

**AMERICAN SUPERYACHT FORUM 2008**  
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**Subcontractors and Engineering Forum — Supply & Demand**

Wayne Bridges	Kilopak
Ken Hickling	Awlgrip
Dan Mickelsen	Intelisea
Rick Thomas	Nautical Structures

**Chairman—Martin Redmayne**

This is a session on a key issue in the market today—Tom brought it out just in the last session—supply and demand. Huge order book growth and the sub contractors' supply chain is buckling, I sometimes think. We're going to start with Dan Mickelsen, who's going to give an opinion on entering the market as a new supplier and then run down the chain of supply with Rick, Wayne, and end up finally with Ken, whom I used to look like with my previous haircut. Thank you. Dan please?

**Dan Mickelsen**                      Intelisea

Thank you Martin, good morning. A couple of caveats as I start—my company has been in business now going on 4 years and more than half of that was spent in R+D so I'm probably the newbie in the room, which means that my opinions and experiences are just that. Just simply opinions and experiences and I'll be looking to learn from discussion from all of you. I'll also be making some gross generalisations; they may or may not apply to some of you so take no offence.

As a supplier I do have some of the same logistical concerns that have been raised yesterday and will probably be raised by these gentlemen here. But I'd like to talk a little bit more about what the motivation is for the supply and demand of innovation. The supply and demand cycle for innovation I think is somewhat dysfunctional in this industry. As a supplier what makes me choose to innovate? Why do I enter a market and try to innovate it? Well I'm looking to gain brand penetration, looking to constantly improve my product, build customer loyalty and I'm looking to respond to builder demand. Which leads me to ask what would make a builder choose to innovate? Hopefully it's all the same things, but they have to be looking to do it. In my opinion it doesn't always happen often or it doesn't happen quickly. So why is this—why are we somewhat reluctant to innovate in this industry? Again, gross generalisations. I don't know if it's by tradition or design, but there's a lot of finger pointing going on in the supply and demand cycle right now and I think some of that may be due to a lack of innovation and general belief that change is either risky or costly. But perhaps lack of innovation starts with client demand. I think the yacht owner of today is probably quite different than the yacht owner of 20 years ago where that person when he visited a boatyard wanted to see the engine room of whatever they were building at that time. The experience that we've had, and we've got about 15 yachts in the water using our system now, is that the boat owner wants to see where the big screen TVs are. And where the floating cocktail bar will go. So if it's good enough, even if it's not very good, it is in fact just fine, whatever the system is. If

it's believed by the customer to be good enough it is. But this customer may not even realise what makes a better yacht and he may not be in tune with what the return on his investment may be, and it's quite a significant investment. Also we've got the pressures of time associated with the boom time that yachts are in right now. Everyone's got full order books, I don't know how many yards there are now versus 10 years ago but again I suspect it's quite a few more. This seems to me to be somewhat of a risky position to be in. Martin talked about a sense of doom and gloom on the horizon. How can we be doom and gloom when we've all got full order books and great demand? Well Andrew yesterday talked about how not one of the trust babies in New York City had ever heard of Costa Rica until they built a Four Seasons there. It seems to me that perhaps yachts today are the fad in fashion, the fashionable accessory for the billionaire. And business just in general—while many of these buyers are essentially recession proof, business in general is typically cyclical. So if we're resistant to innovation—and we're going to be in a cyclical business which we know or don't know and won't know until later—what will happen if the boom times turn to bust times. Who will be the ones that survive, both on the suppliers' side and on the builders' side. And in my mind, and it's the approach that we're taking, it's going to be the supplier or the builder that is constantly striving to improve their product, and they're doing that as a mean to generate customer loyalty. If you have a product with good longevity and a solid ROI proposition, you'll probably be around if things get soft. So those are my brief impressions of coming into the industry. That being said, we're currently successful, full order book, as everyone else has, and I guess we'll see how we can mitigate finger pointing logistically from here. Thank you.

### **Martin**

Dan, thank you very much. Rick?

### **Rick Thomas**            Nautical Structures

Good morning—Martin, Tork, thank you for the opportunity. We've been doing this since 1986. Have weathered a few ups and downs, recessions, and here today to maybe for my part debunk a little bit of the myth and propaganda being perpetuated by supply and demand in crisis. I don't think there is necessarily a supply problem if there's a good partnership between the supplier and the shipyard. Over the years I've had the privilege to do business with I believe every shipyard in the United States North America and a great majority of the shipyards around the world. And it's the relationships we've developed where we've had a true partnership that we see the most success. And I find it an interesting parallel that the shipyards I perceive as being the most successful in the industry also happen to be the shipyards that have done the best job of creating a relationship basis and a non confrontational basis with their suppliers. I think that probably the most critical path a shipyard can take to making sure they have a consistent supply of on time delivery, is understanding the logistics of what it's going to take to have that partnership. Some of the equipment we build we can deliver in 12 to 16 weeks. Some of the equipment we build takes 50, 60, 70 weeks to produce and deliver and it's critical that a yard understands that when they write a particular specification or take on a project—that they see the pathway from laying the keel to commissioning the boat, and where a given product will lie in. We listened yesterday to Mike Kelsey talk about where the gearboxes come into play and how critical path it is to get the engines and such. You know it's the same thing with most capital pieces of equipment that go into a boat. And it's through these partnerships that are created between the supplier and the shipyard that the understanding of this comes together and you eliminate the problem. Companies like mine have matured in this industry, it takes a lot of time and years,

you've got to develop these relationships, you've got to build the trust, you've got to eliminate the risk, the concept that the shipyard feels the supplier is out to get them or take advantage of them and the feeling that the supplier gets from the shipyard, that he's been played against the other guy, you know trying to get beat down to the lowest common denominator. When you rise above that and create a partnership I think you create the best opportunity for a solution and from that you eliminate the supply crisis that's been discussed here this week. From my perspective our company doesn't have a problem supplying, we have a full order book, we've actually got orders that take us into 2012 and yet because of how we deal with our clients and how we schedule based on the shipyard schedule we're not losing sleep and saying crisis. So the message I bring to the table today is build the partnerships, work on the partnerships, they're good for everybody, they certainly help solve a lot of problems and when problems do come to the fore you have the basis for dealing with them and resolving them.

### **Martin**

Rick, thank you. Wayne?

### **Wayne Bridges**

Kilopak Generators

We're a small supplier of generator sets, custom building for the yacht market. And like Rick I totally agree with partnershiping. It's something that needs to be done, it opens communications, it allows for you to deal with your inventory control and build times and installation times. But one of the things I'd like to talk about that's a situation for us as—the sub contractor, in order to provide the services that we do, we have to make a profit. It's very difficult to make a profit in a situation. The sub contractors are constantly being pushed down, beat down, by the yacht owner, the captain, the shipyards, to get a better price. And when we don't have the profit margin in our equipment, we don't have the chance to absorb the price increases that come to us now. Anything beyond 30 days pricing is a price increase. Materials, gas, everything is going up for us. And we can't absorb that information in there. Also there's no room for investment. We want to talk about new technology and open up our technology. There's no room for investment if we don't have that. So investment in people, in training, in equipment, as well as inventory is curtailed. It's difficult to deal with the situation when you're in a competitive market like this, so when you can do some partnershiping it really increases the availability. One of the other problems we have as a generator manufacturer, we use two different products, major products, an engine and a generator that we buy out. Engine deliveries right now are running 16-18 weeks. Generator deliveries are running 22-24 weeks from the manufacturer. One of the things we need to look at is standardisation of our classification societies. Because the classification societies are asking for, whether it be an ABS or Lloyds or the others, are asking for us to supply a full ABS or a full Lloyds certification product. But they do not accept cross certification. If I have a Lloyds I can't submit it to ABS, if I have ABS I can't submit it to Lloyds. And it requires double inventory or long deliveries. So we have to live with factory engine deliveries, so we're sticking out there with engines and generators at 24 weeks, which brings us to 30 weeks by delivery time. Thank you.

### **Martin**

Wayne, thank you. Ken?

### **Ken Hickling**

Awlgrip

Good morning everybody. I've got a presentation here but it's not really death by PowerPoint, it's just a couple of slides. Because I've got some diagrams that I want to use to save you having to listen to what I say when I try to explain something bizarre and abstract. So if we could have the presentation up on screen. I'd like to start as my kicking off point from a comment that Kirstin made yesterday with regard to car manufacturers, and she quoted Toyota and BMW as being companies that have worked very hard to establish strong relationships with their suppliers, and we've heard quite a bit already this morning about the importance of partnering and so on. And what I want to do is to touch on that through this presentation and think about what that means for us. And I'd like you to cast your mind back, those of you who are old enough, to the last great golden age of superyacht building back in the 1920s when companies like Bath Ironworks and Camper & Nicholson's and Consolidated Herreshoff and even Abeking & Rasmussen who are represented here today were building great boats. And in those days they used to be the companies that had everything in house. And in some respects they are similar to Toyota in that Toyota has a core of staff who they invest in a great deal to make them better workers, they have a second layer or cadre of staff who are a little bit more flexible in terms of their employment relationship with Toyota and then ultimately they have tertiary staff who they take on and let off depending on their capacity requirements. And the yards used to operate I guess in a very similar way. Because all these functions that they do for interior, fit out, engineering, electrical, paint and so on were all in house. Nowadays we have a different model, which is the pyramid that I've put on the screen there. We have a lot of sub contractors now who take on a significant proportion of the work, particularly in new builds, but also in some major refits. And the advantage of having sub contractors is that of course it gives you the flexibility to expand and contract your operation without having to hire and lay off workers, which is an expensive exercise. Also the sub contractors bring their specialist expertise which one would hope would give more efficiency as well as the flexibility I've just mentioned. And also potentially improved quality as well, because they concentrate on one thing and get better and better at doing it. Now we've got a nice stable pyramid there with the yards sitting on top, which is a great place to be, but what I'm going to suggest to you is that actually the pyramid is the wrong way up. And really I'm basing this on a comment made by Michael Bremen where he said that it's the yard that's taking all the risk. Now they don't seem to be doing too badly with all that risk because with risk comes reward. But this is the situation as I really see it. You've got the builder, as prime contractor sitting at the bottom, supporting the sub contractors, who they pay for their work, who are then in turn supplied by manufacturers of raw materials and components and other consumables necessary for the sub contractors to do their work. As you can see, there's a lot of people involved in this pyramid now, there's a lot of complexity and therefore there's a lot of coordination required to deal with this complexity challenge. But the problem is that actually I'm going to take the pyramid away a little bit and just focus on the players and if you imagine trying to build a pyramid out of balls this way up it's not really going to be very stable. These balls are just going to fall away because there's nothing really holding them in place. And the sort of thing we've heard about today is sub contractors and certainly yesterday being—I think the phrase was—sucked in and spat out by the boat yards, you've got sub contractors who may not have the ability to weather cost increases—Wayne was just talking about this—there have been some incredibly high cost increases in fuel and in raw materials, commodities and so on and of course if you don't have good communication—there's the C word—then you lose all this coordination you're trying to have, and we heard Jim saying yesterday that the problem with sub contractors is, he's finding there aren't enough of them so he's actually having to bring some of these functions back in house because there aren't good managers available running these sub contractors,

or there aren't enough sub contractors available to do all the work he has. Well it's kind of a luxury problem. If you've got all this work, surely that should be a good thing. Dan was saying—why are we in a doom and gloom situation when we have full order books? And I think it's because we could end up with a picture as we see on the slide now, if it all breaks down. And if we consider the pyramid, the balls, not just being a one situation but actually you've got a number of sub contractors and suppliers who are supplying into more than one builder and more than one project, you can see that actually a breakdown or a failure of a sub contractor, a boatyard potentially driving a sub contractors out of business, a sub contractor losing their timings for a lot of factors that may very well be out of the hands of even the yard, could cause a lot of damage right across the industry as these projects are so interlinked in terms of supply.

So what can we do about this? Well, in reality we're doing it now. We have suppliers that are doing pretty well and we have sub contractors that are doing pretty well and they're not going bust and we have yards that have great relationships and are working very hard to keep their suppliers and sub contractors sustained, so there must be something going on that's going on well. And we've heard about it already today, it's the relationships—if you imagine, we've got these layers within this model that I'm suggesting to you today, but what's actually the glue that's holding these balls together and stopping them falling them down on the floor is the relationships between the players in the piece. And again, I'm sure I'm preaching to the converted when we, I, say yes, good relationships are great and we know that a good relationship is a very powerful thing. If you're in a bind, your forklift truck driver has just driven into your pallet load of paint and you need some more paint and you need it quick, you go to your regular supplier and he knows how valuable you are as a client and he will move heaven and earth to get you that replacement product. So you can lean on your relationships and you can utilise them and it'll get you out of a bind but you can't do that every day. What you really need is a supply model that is sustainable and rather than always relying on emergency favour. So I'm going to try and conclude now with some marginally provocative thoughts just to help spark off the debate. First thing I'd like to say is, actually the yards are the key to success. They are the people who do hold the risk, they hold the reward but they also hold the order book and the plan, they know when they're hoping to build the boat, they know when they're hoping to do each of the parts within the job, so yes, they are the key to the success, but that doesn't mean it's all their fault. I think we all have to work together. The other thing I'm going to say is, the capacity is actually not an issue. Planning for the capacity is the issue. None of us were born knowing how to be the supplier, knowing how to be the designer, or even the manager. None of us were born actually knowing how to do that. We became capable of the things we do through experience and through training and deciding to gain that experience and to take the training is something we took because we expected that it would pay off and it would be a good thing to do. Similarly, suppliers and sub contractors can have the capacity if they know that you're going to need it. And I want you to think about that for the moment. If you know you're going to need more steel, or aluminium as Rick was telling me this morning, 80 tons he bought ahead because he knew he was going to need it, because he has got an order book out to 2012—we know about yards that have got order books out to 2014 but I'll tell you something. They haven't told me when they're going to need the filler. Now I've taken a punt on our business, a gamble if you like, and I've said this industry is going to sustain its growth, it is going to be worth investing in and we've made an investment. I'm sure there are loads of other suppliers and manufacturers who have also made the investment on an expectation that this industry is going to be sustainable. But it's not a certainty, and it would be nice, I have to say, if the yards would be in a position to share what

their plans are, what their expectations are, and most importantly when those plans change so we can modify our capacity to suit. And then there won't be a capacity problem. Oh yes, there'll be blips and surges and rush jobs and so on, as there always are. But if you know that you're going to have a requirement for more capacity in the future, any of us as businessmen can get the money to make the investment to satisfy that demand. So capacity as I say is not the issue. Security of supply—assuming that we correctly invested and we do have the capacity planned in—it depends on the relationships in this industry. Those relationships—they're a nice cosy thing and we talk about them and partnering, but what we really mean is a flow of information through those relationships from the yards to the sub contractors and then on to the suppliers of the raw materials and consumables and components, so that everybody knows what is going to be required when it's expected to be required. Obviously things change, but it's still worth knowing as far in advance as you can, so that again you can plan your production, so you've got the capacity, you're now making the components, and it's all going to start rolling through. It's going to be a Utopia. But if you don't have these relationships, and we don't have this flow of information you can't just turn things round. We heard the comment yesterday that if your prop shaft gets dented by the delivery guys and you've got to put the boat in the water, I think the phrase was—you're toast. So none of us wants to be toast. So getting a secure supply and having people understand what is necessary for that, maybe being able to sustain a slightly higher price in order to allow for investment is going to give us a much better supply security situation. So therefore, forward planning—if you're going to do it in the yard, great. But you've got to share that information through the sub contractors and they will then share the information in turn with their suppliers so that the whole thing works like clockwork. So that's my conclusions. You may choose to agree or not. Thank you.

### **Martin**

Ken, thank you very much.

### **Tork**

Ken, can I just jump in and be provocative too—why don't the yards tell the people? I mean we tried to survey for our annual survey and there are some yards that give us great information and there are others that just won't tell us anything. I mean, an order book isn't proprietary information and it would help sub contractors. Why don't they do it?

### **Rick**

Tork, let me answer that. Because it goes back to what I was saying earlier—that the better shipyards actually do. There's one US shipyard that I deal with that can tell me when they're going to need a specific crane or specific rope or specific build within a two day window and they maintain that type of schedule and we have the responsibility to meet that. And with that kind of information you can. It goes back to how the yard is managed and whether or not they understand that there should be no surprises to the sub contractor. The sub contractor needs to be in the know, they need to be part of that shipyard organisation. When they're not treated as part of the shipyard organisation you set yourself up for failure.

### **Tork**

But I mean some of the yards that I'm talking about are what you would regard as the better yards. And they're still not passing the information on.

**Rick**

But are they?

**Martin**

Rick, let's be candid. Which yard are you talking about?

**Rick**

That specific yard was Westport Shipyard.

**Martin**

And they have a very lean manufacturing approach anyway—they're a trailblazing shipyard.

**Rick**

In many ways, yes.

**Martin**

Any comments from the floor? Yes, Eric?

**Eric Goldring**      Goldring & Goldring

In speaking about—you know it's great to know what's going to happen—I'm thinking it's a great theory but the whole concept of yachts is for there to be innovation, and if you're saying I'm going to need X in 3 years, you don't really know what X is. And not only from the innovation standpoint, you have the regulatory standpoint. If I ordered Awlgrip paint from Ken 3 years ago it would be worthless to me today because I couldn't use it, I wouldn't be allowed to use it. And that's part of the problem that I see as—it's great to share information, it's great to forward plan and then a new technology comes up and your owner says you know what, I don't want MTUs, I want to go with that new fancy T3 turbine. And he's got that right, because he's 4 years down the road. How do you meld that issue in with one other, which is price, because if I'm committing to you 4 years out, as a supplier I'm now at your mercy. I have no way to leverage—well you know Alex, I'm stuck. So what do you see as the way to have the suppliers get the information, get commitments without suppressing innovation or inflating prices?

**Ken**

Thanks Eric. That's a great question. I think there's a couple of things in there—knowing what your customer is expecting they will want in 4 years' time is a long way different from having a commitment in the form of an order. And the point that I was really trying to get to is, if we as suppliers and sub contractors are going to invest correctly so that we have the capacity to satisfy your order we have to do that on the basis of sound information. Or we're just going to take a guess. And there's two kinds of guesses. Lucky ones and wrong ones. And you can't be lucky all the

time. So if you have information as to what your customers are likely to need, based on their own best estimate of what they plan to do in the future, but you're not asking for a commitment, you're not asking to lock them in, you're not asking to prevent them from having flexibility in the future, then I think it's not unreasonable to ask. In fact if a customer says OK we're going to need lots and lots of stuff in 4 years' time providing you're still a good company then actually it goes straight back to the point that Dan was making, because you think to yourself well, I'm going to have keep innovating to make sure I still keep this customer expectation of demand in my business and not in somebody else's business. So it's an expectation of what you'll need rather than a locked in commitment, that I think I'm really looking for, because then we as businessmen can make the right decisions, we can take on extra workforce, we can train them up, we can put in extra buildings and capacity, we can tool up for the expected larger level of business that's supposedly coming through, and if we're stupid enough to lose that business because we're not good, or because some competitor comes along and eclipses us, then shame on us. But it's not a problem to have known what should be coming.

### **Rick**

Let me speak to your second part of that, which was the innovation part. And this is where again in my opinion and experience, the partnership with the shipyard becomes so critical. When you look at the total build process from concept, design work, naval architecture work, all the way to the shipyard and then through production, some of these projects are 5 year projects. And when there is a partnership that is created between a supplier and a shipyard, particularly a supplier that builds innovative and custom equipment such as what we do and many others like us, we get brought into these shipyards early in the project and oftentimes are asked—can you innovate for us, can you do something that's going to solve this series of problems. This is our challenge. We have no idea how to do it. Or this is what the naval architect's drawn, or the interior designer has drawn—how do we get around this problem? And it's because of these relationships and partnerships that sometimes we're willing to invest hundreds of hours of engineering in an innovative design, not on an order, we don't have a purchase order, but on the basis that we know this client is a serious client that treats us properly, will invest in their project because we have the expectation that from that will come an investment back to us and we'll actually get to execute this innovation. So when you have those types of relationships you can get this innovation. When you have adversarial or non existing relationships it's very difficult to get innovation. You end up with getting what you get, or you have these unknown entities come in with their good idea that's never been tried or proven. And you become the guinea pig. Not necessarily a great thing in a large yacht build. So again, it goes back to that relationship. As far as the cost goes, you know sometimes when you're going to get innovative product cost becomes a secondary issue. It's the value of what you're going to get. You know, you certainly don't want to be frivolous about it and pay more than you have to, but at the same time you want to be able to support a supplier that's going to be innovative for you and sometimes that means you pay a little bit more.

### **Eric**

That sounds like you're a lawyer.

### **Dan**

I'd like to just make a quick point about the innovation piece of that. And I think it's fine to sit up on a panel and talk about the ideal, the ideal of the partnership, sharing

information and planning years out but my feeling is that sometimes in practice that means the supplier is no longer incented to innovate. Because the builder's no longer looking. So 4 years down the line if you know you're going to provide a piece of equipment or system X to build a Y, and they presume at that moment that they told you they're going to need it 4 years from now, it was good enough, why change? And you know there's a certain trade off between sending every single project out to bid for every single system and having long term relationships where you can count on somebody. And frankly I don't know where the balance point is of that but I think in practice, the reality of it and certainly the reality of it right now with all the pressure in time and demand that's on builders is that often innovation is not being sought, if what they have now is suiting the purpose. And again, maybe suiting the purpose is all they have to do.

**Martin**

Tom, and then we'll have 2 email questions.

**Tom**

We are seeing a trend in entering into negotiations and hammering out contracts as suppliers for 2, 3, 4, 5 years down the road where we negotiate prices with yearly escalations. We have minimum delivery requirements, with penalties if those requirements aren't met. It seems to me that that is a natural progression that everybody sleeps well once the contract is in place, the yard knows where their pricing is going to be for 3, 4, 5 years, the supplier knows what he's required to supply and what timeframe. Does the panel deal in this way? Are you seeing this trend? Do you guys enter into contracts with your customers?

**Wayne**

Absolutely.

**Dan**

Only with Westport!

**Rick**

No, quite the contrary. We—and again, I don't want to speak just for my company but I know of other suppliers that I have relationships with, and deal with, that do the same thing, and we have contracts for— for instance we recently signed a deal for six 72 metre boats, that'll take us into 2012, and in the process of doing that we identified the delivery schedule, we identified an escalator for materials and overhead costs, we created a baseline of costs, we agreed on penalties for late deliveries and we put together, as you just said, a contract we all could sleep on if everybody does their part. We don't have to worry about what happens to the price of aluminium billet in 2011, unless things are just absolutely insane, but we have an out for both parties in the event that things just go insane. So again, sometimes good partners make good friends, good paper rather makes good friends, and it's in the yard of how you craft the contracts to deal with long term contingencies that will let you be successful or set you up for failure.

**Tom**

And the thing is that it's not without risk. We have to predict what's our escalation going to be in 2010. So we have to crystal ball that and the yard has to predict how solvent they're going to be, how many projects they're going to have on the table. But I believe that in entering into a negotiation like this more information is on the table and everyone takes a part of the risk and it seems to make sense to me, a pretty good way to go.

**Wayne**

I totally agree with that too. We're taking contracts out to 2010 now for deliveries. And you just have to have language in your contract for escalation that could be passed through, because we don't know where the materials are going to be, where fuel costs and delivery costs are going to be in 2010. But we're already signing contracts with language in our contracts for that type of application.

**Martin**

But are you able to forecast profit on those long term contracts comfortably?

**Wayne**

No, not comfortably.

**Martin**

OK. We have one email question, then a question from the floor, then a second email question.

**Tork**

OK. The first email question—there are actually 2 but with time constraints we're going to pick one of them. Against the backdrop of a massive demand for new product, resource issues for both builder and sub contractor and the ever increasing cost of raw materials, how do we ensure that profit and productivity do not railroad the spirit of invention and superior quality that is the essence of the luxury superyacht?

**Martin**

Does that make sense?

**Ken**

Yes. If you don't make a profit you can't innovate. Profit is freedom.

**Martin**

Oh I like that quote. Profit is freedom. The American way.

**Dean Vaughan**                      1<sup>st</sup> Class Marine

I've spent a couple of years working with a North American shipyard doing a custom project and I've got a fantastic owner, I'm working with a great shipyard but I encouraged him to invest in information—and to get an owner to make information a value adding thing that he's willing to pay for is extremely hard, and today we're

going to have a great boat but that owner is lamenting the fact that he didn't spend the money on upfront design. And I think doing that would have enabled the shipyard to communicate to the all the sub contractors. So how do we get owners to embrace an upfront design before starting construction and get away from this hasty way of starting projects?

**Martin**

Who's going there?

**Rick**

If I understood the question properly, I think what you're describing is more to the relationship between the shipyard managers and the owner that's going to build with that shipyard. Companies like ours are happy to share our technology with the end user, we advertise not just in publications like The Yacht Report that speaks to the industry, but we try to put the information out to the general yachting public. We put our best foot forward at boat shows and we encourage yacht owners to come and talk to us and meet with us and to get to know our engineering staff and most businesses like ours in this industry do the same thing, that's why you see companies like ours at boat shows. We're not there necessarily to speak to the existing shipyard, they're busy selling yachts, but we are talking to the end users who're trying to make these types of decisions. You know, what new technologies are out there, what alternatives do I have to what the designer or the shipyard proposed or is planning to do, and this is also a driver for innovation. This is where you start getting consumer demand coming down the food chain if you will to the supplier level and we start hearing about experiences or marginal experiences or in some cases very good experiences—and it fuels the fires of creativity.

**Martin**

Any comment?

**Dan**

In my experience to this point, it seems like when an owner selects a shipyard he's also selecting all the relationships that that shipyard owns and whether that is for a completely custom build or a semi custom project—I think there are very few owners today who are saying I want this exact piece of equipment or I want that—and it's different than what you already used, or what you used in your last build. Maybe that's not always the case but for most suppliers I believe that while we may market to the end user we're really trying to build the relationship with the builder, because they'll bring us along on each and every project should we do a good job.

**Martin**

I think basically that's a question we can put forward to the shipyard session later on today as well.

**Tork**

This one is somewhat of a comment—Most yards likely have the information that we were talking about earlier. They're just not at liberty or simply don't want to divulge information on confidential projects, especially with larger yachts, most if not all

details are kept secret at the owner's request—While that would actually apply to some of the information that's denied to us as a magazine, I don't actually think that that would apply to the sub contractors because they can always be made subject to an NDA.

**Rick**

We sign non disclosure agreements monthly with shipyards and it's a foolish mindset to have such a proprietary project that you're not going to share the essence with your prime sub contractors, and oftentimes I'll have the shipyard come and say we've just signed a 65 metre build, a 70 metre build, can't tell you much about it other than we're going to need this and this and that, and it's going to have to happen between now and 2010, you might want to start thinking about it Rick. So if you've got the mindset that everything is totally proprietary, you know it may serve the interest of the end user in his desire for secrecy but it doesn't serve the shipyard's interests and it probably will lead to some problems.

**Martin**

I have one quick question because I love talking about profit, it gives you freedom. The thing you talked about Rick, the relationship issue, in that relationship building process how interested is the yard that you make a profit?

**Rick**

Very.

**Martin**

And do you disclose the margins etc so they know what profit you're making?

**Rick**

I have. I don't as a rule, but at times in negotiations sometimes that becomes a good tool in letting the shipyard understand exactly where you're going. Our company has been innovative and we are probably arguably the most expensive equipment, not just in the States, but probably in the world, yet we have a very nice market share and we I think sell on value not the actual dollar that someone is buying our equipment. So it's really a value argument and not a dollar argument and at the end of the day we don't make a huge profit but we make enough to be able to stay viable in this industry.

**Dan**

I'd like to know how you get to the point where you can make the value argument instead of the dollar argument.

**Rick**

Time in the box. I started in 1986.

**Martin**

Another 20 years, Dan.

**Dan**

Thanks.

**Martin**

Yes, please, in the middle. Don?

**Donald Ansley** Interior Yacht Systems

For those in this room that are interested in the subject, I would highly encourage you all to go and buy a copy of a new book called Refabricating Architecture. It's written by two of the top architects in the country, they operate out of Philadelphia, they both teach at U Penn, but it speaks specifically to this topic and it also speaks specifically to how you get this multi-tier supply chain to fuel innovation. They've got some wonderful examples in that of how on those second and third tiers you're able to get a bunch of guys out of the shipyard, out of the aircraft plant, out of the automotive plant, doing things, locking themselves in a garage, and doing things that the larger more formal entities really have a hard time doing. So it's a great book, I'd encourage everyone to read it.

**Martin**

We're ordering one now on Amazon. Any more comments or questions?

**Tork**

While this is a discussion about sub contractors it's almost implicit that the build process today uses sub contractors yet there are yacht yards out there that actually have everything inhouse. How can that be—how can those two contrasting things exist—and it's a yard that does make profit?

**Rick**

I don't think there is a yard out there that has everything inhouse. They may have a lot of the labour forces but you'll still have supply chain requirements to that yard to do that.

**Tork**

But their supply chain requirements are to a point of +90% with material suppliers not if you like fabricating sub contractors.

**Rick**

I think at some point you're making a decision between best of breed and an enterprise solution, so a yard that has decided to bring every single thing inhouse from cabinet making to monitoring systems is deciding to perhaps not provide the top option of that thing. Well if they're not using me they don't have the top option!

**Martin**

Ken, you mentioned about Utopia earlier on. How far are we away from Utopia?

**Ken**

Well I think most of us would agree that out here in the real world we're miles away from Utopia and we can sit around the bar and tell lots of tall tales about things that went horribly wrong, and there seems to be no shortage of tales of things that went horribly wrong, so on that basis, using that evidence, I think we're a long way away from Utopia. The thing is that Utopia is a perfection, you can never get to perfection, you really have to try to have a push for excellence rather than perfection, realising that you're never quite going to get there. And you've just got to say as long as I'm moving in the right direction, as long as I'm improving things, as long as we're building better relationships, we're getting better information, we're making better decisions, we're building a better industry, then we're taking the whole industry in the right direction. And we shouldn't live in some fantasy land where we think it's all going to be wonderful and we're all best of friends and suddenly we'll magically make loads and loads of money and everybody's incredibly intelligent and so on. Because it's not going to get there. But we should head in that direction rather than get some other direction where we're all trying to fight each other and do each other down and win over other people rather than win with other people.

**Dan**

I have a quick question if I may, and maybe it's to the other panellists and maybe it's to the people in the room. But absent a piece of paper, absent a contract, what actually constitutes a partnership? And if you have a partnership, what obligation then has the builder taken on, in a real world sense. You know, if you say we're going to be partners with you and please plan on making X number of systems 5 years from now. And somewhere in there they change their minds?

**Martin**

Excellent question.

**Rick**

In my world a partnership is an intuitive thing, not a formalised thing on a piece of paper. I can come to an event like this and go eyeball to eyeball with people I consider partners with our company in this industry. I can travel the shipyards and walk into a shipyard and know that this is a shipyard that has partnered with Nautical Structures in their construction or this is a shipyard that has elected not to partner with Nautical Structures in their construction. And you know. You absolutely know when you're in a partnership. It doesn't have to be formalised. And it has a lot to do then with the way you approach your business relationships with any given particular entity.

**Tork**

Yes but partners do sometimes cheat.

**Rick**

Yes they do.

**Dan**

But that makes a partnership a very amorphous thing. And at some point you have to pay your payroll and that sort of thing. Do the builders in the room, when you partner

with somebody without a contract, and you're sharing with them that kind of information, what you're expecting to have happen years down the road, do you feel some obligation?

**Martin**

Eric's going to comment but I'm going to point a finger—

**Rick**

Are you building now too, Eric?

**Martin**

He does everything.

**Eric Goldring**

I did own a shipyard, an Australian, yacht builders.

**Martin**

What happened to them?

**Eric**

It actually was going quite well until the owner decided that he wanted to have all the stock and I gave it to him. Anyway. I think what I'm seeing is exactly the issue. If you've been around a long time and you've got your foot in the door with various shipyards and you've got a history of performance then the shipyard has a level of comfort. And there is a natural tendency to rely on those you are comfortable with. But if you're the new guy, or the innovative guy, who has something that is new but maybe not totally proven, the reality of it is—survival of the fittest. There's not going to be that partnership because you're just trying to get one in the door so that you can create that level of comfort and reliance. So you've got two different aspects of the business sitting right next to each other. And that's in part what I was talking about as far as innovation. You've got the new guy wanting to innovate, you've got the old guy wanting to be warm and fuzzy. No offence Rick.

**Rick**

No, no. And you nailed it just right now, perfectly. Because it seems like only yesterday I was sitting in his shoes and our company was doing amazing innovative things. Making no money, struggling, we got bought out by a company and my partner and I went for 7 years working for the man before we got the leverage to purchase our company back again. We've fallen on our face, we've failed, we've picked ourselves back up, and we've survived and it's that process that creates a mature supplier. And unfortunately in the real world, which is what we all work and live in, that's part of the culling process. You've got to be able to prove out that you've got the staying power, that you've got the innovation, that you've got the ability to hang in this industry, good times, bad times, and prove yourself. I don't think there's a way around that. There is no magic button, there's no medicine you can take, there's nothing that beats time and experience for achieving that level. That said, I still think it's incumbent upon the shipyard to look at these up and

coming—and I have a competitor that's doing a very good job right now, I give him a lot of credit, he's innovative and working hard and I will probably see a lot more of him in the years to come and it's a good thing. You've got to have that. And small innovative companies have got a place in this industry. The shipyard needs to be aware of them, needs to be open minded about them and probably rightfully so, a little careful as well until they've shown an opportunity or an ability to prove themselves.

### **Dan**

And I'd agree with that completely but It seems like in the discussions we've heard to this point that there's a great deal of dissatisfaction in the supply demand cycle as it stands. So if you have to go through that process to get to the point where you're reliable and they're going to continue to use you and plan with you as you have, and many other companies have, why do we have such dissatisfaction right now?

### **Ken**

I think really one of the reasons you have dissatisfaction is because in several relationships, I don't know whether it's the majority or minority but certainly more than one, there is a lack of trust. When there's a lack of trust and you're not sure what you're being told is the truth, you're not sure that the numbers you're being given are the actual, and when there isn't trust, you don't really have a good relationship. When you do have a good relationship and you do trust people and let's not get too warm and fuzzy about it but when you do trust what you're being told, you can act on that in your own good faith. If you don't trust what you're being told you then have to seek other sources of information such as the well tried and tested gut feel approach, and it's not a good place to be standing. The ground underneath you feels unstable, you're making decisions on incomplete data, they're not always going to be good decisions, as I say, they're going to be lucky or wrong, and that's not a good way to run a business. So I think that's the reason—people are uncomfortable when they don't know what's going on and that usually comes from a lack of trust.

### **Martin**

Thank you. Don?

### **Don**

You brought up Dan that relationships are amorphous. They are in a sense but they're also—these are company to company relationships. And very often it's far from amorphous. It's after a 5 year stretch in 10 projects with a given sub contractor—you now have many many people down through an organisation who have a relationship with their counterpart in the sub contractor company, they know when they open up the box from Nautical Structures what they're going to see, they know who to call, they know—oh wait a minute, the pack of whatever I'm accustomed to seeing wasn't there—it's a simple phone call. You know, you've got this enormous amount of braiding and knitting together between a shipyard and a vital sub contractor and if you're a new guy you have none of that. You know, you don't know anybody in that company. They don't know you. And so the trust we're talking about isn't amorphous at all and it tends to be a pretty broad band, it's not a single two wire connection, it's a multi broadband connection between your companies. And that takes time, it's an investment and the smarter shipyards are beginning to understand how much money has been invested, time and money, and the cost of replacing that.

You've got a new supplier that's got something that's innovative—and it's wonderful and great but you don't have this connectivity all the way down through to the dead plates of your organisation. And you think to yourself boy, this is a great product, but I'm going to have to go re-knit and reconstruct that entire you know RS 232 on steroids connection between our two companies before I get a peer to peer, apples and apples to pears. I'll give you a funny little example about price and engines. When I was with Hood we did the last batch of motor rail boats for the US Navy. And in doing so we quoted the job based on our experience. When we got down to actually buying these little Westerby engines from Westerby it turns out these engines were not \$4,000 like we were expecting them to be, they were \$25,000 and we said why can't we swap this for some much more cost effective engine? And a wonderful guy named Jack Matthias from Norfolk took us aside and said look, we have 250 depots across the world and Navy bases. We have manuals, we have training, we have parts, I have probably \$8million of spare parts spread across the planet for this little engine. If you sell me the new engine I've got to throw all that stuff away. So there's an example of a supplier relationship with a big company that the new product might be cheaper by an order of magnitude, but it doesn't matter. Because from the Navy's perspective it was the relationship and the training and all the other pieces of parts that went with that component. So that's what you're up against. The guys that have been there in the business for a long time have got that connectivity all down through their organisations and you've got to start building it, it takes time.

**Dan**

And that relationship you describe is a double-edged sword, it's absolutely a relationship I'm looking for with every builder. I'd love to get to the point where no builder ever considered anyone else. But being on the other side of that, and you can say, talking about the value proposition, you can debate the cost of what it's worth to install an inferior product from someone you trust versus a superior product from someone you don't know yet.

**Tork**

But the thing is, if you're the new innovative product, how do you actually get your foot in the door without crushing your foot on price or on something? I mean if you're directly competing crane for crane, the new guy has got to make some concession and he then may have put himself, by making that concession, in an unviable position long term.

**Dan**

Well that's the question. Do you have to make some concession or do you have to convince that you have better value?

**Tork**

Obviously the second.

**Martin**

Question from Dometic?

**Ed Todd**      Dometic Environmental Corporation

The question could be is it a push from the yard out to the end user or the comment earlier where at boat shows the captains or the owners coming to the show are looking for new products and then it's the pull through the yard that forces the yard to think about that new innovative product that you might have, that nobody else is exhibiting.

**Rick**

We serve many masters and we always joke that we have two or three clients at any given time, we have the shipyard, the captain and the owner. And I think particularly when you're breaking into the industry the end user is a good pull into the shipyard. I know that's one of the ways I got my foot in the door was going to boat shows and finding these owners that become in love with the product, the innovation you're bringing to the table, you get them to believe in you and then you use their influence with the shipyard to bring you into the shipyard. It's not always going to happen, oftentimes it creates a little bit of a fight, but if you really have a superior product, if you really have a value product, it'll show up and then you do a good job, you get an opportunity to do a second good job. And you know the key is—complacency, you can't have it. Even after 20 some years you'd better be looking at every new job as if it's the first job and know that you're being judged on the previous job. And the first time you start feeling that you're in, and it's a given, you're beginning the start of your failure mode. So I think it's a very mental, philosophical approach to the business, it's not black and white, it's loaded with grey areas, but you get the owners pulling you, that's going to be probably the best way to break in.

**Martin**

Thank you. Andy please, last comment?

**Andy Stewart** Atlas B2B

Great discussion, really interesting being a sub contractor so it was good to listen to you guys talking. I'd love to be in Rick's position but I do find myself as a company in Dan's as well, in that we feel we have a superior product to certain items that are being placed on yachts but there is a reticence from the shipyards to let us in and give us an opportunity. I'm wondering whether the panel thinks that for newer companies if there was some type of qualification like a benchmark, a society you could join, or a qualification that was issued by the shipyards, whether this would be helpful for companies, so the shipyards then felt that they were getting somebody who at least had some type of qualification to the industry.

**Wayne**

Well as far as a benchmark—that would be a real good thing for the industry. I mean that's one of the things that just doesn't exist for a lot of the product that's out there. There's a pedigree to the product, there's a pedigree to the shipyards. And those partnerships, those relationships you build, aren't necessarily exclusive to that yard but it is the preferred vendor of the yard. But any type of benchmark that could be set, which the industry just doesn't have, would definitely be progressive.

**Rick**

Tough to find a benchmark that could apply to somebody like me and somebody like Ken simultaneously. You know, we can all go for ABS certification or Lloyds or what have you or ISO9001 but I'm not sure if that's a real true differentiator.

**Martin**

Wait for the mike.

**Andy**

I appreciate what you're saying but I think it's more of a sort of benchmark as in you're still going to be around in 5 or 10 years time; it's a guarantee and warranty the products you're putting on to yachts, and the shipyard believe that you can do that contract in 2010 in the respect that you have a stable company, your product is good enough and it's recognised by some type of society or certification that allows you to go and talk to them so they realise that you've made the effort to go and get that certification. And that's what I think I'm referencing.

**Rick**

Well it sounds like that could just be you know a bank deposit showing well we'll have the financial solvency to be around in ten years.

**Martin**

We'll call it the relationship guidance council. We have Karen there please and then one final question at the back. Thank you.

**Karen Blake**          Palladium Technologies

We were once in Dan's position and he is our competitor at this moment. We unfortunately were in a position where we had to create the pull. We were pushing, we created the pull which now has made it available for someone like Dan to come into the market place as well. But one of the good things about having Dan come up is that they are innovative and they force our company to continue to be innovative. But one of the things that you're talking about with relationship building—it's not just creating a relationship with the upper echelon, it's also getting into that yard and creating the relationships with the guys who do the grunt work. I mean some of our guys are requested at these yards. Please send this guy—he works really well with our team, he's created a trust, as you've said, that they know the job is going to get done. At the same time Dan it's really really hard to fight innovation with other innovative companies. And it's just a matter of the school of hard knocks. You've got to be diligent, you've got to hang in there. And you've got to stick around, and that's the one thing that people are saying about us. You're still there. When we first came on the scene there were so many other people like us coming out there with monitoring systems who are no longer around. So it's the staying power and yes, it's really hard to get in there once the pull has been created and there's somebody else there. So you just got to hang in there.

**Dan**

Well first of all I'd like to say thank you to Karen for allowing me to get into the business but I want to make it clear that I'm not discounting relationships. I mean in a year and a half we've built 15 yachts with Westport and certainly the guys on the floor and all the way up to Darrell they all know us and they trust us and that's a relationship that I value very highly. So please don't get the sense that I'm questioning the value of a relationship. I think in business it's all about who you know

and who knows you and who believes that you're going to be there on Monday morning when you say you are.

**Martin**

Yes. Final question from the back there?

**Steve Leonard**                      Dometic

I'm a manufacturers' rep and some of the people that are asking the question about how do we get into or in front of some of these builders and one of the revenues—I know Rick uses a rep up in my area—is using a manufacturers' rep that has already established the relationship with the builder—and there's a national marine rep association that has a list of representatives in all the different territories and I currently represent Dometic and Maxwell and sell to the megayacht builders—they're factory interfaced to those customers and that's also another venue, instead of—as you said, it's a very tight knit group and you have to know the people, and who to talk to. So I thought I'd just throw that out, it's another possible venue.

**Rick**

Excellent advice.

**Martin**

OK. Thank you very much everyone. Thank you panel, we'll start again in 30 minutes from now.

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