

Executive summary

Extract from Brave new world?
Container transport in 2043

The container transport industry has been at the centre of the incredible expansion in international trade since the 1950s. Commercialised in 1956, the container's simplicity and modularity has made it the mode of choice for the transport of many goods from one place to another: containers today transport 23% of dry seaborne trade tons (and close to 100 percent of everyday goods like televisions, toys, and clothing). Consumers have benefited enormously as the real cost of transporting goods has fallen. However, the success of the container has not always meant the financial success of the industry behind it. Returns for the average container liner operator, container terminal operator, or freight forwarder have lagged the cost of capital over the last two decades – and only a select few players have managed to find a sustainable recipe for value creation.

Will the future be any different? In this joint research project between TT Club and McKinsey & Company, there were some points of broad consensus about the next 25 years: the physical aspects of the industry (containers, terminals, ships) are unlikely to change; trade flows will become more balanced between and across regions; automation will be broadly adopted; digital, data, and analytics will fundamentally shift the sources of value creation; and the industry-leading players of 2043 may well look very different from today's leading companies (though they may be the same or similar companies).

At the same time, meaningful questions were raised about:

- The future of trade growth – e.g., globalisation and trade policy, Asian industrialisation, the geography of manufacturing with robotics and 3D printing, containerisation trends, and evolving consumer habits
- What the real sources of value creation might be going forward – e.g., scale, flexibility, consolidation and integration, productivity, more predictable supply chains, environmental performance
- Who “wins” – e.g., how can today's industry leaders evolve to capture the opportunities, will players become more vertically integrated, or will “digital natives” including start-ups and/or e-commerce firms reshape the industry

In the absence of foreknowledge, we can only imagine various futures and the implications of each. We posit four possible futures:

- **Digital disruption** is a world in which the current industry is disrupted by new players who leverage digital, data, and analytics to optimise the end-to-end value chain
- **Digital reinvention** envisages that the current industry digitises aggressively and provides new value-adding services to its customers
- **Third wave of globalisation** assumes other economies, like India and Africa, realise their manufacturing and export potential, while digital reduces friction in global supply chains and spurs continued trade growth
- **“Peak container” and consolidation** imagines a future in which trade wars, geopolitical tensions, and “near-shoring” result in the peaking and absolute decline in international trade, forcing players to further consolidate

Preparing for such a range of outcomes would be taxing for even the most agile and foresighted of companies. However, there are some “no regret” moves that industry players could make now to ensure flexibility in the future, including paying more attention to the dynamics around the end-consumer (as e-commerce disrupts retail and last-mile logistics), building organisational discipline around monitoring the “trigger points” behind different futures, and radically digitising and automating.

About TT Club

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

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

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

About Thomas Miller

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

Principal activities include:

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

Further details can be found on our website at www.thomasmiller.com.

About McKinsey & Company

McKinsey & Company is a global management consulting firm that serves a broad mix of private, public, and social sector institutions. We help our clients make significant and lasting improvements to their performance and realise their most important goals. McKinsey & Company was founded in 1926 and today has 14,000 consultants and offices in more than 120 cities. We are an advisor to many of the leading container shipping liners, terminals and freight forwarders.

You can learn more about McKinsey's services in shipping and ports at: www.mckinsey.com/industries/travel-transport-and-logistics/how-we-help-clients/shipping-and-ports.

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Note on methodology

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

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

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

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