



DIFFERENT APPROACHES TO THE FM CONTRACT

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CONTRACT EVOLUTION

- Adjudication: March 2002
- Start up first Contractor: July 2002
- Agreement to terminate the contract:
December 2002
- Take over second Contractor: July 2003



THE FM APPROACH

- Transfer of **management** of the execution of the work for all activities:
 - Planning, responsibility of performance, supervision works, reporting, accounting.
- Level of delegation related to the strategic importance of the activities vs. core activity of customer.
- CERN's contract is in the average for this typology of contracts (turnover, activities concerned).



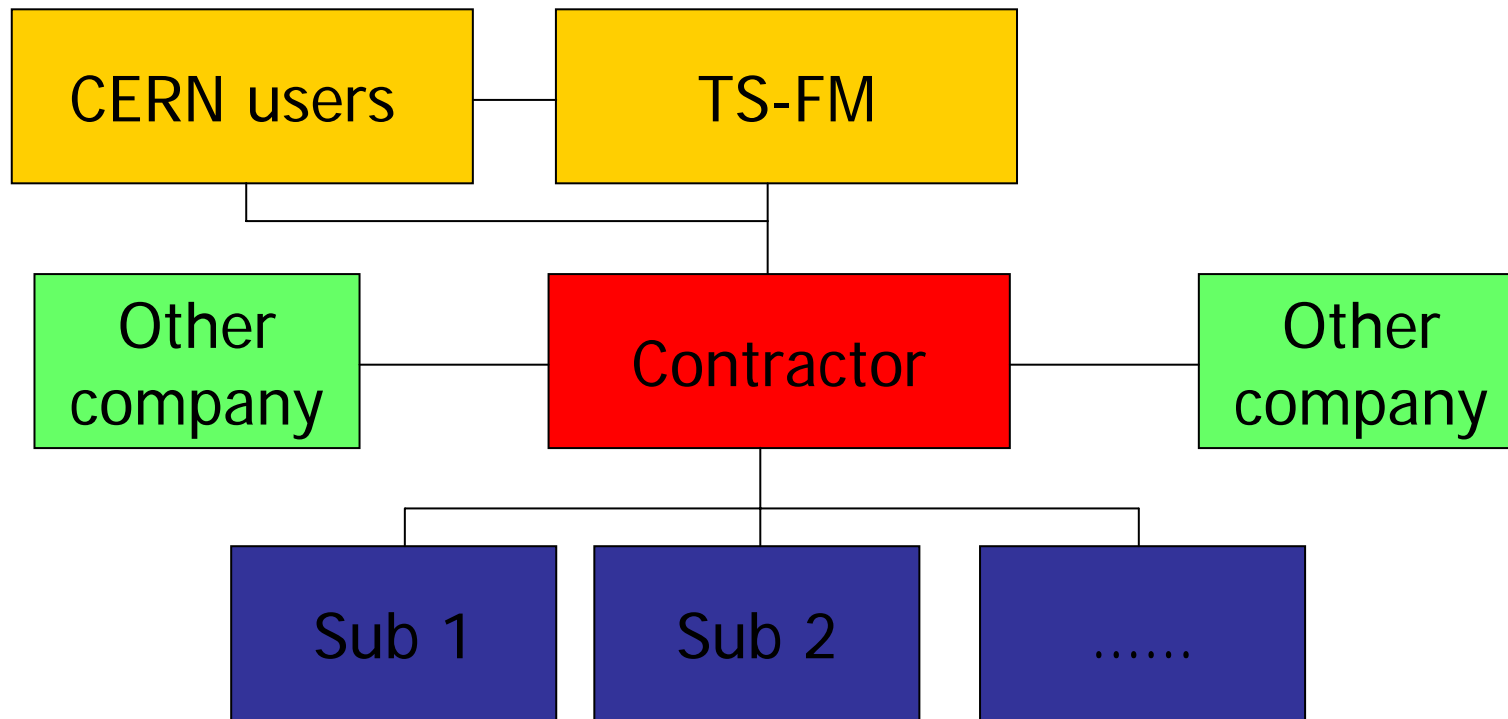
MOST COMMON TOPICS (*)

- The activities in the scope of the contract do not have a direct influence with the core business of the customer
- Tendering process might affect the success of the project.
- Expectation on the length of the contract is around 10 years.
- The evaluation of the performance of contractors is more time consuming than expected.

(*) Benchmarking, IFMA survey 2002



THEORY





CERN KNOWLEDGE

- No hiring of CERN staff by contractor:
 - CERN “philosophy” not transferred.
- CERN is completely new and unknown to the contractor.
- CERN staff has become the only interface (but in a few cases).
- Problem solved in the long period.



LOCAL CONTRACTOR'S TEAM

- Local team is between CERN and subcontractors, both of them know situation better than the team.
- Not just professional/technical competence required .
- Difficult communication among parties, delegation to subcontractor higher than expected.
- CERN does not manage Contractor' staff.



CONTRACTOR'S DREAM

1) CERN makes request.

2) Contractor transfers request to subcontractor.



3) Subcontractor provides manpower and tools, Schedules and performs the work.



4) Contractor invoices and CERN pays.

If there's a complaint, it's subcontractor's fault





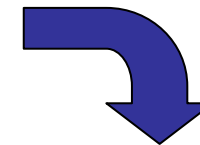
CONTRACTOR'S WORST APPROACH

- Payment made on lumpsum basis.
- If all is perfect I get 100% of what I have foreseen.
- I am “unhappy” if I get less when some deduction is made for work not done because my expectation has been dashed.
- If I do less than the foreseen, in the worst case I get the money corresponding to the work done (provided that CERN sees it): why should I do all the work?

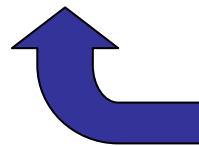


DANGEROUS LOOP

A work is not done,
CERN does not pay for it.



If I am not paid,
I do not perform to guarantee
a certain margin.





SUBCONTRACTORS MANAGEMENT

- No use of synergies among activities, no communication among subcontractors (not even via contractor).
- Daily meeting CERN-INGEST.
- Some subcontractors took profit of Contractor's weakness or mistakes.
- Back to back conditions checked systematically: technical, payment conditions.
- Parallel management by CERN to contractor's one.
- Responsibility is on Contractor and subcontractor, both of them involved in penalty/bonus system.
- CERN places orders to other companies.

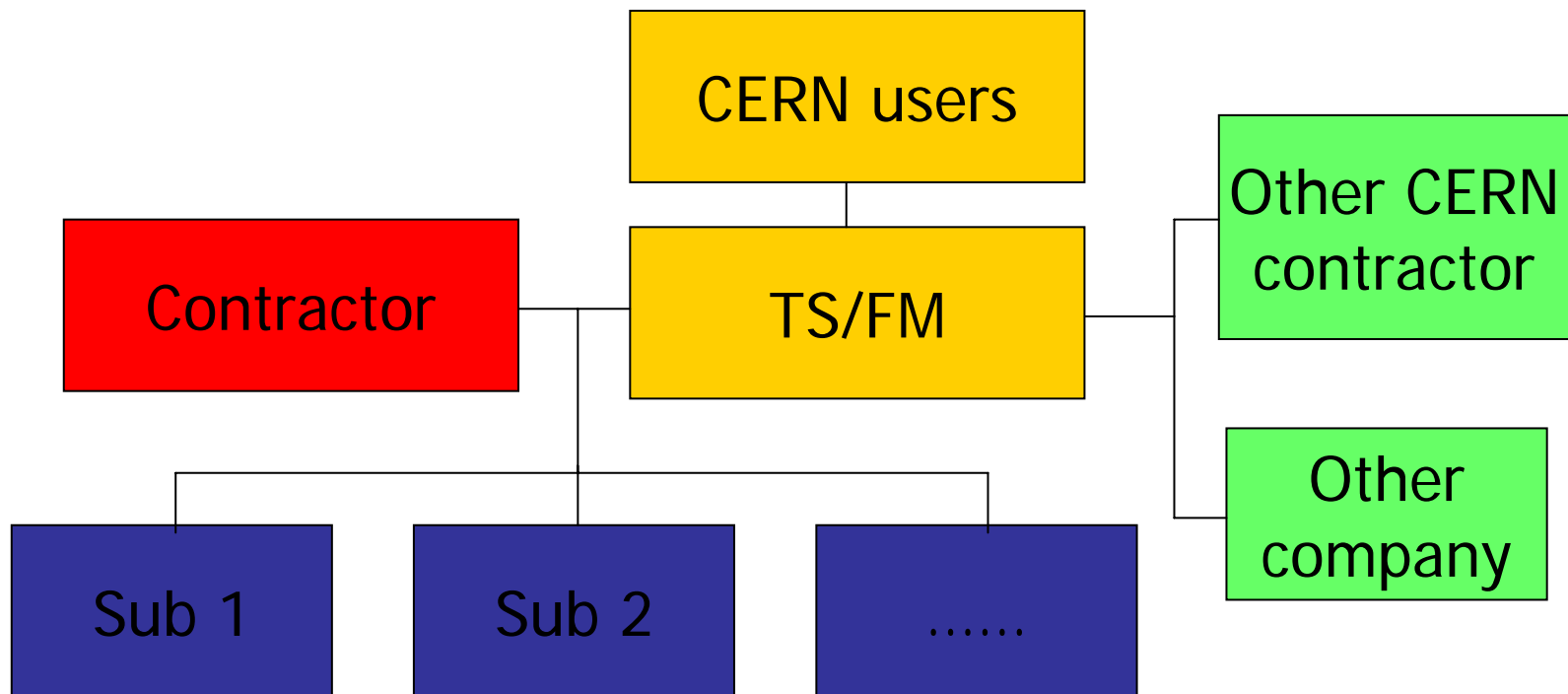


MINOR WORKS

- Long delays.
- Completely in subcontractors' hands.
- Result different from what expected by user (and generally more expensive).
- Price unit list not respected.
- Specific CERN team appointed in October 2003 to manage and control requests.



PRESENT SITUATION





CONCLUSIONS /1

- Additional resources.
- More detailed management by CERN.
- Lower level of delegation accepted.
- More extensive use of other contracts/ price enquiries.

SITUATION STRONGLY IMPROVED



CONCLUSIONS /2

**FM STRATEGY IS A CORRECT APPROACH TO
COMPLY WITH BUDGETARY CONSTRAINTS
AND TO THE RATIONALIZATION OF
RESOURCES.**

CERN resources to be carefully evaluated with
respect to the result that needs to be
obtained.



IN THE FUTURE?

- High level of trust to main contractor:
 - adjudication process to be modified?
Other factors are more important than the economic one.
- Length of contract to be extended?
 - Contractor does not try to maximize the profit in the very short term.



IN THE FUTURE

- There must be a common goal for all actors:
 - win win situation for all.
 - Payment/budget management to be modified?
 - Enhancement of bonus system?

- Does all this apply only to FM contract?