

Naval Shipbuilding for the 21st Century: A View from 'Below Decks'

by *David Bowles*

David Bowles has been Managing Director of Northern Defence Industries Ltd since 2001, and was formerly Director of Business Development at Regional Development Agency One North East. Here he looks at the challenge of the UK's large shipbuilding programme, the importance of considering the supply chain when decisions are made and the need for the Government and industry to understand each other.

In October, Northern Defence Industries Ltd (NDI), in partnership with the British Naval Equipment Association (BNEA), organised a UK national conference in Newcastle upon Tyne entitled 'Naval Construction for the 21st Century'.

The aim and purpose of the conference was to draw together the top people from every part of the UK naval construction industry to join in debate about how industry could – and should – respond to the challenges presented by the MoD's largest naval construction programme since World War Two.

The conference itself was a huge success; more than 240 delegates attended the event, and they were addressed by arguably the most influential panel of industry experts ever gathered together publicly for such a purpose.

The inspiration for the conference had its roots in a meeting that NDI hosted on Tyneside in 2003. At that meeting – called to debate the formidable challenges that were emerging from the procurement process for the future aircraft carrier (CVF) project – we all agreed that a conference to bring together current thinking and to promote collaboration and co-operation would be vital to the success of the industry in the foreseeable future.

The conference was carefully planned over many months – and it was granted considerable additional focus when, some way down the track, it was announced that the Government had decided to call a behind-closed-doors 'summit' of leading industrialists, to be chaired by Rear Admiral Ric Cheadle, Controller of the Navy and Director Land & Maritime in the Defence Procurement Agency (DPA). The 'summit' was held a mere 24 hours prior to the NDI conference, thus affording us the first public platform at which matters arising could be discussed.

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The Need for the Summit and the Conference

It is worth restating the scale and scope of the MoD requirements for the coming years. The industry as a whole is being challenged to build and commission close to 600,000 tonnes of ships for the Royal Navy and Royal Fleet Auxiliary, to be in service by 2025–30 and meet the challenges of the next 40 years.

Six hundred thousand tonnes – a fleet twice the size (in tonnage) as the Royal Navy has 'under flag' at present.

There have been acres of newsprint devoted to the complexities of the CVF programme, and I do not intend to add to those acres by discussing it in detail here.

The important issues are the scope of the programme, the capacity of the industry to respond and – dare I say – the economic impact on the regions, jobs and the future of UK manufacturing industry.

The Type 45 destroyer, MARS, the Astute submarine, and whatever programme is agreed to bridge the capability gap created by the delay in the Future Surface Combatant (FSC) are key to the future success (or otherwise) of the shipbuilding industry, from prime contractors on through the supply chain. These are complex problems for which I would not pretend to have the answer. But I am convinced that this is a great opportunity to make the strategy espoused in the joint DTI/MoD document 'Defence Industrial Policy' work, by recognising that defence procurement is, and must be, a major driver in economic and business development. It is critical to the success of the growth of small- and medium-sized enterprises (SMEs) – and the sustainability of manufacturing industry in the UK.

Quite rightly, the MoD demands innovative and cost-effective solutions from industry. These must ensure that the customer and end-user get the very best technical solution, on time and on budget.

Innovation and efficiency mean that the supply chain must reconfigure and adopt new business models for the 21st century. These must leverage the synergy and efficiency of co-operation and collaboration in shared 'risk and reward' contracts that maximise the innovation and flexibility latent in the SME supply chain. These are the lessons learned over 20 years in supplying the offshore oil and gas industry.

In recent months, there has been much discussion about the possibilities for the UK shipbuilding industry to consolidate its operations in a bid to cope better with the demands of the MoD programme – and to build a sustainable future in world export markets.

The MoD openly acknowledges that CVF, MARS et al will put significant stress on an industrial base that has been steadily contracting over the last 30 years. Indeed, when Lord Bach addressed the conference he said that the new strategy 'will require the MoD and industry to change their approach, with a focus on quality and performance in those areas essential to delivery', and added that consideration was being given to whether 'crude competition' was always the answer for major shipbuilding programmes.

At the conference, Ric Cheadle told delegates that the MoD shared the blame for the cycle of 'boom and bust' that has blighted the industry. However, he also called on the industry to 'restructure and consolidate' into a more integrated and cohesive entity to ensure a viable future, the main argument being that it would engineer greater continuity and maximise the return on investment from industry.

We have all seen and heard the various responses and comments given in public by the industry 'big hitters' regarding the possibility of consolidation. I am certain that some sort of consolidation or formal business alliance will emerge in the future, just as it has in continental Europe. There, the industry is consolidating apace, and successful commercial collaboration has become second nature. I have no doubt that, if we do not get our act together, the threat from a mighty 'Euro shipbuilding conglomerate' will leave the UK industry (and the regional economies they support) high and dry.

These issues are of real concern to industry and those responsible for economic and business development. As managing director of NDI, a company that represents the interests of more than 180 SMEs in the north of England, and as chairman of Argonautics Ltd, a small cluster of marine design and logistics businesses, I will offer a perspective from the supply chain – from 'below decks' as it were.

The View from 'Below Decks'

SMEs can, often in desperation and with mounting frustration, only sit and watch as the 'bigger game' is played out around and above them by Government and

prime contractors, whose deliberations and decisions dictate the future of these companies and their employees. Every delay means more uncertainty – and another explanation to the bank manager. The irony of this situation is that it is the SMEs which make up much of the engine-room of the industry – and on whom the primes, the Government and the end-user are totally dependent.

The high-profile discussions about whether 'Company X' should merge with 'ShipCo' or whether 'Yard A' should work with 'SubCo' can seem a little academic when you're the boss or owner-manager of a small company wondering where your next order is coming from.

There is a belief among SMEs that the MoD either does not recognise or understand the SME community – despite all the rhetoric.

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SMEs are driven by the vision and skills of individuals who often stake everything – including their homes – on the success or failure of their companies. They are not 'corporate guided missiles', protected by contracts, big budgets and policy objectives.

From our observations there is a lack of recognition from Government of the time and cash costs of sustaining smaller businesses in the peculiar environment that is defence procurement. The time taken in bidding – plus the long lead times before orders are placed and fulfilled – produces a real risk that capability can disappear.

If an SME can stay the course (a difficult proposition at present) the reward lies in a long period of supply. If not, what then? The UK offshore oil and gas boom that has helped sustain these businesses for the last 25 years is rapidly declining as the market moves south of the equator.

The 'boom or bust' cycle that we have all become accustomed to (perhaps resigned) to over the last 30 years has an inevitable consequence: capabilities shed in times of 'bust' cannot be recreated rapidly when the 'boom' time comes around again. Those skilled workers laid off either retire or move on to other jobs outside their original trades. Their potential replacements – the younger workforce generation – are no fools. They observe the cyclical – and to them unstable – nature of the industry and decide to steer well clear. And who can blame them?

This well-observed phenomenon does not only apply to the large shipyards, its effects are felt at every level throughout the long and complex supply chains that characterise the industry.

Successful SMEs tend, by definition, to be agile. By that I mean that they are often headed up by genuine entrepreneurs who survive by remaining alert to different possibilities. They think 'outside the box' and they discover new markets.

Here is a question that arises from all this greater discussion about 'consolidation' and 'merger' at the upper levels of the supply chain: has anyone considered the possibility that, once the dust settles, there may in some cases be no supply chain to support or underpin the larger contractors?

It is interesting to note that the RAND study, commissioned by the DPA in 2003 and delivered at the time of the NDI conference in October 2004, portrayed a more optimistic view of long-term supply chain availability. The conference delegates in Newcastle formed the opinion that the RAND findings were, perhaps, too optimistic. They will have been struck by the precision of the forecast labour loadings in the major facilities. But by the nature of the study, can it have taken more than a cursory look at the vast array of small suppliers who underpin the 'big boys'?

Beyond the Naval Conference

The conference last October achieved much – not least, it brought together seemingly disparate strands of an industry

often perceived as being entrenched, hidebound and in almost terminal decline.

What the conference demonstrated is that there is a collective will at every level of the supply chain to adapt, to collaborate and to deliver. Indeed, we heard from the excellent Stephen Payne about the innovation and world-class management that conceived, constructed and delivered the Queen Mary 2 in less than three years, proving that it *can* be done.

But in order to deliver the ships the Royal Navy wants, when they want them and at a price they can afford, there must be true partnership between Government, prime contractors and every level of the supply chain.

Government needs to recognise that the industry cannot invest if it is not confident of future business. By the same

token, the industry must recognise that Government will not invest if it is not confident of the 'ability to deliver'.

Much of that confidence will come from a genuine belief that the Government itself is signed up to the principle of embracing change in order to ensure the industry has a viable – and profitable – future.

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Recognition that the industry will have difficulties down the line in meeting the demand for a skilled workforce is a given. Government investment in training is welcome, indeed necessary, but it has to recognise that the only *guaranteed* way to provide a skilled

workforce in the future is to retain that workforce in the present.

How to do it? By placing orders. Orders that in turn provide revenue, which enables investment in competitiveness and training.

Last, but by no means least, a culture of collaboration and co-operation has to be created throughout the entire supply chain – a culture driven by recognition of mutual dependency and responsibility. It is interesting to observe that the offshore oil and gas industry proved that, by adopting such a strategy, costs could be reduced by more than 30%.

One of NDI's acknowledged strengths is its ability to create and nurture effective, innovative supply chains from within the ranks of its predominantly SME membership. It is my hope that this same 'below decks' philosophy will be demonstrated up there on the bridge. ■