

# FAIR-MEAD MARINE Harvard Case Solution & Analysis



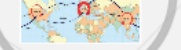
### Real-World Example

- Evergreen Marine Corporation - Joint Venture
- Walmart
- e-commerce movement
- FedEx
- Geneco Distribution Etc.

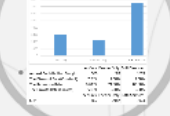
**Note:** Evergreen Marine Corporation is a shipping company that has a joint venture with Walmart. Walmart is a retail company that has a joint venture with Evergreen Marine Corporation. FedEx is a shipping company that has a joint venture with Geneco Distribution Etc.

### Recommendation

Acquire Fair-Mead Holdings 100% and Merge into the Asia-North America shipping lanes



### Identitative 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 aggressive change policies

### Industry

- Total revenue, when summed, is being distributed and being used
- Expansion of fleet major segments
- High freight rates due to tight market and higher fuel prices
- Global shipping lines are competing for capacity
- Further address regulatory compliance for capacity
- Higher fuel and operating costs



### Key Case Elements

- **Variable costs** come from "bunker costs" or fuel prices. A material increase in the price of oil usually had an adverse impact on the bottom line.
- **Fixed costs** are high overring about half of the total cost structure. Other fixed costs come from terminal charges and overhead, which was needed to effectively fill capacity.
- **Tian-Sun 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, who 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 **MLDs** continued to grow, by 2027 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                     | Disadvantages            |
|--------------------------------|--------------------------|
| - Increase Market Share        | - Price pressure         |
| - Access Trans-pacific         | - Oversupply of market   |
| - Growing market               | - Higher cost of funding |
| - Reduce threat of competition | - Cyclical downturn      |
| - Create value for customers   |                          |

# FAIR-MEAD MARINE Harvard Case Solution & Analysis



**Real-World Example**

- Evergreen Marine Corporation
- Jinhua Express
- Wal-Mart
- e-commerce movement
- FedEx
- Genesee Distribution Inc.

**Recommendation**

Acquire Teah-Sah Holdings to enter Main into the Asia-North America shipping lanes



**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 aggressive change policies

**Industry**

Businesses enter markets to bring products and services to "customers"

- Strategic Real-World examples
- The 10 types of services for approximately 10% of volume
- International presence and capabilities for service in all major markets
- Global volume and the high level of service in all major markets
- Customer service requirements for quality
- Higher than other carriers' "Trust of the industry"

**Key Case Elements**

- Variable costs come from "bunker costs" 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.
- Teah-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**

|  |   |
|--|---|
| <p><b>Advantages</b></p> <ul style="list-style-type: none"> <li>- Increase Market Share</li> <li>- Access Trans-Pacific</li> <li>- Growing market</li> <li>- Reduce threat of competition</li> <li>- Create value for customers</li> </ul> | <p><b>Disadvantages</b></p> <ul style="list-style-type: none"> <li>- Price pressure</li> <li>- Overcapacity of market</li> <li>- Higher cost of funding</li> <li>- Cyclical downturn</li> </ul> |
|--|---|

|                             | 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%         |
| CLV                         | 3067       | 2187        | 7474          |



## FAIR-MEAD MARINE

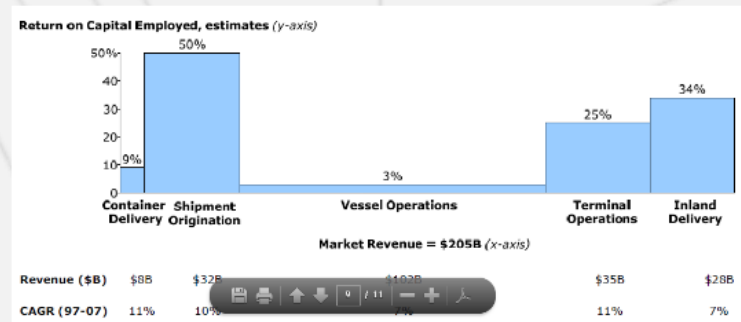
*Founded in 1974 in Singapore*

- 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 aggressive change policies

# Industry

*"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

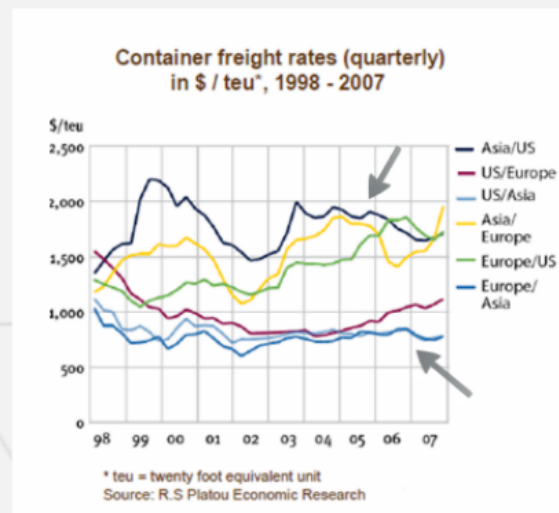


## Key Case Elements

- **Variable costs** come from “bunker costs” 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