Alliances – Down the Yellow Brick Road?

- Background
- General Approach
- Learnings (So Far)
- “Watch Outs” Navigating the Haunted Forest
- Summary

Background

- Definition of an Alliance
  - Depends on who you ask?
  - “A long-term commitment between two or more organizations for the purpose of achieving specific (strategic) business objectives by maximizing the effectiveness of each participant’s resources.” (CII)
  - Other labels - Key Supplier, etc.
**Background**

- **Pros / Cons - owner's perspective**
  - **Pros**
    - Consistency of people (pick of people)
    - Improved safety
    - Improved cycle time
    - Streamlined contracting / admin. processes
    - Consistent processes applied
  - **Cons**
    - Competitive environment compromised
    - "Group Think" - complacency
    - Independent contractor relationship

- **Pros / Cons - engineer's/contractor's perspective**
  - **Pros**
    - Ability to plan work
    - Improved safety
    - Consistent labor utilization
    - Consistent revenue flow
Background

- Pros / Cons - engineer's/contractor's perspective
- Cons
  - May not be the "chosen one(s)"
  - Heavy reliance upon one customer / industry

General Approach

- Consolidation Trends
  - Most major corporations - narrowing supply base
  - Weyerhaeuser
    - PNW facility - engineering and construction
    - Purchasing Improvement Effort

What is Purchasing Improvement?

An effort to:
- Achieve a permanent, significant cost reduction in our annualized cost of equipment, goods and services
- Standardize on best products/services
- Consolidate suppliers
- Build a purchasing function to continue improvement
Learnings (So Far)

- Benchmark Information
  - Success of Alliance Relationships Vary
  - Approaches Vary
    - Informal alliances (blanket agreements, historical success)
    - Formal alliances (committed, managed)
  - How? - RFP selection process / negotiated
  - Scope of alliance

- IPA Study
  - IPA sponsored study -- attributes of successful projects and relationship between alliance Vs. non-alliance
    - 1200 completed major projects
    - Equal size, complexity, technology and definition
    - Asia, North America and Europe

- IPA Findings
  - Cost, cycle time, performance (after start-up) and safety - no statistical difference
  - Actual start-up was stastically significant
  - Project success factors -- strength of project team and good processes used
  - “Overall the alliance and non-alliance projects are about the same.”
“Watch Outs” -- Navigating the Haunted Forest

- Lack of communication
- Lack of commitment
- How can we measure the benefits of an alliance
  - Use of measurement / tracking
- Lack of understanding of the capital process(es)

Summary

- Alliances --
  - Are not a panacea
  - Are not a replacement for good people and excellent processes consistently applied
  - Require a sincere commitment from both owner and contractor / engineer
  - Can and should provide mutual (measurable) benefit to all parties