

AAPA Marine Terminal Management Training Seminar

Session XV: Trends in Terminal Design and Operations

Thomas Ward, PE

Chief Engineer, Ports America

September 24, 2009, Long Beach



The Word for Today is...

2

EBITDA

- That's "*ee-bit-dah*"
- Earnings
Before
Interest,
Taxes,
Depreciation, and
Amortization



In the Olden Days, say 2007...

3

- The US Army Corps of Engineers built and maintained navigation works
- Port Authorities built and maintained marine terminals, and many bought the big cranes, and billed shipping lines for leases, wharfage and dockage
- Private companies bought and maintained operating equipment
- Private companies hired labor, worked ships, and billed shipping lines for stevedoring and other services

In the Good Old Days of Yore...

4

Marine Terminal Managers' finances were of the day-to-day operating variety, with a bit of equipment depreciation thrown in

High finance and big investments were mostly Somebody Else's Problem

In this Glorious New Age...

5

- USACE is strapped for money
- The Ports are strapped for money
- The States, Cities, and Counties are strapped for money
- Shipping Lines are strapped for money and saddled with big fleets of ships

and...

- *There are newcomers to the party...*



Infrastructure Equity Investors

6

- ... have bought major or controlling shares in almost every independent terminal operating company
- ... have borrowed heavily to do so
- ... are very interested in augmenting the equity in their new investments
- ... are investing in port infrastructure and related major capital elements, such as cranes
- ... have a strong interest in getting their money back
- ... are in a hurry to do so, so they can move on
- ... are great at finance, but very new to our industry
- ... cannot be expected to understand the nitty-gritty details of YOUR world

Think: “17th Level Wizard Bean-Counter”

7

- The new focus is on the financial aspects of our world
 - Investment capital
 - Maintenance capital
 - Labor costs
 - Maintenance costs
 - Overhead costs
 - Accounts receivable
 - Accounts payable
- There is a strong emphasis on ***Accounting Rigor***





General Consequences

8

Side “A”

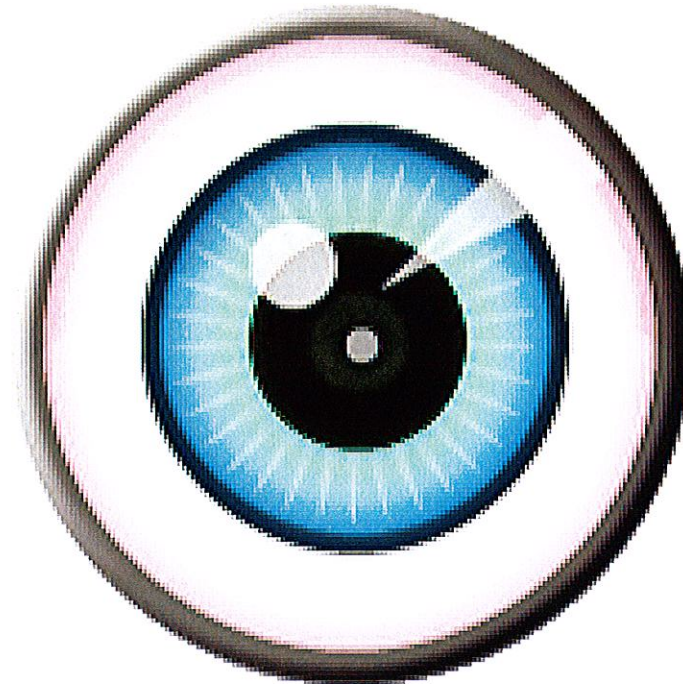
- Access to new sources of port development funding
- A focus on financial health
- Opportunities for new and different deals with shipping lines and other parties
- A “wider view” of how our business can be linked:
 - to other elements of the supply chain
 - to vendors and financiers
 - and the larger world
- Less reliance on “relationships”

Side “B”

- Demand for high rates of return on long-lived infrastructure
- Lack of experience in Our World
- Lack of understanding of the degree to which we have built a very efficient supply chain element
- Lack of sympathy for our pesky day-to-day operating problems
- A belief that finance is more important than other, lesser realities
- Less respect for relationships
- No memory

More Scrutiny

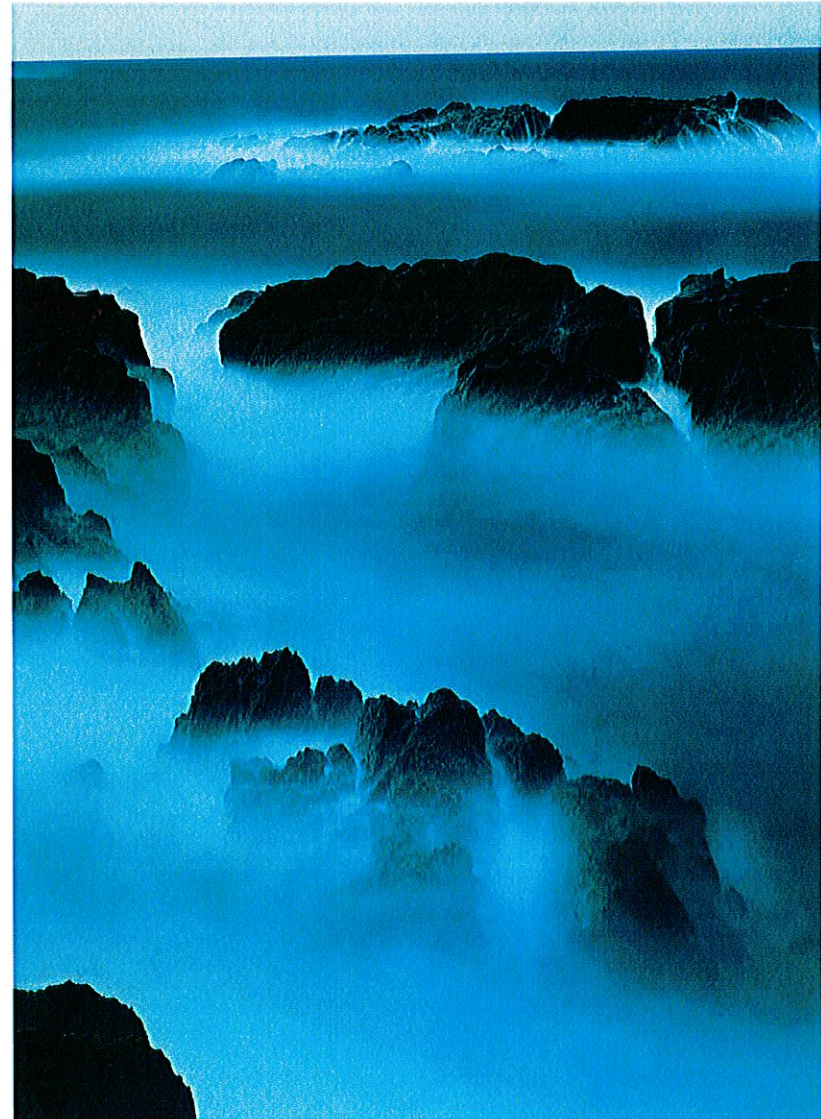
- Consultants questioning, probing, prodding, poking
- Trying to drive down overhead
- With little understanding and less sympathy



Fogginess is Not Tolerated

10

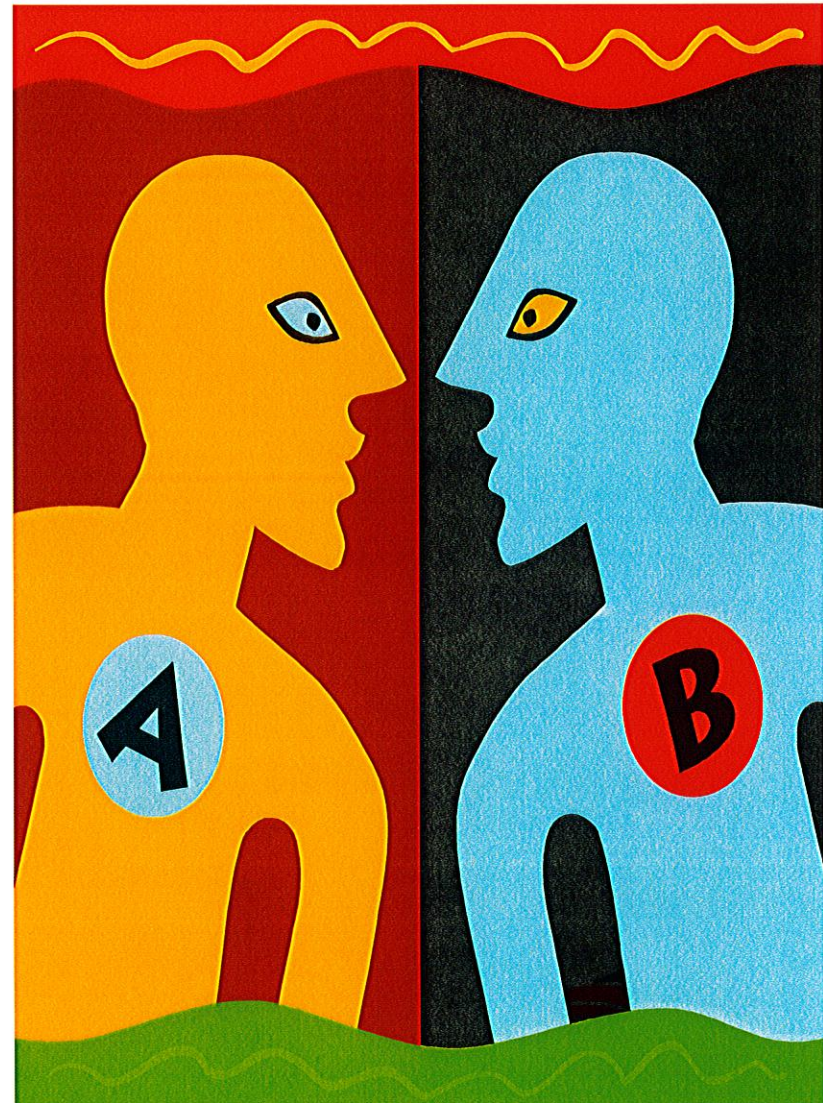
- “I think it’s about seven. Is that right, Fred?”
- “Well it depends. It’s really complicated.”
- “I don’t have those numbers at my fingertips.”
- “Sorry, that’s an old report – we do it differently now.”
- “Fuel per lift? Gee, I dunno – we don’t track that.”



“Externality” is Demanded:

11

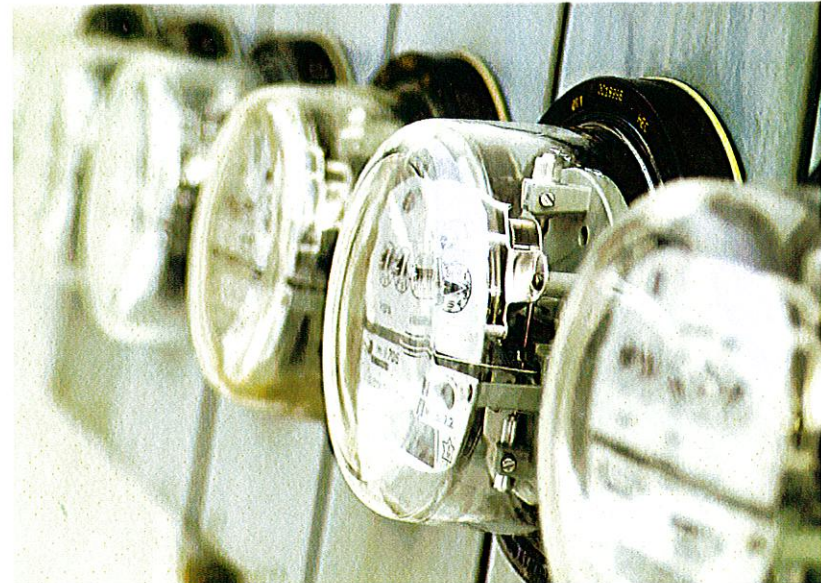
- “I don’t believe anyone with a stake in the game – show me numbers from the competition, or get external confirmation.”



You Are Expected to be Metric-Driven

12

- Have Key Performance Indicators (KPIs) for each element of the business model
- Make decisions that are tied back to, and clearly supported by, the KPIs
- Know when the KPIs mean Trouble
 - For you
 - For your boss
 - For your organization
 - For your customers



You Are Expected to be Robust

13

- Know the input to each KPI, and how it is measured in the field
- Know the limitations of the reporting sources
- Expect to explain all variances
- You may have to explain what a container is, and why they are not all the same



You Are Expected to be Consistent

14

- Measure and report KPIs the same way...
- ... Every time
- ... Every place
- ... Every circumstance

- Even if they are not really the same
- “Hey, it’s all just boxes, how different can it be?”
- “If you’ve seen one port, you’ve seen them all – stop making excuses.”

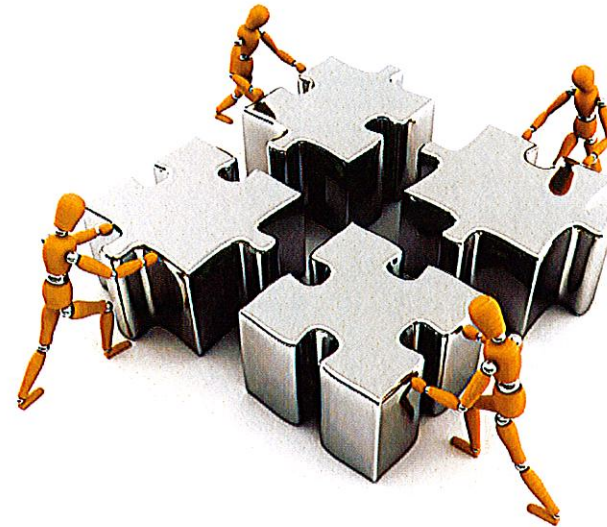


You Are Expected to Know the Drivers

15

- Know the KPIs
- Know what goes into the KPIs
- Know the limits of accuracy
- Know why KPIs change
- Know why KPIs stay the same

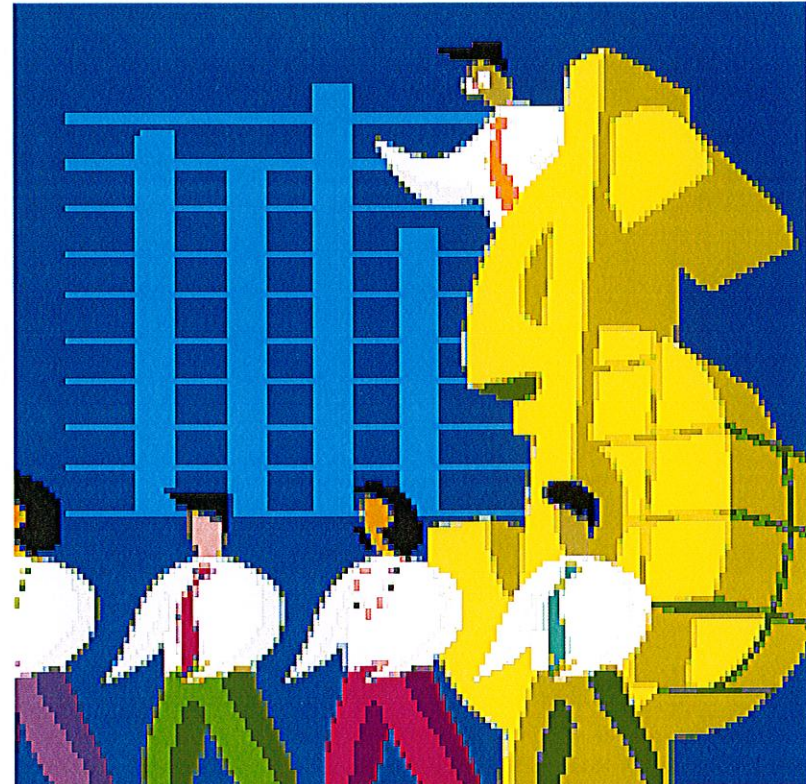
- You are expected to be able to clearly explain the direct link between cause and effect



You Are Expected to be Financial

16

- The “Y” axis is always money
- Don’t just know what you do, know what it costs
- Know every component of cost
- Know the cost drivers
- Know what can be changed, and what cannot be changed
- ***There is nothing that cannot be changed***



Automation

17

- Automation is inevitable – the economics are too strong to ignore, and the technology is increasingly stable



Complexity and Simplicity

18

- You will be working with more complex technology that does a lot more “thinking” for you



Green Man

- You will embrace “green” thinking, as the Ports are pushing it into the long-term leases



Utilization

20

- You will be driven to get the most use out of major fixed assets, such as wharves, cranes, and paved areas



Facility Maintenance

21

- You will be expected to care for the infrastructure you now own, not just grind it to bits



Conclusion

22

- We have the opportunity to manage our facilities as owner-operators
- We have the opportunity to be driven into operating our facilities in a robust way that satisfies financiers
- The way we measure performance will change, *probably* for the better
- The way we are judged will probably change, probably not for the better
- We have the opportunity to improve while times are tough, and do well by it later