

# Commercial Strategy





This document sets out the commercial strategy for 2010 and beyond for Magnox Limited (Magnox), a company owned by Energy Solutions. It describes a vision of how Magnox will achieve its strategic objectives through higher levels of integration, sharing of best practice and development of more collaborative relationships with the supply chain.



# 01 Introduction

On behalf of the Nuclear Decommissioning Authority (NDA), Magnox manages and operates ten nuclear licensed sites across the UK. To support the strategic partnership between the NDA and Energy Solutions, this commercial strategy aligns with the NDA mission to:

*Deliver safe, sustainable and publicly acceptable solutions to the challenge of nuclear clean-up and waste management. This means never compromising on safety or security, taking full account of our social and environmental responsibilities, always seeking value for money for the taxpayer and actively engaging with stakeholders.*



This commercial strategy aims to improve the commercial practices of Magnox, a key enabler to continue to develop Magnox as a leader within the nuclear decommissioning industry. In particular Magnox aims to become employer of choice across its supply chains and the communities in which it operates. In this regard, real progress has been made since Magnox launched its previous commercial strategy “Making the Most of our Supply Chain” in 2008, and this new commercial strategy builds upon this previous work.

# 02 Our vision

The aim of this commercial strategy is:

- to develop integrated procurement strategies across Magnox to support the most efficient and effective delivery of the programmes of work (Product Lines),
- to collaborate with and invigorate the supply chain in order to secure suitably qualified and experienced resources which will continue to enable us to focus

on the safe delivery of work at the optimum lifecycle value, and

- to ensure that we have the right people in the right place at the right time.

To achieve these aims, our business needs to change. This change requires higher levels of integration and a significant change in the way we engage with, and secure the services of our key suppliers.

Our vision is:

- fewer Tier 2 suppliers and a restructured Tier 3 supply chain who collectively feel motivated and able to deliver. Magnox will achieve this by leading its chosen Tier 2 suppliers in collectively appointing key Tier 3 suppliers under common terms of engagement,
- higher levels of integration within the Magnox business and across the wider NDA estate,
- a focus on delivering value for money through the selection of competent supply

chain partners who will work with us over the long-term to meet our strategic objectives,

- sustainable arrangements through the formation of attractive work packages which look beyond the immediate need and aggregate long-term requirements,
- to have commercial arrangements in place that acknowledge the constraints placed upon the business, and
- the constant need of the business to challenge custom and practice in order to achieve a culture that seeks to continuously improve.

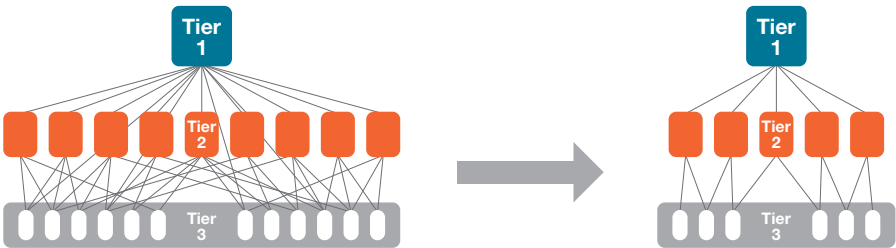


Figure 1 – Shaping the supply chain

## 03 Drivers for change

The principle reasons behind the development of this commercial strategy are:

- Lifecycle changes** – Magnox is moving from operations, through defuelling, and into decommissioning care and maintenance preparations, shifting away from its core generation business. This means moving away from a steady state business to one which, by its very nature, calls for far more flexibility and a reduction in the size of the business. Furthermore, the demands of decommissioning force the need to find ever more effective and efficient solutions to project delivery, all of which lead to a natural move away from an in-sourced capability (make) to one which relies more heavily on outsourcing (buy). In specific areas, predominantly plant operations there is good sense in re-skilling our people, however the only meaningful way to discharge our contract obligations is to procure the skills needed for decommissioning from the supply chain. During 2008/09 some 60% of Magnox's turnover was spent in the supply chain and this percentage will grow year on year.
- Structural/management changes** – Magnox is moving from a site-centric model to a business led approach with a real lead and learn philosophy, which replicates successful delivery and avoids reinvention. As a result, Magnox has developed a programme approach to project delivery.
- Market changes** – to insulate itself from market changes, Magnox is determined to become an employer of choice and through this to capture and retain the most suitable resources for the long-term, utilising contractual arrangements which allow flexibility to cope with the inevitable changes that will occur.
- Effective procurement** – a desire to make all procurement sustainable and effective (buy once and use many times), from robust strategies to more constructive arrangements with suppliers.
- Commercial function development** – to significantly improve commercial performance within Magnox and to focus on what matters most. As the use of the supply chain increases and long-term arrangements are established the commercial function will increasingly focus upon the management and maintenance of such arrangements, providing project lifecycle commercial services.
- Collaborative procurement** – seeking economies of scale across the NDA estate.
- Industry best practice** – moving from adversarial to collaborative behaviours, a cornerstone of the Government reports from Egan and Latham.

In short, Magnox wants to grasp opportunities to realise significant savings through maximisation of commercial leverage, reductions in procurement costs, sharing of best practices, establishing a more collaborative relationship with the supply chain and the development and embedment of a continuous improvement culture. Best practice from within the sector, from other sectors and from recognised bodies such as Office for Government Commerce (OGC) and Constructing Excellence have all been considered during the strategy development.

# 04 Our guiding principles

Magnox has adopted ten guiding principles to develop this commercial strategy and to underpin a vision which constructively challenges current working practices in an ever changing operating and decommissioning environment:

## → NUMBER 1

**Long-term subcontracts:** creating economy of scale opportunities: focus on creating lifecycle delivery partners around key programmes of work (Product Lines).

## → NUMBER 2

**Collaborative working:** following the Egan and Latham philosophies, a shift away from traditional (adversarial) transactional procurement with 'Safety in Mind' i.e. continued embedment with the government sponsored organisation 'Constructing Excellence'.

## → NUMBER 3

**Supplier relationship management:** recognising appropriate 'working together beliefs' are the key to successful delivery – 'beat the programme; not our supplier'.

## → NUMBER 4

**Drive a 'Quality Agenda':** in our sub-contract strategy development and our sub-contract management (e.g. through the use of NEC3).

## → NUMBER 5

**Sustainable Procurement (SP):** promote awareness in the supply chain of our expectations with regards to the environment, social and economic development i.e. working with BITC 'Business in the Community'.

## → NUMBER 6

**Early Supplier Involvement (ESI):** earlier supplier engagement in the commercial cycle, to promote earlier scope understanding, earlier risk identification and mitigation.

## → NUMBER 7

**Develop a culture of continuous improvement:** through the commercial improvement programme, internal and external benchmarking and knowledge management.

## → NUMBER 8

**Seek 'Best in Class' procurement solutions:** recognise that there are proven procurement models which need to be included in our optioneering, such as Design & Build, Prime Contractor, Alliance Model, Consortium etc, each of which will deliver best value in appropriate circumstances.

## → NUMBER 9

**Create an agile and flexible supply chain:** who understand the constraints of our business (e.g. funding) but who work with us to overcome these.

## → NUMBER 10

**Mandate our duty to 'Procure once for the longer term' over 'Re-Competition':** e.g. use in-house frameworks and OGC Buying Solutions Frameworks wherever possible.

## 05 Our strategy

Our commercial strategy is not purely about procurement but it encompasses the full commercial lifecycle of project delivery, deployed through strong leadership to achieve the results that are anticipated. In simple terms these are:

- Rationalisation of the number of strategic agreements and relationships with the aim of improving productivity and performance.
- The aggregation of activities to establish a series of decommissioning frameworks that will significantly reduce procurement cost and lead times, provide longer term commitment to key suppliers and provide Magnox and the NDA with the optimum supply chain.
- Embracing the concept of ESI in order that Magnox discharges risk at an earlier stage taking advantage of the skills, experience and knowledge of the supply chain.
- The creation of sustainable long-term relationships with key suppliers to improve safety, business and decommissioning performance.
- The creation of a flexible and agile supply chain able to react positively to changes in the operating environment and major market forces such as nuclear new build.
- The joint development with the supply chain of a “toolkit” of appropriate suppliers to enable projects to be delivered much more efficiently and effectively.
- Developing, motivating and retaining the best commercial team and working together to deliver the best commercial outcomes.
- Increased efficiency and focus on areas where commercial personnel add value through the provision of commercial services.
- Far greater focus on performance measurement and monitoring including external as well as internal benchmarking.
- The adoption of best practice and development of a continuous improvement culture.
- The avoidance of waste and duplication by doing best what matters most, again and again.

---

**Magnox is convinced that it is only through the integration of supply chain that a sustainable competitive advantage can be secured**

---

Higher levels of supply chain integration, the establishment of sustainable longer term relationships and a shared focus on common objectives will ensure that innovative supply chain solutions are delivered at the lowest total cost, thereby meeting stakeholder aspirations.

## 05 Our strategy continued...

By determining the key activities that are fundamental to the success of the core mission, Magnox is developing a number of programmes of work (Product Lines) that will comprehensively cover remaining generation, defuelling and decommissioning activities. This thinking brings a broader programme approach wherein the entire needs of Magnox will be

considered and an optimum programme for the overall delivery produced – this creates the first of three commercial themes.

Programmes are the key deliverables, supported by all other commercial activity which in turn act as enablers to overall delivery. Thus, support services become the second commercial theme.

### The commercial strategy therefore consists of these three themes:

#### Programmes

Strategic delivery of the key things Magnox needs to do – principally through strategic frameworks (e.g. ponds, ILW management, FED treatment, plant and structures).

#### Services

The activities that support or enable programme delivery and operations. This includes Collaborative Procurement (joint procurement with other Site Licensed Companies in the NDA estate) and business support frameworks that provide site services (e.g. facilities management, resource provision, IT, HR).

#### Transactions

The local, tactical and site specific needs. This directly supports day-to-day delivery activities, but does not warrant companywide frameworks. It does, however, include certain operational frameworks that are pertinent to activities at multiple sites which are at similar stages in their lifecycle (e.g. a targeted framework supporting generation).

Finally, there will inevitably be a small amount of site specific needs which by their very nature will be transactional – this is the third and final commercial theme.

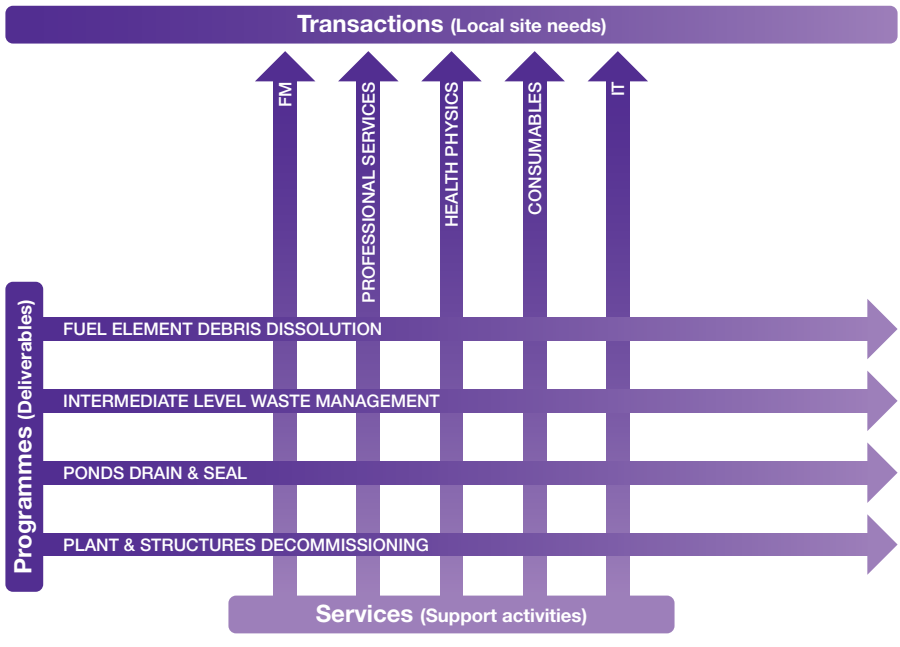


Figure 2 – Alignment of Magnox mission with supply chain capabilities

# 06 The results

**Our commercial strategy is underpinned by the theory of Reck and Lang (1988) who identified four stages of purchasing development:**

**→1 PASSIVE**

The purchasing organisation has little or no strategic direction and primarily reacts to requests of other functions.

**→2 INDEPENDENT**

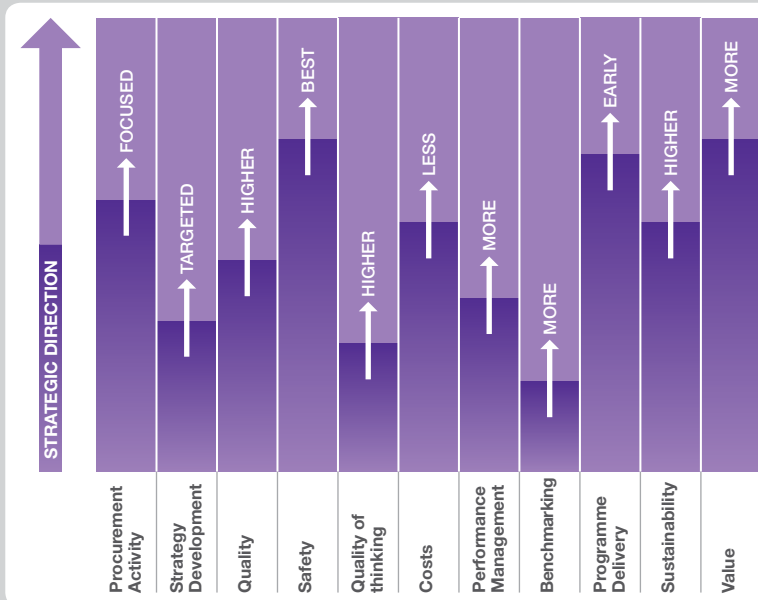
The purchasing organisation adopts the latest purchasing techniques and practices but its supply chain strategy is not aligned with its corporate strategy.

**→3 SUPPORTIVE**

The purchasing organisation's supply chain strategy is aligned with corporate strategy and suppliers are considered as resources which are carefully selected and motivated.

**→4 INTEGRATIVE**

The purchasing organisation and its supply chain strategy are fully integrated into the firm's corporate strategy and constitutes part of an integrated effort to formulate and implement a strategic plan.



**Figure 3 –  
Magna  
strategic  
direction**

.....

## **It is through the full and proper deployment of this strategy that Magnox can establish itself as a mature purchasing organisation at the integrative stage of development**

.....

### **The key results anticipated from our strategy are:**

- Demonstrable evidence of a lead and learn philosophy where best practice is established once and deployed repeatedly.
- A stable and sustainable supply chain which is procured once and used many times.
- Consistent collaborative relationships, setting standards across the nuclear decommissioning sector.
- Best in class delivery of programmes and projects, benchmarked against the wider industry.
- Multi-skilled people, passionate about what we are doing.

To demonstrate improved results, Magnox will focus on benchmarking and performance measurement. A standard suite of Key Performance Indicators will be deployed across supply chain arrangements to allow regular and consistent measurement of performance, leading to both internal and external benchmarking (using recognised data from bodies such as Constructing Excellence). Out-turn performance data will also be more appropriately captured such that it can be used to establish realistic benchmarks for future projects. Thus, project after project, Magnox and its suppliers will be able to demonstrate ongoing performance and continuous improvement.



**Berkeley Centre**

Berkeley  
Gloucestershire  
GL13 9PB

[www.magnoxsites.com](http://www.magnoxsites.com)