## Alliances – Down the Yellow Brick Road?

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

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## 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.

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## 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

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## Background

- Pros / Cons - owner's perspective
- Cons
  - Competitive environment compromised
  - "Group Think" - complacency
  - Independent contractor relationship

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## Background

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

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## Background

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

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## General Approach

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

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## 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

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## 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

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## Learnings (So Far)

- 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

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## Learnings (So Far)

- 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."

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## "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)

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## 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