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engineering and construction contracting association



JOURNEY INTO UNCHARTED TERRITORIES

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JW Marriott Desert Ridge, Phoenix, AZ

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

A Contractor's View on Owners Contracting Strategy

John Nobles

President –
Process & Industrial
Burns & McDonnell



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GENERAL SESSION



REPOSITIONING THE PROJECTS BUSINESS IN A WORLD WITH CHANGING BOUNDARIES

25 Years Ago



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25 Years Ago

- Reimbursable
- Lump Sum
- Golf Clubs



The Discussion

Reimbursable

Pro

Maximum Creativity
Eliminate Conflicts
Best Engineering

Con

No Accountability
Allows Lax Discipline
Strong Owner Team

Lump Sum

Forces Discipline
Rewards Creativity
Alignment of Objectives

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



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Sponsor Alignment



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Decision on Contracting Style

Transactional



Relationship



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Contracting Style

Owner

Relationship

Transactional

Relationship

Success through
discipline

Slaughter

Contractor

Transactional

Court Room

Success through clarity

Experience with the Strategy

CII Guide to Reimbursable Contracting



The Knowledge Leader for Project Success
Owners • Contractors • Academics

Implementation Resource 260-2

CII Research Team 260

- Clarity of Compensation
- Experience with the Strategy

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My Conclusion

Pick a style.
Pick a strategy.
And stick to it!

CII RT 260

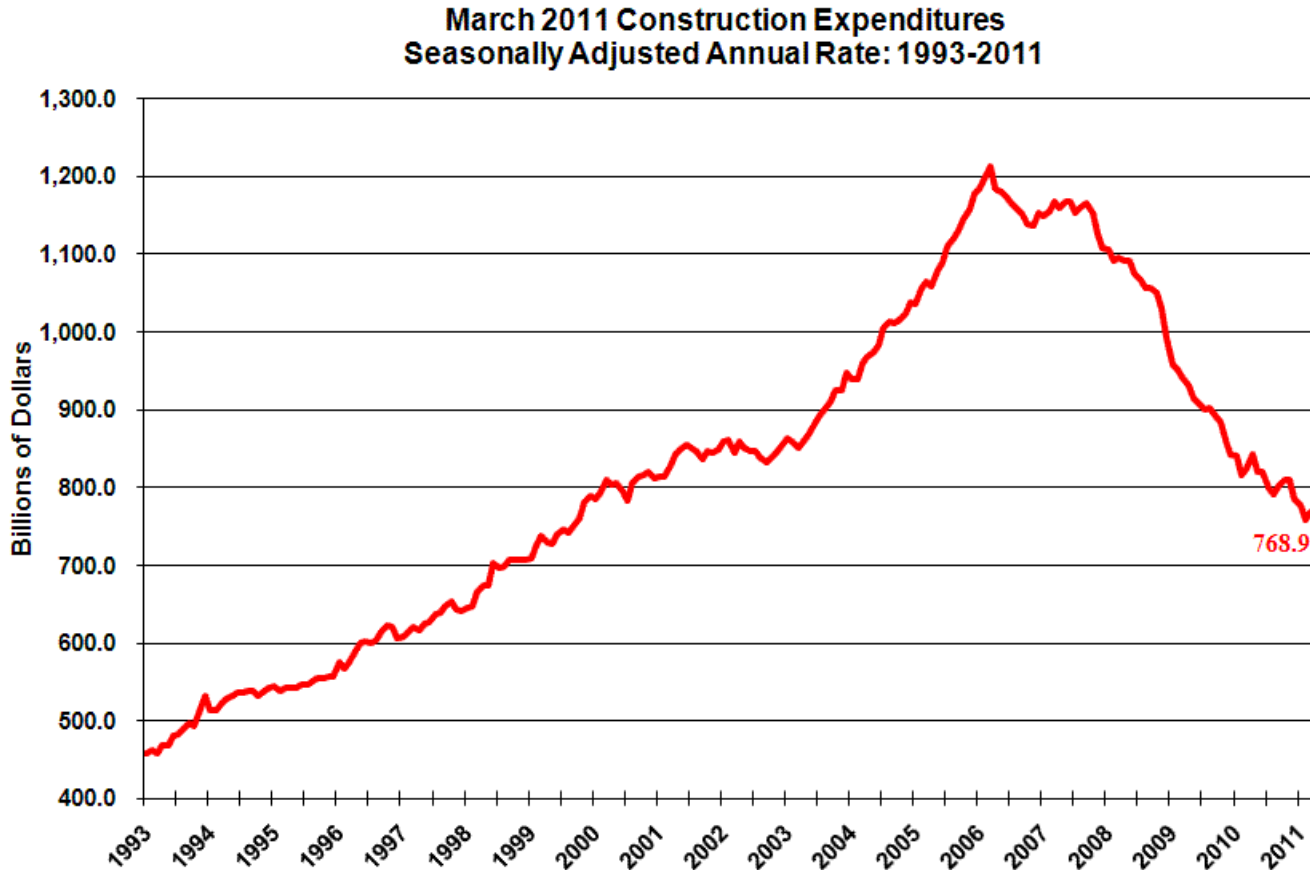
- Why Reimbursable?
 - Incomplete Scope
 - Marketplace Volatility
 - Complexity/Uniqueness
 - Trusting Relationships

CII RT 260

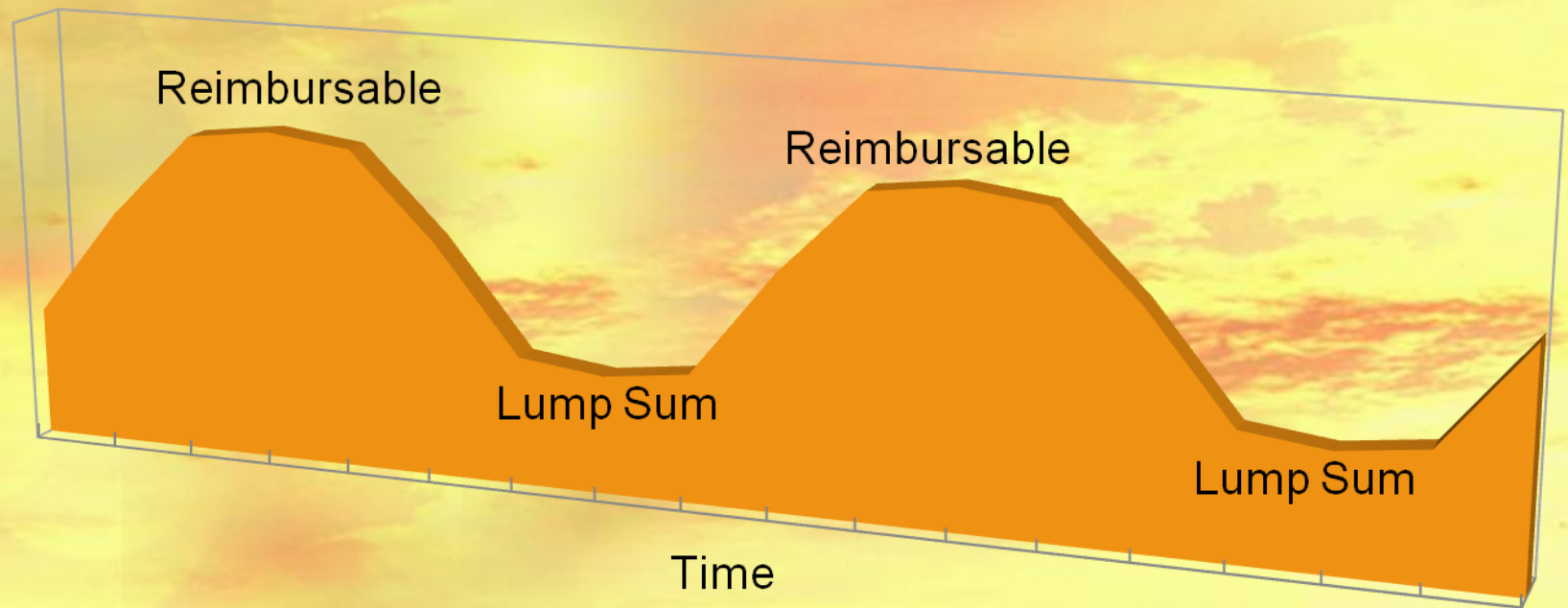
- Why Reimbursable?
 - Mitigate Lump Sum Premium
 - Inability to Attract Good Contractors

Market Influence on Strategy

Source: U.S. Census Bureau, <http://www.census.gov/briefrm/esbr/www/esbr050.html>



A Bad Cycle



Bonus Comments

- 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