Third party ship managers see their time come

Michael Hollmann, Germany Correspondent | 17 May 2016

The big are getting bigger – what goes for ship operators and shipowners also goes for technical managers.

A few major M&A transactions over the past year – the merger of Anglo Eastern and Univan, V.Group's acquisition of Bibby Ship Management – saw the biggest players in third party management cement and expand their market-leading positions.

Meanwhile in Hamburg, shipowners Erck and Bertram Rickmers are in talks over a merger of their ship management divisions. A combination of the two businesses would see the creation of a new major player focused on container ship management with 220 vessels in total – also comprising multipurpose ships, bulk carriers, car carriers, and offshore vessels.

It is perhaps only a small foretaste of what is to come as dire market conditions in most parts of shipping force shipowners to exploit all possible savings and efficiencies in the running of their vessels.

"Scale gives you those benefits," points out Clive Richardson, chief executive officer of V Group, with its global network of 15 technical management offices plus more than 40 sites for crew management and a range of other marine services.

The private equity-owned group, which, Richardson states, is not up for sale despite speculation in the media, wants to continue to play an active role in the consolidation process.

With its scale – 630 ships in full technical management – and centralised functions, the group can swoop if it sees "the opportunity to bolt on more ship managers and buy additional capability and client bases", Richardson says.

"And we will continue to buy businesses that strengthen our credibility and qualifications as technical ship manager."

Additional marine and ship supply chain services beyond pure technical management – from naval architecture via ship repair to procurement services – already represent 40%–45% of the group's turnover.

The strategy is to "grow our non-ship management business but only in the context of making us better ship managers", as the CEO points out. Following its acquisition of Bibby Ship Management earlier this year, V Group set itself a two-year plan for integrating the two businesses.

The deal catapulted it to the No. 2 position in the management of specialist vessels, putting the group "alongside [Norway's] OSM in every opportunity out there … to bid on projects that come online", according to Richardson.

The offshore segment used to be pretty much a closed shop for third party managers but habits are changing amidst economic hardship.

Logically, the segment is also grabbing the attention of other large managers such as Bernhard Schulte Shipmanagement (BSM) which launched its subsidiary BS Offshore on the back of contracts for wind farm vessels and accommodation units.

“Times are tough and there are stresses in the offshore segment that were previously unseen. This could be our entrance ticket to the sector,” BSM’s chief executive Norbert Aschmann told IHS Fairplay.

Although the group is not in talks with any takeover candidates today, it will study any good opportunity that presents itself. Further benefits in terms of economies of scale will be hard to achieve from BSM’s present position with around 350 ships under full management plus 250 for crewing only.

“It won’t make much difference to our purchasing power if we added another 50 or 70,” Aschmann said.

Instead the charm of an acquisition would be to develop a completely new and complementary fleet segment in one go.

“If we found a player in a sector that we haven’t developed as much as we had hoped, it would become interesting,” Aschmann said.

As a family-owned company, BSM is happy to sit back and wait, though. There will be enough opportunities for growth in the meantime as cost pressures force shipowners to study outsourced solutions for ship management. Following some contract awards from Maersk Line, Aschmann believes there is also going to be more enquiries from other operating owners in liner shipping.

“Outsourcing is only at the beginning as far as large liner companies are concerned. One or the other may ask themselves whether ship management is really part of their core business or whether it’s better to focus on logistics.”

Apart from management transfers on existing ships, BSM sees more and more demand from industrial shippers that are looking for ship management partners as they develop their own fleets, as evidenced by a newbuilding supervision and management contract for large bulkers it was awarded by Australian miner Fortescue Metals Group. Another major source of new business is the armada of institutional investors that invaded shipping over the last decade.

“Private equity involvement is becoming an important part, leading to significant opportunities simply by the nature of such shipowning structures and their reliance on outsourcing as well as joining forces with third party managers,” said Demetris Chrysostomou, marketing director of Cyprus-based Columbia Shipmanagement.

The rise of investment funds and non-traditional shipowners in Asia with their fleet management requirements was one of the reasons behind Columbia’s recent launch of its Shanghai office for both technical management and crewing.

“Future investment is very much focused on crew development and IT, both of which are critical to offering competitive advantages to our clients,” said Chrysostomou.

Human resources are also the most critical factor for Bjorn Hojgaard, chief executive officer of Anglo-Eastern Univan, which looks to complete the integration of its merger by the end of this year.

"We see the benefits of scale foremost in increasing our ability to attract more high quality seafarers and the best shore-side talent. It is the core of maintaining a competitive advantage."

A shortage of skills both at sea and ashore may also prompt a rethink among many traditional shipowners. Add the growing administrative burden of new IMO regulation and compliance, and the case for third-party management suddenly becomes compelling.

Hong Kong-based Wallem believes there is sufficient demand for it to grow its fleet organically by around 10% per annum.

"Our net growth this year will be about 35 ships across the different offices which brings us above 400 units under full management," Wallem's CEO Simon Doughty told IHS Fairplay.

Simon Doughty
A few years after opening up, the group's latest offices in Hamburg and Singapore are starting to pay off for the group.

"Everybody knows about us, we get people knocking on the door, and we start to see fleets grow in both of them," Doughty said.

Its Hamburg team is in charge of 31 vessels – mainly tankers – and the plan is to increase the fleet there to 60 to 80 vessels. For Doughty, this kind of volume represents a perfect trade-off between economies of scale and a tailored, individual customer service.

"If Hamburg reaches that level, we would look at other European locations, maybe Athens or Cyprus, and the same would happen in out in Asia." As many of its peers, Wallem sees a growing share of new business agreed on performance-based remuneration, offering an upside both for owners and the manager.

"There is a bit more skin in the game," Doughty said. "You have your basic fee of say USD150,000 per year. If your off-hire days are low and you meet your opex targets, you can earn USD10,000 or 20,000 more. In the same way, if we fail on it, we can get a negative side."

The Wallem boss believes that it's the midsize-ship managers who will be struggling to stay in the game. They might not reach the economies of scale to compete on costs with the big players, nor do they have a core fleet of owned ships like small traditional family owners. Some of the KG managing owners in Germany who fall in the 'midsize' range are keen to prove the opposite.

Reederei NSB (Niederelbe Schiffahrts), which saw its managed fleet tumble from over 100 to 63 due to fire sales of KG tonnage, has made substantial investments in launching a marine solutions and a crew management division ('Asia Marine') to gain third-party business. The solutions business (technical projects, retrofits etc) has built up a customer base of 450 vessels since its formation, according to NSB chief operating officer Tim Ponath.

Last year, NSB was commissioned to carry out newbuilding supervision for three LR1 product tankers by a group of investors. However, the expected gains in terms of awards for full technical management remain elusive so far. Ponath believes it is primarily a question of getting the message across to owners.

"Many don't know yet that we're active as third-party managers, so we have stepped up our marketing efforts to address that," Ponath said. "As far as quality of service is concerned we can offer the same or even more at equal terms and conditions."