

Contract margin improvement

MARGIN IMPROVEMENT FOR A DIVERSIFIED SERVICES PROVIDER

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When and why you would use this PD?




When would you use this PD?

- You have a B2B client who is looking to improve their contract margins
- You want to establish a repeatable model that can be owned by the client when McKinsey's involvement ends
- Your client has somewhat similar contracts that could be analysed using a common set of value drivers

Why would you use this PD?

- A proven and repeatable margin improvement methodology
- A defined 4-6 week process with supporting excel tool
- Two related approaches that were able to effectively improve margin on high and low value contracts (i.e., address the 'long tail' of contracts)
- The good looks and charm of the authors

The study delivered an average of ~10% points of margin improvement and established a repeatable margin improvement process within the client

 Situation	 Action	 Impact
<ul style="list-style-type: none">▪ The client served is a diversified services provider, carrying out operations & maintenance, facilities management, construction, and logistics for both public and private clients▪ The contracts varied significantly in size (from \$10-15m, through to over \$1b). A small group of high value contracts provided the vast majority of their EBITDA▪ Market comparisons identified that client had lower contract margins than competitors	<ul style="list-style-type: none">▪ A McKinsey-led diagnostic identified that the client contracts were ~5% below their peer group. However there was opportunity for ~7% average margin increase▪ The client engaged McKinsey to develop a contract margin improvement process<ul style="list-style-type: none">— Contract lab was developed for large value contracts— Contract boot camp was developed for lower value contracts	<ul style="list-style-type: none">▪ 3 contracts taken through the contract lab process:<ul style="list-style-type: none">— Contract 1: ~10% points of margin improvement— Contract 2: ~14% points of margin improvement— Contract 3: ~7% points of margin improvement▪ Repeatable model established within client▪ 3 contract boot camps run for ~40 Contract Managers and General Managers

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Contents

- The approach
- Contract Margin Lab
- Contract Margin Boot Camp
- Implementation
- Contract Margin Improvement tool



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- **The approach**

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The contract lab forms part of an overall McKinsey B2B margin improvement offering

McK proprietary tools/assets



McKinsey Implementation



Contract Lab Tool¹

Engagement approach

- ✓ **Client-led**
 - Contract Managers own the identification of the opportunities and therefore their initiatives from the start
- ✓ **Action-orientated**
 - Bias towards initiatives not analysis, with strong tracking to bottom line
- ✓ **Rapid**
 - Contract Managers can be implementing actions after 4 weeks
- ✓ **Capability-building**
 - Equipping with the tools and the skills to deliver sustainable change now and in years to come

1 Currently Excel-based tool – ideally would be developed into a self-use digital tool with an app

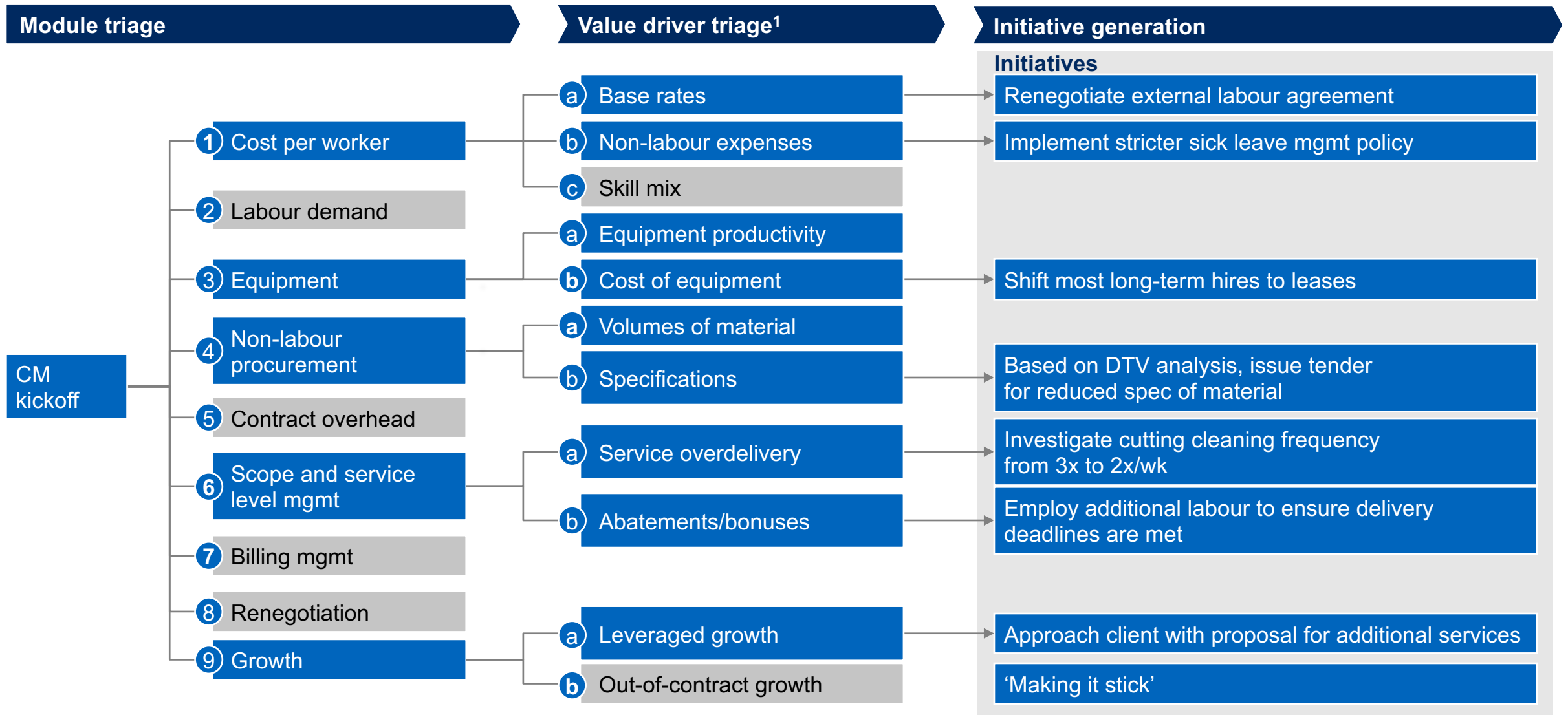
Two approaches were developed to improve contract margin – selection of which approach to use was based upon the value of the contract

Approach	Contract boot camp (low-med value contracts)	Contract lab (high value contracts)
	<ul style="list-style-type: none">▪ 1 day ‘boot camp’ for selected Contract Managers and General Managers to provide tools / training to help achieve margin improvement▪ Contract managers to spend following 5 weeks carrying out detailed sizing and implementation plans for initiatives and uploading into Wave▪ Boot camp run by Contract Margin Coach who has carried out margin improvement as part of the Contract Lab	<ul style="list-style-type: none">▪ Dedicated ‘Lab Coaches’ to support Contract Manager to size and plan initiatives over 4-6 weeks▪ Effort kicked off with a full day workshop with senior managers from contract team▪ Appropriate for major contracts / those with largest potential▪ Initiatives progressed to L3 in Wave before Lab Coaches leave
Modules	<ul style="list-style-type: none">▪ A consistent set of 9 modules used across all contracts▪ Within each module a triage process is used to determine which value drivers offer the most promise for contract margin improvement	
Implementation	<ul style="list-style-type: none">▪ A Delivery Office was established to validate the proposed savings initiatives, provide implementation accountability, and report to the client SteerCo▪ Initiatives not progressed to L3 until they have been approved by the SteerCo▪ Client appointed coaches at Manager peer level to support drive to L3	

The contract lab used a set group of modules and process of triage to quickly diagnose areas of opportunity

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■ Ruled out by triage ■ Remains in focus after triage



¹ Only full list of modules is shown. A full list of value drivers and associated questions can be found in the associated excel spreadsheet

The triage process was a guided conversation at key points to rule out areas of low opportunity and identify initiatives to pursue

	Module triage	Value driver triage	Initiative generation
Inputs	<ul style="list-style-type: none"> P&L Contract Manager insights 	<ul style="list-style-type: none"> Contract Manager insight Operations Manager Cost deep dive 	<ul style="list-style-type: none"> Contract Manager insight Operations Manager Existing business improvement plan McK experts Initiative 'menu'
Threshold	<ul style="list-style-type: none"> Materiality (e.g., if the benchmark potential savings are greater than 0.5% of revenue) Qualitative insight from Contract Manager on viability for reduction 	<ul style="list-style-type: none"> Estimate of opportunity (from contract personnel) Review of cost deep dive (e.g., into break up of external spend between equipment hire and labour hire) 	<ul style="list-style-type: none"> Will this initiative(s) capture the value identified in the value driver triage?
When (lab)	<ul style="list-style-type: none"> When: Stage 1 Workshop 	<ul style="list-style-type: none"> When: Stage 1 Workshop 	<ul style="list-style-type: none"> When: Stage 1 Workshop and ongoing as part of pipeline refill
Approach (lab)	<ul style="list-style-type: none"> Facilitated conversation using the Contract Margin Improvement tool (excel) to guide conversation on materiality Bias towards inclusion at this point of the process 	<ul style="list-style-type: none"> Structured discussion (facilitated by coach) to tease out there is an opportunity in this value driver Leverage observations from site walk thoughts (if carried out before Stage 1 Workshop) Leverage experience of McK experts (if applicable) 	<ul style="list-style-type: none"> Facilitated discussion during the Stage 1 Workshop to tease out ideas. The 'menu' of initiatives (in the CMI tool) can be used as a guide
When (boot camp)	<ul style="list-style-type: none"> When: Boot camp 	<ul style="list-style-type: none"> When: Boot camp 	<ul style="list-style-type: none"> When: Boot camp and ongoing during weekly pipeline reviews
Approach (boot camp)	<ul style="list-style-type: none"> Use financial data to focus on areas of material potential savings Coaching from Contract Margin Team 	<ul style="list-style-type: none"> Use knowledge of contract details and customer to identify which value drivers can be used Coaching from Contract Margin Team 	<ul style="list-style-type: none"> Use the suggested initiatives per value driver to select and create new initiatives Coaching from Contract Margin Team

The contract commercial model influenced the number of modules that could be applied

Applicability of modules					
Module	Commercial model				
	Lever	Cost Reimbursable	Schedule of Hourly Rates	Schedule of Rates	Fixed Price
	Contract Overhead	X	X	X	X
	Growth	X	X	X	X
	Billing Management	X	X	X	X
	Renegotiation	X	X	X	X
	Cost Per Worker		X	X	X
	Labour Demand		X	X	X
	Scope and Service Level Management			X	X
	Equipment			X	X
	Procurement			X	X

The process aimed to leave all material initiatives in scope, including where actions and input from other parts of the business were required

Initiative type	Description	Contract lab output & accountability
A Operational	<ul style="list-style-type: none"> Operational improvement initiatives that do not require a renegotiation with the client, or, can be renegotiated on a CM/Ops Mgr to client CM level E.g. improving utilisation on client-owned heavy vehicles at site (i.e. increasing productive work out of a fixed cost item) 	<ul style="list-style-type: none"> Initiative implementation plans entered into the DO tracking system CM accountable for implementation
B Operational unlocked by support services	<ul style="list-style-type: none"> Operational improvement initiatives for which the value can only be unlocked by client support services E.g. Improving performance management of the Corporate call centre, in order to reduce contract-level abatements 	<ul style="list-style-type: none"> Initiative implementation plans entered into the DO tracking system CM/Manager responsible for raising issue with relevant support services manager; support services responsible for any operational steps thereafter
C Operational unlocked by renegotiation	<ul style="list-style-type: none"> Operational improvement initiatives for which the value will only be unlocked upon renegotiation with the client E.g. Redefining the commercial terms with the client from cost plus to fixed fee, to unlock value from improving subcontractor labour productivity 	<ul style="list-style-type: none"> Initiative implementation plans entered into the DO tracking system BD accountable for the renegotiation; and the CM for any operational steps thereafter
D Purely growth/renegotiation	<ul style="list-style-type: none"> Growth & renegotiation ideas which will be wholly in the remit of the Sector team, but which the contract team identified based on their understanding of the client & industry E.g. Bidding for additional work in an adjacent sector, potentially leveraging the existing contract management overhead 	<ul style="list-style-type: none"> Developed in a separate workshop involving the BD lead Business plan for each idea BD accountable for progressing the idea through the gate system

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Contract lab overview

What the contract lab is

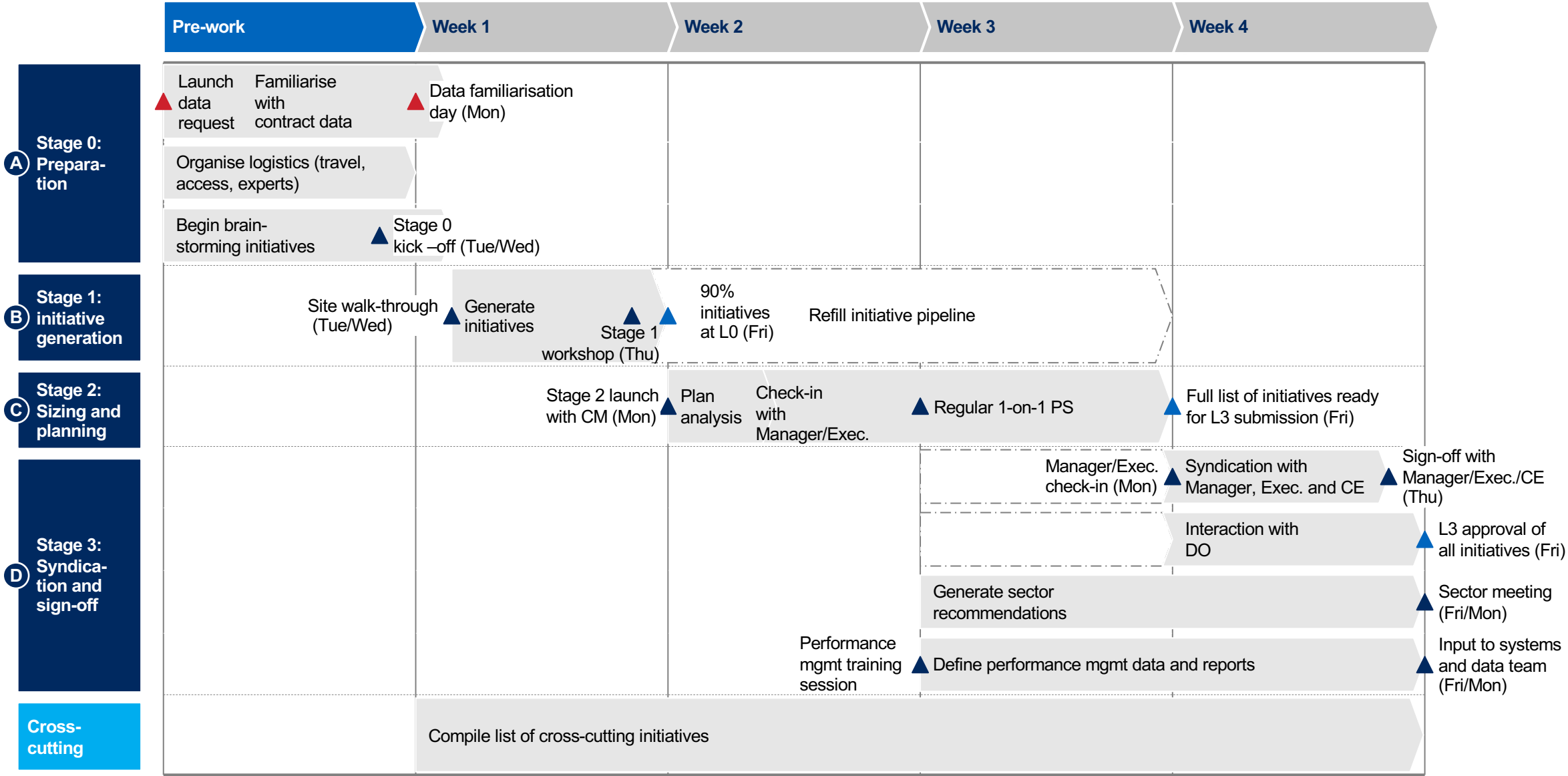
- A four to six week diagnostic process to help contract managers identify margin improvement opportunities within individual contracts, and develop initiatives to address them
- Based on a structured review of all of the standard margin value drivers, so that all potential opportunity is identified, and then focusing on the subset of initiatives that will have the most impact
- Owned by contract/commercial managers & facilitated by a central team of coaches and analysts (one each per contract), supported by subject-matter experts as necessary
- Supported by centralised tracking infrastructure - initiative plans will be entered into a centralised tracking tool and tracked by the central Delivery Office (DO)
- A plan approved by the line – Manager and Exec. signoff is required for all initiatives

What the contract team needs to deliver after the contract lab

- Initiative implementation – CMs will be accountable for implementing initiatives designed in the lab, and delivery tracked by the DO
- Resourcing for implementation – within initiative plans, CMs/initiative owners will be responsible for requesting additional resources & support needed, and getting signoff on these from the Delivery Office and Exec. [note that coaches will offer light-touch support during implementation and other resources may be available e.g. loan from other contracts & the improvement team]
- Further identification of improvement initiatives – the lab is a kick-start process, and the tools it provides should become part of your continuous improvement BAU

Contract lab overview – a standard set of 4 stages over ~4-6 weeks

- ▲ Scheduled meeting
- ▲ Initiative progression



A Stage 0 – good early preparation will set us up for success over the 4-6 week sprint

0

1

2

3

Stage 0

Description

Preparation¹

Deliverables

- Brief contract overview
- Data requests and responses
- Meetings and logistics booked for remainder of phase
- Contract data familiarisation

Actions

- Initiate data requests – contract, budget, org. structure, etc.
- 'Stage 0' kick-off with CM
- Develop understanding of contract basics (value, service, structure, etc.)
- Review central-level data
- Identify SMEs, and book site visits and future time with CMs, SMEs and McK experts
- Prepare for Stage 1 workshop (central team/CM)

Stage 0 kick-off with CM

Purpose

- "Get cracking!"

When

- 1-2 weeks before start of 4-6 week sprint

Duration

- 2.5 hours (phone/video conference)

Agenda

1. Introductions
2. Contract Lab overview
3. Targets
4. Roles & expectations
5. Process over next 4 weeks
6. Review of key elements of contract (CM)
7. Resources and logistics (SMEs, site visits etc.)
8. Next steps

Attendees

- Contract manager
- Manager
- Coach
- Analyst
- CMI project lead (optional)

¹ This preparation stage will take place over 1-2 weeks prior to Week 1

B Stage 1 – the team’s initial answer will help chart the course for the next 4-6 weeks

Stage 1	
Stage	Initiative generation
Deliverables	<ul style="list-style-type: none"> Agreement on relevant modules Agreement on relevant drivers List of L0 initiatives (idea and owner)
Actions	<ul style="list-style-type: none"> Workshop with contract team & SMEs Conduct site walk-throughs (bring in client & McK experts as necessary) Develop list of initiatives & map against value drivers and/or process map, using: <ul style="list-style-type: none"> Existing BI plan Transferrable initiatives from other contracts New initiatives generated by via site team interviews & productivity walkthroughs Daily stand-ups (coach, CM, analyst, McK)

Stage 1 workshop with contract team & SMEs	
Purpose	<ul style="list-style-type: none"> Understand contract service lines and financial value drivers Identify relevant modules and drivers Draw up list of L0 initiatives
When	<ul style="list-style-type: none"> Tuesday/Wednesday of Week 1
Duration	<ul style="list-style-type: none"> 8.5 hours (whole day)
Agenda	<ol style="list-style-type: none"> Introduction & program objectives (sponsor) Overview of lab process (coach) Contract intro (CM) <ul style="list-style-type: none"> History, context & service lines Split of financial value etc Contract scope and services provided Module triage and initiative generation (coach) Introduction to Wave and the DO (DO representative)
Attendees	<ul style="list-style-type: none"> Contract manager & relevant site team Contracting/commercial SME Contract lab coach & analyst Relevant SMEs Exec.s/Managers & sponsor

C Stage 2 – 2-4 weeks of sizing and planning will test and refine our improvement ideas

0

1

2

3

Stage 2	
Stage	Sizing and planning
Deliverables	<ul style="list-style-type: none">List of initiatives with sizings and implementation plans
Actions	<ul style="list-style-type: none">For each initiative:<ul style="list-style-type: none">Calculate sizingWrite implementation planRegular problem-solving with DO, aimed at in-principle approval of L2 and L3 initiativesCheck-in with Manager/Exec. to give progress updateRefill initiative pipeline as new ideas emergeDaily 'stand-ups' (coach, CM, site contract teams, analyst, SMEs)Regular problem-solving as required (CM, coach/analyst, SMEs)

Check-in with Manager/Exec.	
Purpose	<ul style="list-style-type: none">"Update Manager/Exec. on progressGet Manager/Exec. buy-in and identify any problem areas
When	<ul style="list-style-type: none">End of Week 2 or start of Week 3
Duration	<ul style="list-style-type: none">1 hr
Agenda	<ol style="list-style-type: none">Play-back of current answer (CM)New ideas/suggestions from Manager/Exec.Discussion of any potential problem areasNext steps
Attendees	<ul style="list-style-type: none">Manager and/or Exec.CMCoachAnalyst
Pre-work	<ul style="list-style-type: none">Contract team (with central team support) to prepare update deck for Manager/Exec.

D Stage 3 – improvement initiatives will be syndicated with and approved by key stakeholders

Stage 3

Stage

Syndication and sign-off

Deliverables

- Sign-off on initiatives by Manager/Exec./CM
- Initiatives in Wave approved at L3 (sizing and implementation plan complete)
- Meeting scheduled with sector contacts re: additional growth opportunities

Actions

- Check in with Manager/Exec. at start of Week 4
- Generate sector recommendations
- Wrap-up meeting to gain line approval of initiatives
- Initiatives presented by CM to Manager/Exec./CE
- Gain DO approval of L3 initiatives
- Schedule sector and IT meetings for following week
- Daily stand-ups (coach, CM, analyst, McK)

Initiative (example)

Contract: Contract X

Initiative: Equip cleaners with backpack leaf-blowers

Owner: John Smith (CM)

Run-rate value: \$2M

One-off value: \$0

Implementation capex: \$0.3M

Implementation opex: \$0

Next steps:

- John Smith (CM) to obtain spec list of different leaf-blowers from Procurement (by 6/6/15)
- John Smith to select blower (by 10/6/16)
- Procurement team to source & order blowers (by 15/6/16)
- John Smith to organise progressive training and roll-out
 - 10 cleaners to be trained each day
 - Cleaners to receive new blower after training
 - Complete roll-out within 3 weeks
 - (by 6/7/15)
- Tracey Jones (Manager) to meet with client to negotiate mechanics for sharing savings (by 31/7/15)

Roles and expectations

Contract manager & site team

- Own the diagnostic process for your contract – take responsibility for driving the process and co-ordinating SMEs and site team resources
- Own the development and implementation of initiative plans coming out of the lab process
- Commit your time – potentially a full-time commitment during for some of the weeks – and arrange for backfill of your role as needed
- Free up site team time as required during initiative identification and planning
- Be prepared to coach your peers – discuss your initiative plans with other CMs who have not yet gone through the lab process
- Provide co-located team room with projector, whiteboard, telephone, internet access, etc.

Central lab team

- Facilitate contract lab process
- Challenge contract manager/initiative owners on content during opportunity identification and implementation planning
- Provide coaching to contract manager & site team during the lab process
- Identify areas for capability building & organise relevant training for contract teams where necessary

Central resources (SMEs)

- Provide content expertise and benchmarking during opportunity identification and implementation planning
- Where necessary, provide specific coaching to contract manager & site team

The contract lab achieved an average of ~10% margin improvement

	Description	Margin improvement levers	Impact
Contract 1	<ul style="list-style-type: none"> Construction contract 	<ul style="list-style-type: none"> Contractor renegotiation In-sourcing of some works Improve labour productivity via training Reduce overhead 	~10%
Contract 2	<ul style="list-style-type: none"> Maintenance contract on single large site 	<ul style="list-style-type: none"> In-source reactive and preventative maintenance Redesign org. structure to reduce labour costs Go to market on service providers Improve labour productivity via mobile application and layout of site 	~14%
Contract 3	<ul style="list-style-type: none"> Maintenance contract across range of dispersed sites 	<ul style="list-style-type: none"> De-scoping of maintenance plan Improve labour productivity via mobile application In-source reactive and preventative maintenance Go to market on subcontractor rates Improve reimbursement claims Additional revenue growth 	~7%

Critical success factors – contract lab

- Highly competent and respected client coaches who have a balance of business skills and interpersonal skills
- Ownership from the Contract Manager for the savings initiatives – this requires regular check in and problem solving with the manager
- Support from the General Manager, Exec. General Manager and Divisional Managers
- Sufficient resourcing from the contract - we recommended each contract going through the lab provide an analyst with an understanding of the overall financials and access to the relevant data sources
- Being on the ground at the contract location – set up a ‘war room’ at the client site from which the team can operate for the 4-6 weeks required
- Structured, simple, and consistent approach to determining areas of focus
- Stage gated approach (L0-L5) that outlines the level of detail required for each initiative prior to the lab team leaving the contract
- Mid-Point check in with the Exec. General Manager to get their early feedback on progress and focus areas. It allows enough time for a course correction if need be

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There are 3 components of the Contract Margin Boot Camp

Capability building - Physical Boot Camp (first two days)

Initiative generation and plan development (following 5 weeks)

Implementation and performance management (ongoing)

What

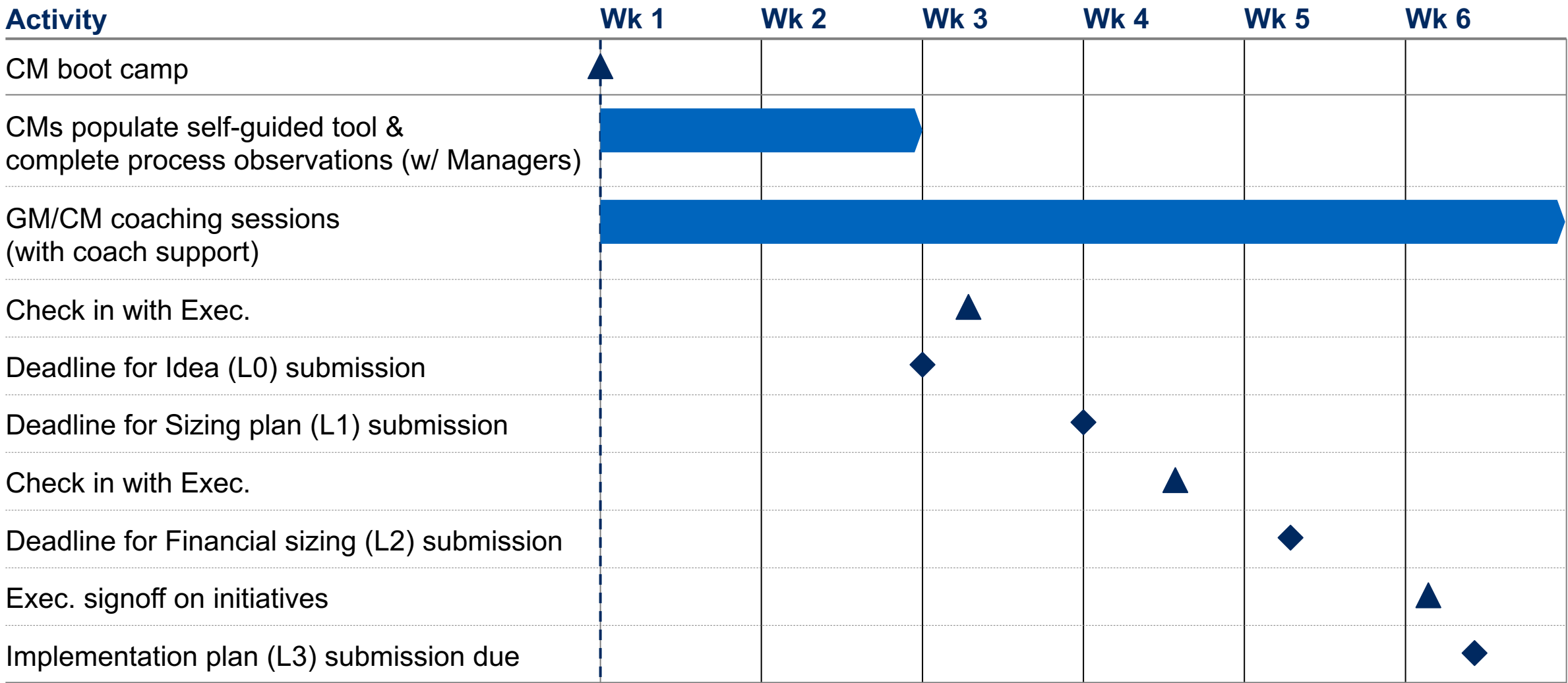
- Provide tools/training to Contract Managers and General Managers to help achieve margin improvement
- Generate additional initiatives to meet target contract earnings
- Add sizing and detailed plans to current initiatives
- Bring rigour and transparency to implementation, leveraging the line to ensure delivery

Why

- Ensure a standard approach to improvement
- Provide some focused time to develop and progress improvement plans
- Existing improvement plans have varying levels of rigour
- Additional initiatives are likely required to reach targets
- Allows resourcing needs to be prioritised, decisions to be made quickly, and implementation to be tracked

Timeline for Boot Camp process — highlighting major dates

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What success looks like for the Boot Camp process

At the end of the 2 day boot camp ...

- Contract Managers have identified/confirmed the key value drivers for your contract
- Contract Managers have identified a list of high potential initiatives to pursue
- Contract Managers understand 'Contract performance management' involving weekly performance reviews and consequence management / conducting difficult conversations
- Contract Managers are clear about next steps and have a 5-week work plan
- Contract Managers are excited to get going further!

In 5 weeks' time ...

- Contract Managers have all your initiatives detailed and approved by your Exec.
- Contract Managers have enough detailed and approved initiatives to meet your margin uplift target
- Contract Manager's team is able to use the boot camp process and standard margin drivers to continually identify future improvement ideas
- Contract Managers have cemented your weekly performance rhythm with your Manager & your team
- Contract Managers are ready to present your improvement plan to your Exec.

What is expected of Contract Managers during the Boot Camp process and beyond

Contract manager & site team

- Own the development of initiative plans coming out of the boot camp process. You will be accountable for this.
- Own the implementation. You will be accountable for this too.
- Commit your time and resources – potentially a full-time commitment during some of the weeks; backfill of your role as needed. Request additional support as needed. Time needed is 10–20 hours / wk over next 5 weeks
- Free up site team time as required to drive next 5 weeks
- Coach your peers – discuss your plans with others who have not yet gone through the boot camp process
- Further identification of improvement initiatives – this should become part of your continuous improvement BAU

General Managers

- Challenge contract manager/initiative owners on size and speed
- Ensure the continued focus by CMs continues during implementation
- Provide coaching to Contract Manager & site team during the boot camp process
- Time commitment is 2-3 hours / week / Contract Manager during initiative generation

What help Contract Managers got from the Boot Camp

During the 2-day Boot Camp	A self-guided tool ¹	<ul style="list-style-type: none">▪ Structuring approaches to help you spot improvement opportunities in your contract(s)▪ Applying “value driver” logic and selecting typical initiatives, including those implemented successfully on previous contracts
	Time, and coaching, to identify initiatives	<ul style="list-style-type: none">▪ Supporting and coaching you during small group and on-on-one work▪ Supporting further development of your initiatives
	Advice from your peers	<ul style="list-style-type: none">▪ Opportunities to interact with the other CMs and Managers and other staff supporting the boot camp
	Leadership training	<ul style="list-style-type: none">▪ Training you and giving practice on running effective reviews▪ Training you and giving practice on coaching and “conducting difficult conversations”
Afterwards	Structured coaching/ review process	<ul style="list-style-type: none">▪ Guiding CMs and Managers through the process▪ Coaching Managers on conduct of performance reviews and accountability▪ Targeting support to you on developing initiatives
	Management attention	<ul style="list-style-type: none">▪ Opportunity to ask for removal of roadblocks in the way of contract improvement – and the process facilitates that (e.g. Exec. report out; weekly Manager/Exec. and Sponsor scrutiny)

¹ This refers to the Contract Magin Improvement Tool – explained at the back of this document and attached to the PD

Agenda for the two day 'boot camp'

Day 1: Creating Initiatives

- Introduction & Need for Change
- Structured acceleration of ideas
 - CMI Tool overview
 - Lever & Value Driver selection
 - Initiative generation
 - Initiative Management

Day 2: Driving Execution

- Contract Performance Management:
 - Cascaded Reviews
 - Metrics
 - Consequence Management
- Change Management
- Recap & Work Planning

Critical success factors – contract boot camp

- Preparation from participants – be on top of their financials
- Manager support (and presence) because they have a key role to play and unless they understand the process the CMs are going through, full value will not be achieved
- Senior executive to be present to kick-off and close off to demonstrate real support
- Participants to keep an open mind
- Group similar contracts together for group work to leverage learnings
- Include finance business partners in training and initiative generation
- Understand and plan upfront for time commitment required post boot camp (was underestimated in first wave)
- Set up support post boot camp (weekly pipeline reviews in the line by the Exec.; dedicated coaches to support Exec. workstreams)

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“Making it stick” initiatives are designed to drive cultural change at site to make improvement plans ‘stick’

Lever	Examples
Formal reinforcement	<ul style="list-style-type: none">▪ Redefining contract KPIs in line with contract lab initiatives▪ Building contract KPIs into performance dialogue & incentives – or, if cascaded performance dialogues are not already in place, implementing them & coaching CMs/site teams on how to hold them
Fostering understanding & ownership	<ul style="list-style-type: none">▪ Ensuring accountability for contract lab initiatives (& aligned KPIs) by assigning relevant site team members to be initiative owners, involved in the Stage 2 deep dive analysis and Stage 3 planning, as well as subsequent implementation▪ Coaching site teams on creating visual management for site tracking contract KPIs, and ensuring Contract Managers/General Managers conduct inspections to check visual management is in place & updated▪ Sharing success stories from high-performing sites/work crews, & implementing learnings at other sites, for example by having the site manager coach their peers
Role modelling	<ul style="list-style-type: none">▪ Contract General Managers commit to site visits each month, during which they might role model how to run daily huddles or have performance dialogues▪ Contract Manager/site manager institute daily standups referencing progress against contract KPIs
Skills & capabilities	<ul style="list-style-type: none">▪ Contract Managers signing up for, and adhering to their learning plan commitments▪ Identifying necessary upskillings for contract site teams, setting up time for relevant central team SMEs to coach site teams▪ [Potentially] Bolstering site team capacity with a central ‘implementation SWAT team’ present at site to get initiatives off the ground during initial implementation

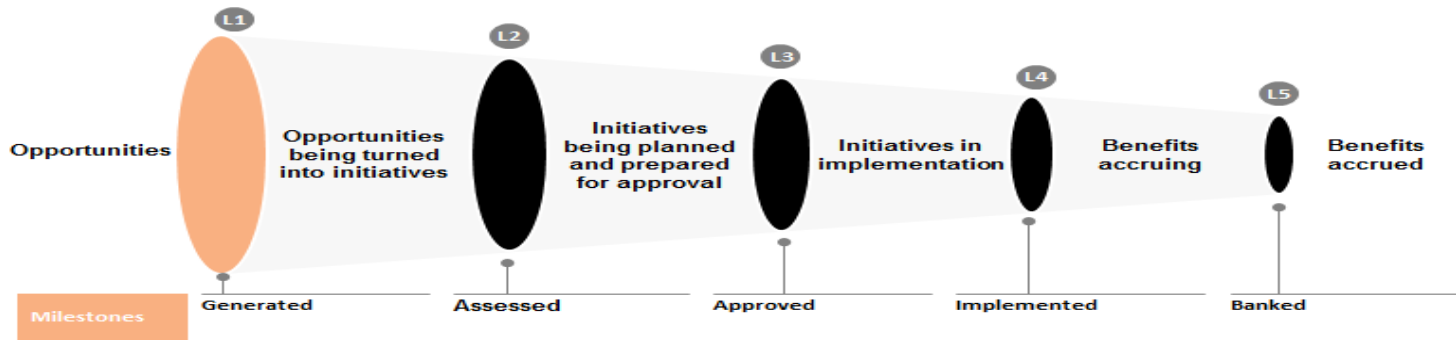
There were two formal mechanisms established to track implementation

The Delivery Office (DO)

- Context: the DO was established as an 'independent' office within the client reporting to the SteerCo
- Ensured initiatives have common high standards of planning and speed in execution (e.g., frequency and clarity of milestones, selection of metrics, calculation of financial impact)
- Provided sponsors with information and runs weekly cadence to progress initiatives and solve critical issues
- Provided leadership with information and progress and data for decision making (e.g., target setting)

WAVE

- WAVE is a web-based tool for managing a portfolio of improvement initiatives and tracking the impact of those initiatives on key business metrics
- WAVE relies on stage-gate process to ensure that initiative owners are held accountable to outcomes they can control – by excluding the effect of factors outside of control
- The stage gate process includes the following steps:
 - L0: An opportunity is identified
 - L1: An idea has been generated
 - L2: The idea has been validated
 - L3: Business case & implementation plan have been completed
 - L4: Implementation is complete
 - L5: Impact is hitting the business



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▪ **Contract Margin Improvement tool**



The Contract Margin Improvement Tool is a tool used in the Contract Lab to structure the initial conversations and identify the biggest opportunities

Description

Overview

- The CMI tool is a simple excel based tool that was used to drive the triage process and guide conversations towards key areas of opportunity
- The template was filled in at the start of each contract and customised where necessary
- It was the key tool used until initiatives were captured in Wave, after which the tool's use was limited

Use

- The tool was a 'working doc' that was filled in before and during meetings – primarily the Stage 0 Kick Off and Stage 1 Workshop
- It was generally run by someone from the central coaching team (not the coach who was facilitating)
- It was designed to be pre-populated with key cost data - at the least the contract P&L. If possible additional analyses were carried out on key cost buckets

Instructions

- Step 1: during Stage 0 get the latest full year P&L for the contract and enter it into "Financial Snapshot" - this will provide the materiality thresholds for ruling in or out future modules
- Step 2: during the Stage 0 Kick Off use the "Stage 0 contract intro" worksheet and "Stage 0 Resourcing & Logistics" sheet to capture key information and facilitate a discussion about the contract
- Step 3: during the Stage 1 Workshop use the "Stage 1 module triage" to quickly rule in or out certain modules
- Step 4: during the Stage 1 Workshop use the "Stage 1 driver triage and notes" sheet to determine which areas offer the greatest potential opportunity and what 'L0' initiatives may result in savings
- Step 5: take all the draft initiatives captured in the "Stage 1 driver triage and notes" worksheet and enter into Wave as L0. Once all initiatives are loaded into Wave this tool becomes somewhat redundant
- The Initiative Menu is a list of potential initiatives that can be used as ideas to try and capture areas of value
- The benchmarks may need to be adjusted depending on the industry and client

For a copy of the tool please reach out to the designated contacts

Contract margin improvement

MARGIN IMPROVEMENT FOR A DIVERSIFIED SERVICES PROVIDER

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