OVERCOMING INDUSTRY CHALLENGES AND ELEVATING CUSTOMER EXPERIENCE

Karsten Kildahl, Regional Chief Executive, Europe Region, Maersk Line
2016 – decisive year for container shipping was characterised by four factors

- Financial pressures due to record low freight rates
- Subdued global trade levels – we are in the “new normal”
- More consolidation in the past two years than the past twenty
- An increased focus on the role of technology and digital in supply chains
The average operating margins of the 13 main container carriers remained negative in the second half of 2016.

Source: Alphaliner, Volume 2017, Issue 15
Triggered by low profitability, consolidation has picked up unprecedented pace – and we could potentially see more...

• Consolidation wave is rolling again – 8 top 20 players have disappeared in 2 years
• Top 5 market players accumulate higher collective market share than ever before
• Many carriers’ balance sheets are unhealthy, having been impacted by the rate war. Improvements are necessary to safeguard stability
Unless industry profitability is restored, we find it hard to imagine that further consolidation will not take place...
Maersk Line has participating in this consolidation trend by announcing our intention to acquire Hamburg Süd

Disclaimer: The proposed transaction is subject to regulatory approvals. None of the information provided in this presentation should be construed in any way as a representation or undertaking with regard to the position to be adopted by Maersk Line

Note: Illustrative network
Source: maerskline.com and hamburgsud.com
Less is more! Fewer, but larger alliances are forming a new shipping landscape for our customers – especially in Europe.

Consolidation as much needed impulse for improving industry profitability.

Fewer networks prompt customers to be increasingly deliberate about their carrier portfolio.

Tighter partnership between carriers and customers are necessary to unlock mutual benefits – beyond zero-sum items.
For exporters from Europe there is another trend that needs to be considered – periods with space constraints.

Source: CTS
Exports to Asia from Europe are outgrowing imports from Asia, and we expect this trend to continue.

- Between 2010 and 2016 the Eastbound trade has grown by 4.6% YoY on average while Westbound has grown 2.0%.
- The Eastbound trade is expected to significantly outgrow Westbound in 2017, partly driven by the strong start to the year.
- Future trend: Eastbound is expected to outgrow the Westbound trade across North Europe and Mediterranean.

Source: CTS, based on latest numbers until and including February 2017. Maersk Line forecast.
Similarly, total European exports are outgrowing imports.

Source: CTS, based on latest numbers until and including March 2017. Maersk Line forecast.
The Europe Eastbound supply/demand gap has narrowed since October 2016

- Between October 2016 and February 2017 the Europe Eastbound supply/demand gap has narrowed, driving the significant Eastbound rate increase;
- The Europe Eastbound trade differs from Westbound via its nature of carrying a significant amount of empties and a generally higher cargo weight
- Over the past quarters we have seen a significant growth among multiple trades loading on the Europe Eastbound network

Source: CTS, based on latest numbers until and including February 2017. Maersk Line forecast
The supply/demand situation has sparked an Eastbound rate rebound.

Source: CTS, based on latest numbers until and including February 2017. Maersk Line forecast.

Europe Eastbound rate index

- Rotterdam-Shanghai rate of USD 1,723/TEU end-April

Index (2008:100)

- Actuals
- Estimate


- +24% points
What do our customers expect?

- Stability of the physical flow
- A good customer service
- Innovation
We need to keep up pace with the way customers want to do business in shipping

The customer expectation

- Ecommerce has changed how transactions and trades are done domestically and cross borders.
- Customers expect increased use of digital services.
- Various shipping and logistic portals mushroomed in China and other markets.

The industry pain points

- Unpredictable and high booking no-shows in our industry.
- The current pricing and booking practice in the industry is flawed.
- Current carriers and shippers: trust level is low, transaction cost is high and customer experience is poor.
Web-Only Product can become reality

**Product Feature**

*Price is locked when a booking is placed*
(Price calculation date = booking date)

*Down payment (*partial initially)* to secure booking and equipment

*Charge occurs for not honouring the booking*

*Penalty applies to no-shows, COV, rollings or equipment unavailable.*

**INITIAL OFFERING ON 3RD PARTY PLATFORMS WITH A LIMITED SCALE**

**AE1:** Ningbo - Shanghai - Yantian - Felixstowe - Rotterdam - Hamburg – Bremenhaven

**AES:** Xingang (Tianjin) – Qingdao – Ningbo - Shanghai - Yantian - Bremenhaven - Hamburg

**CHX:** Qingdao – Xingang (Tianjin) - Shanghai - Nansha – Chennai – Krishnapatnam - Vizag
There has been an exponential increase in technology solutions aimed at addressing evolving customer needs.
Maersk’s partnership with IBM and its block chain technology

From Kenya to Europe, the travel of these documents looks like this:

1. Kenyan Farm fills out the Phytosanitary Certificate and gives it to a Freight Forwarder
2. Freight Forwarder fills out Certificate of Origin
3. Freight Forwarder uploads both documents into the cloud.
4. Courier transports them to a consulting company to prepare and package with other import related paperwork
5. Courier that transports them to Antwerp port terminal gate
6. If documents are in order, a truck driver picks up the container
7. Transports it to a Dutch customs controlled area for phytosanitary inspect
8. Documents in order? Container released to customer
9. Consumer, Forwarder, Authorities, Shipping company, Trader, Grower
Greater cargo care visibility and enable our customers to focus on their business ambitions

Remote Container Management

- Launching in Q3
- Unique to the market
- Maersk Line customers will have greater visibility of crucial data at no additional cost, and the option to access richer / upgraded functionalities for a subscription fee

**THE RCM SOLUTION CONSISTS OF:**

1. **GPS UNIT**
2. **GSM ANTENNAE**
3. **Wi-Fi**

VSAT EQUIPPED VESSELS

- ~270 OWNED VESSELS
- + ~130 CHARTER VESSELS

VSAT is a dome installed on each vessel which transmits data gathered from the reefers to the satellite

OFFICE

Able to monitor data from 270,000 Maersk Line reefer containers

Alarm notification sent if problems are encountered

MAERSK LINE VESSELS

Send real-time data to the RCM team in the office

SATELLITE EQUIPMENT MANAGEMENT REPAIR VENDORS

TERMINALS

GPS UNIT

GSM ANTENNAE

Wi-Fi
We are building the required capabilities within digital technology and changing the way we work and the talent we foster.

- **Capabilities & people**: Mixing a new breed of talent with our world class shipping people – hired numerous PhDs and Post docs in fields such as Machine Learning, Applied Mathematics, and Operational Research.

- **Culture**: Training and using Scrum methodology; created Design Centre for facilitating agile working methods.

- **Organisation**: Separate IT and Digital organisations working directly with business product owners to unlock value.

- **Infrastructure**: All digital product development will take place on one common platform.
THANK YOU!