

# Rising to the Challenge

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How an  
Outcome-based World  
is Transforming  
Procurement



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It's all about judgment .....

# Is there room for discretion?

“Too often, we undertake a perfect procurement – and achieve entirely the wrong outcome”

(Former head of Federal Procurement in the US)

*Reference work: “Reforming Public Procurement in a Compliance-Oriented World” (2014 - Jeffrey Gutman, Brookings Institute)*

# The business environment



# Sustained pressure on cost



- Reduced budgets, heightened expectation of delivery
- Forcing re-think of traditional ways of working; new service delivery models
- 47% of today's professionals threatened by automation

# Growing dependence on third parties



- Government departments spend up to 35% of revenue on external suppliers
- The ability to manage relationships and critical supply networks is key to their success
- Contracts have become fundamental business management tools

# Growing regulation

- Terms and Conditions are critical to regulatory compliance
- Active contract management is required as part of the risk regime
- Industry norms and standards are beginning to emerge – but not within Government

# Growing internationalism



- Weaker relationships require increased definition
- Cultural, linguistic and jurisdictional differences require greater discipline and documentation
- Contracts and their management are key to understanding and governance



# Growing executive demands



- Increasing awareness that contracts should play a bigger role
- Expectations of greater ROI / value from contract management
- 35% of contracts significantly under-perform

# Growing pressure for collaboration



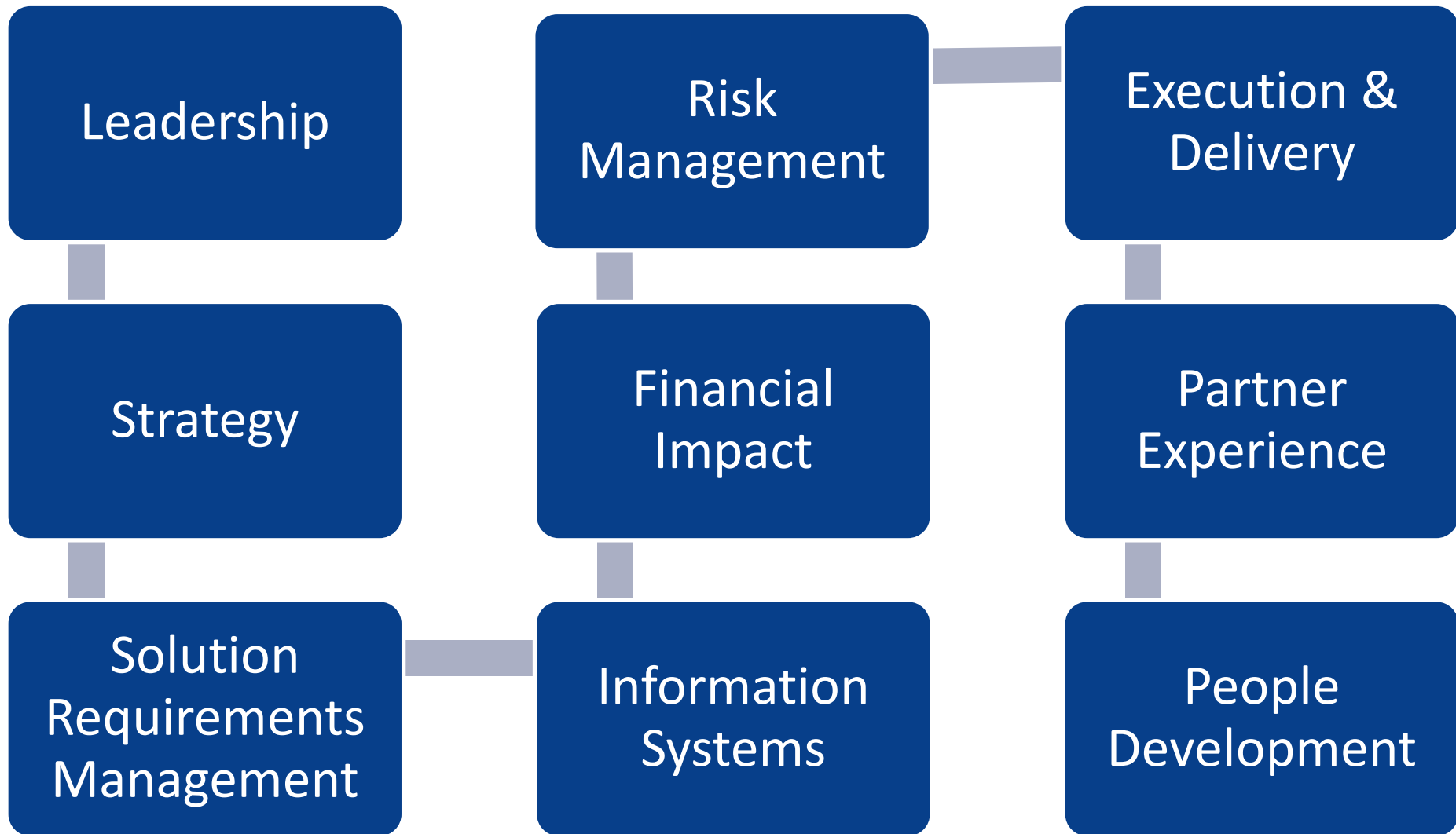
- Need to recognize interconnections and interdependencies
- Escape the adversarial model of today's contracts and negotiations
- Support sustainable relationships and increase transparency

# Can you answer these questions?

- How does our contracting performance compare with industry / other public sector procurement operations?
- What is the economic impact of different contract models or terms?
- What are the relative probabilities of risk and do our contracts reflect them?
- Do major projects have a higher failure rate and what are the causes?
- What are the best models for performance-based contracts?
- Who are our contracts designed for and to what purpose?
- What percentage of our contracts under-perform – and why?

- Underestimation of complexity and scope of project
- Failure to keep records of critical decisions
- Cost overruns - requirements instability
- Underestimation of the need to engage stakeholders
- Inadequate business case, failure to identify realistic funding requirements
- Issues with supplier selection and governance - failure to test capability, understand incentives

# Commercial Competence – more than a contract



# A spectrum of partnership

High

Value / importance

Supply of standard goods & services

Acquisition of custom services or solutions

Achieving goals through integrated capabilities

65% of megaprojects fail

Low

Time / Uncertainty

High

 **IACCM**

International Association for  
Contract and Commercial Management

12/1/2014

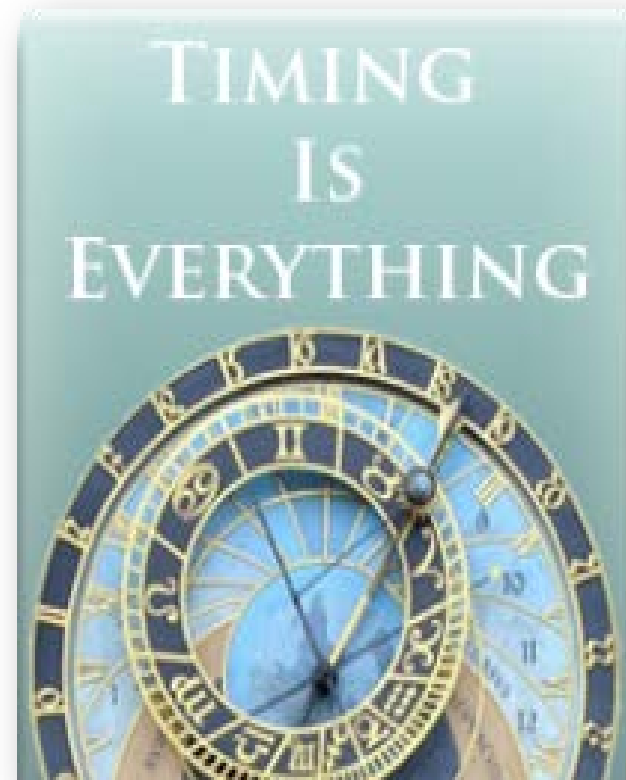


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# Where and when

Does the timing of involvement make a difference?

When does contracting begin and end?



# Attitudes to risk

Customer responsible  
for outcomes

Shared  
responsibility  
& risk

*Traditional*

*Current*

*Evolving*

Supplier at risk for  
outcomes

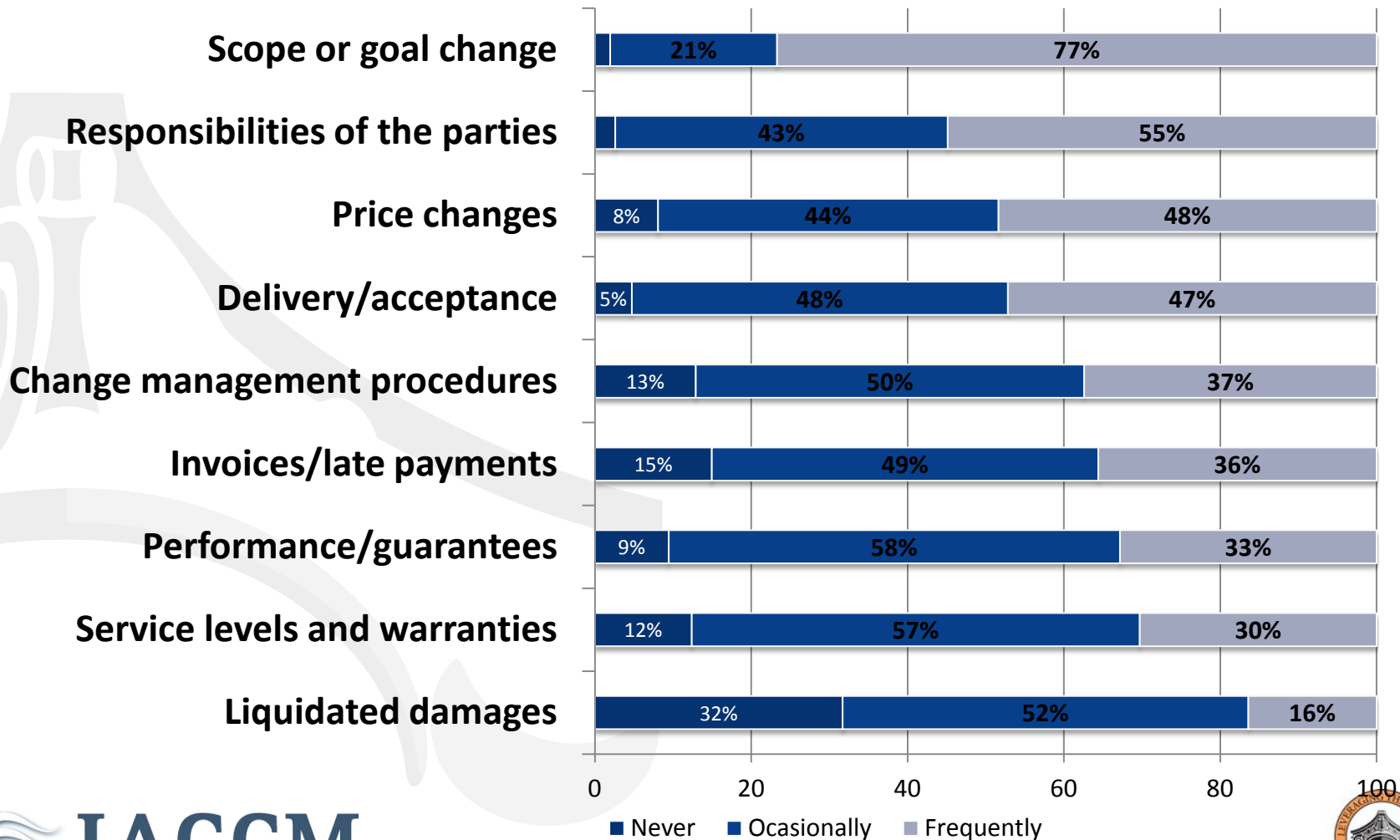
Inputs      ➡      Outcomes  
Price        ➡      Value



# Challenging the agenda

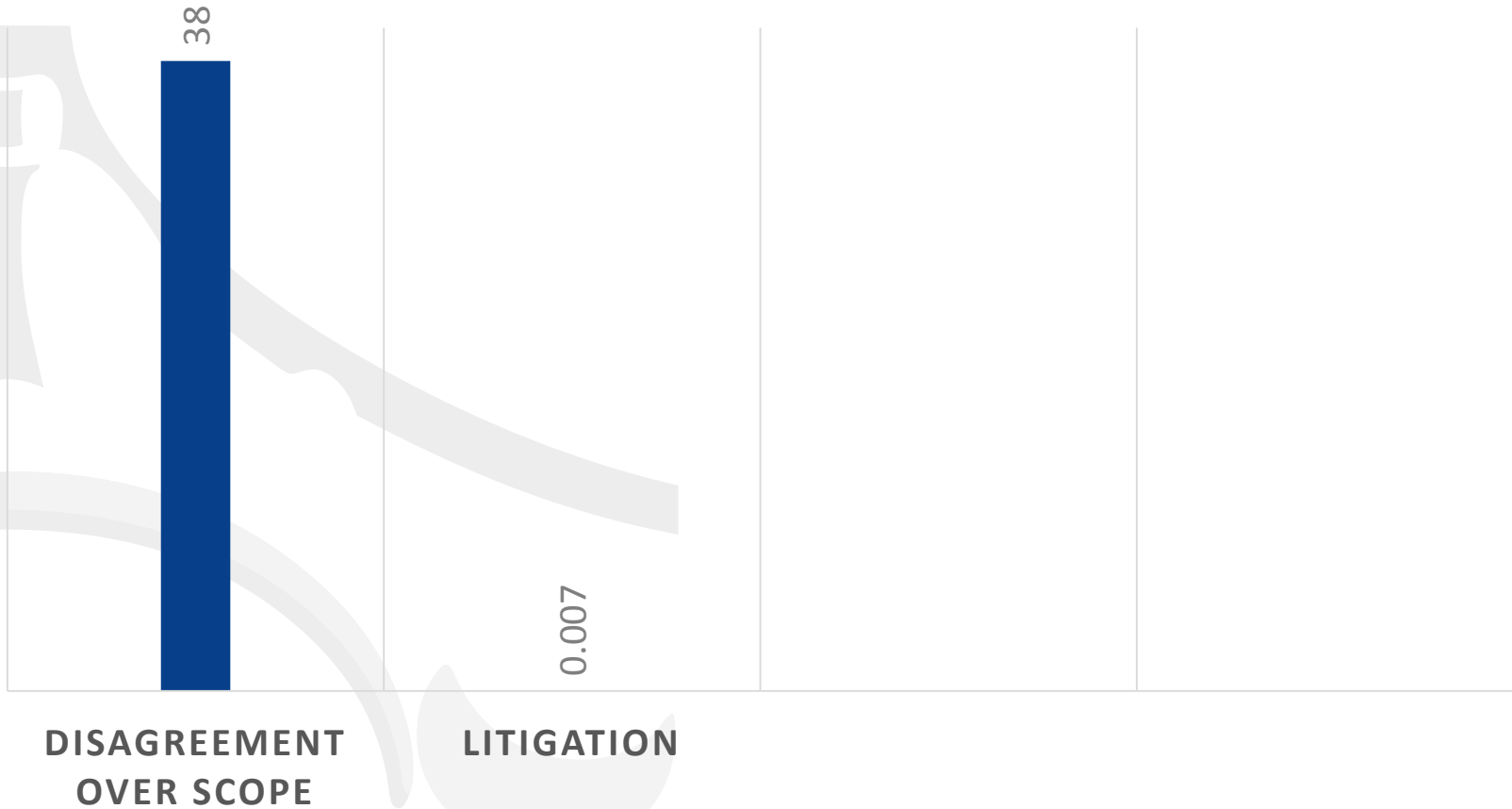
	<b>Most negotiated term</b>	<b>Most important term</b>
1	Limitation of liability	Scope and Goals
2	Indemnities	Responsibilities of the parties
3	Price / Charge	Price / Charge
4	Intellectual Property	Delivery / Acceptance
5	Service levels	Service levels
6	Warranties	Payment
7	Performance G'tees / Undertakings	Performance G'tees / Undertakings
8	Service withdrawal / termination	Communications & Reporting
9	Liquidated damages	Change management
10	Delivery / Acceptance	Limitation of liabilities

# What goes wrong?

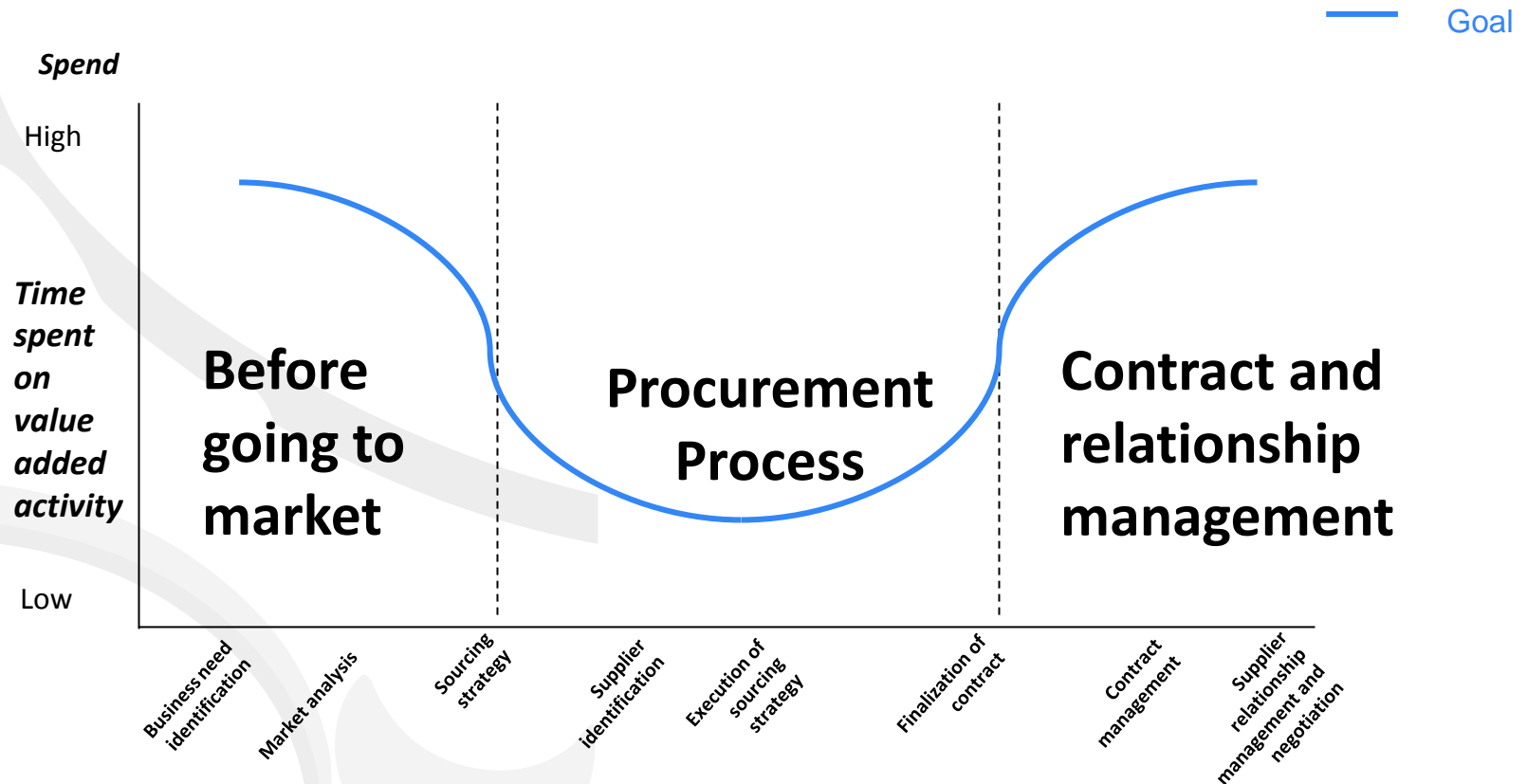


# Value and relevance

## FREQUENCY



# UK Government perspective: The new DNA for procurement activities



# Does it make a difference? Danish Government case study

## An initiative to 'professionalize contract management' ....

- Reviewed existing contracts to spot improvement opportunities; discovered differences up to 490% in what departments pay for the same thing.
- Over half the contracts lacked mechanisms to drive improvements and there was no transparency of cost drivers.
- Review resulted in an initial group of 38 contracts being re-tendered or partly changed.

**Average 24% cost reductions achieved.**

# Commercial Competence: Australian Government case study



- Problem solving
- No-blame culture
- Joint working
- Communication
- Gain and pain sharing
- Mutual objectives
- Performance measurement
- Continuous improvement

# 10 pitfalls to avoid in contracting



# Identifying troubled projects

- Actual versus plan cost or cash flow
- Broken communications
- Finger-pointing / blame
- Lack clarity over authority / decision-making
- Failure to maintain / update business case
- Staffing not in accordance with plan
- Disputes / disagreements over change
- KPIs / measures inconsistent with goals
- Poor or incomplete documentation
- User dissatisfaction or disengagement



# Questions



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