Scepticism and enthusiasm:
Hapag, Ocean and containerisation

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1. Introduction

In this paper I will compare and contrast the approach to containerisation of two of the key early players in this market, Germany's HAPAG-Lloyd (formed through a merger between Hamburg's HAPAG and Bremen's Norddeutscher Lloyd in 1970) and Britain's Ocean, which, working with P&O, Furness Withy and British and Commonwealth, established Overseas Containers Ltd (OCL) in 1965. I will begin with a few very brief conceptual points, then examine the divergent approaches the two companies took when initially moving into container shipping and finally discuss to what extent containerisation in general and the first-mover strategy in particular paid off both in the short and in the medium term.

2. Perspectives on strategic change: First movers and disruption

My analysis can be linked to theoretical debates around corporate strategy in general, and the concepts of disruption, creative destruction and first-mover advantage in particular. The notion of disruption is used to develop strategies for firms that are seeking to enter new markets, or to identify threats from new entrants.[1] The original version of the theory sees disrupters as entering a market at the bottom end, providing cheaper, just good enough, products or services to cost-conscious consumers and current non-consumers, before subsequently moving upmarket and challenging the incumbents. However, it has been argued that disruptive change may just as well be initiated by established firms and / or by those competing on quality rather than price.[2] In either case, the result is creative destruction as described by Schumpeter: 'competition which commands a decisive cost or quality advantage and which strikes not at the margins of the prof-

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[1] Christensen, Raynor, and McDonald, "What Is Disruptive Innovation?".

[2] *The Economist*, "Disrupting Mr Disrupter: Clay Christensen Should Not Be Given the Last Word on Disruptive Innovation"

its and the outputs of the existing firms but at their foundations and their very lives.'[3]

The first mover concept has sparked a debate about the optimum timing of market entry that focuses on how firms can identify and seize new opportunities by using new technologies and creating new markets. Here, the question is whether you want to be a first mover who seizes market share and thus builds sustainable advantage, a fast follower, or a late entrant who avoids, and learns from, the earlier entrants' mistakes.[4]

3. Moving into container shipping

How do these notions relate to shipping, more precisely container shipping? The shipping industry was undergoing radical transformation from the 1950s onwards. It is now well established that the move into container shipping was one of the most important transformations of the world of shipping. At the time, its impact was routinely compared to the transition from sail to steam in the 19th century.[5] While the efficiency of bulk and tanker shipping increased substantially from the 1950s with the introduction of larger ships and of shoreside installations permitting rapid loading and unloading, liner shipping companies all over the world faced steeply rising costs of cargo handling and ever longer delays in port. As a result, they were struggling with the increasing volumes of cargo generated by a growing world trade while finding it more and more difficult to remain profitable. In this situation, the introduction of containers – essentially 'the application of bulk carrier principles to the dry cargo business'[6] – promised to revolutionise the industry. This paper makes the point that while the general outlines of this story are well known,[7] individual

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[3] Schumpeter, *Capitalism, Socialism and Democracy*, 84.

[4] maybe say something on generic strategies here, and the need to go beyond the generic

[5] Memo Regierungsdirektor Dr. Lampe, Containerverkehr auf dem Nordatlantik, Washington, 22.2.1968; Werner Traber, chairman of HAPAG, speech at the Annual Meeting, 28.8.1968, AA B57/600.

[6] Meek, "The First O.C.L. Container Ships", ###.

[7] See Levinson, *The Box* and Miller, *Europe and the Maritime World* in particular.

firms still took very different approaches to containerisation that can be analysed by looking at how they envisaged the disruptive potential of the new technology, the optimal timing of market entry, and the implications for their corporate strategy.

(a) Ocean and OCL

Ocean were sceptical about the potential of containers used alongside traditional cargo on existing ships, but when American competitors Sea Land began to plan the use of purpose-built container ships on the Australian route, Ocean were quick to realise that this would threaten their traditional business and required a response.[8] Chairman John N. Nicholson argued that containers were 'bound to present such cost advantages to shippers / receivers … as to be an inevitable development', and he concluded: 'If we (or other shipowners) don't provide such a service, someone else will, and eventually may be in a position to dominate liner conferences.'[9] P&O's chairman Sir Donald Anderson shared this view. In his opinion, cargo handling costs were rising to levels that were 'unacceptable' to customers and mere 'improvements on the existing system' were therefore insufficient. 'We believed that the liner trades were coming under such pressure that they must soon be revolutionised, and that containerisation was likely to be the most practical form which the revolution could take.'[10]

Based on such views, Ocean, P&O, Furness Withy and British & Commonwealth decided to form Overseas Containers Ltd (OCL). Clearly, containerisation was seen as a large-scale project that required the pooling of several companies' resources. OCL began its life in 1965 as primarily 'a Research organisation set up to carry out a feasibility study', but a year later, it was decided that OCL was to be among the first to containerise the UK-Australasia routes and would become a

[8] For a fuller account of the story of Ocean's adoption of container shipping placed into the context of the company's overall history see Falkus, *Blue Funnel Legend*, 356-70. For the history of OCL see Bott, *British Box Business: A History of OCL*.

[9] Memo J.N. Nicholson, Container & Unit Load Service, 3.5.1965, OA/OCL box 61.

[10] Sir Donald F. Anderson, Draft private & confidential: Containerisation, 13.9.1966, OA/OCL box 61.

shipping consortium.[11] OCL decided to order the first generation of its purpose-built container ships in June 1966, with services starting in March 1969.

There was a mixture of reasons for an early move into containerisation. On the one hand, Ocean chairman Nicholson expected advantages to accrue to early movers, and laggards to suffer: 'If we (or other shipowners) don't provide such a service, someone else will, and eventually may be in a position to dominate liner conferences.'[12] Moving early would also allow Ocean to fend off outsiders by expanding into inland transportation, that is, by creating superior capabilities and thus establishing a market position that later entrants would find difficult to challenge. On the other hand, Ocean actively embraced the opportunity to redesign their services 'from scratch' (M. Miller) that came with containerisation. Containerisation, it was felt, would present 'the only opportunity we are likely to have for a considerable time to recast tariffs on a grand scale and to sweep away inherited difficulties, anomalies and dissatisfactions', 'to originate rather than to copy or adapt'. It was envisaged that this would lead to considerable reductions in freight rates which, in the future, would be calculated on the basis of the costs of providing shipping services rather than on that of 'what the traffic can bear'.[13]

From the moment the decision to containerise was taken, 'the need for haste in getting the service into operation was … paramount'.[14] This involved considerable risk as new technology had to be designed from scratch and extremely expensive assets such as ships had to be ordered based on designs that were completely untested.[15] A number of costly mistakes were made as a result, with the new ships subject to

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[11] Circular to all senior staff, Organisation of O.C.L., 17.6.1966, OA/OCL box 61.

[12] Memo J.N. Nicholson, Container & Unit Load Service, 3.5.1965, OA/OCL box 61.

[13] Overseas Containers Ltd (W.G. Raper): A Study of Freighting Methods with Consideration of and Suggestions for Through Tariff Structure, 4 May 1966, OA/OCL/box61.

[14] Serious design work started in May 1966, enquiries were sent to shipyards in Sept. 66. Orders were placed in Jan. 67 and the first ship was delivered in Feb. 69. (Meek's OCL article).

[15] Meek, "The First O.C.L. Container Ships", 4.

vibrations and the refrigerated containers built at great expense unfit for service.[16]

We can see that Ocean saw containerisation as an opportunity to innovate in its business practices, not just in technology, and to get ahead of the competition. The overall sentiment was one of excitement about new opportunities and the prospect of solving seemingly intractable problems. Even before OCL was formally established, Ocean chairman Nicholson had argued: ‘We should welcome, sponsor and indeed provide facilities for this development’.[17]

(b) Hapag: ‘With scepticism towards containerisation’,[18] or ‘Beware playing a pioneering role’

The timeline of Hapag’s move into container shipping is fairly similar to Ocean’s, with a lag of about a year, but the tone of internal discussions was strikingly different. Hapag’s board expressed doubts whether containers would have a future late in 1965.[19] Discussions focused on the uncertainty and ‘general nervousness’ created when US firms started planning container services on the North Atlantic route, and in particular on the threat of increased competition and changes in the structure of freight rates. As a result, a cautious, step-by-step move into container shipping was envisaged, with no immediate plans for purpose-built container ships.[20] For a while, Hapag contemplated abandoning the North Atlantic route altogether and to re-enter only once the ‘unsolved questions of container traffic’ were answered. Chairman Traber warned: ‘we should beware playing a pioneering role’.[21]

[16] Falkus, *Blue Funnel Legend*, 369 f.

[17] Memo J.N. Nicholson, Container & Unit Load Service, 3.5.1965, OA/OCL box 61.

[18] This is actually the title of an article in a trade newspaper: Hapag: Mit Skepsis in den Containerverkehr, *Deutsche Verkehrs-Zeitung*, 18.7.1968.

[19] Board meeting, 13.10.1965.

[20] Board meetings, 11.2.1966, 29.6.1966.

[21] Board meeting, 24.10.1966.

Arriving at a time when Hapag had just completed modernisation of its conventional East Asian fleet, news of container investment by OCL and ACT was seen as 'greatly disturbing', with still no clear line of action in sight. At the February 1967 Board meeting, chairman Traber mused whether 'in view of the future possibilities of air freight one could or should skip the era of the container ship'. However, a number of voices now supported an all-out move into container shipping, fearing that further delay risked a complete loss of Hapag's market position. They prevailed and the board decided to order purpose-built container ships for the North Atlantic route.[22] Hapag continued to find the pace of change disconcerting and complained they would have to containerise the Asian trades 'earlier than would be desirable'.[23] As soon as OCL were operational, it was obvious that Hapag's modern conventional liners were uncompetitive and even though the market was difficult to read a ship had to be ordered for the Australia route 'so as not to be left behind'.[24]

Further developments gave Hapag reason to feel vindicated in their decision to wait before committing to container ships: ACL were experiencing problems with their new ships and OCL's were more expensive to operate than Hapag's;[25] container services indeed introduced disruption in the conferences and markets.[26] Waiting a little longer than the competition, Hapag managed to defend their position in their main trades while early teething problems that plagued competitors were largely avoided.[27]

Overall, Hapag's approach to containerisation was characterised by unease, reluctance and scepticism rather than by a clearly articulated strategy to follow rather than lead. The board stressed that fundamental uncertainty made rational decision making all but impossible:

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[22] Board meeting, 8.2.1967. Deutsche Bank's representative on the board, Klasen, was an outspoken proponent of investment in containerisation.

[23] Board meeting, 6.3.1968.

[24] Board meeting, 12.7.1968.

[25] Board meetings, 20.10.1967, 27.11.1968.

[26] Board meetings, 6.3.1968, 27.11.1968.

[27] Board meeting, 26.9.1969.

'faced with extraordinary risks and opportunities, feeling had to prevail'.[28] In public, resentment at the fact that containerisation was 'forced upon us by our competitors' investment decisions' was voiced repeatedly.[29] There was no mention of new opportunities, nor of customers' discontent with the slow and expensive service offered by traditional liner shipping. Instead, fear that containerisation would lead to a rate war and a further reduction in profits for a company that was already less profitable than land-based industries predominated.[30] Disruption was perceived as a threat, not an opportunity to address existing problems; 'first moving' was rejected explicitly but a majority of the board soon realised that 'fast following' was necessary to defend market position.

(c) Comparison

Both Hapag and OCL made substantial investments in containerisation in the second half of the 1960s. While OCL's backers adopted a first-mover strategy and regarded disruption as an opportunity to make shipping more efficient and more profitable, Hapag can be characterised as a rather reluctant fast follower. There are both structural and cultural factors that can help explain this difference in approach. Among the former, the two firms' differing capital structure deserves to be highlighted. OCL was backed by two of Britain's foremost liner shipping companies, Ocean and P&O, and at least Ocean had very substantial cash reserves and unused tax allowances. Investment in container shipping presented a welcome opportunity to make productive use of these resources. Hapag, like all German shipping firms, had lost all their assets as a result of the Second World War. They had received generous government loans, but lacked equity and were not earning enough to fund the modernisation of their fleets.[31] Investment to the

[28] Board meeting, 26.9.1969.

[29] Hapag-Lloyd AG, Memoradum Betr.: Tochtergesellschaft der Hapag-Lloyd AG in Panama, 15.3.74.

[30] Aufz. Dr. Richter, 27.7.68 (on the 1967 annual report); Annual report for 1969.

[31] Bericht des Vorstandes an den Aufsichtsrat, 8.7.64; Vermerk: Entwicklung der Hamburg-Amerika-Linie (HAPAG), 12.12.69.

order of over a billion marks[32] under conditions of fundamental uncertainty therefore was not to be contemplated lightly.[33] Along with deciding to containerise, Hapag also prepared to merge with Bremen's Norddeutscher Lloyd. The two companies had cooperated closely since the 1920s but the investment needs of containerisation for which Norddeutscher Lloyd in particular was unprepared forced them into a formal merger.

Among the cultural factors, which are necessarily more diffuse, the impression gained from board minutes, annual reports and press reports is that Hapag's management was primarily focused on lobbying the government to help shipowners against flag discrimination and the effects of the strong mark, while there was little sign of customer focus. Scepticism about the disruption to markets and conferences that seemed to go hand in hand with containerisation is evidence of a corporate culture that was much more concerned with how to keep prices for existing services as high as possible than with solving problems for customers. As we have seen above, OCL's backers showed a greater appreciation for the problems traditional liner shipping practices implied for customers. This may be explained by the fact that shipowners suffered just as much as shippers from the deadlock in the ports that containers promised to overcome, and that this deadlock was far more pronounced in British ports than in Hamburg and Bremen. Another explanation may be a general drive for Ocean to change the way it worked and to become more efficient that was under way at the time.

[32] According to Hapag-Lloyd's annual report for 1971, this was the amount to be invested in containerisation over the period 1968-73.

[33] On the other hand, a comprehensive restatement of the company's accounts from 1954 onwards with the aim of reducing its tax bill resulted in a one-off book gain of nearly 60 million marks on which tax would have to be paid unless it was spent on ships by 1969: Bericht des Vorstands, 23.5.1966.

4. Experiences through the 1970s and beyond

(a) Common experiences

Over the course of the 1970s and 1980s, the experiences of Ocean on the one hand, and Hapag on the other, converged in some aspects while sharply diverging in others. Both vigorously expanded their container shipping operations while scaling back traditional liner shipping. By 1980, 77% of Hapag's traffic was in container ships, and the end of all non-container trades was envisaged over the next few years.[34] For both, with a single container ship capable of replacing a number of conventional liners, diversification was a direct consequence of containerisation, and thus needs to be discussed as part of the two companies' experience with containerised shipping.

Both embarked on extensive diversification within the shipping industry, branching out from liner shipping into tankers, bulk carriers and specialised ships. Both were exposed to the downturn in the shipping industry that set in from 1973 and suffered badly as substantial investments into tanker and bulk shipping failed to pay off and liners failed to earn their keep in a market characterised by acute competition and severe oversupply. Both firms diversified away from the shipping industry, seeking to become broader-based transport and services groups, and to uncouple from the shipping sector that was increasingly seen as structurally unprofitable. Both bought up other companies to gain a foothold in new lines of business, from warehouses and waste disposal to freight forwarding, air travel and tourism. Both introduced sophisticated systems of strategic planning to help map out and implement their transformation from shipping firm to modern multi-divisional services enterprise.

Both firms continued to be satisfied with the performance of their container shipping businesses. After a difficult start, OCL continuously outperformed other shipping companies as well as the 'average for UK

[34] Bericht des Vorstandes in der Ordentlichen Hauptversammlung der Hapag-Lloyd AG am 21. Juli 1980, gegeben von Karl-Heinz Sager, Stellvertretender Sprecher des Vorstandes

industrial and commercial companies'.[35] Hapag also were satisfied with the early results of their containerised operations and their market position. Both managed to sustain the cooperative relationships they had forged in traditional liner conferences into the container age.[36] Yet, at the same time, both firms saw the advantages of their early market entry slowly erode as the disruptive potential of containerisation unfolded: It involved rationalisation to the extent that many of Ocean's and Hapag-Lloyd's traditional activities and capabilities would no longer be required. General cargo shipping became industrialised and capital intensive. With fewer, larger and faster ships, fewer seafarers, maintenance staff, managers and clerks were required. Cargo handling, the inefficiency of which was the motive for containerisation, was automated, and many cargo handling activities moved to factories and goods yards inland where containers were packed. Containerisation involved the devaluation of much of the tangible and intangible resources of traditional liner shipping firms, and threw the door open to new market entrants. It turned into a standardised, commodified industry favouring large-scale, low-cost operators and nimble outsiders. The potential to benefit from innovation or to carve out a position as a provider of superior service turned out to be limited.[37]

Beyond these important similarities, the two firms' experiences differed in important ways which will be set out below.

(b) Ocean and OCL: 'concentrate on the development of the Group's non-marine activities'

While pioneering container shipping through OCL, Ocean also embarked on a diversification drive both within and outside shipping. A number of not very successful initiatives were undertaken prior to 1972, including the almost disastrous decision to invest in building a LNG carrier for a market that never materialised. A more promising di-

[35] Gardner, "Container Revolution", 205 and tables 4 and 5.

[36] Falkus, *Blue Funnel Legend*, 368.

[37] ### Barber, 'Ocean as a Liner Shipping Company ASK BARBER FOR REFERENCE ###

rection was taken in 1972 with the acquisition of the industrial services firm Cory which not only allowed Ocean to use its spare cash but also gave it access to new lines of business and to a pool of managers with experience outside shipping. Over the rest of the decade, Ocean's focus shifted towards land-based services and it eventually disengaged from all marine activities, including container shipping, when selling its stake in OCL to P&O.[38]

This process was far from smooth and accompanied by rather a lot of dithering and soul-searching over the largest part of the 1970s.[39] Investment outside shipping required moving resources away from shipping activities that were still profitable and constituted the core of Ocean's identity. The new development businesses took longer than expected to make a significant contribution to company profits. It was difficult to reconcile commitment to being a 'responsible employer' with the economic necessity of scaling down traditional liner shipping and, thus, staff numbers both at sea and in maintenance, support and back office functions.[40] The UK economy of the 1970s seemed an unpropitious place to do business. Probing questions about leaving the UK, or leaving transport for entirely new lines of business were asked, but not answered.[41] No good strategic options seemed to exist. With hindsight, not moving out of shipping more quickly appears like a mistake. Not rushing into ill thought-out investments outside shipping, on the other hand, may have been a blessing, as the analysis of HAPAG's experience below shows.

By the end of the 1970s, Ocean was ready to get rid of large parts of its traditional liners, and 1981 was the last year when shipping, largely in the form of profits made on Ocean's stake in OCL, provided a substantial part of Ocean's profits. By that time the company was already committed to 'actively continue … reorientation' away from ship-

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[38] Falkus, *Blue Funnel Legend*, 334 ff.

[39] Petersson, "Shipping as a Knowledge Industry: Scientific Research and Strategic Planning at Ocean Group"

[40] Petersson, "Managing a "People Business" in Times of Uncertainty: Human Resources Strategy at Ocean Transport & Trading in the 1970s".

[41] Group Strategic Plan 1977-81, 4.B.1860.

ping.[42] The liner fleet was down to a handful of ships, and Ocean had already had begun withdrawing from its involvement in the management of OCL's container ships. The annual report for 1984 describes Ocean as an 'international Group providing industrial services to major organisations' and its strategy as 'to concentrate on the development of the Group's non-marine activities'. In 1986, a 'year of successful transformation', Ocean sold its stake in OCL to P&O at a substantial profit and invested in further expansion in land services markets, ceasing to be a shipping company in any meaningful sense but remaining engaged in logistics.[43] P&O, on the other hand, continued to focus on shipping as their main activity, adding interests in ferries and cruise shipping and merging OCL with Nedlloyd in 1996.[44]

(c) Hapag-Lloyd: ‚Wir müssen jetzt den Schwanz einklemmen'

In 1981, a member of Hapag's board acknowledged that the company faced the future 'with the tail between our legs'. A decade of attempts to transform the company from a shipping firm into a broad-based transport company, starting when Hapag merged with Norddeutscher Lloyd in 1970, had ended in failure. Hapag was in deep crisis, having made an operating loss of 100 million marks in 1980. What was the problem, and how had it come about?

Some of the trouble can certainly be attributed to external factors. These include the general crisis in shipping in the 1970s that has already been mentioned, with overcapacity, fierce competition and falling rates making it difficult in some years even to cover a ship's operating costs. German owners, just like British ones, complained about the exclusionary shipping policies applied by many developing countries and the competition from Eastern bloc fleets. In addition, German-flag shipping suffered from the revaluation of the mark in 1969

[42] OTT Annual report and accounts 1983, OA/5001/13.

[43] OTT Annual report and accounts 1986, OA/5001/16.

[44] Along with Ocean's stake in OCL, P&O acquired also British Commonwealth's and Furness Withy's. British Commonwealth went on to expand into financial services and IT and went into administration in the 1990s. Furness Withy was bought by Hong Kong based shipping magnate Y.C. Tung and sold to its present owner, German Dr. Oetker group, in 1990.

and its continuous appreciation once fixed exchange rates were abandoned in 1973. With freight rates quoted in dollars, German shipowners had to cope with costs in an appreciating currency while the value of their earnings suffered from the depreciation of the dollar. British shipowners, on the other hand, saw the sterling value of their earnings rise and their wage and capital costs fall relative to each other as sterling depreciated even more quickly than the dollar. Reducing dependence on dollar-based earnings thus was an objective of Hapag's, but not Ocean's, diversification.[45]

As mentioned above, Hapag spent significant time and effort unsuccessfully lobbying the government for support in various forms, including compensation for exchange rate movements, reservation of a proportion of German imports and exports for German-flag ships, and access to low-cost foreign loans. The problems the company faced were blamed on external factors beyond its control. Indeed, from the 1960s, Hapag's leading figures had consistently argued that the era of the freedom of the seas was over and that tight regulation in the interest of national carriers like in the airline industry was their preferred vision for the future.[46] This assessment, dating from the prosperous late 1960s, was only reinforced by the shipping crisis of the 1970s. Any improvement, it was claimed, depended on 'a robust recovery of the world economy and world trade', as well as a significant reduction in the world fleet.[47] Politics, not business, was held responsible for bringing this about: 'We have exhausted the potential for self-help. In a politicised context we expect political measures', CEO Kruse argued in 1982.[48]

[45] 621-1/92_25: Bericht des Vorstandes zur Ordentlichen Hauptversammlung am 12.08.1982, gegeben von Karl-Heinz Sager.

[46] Hapag, Ordentliche Hauptversammlung am 28.8.1968, Ansprache von Vorstandssprecher Werner Traber (in AA archives).

[47] 621-1/92_25: Bericht des Vorstandes zur Ordentlichen Hauptversammlung am 12.08.1982, gegeben von Karl-Heinz Sager. „Nur eine kräftige Erholung der Weltwirtschaft und eine entsprechende Zunahme des Welthandels könnte in einigen Jahren zu einem Ausgleich führen, wenn gleichzeitig auch Werftkapazitäten eingeschränkt würden und zudem die Verschrottung älterer Tonnage erheblich zunimmt."

[48] 621-1/92_26 Bericht des Vorstandes zur Ordentlichen Hauptversammlung am 18.08.1983, gegeben von Hans Jacob Kruse. „Die Möglichkeiten der Selbsthilfe sind weitgehend erschöpft. Angesichts des politisierten Umfelds erwarten wir entsprechende politische Maßnahmen."

However, Hapag's failings also seem to have had internal causes. A 1981 article in *Manager Magazin*, a proper hatchet job titled 'fair-weather captains', claimed that the company's attempts at diversification had been well-meaning but ill-judged, ill-timed, hasty, half-hearted and ill-informed. The new businesses that were acquired, such as the charter airline Bavaria Air Services or the freight forwarder Pracht, turned out to be struggling turnaround candidates rather than stepping stones into new, more profitable lines of business. Hapag's corporate culture had become highly problematic: senior board members seemed to regard the firm as a symbol of Germany's global presence rather than as a business, and internally, bureaucratic process had taken the place of customer focus. Hapag had done an excellent job adapting to the technical side of containerisation, but failed to adapt its approach and organisation to the new circumstances. Shippers repeatedly complained about high freight rates, bureaucratic decision making, and ignorant arrogance, pointing out that they really didn't care under which flag they'd ship their goods as long as the service and price were right.

In its relations with suppliers and banks, Hapag seemed to symbolise all the potential downsides of German-style corporate capitalism: The bankers from Deutsche Bank and Dresdner Bank who, holding 50% of Hapag-Lloyd's capital, dominated the supervisory board and exploited the company for their own agendas, such as supporting ailing shipyards and buying failing companies that just happened to be highly indebted to the same banks.[49] Political pressure from the city governments of Bremen and Hamburg as well as from the trade unions prevented the closure of unprofitable parts of the shipping business.

Manager Magazin squarely blamed the executives and the supervisory board for the failures. They had built an organisation that was, on the face of it, neatly organised and well run, following the plans produced by a highly professional strategic planning department. In prac-

[49] The leading insurance and asset management firm Allianz also held 25%, like Deutsche and Dresdner. *Manager Magazin*'s negative assessment of their influence was shared by Germany's leading political magazine, *Der Spiegel* (Maß genommen, *Der Spiegel*, 7.3.1983).

tice, however, it lacked the management capacity to properly vet investments and provide direction for the company. Another key German newspaper, *Wirtschaftswoche*, concurred, claiming that 'Hapag Lloyd was, above all, the story of a management that had more confidence than ability.'[50]

As a result of these failures, Hapag-Lloyd was forced to adopt a turnaround plan. Key assets, including the corporate headquarters in Hamburg, were sold (they were later bought back) and many of the recently acquired new businesses closed. Cost cutting and reduction in excess capacity, rather than expansion and diversification, dominated the firm's agenda in the early 1980s.[51] Losses increased to 150 million in 1982 and 200 million in 1983. Eventually, Deutsche Bank herself had to cancel all dividends, having had to write off loans to Hapag and put up additional capital to keep the company afloat.[52]

The peculiar structure of German corporate capitalism, dominated by large banks and cross shareholdings, contributed to Hapag's difficulties as well as to its eventual survival, with the major institutional shareholders putting up over 300 million marks in additional capital to support restructuring.[53] In 1985, Hapag was back in the black and the turnaround was more or less complete. However, this simply meant that the company was back where it had started before embarking on diversification, getting 70% of its revenue from liner shipping where profits were falling and faced with the task of 'reducing this proportion.'[54] Deutsche Bank were lobbying the government to step in and nationalise Hapag, but the mood of the times was in favour of privatisation, not nationalisation.[55] Furthermore, German shipping policy was focused on the interests of Germany's large and successful export

[50] Hapag-Lloyd: Nachwehen der Fusion, *Wirtschaftswoche*, 11.6.1982.

[51] Hapag-Lloyd: Wettlauf gegen die Zeit, *Wirtschaftswoche*, 26.11.1982.

[52] Maß genommen, *Der Spiegel*, 7.3.1983.

[53] Kraftakt der Sanierung kostete gut 300 Mill. DM, *Handelsblatt*, 1.6.1984. The Hamburg city government reckoned that Hapag-Lloyd made 125 million marks of profits 1970-78, but lost 233 million 1979-83, estimating the additional capital shareholders had to put in at 400 million: Vermerk zum Schreiben des Hapag-Lloyd Seebetriebsrats vom 16.7.1984, 14.8.1984.

[54] *Deutsche Verkehrs-Zeitung*, 6.3.1986.

[55] *Stern*, 6.3.1986.

businesses that demanded cheap transport to remain competitive, not on the comparatively small shipping industry.[56]

(d) Comparison

Taking together the common as well as the divergent elements in both firms' experiences, we see how containerisation led both Hapag – short of capital but with access to loans from its owners, the largest banks and insurers in Germany – and Ocean – sitting on large unused reserves – to diversify out of shipping. That their experiences diverged has less to do with the timing of their move into container shipping than with the wisdom of their investment decisions and with the inherent quality of the acquisitions they made. Both firms had their fair share of failed investments, some of which were little short of disastrous. Overall, though, the Ocean of the 1970s and 1980s seems to have been run primarily as a business, not a shipping line, with a leadership that was focused on achieving an acceptable return on capital first and foremost. Hapag, on the other hand, though they very clearly lacked the conviction that liner shipping had a future unless the government support they lobbied for since the early 1960s materialised, never seriously contemplated the consequences of this assessment.

There were, again, both cultural and structural reasons for divergent experiences. Hapag to an extent exemplifies key features of German business history at the time: a strong currency, high costs, institutionalised influence of trade unions and regional governments, and close ties between large banks and companies, with the former often the major shareholders of the latter. These structural features seemed to have adversely influenced investment decisions, restricted scrutiny of the company's economic performance and shielded it to an extent from the consequences of market outcomes. Ocean's position at first glance looked more precarious, with its main markets eroding due to the generalised underperformance of the British economy and increasing government involvement in issues around labour, industry,

[56] Vermerk Dr. Seidenwinkel, 20.2.78.

and finance. Yet, it enjoyed a number of advantages over Hapag: substantial spare cash was available for strategic investment, labour costs were partly kept in check by access to cheap non-domiciled Asian seafarers, and with sterling's value declining, the company enjoyed costs in a cheap currency and earnings in a stronger one. The fact that OCL, for Ocean, was a separate joint venture rather than the core part of the company, also made it easier to assess shipping investment in business terms.

5. Conclusion

To briefly return to the overall session theme, technological and commercial innovation go together in container shipping, in a narrow as well as in a broader sense. Containers as a technology influenced shipping markets, making it possible to sell transport services in different ways, in new 'bundles', and they allowed new competitors to enter markets dominated by cosy cartels. Beyond that, containers forced shipping companies to reconsider their position in shipping markets and use their resources to diversify out of the shipping industry into other markets. Thus, the process reverberated through the economy, providing a fine example of what, according to Schumpeter, is the key problem in economics: how structures are created and destroyed.[57]

OCL was established to allow the four British shipping companies backing it to move into container shipping quickly and decisively. This represents a strategy deliberately based on exploiting first-mover advantages. Seizing the initiative was supposed to allow OCL to shape the future of liner shipping and to 'sweep away inherited difficulties, anomalies and dissatisfactions.' Hapag were far more cautious in their approach, openly acknowledging that they entered container shipping only because 'they did not have a choice' and privately expressing resentment at having been forced into investments in containerisation by the choices made by competitors. One of their key fears was that change would affect the balance of power between shipping firms and

[57] Schumpeter, *Capitalism, Socialism and Democracy*, 84.

their customers to the formers' disadvantage. However, they did enter container shipping with only a brief time lag to the first movers.

In a narrow sense, early and decisive containerisation paid off for both companies who managed to carry over the strong positions they enjoyed in traditional liner shipping into the container age. Both first moving and fast following were viable strategies. However, as both firms were aware, containerisation was a peculiar process in that it disrupted both the traditional activities of liner shipping companies, which would soon become redundant, and the fundamental structure of shipping markets.[58] Coupled with simultaneous developments such as increased competition, the rise of new shipping nations in Asia, deregulation, and the rise of flags of convenience, this diminished the gains early movers could make from containerisation. This is the reason why both Hapag and Ocean decided to diversify out of shipping, that is, to move into areas where it was irrelevant whether they were early or late movers into container shipping.

It should be noted, finally, that the two firms that stuck with shipping still exist, in some form or other: Hapag-Lloyd, after being part of Preussag and the travel operator TUI, was spun off into independence in the 2000s and after the 2008 financial crash had to be rescued by the regional government of Hamburg, which took a large stake in the company. P&O, which took sole control of OCL in 1986 and expanded into ferry and cruise ship operation, merged its container business with Nedlloyd in 1996, and has since sold it to Maersk, but is still operating ferries. The Ocean name, on the other hand, disappeared in 2000 when the company merged with National Freight Corporation to form Exel, which later became part of DHL. This raises the question of what is meant by corporate success: the preservation of a name, or the preservation of jobs, or that of shareholders' money – with no necessary relationship discernible between the three in the stories examined in this paper.

[58] perhaps discuss here the notion that 'true' disruption means entering a market from the bottom. Here, innovation was brought in from the top but then created the conditions under which cheaper provision became viable.

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