

BOAT BUILDING AND REPAIR: Sailing into shallow waters?

The boat building and repair industry in Australia is not on the scale of massive shipyards and looming hulks of steel. It is more about boatyards handling smaller vessels, from fishing boats to pleasure craft, including canoes, jet boats, yachts, motor launches, fleets of dinghies or runabouts. There are many examples moored at marinas – or stranded on the verge outside suburban homes – all around Australia. The industry is engaged in building or repairing small-to medium-size boats and vessels with a displacement of under 50 tonnes, excluding inflatable boats, fibreglass boat components, canoes, surfboards and sailboards.ⁱ

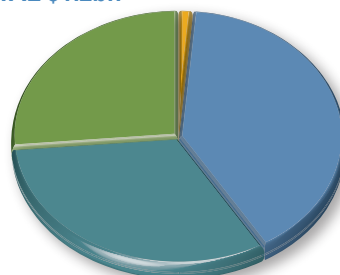
Enterprises involved in this industry are not multinationals or mega-companies, though they may export their quality craft when the overseas market is receptive, and they are not big employers of large numbers of staff. Instead, they may be family-run operations, and many are non-employing, sole-proprietor operated. Only 2.2% of the firms in the industry employed more than 20 people, and less than 10% of boat building and repair

enterprises generated more than \$2 million in revenue during 2014-2015, according to the Australian Bureau of Statistics.ⁱⁱ

Repair of vessels contributes just over a quarter (26.2%) of the total \$1.2 billion in industry revenue, the remainder attributed to boat building: small vessels with a displacement less than five tonnes (40.1%); medium-sized vessels (5-50-tonne displacement; 32.2%); and other vessels (1.5%).ⁱⁱ (See Figure 1.) The small-vessels segment has grown relative to medium-sized vessels as consumers turn away from larger, more expensive luxury boats in response to lower customer sentiment and muted discretionary income growth.

Products and services segmentation (2015-16)

TOTAL \$1.2bn



- 1.5% ● Other vessels
- 40.1% ● Small vessels
- 32.2% ● Medium-sized vessels
- 26.2% ● Repairs

Profit margins (in total absorbing 13.4% of revenue for 2015-2016ⁱⁱⁱ) are stronger in boat building than in boat repair and maintenance and innovations in technology – such as paint which reduces the build-up of debris, or the use of composites which make hulls more robust – reduce the need for repair and maintenance. Fixed costs have remained high and profitability has declined in recent years.

Total imports in the industry were estimated to reach a level (at \$280.9 million) more than twice that of exports (\$127.4 million) in the five years through 2015-2016.ⁱⁱⁱ Currently, there is moderate international trade, with imports in the industry on the decrease and exports on the increase.

Fragmented competition

The competitive landscape of the industry is very fragmented, with the three largest firms (Riviera Australia Pty Ltd, Telwater Pty Ltd and Haines Marine Industries Pty Ltd) accounting for less than 15% of total revenue, with 6.6%, 4.5% and 3.5% of the market share, respectively. The remaining 85.4% is divided between numerous small-scale enterprises.ⁱⁱⁱ This low market share concentration has remained essentially unchanged in recent years, and is likely to remain so as long as small businesses predominate.

Queensland dominates the Australian boat building and repair industry, with more than a third of the businesses (33.9%), followed by New South Wales (26.1%) and Western Australia (17%).ⁱⁱ Both Queensland and Western Australia have large coastlines and warmer climates, which are conducive to private and commercial boating activities. Queensland's popularity with time-rich retirees and Western Australia's relatively high average income contribute to their overrepresentation in terms of population share.

Industry demand

The demand for this industry comes from marine equipment wholesale and retailers (who buy and onsell to consumers, commercial operators and government); passenger transport (ferries, runabouts and catamarans); law enforcement (police) and defence (navy patrol boats); fishing (typically vessels ten metres and more in length); and those consumers who, unusually, seek out vessels directly from the boat builder (generally expensive, technologically sophisticated custom-built luxury vessels).ⁱⁱ

Wholesalers and retailers have been a growing market for boat builders over the last five years and account for 54.6% of a total market share (based on the 2015-2016 total revenue of \$1.2 billion).ⁱⁱ They provide a valuable export outlet for boat building enterprises. A decline in revenue from commercial markets and an increase in defence spending has resulted in a steady 30.5% share contribution by commercial and government markets.ⁱⁱ The recent decision by the Australian Navy to end its Cairns-based patrol boat repair

programme five years early (in 2017) and send it to Singapore is likely to have an adverse effect on revenue in this market sector.ⁱⁱⁱ

Consumers who buy directly from boat builders (14.9% revenue shareⁱⁱ) are driven by quality, speed, technological advances, image, brand, safety and performance (not necessarily in that order); price is not their primary consideration. Despite this, this market has contracted in recent years.

Of note is the shortage of marina berths and boating infrastructure, which has created a downturn in demand, especially for larger vessels, and has the potential to slow boat sales over the next few years.ⁱⁱ

Key drivers

As a luxury-goods industry, boat building and repair is heavily influenced by the consumer sentiment index and household discretionary income, low levels of either one driving boat sales and repairs down as consumers turn away from non-essential expenditure. After a volatile five years, the consumer sentiment index is expected to average 91.7 points in 2017-2018,^{iv} while discretionary income is predicted to reach \$528.6 billion for the same period (a gain of 2.4% on the previous year).^v Available leisure time has a knock-on effect too, but fewer hours worked, while supporting leisure activities, must be offset against a concomitant drop in income earned.

The global price of aluminium has a close but complex link to profitability in the industry. By increasing boat prices to reflect higher aluminium prices, a producer might protect profits but reduce sales. In general, however, higher

aluminium prices have a positive net effect on revenue. The world price of aluminum is expected to rise steadily at an average annual rate of 3.0% over the next five years to 2021.^{vi}

Operating conditions

The boat building and repair services industry is a so-called traditional service economy industry, reliant on labour rather than capital to sell goods. Outsourcing of functions is generally not an option, and there needs to be a take-up of new technology to increase revenue growth. Although the industry's revenue volatility has been declining over the last five years (Figure 2.),ⁱⁱ it is still regarded as moderate, as demand for boats is buffeted by factors including consumer sentiment, discretionary household income, available leisure time, and the strength of the Australian dollar.

Industry revenue

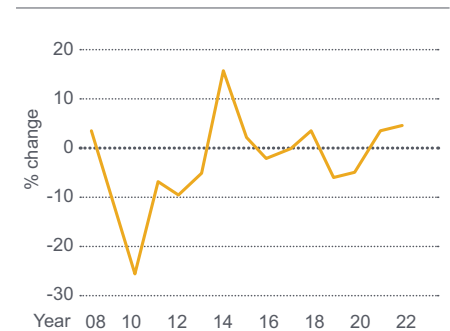


Figure 2. Industry revenue volatility (IBISWorld Industry Report C2392 Boatbuilding and Repair Services in Australia - April 2016).

The Australian Maritime Safety Authority (AMSA) and the National Standard for Commercial Vessels (NSCV) hold operators to stringent standards for stability, safety, weather and watertight specifications.

A 5% import tariff for foreign boat builders supports local enterprise, and boat

exporters can apply for a hefty 50% reimbursement on export expenses from the government. In addition, existing tax breaks for foreign boat buyers are a boost to export activity.ⁱⁱ

Where are we heading?

Boat building and repair is an industry in decline. Revenues are predicted to fall at a compound annual rate of 1.0% over the next five years to 2020-2021 to reach \$1.16 billion (Table 1.).ⁱⁱ Although an ageing population with the luxury of time could be predicted to buoy leisure activity expenditure, including boat sales, negative consumer sentiment until at least 2019 is likely to turn down the volume on sales of non-essential, luxury vessels. The ongoing squeeze on marina space and lack of boating infrastructure will not help. Nevertheless, the real household discretionary income for 2017-2018 is expected to increase by 2.4% on that of 2016-2017 to reach \$528.6 billion,^v which may have a positive effect.

Revenue outlook

Year	Revenue \$ million	Growth %
2016-17	1,216.0	-0.7
2017-18	1,253.7	3.1
2018-19	1,176.0	-6.2
2019-20	1,120.7	-4.7
2020-21	1,164.4	3.9
2021-22	1,215.6	4.4

Table 1. Industry revenue outlook (IBISWorld Industry Report C2392 *Boatbuilding and Repair Services in Australia* - April 2016)

Limited export demand and a relatively strong Australian dollar have seen the demise of many smaller enterprises in recent years, and with fixed costs eroding profitability, and a weak local demand for expensive and luxury boats, more are likely to follow in the coming years.

Certain factors can, however, be expected to support boat building and repair enterprises and buffer them from the vagaries of the market. Among them are: the use of the latest technology to improve efficiency and processes; the location of operations close to key markets, thereby reducing transport costs; the distribution of new boats through dealership networks; the development of export markets; and the adherence to effective quality controls ensuring a high-quality end product.

For those in peril...

Boat building enterprises are facing difficult times over which they have little or no control. At times like these, they can't afford to deepen their business' vulnerability by neglecting to adequately protect their exposure to litigation. The loss of or damage to a vessel under their care while being worked on, or while moving or trialling it; the loss of or damage to cargo on the vessel under repair; the loss or damage to third-party property as a result of boat repairs; pollution events; the expense of investigation and defence in the event of a claim against the business – the

risk scenarios are many and varied, and are not necessarily confined to marine-specific activities.

Boat builders and repairers should therefore consider comprehensive insurance that anticipates all their marine and general exposures. So too (for example) should yacht marina owners and operators; marine contractors involved in the parts installation or maintenance of boats or the construction and maintenance of piers and wharves; naval contractors; and general, land-based contractors who carry out works on the water or watercraft.

Appropriate insurance may include Marine (ideally combined with General) Liability insurance, transit insurance and Ship Builder's, Ship Repairer's and Commercial Hull cover, depending on the scope and scale of operations.

- i 1292.0 - Australian and New Zealand Standard Industrial Classification (ANZSIC), 1993. 2822 Boatbuilding.
- ii IBISWorld Industry Report C2392 *Boatbuilding and Repair Services in Australia* - April 2016.
- iii Campbell, J 2016, 'Major Navy patrol boat repair work moves from Cairns to Singapore', Cairns Post, 12 January, <http://www.cairnspost.com.au/business/major-navy-patrol-boat-repair-work-moves-from-cairns-to-singapore/news-story/5454d781d2eb6257e760e72cc967d4d8>
- iv IBISWorld Business Environment Profiles *Consumer sentiment index* - October 2016.
- v IBISWorld Business Environment Profiles *Real household discretionary income* - August 2016.
- vi IBISWorld Business Environment Profiles *World price of aluminium* - October 2016.