

AMERICAN SUPERYACHT FORUM 2008
24 - 27 June 2008 — Newport

Day 1 - 24 June 2008

The Management Debate — What Captains Want

AJ Anderson	Wright Maritime Group
Captain Mike Hein	MY Mea Culpa
Graeme Lord	IYC

Chairman—Martin Redmayne

Allright everyone. It's a very rare occasion—we're 10 minutes behind schedule which I hate being, so I'm sorry about that guys. The management debate, final session of the day is What Captains Want. There are several answers to that question. Clive, behave. We're going to start off with a short presentation from Captain Mike Hein of Mea Culpa followed by AJ and then Graeme Lord. And then have a debate on the subject. Essentially this is a pet subject of The Yacht Report, where we often hear things about when managers and captains come into conflict or come into conflicts of interest, is possibly the word. Because obviously the owner is the key man that needs looking after but from a management point of view the captain should also be looked after in equal or even more detailed ways. Mike, do you want to take the floor?

Captain Mike Hein MY Mea Culpa

My name is Mike Hein. I'm the captain of the Mea Culpa, it's a 40 metre composite motoryacht. And I've been in the industry per se since 1985 and it wasn't until 1989 that I had accumulated enough sea time after sailing across the Atlantic a few times and going to Hawaii from the East Coast and doing lots and lots of miles at sea that I could actually go and get my first 100 ton captain's licence. And in the 23 years since that time I'm now on my issue 5 of my US captain's licence at 3000 ton now and 1600 ton and the MCA class 4. What I see is that the evolution in what we're talking about—my experience that I've had is from smaller boats and working my way up to where I am currently in my career and we always manage the boats ourselves. We work for the owners, we ask the owner specifically what do you want and we try to give him what he wants. So I think that's an evolution and as the boats get bigger the jobs become more complex and as you get more education and as you get more experience then that's how you handle the new things that are thrown at you. So at any rate I made a little presentation and I'm just saying that as a captain we get to drive the boat. It's something that we enjoy doing, it's something that we want to do and quite frankly it's why I became a captain. Because I actually got to drive the boat. And I got the licence because I thought if I didn't get the licence then I was never going to be taken seriously by an owner. We request assistance in the day to day management to keep the boat running. What I mean by that is, the way that we run our boat is we have some individuals, the owner himself has one, I have one, and some people within his company that we deal with and we request certain things of them. And if we would use a management company then we would be asking the management company to do the things that we're doing in house at the moment.

We want safe boats. We want the safety of the guests, we want the safety of the crew and we want the safety of the vessel. Clearly without a shadow of a doubt it's my most important thing. It's what it's all about. We want to make sure we get back to the dock, we want to make sure that everything on the boat is safe and if there's an issue we want to take care of it. Be accountable to the owner for the responsibility—to me that's the paramount job of a captain and if we had a management company that management company has to be accountable to the owner for the job that they've undertaken. The shoreside support—well we are actually a private boat, we have a lot of the same practices that we would have and I can say that in preparing to do this talk perhaps we might actually write down a few more things of what we've done instead of just simply recording it in the logbook when we do a fire drill and things like that. We want fair regulations and we want fair regulations to benefit the owner, the crew and the vessel. And being a private boat and having built the Mea Culpa there were certain aspects of the code that the owner made a decision in the end not to do because of the way he wanted to use the boat and one big thing was sill heights and one big thing was one metre handrails, to name examples. I don't know how that's changed in the last 5 years but 6 or 7 years ago when we decided not to do that those were issues that we couldn't get over. Another thing that we want from the suppliers and the vendors is we want a reasonable warranty on new products, especially on existing boats and on new builds. So right now we're involved in a refit—we want to see warranty on the new equipment that we're putting on the boat. When we go to a place we want to see timelines that are met and we want to see them per the agreement that you make when you start your project. We want the suppliers and vendors to have accountability and fairness, we definitely want quality products and service. We were talking about this at lunch—quality products is the paramount thing. It's more important than price, the quality of the product is exactly what we want and it leads to so many other things, to everything else being taken care of. We want the integrity of the brokers and managers. We want to have good crew with proper training both academically and on the job training and in today's society they have to become completely fluent with IT. One thing I can say is that enthusiasm and professionalism goes a long way. If somebody is very enthusiastic about what they're doing and what they're able to learn then it just affords new opportunities for them in the future. Working a good rotation programme so people don't get burned out. It's myself and a lot of our guys and a lot of guys that I have known in the industry for quite a long time—with more and more boats being built we're trying to work out a way that we can get a rotation going so that the boat never suffers, things are continued on a long basis, you try not to have the turnover by keeping the same personnel on the boat, and that's a big huge benefit. Maintenance programme—have a preventative maintenance programme to lead to successful trips and successful passengers. Documenting the work that's completed and resolving the problems so that those problems don't repeat themselves. It's a thing that we're doing where we try not to make those mistakes and we document them very well in case you have a crew change or a crew turnover so they can easily find that information. I talked about job rotation—it's something that happens in the maintenance programme—for the engineers in the industry for a number of years now rotations are becoming quite the norm and I think that if you talk to some of the captains and some of the managers from those boats it's very good for the boat by having those rotations, especially in the engineering department. The finance department—ensuring that the crew is paid in full and that benefits are offered. The crew—for me I think that's paramount. The crew are there because they're being paid. They want to be there but it's very hard to keep the crew motivated if they aren't being paid. Taking care of the deposits and paying off credit cards in a timely manner. And also being aware of large expenditures. We prepare a budget, we follow that and we would be expecting that as a management company and our

company—you plan for those expenditures in advance and when you're travelling and buying fuel or doing deliveries and you're going from point A to point B—we were in four countries in four months so it's quite a process to keep that going, and the credit card companies are constantly wondering how you're having these expenses in different countries all the time. The finance department helping out with ordering of spare parts and providing proper budgeting and feedback based on how you're doing. We want to have a great itinerary. We discuss with the owners their desires and our plans, we want to go where the ordinary person can't go. And we want to take the boat off the dock and start exploring areas, rather than being tied up stern to. And we want to provide feedback and information and share the knowledge—and I think this is a great venue for doing that, the magazine is a great venue for doing that and I think the Crew Report is a great magazine for doing that as well. Shipyard time—without proper time and resources allocated to the shipyard one cannot provide the level of service necessary and it's always been something that we've done—you allocate the time, you take care of the business, you take care of the work, and the boat runs a lot more smoothly that way. The owners like that, they appreciate that, the crew like that, the guests like that, it's a great thing. You plan everything to a T and the execution is much less painful and much easier to do. And we're looking for value for money—I say again that it's not necessarily the end dollars spent or euros spent, you want value. You want a product that's going to last, you want people that are going to support that product, and I think we're willing to pay for it. With regard to charters—you want to line up good charters. The crew want to have good charters. You want to have the appropriate information onboard the boat so that you can provide what the charterer is looking for. And you want to ensure that there's no misunderstanding as to what the expectations are of the charterer. Crew agencies—they are there to ensure that the personnel are properly trained for the job. Personally this is something that the crew agencies need to do more often. They need to actually review the resume for accuracy. There is a lot of bending of the truth in resumes. Talk to previous captains and take their candid comments. We want to have personnel that are matched to the boat, so there is no misunderstanding as to what the job will be required when a new candidate comes to the boat. And take responsibility for the placement. If you put somebody on the boat and 12 days later they don't work out, there shouldn't be a charge for 12 days temporary labour on the boat. And find out why exactly that guy isn't on the boat, or that girl isn't on the boat. And like a lot of other industries, quit placing useless crew. So the question is self management—get a management company. Do you get value for the money that you spent on a management company? And one thing that I think in a charter situation, when you're required for ISM and ISPS I think both of my colleagues here, AJ and Graeme are going to talk about this—but I think that's a big question and I hope this is a good introduction. Thank you.

Martin

Mike, thank you. AJ—would you like to start off with value for money?

AJ Anderson Wright Maritime Group

Well I think I'm like Mike, I kind of came from the old school and I was talking to Ken Argent a little while ago and we were reminiscing—first captain's job was about \$115 a week, it was like Mike said—upwind going out and upwind coming back. And then after some years and somebody said about 5-8 years ago, they said well you know this ISM thing is coming into yachting and I said as a captain—boy this is terrible, this is an awful thing, I can't believe they're going to bring in these things we're already doing anyway, they're going to make us do it and then prove it to somebody. But then

it was for sure coming—and I said well, instead of having some (I'm not looking at Graeme) jerk ashore telling me how to run my boat I'd better start a company and tell myself how to run the boat. So the ISM did develop and everybody knows how it developed, it's a great tool in fact, it's not as bad as I first suspected it would be. ISPS is another story, but ISM is a great thing to have. It's caused all kinds of good things to take place after the initial—all the accident reports and the near miss reports came in and everybody said well it's less safe now. Truth was, people were actually telling people what was going on out there. So from that side—I'm still a sailing captain by the way so I'm speaking from a captain's perspective, but also I happen to own the company so I can speak from a manager's perspective and I talk to the owners, I talk to the captains. Basically everybody wants what Mike just explained, on the boat. In respect of minimum standards that you guys were talking about in the last paper, it is effectively minimum allowed standards. It's not minimum standards to live by, it's minimum allowed standards. So if you never go below—I think everybody in our industry generally exceeds minimum standards. What you don't want those codes to become are maximum standards, where you don't do better than what those codes are. And I think that our industry achieves that. As far as value for money—I know we're very expensive and I feel guilty about that but I know that just about as much comes in goes out so it must be about right. So you have to have eventually now, because we're dealing in larger yachts there's a commercialisation that's happening in our industry, you're going to have to have a shore managed office. And because of the insurance industry and the litigation industry if that is an industry—even the yachts that are below convention, the yachts that are below 500 tons, the small boats that are 120 feet long, they're going to have to begin complying whether Cayman Islands says so or whether Marshall Islands say so, they both have Annexes related to safety management systems in their codes and somebody is going to have to, eventually, when you don't comply with that safety management system and there's an incident, the underwriters and the lawyers are going to be involved so therefore even the small boats have to comply now. So I think value added—yes you have to have the shore managed office—from a captain's standpoint it's not as bad as I first thought it was going to be and from a manager's perspective, which I'm going to let Graeme speak about at greater length, it's a very tricky position to be in, when you're having a good conversation with the captain in the morning and you get a good sense that he has everything under control, not because you're asking him but just by what he said to you, and then later that evening the owner calls you and says what's going on with my boat? That's a challenging thing that the managers have to deal with and the captains have to understand it, and it's just one of those personality balances that guys like Graeme have to be so good at.

Graeme Lord IYC

Thank you AJ. Trying to describe yacht management to people is quite a tough task—I think the best way for me is to explain the evolution that I've experienced. When I started on the yacht management side I transitioned out of working on board yachts and it just looked like an interesting sector to get into. Back then the MCA wasn't really a player yet, ISM wasn't in place so we were just doing basically bill paying and trying to meet and greet people and coming to the project back then in Holland was a great way to do it—you walk in for the first time wearing a manager's hat and you get pretty much attacked and asked to leave. Today it's kind of an accepted evil. The interesting thing that I get to experience in it is that each boat really—we have two clients, we've got the captain as one client and we've got the owner who's the other client. From the owner's point of view we've got two really clear sorts of personalities when I meet each owner that wants to speak about

management. You've got the one guy who wants to be involved in his boat and in truth he's not really a candidate for what we do. He's going to do probably similar to what your boss does—he's got somebody in his office that he likes and he's going to assign the boat to him and that person is going to phone me and groan and moan because they can't take the extra workload and that's what it is. The next type of personality is—the owner goes I just don't want to know about it. I want to phone one person once a month, find out how much my boat is costing me and move on and worry about the things that I can do well and make the money for me to own this yacht. So that's really how the interaction for me works with the owner. The interaction with the captain is a completely different relationship. We speak far more regularly to the captain and ideally I'd like to try and see that at least one of the members of my staff is speaking to the captain on a daily basis, and that it becomes a fun, light-hearted relationship where each party knows what's going on on the boat, so that the facts can all be pulled into one place, so that when the owner wants to make that one phone call a month we can tell him what the heck is going on. And AJ's completely right—a lot of the time we get stuck in an impossible situation where you do have the captain saying everything's great and the owner saying everything sucks, or vice versa. So trying to balance those—I don't find a book that's showed me how to balance it, you just kind of figure it out and get everybody talking again. The thing that is really changing from a captain's perspective is that the regulations are difficult to understand and they come out fast and furious sometimes and the captain really has no single place to go. And it came out really clearly yesterday in the conference—if a captain hasn't been to the States recently and he has to go through everything that he needs to come in on a foreign flagged yacht for the first time in the States there's a lot of stuff that you've got to think about. And the consequences of not doing it right is you get turned right around and asked to leave the States. So having one person that you can go to, that can walk you through it, is becoming quite a decent asset to the captains and they like it. And that's really begun to change our relationship with the captain getting something back that he needs and you're keeping that client happy as well as trying to keep the owner happy as a client.

Tork

Could I put to the panel from your differing perspectives—discuss the merits and demerits of, the advantages and disadvantages of—having a management company that is also a yacht brokerage company that is also a charter brokerage company. The plus and minus of both approaches—because I'm aware that for some people a one stop shop is a great thing and for others they're somewhat suspicious of it because of potential conflicts of interest. Shall we start with AJ?

AJ

Well I don't know that there's a conflict, I think that if you look at it from a practical standpoint it's that a charter manager needs an ISM company. A charter manager will eventually have a liability to say well, yes Mr Charterer, we are representing this boat as safe, it's good, it's fine, the crew is good, it's going to move fine. Well if he needs an ISM member either he sub contracts out to another ISM independent company or he generates an ISM company within his group. So I think what happens is, the ISM manager and the charter manager, they really need each other. Sales brokerage on the other hand to me is independent of that. They're not required, it's kind of like doing a lot of other things but charter management and ISM management are really dependent on each other. Then if you get into the financial services or the funds administration services where you're doing payroll and making payments for

people then you have a third leg of the need. You have the ISM, the charter management and in some cases the money management.

Graeme

From the charter point of view, doing the charter and the management I find works out very well. And I look at it when we don't do both and we have a boat that says the charter marketing is done from somewhere else—I've just had a case that happened today where the boat is out of service and the clearing house just booked a charter for it. You know that break in communications—that's crazy. So when we're in the same office and I'm working closely with the charter marketing person and I just walk down the hall and it provides that owner with the same one stop, once a month, we talk and we can talk about every sector of the boat in one phone call and he moves on with his life. The brokerage side is a little hit and miss at the moment. But sometimes we get it right, where the broker invites someone from the management side, ideally there should be someone from the management side and someone from charter, the captain, the potential client and the broker all in the same room before they choose a boat, to discuss how they're going to do it. Where that takes you at the end of the road is if he buys the boat and follows the programme that everybody discussed, the management company should be responsible for making sure that the broker has put them into the right boat that was discussed and that the whole thing works out to a happy experience all round. So each department then becomes responsible for holding each other accountable for promises made to the owner; when that works it works really well. I don't think that the brokerage community is quite tuned into that—maybe 20% of the guys have figured that out. But the rest of them, just like the captains, we get to meet the owner too late, once there is a boat in the picture—and often we know right from day one that it's not the right boat and it's not going to do what he's been promised it will do.

Martin

Any questions from the floor? No? It's been a long day, obviously. Right guys. I'm going to ask you a question. When you were running boats, AJ, did you want a manager?

AJ

Well I won't use all the words I was thinking. But I'll just say no. I mean part of the reason is that I didn't feel, and I still don't—incidentally I'll be sailing on a boat next week, relieving a captain, so I still work, I don't just sit around in an office like Graeme here—the reason I didn't want a manager was well, number one it was foreign to all of us so I was ignorant, but on the other side of it I didn't want somebody to be between myself and the owner. I wanted to be able to explain exactly at the right time and with the right amount of information, not too much information, not that the bearings overheated and this caused this to happen and that caused that to happen and therefore we're not sailing tomorrow—but the right amount of information like we have a little situation and we might have to leave a couple of hours later tomorrow. I wanted to be the person that said that, the person that understood what was going on on the boat, I understood the crew, I knew what their needs were, I didn't always satisfy them but I knew what their needs were, and I didn't feel that a shore manager—again I'm not doing this, it's just somebody behind the curtain!—would have the same perspective.

Graeme

I think that it really comes down to personalities, trying to get that right personality match between the captain and whoever is doing the shore side part of it, that they respect—when you see a captain that's got a good working relationship and can communicate well with the owner—he should absolutely be the guy that is communicating. Unless you have a situation where the owner says I don't want to hear this from the captain, I want to hear it from you, it should definitely be that way. The managerial side should be, OK we know we've got that bearing failure, we know the boat's going to be late, we know that at the end of the month when we do that phone call we're going to have to explain that she went over budget because of that bearing failure and I know you had a crappy day the next day because you were late. But we're back on track.

Tork

But is the owner making a mistake by simply wanting to deal with you and not hear from the captain at all? I mean don't you think—surely I would presume that you would recommend to the owner that he doesn't adopt that approach, because he's missing out a vital part of the component in taking pleasure out of his yacht.

Graeme

Absolutely. I think that's again where you get into a tough situation because of your two clients situation. If I see that then my immediate response is that there's a break in trust between captain and owner and I feel it's my duty to bring that to the owner's attention—if you don't trust this guy and you don't want to speak to him, you've got a major problem. But in the same respect I'm also throwing the captain under the bus. Probably not long term—probably long term the captain should get the hell out of that situation anyway and move on with his career. But that's our two-client situation again.

Martin

Mike—before Eric jumps in.

Mike

A little bit like what AJ said—I wanted to be and want to be the guy that talks to the owner. I think in my current situation I've been trying to figure out if a management company could help us out and help us to make our current vessel better. I have thought of some examples—if we were to go to the Med I think that maybe not a management company but more like an agent would be a tremendous benefit to us. But where we've been in the past few years so far I haven't come up with any reasons why a management company would have been of benefit to the owner in the way that we've run it. However in a new boat or a new construction or with a new owner that's not in the industry, I can definitely say that I can see advantages and personally I'd be looking for a company that had a captain, a guy with similar type of experience or more experience than I have and I'd be looking for a guy that was on my side and looking at it—I don't have anything to hide, I want to be the guy to tell the owner, and the truth is the most important thing to tell the owner. He needs to know 100% what's going on and the timing of how you tell him is critical. And you have to talk to somebody in a way that they can understand, and especially in this industry that we're in, we've had sometimes 5 different nationalities on a boat with 6 crew and you have to be able to talk to people the way that they can understand that.

And that's completely the truth with the owner—there's a time and place to tell the owner something and if the management company is the one that is reporting and they don't have a good relationship with me, then how can they have that type of relationship and relay what's really important to the boat and what's really important to the owner? So I'm not saying I'm against it, but—

Martin

Was that a question to Graeme?

Graeme

Well, what you did touch on there is pretty important. It's timing. And in my line of work it's the thing I see pretty often, where something may be really important to the captain and he really wants to get an answer to it and I might know that right now is really not a good time to speak to the owner about anything. That generally comes from when we have that situation that I described earlier on—where you have a charter and the brokerage so you have a lot of people that you can get a feel of what's happening in the owner's life—that can be helpful. But a lot of the problems that I see that are created are just bad timing. Quite simply—it's either a poorly thought out sentence in an email where the captain hasn't had somebody on the boat proof read it first, or it's been put to the owner at a really bad time.

Martin

Eric, thank you?

Eric Goldring Goldring + Goldring

I know there are different management styles and I've been involved in management of yachts, I've been involved directly with owners as the lawyer in my litigation industry and you know—

Martin

We'll just call you Jack !!

Eric

But looking at it—Graeme made the comment of having two clients. And that may be an approach but to me I think that's a slippery slope that you really can create a lot of problems with. You've got one client. That's the guy who pays the bill. That's the owner. The captain needs to work with the manager, not the manager reporting to the captain on the one hand and saying OK we've got this relationship but on the other hand the captain's got a lot of information and hands on that the yacht manager probably does not have. And unless you've got a yacht manager that's handling 2 yachts or one yacht there's a lot going on that really the owner may need and just as the captain may send an email that was poorly worded or poorly timed, there's a lot of yacht managers that get screamed at for exactly the same thing.

Tork

But that raises an interesting point, Eric—and panel. Captains and crew are used to a hierarchical situation—you know, I mean you have the owner, the captain, and so

on down. Where does the manager fit into that? Because I think perhaps that's one of the reasons there's such a great problem within the relationship between the two is because as a captain you're used to being answerable to the owner and no-one else.

Eric

Right. And that was really to my point. As I say, there's different styles, but I always look at yacht management as being someone who is part of the team with the captain not a hierarchy where the yacht manager is above the captain though in certain instances clearly that can happen—but on day to day things—

Tork

But it really can't happen, can it? I mean you know who your boss is, or you don't. It's not the manager one day and the owner the next.

AJ

Can I say something for a minute. I know Graeme's view and when he was talking about the second client he didn't mean a client in that sense—we've talked about it and I know he definitely knows there's one client but the way I view it is that I don't want to speak to an owner except when he says I need a new captain. Then I say OK let's talk, we'll find the right guy and we'll put him on and then that's it. After a week or two or hopefully not more than 6 weeks or so the owner doesn't call me any more, he speaks to his captain. That's the way I would prefer it to be. In the case of what is the manager's role? I know, I've confused crews all the time because I go on board a boat and I'm still a sailing captain and they say why's he here? I'm going on the boat next week as I mentioned and I am the manager of the boat, well I own the company—and I'm going to be the relief captain while the guy has a baby. Oh OK. We do everything !

Eric

And you called me Jack.

AJ

But I think what you're suggesting, and my suggestion is for guys like Mike here and especially the experienced captains—is that the manager, the shore manager, the DPA and the ISM—to me he's like a first officer, a chief mate. He is there to serve the captain and in that sense is what Graeme was talking about there. They're there to serve the captain's needs whatever he needs from the shore office in order to remain in compliance, and not only compliance from regulatory standpoint but compliance from a customer service standpoint—that is the shore manager's job. If the captain suddenly becomes negligent or he doesn't do his job just like the chief mate on board the boat, in other words if the captain is negligent, the chief mate has to say to the captain you're done. You're negligent, we've got to stop this thing and he has to report him to the Peter Southgates and those guys. The same thing with the shore manager. We're serving the captain in my view, they're in charge until such time as they've fallen off the tree. That's my view of the shore manager.

Graeme

I think AJ you put that pretty much on the nail there. The owner is ultimately the man who we're all working for, he's the guy who's paying all our salaries. In the hierarchy—you speak to a lot of crew, they'll tell you they work for the captain. But we know that it's the owner who's actually paying the salaries. So there's no question there. One thing I do know about this business is the only person that's ever on top is the boss. And if you take the attitude of oh I'm the manager, and I'm the king, it's not going to work for long because one day you're sitting in front of that captain trying to get another contract for the company and the next day that captain is sitting in front of you trying to get a job on another boat. It just keeps going around. So you have to take a pretty level approach all the time in all of this. Nobody's on top, except the boss.

Tork

Yes. But I mean there are management situations and operations which are somewhat less enlightened than the way we're discussing it here. It does happen where management imposes itself upon the captain, we all know that. And it's not rare enough to be able to ignore, would be a fair way of putting it.

Graeme

Well I think from more the running of a business than trying to make a profit centre for a company is that you want to try and hire people that have got relevant yacht experience. The problem with that is the salary requirements are pretty high and I can also tell you that as AJ said you want to try and charge a fair price, but I think we're about middle of the road—but I know that every single one of our clients sometime will have a complaint about having to pay for it. So that balances—what ends up happening is people who don't have the right relevant experience find themselves in the yacht manager position and they really don't know what it's like to sleep in the bow of a big white yacht.

Tork

So I mean, to carry that further on—you're in business to make profits, so you're actually competing with other companies that may be using somebody who has no yacht experience at all yet who can nominally fulfil the job of being a manager without the knowledge and experience. So how can you compete and succeed by putting proper high cost, high experience people in place?

AJ

Having a transactional brokerage makes it a lot easier to compete. If every once in a while a couple of million dollars comes in the door from a well earned commission it helps cover the cost of everything else. I know there are some folks in here that shut down their business similar to what we do because it wasn't profitable. I'm not saying ours is profitable but I am saying this is all we do and we're still able to pay the bills. And I'm with Graeme, the same thing, I haven't had anybody, one client, out of the 7 years we've managed clients, or whatever you call these people, one said we were good value. I mean, said it to us—I'm sure they're thinking it but they actually came back, the owner said we were good value. That happened to be a shipyard who built a boat and whose boat we ran for a couple of years. They said we were worth every penny of it. The rest of them just kind of say well it's a necessary process. So far. I'm still waiting for the call though.

Graeme

It's a fine line you walk on that though. You could go through the accounting process and pull out all the invoices and show where you've gotten discounts and fought for stuff, but that could be taken the wrong way by the owner too that you're just standing there beating your chest and don't you have something better to do. It's a fine line

Martin

OK. John McCaughey ?

John

God, you Brits butcher my name every time, Martin . The G is silent.

As a former captain—and I got out before all the heavy management started—isn't the management company's role to alleviate for the captain anything that detracts from his ultimate responsibility for everyone's life on board the boat? I mean you have passengers and you have crew and you're on the hook—and maritime court and civil court and criminal court—and anything above and beyond that, isn't the management company' role to help him execute and meet, or exceed the expectations of the owner's itinerary from an entertainment standpoint but all these other hats that captains have to wear—isn't the management company there to assist him in getting all that done without detracting from his ultimate responsibility for the safe operation of the boat?

Graeme

I think absolutely. I think that one of the favourite things I like to say to the captains that we work with is, you be the good news guys and we'll be the bad news guys. Because in truth you give the boss news he doesn't want to hear and he loses it. You may lose your job. If I give him news that he doesn't want to hear we might lose a client but I'm not going to lose my job. So that bad news guy, good news guy, seems to work quite well. The problem with being that guy that works silently behind the scenes doing all the stuff to help the captains—the owner never knows you're doing it and it always goes back to that same thing—the owner saying what the hell does this guy do? So luckily—I think AJ probably has the same situation—once you build a rapport with the captain you rely on the captain to say to the owner—man I couldn't have pulled this out without this silent crew member ashore that you don't really know about in the form of the yacht manager who made it all happen. But that's about all the owner will even know that you're doing all this stuff for him.

Glyn Hutchinson Icon Connect

What do you say to the client who comes to you and says I want you to manage my boat because every captain I've ever had has been useless, I've had to fire him. Therefore I'm putting you in charge from now on, you do the budgets, that's all I want to see in terms of expenditure in the year and you make everything happen. How do you go about educating that owner to manage his expectations?

Graeme

I can tell you in short—I just give them AJ's phone number!

AJ

I tell them they're nuts. There's going to be a captain that is going to be able to do the job—it may be that something has happened now of course because there's so many boats and we middle aged folks are getting older and we can't spend as much time on the water, that there are younger captains coming in—and where we were younger captains on 50 foot sailboats when we started, and we could make our mistakes a little bit below the radar, the guys now are the same younger captains and they're on 2000 ton boats. The tonnage doesn't matter but they're on a boat with 15 crew suddenly, which is where life gets complicated. So those guys—they do need a little help from the shore fellow, the shore deckhand or the shore financial adviser or whatever it is. Initially. But after a period of 6 weeks, or 6 months or so, the captain should be able to pick up the whole management of the boat and he calls—there can be an analysis of the annual budget, there can be planning on where is the best place to do your dry docking at the end of next year, there can be those conversations but I think the captain has to be an integral part of the conversation.

Martin

John Aune?

John Aune Cayman Islands Shipping Registry

I just wanted to make a point as well—that the manager isn't just supposed to be there to help or assist the captain. They also take a lot of responsibility, it's been put on the captain and it's been moved onto the managers by the ISM code. And by signing on as being the ISM manager they take on the full responsibility from the owner for all the responsibilities assigned to the owner by the ISM code. If you have a captain not running the vessel properly—the management company might get in trouble because of that. If you have pollution from the vessel the management company might be fined. So if you do look at a chain of command they will be above the captain, I would say.

Martin

Thanks John. Any comment?

AJ

Well, John, on the paper structure I think you're right. On the organisation chart the IMO—you know the guys in the UN aren't the brightest guys on the planet and they're good fellows but it's the goal. The goal is to have a safer boat and if the shore manager is trying to dictate to a seaman, to a seafarer, even if the shore manager was a seafarer ten years ago, you lose touch. So if the shore manager is dictating to the captain how to maintain his gear, where to maintain his gear, and in what order to maintain his gear then he's actually making the boat less safe and you're right, he is going to put his backside in a wringer because the operator, the ISM operator is—we're financially liable, we're obviously criminally liable as well, so we have a lot at stake. My view is, in order to protect my financial interests, as the owner of an ISM company, is to try to manage the process correctly and I think to do that we're going to better serve everybody if we act as the chief mate of the captain and be there for him and when he doesn't get the reports in or he doesn't do the things that he has to do, we knock on his door and say is there something we can do to help you. And if

that doesn't get the thing done then we have to say to him listen, the next call is going to be to the owner. I don't think it happens too much in yachting but that would be the order of the course for us.

John Aune

But you're also acting as an assistant to us because you are supposed to make sure that they meet all the requirements. You go on board and you do your internal audit to verify that they're doing this properly. And if they're not doing it properly it's partly your responsibility.

AJ

That's right. And you remind us about every 12 months. We have the wonderful experience and it is actually a wonderful experience to be audited by the Cayman Islands, by Bermuda, and by Lloyds for the Marshall Islands once a year so we have 3 audits a year and it is an extraordinary experience, if you haven't been through it I would recommend it to all of you.

Martin

Ken Argent please, and then we have a question behind you Lisa.

Ken Argent

I just wanted to make a comment more than anything else. You're talking about management here but it should be defined between the two categories. There is regulatory management and general management and it's not a point that's been clearly made. Regulatory management is now compulsory basically for any boat over 500 tons or over 24 metres if it's commercially operated in a lesser sense than 500 tons but it's still there. And I think that with the regulatory management, ISM management, the captains today almost could not keep up with the regulation changes as they go along and I think that an ISM manager is doing that job for him to a level that it would almost be a full time job for a captain to try and keep track of the regulations today. General management—I have the greatest respect for all of you doing that because it's a nightmare. But it was just a comment.

David Reams Camper + Nicholson's Yacht Management

Graeme and AJ are acquaintances, friends of mine, and I'm kind of backing up what they're saying. The one comment is—I guess I'm actually responding to something Tork said a while ago—that we are responsible and there's no doubt we work for the owners. We want to have a good relationship with the captains, we try and help the captains, we try and support the captains as much as possible but ultimately as we're the company that's responsible legally and financially sometimes you have to tell the captains you're not pulling your weight, you do need to get these reports in, you do need to make sure that all your ISM work is in order and that's one of the less pleasant parts of the job. But as a captain and doing that for 15 years before I went into yacht management you realise it's a necessity, because part of it is the guys were not trained in this initially. Particularly guys moving up from smaller boats—they may have come from boats where they never had to report ISM or have any kind of formalised drills and it's an education process. And if that's carried out properly I think there's a good relationship with the management company. We're not trying to just jump on them and beat them into line like an old sailing ship. But there is

definitely responsibility to the owner and it can never be forgotten, as much as you want to be friends with the captain, that they have responsibilities and by them not fulfilling their responsibilities they're putting you in jeopardy as well. So I think the guys up there do a really good job at it and it's the fine line that you walk.

Martin

Thanks David. Peter Southgate has one comment then I'll add my comment.

Peter

I just wanted to come back on the ISM. I take AJ's point on the day to day running but at the end of the day the management company as John suggests is responsible for the actions of the captain so it doesn't seem right that a management company should suffer the consequences of the captain's actions. So I think the idea is that the management company should be responsible for ISM and taking Ken's distinction between management and regulatory management is important—that management companies realise that when they take on management they are responsible for the captain's actions. And to counteract that the ISM code has provided the overriding responsibility to the master, so he's not losing that overall responsibility. If he makes a decision on board he is the man on the spot where as far as the ISM code is concerned the management company is responsible.

AJ

Can I just speak to that quickly and make sure—I absolutely agree. It's more of a stylistic approach—in that it's the same thing. Everybody knows who's carrying the bat at the end of the day but if you are achieving the same objective, if you are there to serve the captain when he doesn't get—and it's usually paperwork, in fact—the paperwork in, then you tell him you need to get the report in. And then after that if he doesn't get the paperwork in then you send him a non-conformity and you tell him that the paperwork must come in. I can completely agree with our responsibility in our role as an ISM operator and I've taken on that liability in fact. But I think it's a style, how you approach the captain when he's trying to achieve what he's doing.

Martin

Final comment to the panel from me is—the little final synopsis of the session says about whether the current providers are delivering value for money. What is a fair price for yacht management today?

AJ

You want to say first, Mike?

Mike

The one comment in listening to this—if I were to look at a yacht management company as a first officer, for me that's something that I can completely understand. I'm here to—I've got big shoulders, I tell the owner—I'm completely—it's up to me, that's where the buck stops. And if we have bad weather coming in and I tell the owner look it's time to go, he's going. Because I'm tasked to be responsible for the boat. Now he might not like that, and there's consequences to that, but ultimately I'm responsible. And if we have an oil spill, they're going to come and look at me, and

then they're going to come and look at the chief engineer, and the owner is not going to be the top guy that they're going to look at. And if the management company were a management company that was viewed as a first officer or somebody to say hey Mike, you know you haven't had a fire drill in 6 weeks, get on it—you know what, that's a nice friendly reminder. So that being said, first officer wages seems like a reasonable amount. Seriously. And actually from what I've been able to see, there's quite a lot of management companies that are not willing—and when I told them what I was doing, to do this—they weren't willing to tell me how much it costs. And I have seen—there was one guy who told me, and in fact it was first officer's wages was the amount that he told me. So.

AJ

Well I'll just tell you, because it doesn't matter—nobody's going to come and say you will or you won't bring your boat to us because of our price, it'll be what it is. We do for ISM, which is ISM and ISPS, we charge \$4,000 a month. For money administration for crew of between 10 and 13 or 14, we charge around \$2800 to \$3000 a month. The more crew, the more we charge. We just signed a contract with somebody that we'll manage their boat for about \$25,000 a month. But that's overall management and it's going to be quite a large crew on the boat. But we try to separate the modules so people know where the value is, what they're getting. General management is the thing that's most expensive because you just don't know what you're going to have to do tomorrow. You don't know what your resources are going to have to be. With ISM it just kind of works along, it's like a running machine. With money management or funds administration it's a running machine. But the general management is where it's kind of hard to nail down.

Tork

AJ, do you bill a set price or with general management would you charge by the time?

AJ

People have asked us for that, but I'm not going to get into the retail business where I have to keep track of my time because I'm just not going to spend an hour keeping track of 3 hours of my time. I'm just going to say this is what it costs, if you want it—some days we might spend 6 hours on it and some days 8. On the less than 500 ton boats we currently—we never thought we would be in the ISM service for less than 500 ton boats but we are now—we're charging \$3500 a month for that. And then our system, which I thought originally when we wrote the system about 6 years ago—the safety management system—I thought it was going to take about 500 hours. By the time we finished getting through all our audits with all the folks giving us their good ideas, it took us about 3000 hours into it. And then of course we have to continually improve our system, we get the feedback from our captains, obviously, we get feedback from flag state on new ideas and of course there're new regulations come up, so our system is always evolving and our system is \$12,000 if you don't, if we're not managing the boat, then it's about half that—it is half that if we are managing the boat. How's that? Is that everything?

Martin

Perfect. Graeme? Open book accounting?

Graeme

Well our fees are about—yes, our structure is very similar. Our fees are the same—\$4000 for ISM and ISPS—I would say for general management —your number of what a first officer earns is probably pretty much bang on. We don't give ourselves a 15% increase like the first officer gets every year! So that's pretty much where the numbers are. I think on the general management side the real problem here that we've got is when a yacht goes into a shipyard period—I'm talking not maintenance, a shipyard period where they go in for a major refit or an extension or something like that. That can be a tremendous amount of work for my staff and it's really tough to bill for that. So that's a bit of a problem area I have right now in recouping the expenses we have because really in general management the shipyard period and dealing with crew disputes are the two real time consuming issues. We don't take any percentage of the amount of the money that the boat spends—if a company does come back to us with a kickback or something like that it goes right back into the boat operating account. So we're actually open book, and we voluntarily have a forensic audit done once a year. I don't know which boats the auditor is going to do—he's a forensic accountant and he chooses 3 boats at random and he does the audit and we send those audits to the owners. So it's completely open.

Martin

Thank you. John really, really quickly—

John Aune

Just a comment about value for money. If you're a vessel over 500, and you don't have an ISM management company you can't charter it so you won't be able to get your \$200,000 to \$600,000 a week for chartering.

Martin

So \$4000 for that amount of money—

OK thank you very much everyone. Thank you panel. Before we wrap up and everything I have two bits to pass on to you. Breakfast tomorrow is at 8 o'clock, you're all welcome, and we're going to have something very nice.

Tonight—the good news is the clambake is on, drinks are served outside, we hope the weather is going to be nice enough to have drinks for an hour or so but the staff at the hotel have insisted that it's served where you had lunch today because of the potential lightning strikes on the staff. So I'm sorry about that, we wanted to have an outdoor clambake. But we're not going to. You're going to see the clams, the lobsters unveiled from the pit. But the drinks are served now outside the Hyatt Pavilion. The girls will show you where that is.

Tork

Presumably we're serving ourselves the drinks to save the staff?
