



## MAINTENANCE

### How to Understand Your Boatyard Bill

By Mike Smith

#### A Tough Way to Make a Living

**Although your bill reads like an odometer, your boatyard's profits may be small. Here's why.**

The boatyard business isn't for sissies. Although it seems like a license to make money, running a boatyard isn't cheap: Along with typical business overheads, yards face costs specific to the marine industry, costs of compliance with environmental regulations, costs of weather delays, etc. The bottom line? The bottom line isn't what you think it is.

We spoke to the principals of three boatyards, each known for top-quality services ranging from new construction to major refits to routine maintenance and repair. All three enjoy high levels of customer satisfaction, and each has won the American Boat Builders & Repairers Association's "Boatyard of the Year" award (see "[ABBRA: Who Are These Guys?](#)"). But while every one of these yards should rake in the gelt, none really do.

"We're not a nickel-and-dime operation, we're penny-and-nickel," says Paul Kaplan, part owner of two KKMI yards ([www.kkmi.com](#)) in the San Francisco area. Since 2008, Kaplan says, his yards' net profit before taxes has dropped from 11 percent of revenue to seven percent, thanks to rising costs. And it's actually worse than that: In the past five years, KKMI has cut operating expenses, including employee benefits; without those reductions, the profit margin would be even less. KKMI still provides good employee benefits though, including health insurance and vacations, but bonuses are gone. Boatyards need skilled employees who want decent compensation, so "you can't have a great company without great benefits." KKMI's employees average 24 years of in the marine industry, Kaplan says.

#### Rising Costs & Workers' Comp

Jeff Fulcher, Service Yard Manager at Jarrett Bay Boatworks ([www.jarrettbay.com](#)) in Beaufort, North Carolina, says it's getting tough to find experienced personnel so "we have to offer better pay and benefits." Jarrett Bay is an award-winning builder of Carolina-style sportfishermen, many of which are maintained at the yard, which handles "virtually any project" on yachts up to 130 feet.

Although operating expenses have climbed, to stay competitive Jarrett Bay has kept its labor rate the same for the past 8 years. Over this period property and liability insurances have risen about 40 percent, Fulcher says, and health-care costs have risen 15 percent so far. "We still do not know the impact of the Affordable Care Act [ACA]," he adds. Fulcher predicts costs will rise further due to the myriad requirements of the ACA; failure to meet these requirements will bring penalties that are not tax deductible as a business expense. One way or another, the yard will pay.

And then there's workers' compensation insurance, which is complicated for boatyards: While the folks working in the office are covered by state workers' comp, many other workers are considered "longshoremen" by the U.S. government, and therefore subject to expensive federal workers' compensation insurance under the Longshore and Harbor Workers' Compensation Act. The LHWCA insurance rates are about 500 percent higher than North Carolina state rates, says Fulcher.

Paul Kaplan says the LHWCA requirements prevent his yard from implementing more efficient, cost-effective procedures. For instance, someone from the parts department could deliver materials to a carpenter, say, thereby keeping a highly skilled, highly paid craftsman on the job. But because the parts person needs to be covered under way more expensive LHWCA insurance should he venture outside the office, the carpenter must go to the stockroom himself, on customer time.

#### Being Green Costs Green

KKMI, located in ultra-green California, also adds an environmental charge to every bill, two percent of the total. All of that money is spent on compliance, and it only partly covers costs, says Kaplan. The KKMI website lists agencies and services for which the yard pays fees related to environmental issues; there are 18 of them, and it's not an inclusive list.

Being green isn't cheap, but "if you're out of compliance, you're out of business," says Kaplan. For example, both KKMI yards have sophisticated water-filtration systems to ensure process water (like what's used for power-washing boat bottoms) and rain- or floodwater are all scrubbed sufficiently clean of contaminants to meet EPA regulations before discharge back into the bay. Each system, including plumbing, tanks, and other equipment, costs upwards of \$250,000.

And there's not only an alphabet soup of federal and state agencies with requirements, but also self-appointed environmental groups. The federal Clean Water Act allows "citizen lawsuits" against polluters who violate the Act if the federal or state government has not already filed suit. Citizen plaintiffs file for an injunction to stop the violation, and fines against the polluter can total \$25,000 per day of violation. Fines from citizen suits go to the state, but the plaintiff may be awarded attorney's fees. In the San Francisco Bay area, these lawsuits are common, often frivolous—sometimes barely disguised extortion, according to Kaplan. Your boatyard may be under similar pressures.

#### Maine: The Way Life Should Be

The "Welcome to Maine" signs on Maine's borders say it's "the way life should be." And this makes sense when it comes to boatyards. JB Turner, an owner and manager of two-year-old Front Street Shipyard ([www.frontstreetshipyard.com](#)) in Belfast, says not only is Maine fairly liberal in comparison with surrounding states with regard to environmental regulations, but "the city has been very helpful," too. And "there's a great labor force in Belfast," Turner says; Front Street Shipyard provides lots of good year-round jobs.

Located where the Penobscot River flows into the bay of the same name, Belfast was once a thriving seaport and shipbuilding town; Front Street Shipyard is built on the former site of a sardine-processing factory. Developers bought it to build luxury condos, but the project fell through. When that happened, Turner and his partners (all with extensive boatyard and boatbuilding experience) bought the land and built Front Street from scratch.

The yard was designed for maximum efficiency; tools and stockrooms are closer to the jobs, for example, so workers don't waste time walking. Modern yards have to be more efficient, Turner says. He estimates that for each billed hour of labor today, about 33 percent goes to



Maine's Front Street Shipyard received the ABBRA's 2013 Boatyard of the Year award.



A worker at Jarrett Bay Boatworks spruces up the teak toerail on a sportfisherman.

salaries, 33 percent to benefits and labor overhead, 10 percent to other overheads (insurance, taxes, compliance with environmental laws, etc.) and the rest to potential profits—which seldom become real profits. "There are also constant maintenance costs, givebacks, overruns on jobs, etc., so our profit is in the 5 to 7 percent range," says Turner.

Sometimes a customer says his bill is too high, explains Turner. Then the yard has to justify man-hours, which can be affected by weather delays, awkward physical situations (e.g. touching up topsides while the boat's in the water), and other vagaries. Sometimes an owner shows up in midsummer with a job he wants done so he can vacation on his boat. "He says 'I don't care what it costs' but then 'forgets' when the bill's due," says Turner. "In most cases we then figure out what's fair given the situation, and adjust the bill so everybody's happy."

Everybody's happy? Are we still talking boatyards? Maybe that's why Front Street Shipyard won ABBRA's 2013 Boatyard of the Year award. But each of the yards mentioned in this column has also won the same award in past years, because, whatever the profit percentage, all three provide what boat owners want most: Good service at a fair price.



Boats large and small come to Front Street Shipyard for service and repair.

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When Thomas Paine wrote, "These are the times that try men's souls," he was referring to the colony's treatment at the hands of nasty King George III. But were he around today, Tom's observation could also apply to boating. It's hard to imagine a crueler month for us nautical types than March.

So it's perhaps understandable that at a time of year when so



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