

Introduction

to the Competitive Supplier Development Programme



public enterprises

Department:
Public Enterprises
REPUBLIC OF SOUTH AFRICA

Competitive Supplier Development Programme

1 . B A C K G R O U N D

1.1 ASGISA and investment in infrastructure

The Accelerated and Shared Growth Initiative (ASGISA) has set growth targets which require an expansion in economic infrastructure. The State-Owned Enterprises (SOE) are in the initial planning stages of a large-scale infrastructure investment programme (the capex programme), including investment in bulk freight transportation (ports, rail and pipelines) and electricity generation and distribution. Initial five-year targets have been set for the capex programme, and it is most likely that further waves

SOE investment in infrastructure is expected to contribute to the ASGISA targets of accelerating shared growth to 6% by 2014, reducing poverty, and halving the unemployment rate.

of capex will follow in future years. Maintenance and operational expenditure (opex) is also increasing along with the capex programme. This investment in infrastructure is expected to contribute to the ASGISA targets of accelerating shared growth to 6% by 2014, reducing poverty, and halving the unemployment rate.

1.2 Local supply markets

SOE deliver their infrastructure investment programmes through procuring goods and services from local and global suppliers. Global suppliers are used for products and services which are only available overseas, or when there are problems with the capacity, capability and competitiveness of the local supply base. Due to relatively low expenditures over the past thirty years, the capacity of South African supply industries has been significantly reduced, and it is forecast that there will be a 40% import requirement for the infrastructure investment programmes of Transnet and Eskom.

The capacity of South African supply industries has been significantly reduced.

1.3 Global supply markets

Global growth in the demand for infrastructure-related capital goods, particularly in South and East Asia, has created a situation in which there are current and potential global future shortages of certain supplies. There are potentially both positive and negative consequences of this for SOE and their suppliers. On the negative side, the

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South African investment programme is relatively small, and there is a risk that South African needs may be crowded out by the demands of bigger customers. In addition, the imports required for the infrastructure investment programme may be more costly than initially estimated, and security of supply becomes more critical.

On the positive side, the increased global demand provides scope for South African suppliers to increase their capacity and capability and to compete successfully in both local and global markets. Hence, there is an opportunity to leverage SOE expenditure to develop competitive national supplier industries, and where possible, to build export capabilities.

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1.4 Local competitiveness and economic growth

In addition to enabling higher levels of economic activity by providing the required physical infrastructure, the capex programme will itself be a stimulant for economic growth. Research by DPE has indicated that a modest increase in the contribution of national industry to the capex programme will result in a large increase in the contribution of the capex programme to economic growth.

However, this will only be the case if the increased contribution of national industry does not involve unacceptable sacrificing delivery times, quality or increasing costs. Giving preference to uncompetitive local suppliers will not result in a sustainable increase in economic growth. This is because providing significant preferential price premiums to the local supplier industry will result in an increase in the cost of investment to SOE, and will therefore result in an increase in the prices charged to the SOE customers¹. This will have the effect of crowding out investment in the industries which are customers of the SOE, which will in turn dampen growth. The focus of the CSDP is therefore on improving national supplier industry competitiveness, is not a classical 'import substitution' programme.

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¹ The SOE infrastructure investment programme is funded from SOE balance sheets, without any contribution from National Treasury.

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The Korean Example

The development of the nuclear power industry in Korea is a good example of successful competitive supplier development. The Korean government produced a plan (similar to the SDP) for the gradual development of a new local nuclear industry. Over two decades, the government's nuclear power procurement

programme was used to **leverage** technology transfer, **skills development** and **increasing investment** in the national industry.

The emphasis was on competitiveness, and support was with-drawn from firms which failed to reach export targets. Korean nuclear power companies are now exporting Korean designed nuclear power stations competitively in the global market.

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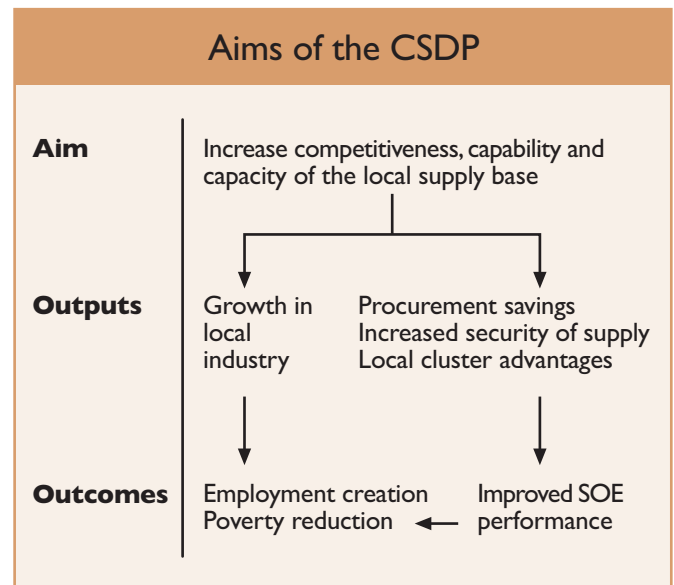
2. INTRODUCTION

2.1 Aims of the CSDP

Against this background, DPE and SOE have put in place a Competitive Supplier Development Programme (CSDP), with the aim of increasing the competitiveness, capacity and capability of the local supply base. This in turn will further the long-term commercial interests of the SOE, by:

- a) improving the competitiveness of the services being provided by SOE (through savings resulting from more competitive suppliers)²;
- b) increasing the security of supply for SOE;
- c) providing the potential advantages of local supply versus imports, including:
 - removal of exposure to foreign currency fluctuations in terms of pricing
 - lower stock level requirements
 - greater responsiveness
 - ease of communication
 - shorter delivery times
 - being part of an industrial cluster
 - increased potential for collaborative partnerships and innovation for local conditions.

Improving the capacity and competitiveness of the local supply base will also contribute to the ASGISA goals of shared growth, employment creation, poverty reduction, skills development, and Broad-Based Black Economic Empowerment (BBBEE). Consumers' spending power will increase due to electricity and transport being cheaper than it would have been with more expensive suppliers, and SOEs purchasing more locally will result in increased employment. The sustainability of this employment will also be enhanced through the development of more competitive employment-enhancing local industries.



The programme aims to achieve these goals without diverting the SOE from their core focus – the timely implementation of the capex programme.

2.2 Purpose

The CSDP consists of demand-side and supply-side measures aimed at increasing the competitiveness, capacity and capability of the local supply base. SOE are largely responsible for the demand-side measures. Industry and government are largely responsible for the supply-side measures.

On the demand side, the focus of the programme is on fostering a culture in the SOE that focuses on long term supply network³ development and win-win partnerships with suppliers to achieve best value for money over the product life-cycle rather than lowest initial cost. The

² Through limited procurement re-engineering on its operational and maintenance expenditure, Transnet banked savings in excess of R552m during 2006/07. By further institutionalizing modern procurement practices at an organizational level, Eskom and Transnet could secure savings of at least 5% of the value of their infrastructure programmes, amounting to R7,52 billion over the 5 year capital expansion programme.

³ The terms 'supply network' and 'supply chain' both refer to the series of transactions involved in transforming raw materials into a final product. The 'network' metaphor more accurately reflects the modern reality of a myriad of complex non-linear relationships between suppliers and buyers.

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potential for procurement to be used to achieve supply network development objectives is not yet being fully realised in South Africa, as evidenced by the break-down of trust between elements of the supplier community and the SOE, and the hesitant response of the private sector to the announcements relating to the planned capex programme. The CSDP therefore requires a change in procurement practices in SOE, to move away from short-term adversarial relationships with strategic suppliers and towards longer-term relationships which promote both competition and collaboration. In this regard, an SOE procurement capacity, capability and professionalisation programme has been put in place.

The primary demand-side measures are:

- a) the development by SOE of supplier development plans which identify items for which local supply could be expanded or developed or improved, and for setting targets in this regard; and
- b) the use of planning, specification, procurement and strategic sourcing by SOE as instruments to achieve the targets in the supplier development plans and to create a conducive environment for the development of local supply networks.

The supply-side measures involve mobilising and providing support to the supplier industries targeted in the supplier development plans, to assist them to develop the capacity and capability to respond competitively to the SOE demand. Local supply industries have lost key capabilities and skills, because SOE have not built any major infrastructure in recent decades. They have not adequately invested in plant and technology to meet the SOEs' latest

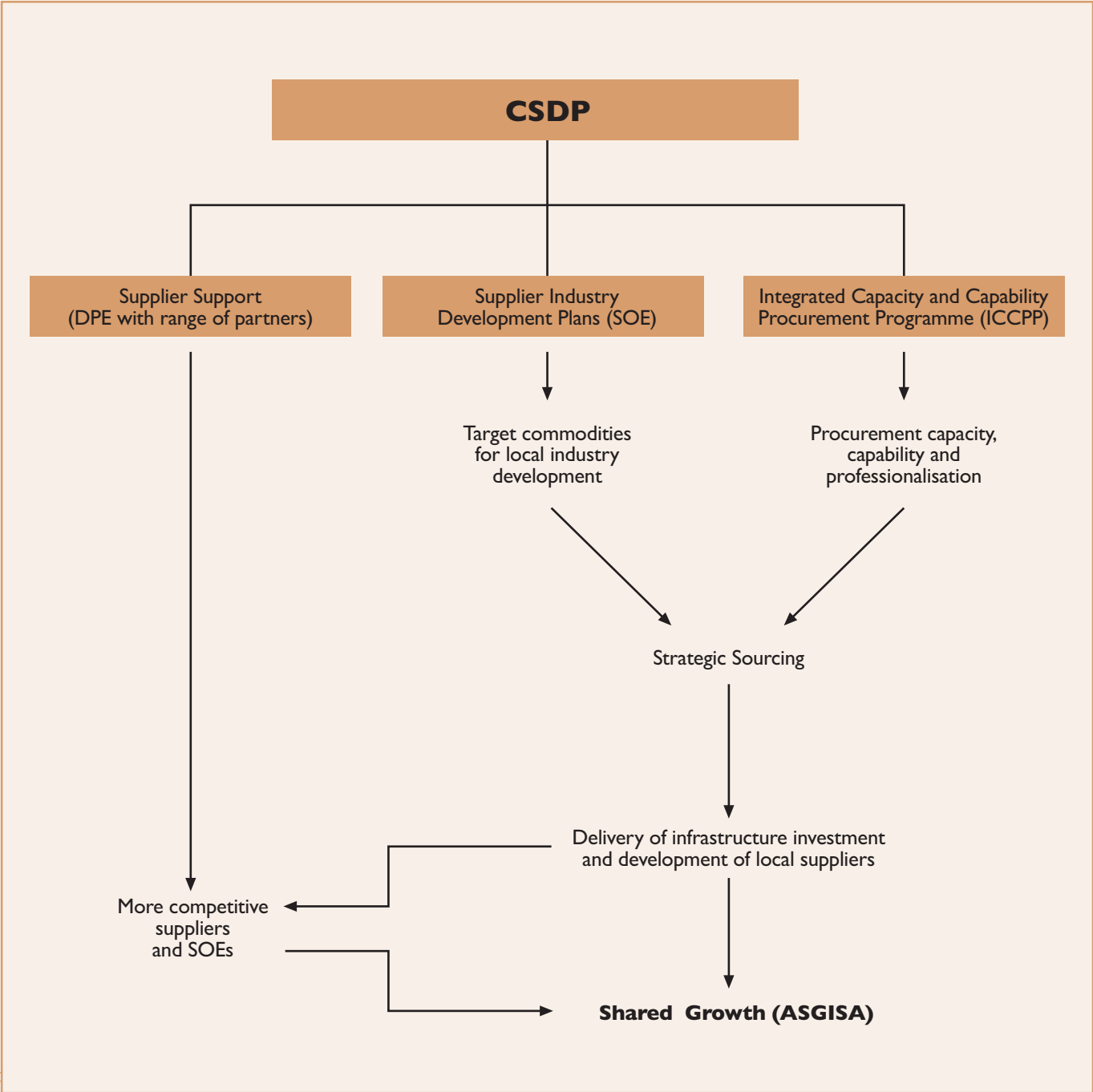
requirements. There is therefore a need for supplier support and development initiatives, such as the introduction of supplier benchmarking systems, skills development initiatives, access to finance, and funding for technology development as well as process and competitiveness improvement programmes.

The overall long-term national target that DPE has set for the programme is to increase the participation of the national industry from 60% to 70% of the SOE capex and opex expenditures by 2012⁴. This target does not have to be achieved on all purchases, and does not have to be reflected in each supplier development plan. Some supplier development plans will have higher targets than others, and some procurement strategies will contain higher levels of local supply network development than others, depending on the nature of the commodities being sourced and the characteristics of the particular supply markets.

In this regard, an SOE procurement capacity, capability and professionalisation programme has been put in place.

⁴Foreign purchases are defined as those goods and services whose point of origin is not within the RSA, regardless of the fact that a South African supplier or agent was awarded the business.

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3. SUPPLIER DEVELOPMENT PLAN (SDP)

3.1 Overview of the SDP

The SDP provides a medium to long term vision of the local supplier industry to guide both SOE and industry in their decision making. A template for the contents of the SDP and a guideline for the KPIs to be included in the SDP are provided in Appendix 1. These should be viewed as guidelines which may be customised, as long as the SDP still addresses the fundamental intent of the programme.

The SDP provides a medium to long term vision of the local supplier industry to guide both SOE and industry in their decision making.

Each SOE produces one SDP, which is updated on an annual basis, and submitted to DPE for approval. The SDP contains an expenditure and a supplier industry analysis, as well as providing targets for increasing the competitiveness, capacity and capability of the local supply base. The SDP does not focus on individual suppliers or individual purchases – it focuses on supply industries and supply markets related to expenditure programmes. The SOE set these targets for themselves, based on analyses of their projected expenditure and the strengths and weaknesses of supply industries and supply markets.

3.2 Incremental approach

An incremental approach may be taken to the production of the SDP. In the first year, the SDP should focus on:

- a) repetitive high value, high risk or high volume items; and
- b) items for which there is a glaring lack of competitiveness in the existing supply market; or
- c) items for which there appear to be clear comparative advantages for local manufacturing (e.g. relatively competitive local inputs such as labour, electricity or steel, or proximity to growing African markets); or
- d) items for which there are clear benefits to the SOE from obtaining local supply, as opposed to imported supply (such as greater responsiveness, ease of communication, or shorter delivery times).

If necessary, the scope and level of detail of the SDP should increase in future years.

Suppliers and people within SOE should be asked to assist with the identification of possible focus areas, based on their knowledge and experience of the supply networks. It is likely that experienced people will already be aware of

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the most uncompetitive supply markets and the most obvious opportunities for expanding the local supply base, and this is the best place to start with identifying initial focus areas for the expenditure and supply analyses.

It is necessary to consider both expenditure and supply issues when refining the focus areas and deciding on interventions. The expenditure and supply analyses should therefore be carried out in parallel, so that they can inform each other as the focus narrows and the level of detail increases.

3.3 Expenditure analysis

The projected expenditure analysis should be done using the best data available from the SOE, projecting as far as possible into the future. It should cover capital, maintenance, repair and upgrade, and operational expenditure. The aim of the expenditure analysis is to identify the quantity and value of the items to be procured over time. More detailed expenditure projections are likely to be available for the short-term (say five years). There should be an indication of the stability of the expenditure, i.e. if it is likely to be repetitive, once-off, stable, or characterised by peaks and troughs.

There should be a high-level description of all relevant projected expenditure, followed by a more detailed analysis of expenditure for:

- a) items for which there is repetitive spend over time, because sustained demand is required for the development of local supplier capacity;
- b) high spend items, as this will result in the greatest impact on economic growth;

- c) items which are currently being imported, or
- d) items for which an increase in expenditure is envisaged, or
- e) items for which there is a lack of competitiveness in the existing supply base, or
- f) items for which there is potential for exports.

As the scope and level of detail of the SDP increases over the years, the expenditure analysis for the final focus areas should not only cover the items which are procured directly by the SOE – it should also cover the upstream supply chain for these items. (For example, the analysis could cover both the projected expenditure on locomotives and the expenditure on the major components utilized in the manufacture of locomotives.)

3.4 Supply industry and supply market analysis (supply analysis)⁵

Similarly to the expenditure analysis, the supply analysis should cover the entire supply chain for major expenditure items. The current split between local and international

The supply analysis should aim to identify the causes of uncompetitiveness, insecurity of supply, or the failure of investors to exploit opportunities for expanding local supply.

⁵There are a number of analytical tools or logical frameworks which can be used, at the discretion of the SOE, to assist with the supply analysis. Examples include 'Structure-Conduct-Performance (SCP)'; 'Porter's 5 forces' and 'Porter's 6 forces'; 'Value Chain Analysis'; 'Resource Based View (RBV)'; 'Strengths, Weaknesses, Opportunities and Threats (SWOT)'; and 'Political Economic Social and Technological components (PEST)', amongst others.

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supply should be described. Items which are currently imported for which there appear to be comparative advantages for local supply should be identified. Areas in which there is a lack of competitiveness in the local supply base or in which there is a need to increase the security of supply should also be identified.

Once focus areas are identified, the characteristics, strengths and weaknesses of the supply networks in these areas should be analysed, including assessing local prices versus global prices; the cost structure and cost drivers of local suppliers versus global suppliers; the determinants of competitive advantage; and the technology transfer, skills development and investment which would be required for local production.

3.5 Identifying focus areas

As mentioned above, focus areas for interventions should be identified through consideration of the results of both the expenditure analysis and the supplier industry analysis. For those sectors or items which appear to have potential for interventions, further research on broader local and global supply and demand may need to be carried out. For example, an upstream industry such as the foundry industry supplies other customers in addition to the SOE, such as the mining and automotive industries. In order to assess the potential viability of local manufacture of an item by the foundry industry, it would be necessary to estimate the total potential local demand. In addition, viability would be influenced by the potential for exports, which would require an assessment of global supply and demand.

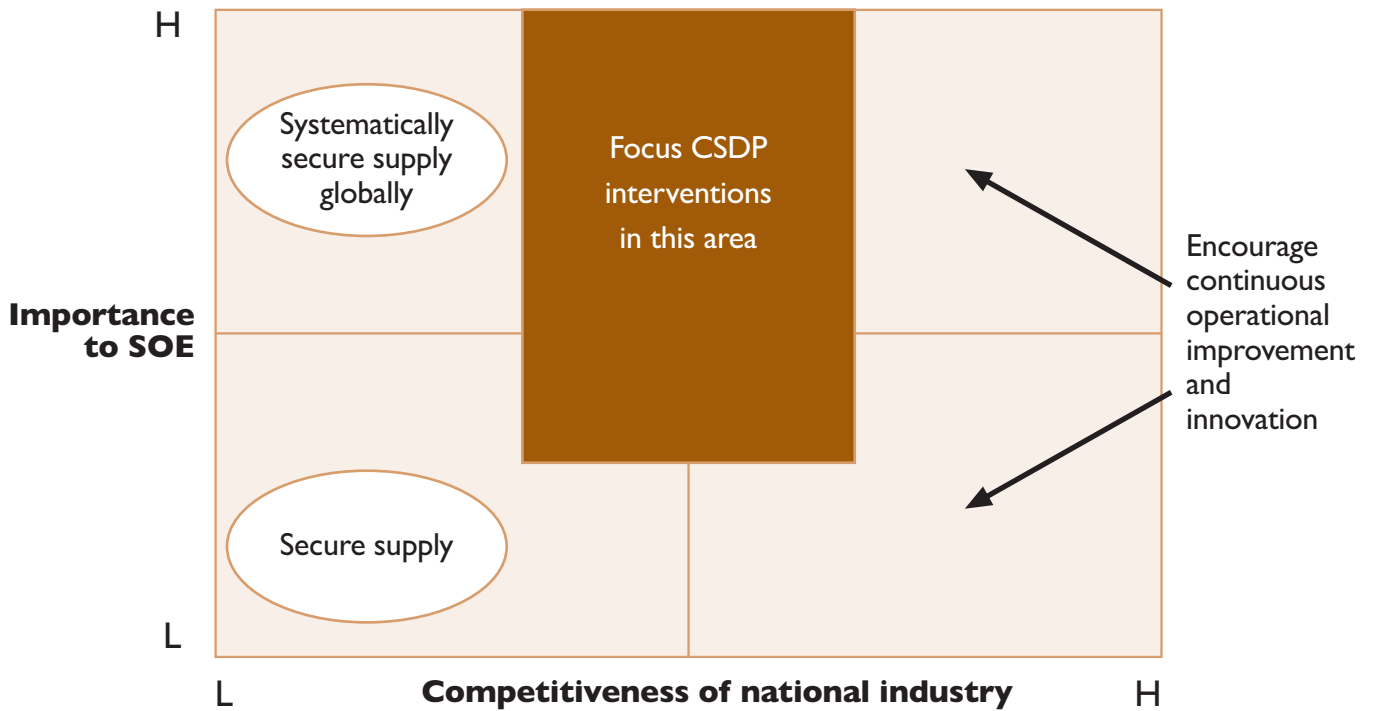
In order to ensure that a local supply industry does not stagnate when there is a downturn in domestic investment, the potential for exports also needs to be considered, which requires an assessment of global supply and demand.

Answering the following questions may assist in bringing the expenditure and demand analyses together to finalise the focus areas for demand-side or supply-side interventions:

- a) Is demand stable and sufficient to sustain local industry?
- b) Which local supply industries are currently marginally competitive (i.e. they could be upgraded more quickly and cost-effectively than non-marginal local industries)?
- c) Is the cost structure of local supply potentially competitive with global supply?
- d) Are the causes of the market's failure to invest in a seemingly viable local supply opportunity potentially rectifiable through demand-side or supply-side interventions?
- e) Can local supply be made more viable through realistic demand-side or supply-side interventions?
- f) What kind of interventions could address a lack of competitiveness in a local supply market?

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Identification of marginal sectors for CSDP interventions



3.6 Identifying interventions

The performance of a supply network is not only the responsibility of suppliers - it is also often also affected by the behaviour of buyers. The SDP should therefore describe both:

- demand-side interventions consisting of changes to the way in which SOE manage various stages of the life-time of the goods or service procured, including utilising supplier development approaches in procurement strategies; and
- supply-side interventions (largely to be provided by industry or government). A key principle of both the demand-side and supply-side interventions is that the normal contractual performance obligations must apply

to suppliers, i.e. suppliers should not continue to be supported if they do not perform.

Demand-side interventions

It is possible to utilise many different demand-side interventions to increase the competitiveness, capacity and capability of the local supply base. Different interventions will be appropriate for different supply market circumstances. The SDP should therefore identify appropriate procurement strategies to be used for each of the commodity groups which are identified as focus areas.

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Different interventions will be appropriate for different supply market circumstances.

For example, the supply analysis might identify a lack of competitiveness (in terms of cost, quality or responsiveness) amongst existing local suppliers as the key issue for a particular commodity group. One way of improving competitiveness is to increase the number of suppliers in a market. This could be achieved through a number of possible procurement strategies, including:

- targeting marginal suppliers (i.e. suppliers who are close to meeting the requirements of the buyer) for development⁶;
- negotiating with a global supplier to invest in the local market to create a local subsidiary to compete with other local suppliers; or
- negotiating with existing suppliers to improve their competitiveness over time, and linking the achievement of these improvements to the renewal of contracts.

For another commodity group, the key issue could be a lack of local supply capability. This could be addressed by a procurement strategy of negotiating with global suppliers to:

- invest locally, or
- enter into local joint ventures, and to provide technology transfer and skills development.

The economic viability of local production of a commodity depends in part on the nature of the demand for that commodity, which in turn depends in part on the way in which the commodity is specified and procured. The SDP may therefore also need to include interventions in the planning, demand management and design and specification stages of the project cycle within SOE, in addition to procurement interventions. For example, a possible intervention may be to standardise specifications in order to enable the achievement of economies of scale in manufacturing. A planning intervention may involve

Short-term planning by the customer leads to short-term planning by the supplier

providing the supply market with information about long-term demand, with the aim of providing a more conducive environment for investment in local supply capacity. Another planning intervention may involve stabilising demand, because gradual increases and decreases in demand are more conducive to local investment than unstable demand with large peaks and troughs. Such a complex intervention could require some business process

⁶ Marginal suppliers can be selected for development programmes and allocated contracts of a suitable size and complexity to assist them to develop the necessary experience and capacity to move to a higher level. This can be coupled with supply-side support measures.

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re-engineering within SOE. The way in which the demand is packaged into contracts (the size, composition and duration of contracts) also affects the viability of local investment in supply capacity – and in some circumstances it may be appropriate to increase the size and duration of contracts in order to provide sufficient incentive for investment. Alternatively, in other circumstances it may be appropriate to unbundle a single global contract to create separate contracts to enable local supply of certain components. The possibility of collaborating with other SOE or other purchasing industries could also be considered as a means of aggregating demand to achieve greater economies of scale (provided competition issues do not arise).

Reduction in the cost of the final product (e.g. electricity or freight transport) is in the interests of both the main producer (Eskom or Transnet) and its suppliers, as it should result in an increase in demand which will benefit both the producer and its suppliers. This commonality of interest provides a basis for collaborative initiatives between SOE and their suppliers to reduce the cost of the total supply network. Examples of such collaborative initiatives include joint assessments of purchaser-supplier relationships, with the aim of finding ways of increasing the efficiency and effectiveness of the relationships; and working together to identify innovations and ways of increasing quality and reducing cost, including joint research and development.

Interventions need not only be limited to the suppliers which supply directly to the SOE. Where appropriate, consideration should also be given to interventions involving the suppliers' suppliers (which often include

Transnet and Eskom themselves), with the aim of addressing distortions in the cost drivers or cost structure of the local supply network.

Supply-side interventions

Many of the demand-side interventions described above can be coupled to complementary supply-side support measures. This will entail the establishment of close working relationships between industry associations, the government agencies which provide support, and the supplier development planners and implementers in the SOE. These relationships will be facilitated by DPE. The identification of supply-side interventions for the SDP should be done in consultation with government agencies and industry associations, through the DPE.

Some of the supply-side support measures which can be provided by government agencies and industry associations are:

- a) action by the Competition Commission against monopolistic or anti-competitive behaviour;
- b) the establishment and/or coordination of industry clusters or associations;
- c) research (industry, market, technology and process);
- d) advice and assistance with technology transfer and process and competitiveness improvement;
- e) global marketing;
- f) the creation of investment incentives;
- g) access to competitive finance;
- h) feasibility studies;
- i) funding and incentives for skills development and skills development initiatives;
- j) continuous improvement initiatives to improve operational efficiency.

Many of the demand-side interventions can be coupled to complementary supply-side support measures.

For example, an expansion in local supply capacity will require an increase in the supply of engineers and artisans. There is potential to leverage the funding which is available through the National Skills Fund and the Sector Education and Training Authorities, tax rebates, and Department of Education bursaries for students at Further Education and Training institutions to obtain 100% subsidies for learnerships and apprenticeships for artisans. Sufficient funding has already been mobilised in this regard, under the Government's Joint Initiative for Priority Skills Acquisition (JIPSA). Similarly for engineers, the Department of Education has put in place programmes to increase the throughput of engineers and technologists at universities and universities of technology, and engagements could take place with universities to secure adequate pipelines for the engineering skills that would be required for increased local supply capacity.

The Department of Trade and Industry (the dti) has recently published a metals sector strategy, which was produced in consultation with industry, and which includes a number of interventions aimed at developing the sector. The dti is currently applying for funding for these interventions.

Elements of the downstream metals sector are likely to be a focus area in the SDPs, and linkages could be created between the sector strategy interventions and the SDP interventions. Some of the interventions identified in the metals sector strategy include supplier benchmarking and technology and process upgrading.

Supplier benchmarking has the potential to provide key information to enable the implementation of the CSDP and to enable its impact to be monitored:

- SOE need to have information about the state of local industry and the strengths and weaknesses of local suppliers in order to inform their SDPs and their procurement strategies;
- original equipment manufacturers (OEMs) also need to have information about potential local suppliers in order to be in a position to respond to the localisation requirements of SOE;
- based on information about buyer's requirements (quality and cost related), benchmarks will enable suppliers to work towards being in a position to meet these requirements;
- buyers from other industries (both local and export related) will be able to quickly assess the SOE suppliers and, when appropriate, add these to their supplier networks; and
- SOE and DPE need to have information about changes in suppliers' capacity and capability, in order to be able to monitor the impact of the CSDP.

The successful implementation of a benchmarking system in sectors identified as focus areas in the SDPs will require a collaborative effort between government departments and agencies, SOE and suppliers.

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The dti and the Department of Science and Technology (DST) have various funding programmes to support technology development and transfer, innovation and competitiveness improvement. DST is also able to mobilise its agencies such as the CSIR to carry out manufacturing research in support of the CSDP. The Industrial Development Corporation (IDC) is able to assist with feasibility studies and competitive financing for investments which will increase the capability and capacity of the local supply base.

3.7 Setting targets

The targets that are set for improvements in competitiveness, capacity and capability should be informed by the expenditure and supply market analyses, and by considering what can be realistically achieved by demand-side interventions coupled with supply-side support measures.

3.8 Support for the development of SDPs

Various government agencies (such as the Industrial Development Corporation (IDC) and the Council for Scientific and Industrial Research (CSIR)) can assist SOE with information and research related to the production of the SDP. This support can be accessed through the CSDP Project Manager in DPE.

3.9 Timeframes and consultation

An SOE must draw up an SDP for submission and acceptance by the shareholder within one year of formally notifying the shareholder of its intention to participate in

Supplier industry organisations must be provided with the opportunity to make suggestions for improving the competitiveness, capacity and capability of local supply networks.

the CSDP. When the shareholder receives formal notification from the SOE of its intention to participate in the CSDP, the SOE will have immediate exemption from including the National Industrial Participation Program (NIPP) requirements in its tenders, as the objectives of the NIPP will be achieved through the CSDP. On receipt of the final draft of the SDP, DPE must submit it to the dti, and the dti must be given one month to raise any concerns regarding the plan with the shareholder before it is formally accepted. The final draft of the SDP must therefore be submitted to DPE within 1 year of the SOE's formal notification of its intention to participate in the CSDP. At the beginning of 2007, Eskom and Transnet

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signalled their intention to participate in the CSDP.

There must be consultation with the relevant supply industries regarding the content of the SDP, and the dti must be involved in these consultations. The targets and interventions described in the SDP's must be in line with the dti's customised sector plans, and the dti should also be consulted in this regard. The consultations with dti must take place through the CSDP Project Manager in DPE. The purpose of the consultations with industry is to:

- a) provide supplier industry organisations with an opportunity to make suggestions for improving the competitiveness, capacity and capability of local supply networks;
- b) obtain industry's views on whether the correct focus areas have been identified;
- c) obtain industry's views on the viability of the targets and interventions identified in the SDP.

3.10 Annual review

The SDP must be reviewed and updated annually, based on changes to projected expenditure and the experience of implementation. The revised SDP must be resubmitted to DPE.

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4. IMPLEMENTATION

4.1 Putting the SDP into practice

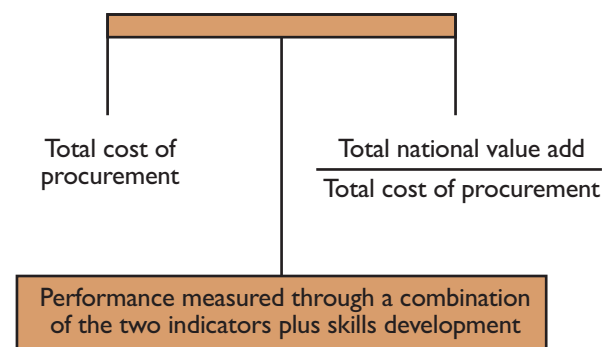
On the demand side, the SDP is implemented through making any required changes to the planning, demand-management, and design and specification elements of the project cycle within SOE; through incorporating the interventions identified in the SDP into the sourcing strategies which are put in place for individual purchases; and through negotiations with local and global suppliers during sourcing events.

On the supply-side, the SDP is implemented through supporting and mobilising local suppliers operating in the focus areas identified in the SDP to respond to the demand-side interventions. DPE is responsible for coordinating the linkages between the demand-side interventions and supply-side support programmes.

4.2 Management structures and incentives

Implementation of the SDP cuts across a number of functional divisions of an SOE, and a CSDP programme management structure which enables this to take place is required within SOE. It is also important to create the correct incentives for the CSDP within SOE, and as indicated in Appendix B, these incentives should be linked to both reducing cost and increasing national value add. In this regard, KPIs for the CSDP must be included in the shareholder's compact between the SOE and its shareholder.

KPIs and incentives for the CSDP need to balance national value add with the cost of supply.



Regular meetings should take place between the SOE CSDP programme manager and the DPE CSDP project manager to ensure coordination of the demand-side and supply-side interventions.

4.3 Negotiating with suppliers

The PFMA requires SOE to maintain an appropriate procurement and provisioning system that is fair, equitable, transparent, competitive and cost-effective. Implementation of the SDP in procurement will often require both pre-tender and post-tender (pre-award) negotiations with suppliers. For this to be accommodated, procurement policy must be aligned to ensure:

- a) that increasing the competitiveness, capacity and capability of the local supply base will be an adjudication criteria;

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- b) reservation of the right of the SOE to negotiate with short-listed suppliers;
- c) reservation of the right of the SOE to alter the tender specifications, including technical specifications, scope, quantity, and timeframes, during the course of negotiations with short-listed suppliers;
- d) reservation of the right not to award to the lowest price tenderer.

4.4 Price premiums

It is important to take into account the total cost of ownership (TCO) when comparing the cost of different supply options. Initial supply cost is just one component of a range of costs associated with a purchase, including (inter alia) life-cycle maintenance costs, salvage value, operational costs, and the administrative costs of purchasing. In addition, there are intangible costs and benefits associated with different supply options. For example, some of the intangible benefits of local supply, such as speed of delivery and responsiveness, may be of great value but may not be taken into account when simply comparing suppliers' prices.

Paying long-term price premiums for local supply (i.e. paying a price higher than the best global price, in terms of TCO) would not be in line with the aims of the CSDP, as it would not increase the global competitiveness of the local supply base, and would not be in the commercial interest of SOE. Great care should also be taken before paying any short-term price premium for local supply. The following issues should be considered with regard to short-term premiums:

- potential long-term savings (of which the present value is affected by the discount rate);
- potential strategic intangible benefits of local supply;
- the possibility of transferring responsibility for paying the short-term price premium elsewhere, for example to a government agency responsible for promoting industrial development.

Any decision to pay a short-term TCO price premium should be well-motivated and transparent.

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5. MONITORING AND EVALUATION

SOE must report on progress with implementing their SDPs on a quarterly basis as part of the normal procedures for reporting to the shareholder. DPE will forward these reports to dti, and comments on the reports will be provided to the SOE through DPE. If, after a three year period after the submission of the plan, an SOE fails to make progress on implementing the plan against the relevant roll-out KPIs, then the normal NIPP procedures will be reinstated for that SOE.

SOE are encouraged to evaluate the impact of the interventions identified in their SDP, and to use these evaluations to inform their annual updating of the SDP. In addition, in consultation with SOE participating in the programme, DPE will arrange periodic evaluations of the CSDP as a whole.

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APPENDIX ONE – Supplier Development Plan Template

1. Background
2. High level five year objectives of the plan.
3. Spend Analysis (detailed 5 years and high level 5-10 years)
 - Capital expenditure (Capex)
 - Copex (Maintenance, Repair and Upgrade)
 - Operational Expenditure (Opex)
4. Supplier Industry Analysis
 - SOE strategic requirements
 - Strengths and weaknesses of supplier cluster from SOE perspective
 - Analysis of imports
 - Priority areas for competitiveness improvement and localisation
 - Sustainability of increased local manufacturing
5. Priority Interventions and Associated Sectors.
 - Input Sector Interventions.
 - Tier three supplier interventions
 - Tier two supplier interventions
 - Tier one supplier (OEMs) interventions
 - Maintenance, Repair and Upgrade related interventions.
 - Skill development interventions.
6. Key Performance Indicators (see Appendix Two)
7. High level implementation plan
 - Description of key initiatives
 - Implementation dates.
 - Key milestones for each initiative
8. Appendix containing a review of the procurement policy in relation to its compatibility with the objectives of the supplier development process.

Competitive Supplier Development Programme

APPENDIX TWO – Key Performance Indicators

The following KPIs will be reported upon in all supplier development plans.

- 1) The key objective of the supplier development plan is to create a balance between increasing the value added component of the spend produced by national industry without unduly increasing the cost paid of these products or services. Consequently, the most fundamental KPI will be that of: National Value Add / Total procurement spend.

This will be measured against the following expenditures:

- Aggregated enterprise expenditures.
- Capital expenditures.
- Operational expenditures.

- 2) In order to give a sense of the qualitatively new investments associated with the supplier development plan, it will be useful to apply a multiple to those areas of national value add which are a result of new investment. Consequently a further KPI will be the:

National Value Add / Total cost of procurement where the National Value Add will be calculated with a multiple of 1,2 being applied for four years to procurements from greenfield investments and a multiple of 1,1 being applied to procurements from brownfield investments which result in qualitatively new capabilities.

This will be measured against the following expenditures.

- Aggregated enterprise expenditures.
- Capital expenditures.
- Operational expenditures.

- 3) Where appropriate the procurement officers will integrate skills development requirements into tenders. Hence, a compulsory KPI will involve the definition of key skills and associated targets relevant to both the SOE and supplier industry that can be developed through procurement.

Delivery to plan KPI's: The plans will also include KPIs specifically relating to progress relating to the delivery of initiatives defined in the plan.



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