majority of the economists it is considered the worst financial crisis ever, even more severe than the great depression of 1929-1939 (Soros,2008).

In terms of failure and collapse of the financial system, it is essential for us here, to present the main elements that constituted the first samples of the recession and the beginning of the end (in terms of financial liquidity).

The first and one of the most significant examples of the crisis was the bankruptcy of one of the biggest independent institutions of mortgage loans, the American Home Mortgage. The result of this first collapse was the firing of the majority of the employees and the beginning of a domino between different banks (Soros ,2008).

Forecasting the huge impact that the sub-prime loans had for the banks, in relation to the collapse of the previous mentioned organization, BNP Paribas stopped its

investment plans (2 billion). A variety of banks followed as Countrywide Financial (the biggest Mortgage loan organization in the U.S.) and RAMS started facing problems related to their liquidity with Northern Rock Bank reaching the stage of insolvency (Soros, 2008). During the next months, a great number of banks faced their acquisition by their national governments or by other financial consortiums, a situation that changed completely the economic scene that the whole economy was used to (Soros, 2008).

In order to take preventative measures for a bigger forthcoming crisis and in the fear of a total collapse of the interrelated financial system, the European Central Bank, the Bank of England, the Bank of Tokyo and Fed Bank of United States, decided to support the banking system of their countries (commercial banks) by funneling an amount of more than 115 billion Euros (Soros, 2008). The objective and aim of this injection of money from the governments was to help their banks to defend, in the face of all the consequences arising from the sub-prime lending system in U.S.. The intentions of these moves were to absorb the present impacts and to prevent future implications to the whole economy.

2.4.3 Causes

2.4.3.1 Bubbles

In view of the financial crisis and the continuing recession, it is only logical to ask ourselves about the real reasons that created this environment in the first place.

In our century, behind of every recession there is a *bubble*; the financial crisis of 2008 did not escape this rule. Before we start interpreting the above statement and analyzing its contribution to the birth of the crisis it is considered important to define the term *bubble*. When we say bubble we are referring to asset prices that exceed an asset's fundamental value, because its current owners believe that they can resell the asset at an even higher price in the future (Brunnermeier, 2001)

Thus, from the above definition, a bubble is created due to the perception of several investors that they can sell an asset at a price higher than its actual price. Famous bubbles through the history are considered the Dutch Tulip Mania (1634-7), the Mississippi Bubble (1719-20), the South Sea Bubble (1720) and the Roaring 20 that preceded the 1929 recession (Kindleberger, 2000).

The actual roots of this new bubble-reality are traced back to the internet bubble of 2000 which resulted to the decrease of the interest rates offered by the Federal Bank, from 6.5% to 3.5% in the beginning and then reached the level of 1%. This situation led bulks of cheap money flowing into the market, which consequently led to the explosion of sub-prime and extreme mortgage lending, without any standards and careful evaluation of the risks.

Mentioned in the above paragraph, briefly, the key concepts which led in the past to financial crashes at this point it is essential to analyze in detail and refer to the main contributor of the collapse of the financial system in 2008.

The main contributor of the financial collapse of 2008 is considered to be the hi-tech or internet bubble which burst in 2000. Under the moto 'Get big fast' from 1995-2000 (the initial burst of this bubble) we observed the introduction of the majority of the new *dot.com* companies which functioned as a pole of huge investments. The hedge funds rode this bubble (Brunnermeier & Nagel 2003) investing huge amounts of money until 1999; then, during 2000, they reduced their exposure managing to avoid the burst of the bubble. They were operating in a speculative way, taking risks, some hedge funds managed to manipulate circumstances and others were driven in total failure and collapse.

The main consequence of this total failure was, from one side, the rapid rate of founding new *dot.com* companies, which had non-realistic plans and low administrative capabilities and from the other, the overinvestment in these low level companies. We can see those years full in peaks (table 1) representing those hi-tech stocks; from April of 2000 we are witnessing a huge downturn (figure 3) with catastrophic consequences for the economy.

Table 1: Number of peaks during the period 1999-2000

Year	Quarter	Number of Peaks
1999	1	58
	2	86
	3	38
	4	207
2000	1	285
	2	98
	3	198
	4	49

Source: BRUNNERMEIER, Nagel 2003

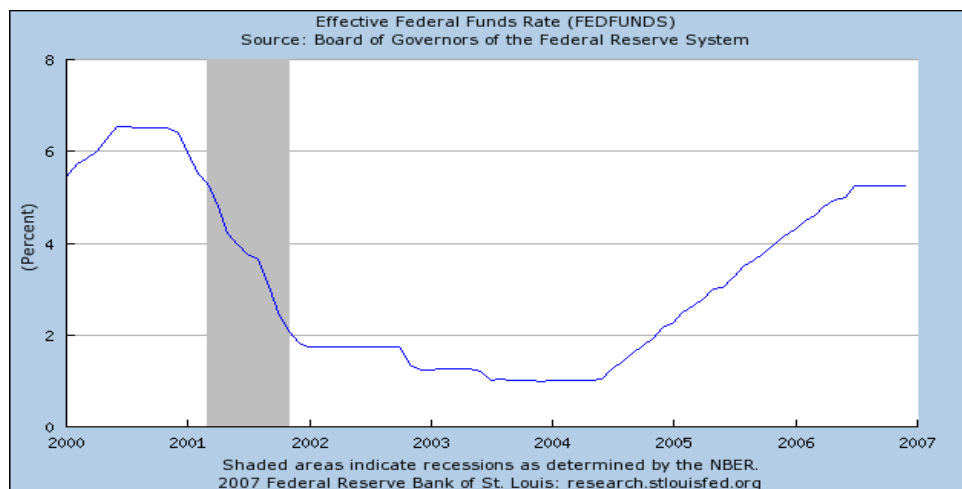
Figure 3: Evolution of hi-tech stock markets



Source: Steadfast Finances Website

The facts mentioned previously along with the economic consequences derived from the terrorist attack on September 11th, led the Federal Reserve to reduce the interest rate, in first place, from 6.5% to 3.5% (see figure 4). In addition to this, the interest rate achieved a further decline of 1%, thus achieving historical levels, the lowest within 50 years time (Soros 2008). This was the beginning of the end and the starting point for bankruptcy of several banks, due to their further huge exposure to risky financial instruments. The last point mentioned, derives from the fact that, when there is cheap money in the market, the level of borrowing increases and the imagination of the banks in creating new financial tools to take advantage of this new situation expands.

Figure 4: Evolution of FED Reserve interest rates



Source: Fed Reserve

The most visible example of this and one of the most significant factors which contributed to the financial crisis can be referred to the sub-prime home loans given to a huge amount of people without any evaluation of their ability to payback. More analytically, the lenders and in our case the banks due to the fact that had an easy and almost endless spring of cheap money started lending money for home mortgages in frenetic pace using new marketing tools and incentives for borrowing to non solid borrowers. This fact in relation to the rise in houses' prices led the borrowers to take these difficult mortgages with the consideration that they will be able to refinance their loans achieving better terms (Soros, 2008). The drop of house prices didn't allow the further refinance of their loans leading a lot of people to their inability for payback (Soros, 2008).

At the same time with the sub-prime lending to categories of consumers which constitute a huge risk, the banks were led to mortgage back securities expanding further the financial risk and fear of a further collapse (Soros, 2008). The motive was the attraction of new investors which will contribute money enforcing the banks' lending business and making money from the interest rate.

The above plan was effective and a good way of making more and more profits from the home mortgages. The weakness of this plan was the unreliable borrowers who failed to confront and arrange their obligations and also achieve refinance of their home mortgages.

Their failure had greater consequences as it led to the bankruptcy of several banks and to the lack of liquidity from every financial market creating a domino situation to every sector and especially affecting the ones which are capital intensive.

2.4.4 Impact of financial crisis on shipping sector

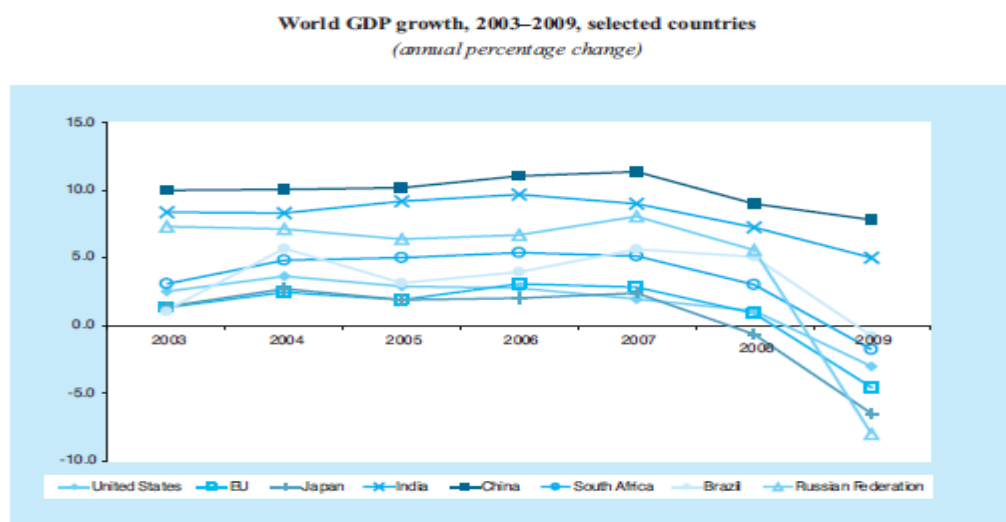
This crisis in the world economy and the financial system caused the downsize of almost every economy around the world in terms of demand, pushing the output to its slowing and decline (Deloitte). In terms of values we can see from the figure 5 that after 2007 the annual growth of GDP of certain countries starts lowering and even getting negative values in 2009. Representative example of this is the fact that the world GDP in 2008 expanded only by 2,0 % in comparison to the previous period of 1994-2008 where we were seeing a growth of GDP by 3,5% a year (UNCTAD, 2009). In addition to this we can see from the table 2 the significant drop of the annual world growth from 3,7%(2007) to -2,7(2009) for the first time since the 1930 (UNCTAD, 2009).

The players that were affected mostly from this downturn as we can see from table 2 and figure 5 are the developed countries, which recorded even negative changes in their annual percentage economic growth with the developing countries experiencing also the recession but not in the same rate i.e. China and India.

Thus, the demand for shipping services is derived, it is strongly correlated to the production and the demand for new raw materials, especially the dry bulk sector, a downturn it was inevitable for the shipping industry.

The second significant impact of the present image of world economy on the shipping sector is considered the change of terms in shipping finance. The lack of liquidity from the side of the banks and the situation of decline of shipping rates (due to the restricted demand) led to a situation where the banks reduced their exposure into shipping loans and decided to change the level in terms of evaluation and easy borrowing. The impact of crisis in growth rates and demand disapprove the ability of the majority of shipping companies to meet their debt obligations sufficiently and their ability to finance new projects as these constituted real risks for the banks (Deloitte). As the freight rates due to this bad situation of the economy were experiencing a huge downturn the value of the assets (vessels) was following proportionally, the amount of the loans couldn't be recovered in the first place and in a second phase would need a lot of time and effort from the side of the banks. For these reasons the assets of ships were considered a very risky option for the banks to take and they were restricted in financing only the very strong companies so that they can secure their shipping portfolio and avoid crashes like the home mortgages. Briefly as it will be all these explained more analytically in other parts of the thesis, the financial crisis affected all the factors which are the variables in the demand – supply model and the shipping strategies.

Figure 5: World Economic Growth 2003-2009



Source: UNCTAD secretariat calculations, based on the United Nations Department of Economic and Social Affairs (UN-DESA), National Accounts Main Aggregates Database, and the World Economic Situation and Prospects (WESP) 2009: Update as of mid-2009; Organization for Economic Cooperation and Development (OECD), Economic Outlook No 85, Preliminary Edition, June, 2009, Economic Commission for Latin America and the Caribbean, Economic Survey of Latin America and the Caribbean 2008-2009, July, 2009; and national sources.

Source: UNCTAD, 2009

Table 2: World Economic Growth 2006-2009

World economic growth, 2006–2009 ^a
(annual percentage change)

Region/country ^b	2006	2007	2008 ^c	2009 ^d
WORLD	3.9	3.7	2.0	-2.7
Developed economies	2.8	2.5	0.7	-4.1
<i>of which:</i>				
United States	2.8	2.0	1.1	-3.0
Japan	2.0	2.4	-0.6	-6.5
European Union (27)	3.1	2.9	0.9	-4.6
<i>of which:</i>				
Germany	3.0	2.5	1.3	-6.1
France	2.4	2.1	0.7	-3.0
Italy	1.9	1.5	-1.0	-5.5
United Kingdom	2.9	3.1	0.7	-4.3
Developing economies	7.2	7.3	5.4	1.3
<i>of which:</i>				
China	11.1	11.4	9.0	7.8
India	9.7	9.0	7.3	5.0
Brazil	4.0	5.7	5.1	-0.8
South Africa	5.4	5.1	3.1	-1.8
Transition economies	7.5	8.4	5.4	-6.2
<i>of which:</i>				
Russian Federation	6.7	8.1	5.6	-8.0

Source: UNCTAD 2009

2.5 Trade of commodities

The second attribution to the strategies which will be implemented by the dry shipping companies has to do with the seaborne commodity trade (Haralambides, 2009).

The situation there wasn't much different than the previous mentioned as all these are strongly interdependent. Until the year 2008 we observe (see table 3) a small BUT still a growth of 3,6% (in comparison to 2007 where we had a growth in commodities trade of 4,5%-UNCTAD, 2009) in commodities trades, forecasting the worsening of the market by 4,4% in 2009. The main commodities that were expected to witness a decline IN 2009 were the Phosphate Rock, Coal, Grain, Bauxite and Alumina and the expectations were that the iron ore will remain steady due to the demand expressed in China (UNCTAD, 2009).

Table 3: Development of international Seaborne trade

Development of international seaborne trade, selected years
(millions of tons loaded)

Year	Oil	Main bulks ^a	Other dry cargo	Total (all cargoes)
1970	1 442	448	676	2 566
1980	1 871	796	1 037	3 704
1990	1 755	968	1 285	4 008
2000	2 163	1 288	2 533	5 984
2006	2 648	1 888	3 009	7 545
2007	2 705	2 013	3 164	7 882
2008 ^b	2 749	2 097	3 322	8 168

Source: Estimated by the UNCTAD secretariat, on the basis of data supplied by reporting countries, ports and specialized sources. Data have been updated to the most recent available.

^a Iron ore, grain, coal, bauxite/alumina and phosphate.

^b Preliminary.

Source: UNCTAD, 2009

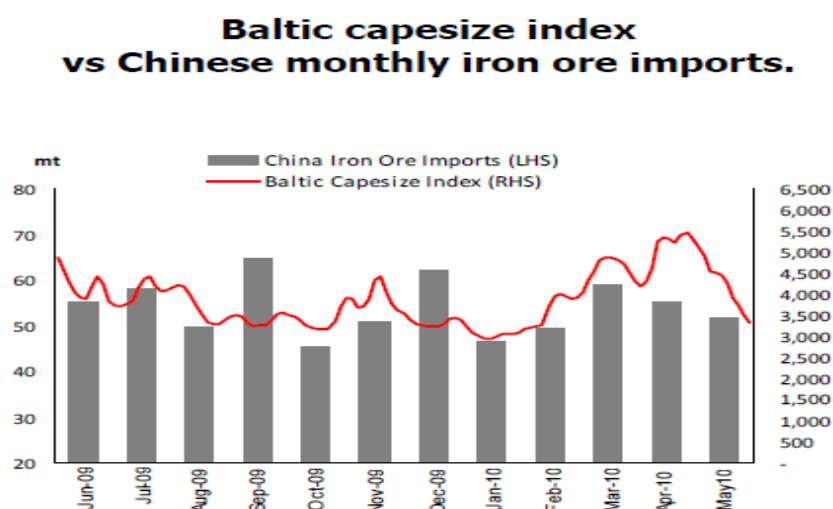
The situation in July 2010 is totally different as concerns the demand for these raw materials and as a consequence their seaborne trade. Firstly, for the purposes of our analysis we will focus on China's supply and demand of raw materials as the China's iron ore imports continue to be the main driver for the dry bulk freight market

(Roussanoglou, 2010) and the expectations for these rising seaborne commodity trade are positive(HSBC, 2010). The changes that are viewed in our case have to do with the change of the trade nature(exporter-importer) of certain countries, as China is becoming steadily this year from a net exporter of thermal coal to a net importer. This is due to the fact as in 2008 the exports of China of thermal coal were 43 mt and imports were 35mt(HSBC,2010) in 2010 we see that the imports of thermal coal were risen in 85 mt and the exports were fallen to the level of 21mt causing huge changes and affecting severely the seaborne trade(HSBC,2010).

An additional significant event affecting the seaborne trade of iron ore has to do again with the Chinese trade justifying the statement that especially in the dry bulk market the trade is controlled by China. More analytically, in 2009 the miners in order to take advantage the extravagant demand by China in raw materials decided to rise the prices in raw materials causing the increase in input costs. This situation in relation to the oversupply of China (due to the increasing demand of Chinese steel) led to the drop in steel prices and the closure of certain steel mills (HSBC,2010) but this isn't the point where this ended. The steel prices were affected also by the slowing of demand from automakers (Rs Platou, 2010-see figure 8) driving Chinese steel makers to great losses and cutting production in order to reduce the increasing inventory due to the low demand. The steel production fell by 5% the first days of June affecting greatly the spot iron prices and leading them to a 30% decline(hsbc,2010).

The impact in freight rates is obvious from the figure 6 where we see clearly that due to the impact of this oversupply and the lack of such a demand the Chinese imports have fallen dragging along them and the freight rate index and in our case the BDI. The demand for shipping services has fallen as the commodity trade is experiencing a decline and the rates followed accordingly experiencing for a number of weeks a steady decline.

Figure 6: BDI VS Chinese monthly iron ore imports



Source: Baltic Exchange, HSBC

In addition to the previous mentioned situation the worsening of dry bulk shipping industry can be attributed also to the fall that has been viewed in the Chinese construction sector where iron ore is needed (see figure 7) affecting the demand for raw materials and as a consequence and the seaborne trade of them.

Figure 7: China construction and equipment purchases



Source: CEIC, HSBC

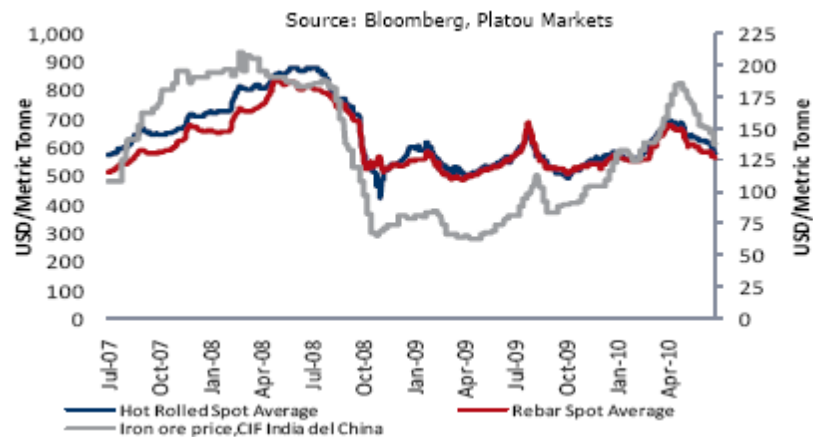
Source: HSBC, 2010

An additional factor that affects the planning and operation of shipping companies and that can be characterized as a political event has also to do with the distraction of traditional trade patterns by certain decisions. In order to understand the above we can easily refer the example of India and more particular one the southern state of Karnataka (Roussanoglou, 2010). This place is responsible for the 20% of India's iron ore production, is thinking of banning the exports of iron ore from ports an operation which if it is realised could change the trade patterns of iron ore. This situation would turn the shipowners to more shipments from Australia and Brazil to China affecting freight rates, especially in the capers, bringing more degree of support as a result of the longer ton-mile journeys (Roussanoglou, 2010).

A supplement comment to the interpretation of the significance of the level of imports and exports of commodities to the level of freight rates and seaborne trade we can refer that these changes caused one of the worst downturns of BDI during the year 2010. As it can be viewed from the figure 11 we see decline of BDI from May to July from 4209 to 1700 units losing the 60% of it's value. The main reason for this was the shrinking of seaborne trade with China and specifically with iron ore trade. In the end of July we view a different situation with the BDI Index raising from 1700 to 2000 an event which is attributed to the raise of Chinese imports of thermal coal.

From all the above it can be viewed and stated clearly the downfall of commodity trade and the impact of crisis and different types of decisions have on it. In addition to this every impact on the commodity trade has a greater impact on freight rates and the strategies of the shipping companies to defend from these changes.

Figure 8 : Evolution of iron ore prices



Source: Bloomberg, Platou markets

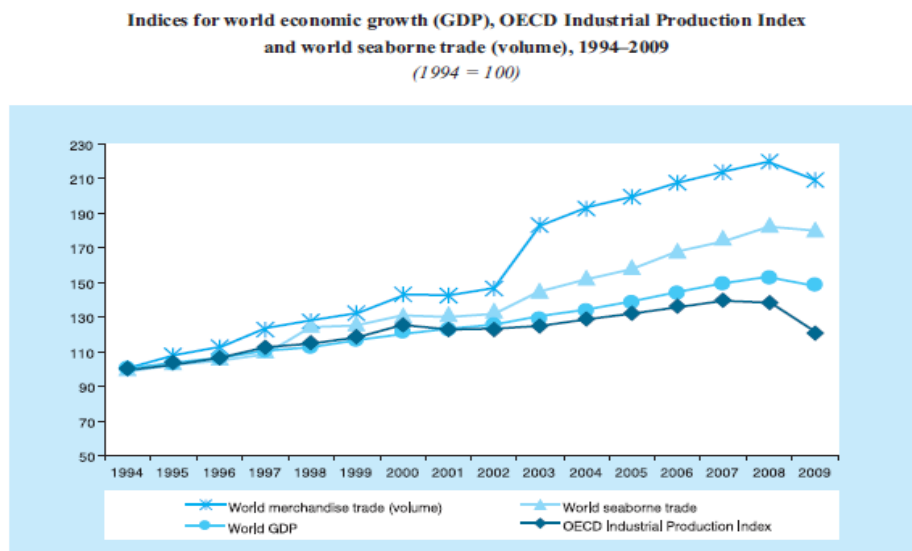
Main factors for the changes in commodities trade between 2008-2010

- a) Huge Increase of iron ore prices due to the high demand from China(steel mills)
- b) Oversupply from Chinese mills in a period of economic recession
- c) Decline of demand of steel from automakers
- d) The global recession economic environment
- e) Decline of Chinese production of steel due to it's high stock in a period with low demand for steel
- f) Decline of iron ore

The factors described above are put in a chronological line and they are interdependent as a) has resulted in b), b) has resulted in c), c) has resulted in d), d) has resulted in e) and e) has resulted in f).

From the sub chapters 2.5 and 2.4 we can conclude with certainty to the strong interdependence between the industrial production, global trade of commodities, global growth and economy with the maritime seaborne trade. A decline viewed to these sectors in 2009, as it can be viewed in figure 9, affected as we can see the seaborne trade leading it to a proportional decline.

Figure 9: Indices for world economic growth (GDP), OECD Industrial Production Index and world seaborne trade (volume), 1994–2009



Source: UNCTAD secretariat on the basis of OECD Main Economic Indicators, June 2009; UNCTAD *Trade and Development Report 2009* and UNCTAD *Review of Maritime Transport*, various issues. The 2009 data for seaborne trade was derived by applying the growth rate forecasted by Fearnleys and Clarkson Research Services. The 2009 data for the volume of world merchandise trade was derived by applying the growth rate forecasted by WTO. Trade volumes data are derived from customs values deflated by standard unit values and adjusted price index for electronic goods.

Source :UNCTAD,2009

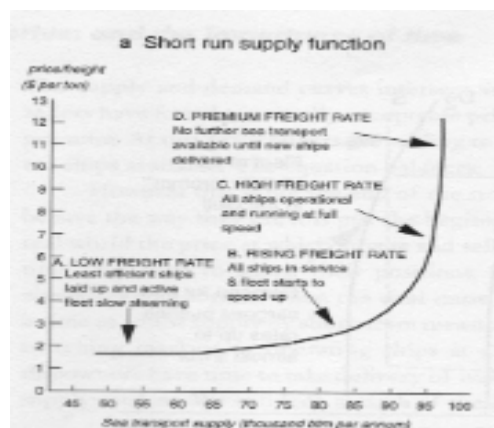
2.6 Transportation costs (Freight rates)

This part of the analysis is the most significant for the construction of a strategy as it is the motive to enter and exit a market and the leading power behind every decision of shipmanagement companies.

Its' significance is defined from the fact that the freight rates in each period determine the type of chartering of the vessels and value of a spot rate or a time period rate or a bare boat charter. Thus, from a point of view we can say that the level of freight rates and their variation sets the strategy that will be followed in the present time and in the future also.

In a theoretical level the cycle in freight rates can be described by the below figure (figure 10)

Figure 10: Short-run supply function



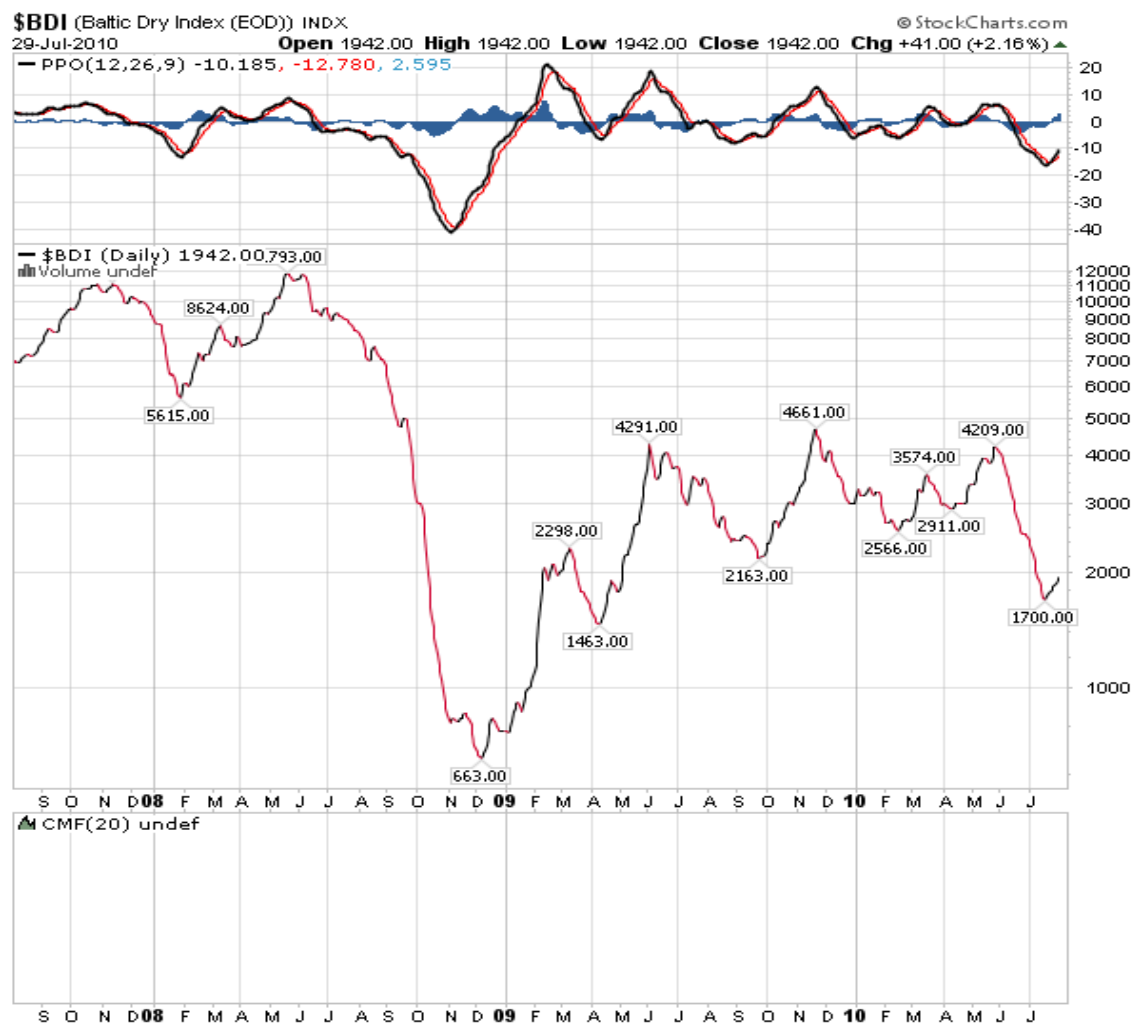
Source: Source: Dr.Martin Stopford 3rd Edition

In order to analyze in the second part of this thesis the strategies that were followed by the dry shipping companies in operational and investment level we must understand the evolution of freight rates from the official start of their downturn (impact of crisis) until today. A theoretical framework for the evolution of the freight rates in accordance to the cycles can be presented by the above graph. In the lowest level of the cycle the freight rates are at their lowest level, the excess capacity cannot be fully operated and the result is the lay up and scrapping. The second level presents the rise of the market and as a consequences and the level of freight rates leading to the operation of the ships and the return of their profitability. In the third stage we have the introduction of a high freight rate which is highly profitable for the existing ships leading to its peak where the demand is higher than

the supply leading to situations where the shipping companies are driven in over profits.

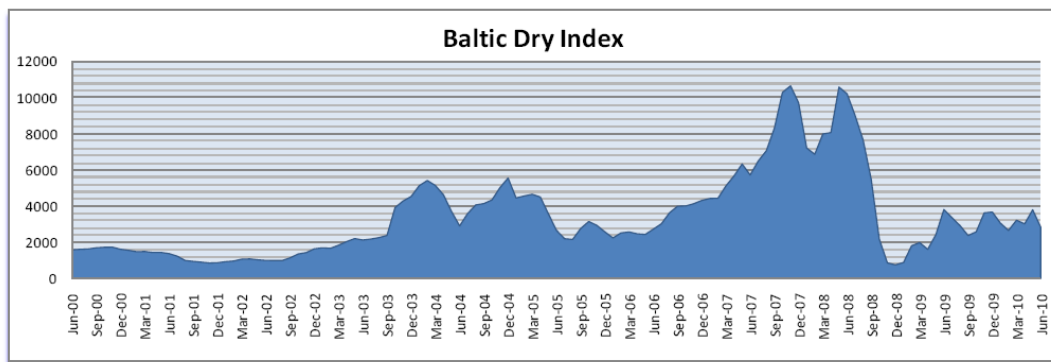
As it can be viewed from the below figures (11,12,13) it is clear the downturn in freight rates. In the figure 12 we have a 10 years records of the BDI index where we can identify it's peaks and it's lowest levels from 2000 until 2010 and in figure 11 we have isolated the evolution of the BDI values from 2008-2010(Crisis period) in order to be led in some reasonable conclusions. Every point and every interval of years lead to a different direction in planning of shipping companies as concerns the type of chartering, the sale and purchase of new and second hand ships, the terms of finance and the implementation of hedging strategies in order to make more profits.

Figure 11: BDI INDEX 2008-2010



Source: StockCharts

Figure 12: BDI INDEX 2000-2010

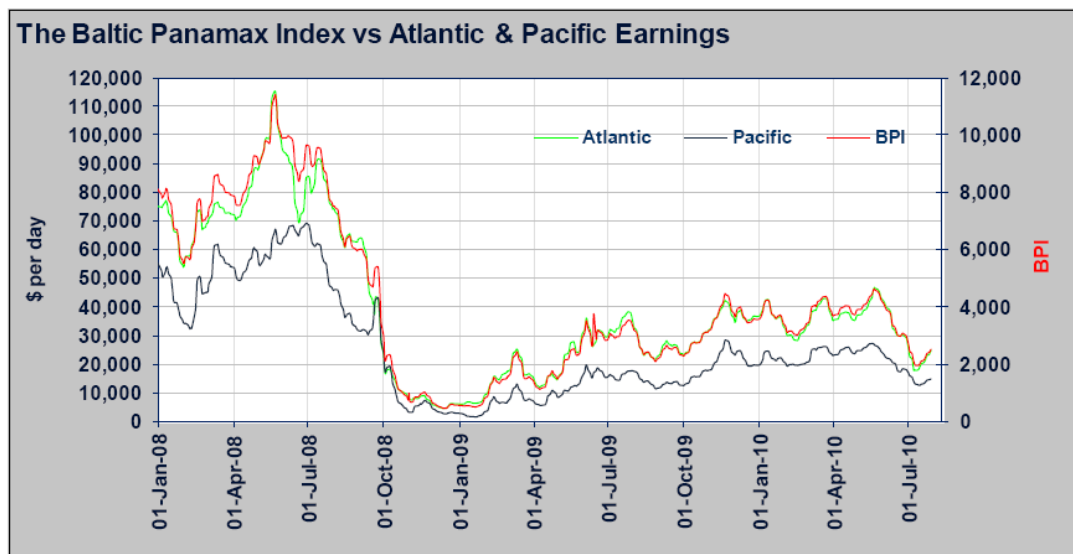


Source: Athenian Shipbrokers

Analytically, as it can be viewed from the figure 12 the level of BDI before 2004 and as a consequence the estimated level of freight rates was in normal levels not exceeding the level of 4.500 with small variations sometimes higher and sometimes lower. This fact was encouraging for the dry bulk shipping industry, increasing in logical levels the earnings of the shipowners who were used before 2005 in BDI levels between 600-2400. From 2005 until 2007 we view a steady slow increase of BDI Index without any big changes, leading the BDI index in levels above 8.000 (figure 11). The peak of BDI is observed in the period of June 2008 reaching almost 12.000 units, a number that hasn't been recorded before.

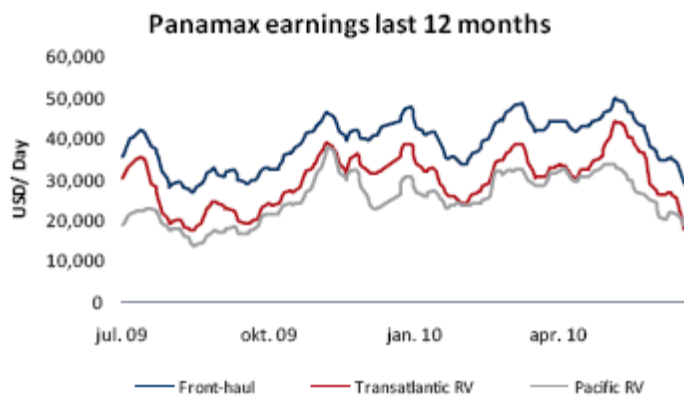
This fact led to exaggerated profits for the shipowners as it can be viewed from the figures 13,14,15,16 correlating the BPI and BCI with the daily earnings of Panamax and Capers from the periods of 2008-2010 with figures 14, 16 focusing on the worst periods for their earnings (2009-2010). Between April 2008 and July 2008 we see Panamax vessel's earnings to exceed the 115,000\$/day (figure 13) and Capesize vessel's earnings (figure 15) to exceed the 250,000 per day giving the opportunity of huge profits and liquidity to the shipowners.

Figure 13: Baltic Panamax Index vs Atlantic and Pacific Earnings



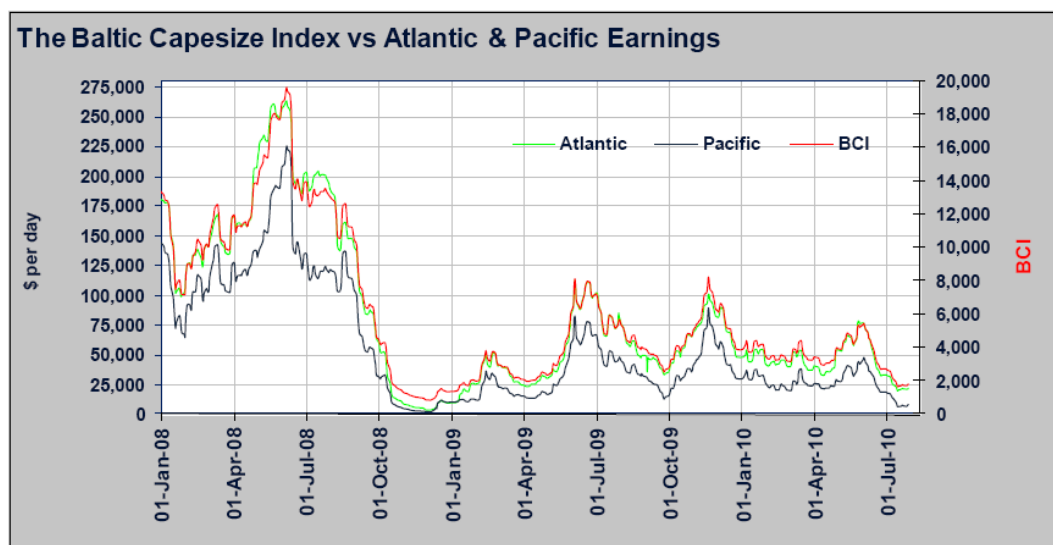
Source: Baltic Exchange

Figure 14: Panamax earnings 2009-2010



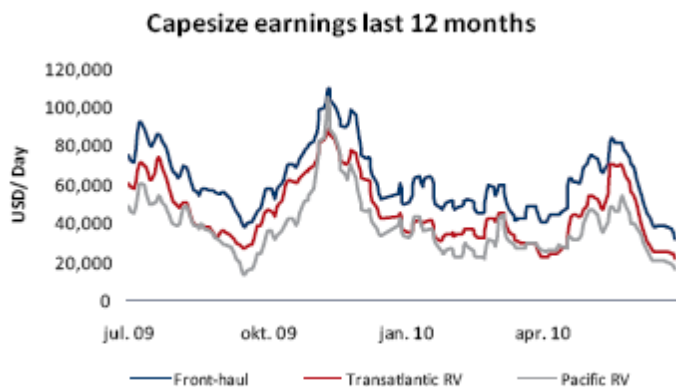
Source: RS PLatou

Figure 15: Baltic Panamax Index vs Atlantic and Pacific Earnings



Source: Baltic Exchange

Figure 16: Capesize earnings 2009-2010

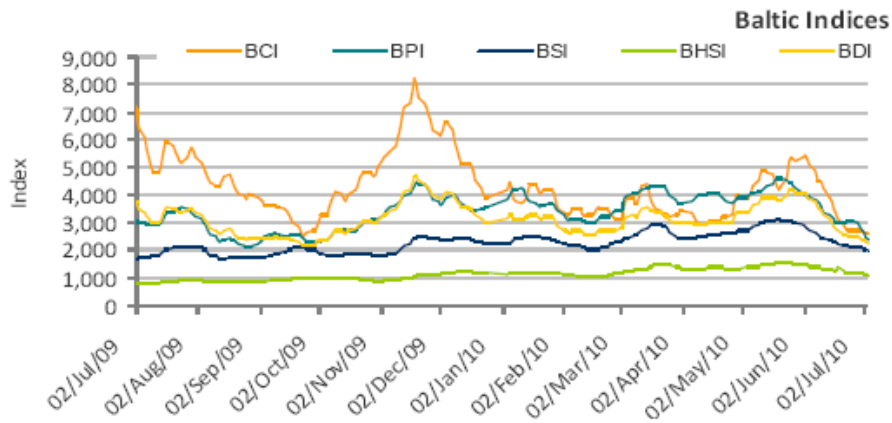


Source: RS Platou

After October 2008 when shipping industry started experiencing the effects of the financial crisis and BDI followed by BCI (Figure 17) and BPI started falling until today experiencing declines in daily basis for months. The important point in this critical part is the fact that this decline in freight rates is so severe that the Capesize freight rates in daily basis are reaching almost the same levels with Panamax (conclusion

from graph 17 where BCI has even lower levels of BPI), events that make a lot of thinking and re planning for the future.

Figure 17: BCI,BPI,BSI,BHSI AND BDI Indices



Source : Intermodal Research

The over profits were used to renew their fleet, expand it, payback all their debts and increase their savings which as it is viewed today where financial crisis disappeared every option of ship finance are used for finance of new ships because bank's ship finance became more and more rare.

Thus, from all the above we see clearly that all the strategies and management in shipping companies is affected by the cyclicity of freight rates. A proof of the above can be considered the panic that burst during the peak of the market where the main strategy was the expanding and building new ships which further led to excess capacity. Thus, from the above the strategies in every period of shipping companies are related with the level of freight rates.

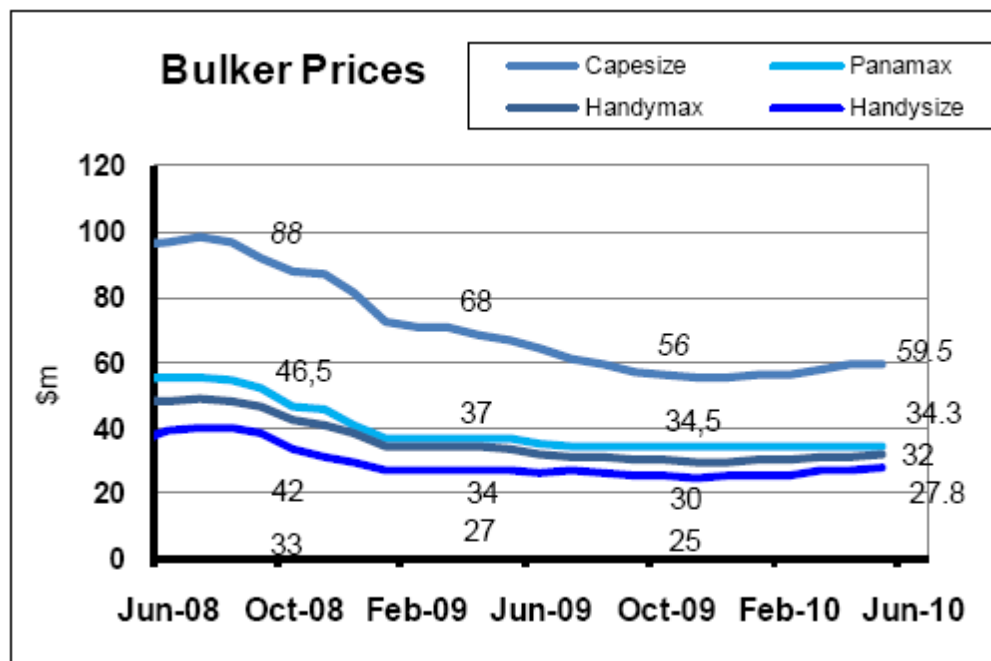
2.7 Sale and purchase

Mentioning above the main factors of the cargo demand, the patterns of seaborne trade and seasonality, one of the most critical issues that may affect the planning and actions of shipowners (from the supply side) is the oversupply in terms of new

tonnage delivered, that the dry bulk market faces. According to ICAP Shipping, we see in 2010 the expansion of the dry bulk fleet by 340 ships amounting to 32 million dwt allowing only a limited number of ships for recycling and other removals (some 46 ships of 1.6 million dwt). In relation to this it has to be mentioned that a large number of ships were contracted for future construction (346/31.2)(Nikos Roussanoglou, 2010).

During the pre-crisis period we see the steady growth of the bulkers' prices and after 2005 until 2008 we view an increasing rise in prices reaching in July 2008 their peak point (figure 18). This happened due to the level of freight rates, as it was explained above, where the majority of shipowners in their effort to be profited by the high freight rates(S+P Strategy) were trying to buy every ship available with the consequence of this the increase of the ship prices(see figure 19). Mentioned in the start of this sub chapter a lot of shipowners due to their perception for the continuing of this good market and the high demand started building new ships which were delivered during the crisis contributing in great percentage to the excess capacity affecting their strategic management in this period(lost of balance between demand and supply-low demand high supply). The consequences of the slowing of the demand and creating excess capacity in our case led to lay up strategic decisions and ship recycling (even if the ship was brand new) decisions.

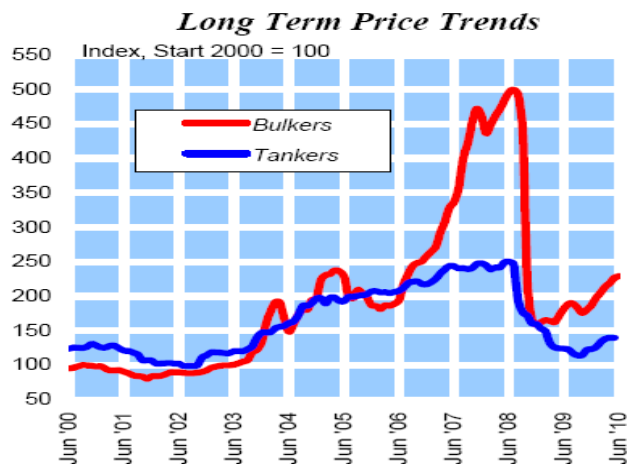
Figure 18: Bulk ship prices 2008-10



Source: Athenian Shipbrokers ,2010

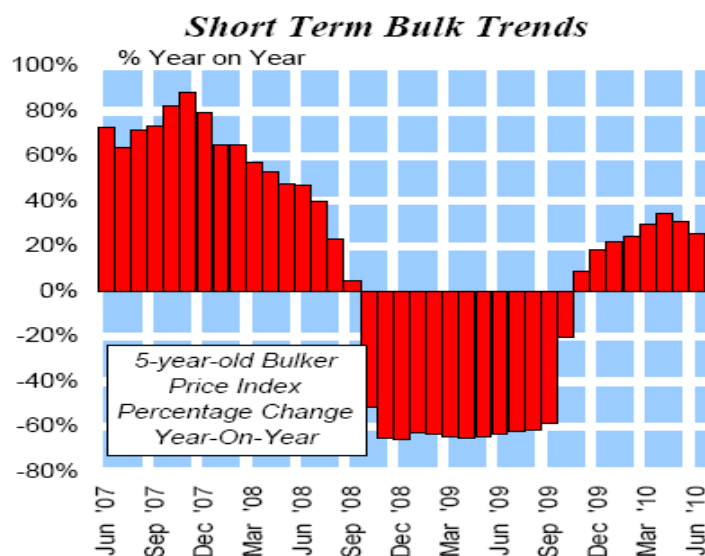
The change of the market prices can be shown better by the figures 19 and 20 where we see exactly the period of the downturn and the loss in value from 2008 until 2010 element that showing the loss of the balance between demand and supply leading to a downward cycle as the lowering of the demand couldn't even fulfill the existing supply and even worse the oversupply of that period (2008).

Figure 19: Long term price trends



Source: Clarkson's Shipping intelligence

Figure 20: Short term Bulk trends

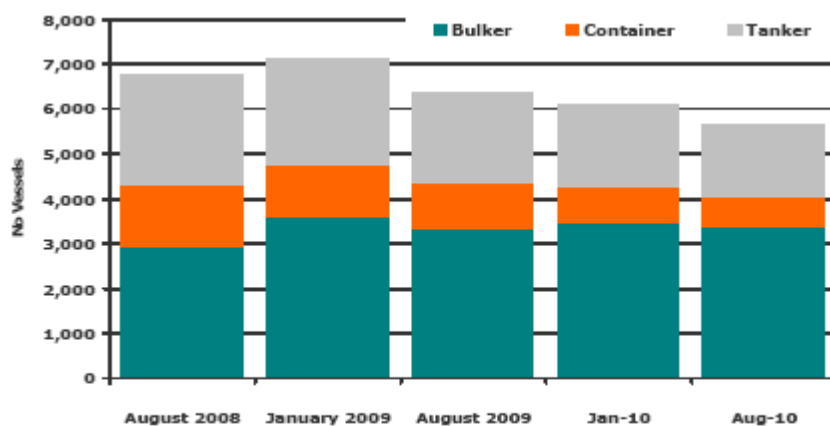


Source : Clarkson's Shipping intelligence

From demolition statistics we see that the dry demolition rates are the lowest in relation to other markets as it is the liner and tankers market. The low demolition and recycling rates are affecting in a great degree the strategies of shipowners as they may lead, due to overcapacity, to lay up of ships due to excess capacity and to low freight rates. A proof of the previous statement is the fact that during June when the BDI Index lost 41% of its value, only 8 dry bulk carriers were sold for demolition, bearing a total capacity of 127,775 tons (Roussanoglou, 2010).

Despite the fact that in 2010 due to the very low prices in contrast to the previous year we have the renewal of the fleet of a considerable number of companies still the orderbook of 2008-9 prevails and represent the very good market cycle in that years in comparison to 2010(see figure 21) and the reasons for the creation of such a situation (huge orderbook).

Figure 21: Orderbook 2008-10



Graph 1: Orderbook Outlook

Source: Intermodal Shipbrokers

From the purchase side of the shipping market it is viewed a situation where new types of vessels enter the market and can be profitable for the shipping companies' directions. The latest trend in the sale and purchase is the Kamsarmax vessel. This is due to the fact that this particular type of vessel has almost the same level expenses with Handysize, but it can gain daily rates similar to those of a larger Panamax ships.

Despite this new type of ship it is still believed that capesizes with discounted price tags than those found in the market today are the best option for a ship owner

(Roussanoglou,2010). Despite the fact of the shrinking of Capesize daily rates, this particular type isn't losing its trust and dominance as in any upward trend of the dry bulk market this size is the first that leads to higher profit and as a consequence to the return of ship owner's investment(Angelopoulos, 2010).

2.8 Conclusions

From the aforesaid we can clearly state the interdependence and the strong relations between the factors of supply and demand. The change of one of the factors due to unpredicted situations, like in our case the financial crisis has a domino of consequences for every aspect of the shipping industry. The declines in world industrial production due to the recession causes the negative direction of the seaborne trade and as a consequence the demand for shipping services. The decline in the demand for shipping services in relation to the existing excess capacity leads further to the decline of the freight rates and the earnings produced from the different sizes of vessels pushing the prices of the ships in lower levels and demand. This new situation that was described through the above figures is leading to different planning and the change and adjustment of the existing strategies.

The continuous decline of steel prices more sharply than the prices of iron ore in relation to the growing supply and the ebbing demand is leading to a situation where the demand for shipping services is reducing pushing the freight levels in the lowest level. A negative factor to this situation can be considered the orderbook and the oversupply of tonnage (Intermodal, 2010) in relation to the uncertainty existing in the Chinese economy due to the real estate bubble and the domestic demand for iron ore used in construction. All these supplemented by the global consequences around the world and the lack of liquidity has led to a significant impact to the shipping industry.

From a lot of aspects this decline in freight rates and in the demand for shipping services can be considered the worst scenario for the shipping industry but from the levels of the BDI index and the earnings of the shipowners during the crisis period is not so severe as before 2005 where the freight rates were even lower than the present. The real issue concluding from the market analysis is the fact that the shipowners were used in over profits during the peak of the market in 2008 and now they are still making money but not in such a degree. In addition to the former one we can add the fact that investing huge amounts during the peak of the market led to a huge financial exposure that after the downturn is very difficult to be recovered.

Chapter 3: Strategic management

3.1 Introduction

In a highly competitive market, such as the shipping industry, where the cyclical nature and the risk is a daily routine, forecasting in planning cannot be implemented and become trustworthy, as it was proved during this crisis. As there is a conflict in this statement, every company in the shipping industry where the intensity of capital involved is huge, every move must be carefully planned, based on certain objectives which are part of a certain strategy that is formulated and fully implemented.

As it has been proven, the majority of the dry bulk shipping companies have a strong family core and not so much a business core, a component that differentiates their strategic planning and reaction to the competitive environment.

In the first part of this chapter we discuss the strategic planning process in general while in the second part we will center our attention on the analysis of the shipping sector and correlating it with the present situation, extracting information from the analysis of all the actions undertaken during the crisis period.

3.2 Definition of strategic planning

A proper definition for strategic planning can be the setting of an overall strategy that facilitates the good management of a company and its processes offering a bigger picture and clarification of the strategies that must be followed for the fulfillment of the objectives of the company (Civicus ,2001). Strategic planning focuses on setting your organizational direction, setting priorities and identifying obstacles and opportunities that may limit or enable you to carry out your mission(Yelder, 1999).

3.3 Role and components of Strategic planning

The role of a strategic planning incorporates the firm's objectives and assessments, the formulation of the necessary strategy to fulfill these objectives and their evaluation, in accordance to the conditions that prevail in the market. In the previous sentence we have to add the fact that in relation to the market circumstances the proper adjustments must be done in order to lead to the survival and economic development of the company.

More specifically, the first step in the strategic planning has to do with the definition of the mission of the company which sets the vision of the firm and the main

objective of its foundation. Through this the goals and objectives of the company are made clear and these will be the base and the core for every activity conducted by the company.

The objectives set by the company can either be financial objectives or operational objectives, depending of the basic desires of the founder of the company (Civicus, 2001).

The first type of objectives has to do with the setting of the main reason and vision for which the company was founded (Yelder,1999).This fact will function as a guide for the pursuit of the future goals of the company and will constitute their identity. This first step will enable the leaders of the firm to set the financial and strategic objectives and take measure for their realization (Civicus ,2001).

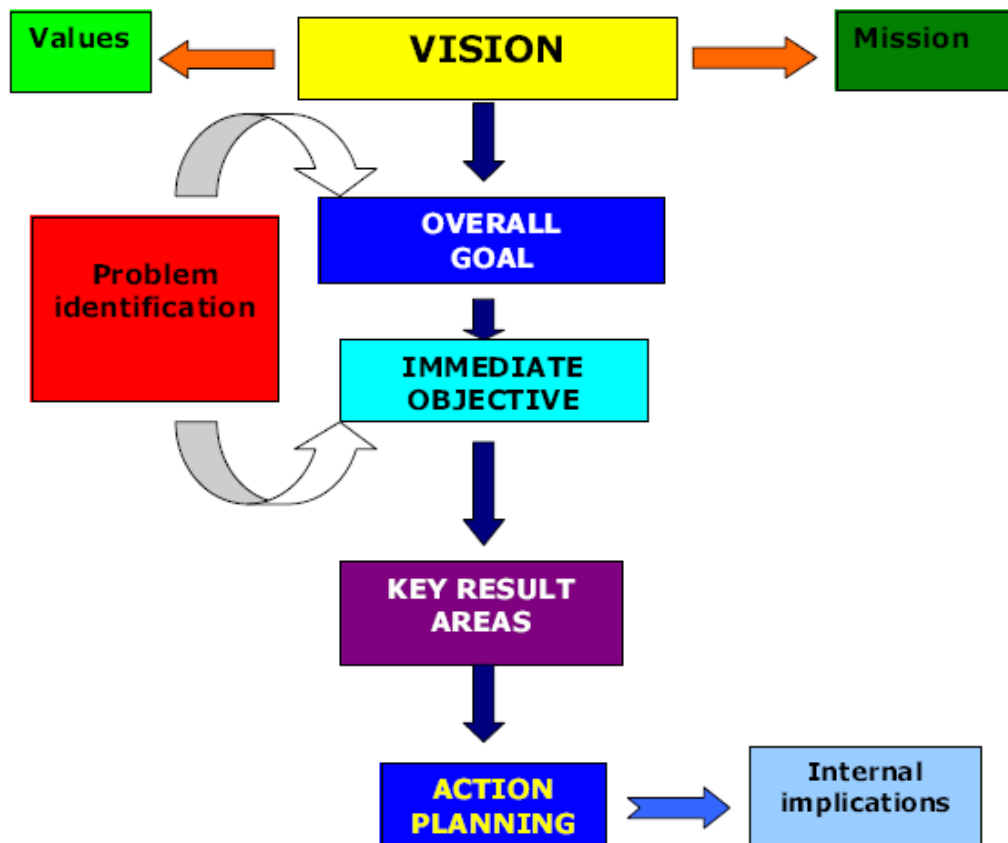
The second step in strategic planning has to do with the scanning of the internal and external business environment (Yelder,1999). This means that the leaders of the company must measure the capabilities and potentials of the firm in an internal level and then proceed to the examination of the market environment that they will be active. The first type that has to do with the examination of the internal environment has to do with the identification of the company's strengths and weaknesses. The knowledge of these two components leads to the operation on fields where the company has and may develop a competitive advantage . The meaning of this step for the shipping company has to do with the setting of the chartering policy that it will follow in relation to it's market environment, cycles and opportunities and in accordance to its fleet capabilities and shore based personnel.

The third step is related to the construction and implementation of a particular strategy which corresponds to its weaknesses and strengths (Yelder,1999). In particular this strategy has to take advantage of the strengths of the company and trying to develop them more in order to strengthen their competitive advantage. This procedure can be realized with an internal control where the main points that make the companies differentiate can be identified and further developed. This is the part where we have the development of a particular strategy which will be followed for the realization of the business goals. In shipping company this is realized through the implementation of a time or spot charter policy in relation to its competitive advantage and specialty.

The fourth step in the strategic planning is the evaluation and the control of the strategy that was developed and implemented by the company (Yelder,1999). This can be done by internal auditing and with an evaluation of the percentage of goals achieved in a certain period time. In small companies this auditing procedure in order to monitor if the goals are achieved is done by the shipowner and only in contrast to the big companies where there is specialized personnel or by outsourcing.

The previous steps can be summarized by the figure 22 where the steps are described and put in order for the best planning of the strategy in companies

Figure 22: Steps of strategic planning



Source: Shapiro 2001

The key parameters that are used in this point for the valuation of the company strategies have to do with 5 steps (Civicus ,2001).

The first step is related to the definition of the parameters that will be used for measurement and further the setting of a target values for these parameters. In case there is a difference in values it will be recorded to the next step that has to do with the measurement of this difference in case it exists. The measurement can be done by experienced and specialized people inside the company who are aware of the company's goals and what has to be done in order to seize down the deviation of

the company's performance from its goals and objectives. In case major differences are traced then the necessary changes must be made for their correction and for the economical development of the company.

3.4 Timing of strategic planning

The complexity and importance of strategic planning for the firms is interrelated with the success of a company and its survival in a highly competitive environment. As the procedure of strategic planning is a time consuming procedure that needs careful consideration of all the different aspects which may influence the development of a company, it is a procedure that sets the parameters for the work of at least two or three years (Civicus ,2001).

The definition of a right time that a strategic planning is needed has to do with a number of different parameters and factors. The first factor is related to the founding of the company and its setting, where the project functions of an organization must be developed and clarified so that it can be set a framework of specific functions for the achievement of firm's objectives.

The second factor that influences the right time for strategic planning has to do with the frequency of setting a new strategic plan and changing the previous. In case the external and internal environment is changing dramatically and experiencing severe changes, as did with the financial crisis, a review of the previous strategy is needed and a further adjustment of it to the conditions of the external market environment is needed (Civicus ,2001).

In cases where the re- organization of the company for the improvement of the productivity is essential then a strategic planning process is needed.

In shipping the timing for the setting of a new strategy or the reorganization of the existing is closely related to the exact cycle of the market. The level of freight rates and the BDI index are the main factors which determine the specific time for strategic planning.

3.5 Strategic planning in shipping

3.5.1 Chartering strategies and Risk management in shipping

3.5.1.1 Introduction

The first and most significant type of strategic planning in shipping companies is the chartering planning and the period of ship's employment, as this is a dominant factor which affects the profitability of the company.

In relation to the chartering types that a company can implement, we have the introduction of new strategies which have to do mostly with the manipulation of the freight market. Due to the increasing volatility existing in the market and the continuing downturn of the financial markets a very precious strategy for a shipping company has to do with the implementation of risk management strategies in assets.

The sharp fluctuations and price volatility of freight rates created the emergence for a paper market for freight rates with the freight as a new commodity traded in order to reduce risk (Nomikos, 2007)

In shipping there are four strategies related to the chartering procedures and the chances for more profitability by predicting the future course of the market .

3.5.1.2 Chartering strategies

Voyage charter

The first option has to do with the chartering of the vessels on a *spot market* where the levels of freight rates are quite high. This option is quite risky because there is a chance, in bad market times, that this action may lead to unemployment of the ship and lay it up, since this type of chartering offers a short term solution and not a long term that can protect the shipowner from severe downturns of the markets. More particularly under a voyage charter in a spot market the vessel is employed for a single voyage between one or more ports of loading to one or more ports of discharging (Pagonis, 2002) and from a viewpoint it is considered to be a speculative method.

The cost elements of this type of chartering are owner's responsibility who is responsible for all the operating expenses of the ship (manning, insurance costs,

repairs, deck and engine stores and provisions of the ship). In addition to this type of chartering type the bunkers, the lubricants and the port charges are under owners' responsibility with the loading and discharging being paid the majority of the times by the Charterers (under FIO agreement) (Pagonis, 2002).

In this case, the risk for the steaming time is due to the owners, meaning that the costs which are caused by any delays of the ship will not be paid with extra freight. In what concerns the laytime and the costs related to it, this may be shared according to the type of the delay and the laytime allowed for loading and discharging of the vessel (Pagonis, 2002).

The main advantage in spot market is that the level of freight rates are higher than the time charter type, but these are risky in periods where a bad cycle of the market is not predicted because it will make the shipowners lose money, as the market goes down, in relation to a time charter where the daily rates are fixed for a certain period, no matter which is the level of the market.

Consecutive voyages

The second possibly chosen strategy has to do with the method of *consecutive voyages* (Pagonis, 2002). Under this particular voyage charter type the vessel is contracted for a number of consecutive voyages where the ballasting distance from the port of discharging to the port of loading is not prohibited in terms of economic costs. In this particular chartering type the ship will have the chance to perform voyages one after another with the ability and liberty to load return cargoes different than the charterers of the consecutive voyage. The cost elements of this particular type of chartering are the same with the voyage charter but the difference with the voyage charter is the fact that implements some elements from the time charter and for this reason it is considered as an intermediate chartering type (Pagonis, 2002) between the voyage charter and the time charter.

Time charter

The third strategy has to do with the *Timecharter, COA or long term management* where the shipowner undertakes the promise to satisfy the charterers needs for transport capacity for a certain period of time (ranging from months to years) (Pagonis, 2002). The payment of the freight is called hire and not freight rate as it is in the voyage charter and it is paid monthly or semi-monthly (Pagonis, 2002).

The responsibilities of the shipowner in this type of chartering are related to the navigational operation of the ship, its technical maintenance and paying attention to the cargo while the commercial control of the ship remains to the charterer(Pagonis, 2002). More analytically the shipowner is responsible for the running and operation expenses for the ship and its seaworthiness and the charterer is only responsible for the bunkers(the lubricants are excluded) , port dues and canal expenses .

The advantage of the time charter (mainly in bad cycles of the market) is the security of the shipowner and the company from the fluctuations and the volatility of the market but on the other hand the level of freight rates isn't in such a high levels when the market is at its peak but they offer a protection when the market is experiencing a crash.

Bare boat charter

The fourth type has to do with *bareboat* chartering which concerns a contract for the lease of the ship from the owner of the ship to the bareboat charterer(Pagonis, 2002).In this particular chartering agreement the shipowner deliver the ship bare to the charterers for a certain rate and hire .

The responsibilities are automatically transferred to the charterer except the capital costs meaning that the charterer will take care all the commercial and technical responsibilities of the ship. This type of chartering will not be used to this thesis analysis due to the fact that a very small number of companies implement it and especially of the condition of the market in our period.

Freight Forward Agreements

The need for controlling the price volatility and the fluctuations in the market gave birth to a new type of chartering procedure through the implementation of hedging strategies. Opportunities to cover requirements, quickly, fixed and flexible and give the opportunity to the shipowners alter their position benefited the introduction of FFA'S and derivatives in freight rates.

The majority of the companies during the crisis period have chosen time chartering contracts in order to benefit from the deep fall of the freight rates that is viewed during the last two years. The careful choice of the most suitable chartering type is essential for the survival of the companies through these crashes of the financial crisis, for the payment of their loans and the achievement of new finance for their further expansion and renewal.

Pre crisis prevailing chartering strategies

One of the most successful and risky strategies during the pre-crisis period for the majority of the companies was the establishment of time charter contracts above one year and until 4 years (Swissmarine INC, 2010). The companies which preferred to choose time charter contracts - during the period where we had the peak of the market and more particular, between 2007 and July of 2008 – were the big winners of this crisis period. More specifically, during 2008, where the demand for shipping services was at its peak and the BDI index was following this trend with the freight rates in double values than today, the majority of the shipowners were trying to achieve chartering strategies related to the spot market and not exceeding 6 months as they believed that the freight rates will go even higher. Companies that chose time charter contracts during that period, in a short term basis, they seemed to have lost, since the rates went even higher, but in a long term basis, due to the burst of the crisis, were actually the winners, since they managed to achieve very good long term charter contracts that protected them from the big downturn that was noted from 2008 until today when the BDI index lost half of its value. Navios maritime has been a representative example of this *long term chartering strategy*, managing to increase the average chartering period of its whole fleet to 4.4 years (realising even chartering contracts until 2019) and giving them the opportunity to protect from the crisis period and further renewing the average vessel of their fleet to 5.4 years (Navios Maritime Partners, 2010).

A strategy that was followed by Swissmarine Inc from 2007 until today offered the company the chance to survive the crisis and also to make some profit despite the downturn of the market.

In contrast to this time charter type that has been put into practice and implemented by a number of companies that period, during our current year (2010) the strategy that is reported by a large number of the companies is *time charters* which does not exceed the 2 years. This is due to the fact that they are trying to chose chartering strategies that are under 15 months because they are expecting the market to turn; the period offers very low rates and, throughout this period everybody wants to secure earnings and proceed to the reduction of fleet weighted average age. Examples of this period chartering types implemented by the shipping companies are: the Excel Maritime (Excel Maritime, 2010), Diana Shipping, Hellenic Carriers, Swissmarine INC, Globus Maritime (M/V Star Globe) which chose chartering strategies under 1 year for securing and ensuring their earnings in a bad market, paying their debts and not putting their vessels into very long contracts under low rates. Their expectations for the future respond to higher markets, which they want to take advantage off, and not to imprisone their vessels to long term contracts, exceeding 2 years, under those very low prices.

Direct continuation

A typical procedure that is viewed during the crisis period is the further continuation of an existing chartering contract between a shipowner and a charterer. This type of renewal of the existing chartering contract is termed as direct continuation and it has a lot of advantages for the shipping companies especially during a crisis period. Dianna Shipping has chosen this type of continuation for several of its vessels and the most recent was for m/v Calipso where we have the direct continuation of her chartering contract for 11-13 months by a first class charterer (Cargill, Diana Shipping INC 2010). The advantage of this method is the sustainable employment of the percentage of the fleet and as a consequence the sustainability of profits.

A similar chartering strategy that was followed by a number of companies (Star Bulk Carriers, 2010) is the time charter extension. The difference with the previous chartering method (the direct continuation) is the fact that with direct continuation the daily hire rate very rarely changes and increases in value in relation to the hire of the previous employment but in the case of the time charter extension the daily hire rate in a good market increases (In the case of Star Bulk Carriers increased from 11,000 to 19,000). This strategy gives the opportunity to the shipowners to sustain the existing percentage of their ships' employment and achieve even higher rates for a new time charter period (Star Bulk Carriers, 2010).

3.5.1.3 Risk Management strategies

3.5.1.3.1 Risk Management in General

The existence of these types of strategies springs from the uncertainty and the existence of high risks and exposure of different sectors to a variety of different dangers. On a daily basis we are witnessing a large number of risks in different fields which in bad markets can be catastrophic for the firms which are operating to these sectors.

As it can be viewed also from the table 5 the first type of risk has to do with *business risks* which arise mainly from the fluctuations and sharp declines of the demand causing a lot of trouble to the business planning and activities (Freight metrics, 2003).

The second type of risk has to do with *credit risks* that arise due to the weakness of the different parties to take care their payments and reduce their debt. This is mainly attributed to the fact that the counterparties are exposed to debts that are higher

than their capabilities and when the payment arises they cannot be reliable (Freight metrics, 2003).

The third category that can be viewed has to do with the existence of the *operational risks* which are mainly caused by failures and mistakes of the people who actually operate the different firms. From my point of view this risk can only be eliminated by internal control and audit in a monthly or yearly basis(Freight metrics, 2003).

The fourth type of risk which is more related to the shipping industry, is the *market risk* that arises due to changes in market rates because of cycles and general conditions which affect the market (Freight metrics, 2003).

Table 4: Risk types

Risks	Definition
Market	The risk of loss arising from unfavorable changes in underlying risk factors(market prices or market shares)
Operational	The risk of loss arising from the failure of internal systems or the people who operate in them
Credit	The risk of loss arising from the failure of a counterparty to make a promised payment
Business	The risk of losses due to adverse changes in demand, technology, competition, etc, affecting business activity
Other types	Legal risk, Liquidity risk

Source: Freight Metrics 2003

Objectives

The objectives of the risk management strategies have to do with a 3 steps process:

The first step is the *Risk Modeling* where we have the identification of the risk and the effort for the introduction of a model which will help us for the minimization of the existing risk.

The second step is the *Risk measurement* where we have an effort for the calculation of the size of the impact of certain risk factors to the firm's economic results.

The third step that is considered as the conclusion of the previous 2 steps has to do with the efforts of controlling the risks with decision making procedures adjusted to the circumstances.

3.5.1.3.2 Risk Management in Shipping

The birth of risk management strategies in shipping industry is contributed to the existence of high risk and more particular to the existence of freight market volatility. With freight rate market risk we mean the financial loss that is attributed to changes of the freight rate market(Nomikos,2007).

The above mentioned risk in shipping industry can be minimised with the use of derivatives in shipping meaning the introduction of financial instruments whose promised payoffs are derived from the value of something else called the underlying(Freight metrics, 2003)

The most popular and frequently used, in shipping industry, hedging method in freight derivatives is the Freight Forward Agreement or FFA. The FFA can be defined as an agreement made between a buyer and seller to settle the difference between a freight rate agreed today and the future price of the freight rate on a specific voyage (Nomikos, 2007).

The settlement in this type of hedging is done for a specified type of vessel and quantity of cargo in a particular route and certain date in the future. The value won by FFA'S is paid in cash and is the difference between the contract price and the settlement price at the expiration of the contract (Freight Metrics, 2003).

In addition to this characteristic the FFA contracts are contracts which have a more standardised type and lot sizes which offer the opportunity to the counterparties to close out their positions quickly & easily(Nomikos, 2007). Their form, makes them suitable for the hedgers who can keep their anonymity with a cost effective execution of their trading in OTC Markets.

3.5.2 Renewal, Cancellations and further expansion of the existing fleet

General

During the pre-crisis period, part of the strategy of a number of shipping companies was the expansion of the existing fleet with the realization of newbuilding contracts in order to respond to the huge demand for shipping services.

The pre-crisis period was the best for selling old ships in favorable prices as these ships have been a bottleneck for the shipowners, due to the fact that the freight rates they could achieve were lower than the freight rates a relatively new ship could earn. Thus, as the demand for ships that period was very high, one of the strategies followed by certain shipowners was to sell the old ships of their portfolio and invest this money for the finance of new or second hand ships with a minimum age of 7 years.

A considerable amount of shipowners who were very optimistic about the course of the market decided to start building new ships and use them either for speculative reasons (Metrostar), since their value by the end of their construction would be quite high (because the shipowners wanted them now and not in 2 years) with a market cycle to its peak.

In the period from 2008 until today where the BDI lost most of the half of its value gave the chance and the ability to the majority of big companies which were in good position in terms of liquidity, to renew the fleet and reduce the average age of their fleet. This was caused due to their belief that now that the market is low they can gain huge reductions and low prices for the ships, which ships will give them a competitive advantage in periods where the market will face good cycle (due to higher rates of old ships in comparison to rates achieved by older ships). A sign of this renewal strategy has been the huge investments that were placed in the month of June 2010, that is considered as one of the worst period in dry bulk shipping industry with the BDI index falling to its lowest levels from 2003. During this month the investments for the purchase of dry bulk ships reached the amount of 600 million dollars, which have been mostly done by Greek and Chinese shipowners (Roussanoglou, 2010).

Additional to their renewal program, during the last two years, the shipowners decided to invest in different types of ships and more particularly, the trend has been the operation of Kamsarmax ships. In specifically, the majority of the shipowners started including to their renewal programme the purchase of Kamsarmax ships which offer a strategic advantage, since the operational expenses of a Kamsarmax are the same of a Handysize, but due to their deadweight and capacity (89,000 dwt) they manage to get hire in levels of Panamax ships. Due to this fact, we observed

the huge expansion of the fleet in ships of this type that are competitive in short term and during the crisis periods, but in a long term planning they may prove to be a bubble; after all, the traditional benchmarking of the profitability ratios for the shipping companies was firstly the Capesize ships and secondly the Panamax ships.

Hellenic Carriers decided on the expansion of its existing fleet of 5 ships with 2 Kamsarmax ships (SeaTrade Asia-Online,2010), an option that is new for the company which mainly manages 3 Panamax ships, 1 Handymax and 1 Supramax (Hellenic Carriers website). In addition to this, Globus Maritime added a 2010 Kamsarmax as well to its existing fleet of 4 ships, strengthening the trend of companies towards this new type of ship (Globus Maritime, 2010).

In addition to the previous point we can further mention, that a large number of companies decided for the renewal of their fleet to purchase smaller ships and not the typical Panamax and Capesize as it was in the past. This example can be viewed by the Genco Shipping and Trading, which company added to its shipping portfolio a number of 4 Supramax out of 35 ships in total, by the end of June 2010, and decided on August 2010 to acquire 13 additional Supramax vessels (Genco Shipping & Trading Limited).

Concerning to demolition rates, we can see that this is the choice mainly undertaken by shipowners who have a huge exposure to debt and who don't have any other choice. The second category of demolition rates are related to the lack of right maintenance program and the age of the ship, two things that force the shipowners to the demolition of their ships. From statistics during the crisis period, we saw that the demolition rates was somewhat the same as in all other periods, even though getting rid of excess capacity helps the increase of freight rates and the better course of the market.

A very popular method and strategy that was implemented during the crisis period in the purchase of newbuilding is the implementation in the agreements of the right for refusal. Two companies proceeded to this right (Genco Shipping and trading LTD) for newbuildings from qualified shipyards, giving them the opportunity for refusal of a certain business opportunity and acquire the ships in case things aren't positive for the company (Hellenic shipping News, 2010).

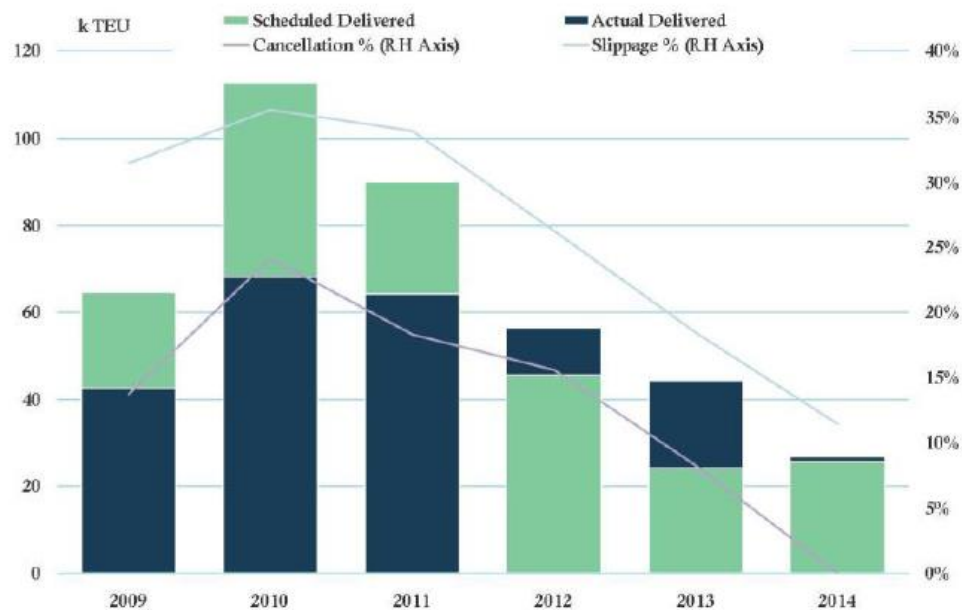
Cancellations

In dry bulk shipping industry the cancellations especially from the greek shipowners have never been such a popular strategy. In relation to these cancellations during the crisis period, we observed cancellations only at the stage of the contracts. In

2010 Goldenport Holdings cancelled contracts for the building at a Chinese shipyard of two Supramax and transferred its shipbuilding portfolio to a different shipyard with new terms, achieving a reduction of 5 million U.S. dollars. In addition to this, the company cancelled completely the one of the two Supramax ships without any plans in building it in a different shipyard.

The following graph (figure 23) shows clearly the impact of the financial crisis to the scheduled vessels to be delivered in 2010 and the actual delivered offering also a forecasting for the coming years, predicting the continuing decline of the market. The cancellations due to the bad market are a respectable percentage of the actual delivered to the shipowners reflecting the recession and the impact that has on the deliveries of new ships. The percentage of cancellation is increasing dramatically until 2014

Figure 23: Deliveries and cancellations of Newbuildings



Source: Howe Robinson 2010

3.5.3 Operation in different markets

Another trend, which has mainly its roots to the crisis period is the change of operative markets. More specifically, in some markets and especially in the dry bulk one, which constitutes the main field of the greek shipowners, the things are starting to seem fading and the shipowners in order to be more flexible and protect themselves from future downturns, are deciding to operate in different markets and mainly in the container market where they have never tried before.

The most representative example are the Greek shipowners who traditionally were operating in dry bulk market where they specialize and own the 17% of the dry bulk fleet (Roussanoglou, 2010) and they are currently trying to change their direction towards container ship market where they own only 5% of the global fleet. The majority of their strategies target in the purchase of ships from German shipowners who have been exposed to the crisis or from shipyards where a lot of boxships construction was cancelled. The idea behind this new situation was the fact that the German shipowners (who traditionally ordered ships at very high prices) cannot complete their orders due to financial problems brought by the downturn of the market and now they are selling them, in relatively very low prices, giving the advantages to companies with stronger balance sheets to enter in the container markets, investing in better days in the future.

Companies like Paragon Shipping with a fleet consisting of 19 Bulk carriers and only two containerships proceeded to the purchase of 2 new medium size container ships from German shipowners who were severely affected by the crisis (Financial Times, 2010). A very good example of this type of strategy is also Dianna Shipping and Dry Ships which both started operating in completely different markets than the dry bulk where they traditionally had their competitive advantage, investing in order to gain market share (Financial Times, 2010).

Supporting the above we have to mention the investment of Diana Shipping (50 ml) for the establishment of a new liner shipping company with the purchase of two new container ships. More specifically, Diana Shipping is expanding its shipping portfolio for the first time with the purchase of two containerships with a total cost of 90ml dollars, funding them with 50 ml from its own funds and with 40 ml by institutional and private investors (Diana Shipping Inc, 2010).

The Dry Ships Company took a more risky and capital intensive decision and invested in drill ships with an investment of 1bn. The advance of this company's option to operate in such a market affected also other companies (Genco Shipping & Trading Ltd and Baltic Trading Ltd tried to operate with the acquire of drill ships. The motivation for the operation in such a market is the very high daily hire rates which can approach the 600,000\$ per day in good market times. The disadvantage of this type of business is the problems related to the financing of these projects and

the lack of substantial contracts guarantying its survival and profitability (Reuters, 2010). Thus, we witnessed, except the divergence from traditional strategies towards the purchase of containerships during the crisis period, the acquisition of drill ships from traditionally dry bulk shipping companies.

A third player that decided to operate outside the tanker and dry bulk sector and plunge in different markets as well, is the Thenamaris Group. More specifically, Thenamaris has proceeded to the sign with Jiangsu Yangzijiang Shipbuilding of a letter of intent (LOI) to order the building of eight boxships, ranging from 1,800 teu to 2,500 teu and which will be delivered in 2012 (Seatrade Asia-Online). The cost of the larger ships will range from \$40m and for the smaller ones will be around \$30m.

3.5.4 Finance strategies

In this subchapter we will try to make a review of all the potential strategies that can be used for the shipfinance and we will try to compare them with the prevailing strategies that were followed by the shipping companies during the two last years.

One of the prevailing strategy for a shipping company is the finance of the ships through bank loans. This form is consisted by three different types the a) Mortgage Backed loans which is the most popular b) the Shipyard Credit and and c) the Corporate loans (Stopford, 2008).

The first option is defined as mortgage backed loan and the only security for the bank which issues the loan is the ship and it's value (Stopford, 2008). This is the only type of loan where the ship is kept as the only security for the huge amount of lending making it feasible for the shipowner to lend from banks such a considerable amount. The advantage of this type of ship finance for the shipowner has to do with the fact that it doesn't affect his business and assets in case of his insolvency as all the bank loans that are taken are related to a one ship company without affecting the other assets of the shipowners (Stopford, 2008).

Except the security of the ship the majority of these banks request a time charter attached that will secure them in case of bad markets and also request a reputable shipowner that will have the chance to negotiate in different terms.

In terms of a good market where the value of the assets is expected to be higher than the loan issued, the bank loans cover a respectable amount of the market value of the ship. During the pre crisis period the percentage of the bank loan could reach the amount of 80- 85% but now that the market is experiencing a severe downturn and the lack of liquidity is a new reality, the banks' loans cover maximum

60-65% of the market value of the ship. Except the condition of the market this percentage is dependant upon the age of the ship that is acquired by the shipping company and will use the bank loan.

In this point we have to add that according to Stopford (2008) the period for the repayment of this type of loan does not exceed the 5-7 years but this responds to good markets periods, where indeed less than 5-7 years are needed for the repayment of the loan. During the crisis period, such as the one we are currently facing, we are witnessing the lengthening and the renegotiation of the terms of the bank loans; the banks, in their effort to secure their money and not to confiscate the ship since even this has lost most of its value, are lengthening the payback period but during this renegotiation they increase the interest rate paid every three or six months.

The second type of type of ship finance has to do with the issuing from the banks of corporate loans, usually in situations where the size of the companies is large. Due to the fact that changes occurring with the renewal of the fleet are time consuming(Stopford, 2008) this type of finance gives a quick access to huge amounts of finance in case the renewal of a fleet is considered to be done with bank loan facilities(Stopford,2008).

Especially in the crisis period where the shipowners has chosen the renewal of their whole fleet or their fleet's further expansion this type of finance is quite popular because is giving access to huge funds that can be used in a flexible way for every acquisition that they wish to make. A typical example of this type of company that decided during the crisis to proceed in this type of finance by corporate loans is the Genco Shipping and Trading limited that proceed to the acquisition of 13 new Supramax during the 2010 with the negotiation with the bank of a 253 million senior term loan facility(Roussanoglou,2010).

A quite popular technique of finance is with shipyard credit where a favorable credit of 25%-30% of the shipvalue offered by the shipyards which with their turn are financed with additional funds from their governments due to their strategic character.

The second type of ship finance has to do with public offering. During the crisis period except the liquidity of the company Navios Maritime partners decided the public offering of 4,500,000 stocks in order to expand further it's fleet now that the vessels prices are quite low (Navios Maritime partners, 2010).

3.5.5 Operational strategies

This subchapter of the analysis deals with the operational strategies that were followed during the crisis period and which can be used by a shipping company in order to reduce its operational costs.

According to Porter and his framework related to the strategies for achieving a competitive advantage a shipping company, even in days that the market is at its peak, is targeting at strategies of cost leadership (Theotokas, 1997). The dry bulk industry from its nature is a market operating on the basis of the minimization of the average cost per unit and in the effort of implementing economies of scale.

The operation strategies that can be implemented during the crisis period hasn't changed completely from the pre crisis period as it is an industry that operates at all the phases of the economic and market cycle at the minimum cost (Swissmarine Inc, 2010).

From a research through interviews to Swissmarine Inc the basic sectors where further reductions can be done in order to decrease further the costs during periods where the survival of the company is essential are a) The change of Flag State b) The renegotiation of the provision offers with agents in each port c) The manning expenses and the d) More sophisticated and cost oriented organization of the dispatch and the logistic chain of the supplies, spare parts and provision stores of the ships. In the following paragraphs we will try to examine each strategy from the viewpoint of its potential adjustment to the crisis period.

Flag State

The first choice of a shipping company in order to reduce its costs is the change of its ship flag state. The majority of the shipping companies in general are trying to register their ships under a flag of convenience or an open registry where they can achieve minimum salaries, low taxation policies and a loose legal regime that enables them to reduce the maintenance costs to the minimum. They avoid the flag of the country from where the actual ownership of the ship is, since the operating costs are quite high in relation to the registration of ships to open registries.

It is quite declared from the shipping companies that the choice of a flag of convenience was a typical strategy before the crisis period but a large number of companies especially the large companies were avoiding the flag of convenience due to their relations to their country, their family character (Theotokas,1997) and the targeting from the Port state control in some Ports.

During the crisis period the number of companies that changed the flag of their ships wasn't so considerable due to the fact that they already had flag of convenience to their ships or due to the fact that the procedures in order to change the flag were time consuming and cost intensive (Swissmarine, INC).

The conclusion from the above analysis is that the change of flag in the crisis isn't such a preferable strategy from the majority of companies due to its costly character and the time needed in order to be realized. In addition to this, except the large traditional character companies the majority of the companies already had a flag of convenience to the majority of the ships that they operate and manage.

Renegotiation with port's agents

A typical strategy for cost reductions is the daily negotiations and renegotiations with the port's agents as concerns the charges for the provision stores and the discounts that they can achieve (Swissmarine INC, 2010). In this category only a minimum number of cost reductions can be achieved especially in periods that the market isn't the best for the shipping industry. The majority of the strategies have to do with the inquiry by the shipowning companies the cheapest option without affecting the health and safety of the crew and the seaworthiness of the ship. The shore based personnel in this crisis period is demanding from the dedicated agents in each port further reduction for the provision of every kind of stores (engine and deck) and are making efforts to take care the provision of the ships in ports where they know that they can achieve the best prices (Main ports). In other words they postpone the supply of the ships in ports that they are aware of the high prices of the supplies needed and are trying to supply the ships in ports that they can have better prices and better terms for the payment of their orders.

Manning expenses

An additional category where a strategy for the further cutting of expenses was implemented is the cutting of manning expenses. By this term we define the expenses needed for the repatriation or the change of crew in certain ports.

The shore based crew dept in order to reduce the costs is trying to repatriate the crew in ports that the vessel approaches and are closer to the country of origin of the seafarer (Swissmarine INC, 2010).

Dispatch of engine stores and spare parts

This category is the most significant for a shipping company that wants to limit its expenses and follow a cost cutting strategy in an operational level. The shipping companies are trying to send all the spares in ports that the custom clearance procedures are not time consuming and eliminate the chance during this delay caused by the customs to lose the ship. Sending the spares at ports where the custom clearance procedures are quick they eliminate the risk of losing the ship and re sending them at other ports, situation that will have extra costs for the shipowner. In addition to the dispatch of the spare parts the company is trying to put all the spares that the ship needs in one order and not sending them one by one, as this is more costly (Swissmarine, 2010). The exception of this rule are the orders that are essential for the seaworthiness of the ship and must be sent immediately.

In case that the spare parts needed are not very heavy, don't have a large size and they aren't needed directly from the ship they are sent with the seafarers and superintendants that they visit the ship in order to get on board or audit it.

These strategies that were described above are followed from the shipping companies in order to reduce the costs further and reduce the budget that is dedicated for the supply of ships with all the necessary provisions, spare parts and stores but it cannot be viewed as a key strategy that leads to the survival of the company through a crisis period, as these strategies were followed by the shipping companies also in the past during the pre crisis period. The difference that has to be mentioned in this point is the fact that extra efforts are done from the companies to reduce additionally these costs as in companies' meetings are requested budget declines in sectors that don't affect directly the safety and seaworthiness of the ship.

3.6 Conclusions

From the above mentioned we can clearly state that the prevailing strategies for the survival of small and big companies during the crisis period have been the chartering strategies that they implemented and the expansion in different markets. The other type of strategies have been also proved useful for further cost reductions but they cannot be characterized as the main strategies which were implemented by the shipping company during the crisis but they can be characterized as the auxiliary strategies.

Thus, using all the above information we can categorize the prevailing strategies for 2007-2010 in the following categories

- a) Long Time charter contracts before or at the peak of the market
- b) Short term charter contracts during the crisis period
- c) Physical hedging through chartering strategies of companies with big shipping portfolio
- d) Physical hedging with expansion in different markets
- e) Fleet Renewal of companies with strong balance sheet which enabled the acquisition of ships during the crisis period in lower prices

From the statistics we view that the majority of the time charter contracts that were contacted during the 2010, which was the worst year for the dry bulk shipping industry were from 11-13 months verifying the expectation of the majority of the shipowners that the market will rise and they can achieve after this bad period better both time charter and spot rates.

The instinct of the shipowners who before where a downturn cycle is viewed, made them to place the ships from spot market and short term time charters , in long term contracts which benefited them during the crisis period where the hire rates per day lost the half of their value. This enforced their capability to repay their loans , sustain the liquidity that they gained from the high rates during the peak of the market and proceed to the renewal of their fleet now that the prices of the ships are extremely low in comparison to the two previous years.

The small companies, which do not have the flexibility that a large fleet would offer them during the lowest level of the freight rates (June 2010) are trying to put their ships in short term time charters (under 1 year) .

Except the renewal strategies, the renewal of the fleet will be done in a period where the prices are quite low, there are a lot of cancellations and the shipowners which have a lot of liquidity can achieve very good prices. New ships will give the opportunity to the shipowners to achieve higher freight rates during the recovery of the dry bulk market and will give them even the opportunity to gain from the higher prices that they can sell them during a good market cycle.

From the above mentioned and which are related to the key strategies that contributed to the enhance of shipowners' liquidity, earnings visibility and further strengthen of the balance sheet during the crisis period was the change of direction

in chartering contracts, the change of markets . The chartering strategy enabled the renewal strategies during the crisis and the further expansion of the existing fleet.

Chapter 4: Discrimination of shipping companies in relation to their size

4.1 Introduction

At this point of the analysis we will try to make a distinction of the size of the shipping companies, in order to analyze the strategies that are implemented by small and large companies. The distinction between these two different sizes will be made on the basis of the number of vessels that each company has (shipping portfolio) and according to their exposure to the market risks due to cyclicity.

4.2 Small size companies

According to Theotokas (1997) as small size shipping companies can be considered companies that have a minimum of 1 vessel to their shipping portfolio and a maximum of 4 .

We can add to the aforementioned, that every vessel constitutes a single company by its own and all of these 'companies' are part of a bigger mother company which is the shipowning or shipmanagement company. The main characteristic of these companies is that ownership and management coincide, with the members of the same family fulfilling the top management positions. The family character of these companies makes the strategic leader of the company to be the owner of the company and controlling every single daily action (Theotokas, 2007).

A very good example of the previous statement are the Greek shipping companies, which managed for decades not only to keep the family character, but also to preserve their traditional characteristics, along with their business culture, and at the same time expand their trading in international level with utter success.

The advantage of these companies has to do with the creation of a business culture entirely related to family bonds, without any distance between the personnel and the upper management. This gives the opportunity to the shipping companies to cooperate more efficiently, show more care for the progress and development of the company and have better relationships with the staff. In addition, due to the small investment exposure, this type of companies are more flexible in periods of bad cycles.

The small companies despite the modern business environment where the family business is not preferred are completely based on their structural characteristics, vision, policy and strategies in order to remain competitive and survive from any crash and downturn of the market.

The main sector where all disadvantages of a small company are founded is the finance one, since small companies do not have the power to finance their renewal programs and expansion schemes with the same favorable terms as the bigger companies which have bigger liquidity and more intense relations with the banking system.

4.3 Medium Size companies

According to Theotokas (1997) a medium size company can be defined as a company that owns and operates 5-15 ships. The number-of-ships element reveals the family characteristic of management, with very intense hierarchy and the flow of decisions following a path from top to bottom. The founder of the company still remains the core strategic character of the company (Theotokas, 1997) and the family members occupy strategic positions, providing a mix between traditional management and modern management .

The foundation of the company was mostly realized by on family's loan from a bank, tying up all their assets and getting in the sector 'at the right time' made them flourish and gave them the opportunity to expand their fleet and shore based management.

The current trends in this type of shipping company could lead to the change of the structure of the whole company as well as its orientation. All changes that were implemented had to do with the alteration of the structure of the company and none with ownership or chain of command. In these companies the ownership and the management of the business is in the hands on the family of the founder and all the major decisions regarding the financing of new as well as existing plans has to do with the family core. In this situation contributes the fact that the shipowners due to their reputation and credibility can still have access (even during crisis period) to sources of bank finance and renew or expand their fleet; due to the fact that their investment plans do not require huge sources of finance. If they had, they would have to implement different procedures, such as releasing stocks in the stock market, but that would change unreservedly the structure of the company. The existing specialized sector of ship finance, where reputation and credibility are the factors that allow the necessary funds to reach the shipping industry, preserves its family character (Theotokas, 1997)

4.4 Large size companies

A third and last category of the shipping companies in relation to their size has to do with owning and operating a fleet of more than sixteen ships (Theotokas 1997). A first conclusion about the character that these companies have to implement to their daily operation has to do more with a managerial than a traditional character.

The main obstacle in preserving their family character has to do with the fulfillment of their investment plans (Theotokas,1997). A company of such a size except the banks' loans that are needed for its development, requires also additional finance strategies through public equity. In order for these to be achieved the character of the shipping company has to change and attain a more managerial aspect in order to gain access to stock markets and develop relations with the investors.

In relation to the above we view that the shipowners, and mainly the ones that are considered as second and third generation, in order to open the character of their company and attract more investment in their portfolio they change the structure of their family business into a corporate business (Theotokas 1997). In relation to this, the shipowners except for their own initial portfolio start to operate and invest in other companies with a speculative way without taking any consideration of the family bonds. With these methods they deviate from the initial strategy that lead themselves to success and they are also gaining very fast access to finance methods that enable them to expand and renew their fleet very fast and riskfree than any bank loan would never do.

4.5 Conclusions

In reference to the above categorization of the companies according to sizes it is clearly understood that especially in the shipping companies all the decisions and strategies have a more family character than a corporate character. For the survival of a shipping company which operates in a very volatile business environment the establishment of a family character and a core strategy is very important for their operation.

The family owned shipping companies which have a core strategic character, also have a competitive advantage in relation to the corporate shipping companies (Theotokas, 1997). These companies have competitive advantage in terms of strategy and skills (Habbershon & Williams, 1999). The volatility of the dry bulk market requests flexibility in decision making, where the efficient and effective decisions related to chartering and finance strategies are needed especially in crisis periods. According to Theotokas (2004), it is the family character and the existence of a strategic leader managing the core of the shipping industry that has become the number one advantage, with family firms in this sector having performance advantages in relation to non family firms (Theotokas,1997).

In a few words behind any strategy implemented by a shipping company crucial part is the size of the company and the character of the company as well as its vision.

Chapter 5: Description and Comparative analysis of shipping strategies in practice: Two Case studies

Case Study 1: Swissmarine Inc

5.1 Introduction

In this chapter the research question is answered through an analysis and description of the basic strategies implemented by a small shipping company during the crisis period and during the pre-crisis period. Through this case study an effort is made to locate the basic principles which led Swissmarine INC to its survival and which prepared the ground for the company's future expansion through the acquisition of new and second hand ships.

This chapter will define and describe the basic elements of the company, that protected it from the downturn and will emphasize to the mentioned strategic categories, that were implemented during the pre crisis period and during the crisis period.

This analysis will provide us with an interpretation of the actual methods that can be considered as the basic principles of the planning of a company during cycle periods where all the conditions are against its wealth and economic sustainability.

The basic categories where certain strategies contributed to the economic survival of the company and to the preservation of its liquidity, which prepared the ground for its future expansion were mainly the chartering options and choices of the company before July 2008 (peak of the market) and during the crisis period (downturn of the market), the settlement of their debts and the methods of finance for the acquisition of new and second hand ships.

5.2 The company- Short description

Swissmarine INC is a shipowning company specializing in dry shipping industry with a shipping portfolio constituting of 3 vessels (2010). According to Theotokas' (1997) criteria for the categorization by size of the shipping companies, this type of a firm can be characterized as a small company, having its Head office in Athens, Greece.

SwissMARINE INC currently owns and operates a fleet composed by one Capesize ship of 157,991dwt tones and two smaller Panamax Ships of 73739 dwt tones and 74255 dwt tones respectively.

The first ship of the company and mainly its benchmark is the M/V Aeolian Glory(built in 1999) which is owned by a single-ship company named Akamas Navigation Ltd with country of registration Cyprus. The ship is a Capesize of approximately 157,991 dwt tones with a Cyprus flag and it was acquired by Swissmarine INC in 2007 and from then until today is under a 4 year time charter. The ship was financed for the 80% of its value by a bank loan from DSB Bank and the remaining 20% was financed by shipping company's cash reserves .Financing the ship through bank loans in such a percentage (80%) of it's asset value was achieved due to the good condition of the market during the year 2007.

The second ship of the company is the M/V Aeolian Spirit(built in 1999) owned by a single- ship company named New Light Shipping Co Ltd with country of registration Cyprus. The ship is a Panamax of approximately 73,739dwt tones with a Cyprus flag, acquired by Swissmarine INC in 2008 and from June 2008 until November of the same year was under a time charter with Norden, then it was chartered by Armada for one year until the November of 2009 and then it was chartered by Deilemar until today . The points that need attention to the chartering contacts of this ship are the time charter strategies followed by the company and the first class charterers. The differences of these time charter contracts with the previous ship are justified by the exact period that the ship was acquired. More specifically the acquisition of the ship in 2008 didn't leave a lot of options for the time charter contracts as time charter contracts in that period should be short term in order to take advantage the peak of the market and it's positive changes that could lead in more profitable contracts. As it will be explained further these kind of strategies were followed due to the condition of the market that particular period. The ship was financed for the 80% of it's value by a bank loan facility from DSB Bank and the remaining 20% was financed by the shipping company's cash reserves.

The third ship of the company is the M/V Aeolian Breeze(built in 2001) which is owned by a single- ship company named Arktis Breeze Shipping Company with country of registration Cyprus. The ship is a Panamax of approximately 74,255 dwt tones with a Cyprus flag and it was acquired by Swissmarine INC in 2008. The ship was chartered in the beginning from Brave maritime from July 2008 until November of 2008 when it was chartered by Klaveness until the February of 2009, then it was chartered to NYK for only one voyage and in March of 2010 was time chartered by Practica until today. The chartering strategies that were followed for this type of ship are almost similar with the M/V Aeolian Spirit with the difference that the M/V Aeolian Breeze has been put also in spot market during the crisis period. The ship was financed for the 80% of it's value by a bank loan facility from Emboriki Bank in Greece and the remaining 20% was financed by shipping company's cash reserves.

The description that was done above is targeting, in introducing briefly the strategies of the company that were followed for each ship during the pre-crisis period and during crisis period in order to view and explain the contribution of each one to the profitability and the ensurance of the company's earnings.

5.3 Strategies during the period 2007-2010

Sale and purchase strategies

This part of the analysis of the case study is trying to make a description of the basic sale and purchase strategies of the company during the pre and crisis period.

The company until 2007 was not fully oriented in the dry bulk sector as it was owning and operating also gas carriers, simultaneously with the dry bulk vessels. Due to the good market and the good probabilities for the increase of the BDI index and the raise of the freight rates, the company sold all its vessels in a period where the company could achieve very high prices for old vessels - as the freight rates in the end of 2006 and in the beginning of 2007 were going only up creating an environment of optimism where the majority of the shipowners were searching for vessels in order to take advantage of the good market cycle and make huge profits. The company took advantage of this good market and chose to sell all of its old fleet to favorable prices and make a profit, a factor that enhanced the finance in 2007 of second hand ships with an average age of 11 years, which gave the opportunity to achieve better freight rates as the old ships for every company are not considered so profitable as the relatively new ships.

Thus, Swissmarine INC makes a renewal of its old fleet during the pre-crisis period achieving very good prices by discarding all its old fleet, an action that will enable the company a) getting very good freight rates from the purchase of relatively new ships and b) avoid paying huge amounts for the maintenance costs that these old ships had.

During the period 2007-2008 Swissmarine INC due to the upward of the market and after the sale of its old ships (in favorable prices) decided in different phases the acquisition of 3 second hand ships relatively new but quite expensive in comparison to the prices of 2010.

In a few words the sale and purchase strategy during the pre-crisis period had mainly to do with the sale of the old ships in favorable prices and the purchase of second hand ships at very high prices, with an average age of 11 years, in order to take advantage of the upward cycle of the BDI Index and the future developments of the market.

Motives for the sale strategy during the pre crisis period(2007-2008)

- A) Very high prices for old ships
- B) Medium daily earnings produced by old ships(in comparison to the freight rates achieved by younger ships)
- C) Considerable maintenance costs
- D) Finance of the relatively new fleet

Motives for the purchase strategy during the pre crisis period

- A)Renew of the fleet in order to take advantage of the upward cycle of BDI
- B)Higher freight rates
- C)Reduce of maintenance costs

In relation to the sale and purchase strategies of this particular company during the period 2007-2010 the focus was in second hand ships with an average age of 11 years.

Chartering strategies 2007-2010

Very close to the peak of the market and more particularly in 2007 the company makes a deal for the acquire of a relatively new Capesize vessel(M/V Glory) which puts it directly into a 4 years time charter until today. This chartering strategy may haven't proven a very wise option for that period where the BDI and the freight rates were continuing to go up but they managed to achieve a considerable hire rate for that period despite the fact that the freight rates even doubled the next year. In the first place this strategy was considered as a wrong move due to the fact that they didn't put the ship for a one year time charter and then could achieve even higher freight rates but in contrast to this assumption this long term chartering strategy has been proved the wisest option for the ship as after one year and the peak of the market we have the severe decline of the index, followed by the decline in freight rates. This downturn of the market didn't affect the ship which even in June 2010 where the market reached it's bottom reaching the 1, 700 units was still taking as a hire 3 times higher than the rates existing that period in the market. In other words it wasn't affected by the crisis in shipping market ensuring the profitability in a very bad market.

The success of this chartering strategy may be attributed to the period when the ship was acquired. The market wasn't at it's peak but it was going up and an environment of optimism was initiating the acquisition of new ships by the shipping companies. It's acquisition in 2007, just one year before the peak of the market in

2008 led the management of the company, who wasn't expecting the boom of the market in 2008, to a wise and a profitable for that period decision to put it in a 4 years time charter with a respectable level of freight rates but not with the highest during 2007-2008. This chartering strategy can be criticized by three different views. The first view has to do with the particular period, when the time charter was conducted and which was for 4 years. This year (2007) the market was in a quite high level, the freight rates was following this trend and the expectations for the future direction of the market were positive but not expecting this peak of the market (in 2008). Thus, as a conclusion of this first view the placement of the ship in a 4 years time charter contract, with this level of freight rates was a smart and wise option. The second view comes in conflict to the previous one, supporting that if the ship was hired under a one year time charter agreement in 2007, she could get a higher hire in 2008. This kind of strategy would have been in a short term more profitable but in the long term, with the collapse of the market would lead to the total failure of the strategic management implemented by the company. The third view which is the concluding of these three views declares that despite the fact that in a short term basis with the chartering of M/V Glory in 2007 under a 4 years time charter they lost the over profits that the peak of the market produced for the shipowners, the company was protected for the two years of the crisis and it is still making quite respectable profits. The strategy declared in the second view would lead to overprofits or to the total collapse and it is considered the most risky option and proved that if it has been chosen from the company it would be catastrophic.

Despite the fact that the chartering strategy implemented for the M/V Glory proved the key success strategy for the company it is essential for this analysis the description of the chartering strategies and for the other ships.

As mentioned above one of the basic strategies that really protected and enabled the shipping company to enhance its plans for the further expansion of the fleet and its potential renewal was the chartering strategy of the 4 years implemented in a relatively good period, ending after a very bad period of the market, leading completely to the exit from the crisis. As the other two Panamax ships of the company(M/V Aeolian Spirit and M/V Aeolian Breeze) were acquired in the peak of the market the options for the chartering strategies weren't so wide in range. The expectations of the shipping company were very positive for an even better market and their first choice was to put them in a time charter of six months in the first place in order to achieve higher rates, betting in an additional peak of the market in the near future. With the BDI index started falling after July and with the signs of a downturn of the market the strategy of the shipping company was to place them in time charter contracts not exceeding the one year as there was always the expectation in every point of the cycles between 2008-2010 of the recovery of the market. Thus, by placing in a very bad market the ship in a time charter more than 1 year isn't profitable for the company as the level of the freight rates it's too low and the purpose of the time chartering in such a low levels, for one year isn't the profitability of the ship but the ensurance of covering its operation costs and its debt.

In addition to the previous chartering strategies during the crisis period, we have to add that the shipping company also tried to operate in the spot market. This tactic in a crisis period has to do with operating the ship for a certain period under voyage chartering contracts for the purpose of monitoring the market and its possible evolution (upwards or downwards) in order to make a decision about the next potential time employment of the ship. The same strategies are planned to be followed after the end of the 4 years time charter contract of the M/V Aeolian Glory in order to monitor for a while the market and its changes, in order to decide the size of the period under which the next time charter of the ship will be.

In addition to the previous strategies we have to add that one of the chartering strategies followed by Swissmarine Inc is the direct continuation of existing charter contracts. This strategy was followed due to the existing bonds between the company and the charterer (especially when the charterer is a first class charterer) and the trust between them as concerns the quality offered by the shipping company and the quality of the charterer regarding its ability to cover all its financial obligations. The direct continuation achieves the employment of the ship without any further negotiations being a profitable chartering technique especially in periods where the market is not at its peak.

The key chartering strategies (2007-2010)

- A) 4 years time- charter contract just before the peak of the market
- B) Time charter agreements under one year (max 13-15 months) due to the low levels of freight rates (2009-2010)
- C) Spot market for a small period of time in order to monitor the market
- D) Direct continuation of existing time charter contracts

The conclusion from the above mentioned critical elements of the chartering strategies followed in a pre and crisis level is that they depend only on the market levels and the timing during which they prefer to put the ships on a charter. The acquisition of the ships with a difference of one year led to completely different strategies with the time charter agreement of the 4 years the key strategy for the exit of the company from the crisis. In addition to this we have to add that the chartering procedure that constitutes the chartering policy of this small size company is the time charter contracts ranging from 1 to 4 years.

Finance strategies 2007-2010

The 3 vessels of the company were financed before the crisis period by a bank loan facility covering the 80% of the value of the ship from three very reputable banks in terms of shipping loans. The 20% of the ship's value was covered by company's cash. Due to the fact that the loans were contracted in a very good period the percentage of the bank loans was quite high in terms of the ship value. Due to the fact that the M/V Aeolian Glory achieved just before the crisis period a 4 years time charter no real problems were appeared during the period of the repayment of the loan until today. The other two ships, the M/V Aeolian Spirit and M/V Aeolian Breeze

were acquired in a period where their values were in the highest level due to the peak of the market and they didn't get very good hire rates the coming two years in order to achieve the efficient repayment of the loan.

In such a case and in a very bad market as it is the one of 2010 the strategy that was followed by the company was the restructuring of the loans (Swissmarine Inc, 2010). By this term we mean the change of the terms of the existing loans by direct negotiations with the banks.

The most popular and usual method of this restructure of the loan is by the lengthening of the loan and its repayment period for more years than it was settled in the beginning. Usually the lengthening of the payback period is for making smaller the installments paid by the shipowner every 3 or 6 months and in certain cases these negotiations for this kind of the restructuring of the loan can cover even the operational life of the ship (Swissmarine, 2010).

In addition to the previous method, the restructuring of the loan can even have the form of a situation where the banks grant a period of grace to the company for the payback of their loans, which will be covered in the end or in the middle by a balloon payment.

The disadvantage of this finance strategy during the crisis period has to do with the increase in some cases of the interest rates in order to lengthen the period of the ship's payment (Swissmarine Inc, 2010). By this we mean the hedging with settled interest rates which gave the o

The company's strategy in order to reduce its exposure in risk has to do with the implementation of hedging strategies in lending (Swissmarine INC, 2010).

The key finance strategies during 2007-2010

- A) Restructure of the loans and renegotiation with banks
- B) Lengthening the payback period of the loan
- C) Period of Grace with balloon payments
- D) Hedging with loans

Operational strategies

Concerning the operational strategies that may reduce the exposure in crisis periods, they have to do mainly with cost reduction strategies. As the shipping industry is operating in good cycles as well in a cost reduction basis the differences of these operational strategies during the crisis period are limited. Despite this fact some efforts were done during the last two years(2008-2010) for the further reduction and minimization of the operating costs but always in fields which do not affect the safe operation of the ship(Swissmarine Inc,2010).

The fields where gradual developments in terms of cost reductions occurred are :

a)the dispatch of the spares and the provision of engine and deck stores to the ships

b)The manning expenses for the repatriation of the seafarers

c)The maintenance costs **only** in cases where it can be temporarily postponed and not cancelled completely.

d)The expansion of the fleet with ships of different sizes

Dispatch of Spares and provision of engine and deck stores

The most important field where daily reductions related to costs can occur and mainly a cost minimization during crisis period can be implemented has to do with the dispatch of the spares needed onboard. In this point has to be mentioned that these strategies are usual in companies and during periods of time where the market is good but especially in this crisis period supplementary effort is done in these fields through their optimum organization in order to reduce the budget(Swissmarine Inc,2010).

Related to the dispatch of the spare parts that are needed for the technical operation of the ships the following strategies have been implemented during the crisis period. In the case where the spare parts are essential for the seaworthiness of the ship the spare parts are sent to every port without considering the factor of cost, due to the fact that the safety of the crew and the ship are above every cost aspect. In the case where the spare parts are not needed immediately from the ships the strategy from the company in order to reduce the costs is try to use ports where the custom clearance procedures are not time consuming and costly as there is the chance that the spare parts due to these procedures not to be delivered on the ship before her departure .This situation would cause extra transportation costs for the dispatch of

the spares to the next port of call of the ship. In addition to the previous it can be added that the norm in the company to reduce the costs of the dispatch of the spares is creating big orders and not sending individual parts as this procedure is more costly.

An example for the support of the previous statement has to do with the choice from the company, during the crisis period, of the port where spares which aren't so important for the seaworthiness of the ship are sent. For this reason they (Swissmarine INC) avoid sending spare parts to Chinese ports due to the complicated clearance procedures and the compulsory use of transit trucks for the delivery of the spares onboard. This element causes a lot of extra costs for the shipping company in these ports. In cases where it is applicable and the spare parts are not essential for the seaworthiness of the ship the strategy in order to reduce the budgets can be summarized in the above three characteristics (Swissmarine Inc,2010).

The key dispatch strategies during 2007-2010

- A) Choice of main ports with no complex custom clearance procedures
- B) Efforts for the Dispatch of big orders
- C) Reductions request and renegotiation of terms with forwarding companies
- D) Choice of ports where no extra special transport means are needed compulsory for the dispatch of the spare parts(China)

Manning expenses

The cost reductions and the implementation of strategies in the manning expenses have to do with two categories. The first category refers to an effort related to the reduction of the overtime expenses payable to the seafarers. This reduction is achieved by the postponement of trivial jobs and not related to the safety and seaworthiness of the ship for hours and days that are not considered as overtime and are paid like this (Swissmarine Inc, 2010).

The second category where we have the achievement of reduction especially in the crisis period has to do with the manning expenses related to the repatriation of the seafarers (Swissmarine INC,2010). The company is making efforts to repatriate the seafarers in ports that are closest to their country of origin in order to achieve discounts related to the voyage expenses.

Maintenance costs

The contribution of maintenance in cost reduction strategies cannot be considered as a considerable factor in cost reduction during crisis periods(Swissmarine Inc, 2010). This is due to the fact that changes in the maintenance schedule and programme isn't so easy to be done due to the a) port state control which doesn't allow the deviation of the ship from proper maintenance and b) the bigger damages that can be caused to a ship in case of long term postponement of essential parts of the ship.

Thus, the maintenance schedule didn't change through the crisis period but there was done an effort through monitoring and checking in a frequent basis all the mechanical parts for the postponement of certain procedures. The monitoring is done through frequent audits related to the hours of the operation or through regular checks of the quality of lubricants and oils (Oil samples). In case these parts of the ship are considered in a good condition, despite the specification of the manufacturer can be postponed for the present time but not for a long term period.

This is an effective technique as concerns the reduce and postpone of the maintenance costs especially in difficult periods of the market.

From the side of the supplies of provision stores, deck and engine stores and bunker and lubricants a proper schedule is taking place for the reduction of these costs. More analytically the company is trying to cover all it's needs for this kind of stores in main ports where they can get better prices and more options related to the variety and the quality of this kind of stores. In this case they are making an effort to supply the ships in main ports with cheap prices and they are making a programming so that these supplies can cover the need of the ship in a long term basis, for the avoidance of their next supply in expensive ports (Swissmarine INC, 2010).

A technique used in the crisis period had to do with the postponement of the payments of the suppliers. Through negotiations with the suppliers, the shipping company achieved the expansion of the payment period of the invoices achieving better terms and reductions that would prove very significant for a shipping company in a crisis period.

Case study 2: Diana shipping

5.4 The company-Short Description

The second case study is realized in order to be achieved a comparative analysis between the strategies implemented by small shipping companies and big shipping companies in relation to their operation in same types of markets and during the same period.

For the purposes of this type of the analysis it was chosen a reputable dry bulk shipping company which successfully completed it's initial public offering on 23rd March of 2005 in the New York Stock exchange.

The profile of the company is related to a shipping company providing transportation worldwide in different routes and consisting of eight Capesize type vessels, fourteen Panamax vessels and two newbuildings of a specific Newcastlemax vessels which will be delivered in 2012. The average age of the fleet of this company is 4.8 years giving a competitive advantage of the company which managed to renew it's fleet with new vessels which will enable them to get better rates in a good periods.

The major differences between this shipping company and Swissmarine Inc is focused in three different factors. The first factor has to do with the size of each company as Swissmarine Inc owns and operates a fleet of 3 ships while Diana shipping has a portfolio of 22 ships operating and 2 under construction which give them, as we will describe in the following paragraphs, flexibility in the chartering techniques that they will chose and implement.

The second difference is concerning mainly the average age of it's fleet as Swissmarine's fleet is 11 years, Diana shipping owns and operates a fleet with an average age of 4,8 years giving them a competitive advantage related to the hire rates that they can achieve and the maintenance costs that they will have to face.

The third difference that is mainly affecting the difference in their strategies has to do with the existence of a strong balance sheet in Diana shipping in comparison to a Swissmarine Inc(due to the difference of their shipping portfolios). This balance sheet gave the chance to Diana shipping to further expand it's shipping portfolio in new markets (Containerships) with the founding of a new subsidiary company named Diana Containerships.

The three factors mentioned in the above have different impact to the way they plan their a)Chartering procedures b) Their finance strategies and c)their investments during the crisis periods.

5.5 Differences in chartering procedures

The main difference in the chartering strategy followed by Diana shipping in relation to Swissmarine INC is attributed mainly to the ship portfolio that it owns and operates. In more words the ownership of a portfolio of 22 ships gives to the company (Diana Shipping) the opportunity to operate more in terms of a corporate and not as a traditional shipping company. This situation eliminates the risk of losses due to severe changes in freight rates, by implementing physical hedging and not risky financial instruments that may lead to their collapse in bad markets.

Diana shipping is placing their fleet on a time charter basis but not in relation only with the levels and forecasting of the BDI index. They implement a physical hedging by chartering their ships in different periods and not all their portfolio to the peak or to the lowest level of the market. In others words they spread their ships in different time periods and different levels of freight rates and not putting them all in the same period under time charter. By this technique from one hand they lose the overprofits that they can appear in a certain cycle but from the other hand they protect their elves from bad markets. This chartering procedure through physical hedging offers the capability of being more flexible and profitable even in markets that the BDI Index is at it's lowest point because even if they lose from certain chartering contracts of their ships, with this type of hedging they win from others. This enables to be kept a balance and the sustainability of the profitability of the company , the renewal of it's fleet and the strengthen of the balance sheet and liquidity.

In comparison to this chartering technique Swissmarine Inc bases it's options to the changes of the BDI Index an inevitable strategy due to its small number of ships. On the other hand Diana shipping with the hedging of it's fleet is managing to protect from positive and negative severe changes to the market.

5.6 Differences in finance procedures

The differences in this particular sector are quite obvious due to the different sources of finance chosen by these two types of companies. More particular Swissmarine Inc bases all it's investments and finance portfolio exclusively on bank loans and cash reserves (80% bank loans-20% cash reserves). Due to crisis period where the terms and the liquidity from banks isn't present it is very difficult huge investments and even new plans related to newbuildings to be realized .On the other hand Diana shipping through it's public offering, manages to concentrate funds from the investors for the realization of it's investment plans and taking advantage of the low prices during recession periods. Thus, it has access to one more, efficient type of finance, offering to the company a strong spring of liquidity even in bad cycles.

5.7 Expansion in different markets

A greater difference between these two companies can be attributed to the fact that Diana shipping during the crisis period managed, with a strong cash flow, liquidity and with the contribution of investor funds to further expand in new markets different than the traditional dry bulk market.

In reference to the previous statement, Diana Shipping through the creation of a subsidiary company(Diana containerships Inc) proceeded to the acquisition of two newbuilding containerships of 3,400 TEU's. This move is a new characteristic for this shipping company which was operating only in dry bulk market where it had the competitive advantage . This strategy is related to the continuing downturn that the dry bulk market is experiencing and the upward cycle in liner industry that is expected after a very bad cycle. Diana shipping is trying to take advantage of this new opportunity and reduce it's risks from downturns in certain markets.

This example of Diana shipping cannot be followed by Swissmarine INC due to the lack of the necessary funds and due to it's size. From these two factors the most significant and preventive factor for the further expansion of Swissmarine in different markets than the dry bulk during the crisis period is the cash flow of the company and the lack of support from other investor funds

5.8 Conclusions

Reaching this analysis its end, the conclusions about the significance of every strategy are extracted, positioning the chartering strategies, the finance strategies and the choice of operating in different markets in the highest level.

The type of chartering strategy adopted by the shipping companies and their success is related closely to their size of the fleet due to the different capabilities that a large fleet can give to a shipping company. Analytically the key strategy for the small shipping companies has been the long term time charters just before or at the peak of the market and the short term time contracts during the crisis period.

The long term charter contracts enabled the small shipping companies to take and lock high rates just before the burst of the crisis giving them the opportunity to exit from this difficult period without facing any problems and more particularly without experiencing the downturn in the market.

The short term contracts during the crisis period gave to the companies the opportunity from one point to operate their ships and not proceed in lay up and from the other point the chance not to lock in time charter contracts with low freight rates for an extended period. In other words with these short term time contracts (under 15 months) in a bad period they manage to operate their fleet, pay their debts and having the ability to take advantage of the future upper cycle of the market.

In big companies the chartering strategies are the key point of their survival as well, but in a different way. They have the ability to use natural hedging both in chartering procedures and both in market segmentation. A large company owning a fleet of more than fifteen vessels is choosing physical hedging of its shipping portfolio taking advantage of the “bad” and the good points of the market cycle and achieving employment for its ships for a variety of different levels of freight rates giving them the opportunity to be protected for severe changes of the BDI index.

In addition to this, the expansion in different types of markets enables them to perform also a second type of hedging as they reduce the danger that they can face from a bad market (for example the dry bulk market) by also operating in different markets (for example in container market). They try to spread their shipping portfolio in different markets so their risk is reduced than in operating only in one market . and balance the losses that one market can occur with the profits produced by the other.

Concluding we cannot characterize all these strategies and compare them by stating that the one implemented from a small company is smarter strategy than the one implemented by the bigger company or that the size of the large company gives more chances to be stronger than a small company and survive the crisis. In contrast to all these we can state that both the two companies showed their responsiveness to changes by adjusting their strategies to their size and capabilities eliminating the risk of collapsing and surviving through the crisis.

In other words the Darwin's statement through this thesis proved that it can be implemented also in shipping industry, being the core for every company that is trying to survive in crisis periods.

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