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# Good Projects- or Maybe Not

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# Topics for Today

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- ⌘ How do you know a “Good Project” when we see it?
- ⌘ “The 70/30 Rule”- A Key Premise for Today’s Discussion
- ⌘ The EPC World as it Stands Today
  - A look at the ECRI historical achieves
- ⌘ Signing a Good deal
- ⌘ Executing with Excellence
- ⌘ Proactively Managing Risk

# How do you Recognize a “Good” Project?

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- ⌘ The ability to answer this question is the key to success in our industry.
- ⌘ For today’s discussion, lets define a “good” project as having the following characteristics:
  - World class safety results
  - Completion in accordance with the contract schedule
  - Costs in accordance with the budget
  - Flawless Project startup
  - High project quality reflected in plant operation
- ⌘ In the EPC industry these characteristics are interrelated and not independent

**Its easy to look at a completed project and determine that it is a “Good” project- the trick is to identify issues, in a timely manner, to prevent a project from coming off the rails**

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# “The 70/30 Rule”

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- ⌘ When you are looking at whether you have a good project, and whether it might go bad, you need to first focus on the deal that is cut.
- ⌘ The “The 70/30 Rule” states that: *Seventy percent of the contributing factors as to whether we will have a Good project at the end of the day are determined by the time we have executed the contract*

**“There is never a good time to sign up a bad deal”**

*Hugh Coble, Vice Chairman Fluor Corp (Retired)*

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# The EPC Industry as it Stands Today

## ⌘ The Swings Continue

- Looking back to a presentation from three years ago:
  - Capital Spending on Industrial Projects has risen substantially....is showing no signs of slowing
  - ....are seeing this across all of our business lines
  - ....the number of “mega projects” are growing incredibly
- Looking at these same parameters today:
  - Capital Spending has leveled, at best, in many of our industries
  - Growth is not across all business lines but in selective business lines (e.g. mining)
  - Competition has become more broad based and more intense

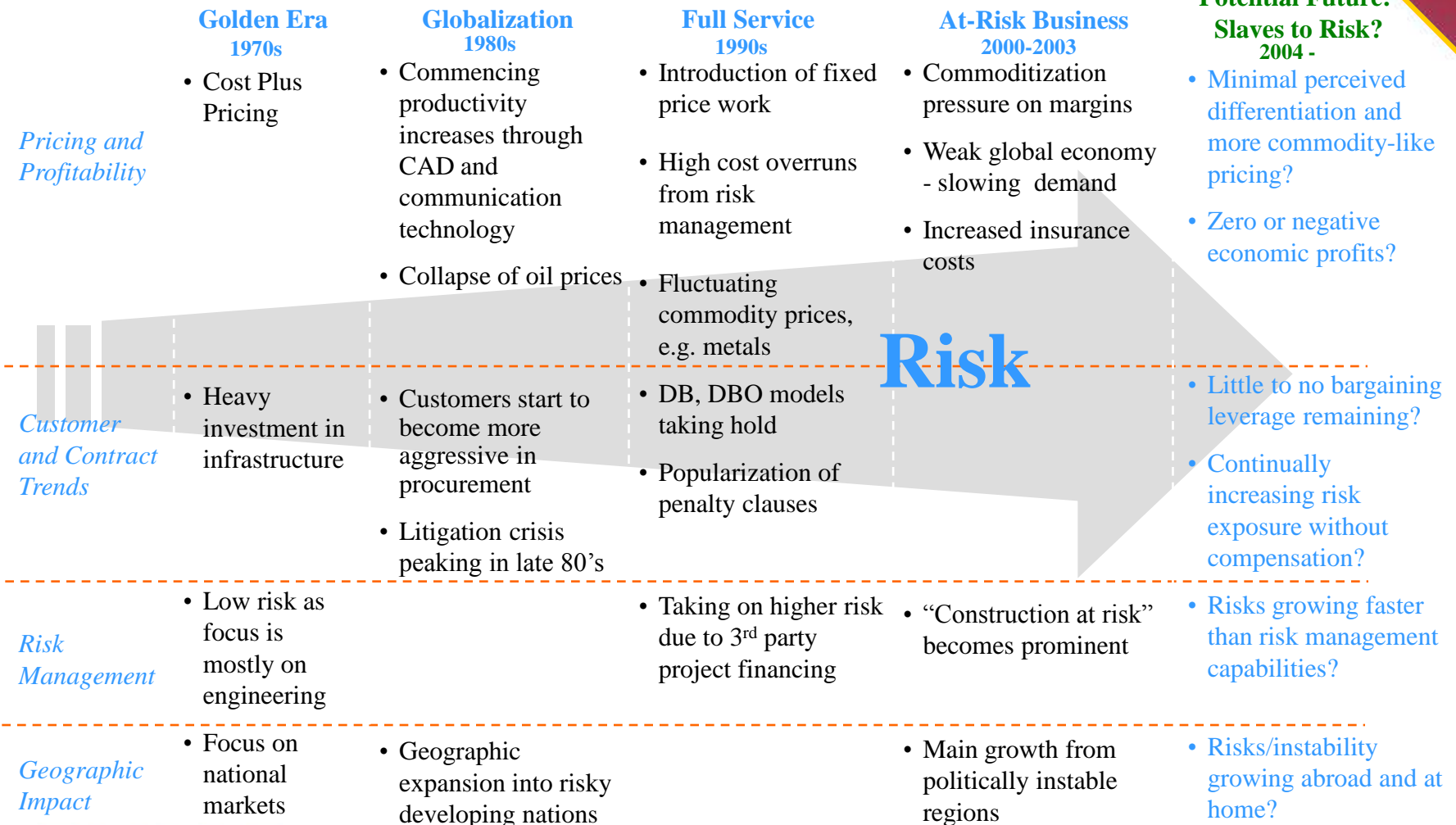
## ⌘ Clients are using the swings in the market as a method of shifting risk to the contractors

- Making good deals harder to come by and, if we accept the premise of the “70/30 Rule”, good projects harder to create
- ....but its not our first time to play this game

# Over the last three decades, the E&C industry has adopted riskier business models

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## Risk Level Development in the E&C industry



**Risk**



Developed in conjunction with AT Kearney and the World Economic Forum

# Signing up a Good Deal

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- ⌘ What makes for a Good Deal?
- ⌘ Understanding the Risks we are being asked to take
  - Creating a solid risk list during the proposal
  - Keeping the risk list updated throughout the negotiations
  - Staying focused on the details
- ⌘ Innovate on ways to mitigate the risks
  - Innovative mitigation is not the same as risk rationalization
  - Keeping the mitigations updated throughout the negotiations
- ⌘ Accepting a risk because “It’s Market” is not a form of risk mitigation
- ⌘ Know when enough is enough
  - At some point one more straw can break the camels back

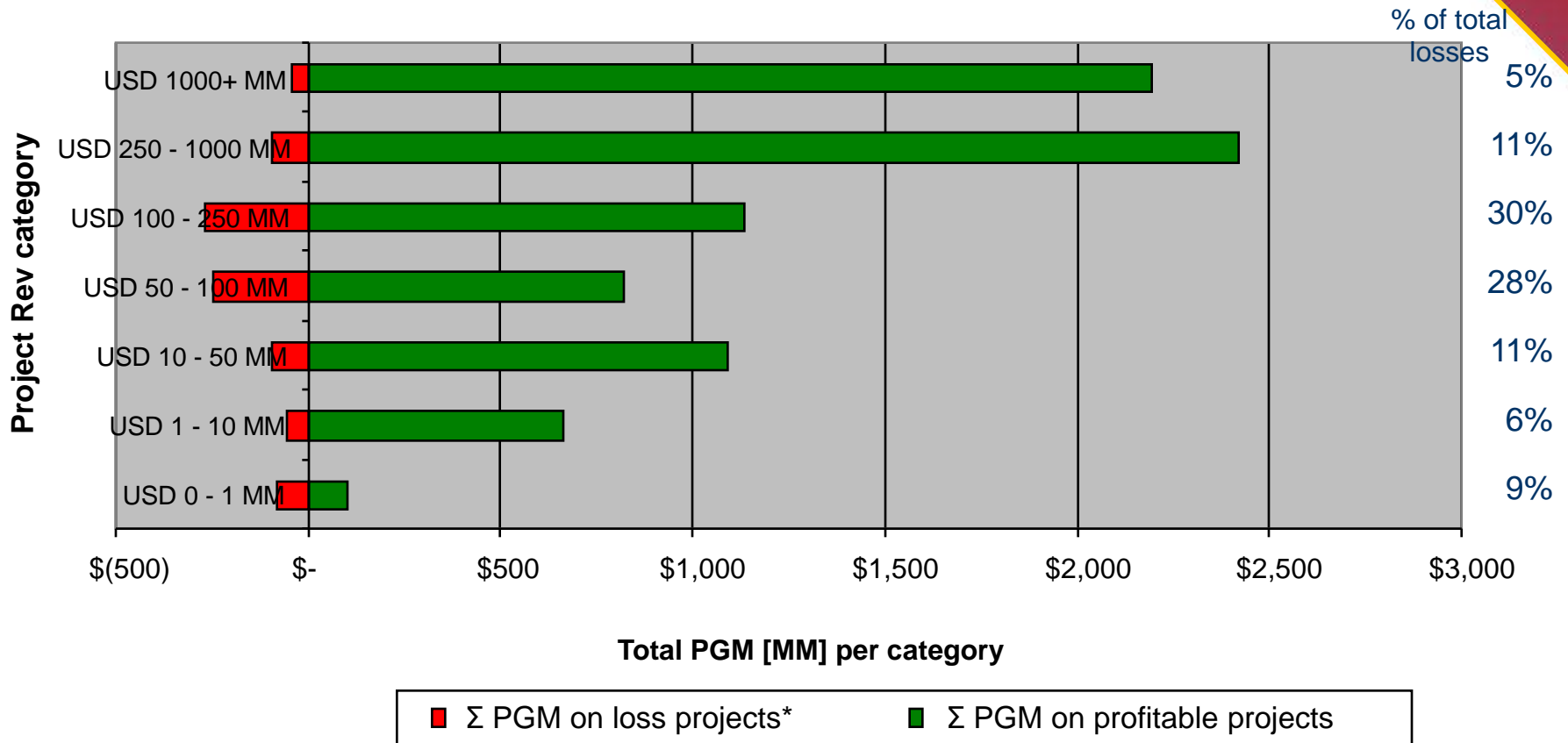
# Execute with Excellence

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- ⌘ Even if you buy into the 70/30 rule, the other 30 percent is still critical
- ⌘ Ensure a proper handoff from Sales and the proposal team to the execution team
  - RTFC
- ⌘ Project Setup, the “Mini 70/30 rule”
  - Attention to practices, procedures and baseline documents early and often
- ⌘ The elements that make for a good project are interrelated, not independent
  - An early warning that a project is coming off the rails is when trade-offs begin to occur between these key elements
- ⌘ The experience of the project team is clearly a key to achieving good project results

# When We Put our Corporate Focus on Ensuring a Good Project... We Get Results

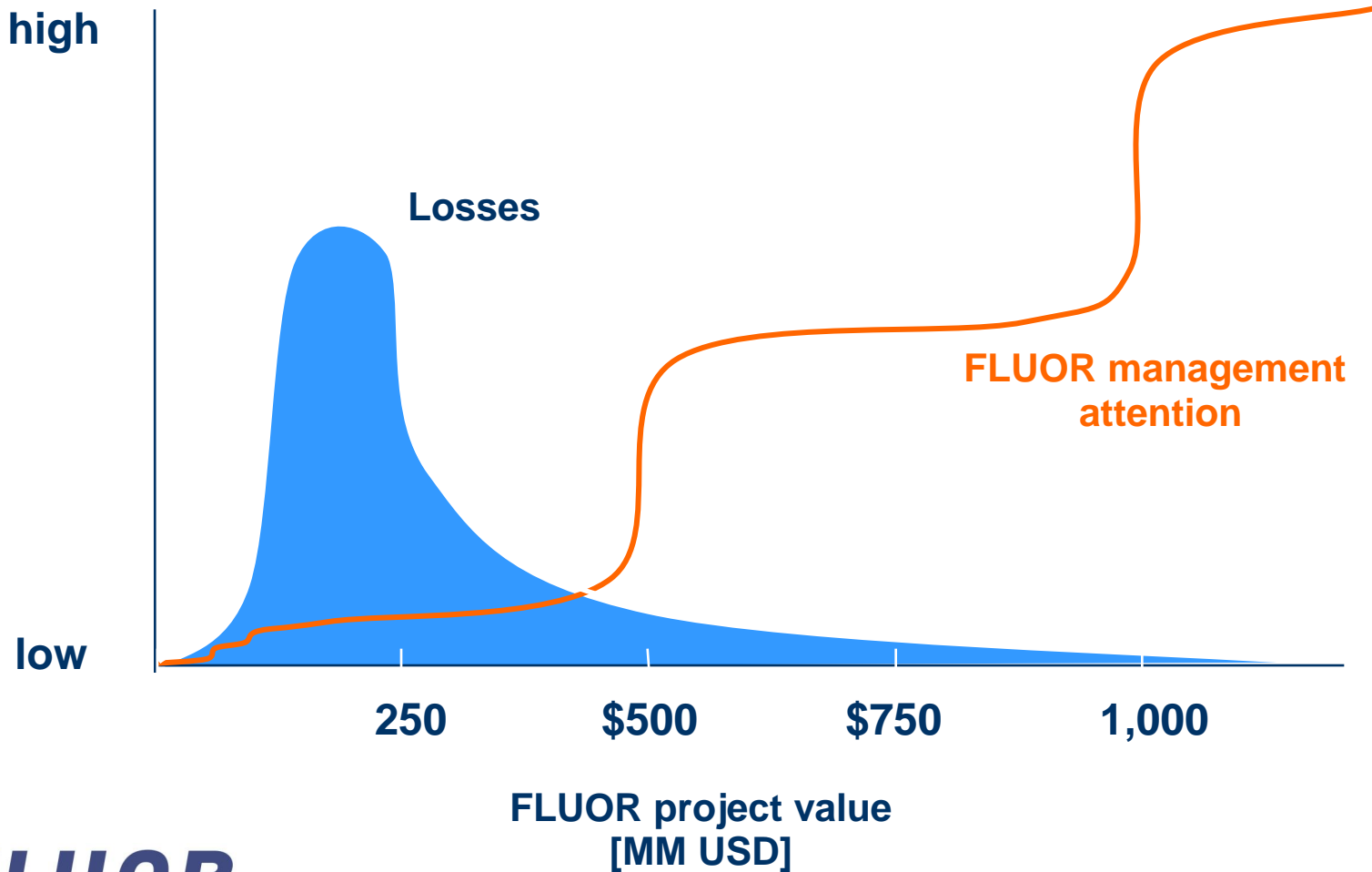
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- 58% of Fluor's losses are incurred on projects with a Fluor revenue of \$50 - \$250 Mm
- Fluor makes more negative PGM on \$1 – 50 MM projects than on \$250+ projects

# Said Another Way- Focus Creates "Good Projects"

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# The Best Focus, Comes Through a Comprehensive and Continuous Risk Process

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## Business Risk Management Framework

INTERNAL

### Exhibit AB - Risks and Mitigation Strategies

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Customer: SAPCO (JV Borsik-SAAC) Project Start/Complete Date: /  
 Project Name: Super Absorber Polymer Plant\_EPC Review Date: 13-Aug-10  
 Location: Middle East, Saudi Arabia Revision Date: 17-Aug-10  
 Sales Prospect Number: 10056650 / Revision Number: 1

Proposal / Project Manager: Arie Dekker  
 Risk Representative: Wilbert Boon  
 Project Risk Representative: Lidia Stepanyuk  
 Approved By: Wilbert Boon



Rev #	Risk #	Risk	Score by	Time Based	Priority	Unmitigated Exposure	Remarks	Mitigation Strategy	Initiated	Execution Cost	Remaining Exposure	Remaining Exposure Rationale	Risk Responsible Party
1	2	Not having enough information on the installation scope of equipment packages may affect subcontractor price as quoted during OBE preparation	4	3	4	700,000	14 significant packages, and each has 100,000 USD impact and 50% of those packages have the impact	2.1 Use of P11 data	Yes	0	600,000		
0								2.2 Make assumption based on a historical project (i.e. Ticona) how the packages will be delivered to the site. Proposal to be based on this assumption.	Yes	0			
1								2.3 Get early involvement with the vendor of key packaged equipment.	Yes	0			
1								2.4 Include Vendor Reps for construction period	Yes	0			
1								2.5 Include add. Allowance on installation cost by GC & benchmark to actual cost	Yes	0			
1								2.6 Mid November issue of LS	Yes	0			
Sub Total						700,000				0	600,000		
1	3	Flour may not receive required attention from Al-Hajri as SAP scope is smaller than the rest of the complex (besides, Samsung may have more leverage with Al-Hajri)	3	4	3	0		3.1 Staggered mechanical erection of SAP- SAP plant mechanical completion 3-6 months after AA-plant	No	0	0		
1								3.2 Get a senior level commitment from the Al-Hajri management - get executive sponsor in place and conduct regular meetings to monitor progress - DELETED IN REV 1	Yes	0			
1								3.3 Set up an incentives scheme on Project Completion Date	Yes	0			



**Continuous Process  
Throughout the Life of  
the Proposal and  
Project**

# Conclusions

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- ⌘ In today's market place, EPC Contractors will be asked to take on more risk.
- ⌘ A strong risk process and risk mindset is the first line of defense in setting the stage for good project outcomes
- ⌘ A bad deal, even with the best execution, will not allow a Good Project to develop
- ⌘ A strong FOCUS on details creates the opportunity for Good Projects to occur

**How do you go from Good to Great Projects?**

**Take a Second Dose of the same Medicine!**

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