

Indian Infrastructure Seminar

EPC & Contracting

10 October 2013

by



Introduction and Purpose of Today

Indian-OECD Infrastructure Dynamics

India Infrastructure is a Priority Opportunity for OECD Companies

There are Emerging Export National Champions from India

Demand Conditions are Converging between India and Other Countries

Objectives for Today

- Introduce you to OC&C's Infrastructure Practice and our expertise
- Share with you some insights on trends currently affecting the global infrastructure services market...
- ... and emerging rules of the game



OC&C serves a wide range of B2B clients, leveraging its expertise in different areas

B2B Services – Areas of Expertise





OC&C's Business Services practice is well established with a global reach

We work in many different (sub-)segments and across the value chain...



Sector coverage

- Broad range of areas...
 - We are active in amongst others Infrastructure and Buildings; BPO; Energy & Utilities; Government Services; Professional services; Facilities Management; B2B-2C consumer services; and IT services
- ...in a context of increasing convergence between sectors...
 - Increasingly, winning client propositions may combine any combination of services, technology, advice and capital cf Serco, Capita, IBM, Balfour Beatty
- ...serving clients across the value chain
 - Our clients include B2B, B2G, and B2C players and range from raw material providers to final products and services providers

...helping our clients with problems on varying levels...



Our Services

- Broad range of strategic consulting services
 - Corporate strategy
 - Business unit strategy
 - Operational improvement (sourcing, workforce productivity, cost, organisation design)
 - M&A (both buy and sell-side target identification and diligence)
- Common principles, varying propositions
 - Principles: differentiated expertise through significant Partner time; longer term partnering with clients not transactional
 - Propositions: variety of team structures, risk/reward arrangements welcomed, depending on task

... in geographies around the world



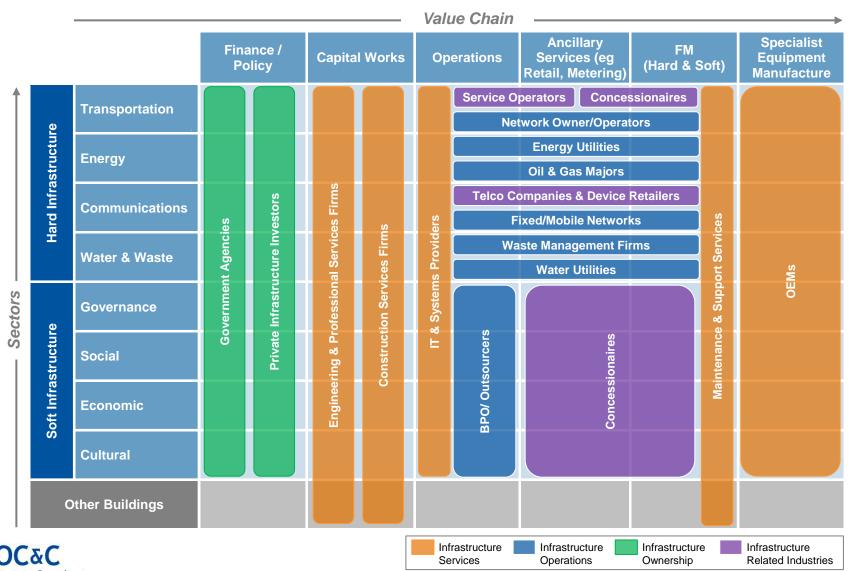
Scale and Geographic Reach

- OC&C unique amongst major strategy firms in the importance of B2B Services
 - Practice established over 10 years ago
- Global reach with 16 Partners around the world part of our International B2B Sector practice, especially in:
 - Infrastructure and buildings including construction and FM
 - Oil & Gas
 - People services
 - Government services
 - Often work as part of multi-national teams in our core geographies and beyond e.g. recently Scandinavia, Turkey, Baltics, Iberia



Source: OC&C analysis

OC&C has significant experience in both infrastructure and capability-led organisations across the value chain in all types of hard infrastructure



OC&C has a strong track record of working with world leading companies and national champions across full spectrum of the infrastructure environment





© OC&C Strategy Consultants 2013

5 - "

The Financial and Sovereign Debt Crises have had a profound effect on the nature of infrastructure demand in the OECD, presenting a significant challenge to services companies

OECD Infrastructure Demand Trends and Impact on Suppliers 2008-?

Less capital is available from traditional sources...

...and many owners & operators have had to de-skill... ...but infrastructure investment is vital to economic stimulus (and votes)...

...so projects have to be prioritised for their economic value...

...and executed as cost effectively as possible

- Sources of equity are under pressure
 - OECD Public sector CAPEX declined by c.35% 2007-11
 - Aggregate value of infrastructure fund closures in 2012 (\$23bn) only half of 2007 equivalent
- Debt financing is depleted
 - Lower availability of debt financing

- "Cutting into bone" with redundancies of skilled workers in line with lower demand
- Public sector in particular struggling demographically to maintain organisational expertise and capabilities
 - "Baby boomer" generation retiring
 - Unions have protected old jobs at the expense of younger hires
 - Private sector pay higher

- Wide acceptance of Keynesian theory of infrastructure investment
 - Common acceptance of \$3-\$4 return for \$1 investment
 - Even "austerity governments" (eg UK, NL) prioritising infrastructure spending
- Upgrade/replacement of 1950s-60s social and economic infrastructure high priority for voters
- More political interference in projects and tenders

- Achieving medium term "return on investment" critical for gaining financing
 - Investments must 'wash their face'
 - National infrastructure 'pool funds' that prioritise applications
- Other economic and social goals "front of mind"
 - (Regional)
 employment,
 investment and trade
 - Workforce development

- Significant pressure on unit costs
 - Cut-throat, open book procurement
 - Expectation of 'free' pre-work
- Desire to reduce (or abrogate) delivery risk
- 'Total Cost of Delivery' beginning to be examined
 - "Value for Money" infrastructure reviews in UK and US

Smaller Overall Revenue Pool

Worse Client Project
Management

Erratic and Drawn-Out Tender Processes

More Rigorous
Qualification
Requirements

Risk Transfer and Input Margin Squeeze



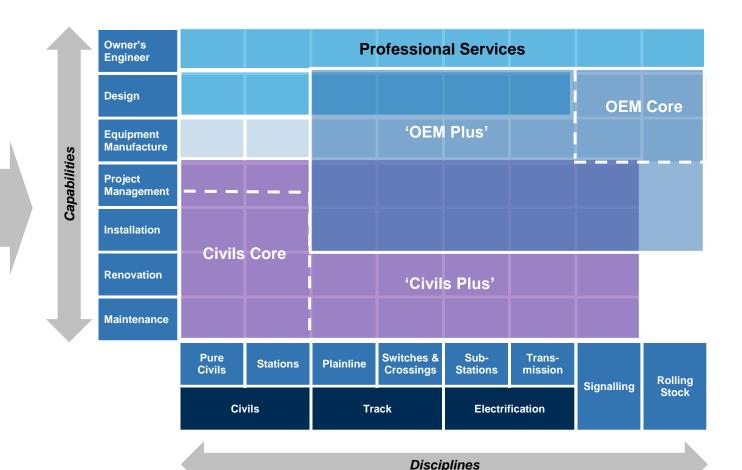
© OC&C Strategy Consultants 2013

These factors have led to increasing convergence between previously separate value-chain disciplines, leading to significant consolidation and the squeezing out of specialist players

Rail Infrastructure Case Study

Drivers of Convergence

- Declining capability of clients to manage complex infrastructure projects meaning that 'turnkey' solutions are favoured
- Greater emphasis on 'total cost of delivery' for infrastructure, leading to focus on making hand-offs between different elements of the supply chain more efficient
- Desire for suppliers to inject capital into the project leading them to demand more control of project delivery levers





.

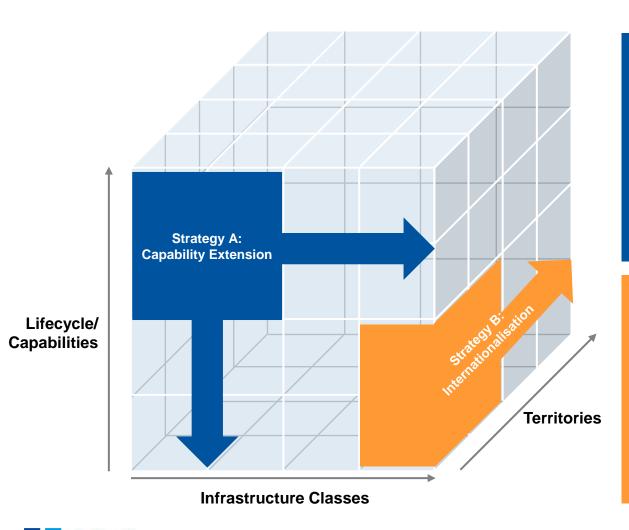
This has led to a new set of 'rules of the game' for infrastructure players

Infrastructure Players Golden Rules

Be Famous for Something	1	Prioritise Key Accounts and Pursuits Ruthlessly	 Maximise return on organisational bandwidth and bid engine Maximise efficiency in delivery by winning work within known 'sweetspot"
	2	Differentiate Beyond the Cost Base with Capital, Technology, IP or Service	Early involvement in tenders as 'The Only Game in Town"Avoidance of direct unit-cost comparison only
Take Ownership	3	Become a Trusted Partner to Clients	 Relationship based sales outside of formal tender processes Early involvement in helping scope projects and draft tenders
	4	Plan to Take Delivery & Revenue Risk (Judiciously)	Enhance potential project marginsEmbed relationships by reducing risk for clients
	5	Maximise Overall Delivery Responsibility	 Gain control of key value-driving project development and management levers Maximise share of client wallet
'Flatpack' Delivery	6	Develop Strategic Relationships with Partners and Subcontractors	Increase project efficiency with greater co-working experienceOffer 'turnkey' delivery to clients
	7	Codify and Leverage Cross- Lifecycle IP at All Times	Lower overall asset lifetime cost



Infrastructure players have adopted two diversification strategies in responding to these market conditions, often deploying both at the same time



Capability Extension

Internationalisation

- Responding to smaller overall profit pools by seeking increased share of wallet with existing clients
- Addressing value chain (or infrastructure class) adjacencies where, typically:
 - The client is the same/similar
 - There is some overlap with current capabilities
 - There is a material profit pool available
- Responding to smaller profit pools in domestic markets by increasing the geographic scope of opportunity
- Most often these markets are less mature than domestic markets, where:
 - Existing capabilities are differentiated vs local competition
 - There is some cultural overlap with the domestic market



Successful implementation of these strategies relies on using current organisational strengths to create a differentiated proposition

Hallmarks of Good and Bad Strategic Execution

International

Capability

Diversification

- Significant local presence with strong client relationships integrated into a global knowledge infrastructure and staffing model





- Acquiring capabilities that reinforce and differentiate the current proposition
- Integration into a client-facing structure that sells a full asset lifecycle 'solution'
- Taking on risk where all value-creation levers are understood and controlled







Well Executed

"Proposition Enhancement"

- Scattergun bidding across multiple territories and project types
- 'Fly In Fly Out' project approach
- Acquisition of local units that are run 'as usual' by existing management

- Acquiring adjacent capabilities that conflict with the current proposition
- Maintaining separate service line-specific sales approaches
- Taking on excessive delivery risk in non-core areas

Poorly Executed

"Portfolio Diversification"



© OC&C Strategy Consultants 2013

This has led to several common questions that all infrastructure services players are facing

