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Marketing Strategy for Merchant Shipbuilders
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ABSTRACT

Much has been published over the years about technology and productivity in shipbuilding, and much also about the shipbuilding market and its potential. Little has been published to-date however, about the all important techno-economic interface between the two.

This paper sets out to explore this interface, and to identify how a shipyard can be matched to its external environment through the adoption of a coherent strategy. The elements of external forces are considered (in particular prices and market volume), and the internal factors within the control of a shipyard are examined to review how they can be utilized in a strategic sense to match a shipyard to a targeted market sector.

The elements reviewed include

- Prices,
- Exchange rates,
- Physical constraints,
- Capacity
- Market volume,
- Production characteristics and
- Shipyard organization.

INTRODUCTION

"Consumption is the sole end and purpose of all production and the interests of the product ought to be attended to, only so far as it may be necessary for promoting that of the consumer."


Over the past decades, much effort and expenditure has been directed at performance improvement in shipyards, with the aim of reducing costs. This has particularly been the case in higher cost countries with shipyards seeking to offset wage rests against productivity.

Performance is about much more than just productivity, however. Whilst the number of manhours used per ton produced is of course vitally important there are other factors that have a considerable bearing on a shipyard’s bottom line, some of which are outside the shipyard’s control.

These factors are put into context by examining the relationship between a shipyard and its marketing environment. Whilst numerous papers have been written about performance within a shipyard and about the market outside, few have addressed the all important techno-economic interface between the two.

The marketing environment within which a shipyard operates includes internal factors, generally within the control of the shipyard, and external factors outside the control of the shipyard. The internal factors that can be manipulated to cope with changes in the external environment are normally termed the ‘Marketing Mix’ (Lancaster and Massingham, 1988). Generally grouped under the four ‘Ps’, these factors are:

- the design and attributes of the Product to match customer requirement:
- the design and attributes of the place in which production takes place, encompassing not only production attributes
but also organization and in particular overheads.

- the **Promotion** of the product being offered, i.e., advertising or other channels to draw the product to the attention of potential customers; and

- the **Price** at which the product is offered, although as will be demonstrated later, this aspect is largely outside the control of merchant shipbuilders.

The external factors affecting the shipyard, over which it has little or no control, are numerous and wide ranging, including politics and macro-economics. The more tangible factors in the immediate environment of the shipyard (termed the "proximate macro-environment" in marketing jargon), on which most marketing strategies will concentrate, include the following:

- Market Price,
- Competition,
- Wage Rates and Costs,
- Exchange Rates, and
- Demand.

When considering these factors it should be kept in mind that the external environment presents not only the threats against which a company has to react, but also the opportunities of which it can take advantage.

It is important to understand the way in which a shipyard interacts with its environment, as well as the elements of strategy available to a shipyard in seeking to match the attributes of the market. Decisions relating to production must take into account a global strategy, including reference to the external environment and not simply be based on a continuous drive to minimize manhours.

**HISTORICAL BACKGROUND**

For much of the past 10 to 15 years, commercial shipbuilding has not presented an economic opportunity for most of the world’s shipbuilders, however productive they might be. The market collapsed following a peak of newbuilding in the mid 1970s, and has remained at a low level for more than a decade, as shown in Figure 1.

The depressed level of capacity utilization

![Figure 1: Merchant Ships Completed](image)
DEADWEIGHT INDEX (1987 = 100)

Source: A&P Predore International

Figure 2: Orderbook Deadweight index

PRICE INDEX (1987= 100)

Source: A&P Predore International

Figure 3: Newbuilding Price Index
during this period, with correspondingly low prices, led to the closure of numerous shipyards (or in some cases entire national industries), with those shipyards remaining requiring government support and intervention to survive.

Since around 1987, however, the level of international ordering has picked up, with corresponding improvements in capacity utilization and prices. (Figure 2 presents the growth in orders since 1987 and Figure 3 the development of prices over the same period). Following the period of extended restructuring and rationalization, the industry is well placed to absorb this increase in demand without the massive degree of over-capacity seen at the start of the last decade. Having said this, prices have yet to rise to a point such that much of the world's shipbuilding industry can reliably generate a profit and subsidies are still common practice in many countries.

Demand for new vessels is generated primarily by the need to replace obsolete, aged tonnage, which has reached the end of its economic life, and by the need for the fleet to expand to accommodate growth in trade. In addition to these two primary determinants, demand for new vessels is also generated by technical developments, such as the development of containerization, or by legislative pressure, such as the implementation of OPA90 in the USA which discriminates against aging, single skin tankers.

These factors are illustrated in Figure 4, which presents a simplified diagram of the shipbuilding market and the shipping market (Note The second hand sector of the shipping market has deliberately been left out of this diagram for the sake of clarity. For a full description of the economics of the shipping trades, the reader is referred to Stopford, 1988).

As a consequence of the lack of newbuilding between the mid 1970's and the late 1980's, the average age of the fleet is high, at around 17 years. In the face of an economic life expectancy of between 20 and 25 years, the prospects for fleet replacement in the coming decade are good, particularly when coupled to escalating concerns amongst governments, charterers, insurers and classification societies about the large volume of aging and sub-standard tonnage currently trading. A second consequence of the historic lack of newbuilding has been that much scrapped tonnage has not been replaced and the level of surplus tonnage within the fleet and thereby its ability to absorb fluctuations in demand, has been reduced and growth in trade therefore leads more directly to demand for new tonnage.

Against this background, most forecasts of newbuilding for the coming decade are optimistic and shipbuilders are gearing up for improved demand, although it has to be said that there are structural problems in all sectors of the market that could cast a shadow over the awaited recovery. These factors are discussed in full in Peters, 1993. This potential opportunity has arisen at a time when many shipyards are looking for opportunities to replace declining workloads for warships, following the so-called "peace dividend".

This is the situation to a large extent in the United States. Most US shipyards have not been active in the international commercial sector for

![Figure 4: Market Drivers and Key Determinants](image-url)
some years, and are currently seeking ways to capitalize on the potential for commercial newbuilding.

In reality, a shipyard does not operate in isolation and does not have a free hand to construct whatever it chooses. The environment (in the broad sense of the word) imposes constraints within which a shipyard must operate and which will dictate at least partially the range of ships that may be included in in product mix.

THE CORRECT STRATEGY?

When faced with a blank order book a shipyard must make a decision as to the market sector to be targeted. This decision has often in the past been made intuitively, due to lack of defined methods or constraints against which to analyze the product mix.

Successful entry into the merchant shipbuilding sector will be a matter of strategy. The era when shipyards could aim to construct all types of vessels according to market demand has finished, and most shipbuilders now specialize. This enables organizations and facilities to be correctly matched to the target market sector. The strategy requires very careful consideration, especially because it is easy to get it wrong.

A good example of a common intuitive strategy is one that would aim to build sophisticated ships, to capitalize on high levels of technology in the high wage cost countries. This seems to be a perfectly rational approach and is one that has been adopted in the past in particular in some European shipyards but some of the underlying assumptions require careful consideration.

Firstly, this strategy wrongly assumes that the price of a ship is related to its work content. In other words, that a more sophisticated ship will attract a higher price. This is unfortunately not true, as can be seen from Table 1, comparing a sophisticated container ship with a more simple panamax tanker.

The income per unit of work as measured by compensated gross tons (Kattan and Clark, 1993), is higher for the less sophisticated, larger ship than for the container ship, despite the seemingly attractive higher price of the former smaller vessel. To be rigorous the added value rather than price should be compared to work content. After subtracting material costs, the relative numbers become $750 added value per unit of work for the tanker, and $665 for the container ship.

Ship prices move on a commodity basis, rising and falling with supply and demand, as can be seen by studying Figure 3, the price index. The price is, in general, not within the control of the shipyard.

Secondly, the strategy outlined above confuses the sophistication of the product with the sophistication of the process. A passenger ship is a good example of a sophisticated ship type that uses a high level of traditional and labor intensive shipbuilding skills. Series building of simple bulk carriers, on the other hand, permits the maximum utilization of sophisticated automated processes and robotics, making best use of advanced production technologies available in developed countries. It also minimizes labor content where labor cost is a disadvantage.

<table>
<thead>
<tr>
<th></th>
<th>2,500 TEU Container Ship</th>
<th>80,000 DWT Tanker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price (February 1994)</td>
<td>$45 million</td>
<td>$44 million</td>
</tr>
<tr>
<td>Gross Tonnage</td>
<td>37,000</td>
<td>46,000</td>
</tr>
<tr>
<td>Compensated Gross Tonnage</td>
<td>27,750</td>
<td>25,300</td>
</tr>
<tr>
<td>Income per CGT</td>
<td>$1,621</td>
<td>$1,739</td>
</tr>
</tbody>
</table>

Table I
The most appropriate strategy may, in fact, be counter-intuitive and its derivation requires very careful thought with respect to a number of factors.

ECONOMIC INFLUENCES

The implications of price not being within the control of the shipyard requires further study. A survey of potential shipowners was undertaken recently by the author to investigate the attributes that make up a marketable design, and buyer values. The following attributes were reviewed:

- Price,
- Delivery,
- Financing,
- Minimum Crew,
- Ease of Operation,
- Ease of Maintenance,
- Speed,
- Fuel Consumption/Economy,
- Capacity,
- Efficient Cargo Handling,
- Safety,
- Design/Operational Considerations, and
- Other Factors.

Whilst many of the design attributes were seen as having a positive benefit on the marketability of a design, owners (within reason) were not willing to pay a premium above the market price to reflect performance attributes. In other words, the quality of the design of a ship may be reflected in the probability of attracting a sale, but not in the price.

The effect of fluctuating prices is compounded by another factor outside the control of the shipyard: exchange rate fluctuations. These fluctuations can have a very significant effect on the economic performance of a shipyard that is almost totally outside management control. These effects are demonstrated by the following financial calculations, considering the all important but simple gross margin calculations. (Wames, 1984).

Table II presents an example of a simple gross margin calculation, taken from an actual case.

| Price | $19.4 million |
| Labor Costs | $6.1 million |
| Material Costs | $10.5 million |
| Overheads | $1.0 million |
| Profit | $1.8 million |

Table II

A 5% fall in price (around $1 million) leads to a fall in profits of over 50%, and a fall of 10% leads the shipyard into a marginal position. Conversely, a rise of 5% leads to an increase in profit of over 50% and a rise of 10% leads to more than double the profit. A quick glance at Figure 3 shows that price fluctuations of this magnitude are not uncommon.

To put this into perspective, compare it to an increase of 10% in productivity on the same calculation (represented by a 10% reduction in labor costs). This leads to a reduction in ‘total cost of 3% and an increase in profits of around 34%. It should be kept in mind that an improvement of 10% in productivity is not a trivial target, and is likely to require considerable expenditure of effort and possibly capital as well.

The second factor that is outside the control of a shipyard is exchange rate fluctuations.

Table III presents two examples, firstly, in yen with the price fixed in dollars, with the movement in exchange rate between January and December 1993, secondly, with the calculation undertaken in sterling with the price fixed in dollars, and the movement in exchange rates over the second half of 1992.

These calculations use selected exchange rates to illustrate a point. However, the effect is clear. In the case of the Japanese shipyard profit would have fallen from 9% of turnover at the start of the year to a loss of almost 3% at the year’s end. Conversely, the profit at a UK yard would have risen from 9% to over 27% over the six month period shown, without any internal change in the shipyard.

The aim of presenting these simple and fairly obvious calculations is to demonstrate that external economics have a significant...
Calculation 1: Price Fixed in US Dollars, costs in Yen

| Price (Million $) | 19.4 |
| Exchange Rate 1 | 125 Jan 1993 |
| Exchange Rate 2 | 110 Dec 1993 |
| Labor Cost | 763 million Yen |
| Material Costs | 1,313 million Yen |
| Overhead Costs | 125 million Yen |
| Total Costs | 2,201 million Yen |

Profit Calculations in Million Yen

| | Jan 1993 | Dec 1993 |
| Income | 2,428 | 2,141 |
| costs | 2,201 | 2,201 |
| profit | 225 (60) | |
| profit: income | 9.28% | -2.80% |

Calculation 2: Price Fixed in US Dollars, costs in Sterling

| Price (Million $) | 19.4 |
| Exchange Rate 1 | 0.52 July 1882 |
| Exchange Rate 2 | 0.65 Dec 1992 |
| Labor Coat | £3.17 million |
| Material Coat | £5.46 million |
| Overhead coat | £0.52 million |
| Total Costs | £9.15 million |

Profit Calculations in Million Pounds Sterling

| | July 1992 | Dec 1992 |
| Income | 10.09 | 12.61 |
| coats | 9.15 | 9.15 |
| Profit | 0.94 | 3.46 |
| Profit: Income | 9.30% | 27.44% |

Table III Effects of Exchange Rate Fluctuations

The dangers of coming to strategic conclusions on an intuitive basis were outlined above. To arrive at a considered and objective strategy, a number of factors have to be taken into consideration. When faced with a blank sheet of paper, and the need to define a successful product mix, constraints are required against which to set targets.

The remainder of this paper discusses a number of considerations and constraints that have to be taken into account when deriving a strategy for a target product mix, under the headings listed below:

- Physical Constraints,
- Market Volume, Market Share and other Market Factors,
- Production Characteristics and Organization, and
- Other Strategic Options.

PHYSICAL CONSTRAINTS

The simplest set of constraints to consider are the physical constraints of the shipyard: length, beam, depth of water and capacity. Shipyards can be classed according to the generic ship type corresponding to the maximum size of ship that could be constructed. This is difficult to classify exactly, due to the imprecise nature of terms but corresponds very roughly to:

- Small Ships (below 5,000 dwt),
- Sub-handysize (5,000 to around 20,000 dwt),
- Handysize/Handymax (20,000 up to around 45,000 dwt),
- Panamax (60,000 to 90,000 dwt),
- Cape Size (100,000 to 170,000 dwt),
- VLCC (over 200,000 dwt).

In general these size bands are very loose: only panamax and suezmax have an actual physical constraint and the generic terms are open to wide interpretation. The small ship sector is particularly difficult to classify. Below around 5,000 dwt the characteristics of the market change significantly and this sector forms a complex sub-market in its own right. (This paper concentrates predominantly on the market for larger tonnage).

All shipyards are constrained by size, although this constraint can of course be relaxed through investment, if a positive cost benefit situation is identified. In general terms, larger shipyards have an advantage. This is not
because larger ships necessarily attract higher value as demonstrated by the calculation presented in Table IV comparing the income per unit of work (represented by the Compensated Gross Ton) for a handysize and a panamax tanker.

Market conditions for the handymax ship at the time of writing this paper are significantly better than in the panamax sector, so handymax ships attract a correspondingly better price.

The advantage for the larger shipyard lies in the fact that it can “trade down” to build smaller vessels, if that is what the market demands, giving an added flexibility. The smaller shipyard cannot trade up. This is illustrated in Figure 5 which considers order density in the tanker market that is the ratio of the number of ships on order in a sector of the market to the number of shipyards participating in that sector. (These graphs are based on a sample of 1,407 tankers ordered or on order since 1989). Competition

<table>
<thead>
<tr>
<th></th>
<th>Handymax Tanker</th>
<th>Panamax Tanker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Current Price*</td>
<td>$33 million</td>
<td>$42 million</td>
</tr>
<tr>
<td>Estimated CGT</td>
<td>15,120 tonne</td>
<td>22,160 tonne</td>
</tr>
<tr>
<td>Income per CGT</td>
<td>$2,182</td>
<td>$1,895</td>
</tr>
</tbody>
</table>

* July 1994

Table IV
reduces as the size of the ship increases. At the far end of the scale, i.e., VLCCs, the level of competition is much reduced, and a number of shipyards are currently anticipating the replacement of the VLCC fleet when prices could be good, due to the balance between supply and demand in this sector. Price per unit of work for a VLCC is currently around the same level as the handymax sector, but this may be adversely affected by new capacity due to come on stream in Germany, South Korea and China. This could upset the fine balance in this sector.

Thus, it can be seen from Figure 5 that, whilst market volumes are greatest in the smaller size, competitive conditions improve as size increases.

Initially the decision as to whether to relax an existing constraint in a shipyard is a fairly simple matter of economics, considering the cost and the perceived benefit. However, the cost is likely to be high, and ultimately the decision must be made on the perception of the risk associated with the expenditure, in addition to simple economic calculations.

Finally, there is a need to match the physical capacity of a shipyard with the level of Workforce.

Capacity is very difficult to specify in exact terms. It is a function of many parameters including surface area, craneage, equipment, launching arrangements and above all people. The most useful measure of capacity is output (measured by compensated gross tons) per manyear worked. For example, a shipyard of 1,000 persons, operating at a reasonably productive level of output of 50 CGT produced per manyear worked, would have a capacity of 50,000 CGT per year or around 3.5 handymax bulk earners. If the shipyard has restricted berth space (particularly if it is unable to build in tandem or semi-tandem), or perhaps even more critically if it has restricted berth craneage, then launching this many ships could be a problem. Conversely, 50,000 CGT equates to roughly one 125,000m³ LNG carrier per year, the production of which may not be constrained by the launching bottleneck.

MARKET VOLUME, MARKET SHARE AND OTHER MARKET FACTORS

It is not the intention to present here a specific market forecast. However, it is important to gauge the relative sizes of market sectors, to judge the size of the target that is being aimed at. This is illustrated in a nondimensional format in Table V.

<table>
<thead>
<tr>
<th>Shp Type</th>
<th>Relative Market Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulk Carrier</td>
<td>62.3</td>
</tr>
<tr>
<td>General cargo</td>
<td>53.5</td>
</tr>
<tr>
<td>Tanker</td>
<td>31.5</td>
</tr>
<tr>
<td>Container</td>
<td>21.6</td>
</tr>
<tr>
<td>Passanger (inclusive of Ferries)</td>
<td>17.4</td>
</tr>
<tr>
<td>Chemical Tanker</td>
<td>17.1</td>
</tr>
<tr>
<td>RoRo</td>
<td>13.9</td>
</tr>
<tr>
<td>Reefer</td>
<td>12.8</td>
</tr>
<tr>
<td>OBO</td>
<td>1.3</td>
</tr>
<tr>
<td>LPG</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Table V

The statistics in this Table are based on a recent market forecast undertaken by the author for ships between 5,000 dwt and 100,000 dwt. The smallest market sector, LNG carriers has been assigned a factor of 1. The other sectors have been assigned a factor based on the relative size of the market. For example, for every 1 LNG ship constructed, 21.6 container ships will be constructed.

In terms of volume, the market can be divided into three sectors as shown in Table VI.

<table>
<thead>
<tr>
<th>Volume Markets</th>
<th>Bulk Carrier</th>
<th>General Cargo</th>
<th>Tanker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediate</td>
<td>Container</td>
<td>Passenger</td>
<td>Chemical Tanker</td>
</tr>
<tr>
<td>Niche</td>
<td>OBO</td>
<td>LPG</td>
<td>LNG</td>
</tr>
</tbody>
</table>
The implications of these classifications in terms of market share are important. For the shipyard outlined above as capable of producing 50,000 CGT per annum, equating to 3.5 bulk carriers or one 125,000 m³ LNG carrier, the implied levels of market share would be around 6% of the bulk Carrier market but well over 80% of the LNG market it follows from this that a shipyard with 2,000 workers aiming to specialize in the LNG sector would be short of work.

A strategy aiming at niche sectors has to be very carefully considered. The intermediate sector is also not without its problems. For example, 99 container ships were delivered in 1993, representing a peak of deliveries in this sector. The container ship market is forecast to improve, but not to a level significantly greater than the deliveries seen in 1993, although demand is likely to be steadier than seen in the 1980’s and early 1990’s. The caveat to this is that a new market entrant aiming a strategy in this sector is likely to have to gain market share at the expense of established specialist builders and competition will be intense. Market entry will be difficult. Conversely, the volume sectors of the market market share can be gained through the significant market growth that is forecast giving a greater likelihood of successful market penetration.

Finally under this heading, the characteristics of likely orders should be considered.

In the volume sector, series orders or standard ships can be expected, low cycle times leading to high throughput. This leads potentially to high economic efficiency in high cost countries, with overhead or establishment costs being recovered over high throughput, minimizing unit rests.

At the other end of the spectrum, in the niche sectors, orders are more likely to be for on-offs, with long cycle times and low throughput. In some cases, an entire company overhead may have to be recovered against a single vessel, or even less than one vessel if the cycle time is greater than one year. This is considered further in the following section.

### PRODUCTION CHARACTERISTICS AND ORGANIZATION

Production characteristics vary significantly depending on the target market sector. This is best illustrated by considering two ships at the opposite ends of the spectrum, a bulk carrier and a cruise ship. Various aspects of the production system are contrasted below for these two ship types.

**Automation/Skill.**

High volumes and the high level of repetitive steelwork permits maximum use of automation in the construction of bulk carriers, requiring minimum craft skill levels. Conversely, passenger ship construction is difficult to automate and relies more heavily on craft skills.

**Skill Balance,**

For the bulk carrier, the emphasis is largely on steelwork with the reverse being the case for the passenger ship where outfit content predominates.

**Throughput Characteristics.**

High volume flow throughput for bulk carriers permits the use of process orientated workflow. In the case of passenger ships, the long cycle time leads to a much more product orientated flow, with the ship being the primary workstation for much of the time.

**Organization.**

Workstations remain largely fixed for much of the work involved in bulk carrier production with fixed operatives. Passenger vessels are better suited to multi-discipline teams working in ad hoc workstations and zones.

**Overheads.**

The repetitive nature of series ship production enables overhead staff to be minimized in the case of bulk carrier production. This permits maximum economic efficiency, with low overheads recovered against high throughput. Conversely, higher numbers of planners, technical staff, QA and inspection staff, estimators, purchasers, supervisors and most
<table>
<thead>
<tr>
<th>Attribute</th>
<th>Tanker</th>
<th>Cruise Vessel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Volume</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Target Market Share</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Order Characteristics</td>
<td>series</td>
<td>Unique</td>
</tr>
<tr>
<td>Cycle Time</td>
<td>Short</td>
<td>Long</td>
</tr>
<tr>
<td>Automation Potential</td>
<td>Maximum</td>
<td>Minimum</td>
</tr>
<tr>
<td>Skill Balance</td>
<td>Steel Trades</td>
<td>Outfit Trades</td>
</tr>
<tr>
<td>Throughput</td>
<td>High Volume</td>
<td>Low Volume</td>
</tr>
<tr>
<td>Overheads</td>
<td>Low</td>
<td>Increasing Overhead Costs</td>
</tr>
<tr>
<td>Potential For High Economic Efficiency</td>
<td>High</td>
<td>Increasing Unit Cost</td>
</tr>
<tr>
<td>Production Organization</td>
<td>Defined Flow Lanes</td>
<td>Increasing Fixed Workstations</td>
</tr>
</tbody>
</table>

Figure 6: Comparison of the Attributes of Volume and Niche Market Building

other overhead categories are required for passenger ship production.

The above factors are summarized, along with the market elements, in Figure 6. This figure demonstrates that production facilities must be matched to the target product mix. It would clearly not be efficient to construct a bulk carrier in a passenger ship facility, or vice versa, although technically it could be done. This is the reason why shipyards can no longer be all things to all shipowners, as they were 30 years ago, and that most successful shipyards today specialize in selected target areas. The target that most closely matches warship construction for those shipyards attempting to convert, is cruise ship construction. It should be clear from the above that attempting to build volume ship types efficiently in a former warship shipyard is likely to be difficult without investment and possibly downsizing, in particular of overhead staff.

Mixing non-compatible ship types, such as bulk carriers and passenger ships, in the same facility should be technically and economically feasible, but would require very careful thought and planning. In particular, the allocation of overheads would have to be carefully considered so as not jeopardize the economic viability of the more simple ship types.
OTHER STRATEGIES : ORDER SHARING

In addition to target marketing and the matching of facilities and organization to the chosen product mix, there are other options that could be utilized as part of an overall strategy.

As an example, the following calculations concern a strategy of combining a series order in two shipyards at different levels of competitiveness. The measure of competitiveness utilized is cost per unit of output, the unit of output used being the Compensated Gross Ton.

Consider the case of a reasonably competitive shipyard in a high cost country, that proposes to form an association with a less efficient shipyard in a low cost country, with the aim of reducing unit costs of a series order built jointly in the two shipyards. This is illustrated in Figure 7.

Figure 7 is based on curves of constant cost per unit of output (Kattan and Clark 1993), taking into account total cost per employee (horizontal axis) and productivity (vertical axis) measured by employee years used per Compensated Gross Ton produced. Total cost includes labor costs and overhead costs, but excludes material rests and other contract costs such as builder's risk insurance or financing charges. The product of the two parameters gives a measure of competitiveness cost per CGT produced.

Shipyard A is typical of a developing country, with low productivity, but a very low operating cost, giving a level of competitiveness of $500 per CGT.

Shipyard B is typical of an average level in Europe with a reasonable level of productivity but a fairly high cost giving a level of competitiveness of $1,500 per CGT.

The components of these costs are presented in Table VII.
Table VII

| Shipyard A: | Productivity: 0.1\text{ manyears} per CGT | Cost per manyear: $5,000 | Performance: $500 per CGT |
| Shipyard B: | Productivity: 0.033 manyears per CGT | Cost per manyear: $45,000 | Performance: $1,500 per CGT |

* an output of 10 CGT per manyear worked
* an output of 30 CGT 30 CGT per manyear worked

Table VII: Combined Series Order Effect on Competitiveness

Table VIII presents the combined level of competitiveness depending on the proportion of the order placed in either shipyard and the percentage reduction in cost per unit output from the situation in Shipyard B alone.

The validity of this strategy is clear from this Table. Significant reductions in cost per unit output are possible via this course of action, without any improvement in productivity in the higher cost shipyard. A 50:50 split of the order would lead to a reduction in unit costs of one-third.

The aim of presenting these calculations is to show, again, that strategy is not simply a matter of looking inwards to improve those factors under the control of the shipyard. As indicated in the introduction to this paper, external factors outside the control of the shipyard produce both opportunities and threats, and creative ways must be sought to maximize the advantage from the former, and minimize the problems from the latter. Order sharing is one example of a possible strategy to do this.

CONCLUSIONS

Shipyards do not operate in isolation. They are subject to forces imposed by the external environment to which they must react. The external environment provides both opportunities and threats, and the nature of the external environment must be understood to enable these to be identified and addressed.

In general, external forces are outside the control of a shipyard. In particular this comment is directed at price, which fluctuates on a commodity basis. It is one of the characteristics of the shipbuilding industry, that very large fluctuations in price have been experienced in the past and it is largely due to this variation that shipbuilding is seen as a difficult and high risk industry.

In order to survive in this difficult environment a shipyard must adopt an inherent strategy to match the facilities and organization to a targeted market sector. This strategy must be considered very carefully, with decisions made on a rational and scientific basis, and not on intuition.

When deriving a strategy, the follow-rig factors must be considered:

- Physical constraints: There will be a maximum size of vessel that can be constructed and a limit to capacity, although both these constraints can normally be relaxed if this is justified.

- Market factors: The capacity of a shipyard can be related to market volume for specific target sectors, and the market share required to achieve reasonable throughput can be identified. These must be reviewed along with the competitive situation to identify the potential for market sector penetration; and

- Production characteristics and organization: The characteristics of a shipyard must be matched to the chosen target market sectors. At different ends of a spectrum the
characteristics are highly automated, high throughput and low overhead to higher craft skill level, low throughput and high overhead.

Finally, an example is presented of a potential strategy based on sharing orders between shipyards at different productivity levels. The aim to this strategy is to reduce unit rests without changing the internal characteristics of either shipyard.

REFERENCES

Kattan, R., and Clark, J., “Quality and Improved Productivity through Benchmarking,” University of Newcastle upon Tyne, 1993.


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