



Partnering for long-term value – how to make your contracts work for you, not the other way round

Partnering for long-term value – how to make your contracts work for you, not the other way round.

Internal challenges ... leading to external issues

As management trends change with the weather (remember the 90s outsourcing mantra?), one thing has become apparent: insourcing or outsourcing in itself is no panacea. Many who outsourced activities such as maintenance of critical equipment, quickly found to their cost that they had lost control of activities essential to delivering value from their assets. And many who since then have moved from totally managed arrangements (such as 'healthcare' contracts) to more flexible call-off arrangements, have found that they are back where they started – paying the contractor for their own inefficiencies.

Most utility businesses depend on contractors to a significant degree in order to develop and operate their assets, be it on specialised skills and technology, or on additional manpower to make up shortfalls in an overheated labour market. Yet there is an astonishing degree of money wasted.

However, experience shows that by applying a structured approach throughout the lifetime of a contract, the huge sums spent will not go to waste but can instead be directed towards adding significant value to your asset.

This paper looks at a number of tips and traps for effective contract and contractor management, whatever degree of outsourcing you go for. In particular, it identifies the following critical success factors:

- Defining a long-term contracting strategy that is supported by the management team and the key customers
- Putting in place a system for measuring operational and contractual performance that is owned and driven by the contractor, and supported by the customer
- Development of a collaborative partnership with the contractor, rather than a master-slave relationship
- Ensuring the wider organisation has the skills necessary to manage contracts properly

A constant source of frustration

As utility professionals, we've all been there before. A large contract is about to expire, management is pushing for a new approach, the clock is ticking, the contracts team set up lengthy meetings... and nothing happens. The deadline approaches, the contract is extended, and life goes on as usual.

The other familiar scenario is that of the long-standing contract, the mutually-dependent partnership, where we know the contractor isn't performing and workforce on both sides are cynical. The commercial people meet each quarter but the contractor never gets penalised. Somehow, there's always an excuse – but who's really to blame?

Start with the end in mind

Getting value from your contractors depends from the outset on setting a robust contract strategy. Too often management is simply focused on getting the best price. But picking suppliers because they can deliver – on paper at least – the quantities needed at the price the market demands does not equate to a robust contract strategy.

Don't be fooled: getting the key people together in a room, having some nice high-level discussions, and producing a couple of slides won't cut it. You need to work through in detail some of the following decisions:

- How will success be judged and performance measured?
- Who are the potential bidders? Is there really competition in the market?
- Totally managed service or basic call-off arrangement?
- Stable volumes and long-term reduced rates and or flexibility and short-term market price adjustments?
- How will you go to market – single source or request for quotation?
- What would be the costs of transitioning to a new vendor vs. retaining the existing one?
- What level of integration with the contractor is desirable, given costs and confidentiality?

Make no mistake about it: working these issues through requires time and effort from a large group of people – not just the contracts team, but more importantly the customers and key managers themselves. But putting in the effort at an early stage will reap rewards further down the line. By knowing where you are going and why, not only do you have a greater chance of actually getting to where you want to be, but you also keep one step ahead of the contractor.

Performance management – simple in theory...

Everyone would agree that it's difficult to improve performance without measuring it. But all too often it's unclear who really is responsible for the Key Performance Indicators used to measure a contractor's performance. Take maintenance for example. We want the contractor to take ownership for the equipment they are maintaining, so we measure equipment availability. But when availability is constrained (in peak demand periods, for example), all too often the contractor is prevented from doing their job. If they can't get to the asset when they need, how can they be held accountable for equipment uptime? By holding them responsible for measures that they can truly control (e.g. estimated vs. actual hours used or hours lost through rework) performance can be more tightly managed, so that excuses and exceptions are minimised.

But the onus is on the customer to facilitate this. Holding a weekly review of performance, rather than waiting for the quarterly commercial review, means that issues can be addressed on a timely basis, before cynicism sets in. Getting a contracts specialist, the key customer and the contractor together round a table shouldn't take long. The maxim is 'little and often'.

Partnership, not master-slave – turning suppliers into partners

A frequent symptom of poor contract management, the existence of a blame culture where the contractor is perceived as 'useless' and the customer as 'indecisive' benefits nobody. It is a truism that a 'win-win' scenario is to everyone's advantage, but all too often this is perceived as a pipe-dream, and forgotten in the battle to outwit the other party. But most reviews of the reasons for poor contractor performance highlight the contractor's desire to do a good job and the perception that they are prevented from doing so by a suspicious customer. Creating the right environment for both to succeed is as challenging as it is essential.

Allowing the contractor to propose innovative solutions to add further value, as they are often keen to do, has its merits but is not enough. The greater prize can often be gained by simply giving them the space to do their normal job properly. But this requires an atmosphere of trust, which may take months to engender.

The key step to getting there is understanding where both sides' responsibilities begin and end. The customer needs to recognise that, however desirable they may be, ambiguities in scope are likely to lead to a poor job. The contractor needs to accept that the customer's word on the quality of workmanship is final. Often a simple listing of these basic responsibilities will go a long way to clarifying the expectations that both parties need to make of each other in order to sustain a fruitful relationship. These expectations will be critical even in the most simple, least integrated call-off arrangements.

Addressing the skills gap

Getting these things right depends on getting a disparate group of individuals to work together towards a common goal. Having a well-defined end-to-end contracts management process is an obvious first step. But many of the most seasoned professionals lack the basic skills and understanding of how to manage contracts. They may be expert negotiators or technical gurus, but defining a robust contracting strategy or turning round a soured relationship is not everyone's forte. A thorough training programme is therefore essential. This may require bringing in external help to deliver specific modules; and quite some effort will be required to develop practical exercises to help people learn through real examples, not to mention identifying those needing training and keeping track over time of who has been through which modules. But the rewards will soon be noticed as increased skill levels translate into tighter management of business performance.

The contracts team need to lead the process, but they will require input from across the organisation. The common issue faced by the contracts team is that they lack time and commitment from the customers, who are too busy 'running the ship'. But by keeping the process simple, by constantly explaining the benefits and by actively managing progress, even the most cynical of engineers can be brought onboard.

Measurable improvement

Whatever the goal from your contract – cost reduction, increased efficiency, improved service levels, improved reliability – you can be sure that by applying a structured approach from the outset you will measurably improve the performance of the contract and the contractor. Experience shows that cost savings of 5-10% are possible by setting up the right contract strategies, and efficiency improvements of up to 25% are possible through tighter contractor management,

But be sure to set a baseline from which to measure the improvement. That way you will have evidence with which to win over those in your organisation who don't see contract management as their responsibility. Only by gaining their support will you unlock the value hidden in your contracts.



About the Author

Owen Williams, Senior Vice-President, Infrastructure Services Sector

For the past seven years, Owen has held the position of Senior Vice President of Celerant Consulting's Infrastructure Services Sector in the UK, where he is focused on developing Celerant's presence – and building lasting relationships - with clients across the Telecommunications, Transportation and Utilities Sectors.

During his lengthy career with Celerant, Owen has also held a number of roles in our Operations Function, leading consulting teams in the delivery of change programmes for major corporations across a range of industries, including: Automotive, Engineering, FMCG, Telecommunications and Utilities. Each change programme is custom designed to fit the specific needs of the client in question, but stays true to Celerant's unique way of delivering lasting change and measurable value.

Owen holds a BSc in Metallurgy and Microstructural Engineering, and a Diploma in Management Studies. He has also participated in Celerant's Executive Education programme at INSEAD and Stanford.



About the Author

Patrick Gambin Vice-President, Operations

Patrick has 15 years professional experience, having held a number of roles in both professional services and in general industry. Having joined Celerant in 2001, Patrick currently has overall responsibility for the delivery of client engagements in the UK. During his time with Celerant, he has led a number of complex engagements across a broad range of industries, including Telecommunications, Utilities, and Financial Services. The majority of the projects Patrick has been involved with have focused on improving levels of Customer Service, while also delivering significant reduction in operating costs.

Patrick holds a BSc in Physics, and has a Diploma in Accounting and Finance.

We have offices in 10 different countries and we will always go where our clients need us to be.

If you want a conversation about the ways we can help your business achieve results, every time, you can call us on:

| | | | |
|----------|------------------------|-----------------|--------------------------|
| Americas | + 1 781 674 0400 | Germany | + 49 (0) 211 58 33 00 33 |
| Belgium | + 32 (0) 2 762 52 38 | The Netherlands | + 31 (0) 20 570 5400 |
| Denmark | + 45 35 45 90 01 | Norway | + 47 22 43 29 23 |
| Finland | + 358 10 396 8800 | Sweden | + 46 (0) 8 670 6579 |
| France | + 33 (0) 1 56 69 53 00 | United Kingdom | + 44 (0) 20 8338 5000 |

www.celerantconsulting.com

