JOURNEY INTO UNCHARTED TERRITORIES

How are owners, contractors and suppliers adapting to successfully execute projects and reposition their businesses in the ever evolving project environment?

REPOSITIONING THE PROJECTS BUSINESS IN A WORLD WITH CHANGING BOUNDARIES

September 7-10, 2011
JW Marriott Desert Ridge, Phoenix, AZ
A Contractor’s View on Owners Contracting Strategy

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JOURNEY INTO UNCHARTED TERRITORIES
GENERAL SESSION

REPOSITIONING THE PROJECTS BUSINESS IN A WORLD WITH CHANGING BOUNDARIES
25 Years Ago
25 Years Ago

- Reimbursable
- Lump Sum
- Golf Clubs
The Discussion

Reimbursable
- Maximum Creativity
- Eliminate Conflicts
- Best Engineering

Lump Sum
- Forces Discipline
- Rewards Creativity
- Alignment of Objectives

Pro
- No Accountability
- Allows Lax Discipline
- Strong Owner Team

Con
- Requires Scope Control
- Creates Conflict
- Focus on the Wrong Thing
What I’ve Learned

The Contracting Strategy is NOT as Important as these 4 Things...

(They form the necessary foundation)
The Owner/Contractor Team
Sponsor Alignment
Decision on Contracting Style

Transactional

Relationship
Contracting Style

<table>
<thead>
<tr>
<th>Owner</th>
<th>Contractor</th>
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</thead>
<tbody>
<tr>
<td><strong>Relationship</strong></td>
<td><strong>Transactional</strong></td>
</tr>
<tr>
<td>Success through discipline</td>
<td>Slaughter</td>
</tr>
<tr>
<td>Court Room</td>
<td>Success through clarity</td>
</tr>
</tbody>
</table>
Experience with the Strategy

CII Research Team 260
- Clarity of Compensation
- Experience with the Strategy
My Conclusion

Pick a style.
Pick a strategy.
And stick to it!
Why Reimbursable?
- Incomplete Scope
- Marketplace Volatility
- Complexity/Uniqueness
- Trusting Relationships
CII RT 260

• Why Reimbursable?
  – Mitigate Lump Sum Premium
  – Inability to Attract Good Contractors
Market Influence on Strategy

A Bad Cycle

Volume of Work

Time

Reimbursable

Lump Sum

Reimbursable

Lump Sum
• The reimbursable transaction incentivizes all the wrong behaviors
• Incentives are emotionally useful
• Skin in the game helps alignment
• Carefully choose when to negotiate terms and conditions