

Money Matters – Pricing, Bids, Tenders & Specifications – Getting it Right  
Reported by: Donald V. Gale

Panelists:

Dan Robsham – Patton Marine Surveyors

David Ross – Burger Boat Company

Billy Smith – Trinity Yachts

This session addressed the nature, development and application of build specifications, bids, contracts and various monetary matters in the yacht industry. It particularly complemented the Commercial to Private, Performance Subs and Legal Policy sessions. For the purpose of logical order the points of discussion are herein presented much in the reverse order of which they actually arose.

Delegates discussed reasons they perceived for the current yacht market boom. Dan Robsham indicated the U.S. tax structure, a strong economy combined with a weak dollar against currencies of other yacht-building nationalities, and unprecedented economic growth among the highest earners. David Ross likewise cited the global economy and the financial influence of the baby boomer generation attaining retirement age. Billy Smith reiterated these forces but reinforced the added value of investment in a yacht. To wit, advanced marine communications systems permit high-touch executives to remain in control of business from a remote yachting locale. As the yacht charter market has grown, enthralled charter customers have become Owners. Finally, high-tech onboard hotel and comfort systems yield an unabashedly unparalleled leisure and adventure experience to the boater. “I don’t think you see the growth in backpacking that you see in yachting”, opined Billy.

David Ross agreed that the market is indeed favorable for *quality* yacht builders, emphasizing that adjective. Billy Smith added that a builder that’s not making money now “should be doing something else”. Mr. Ross did restate the premise cited earlier that commercial yards drawn to the yacht market by the imagery and growth may tend toward unrealistically low prices, citing a recent 70-meter build contracted for US\$30 million.

When asked about the historically unusual but now common practice of selling a new yacht, even in build, at a profit, Billy Smith says that this can be somewhat discouraging to a shipyard. However, Trinity never raises build prices to reflect this “flip” market, and the contracted boat pricing will always be less than a resale driven by a highly motivated buyer looking to eliminate build time. Further, Mr. Smith cited Trinity’s robust repeat business, including three clients with 2 boats apiece now in build, is clearly enhanced by quick resale.

One delegate passed an interesting tip with implications for increasing U.S. yard and contractor business from abroad. The Export-Import Bank of the United States (“Ex-Im Bank”, <http://www.exim.gov/>), with offices in Washington, D.C., New York and elsewhere, will finance any product built in the U.S. for foreign export. This delegate believed that “foreign export” in this case would include going 12 miles offshore and coming back, but that the Ex-Im Bank seems “oblivious” to the boat industry.

Opinions and practice vary among shipyards regarding interaction with a broker versus working directly for the Owner. Citing high brokers' commissions compared to profits of shipyards that bear the brunt of a project's risk, Billy Smith said that some yards refuse altogether to work with brokers. On the other hand, Trinity has no problem routinely working with brokers where the fee structure is transparent with regard to payment responsibility and value received. Pitfalls can also be encountered when a broker relies on wrong or out-of-date knowledge of a yard and misadvises clients. One Trinity client, for instance, was told by a broker that the yard would not build in steel although Trinity had already by that time built several steel-hull yachts, including the 55-meter *Mia Elise*, and continues so to do.

Bid and tendering practices were discussed. Surveyor Dan Robsham reinforced a key distinction between the yacht and commercial markets citing that roughly one yacht contract in four is competitively bid. Mr. Robsham indicated, however, that within the burgeoning "gigayacht" market of boats 50 to 80 meters long and longer the competitive bid practice could become more relevant given the cost and complexity of these boats. Yachts over 50 meters' length or over 500 gross tons are regulated under IMO as passenger ships and, therefore, subject to SOLAS requirements, adding to design, engineering and construction rigor and cost variables.

Yacht projects are generally tendered as a combined detail and performance specification made in much the manner of commercial boats. While performance specs yield good results on a tug, fireboat, crew boat or similar craft, pure detail specifications are relevant only for military projects. Also, while ample detail is required for a relevant bid, too much detail can actually make a project un-biddable, with yards loath to absorb the responsibility and risk. Therefore, only the most relevant mission-critical specs, such as tonnage, speed, draft, class, flag, accommodation requirements and sound levels, should be presented.

In choosing a yard, David Ross reiterated the yard's attitude as well as costs and details of their proposal as a prime consideration. All the employees need to reflect a shared pride and passion, which no company policy can dictate, for workmanship of the highest caliber. Also as alluded in earlier sessions, communication must be upheld between the yard and the Owner throughout the build. While in the wake of Hurricane Katrina Trinity had to inform Owners that their yachts' completion dates were indeterminate, why, and what was otherwise being done, customers were most understanding, even helpful in sending relief supplies. However, under no circumstances, favorable or unfavorable, will a client tolerate poor communication or mismanagement.