The practice and benefit of using open book

10/05/2016
Agenda

1. Why is open book a good tool for contracts.
2. What engages people/companies to work on an open book contract
3. The practice
4. The benefit
Why do we spend capital on projects?

**Success measures?**
- End users delighted
- Client business case met
- Supply team margins
- Team work satisfaction
- Stakeholder appreciation

**Wealth?**
- IRR
- Asset life cycle costs
- Cost Management
- Return on investment
- Supplier margins
- Extra services for end users
- Improved supply chain morale
- Quality of life

Does anyone ever have a project mission to *destroy* wealth?
The Modern Day Problem

“In recent years a considerable number of projects have not been finished, nor will they be finished. This disorder, Sir, is caused by the depressed prices frequently obtained for your works:…these cut prices are illusionary, especially as a contractor who is working at a loss is like a drowning man who clutches at a straw.

In the case of the contractor this means he does not pay his suppliers, cheats everyone he can, underpays his men, getting the worst, not only using the most inferior materials, but quibbling over everything and always begging forgiveness over this and that.

Abandon [this type of competitive tendering] Re-establish good faith, give the estimation of the work and not refuse a reasonable payment to a contractor who will fulfil his obligations. That will always be the best transaction you will be able to find.”

Marshal Vauban (1633 – 1707), Chief of Fortifications for Louis XIV, writing in 1683
Why is open book good for contracts- visibility and communication

The key premise for any form of open book is to set up a series of processes and behaviours via a contract to allow parties to focus on performance and risk management rather than business as usual,

► Open Book
  ► Use of open book management
    ► Accounting method/ price formula for defined costs and disallowed costs in a contract- clients tool
      • Needs to incorporate cost plus fee
      • Needs to address all tiers of the supply chain tiers 1,2,3,4 etc with back to back arrangements
    ► Open book management to allow all to understand cost- contractors tool
    ► Risk allocation- to those best placed to manage it
    ► Set up behaviours and relationships to deliver the contract effectively
    ► It can go wrong
  
► Effective Planning
► Collaborative behaviours
  ► Dependent on context and culture of the country its is being used in
  ► Recognising that all parties need to create wealth…….
Open Book Process

Open Book- Practice- Massively Simplified

- Procurement and contracting style
- Project Environment Detailing
- Contract selection
- Market Shaping
- ITT
- Audit and Review
- Award

Strategy and pre-work
Tender Process

- Measurement
- Payment
- Change
- Risk Management
- Audit and review
- Completion and Pain/Gain

Project
What in effect does open book allow you to do?

*Increasing Price -v- Removing Waste*

**Base Price**

- **NO**
  - **Increase Price**
- **YES**
  - **Remove Wasted Effort**
Some of the opportunities for Improving project delivery systems

- 10:1 Information : Drawings
- 20% iterative loops
- 3 to 10 design cycles to meet cost
- < 40% design drawings unused
- 5 – 10% defects/rework cost

Leadership
- Project Environment
  - Collaboration
  - Trusting Relationships
  - Communication
  - Agreed Objectives
  - Production Controls
  - Project Team Silos
  - Baton Changes

Sustainable Drivers
- 55% planned vs. actual productivity on site
- 10% risk added to prices
- 95% Non-Value Add
- 15% Logistics Management

Where does the money come from.
Open Book Drivers are Behavioural

- Client leadership
- Trusting relationship
  - Stakeholder involvement
  - Team establishment
    - Value management
  - Communication
    - Understanding client business
    - Project initiation
  - Adequate budget
- Team pride
Relationships are the Key
The Benefits

• **When it goes well it does deliver:**
  • 10% and 25% bought savings on UK NPP unit 1 -2
  • 25% cost saving and 50% time saving on Stand Entry Guidance
  • Productivity increases to 80-90 ppc
  • Allows you to shield the programme
  • Allows you to take innovation and cost savings from lower tiers in the supply chain
  • Forces good project management
  • Typically 5-10% saving on a project and more on sequential projects
  • Better behaviours

• **When it goes wrong it can go bad- really bad:**
  • Running 2 sets of books
  • Destroying wealth through poor project management
  • Getting it wrong at tender stage