FAIR-MEAD MARINE Harvard Case Solution & Analysis

Recommandation

Acquire Tee-Sah Holdings 16 ships
Move into the Asia-North America shipping lanes

Real-World Example

- Evergreen Marine Corpoartion
  - Joint Venture
- Walmart
  - e-commerce movement
- Fed-Ex
  - Genco Distribution Inc.

Quantitative Analysis

FAIR-MEAD MARINE

Founded in 1974 in Singapore

- Leading carrier in the intra-Asia market, no presence on the major Asia-North America sea lanes
- In vessel operations providing actual shipping service it
- Business focused on being mainline feeder owning its own fleet of container ships with aggregated capacity of 26,500 TEUs
- Have a new CEO David Tian with agressive change policies

Industry

Key Case Elemets

- **Variable costs** come from "bunker cots" or fuel prices - A material increase in the price of oil usually had an adverse impact on the bottom line
- **Fixed costs** are high averaging about half of the total cost structure. Other fixed costs come from terminal charges and overhead, which was needed to effectively fill capacity.
- Teeh-Sah Holdings container business in the trans-Pacific, Asia-North America shipping lanes **selling 16 ships with average capacity of 4,500 TEUs**
- Rapid business development in focusing business in **niche markets** such as shipping intermediate goods and foodstuffs- also developed its **own freight-forwarder arm**.
- **Customer-centric model**: Focus on customer satisfaction and customer relationships while providing value-added activities to customers to keep loyal.
- Business to **MLOs** continued to grow, by 2007 intra-Asia liner services accounted for approximately **80% of the company's revenues.**

Issues

- Variable Cost & Fixed Costs
- Capacity- high origin volume with low destination density
- High barriers to entry
- Volatile demand environment
- Long lead times/customer-centric business

Qualitative

Advantages
- Increase Market Share
- Access Trans-pacific
- Growing market
- Reduce threat of competition
- Create value for customers

Disadvantages
- Price pressure
- Overcapacity of market
- Higher cost of funding
- Cyclical downturn

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TheCaseSolutions.com

	Liner Only	Feeder Only	Both Services
Annual Contribution Margin	506	689	1009
The Discount Rate(Constant)	7.50%	7.50%	7.50%
The Retention Rate	86.00%	71.00%	89.00%
The Growth Rate (Growth)	5.00%	5.00%	5.00%
	Liner Only	Feeder Only	Both Services
CLV	3067	2187	7474

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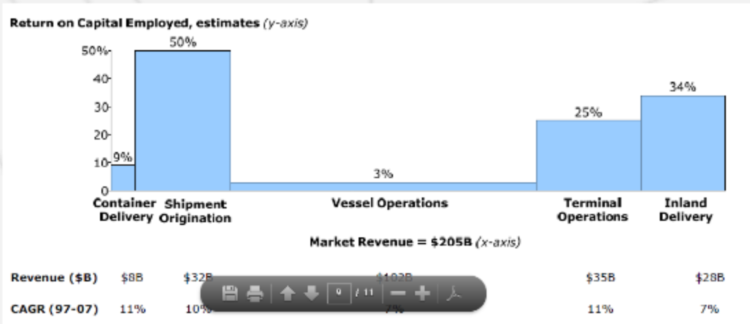
"asset intensive, vessel expenses, including maintenance and financing, were significant."

- Comprised of four major segments
- Top 15 players accounted for approximately 80% of volume
- Freight-forwarders and major retailers own exporter relationships
- 60% of volume from Asia to North America or Europe could be attributed to freight-forwarders or major retailers.
- Container carriers aggressively compete for capacity
- Bigger ships and Cascading/ Threat of Overcapacity



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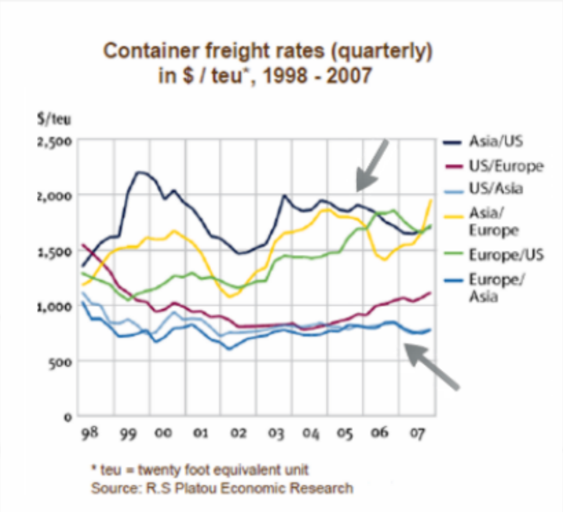

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