



engineering and construction
contracting association

**41st
Annual
ECC
Conference**

**September 9 - 12, 2009
Hyatt Lost Pines Resort
Bastrop, Texas**

The Perfect Storm

Navigating Through the Turbulence of
Risk and Change



Courageous Leadership During Turbulent Times



Moderator

Donald C. Runaldue

Project Executive
ExxonMobil

41st Annual ECC Conference, September 9 -12, 2009, Bastrop, Texas



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Presentation Flow

- Introductions
- The Challenges
- Our Jobs at ExxonMobil / Fluor / Emerson
- Courageous Leadership
 - Examples
 - Case Studies
 - Discussions



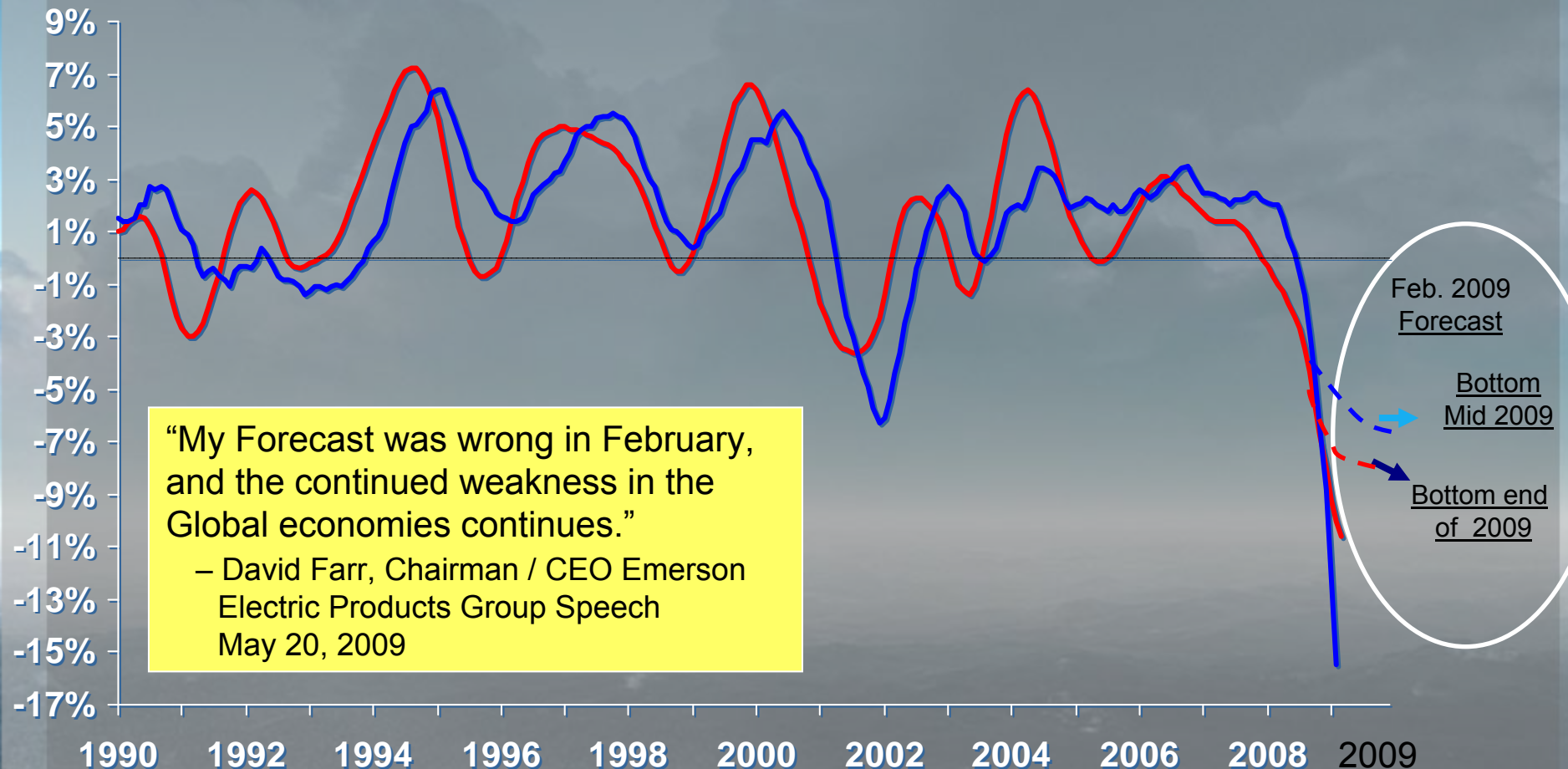
Courageous Leadership

- Industry has faced enormous challenges from the worst economic times since the great depression
- Some are just starting to say the tide may be turning
- What have leaders done to position for the longer term and the recovery?



G7 Composite Leading Indicators and Industrial Production Index – 3MMA of Year / Year ¹

— Composite Leading Indicator — Industrial Production Index



My Job at ExxonMobil

- Project Executive
- Provide leadership on capital projects
- Face the challenges in projects
- But similar challenges today
 - Need to work together for all to be successful
 - Need qualified motivated teams
 - Must have an everlasting dogmatic focus on safety



Courageous Leadership During Turbulent Times



Panelist

Jim Scotti

*Senior Vice President
& Chief Procurement Officer,
Fluor Corporation*

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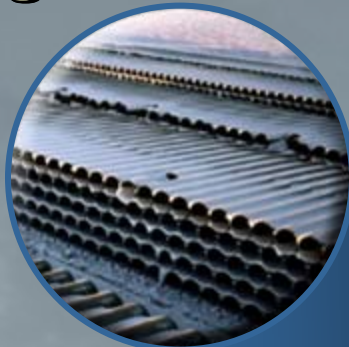
Topics

- Center-Led / Global Organization
- Supplier Partnerships
- Low-Cost Country Sourcing
- Understanding the Market
- Investing in the Future



My Job at Fluor Managing a Center-Led / Global Organization

Material
Management



Contract
Management



Corporate
Procurement

**CENTER-LED
PROCUREMENT**

Travel

Fluor Supply
Chain
Solutions



Logistics



2,000 Resources Globally
\$13.6 Billion Annual Spend



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Managing a Center-Led / Global Organization

Over 2,000 Procurement Professionals Worldwide



Managing Supplier Partnerships

- Keep the larger purpose in mind
- Work collaboratively for project success
- Listen and consider options that may differ from their own preferences or experience
- Ask for only appropriate concessions from partners
- Adequately assign risk to partners who can mitigate
- Trust, but verify



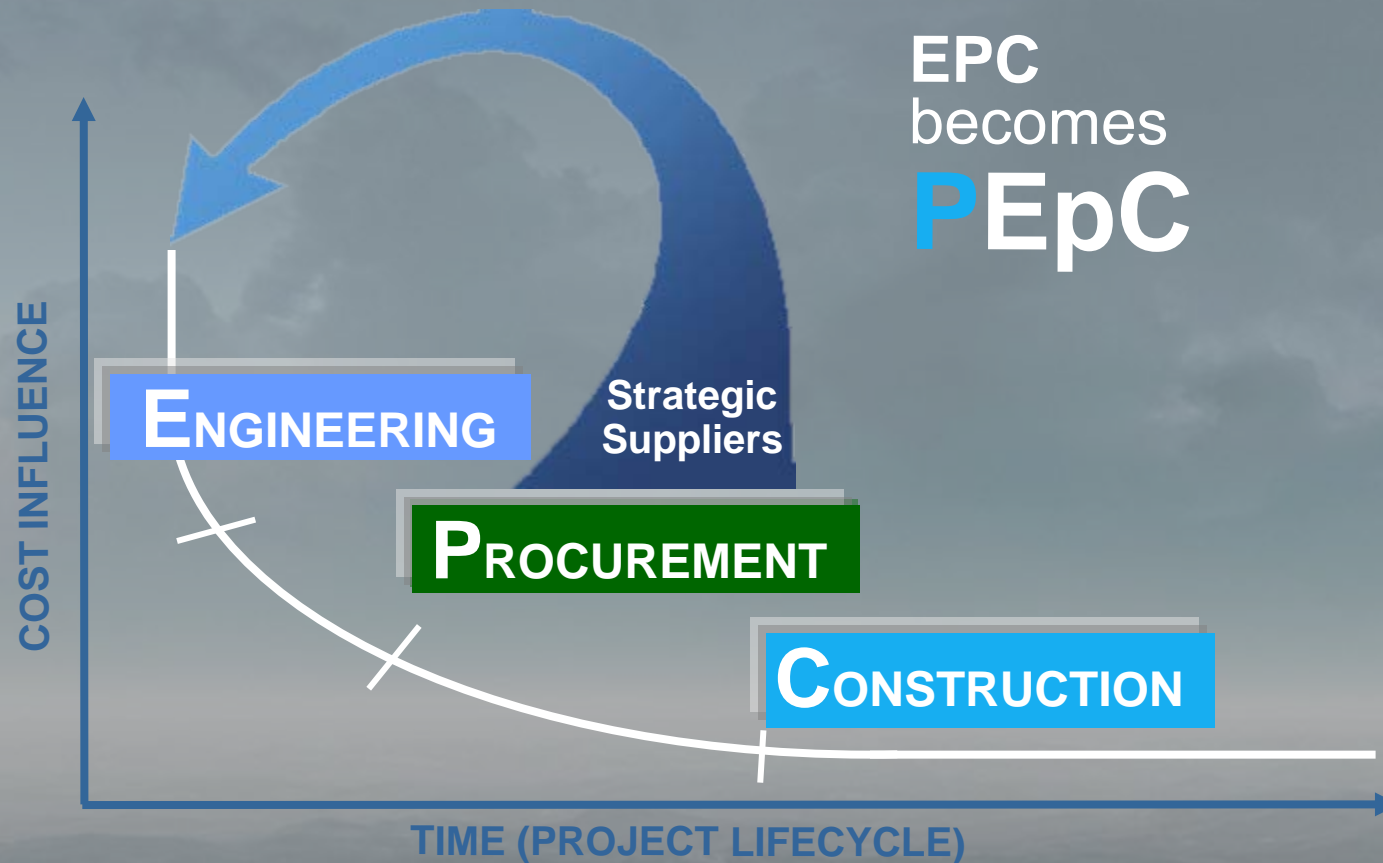
Managing Supplier Partnerships

- Suppliers and subcontractors are critical to successful project execution
 - 60-70% of typical project's TIC based on materials, equipment, and subcontracted services
- Supplier integration promotes greater efficiencies by allowing each stakeholder to leverage their strengths
- Working with suppliers, instead of treating them as adversaries or risk holders, leads to relationships that work in both good and difficult times



Managing Supplier Partnerships

The PEpC Process



Construction Industry Institute indicates:

4 – 8% cost savings

10 – 15% time savings

The ability to influence the cost of a project is greatest at the beginning of a project – bringing strategic suppliers in early is essential to success.



Managing Supplier Partnerships

- Tiger Woods & Steve Williams
 - A perfect partnership, in good and bad times
 - Woods' caddy since 1999
 - Also caddied for Raymond Floyd and Greg Norman
 - Woods and Williams are friends, in addition to their professional relationship
 - Trust, but verify!



Managing Supplier Partnerships

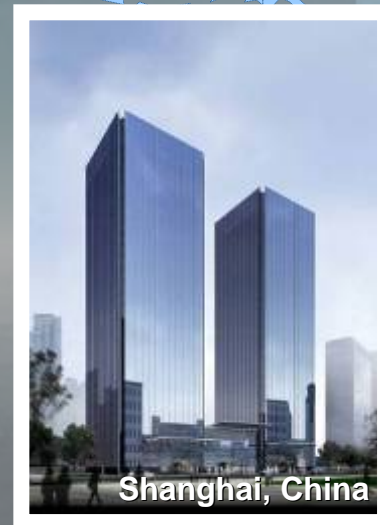
How Owners Contribute to Success

- Appropriate allocation of risk between owners, contractors, and suppliers
 - Appropriate allocation of risk is key to developing and maintaining trust across all execution partners
 - Each partner should only be expected to accept risks for those aspects they can mitigate
- Allowing relationships and trust to develop between all parties
- Understanding that a single project is only one element of a much larger business relationship
 - Contractors and suppliers recognize that successful project execution and client satisfaction are key factors to securing future engagements



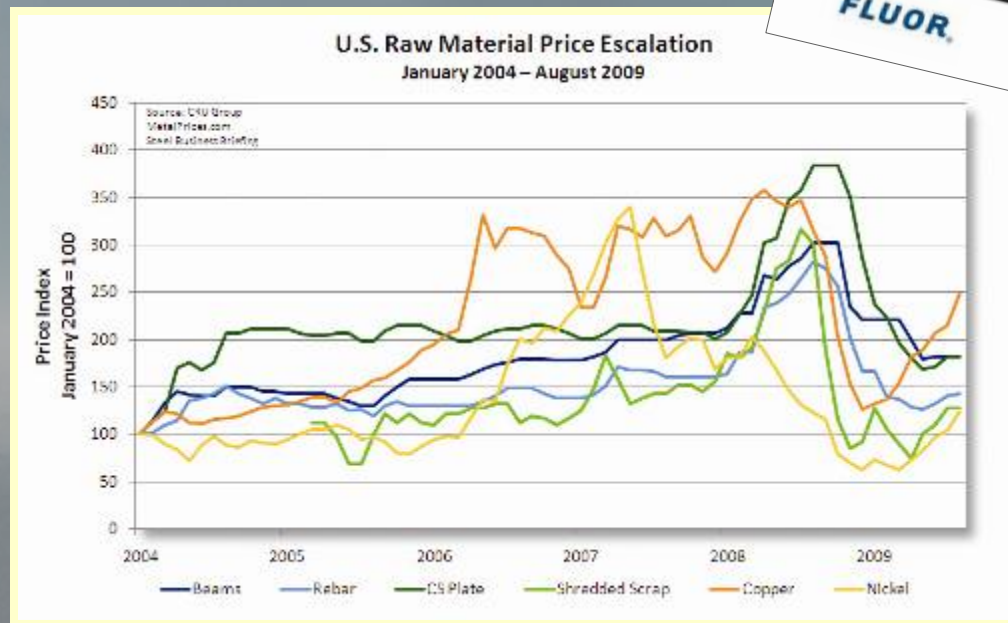
Managing Low Cost Country Sourcing

- LCCS provides 15-40% total cost savings versus non-LCCS region competitive bidding
 - Lower labor costs
 - Lower raw materials costs
- Fluor rates and monitors LCCS suppliers
 - Price differentials against US baseline
 - Delivery times, schedule risk, quality
- Strategic supplier agreements developed with suppliers in low cost and emerging markets
 - Proven track records on projects with Fluor, other contractors, and owners
- LCCS opportunities exist in several locations
 - China
 - India
 - Vietnam

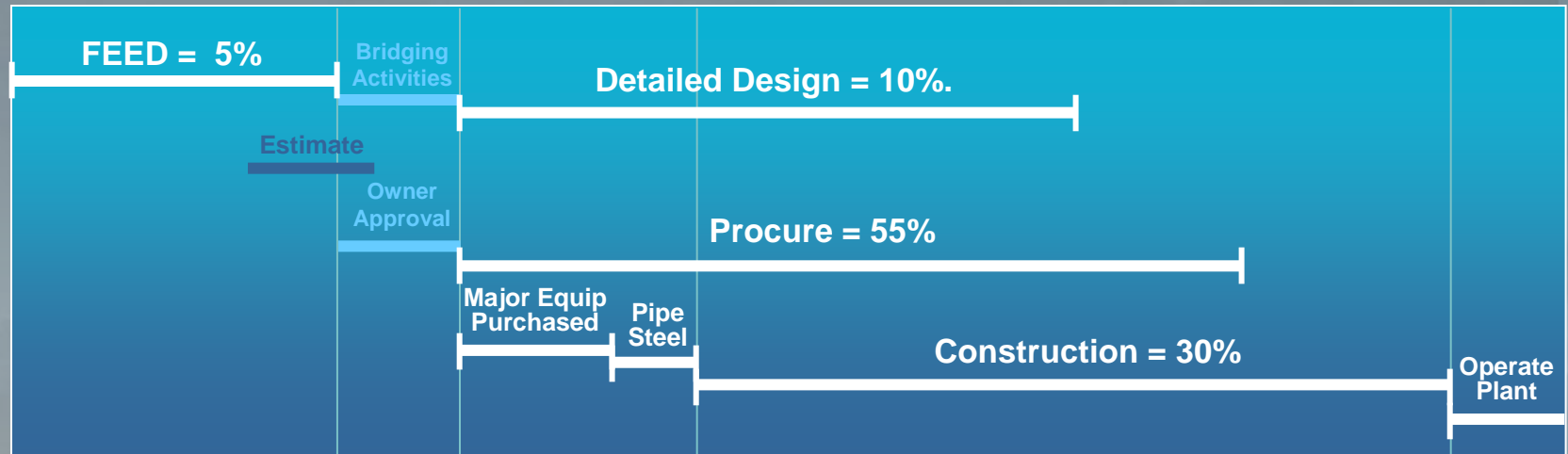


Managing Market Intelligence

- Material Market Intelligence Services (MMIS)
- Monthly Material Market Bulletins for our projects, estimating groups, and clients that contain market specific information and trend analyses for select material and equipment categories
 - Supply
 - Demand
 - Pricing



Projects Commencing in 2009 Q1 Have Potential to Capture the Anticipated “Low Cost Window”



Legend

- Good
- Med.
- Bad

Low Cost Window Project Cash Outflow

	2009				2010				2011				2012				2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Full
% GDP World	-2.7	-3.1	-3.0	-1.4	0.7	1.5	2.2	2.7	3.1	3.5	3.7	4.0	4.4	4.2	4.1	4.1	4.1
Oil Price \$/Barrel	43	44	45	48	53	55	54	56	57	60	63	67	69	73	76	78	85
Cost Change Due To Market																	
% Engineering*	0	0	0	-5	-5	-5	-5	0	0	+5	+5	+5	+5	+5	+5	+5	+10
% Procurement	-5	-5	-5	-5	-15	-15	-10	-10	-5	0	0	+5	+5	+10	+10	+10	+10
% Construction*	0	-5	-5	-5	-10	-10	-10	-10	-5	0	0	+5	+5	+5	+10	+10	+10

* Cost reductions achieved through increased efficiencies from more experienced personnel, fewer hours and less turnover. Source of Oil Price and % GDP Growth Forecast: Global Insight Apr 17, 2009 – “the most consistently accurate economic forecasting firm in the world”.

Investing in the Future

Fluor Endowment to Clemson University

Fluor Endowed Chair of Supply Chain & Logistics

- \$2 million investment
- Announced September 11, 2007
- First class began August 20, 2008
 - 40+ students from Fluor and other companies in the industry



Investing in the Future

Fluor Endowment to Clemson University

Fluor Endowed Chair
of Supply Chain & Logistics

- Fully online; no campus visits required
- Graduates obtain a Masters Degree in Engineering with a Concentration in Supply Chain from a fully accredited US University
- Continued support and input from owners, contractors, and suppliers is required



Courageous Leadership During Turbulent Times



Panelist

Melissa Herkt

President & COO

PlantWeb Solutions Group

Emerson Process Management

41st Annual ECC Conference, September 9 -12, 2009, Bastrop, Texas



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My Job at Emerson

Emerson At-a-Glance 2008

\$24.8 Billion in sales



Headquarters in
St. Louis, Mo.
NYSE: EMR



Diversified global
manufacturer
and technology provider



Approximately 141,000
employees worldwide

- Manufacturing and/or sales presence in more than 150 countries
- 255 manufacturing locations, 165 outside the U.S.
- No. 94 on 2009 FORTUNE 500 list of America's largest corporations
- Founded in 1890

Summary: Who We Are

- **EMERSON**
a successful and stable partner
- **Emerson Process Management**
a world leader in automation
- **PlantWeb Solutions Group (PSG)**
combining control and safety systems
operations management, and services
into integrated digital plant solutions



PSG Divisions

Process Systems and Solutions

Power & Water Solutions

Asset Optimization





EMERSON™

Process Management

PlantWeb Solutions

- DeltaV
- Ovation
- DeltaV SIS
- Syncade
- Smart Wireless
- SureService
- AMS Suite
- Services and Technologies
 - Mechanical Equipment
 - Electrical Systems
 - Process Equipment
 - Instruments & Valves

Measurement

- Rosemount
- Micro Motion
- Top-Worx
- Rosemount Analytical
- Daniel
- Mobrey
- Roxar

Valves & Regulators

- Fisher
- Baumann
- Bettis
- El-O-Matic
- Shafer



Brands



EMERSON™

Process Management

PlantWeb Solutions

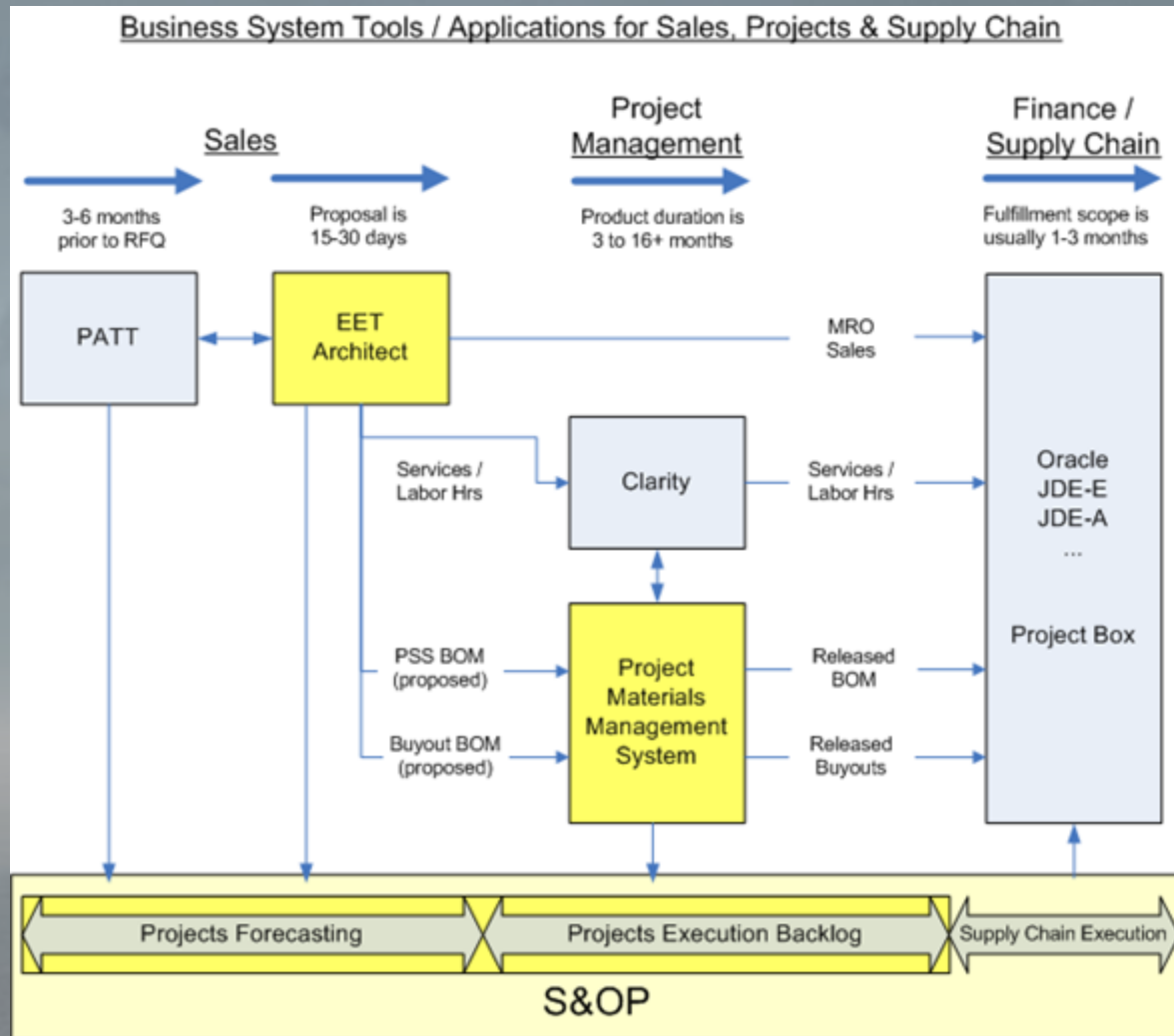
- Process Automation
- Safety Systems
- Operations Management
- Remote Automation
- Wireless Solutions
- Industry Solutions
- Asset Management Software
- Services and Technologies
 - Mechanical Equipment
 - Electrical Systems
 - Process Equipment
 - Instruments & Valves

PSG Operations Group

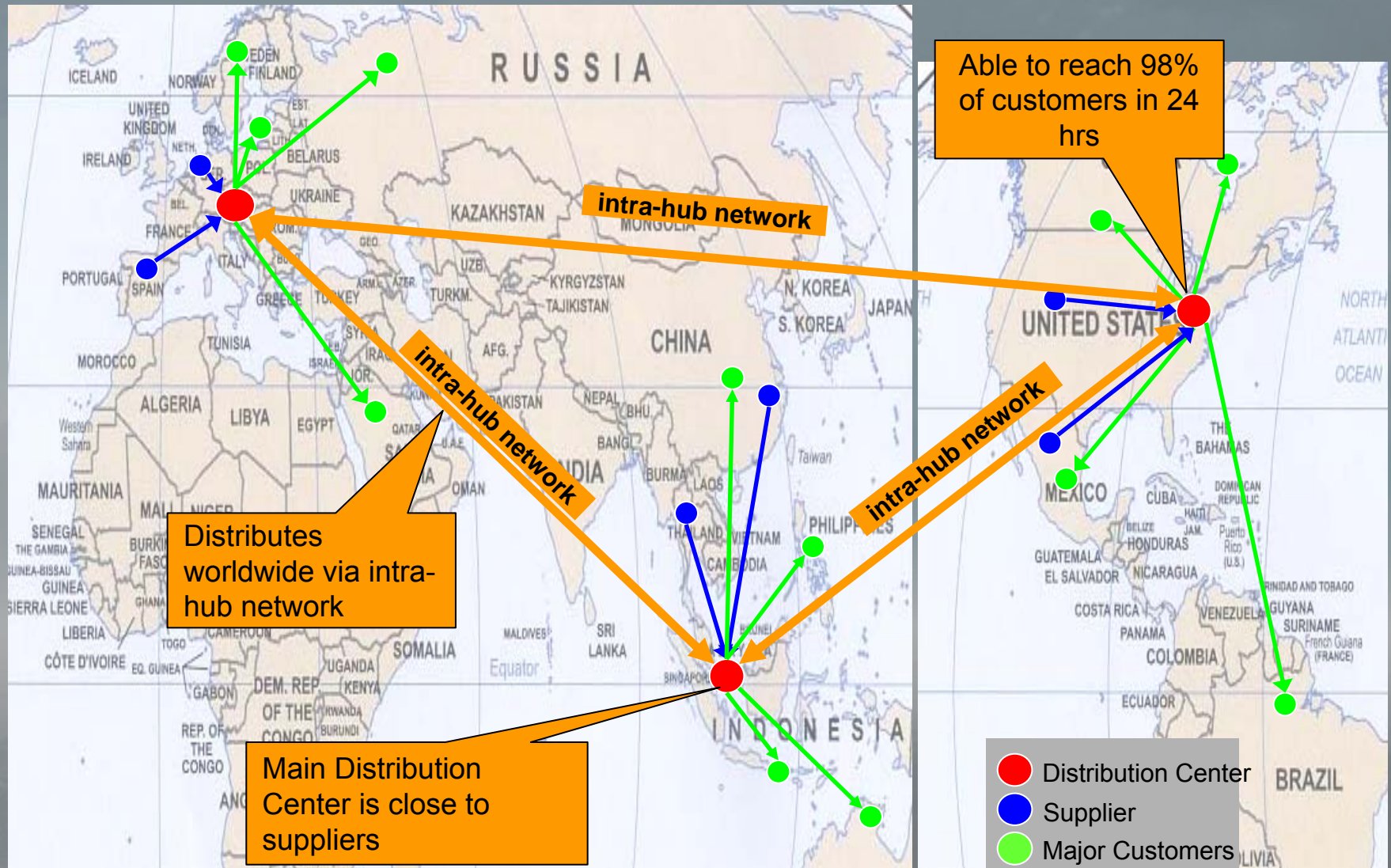
- Material Supply Chain
- Labor Supply Chain
- Global Project Management Office
- Product Support
- Quality
- Educational Services
- IT

Capabilities

Integrated Material and Labor Supply Chain

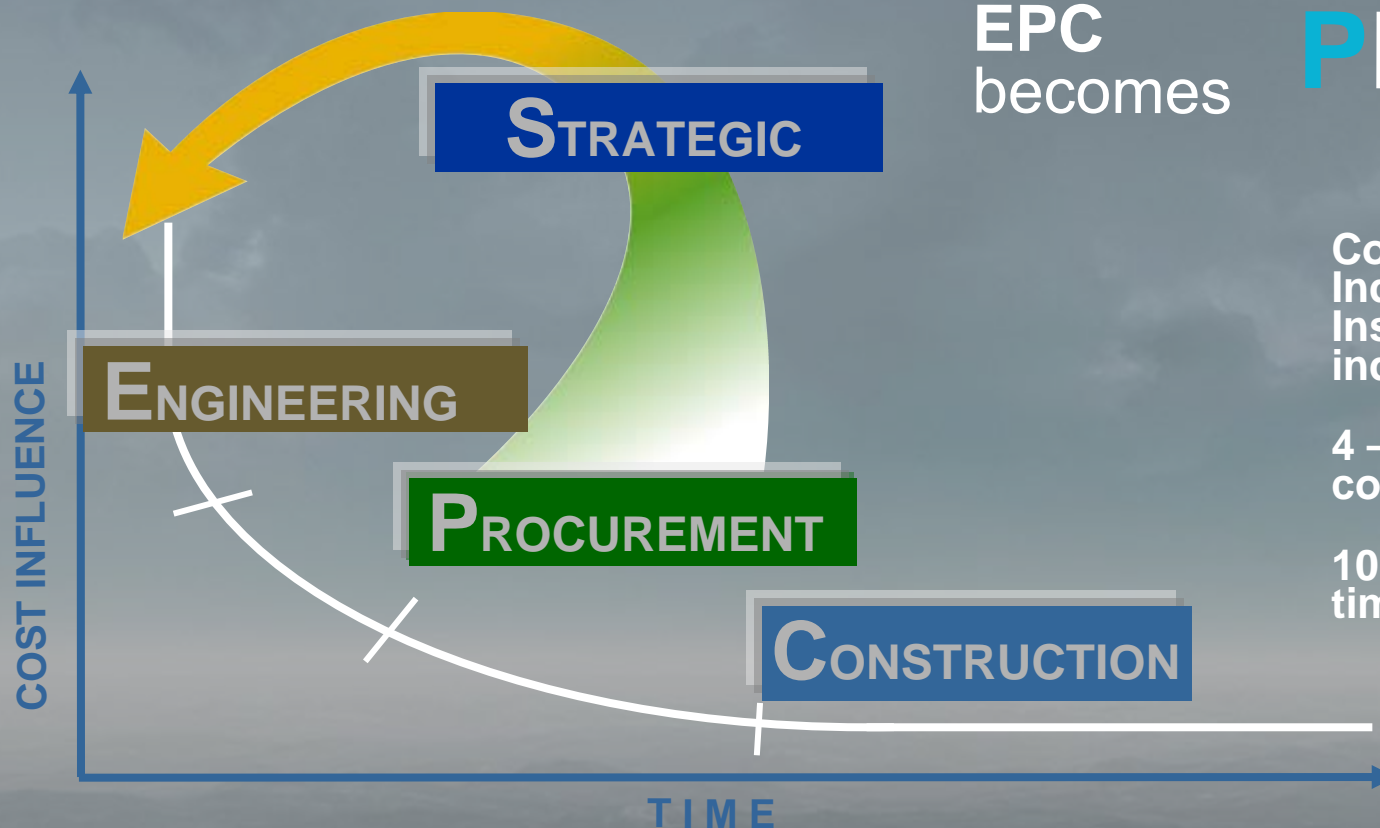


PSG Material Supply Chain Network



PEpC Lays the Foundation

Supplier Integration: The PEpC Process



EPC
becomes

PEpC



Construction
Industry
Institute
indicates:

4 – 8%
cost savings

10 – 15%
time savings

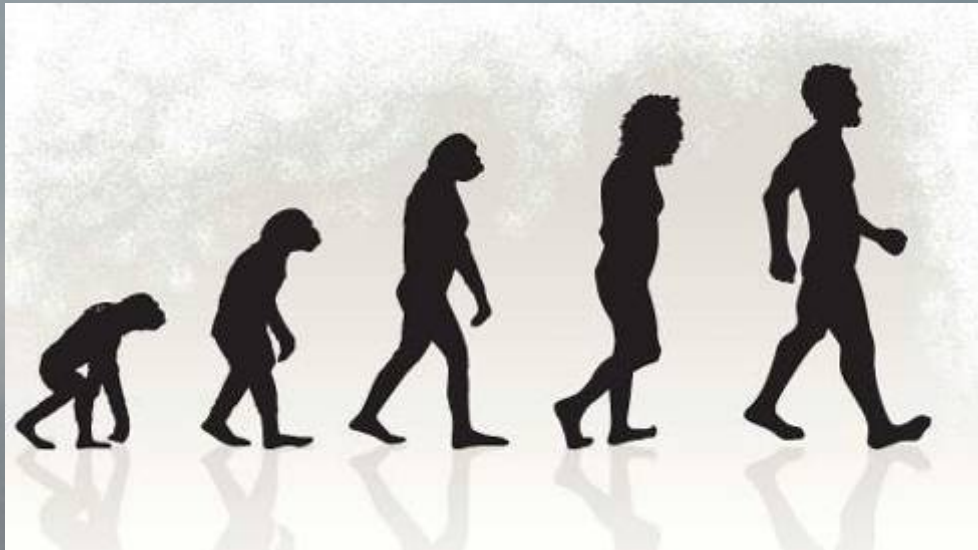
The ability to influence the cost of a project is greatest at the beginning of a project – driving *early strategic supplier integration* is essential to success.



Evolution of Project Delivery Methodologies

Traditional → PEPc → MAC

- Traditional – Packaged tendering process
- PEPc – Procure, Engineer, procure, Construct
- MAC – Main Automation Contractor
(a.k.a. MICC – Main Instrument & Controls Contractor)



Strategic Partner Selection Criteria

- Technology leaders, not followers
- Broad scope of supply with > 80% of required discipline
- Significant experience, capabilities & references
- Project delivery excellence
- Strong global and local presence
- Comprehensive lifecycle support



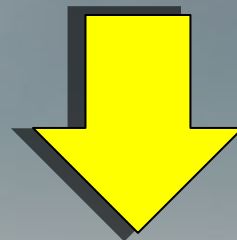
Do Partnerships / Alliances Deliver?



Industry research shows quantifiable improvements through Partnerships / Alliances during project delivery and in operations

Construction Industry Institute
RS102-1, Nov 1996

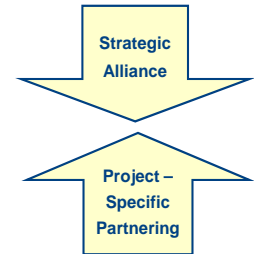
An Alliance Approach to Capital Programs



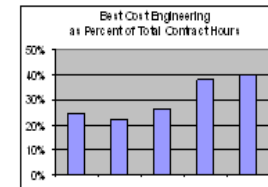
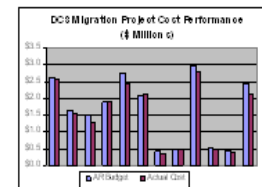
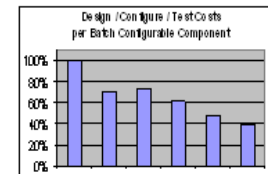
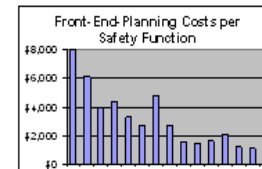
Proven in practice ...
case study presented
at
2008 CII Annual
Conference

CII - Partnering Process Model

- Owner's Internal Alignment
- Partner Selection
- Partnering Relationship
- Program Alignment
- Work Process Alignment



Results – Migration Program



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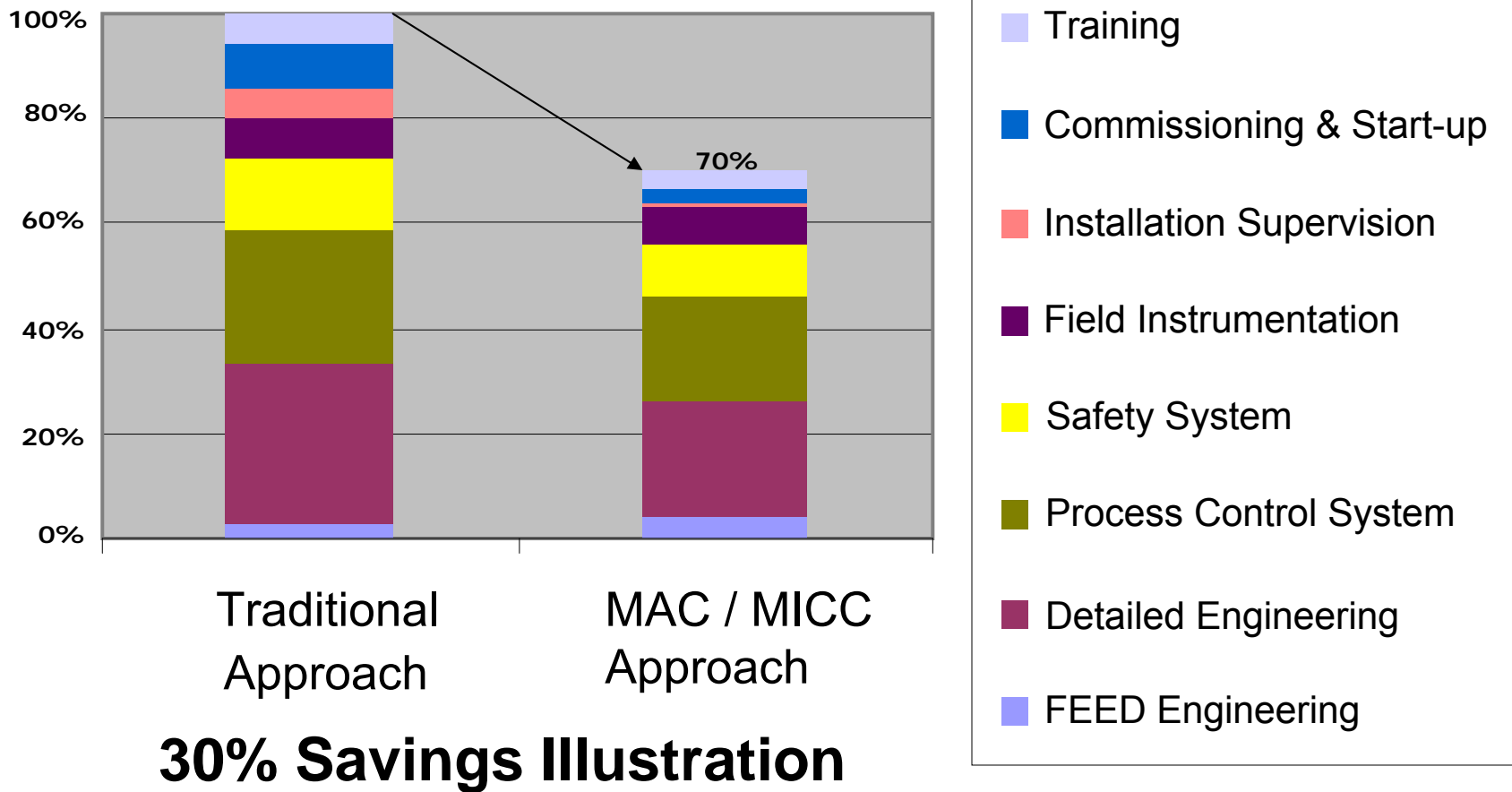
Navigating Through the Turbulence of Risk and Change

MAC / MICC Benefits & Results

- Complete responsibility for all automation
- Eliminates redundant and overlapping communication chains
- Single organization with globally consistent project management
- Mitigates traditional I&C problems
- Reduces the risk of scope expansions, schedule extensions, and cost overruns
- Proven through real world experience



Typical MAC / MICC Savings Example



Courage to Invest & Make the Right Choices ...

- While underlying economics and resulting orders remain very weak , Emerson continues to reposition global assets to achieve best cost structure
- Emerson's long-term strategies align with global megatrends
 - Developing world - infrastructure, urbanization
 - Resource scarcity - energy capacity, renewable
 - Environment - energy efficiency, emissions
 - Connectivity - datacenter and information networks



Courage in the Face of Adversity

Vital Signs

Total world trade volume, change from a year earlier



Source: Netherlands Bureau for Economic Policy and Analysis

■ **Global trade has fallen sharply** as the world's economy has sunk into what Federal Reserve Chairman Ben Bernanke on Tuesday called "the deepest recession since World War II." In fact, so far in this downturn the total volume of global trade has fallen at an even faster pace than it did during the Great Depression.

Follow the news all day at WSJ.com

The Wall Street Journal
Wednesday, July 22, 2009



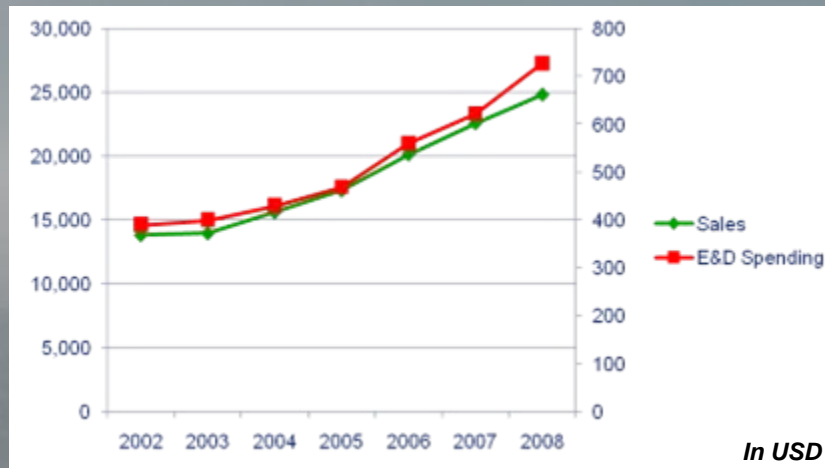
Emerson is Committed to Identifying and Meeting New Customer Needs

\$728 million... Emerson's investment in Engineering & Development during 2008

8,500... number of Engineering & Development personnel worldwide

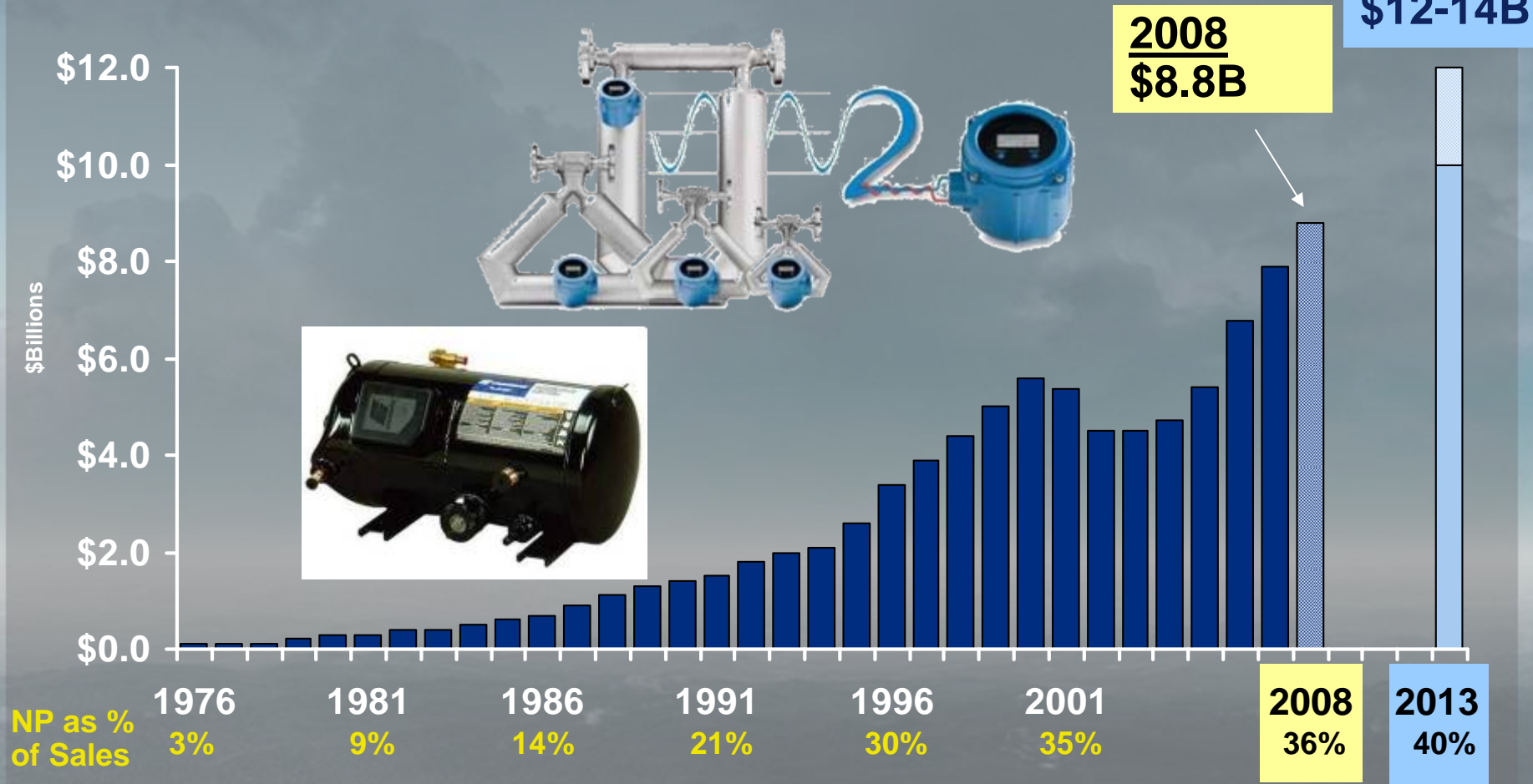
38%... increase in new products as percent of Emerson sales between 1995 and 2008

655... new patents earned in 2008 by Emerson employees globally



New Product And Technology Investments Continue To Pay Off

New Product Sales for Emerson



Record New Product Sales of Nearly \$9B in 2008

Building Technology and Engineering Capacity in Best Cost Regions

Number of
engineers

Best Cost

High Cost



Strong Investment for Emerging Market Sales Penetration

Conclusion

Courageous Leadership: Questions to Ponder

- Has your company's behavior with contractors / suppliers changed since the crisis began?
- Do you value relationships, trust, and reliability more now?
- How are you investing for the recovery and the future?
- Are you exhibiting courageous leadership in your job and in your company? What does that look like?
- Do you really understand the market?
- Are your additional demands paired with more reward opportunity for your contractors / suppliers?
- Do you think the crisis has lowered the cost for everything?





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Questions & Answers

