

ITIC Forum 2004

The mutual link

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A Ship Manager's Strategy

Chris Williams

Graig Ship Management Ltd

Ladies and gentlemen, there is a Chinese curse which translates as, "May you live in interesting times." Well, I know where I've been, but I don't know what all of you have done to deserve this. But one thing is for sure. This is the decade of China, and it is also the decade of interesting times.

Martin Stopford has put those interesting times into context. Essentially, we are in a decade of extremes. The market has been fluctuating wildly, and it will continue to do so. We will see huge peaks of demand, huge spikes in rates, followed by huge drops, right across the board, through all types of shipping and through all areas of shipping. Tanker rates, oil prices, shipyard capacity, take any measure, and you will not be able to forecast with any degree of certainty at all where that measure will be next year, or next month.

So why forecast at all? Well, Martin has to, that is what he does. But seriously, forecasting actual values is a little bit difficult in shipping at the best of times. If Martin, or anyone else, could do that with certainty, they wouldn't be here today. They'd be, like Bill Gates, too busy finding ways to give their money away. Today there are no certain numbers, but

forecasting extreme volatility is just as useful as knowing supposed values. If we know that we are in for a rough sea, we can batten down the hatches, secure the cargo, put the boiled eggs on the back of the galley range, and we will come through.

What we need then is a strategy to take a shipmanager through a period of extreme volatility, with the aim of arriving secure, and hopefully having grown, poised and strong and ready for the next set of market conditions which Martin will drop on us.

Shipmanagers are in the service business. They are very much at the mercy of a volatile market. As service providers, they don't have the capital base or the possibility of making huge returns if they are lucky enough to get their timing right on the upspike. However, when the down spike comes, they will be the first to be dumped by owners with hurting pockets, and they will find themselves one day with excess capacity, and another with not enough to take advantage of whatever business an urgent and hungry owner climbing the up spike wants to give them.

So why be a manager? Well, look at the problem from the other side, and you can see that volatility is a two edged sword. It is a danger, but it is also an opportunity. Volatile market conditions mean that owners need access to flexible management and crew resources. They cannot easily up and down scale their human resources as business ebbs and flows. Players enter and leave the market and don't want the clutter of technical people and crewing. So there is an opening there for a flexible and responsive provider of shipmanagement and crewing services. Indeed, with the advent of ISPS, to add to ISM and other regulatory load, third-party shipmanagement services have become an absolute necessity, they are the

lubricant without which the shipping market would seize up, because no-one could buy and sell ships and man up and demand at the speed they need to keep up with market conditions.

One way to take advantage of that opportunity is to be very big. A big enough shipmanager can balance in and outflows of business and survive the squeezes, while taking in extra returns on extra business during the good parts of the cycle. But getting big is not easy, especially when there are already some very well known and very capable and very big shipmanagers active already.

What we at Graig have decided to do is to tackle the problem of surviving as a shipmanager in a volatile market by not being a shipmanager.... We will be active in shipmanagement, but we will do much more than that, and we will hang our strategy on doing what we do best, which is working in partnership with others.

Here it is in a nutshell. We will run a ship management company as part of a wider group engaged in services to shipping. The group will be active right across the chain, from concept and design of ships, through building, operation and employment, right to the end user. The group will seek to work with serious long-term partners at each stage of the chain, from the designers and class at the beginning, through other shipowners and shipyards and banks, alongside other shipmanagers, technical, crewing and commercial, and with end users, helping to create extra value for the whole chain at each stage. Shipmanagement is a vital link in the chain, and it is a part of the chain which will get business from both ends, and also pass business on to both ends.

We've already done this, by designing, ordering, selling, supervising, and managing ships built in China. We have built feedback mechanisms into our supervision and management contracts so we learn from our ships, and use the feedback to improve the next ones, and to generate ideas for new projects. We have examples where we have ordered a ship, or a series of ships, to be built, sold them to another owner, provided the supervision of the building, provided the technical management and provided the charterer. Our aim, our strategy for rough seas, is to extend that chain further, and to build more similar chains based on different ship types and other building areas.

We also aim to broaden our shipmanagement offer. We do not expect to compete directly for every shipmanagement contract the market throws up. That is the province of the very large shipmanagers which all of you could name. They have the volume to take in and lose ships of all types at any time. Instead, we will do what we do best, which is offer partnership and personal service, something which very large managers find difficult. That is easy to say, but what does it mean in practice? It means that first and foremost we can tailor the level and type of service we offer to exactly what each partner wants and needs. If you want to use your own crews, or your own superintendent, or a particular supplier, or any other special request, we can accommodate that, and provide the elements of shipmanagement you need without the services you don't. We can offer transparency, because we will work to agreed margins, and will not depend on huge volume contracts to make our profits. We can offer you a type of flexibility that is only possible when two like minded and similar size companies come together.

There will always be high street banks, and DIY chain stores. Most of us need them, and use them, but we don't expect, or get, personal service from them. But there will also be personal fund managers and financial advisers we can trust, and old fashioned ironmongers who can advise on and sell you exactly the tool or bit you need for a job. We all use them when we can, rather than the big chains. We at Graig intend to use the best and most modern technology to deliver the oldest and simplest product – personal service.

Is all this a bit pie in the sky? Too much motherhood and apple pie? I don't think so. Personal service matters, and in a world where big companies treat individuals and small companies as numbers, where your local contact is a disembodied voice speaking to you from a call centre in Bangalore, personal service is increasing in value. Even the high street banks here in the UK are closing call centres and back offices and restaffing their branches, so they can get close to their customers, those who haven't left looking for better service, again. We never left our customers, but we can see where the banks are coming from.

Nothing I say today should be taken as a criticism of major shipmanagers. We have to live with them, and we prefer, as always, to be their friends and partners whenever we can. If we, or a client and partner of ours, can get a service more efficiently, at less cost, by working with a shipmanagment major, then that is what we will do. Or I should say, that is what we will do just as long as we can ensure that our client gets the personal service they deserve.

There are other elements to our strategy. None of them are rocket science. All of them are thought out for survival in volatile times. For example, we have begun a year-long consultation process with staff and customers, to make sure our core values of innovation, efficiency and integrity are actually lived and breathed by the staff and appreciated by the customer. In a volatile market, we want to hang on to our good staff and our good clients. The best way to do that is to listen to them. Simple, but if you stop and think for just a few seconds, you could name several major firms both within and outside of shipping who have forgotten this simple basic.

That is our strategy. To have good people delivering good service right across the shipping chain, so that satisfied customers will stay with us for shipmanagement services, and in turn our shipmanagement services will generate business for the other parts of our business.

Thank you.