AVEVA™ Contract Risk Management for Prime Contractors

Gain complete control of contracts for complex projects and enterprise project portfolios

AVEVA Contract Risk Management is a contractual risk management solution that maximizes commercial outcome for Prime Contractors. By connecting decision-makers and key stakeholders with their clients and subcontractors, and by unifying key processes, Contract Risk Management helps contractors protect their profit margins, maximize cashflow, and manage commercial activity at every phase of an asset's lifecycle.

Business challenges

A Prime Contractor of an Industrial Capital Expenditure (CAPEX) project knows that the project doesn't end once the contracts are signed and scope is agreed. Change is not just common – it's inevitable. But failure to take control of all changes and decisions, and still comply with contractual obligations can lead to project delays, unexpected cost and misunderstood scope, which can ultimately lead to the following business-critical challenges:

Having a reliable, central contract management system, trusted and used by all parties, ensures complete control on a project. From reducing profit leakage, to improving working relationships, it also helps protect Prime Contractors from subcontractors or clients gaining commercial leverage over them.

Profit leakage

On average, 9.15% of project costs[1] are leaked due to poor management of change and unplanned legal costs resulting from escalation of disputes. Inefficient contract administration and payouts of penalties due to breaches in contractual obligations can not only lead to cost overruns, but also have major impact on projects and future business relationships.

Negative cashflow

Unapproved change, overpayment of subcontractors, delayed submission of Applications for Payment (AFPs), and invoicing to and from the client can all result in poor control of cashflow.

Reduced likelihood of repeat business

Failure to deliver on expectations and the potential lack of trust that has developed due to poor execution of the project can have significant impact on future business relationships.

"The most important strategic priority for EPC firms is to continue to scrutinize their costs. In our experience, many legacy, monolithic engineering and construction firms still struggle to understand the importance of the cost issue[2]."
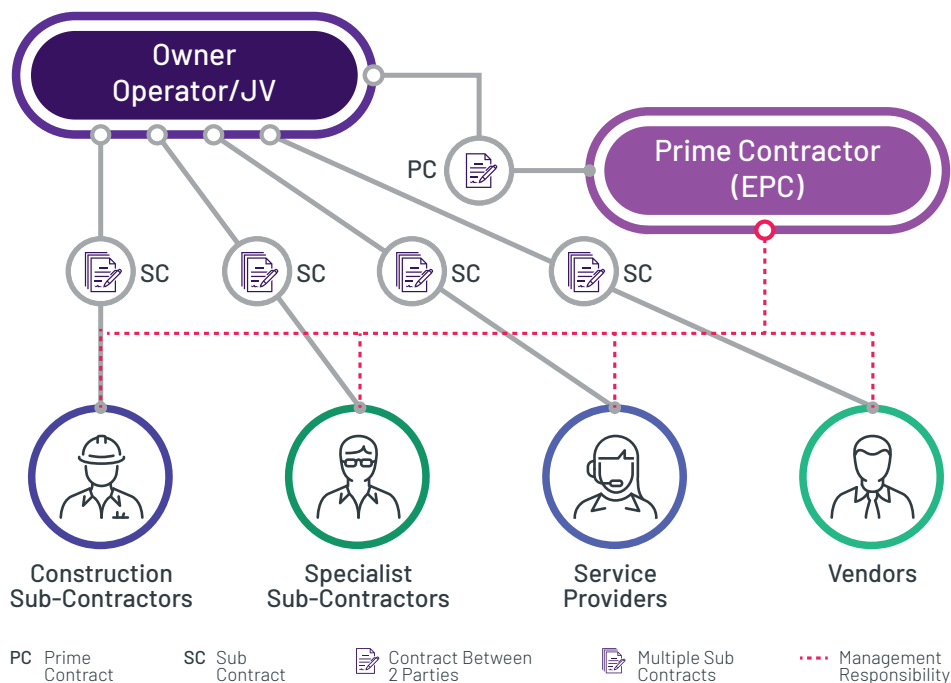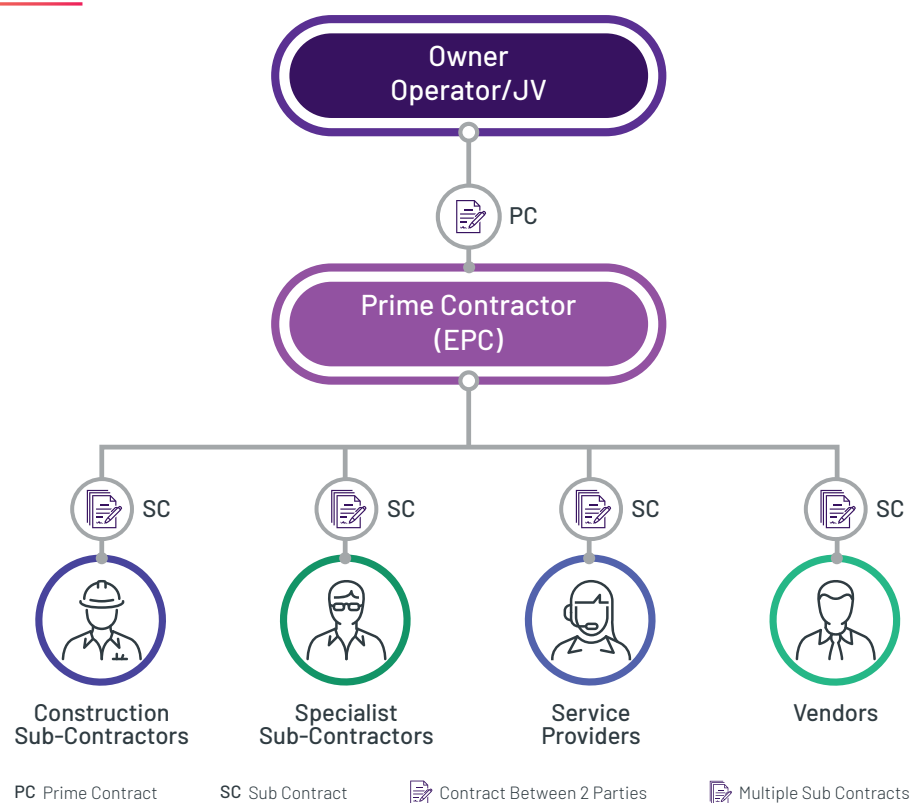
"9.15% is the average impact to bottom-line performance that results from weaknesses in contract management[3]."

[1]Source: International Association for Contract & Commercial Management (IACCM)
[2]Source : PWC https://www.strategyand.pwc.com/media/file/2017-Engineering-and-Construction-Trends.pdf
[3]Source : March 2017, The Value of Contract Management Survey Results (IACCM)

# AVEVA Contract Risk Management alignment for common project delivery structures

Diagram 1

Owner Operator/JV

PC

Prime Contractor (EPC)

SC	SC	SC	SC
Construction Sub-Contractors	Specialist Sub-Contractors	Service Providers	Vendors

PC Prime Contract   **SC** Sub Contract   Contract Between 2 Parties   Multiple Sub Contracts

Diagram 2

Owner Operator/JV

PC

Prime Contractor (EPC)

SC	SC	SC	SC
Construction Sub-Contractors	Specialist Sub-Contractors	Service Providers	Vendors

PC Prime Contract   **SC** Sub Contract   Contract Between 2 Parties   Multiple Sub Contracts   Management Responsibility

Contract Risk Management key benefits

Controlled change management

Change is inevitable, but manual, disconnected and undefined processes and/or governance means the commercial impact of each change doesn't always surface until the opportunity to correct it has already passed.

With AVEVA Contract Risk Management's unified platform, project teams can:

- **Take control of changes** – potential, pending and approved – by empowering users to identify and act, long before a commitment becomes a burden to the project

- **Reduce the likelihood of over-commitment** by ensuring the timely receipt, review and approval of changes

- **Mitigate or defend against potential claims** against the Prime Contractor – Contract Risk Management provides early indicators for contract administrators and project teams that they have contractual obligations to, or risks that may develop during a project. Examples of obligations that are monitored within Contract Risk Management include:

  · Requirement for Prime Contractor to respond to Technical Deviation Requests within a defined timeframe

  · Requirement for Prime Contractor to pay subcontractor per the contractual agreed timeframe

- **Ensure scope changes are reviewed and approved by appropriate stakeholders** and that the process of recovering change-related costs comply with the terms and conditions set out in the contract.
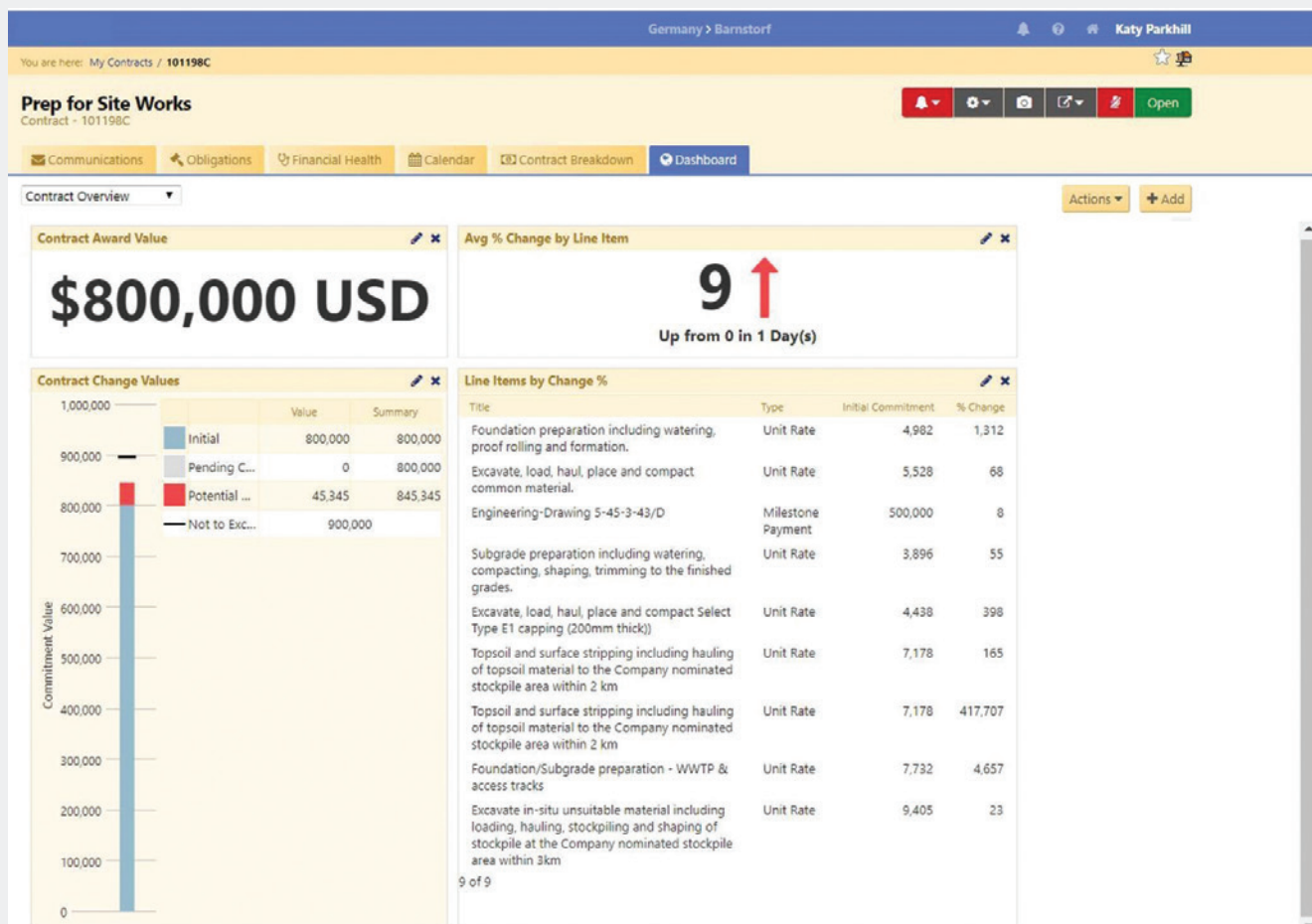
Avoiding cost overruns associated with changes

Efficient & accurate payments

A manual payment verification process is inefficient, adds unnecessary complexity to a project, and is prone to human error.

Contract Risk Management automates the payment verification process, empowering project teams to:

- **Reduce the number of contract administrators** needed to process Application For Payments by using streamlined approval processes

- **Increase profit margins** by minimizing penalties and claims associated with failure to approve applications for payment within contractually agreed timeframes

- **Maximize cashflow** by reducing the likelihood of unintentional over-payment of subcontractors

Through automation, the Prime Contractor can reduce the risk profile of their projects, while ensuring each project is sustainable within the EPC organization.

Ensuring the sub-contractor gets paid what they are entitled to and nothing more

Dispute mitigation & control

Meeting or exceeding expectations on project delivery through early identification and intervention of disputes helps avoid costly penalties, pay-outs, and even potential bankruptcy.

AVEVA Contract Risk Management mitigates against the escalation and impact of disputes through:

- **Early-warning indication of upcoming contractual deadlines** to reduce the likelihood of subcontractor claims. Examples of monitored obligations might include, but are not limited to:

  · Safety

  · Environmental requirements

  · Timely responses to Technical Deviation Requests

  · Subcontractor payment reminders

- **Early identification of potential disputes** – ensuring preventative measures can be taken. Monitoring and reporting of leading indicators such as an increase in the "Number of Rejected/Disputed Site Instructions" or "Number of Technical Queries Raised" provides insights on claims that could be expected in the future.

- **Better alignment and a trusted relationship between the Prime Contractor and subcontractors** with respect to contract management processes and procedures. When both parties align on a singular contract management platform, they are guided jointly by common methods and templates.
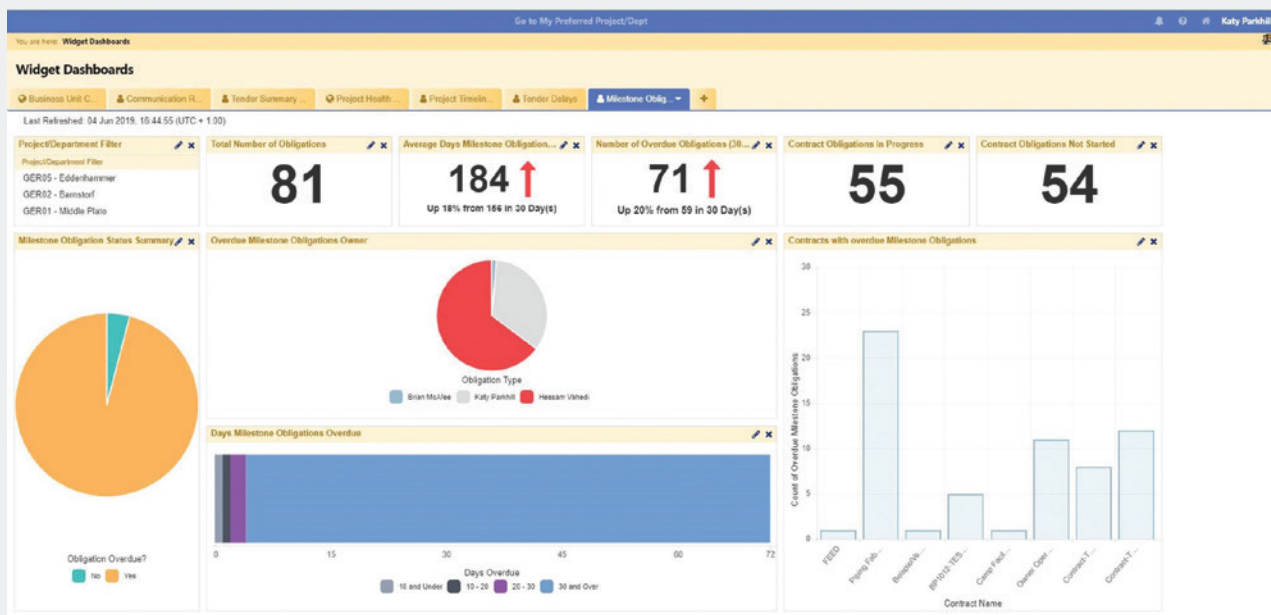
Avoid claims and disputes by meeting your obligations

Trusted best practice & steadfast compliance

AVEVA Contract Risk Management enables Prime Contractors to avoid business-critical impacts, including litigation, potential client blacklisting, and even imprisonment due to failure to comply with company best-practice and government legislation. Contract Risk Management empowers teams to:

- **Ensure the utilization of world-class contracting processes, and enforce compliance and discipline** in the execution of these processes. Once in place, contracting processes can be measured and managed to help drive a culture of continuous improvement.

- **De-risk the project on regulatory compliance challenges,** such as risk reduction of non-compliance with government legislation. (For example, the United States Sarbanes-Oxley Act (SoX) can lead to fines of up to $5m and 20 years in prison for executives). This is achieved through consistent adherence to approved processes during both pre- and post-award phases.

- **Decrease man-hour and third-party auditor costs** when required by demonstrating compliance with procedures through easily accessible, trusted, and complete information from a single source.

Data-driven trend analysis

In-depth trend analysis can be performed on centrally-stored and structured contract, project and contractor performance data.

Historical data in AVEVA Contract Risk Management's data warehouse can be used for further insights, while analytic APIs allow users to extract those insights to third-party business intelligence tools, such as PowerBI.

Contract Risk Management key features

Competitive differentiation

Using AVEVA Contract Risk Management, Prime Contractors can deliver additional value to their clients by demonstrating automation, transparency and auditability of trusted, business-critical contract management processes.

Pre-award

- Manage the lifecycle of the pre-award tendering process with scheduling, process step workflow, review and approval stages

- Out-of-the-box, best-practice templates for tender process, structure and performance outcomes

- Share key data and decisions securely with a secure tender (ITT, RFx) and bid management collaboration portal

- Supplier sourcing and bid evaluation

Post-award

- One, centralized record of contracts, framework agreements and call-offs

- Contract administration lifecycle management for change, payment, claims and disputes

- Configurable review and approval workflows and stage gates

- Contract document templating with best-practice structure and content generation

- Secure collaboration portal for all contractual administration communications internally and with subcontractors

- Reporting on financial health with early-warning on potential changes and pending contractual obligations

- Contract obligation management based on contract milestones and events

Contractor management

- Contractor registration, qualification and performance evaluation workflows

- Reporting on contractor trading recommendation and performance across contracts

- Contractor portal to self-manage information and collaborate on qualification, tendering or contracting activities

- Integration capabilities with other master vendor databases

Platform

- Cloud or On-Premise deployment, multi-regional and language support, single sign-on authentication, and modern web browser support

- Out-of-the-box configuration with best-practice workflows, reporting and batch data uploading

- Securely authorise and revoke data access to various organizations for reporting functions, projects, tenders, contracts, roles and disciplines

- Delegate authority to support back-to-back working arrangements and handover of assignments during leave

- Record information aligned to existing business processes (i.e., set reference number standards, fields to capture, codifications, version control)

- Historical tracing and visibility of all activity and changes to support compliance checks from auditors and regularity bodies

- Document template and reference libraries

- System-wide search, with ability to search document contents

- Individual and management oversight of activities

- Automatic, customizable notifications of upcoming actions, key events and milestones

- Integration capabilities with finance, cost, project and document management systems through industry standard API protocols

- Configurable reporting on schedule, delays, bottlenecks, process deviations and non-compliance, decision-making and approvals

- Export data and project reporting into third-party tools such as Excel and PowerBI

For more information on AVEVA Contract Risk Management for Prime Contractors, please visit: aveva.com/contract-risk-management

AVEVA

aveva.com