

BOUY AND TENDER DAY

Under the weighty worry of price pressures, the dynamic between ship managers and ship suppliers is shifting, reports Helen Jauregui

The need to keep costs down, keep crew happy and ensure ships run efficiently all weigh on the purchasing manager's shoulders - but how do these pressures impact on the ship supplier's relationship with ship management companies?

Nick Owens, Purchasing Manager at Cardiff-headquartered Graig Ship Management raised concerns that some ship suppliers do not hold a sound understanding of how ship managers operate, in addition to the subsequent commercial implications which can arise for managers, if suppliers misrepresent the availability of goods, fail to meet their quoted lead times or if goods supplied are of questionable quality and not up to expectations.

An in-depth understanding of the way we operate, along with an understanding of

the economics of the shipping industry are key to being able to provide us with a good level of service and to ensuring we'll come back, Mr Owens said.

But as a number of suppliers told *SMI*, ship managers must also understand the finer workings of the ship supply business, in order to build stronger relationships between both parties and to ensure smooth operations. Aykut Coşkun, Business Development & Marketing Manager, AVS Global Ship Supply, said mistakes can occur when suppliers take on too much work in the face of unrealistic customer expectations: Some ship managers think they can send a request at 4pm and expect delivery at 8am and some suppliers can try to take on too much workload and promise things they just can't do.

It's important for suppliers to be upfront about what they can or can't supply

and to give the ship manager ample opportunity to make alternative arrangements. At the same time, ship managers have to be realistic about their expectations, especially considering geographic location of the supplier and also considering time frames.

Marit Eggen, General Secretary, Norwegian Maritime Suppliers, said the majority of suppliers she has encountered are well-versed in the finer workings of shipmanagement operations but she noted that some ship managers may not fully understand the daily pressures ship suppliers must face: Suppliers deliver on a global scale to platforms, cruise liners, merchant ships, military forces, airports etc. Many purchasing managers hand orders over carelessly and neglect to follow indexes, as in the ISSA or IMPA catalogues. Some ship owners expect ship suppliers to

have big warehouses, others neglect to pay what this costs, but both set up tight time schedules for delivery. Both sides depend on efficient computer systems, operating in the English language, to be understood by the authorities in every country.

Frans Fakkers, Director, Harding Marine Services (Rotterdam), said suppliers are acutely aware of ship managers' needs and this is shown through suppliers' efforts to integrate new IT and procurement systems, simply to comply with customer needs. Life has not been easy for suppliers lately due to the fact ship owners are cutting their own personnel costs, taking on more vessels and putting a greater level of pressure on their staff.

“It is becoming more common for suppliers to request pre-payment”
Phillip Andreou,
Purchasing Manager, V.Ships

The lack of good technically-trained seafarers has been a major problem lately, as they are not communicating to owners what is really needed onboard, resulting in returned supplies. Owners are using platforms where vendors are dropping their prices and from that point, we, as suppliers, are missing the most important element in shipping - communication between a customer and a vendor.

Cyprus-based Phillip Andreou, Purchasing Manager, V.Ships, also highlighted the need for effective communication as the basis for positive business relationships, but he said the poor economy had led to a much more cautious approach by suppliers: Many suppliers are nervous. A common question being asked is 'does this vessel pay?' In addition, it is becoming more common place for suppliers to request pre-payment, just to ensure their interests are secured.

There's no doubt a new attitude towards customer credit is rising within the ship supply sector, but how is this affecting purchasing managers? Nick Owens again:

The availability of soft credit these days is understandably more difficult, particularly for new relationships. This causes problems when taking on vessels which are new to you, particularly second hand vessels, and when beginning to work with suppliers with whom a strong relationship perhaps does not already exist.

If you need something in a hurry, a lack of available credit can really delay the process. Establishing relationships with important suppliers in strategic locations

can often be a challenge, particularly when your vessels are not calling at regular ports or with any certainty or frequency. According to Mr Owens, other unfortunate but common issues when dealing with suppliers include; problems regarding quality of goods and transparency of communications when things go wrong, including acceptance of errors.

Adding to this list of supplier no-nos, Mr Andreou said a slow response to enquiries and a failure to provide adequate information within quotations, such as delivery time or additional costs, are some of the main things which can cause complications when trying to supply a vessel within the short time available when in port.

Ioannis Dimitriou, Purchasing Manager, Arcadia Shipmanagement, said distance can be the greatest obstacle for a purchasing manager, in terms of ensuring goods and services are of the right quality:

In relation to this issue, bad quality cannot easily be found and when it is finally revealed, the vessel has already departed. So, there is a cost derived from bad or below average goods, which are being kept onboard and cannot be returned, or sometimes are not even reported.

The best mix that a supply manager should follow is to avoid cuttings which are essential for the vessel's seaworthiness and crew's satisfaction, Mr Dimitriou said, but he noted there are hundreds of other goods which are not necessities but which seafarers request. These goods must be the first items that a purchasing manager will delete from his order list, he said but added this kind of approach should be conveyed to seafarers before they embark.

One can hardly criticise purchasing managers for their focus on cost and purchase control, as this is a major component of their job role, but what is the experience of ship suppliers when dealing with purchasing managers who retain strong holds over cost control? Is an obsession with price crippling the ship supply industry?

Robert Steen Kledal, Managing Director, Wrist Ship Supply, said: In the current volatile and uncertain economic climate, it is understandable that procurement departments are under pressure to ensure expenditure is reduced and profitability is maximised. While it is undoubtedly tough for smaller ship suppliers, the larger organisations with a global network, liquidity and the purchasing power that comes with this can create standardisation in prices across the board and help to reduce costs within the supply chain.

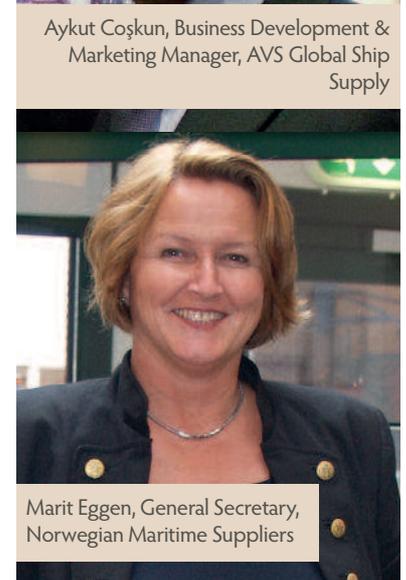
Balance is all-important as ship owners cannot afford to compromise on poor quality consumables onboard, particularly when it



Robert Steen Kledal, Managing Director, Wrist Ship Supply



Aykut Coşkun, Business Development & Marketing Manager, AVS Global Ship Supply



Marit Eggen, General Secretary, Norwegian Maritime Suppliers



Frans Fakkers, Director, Harding Marine Services (Rotterdam)



Nick Owens, Purchasing Manager,
Graig Ship Management



Phillip Andreou, Purchasing Manager,
V.Ships Ship Management,

comes to food, given incoming MLC 2006 guidelines on the importance of seafarer nutrition. However, they also need to run the leanest possible operations and strip out inefficiencies. Relying on a ship supply provider who can manage the procurement process and provide complete visibility and transparency of all consumable costs can help to ensure these needs are met.”

But from the purchasing manager’s perspective, is cost control a tricky corner to fight, particularly when seafarers are requesting goods beyond budget? Mr Owens said: “There is no doubt that cost control in today’s market is driving procurement strategy more than ever. The earnings of the vessels we operate are pretty low and subsequently there is huge pressure on us to keep our operating expenditure tightly controlled in order to compensate for the drop in income.

“The procurement department plays a key role in reducing operating expenditure through effective sourcing and negotiation. With this background it becomes very challenging to try and satisfy the crew’s expectations while ensuring the vessel remains operational and performing. Inevitably you cannot please everyone! Typically we take a pragmatic approach to what the vessels need and try to balance the expectations of the crew against the

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Aykut Coşkun, Business Development & Marketing Manager, AVS Global Ship Supply

restrictions of the budgets - this involves close communication of all departments but particularly the technical and purchasing teams who will work closely alongside the onboard personnel to ensure that critical maintenance items are supplied in line with the planned maintenance requirements for the period.”

But do suppliers believe purchasing managers are squeezing them in terms of cost? Aykut Coşkun again: “There are purchasing managers that can be overly price obsessive and tend to over-shop for certain items. It’s important for them to realise that in most places, the items are generally sourced from the same wholesaler so everyone knows they are shopping and this can become frustrating. There are also cases where you may not be comparing

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Ioannis Dimitriou, Purchasing Manager,
Arcadia Shipmanagement

apples with apples so to try and explain the price differences can be time consuming.

“At AVS, we know which of our clients expect top quality and which are open to cheaper alternatives so we have overcome this problem somewhat. I wouldn't say it is price crippling, but it does leave the door open for 'dodgy' dealings - for example I have heard of cases where 'beef cube rolls' have been packaged and passed off as 'beef tenderloin' - so if the price of something sounds too good to be true - it's because it is.”

Describing the V.Ships approach to procurement, Mr Andreou said his firm “as

a rule” always requests quotes from three companies: “Based on the size of the V.Ships managed fleet we place a large number of orders which translates into significant buying power. This again ensures V.Ships, more often than not, obtains the best service and competitive pricing from their suppliers.

“V.Ships uses contracted suppliers to a great extent as this helps build relationships and ensures good service. It's all about the buying power. Things run smoothly when you use the same set of suppliers rather than watering down your buying power across a greater number of suppliers. Suppliers deliver promptly with minimum fuss and goods are shipped out without delay.” However, Mr Andreou did add that cost is not always the highest priority, as sometimes delivery times can be more important.

Noting that cost control is not necessarily anything to fear, Frans Fakkers added: “Cost control has just been a trend which has been heard loud on every single floor of any company. I don't think that it's a bad thing. Cost control can bring owners and vendors to work more closely.”

Mr Dimitriou said cost focus all depends on priorities set by management: “Low cost should be on top of a purchasing manager's goals but without avoiding the

issue of quality, which most of the time, is difficult to estimate in value terms. A good approach is to contract all the long-term suppliers who are trustful and sign agreements for fixed prices or bonus rebates on the volume of final deliveries.”

But how do you balance the need for cost control over the need to keep close ties with ship supply partners? Is keeping a strong partnership with your suppliers as important as “shopping around” to keep costs down? Mr Owens said purchasing managers should ensure that quality is not sacrificed as a result of trying to maintain control over spend: “It can be very tempting to look towards the less quality end of the supply chain to make cost savings but ultimately it's the tried and tested suppliers who will help you through these difficult times.

“By forging and maintaining close relationships you can expect better pricing and credit terms, quicker lead times and even preference over other customers who perhaps do not share the same relationships. You'll also establish which suppliers will be there to help you out in case of an urgent problem. Maintaining relations with key suppliers is certainly far more beneficial than shopping around, which can often lead to false economy and to consequential problems further down the chain.” ■

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