

# Procurement Contribution to Rectify Project Obstacles

## A Case Study

# Background & Contract

- Background:**
- For Turnaround 2017 Utilities requirement for waste water treatment to meet **EPA regulation**.
  - EQUATE established a contract with a Contractor for the service.

## **Contract highlights:**

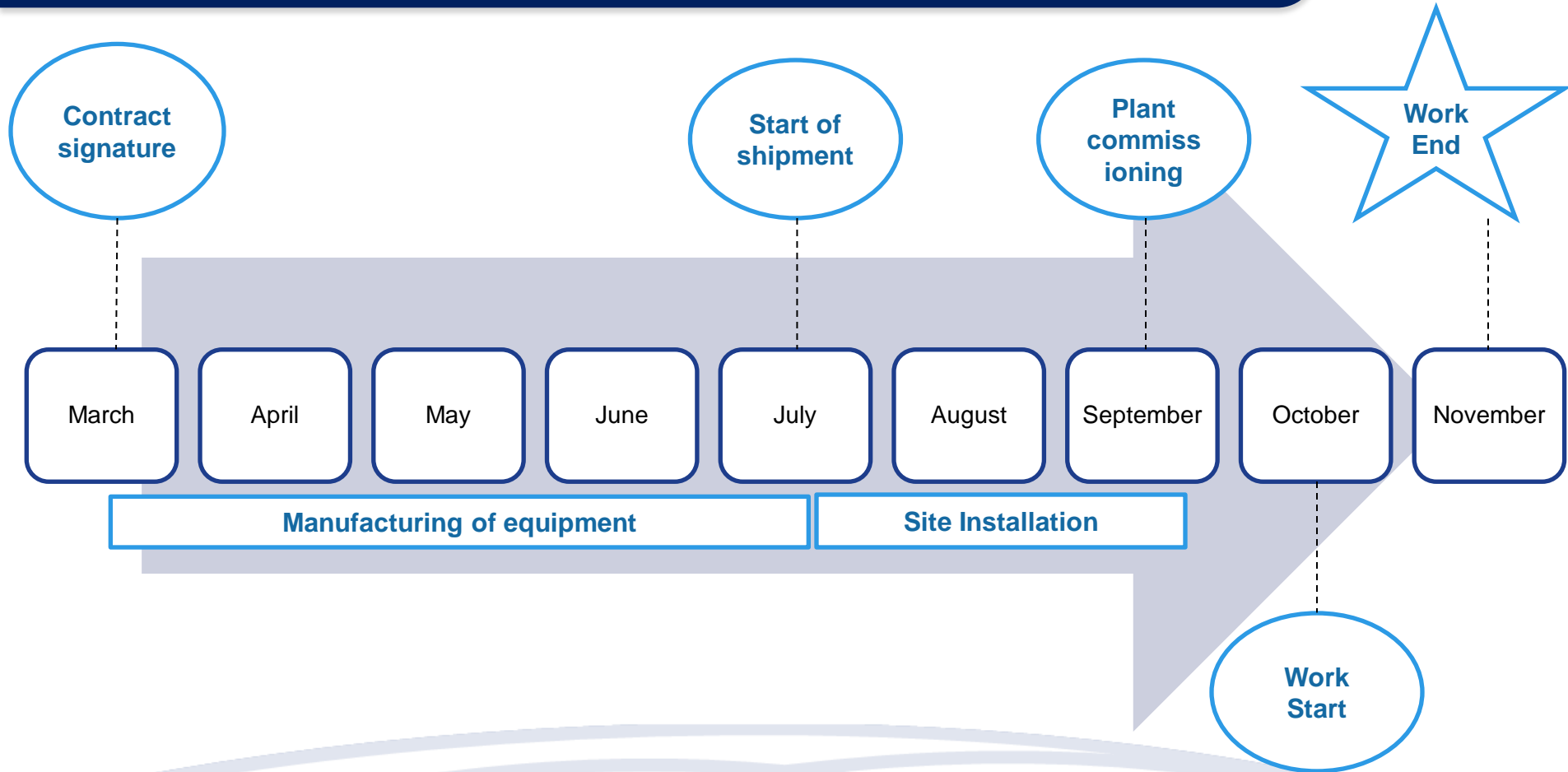


- **Lump sum price** for performance of service (equipment lease with manpower for operations).
- 30% is guaranteed payment; 70% is performance based payment.
- **Performance criteria** established as part of contract.
- EQUATE obtained bank guarantee for 30% of value for the payment made.

# Project Timeline



Partners in Success





Partners in Success

Low  
responsiveness

Wrong  
status  
reporting

Sub  
contractor  
issues

5 months away  
from work start

Work  
Start



Restricted

# Project Update



**Target:** ○ **Equipment manufacturing completion by July.**



**What Happened:** ○ **Low responsiveness** from main contractor. Sub-contractor delays in equipment manufacturing.



**What Procurement did:** Follow-up and **visits to main contractor** office and sub-contractor office by PD team along with project owner to **check actual manufacturing** progress.  
Established a **framework for project methodology.**

# Framework

## Risks

- Identification
- Containment

## Issues

- Resolution
- Actions

## Performance

- Measurement
- Meet objectives

**Shipment  
delays**

**Uncertainty**

**Sub  
contractor  
issues**

**Non-  
payment**

**Work  
Start**

**3 months away  
from work start**

Restricted

# Project Update



**Target:** ○ July is start of equipment shipment (20 containers by Sea)



**What Happened:** ○ Equipment delivery delay due to **non-payment** to sub-contractor by main contractor. Sub-contractor refused shipping the equipment. Any further delay in equipment shipment will **not meet TA schedule**, leading to **project failure**.



**What Procurement did:** EQUATE undertook **guarantee for payment** to sub-contractor if Main Contractor failed to pay. Thus, sub-contractor dispatched material.



# Project Update



**Target:** ○ July is start of equipment shipment (20 containers by Sea)



**What Happened:** ○ **Negligible responsiveness** from main contractor. False status and **incorrect information reported** by main contractor.



**What Procurement did:** Follow-up and **visits to main contractor** office and sub-contractor office by PD team along with project owner.

Logistics  
issues

Contractor  
Incompetency

Contractor  
cash flow

Customs  
duty

Work  
Start

2 months away  
from work start

Restricted

| JANUARY |     |     |     |     |     |     | FEBRUARY |     |     |     |     |     |     | MARCH |     |     |     |     |     |     |
|---------|-----|-----|-----|-----|-----|-----|----------|-----|-----|-----|-----|-----|-----|-------|-----|-----|-----|-----|-----|-----|
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| APRIL |     |     |     |     |     |     | MAY |     |     |     |     |     |     | JUNE |     |     |     |     |     |     |
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| JULY |     |     |     |     |     |     | AUGUST |     |     |     |     |     |     | SEPTEMBER |     |     |     |     |     |     |
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| OCTOBER |     |     |     |     |     |     | NOVEMBER |     |     |     |     |     |     |
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# Project Update



**Target:** ○ All equipment delivery by mid September



**What Happened:** ○ **Late delivery** of equipment and long sailing time for ocean vessel. As a result of which major equipment arrived **late at Kuwait port**. Moreover, customs exemption process for temporary equipment is very long.



**What Procurement did:** EQUATE took drastic measures to **expedite the customs process** by changing duty exemption to duty payment.

# Project Update



**Target:** ○ **Plant commissioning by Mid October**



**What Happened:** ○ **Contractor is incompetent** at project management. Main contractor delays in site installation of all equipment.



**What Procurement did:** **EQUATE** maintenance **executed work** on behalf of main contractor and did project management.

# Project Update



**Target:** ○ Plant commissioning by Mid October



**What Happened:** ○ Contractor addresses **cash flow shortage** and cannot execute works.



**What Procurement did:** **EQUATE** agrees to pay 30% of contract value against a **guarantee letter** for equipment retention.



Partners in Success

**Material  
delays**

**Manpower  
delays**

**Installation  
delays**

**Partial work  
results**

**Month of work  
start**

| JANUARY |     |     |     |     |     |     | FEBRUARY |     |     |     |     |     |     | MARCH |     |     |     |     |     |     |
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| OCTOBER |     |     |     |     |     |     | NOVEMBER |     |     |     |     |     |     | DECEMBER |     |     |     |     |     |     |
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|         |     |     |     |     |     |     |          |     |     |     |     |     |     | 31       |     |     |     |     |     |     |

# Project Update



**Target:** ○ Plant startup by End October



**What Happened:** ○ Chemicals and manpower delay due to **non-payment to sub-contractor** by main contractor.



**What Procurement did:** **EQUATE** undertook **guarantee** for **payment** to sub-contractor if Main Contractor failed to pay. Thus, sub-contractor dispatched material and manpower.

# Project Update



**Target:** ○ Plant startup by End October



**What Happened:** ○ Main contractor **delays in site installation** of all equipment.



**What Procurement did:** **EQUATE** maintenance **executed work** on behalf of main contractor and did project management.



# Project Update



**Target:** ○ **Work completion by End November with 100% parameters**



**What Happened:** ○ **Partial results of work performance (approx. 80% of the contractual parameters).**

○ **Upon completion of the works and partial results (80%) by main contractor, EQUATE had a huge task to analyze the costs associated with all the various issues from main contractor during project execution.**

# Settlement Letter



**What Procurement did:**

- **Discussion with end-user to review final results and work performance details.**
- **Analyze a fair value for the main contractor performance and results.**
- **Final value for sub-contractors finalized with main contractor.**
- **Ensure payment to sub-contractors which were guaranteed payment by EQUATE.**
- **Negotiation with main contractor to arrive to a conclusion of a final settlement value.**
- **Payment methodology structured in a way to ensure main contractor is paid by the main contractor.**
- **Finalization through a formal 'Settlement Letter'.**

# Results



- Expediting material deliveries by negotiating and guarantying payments to sub-contractor.
- Paying main-contractor more than the agreed milestone to facilitate their cash flow for work execution.
- Diverting from temporary-import scheme to payment of import duties for shortening the customs clearance for all delayed shipments.
- Project installation was completed just in time.
- 80% work parameters met by the main contractor.
- Negotiated and settled a fair value of the project execution with the main contractor (made through a settlement letter)
- Ensured payments to sub-contractors through main contractors (made through an agreed payment scheme). All sub-contractors got paid.
- Stakeholder achieved their project objectives; on-time work completion, work parameters met (80%), within budget, sub-contractor got paid and main contractor received fair amount for their work.

Procurement department in synergies with stake holders established solid framework to contain all risks, overcome all issues, and deliver the project within acceptable parameters within the timeframe of plant turnaround.

Without which the project could have led to failure and great loss in terms of money and environment for EQUATE.

## **Hidden roles of Procurement**

Procurement department in synergies with stake holders established solid framework to contain all risks, overcome all issues, and deliver the project within acceptable parameters within the timeframe of plant turnaround.

Without which the project could have led to failure and great loss in terms of money and environment for EQUATE.

## Hidden roles of Procurement



Partners in Success

Thank you

EQUATE Restricted