

**AMERICAN SUPERYACHT FORUM 2008**  
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**The Shipyard Debate — Capacity vs Potential**

Kirstin Huettner-Tong	Yacht Record
Mike Kelsey	Palmer Johnson
Jim Berulis	Trinity Shipyard

**Chairman—Martin Redmayne**

OK, this next session is called the Shipyard Debate. Can I call my speakers up? I think have Kelsey and I have Kirstin and I have Jim Berulis. In the interim of this session I just want to show you a few exclusive pictures. When we talk about shipyard debating capacity--Tork has just been to Germany to see this new little baby which will be appearing in the next Yacht Report. This shows you what's happening in Europe. It's a pretty special little project called Motor Yacht A and it's a sequence of images to show you what's quite an incredible piece of engineering. This is 118metres long. Designed by Philippe Stark.

Panel please. Let's crack on with the next session. What this is intending to do is to look at the current capacity of the shipyard world and the potential of new builds in the shipyard world, primarily the American market. A little self promotion here—in our annual report we produce every year—it's amazing to look at that from a statistical point of view, because what we are limited by is pure and simple capacity—the number of yards and what build slots they have available. That is what we're limited by. The key thing is that I think there's room for—following that money matters session—further investment, because the supply/demand imbalance is still huge. So I want to just bring these two shipyards to the table who have got some fairly dynamic plans for growth and capacity to talk about their perspectives on the subject. And I have a few questions to fire at them as well, in a very gentle way. Jim's going to start off. Thank you Jim.

**Jim Berulis**                      Trinity Shipyard

I am the junior partner, I do the boat building. Trinity Yachts, since 1996 and the period 96 through 2007 was delivering three boats a year and some of those not profitably. That time in early 2005 a decision was made to try and expand our capabilities. The company had gone private and it was desirable we thought to get a bigger revenue stream. In 2008 we're going to deliver 5 boats. In 2009, 8 boats, 2010, 6 boats, and 2011 in the order book today another 6 boats. This is a pretty big jump and these are signed contracts. We started out in—when I came to the company in 1999 - with about 100 employees and one shipyard, currently we have 2 shipyards and this morning's report between employees and sub contractors on site it's nearly 1000 people. It's a pretty substantial jump, just in the last 2½ years in terms of manpower. The difficulties that we're facing now are vastly different than they were even a year ago. A year ago I would have told you that workforce was our biggest problem and in fact that problem now is almost non-existent. We're increasing our staff about 1% retained staff per month. Our target is to be in direct

employees something over 1000 and we think at the moment that's our limit for the size of the shipyard and given our current plans. Our problem now is sub contractors and suppliers. I spend most of my time fishing for new sub contractors and new suppliers that can provide the services and materials we need in the time we need them, and of a quality that we require. It is a very difficult job. 2 years ago I was on a panel and we talked about sub contractors. And at the time we were looking worldwide for sub contractors thinking that there were established companies around the world that could really help us and the smart thing to do was to go to these established companies and have them do work here in the States. Well at the same time every other shipyard in the world was doing the same thing, so companies in Northern Europe, in Italy, where these sub contractors were established, ate up all that capacity which has changed our thinking and forced us now to look in areas where the market is not dominated by existing shipyards and to develop sub contractors in the United States. If we made a significant error in the last few years it was underestimating how far the dollar would fall against the euro and not being prepared to shift our source of supply away from the euro. We were a little late to do that. Currently we are pursuing American sub contractors very hard because we have no exchange risk—in many cases we're having to develop those sub contractors, we don't have the infrastructure in the United States to support this industry the way they do in Europe. And I think if there is a limiting factor now in expansion in the United States, that's it. There are plenty of people out there, ourselves, Christiansen, who can build big shipyards and in fact can hire good direct employees, getting or training craftsmen is not that difficult. The labour market in the United States from our perspective is good. The problem is finding good technical managers and good sub contractors that can supply what's required. Suppliers are particularly difficult because they're at capacity. So if I go for a particular piece of equipment from a company that I've done business with for many years and that company is now building all the widgets that they can build, they're going to raise their price to what the market will bear. And that is, as I see it, one of our biggest material cost problems today. I can package—and we have a guy now who full-time packages major equipment purchases. We order five sets of engines at a time—we order ten sets of generators at a time. If we order stuff in quantity, we don't get very much discount because the people that are manufacturing that equipment are also at capacity, there's no motivation for them to look forward a year or two years and say good, I'm going to secure some sales here. They have those sales, they're almost guaranteed. So it's a tough time for the shipyard, in that regard. And in direct material costs—actually I did some interesting detective work in the yard. On a typical 50metre boat our labour component—and this is a percentage of our costs to manufacture the boat—our labour component is about 31% of the cost, direct labour. Our direct material costs which is the material that I buy, which we handle and my direct labour installs, is responsible for 33% of the cost, sub contract services and installations are 36% of our costs. The biggest portion of that is interior and the interior outfitting. The interior alone, the woodwork installed in the boat is about 16% of the boat, paint and fairing 7% of the cost, and the other 13% in interior and electronic outfitting. So the shipyard really only has tight control over less than one third of the cost of the ship. The rest of it is subject to the vagaries of the various marketplaces. And as a result, a small change in supplier costs really—if we've sold a contract, and I don't start the boat for a year, in a year's time I have to try and predict where my costs will be. And I can do that with labour. I can't do that very easily any more with everything else. It's a very difficult situation. And I think it's the biggest challenge that faces us today. We can build more outfitting bays, that's easy. We can buy more aluminium, although the cost of that is going up. But finding the subcontractors which will account for the single biggest percentage of the cost of the vessel, is our most difficult challenge.

**Martin**

Jim, thank you very much. Mike?

**Mike Kelsey** Palmer Johnson

I see a lot of similarities between Trinity and Palmer Johnson, and yet there's some important differences. They have been—and it's funny, Felix and a few other people—we email back and forth once in a while and as I said yesterday, let there be no mistake, the shipyards do communicate with each other and we're well aware of the challenges that we face. Palmer Johnson has been consecutively building yachts for 90 years and yet—I think I brought this up yesterday—it's the last decade has been nothing like the previous 80 years. This is a different time, it's a much more commercial—and that's what we're here to talk about today—business in the strictest sense of the word. Far more so than years ago when it was artisans. And as I said it can't be my father's business any more, it's very very different. We face many of the same challenges in the supply chain and we're trying to find creative ways to solve the issues that we have. You know, one of them is by dealing with the suppliers and giving them accurate forecasts, because again the supplier is really the important person in the chain, because he's telling the manufacturer what they need to make, and the manufacturer is not going to pull the trigger without like we said earlier—nothing happens till something sells. I think Tom said that. That's a fact, and that's what the suppliers are doing, is selling all this stuff, which triggers the natural resource orders, whether it's China doing it, Poland or India or anywhere else. So what we're trying to do is guarantee the suppliers an accurate forecast of what we need over the next, not 12 or 24, but 36 months, if we can look out that far. And it helps, it doesn't solve all of the problems. We made a conscious decision I think 4 years ago to really do something different at our company and this is where companies like Trinity and PJ are quite different. We have a very defined product. We build 4 or 5 different models of boat. And that's it. Those 5 models, each one has the engines that they come with. If someone says I'd like to have water jets on it the answer is no. If they say we want to have square windows in the hull the answer is no. Because it is a model, so we swore to ourselves that no matter what, we would stick with the programme and see it through. We made a decision to build an international product, and did things off the bat like wiring the boats 50 cycle. Were we lucky? Yes. Because the euro, at the time we made that decision, was nowhere near where it's pegged today against the dollar. There were a lot of things that we had to do differently in our business to make it successful and there were a lot of people 4 years ago, 4½ years ago, good friends of mine in this business, who said indeed, you're mad, you're crazy, what you're doing is wrong and they even went as far as to say I think you're ruining a great company. And they're free to say what they want to say but I'm happy to say that nothing could be further from the truth and the company today is stronger than it's ever been, in all 90 years, not by 1, 2, 3 but by 4 times, it's in better than the best shape that it's ever been in. We stick very very strictly to a programme of increasing the amount of product that we can deliver to the market, which is tantamount to our success, yet the supply has to be metered to a point, so to say that every boat that we'll ever have over the next 3 years is sold, would be a lie. Because we always want to keep a couple in the pipeline to sell. Demand is really driving a lot of the market today. I can't say how many times a client would call, and I'm sure Jim's heard it at Trinity, and said can I have a boat in 11 months? If you can do it, I'll buy it. And if you can't deliver it, he's going to go somewhere else. You can tell him how well we do things differently and if you really looked at our product you'd wait 2½ years—but this is a different client today. This is

not a New York Yacht Club relationship that you've made over 7 years and he's finally made up his mind and he's going to put those topsiders on his own deck and he's going to build this dream yacht. Does it happen? Yes, but it's such a small portion of the business today that everything has to be looked at differently. Today if the clients are—it's a colder value for value. I don't say that in a melancholy way, I can just tell you that I've been on both sides of the market where the relationship building took year after year —today it's how fast can I have the boat and as we all know, there's a bigger cast of characters in play with the sale of a boat. And sometimes you don't even meet the client until after he's owned the boat for a year, if you can imagine. I remember the days years ago when the high school band and the priest would come to all of our launchings because the owner was there. Today we do something for the employees to memorialise the accomplishment, but a lot of times the client isn't even in the yard, because they're busy making the money, or doing whatever to pay for the yacht. It's a different business. We were limited to capacity of about 4 boats under construction at one time and as of today we can have 8 boats under construction at one time. We'll launch 6 boats this year, we'll launch 6 boats next year, and the year after that we'll launch 9 boats. We have done substantial expansion to our yard in Sturgeon Bay, obviously to make the production necessary we're at a higher employment rate than we've ever been. I think with sub contractors we're not as big as Trinity—we're at about 650 but it's still a lot of people. That's a lot of people right there at one facility. In the Press it's been noted of late that we did close just under two weeks ago on a shipyard in Norway where we will build two very large displacement type vessels that will be debuted to the market insofar as they are at the Monaco Show this Fall, and not before! And in the UK we will immediately begin—because we've just run out of capacity in Wisconsin, building the largest sport yachts which will include a 170 foot, two of which are already being set up, the engineering is done, the parts are being ordered for the first two 170s—it'll deliver in 2010 and later that year the first of the very large vessels we're going to build in the Norwegian yard we'll deliver. I think to sum everything up today, Jim is spot on with the labour. I think there's a lot of things that have happened in the US where other businesses, maybe on the bottom side of the market, have started to fall out, whereby the employees are more readily available. And that certainly was a challenge years ago to find anybody. But with the processes that we have today, it's easier to train people, there are more people available and now it's become more about the capacity, the walls of the shipyard and what we can efficiently do in one location. So I think basically Jim brought up the good challenges that we face in America and I think that there's some good years ahead for us, I think we need to all be smart in this business and not do things like we did them yesterday. And I think you'll be hard pressed to find many of us that are up here saying you know, we're going to get up tomorrow morning and think of how we did it 10 years ago and go start today. Because that wouldn't be a measure of success, or a recipe for success. It would certainly be a recipe for disaster.

## **Martin**

Mike, thank you very much. Kirstin, add your perspective please?

## **Kirstin Huettner-Tong**      Yacht Record

Obviously it's difficult—I'm hearing there are a lot of problems out there in terms of capacity and the supply chain has been mentioned a lot, and there are certain things you can do in terms of increasing productivity which I think Mike mentioned, what they've done, and they've accomplished a lot. A lot of these things I'm hearing are difficult to solve and probably cannot be solved within the next weeks or months, or

even years, and it will take a while. But I think there are several issues. One is the industry as a whole, and the builders, where they are. And Mike said they made a transition from being totally custom builder to now producing certain models. And I think a lot of the shipyards probably still need to figure out who they are and who they want to be. And based on that you can figure out what your manufacturing philosophy should be. We talked about this earlier—you know, I'm a big proponent of lean manufacturing and I do believe it has a lot of good to it. None the less there is not one way to do it, and not everybody can just go out and say oh we'll do it like Toyota does it. Because Toyota is Toyota and a Mercedes isn't a Toyota and a Honda isn't either. So what I'm suggesting for companies when you know who you are and what you want to be, go out and learn from other companies but develop your own lean manufacturing approach. It is a philosophy that lives in your company, that's what you want to develop with your suppliers, and with your customers. You know, you can standardise certain ways or to a certain level, depending on what kind of product you produce. Sure, if it's a semi custom boat or a boat that's based on a platform you have more room for standardisation. If you are a pure custom builder the same doesn't apply. None the less I do believe there's always room for standardisation. I'm sure you don't have to reinvent everything on every boat. And I guess that's what I'm hearing from the two gentlemen as well. Obviously there's huge room for strategic purchasing or supplier development. Everybody is saying the same—they want to share information, they want to talk with each other. There is not enough capacity in the supply chain and people are competing for this capacity. If that's the case then that's not going to change from one day to the next, and maybe hearing again that the lack of information kind of prohibits the industry to grow—a lot of the supplying companies are big corporations—I'm sure if they all had the numbers to know that there is a huge demand coming in the next few years they all would invest in this industry to supply gears and engines faster, to a constant demand. Probably here's an opportunity to share more information in the industry as a whole. Training approach—develop more craftsmen, or managers, in this industry. I mean it's always cyclical. When I went to college, mechanical engineering was totally overloaded and few years later there weren't enough. The same with teachers—it always goes in cycles. So maybe there's a time also to make this all more attractive to college students—that working at a shipyard is an appealing business and it's not just for a year, or two years, and then there's no future in it any more. So I think that strategically there are things that can be done and probably it will take a while. I mean I'm glad I don't have Jim's job. It sounds terrible. But there are a lot of strategic things that need to be done before you can get into some of the technical issues that can be implemented, such as standardisation, and standards, benchmarks, measures and all these kind of things. But I believe you need to first figure out where you want to be and who you are.

### **Martin**

Kirstin, thank you very much. OK. The floor is open for discussion now. Any questions? Oh, Ken Hickling. I can see the reflection on your head.

**Ken Hickling**            Awlgrip

Yes, Martin, I have a question for you. A very quick one. Where did you get the transplanted from?

### **Martin**

This is a silicone sort of vinyl ester from Awlgrip!

**Ken**

No, my question is for Mike Kelsey. It's actually from someone else in my company who read the article about Norway, Mike. And he wanted to know—it was actually both about the UK and Norway. You seem to have chosen two companies which aren't in particularly low cost places to base your operation. Why did you not go somewhere else, not geographically a long way away, but possibly cheaper, either in Europe or possibly enlarge your base here in the United States, where the dollar is certainly on your side?

**Mike**

Let me answer your question with a question. What criteria do you use to say that it would cost more for us to build boats in the UK than in America? Are you saying it costs more per man to build a boat in the UK?

**Ken**

I would say it seems to me there's a lot of infrastructure costs in the UK that are expensive at the site operating in the UK. There's a lot of regulations in the UK that tend to make your overall costs higher—isn't necessarily the labour rate per se, but there's a lot of other costs. It just seems like it's potentially a more expensive place to be.

**Mike**

Right. And I'm not trying to be adversarial. It seemed like building boats that looked like sports cars was crazy in the fifty's cycle. Again, I'm not trying to be adversarial. We actually did look at this quite closely and the truth of the matter is it does not cost more to employ the men over there. There were associations—in fact England has lost a lot of its ancestry to other countries and yet there are many qualified people there. The Government is very cognisant of that and let me say that the other site selection and regulations that you spoke of were considered in this, not just by us but by the UK who wanted us to come there. And I would say the same for Norway.

**Tork**

One of the major problems you face is a lack of sub contractors. Do you think it's interesting for yards to become angel investors in sub contractors? It's not unprecedented—I mean there are yards that have invested in their sub contractors?

**Jim**

We do some of that. We have invested interest in our sub contractors' success. And with some of our sub contractors, because it's so difficult to find the ones we need, we take a lot of risk. And in managing that risk sometimes we find that we need to be more supportive of the sub contractor than a straightforward contract. The angel investor thing—one of the reasons, the harsh realities of business, that you use a sub contractor—if I have 6 paint sub contractors, which I don't, and my business contracts, then it's a simple matter for me not to give a contract to a sub contractor. It's a more complicated issue if I have to lay off 30 guys. One of the reasons all businesses use sub contractors is because it's difficult sometimes to develop specialised skills inhouse. If I wanted painting, for example, we sub contract all our painting. I would have to hire some very top technical paint managers. They would

then have to train crews, it's quite frankly a lot easier to hire paint sub contractors. That's one of the easier ones. We have three that we use inhouse all the time, and it works out very well. So it's the cost of developing some of these specialised technical skills inhouse—you don't want to do that unless you're absolutely forced to.

**Mike**

Yes, I would say that certainly the biggest amount of people that we use as sub contractors would be in the painting of the vessels and the fairing, and we tend to treat the sub contractors like they are employees. They come to the parties, they're really not thought of as different, and we try to make sure that they're—we talk a lot, make sure they're paid. I think one of the challenges we've had lately, and I think a lot of yards do, your internal employees are always going to blame the sub contractor for a problem. If the schedule isn't met it's those damn painters, they didn't get done until 4 o'clock this morning and we couldn't get at the boat. I mean there's—we've actually tried to stop that and I've been around the shipyard long enough to remember when we did everything 100% inhouse. And it wasn't any different. They're just people out there trying to do a job. My father used to say if you need to hire a trombone player for your band, you don't hire your brother in law, you don't hire your best friend, you hire a trombone player. And I think this is where the sub contractors really come in. Painting, for example, is hard work. I mean it's hard work. And these guys come in and do the job and you know in our case we really really push the envelope in the shipyard and would I want to own one of the companies? I don't think so.

**Tork**

I mean not to own it, but to give them, if you like, some form of seed capital.

**Mike**

Well we've involuntarily done that many times—I think we actually have some liens on property in another state somewhere. But I see what you mean. Again, like I said with the suppliers, we try to guarantee them work and what we'll say is look, we know you're going to have this much work, here's what our deal is. And to that point we do it. And we have for example, where materials or tools are concerned, we've had from time to time a sub contractor say gee, if I had a better building or if I had lights—and we say oh, we'll build it for you. If it's going to make the job better and it's going to be more efficient we'll do it.

**Tork**

So in effect you are investing in them?

**Mike**

There are more people trying to do the same thing. Yep. And a business with sub contractors can obviously expand and recoil a lot easier. When you're really really busy you can add. If the business slacks off or you've got gaps in your construction obviously if you've got a good ratio of sub contractors you can pull back a little bit. You know if you just look at sub contracting by the hour, it costs a hell of a lot more than you know you're paying the guy to do it, but when you add the health insurance etc, you start going down the line of what you have to do for inhouse employees and it comes out about the same. And if the sub is a trombone player and that's what he knows how to do and you don't have to train him, you're all the better.

**Jim**

Interestingly, another point which connects maybe to the previous panel. Sub contractors are typically small entrepreneurial companies and you have a highly motivated guy who's trying to make money with his company. And it's more difficult to get an employee that motivated sometimes than it is a guy who has a 10 man crew or a 20 man crew who is trying to make something out of that company. So they bring something to the table that you can't do with an employee.

**Kirstin**

Which kind of goes to the way—I don't want to make a comment, I actually want to ask more a question about this whole shortage of sub contractors. I mean why is it, when everybody sees that this industry is growing, and there's the opportunity to make money in this industry, why are there no more sub contractors out there trying to make money?

**Jim**

Because they run in packs I think. You're not looking for one guy, you're looking for a group. And it's like buying supplies or engines, the subs have a lot of the people inhouse and they pay them pretty well, so if they're holding the resource of trained employees and they've got people in Pennsylvania, people in California, I think it's harder, because they're holding a greater pool of the labour resource. I think that's part of the problem anyway.

**Kirstin**

So money is not the problem?

**Jim**

No, I think there've been times when we've been saying well offer more, and there's nothing we can really do.

**Martin**

OK. Question about that, Charlie?

**Charlie Dana**          Newport Shipyard

We got into using subs a little bit more kind of inadvertently—it was when our head carpenter came up to me one day and said he was going to quit and I took him out for lunch, which I don't normally do when people quit—but I took him out because I liked him and I wanted to understand it better. And he said—at that point we had a lot of carpenters, a lot for us, we had in excess of 20—he was just pushing paper all day long and that he felt that in his heart he wanted to do something that felt a little bit more like being a carpenter. And less than being a paper pusher. So he went off and did a refit somewhere and I said well, if something works out, come back and see me. And he came back to see me maybe a year and a half later and I suggested we got into a thing where he hung his own shingle out at our place. It's worked out quite well. We have a couple of carpenters that are kind of cross people that work directly for us but he's hung his own shingle out. And I don't think we really were angels to him, we just sort of found things he needed and we needed and it's worked out well.

And let me give you one more—I liked the way it was working in that, and the paint thing, we had two head guys but we had a very good painter and I thought that if he had a little bit more incentive himself he could feel like it was his business more. He'd worked for us for several years—and he became a sub contractor with mainly our painters underneath him. But not exclusively. And I got a question once at a Q+A from when I was addressing the guys at work with us, and one of them raised his hand and said you know, you protect us when the sub contractors come in here, will you protect us if there's a few extra sprayers when we do a job or whatever? And I thought for a second and I said no. I said you know, it's difficult, we're in it for the customer. So if we're trying to get the customer on the road whether it be for a mechanic that we don't have enough to go around, I'm going to go outside. I'm going to try to make it as a company but we don't really care. Because we take a piece of the action if it goes outside or we use one of our people if they're available, but we're not going to hold the customer up. And so I think that feeling that if you can get your company to the point that it's really almost the same, because we're a mixture of both, and I think that there's various ways to skin that cat, but Jim touched on it with giving a little incentive. And we have tried to do that in every way we can. And we've only done it really in those two departments. But I can see a good future to it and we feel the same way at Newport shipyard about subs, but once we got our business under control that way—because we also do dockage and marine tenants and a restaurant and store—but that was the part—all of our dockage stuff, which is what I'd call easier money, was going in to subsidise the other part, the work part, which we weren't doing so well on. But we got our—by finding the right equilibrium with the sub contractor that really was what turned our business around. I don't think that sounds like a question, does it? I have pontificated a little bit! I'm done though.

### **Martin**

Thanks Charlie. Dan, please?

Dan [From the floor]

I just have a real simple question, and I hear this underlying current of all the problems with supply and getting qualified people and ramping them up and bringing them down. Are you doing anything as a company to mitigate that problem?

### **Jim**

Yes, I think maybe the inference is that sub contractors are temporary. We don't like to change sub contractors. The core group that we have, interior outfitters and painters and electronic sub contractors and whatnot, we prefer that they be successful and they stay in the shipyard. I'm famous for saying that the worst thing that can happen to a sub contractor is for him to come to my attention, because that means there's a problem. Our very best sub contractor is a Fort Lauderdale based electronics company that we've been doing business with for a very long time. They came to me 18 months, 2 years ago, and said we're at capacity, we can only do this many boats a year. We talked back and forth and said fine. And if I don't run across accidentally those guys in the shipyard every once in a while on one of the boats you wouldn't know they were there. They're happy, they do a great job, they're probably not the most expensive, they're certainly not the cheapest, and we have a lot of other sub contractors like that, that are well integrated into our workforce. And that's what we look for. We try and help them as much as we possibly can to be successful in our shipyard. So we nurture them with everything but cash.

Dan

I guess what I'm trying to ask is, if you found out tomorrow that you've got to build 2 more boats next year and you don't have the people to do it, and you don't have the infrastructure to bring up new people, are you doing anything to bring up new people into the industry?

### **Jim**

Yes. And I have that problem every time Billy Smith takes a road trip. This year I have visited 6, I think, sub contractors in the States and abroad with an eye toward bringing them on for contracts, and it's a little frustrating for them, because sometimes I'll come 6 months before I have a project, to show them. We're constantly on the lookout for new partners, how can we find somebody that we didn't know about that we should be doing business with. That's a continuing, every day of the week, problem. And we work on it very hard.

### **Mike**

And if I could add, I mean not just from the sub contractor's side, one of my favourite movies had a line in it that said if you want an apple, where do you get it from? Not the ground, you pick it off the tree. We actually speak to the high schools, and in the summertime our employment swells up with high school kids from around the county. We have a lot of 3 generation employees and we have a very non-transient place in Wisconsin, we're fortunate people don't move away. The problem was some of the youngest people were going on to make their millions with a laptop somewhere else during the dot.com bubble especially. And you know we came back to, when I say we've got 3 generation workforce, if I go to the oldest employees that we have, and we do have an ageing workforce, I mean it's something that we've identified, we looked at where our good guys came from. And we said look, as they get older let's make them teachers. And so we get these young people, these good young people that want to learn a trade and they want to stay home and we pay them well and bring them in and then as soon as they're maybe 3 years into the job we actually start to use them to train younger people, so they can work with people their own age. But learn as the older employees start to work their way toward retirement. And that's the future I know for Palmer Johnson. I mean a company is nothing without its people. Absolutely nothing. And we'd be nowhere without our people. So we're actually trying to harvest as much of the young workforce as we can as well.

### **Kirstin**

I have a question to this, and I know I'm not supposed to be asking the questions but for example, that electronics sub contractor Jim was talking about. What kind of—I don't necessarily understand, based on what we just heard earlier, is why is this electronic sub contractor coming back and saying I'm at capacity. Why is he not going out and extending capacity to do those two more Trinities? And I don't know where the problem is. Is the problem that nobody is believing in the market, or the growth in the market? But I mean based on what we heard earlier there's plenty of money out there to do it, and if you have an entrepreneurial spirit and you have plenty of sales, this is the perfect time to raise money for and build up those companies.

### **Mike**

But Jim maybe had an answer to that question, and that is that you need to manage those people, and I think just getting the people—there's more to it. You need good

managers. And we've used the same sub contractor for painting and a lot of— we bring in sub contracting for welding etc as well, and we've used most of the same people for the last five years. And I can tell you that the biggest challenge is managing the workforce and having somebody in there making sure that you're getting what you paid for and that they're going to have job security because they're doing a good job. So management is a big issue.

### **Tork**

I was also going to say I think the clue to it is also in the fact that you say that the reason you use sub contractors is because when you need them they're there and if the sales drop a bit you can put them away. For the sub contractors to make the decision to expand means that they believe the excess capacity of today is going to be there all the time. So there's no end to that. And it also goes to a comment that was just emailed in—*With reference to Charlie's comment "We're for the customer"—this is the fundamental problem with the relationship between yards and subs. At the end of the day they would rather screw the sub than upset the client. Loyalty seems to be missing when there's a problem, no matter what claims the yards make about their wonderful relationships.*

### **Martin**

That was anonymous.

### **Jim**

That's fine. You hear this all the time. And when there is a failure with the sub contractor for whatever reason you know it's always the shipyard—the perception is the shipyard is screwing the sub contractor. If you enter into a business agreement, and I try and tell this to a lot of my sub contractors—everybody says to me oh great, I'll gear up to do this work for you as long as you guarantee me continuous work. I can't put on 10 guys and do this project and then have you go away. And I tell every single one of them the same thing. I cannot guarantee that. The reason that I don't do this myself, in part, is exactly because in my business—and it may be a little different from Mike's—I can't predict the continuity of a particular type of work.

### **Tork**

That would suggest that the sub contractor might be a little foolish to expand to match capacity.

### **Jim**

Exactly. And it's part of an open business relationship. Everybody takes risks, small sub contractors are entrepreneurs. They're taking risks. And part of their risk is that if they go to work for us in 3 years' time I may not need them. And that's a risk that they should recognise.

### **Mike**

But that's why they're sub contractors. That's why they're there. It's not meant to be—it's great if you can keep it, and it's great that both of us use the same sub contractor for year after year after year. But let's not kid each other—why are they in business and why do we hire them? I mean, it's because you hire them when there's

a need. And when there's a need you use them. And it isn't always that sales fall off, sometime you've got a bunch of work going simultaneously and then there'll be a lull in some trades, and they can expand. And as Jim said, it's got to be an open relationship with them. But that's why they're in business.

**Tork**

Kirstin, does that answer your question as to why they're not expanding?

**Kirstin**

What it tells me is really not sub contractors as labour for hire. And those are for me two different things. For me a sub contractor, at least where I'm coming from, is an expert in what they do and they're really good at it and they're building a business out of it. And it's not just like a temp agency you bring in and you need to manage. And that might be the problem, that a lot of the sub contractors are not really sub contractors in my sense of definition but rather, you know, a labour force that is available to manage. So what I'm seeing is a great opportunity for somebody to take these labour for hire and make a real business out of it. Well let me ask you this—for you as a shipyard, if you would have a sub contractor that is run as a very good business, that understands that they need to take as many risks as you do, because they all don't have that crystal ball, and they take their risks, they get funded to build this business and they do a good job, wouldn't you stay with them.

**Mike**

Obviously.

**Jim**

I think there's a difference. We do use a contract labour service. If I need for a period time 20 welders—welders are available readily in our area and there is a contract labour service where I pay the contract labour service 1½ times that particular welder's hourly rate, depending upon his skill level. The contract labour service provides insurance etc for him and it's understood that I may need that welder for 3 weeks. We do this all the time. The same people. That's a labour service. A sub contractor brings more than that to the table. A sub contractor brings technical ability and management skills. I think that's the difference between contract labour and a sub contractor.

**Martin**

OK. Georgina will kill me if I overrun this session too much. But I've got one question there from John.

**John** [From the floor]

It's kind of two parts but it's not too long. First off, do you guys have in place in your company somebody who's delegated to identify people, workers, that you think can be directed to become sub contractors and have the management skills to go out there and with that type of drive, actively, and also have you thought—because a lot of what we're talking about here is risk management. Risk management for you guys and risk management for the sub contractors, and then—have you as shipyards thought about getting together and working with a group of sub contractors or helping

a group of sub contractors that you need to be developed and say look, it's not only us, we'd like you to work for Palmer Johnson, but these three or four shipyards are all looking for this same sort of labour force and we want you to work with us in concert so that the highs and lows that we're talking about at the different shipyards can be flattened a little bit?

**Mike**

They're one step ahead of us already. The truth is they know—I was saying to Jim a minute ago I mean we use a lot of the same services, how I know that is, I see Trinity T shirts all down my boats and I say where the hell did you get that, number one, and why are you wearing it? Well, last job we were on was Trinity New Orleans and I say oh alright, I'll trade you your Trinity shirt for a Palmer Johnson shirt.

**Jim**

The difference between our yards is I let them wear the Palmer Johnson shirts.

**Martin**

Gene please

**Eugene Sweeney**

The comment just begs the question to ask both Jim and Mike do you have unionised labour force in your yards?

**Jim**

No.

**Eugene**

That answers a lot of questions. Thank you.

**Martin**

Karen please? And then I'll go to Graeme.

**Karen Dudden Blake**                      Palladium Technologies

Kirstin, just to address your question about why that particular sub contractor would not want to expand, one of the problems that sub contractors have is finding qualified technicians. We're constantly on the lookout for good quality people, and it's a very very difficult thing to fill. So that's another reason why they're afraid to expand, they just can't.

**Martin**

OK. Graeme?

**Graeme Lord**                      IYC

With the sub contractors being so busy and putting their resources into the builds, do you find that you're going to be put in a tough situation when there's a warranty claim,

that they don't have people available to travel, or they don't have the resources available to dedicate to warranty?

**Mike**

What we did, we made a conscious decision a few years ago to purchase real estate in the Mediterranean with a nice store and have a staff and a truck and technicians running around because most of our product that's under warranty 90% of it is in the Mediterranean—so we always make sure that we comb that area real well because we all know that the boats break and the best thing you can do when they break is be there quickly. And that was one of the things that—if I can just quickly expand on that—that I learned years ago from the Italians, talking to people that both owned shipyards in Italy where so much of the world market of yachting was created, but also owners of their boats. And they'd say yes, they break, they break a lot. And I don't mean that in a bad way. I mean boats have problems, little ones all over the place. But I'll tell you many a Mangusta owner told me if we were building them a boat they'd say make no mistake, when we had a problem, they were there. And they were there quickly. And that's an important thing. So we put a real high emphasis in trying to get there immediately—of course it can never happen quick enough if something goes wrong during a charter or whatnot, but we really try to get there quickly.

**Jim**

Our market in Europe is new, although the boats seasonally are in the Med—I have sub contractors in the Med that I could turn to for help. We didn't have a lot of warranty issues in the Med in past years, the boats typically were back in Fort Lauderdale for the warranty period. Recently that's changed, I now have 3 or 4 boats that are in Europe full time and it's a problem for me. We are going up the curve to get some permanent presence in the Med—I'm sure you all know we own IYC and they have a very good technical guy in Monaco who's been very helpful. And we are trying to develop better resources so that we can service these boats quickly in the Med. Although having said all that, I have to say that I flew to Abu Dhabi to deal with warranty problems on a boat just recently, so we do what we have to do, to try and take care of foul ups.

**Mike**

I remember that day. We were in Dubai and we had to leave.

**Graeme**

And the way you handle in the Med, then, if it's a warranty claim that's a result of bad work done by your contractor here in the States, how do you get reimbursed for the expense of your employees in the Med, fixing it?

**Jim**

If it's one of our good regular sub contractors we don't typically have a problem. If it's a workmanship issue, our sub contractors have good long term relationships with us and we don't have many disputes over that.

**Mike**

On the other hand I think I could write a book about that subject so I'd love to talk to you about it some time. Because it has to be paid for and dealt with, we pay for it and deal with it but we do find once the boats get on the other side in some instances it's very difficult for us to collect. So you know, the number one for us is to make sure that client is happy, because he doesn't know that your air conditioning was put in by someone, he couldn't care less who made the toilets. He just knows they do work or they don't work and he bought a Palmer Johnson or he bought a Trinity or a Burger or whatever it is and he wants it fixed now. So we have to move quite quickly to fix the problems when they happen.

**Martin**

OK. One final question from me. Is yacht building today more profitable?

**Jim**

Than what?

**Martin**

Jim!! Than 10 years ago, let's say.

**Jim**

Oh god yes. In spades.

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