

ABSTRACT

The typical procurement model of competitive bidding, still the most common approach to contracting, is not the most efficient, cost effective or lowest risk approach to the procurement of services or equipment. The competitive bidding model is transactional in nature and based on selecting the lowest cost or highest scored bid among pre-approved suppliers. While this process prequalifies suppliers before approving them to bid, it has limitations as competitive bidding by default requires both buyer and seller to withhold information that might otherwise be of value in achieving breakthrough innovation.

METHODS

Given the economic challenges that made global headlines in implementing the Renewable Energies Act in the North Sea, now is an opportune time to assess lessons learned and apply new thinking to a traditional supply chain and procurement model. Case in point, temporary onsite accommodation in performing construction or maintenance of wind turbines is frequently the last procurement decision to be made as projects are planned. Not surprisingly, it can have disproportionate impact on project profitability if suppliers can't deliver or incur inordinate expense to move inventory with an expedited schedule. Simply put, it is a more costly, risky and an inherently inefficient procurement model.

Given today's globalization of supply chains many companies are increasingly taking a shared "risk-managed approach" with their supplier partners. Considering only your own risk as the customer may leave your organization or project exposed to unknown risks with your supplier. Or another way to express the concern, your perception of what may be considered "risk" may not be the same as your supplier, which may leave your project exposed. It's virtually impossible to coordinate perceptions of risk without focused and ongoing conversations between your company and your suppliers.¹

CONTRACTUAL RELATIONSHIP

Contractual relationships are just that; a one off relationship for the duration of a contract. They are a zero sum game. At contract signing, the supplier shifts focus to maintaining projected margins while delivering on their obligation. They are not incentivized to innovate or expend extra effort. This type of buyer / seller relationship is simply transactional in nature.



TRUSTED PARTNERSHIP

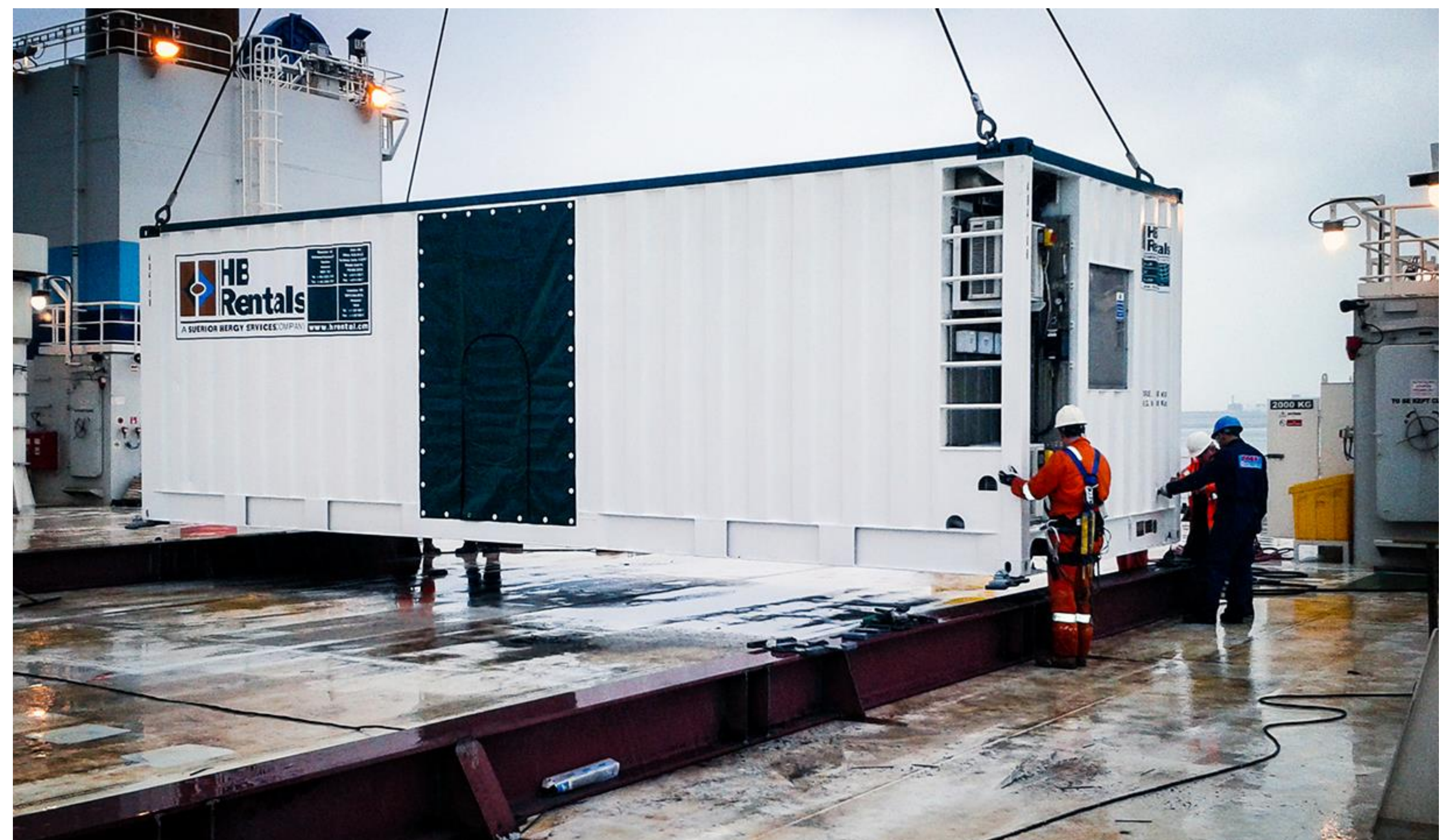
A trusted partnership is built over time. It is not a contract; it is a relationship. Building trust is only achieved by proven, prior performance. It is fact based. This supplier, these people performed on our project. They did what they said they would do, which helped us achieve our own project goals for schedule, first cost, operating cost, safety, quality, regulatory and overall productivity measures.



Viewing supplier relationships through the lens of risk will show where your potential exposure is greatest. An effort to manage this exposure is called Supplier Relationship Management (SRM), which seeks to streamline the processes between a customer and its key suppliers to make the relationships more effective. In an SRM approach, the only key performance indicator that truly matters is year over year cost reductions – and in the case of onsite accommodations this measure would be in total cost: installation + operating cost.¹

In the supply of temporary onsite accommodation and operating essentials (water, sewage, power, communications, lighting), there are a number of factors that can lead to innovation or increased cost effectiveness if the buyer / seller had more opportunity to advance plan.

- First and foremost is schedule planning, especially for installation on vessels or barges which might be in port for a limited window. This effort requires significant coordination.
- Second is the process of mobilizing rental equipment to ensure it is shipped to port and ready to install – exactly when you need it. Transportation cost in shipping modules to site, perhaps from multiple service locations, can be mitigated with sufficient advance planning.
- A third cost is simply the inefficiency (otherwise described as waste) inherent in a rushed schedule. Eliminating waste (extra man hours, rushed deliveries, expediting sub-suppliers) is worth the effort if the goal is to deliver the highest quality product at the **lowest total cost**.
- Fourth is not to underestimate the importance of regulatory approval and permitting. Without the correct certifications, approvals and permits, projects do not ship.



RESULTS



In building trusted partnerships with fully vetted and qualified suppliers, your organization can secure the lowest total cost solution through astute advance planning and coordination. You can still be assured of getting competitive pricing on the front end while achieving the lowest total cost solution on the back end – by building trusted relationships. Prequalifying and negotiating with a single supplier is not a sole source contract. Rather, it is a strategic approach to ensuring supply, negotiating up front competitive pricing, reducing waste from the process, affording your partner the ability to advance plan and ultimately reducing your overall risk and cost exposure to what might be "open risk" with an untested supplier.

CONCLUSIONS

The traditional model of transactional contracting will not lead to breakthrough innovation when we are reliant on suppliers to achieve project objectives. There is significant efficiency to be gained and savings to be achieved, through advance planning with a trusted supply chain partner. The common expression is we are only as strong as our weakest link and our links extend through our supply chain. If meeting schedule, quality, safety and cost competitiveness is critical, and if being innovative is strategically important, then your priority should be **innovation through trusted suppliers**.

REFERENCES

1. The Strategic Advantage of Supplier Engagement, Gallup Business Journal, June 19th, 2014

