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How do you minimize the risks and costs associated with market uncertainty? Change past behavior and innovate!

ACCORDING TO PRESIDENT OBAMA, the first step in winning the future is innovation, but what does that mean for wind logistics? The latest wind energy headlines indicate a decrease in wind development in the U.S. and Europe as compared to 2009, and the high upfront financial investment, increasing competition, and the uncertain regulatory and demand environment are putting severe cost pressures on all projects. The good news is that tough challenges such as these drive businesses to think and act in new ways.

Businesses often get trapped in a mentality of focusing on short-term savings that end up costing them in the long term. For instance, it is a common industry practice to put off serious logistics planning until the final development planning stages. At this late stage logistics costs become spot costs. In some cases spot costs can provide savings, but in other cases businesses can become trapped. On the trucking side, many wind components require specialized transport equipment, and there is a fixed supply of equipment and asset owners. At the same time there is a shrinking pool of qualified drivers to handle heavy load cargo, and their skills and expertise are critical to safely transporting the components. Overexpansion several years ago, coupled with a recent drop in demand, has resulted in equipment decommissions, driver exists, and a shrinking pool of asset providers. When demand picks up it will not be easy for the asset owners to ramp up due to the high investment costs and a lack of market certainty. These owners have been burned in the past and may be reluctant to reinvest.

Exacerbating the fixed equipment situation is the larger turbine sizes expected to enter the market in the near future. For instance, heavier nacelles require precise load distribution to meet legal weight requirements and longer blades require special devices to handle overhang. These conditions may lead to significant fixed investment costs for equipment and engineering services. Although shifting transport to rail or water may help alleviate some of the concerns, all logistics deliveries have a final mile truck component. As demand increases, it is important to plan creative logistics solutions to avoid the past cycle of problems.

Select a preferred supplier, and bring them into the early planning stages. While many businesses resist the idea of exposing their fate to a limited number of suppliers, there are cases where the positive benefits outweigh the risks. The benefits are enhanced when a domino effect occurs. For instance, recently a major OEM developed a firm supply agreement with a tower manufacturer. Both the OEM and the manufacturer used this agreement to build a highly cost effective long-term supply chain solution with service providers. If the agreements are executed correctly, the payoffs are high. It is crucial that risks and liabilities are shared in the most appropriate place. Objective measures of performance and success should be reported to the entire extended supply chain.

Provide your partners with a down payment as a way to share financial risks. The down payment is an investment and commitment towards future success. For instance, a specialty transportation provider entered into a project agreement with a developer for guaranteed service. The asset provider received a down payment for services that was used to plan preventative equipment maintenance, secure escort services, develop advanced route studies, and provide driver security. Individuals and supporting companies planned their schedules to meet the needs of the project. Once the deliveries start, "all hands are on deck" to ensure the project success. A second method to ensure availability is to assume a limited financial stake in assets leases or guarantee volumes.

Design products and services for mode flexibility. This concept includes designing oversized component's to be "rail ready" and having detailed logistics plans to ensure multi-modal delivery options. For instance, a major OEM recently changed their design criteria to allow for their next-generation turbine to be transported via rail. This consideration is crucial for their delivery success since the weight of the turbine exceeds most available road transport equipment. In addition, locating manufacturing plants close to strategic infrastructure or developing connecting infrastructure from the plant to major transit systems creates modal flexibility and increases transport options.

Wind energy may have been down in recent years, but smart businesses will use this time to plan for the future. Every indication is that wind power is going to be part of the world's comprehensive long-term energy solution, so now is the best time to find creative solutions.

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