Commercial performance study 2016/17

Driving commercial performance on major infrastructure programmes and projects

making the difference
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Foreword

The past 12 months has seen major political and economic change. The UK infrastructure sector has had to navigate its way through major project ramp ups, major project ramp downs, as well as uncertainty on energy and transport investment. This is in addition to the EU referendum, general economic slowdown, and financial market volatility. Throughout this period of change the need to plan, deliver and operate infrastructure assets in a manner that can demonstrably provide best value for investors, deliverers and customers has remained.

Commercial capability has never been in such high demand, with commercial professionals having to substantiate business cases, help control the delivery of mega capital investment programmes and unlock opportunities for operating efficiencies from regulatory control periods. This third study by our commercial performance team provides a framework on which organisations can assess, improve and assure themselves that they are getting the commercial performance required to deliver the value and efficiencies required on major programmes and projects.

The study has aggregated data and seen interviews undertaken across 115 major programmes and projects from the infrastructure sector, representing in excess of £50bn of expenditure. The practical layout of the study findings provide an opportunity for you to test your team’s performance while perhaps signposting innovation and collaboration as areas for further improvement.

From the study we have seen positive trends towards improving longer-term supply chain collaboration, and integration as well as investment in data analytics and technology; organisations who are investing in these areas are seeing a step change in the value and efficiency that can be achieved from project and programme investment.

I would be delighted to obtain feedback on the study – does it reflect the challenges you are faced with? I welcome your views.

David Whysall
Head of Cost and Commercial Management - infrastructure
Why commercial performance?

Global infrastructure demand requires $57 tn of investment by 2030. This is being driven by rising population levels, adaptation to a changing climate and the need to improve global living standards. This is reflected by a forecasted growth of 70 percent in the global construction market by 2025. The UK National Infrastructure Delivery Plan 2016 details £483 bn of investment on over 600 infrastructure programmes and projects in all sectors and spread across the UK to 2020-21 and beyond.

Industry response

Infrastructure is now at the heart of the UK Government’s economic strategy and visibility of the future infrastructure pipeline is now clearer than ever before. The Infrastructure & Projects Authority (formerly Infrastructure UK), a unit within HM Treasury, has published the 2014 Cost Review; a report that identifies £3.4bn per annum of cost savings and with an aim of reducing the cost of infrastructure delivery by 15 percent.

Construction 2025 created a vision for long-term strategic action by Government and industry to put Britain at the forefront of global construction.

The Construction 2025 performance ambitions are:

- 33% Lower costs
  Reduction in both the initial cost of construction and the whole life cost of assets

- 50% Faster delivery
  Reduction in the overall time from inception to completion for new build and refurbished assets

- 50% Lower emissions
  Reduction in greenhouse gas emissions in the built environment

- 50% Improvement in exports
  Reduction in the trade gap between total exports and total imports for construction products and materials

Realising these targets

The National Infrastructure Delivery Plan 2016-2021 calls for the industry to “renew efforts to encourage private investment; and continue to bear down on the drivers of delay, high costs and inefficiency in delivering these ambitious investment plans”. In order to deliver this investment pipeline successfully, commercial performance is more relevant than ever as the construction industry will need to continually measure and improve its commercial performance in a demonstrable manner.
Greater commercial competency and higher levels of collaborative engagement between professional services organisations, clients, and the supply chain is critical in enabling projects to deliver best value from prevailing market conditions.
# Commercial performance themes

## Recurring commercial performance themes

Our research identified four consistent themes on major projects and programmes if high levels of commercial performance and efficiency were to be achieved:

<table>
<thead>
<tr>
<th>Theme</th>
<th>Client challenge</th>
<th>So what?</th>
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</thead>
</table>
| Get a grip on commercial data              | “I am not sure how to aggregate actual cost and commercial data to drive improved estimating, regulatory reporting and management information.”                                                                                             | 77% of respondents struggle to harness value from accurate, correctly formatted and robust data due to lack of confidence in commercial tools and systems.  
Data that is not effectively analysed and converted to information will restrict the ability to set a baseline on which to deliver efficiency or support supply chain performance management. |
| Enable supply chain collaboration          | “I do not have a relationship with my supply chain that is based on collaborative principles and therefore struggle to unlock innovation.”                                                                                                                                      | 53% of respondents agreed that the Client/Tier 1 relationship is positive and based on collaborative principles on their programmes and projects.  
It is now evident that building long term relationships with the supply chain is crucial if clients are going to deliver efficient major projects and programmes. |
| Invest in capability, skills and technology | “I am not sure how we attract and retain the brightest commercial talent or adopt technology that could support commercial performance into the UK construction sector.”                                                                                      | If the projected skills gap isn’t fixed project and programme performance will be adversely impacted. Organisations must embrace the opportunity to adopt technology enabling automation to ease the pressure of skills.                                      |
| Think whole life value                     | “I am not confident my organisation has a robust and well understood definition of value in order to make the best whole life decisions during asset planning, delivery or operation.”                                                                                          | 60% of respondents disagreed that their organisation took a whole life cycle approach to cost and value evaluation of asset investment/management utilising benchmarking data.  
Failure to understand the definition of value impairs an organisations ability to ensure decisions provide long-term benefit to the organisations, shareholders or customers its assets serve. |
Other commercial considerations

Pipeline and inflation outlook

The past few months has seen the knock-on effects of market volatility and economic slowdown which is having an impact with constructing infrastructure and real estate. A number of challenges, both internal and external, loom on the horizon that could impact the UK economic landscape and the construction industry itself. The uncertainty surrounding the implications of the European referendum is perhaps the most significant of these challenges. Construction itself appears to be in a state of flux. Initial Office of National Statistics (ONS) statistics showed a further decline in construction output during the final quarter of 2015 - placing the industry in a technical recession. Yet evidence from market surveys and sentiment indicators presented an industry still in growth, particularly within the infrastructure sector.

Until the implications of the UK’s exit from Europe is known the impact on the tender prices and inflation will be uncertain.

Increased activity has been causing tender prices to rise within the infrastructure sector. Capacity constraints, both in skilled labour and professional staff, are becoming more widespread across the sector. The infrastructure sector continues to show evidence of overheating and contractors and specialist sub-contractors are now in the enviable position of being able to be selective and risk-averse about which projects they bid for. Order books remain healthy and tender prices continue to rise as capacity constraints persist and the industry skills shortages fail to be addressed, leading to post-recessionary resourcing problems.

Demonstrable value

The updated infrastructure pipeline is anticipated to be predominantly funded by risk-averse private investment. Moreover, in an economic climate of government spending cuts, there is an increasing pressure for public organisations to drive cost efficiencies. Therefore, increased scrutiny from investors, shareholders, regulators and other government bodies is driving the need for the construction industry to demonstrate even greater value for money.

In the context of asset procurement, value for money is often tested by considering the optimum balance of whole life costs and quality. Commercial functions have a key role to play in driving value for money, through the selection of the correct contracting strategy and the utilisation of robust commercial processes to maximise cost efficiencies and reduce delivery risks.

50% of respondents thought that their programme has a commercial model in place which ensures value for money while not exposing the client to unnecessary risk.
Commercial performance

How confident are you in your organisation's commercial performance?

Some key questions:

Q. Do you know how the performance of your organisation's commercial function compares to others?
Q. Are your projects delivering best value and have you benchmarked your key cost drivers against the marketplace?
Q. Is your supply chain doing everything it can to secure the best buy in the marketplace?

Measuring commercial performance

Commercial performance

The maturity and effectiveness of a commercial function is about delivering outputs that add corporate value.

It is important to recognise that high performance will only be realised if all members of the commercial function perform in addition to there being effective integration between the individual elements.

Performance should be measured across two aspects, input factors and output measures as these will equally impact the ability to drive enhanced commercial performance;

1. **Input factors (commercial enablers)** are the qualitative procedures or processes that underpin commercial management.
2. **Output measures** are the quantitative indicators of the effectiveness of commercial management.

Commercial performance is a product of commercial controls and enablers (inputs) and the ability to demonstrate value for money using quantitative performance measures (outputs).

In this example Project 1 (P1) has value-added input factors and output measures, and Project 2 (P2) has compliant input factors and output measures.

Sharing the P1 team’s value added input processes with the team on P2, will allow them to adopt and develop value added processes. Over time, this should be reflected in improved output measures for P1, raising the aggregate performance of the programme.

Q. Where would you place your project on this graph?
In today’s market infrastructure investors, deliverers and operators must deliver and demonstrative whole life efficiency in order to deliver best value for customers - people who use infrastructure everyday and pay to do so.
Our commercial performance framework

Our commercial performance framework helps organisations to develop and mature commercial capability to drive improved commercial performance. Within our framework you will find the following performance areas:

- **Commercial value**
- **Commercial analytics**
- **Supply chain performance and procurement**
- **Commercial controls**
- **Financial performance**
- **Contract assurance**

### Key input factors
A collection of important actions which should be implemented to facilitate commercial performance.

### High level examples
Real examples from best in class commercial performance delivery.

### Output measures
Practical metrics to track commercial performance and undertake market benchmarking.

### Time phased input factors
Indicative implementation cycles and associated tangible benefits.

### Data and statistics
Headline insight from our extensive research and analysis of over 115 programmes and projects across four infrastructure sub-sectors (water, rail, air, power).
## Commercial value

Having a robust definition of commercial value is critical to assess value for money, robustly evaluate whole life costs and effectively implement new technology including concepts such as Building Information Modelling (BIM).

### Key input factors that drive commercial performance

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Set the value baseline</strong></td>
<td>Setting a value baseline and aligning it to the project lifecycle enables organisations to objectively evaluate their requirements, as well as drive lean and effective project and commercial management into asset operation. It is essential that the supply chain is made aware of the value brief and use it as a basis for establishing collaborative target orientated gateways, ensuring projects are prevented from diverging from those targets from the outset.</td>
</tr>
<tr>
<td><strong>Ensure you know the ‘should cost’</strong></td>
<td>Organisations investing in built assets need to know what their assets should cost to design, construct, operate and maintain. Efficient management, and use of actual cost data, sets a business apart from its peers, allowing for informed and accurate decision making. Knowing the ‘should cost’ enables robust targets to be set, consequently incentivising the design and delivery team for continuous improvement.</td>
</tr>
<tr>
<td><strong>Invest in technology to drive efficiency during design, construction and operation</strong></td>
<td>Investing in technology can be applied across the whole life cycle of a project, from establishing a robust ‘should cost’, through to estimating building operation and maintenance costs. Technology facilitates the ability to aggregate cost data, measure against external industry benchmarks and establish building design solutions. BIM provides a single source of truth for the project delivery team and supply chain. This enables greater efficiency in design, earlier optimisation of value engineering and waste reduction.</td>
</tr>
<tr>
<td><strong>Objectively evaluate whole-life value</strong></td>
<td>It is essential that a project’s whole-life cycle costs (CAPEX and OPEX) are evaluated against benchmarked market data, and whole-life cycle assessments. Establishing a cost model in line with the NRM3 CROME guidelines engages stakeholders from the project outset. Without a cost model in place, there is an increased risk that low initial capital costs will be achieved to the detriment of whole life (TOTEX) value to the client.</td>
</tr>
<tr>
<td><strong>Set a commercial strategy to align design with sourcing / procurement activity and market trends</strong></td>
<td>It is imperative to ensure that the correct contracting and commercial strategy is utilised, which aligns to both business objectives and the wider macro economic environment. In a highly volatile economy, it is important that organisations utilise intelligent sources of data to align design and procurement actions with market trends to unlock commercial opportunity and manage commercial risk.</td>
</tr>
<tr>
<td><strong>Identify and reduce waste throughout design, construction and operational activities</strong></td>
<td>Due to the increasing competition from the global construction market, lean and efficient project delivery is vital. Wasteful processes remain a common theme throughout a whole life cycle, which can be mitigated through implementing a regulated and structured review process.</td>
</tr>
<tr>
<td><strong>Accurate cost forecasts</strong></td>
<td>Proactive management decisions require an accurate and up to date cost forecast of the works to completion measured against the current budget at completion. To enable accurate and up to date forecasting it is imperative to compile cost data regularly and analyse costs from the bottom-up at regular intervals. This will avoid incurring additional financing charges. Cost assessments should include a review of productivity/cost performance to date, changes in working methodology, and changing market rates.</td>
</tr>
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</table>
High level performance example

A transport provider investing in a major upgrade of its existing infrastructure has established a principle of ‘production leads, everything else enables’. This aims to increase efficiency by creating direct contractual relationships between the client and each layer of the supply chain across a multi-contract framework. A mutually beneficial agenda has been established from the outset, whereby the direct relationships with SME contractors optimise opportunities for value engineering and innovation at an early stage, and in return the craftsmen are supplied with training academies that will support them throughout the project delivery. This form of collaboration engages the full supply chain from the project outset, creating a ‘one team’ culture and driving optimised performance aligned to their value brief.

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</tr>
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<tr>
<td>‘Pound in the ground’ (percentage of project value)</td>
<td>86%</td>
<td>25%</td>
<td>66%</td>
<td>75%</td>
</tr>
<tr>
<td>Project cost increase including risk and contingency sums (percentage of project cost)</td>
<td>0%</td>
<td>106%</td>
<td>31%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Only 32 percent of respondents could confirm that they are effective at setting a clear scope, agreed with stakeholders, that is largely maintained.

32%

The statement that “your organisation has a robust and well understood definition of value that governs capital and operational management of asset investment programmes” could be confirmed by only 31 percent of respondents.

31%

Only 24 percent of respondents stated that their organisation takes a whole life cycle approach to cost and value evaluation of asset investment and management - utilising benchmark data.

24%
## Financial performance

Financial performance sets the baseline on which to assess and govern a programme’s financial performance against the value baseline. It enables proactive, informed and measurable improvement actions to be set that drive an effective commercial outcome.

### Key input factors that drive commercial performance

<table>
<thead>
<tr>
<th>Factor</th>
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<tbody>
<tr>
<td><strong>Integrated and robust performance baseline</strong></td>
<td>Setting a value brief and aligning it to the project lifecycle enables organisations to objectively evaluate their requirements, as well as to drive lean and effective project and commercial management into asset operation. It is essential that the supply chain is made aware of the value brief and use it as a basis for establishing collaborative target orientated gateways, ensuring projects are prevented from diverging from those targets from the outset.</td>
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<tr>
<td><strong>Measure performance against the baseline</strong></td>
<td>Measuring against the baseline provides a basis to objectively assess financial performance; allowing early identification of poor performance and the opportunity to implement mitigation actions to drive improvements and add value. You cannot manage what you do not measure.</td>
</tr>
<tr>
<td><strong>Effective financial reporting process</strong></td>
<td>With a clear and robust financial reporting strategy in place, management are provided with accurate information in a timely manner. This facilitates effective and informed decision-making, and allows the opportunity for preventative and corrective actions to be implemented.</td>
</tr>
<tr>
<td><strong>Intelligent reporting tools and systems</strong></td>
<td>It is imperative to select and implement reporting tools and systems that can efficiently provide a single source of truth for effective decisions to be made. It is key that costs are collected in a consistent manner and that your system is aligned to your suppliers’ and integrated with existing systems to intelligently, consistently and accurately report data with no ‘air gaps’.</td>
</tr>
<tr>
<td><strong>Financial governance</strong></td>
<td>The governance process should set clear expectations for the programme/project and individuals at each gateway stage which is linked to the value brief. Onerous or unclear governance may result in receiving late or inaccurate reports, reducing the ability to make informed decisions in a timely manner.</td>
</tr>
<tr>
<td><strong>Contingency management</strong></td>
<td>Effective contingency management is important to drive improved performance and value during delivery. This requires a realistic but challenging contingency budget that is relative to the level of risk tolerance and appetite which is cognisant of time, cost, reputational and other wider implications. It is important to have a clear process for managing contingency, ensuring proactive and best use along with delegating ownership to drive delivery within budget.</td>
</tr>
<tr>
<td><strong>Accurate cost forecasts</strong></td>
<td>Proactive management decisions require an accurate and up to date cost forecast of the works to completion measured against the current budget at completion. To enable accurate and up to date forecasting it is imperative to compile cost data regularly and analyse costs from the bottom-up at regular intervals. This will avoid incurring additional financing charges. Cost assessments should include a review of productivity/cost performance to date, changes in working methodology, and changing market rates.</td>
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</table>
From our latest survey it was shown that, overwhelmingly, the largest causes of change on a project were:

1. Client/stakeholder change
2. Client side design development
3. Design team scope creep

### High level performance example

A major airport operator utilises a Regulated Asset Base (RAB) to derive shareholder return. The RAB is a proxy value of the airport’s regulated operating assets, upon which the owners of the airports earn a return. Before capital expenditure is added to the RAB, it must meet two sets of criteria based on the capital expenditure’s value for money as well as going through a process of effective consultation with the airlines. The airport operator’s main objective with regards to capital expenditure is therefore to effectively demonstrate value and to target 100 percent conversion of capital expenditure into the RAB to maximise shareholder value. In response to this challenge, Turner & Townsend played a key role working with the airport operator to establish and implement robust project and programme management processes including integrated baselines, robust change and contingency control, regular reporting and governance arrangements as well as playing a key role in the implementation of a systems transformation project. The result was conversion of 100 percent of capital expenditure into the RAB.

### Performance metric

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>3 month forecasting accuracy (variance between forecast and actual costs)</td>
<td>0%</td>
<td>254%</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Cost performance indicator (CPI)</td>
<td>1.36</td>
<td>0.68%</td>
<td>0.95%</td>
<td>&gt;1.00%</td>
</tr>
</tbody>
</table>

Proficient risk and contingency management is essential for effective financial performance. This is endorsed by the Infrastructure Risk Group, who published Managing Cost Risk and Uncertainty in Infrastructure Projects, instructing the industry on best practice management principles to apply throughout the project lifecycle. Recommendations called for a more transparent and accurate treatment of risk and contingency to improve project financial performance.
Contracts must be designed to preserve the client’s corporate objectives. Ineffective contract management prevents the corporate objectives from being delivered. Without contract assurance it becomes impossible to measure performance and apply corrective actions during a project’s lifetime, leading to eroded value and increasing the potential for dispute.

**Key input factors that drive commercial performance**

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<tbody>
<tr>
<td><strong>Corporate objectives are supported by contract provisions</strong></td>
<td>Contracts are the means by which clients implement their objectives and deliver projects. The drafting and provisions of their contracts need to be aligned to, support and ultimately deliver these objectives.</td>
</tr>
<tr>
<td><strong>Alignment of functional inputs</strong></td>
<td>An organisation will have a number of functions including commercial, legal, risk, delivery and operations. Each part of the organisation will have requirements and expectations for a programme or project and often these may be in conflict. The requirements need to be captured and clearly articulated into the contract documents, identifying areas of conflict or disagreement and ensuring robust processes are in place to respond to these issues. Failure to capture the requirements clearly can lead to sub-optimal delivery or even the outright failure of a project.</td>
</tr>
<tr>
<td><strong>Stakeholder and supplier engagement</strong></td>
<td>Organisations act within the wider environment and will need to respond to the needs of external stakeholders and the ability of the supply chain to deliver. It is vital that the requirements of stakeholders are clearly mapped, and constraints and requirements drafted into the contract documents. Suppliers should have clarity on the what, how, where, when and why of the works. Stakeholder requirements can be a significant driver of change. Deficient engagement at the outset can lead to expensive post contract change.</td>
</tr>
<tr>
<td><strong>Align contract governance with business guidance</strong></td>
<td>Organisations should ensure the contract is designed and operated so as to support the organisations corporate governance process. Weak governance, or failure to comply with governance, significantly increases the risks of serious project failures and exposes clients to a higher level of fraud risk.</td>
</tr>
<tr>
<td><strong>Measure contract performance against business objectives</strong></td>
<td>Where a client is delivering a number or projects, either as part of a programme or portfolio, lessons learnt and areas where business objectives have not been delivered need to be captured and remedied in future drafting. Without this, previous mistakes or weaknesses can often be repeated and the opportunity to make improvements will be lost.</td>
</tr>
<tr>
<td><strong>Systems and tools</strong></td>
<td>Clients are increasingly looking to utilise intelligent contract management software to assist in contractual compliance. These can track and manage responses ensuring change, risk, money and value are constantly monitored. Failing to do this can either create an administration burden or reduce the accuracy of important management information.</td>
</tr>
</tbody>
</table>
High level performance example

A utilities organisation manages the collection, treatment and distribution of water in the North East. It supplies around 1.24 billion litres of drinking water each day and collects, treats and disposes of about one billion litres of waste water safely back into the environment. A risk based contract management approach was first developed at the organisation in AMP4 and has been the cornerstone of delivery for AMP5. The organisation is now evolving its approach to integrate assurance, contract administration, commercial management and project controls for AMP6 to deliver savings in excess of £30m. The core concept of risk based contract management is to take an holistic commercial risk assessment of the organisation’s capital programme, coupled with clearly defined roles/responsibilities, time/cost quantified contractual obligations, and intelligent resource management/profiling to target resources where they are most effectively deployed.

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<tbody>
<tr>
<td>% of submitted programmes accepted, by the client, under the NEC contract</td>
<td>100%</td>
<td>0%</td>
<td>63%</td>
<td>100%</td>
</tr>
<tr>
<td>Tier 1 contract cost growth</td>
<td>0%</td>
<td>370%</td>
<td>42%</td>
<td>&gt;5%</td>
</tr>
</tbody>
</table>

48 percent could not confirm that their organisation’s contract management function is efficiently utilising intelligent systems and tools and aligned to the contract structure

48%

58 percent could not say that the effectiveness of their contract management is monitored and progressively assured

58%

72 percent of respondents could not confirm that their organisation’s current commercial models and contracts are supported by a clear performance measurement model to successfully incentivise and deliver outperformance

72%

Establishing contract provisions which support the delivery of business objectives is imperative. The Infrastructure Client Group, comprised of leading members of major infrastructure organisations, has been brought together under Treasury’s Cost Review. The Group has established a workstream, ‘Collaborative Project Teams’ which seeks to further explore further how the alignment of incentives, innovation and collaborative management practice can improve efficiency and effectiveness across contracts.
# Commercial controls

Commercial controls are key to assure that programme/project expenditure can be effectively planned, tracked and governed. Implementation of robust controls will improve the predictability of outcomes, explore areas in which value can be improved and governed.

## Key input factors that drive commercial performance

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<td><strong>Enforce a well-defined governance structure</strong></td>
<td>World class programme or project management processes and procedures are of little use unless they are effectively implemented. Clear governance and reporting protects the objectives of the project. Lack of an effective governance structure could significantly impact the ability to make key decisions quickly, resulting in potential additional programme costs and delays.</td>
</tr>
<tr>
<td><strong>Set well defined scope within contractual terms</strong></td>
<td>The definition of scope is critical to assure that stakeholder requirements, scope boundaries and key interfaces (utilities etc) are known and catered for within the budget, risk profile and contract. Failure to effectively package the boundaries of scope across programmes with key stakeholders can lead to significant cost and time increases.</td>
</tr>
<tr>
<td><strong>Cost / time integration</strong></td>
<td>Project cost is fundamentally linked to time. Effective commercial control cannot be achieved without the integration of cost and time. Robust cost estimates and business cases cannot be determined without an understanding of the project programme and management baselines to monitor performance during delivery. Cost and time integration is critical in delivering more predictable outcomes and enabling improvement and demonstration of value.</td>
</tr>
<tr>
<td><strong>Establish a robust change control process</strong></td>
<td>Change is inevitable; the key to the success of a project is how that change is managed. Establishing a clear framework through which change can be raised, assessed and governed effectively is crucial. Change must be integrated with other processes such as risk and stakeholder management. Without integration, change control processes become inefficient and risks are not captured, analysed and controlled this leads to erosion of the value secured through procurement.</td>
</tr>
<tr>
<td><strong>High performance design management system</strong></td>
<td>Optimising the production of the design in accordance with the brief developed by the client. Lack of design management could result in additional design costs and an outcome that does not fulfil the objectives of the business case.</td>
</tr>
<tr>
<td><strong>Risk and opportunity management</strong></td>
<td>Risk and opportunity management is essential to enable the success of any major programme or project. When identifying both risk and opportunity it is vital for the supply chain to be engaged. Implementing risk and opportunity management is fundamental for delivering demonstrable value from a programme/project. Failure to appropriately consider and manage these processes will increase uncertainty leading to cost and schedule overruns and not realise value improvement opportunities. Lessons learnt from lost opportunities or poorly mitigated risks should be captured and used to prevent reoccurrence.</td>
</tr>
<tr>
<td><strong>Progressive commercial assurance functions</strong></td>
<td>To effectively demonstrate value, forward thinking organisations should use commercial assurance functions to support the delivery of organisational objectives, to test the effectiveness of commercial controls and to set structured improvement plans to influence the commercial outcome of a programme or project. Failure to do so can reduce an organisations ability to tangibly demonstrate value to key stakeholders or regulators as well as losing the ability to drive improvement across the supply chain.</td>
</tr>
</tbody>
</table>
High level performance example

In response to clients experiencing a number of recurring challenges on major programmes, which act as blockers to realising commercial value, the UK Government published the Project Initiation Routemap which was developed in collaboration with academia and the wider industry. The Routemap provides an objective framework to support public and private sector infrastructure providers to improve the delivery of their programmes and projects. The framework helps to identify and address many common, recurring problems early on in the project lifecycle that have the greatest impact on project delivery. Used as a strategic decision making tool, the Routemap supports the alignment of sponsor and client organisation capability while providing a systemic approach to assessing both the complexity and context of the delivery environment.

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<tr>
<td>% of disputes which are resolved via escalation processes as opposed to undertaking formal dispute resolution</td>
<td>100%</td>
<td>0%</td>
<td>61%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Only 27 percent of respondents stated that their organisation manages change effectively through a clear change management process and objectively evaluate change against business case objectives.

27%
Supply chain performance and procurement

The industry needs to respond to the challenge presented by the economy. It is imperative that leading organisations demand detailed data about assets and their performance and create long term mutually beneficial relationships with their suppliers. Clients are pushing for new approaches to engage their supply chain. To support this, the Infrastructure and Projects Authority has implemented a new agenda to focus on value throughout the project and provide consistent measurement of performance outputs for procurement.

Key input factors that drive commercial performance

<table>
<thead>
<tr>
<th>Measure and enable supply chain performance</th>
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</thead>
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<tr>
<td>Objective and progressive performance management models provide the basis on which to set organisational model decisions whilst also acting as a catalyst to drive performance. Enabling and encouraging performance improvement addresses the current skills shortage by rewarding high performance and supporting development. In addition it incentivises teams to deliver with greater efficiency and predictability.</td>
</tr>
<tr>
<td>High-performing supply chains are the key to the delivery of commercial objectives. A client cannot claim to be an ‘intelligent client’ without the ability to objectively measure and react to supply chain performance.</td>
</tr>
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<table>
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<td>Market intelligence provides the opportunity to enhance value for money through implementing intelligent and market-facing procurement strategies. Consideration should be given to the level at which supply chains are engaged, the ability to use the global economic environment and what benefits can be derived from programme-wide or longer-term procurement strategies. Through formulating aggregated sourcing, implementing long-term supply chain relationships, alliances and other partnerships with aligned corporate goals, organisations are typically able to drive significant commercial benefit.</td>
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<tr>
<td>Without long term combined objectives and views, business relationships become transactionary and inefficient, detracting both parties through additional administration and conflict. Clients need to be aware of and resist the lure and inherent false economy of transactional ‘one off’ relationships.</td>
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<table>
<thead>
<tr>
<th>Incentivisation</th>
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<tr>
<td>Incentives should promote the right behaviour, generating efficiencies by creating mutual objectives and sharing benefits. Supply chains need to be appropriately rewarded for the value they create. Commercial incentives and appropriate risk allocation should be carefully considered, written into contracts and administered to provide the supply chain with an effective balance of risk and reward.</td>
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<tr>
<td>Clients will struggle to realise innovation and efficiencies if they do not incentivise the supply chain to perform.</td>
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<tr>
<th>Access innovation</th>
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<tr>
<td>Performance improvement and industry growth stem from the generation and implementation of successful new ideas. Innovation can occur at any level within the supply chain however more often it occurs at sub Tier 1 levels. Communication difficulties and a lack of collaborative and inclusive behaviours are the barriers to innovation coming up through the supply chain. Too often the lower tiers are not empowered to innovate as a result of contract and commercial models that drive risk down, rather than pull innovation up from the supply chain. Efforts should be made to facilitate knowledge sharing that will aid innovative behaviour.</td>
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<table>
<thead>
<tr>
<th>Supply chain capacity</th>
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<tbody>
<tr>
<td>As an industry we need to be able to assure that there is sufficient capacity within our own organisations and the supply chain to deliver quality outputs and meet the Construction 2025 efficiency targets. The economic downturn caused organisations to tighten their belts and stop hiring which has resulted in skills shortages. It is imperative that Clients are aware of any capacity shortages and implement support and mitigating actions before the negative effects of insufficient skilled resources have a commercial impact.</td>
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We recently worked with the RICS to produce an information paper on improving commercial performance on major projects and programmes. A key focus of this paper was the need for the objective measurement of performance, as well as a structured method for the sharing of knowledge and best practice to aid capability improvement, which in-turn drives performance.

The post contract solution provided an objective framework designed to deliver a level of attainment to suppliers and delivery teams that is considered world class by industry peers. Progressive performance improvement reviews and proactive action plans support the continual, intelligent performance management of targeted contracts.

### High level performance example

A rail provider required an objective approach to measuring the performance of its supply chain and its own ability to act as an enabling client. Through an extensive engagement process with delivery teams, key stakeholders within the organisation and members of the supply chain, Turner & Townsend was able to produce a series of Programme Assurance Frameworks designed to enhance both client and supply chain capability through a self-assuring, performance measurement function.

The post contract solution provided an objective framework designed to deliver a level of attainment to suppliers and delivery teams that is considered world class by industry peers. Progressive performance improvement reviews and proactive action plans support the continual, intelligent performance management of targeted contracts.

<table>
<thead>
<tr>
<th>Performance metric</th>
<th>High performance from our research</th>
<th>Low performance from our research</th>
<th>Average performance from our research</th>
<th>High performance target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of the value of compensation events implemented vs first tier suppliers' initial quotation</td>
<td>0%</td>
<td>104%</td>
<td>52%</td>
<td>&lt;5%</td>
</tr>
<tr>
<td>Payment to supply chain within 30 days</td>
<td>100%</td>
<td>64%</td>
<td>93%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Despite extensive Government support and the demonstrable benefits, 75 percent of projects surveyed had not implemented project bank accounts

75%

Nearly 80 percent of clients surveyed did not believe that their supply chain was delivering best buy in the market.

80%
Commercial analytics

Against a backdrop of increasing infrastructure spend, commercial analytics can unlock the power of data to drive value and reduce risk on programmes and projects. The industry has typically lagged behind other sectors in terms of data analysis. Commercial analytics addresses this and provides clients with real-time reporting and the technology to visualise and interrogate data. Furthermore, commercial analytics provides clients with assurance that funds are spent in accordance with the contract and can demonstrate value for money over the lifecycle of a programme.

Key input factors that drive commercial performance

Contract clarity

When using open book contracts, clear definitions of cost and payment mechanisms are essential to ascertain supplier entitlement. The contract should prescribe the content and format of cost information to be provided. Failure to define cost may increase the likelihood of disputes and reduce value for money.

Investment in people, systems and processes

Investment in people, systems and processes is key to ensure that the most effective skills and tools are available to analyse and interpret data. Our research has found that commercial analytics is most effective when a centralised team is deployed to analyse cost data across a programme using a consistent methodology. The people analysing the data require processes, systems and tools to ensure a robust, consistent and systematic approach to data analysis. A lack of investment will impair the depth, quality and consistency of the data analysis and reporting.

Managing client investment

Implementing appropriate commercial/financial controls to protect client investments helps to ensure that assets are managed correctly. This includes the use of asset registers, financial governance procedures and guidance for the depreciation and maintenance of all types of assets. Stakeholder confidence will improve through effective presentation of trends and the outcome of interventions. If investments are not managed it becomes challenging to demonstrate value for money or to provide validation for the investment decision.

Review and test cost controls

It is imperative that a robust set of controls is implemented to authorise the purchase of goods and services for the client and key suppliers. Suppliers need robust cost collection and reporting systems in order to certify payments through the contract. A weak set of controls or governance increases the risk that organisations pay more than a supplier is entitled to under the contract.

Convert cost data into business intelligence

The ability to manipulate data for a variety of purposes is essential for any organisation. To visualise in a simple format how and where costs are expended and trend cost variances will better inform an organisation and guide future decisions. Actual cost data should be captured and used to inform future ‘should cost’ decisions ensuring that best value targets and budgets are set and delivered against.

Data analysis

Organisations rely on data to inform key decisions about investments. Often the quality and visualisation of the data can impair this process. Commercial analytics can utilise technology to explore existing data in new ways, implement real-time reporting and enable visual spend analysis for key stakeholders. Through not using the data in the most intelligent way, key decision makers lack vital information.
High level performance example

A utilities organisation owns and maintains the 132kV, 275kV and the newly commissioned 400kV electricity transmission network in the north of Scotland, in some of the UK’s most challenging terrain. The organisation’s operating area benefits from exposure to vast wind and marine generation renewable energy resources, dependent on SHE Transmission for transportation to load centres in the south. Procurement of a £400m transmission programme to install linear infrastructure across multiple sites resulted in the client finding it difficult to discern project data; lacking visibility of time and cost on a site by site basis.

Using geospatial commercial analytics, Turner & Townsend converted cost and programme data into visual, real time reporting that provided the client with accurate, up-to-date progress for each individual site, trending variances to budget and programme to better inform the client’s monthly reports. The Commercial Analytics solution provided could be accessed via a tablet or desk top, providing the client with increased accessibility and visibility of their asset portfolio. Operating throughout the project lifecycle from regulatory submissions through to operation of assets, Turner & Townsend delivered a direct 1 to 4 ratio on fees to savings generated.

<table>
<thead>
<tr>
<th>Performance metric</th>
<th>Range identified from our research</th>
<th>Average proportion from our research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non eligible costs recovered from cost assurance reviews*</td>
<td>← 0 to 35% →</td>
<td>6%</td>
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*This percentage of findings is representative of the quality and robustness of the approach to undertaking cost entitlement or verification reviews. Ultimately, organisations should target reducing the level of findings down to a low value through pro-active assurance of supply chain cost systems.

35 percent of respondents stated that their organisation proactively identifies cost risks and test financial controls prior to entering into open book contracts.

35%

46 percent of respondents stated that their organisation captures and aggregates actual cost data to drive improved estimating, regulatory reporting, management information and cost reduction initiatives.

46%

40 percent of respondents agreed that allowable costs and rules of assessment are clearly defined in all contracts.

40%
Final thoughts...

- It is becoming increasingly important to demonstrate value for money in the delivery of complex programmes and projects. Can you confidently demonstrate value for money?

- With skills shortages constraining the ability for organisations to deliver, how are you assuring and developing the capability of your commercial function?

- Capturing and utilising data effectively is increasingly being recognised as vital to achieving commercial success. Are you set up to harness your data to support the delivery of your expected outcomes?

- Collaborative behaviours are still typically poorly implemented through client organisations and supply chains. How do you compare? Do you know how to embed the desired behaviours?

- Are you well placed to respond to the economic conditions and improving supply chain order books?

- With a high percentage of the infrastructure pipeline due to be delivered through private investment, how are you ensuring the attractiveness of investment in your business?

Commercial performance is more relevant than ever before. Are you ready?
Driving exceptional commercial performance on major programmes and projects

This is the third study in our series of driving exceptional commercial performance. Please go to the link below where you can find this study and our two previous studies.

www.turnerandtownsend.com/insights

We have established a dedicated commercial performance team to collate knowledge and data, and share it with our partners. However, we also welcome thoughts, support and ideas from industry. What do you think of the findings within this report? What do you think really drives commercial performance? If you are interested in sharing your thoughts, please contact any of the following:

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