

MARITIME

Optimizing financial performance

London

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Rev A4

Fleet Management Advisory
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Optimizing *financial* performance

When **optimizing financial performance** of the fleet management process the following should be considered:

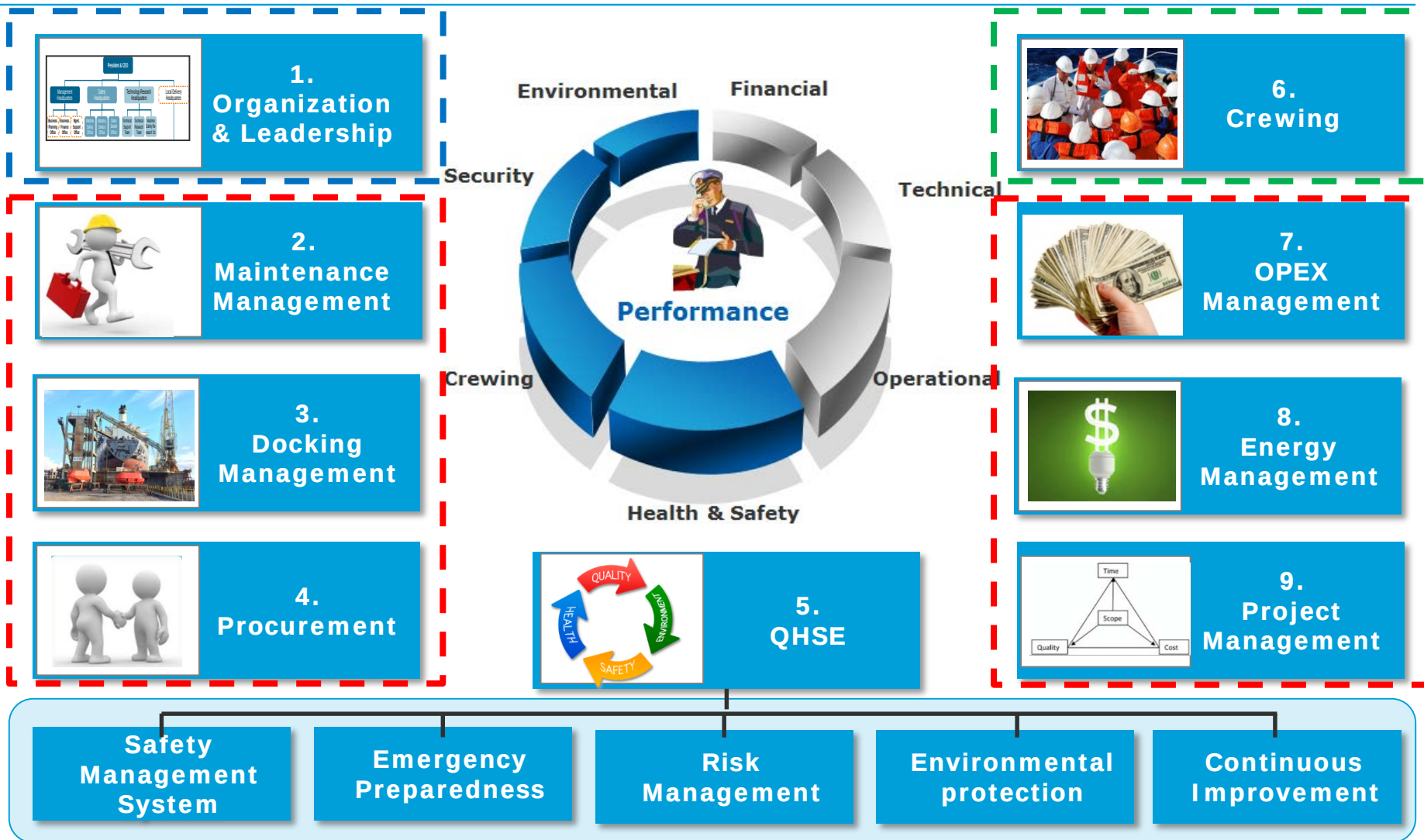
1. Firstly Identify **improvement areas** – Do you have room for manoeuvre.
 1. Quick wins are nice but not always sustainable
2. Agree on an acceptable level of **operational performance**:
 - Availability/Reliability/Off-hire
 - Operational capability
3. Measure the **technical performance** in order to control operational performance
 - Minimum acceptable asset condition?
 - How to monitor asset condition?



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The Fleet Management Processes



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Common pitfalls 1: Companies struggle to implement sustainable cost savings



Key success factors

- ✓ **Structured approach** following the logic:

Identify
cost
drivers

Identify
opportunities

Adjust
goals

Initiate
quick wins

Manage
change

Measure
effect

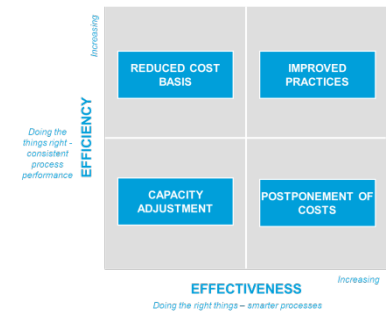


Lack of holistic & long term perspective in cost cutting efforts hinder implementation of sustainable cost savings

- ✓ Focus on being cost efficient **& control the cost drivers**

- ✓ Strengthening **core company capabilities**, thus improving the competitive edge

- ✓ Do not focus only on immediate liquidity effects, but sustainable cost cutting



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Common pitfalls 2: A patchwork of systems and procedures leads to inefficiency and in transparency

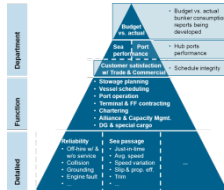


Lost in a patchwork of systems, processes, procedures driven by regulatory requirements, company growth and silo thinking

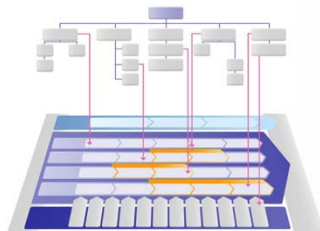


Key success factors

- ✓ Harmonized targets across the organization



- ✓ Decision body that ensures cross-disciplinary alignment across fleet management, operations, IT/technology, training and communication
- ✓ Organizational structure that ensures:
 - ✓ Process orientation
 - ✓ Clear allocation of responsibilities



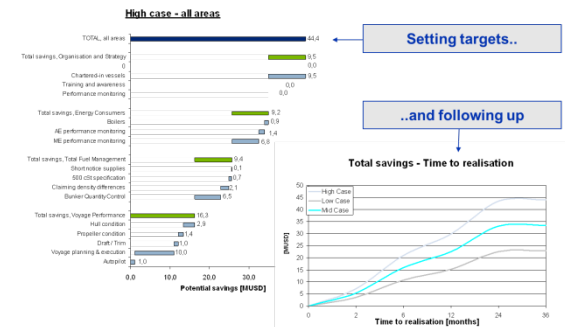
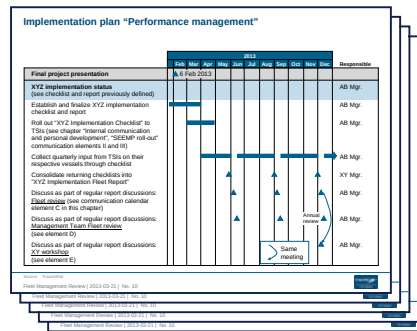
- ✓ Deep understanding of requirements from Class as well as other statutory requirements such as IMO regulations and Flag States

Common pitfalls 3: Initiatives are never implemented due to a variety of reasons

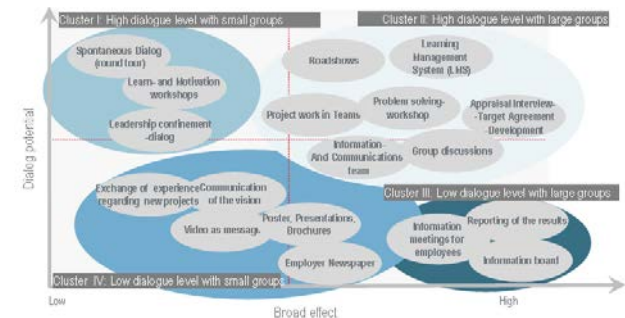
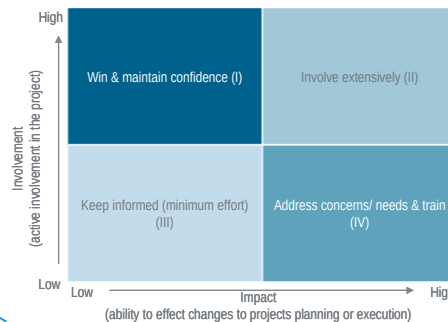
Improvement areas are identified but lack implementation and acceptance in the organization

Key success factors

- Implementation tracking, covering responsibilities, milestone dates and impact (cost-benefit)



- Establish change management addressing the needs of the different stakeholder groups



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Questions (cost optimization)

Fleet Management cost optimization questions:

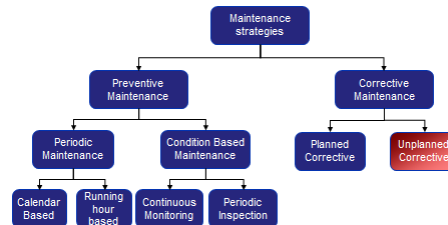
- 1. Organization:** Have you considered to centralize fleet management activities in order to obtain cost savings from economies of scale effects?
 - operational efficiencies
 - specialisation of functions (docking management, 24/7-control center for energy and maintenance management control center)
 - benchmarking with 3rd party ship managers
- 2. Maintenance:** Have you considered implementing a condition based maintenance strategy?
- 3. Docking management:** Have you considered to implement docking management with dedicated docking managers responsible for executing of all the companies dry-dockings?
- 4. OPEX:** do you externally benchmark your OPEX performance?
- 5. Energy management:** Have you created and (successfully) implemented an energy management strategy?
 - A.** Have you considered to create a 24/7 operations center for monitoring energy management performance of the fleet?



Financial optimization: 2. Maintenance Management



2. Maintenance Management



Cost savings potential: 5-10 %

Relevant questions:

- Is there a **maintenance and spare parts strategy** based on a criticality analysis (FMECA)? Ref cost and safety consequences.
- What kind of maintenance strategy has been chosen? Is **condition based maintenance** used?
- Are maintenance **Key Performance Indicators** (KPI's) in place and monitored?
- How is the quality of work orders in the **Planned Maintenance System** (PMS)?
- Does the company have a good overview of the **condition status** of their equipment and vessel status? Vessel inspections with condition reporting?
- Has the company had any **technical incidents** the past two years?
- Are there **availability issues** (off-hire statistics)?
- How is the companies **Port State Control** (PSC) performance? Deficiency ratio below 1,0?

Example:

- PMS build up in accordance with makers recommendation in stead of criticality analysis resulting in excessive amount of work-orders and spare-parts.
- Company lacked condition status of hull prior to dry-docking which resulted in additional required steel replacements of 150 ton, extended yard stay of 60 days and 140% budget overrun.

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Financial optimization: 3. Docking Management



4. Docking Management



Cost savings potential: 10-30 %

Relevant questions:

- Does the company have a formal **docking strategy** and documented docking management procedures for the complete drydocking process? Drydocking manual?
- Is there a pre defined **timeline** for the docking process? Spec ready on time?
- How is the **quality of the drydocking tender invitation**? Specification and conditions etc.
- How much % of the docking specification is covered by **fixed prices** in the yard quotation? Quality of spec.
- How do you **document and archive** the result of the drydocking?
- How is the current **docking performance**? Any time or cost overruns?
- Does the company has **KPI's** for the docking process? How has the performance been the past 5 years?
- Is **risk management** used in the drydocking process? Project and safety risk.
- Does the company have **software** to support its drydocking process?

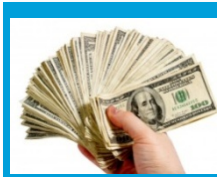
Example:

- Company with two docking projects (tanker/3rd renewal)with substantial cost and time overrun (3 MUSD) due to lack of risk management.
- Company with 15 dockings per year manages only to cover 50-60% of spec with fixed prices in yard quotation resulting in excessive docking costs.

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Financial optimization: 7. OPEX Management



10. OPEX Management



Cost savings potential: 2-5 %

Relevant questions:

- Is there a formal **budget process**? Is it documented? How are budgets created? 5 year rolling budget?
- How are **costs controlled** and how are budgets followed up? Monthly budget meetings with superintendents?
- Are **budget estimates** updated monthly?
- Does the company have a clear **OPEX cost structure** in line with an accepted industry standard? Harmonized accounting structure? Drewry?
- How is the **adherence** to the cost structure by superintendents and crew?
- Are OPEX budgets **benchmarked**? Internal & external benchmarking? Day-rates?
- Are OPEX budget results **analysed**? Trending and investigation of anomalies.
- How has the **OPEX performance** been the past 5 years for the complete fleet?
- Is there (real time) **IS/IT support** for the OPEX/Budget status follow up?

Example:

- OPEX budget based on unclear cost structure not in line with industry standard. Total lack of adherence to cost structure. Unable to perform internal or external benchmarking.
- Company with unclear budgeting process. No monthly budget follow up due to time consuming accounting process as result of lacking IT/IS support.

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Financial optimization: 8. Energy Management



8. Energy Management



Cost savings potential: 5-15 %

Relevant questions:

- How is **energy management** incorporated in the company's strategy, tactical plans, and daily work?
- **Voyage Management:** Does the company actively seek to optimize the planning, execution, (result) review and learning from voyages?
- What overall **processes** are in place to ensure optimum performance of the ship itself?
- What is done related to the **main and auxiliary engines** to optimize the fuel efficiency except standard maintenance as per maker?
- Is the company active in understanding, measuring, trending, controlling and optimizing the **energy consumers** on-board?
- What is done **pre- / during- / post bunkering** to ensure a fair price, desired fuel quality and limited shortlifting of both density and quantity?
- How do you measure the result of your efforts related to energy management? **KPI's?** Performance past 5 years? Fleet wide view?

Example:

- Company implemented energy management and created the function of performance manager in order to keep focus on energy efficiency managed to reduce fuel consumption with more than 10% fleet wide.
- Company started program for tuning of main engines by maker. Managed average fuel reduction of 3%. Max reduction was 9% on a single vessel. Resulted in training program for engine maintenance and performance.

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Thank You

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