The start of a new year is a good time for both reflection and forward thinking. This edition of Transport Perspectives contains two articles which do just that.

In the first article, Eleanor Winton looks at the increased ability of social media to improve trust between consumers and businesses in the transport sector.

In the second, John Luke reviews the challenges which faced the shipping industry in 2012 and looks forward to the year ahead.

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Less ‘mass’ and more ‘me’ – the future of mass transport in a connected world.

Eleanor Winton, Manager - Innovation and Foresight

Our increasingly connected world means a strategy for effective and timely communication with customers and the wider world is more important than ever. At a time when public trust in CEOs has fallen dramatically\(^1\) and governments around the world are seeing a similar decline in trusted status\(^2\); the public are turning to media, and more specifically social media\(^3\), to provide them with the information they need. This article looks at a number of examples of the use of social media from across the transport spectrum, both effective and ineffective, and seeks to identify the key aspects of a successful social media strategy.

Crowdsourcing inspiration and increasing sales
Social media creates a platform through which your customers can help you to better tailor your product to their needs. What’s more they’ll do it for free and be grateful to you for the opportunity to contribute. This might feel like an approach that’s better suited to product led industries or Fast Moving Consumer Goods (FMCG) companies but it has been used very successfully by some big transport players.

The popular internet news and blogging site mashable.com recently recognised Eurail, long time providers of interrail tickets to students and young adventurers, with an ‘internet Oscar’ for its interaction with customers via social media. In fact, Eurail describes its customers as ‘travel fans’ rather than simply ‘passengers’. Managing Director Paulien Pierik says ‘Facebook is a great platform to bring together travellers from all over the globe’. Significantly, the company’s sales director Jeroen de Bruin also notes that the use of social media enables them to ‘offer better products’ that are more suited to the needs of customers\(^4\).

It’s important to note here that Eurail’s success is not the result of simply having a Facebook account. The company’s social media team is multilingual and aims to respond to every customer communication within just a few hours. Eurail staff also share their own travel experiences to better advise prospective interrailers on the right ticket and route for their journey.

Engaging with customers in such a direct way gives a brand a recognisable ‘voice’ beyond colours and logos and helps to build a relationship of trust with customers. This is an important asset to any brand in light of recent global shifts in whom and what we trust\(^5\). Genuine person to person dialogue will go a long way.

Integrating ‘social’ into your way of working
Some of the most successful brands in this space are effective because they take advantage of the characteristics that are at the core of social media platforms – speed and reach. In the transport context, speed and reach of communication are exactly what’s needed when things go wrong. As part of a management system these attributes can help both to quickly identify issues and then to pass on relevant information relating to those issues.

Cardiff Bus, which runs the Welsh capital’s bus network, has successfully integrated social media platforms into its communication framework. Since it first set up its Twitter account in 2009, Cardiff Bus has used the platform to keep customers informed of journey disruption including weather issues, traffic jams, delays and cancellations. It has also, in the same way as Eurail, used customer insights to tailor its products to customer needs.

This year, Cardiff Bus was recognised as number 45 in the ‘Authoritative Social Brands 100 List’, sharing its ranking with media giant BBC. The list is put together annually by marketing website www.brandwatch.com and agency Headstream to identify ‘social brands’ which meet three key criteria:

- **Win Win Relationships** – not simply communicating a better brand but striving to be one.
- **Active listening** – monitoring the social web and having the resources in place to respond in a timely manner.
- **Appropriate social behaviour** – providing a true, authentic and compelling brand presence that is appropriate to the social media context.

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1. Edelman Trust Barometer 2012. Trust in CEOs fell by 12% between 2011 and 2012, the largest decline for this measure in barometer history.
2. Edelman reports that trust in a government official or regulator has fallen by 14% in the last 12 months.
3. Edelman reports that trust in social media is up 75% on last year’s barometer results.
5. Edelman’s 2012 Trust Barometer also highlights a shift in trust towards ‘a person like myself’, up 22% since 2011.
In fact, Cardiff Bus is not the only transport success story in this year’s rankings. Independent East Midlands bus company Trent Barton also received a nod for its Facebook presence, so it’s clear that an internationally recognised brand is not a pre-requisite for success in the world of social media.

Communicating at speed
Whilst speed can be used to advantage in communicating with customers, it can also cause significant damage when it works against you. In the digital world a message can be easily spread across borders before journalistic standards of veracity have been applied to the information in question. Australian airline Qantas is well known for its safety record, never having lost a plane in its near 100 year history. However, they experienced the misleading potential of social media after an in-flight engine problem caused debris to fall onto Indonesian island Batam. A local there immediately took a photograph of a piece of debris and shared the picture on Twitter suggesting that a plane had crashed, which was clearly not the case. By the time the flight landed in Singapore, the story of a Qantas ‘crash’ had been picked up by Reuters, Fox News and CNN. Within 13 minutes of the story breaking, the airline’s share price started to drop. If entirely inaccurate information had not been gleaned from Twitter, the airline would have had more control over the communication and accuracy of the story.

US budget airline JetBlue demonstrated the power of the fast response after one of its pilots suffered a breakdown during a flight from New York to Las Vegas. Passengers quickly posted footage of the incident on video sharing site YouTube and of course on other social media platforms. JetBlue responded quickly (their blog page was dedicated to the incident the following day) and with great sensitivity to the pilot and his family whilst simultaneously answering the specific questions posed by passengers and others. Their quick response contained the situation and limited the impact of the incident.

Use of social media across the transport sector is currently mixed. Inevitably it will take some time to understand which approaches work best for each brand and customer. However, the examples above clearly demonstrate that there is no one right answer. What is clear is that customers are increasingly turning to social media as a means of sourcing information, deals, updates and dialogue in determining which brands they use.

So, where communicating the truth is concerned, speed and accuracy is essential. If you don’t have the ability to get the right story out fast, you’ll be open to reputational damage and potential financial consequences. Similarly, if you’re not monitoring what others are saying about you, you may miss out on an early opportunity to set the record straight.

It’s time to stop seeing social media as an extension of marketing and to start using it as a tool for running your business.

6 The full top 100 brands can be viewed at http://www.socialbrands100.com/.
7 http://www.reuters.com/article/2012/03/29/us-usa-crime-jetblue-pilot-idUSBRE82R1GF20120329
Shipping in 2012 - what a year!'

John Luke
– Global Head of Shipping

The twelve Olympian gods may have smiled on London 2012, but Poseidon ensured it was another stormy year for the global shipping sector.

A difficult year in the Dry Bulk sector
In Dry Bulk the Baltic Dry Index (BDI) averaged just 920 points – its lowest annual average since 1985 and 1986 when it started. These levels equate to daily time-charter equivalents of around $7,500 for a capsize vessel (versus break even of around $15,000 to $20,000). This situation was largely self-inflicted – global seaborne demand for dry bulk grew by almost 25% since 2008, but the fleet’s capacity grew by more than 65%.

Tankers fared little better – although arguably slightly improved on 2011. The prolonged recession in the Tanker market took its toll with a long casualty list of big names: Torm, OSG, General Maritime, Eitzen, Omega and Berlian.

1 Baltic Exchange http://www.balticexchange.com/
Laju Tankers to name a few of those undertaking some form of restructuring. Even Maersk and Frontline returned to losses in the later quarters of the year. Suppressed demand recovery and over tonnage had the same impact on freight rates as the dry sector. The consequent impact on asset values can be seen in the graph below. It tracks the aggregate market value of the 400 Very Large Crude Carriers (VLCCs) less than 10 years old.

John Fredriksen is quoted as saying there are 200 tankers with values only $10m above their scrap. Managing overcapacity in this sector is further hampered by the fact that the major oil corporations are reticent to use equipment that was previously laid up, and are in fact themselves contributing to overcapacity by ordering more now whilst yard prices are suppressed.

Liners show some recovery but the outlook is still uncertain
The Liners sector recovered somewhat from the rate wars of 2011 by cooperating to better manage capacity and resisting the temptation to drive prices down by chasing market share. They are also undergoing a major restructuring of the global fleet in the face of uncertain demand for manufactured goods in Europe and the US. Responding to suppressed rates and increased bunker fuel costs, they have embarked on a drive for bigger, more fuel efficient vessels, with 110 new ships over 10,000 Twenty-foot Equivalent Units (TEU) expected to be delivered over the next three years³. However as demand faltered in the run up to Christmas, 6% of the global container fleet lay idle⁴ and some lines pulled more Asia-Europe sailings from their schedules at the very time they should have been at their busiest.

Overall in 2012, the world’s shipyards produced more tonnage – 168 million Dead Weight Tons (DWTs) – than ever before and a further 100 million DWTs could hit the water this year⁵.

A continued shortage of capital
Unlike many previous downturns in the shipping cycle, running alongside these sector woes since 2008 has been a continued shortage of capital from the European banks. For so long they have been the main source of shipping capital. However, their own sector woes and restructurings have forced a rethink amongst the biggest – 2012 saw Commerzbank announce its intention to withdraw and significant portfolio sales by Lloyds and Societe Generale. In Germany, banks have significant amounts advanced to the sector. The European banking sector has been forced to consider where to allocate its sparse dollar capital and with limited debt servicing and sliding asset values, dollar intensive shipping no longer appeals in the same way it did when a Capesize could earn $200,000 per day. Having waived loan to value covenants for some time, banks have been forced to respond to individual stress caused by prolonged cash losses, new build stage payment commitments and refinancing requirements. Increasingly they should also react to the flight to bankruptcy protection by owners and operators seeking to recalibrate their businesses whilst maintaining control.
Banks are also reappraising their portfolios to understand which core long term businesses they wish to pursue, and those which can be packaged and sold on without inflicting too much damage to the income statement. Asia – particularly Chinese and Korean Export-Import banks – have to some extent increased lending, but generally to date only for new ships under construction in their own yards or for deployment in their own carriers’ fleets. Private equity has also shown an interest but, beyond buying very cheaply, struggles to see the 20%+ returns and probable exit opportunities over their usual investment horizons. These are depreciating assets and the risk of obsolescence is probably higher than it has been for a long time.

Moving forward
Whilst there is scope for corporate restructuring and consolidation in certain areas, such action rarely addresses the fundamental sector issue of overcapacity – there are currently too many ships. There is some evidence that scrapping will increase – driven by increased Asian capacity for scrapping, a decent steel price and of course the limited prospects of employment for older less efficient tonnage. What’s more, despite the reconfiguration drive for more efficient tonnage and the availability of Asian capital, the overall order book has stopped growing and hence the rate of fleet growth should moderate across the sector.

Of course some bright spots of demand exist. The prolonged high oil prices of recent years (a fourfold increase in the last ten years) may have dealt a blow to bunker costs. However, it has also driven an unprecedented demand in offshore (often deepwater) exploration and production. This is good news not only for the rig and drill ship sector, but also for off shore supply vessels, shuttle tankers and the like. Indeed whilst high oil prices may suppress demand for the commodity, shifting patterns of production, consumption and, most importantly, refining, are changing shipping patterns for both crude and product. The tonne mile demand for crude being shipped eastwards from the Atlantic Basin to the Chinese and Indian refineries in the Pacific is one of the few forecast bright spots in the wet sector for 2013. In containers, the continued development of the Intra-Asian and North-South trades is acting to some extent as a counter to depressed trans-Pacific and Asia-Europe trades. However the extent to which tonnage can cascade to different trades once replaced by modern ships remains to be seen.

Ports and land side infrastructure continues to attract investment despite the over-congestion of the period to 2008 having now abated in many areas. Significant investment is needed in developing areas such as Brazil, Africa and Asia to increase capacity (both containers and commodities) and in Europe and the US on new quays, cranes and dredging to handle the new mega carriers.

Marginal improvements in all of these factors could see the worst of shipping’s overcapacity soaked up as early as 2014. However few investors appear ready to back that bet. Perhaps of more significance will be the actions of the banks and their willingness to continue funding or to exit a price at which the capital can recycled. Moreover, restricted capital for new buildings is probably not a bad thing given the current overcapacity. Either way, we expect to see yet more financial and operational restructuring throughout 2013.