

## **A marriage made in heaven?**

### **Will the joint-venture business model take off in shipmanagement?**

Shipmanagement is changing. Gone are the days when the shipmanager would merely execute his principal's instructions. Following on from the past two years' spate of mergers - Anglo-Eastern and Denholm, and Acomarit and V. Ships - the shipmanager can now be seen as someone who works so closely with his principal that he becomes, in essence, an owner himself.

Several factors are influencing this move towards the joint-venture business model in shipmanagement. Firstly, there is the ongoing downward pressure on shipmanagement fees. This constant focus on cost comes at a time when the shipping industry is being forced to operate in an increasingly difficult regulatory environment, and nowhere is this more true than in the tanker sector. Secondly, organic growth is slowing down. There are undoubtedly untapped markets and many vessels which could potentially go into third-party management, but competition between managers is still so fierce that it is not always possible to capitalise on these opportunities. One industry analyst estimates that there are potentially 2,700 ships over 15,000 tons and above that could be targeted for shipmanagement business, but, he says, "There has to be a marketing strategy. A lot of these ships are in major markets like Greece and Japan which have not been substantially tapped. I don't think it's sufficient to send just one marketing person there. You have to gain the confidence of the owner either by going alongside him in a joint venture or by setting up a unit in which an owner will have a certain amount of equity and control."

The single most compelling example of the trend towards joint ventures between owners and managers, or in a more general sense, of closer cooperation between the two parties, is the business set up by International Tanker Management Ltd (ITM) and TransPetrol, named TransPetrol ITM and based in Sandefjord, Norway. The establishment of TransPetrol ITM (TP-ITM) was seen as something of a blow to Wallem Shipmanagement and Denholm (i.e. Anglo-Eastern), both of whom managed ships on TransPetrol's behalf prior to the formation of the joint venture with ITM. The company was established to run TransPetrol's 26 tankers, but hopes to take on third-party business in the future.

Previously, it had been felt that independence was the the shipmanager's most valuable asset; a manager who was too closely associated with an owner, for instance, might not be able to attract other owners to the table. Most managers do, in fact, have ties to owning interests in some form or another, but most of these connections are somewhat circuitous and usually remain unemphasised. Some owning companies, however, have made explicit forays into the shipmanagement sector, among them the Noble Group of Hong Kong and most recently, the shipmanagement venture set up by Mitsui and NYK Line in Singapore.

In TP-ITM's favour, however, will be its geographical location in Norway. Some believe that the newly formed company might even be able to get some of Frontline's business, as John Fredriksen has in the past expressed a preference for dealing with Norwegians. In addition, like other shipmanagers, TP-ITM attempts to keep its operating costs under control by operating centres in India, Dubai and Malaysia. The benefit of being located in a country like Norway, in spite of the high operating costs that go with such a location, includes the high level of operational expertise that is available in the country, as well as Norwegian owners' tendency to fly the Norwegian flag on their vessels.

It is perhaps somewhat spurious to identify the linking up of managers and owners as a full blown 'trend' as so far only one such venture has been established, but there is no doubt that managers will have to continue to be innovative, both technically and strategically in order to survive in today's competitive market. According to Peter

Cremers, managing director of Anglo-Eastern Shipmanagement, the joint-venture structure may work for bigger fleets, but he is wary of rushing too quickly into the arms of an owner. "We like to be in control and accountable for what we do. We don't like mixed situations, where nobody knows anymore who is the boss." He points out that Anglo-Eastern, for instance, decided to close down two of Denholm's existing joint ventures - one in Indonesia and one in Greece - when it merged with the company. "We like to take care of things personally, and that means we need to be in control of things," says Cremers. "We believe it so strongly that Anglo-Eastern lost ships because of it." In spite of Cremers' misgivings about engaging in joint ventures with owners, he believes that there is a need to closely monitor the trend in order to see where it leads.

### **Size matters**

Most prudent shipmanagers will no doubt be looking for new opportunities to work with owners, whether in a formalised manner or in a looser, more informal arrangement, but in the meantime the fact remains that size does, in fact, matter. But the issue is more complicated than a simple dichotomisation between 'big' and 'small', as companies at both ends of the spectrum reap benefits and accrue disadvantages as a result of their size.

When talk turns to size, V. Ships is, for obvious reasons, the first company that springs to mind. V. Ships' smaller competitors and critics dwell on the size issue by pointing out that such a large shipmanager must inevitably lose contact with its owners, and in particular, with the smaller owners who have placed just one or two ships under management. V. Ships counters this by pointing out that they have organised their shipmanagement teams into mini-fleets of no more than 20 ships, with a total of five superintendents overseeing a particular fleet. In addition, says Bob Bishop, the company's newly appointed COO, V. Ships' large size and geographical spread enables it to implement new initiatives fairly quickly without necessitating the removal of people from their normal jobs, as for instance in the realm of maritime security in which the company was able to quickly formulate, publish and distribute to its owners a ship security plan in anticipation of the adoption of the amendments to the Safety of Life at Sea Convention (SOLAS). "New solutions are interesting for us as the largest shipmanager," he says. "We need to be innovative. A feature of our size is our ability to get it very bespoke to what a client is wanting and of course a lot of this is based on our electronic management system, the ship-to-shore system that we have which allows complete diversity of operation, to the extent that one of our clients has one of our superintendents sitting in his office, linked in to his computer, on the West Coast of America. We have a whole team of people sitting in clients' offices, we've got people sitting close by the clients' offices - there's any number of variations that we can and are doing."

Innovation is of the utmost importance for any shipmanager, whether big or small. Companies such as Anglo-Eastern are focusing on the delivery of a quality service with value-added components, such as the provision of a newbuilding service. According to K S Tham, director of Anglo-Eastern's newbuilding division, the department was started in 1989 to provide the company's superintendents with a team of naval architects for technical support. In the intervening years, however, the division's time has been increasingly taken up with taking on the supervision of newbuilding projects on behalf of owners, both those with ships managed by Anglo-Eastern and those without. To date, the newbuilding division has overseen the building of 60 to 70 ships covering a wide range of ship types and sizes, mainly in Far Eastern shipyards. Tham estimates that 85 per cent of the division's time is spent supervising newbuildings, with the remaining 15 per cent allocated to the supporting role originally envisioned; as a result, Anglo-Eastern is looking to hire more naval architects so that it can do both more effectively. Generally speaking, he says, the majority of the division's work is derived from owners with ships already under

management by Anglo-Eastern. The benefit of this is that the company is able to monitor a ship through its entire lifetime, from cradle to grave, with the ship being under Anglo-Eastern management, so to speak, from its inception at the design stage and onward into its service life and beyond. "If an owner goes to an independent consultant," says Tham, "the consultant washes his hands of it when delivery occurs. They miss out on the feedback of how that ship does in service."

### **Maintaining reputations**

Whether big or small, all shipmanagers have to be especially protective of their reputations, especially if they manage tankers. The recent Prestige incident demonstrated yet again how quickly the tide of public opinion can turn against the shipping industry; the only things that can mitigate a negative public response in the wake of a severe incident involving loss of life or severe pollution are a solid reputation for quality and a willingness to be as transparent as possible.

According to Bob Bishop of V. Ships, reputation is paramount. "The Prestige places an even greater pressure on owners to have good names behind their ships to get charterers interested. Should something happen, it's at that point that you want an extremely accountable organisation representing you. We have proven experience with the Sea Empress with that sort of thing. It is important that we have a proven record of responding to an incident in order to defend the good name of all the parties involved. We are accountable, and we will stand up."

In the interests of maintaining a good reputation, all accountable shipmanagers realise that they must implement a programme of ongoing improvement. According to K S Rajvanshy, managing director of Fleet Management Ltd, the Noble Group's shipmanagement arm, the quality of crew is an issue which his company has been working on. "Sourcing of competent and experienced crew is our most pressing concern. We recognise that having well trained staff onboard is absolutely paramount in running a safe and efficient operation. In a proactive step, we opened our own manning offices in India and the Philippines in 1996. Today, our primary crewing sources are Indian officers and ratings that have a proven track record of high efficiency at a competitive cost to owners. Filipinos are the supplementary crewing source and recently we have developed a strategic partner in China through whom we have tried out Chinese officers and crew on our chemical tankers. To further enhance the quality of staff onboard, we developed our own training centre in Mumbai, India, where we provide in-house training to the staff joining our vessels." In terms of constant improvement, Eurasia Shipmanagement is another company which places a great emphasis on the quality of its crew. "In crew management we are continuously striving to perfect our human capital with various training and motivation initiatives onboard and ashore," says R Bajpae, president and general managing director of the Eurasia Group of companies. "We were one of the 'early birds' in China and our efforts to personally select and individually, through our Shanghai-based facility, train each and every Chinese seafarer on our managed vessels has paid high dividends in safety, quality and customer satisfaction over the past six years."

Both V. Ships and Fleet Management Ltd also acknowledge the importance of information technology to their operations. According to Rajvanshy, Fleet Management has developed its own web-based vessel reporting system through which owners can access data on their ships through a password-protected page. "Through this system our owners can get full details about their vessels for all technical, vessel schedule, vessel performance, crewing, operation and even financial reports," says Rajvanshy. "The advantage of having this system web-based is that no special software or equipment is needed by owners to use it."

Ultimately, several factors need to be combined and constantly monitored in order to ensure that a shipmanager is providing the best service possible. "We are maintaining the focus on keeping our crew trained and employed; maintaining the

risk profile and management control that we have; and building on that with new initiatives going forward," says Bishop. He also points to the integration between Acomarit's and V. Ships' IT systems when the two merged as a key component in the service which the company provides.

However, there are some things that are out of the shipmanager's control that can still affect the way he runs his business. The most obvious of these is the public image of shipping. A concerted effort needs to be made to improve the shipping industry's image, says Bajpae, for the good of all stakeholders. There is a need, he says, "to change the public's perception of the shipping industry from 'polluters' to 'essential service providers'.