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Non-Price Competition in the Port Sector: A Case Study of Ports in Turkey

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ABSTRACT

Although the port sector has been facing increasing competition, there is limited research on how ports compete using non-price competition strategies. There are a few studies on non-price competition in the port sector. However they mainly focus on the marketing aspect. This paper seeks to fill this gap in the literature, especially from a combined marketing-economic perspective. Especially the paper's main objective is to identify the determinants of non-price competition in the port sector and evaluate their effect on various aspects of non-price competition. We start with a general conceptual framework to explain how competition in the sector can be affected by various factors and then propose an analytical framework on non-price competition. The analytical model is then used to support the design of a survey questionnaire. Next, hypothesis tests are conducted using exploratory factor analysis (EFA) and structural equation modeling (SEM) and data collected from a survey of Turkish ports. Based on the analysis results, the implications for port management and future research are also discussed.

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1. Introduction

Seaports play a key role in providing services to shipping lines and to cargo owners. Although this is well known, in terms of operation, structure and management functions, ports are not prototype; port services are highly heterogeneous in nature (UNCTAD, 1995). Ports are involved with a large number of market players such as government, port management, shippers, freight forwarding agencies, shipping line

companies, trade unions all of which has specific objectives. Trends presently witnessed in the port and shipping sector such as increased operation automation and technological innovations in port operation, capacity expansion, and capital intensive nature of shipping operation have put port operators and authorities under pressure to improve efficiency and productivity. Following this trend many ports have gone

through reforms and partially or fully transferred to private operators (Bichou, 2009, Akar and Esmer, 2015).

Empowering the private sector by allowing them to participate in port operation could lead to more competition in the sector and this has entirely taken a new dimension in port studies. For example, recent studies have focused on inter-port and intra-port competition. The need to promote competition and protect the welfare of port users has also resulted in changes in the regulation of the sector. There is limited research on non-price competition in the sector, despite the fact that ports compete against each other through their prices and charges as well as non-price measures (Chlomodis et al. 2003). The main objective of this research is to present a general framework on port competition and to identify and evaluate the key factors in non-price competition in the port sector. Especially, it attempts to answer following research questions:

- What is the role of non-price competition in the port sector?
- What are the tools used in non-price competition in the port sector?

The paper is organized as follows. The next section discusses the role of non-price competition in the port sector. Section 3 presents the methodology and section 4 presents the data analysis results. Section 5 discusses the results and implications and Section 6 is the conclusion.

2. Non-price Competition in the Port Sector

According to Udell (1964), the importance of the non-price competition in marketing mix and the variations among industries can be explained by the nature of today's economy. Non-price competition strategies should vary according to the nature of their products/services and the characteristics of the buyers for those products/services. The non-price elements of competition may be stated explicitly and in detail in terms of shipment, conditions of sale, product/service quality, or attempts to differentiate their products/services from those offered by competitors.

Alderson (1937) among the first researchers on non-price competition indicated that the four major factors in non-price competition are improvement in quality and service, differentiation of product, consumer advertising and trade promotion. Over time, a lot of non-price tools have been added. For instance, according to Khatibi and Vergote (2011), R&D, developing long-term relationships with customers and building value are the other vital factors of non-price competition.

One of the most popular non-price instruments is the quality of products/services. Nowadays, the pressure of competition on quality is equally significant with the pressure of competition on price. Non-price forms of competition are important and ports have to give at least equal importance with price competition. Although the effects of price changes are more instant and direct, and price is the easiest communicating tool to potential buyers, competitors can react more easily to price than to non-price tools (Rao, 1984). Table 1 lists the influential factors in port competition and their studies.

Table 1
Factors effecting port competition

Factors	Authors
Level of service quality	Tongzon (2007), Clark <i>et al.</i> (2001), NG (2006), Featherstone (1979)
Port charges, Price and Pricing strategies	Tongzon (2007), Bennathan (1979), Haralambides (2002), Yang (1999)

Port's reputation	NG (2006)
Port's accessibility	Huybrechts <i>et al.</i> (2002), Tongzon (2007),
Policy regulation	Pi (2004), Tongzon (2007)
Hinterland connections (Networks)	Wan and Zhang (2013), Tongzon (2007), Notteboom and Rodrigue (2005), Slack (1985), Lirn <i>et al.</i> (2004), Yuen <i>et al.</i> (2012), Heaver (2006), Wong <i>et al.</i> (2008), Fan <i>et al.</i> (2009), Zeng and Yang (2002)
Co-operation agreements (mergers and alliances)	Heaver <i>et al.</i> (2010), Heaver (2002), Parola and Musso (2007), Yap and Notteboom (2007)
Nautical access	Notteboom (2006), Tongzon (2007)
Logistics services in the supply chain	Magala and Sammon (2008)
Maritime connectivity (frequency of shipping services)	Merk and Hesse (2012), Merk and Lee (2013)

As shown in Table 1, most factors affecting port competitiveness are not related to port charges putting aside the connection between pricing and non-pricing strategies. As competition in the sector becomes more intense, ports must be customer-oriented (Brooks and Schellinck, 2015). To stay competitive, ports can rely on the non-price aspects of competition adjusting its strategy to the needs and desires of port users.

Figure 1 shows the key factors influential in non-price competition in the port sector and places the product (port services) at the center of non-price competition; it must be driven by competition. The success of non-price competition depends how the products (services) and their delivery meet port users' needs. It can be said that among the most important factors affecting the demand for port services and service quality expectations are global trade, economic developments and social-related factors. The key variables that affect the level of competition in the sector are the barriers to entry, policy and regulations, and network structure.

Port service quality, technology usage, corporate social responsibility (CSR), promotion, service network coverage and connectivity can be regarded as some of the key tools of non-price competition. As mentioned before, the quality of service is the most important aspects of non-price competition and the use of technology directly affects the quality of service level. The other non-price tool is CSR. According to Heuvel et al. (2014) an accepted conceptualization of CSR is developed by Carroll (1979, 1991a and 1991b) and the author depicted the complexity of a broadly interpreted corporate responsibility by positing four basic components: (a) economic responsibilities (producing goods and services that society wants, being profitable), (b) legal responsibilities (operating under the laws and regulations of society, playing by the rules), (c) ethical responsibilities (conforming to the expectations of society over and above legal requirements, doing what is right, just, and fair), and (d) discretionary responsibilities (contributing to society and improving the quality of life, being a good corporate citizen). These components not only help improve the port's reputation as a good corporate citizen and relationship with the general public and industry stakeholders, they also reveal the port's serious commitment to service quality and care about its customers and stakeholders.

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