



Learning to love supply chain plans

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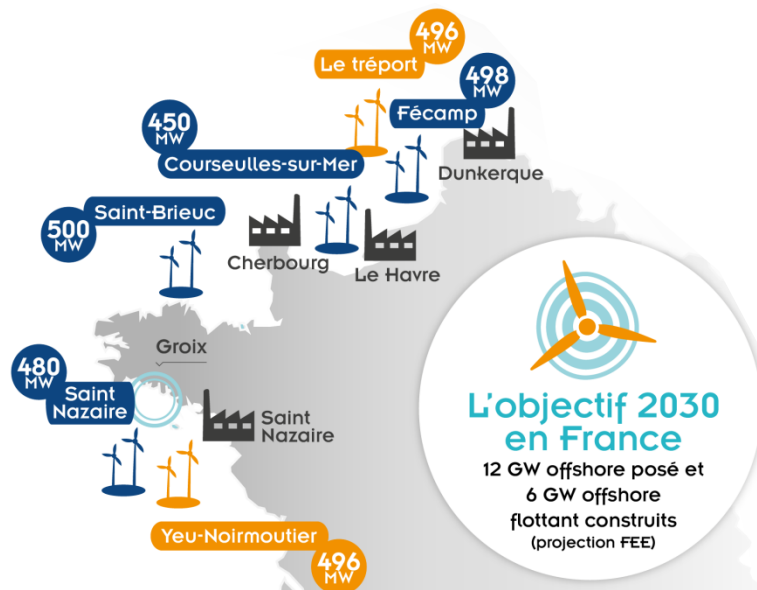
Coming up ...

- What are supply chain and industrial plans?
- France and UK - a comparison
- How developers can respond to what appear to implicit and explicit requirements
- What does this mean for suppliers?
- How have suppliers responded and how can they do it better?
- Why supply chain plans should be embraced not endured
- WARNING: My views are not necessarily those of any particular developer. My comments come from working on several supply chain plans and do not necessarily reflect my experience of any particular project

What are industrial and supply chain plans?

Energy is politics and there will always be pressure for economic or industrial benefits

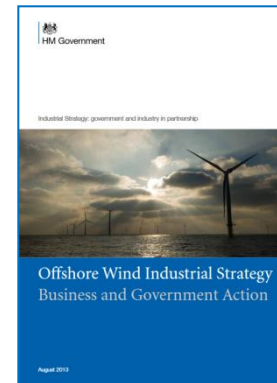
- Public sector tenders in Europe can require the submission of an 'industrial plan' – they are the most formal way in which governments can influence (in one way or another)
- In France, this has been used in offshore wind, where it was worth 40% of the assessment marks.
- Bidders for the French tender were scored more highly if they committed to a new factory - and more again if those factories were in France
- In the UK, the leasing rounds are run by the Crown Estate and there was no requirement for an industrial plan (although it has worked hard on supply chain development).



UK Electricity Market Reform – an opportunity for change

The change in the price support mechanism provided a chance for the government to intervene

- UK Electricity Market Reform introduced the Contract for Difference model
- Developers agreed a 'strike price' usually via an auction.
- The government also developed an offshore wind industrial strategy (one of a series for different sectors)
- The industrial strategy was clear that it wanted higher UK content
- The CfD provided a mechanism to put pressure on the industry – it politicised the process further



How do the UK and French requirements differ?

It's easy to conclude that the UK and French companies are asking for the same thing

UK requirements

- How is the bidder increasing **competition** in its supply chain?
- How is the bidder innovating or stimulating **innovation**?
- How is the bidder ensuring that the right **skills** are in place?
- Impacts can not only be on the project but also on the wider industry
- Plan is a gateway into the auction (go or no go)
- No mention is made to UK benefit (but that doesn't mean it's not important)

French requirements

- Will the bidder use new factories and will they be in France?
- How many jobs will be created in making the main components?
- How much of the business will be given to French SMEs?
- What training will take place?
- Plan was an integral part of the bidding process (40% of the marks)

How do UK developers need to respond?

Failure is a huge risk for developers that have spent tens of millions of pounds

Challenge

1. How do they make a convincing case when most of the relevant activity will be undertaken by their suppliers
2. How do they reconcile the published guidance with the apparent political pressure for more UK content when they need to reduce the cost of energy?

Response

1. Simple – you pass on the requirements to your suppliers
2. Simple – you do both

What about the supply chain?

If 80% of spend is through large tier 1 contractors, developers need SCPs from them

If a developer only talks about its own actions, it will be a short (or wordy) document

- The best way for developers to produce a 'satisfactory' SCP is to ensure that it understands the commitments made by its supply chain
- It can only understand these commitments if it passes on the requirement to produce an SCP onto its supply chain.
- It can only communicate this understanding if it has documentation from suppliers to prove it.
- Developers therefore issue a request to suppliers for SCPs. These requests may be made quite early in the procurement process and they may be assessed as part of supplier selection (remember – a developer cannot risk a failed SCP)
- They may ask for revised versions at the different stages of procurement and if successful in the CfD auction, they will suppliers to report on their progress.
- If a company wishes to be a successful bidder for a successful project, it has to cooperate. Developers are using suppliers' SCPs as a material consideration in the selection process

How is the supply chain responding?

It's a mixed picture: The good, the bad and the ugly

The good

- Bidders recognise the importance that developers attach to supply chain plans
- Bidders see it as a way of differentiating themselves and internal challenge to do things better
- Bidders have captured much of the information they need from existing activities and have explored what else they could be doing to strengthen their supply chain plans

The bad

- Bidders believe that ultimately the contract will only be awarded on technical and commercial grounds.
- Bidders do a reasonable good job, but it's clear that they have not invested significant time in producing the document
- Bidders have not considered new initiatives that would enable them to strengthen their plans

The ugly

- Bidders do the bare minimum, making it a low priority
- At best Bidders identify 10 actions or commitments and often these are vague or insubstantial.
- One hopes that not all their tender documents are like this ...

How to produce a better supply chain plan?

Answer the question. It may be obvious...

Competition

- One of the competition subcriteria concerns promoting awareness of business opportunities.
- It should be easy: you say how you usually do this and how you will do it for the project if selected
- What else could you (or should you) be doing? (perhaps in the UK?)

Innovation

- One of the innovation subcriteria concerns technology development.
- It should be easy: you say what technologies you have developed and what you are involved in now. This can be done without revealing commercially sensitive information.
- What else could you (or should you) be doing? (perhaps in the UK?)

Skills

- One of the skills subcriteria concerns investments in training.
- It should be easy – all successful companies must do this
- What else could you (or should you) be doing? (perhaps in the UK?)

How to produce a better supply chain plan?

If you can't prove it, don't say it

Evidence

- The government places a major emphasis on evidence.
- If you are involved in R&D programmes, don't just say so, prove it. Is there a document or weblink you can provide?
- If you have been involved in meet the buyer events to promote opportunities for suppliers, list them - where and when were they?
- If you run training programmes for staff – provide some documentation
- How can you quantify the impact of commitments?
 - If you have been involved in a new technology or process: How much cheaper, how much faster?
 - If you have been involved in meet the buyer events: How many companies did you meet? How many did you follow up? Are any of them now approved suppliers? (How might this increase local content?)

How to reconcile implicit and explicit guidance?

UK government is hoping that SCPs can encourage UK investments or UK supply

The truth but not the whole truth

- The UK government cannot legally differentiate between CfD bidders on the basis of their UK content (and UK civil servants like to follow rules)
- The government cannot assess SCPs on criteria that are different from those contained in the guidance it has issued.
- The UK government does want to know what commitments developers and suppliers are making to the UK – and the SCP is a good place for developers to communicate this.

There does not need to be a conflict

- If you are promoting competition by encouraging new entrants, how are you doing this for UK new entrants?
- Of you are innovating, is this in the UK, with UK partners or through UK R&D programmes?
- If you are promoting skills development, what is the impact on the UK workforce?
- (The UK bit isn't essential – but it helps)

Local content and jobs

If you are going to measure economic impact, do it properly

Local content methodology

- The offshore wind industry is unique in having a rigorous reporting framework for local content - which can be applied to any country of region.
- We've been working on a methodology for converting local content into local jobs – watch this space ...



Learning to love the supply chain plan

And stimulate positive behaviour, increase competitiveness and sustain political support

- The UK supply chain plan criteria describe activities and outcomes that all good companies and vibrant supply chains should aspire to.
- Even if company feels pressure to commit to activities in a foreign market, this can lead to new relationships which can ultimately lead to increased competitiveness. The UK is Europe's biggest offshore wind market and the world's fifth largest economy. If there are gaps in a company's activities, is the UK the logical place to form new links with suppliers, engage in R&D programmes and support skills development.
- As long as local content is not mandated, the industry has much to gain and little to lose.
- A good supply chain plan can be used as a business development tool to demonstrate good practice
- Their application to other industries is being actively explored in the UK – not as a means of driving local content but to drive greater competitiveness in a sector experiencing tough times.

Thank you

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