



PROTECTION FROM THE PENDULUM SWING

Frank Capristo and Ryan Whitaker, Matrix Service Inc., USA, explain how owner/operators can achieve better project outcomes during extraordinary times.

There is no question that the confluence of commodity pricing and COVID-19 has defined the year, creating unprecedented headwinds in every segment of the oil and gas value chain. Supply shock associated with depressed commodity pricing and unparalleled demand destruction caused significant disruption to the availability of capital which, in turn, impacted owner cost structures and sourcing strategies.

Against this extraordinary backdrop, the pendulum for contracting strategy inevitably swung as an involuntary reflex to market conditions – just as it had before during other market downturns that were far less immediate and dramatic.

The first movement was predictable, swinging hard and fast toward transactional, low-dollar costs of goods and services, as owner/operators see these low-cost options as a method of preserving cash. While well-intended, unfortunately the directive to cut cost is most often translated and executed by those responsible, who often lack a clear understanding of the work to be completed or the highly specialised knowledge and skills required of the contracting organisation to do so.

This neighbourhood of the contracting relationship spectrum is exceptionally transactional and hopes to capitalise on the feeding frenzy created by a surplus of hungry



Figure 1. Lining up speciality equipment for non-entry tank cleaning.



Figure 2. Start of day shift on a waste fluidisation project.

service providers. A dominant characteristic is often an even more granular approach, where scopes of work are often bid separately despite owner/operators having fewer employees available to manage multiple contracts. Service providers, in turn, try to safely and successfully execute quality work but do so on extremely slim margins, and with more interface points to manage in the field.

In this environment, some service providers are pursuing projects that they may have never performed before or may not be fully qualified to perform. They do so as a mechanism of survival.

Often, these projects end in huge losses for the contractor organisation as a result of their lack of knowledge, skill or inexperience in bidding and executing – exactly why they were the lowest bidder. Worst may be an inability to recognise potential safety hazards their workforce will experience that can have tragic results. And for the owner/operator, the consequences of hiring the lowest cost provider are often equally as devastating in terms of change orders, cost overruns, and missed schedules.

With the attention of both the owner/operator and service providers set squarely on controlling costs, the collaborative, integrated approach known to consistently result in successful project delivery is set aside. As a result, project outcomes suffer, as do innovation and commitment.

The long-term total cost of ownership, direct and indirect costs to complete a project and the cost to maintain the asset all increase in one-off, transactional-type relationships.

As the pendulum reaches its highpoint, both owner/operators and service providers remind themselves there must be a better way and, after some difficult lessons learned, the pendulum begins its swing back to a more collaborative, integrated project delivery approach. So, knowing what is at risk, how can the pendulum be kept from taking that first hard swing?

Collaborating for successful project delivery

It is in these very times of constrained resources and urgent cost pressures that both owner/operators and service providers should hold fast to the benefits of collaborative, integrated project delivery, the key elements of which include:

- Leveraging key supplier and master service agreements (MSAs) that have already been thoroughly vetted through owner and contractor internal processes.
- Leveraging suppliers and/or contractors who can provide multiple services within the same value chain.
- Involving key participants and stakeholders, including health, safety, security and environment (HSSE), quality assurance/quality control (QA/QC), engineering, procurement, contractors, subcontractors, major suppliers and owner facility personnel from management, operations and support services early on.
- Carefully planning and integrating outside resources with facility-based personnel to include mitigation strategies for managing new risks like those presented by COVID-19.
- Effectively managing and integrating short service employees with more experienced workers to ensure long-term workforce sustainability.
- Applying new technologies expected to provide long-term costs savings.
- Incorporating industry best practices throughout the entire process.

A better way

Establishing an integrated project delivery approach helps ensure better alignment of goals through open sharing of business plans, priorities, and a longer-term programme view vs a single, transactional engagement.

For Matrix Service, whether serving as a single-source contractor or part of a larger team, this means taking time to understand the business issues that customers are trying to resolve so the company can then help develop the best possible solution. On any project, although challenges will present themselves, by staying focused on the customer's business issues and objectives it can be ensured that the team will make the best possible decisions to ensure successful project delivery.

Earlier engagement of service providers in planning and constructability phases will increase the opportunity to identify better solutions and more efficient practices, bring value-added service, and reduce total cost of ownership. For example, what may seem like a unique or difficult challenge to the project owner's team is often similar or nearly identical to one that an experienced service provider may have already



Figure 3. Installation of a new external floating roof (EFR) in an existing storage tank.

successfully completed at another facility location for another project owner and from which the service provider can also offer any lessons learned. The value of early collaboration in the ultimate success of a project cannot be overstated.

An integrated project team can also reduce indirect overhead costs, jobsite interference and delays, transition time between project phases, and management issues as a result of fewer individual service providers. When team members from both the owner/operator and service provider work in unison toward a common goal, projects tend to have much higher success rates as measured by any traditional key performance indicators.

Owner/operators can achieve verifiable cost savings through volume purchase of materials and subcontracts when the owners commit to a larger book of business vs transactional, one-off project work. Likewise, overhead cost savings for both owner/operators and service providers are achieved as a result of a reduction in the number of individual bid solicitations and the resulting resource-consuming bid cycle. The cost savings can be further increased by utilising service providers who can leverage purchases with those of other owner/operators.

Efficiency gains are realised through better management of resources, consistent dedicated crews, and support staff intimately familiar with owner/operator and facility expectations, requirements, policies and standards. Crew familiarity with specific owner/operator processes and procedures will also typically result in safer project execution and more efficient project delivery.

Continuous improvement and effective leveraging of lessons learned are also improved as owner/operators and service providers choose to collaborate with each other to become a single, integrated team. Likewise, key performance indicators and scorecards that measure and motivate behaviour toward better alignment and desired owner/operator outcomes are possible.

An additional benefit to the owner/operator is the exposure to the service provider's staff expertise. Often, the owner/operator's project manager is a generalist who is expected to have vast knowledge of operations and maintenance but has little exposure or knowledge to exacting

details such as welding, fit up, non-destructive testing, etc. A wealth of knowledge can be attained in a collaborative work environment that increases the value of the owner's human capital.

The reductions in cost and increases in value-added benefits are significant and are not mutually exclusive to a single project. These same benefits can also be attained by combining a number of similar projects together into a programme or by authorising one service provider to handle multiple phases of a project or maintenance programme – for example, single-sourcing the cleaning, inspection with owner oversight, and repair and commissioning of a portfolio of tanks or vessels, rather than using multiple providers to perform separate scopes on these individual assets. In doing so, owner/operators are assured a safe, consistent, efficient, repeatable process, tank to tank and site to site. Another example might be the hiring of a single provider for the engineering, procurement, fabrication and construction of CAPEX projects vs separate entities each handling these individual components.

Case study

The recent spike in demand for product storage and additional tank capacity caused a few owners to rethink their supplier relationships and contracting strategies as they attempted to quickly bring idled storage assets back online. Where most owner/operators saw an opportunity to leverage market conditions to find rock-bottom pricing through lengthy competitive bid processes, others found value in leveraging relationships to achieve a time advantage.

As a collaborative and well-diversified contractor, Matrix Service was able to help an owner/operator achieve its tactical objective and greater speed to market by providing storage tank cleaning, inspection and repair services under a single contract. All phases of the work were executed with a common overhead structure and field leadership who were already familiar with the facility and project objectives.

The result was a project that was completed safely and efficiently in approximately 30% less time than would have been the case had the owner/operator employed a traditional approach, bidding each phase out competitively and actively managing the separate interfaces between contractors.

Conclusion

There is no question the quality of a project team and the level to which that team works together can make or break an event. Collaborative, integrated project delivery is imperative regardless of market conditions, but it is even more critical in times when owner/operators face challenges.

In the current market environment, owner/operators that choose a collaborative, integrated project delivery approach will have a competitive advantage by reaping the benefits of such teams now, while positioning themselves to have the resources and collaborative relationships necessary to execute their business plans more rapidly as the markets recover.

Those who choose this better way employ the expertise offered by their service provider, but also draw on other equally valuable leadership attributes: commitment, responsibility, accountability, integrity, mutual respect, trust and service. 