

## SHIPPING MARKETING & CUSTOMER ORIENTATION: THE PSYCHOLOGY & BUYING BEHAVIOR OF CHARTERER & SHIPPER IN THE TRAMP & LINER MARKET

*Evi I. Plomaritou*<sup>\*</sup>, *Vasso Plomaritou*<sup>\*\*</sup>, *Kostas Giziakis*<sup>\*\*\*</sup>

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*Marketing of shipping companies is not only concerned with the development and implementation of successful strategies. For marketing to be successful there needs to be a marketing orientation throughout the company which fosters the marketing concept and demonstrates a marketing approach to all internal and external activities. The concept of customer orientation in business markets has attracted attention from both academics and managers and it has been widely used in the marketing discipline. The term customer oriented firms is used to describe how knowledgeable the firm is about the clients' needs and how responsive the firm is to them in terms of the continuous value creation and delivery. Despite the increasing literature being focused on customer orientation and business relationships in general, there is a lack of literature explaining the marketing orientation in shipping companies. Shipping marketing can be described by means of all practical aspects within a marketing program, such as market analysis, segmentation, planning, differentiation, positioning, promotion and transport service production. A marketing orientation is based around a philosophy, which places the charterer and shipper first, and it recognizes that every action taken by the shipping company ultimately affects the customer relationship. Therefore, a necessary precondition of an effective shipping marketing is the understanding of the different needs the charterers and shippers have within the different market segments. The weakness of understanding the needs the client groups have, leads to the weakness of correct marketing planning and to the failure of providing the*

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<sup>\*</sup> Evi I. Plomaritou, PhD in Shipping Marketing, University of Piraeus, Dept. of Maritime Studies; 80, Karaoli & Dimitriou St., 185 34 Piraeus, Greece; Lecturer of Frederick University of Cyprus; E-mail: [mail@eviplomaritou.com](mailto:mail@eviplomaritou.com)

<sup>\*\*</sup> Dr. Can. Vasso Plomaritou, Counsellor & doctorate candidate in psychology, E-mail: [plomvasso@yahoo.gr](mailto:plomvasso@yahoo.gr)

<sup>\*\*\*</sup> Kostas Giziakis, PhD, Professor, University of Piraeus, Dept. of Maritime Studies, E-mail: [kgiziak@unipi.gr](mailto:kgiziak@unipi.gr)

*desired transport services. The article begins with a brief discussion and definitions for the marketing of shipping companies. Then, the framework of customer orientation in shipping companies is analyzed. The paper is based on an empirical research, which concerns the buying behavior in the tramp and liner market. Consequently, the psychology and buying behavior of a shipping company's clients are examined, as well as the charterers' and shippers' transportation needs, decision processes and the factors influencing them. The paper concludes with a discussion of the findings in terms of the implications for both theory and shipping practice.*

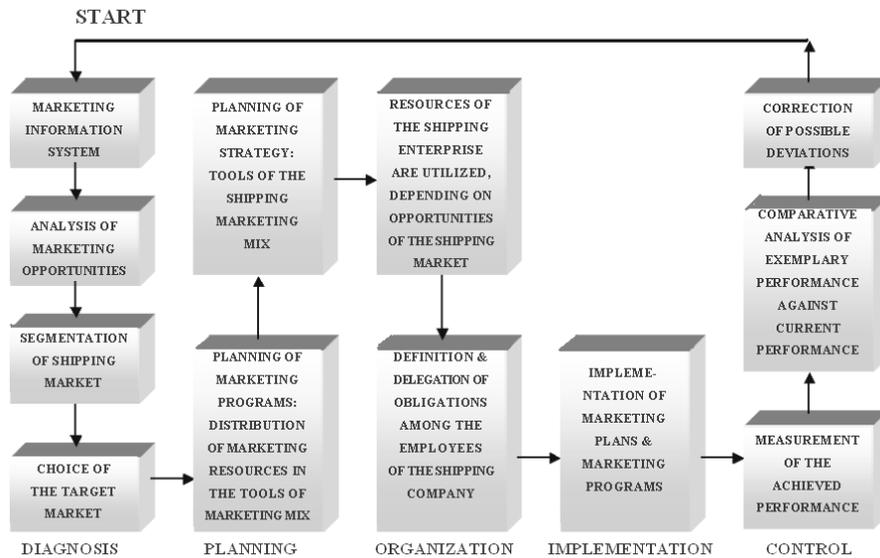
## **1. INTRODUCTION**

The marketing of shipping companies activating in merchant shipping, is the science of Business to Business Marketing (B2B marketing), which deals with the satisfaction of a charterer's – shipper's needs for the carriage of goods by sea, with the main aim of profit for the enterprise. This satisfaction presupposes, on the one hand, correct diagnosis of the shipping market to better understand and forecast a client's (charterer's – shipper's) transport needs and, on the other hand, appropriate organization, planning and control of the shipping enterprise's means (Plomaritou, 2006a).

The more the shipping enterprise tries to discover what its clients need, to adapt the chartering policy to their requirements, to offer appropriate transport services, to negotiate the freight as a function to what it offers, as well as to communicate effectively with the market it targets, the more the possibilities are to achieve the most appropriate, efficient and long-lasting commercial operation of its vessels (Plomaritou, 2006b).

All shipping enterprises have limited capabilities concerning the means, the resources and the management abilities for their ships. This means that it is impossible to exploit all the chances of the shipping market with equal effectiveness. The matching of the shipping enterprise capabilities with the needs and the desires of its clients is fundamental for the provision of the desired transport services, the satisfaction and retention of charterers and thus the commercial success of the enterprise (Goulielmos, 2001). The shipping company must organize its resources in such a manner as to be able to apply the marketing process' stages and to achieve a long-lasting and more effective commercial operation of its ships. The application of marketing presupposes correct diagnosis, planning, organization, implementation and control of the marketing effort. This process is continuous and it is presented by Figure 1.

Figure 1. Stages of marketing implementation in shipping companies



## 2. SHIPPING MARKETING AND CUSTOMER ORIENTATION

Marketing is not only concerned with the development and implementation of successful programs and strategies. For marketing to be successful, there needs to be a marketing orientation throughout the company, which fosters the marketing concept and demonstrates a marketing approach to all internal and external activities (Woodruffe 1995). The concept of customer orientation in business markets has attracted the attention of both academics and managers and it has been widely used in the marketing discipline (Despande, Farley & Webster, 1993; Jawoski & Kohli, 1993; Steinman, Despande & Farley, 2000). According to Narver, Slater & Tietje (1998), customer orientation is the sufficient understanding of one's target buyers to be able to create superior value for them continuously. The term customer oriented firms is frequently used to describe how knowledgeable the firm is about the client needs and how responsive the firm is to them in terms of the continuous value creation and delivery (Berger et al., 2002; Gummesson, 2002). Moreover, it has been argued that the essence of market orientation, as well as customer orientation as a dimension of the market orientation construct, is the successful management of a relationship between supplier and customer (Johnson & Selnes, 2004; Revald & Gronroos, 1996; Steinman et al., 2000; Svensson, 2001). Also, the literature has stated that strong business relationships must be developed with those

customers that are able to assess the value created and delivered by the firm (Egan, 2001; Haugland, 1999; Tuominen, Rajala & Moller, 2002; Webster, 1994; Wimmer & Mandjak, 2002). However, despite the increasing literature being focused on customer orientation and business relationships, there is a lack of literature explaining the marketing orientation in the shipping business.

Shipping marketing can be described by means of all the practical aspects within a marketing program such as shipping market analysis and segmentation, strategic planning, promotion and transport service production. A marketing orientation goes beyond this. It is based around a philosophy which places the client first, and it recognizes that every action taken by the company ultimately affects the customer relationship (Plomaritou, 2007b).

The inseparable nature of shipping services means that the importance of the roles played by the service provider (the shipping company) and the customer (the charterer or shipper) is often far greater than in the marketing of physical goods. Every interaction between the shipping company and the charterers can affect the quality of the transportation service and the benefits provided. According to Solomon, Suprenant, Czepiel & Gatman (1985), there are different types of interaction which go to make up the service encounter. In the shipping business, the main types of interaction are as follows (Giziakis et al., 2006):

- the direct interaction between the service provider, such as a member of staff or crew of the shipping company, and the charterer (or shipper),
- the interaction between the charterer and the ship-owner's broker,
- the interaction between the ship-owner and the charterer's broker,
- the interaction between the charterer's broker and the ship-owner's broker,
- the interaction between the charterer (or shipper) and service facilities, such as the formation of the bill of lading by electronic means (e.g. EDI - system),
- the interaction between the charterer and other charterers.

If a true marketing orientation is to be achieved, all members of staff need to know the functions of marketing and understand what marketing really means and how it can shape their approach to their own responsibilities. There are essentially two ways of looking at the functions and role of marketing. One way is to set down the tasks which are involved in the marketing process and the other way is to examine the aims of marketing.

The tasks involved in shipping marketing include the following (Plomaritou, 2006c):

- review of economic and business climate,
- situation analysis of shipping company,
- comparison of the shipping company with its competitors,
- market segmentation, targeting and positioning,
- design of the appropriate shipping marketing mix,
- development of strategic marketing plans,
- implementation of strategic marketing plans,
- measurement of achieved performance and comparison with exemplary performance of marketing plans,
- the aims of shipping marketing are as follows (Plomaritou, 2006b),
- to understand the transportation needs of charterers (or shippers),
- to provide benefits and satisfactions to meet the above needs,
- to ensure consistent quality of offered services,
- to retain existing customers (charterers or shippers),
- to attract new customers (charterers or shippers),
- to achieve the shipping company's objectives.

According to Vargo and Roger (2004), when firms take a customer perspective, they recognize that customers are active partners in the marketing process and view them as operant resources; hence, they work together to co-create value. A customer orientation places the charterer (or shipper) at the centre of the company's activities. Being close to the charterer is the focal point of the marketing concept. All personnel, as well as the crew, need to be aware of the way in which they can contribute to customer satisfaction, even when they do not have personal direct contact, such as the employees of the accounting department. Positive feedback from charterers (or shippers) can be relayed to everyone in the shipping company through internal bulletins. Similarly, any quality problems or customer complaints should also be discussed at all levels to see if systems or processes within the shipping company can be improved.

In accordance with the customer orientation, the activities of a shipping enterprise must be implemented within the framework of a well-studied philosophy of an effective, productive and responsible marketing (Plomaritou, 2006d). The shipping enterprise must understand the charterers' buying behavior. A necessary precondition of an effective shipping marketing is the understanding of the different needs the charterers – shippers have within the

different segments of the shipping market. For instance, the decisions of charterers in the tanker market are more oriented to safety, the decisions of shippers in the liner market are more oriented towards quality and the decisions of charterers in the bulk carriers market are more oriented towards cost (Plomaritou, 2006e). The shipping company must understand the charterer's behavior in every stage of the decision process, as well as the existing influences in the above process. Consequently, the enterprise must take into consideration the persons participating in the chartering process – e.g. chartering brokers - and the influence they exercise on the charterer's decisions. The shipping company must comprehend the chartering policy of charterers and shippers in the tramp and liner market.

The weakness of understanding the needs the various client groups have leads to the weakness of the correct marketing planning and to the failing of the provision of desired transport services at acceptable freight levels. The correct drawing up of the shipping enterprise's strategy is achieved through planned rational company's actions. The action plans must be applied correctly so that the proper transport service is provided to the appropriate charterer at the right time and port with the appropriate vessel and at freight levels that satisfy not only the shipping company but also its client (Plomaritou, 2006e).

### **3. CHARTERERS' & SHIPPERS' DECISION PROCESS**

To market sea transport services effectively, a shipping company needs to understand the thought processes used by the charterer and shipper during their decision process. The decision process of the customer is a sequence of thinking, evaluating and deciding. The decision process helps a shipping company to structure its thinking and to guide its marketing research regarding the charterer's and shipper's behavior. Engel et al. (1993) argue that a customer's behavior is usually depicted as a sequence of information processing. During the last 30 years, writers and researchers have attempted to categorize the stages of the decision process of a services buyer, which lead to the final patronage decision (Cuningham & White, 1974; Turnbull, 1997; Webster & Wind, 1972). The similarity of the stages suggests the conceptual framework of a charterer's and shipper's decision process. More specifically, the basic stages of a charterer's and shipper's decision process are the following:

- *The pre-purchase choice among alternatives during the pre-fixture stage.* This stage refers to all activities of the charterer and shipper occurring before the fixture of the charter and the acquisition of the

transport service. This stage begins when the contract of the sale of goods is signed and the cargo must be carried from the port of origin to the port of destination. During this stage, the charterer and shipper, who act on behalf of the cargo owner, examine their transportation needs and collect information regarding possible alternative vessels. A charterer and shipper seek the appropriate ship that will undertake the cargoes' carriage. The charterer in the tramp market shows his/her interest for a specific type of vessel and for a particular type of charter by drawing out the cargo order and by making offers and counter offers to ship-owners. Charterers have a list of options chosen on the basis of experience, convenience and knowledge. On the other hand, the shipper in the liner market shows his/her interest for a specific vessel by searching the appropriate liner services in the shipping press and by booking space on a ship. The pre-purchase stage includes the transportation need awareness, the information search and the evaluation of alternatives. An important outcome of the pre-purchase stage is the decision of the charterer to fix a certain charter and the decision of the shipper to book space on a certain vessel.

- *The charterer's and shipper's reaction during the carriage of goods.* The charterer and shipper have expectations about the performance of the chartered vessel. The vessel must execute the voyage with utmost dispatch and must deliver the cargo with safety at the port of discharge. Additionally, the charterer and shipper have obligations during the charter which are dependent upon the type of charter. For example, the charterer undertakes the commercial employment of the vessel in the case of a time charter while he undertakes the commercial operation of the vessel in the case of a bareboat charter. This stage is characterized by the prolonged interactions between the charterer (or shipper), shipowner, personnel and crew. It is from these interpersonal interactions that the transport service experience is acquired. Therefore, the benefits offered by a shipping company consist of the experience that is delivered through an interactive process.
- *The post-purchase evaluation of satisfaction during the post-fixture stage and after the delivery of cargo to the consignee.* During this stage, the charterer and shipper may experience varying levels of doubt that the correct fixture of the charter has been made. Due to the extended service delivery process, the post-choice evaluation occurs both during and after the use of services rather than only afterward (Jones 2000). According to Swift (2005), there are two ways of evaluating the quality

of transportation services: the compliance of the shipping company with the flag and class rules as well as the satisfaction of the charterer's and insurance's requirements.

#### **4. CHARTERERS' & SHIPPERS' BUYING BEHAVIOR**

According to Turnbull (1997), understanding the dynamics of organizational buying behavior is essential to all major strategic and tactical planning in business - to - business marketing. The psychographic analysis is the technique that investigates which are the interests, the desires and the needs of customers (Plomaritou 1999).

Various models of organizational buyer behavior have been postulated in the last 30 years (Bienstock et al. 2003, Tuominen et al. 2002, Smallman C. 1996, Sheth 1996, Draper 1994). According to Webster and Wind (1972), the most important categories of the model are the task related, the non-task related, the complex and the multi-dimensional. Based on the above-mentioned models, it is concluded that the buying behavior of the charterer and shipper is complex because it passes through the decision process comprising of:

- the recognition of the need of cargo transportation,
- the seeking of information through the cargo orders,
- the evaluation of alternative vessel employments,
- the decision for negotiation,
- the chartering pre and post fixture behavior.

Buying behavior of the charterer and shipper involves risk in the sense that any action taken by the charterer or shipper will produce consequences that he cannot anticipate with any certainty, and some of which are likely to be unpleasant. According to Hofmann and Bateson (1997), risk is proposed to consist of two dimensions:

- Consequence: the degree of importance and/or danger of the outcomes derived from any client's decision.
- Uncertainty: the subjective possibility of the occurrence of these outcomes.

With respect to uncertainty, the charterer (or shipper), for example, may have never chartered the vessel X and may have never cooperated with the shipping company which manages the vessel X. Moreover, even though the

ship-owner has performed the carriage of similar cargoes successfully in the past, the charterer (or shipper) is not guaranteed that this particular voyage will end with the same successful outcome. In addition, uncertainty is likely to increase if the charterer (or shipper) lacks sufficient knowledge before the execution of the charter, concerning the particulars of the vessel, the image of the shipping company, past loss and damage experience of the company, etc. The consequences of a poor decision regarding the chartering of a vessel could cause damages or loss of cargo.

The charterer and shipper perceive three types of risk during the pre-fixture and post-fixture stages of a charter: financial, social/psychological and shipping risk (Ranheim, 2002).

Financial risk assumes that financial loss could occur in the case of the vessel's poor performance. Loss or damage in transit is an insurable risk, but raises many difficulties for the shipper, who may well be prepared to pay more for secure transportation of his/her product without risk of damage. Social/psychological risk relates to the idea that there might be a loss of the charterer's (or shipper's) social status associated mostly with the carriage of oil or dangerous goods by sea (e.g. the case of oil pollution). Shipping risk is the risk that the investment in the hull of a merchant ship, including a return on the capital employed, is not recovered during a period of ownership. Stopford (1997) argues that shipping risk can be taken by the shipper (industrial shipping) or by the ship-owner (shipping market risk). When risk is taken by the cargo owner, this leads to an "industrial shipping" business, in which ship-owners are subcontractors and cost minimizers. When "shipping risk" is left to the ship-owner, business becomes highly speculative (Stopford, 1997).

When shippers are confident about how much cargo they will need to transport in the future, or if they feel that transport is of too great strategic importance to be left to chance, they may decide to take the shipping risk themselves. Shipping operations may be carried out with an owned fleet or by pre-construction time charters with independent ship-owners, if this is found to be a more cost-effective solution. With the assurance of cargo, the owners purchase ships and try to make a living by keeping costs below the contract margins. This type of operation is often known as "industrial shipping". Industrial shipping is a policy, not a requirement. The oil industry provides a good example of how policies can change with circumstances (Vlachos and Georgantopoulos, 1997). In the 1950s and 1960s, it was the policy of the major oil companies to own enough tankers to cover between one-third and two-thirds of their requirements and to charter tankers long-term to cover most of the

balance. This left only 10 percent of their needs to be covered from the voyage charter market. After the oil crisis in 1973, the oil trade became more volatile and much of the oil transport passed to oil traders who had little incentive to plan for the future. As a result of these changes, oil shippers started to rely more heavily on the voyage market. The amount of oil cargo shipped in vessels hired on the freight market increased from 10-15 percent in the early 1970s to 50 percent by the late 1980s and the proportion of independent tanker owners trading as subcontractors (on time charter) fell from 80 percent to about 25 percent.

Industrial shipping makes ship-owners subcontractors rather than risk takers. In this business, the challenge is to win the contract and deliver the service at a cost-level, which leaves the ship-owner with a profit. Although the ship-owner is freed from market risk, that does not remove all risk. Charterers strike a hard bargain and the owner is subject to inflation, exchange rates, ship's mechanical performance and shipper's ability to pay the hire.

By taking into consideration that charterers and shippers do not like taking risks, then it seems obvious that they will try, whenever possible, to reduce risk during the negotiation stage and before fixture.

One strategy is the brand-loyalty (Choundouri & Holbrook, 2001). Brand loyalty is based on the degree to which the charterer (or shipper) has obtained satisfaction in the past. If charterers (or shippers) have been satisfied in the past with the transport services, they have little incentive to risk trying a new shipping company. Having been satisfied in a high-risk charter, a charterer is less likely to experiment with a different charter. Maintaining a long-term relationship with the same shipping company helps to reduce the perceived risk associated with the charter. This is why it is common to observe charterers and shippers chartering vessels from the same shipping company over long periods of time.

Another strategy is the collection of information concerning the vessel's particulars, the ship-owner's reputation for reliability, the company's profile and the past loss/damage experience of the company (Plomaritou, 2008a). Considerable information is provided to the charterers by the TMSA (Tanker Management Self-Assessment Scheme) reports concerning the quality assessment of tanker vessels (OCIMF). Risk is likely to decrease if before the execution of the charter, the charterer (or shipper) has sufficient knowledge concerning the vessel and the shipping company (Fletcher, 1997; Watkins,

1992). The above-mentioned strategies alleviate the risk contained within the charterers'/shippers' buying behavior, but they cannot remove it completely.

Considering some several perspectives on behavior (Bienstock et al., 2003; Hawkins et al., 1998, Smallman, 1996; Sheth, 1996; Draper, 1994) as a way to understand what could motivate the buying behavior of the charterer and shipper, we come to the following conclusion, which should not be too dogmatic:

- The first perspective on charterer (or shipper) behavior and motivation is the Hard Core Behavioral and Motivation Perspective, which is based on learning theories such as operant and classical conditioning. These theories could suggest that charterers and shippers must learn from their own experiences in order to avoid the types of risk. That means that the charterer and shipper must experience the whole procedure of buying rather than merely observing other charterers and shippers who experience the above-mentioned types of risk.
- The second perspective is the Social Learning Perspective, which, in contrast to the Hard Core Behavioral and Motivation Perspective, allows for vicarious learning. This means that it allows learning obtained by watching others getting good or bad consequences for behavior. Following this perspective, the charterer and shipper observe and imitate models (other charterers and shippers), who are more likely to be imitated than others (Raoust, 2003).

The motivation of the charterer and shipper has the following properties:

- Motives may be overt, hidden and multiple.
- Motivations can be driven by both internal and external factors.

The complex buying behavior of charterers/shippers is dependent largely upon the exogenous factors of the micro and macro environment of shipping marketing as well as upon the attractiveness of the shipping marketing mix of the shipping company (Plomaritou & Goulielmos, 2007c). The exogenous factors constitute the non-controllable factors of the shipping company, while the tools of the shipping marketing mix constitute the controllable factors of the shipping company. The global and demanding character of the shipping industry is recognized since the shipping market receives many influences from economic, political, social and other developments on the international and national level (Giziakis et al., 2002). As a result, the charterers' (or shippers')

buying behavior and, in a wider sense, their chartering policy accepts many influences from exogenous factors, which are beyond the company's control.

Additionally, the buying behavior of charterers (or shippers) is shaped according to the shipping company's marketing mix variables. Marketing mix is the sum of marketing tools used by the enterprise in order to achieve its objectives in the target-market. Shipping marketing mix operates as a customer motivation tool. The needs, wants, drives, and desires of an individual that lead him or her toward the purchase of services or ideas is called consumer motivation (Goulielmos and Plomaritou 2009). Each of the shipping marketing mix variables is controllable by the shipping company. Figure 2 presents the elements of charterers' and shippers' decision process as well as the characteristics of their buying behavior.

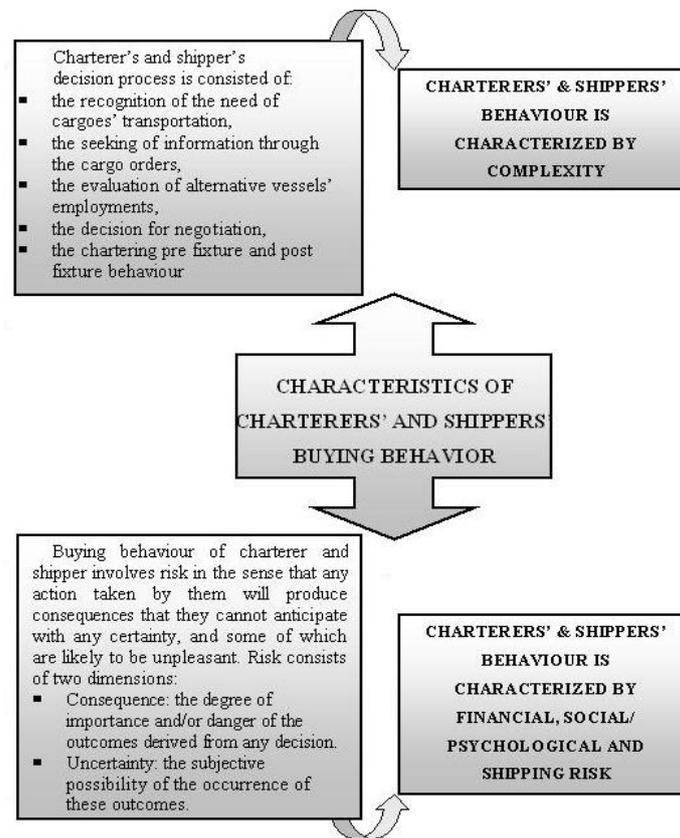


Figure 2. Characteristics of charterers' and shippers' buying behavior

The tools of the marketing mix for a shipping enterprise, active either in the tramp, or liner shipping market are: product (tramp or liner service), price (freight or hire), process (negotiation procedure & execution of the charter), people (office personnel & ship's crew), place (ports & geographical area of ship's employment), promotion (advertising programs), physical evidence (ship's characteristics & seaworthiness of the vessel) and paperless trade (Plomaritou, 2008b).

When effectively combined, the marketing mix can offset the effects of the uncontrollable factors that exist in every shipping firm's environment such as technological advances, new and existing competitors, governmental regulations, economic conditions and the effects of seasonality that are constantly changing the environment in which the shipping enterprise operates. Shipping companies that fail to alter their marketing strategies to reflect the environmental changes and to satisfy charterers' transportation needs, often falter in the long run.

## **5. CHARTERERS' AND SHIPPERS' CHARTERING POLICY**

The shipping company must understand the charterer's and shipper's behavior in every stage of his/her decision process, as well as the charterer's and shipper's chartering policy in the tramp and liner market correspondingly.

According to a comparative study of charterers' and shippers' requirements in the bulk and liner market (Plomaritou, 2006a), it was concluded that the tanker market is safety oriented, the liner market is quality oriented and the bulk carriers market is cost oriented.

### **5.1. The chartering policy in the tramp market**

There are seven categories of criteria which play a decisive role in the selection process of the shipowner by charterer in the tanker market. The categories of the selection criteria of the shipowner are the following (Plomaritou, 2006a; OCIMF, 2005; Bishop, 2004; Graeme et al., 2003; Moore 2000):

1. Compliance of the shipping company with the international regulations of safety management:
  - well designed and built tankers,
  - well maintained tankers,

- training and competence of crew,
  - training and competence of employees.
2. Reputation and image of the ship-owner in the shipping market:
- past loss and damage experience of the shipping company,
  - reputation of the ship-owner for reliability.
3. Low cost sea transport operations:
- transportation solutions that reduce costs and maximize results.
4. Appropriate (unselfish) chartering negotiating process:
- compliance with the chartering negotiation rules,
  - provision of accurate and reliable information regarding the ship,
  - cooperation and response to the charterer's requirements.
5. Provision of high quality transport services:
- trade and schedule flexibility,
  - appropriate voyage planning,
  - speedy voyage execution,
  - proper loading and discharging operations without stoppages,
  - reduction of turn-around time to the minimum,
  - safe transportation of cargo to its destination.
6. Maintenance of good relationships with charterer:
- good crew-charterer relationships,
  - good company-charterer relationships.
7. System of informing the client – charterer:
- updated information system of charterer,
  - informative nature of advertising programs.

With regard to the charterer's requirement for compliance of the shipping company with international regulations of safety management, this concerns the

application of international rules and standards recommended by international maritime organizations, state authorities and recognized registers (Giziakis & Goulielmos, 2005), for avoiding marine accidents, marine pollution, vessel damages and loss of cargo. From the early 1990s, an increasing national and international concern over tanker safety and environmental aspects was observed, resulting in new rules and conditions for tanker owners, which affect the market and the marketing of tankers, especially older vessels. The above-mentioned rules refer to the construction and maintenance of ships, as well as to the training of crew and personnel. Today, the oil companies, with the identity of the charterer, are specially careful and sensitized in environmental matters. Consequently, a very small number of old age and old technology tankers participate in the world-wide oil trade.

The charterer requires from the ship-owner to allot the suitable vessel for transporting the cargo with safety. The obligation of the ship-owner to grant a seaworthy ship concerns obligations for each part of the vessel, of its engine, of its supplies and even of its crew. According to Ivamy (1989), the ship-owner is obliged to provide a ship built, equipped and manned in such a manner, so that it can carry the cargo with safety to its destination and can overcome those risks – ordinary perils of the sea – anticipated to meet during the chartering. The ship-owner's duty to provide a seaworthy ship comprises a duty to have its loading and discharging tackle available for the purpose of loading and discharging.

According to Wilson (1993), the ship-owner must display the appropriate care and take the appropriate measures in order to:

- Render the ship seaworthy.
- Render the ship suitably manned. Inability of the master or crew owed to the lack of knowledge (or experience), or to the intention of a crew member not to use his/her knowledge, renders the ship unseaworthy.
- Render the ship appropriately equipped. The ship must possess all the necessary equipment, instruments and devices for safe sailing, loading, unloading and handling of the cargo.
- Render the ship appropriately supplied. The ship must possess all the necessary documents (International Oil Pollution Prevention Certificate, IOPP), supplies, fuel and lubricants for the carrying voyage.
- Render the ship holds clean and safe for the transportation of the cargo.

The ship-owner is also obliged to maintain the ship in a good order and condition during the charter. The oil companies require previous inspection of the tankers they are about to charter in order to ascertain that they are suitable for covering their transportation needs. A large number of independent tanker ship-owners believe that it is necessary for a charterer to know, in every detail, what he/she is about to charter. However, worthy of note is the behavior of certain ship-owners who characterize the above charterers' stand as excessive since an extensive inspection is carried out in the tanker areas by the register or by the flag state or by the shipping company.

Oil companies constantly evaluate the shipping companies they work with, as well as the quality of the vessels they charter. The Tanker Management and Self Assessment (TMSA) guide issued in 2004 by the Oil Companies International Marine Forum now plays an integral part in this process (OCIMF, 2004). TMSA provides tanker operators with a means of assessing their own safety management systems against a number of key performance indicators (KPIs). TMSA lists 12 categories, or "elements" against which operators are encouraged to assess themselves on a scale of 1 to 4 (with 4 being the 'best' mark) and to use the results to improve their management and operational standards. These elements cover items such as management, leadership and accountability; recruitment and management of shore-based and ship-based personnel; cargo ballasting and mooring operations; management of change; incident investigation and analysis; and emergency preparedness and contingency planning (Hess, 2004). OCIMF's industry-standard Ship Inspection Report Program (SIRE) reporting system has been seen as a way of bolstering the ship inspection regime and now TMSA is being seen as a means of reinforcing the implementation of the International Safety Management (ISM) Code, with particular emphasis on self-assessment and continuous improvement. Although many owners would like to get to grips with TMSA – not least because they view it as a commercial requirement in the eyes of some charterers – they feel that there are obstacles to doing so (Iakovou, 2006). Some owners complain of the lack of a framework for self-assessment, while others feel that there is insufficient time to adopt some of the more rigorous 'best practice' standards. Further, some feel that established industry KPIs such as 'lost time injury frequency' should be incorporated into TMSA (Iakovou, 2006).

The oil companies maintain the view that reliability, honesty and integrity of the ship-owner are more important than the most attractive terms of the charter party that may be offered to them. Thus, the oil companies, during the chartering negotiations, take seriously into account the reputation of the

shipping company at the freight market, marine insurance market, sale and purchase market, new building market, etc. The history of losses and damages of the shipping company affects the decision process of charterers in making a fixture (Giziakis et al, 2009).

Concerning the requirement of the charterer for low cost sea transport operations, it is generally admitted that the tanker market is characterized by a small number of big chartering companies - the oil majors – that have the ability to control, to a large extent, the schedule of loading operations. The number of smaller private firms (often known as “traders”) and state organizations engaged in the chartering of tankers increased considerably during the 1980s. Nowadays, a concentration of fewer and larger entities and a decrease of traders are observed. The comparatively small number of loading areas and the offshore loading terminals are also typical of the tanker market, although there has been a significant increase of loading places during the last decade (Vlachos & Georgantopoulos, 1999).

Throughout the years, it has been typical for the big oil companies to own a considerable fleet of tankers under their management, but now the trend is for these companies to sell off and cease operation as owners. Instead, tanker owners will build vessels to charterers’ specifications and place them on long-term charter or contract with the oil company in question. In a depressed market situation, these charterers may enter into longer engagements of two or three years’ duration. Since the position of oil companies is so strong in the market for as long as the vessels’ supply continues to be flexible and in relevant balance with the vessels’ demand, it follows that the only risk the oil companies face ensues from the possibility of the tankers’ supply to become inflexible against increasing tankers’ demand. For avoiding this possibility, a successful prognosis of their transportation needs is required on behalf of the oil companies so that with the appropriate encouragement for new investments by private carriers, the maintenance of balance between demand and supply is ensured (Giziakis et al., 2009).

Consequently, the freight cost is always important, but the greater the proportion of freight in the overall cost equation, the more emphasis charterers are likely to place on it. For example, in the 1950s, the cost of transporting a barrel of oil from the Middle East to Europe represented 49 percent of the CIF cost. As a result, oil companies devoted great effort to finding ways to reduce the cost of transport. By the 1990s, the price of oil had increased and the cost of transport had fallen to just 2.5 percent of the CIF price, so the transport cost became less important (Vlachos & Georgantopoulos, 1997).

The charterers also want to ensure the appropriate chartering negotiation. The ensuring of prompt chartering negotiations presupposes the application of the proper negotiating rules. The negotiable parties are obligated to comply with the standards and principles, as proposed by BIMCO. The charterers require from the ship-owner to provide true, precise and reliable information concerning the vessel. The ship's description – name, discreet sign, date of building, nationality, deadweight and net capacity, speed, draught, width, length, cargo handling equipment, fuel consumption, etc. – is of a great importance to the degree it affects the charterer to sign the contract. All information must be exchanged in good faith (Giziakis et al, 2002).

In addition, the charterers require from the ship-owner to comply with the time limits concerning the submission of offers and counter-offers. During negotiations, offers and counter-offers of the parties are submitted within reasonable time limits. It is understood that aimless delays during chartering negotiations are not desirable.

The ship-owner should not offer the same ship to more than one charterer at the same time because if all charterers accept the offers, then the ship-owner would not be able to fulfill his/her obligations and make his/her vessel available concurrently. Sometimes, during the negotiation of a ship, the ship-owner uses phrases such as “subject open” or “subject free” or “subject unfixed”, which means that the ship is subject to a negotiation with more than one charterer at the same time. However, such a tactic is not desirable by the charterer with the result to display reluctance to follow it (Giziakis et al, 2009).

Concerning the requirement of the charterer for provision of high quality transport services, this includes the appropriate planning of the voyage, the speedy and correct loading and unloading process, as well as the reduction of “turn around” time to the minimum (Thorstensen, 1996). According to Rajaish (1999), the chartering companies desire the same high quality of transport service independently of the type of trade, the type of vessel, the geographical area and the economic developments.

The oil companies also desire to cooperate with ship-owners who offer trading flexibility, without commercial or geographical limitations concerning the vessel's usage, even in extremely sensitized environmental regions. Charterers want to charter vessels universally accepted. Limitations included in charter parties due to political or economic reasons are not desirable by the charterers. In addition, the charterers seek appropriate voyage planning.

The charterers also require from the ship-owners to execute the determined voyages, without unjustifiable delays and deviations. It is difficult to determine which delay is justifiable and which is not. According to Wilson (1993), if a master, who has the voyage's control and knows the prevailing conditions at trades and ports, judges that a delay is necessary for a ship's, crew's and cargo safety, then the delay is considered justifiable.

Concerning the loading and unloading operation, the charterer requires from the ship-owner to exercise due diligence for the appropriate, safe and speedy receipt, loading, stowage, unloading and protection of cargo (Graeme et al. 2003, Moore 2000). In order to ensure the ship's safety, the ship-owner has the duty to supervise the loading and unloading operation. If inappropriate loading methods are allowed, the ship-owner is rendered responsible for the possible consequences. Loading and discharging must be performed in such a manner so that the cargo will not be damaged and the ship will not lose its stability. The charterer wishes the ship to take as much cargo as possible, without exceeding the safety limits determined by the loadline zones. In addition, the avoidance of stoppages during the loading and unloading operation is deemed necessary. It must be mentioned that the master should reduce the time of arriving-loading and unloading-departing, i.e. the "turn-around" time, to the minimum. The vessel's stay in port is considered as non-productive since the productivity of a ship is measured in ton-miles per DWT that the ship performs on sailing for a time-period. The minimization of the ship's delay in a port is the result of team-work performed by the port agent, the charterer, the cargo owner and the cargo receiver.

The charterer desires his/her cargo to be transported with safety, to be delivered on time and at the port of destination. All persons involved in the oil transportation process are obliged to be appropriately trained according to the IMO's requirements in order to ensure the appropriate loading, transportation, unloading and delivery of cargo.

The charterer wishes to maintain good relations with the shipping company. The relations of the charterer with the crew must be excellent, especially in the case of time charter or bareboat charter (Bishop 2004, Graeme et al, 2003; Moore, 2000). The charterer wishes to remain satisfied with the master's behavior and actions, especially with regard to his/her compliance to commercial employment orders and to navigational instructions. It should be mentioned that in the case of a bareboat charter, where the charterer has the commercial operation of the ship, he/she engages the crew and the captain is obliged to comply with the orders and instructions of the charterer regarding

navigation, employment and operation. In the case of time charter, the charterer has the commercial employment of the ship with the result that the master is obliged to comply with the charterer's employment orders and not with the charterer's navigational instructions. However, although the charterer has no right to give navigational instructions, he/she asks from the master to understand and respond to his/her reasonable demands. On the other hand, the master is obliged to act logically every time he/she receives the charterer's orders, some of which require immediate execution while others need negotiation before executing.

Additionally, the charterer aims to maintain good relations with the shipping company and, more specifically, he/she wants full cooperation with the personnel for satisfying his/her requirements to such an extent that the ship-owner's interests will not be damaged (Bishop, 2004; Graeme et al, 2003; Moore, 2000).

The charterer considers that a modern information system is also essential in order to familiarize himself/herself with the voyage situation (Bishop, 2004; Graeme et al, 2003; Moore, 2000). The system must be appropriately designed to provide, on a daily basis, useful and updated information concerning the ship's performance (in technical and financial terms), fuel consumption, the vessel's service speed, the ship's movements, estimation of arrival at ports, etc. From the above analysis, it is concluded that the decisions of charterers and their chartering policy in the tanker market are more oriented to safety. On the other hand, the decisions of charterers in the bulk carrier market are more oriented towards freight than towards safety. Ships operated in the spot market must comply with the charterers' demands concerning type and size, but the emphasis is given to the low cost of sea transport operations. During the last century, improved efficiency, bigger ships and more effective organization of the shipping operation have brought about a steady reduction in transport costs and a higher quality of service. The vessel must be available at the right port, area or dock, at the right time and ask for a freight level, which is competitive in comparison with what other interested parties may offer.

Although the selection criteria of a ship-owner by a charterer in the dry bulk carriers market are similar to those selection criteria of a ship-owner by a charterer in the tanker market, the classification of the above-mentioned criteria by charterers in order of importance is much different in the dry bulk than in the liquid bulk markets. More specifically, the categories of criteria, which play a decisive role in the selection process of the ship-owner by the charterer in the dry bulk market, are the following (Plomaritou, 2006a; Moore, 2000):

1. Low cost sea transport operations:
  - transportation solutions that reduce costs and maximize results.
2. Appropriate (unselfish) chartering negotiating process:
  - compliance with the chartering negotiation rules,
  - provision of accurate and reliable information regarding the ship,
  - cooperation and response to the charterer's requirements.
3. Compliance with the international regulations of safety management:
  - well designed and built bulk carriers,
  - well maintained bulk carriers,
  - training and competence of crew,
  - training and competence of employees.
4. Reputation and image of the ship-owner in the shipping market:
  - past loss and damage experience of the shipping company,
  - reputation of the ship-owner for reliability.
5. Provision of high quality transport services:
  - appropriate voyage planning,
  - speedy voyage execution,
  - proper loading and discharging operations without stoppages,
  - reduction of turn-around time to the minimum,
  - safe transportation of cargo to its destination.
6. Maintenance of good relationships with the charterer:
  - good crew-charterer relationships,
  - good company-charterer relationships
7. System of informing the client – charterer:
  - updated information system of charterer,

- informative nature of advertising programs.

## 5.2. Chartering policy in the liner market

The categories of criteria, which play a decisive role in the selection process of the carrier by shipper in the liner market, are the following (Plomaritou, 2006a; Piyush et al, 2003; Sato, 2002; Tuna et al, 2002; Murphy et al. 2000; Brooks et al, 1999; Brooks, 1991, 1985, 1984; Kent, 1999, Deste et al, 1992; Coulter et al, 1989):

1. Provision of high quality transport services:
  - directness of sailings,
  - scheduling flexibility,
  - on-time pick up & delivery of the cargo,
  - fast execution of the voyage,
  - reduction of turn-around time to minimum,
  - appropriate cargo handling,
  - safe transport of goods.
2. Compliance of a shipping company with international regulations of safety management:
  - well-designed container ships,
  - well maintained container ships,
  - training & competence of crew,
  - training & competence of employees.
3. Reputation & image of the ship-owner in the market:
  - past loss and damage experience,
  - ship-owners' reputation for reliability.
4. Low cost sea transport operations:
  - transportation solutions that reduce costs & maximize the results.
5. Satisfactory cooperation with personnel and crew:
  - proximity of a carrier's office,

- co-operation with personnel,
- reliable representation of the vessel,
- cooperation & response to the charterer's demands,
- settlement of cargo claims,
- efficient handling of cargo bookings,
- tracking/communications system,
- crew-shipper relationship,
- company-shipper relationship.

6. Information system for shippers:

- information to shippers,
- information nature of advertising.

The decisions of shippers in the liner market are more oriented towards quality than towards safety (as in the tanker market) or towards cost (as in the bulk carrier market). Quality of service includes the directness of sailings, the scheduling flexibility, the on-time pick-up and delivery of cargo, the fast voyage execution, the reduction of turn-around time to a minimum, the appropriate cargo handling and the safe transport of goods (D'este & Meyrick, 1992). Liner operators are involved much more than other ship-owners in improving the cargo handling equipment and in developing the ports' facilities. Ports play a vital part in the transport process. Automation of cargo handling and investment in specialist terminals have transformed the business. Ship-owners may lose much more money in the case of damage of their high value cargoes due to poor quality of service, compared to what he/she could have gained by compressing the transportation cost. According to Kent and Parker (1999), shippers give emphasis to high quality of transport services and not to low cost of sea transport operations.

With logistics prevailing today, the shippers wish to cooperate with carriers having the ability to offer frequent and flexible trade routes, without trading and geographical limits. The sea transport is a stage of the entire production process. The frequent sailings offer to shippers the ability to reduce the level of stock kept at each end of the transport chain. Due to the high value of general cargo, shippers require from carriers to execute trade routes directly without unjustifiable delays. The master is obligated to reduce the "turn-around" time to the minimum necessary. As it has been mentioned, the minimization of a ship's delays at ports is the result of teamwork by the agent, the owner and the receiver of cargo. Time in transit incurs an inventory cost, so shippers of high-

value commodities value speed. The cost of holding high-value commodities in stock may make it cheaper to ship small quantities frequently even if the freight cost is greater. On a three-month journey, a cargo worth \$100,000 incurs an inventory cost of \$2,500 if interest rates are 10 percent per annum. If the voyage time can be halved, it is worth paying up to \$1,250 extra in freight. Speed may also be important for commercial reasons. A European manufacturer ordering space parts from the Far East may be happy to pay 10 times the freight for delivery in three days by air if the alternative is to have machinery out of service for five or six weeks while the spares are delivered by sea (Stopford, 1997).

In the case of long journeys, the reliability of the schedule, as well as the on-time pick-up and delivery of cargo are especially important (Brooks, 1984, 1985). With the growing importance of “just-in-time” stock control systems, transport reliability has taken on a new significance. Some shippers may be prepared to pay more for a service which is guaranteed to operate on time and provide the services which it has promised.

During the loading and unloading operation, shippers require from the carrier to care for the appropriate, safe and speedy receipt, loading, unloading and protection of general cargo. The master, in order to secure the vessel’s safety, has the duty to supervise the loading and unloading operations. If he/she allows inappropriate loading methods, the ship-owner is rendered responsible for his/her actions or omissions. Loading and unloading operations must be performed in such a manner so that the cargo will not be damaged and the ship will not lose its stability. The avoidance of loading and unloading stoppages is deemed necessary. According to Tuna & Silan (2002), the speedy transportation of cargo and its on time delivery to the consignee at the port of destination constitute basic requirements of shippers.

Sato (2002) argues that shipping companies manage to strengthen their competitive position in the liner shipping market by offering package solutions to transport problems, such as the arrangement of door-to-door transport. Although most charterers in the bulk market are quite satisfied to employ a vessel on the conventional “port A to port B basis”, the shippers in the liner market see the overseas transport as part of their industrial process integrated into the production line affecting directly the company economy. These shippers look for special performance guarantees and value added services. This fact affects the marketing and daily working situation not only for owners but also for their agents. According to Frazelle (2000), companies are increasingly adopting this so-called Materials’ Administration Philosophy. It is not sufficient

to adjust only the technical flow of material (logistics) through the factory and connected external infrastructure, but that it is necessary to look after and tune the total economic and administrative flow to run as smoothly and efficiently as possible through the entire process from the purchase and receipt of raw materials and parts sales, production, storage, transport and delivery to the customer. The so-called “Just in Time” (JIT) concept is one result of the MA Philosophy and is an important factor in the process, especially for an industry involved in the finished products manufacturing. Shippers purchasing sea transport on behalf of an industry working in line with this philosophy require owners, agents and forwarders to understand that the arrangement and performance of sea transport will form an important link integrated into the MA flow system, and should be regarded as part of the production and delivery process. As such, it must be finally tuned in every way to fit into the system, and it must not fail shippers as the quality class and reputation will depend on this. This means that interested ship-owners and their intermediaries will be asked how they intend to solve the transport problem and join the shipper’s system, and they have to bring proof of reliability, i.e. quality certification. This market development started in the 1980s on the liner side, but from the 1990s and into the 2000s, it increasingly affected the open market trades, including raw materials in bulk and oil products so that owners have to adapt their marketing and performance accordingly.

A shipper requires from the carrier to care for the suitability of his/her vessel in order to fulfill the transportation of cargo with safety. The carrier is obliged to provide a ship constructed, equipped, supplied and staffed according to the international regulations on the design and operation of vessels in order to execute the voyage safely and to overcome those risks it is anticipated to meet during the charter (ordinary perils of the sea). According to Piyush, Hidekazu & Masayuki (2003), loss or damage in transit is an insurable risk, but raises many difficulties for the shipper, who may well be prepared to pay more for secure transportation of his/her product without risk of damage. Shippers take seriously into account the reputation and image of the ship-owner in the shipping market. The ship-owners create for themselves a reputation in shipping circles, which is very quickly spread internationally. In the day-to-day exchange of information, certain expressive wordings are used like “first class people”, “unprofessional operators”, “good performers”, etc. Being labeled “difficult” indicates that the party in question is difficult to deal with, by lack of flexibility or even lack of knowledge of the trade. The same bad impression is given by the label “unserious”, while the reputation as a “hard trader” should not at all be a disadvantage if it is connected with an otherwise good reputation where performance is concerned. Additionally, the past loss and damage experience of

a shipping company affects the shipper in his/her decision process. Regarding the requirement of shippers for the provision of services at a reduced cost, this does not constitute the decisive selection factor of a carrier, although they consider it. The freight in the liner market is determined by tariffs, while often discounts are granted to faithful clients, which in many countries are considered illegal and are persecuted by the law (Vlachos et al, 1997).

Shippers wish to ensure satisfactory cooperation with the shipping company. The immediacy of the crew and personnel constitutes basic preconditions of maintaining clientele relationships (Sato, 2002; Murphy et al., 2000). The relationships of the crew with the shipper must be excellent in order to achieve smooth execution of the charter, especially in the case of time charter. The marketing philosophies generate and build up long-term relationships between the ship-owners and shippers. The shipping company must also maintain and deepen the contacts with old customers, for example, through visits. There is a special demand made on skill and diplomacy exercised by the personnel of the claims department. Such matters must be dealt with correctly in accordance with the law and good practice so that the ship-owner does not lose the customer. Shippers evaluate more today than in the past that effective management is able to resolve problems presented during the charter and to respond to the reasonable shippers' requirements.

A system of following up the carriage and a system of continuous update are also desirable by shippers (Piyush, Hidekazu & Masayuki, 2003). In addition, advertising of the informational nature is deemed necessary for attracting clients and for informing the older ones. Advertising material, such as folders, annual reports, advertisements in trade magazines and daily newspapers, together with an interesting home page on the Internet is used by ship-owners to create new business opportunities. From the above analysis, it is concluded that the decisions of shippers and their chartering policy in the liner market are more oriented to quality.

## **6. CONCLUSIONS**

In accordance with the customer orientation, the activities of a shipping enterprise must be implemented within the framework of a well-studied philosophy of a productive and responsible marketing. A necessary precondition of the effective shipping marketing is the understanding of the different needs the charterers and shippers have within the different segments of the market. The company has to comprehend the charterer's behavior in every stage of the decision process, as well as the existing influences in the above

process. The matching of the shipping enterprise capabilities with the needs of its clients is fundamental for the provision of the desired transport services, the satisfaction and retention of charterers and, thus, the commercial success of the enterprise.

According to the empirical research, the decisions of charterers in the tanker market are oriented to safety; the decisions of shippers in the liner market are oriented to quality; and the decisions of charterers in the dry bulk market are oriented to cost. The buying behavior of the charterer and shipper involves risk (financial, social/psychological, shipping) in the sense that any action taken by the charterer (or shipper) will produce consequences that he/she cannot anticipate with any certainty, and some of which are likely to be unpleasant. The chartering policy of charterers and shippers accepts many influences from exogenous factors, which are beyond the shipping enterprise's control. The complex buying behavior of charterers/shippers is dependent largely upon the attractiveness of the company's marketing mix (controllable factors), as well as upon the exogenous factors (non-controllable factors) of the marketing environment.

The weakness of understanding the charterers' (and shippers') needs leads to the weakness of designing correct marketing plans and of providing desired transport services at acceptable freight levels. For each market segment, appropriate marketing strategies must be planned and to every segment, an appropriate marketing mix should be offered. The marketing plans must be applied correctly so that the appropriate transport service is provided to the appropriate charterer and shipper at the right time, at the proper port with the suitable vessel and at freight levels that satisfy not only the shipping company but also its client (charterer/shipper).

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**MARKETING I PONAŠANJE POTROŠAČA U POMORSKOM PROMETU:  
PSIHOLOGIJA I KUPOVNO PONAŠANJE ZAKUPACA I PREVOZNIKA NA  
TRŽIŠTU SLOBODNOG I LINIJSKOG POMORSKOG PROMETA**

**Sažetak**

Marketing pomorskih prijevoznika ne odnosi se samo na razvoj i provedbu uspješnih strategija. Da bi marketing bio uspješan, potrebna je marketinška orijentacija čitavog poduzeća, koja podupire marketinški koncept i potvrđuje marketinški pristup svim internim i eksternim aktivnostima. Koncept orijentacije prema kupcima na poslovnim tržištima privlači pažnju akademske javnosti i menadžera i opširno je opisan u marketingu. Sam pojam poduzeća usmjerenog prema kupcima se koristi u smislu kontinuiranog stvaranja i isporuke vrijednosti. Međutim, usprkos opširnoj literaturi o općoj marketinškoj orijentaciji, nedostaje literatura o njezinoj primjeni u pomorskom prometu. Marketing pomorskog prometa može se opisati pomoću praktičnih aspekata marketinškog programa, kao što su analiza tržišta, segmentacija, planiranje, diferencijacija, pozicioniranje, promocija i izvedba transportnih usluga. Ipak, marketinška orijentacija se temelji na filozofiji koja na prvo mjesto stavlja naručitelja usluge te prepoznaje da svaka aktivnost prijevoznika djeluje na odnose s kupcem/korisnikom. Stoga je razumijevanje različitih potreba naručitelja, na različitim tržišnim segmentima, nužan preduvjet učinkovitog marketinga pomorskog prijevoza. Slabosti u razumijevanju potreba korisnika vodi do slabosti u marketinškom planiranju i provedbi transportnih usluga. Članak započinje kratkom raspravom i definicijama relevantnim za marketing pomorskog prijevoza, nakon čega se analizira teorijski okvir orijentacije prema kupcima u pomorskom prijevozu. Rad se temelji na empirijskom istraživanju ponašanja kupaca na tržištu slobodnog i linijskog pomorskog prometa. Analizira se psihologija kupovnog ponašanja, kao i potrebe kupaca, njihovi procesi odlučivanja i čimbenici koji na njih utječu. Rad se zaključuje raspravom rezultata istraživanja i implikacijama za teoriju i praksu pomorskog prometa.



