

BUNKERSPOT

STRUCTURAL INTEGRITY

BUILDING TRANSPARENCY
INTO THE SUPPLY CHAIN

INSIDE:

FUEL PROCUREMENT
BLOCKCHAIN
SHIPPING OUTLOOK
SUSTAINABLE PORTS



Buying power

Bunker purchasing will become an increasingly complex and cost-critical function from 2020. As **Alok Sharma** of Inatech explains to Lesley Bankes-Hughes, shipowners who fully integrate their fuel procurement operations within their corporate-level commercial and financial strategies can achieve a clear competitive edge

Compliance with the 2020 0.50% sulphur global cap will, of course, require shipowners and operators to make the best fuel and/or technology choices for the vessels in their fleets and their trading patterns. No-one can argue with the fact that new environmental regulations are key and inescapable disruptors in the shipping and marine fuels industries – and will continue to be so throughout this century. However, if it is possible to put a positive twist on the commercial and operational challenges thrown up by 2020 (and further down the line in 2050), it is that they should compel all stakeholders in the marine fuel value chain to revisit and re-evaluate their fuel procurement strategies.

Certainly, for Alok Sharma, Senior Vice President at the fuel management software specialist, Inatech, informed fuel procurement – which is not just about what a buyer pays for the fuel but the quality of that fuel, as well as well-timed purchasing – will be key if a company is to survive and thrive in an increasingly competitive, price-driven – and regulated – market environment.

Glencore subsidiary Inatech operates two

business streams; marine and oil. Within its marine operations sit two products – Shiptech, which manages a fuel buyer's full procurement cycle, including spot purchases, fuel quality and quantity management, claims, terms and conditions and performance metrics, and Bunkertech ERTM, which has been developed for bunker suppliers and is a cloud-based, end-to-end bunker supply management system.

With fuel procurement and supply software systems as core products, IMO 2020 obviously presents a prime market opportunity for a company like Inatech, but Sharma believes that the new regulation could, and should, be seen as a way of putting the bunker buying function right at the centre of a shipping company's commercial strategy rather than being viewed as a remote service industry with only a tangential impact on overall commercial operations and financial performance.

Sharma's view of how owners and operators view their bunker purchasing operations is not wrong. When crude oil prices spiral, the CEOs of listed companies invariably bemoan their escalating bunker spends in the pages of quarterly and annual reports,

but all too often a shipping line's marine fuel purchasing can best be described as a silo operation, resting with a small and hard-pressed bunker buying team. Inatech's Sharma suggests that by removing this 'disconnect' between fuel purchasing and central group strategies, owners and operators will begin to see that bunker buying can be a powerful financial tool for their businesses.

Inatech's Shiptech platform is currently deployed across 2,000 ships across a number of companies. According to Sharma, rising fuel costs and fuel quality will be increasingly challenging issues for fuel buyers after 2020, but he also highlights the importance of planning in terms of when and where to lift bunkers.

For liner companies with ships operating on fixed routes, planning is relatively easy, he says. 'But for the spot community, which is the vast majority of shipping, planning has never been a consideration; essentially, an operator says that his ship is heading in a particular direction, and then the bunker desk gets into action.

'There is no real way or mechanism for these guys to do this together, and there has never been a way for them to do it.

'The bunker desk has always been looked at

as a service – something in isolation – that sits over there and basically just goes out and buys.’

Information flow must be a two-way street, says Sharma, with a vessel operator thinking about bunker prices and a bunker buyer having full visibility about what fuel is on the vessel, what she can take and where she is going. And good planning can significantly impact the size of a vessel’s fuel bill, he highlights:

‘Planning – meaning how much time you have ahead of going to market – is a big determinant of the price you get, regardless of what the market is doing.’

He amplifies this statement: ‘If I am a bunker buyer and you give me less than four days’ notice, then my fate is almost sealed – I am a price taker. But if you give me five or six days then I can do a better job.

‘It sounds very simple, but you would not believe that 60% or 70% of the stems that these guys are doing happen this way – they don’t even have three or four days’ notice.’

Post-2020, it may be difficult for buyers to secure the fuel grades they need, making forward planning to ensure security of supply even more essential, and the anticipated extreme volatility in bunker prices also adds another curve ball to the fuel buyer’s decision-making process.

‘Fuel procurement is a three-way discussion between the ship, the operator and the bunker buyer,’ says Sharma. ‘How do you ensure that these guys optimise where to buy and how much to buy – so these planning tools are embedded into Shiptech.’

Taking a holistic view is important when

evaluating a company’s fuel procurement strategies, he emphasises. For example, a well-performing product tanker company under contract to a large energy trader may not have the best ships but it may have a network of 50 or 60 ships that can react quickly when the cargo demand comes.

‘Rather than looking at fuel procurement ship by ship, you have to look at the whole network, and that brings a different dimension into planning.’

With a solid forward planning strategy in place, the negotiation of the deal is then next on the buyer’s checklist, and it is here that fuel quality must be seen as a key buying consideration and, notes Sharma, where the data provided by fuel procurement systems can add market intelligence and, by extension, give a buyer a competitive edge.

‘Don’t just look at price,’ he cautions. ‘Technology has caught up to a place where it can analyse everything, and the data can essentially give a “nugget” to the buyer indicating that if you buy this quality fuel you should be looking at this discount, or if it is good quality, at this premium.’

Buying good quality fuel is increasingly about being proactive, rather than about post-transaction analysis, says Sharma.

‘It is no longer about running an annual report on calorific value. If you believe in the principle that good quality bunkers are going to give you more miles per tonne, then you need to apply that at the time that you are buying – not as a post-buying activity.’

‘We have changed that whole paradigm and brought quality into the negotiation; the buyer’s role is not to get the cheapest bunkers he can buy, it is to buy the best quality at the cheapest price.’

While forward planning may provide a useful six or seven-day purchase window, knowing when to time the purchase is not an exact science, Sharma acknowledges, but having access to, and understanding, aggregated data can offer some useful information in deciding when to go into the market.

By tracking price points over time in a given port, a software system can detect patterns in pricing behaviour.

‘The logic behind this is that the supply chains that the suppliers use are pretty fixed, and so the price tends to reflect the availability of the product.’

This information provides support to the buyer, says Sharma, rather than giving a firm indication of when to make a procurement decision. ‘It can prompt you to pick up the phone and talk to a supplier on a particular date; it’s not saying change your plan, but it is giving you an additional data point.’ ▶

‘Planning – meaning how much time you have ahead of going to market – is a big determinant of the price you get, regardless of what the market is doing’



Alok Sharma

While aggregated data can provide valuable market intelligence for the buyer, the level of detail that fuel procurement systems can offer on a product or company level is also useful when it comes to supplier management. By building an archive of bunker transactions, a buyer can assess factors such as a supplier's responsiveness and operational capabilities which then allows him to benchmark supplier performance.

'A bunker desk is often one or two people who are bunkering 200 ships. They may want to rank their suppliers, but they don't have the time to run a report every Friday – software can do things like this, and a buyer can also track his own performance.'

With product availability and quality high on the agenda for the 2020 transition, some market commentators are suggesting more fuel should be bought on contract to lock in price and security of supply, where vessel trades permit.

Sharma says this is a frequent topic of conversation with Inatech's spot customers, and he supports this view – to a degree. 'All the data points to the fact that you should be putting in some term contracts,' he notes.

He fully understands the difficulty in this for buyers whose vessels do not operate on fixed routes, but he suggests that analysis of past bunker transactions could, for example, show that 70% of stems are lifted in 10 ports over the course of a year.

If such a pattern emerges, then perhaps it could be the catalyst for a bunker buyer to discuss the option for a more flexible type of contract with a supplier. And, as Sharma points out, this then brings the discussion back to the importance of planning. If a buyer could commit to giving a supplier seven days' notice for two out of three bunkering operations, then a supplier might be prepared to negotiate a tiered-pricing system linked to notice periods.

'At the end of the day, all the supplier wants is enough notice so he can go away and doesn't become a price taker himself; if a supplier tries to find a product in three days, he is going to get killed anyway.'

'There has got to be a way where buyers and suppliers look at each other's constraints and then tailor make something to accommodate those constraints.'

The price differential between high sulphur and low sulphur fuel is expected to widen significantly in the close run up to 2020 and the months beyond, and this is a problem that will land firmly at the door of a company CFO, says Sharma.

'If your average fuel price is going to go up by 35%-50% then the aggregate impact of the onboard inventory means that there

is more company capital being deployed in terms of keeping that vessel going, and, again, this is a direct impact of what the CFO's bunker colleagues are doing.'

However, impending price volatility is not translating into an increased appetite for fuel hedging, says Sharma.

'I am not seeing it. I know that people that already do it are doing it a little more, but the problem with risk management is trying to explain it to people who are typically risk averse – the whole industry is a bit risk averse.'

He suggests that a risk management programme is more likely to be adopted in a listed company where there are the governance and protocols in place to set up a risk policy and implement it.

'We have changed that whole paradigm and brought quality into the negotiation; the buyer's role is not to get the cheapest bunkers he can buy, it is to buy the best quality at the cheapest price'

'But if you haven't got those risk policies and that risk oversight then it is just somebody speculating on a flat price, and that is bound to fail.'

'However, risk management is a tool that is available with fuel procurement software, and you don't even need to go into derivatives – you can just fix forward. I would even say that a term contract is a form of risk management; it is a little bit of an insurance policy.'

While shipping may be traditionally risk averse, risk – whether it be market, financial, credit, operational or quality – is a fact of life in the bunker industry. When fuel procurement software is integrated with the bunker purchasing function, it eliminates much of this risk and provides a step-by-step workflow, says Sharma.

He says it typically takes 6-12 weeks to devise and implement a system for a client. 'We configure it for their unique needs – we do not take a cookie cutter approach,' he emphasises.

'And even after 12 weeks we never go away – the minute the buyer starts using the software we get feedback and keep improving the software,' he says.

And if a client wants to add more functionalities along the way, such as a dedicated contract application, then the modular structure of the software makes this possible.

The usefulness of fuel procurement software is not dependent on the size of the company, but on how the bunker buying function is perceived by that company – from the top down.

Sharma puts the question: 'The important thing is does one believe that bunkering is a strategic function for the company to exist, or is it a service function?'

'We have customers with 15-20 ships, but they realise that bunkering can be a competitive advantage to them in terms of controlling the cost, and this gives them a little more leverage on the freight side.'

He also points out that shipping is also part of a larger industry, called transportation, and this will come sharply into focus come 2020 and will have a par-

ticular relevance to trading activities.

As Sharma explains, 'We see that bunkering has one foot in shipping transportation and another foot in oil trading.'

'So now, when everything is changing, perhaps now is the time to move the bunker trader to the same level of systemisation that we see in some of the oil traders, because that is the way the industry is going.'

'The minute you start buying more and more gasoil, you are no longer in the bunker industry, you are in the oil trading industry.'

For Sharma, the critical message is that as 2020 draws closer, shipping companies must begin to view bunkering as a key strategic function.

'The 2020 shock requires an integration of the bunker desk into the wide ecosystem of operations.'

'When we can engage senior stakeholders in this discussion, then we find that organisations get that competitive edge – they can withstand the headwinds that blow on the commercial side.'

 Alok Sharma,
Senior Vice President,
Inatech

 Email: alok.sharma@inatech.com
Web: www.inatech.com