



A Strategy for Growth

Una Estrategia para Crecimiento

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Resumen Ejecutivo

Panama Canal Commission

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Executive Summary

Chapter One: Introduction

The Panama Canal Commission has been constituted from its inception as a classic utility: serving an obvious and vital need, charging the users of that service the amount needed to cover the costs of providing it, administering the assets it controls responsibly and expertly. This model, widely accepted throughout the world as recently as a decade ago for a wide array of industries ranging from power companies to railroads to airlines to telecommunications, has been assaulted by the growing technological sophistication, openness, and flexibility of the rapidly evolving world economy. Market forces are carving out an ever wider domain at the expense of traditional utility structures. Those same forces which have led to the deregulation and privatization of myriad utility-like industries around the world are likewise impinging on the Panama Canal.

A more demanding and sophisticated customer population, a growing array of transportation alternatives, the ever-increasing efficiency of the competition, all are challenging the steady-as-she-goes traditions of the PCC. These manifestations of worldwide phenomena are compounded by the PCC's imminent change of ownership and corresponding shift in scale. Whether the PCC's revenues rise or fall by ten percent matters little to the U.S. economy. It could matter a great deal to the Panama economy. Positioning the Canal to take full advantage of its commercial potential in the evolving world economy is properly a matter of growing priority as the date of transition approaches.

Apart from the concerns set in motion by these tectonic shifts, there are several reasons why organizations generally wish to be alert to growth opportunities. Growth is needed over the long term to build enterprise value. It pre-empts the entropy that otherwise overtakes any organization. It challenges and revitalizes an institutional culture. And for the Panama Canal Commission in particular a sound growth strategy could provide a solid basis for Panamanian entrepreneurship.

All these are good reasons at least to explore the PCC's growth options, and this report discusses how such an exploration might proceed. Chapter Two notes the challenging tasks already facing the PCC over the next few years, tasks that must be taken into account in order to prevent growth planning from posing a dangerous distraction.

Chapter Three discusses the strategic opportunities that appear to exist and that warrant further exploration. Chapter Four proposes a planning strategy that would permit those opportunities to be fully evaluated without compromising the PCC's other objectives. Chapter Five outlines the work plan that would be implied in moving ahead with Phase II of the PCC's growth planning.

Whether the PCC proceeds with the Phase II evaluation should depend ultimately on the Commission's confidence in its ability to pursue parallel priorities. Arthur

Andersen believes that the process of growth planning outlined in Chapters Four and Five would be manageable and constructive, even in the context of the Commission's other priorities. That is a judgment call, however, and is highly dependent on the proper structure and management of the planning process. If the Commission concludes otherwise, and believes that such planning would pose a substantial risk to the attainment of the Commission's transition objectives, then Phase II should be deferred.

Chapter Two: The Challenges

The Panama Canal Commission faces three major challenges in the coming decade:

1. Effecting a smooth transfer of control from United States jurisdiction to Panamanian jurisdiction pursuant to the 1979 Treaties.
2. Finding a constructive role in the national economic strategy of the Republic of Panama.
3. Laying a foundation for continued growth in commercial value and enhanced utility to worldwide shipping in the Twenty-first Century.

This study addresses the third of these three challenges, but it cannot ignore the first and second. Any commercial undertaking the PCC contemplates must be consistent with its primary legal obligation of preparing for a transfer of sovereign control in 1999. Any commercial strategy the Canal organization ultimately adopts must conform with the national economic vision and structure conceived by the people of Panama.

The strategy must also recognize a number of other complicating factors;

- ◆ Two radically different decision time frames -- pre-2000 and post -2000
- ◆ Change in sovereign ownership
- ◆ Existing culture, tradition, and practices of the Canal
- ◆ The transitional imperative.

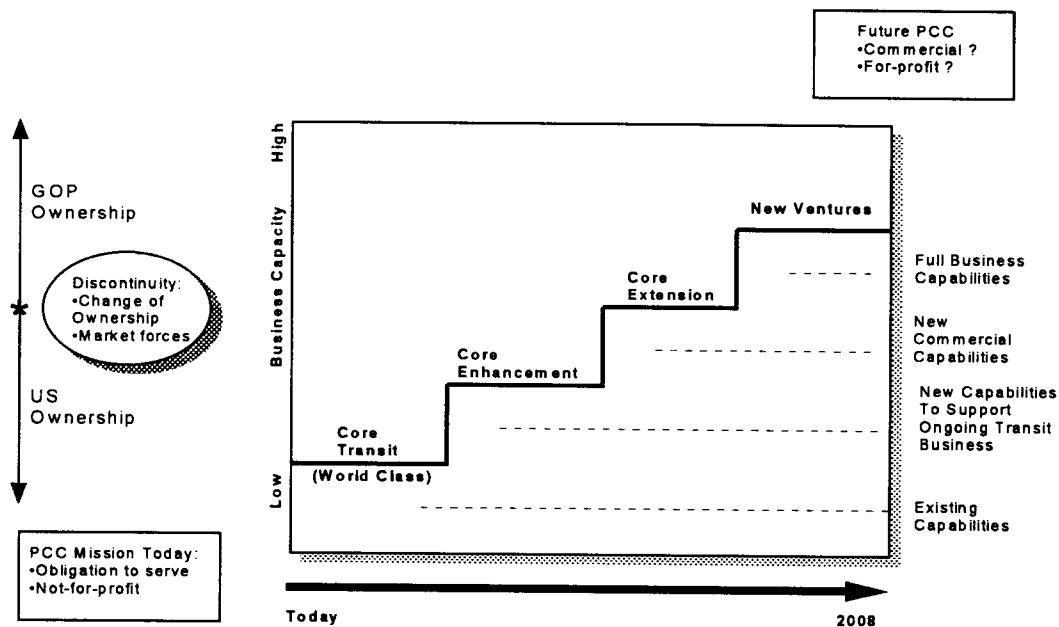
Clearly, these challenges are not beyond the capacity of Panama and the PCC to address effectively, but it will require a concerted, sustained, and good-faith effort to do so. These are not issues which can be decided in 1999. Decisions must be made in the next two years, so that implementation can be phased in over the succeeding three years. This is the first priority of the Commission. Plans for commercial growth cannot be pursued at the expense of this imperative. Consequently, any strategy for commercial growth adopted between now and 1999 must accommodate itself to the paramount needs of the Commission organization to accomplish a smooth transition.

Chapter Three: The Opportunities

With the existing core transit business as the point of departure, we envision a growth strategy comprised of business initiatives derived from the following growth platforms:

- ◆ Core enhancement - - opportunities to increase revenue within the core business, such as transiting more vessels, increasing revenue per vessel.
- ◆ Core extension - - new businesses which are based on services, functions, or activities that the PCC currently performs in support of Canal operations.
- ◆ New ventures - - entirely new businesses which nonetheless draw on existing institutional competencies.

The capabilities required to support each of these categories of business initiative are cumulative. Success in core enhancement would build skills permitting core extension, which in turn would provide skills for new ventures.



Specific growth opportunities within each of these categories include:

Category I Opportunities: Core Enhancement

- ◆ Strategic Opportunity 1: Pursue Value-Based Pricing of Transit Service
- ◆ Strategic Opportunity 2: Redesign Booking and Reservations Scheme

Category II Opportunities: Core Extension

- ◆ Strategy Opportunity 3: Develop Additional 100mW Power Generation Capacity and Restructure Existing Power Sales to IHRIE
- ◆ Strategy Opportunity 4: Sell Chilled Water for Cooling
- ◆ Strategic Opportunity 5: Expand Water Plant at Mt. Hope to Serve Growing Colon and Cristobal Needs. Alternatively, Divest Production Facilities to Generate Lump Sum Revenue.
- ◆ Strategic Opportunity 6: Offer Industrial and Maritime Training Programs Outside the PCC.
- ◆ Strategic Opportunity 7: Leverage the New VTMS System to Provide a Platform for Developing a Vessel Traffic Information System and Value Added Service to Ships in Ports, Anchorages, and Transiting Canal.
- ◆ Strategic Opportunity 8: Pursue Ship Repair Services, Initially in Partnership with Existing Commercial Repair Facility.
- ◆ Strategic Opportunity 9: Expand MTD Services.
- ◆ Strategic Opportunity 10: Deploy Excess Dredging Capacity for Commercial Purposes.

Category III Opportunities: New Ventures

- ◆ Strategic Opportunity 11: Deploy a Variety of PCC Assets and Capabilities to Directly Service and Catalyze Tourism Sector and Sector Development.
- ◆ Strategic Opportunity 12: Operate and/or Finance of Proposed Cross Isthmus Toll Road.
- ◆ Strategic Opportunity 13: Develop Strategic Alliances or Partnerships to Package and Deliver Bundles of Marine Services Consistent with and Complementary to the PCC's Core Transit Service.

Chapter Four: Planning Strategy

The PCC will need a strategy for planning for these opportunities that takes into account not only their commercial merits but also the particular challenges the PCC faces over the next several years.

- The commercial logic of the PCC's growth opportunities suggests a stage-by-stage approach, beginning with core enhancement and moving thereafter to core extension and new ventures.

- Most of the strategic opportunities identified are clearly forbidden to the PCC until at least the end of 1999. Planning, however, is not forbidden.
- Some of the strategic opportunities have greater impact on Panamanian aspirations than others. The greater the impact, the more important it will be to involve relevant Panamanian constituencies as well as the Panamanian government in the planning.
- Planning for growth must not interfere with planning for the transition. To the extent that it can facilitate such planning, all the better.

Arraying the strategic opportunities identified according to their commercial sequence and their legal permissibility yields the following picture. This map of opportunities suggests a schedule of planning and implementation and an approach to planning that will appropriately vary from one opportunity to another.

	Core Enhancement	Core Extension	New Ventures
Uncertain permissibility even post- 1999			11, 12, 13
Probably permitted, but only post- 1999	1	6, 7, 8, 9, 10	
Probably permitted pre- 1999	2	3, 4, 5, 8(?)	

Chapter Five: A Proposed Work Plan

Phase II of the PCC's growth strategy study should encompass four major steps:

- ◆ Clarify and confirm the domain for the growth strategy.
- ◆ Complete detailed analysis of growth options culminating in detailed business plans outlining the opportunity
- ◆ Identify most desirable growth opportunities and finalize detailed growth strategy.
- ◆ Draft implementation plan.