NEPTUNE ORIENT LINES LTD.:
SAILING THROUGH UNCHARTED SEA

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Neptune Orient Lines Ltd:
Sailing Through Uncharted Seas

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PART I

NEPTUNE ORIENT LINES LTD.: SAILING THROUGH UNCHARTED SEAS
1.0 THE SCENARIO

In the early Monday morning of April 10, 1999, sits Joseph Flemming in front of the classy window of NOL (Neptune Orient Lines Ltd.) air-conditioned penthouse. Joseph was holding a cup of freshly brewed coffee while staring far to appreciate Singapore's natural scenic view of the early sun rising. Below, contradicting to the natural view, a bunch of executives were rushing across the busy traffic just right in front of the NOL Group’s landmark building, a high rise of 21 floors building.

It was 8:45 am in the morning, and Joseph Flemming, a newly appointed two-month-old CEO (Chief Executive Officer) of NOL Group, was already keen to get down to his job. He likes to work as early as 7:45 am every morning and more often than not on weekends as well. Joseph Flemming, a man in his mid-60, who believes in getting results through hard work, was commented by a former colleague in Maersk Lines, another world's top ranking shipping lines, as a workaholic, being very hands on, open to suggestions and critiques, impatient to get things done, always on the look for opportunity and way to get thing done better.

The enchanting, high rise morning view was really a bonus for Joseph to start off his daily routine early.
Just two months ago, when Joseph first stepped into NOL's office and assumed the position of CEO, he knew clearly that he had a major task ahead of him; in fact, most probably the toughest mission of his 39 years endeavor in shipping industry. His first assignment was to bring American President Lines (APL), a result of merger between NOL, a Singapore national carrier and APL, to become a major global containerize liner over the next five years, and to turn NOL Group's financial report from 'red' since last financial year ended 31st December 1998 to 'black', i.e. a return to profitability. Joseph was well aware that APL container shipping business was constituted about 70 per cent of NOL Group of Companies' revenue. He also knew that turning NOL round was not an easy task and to him, obviously under no illusions that the road that lies ahead was an easy one. His priority was to assist NOL to climb out of deep red ink and to lead the company to conquer the top of the mountain and paved the right way for APL to become one of the major global container liner.

Suddenly, the intercom beeped. Joseph instinctively pressed the intercom while still maintaining his view.

"Yes," uttered Joseph. From the other end came a cheerful female voice.

"Good morning Mr. Flemming, Carmen here."

"Yes, Carmen, a good morning to you too. What can I do for you?"
Carmen was Joseph's personal secretary who had served NOL for the past 15 years.

"Just to remind you about the 2\textsuperscript{nd} Corporate Finance meeting today at 10:00am at the penthouse." Carmen always chose to remind the CEO on the big occasion out of his busy schedule.

"Yes, I am aware of that. Thank you for reminding me." replied Joseph.

"Don't mention it and have a nice day." smiled Carmen.

Joseph released his push on the intercom and moved his mind to business matters. He began to recap what was being discussed during the 1\textsuperscript{st} meeting between himself and Caesar Foo, a dedicated and experienced financial architect of NOL, who was currently holding the Chief Financial Officer (CFO) 's post. Caesar Foo was a well known figure in Singapore financial market for his capability and shrewd as NOL's financial architect. He helped NOL to establish a systematic accounting and financial processes which can be considered one of the best in this region.

"We are in huge debt position after the whole episode of buying over APL and there are high interest payment burden that NOL has to serve this year."
"We have not been able to achieve the synergy effect as happen in most of the merger and acquisition (M&A) exercise. Shareholders and the bankers are gradually turning away from us." proclaimed Foo in a stern and worried voice.

Foo's worries was not without a base and he liked to voice out his major concerns before thing got worsen. NOL's liquidity ratios and debt management ratios didn't reflect much good for the year ended 31\textsuperscript{st} December 1998. (refer Appendix 1). Although there was a slight improvement in the liquidity ratios, the leverage of the company was still too high (63.56\% in 1998).

The meeting between Foo and Joseph was adjourned. Few important agenda will be discussed further in details during the 2\textsuperscript{nd} Corporate Finance meeting. The proposal from the CFO were sound but there are some details need to be sorted out before the implementation. And deep in the CEO's heart, he knew well that the financial solution will be part of the whole solution but in order to create a financial sound company, Corporate Finance hold the key. Further on this, he won't leave any stone unturned in revitalizing the company to achieve his goal.

Joseph lighted out his favorite cigar and start puffing. This time, the cigar's aroma led his thought. His mind was flying northward to Malaysia, whereby he had a chance to get feedback straight from people who was right in front in the battle field of sales. It was one of the many trips organized round the world in order for him to get familiarize with APL's strong and worldwide front
lines offices. He was meeting up the CEO of one of the very prominent electronic
goods customer in Malaysia together with Simon, the global marketing manager.

The ideas generated from the whole trips were astounding and again
proving that his down-to-earth approach with the sales personnel yielded results.

And Malaysia's were among the best and impressive. Joseph could still
hear the echoes of the conversation between him and one of the sales manager.

"Simon, just tell me how do you feel about the company after the merger?" asked Joseph in a sincere manner. He often utilizes this down-to-earth approach
to seek feedback right from the people in the field. This happened over a tea
break session in a hotel after the joint sales calls.

Simon was touched by the way the question was being posed against him
straight from the CEO of the company. He didn't want to waste time no more as
sitting in front of him will be the right person to pour out his ideas and opinion.

"Well, to be frank, I found that the company's credit policy is being too
rigid. We are not fast in granting big customer credit and take too long in
responding to customers' request. Sometime being too prudent and cautious can
be a stumble block for getting further commitment from shipper. I can feel the
heat that they are starting to turn away from us. Bear in mind that we are selling
shipping services in the Asian environment that uphold the value relationship and
trustworthiness. We must be prompt and customer-oriented because we need to
survive and win competition. We really need to do something about this so as to
catch up with our rival competitor's pace." exclaimed Simon Loo, who is one of
the most experienced sales forces in Malaysia's APL.

"Most of the time, APL's ocean freight rate also didn't reflect much of the
current market moving rate, which causes APL to turn down a lot of good
business opportunities and prospects. Very simple, we must listen to the voice
from market. Then it's easy for us to champion the battle." add Simon.

"Also, there is no focus being placed to look after the importation which
we really craving for. We need the import container to support the export's boom.
We have been spending a lot of empty repositioning cost to get the containers
into Malaysia. At this point of time, we have no choice but to focus on importation
and not the booming export." Simon expressed his concerns on lack of focus on
importation.

As Simon drove his car heading back to the office, Joseph starts chewing
on the another point which was being brought out by Mr. Yuki, the head of supply
chain management, whom they had visited. Cut down the compliment remarks
about the APL's service in term of efficient booking desk, prompt customer
service, and efficient operations from him, there are areas APL need to be
improved.

"Well, there is only one thing that concerns me, my company's bottom
lines, which is the ocean freight rate issues. What I can see is that APL is
charging premium over the other liners who is providing same good service....
Well if you can improve on this area, I will appreciate it very much.” Requested Mr. Yuki Inami, the Head of Supply Chain Management in Pandaronic Berhad, a MNC which home-based in Japan and invested in Malaysia.

The conversation ended happily with the promises from both parties to reciprocate.

APL wasn’t well known in the Intra-Asia market as APL’s image is always being associated with ‘premium carriers’ who charge excessively compare with market moving rates. This reflects in the APL’s ocean freight charge in Intra-Asia market which is priced above the rest of the carriers. Thus far, it is fair to say that APL is losing much of its ground in its Intra-Asia market's share. Another reason for this de-focus is that APL was too engross in its transpacific trade lane i.e. North America trade.

Joseph put off his cigar and he was now readied to focus on the main issues which he managed to gather through the past few month of intensive efforts round the world. He had to ensure that by next financial year, the company at least managed to turn around from the red to a more comfortable level, if not black. He also wanted to see that NOL can leap toward the twenty first century with pride and confident as a global company. The responsibility was big but his instincts tell him that nothing is impossible and with determination and team work, he deeply believe that he can make this dream become reality.
2.0 GROUP AND COMPANY PROFILE

2.1 Neptune Orient Lines (NOL) Group History

NOL was incorporated on 30th December 1968. It was set up as a Singapore national shipping line by Temasek Holdings Pte. Ltd., an investment holding company wholly owned by the Singapore Government as the first venture at building up a modern and profitable mercantile marine fleet capable of competing with the best merchant shipping companies in the world. Success did not come easily particularly during NOL early years when it operated a considerable small fleet of its vessels. The greatest turning point came in 1970 with the decision to move into the container business. The company then modernized and diversified its' fleet enabling it to ride through the uncharted economy condition in general and to withstand it position through the cyclical nature of the shipping industry in particular. In 1981, NOL went public with its shares being listed in the Stock exchange of Singapore. Since then, Temasek Holdings Pte. Ltd. had progressively reduced its stake in the company to the present day where it holds only a substantial interest (from more than 50% in the 70s to a mere 33.35% in 1995). NOL has then been progressive and forward-looking, applying the latest technology to enhance its' competitive edge.

The company is committed to service excellence and it's efforts to provide value added service to customers have earned it a reputation for service quality and efficiency. In recognition of this important fact, NOL has won several national and international awards which include the National Productivity Award.
In 1997, NOL acquired APL limited for US$825 million, thereby creating a major global integrated transportation group and one of the top five shipping companies in the world shipping industry. The acquisition expands NOL’s total fleet to 113 vessels including 76 container ships with a total capacity of about 200,000 teu. Today, the group has more than 100 subsidiaries, associated companies and investment interests in companies locally and abroad, as well as a network of overseas office (front line offices, FLO) in major cities worldwide.

The NOL Group today provides shipping services in more than 100 countries and operates one of the largest containership and Aframax tanker fleets worldwide. It is also the largest shipping company listed on the Stock Exchange of Singapore with a market capitalization of approximately S$1415.12 million as of 28 July 99 (Appendix II).

As part of its core business activity, the NOL Group operates a network of container transportation services on major international trade routes. In November 1997, NOL’s container transportation division merged with APL Ltd to create one of the world’s five largest container shipping lines. The new entity now provides expanded container transportation services for international shippers in
the trans-Pacific, Asia-Europe, Mediterranean, Latin America, intra-Asia and Australia markets. It also offers supply chain management and container rail services within North America.

The NOL Group also offers chartering services in the liquid and dry-bulk trades. Its fleet of tankers and bulk carriers ply world-wide, transporting wet and dry-bulk commodities on contacts of affreightment, long-term period charters, spot and voyage charters. Through its wholly-owned subsidiary company, American Eagle Tankers Inc. Limited, the NOL Group is also one of the largest lightering operators in the U.S. Gulf.

The NOL Group’s well-diversified fleet of 122 modern and young vessels comprises 86 containerships, 28 tankers and 8 dry-bulk carriers. Backed by a team of dedicated shore and sea crews, this young fleet gives the NOL Group a competitive edge in terms of reliability, speed and efficiency. The Group presently has on order five Aframax tankers scheduled for delivery in 1998.
2.2 NOL Organization Chart

NOL Group of Companies comprised of APL Ltd., Administration, Corporate Finance, Information Technology, Technical, Chartering and Enterprises division. Exhibit 1 shows the NOL organization structure.

Exhibit 1: The NOL Organization Structure
2.3 NOL and APL: Merger and Acquisition (M&A)

Recently, NOL, a Singapore-based shipping company had been going through the merger exercise with APL, a renowned containerized shipping liner in the industry which will celebrating its 150th year in shipping and transportation business in 1999. 1998 had been a tough year for NOL/APL as the merger which is supposed to be enjoying a synergy cost saving of US$160, turned out to be a disastrous. The original motive of NOL Group to go ahead with the merger idea was that the attractiveness of being capable of saving cost through synergy of both company resources. This was much to do with the sudden Asian/Far East economy crisis outburst. The crisis has caused a general slow down in world economy and causing regional trade imbalance in Asia. Subsequently, it led to an drastic ocean freight revenue deterioration, and hurting shipping lines’ bottom line. The US$825 buy over of APL also causing the enormous rise in NOL’s gearing.

At the end of first year merger, NOL reported a S$297 million lost in operating profit (Appendix I). Reasons were found to be manifolds and it can’t be denied that Asian economy downturn would be listed as the major culprit and has created trade imbalance in Far East countries, South East Asia countries but favoring North America, Europe, Australia’s importation trade. Thus, 1999 will be a significant year for APL to grab the fruit of synergy saving.

2.4 American President Lines (APL) Company History:
APL trace its root back to 1848, when its predecessor, Pacific Mail Steam Ship Company, inaugurated a passenger and mail service between Panama and the U.S. West Coast. In 1867, Pacific Mail launched the first trans-Pacific steamship service, sailing from San Francisco to Japan and China. In the decades to follow, Pacific Mail and its eventual successor, Dollar steamship Line, provided passenger and breakbulk cargo services around the globe. Dollar Line was renamed American President Lines (APL) in 1938, reflecting the company's tradition of naming ships after American presidents. In 1973, APL discontinued its passenger service to focus on containerized cargo transportation. During the 1980s and 1990s, APL has been at the forefront of every major innovation in container transportation - including intermodal (combination of ship and rail or other mode of land transportation) transport, refrigerated cargo services, customer information services, and innovative ship and container designs. The combination of NOL and APL brings together two grand heritage and vast pool of resources to create a truly global transportation company leading the industry into the 21st century.

2.5 APL Core Business

As one of the world's top five container shipping companies, the new APL offers customers total logistics/integrated transportation and related services in every major market worldwide, under the highly regarded APL brand name.
APL now operates a total fleet of 113 vessels, including 76 container ships with a total in vessel capacity of about 200,000 teus. APL’s global network and container transportation services cover the North American-Asia, Asia-Europe, Intra-Asia and Australian trades. In addition, APL will offer services on Latin American, Trans-Atlantic and Asia-Mediterranean routes. This network is supported by double stack trains and other rail vehicles, trucks, dedicated terminals, consolidation and logistics services. APL also offers state-of-the-art information technology to its employee, plus decision support capability deep into the global supply chain, thus enable to deliver quality service which give more satisfaction to APL’s value customers.

2.6 APL Vision

The discussion on merger between NOL and APL was taken place on April 1997 right before the Asian’s economy crisis. The objective of this buy-out was basically to create synergy that enable both companies to enjoy scales economies by combining both company’s strengths and resources. It was commonly acknowledged in shipping industry that APL has possessed a niche market in its North America’s container operations while NOL has owned a strong reputation in Asia and Europe region.

The initial merger strategy which later being translated into new APL’s vision statement. The new APL is ambitious to achieve several objectives through this merger:
1. Develop our people and create equal advancement opportunities for all.
2. Continue to recognize and reward innovative teams and individuals who are committed and passionate in advancing APL's goal.
3. Invest aggressively to create a leading-edge information systems, unite our core asset-based business with complementary non-asset businesses to provide an integrated total logistics product for our customers.
4. Adopt a zero-defect tolerance in all aspects of our service delivery, and
5. Work as a team towards becoming the best global carrier and logistics service provider.

The advantages of mergers are well documented, but so too are some of the pitfalls. One such is the theory that merged carriers experience a fall in volumes caused by shippers, who previously used both, looking for an alternative option. Analysis of the figures for the containers handled to/from the US in the first quarter of 1998, provided by Journal of Commerce shows that APL appears to have suffered this fate. Total combined handlings (for NOL and APL pre and post merger) to/from the US in the first quarter of 1998 were down 210,154 teu in the first quarter of 1997 to 198,943 teu in the first three months of 1998.

While APL says it would not refute that some cargo may have been lost due to the 'merger-effect' on shippers it does not see it as a major factor. Instead it points to a number of other factors, such as:

1. A steep decline in westbound volumes from the US to Asia, caused by the economic downturn and currency devaluation in some of the Asia countries,
which have affected all carriers. South East Asia has been particularly hit by this, with transpacific cargo to Singapore dropping 20%, Thailand 40% and also comparable declines in Intra-Asia traffic to these countries. Even more significant in terms of impact for APL has been a double digit decline in volumes to Japan, which is the company’s largest US export destination.

2. A decline in transpacific capacity deployed by APL and NOL as a consequence of the New World Alliance’s (NWA) new operating plan. For examples, two previous strings MAX (Mexico Asia Express) and PS4 have been combined.

3. The cancellation of NOL’s all water AEX (Asia Europe Express) service from Asia to the USEC via the Suez Canal. This service was deemed uneconomical when network rationalization was being discussed. There were several reasons behind this decision. Firstly the route was most effective for lower-rated cargoes (e.g. newsprint paper), which APL has decided no longer to pursue. Secondly, NOL now has access to APL’s stack-train system from the USWC (U.S. West Coast). This dramatically reduces the costs of using the land-bridge mode.

All in all, the global economy slowdown has shown no mercy for NOL/APL’s dream of making saving a reality. NOL posted a loss for the six months through June 30 of 240.75 million Singapore dollars (US$143.65 million) on sales of S$2.97 billion. In the corresponding 1997 period, there was a S$5.13 million profit on revenue of S$1 billion. The carrier, Singapore’s largest, reported