AAPA Marine Terminal Management Training Seminar

Session XV: Trends in Terminal Design and Operations
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The Word for Today is...

EBITDA

- That’s “ee-bit-dah”
- Earnings
  - Before
  - Interest,
  - Taxes,
  - Depreciation, and
  - Amortization
In the Olden Days, say 2007...

- 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...

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...

- 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

... 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”

- 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

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

- “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:

- "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

- 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

- 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

- 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

- 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

- 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

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

- 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

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

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

• 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*