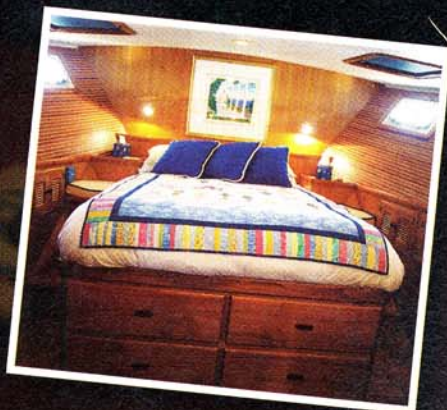


AT THE HELM

Kadey's John Gear (left) and Larry Polster

First Mate to the Client

How three partners are building their yacht business by revving up service. **BY IAN MOUNT**



WHEN YOU SPEND \$719,000 for a yacht, you expect the electrical system to work. What you don't expect is for an owner of the company that built the vessel to fix it personally. But that's exactly what Bill and Staci McLauchlan got. When their 48-foot recreational trawler broke down, Tom Button, a partner in Kadey-Krogen Yachts, drove 300 miles from his headquarters in Stuart, Fla., to install a new battery. Two years later, when they went to trade up to a \$2 million vessel, the McLauchlans got another pleasant surprise: Button and his partners credited them

with a trade-in value more than 10% greater than the price they had paid. The McLauchlans have since grown so close to the company's owners that when one threw a bat mitzvah for his daughter, the couple was pleased to attend.

While boosting sales volume is often regarded as the best path to higher profits, Button and his partners, John Gear and Larry Polster, instead focus on building their business through quality and customer service. Since 2000 the three partners have shrunk the number of trawlers they build each year to 15 from more than 20.

CUSTOMER SERVICE

THE OWNERS ELIMINATED their dealer network so that they could spend time with buyers and give hands-on lessons in captaining the boat. To keep the resale market strong, they decided to offer a five-year guarantee that lets buyers receive at least the price they paid when trading up to a bigger boat. “Most companies increase revenue by building more or cutting costs,” Polster says. “We’re taking a different approach.”

There is little doubt that this pleases Kadey’s customers. The company’s recreational trawlers, which sell for \$800,000 to \$2.3 million, are slow but comfortable and relatively fuel-efficient yachts built in the style of a fishing trawler. Homey touches such as an onboard washer and dryer—even a Viking range on some models—contribute to customer satisfaction, but service appears to be the real driver. Barb and Chuck Shipley, retired small-business owners who spend their days plying the Caribbean in a 48-footer, remember being invited to use Kadey’s offices as a mail drop and storage center.



HAPPY BOAT owners Bill and Staci McLauchlan on their 58-foot yacht

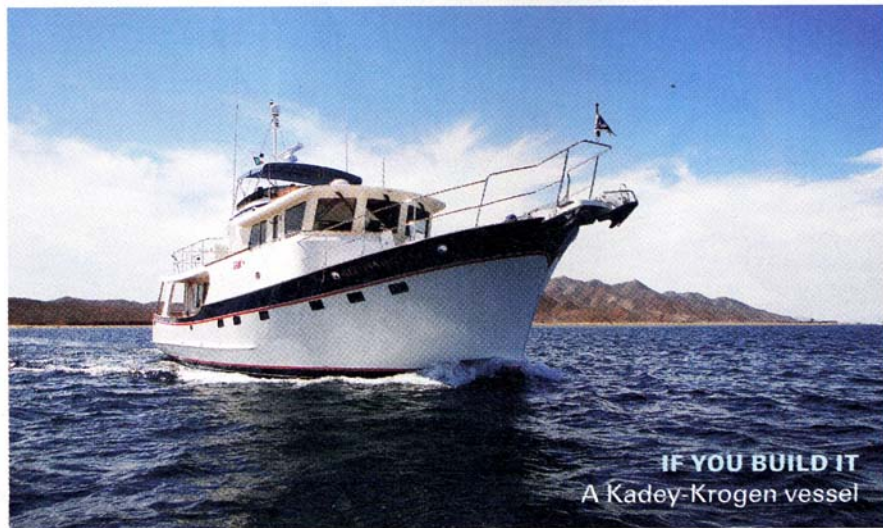
James and Meg McLane, a retired financial executive and a headhunter, recall a Kadey-Krogen employee talking them through mechanical issues over an Easter weekend. And Bill Parlatore, editor of the trawler magazine *PassageMaker*, talks of spending a winter in a port in the Florida Keys surrounded by Kadey-Krogen trawler owners who met every Tuesday for breakfast.

Some critics wonder whether the owners of Kadey-Krogen care more about winning wealthy friends than about expanding their own wealth. Eliminating the dealer network, for example, poses risks. Says Duncan Cowie, co-CEO of Fleming Yachts in Costa Mesa, Calif., and a competitor: “Builders look at the price the dealer sells the boat for and say, ‘I can sell it and keep his cut.’ But then you need to employ sales and service staff if you want to provide the level of service that we expect from our dealers.” Fleming Yachts sells about 18 boats a year and has a total of six employees, compared with Kadey’s sales of 15 boats a year and staff of 15. Offering a full-price trade-in guarantee in an industry known for price depreciation can also be dangerous. Then there’s the issue of size. Being small makes manufacturing more expensive, notes *Power Cruising* editor Chris Cornell: “There are economies of scale if you buy 50 propellers a year vs. ten.” And selling gas-guzzlers isn’t easy today: Sales of the boat class that includes trawlers have

plunged from 11,800 boats in 2002 to 6,200 in 2007, according to the National Marine Manufacturers Association.

Polster admits that intimate customer service and small production are expensive; the company's profit margin is down, which he attributes in part to higher raw material and shipping costs.

But he says extreme customer loyalty has allowed the company to increase revenue by selling more boats at higher prices. Revenues rose from \$11.2 million in 2006 to \$13.4 million last year, and first-half revenue for 2008 hit \$9.13 million, compared with \$7.65 million for the same period in 2007.



IF YOU BUILD IT
A Kadey-Krogen vessel

Now that the company's owners feel that their customer service is in order, they plan to slowly ramp up production. In 2008, Kadey-Krogen will produce 16 or 17 boats. Polster says economies of scale will improve profitability, and he plans to cap production at 22 by 2010. "Beyond that, the customer-service model changes," says Polster. "Now each boat owner deals with two customer-service managers. If we produce more than 22 boats a year, we would need to train more customer-service managers. We would need to hire more folks to do commissioning. And then our customers wouldn't have the same experience. Service helps preserve resale value. We're building long-term value in the company by retaining long-term value in the product." It's not an equation likely to work outside of the luxury industry, but in Kadey-Krogen's case, it floats the boat. □

BUILDING LOYALTY

Tell us how you keep
customers coming back.
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