

TRADING SECTORS

Evolving your contracting business into the oil and gas realm is a matter of getting to know the ground rules and really focusing on the key elements.

BY PETER CHURCHILL

WE ARE OFTEN AWED BY THE HUNDREDS OF millions or even billions of dollars being invested by the oil and gas industry to build new facilities and upgrade old ones. Engineering, procurement, construct and construction management (EPC/EPCM) organizations are frequently approached: How can my company participate in this work? How do I identify what EPC/EPCMs look for when hiring contractors? There is no generic process for selecting contractors. Important issues need thoughtful consideration at each step. Whether chasing after a small industrial service contract or a multi-million-dollar project – understanding and delivering what customers want, as in any other business venture, is crucial to success in the industrial sector.

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The Critical Factors

At a high level, customers consider certainty and success of a project around these elements: cost, schedule, quality, and safety. This is project management 101. However, despite its efforts, the construction industry maintains a reputation of inconsistent delivery of these critical factors. Selection processes are geared to choose the contractor which delivers the best value while minimizing the risk of not achieving any of the other benchmarks. Furthermore, defining best value is different from one customer to another, so you must understand how your customer evaluates your type of services.

The oil and gas industry tends to place more emphasis on all four of the critical factors when defining value. Other construction sectors are more apt to emphasize cost as the deciding factor. Moreover, safety and quality benchmarks are “go – no/go” criteria for oil and gas companies. Poor safety and quality performance can be catastrophic. Falling short of the minimum safety standard will mean you will not even be considered for the work.

Determination of best value is often a factor of the size and the complexity of the project. As a one-person operation doing industrial service work, chances are your customer likely understands your level of expertise and approach to safety and quality. In this scenario, the customer can easily determine skill level and commitment to workplace safety. There is usually a high level of trust established with the customer. But what if you want to bid on a project that will have a crew of 40 people working? Some level of assurance is needed that each employee is well trained and will contribute to certainty around the project’s critical factors. To give the customer this assurance, contractors have to rely on management processes, standardized work processes and procedures, quality and safety programs, training, and the experience of on-site leadership.

Another aspect to consider is the kind of contractual arrangement you are willing to work under. Most contractors generally prefer to negotiate work with the client. While negotiated work is much more common today than 20 years ago, it generally happens only once a level of trust is established.



If you are just breaking into the industrial sector, chances are you will have to offer competitive bids. However, some customers will resort to both competitive bidding and sole source negotiation.

The key is to understand customer needs around cost certainty. The selection process can be either formal or informal, but there is always a process. Understanding each step is mandatory for success. The flow chart (page 60) illustrates a typical approach to contractor selection.

Getting your Foot in the Door

Pre-qualification is the first step. The process can range from a simple phone call to filling out lengthy questionnaires providing the customer with intimate details about your business. Typical pre-qualification information includes technical and management experience, financial capability, personnel, project experience and performance, safety performance and programs, quality programs, industrial relations, insurance coverage and equipment. The pre-qualification process establishes a minimum standard. Generally, the greater the level of competition, the higher the minimum standard. If you qualify to work, find out if there are different ratings based on pre-qualification scores. Some customers will group contractors into different categories based on the ratings.

The ranking impacts the potential work available, so knowing how your company



is rated and learning what can be done to improve that rating can pay dividends down the road. Also, if you do not pre-qualify, request a debrief. The customer will identify and suggest areas where improvement will change your scorecard. Overall, a similar criterion is used industry-wide, so addressing weak areas will improve opportunities in the marketplace on future projects.

Stepping Through the Door

Getting on the bid list for actual work is the next step – pre-qualification is only the start. Notwithstanding, you’re starting to get an idea where you fit in the market and the competition. Keep in regular contact with the potential customer – if you have never worked for this customer, you might be overlooked when the bid list is created. In the bid process, make sure you fully understand and comply with the requirements. Find out what evaluation criteria are going to be used – address all of them. Most bids require a commercial and a separate technical evaluation. The technical side is generally based on capabilities in achieving the project schedule, quality and safety concerns. The commercial evaluation is based on comparing what you want to be paid versus competitors. A copy of the contract will often be included in the bid request package. If not, ask for one! Read the contract carefully and understand the consequences of signing it. The time to ask questions or make exceptions is prior to submitting a bid. If the customer will not waver on contract terms that are not

The Big Four

Safety first

Ask any oil and gas company or industrial contractor to prioritize: cost, schedule, quality or safety. Number one will always be safety, number two is quality. Even to be considered for industrial work, you must be able to demonstrate safety performance equal to or better than your industry peers. Have a good safety program, offer a thorough employee training program and embrace a safe work philosophy.

Define value

This is critical to getting work with a new customer and securing future work. Understand what value means to the customer and deliver. Don’t mix up your definition of value and the customer’s definition of value. Value is something the customer will knowingly and willingly pay for.

Manage customer expectations

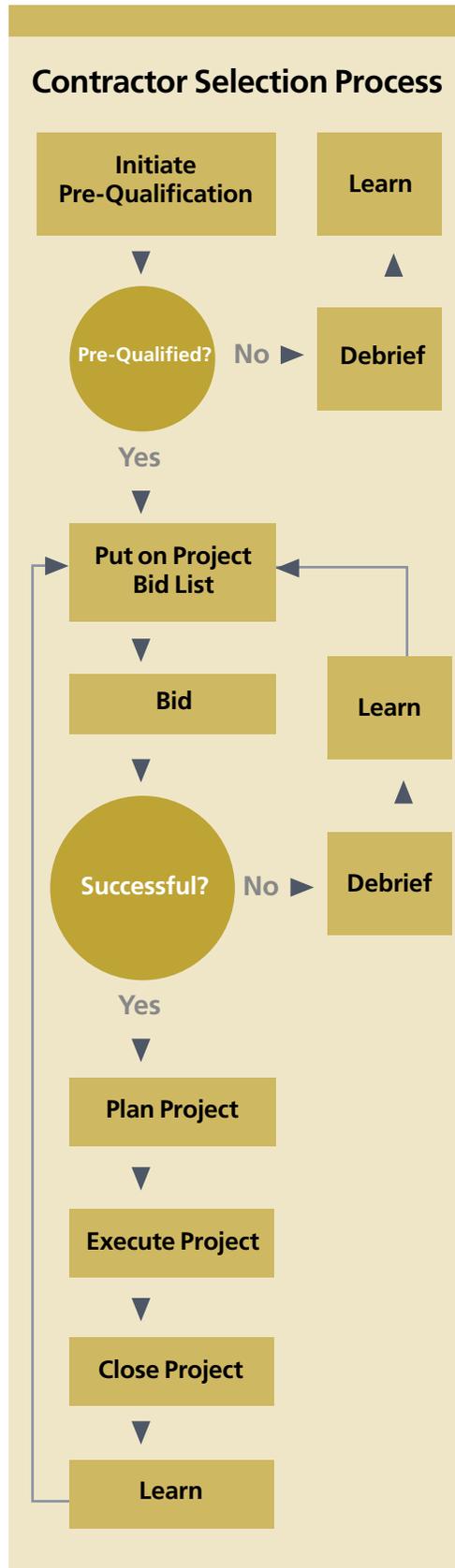
Chances are you will never be able to meet them all, and it is a given that customer expectations will change during the course of the job. By understanding expectations you have an opportunity to manage to them to the best of your ability. Managing does not necessarily mean saying “yes” to every request. But ignoring your customer’s expectations is a path to doing only two projects for them (the first and last).

Keep on learning

Remember the definition of insanity is doing the same thing over and over and expecting different results. Every step of the process and every project you execute is an opportunity to learn and improve.

The greater the complexity and size of the project, the more planning is required. Involve the other project stakeholders to ensure plans align.

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acceptable, then you must decide if proceeding with a bid is in your best interest.

If you go ahead with a bid and are not successful, ask for a debrief. Find out how you ranked in each of the evaluation areas. Debriefs are key element to learning and understanding customer expectations and the expectations of the industry as a whole.

Got the Contract!

Now the fun begins. Successful execution is a function of effective planning. The greater the complexity and size of the project, the more planning is required. Don't plan on an island. Involve the other project stakeholders to ensure plans align. If potential problems are identified in the process, bring them up early – plan for no surprises. The best reference for future work is the work you are doing now. Execute the project with the next project in mind. Deal with issues and changes as they come up, before they become too unmanageable to untangle. Document daily progress and activities to assist on future projects and create a common understanding with the customer of ongoing worksite issues. Do not compromise with safety or quality – failing in these areas is the easiest way to ruin a reputation or get thrown off the project.

The closing of the project is your last opportunity to leave an impression with your customer. Often, in the rush to complete and move resources to another project, contractors neglect the small little things that make a difference in the customer's eyes. The end of the project is the opportunity for the contractor to reflect and determine what went well and what did not, from both the customer and internal perspectives. Learning from experience and applying the lessons and knowledge on future jobs is crucial to success in the industrial market.

Regardless of the size of the job, the customer or the service provided, each of these steps occur in one form or another – make sure you are not missing out because of a missed step. Being a successful industrial contractor is no different than any other contracting field, or for that matter, any business. Understand the market, do a great job for the customer and you will achieve the goals of your organization. 🎯