NUS National University of Singapore

Richard Ivey School of Business
The University of Western Ontario

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STRATEGIC ENTREPRENEURSHIP IN EMERGING MARKET MULTINATIONALS: MARCO POLO MARINE

Marleen Dieleman and Yue-Jer Lee wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

In November 2010, Sean Lee, chief executive officer (CEO) of Marco Polo Marine (MPM) Ltd, strode into his office, one hand pressing a mobile phone against his ear, deep in conversation. Dressed in his customary white shirt and black jacket with no tie, he sat down and leaned back in his chair, deep in thought. He had recently decided to diversify into a fundamentally different type of business within the shipping industry. Despite MPM being a medium-sized company, Lee had already gained a reputation in the industry by making some bold strategic moves, and so far his business instincts had served him well. Without any experience, he had taken over a very small shipping company and managed to grow it significantly. He then ventured into shipbuilding, again without any track record, and succeeded against all odds, eventually listing MPM on the Singapore Stock Exchange; however, the plan he was working on at the moment was even more daring, and he knew he was taking a substantial risk. While the goal was clear — to become an international player in the offshore marine services sector — Lee knew he had to carefully analyze this new industry and evaluate the options available to him in order to successfully compete against the incumbent players. On his desk was a memo from his new offshore director with the proposal to buy two Australian vessels; he needed to make a decision soon.

INDONESIAN FAMILY BUSINESS ON THE MOVE

Born in 1977, Sean Lee (Chinese name: Lee Yun Feng) was one of the youngest CEOs of a Singapore-listed company. Before becoming CEO, he had spent half a decade working up the ranks of — and eventually leading — the mining and quarrying operations of an Indonesian business group founded and led by his father. The Chinese-Indonesian Lee family operated most of its businesses in the region adjacent to Singapore. As the leader of the granite mining operations, Lee had recognized that it was a price-taker in an extremely competitive environment. Competitors were innumerable and generally small, whereas a few large customers wielded the bulk of the bargaining power. Lee decided to capture market share by squeezing his costs to a minimum, each week developing and implementing new and more efficient processes.

While the outlook was promising, one thing persistently bothered him. The mining operations were on a large island in Indonesia, while the customers were in Singapore or on other islands in the massive archipelago of more than 7,000 islands; there was no way to transport the materials other than by ship, and that was a cost he could not reduce. Even though the group's shipping arm (MP Shipping) owned and operated six tug-and-barge combinations — which Lee was also managing — he felt that it was insufficient. Lee figured that the company's shipping business offered good opportunities and that he could further expand in this area.

Before long, Lee operated an ever-growing number of tugs and barges carrying dry bulk goods (such as mining products). Initially, the shipping operations focused on transporting the group's granite and sand to clients in the Singapore construction industry; however, the company eventually started to transport a variety of dry bulk goods throughout the region for other clients, including sand from Cambodia to Singapore after Indonesia introduced a ban on sand exports (as of 2007, MPM had also started transporting coal with its barges from Kalimantan to power plants in the Indonesian islands Java and Sumatra).

Concerning this expansion, Lee's ambitions turned out to be bigger than regional barging activities. In 2005, he discussed the possibility of starting a shipyard with his father, who responded with concern due to Lee's lack of shipbuilding experience. Despite his concern, a few months later Lee's father provided Lee with an area of waterfront land in Batam (an Indonesian island close to Singapore) for the shipyard. Thus, MP Shipyard was created in 2005.

To combine these growing businesses, in July 2006, Marco Polo Marine Pte. Ltd. was incorporated in Singapore, privately owned by the Lee family. A crucial milestone came in September 2007, when the company was floated on the Singapore Stock Exchange. MPM's revenues were split evenly between shipyard and shipping activities. By that time, the new shipyard had already built 22 vessels: five tugboats and 17 barges. In the next few years after listing the company, Lee had achieved considerable growth despite a difficult economic situation. From a modest turnover of S$6.6 million[1] in 2005, the company reported revenues of S$64.3 million for 2010, and profits grew from S$2.6 million to S$19.1 million over the same period. Under Lee's capable control, MPM had tripled in assets since listing, and profits had been consistently growing (see Exhibit 1). As of 2010, MPM operated a fleet of 63 ships, not including 25 other vessels jointly-owned with various partners.

Those in the industry started to take this new small player more seriously. The competitors did not have to wait very long for the next move; on August 16, 2010, MPM announced the appointment of Eng Boon Chua as the new director of the MPM Shipping Group. With extensive expertise in the offshore industry, he was hired to oversee the shipping activities and set up a new line of business within MPM: offshore marine services.

MARCO POLO MARINE

Having begun as an attempt to control transport costs for Indonesian mining products, MPM had, in a relatively short period, grown into a substantial company by itself, thus showcasing Lee's entrepreneurial talents and international ambitions. MPM now marketed itself as an integrated marine logistics provider, with synergies between the different business units. Lee liked to say that MPM offered Singapore-level quality for Indonesian price levels, and one of the company's strengths was a competitive cost structure: this involved operating newer vessels (which were more efficient) and integrating the ship-building, ship-

[1] *US$1=S$1.687 based on the average exchange rate from October 1, 2004 to September 30, 2005. This corresponds to the MPM fiscal year-end.*

repair and ship-chartering activities to achieve further synergies and cost efficiency. MPM operated primarily in the lower-end of the market, offering services that were fairly standard and did not require extensive research and development (R&D) or innovation.

Both shipping and ship-building were highly volatile and capital-intensive industries that were populated with a great number of smaller players, particularly the segment in which MPM operated. Consequently, the company was heavily exposed to economic cycles, although this was somewhat abated by the fact that it acted as a main supplier of shipping services to the Lee family's other businesses and had a somewhat assured client for its services. Vessels were typically financed with 20-30 per cent equity and 70-80 per cent loans.

In 2008, the MPM shipyard began to build ships of a higher level of sophistication, such as anchor handling tug supply (AHTS) vessels, which were used in the oil and gas sector to assist in positioning and supplying offshore oil platforms. This triggered the idea in Lee's mind that operating such ships could become one of MPM's future businesses. Further, the financial crisis that began in 2008 had sent the prices of ships worldwide tumbling. Most incumbents decided to delay expansion and refrain from ordering or acquiring any more vessels and wait out the recession. Not deterred by his lack of experience in this industry, nor the economic downturn, Lee set out to venture into offshore oil and gas services.

MPM's ship-building and barging operations provided a stable stream of revenues and cash that could partly fund the expansion into the offshore industry. Other possible sources of funding included share placements, vessel sales and bank loans. The group was not highly leveraged as compared to some of its peers: the net gearing ratio[2] was 32 per cent in 2010, compared to other local shipping companies that had higher gearing levels. Local market leaders Otto Marine and Ezra Holdings had net gearing ratios of 94 per cent and 79 per cent respectively[3]. As with the other segments in which MPM was active, this was a capital-intensive industry and financing would be an important factor.

In pursuing the rapid growth of MPM, Lee deleveraged MPM over the years, seeking more stable sources of revenue, implementing cost-control measures and maintaining a focus on young, high-quality vessels. Its financial stability had allowed the group to grow its business and to move into new segments, which allowed MPM to stretch its equity capital, employing maximum leverage for each new vessel while keeping the overall gearing ratio acceptable, reassuring bankers and ensuring the availability of future financing. The high rate of expansion did mean that cash was always a concern — the company operated with negative working capital.

In 2010, Lee was finalizing the details of a share placement exercise: this exercise would dilute his family's ownership stake in the group while raising cash, of which S$10 million would be earmarked for the new offshore division. With the backing of the banks, MPM could then grow by S$30-50 million worth of vessels, which would be enough to establish a foothold in the industry, but insufficient to become a market participant of note. Like most family firms, the Lee family aimed at maintaining full control of MPM, which implied that diluting their shareholding below 51 per cent was not an option. After the share placement in October 2010, the Lee family held 55 per cent of the shares.

[2] *Net gearing ratio is calculated by taking the interest-paying debt net of cash and cash equivalents and dividing this by total equity.*
[3] *Calculated based on financial statements of the two companies, 2010.*

THE OFFSHORE MARINE SERVICES INDUSTRY

The offshore oil and gas sector was broadly divided into four stages: exploration, drilling, production and decommissioning (see Exhibit 2). One of the key factors in determining the choice of an oil platform was the depth of the water. In very shallow waters (less than 400 feet), jack-up rigs that rested on the seabed could be used. Fixed platforms (anchored into the seabed) were used in shallow water (up to 1,700 feet) and where the platform was meant for very long-term use. Semi-submersible platforms and fully independent drill-ships were used in deeper waters (around 10,000 feet). In general, shallower waters required smaller ships. Most offshore oil fields were found in deeper waters in the Gulf of Mexico, Brazil, Northern Europe, West Africa and Southeast Asia. To supply this offshore oil and gas industry, a variety of vessels was used, collectively referred to as offshore supply vessels (OSVs). The choice of vessel depended on the stage of the offshore oil and gas project, as well as the physical conditions of the area of operations (water depth, strength of currents, etc).

In the exploration stage, AHTS vessels or tugboats towed floating platforms around the exploration area, testing the seabed for oil and gas deposits. The role of the AHTS vessels was to position the rigs and, more importantly, to moor these platforms to a fixed position at a desired location using advanced Global Positioning System (GPS) and 'dynamic positioning' technology. General utility vessels, as well as barges, were also used in every stage to carry pipes, drill bits, cement, mud and other materials. When a good site was found, the platform was anchored on that spot. Demand for AHTS vessels was high at this point, when it became crucial to assist the platform in dropping its anchors accurately to fix its position. Specialized vessels used to lay pipes and cables were also in high demand at this stage. Once the platform was fixed and the well had been drilled, extraction of oil and gas began. At this stage, a larger number of crew and amount of supplies were needed for continuing operations. Platform supply vessels (PSVs) transported the crew and supplies to the rigs, while accommodation/crew barges provided additional living facilities. When the oil or gas field was decommissioned, AHTS vessels were again used to dismantle the platforms.

The ultimate clients for such services were oil companies, which typically did not own or operate their own OSVs. There had been a consolidation within the oil sector and many of the offshore marine services companies derived a substantial share of their revenues from a limited number of clients, either national oil companies or global multinationals. The oil and gas industry was vulnerable to global oil price fluctuations, which were partly determined by cartels (such as OPEC), economic cycles and also government regulations. Generally, industry analysts had predicted oil prices to rise in the medium- to long-term, which meant that previously unprofitable wells began to make economic sense. These might have been high-cost wells due to unfavourable physical conditions (deeper deposits, rough seas, inaccessible locations) or because the crude oil was of lower quality (such as high sulphur content). Within the oil industry there was a trend towards discovery in deeper waters[4].

Traditionally, the offshore marine services industry was dominated by a few larger (mostly Western) firms that focused on high-quality assets and expert service to oil companies. These included companies such as Tidewater, Bourbon and Swire. Tidewater was the largest player in the market and held about 10 per cent of the global market share, while Swire was known for its high-quality approach (see Exhibits 3 and 4). Time was an essential factor to this service industry — significantly more than it was in the transport of mining products — given the substantial costs of running an oil platform on a daily basis. Hence, a technical problem with an offshore supply vessel could trigger substantial budget overruns for oil companies.

[4] *Infield, RS Platou Investor Presentation, October 8, 2010.*

Since 2000, many new firms had entered the industry, mostly from emerging markets: these were small companies that operated only a few vessels (sometimes as little as two), usually of the less powerful type, and that competed on price. They were vulnerable to technical problems and would occasionally default on contracts and go out of business. These smaller players often only owned ships, with operators contracting them for oil companies and organizing crews. The top five players, which were typically both owners and operators, held about 30-40 per cent of the global market share, with the rest divided amongst many small players. The effect of the entry of these low-cost players was that oil companies both demanded lower prices and tightened the contracts (for instance, by demanding back-up vessels), thus reducing the margins for everyone in the industry.

Within this industry, one could opt to focus on more high-end ships (larger, more powerful and sophisticated), which would command a premium in certain markets such as the North Sea in Europe, where clients were more willing to pay for quality and specialized vessels; contrastingly, in other regions there was little demand for premium services (such as in Southeast Asia), as demand depended on the quantity, stage of the oil production and sea conditions. Ships could move from one part of the world to another, but this took time and reduced the profitability of a vessel; small price-players usually did not operate on a global scale. As global demand for offshore services fluctuated with the number and maturity of the oil fields, the trick was to forecast both demand for OSVs and the moves of competitors. In 2010, most analysts considered that there was an oversupply of OSVs worldwide and specialized industry reports qualified the market in late 2010 as "bearish."[5]

Aside from the choice of vessels, finding qualified crews was a major problem, in particular for higher-quality vessels. According to an incumbent player in this market, "New competitors go in without the skills, nor the crew. They screw up. Next time, clients' contracts say this, this and this [a range of new clauses] because they completely messed up the last time and the oil company won't have it again."[6] As such, reputation in the market carried a premium amongst clients. While it was not impossible for new players to establish a base, incumbents benefited from their trusting relationship with oil companies; while officially most contracts were tendered, in practice some contracts were given away before the tender stage and depended on reputation, trust and relationship-building. Reputation could only be built by upgrading the entire organization and instilling in it a quality-control system and high-quality service mentality — something that was uncharted territory for firms such as MPM, which had been involved in simple barging operations.

STRATEGIC OPTIONS

In order to penetrate this market, Lee was successful in convincing Eng Boon Chua to join MPM and set up the activities. Chua (born 1950) had a broad range of experiences in the offshore industry in Southeast Asia, ranging from the navy, merchant fleet, salvage and offshore marine supply services. His prior positions involved operations, marketing and overall management of a Singaporean offshore company, and he established a solid track record in growing the business. Chua also brought with him a "salvage" mentality: "The harder the job, the more satisfaction when the impossible is achieved." This attitude influenced his decision to take on the challenge to start a new division from scratch in the late stage of his career. He believed that there was no point in wasting time with just a couple of boats; MPM had to do this seriously with at least six vessels to start with and 10 vessels in the following three years. The question was, what type of vessels should be acquired and where should they be deployed?

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[5] *Oil Services Quarterly, published by RS Platou Markets, January 2011.*
[6] *Authors' interviews.*

Owning and Operating Vessels

There were generally four markets in shipping: new-building, charters, sale and purchase and demolition/scrap.

Newly-built ships were sold on the new-building market (see Exhibit 5). As the construction time of a ship could range from months to years depending on the size and complexity of the ship, shipyards tended to have large order books and long lead times; in other words, an AHTS order could only be delivered a year or two later, possibly after the market for its services enters a recession. In strong economic booms, many ships would be ordered, but when they were finally delivered they created an aggregate oversupply of ships, sending ship prices and charter rates crashing. Market timing was especially crucial in shipping: fortunes had been made and lost simply through market-timing in this industry.

Ship owners could operate their own ships or lease them out to other operators through charters, which were divided into voyage (spot-market) charters, time charters and bareboat charters. Ships in the oil and gas industry typically operated on time charters, as platforms required a constant flow of services, usually with an average contract of three months to two years (see Exhibit 5). Spot-market rates applied to charters of one day to three months: the services were usually priced based on a fixed daily rate. MPM owned and operated its own tugs and barges, but in entering the oil and gas industry it would have to overcome the problem of sourcing for and maintaining a competent, disciplined crew. The skills required for an oil and gas crew were much more technical — and far scarcer — than those in tugs and barges. The crewing expenses were therefore likely to be high, and the company would need to maintain effective control over the crew even if the ship was operating 5,000 nautical miles from Singapore. Alternatively, Lee could charter out his vessels to operators who would handle the operational details, but this would carry a lower margin.

Second-hand ships traded on the sale and purchase market, allowing opportunistic players to enter and exit the industry at will; however, there was a price to pay, as ships coming with a charter transacted at a 20 per cent premium to newlybuilt prices. Lastly, ships were sent for scrap after their useful operational lives. The older the vessel, the higher the maintenance and repair costs and the lower the vessel utilization rate. In deep recessions, ships were sent for scrap earlier as the high cost of maintenance for older ships was more difficult to support, and scrapping brought in much-needed cash; however, the aggregate effect of heavy scrapping tended to reduce ship availability just as the market turned, driving up ship prices and charter rates sharply, adding further volatility to the overall markets.

Vessel Categories

A range of different vessels was used for supplying and servicing the offshore oil and gas industry. The type of vessel needed would depend on the type of offshore equipment that these vessels were servicing, such as drilling rigs (for either shallow or deep water), surface units or subsea facilities, as well as the stage of development of the oil or gas field and the conditions (near or far from the shore, rough or calm seas).

For AHTS vessels, the simpler and smaller version could cost up to US$24 million while the more advanced versions could be around US$50-60 million. Simpler vessels usually fell in the 3,000-8,000 brake-horsepower (bhp) category (suitable for deployment in shallow/mid-depth waters with benign conditions such as off the coast of Thailand or Indonesia), while the more advanced vessels possessed more than 15,000 bhp (required for deepwater operations in hostile conditions, e.g., the North Sea). More advanced vessels required more crew who were specially trained, and the demand for such crews that

could operate more technically-sophisticated vessels was increasing worldwide against a limited supply. Newer vessels could command up to two or three times the daily charter rates as compared to old vessels (e.g., 10-25 years old) and were in higher demand than older and less-powerful types of vessels. PSVs were used primarily for the transport of goods. In 2010, according to estimates about 2,500 AHTS and PSV vessels were in operation worldwide.[7]

Crew boats were used to transport personnel (and supplies) to and from the rigs and were the cheapest vessels within the OSV category. Speed and capacity were the key factors here as the substitute for crew boats was helicopters; in some regions, such as the North Sea in Europe, most of the personnel movement was serviced by helicopters. In the category of crew boats there were specializations as well, such as faster boats for urgent supplies or rapid dispatch of emergency response teams.

Other vessels in the market included general utility boats, which were smaller and simpler all-purpose boats that could do a variety of offshore tasks including supply or storage of materials and crew transport: these were normally used for smaller offshore operations closer to the shore. They were also equipped with a small crane that could assist in work that did not justify the use of a full AHTS. The flexibility of these vessels made them useful in every stage of the oil production cycle, and the technical requirements of the crew were not as stringent as that of a specialized OSV.

There were higher barriers to entry for the more technically-advanced types of vessels; the premium price that they commanded meant they were targeted at a more limited set of oil producers that either operated advanced offshore drilling and production activities and/or whose daily cost of operating the offshore equipment was sufficiently high to merit savings through more powerful or faster support vessels. Generally, deep-sea drilling was more complex than in shallow water, and with many of the shallow water reserves in the world gradually being depleted, it was expected that the share of deep-sea and ultra—deep-sea oil production would increase substantially. Because deepwater exploration was more capital-intensive and required multi-year planning, it was usually less susceptible to short-term oil price fluctuations than shallow-water projects. Of all OSVs in operation worldwide, around 56 per cent fell in the shallow-water category.[8] In terms of outlook, experts expected demand for vessels in the deep-sea and ultra-deep-sea segment to increase beyond supply, and therefore expected charter rates to rise in 2011.

The biggest question in Lee's mind was, in what kind (and size) of ships should MPM invest? Should he specialize in one type of vessel to achieve economies of scale in crewing and operational skills, or should he invest in different vessels, trading-off the economies of scale for a 'one-stop package solution' that might be more appealing to clients? In making a decision, Lee simultaneously needed to consider the financing challenges. Compared to other marine companies, MPM was not highly leveraged: its 2010 gearing was 32 per cent. There were limitations to how much risk he should take in a new industry. While banks in Singapore were willing to lend up to 80 per cent of a vessel's price, such leverage could prove dangerous. While historically — in the tugs and barges segment — MPM had used 80 per cent bank financing, Lee wondered if a similar leverage would be wise. The S$10 million equity could then finance four or five ships, but the company's gearing would rise sharply, as would subsequent interest burdens while the industry was experiencing a down cycle that left margins depressed.

[7] *RS Platou Investor Presentation, October 2010.*
[8] *Bourbon Investor Presentation, June 25, 2010*

Regions

Most of the oil in the United States was found in the Gulf of Mexico, but U.S. regulations did not permit non-U.S. firms to operate there. Other areas with substantial offshore activity were West Africa, Brazil, Asia and Australia (see Exhibits 6, 7 and 8); the attractiveness of all these markets differed. Some markets were characterized by high political risks; for instance, Tidewater, a large offshore marine services company, learnt an expensive lesson after it had most of its vessels operating in Venezuela seized by the government. Brazil was an attractive market with many new offshore projects coming on stream, but it was less attractive due to its distance, as MPM's operating territory was in Asia and there were substantial costs for moving vessels between continents. A similar situation existed for West Africa, where a number of new offshore fields were in the initial stages of exploration. A field off Ghana was promising, but there had been political issues over oil revenues, leading to the withdrawal of a major oil company. Despite the situation in Ghana, some of the large players derived a substantial share of their income from West Africa, and it was expected that many more vessels would be needed there in the future.

Australia was relatively close to Asia, but had other problems that had led to the big players avoiding the area: entry barriers for foreigners to access the Australian market were high. Seasoned competitors simply stayed out, commenting that it was a difficult market. Most of the business was done through operators, and Australia had stringent regulations regarding local crews (unions were an issue) and environmental regulations. The regulations generally required new medium- to premium-quality vessels for most contracts; however, with the Australian government having auctioned off several oil exploration blocks in 2009 — several of them located off the north-west coast – – it was expected that demand for vessels would outstrip local supply. Local asset owners had trouble getting loans to expand their fleets as Australian banks were unwilling to lend more than 50 per cent of the vessel's price.

Indonesia, where MPM had an advantage, was a difficult market for global players because the government required companies to be locally-owned and vessels to be Indonesian-flagged: this made global players dependent on local partners in a country with weak legal protection. This was an advantage for MPM as the Lee family was of Indonesian nationality. Despite being familiar with Indonesia, political risks remained high in Indonesia. Several oil blocks had been put up for bidding by the Indonesian government, and the expectation was that oil exploration would start in the following few years. This market demanded lower-quality vessels: a 5,500 bhp AHTS was sufficient for operations in South-East Asia in general, whereas 8,000 bhp was a minimum requirement for Australian waters.

With all of these options for location, the question arose concerning whether MPM should focus on one or more markets, or just go for any opportunity, wherever it may be located. Globally-operating companies enjoyed economies of scale and could quickly respond to changing market conditions in different regions — a benefit that local or regionally-oriented players could not enjoy. There were also weather-related factors that affected vessel use in certain regions; for instance, in Asia, monsoons (September to April) could affect operations, while in northern regions the winter season could disrupt oil exploration and production activities. As such, the ability to mobilize vessels for use in different geographical locations also commanded a premium since vessel utilization rates — together with daily charter rates — were the prime drivers of revenues for offshore marine services companies. Yet, such advantages were limited for the smaller players. Chua felt that since MPM still had to build a track record, it should take any job anywhere with reasonable returns. The downside of this strategy was that MPM could be stretched with only a few vessels, and that operating a fragmented set of contracts worldwide would not allow it to build up any competitive advantages in a vessel class or region, in addition to possibly having its utilization rates reduced.

Entry mode

One more complicating factor in Lee's decision was facing was the issue of market entry mode. How and when should he enter this market? He could build vessels in his yard, which had obvious cost and synergy advantages, but this would take time. Buying vessels in the market meant paying a 20 per cent premium over newly-built prices, but the advantage was that these vessels would be immediately available to contribute both to the bottom line and to MPM's reputation as an offshore services provider. At the time when Lee needed to make this decision, the market was not very good as there was an excess supply of vessels and charter rates were low. If Lee moved too fast and the market did not recover, he could be stuck with vessels for which he had no employment, burning cash as he would still have to pay the crews and maintenance; however, if he waited until the market recovered, the prices would quickly go up and other new players might enter the industry, thus increasing competition in his chosen segment.

Given his ambitions plans as compared with the current size of his company, buying up to 10 vessels in a short period seemed difficult to finance, so there was also the option of teaming up with other players in joint ventures. Lee had already established joint ventures with some regional players and with an international commodity trader; however, this strategy meant giving up some control over the expansion strategy, and extra coordination costs to deal with the different partners.

Lee could also consider acquiring an entire company; for instance, one of the Singapore players, Otto Marine, had recently moved into offshore marine services by acquiring a firm from New Zealand that specialized in geophysical marine services. Before partnerships of any form could be formed, however, he first had to ask himself, "What can I bring to the partnership that the other party cannot provide?"

SHAPING THE NEW VENTURE

Faced with decisions on what type of assets to build or acquire, what geographical locations to cover and what entry strategy to take, Lee wondered what to do and when. The memo on his desk required his permission to buy two Australian-flagged general utility vessels for S$27.5 million. Should he buy the two vessels that his director suggested? This might limit his future options: it would position MPM at the bottom of the sophisticated Australian market with relatively simple and cheap vessels. While opportunism often characterized early ventures, he also knew that he had to keep an eye on the long-term. Whatever strategy he decided upon to enter this industry, he would have to raise extra money and convince investors and banks of the validity of his plans, and he should not bite off more than he can chew. He needed to design and sell a convincing short-term and long-term strategy based on a solid market analysis and a frank analysis of MPM's capabilities.

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Exhibit 1

FINANCIAL STATEMENTS
(in S$000s)

Income Statements

	2010	2009	2008	2007
Revenue	64,271	54,543	45,943	37,121
Cost of sales	-45,793	-36,466	-34,045	-27,222
Gross profit	18,478	18,077	11,898	9,899
Other operating income	6,856	521	7,817	3,352
Administrative expenses	-4,657	-3,390	-3,029	-1,701
Other operating expenses	-4,256	-2,783	-3,424	-1,677
Profit from operations	16,421	12,425	13,262	9,873
Finance costs	-2,548	-2,372	-1,711	-1,256
Share of results of jointly-controlled entities	6,235	377	58	0
Profit before tax	20,108	10,430	11,609	8,617
Income tax	-989	-368	-474	-220
Net income	19,119	10,062	11,135	8,397
Balance Sheets				
Non-current assets				
Property, plant and equipment	110,792	119,364	65,146	45,053
Jointly-controlled entities	16,774	8,553	8,757	0
	127,566	127,917	73,903	45,053
Current assets				
Inventories	5,195	3,661	6,447	1,854
Receivables	24,833	22,743	29,123	15,880
Fixed deposits	7,441	3,579	2,151	0
Cash and bank balances	16,197	8,919	3,563	1,025
	53,666	36,902	41,284	18,759
Total assets	181,232	166,819	115,187	63,812
Current liabilities				
Payables	34,685	42,227	30,758	14,702
Borrowings - interest bearing	21,549	23,995	7,105	5,902
Provision for income tax	944	304	576	219
	57,178	66,526	38,439	20,823
Non-current liabilities				
Borrowings - interest bearing	31,760	26,876	20,897	17,561
Deferred tax liabilities	332	277	0	0
Deferred income — gov't grant	66	0	0	0
	32,158	27,153	20,897	17,561
Total liabilities	89,336	93,679	59,336	38,384
Net assets	91,896	73,140	55,851	25,428
Share capital and reserves				
Share capital	44,673	44,673	37,446	18,158
Translation reserve	-352	11	11	11
Retained earnings	47,575	28,456	18,394	7,259
Total equity	91,896	73,140	55,851	25,428

Source: Company annual reports.

Exhibit 2

OIL EXPLORATION AND PRODUCTION LIFE CYCLE

Stage	Activity	Offshore support	Estimated number of weekly trips by vessels*
Exploration	Geophysical surveying	Minimal, sometimes crews are changed using helicopters.	
	Exploratory drilling	Usually with mobile offshore drilling units with limited storage. Hence, frequent supplies are needed and AHTS ships are used for positioning. If a drilling ship is used, requirement for supplies is less. Generally, one or more dedicated supply vessels are contracted for the duration, which can last from weeks to several months.	6-13
Development	Structure installation	Complexity depends on water depth, fixing a structure needs similar offshore support as exploratory drilling.	1-5
	Pipeline installation	Pipe-laying barges are used that require regular supplies. In heavier seas, supply boats are used more frequently.	2.5-5
Production	Regular production	Period visits from supply boats; for instance, once a week.	2-3 in shallow water, more in deep water
	Maintenance or additional drilling	Mobile offshore drilling units may be used for maintenance or additional work on the well (workovers). Operations are similar to exploratory drilling.	6-13
De-commissioning	Plugging the well, dismantling the structure, abandonment	Removing structure requires heavy lift vessels, AHTS and supply vessels. Removal may take several weeks.	5-6

** Estimates are based on a sample of oil fields in the Gulf of Mexico.*

Source: Compiled by the authors based on: Mark J. Kaiser and Brian Snyder, "An empirical analysis of offshore service vessel utilization in the US Gulf of Mexico," International Journal of Energy Sector Management, 4(2), 2010, pp. 152-182.

Exhibit 3

WORLD SUPPLY OF OFFSHORE VESSELS

Ship type	Size (bhp)	Number of vessels
AHTS	4,000-6,999 bhp	718
AHTS	9,000-9,999 bhp	359
AHTS	10,000-13,999 bhp	200
AHTS	14,000-17,999 bhp	133
AHTS	18,000+ bhp	72
Total AHTS		**1,482**
PSV	-500 m^2	325
PSV	500-749 m^2	397
PSV	750-899 m^2	66
PSV	900+ m^2	159
Total PSV		**947**

Source: RS Platou Investor Presentation, October 8, 2010.

Exhibit 4

FLEET PROFILE OF MAJOR PLAYERS IN THE OFFSHORE MARINE SERVICES SECTOR

	AHTS	PSV	Crew Boats	other	total
Tidewater	80	74	221		375
Bourbon	134		223		357
Seacor	19	18	62	50	149
Swire	61	5		5	71
Maersk Supply	48	11		5	64
Farstad	32	23		2	57

Note: Some firms adopt different definitions of vessel categories.
Source: Company websites, 2010.

Exhibit 5

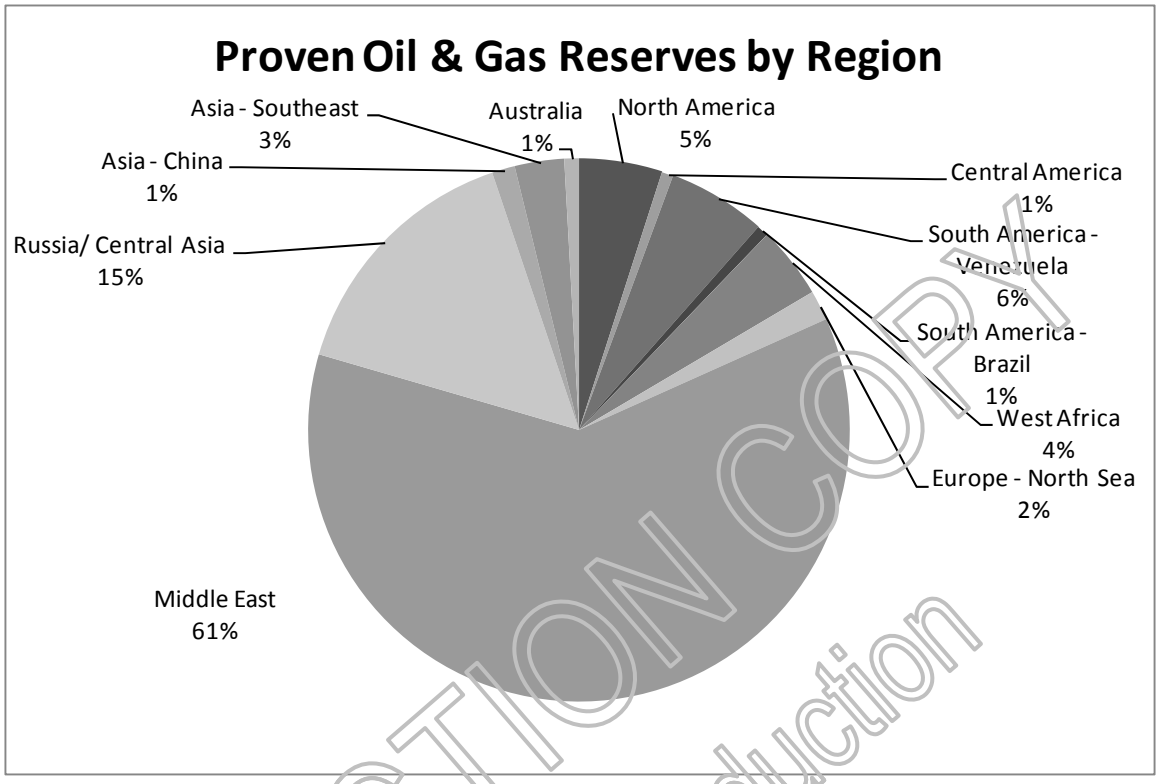
VESSEL TYPES, INDICATIVE PRICES FOR NEW-BUILDS AND INDICATIVE CHARTER RATES

Ship type	Size	Indicative price (2010, US$m)	Indicative charter rate (2010, US$ / day)
AHTS	3,000-8,000 bhp	8-24	6,000 — 14,000
AHTS	10,000 bhp	26-28	15,000 — 22,000
AHTS	15,000-16,000 bhp	55-60	22,000 — 35,000
PSV	4,000 dwt	30	17,000 — 25,000
General utility vessel	Up to 50 m	10	3,000 — 5,000
Crewboat, 150 (passengers)x		Depends on specifications	6,000

Note: Prices and rates fluctuate considerably over time and by type and geographical region.
Source: Estimates provided by company executives and by RS Platou.

Exhibit 6

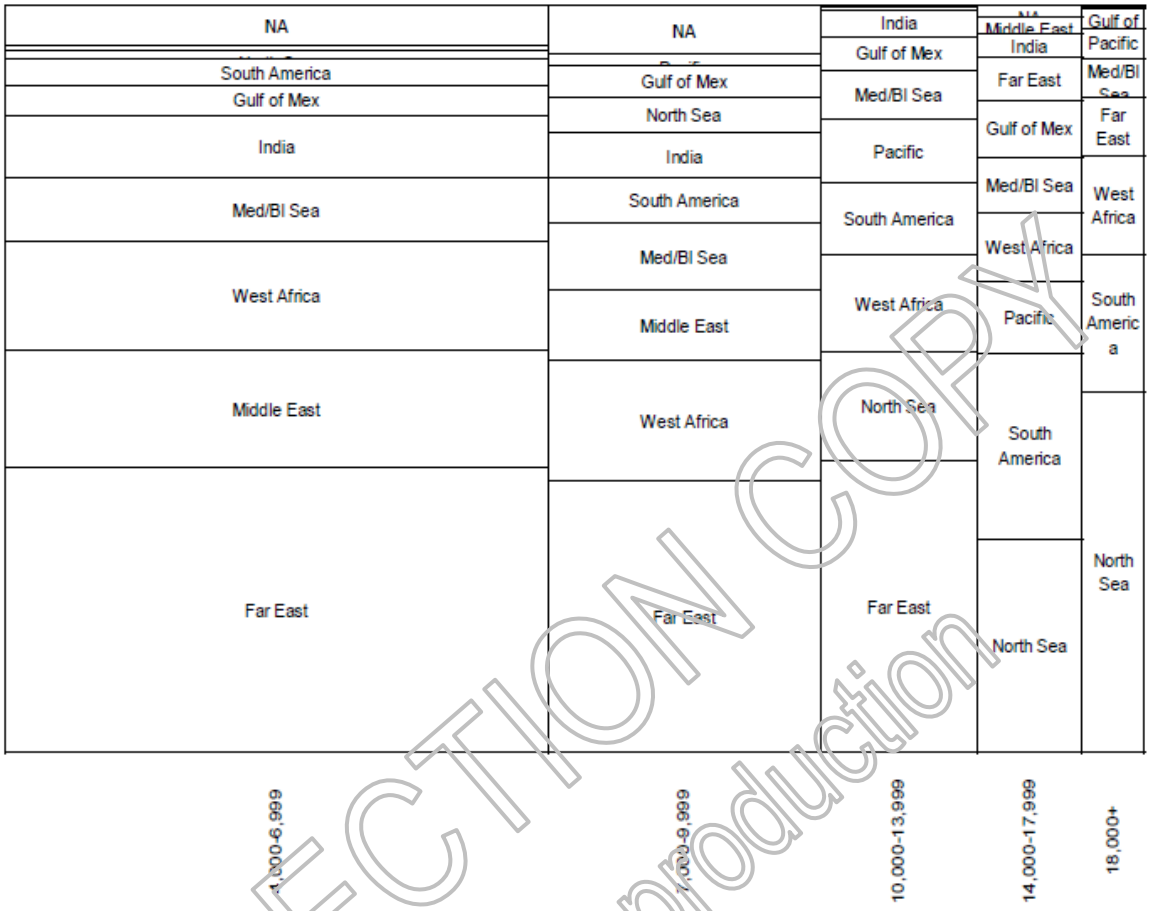
OIL AND GAS EXPLORATION OPPORTUNITIES AROUND THE WORLD



Source: Based on data provided in Swire Pacific's Annual Report 2009, p 48.

Exhibit 7

LOCATION OF AHTS VESSELS BY REGION



Source: RS Platou Investor Presentation, August 2010.

Exhibit 8

GEOGRAPHICAL FOOTPRINT OF MAJOR OFFSHORE MARINE SERVICES FIRMS (%)

	North America	Central/South America	Africa	Europe, Middle East	Far East	Total
Tidewater	7	23	45	11	14	100
Bourbon	0	7	66	17	10	100
Swire Pacific	0	0	64		36	100
Farstad	0	21	0	33	46	100

Note: Based on the percentage of a company's fleet of vessels operating in a region, except for Bourbon, which is calculated based on the percentage of revenue derived from a region.
Sources: Author's calculations based on company websites, annual reports and investor presentations.