THE BATTLE OF THE ASIAN TRANSSHIPMENT HUBS:
PSA VERSUS PTP (B)

The market is changing very rapidly and will continue to change. In this new environment, we want to be as responsive as we can be to the new situation.

—Ng Chee Keong, PSA Group CEO

In response to the challenge the Port of Tanjung Pelepas (PTP) mounted against the Port of Singapore Authority (PSA), authorities at the port implemented several changes, hoping to retain customers and perhaps even win back lost clients. In June 2002, PSA announced a series of sweeping price reductions on its container-handling services. For a 12-month period starting July 1, 2002, PSA offered a broad 10% discount on all charges at the Port of Singapore and an additional 50% discount on handling charges for all empty containers. This reduction was in addition to the existing discounts and rebates customers might already enjoy under current terms and arrangements. The dramatic move was tantamount to PSA offering over S$ 400 million (US$ 219 million) in subsidies to its customers. Additionally, PSA announced it was willing to consider shippers’ requests to independently operate joint venture terminals at the Port of Singapore—a sharp departure from its earlier philosophy.

While the shipping industry welcomed PSA’s price reductions, it was clear that PSA could not match the low prices of other industry players. Industry observers estimated that even with all the price reductions, PSA’s prices were still approximately 10% to 15% higher than PTP’s. PSA was walking a tight rope, balancing the differing priorities of protecting earnings margins while struggling to maintain and attract customers. PSA had to send a strong signal of intent to PTP and potential challengers, while being careful not to start an all-out price war. They were taking a gamble: superior service and quality at the Port of Singapore would make up for the higher container-handling charges.

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1 Nicholas Fang, “PSA Offers Tie-Ups, Dedicated Berths to Shipping Clients,” Straits Times (Singapore), July 28, 2001.

2 Empty containers accounted for 15% of the Port of Singapore’s container-handling volumes.

This case was prepared by Jin Leong (MBA ’02), under the supervision of Ming-Jer Chen, the E. Thayer Bigelow Research Professor, Darden Graduate School of Business Administration. Some numbers in the case have been disguised. Copyright © 2004 by the Darden School Foundation, Charlottesville, VA. All rights reserved. To order copies, send an e-mail to sales@dardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet or transmitted in any form or by any means—electronic, mechanical, photocopying, recording or otherwise—without the permission of the Darden School Foundation.
Retaining Customers

In August 2002, South Korean-based Hanjin Lines spurned repeated overtures from PTP and renewed its contract with PSA. Hanjin, a PSA client for more than 20 years, said the new discounts on terminal charges and rates, plus PSA's high levels of service, made for a "very competitive" package. After PSA’s many months on the defensive, the retention of Hanjin Lines, while only contributing 0.5 million TEUs of volume, was seen as a major strategic victory for PSA. Hanjin executives were also negotiating the possibility of operating dedicated terminals at the Port of Singapore. Similarly, China’s largest shipper, Cosco Pacific, also renewed its contract with the Port of Singapore, citing the benefits of Singapore’s superior network connectivity. According to Ji Hai Sheng, president of Cosco’s Singapore operations, “We have to consider the quickest transit times for our customers, something that Singapore offers. Cost cannot be our only consideration.”

The Response

In an immediate reaction to PSA’s new strategy, PTP chief executive officer Mohd Sidik Shaik Osman told industry analysts, “A liner’s decision to consider a shift of its main hub or a part of its services from any port to another involves several different factors.” He said that rates at the terminal played a part but were not the sole determining factor. Sidik stressed that PTP’s strength had always been its agility, the absence of legacies, its ability to cater to liner needs, and a high rate of crane and vessel productivity. “It is this overall efficiency that has determined our ability to compete.” PTP did not respond with another set of price reductions but instead focused on its internal expansion and upgrading programs. After just completing the tremendously complex move of Evergreen Marine’s hub operations from Singapore, executives at PTP saw no need to aggressively grow their customer base. With the anticipated full-year volumes from Maersk and Evergreen, PTP was already assured of handling at least 3.5 million TEUs annually. The immediate challenges for PTP were not to acquire more customers, but to ramp up capacity and ensure that customers were properly serviced. With the existing client base of Maersk and Evergreen, transshipment volumes at PTP were expected to reach 4 million TEUs by 2004—up sharply from 3 million TEUs in 2002. PTP announced ambitious second-phase expansion plans to increase the port’s handling capacity to 4.5 million TEUs by early 2004.

Forced price cuts and the competition between the Port of Singapore and PTP had little impact on PSA’s working relationship in the international port operations business with Maersk. The joint venture operations in the Port of Dalian in China and the Tuticorin Container Terminal in India with the Maersk subsidiary APM Terminals continued to thrive. PSA’s senior vice-president for the Asia-Pacific, Wong Seng Chee, projected that volumes at its Dalian ports would exceed 1.3 million TEUs by 2002, making it PSA’s largest international port operation.

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5 Selva, “Price War Sparks Worries.”
very astutely been able to separate its competitive exchanges with Maersk at PTP from its joint interest with Maersk at Dalian and Tuticorin.

**Tough Decisions Ahead**

When the senior management team gathered in January 2003 for their strategic planning meeting, they faced a number of tough decisions. The price cuts, while successful in pushing back the PTP offensive, had taken a dramatic toll on PSA’s bottom line. Profit after tax for the year 2002 was down 24% to S$ 560 million in spite of a 29% rise in revenue to S$ 2,960 million (Exhibit 1). While the Port of Singapore was still viable and profitable, the battle with PTP had significantly weakened PSA’s position as the preeminent East Asian transshipment hub. PTP’s challenge had exposed certain weaknesses, notably the high costs and perceived inflexibility. The rate reductions had temporarily fixed the problem, but at the expense of operating profit. PSA’s continued growth in international port operations had contributed much to make up for the lost revenue to discounts but had little impact on the bottom line. In December 2002, Moody’s Investors Service downgraded its outlook for PSA from stable to negative, reflecting concerns about its trading environment (Exhibit 2).

PTP’s lack of retaliation gave the appearance of a hard-won PSA victory. But how long would PTP remain dormant? What would happen in 2004, when PTP completed its second-phase expansion plans and again went on the offensive for more customers? How many times could PSA afford to reduce prices if it were drawn into an all-out price war? Did the Port of Singapore need to cut its internal costs and improve competitiveness or would the increasing South East Asian trade volumes be enough to carry both players to profitability without the need for direct competition? Could PSA let down its guard at last—or should it gird itself for more competitive exchanges to come?

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6 The 29% rise in revenue was largely due to growth in overseas port operations. PSA subsidiary Hesse-Noord Natie in Belgium contributed to the PSA financials for the first time from April 2002 onwards. Performance in other overseas port projects in China, India, and Europe also saw healthy revenue growth.
## Exhibit 1

### THE BATTLE OF THE ASIAN TRANSSHIPMENT HUBS:

**PSA VERSUS PTP (B)**

PSA Group Selected Financial Highlights FY 2002

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Selected Profit &amp; Loss (S$ millions)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnover</td>
<td>2,960.1</td>
<td>2,286.4</td>
<td>2,339.9</td>
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<tr>
<td>Operating profit</td>
<td>740.6</td>
<td>1,082.4</td>
<td>1,156.2</td>
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<tr>
<td>Profit before tax</td>
<td>690.9</td>
<td>1,013.7</td>
<td>1,149.7</td>
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<tr>
<td>Profit after tax and minority interests</td>
<td>559.9</td>
<td>732.1</td>
<td>803.3</td>
</tr>
<tr>
<td><strong>Selected Balance Sheet (S $ millions)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>7,152.7</td>
<td>6,686.4</td>
<td>5,625.8</td>
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<tr>
<td>Total liabilities</td>
<td>3,422.6</td>
<td>3,361.8</td>
<td>2,717.9</td>
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<tr>
<td>Shareholders’ funds</td>
<td>3,300.0</td>
<td>2,993.8</td>
<td>2,593.8</td>
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<tr>
<td><strong>Per Share Data (S$)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings per share</td>
<td>1.12</td>
<td>1.46</td>
<td>1.61</td>
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<tr>
<td>Net tangible assets per share</td>
<td>6.60</td>
<td>5.99</td>
<td>5.19</td>
</tr>
<tr>
<td><strong>Financial Ratios (%)</strong></td>
<td></td>
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<tr>
<td>Return on sales</td>
<td>18.9</td>
<td>32.0</td>
<td>34.3</td>
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<tr>
<td>Return on average assets</td>
<td>8.1</td>
<td>11.9</td>
<td>15.1</td>
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<tr>
<td>Return on average shareholders’ equity</td>
<td>17.8</td>
<td>26.2</td>
<td>25.6</td>
</tr>
<tr>
<td>Debt/capital</td>
<td>34.8</td>
<td>34.1</td>
<td>35.8</td>
</tr>
<tr>
<td>Economic value added ($ million)</td>
<td>349.9</td>
<td>386.7</td>
<td>241.0</td>
</tr>
</tbody>
</table>

Source: PSA Corporation.
Exhibit 2

THE BATTLE OF THE ASIAN TRANSSHIPMENT HUBS:
PSA VERSUS PTP (B)

Sequence of Events

1999 Nov – PTP is officially opened.

2000 Annual Throughput Volumes (1999): Port of Singapore: 15.9m TEUs, PTP: 0.2m.

2000 Aug – PTP signs joint venture with Maersk. Maersk shifts its transshipment hub to PTP.
2000 Sep – PSA downgrades service level to remaining Maersk vessels at Port of Singapore.

2000 Dec – Maersk shifts remaining vessels at Singapore to the Port of Hong Kong.

2001 Annual Throughput Volumes (2000): Port of Singapore: 17.0m TEUs, PTP: 1.2m.

2001 Feb – PTP accelerates expansion program.

2001 Aug – PTP proposes cooperation with PSA.

2001 Oct – PTP acquires another new customer. Evergreen Marine shifts operations to PTP.

2002 Annual Throughput Volumes (2001): Port of Singapore: 15.2m TEUs, PTP: 2.1m TEUs.

2002 Jun – PSA announces discounts on container handling charges
2002 Aug – Hajin Lines and Cosco Pacific renew contracts with PSA
2002 Sep – Evergreen’s hub operations are completely shifted to PTP

2002 Annual Throughput Volumes (2002): Port of Singapore: 16.8m TEUs, PTP: 2.7m TEUs

Source: Created by case writer from public data.