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**Successful Relationships Between Contractors and
Clients**

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Successful project execution depends on successful working relationships. Owners' project managers and all the participating contractors must achieve a level of understanding that sees them working towards common objectives.

Alliancing, or Partnering, is a way of co-ordinating these relationships that is changing the nature of project management in the refining industry and other sectors.

It is not a new concept in the UK, having first crossed the Atlantic from America in the early 1990s. It is already bringing considerable costs and operating benefits to those companies that have adopted it as a way forward for their operations.

Alliancing involves the bringing together of multi-skilled teams and expertise from different companies and allows a collaborative approach to project management. It gives a form of ownership to the participants, so ensuring a greater level of buy-in to the overall outcome. Greater buy-in gives more reason to get it right on time and on or even under, budget.

An Alliance will typically cover the engineering, procurement, construction and possibly management of the ensuing operations. It is all about getting the best people for this work and ensuring they are all pulling in the same direction.

Shared risks

Once the Owner has appointed the contractors with the greatest ability to influence the success of a project, they come together in an Alliance, with shared responsibilities for jointly managing the project. They also share the risks and rewards of the project.

That is an important facet of an Alliance. It is why all the participants, including the Owner, must work to the same set of commercial

objectives. If increased contract profit is aligned to reduced Total Installed Cost, all the contractors will have a greater focus on working co-operatively. It is in their best interests.

For many organisations, the experience of alliancing is limited to a project-only concept. The Owner establishes a team of contractors solely for the duration of the project. Foster Wheeler has had considerable success with this form of Project alliancing. For example, we have worked with a client on a number of projects at the company's UK refinery, including one of the first applications of an Alliance on an onshore project. This saw the revamp of a fluidised catalytic cracker unit (FCCU), where the harmony of the working Alliance was considered a major benefit, not just for the revamp project, but for further project work on the FCCU.

While these Project Alliances are important to Foster Wheeler, another rapidly developing area for the company is its move into longer-term alliances. Foster Wheeler believes these can have a significant impact on a company's bottom line and the successful management of client-contractor partnerships.

In an age when refining margins have been experiencing increasing pressure and the investments are increasingly dominated by environmental requirements (i.e. stay in business investment), an effective way of driving down costs and improving project execution performance is a significant business asset. Long-term relationships are just such an asset. They enable cost effective execution of project work.

They fall into three categories: Technical Support, Site Term Service and Company Alliances.

Technical Support

In essence, Technical Support is a contractual relationship between the Client and an organisation, like Foster Wheeler, whereby when the Client needs support it is provided.

Some refiners, particularly those running with substantially reduced technical resources, are looking for a relatively informal way of pulling in ad hoc technical assistance. These are typically either short-notice demands for which the relevant refinery personnel are not available, or specialised consultancy services. The contractor's personnel aren't on site full time, but offer discrete packages to fulfil this resourcing shortfall.

The Client is able to call on the contractor's services at any time during the course of the Technical Support agreement. And because of the long-term nature of the relationship, it is more than likely that the support will be provided by an expert or consultant who knows the organisation and understands its challenges, constraints and personnel.

A key advantage with this type of relationship is the ease in which new work orders can be raised at short notice as the main terms and conditions for the services have already been agreed. However, as with most relationships, a look ahead to likely requirements makes resourcing and planning that much easier. Foster Wheeler also has this type of Technical Support agreement at refineries where there is already a term service contractor in place. In these instances, the relationship enables the client to target the services of a specific individual they have got to know and feel they can rely on for certain technical issues. For example, Foster Wheeler has provided specific individuals on a regular basis for a client's FCCU turnaround project.

Here the relationship is effectively to plug the gaps in the expertise of the incumbent contractor. It is unusual in these circumstances to have

someone assigned long-term to the site or the involvement of less experienced personnel. It does however underline the value the contractor assigns to these relationships that even small activities are treated with a high degree of interest and seriousness.

These small services seldom warrant the attention of a 'project manager' with attendant overhead. However, there will be occasions when some centralised function is required to administer the relationship by the contractor and this hinges on the size of that relationship.

For the refiner, having a Technical Support relationship in place gives them the freedom to call for a range of minor services without having to go through a lengthy and cumbersome procurement procedure. Because the relationship is not exclusive the refiner also has the freedom to go outside of this relationship as and when convenient.

Site Term Service

A Site Term Service is something quite different. It focuses on a particular site where the contractor is located for a specific term. The scale is very different to Technical Support, where there might be a need for only a single engineer. In a Site Term Service relationship there could typically be a team of between 40 and 50 contractor's engineers on site. This presence varies according to workload and will fit in with capital allocation for the site. Revised investment planning can mean rapid changes to site numbers.

A Site Term Service isn't restricted to a construction period, but gives the Client access to the contractor's expertise at all times, for whatever projects come up during the tenure of the Alliance. These might include a revamp of a site facility, a turnaround, or some addition to the plant. The contractors become part of the permanent site team, working alongside the Client's own employees on

whatever projects require their input. On certain sites we have seen our staff undertake key roles within the client's organisation on a 'best man for the job' basis.

This is very much in line with the industry move to outsource services and enables the Client to optimise the spend on human resourcing.

Of course, this has the potential for discontentment, with a company's employees resenting outside people coming in to do jobs they might have previously done.

But that is one of the reasons why a long-term Alliance is an effective way of outsourcing. The contractors build relationships with the resident employees over a period of several years. They are not brought in as trouble-shooters to take over a specific project; they have a long-term interest in the site and its personnel.

Experience has shown that it takes two years to build a strong relationship. This means that a minimum of three years is a realistic term for an initial Site Term Service, with the opportunity to roll this forward according to performance. The relationships benefit from both good and bad experiences.

Company Alliances

A Company Alliance is a relationship covering everything arising in pre-defined areas of a Client's business.

This could, for example, mean a contractor having a Company Alliance with Refiner X to build all its new plant over the next 10 years. This Alliance could also extend to providing ongoing, on-site engineering services wherever they are needed across the Company.

The relationship is with the entire Company, not just a specific site or for a one-off project.

This is a long-term business venture between both parties. Depending on the depth of involvement, it can involve the contractor working jointly with the Client to develop and build business for the future.

Case Study 1.

Technical Support with a European refining company

Foster Wheeler has recently agreed a Technical Support Agreement with a European refiner for a specific site. It covers miscellaneous technical services and is the first such relationship that the site has entered into.

Foster Wheeler operates under a standardised set of conditions covering the contractual issues, while the individual work orders are agreed on a case by case basis. This means that for each work order there is a discussion on the type of person or people required to carry out the work, the work scope, and whether payment terms are reimbursable or lump sum.

Under this new arrangement Foster Wheeler has initially been asked to:

- assign a junior engineer to the site for a year to assist in general project works
- develop a number of minor process packages and studies
- develop a package for the revamping of a fired heater
- investigate corrosion experienced with a number of vessels

While the scale of these activities is much smaller than the more typical site term services arrangements that Foster Wheeler has, it

satisfies the immediate requirements for the refiner and provides an excellent platform for building longer term relationships.

Case study 2:

Site Alliance with Texaco's Pembroke Refinery

Foster Wheeler has enjoyed a continuous presence on Texaco's Pembroke site since 1993. The term services arrangement has been renewed twice since the original award.

Workload on site is cyclical and the numbers in Foster Wheeler's team vary accordingly – between 20 and 130 so far. Workloads vary according to site maintenance requirements and other ongoing investments, for example the Auto Oils response.

Foster Wheeler is responsible for Engineering, Procurement and Construction Management (EPCm) for a variety of projects. While most site projects have gone the term services route, Texaco reserves the right to go to competitive tender or award work outright to other contractors.

Assignment sizes have varied from a couple of hundred hours of work through to major unit revamps. Typically the projects have been geared towards improvement or enhancement of existing facilities. Projects that have not been undertaken under the term services agreement as part of the long-term Site Alliance are small scale maintenance jobs, such as minor piping modifications, or major works put to competitive tender.

The majority of services are undertaken in self-contained project offices on site. Where necessary, specialist technical support has been provided from Foster Wheeler's central resource at its Head Office. In fact, the provision of small specialist services has been a very successful part of the relationship.

In addition, Foster Wheeler has provided engineers to work in Texaco's office as part of their permanent team.

Foster Wheeler has been able to demonstrate a reduction in EPCm costs as a percentage of Total Installed Cost over the term of the Site Alliance. During the first three-year term contractor's costs were reduced by 15% with an accompanying reduction in overall project costs. Excellent site safety performance has been a feature throughout the length of this relationship.

The relationship is governed by a management meeting held every three months which is attended by senior staff from both companies.

Case study 3:

Company Alliance with BOC Process Systems – European, Middle East and Africa

Foster Wheeler has a business-focussed Company Alliance in place with BOC Process Systems' European, Middle East & Africa (EMEA) zone.

It is fundamentally different in its aims compared to the other relationships described in this paper. It is the first major agreement that Foster Wheeler Energy Limited has had of this nature and is proving to be mutually beneficial.

When it was launched, it was described as a groundbreaking strategic alliance to provide BOC's customers with a broadened product offer that included gases and related power, utilities and technologies.

In mid 1998, BOC started to review how to best meet their EPC requirements for technical support for existing facilities and for new plants. They concluded that many of their internal activities could be

more effectively outsourced to EPC contractors on a regional basis. Following an exhaustive procedure first to define their requirements, then sending requests of interest to the market and finally through to bid evaluation, Foster Wheeler emerged as the chosen EMEA zone EPC Alliance partner in May 1999.

The agreement now in place allows BOC access to any of Foster Wheeler's resources across Europe, Middle East and Africa and other lower cost engineering centres such as Foster Wheeler's Thailand operations.

Similar initiatives have been progressed in BOC's other Process Systems zones of the Americas and Asia/Pacific.

The original objective of the alliance development programme was to outsource EPC work allowing BOC to concentrate on core business and value added processes. As previously mentioned, this move towards outsourcing is common to many industries today.

The outsourcing was targeted at achieving:

- enhanced construction site safety
- lower costs
- location specific know-how
- specialist support
- best in class EPC execution systems

BOC's initial objectives were extended during the partnering selection phase to include joint marketing and business development.

Considerable effort was made in putting together a list of Alliance Key Performance Indicators (KPIs). These KPIs are very much business focused and driven and so are relevant to the development of the Alliance.

One year on, the picture emerging is that real value can be added to both organisations through mutual access to each other's client base. Foster Wheeler's strengths in the oil and gas, refining, power and petrochemicals markets has been complemented by BOC's in these areas and expanded into the metals industries.

Both parties are actively identifying prospects that would be potentially beneficial for each other. This has developed the Alliance relationship beyond the bounds of the more conventional EPC workscope into a much broader business-focused approach encompassing business development, estimating and proposal activities, through to project execution.

As well as the expected joint proposal work, there is the complementary provision of minor ad hoc reimbursable assistance. This includes value engineering, developing generic estimating models, constructability studies and consulting on specific technical issues.

A monthly Alliance operation and business development meeting is held to ensure that issues and opportunities are formally raised. This, together with a Steering Committee meeting every three months and a bi-annual Alliance strategic review has provided an excellent forum for a frank exchange of views and assistance with directing the alliance. A review of Project and Alliance KPIs is an integral part of the management meetings.

The relationship has mostly operated during a difficult period for BOC (as a result of the Air Liquide/Air Products take-over move) and this has constrained BOC's development plans in certain areas. While business levels for the Alliance are below those originally targeted, both parties are currently convinced that the relationship to date has been of mutual benefit.

Much of the success of the Alliance is based upon the good cultural fit and positive relationships that have been established within the core Alliance team, comprising key managers from both organisations.

Foster Wheeler regards this business-focused approach very much as a model for future Company Alliance relationships with client organisations.

Business benefits

The key benefits of using contractors like Foster Wheeler for long-term Alliances can be categorised into Costs, Scheduling, Quality and Safety.

Costs are perhaps the easiest area to measure.

Because an Alliance ensures a consistent approach to costs, there is a high degree of price discipline among members. In addition, a long-term relationship with a client ensures a better understanding of the price constraints. It brings knowledge of where the cost boundaries can be stretched in the interests of the overall contract. And the client has the confidence in the contractor to know that those boundaries won't be stretched unnecessarily.

Foster Wheeler's own experience and track record suggests that consistent savings against project estimates for long-term partnering arrangements come in at between 7% and 10%.

Schedule savings are accrued by using a long-term partner. In particular, involvement through all the stages of a project, from front-end development through to construction, can bring significant savings on Invitation to Bid preparation time, bidding and evaluation periods. Continuity of staff is a key issue in this, as people who

already know your company take less time to understand the immediate challenges and company set-up. This does not, of course, stop the need for significant and detailed analysis and development of the contract and performance criteria when defining the basis for the work.

If the contractor's team is on site, particularly where there is a joint execution team, the review processes can also be handled in an optimum manner.

Quality is one of those areas that can be hard to define. With each project (above a certain size) it is possible to mutually agree the key quality issues for the project. For a process package, this might be concerned with errors and changes, whereas for a full EPC work scope, product quality and start-up time might be the quality drivers.

What has become apparent in alliancing arrangements is a common objective of continual improvement. In addition, over the period of the relationship there is a significant improvement in the contractor's knowledge of the client's systems and standards. The longer-term nature of the relationship allows effective feedback to the contractor to enhance the performance of the relationship. Both factors lend themselves to the overall quality of the work in hand.

What better evidence of quality is there than a Client's complete confidence in his contractors that when a plant is ready for start-up, it goes ahead without delay. That has certainly been our experience of Alliance quality.

Safety is a crucial part of any long-term Alliance.

Some of the relationships that Foster Wheeler have in place do not cover construction – this is, instead, completed by the client's own

construction team. In these instances the influence on safety is mainly through design safety and constructability.

In the construction phase the contractor's systems will be a driving force for safety. Construction safety record and safety systems is one area that clients should examine closely in the selection process – it is unrealistic to expect a step change in safety performance on a site from a contractor who is unable to demonstrate a class-leading performance in this area. Over the period of the agreement, the contractor should become ever more familiar with client systems, leading to greater levels of safety.

Alignment

While long-term Alliance contracts aim to deliver to the customer continuous cost reductions without comprising safety, environment, quality or reliability, these benefits don't just accrue overnight. The key to a successful Alliance lies in the alignment of objectives on the part of all the principals. Only in that way will the partnership work.

An alignment process carried out very early in the life of an Alliance will improve the expectation of collaborative working. If the objectives of a project, the Client and the contractors are not properly aligned there is increased risk of contractual disputes and poor performance as a result.

That Alliances do work is clear from Foster Wheeler's own experiences. We set up a number in the early 1990s and they have been so successful that they have rolled on and on.

At the root of them all, is their dependence on relationships, on building trust between Client and Contractor – the client must feel that the contractor is doing his utmost to complete the work on schedule, to agreed cost constraints and to the highest quality levels.

The trust must also exist between other members of the Alliance. On both counts, it can take time to build this level of trust.

A long-term Alliance gives you that time.