

# THE POWER OF TWO

VFM in sub-alliancing: extracting and creating value from the broader supply chain



EXCLUSIVE: CRACKING THE VFM CODE IN COLLABORATIVE CONTRACTING – SPECIAL EXCERPT PART 2

How the ‘grubby subbie’ mentality erodes VFM... and how well-formulated sub-alliancing agreements enhance it.

In the second part in our series on Major Project Delivery, we present Chapter 11 of Jordan Kelly’s book *Cracking the Vfm Code: How to Deliver Genuine Value for Money in Collaborative Contracting*. This chapter looks at sub-alliances.... and how to get the greatest benefit for all parties.

Collaborative contracting has, arguably, been slow in extending itself down the supply chain... formally, at least. While some organisations have actively pursued collaborative arrangements with subcontractors, much of the industry has been slow to reflect this modus operandi in its subcontracting requirements. To the degree that value for money *is* genuinely being delivered by collaborative forms of contracting then, logically, the next stage in its evolution must surely be to embrace these principles with major suppliers and providers of products and services to the main project team.

One subcontracting firm that has been active in evolving the practice of sub-alliancing is Keller Australia, better known for its Piling Contractors and Vibropile subsidiaries (or to some readers, perhaps its Waterway Constructions, Frankipile or Keller Ground Engineering subsidiaries). Keller Australia is owned by Britain’s Keller Group Plc, the largest group of specialist ground engineering companies in the world. Mark Kliner, Keller Australia’s CEO, says the company made its sub-alliancing debut in 2006 as a partner to the Pacific Link Alliance that delivered the \$543 million, Gold Coast-to-Northern New South Wales Tugun Bypass project.

“As a group of companies, we have always had a relationship-based philosophy towards contracting, so we transitioned quite naturally into the alliance/sub-alliance arrangements. We were one of the first specialist subcontractors to be involved in the sub-alliance framework in Australia. One of these early sub-alliance partners has now used us on three different relationship-based contracts.”

Prompting Kliner on his views on the value for money debate in relation to sub-alliancing elicited a passionate and well-reasoned response.

“I think that what hasn’t been done – but

*should* have – is for industry (including sub-alliance partners) and its clients to take the time to analyse some successful sub-alliance projects and compare what the outcome would have been had they been carried out as a traditional subcontracting arrangement.

“We should look at how the projects in question unfolded, and assess what each would have cost had they been carried out in a conflict situation, with claims, with variations, and all the hidden costs associated with surveyors, lawyers and extensions of time. If that type of analysis were done, I think the true value of sub-alliances would become very obvious.”

As with alliancing per se (or any other ‘top table’ collaborative contract), sub-alliancing also delivers considerable value in terms of ‘soft’ benefits, Kliner says. He believes it would be a mistake for these to be seen as secondary to the hard dollar benefits.

“I think some of the highest-value benefits that result from a sub-alliance arrangement are created through the sharing of the specialist knowledge that the sub-alliance partner brings to the table.

“This offers two main categories of benefit: Firstly, in terms of the superior execution of the actual project – in every area in which the sub-alliance partner’s specialty has an impact or underpins performance or quality of outturn and, secondly, in terms of legacy knowledge transferred to the project team.

“Let’s look at the impact in terms of environmental management and safety improvement, as an example. In the past what’s happened is that the main contractor has said, ‘That area is your problem’, but a subcontractor might have fully believed it was the main contractor’s problem. As a consequence, it’s ended up effectively being no-one’s problem. If a main contractor blamed a subbie for an environmental incident it somehow absolved him of responsibility – so we all got into the blame



The Tugun Bypass runs for seven kilometres from Currumbin, Queensland to the Tweed Heads Bypass in New South Wales.

game, and that took the focus away from finding a quick and effective solution.

In an alliance or a sub-alliance arrangement, an environmental incident is everybody’s responsibility and we make sure we resolve it quickly and effectively, rather than standing around arguing about whose responsibility it is while the problem sits there getting worse.

“We get on and repair it. And I see that very directly resulting in *both* hard and soft value to a project.”

## A long way in a short time

In terms of the contractual sub-alliancing arrangements, however, Kliner says these have taken a few ‘generations’ of alliancing to reach their current, more workable, form. He narrates Keller subsidiary, Piling Contractor’s experience in its sub-alliance on the Tugun Bypass project – a competitive alliance selection process.

“One of the alliance competitors went for

the conventional approach, subcontracting all the major construction elements out. The Pacific Link Alliance (Abigroup, SMEC and Queensland Main Roads – now the Department of Transport & Main Roads), on the other hand, decided on a sub-alliance for the very large piling component. They brought us in from the beginning and involved us in the pricing, and so we had the whole tendering stage to ‘bed ourselves in’ with the main alliance partners. As a result, it created a very united team and a successful collaboration. Pacific Link won the work and went on to form an alliance with the project owner, Queensland Main Roads (QMR).

“However, it was early days in uncharted waters. The other side of the coin is that we were all in this first-generation sub-alliance arrangement that nobody had considered properly at the beginning. It had to go through a number of iterations and improvements as the project bore on, because that first version of the agreement did not do a good job of aligning our goals.

“For an alliance and a sub-alliance to

“What hasn’t been done – but should have – is for industry (including sub-alliance partners) and its clients to take the time to analyse some successful sub-alliance projects and compare what the outcome would have been, had they been carried out as a traditional subcontracting arrangement.”

Mark Kliner, chief executive, Keller Australia

“I think some of the highest-value benefits that result from a sub-alliance arrangement are created through the sharing of the specialist knowledge that the sub-alliance partner brings to the table.”

Mark Kliner

“For an alliance and a sub-alliance to work successfully, you have to be in a ‘win together’ or a ‘lose together’ arrangement. You can’t have, for example, the sub-alliance partner benefiting to the detriment of the main alliance.

You can’t benefit while the others fail, because it sets up conflict in the arrangement and people will automatically revert back to the ‘grubby subbie’ conflict mentality that they are used to working within.”

Mark Kliner



*"It is my strong opinion that the cost savings generated from having a specialist onboard for design and constructability advice from an early stage will always significantly outstrip any savings resulting from competitive tension in a hard dollar tendering process."*

*"If a poor design is priced by a field of specialists in a hard dollar tendering arrangement, they might group within 10 percent of each other from the lowest to the highest price. However, a properly considered scheme, optimising design parameters and constructability – which has within it full consideration of our specialist input and techniques – will result in efficiency and other cost-saving benefits throughout."*

Mark Kliner

work successfully, you have to be in a 'win together' or a 'lose together' arrangement. You can't have, for example, the sub-alliance partner benefiting to the detriment of the main alliance. You can't benefit while the others fail, because it sets up conflict in the arrangement and people will automatically revert back to the 'grubby subbie' conflict mentality that they are used to working within.

"You have to be realistic about this. The collaborative contracting movement may be an evolved way of operating, but you have to remember that most of the people involved in it have spent their whole career in a main contract/subcontract arrangement that is confrontational by nature. Certainly, the first generation sub-alliances carried with them some of that conflict. Not because anybody wanted it, but people mistakenly thought that being in a sub-alliance simply meant that everybody had to be nice to each other – and therefore people tended to avoid the really important discussions.

"The main issue was that, in these early-generation sub-alliance agreements, risk wasn't clearly defined and that led to conflict between the sub-alliance and the main alliance partners. A risk would be realised – e.g. the ground conditions might change and that would have a significant cost implication – and the parties were not clear on how to deal with it.

"If the ground conditions change, the scope of the sub-alliance work goes up. In a normal subcontract arrangement there would be a Schedule of Rates, and the subcontractor would get paid for all the work he does. In early sub-alliance arrangements, however, there was a great lack of clarity around some fundamental issues like that. The first generation sub-alliancing arrangement was more of an overarching, teaming arrangement.

"We hadn't looked far enough ahead to work out what to do if things changed," says Kliner. "So people were unclear, suspicious of each other, and the situation regarding the financial split could not be resolved without conflict because everyone was very used to working within a main contract/subcontract arrangement. And the rules of these had been honed over years and years and years, so it was all too easy to revert to that way of thinking.

"So the result was that resolution of any issues relied on the individuals around the alliance leadership table. Without any clear contract, and with an overarching desire not to get into conflict with each other, you're in a situation where you just can't settle a lot of these items. Then, for that very reason, it becomes acrimonious.

"Despite the relationship hiccups going on in the background, though, the work on the project itself was extremely well executed. As a working team, the sub-alliance was extremely successful. The site team was integrated, and had the common goal of



Part of the 'D2G' Ipswich Motorway upgrade, facing East.

achieving the best output in the shortest time. Therefore, what was achieved on that project was a much-enhanced outcome on anything that would have been outturned by a subcontract/main contract arrangement, because when things on site changed and challenges arose, the site team made best-for-project decisions based on that common goal.

"The only thing that couldn't be resolved – despite the spirit of co-operation – was the financial aspect of the relationship. This was because we hadn't worked out, upfront, the expectations of how all the risks and rewards would be apportioned and there was some lack of alignment there as a result."

Kliner says the industry has moved forward significantly, with the new-generation sub-alliance arrangements making clear, for example, that any increases to the sub-alliance scope represent shared risk, "and therefore it's in everyone's interest to do whatever they can to stop the scope going up.

"The arrangements now are much fairer and more transparent than they were in those early days. Having lived through the first-generation sub-alliance arrangements, we used the experience and the financial relationship discomforts to create a new-generation agreement that would cover all the eventualities that we had come across on our previous journey.

"We've since been involved in several more (including the Gateway Upgrade Project, Inner Northern Busway, Eastern Busway, and the \$1.95b 'D2G' Dinmore to Goodna Ipswich Motorway upgrade)

– with the same lead partners. We now have a sub-alliance agreement in place that aligns all the objectives, including safety objectives, environmental objectives, quality and innovation... all these aspects are considered so that we can work to shared goals. And we've also made sure that now, when we make best-for-project decisions, the associated cost or reward accrues to the appropriate partner."

Kliner says it's now common for the sub-alliance partner to utilise the banking and financial control systems of the main alliance.

"That means that our money is in the main contractors' account; we share a bank account. We use the main alliance bank account to fund and administer the job, and that removes any debate about the cost base and fee arrangements."

## D2G provided ideal test case

Kliner puts forward the D2G project as a particularly successful example of a sub-alliancing arrangement – and also one which reflects the perfect rationale for a sub-alliance.

"D2G was a project that required extensive mine-fill remediation... to an extent that had never been carried out in Australia before. This was an ideal set of circumstances for a sub-alliance arrangement because the scope was unknown, as were the challenges and technical issues, and there was significant risk.

In fact, it would have been extremely difficult to have carried out that work under a main contract/subcontract arrangement. Certainly, it would never have been able to achieve value for money.

"In a traditional subcontract, you would employ a specialist subcontractor and you would agree a set of rates for everything you knew about. And, naturally, that subcontractor would have more incentive to increase the scope of works than they would to reduce it. With the refined sub-alliance contract that we now work with, the painshare/gainshare component incentivises us all to control or reduce the scope.

"Also, of extreme importance, is the fact that many things arose that were not anticipated. The scope of works was indefinable and there was a significant number of unforeseeable events. But, instead of the typical, traditional subcontract scenario, whereby a claim would be raised for each of these, in a successful suballiance arrangement this is dealt with according to a cost-based best-for-project rationale. This means the client, or project owner, will only ever have to pay a cost-based addition for things that change during the construction phase – which is a major step forward from traditional subcontracting.

"In my experience, there is no doubt that a sub-alliance arrangement, used in the correct

circumstances (that is, you only use one when you need one, just like an alliance), will always result in lower outturn costs to the client than a traditional arrangement would."

In response to the question, "How do we keep improving the VfM of sub-alliancing?", Kliner says: "There is still a lot of work to be done to make the main alliance partner understand the benefits of taking a sub-alliance partner at an early enough stage to exercise that company's full potential contribution to the outcome.

"If a specialist subcontractor is on board with a project **before** the design is finalised, that subcontractor's specialist design capability will produce a significantly enhanced design which will, in turn, result in reduced scope within the specialist work.

For example, the designers within our company know exactly what the capability of our equipment is, along with the full range of tools available to them. In most cases, their entire career has been invested into our own specialist field... and they will always produce a scheme which is high-constructability and minimises time, materials and thus, cost.

"It is my strong opinion that the cost savings generated from having a specialist onboard for design and constructability advice from an early stage will always significantly outstrip any savings resulting from competitive tension in a hard dollar tendering process. If a poor design is priced by a field of specialists in a hard dollar tendering arrangement, they might group within 10 percent of each other from the lowest to the highest price. However, a properly considered scheme, optimising design parameters and constructability – which has within it full consideration of our specialist input and techniques – will result in efficiency and other cost-saving benefits throughout.

"And that doesn't even begin to take into account the costs of the hard dollar tendering process."

## (Sub) Alliancing within hard dollar contract projects

One construction professional that has overseen a series of sub-alliances in quick succession is Abigroup's Mark Palmer. Now the tier one contractor's New South Wales general manager, Palmer experienced his first sub-alliance (with VSL Australia) as the Abigroup Leighton Joint Venture's bridge construction manager for Sydney's M7 project in 2003. This was followed by a sub-alliance, again with VSL, on the Windsor Flood Evacuation Route project in 2006. That, in turn, was followed by a further sub-alliance, yet again with VSL, on the Gateway Upgrade Project (GUP) between 2007 and 2011.

The particularly interesting angle on

*"The best ones never look like they've come under pressure because they manage their way through it and take it all in their stride."*

*"Those that produce, let's say, 'the next level down' in terms of a successful outcome, are those that do come under pressure but make the right decisions and come out fine."*

*"Then there are the ones that come under pressure and fail."*

*"And finally, there are the ones that never get tested, so you never know."*

Mark Palmer, general manager, Abigroup New South Wales



*“One of the things you hear constantly is the need for a ‘best-for-project’ approach. But in a (sub) alliance you sometimes find goals or a working environment that are actually in conflict with those of the overall project. At that point, the success of both the (sub) alliance and the total project relies on how you handle this and the choices you make in regard to it. Sometimes the choice is one between realizing your gainshare, or committing to a best-for-project outcome.”*

*“On all occasions that we’ve been faced with this one, my view is that the (sub) alliance made the right decision i.e. for the overall project.”*

*And that sacrifice has turned out to have been a strategic longer-term move for the (sub) alliance partners in the end, because we’ve gone on to bring them in as partners on subsequent projects.”*

Mark Palmer



An aerial view Sydney's M7 - M4 'Lighthouse' Interchange.

Palmer's sub-alliancing experiences, is that they were all conducted, not within alliances, but within either Public Private Sector (PPP) partnerships or hard dollar contracts.

The \$1.5 billion M7 was delivered by the Abigroup Leighton Joint Venture (ALJV) under a Design & Construct contract with WestLink, which today controls the motorway under a BOOT (Build Own Operate Transfer) PPP standard tollway model.

The supply and construction of segmental match-cast box girders represented a significant component of the M7's bridge works. Within a head contract (that was a PPP Design & Construct Deed), an alliance was formed between the Abigroup and Leighton JV (ALJV) and VSL for the erection of these components.

To be clear, because the head contract was a PPP Design & Construct Deed, what was a sub-alliance by nature was, technically, an alliance in itself i.e. it was not subject to an alliance above it, and thus was the only alliancing vehicle within the overall set of project contracts.

Palmer says that, regardless of this technicality, he actually prefers to refer to any sub-alliance as an “alliance within an alliance”. He doesn't think the “subservient” overtone of the term “sub-alliance” is a helpful or healthy thing. (*Note: As author, I will continue using the term “sub-alliancing”, to avoid confusion.*)

His preference for structure (i.e. full integration versus standalone) is to keep the sub-alliance as a separate entity. The critical rider to this, however, is that appropriate personnel from the head contract (whether that be an alliance or a conventional contract) integrate themselves - on behalf of the head contracting parties - into the

sub-alliance.

“In my observation, there has been varying success in terms of trying to align sub-alliances with alliances at the head contract level,” he says. “The issue you've got is that as specialist subcontractors, they're not naturally integrated with the other partners, and as a result of this they don't change their behaviour.”

My observations of the better alliances are that one of their key success elements is the equal contribution of all personnel, and the synchronisation of culture between *all* parties.

“But the sub-alliances don't tend to do that. What happens in a lot of these is that they decide to parcel up the work - i.e. to a subcontractor - and simply call that an alliance, and then align its goals with the main contract parties' goals. These main contractors often don't put any of their people in that sub-alliance, and so all the personnel and the culture of the subcontracting company is imported relatively unaltered, and doesn't particularly reflect that of the head alliance.”

“Sometimes they do get a good result, but it's fraught with danger because they haven't really aligned the cultures. Consequently, the subcontractor in that sub-alliance doesn't feel like he's part of anything,” explains Palmer.

“One of the things we were trying to do with our VSL relationship was balance the number of people from each of the parties so that, in turn, we got a well-balanced contribution from all. What we didn't want to do was create a scenario that was essentially a subcontract with an incentivisation arrangement hanging off the end of it - and call that a sub-alliance.”

“We wanted a genuine integration of the skill sets and the equal and integral involvement of *all* the companies.”

“The challenge for a lot of these sub-alliances is the interface between

the main alliance and the other parts of the project.

In the M7 project, the construction of the segmental bridges where the M7 crossed over the M4 was critical to the completion of the total project.

“The Abigroup Leighton JV had to supply the segments, the piers and abutments, and ensure access for the (sub) VSL alliance. After that (sub) alliance had finished, it had to hand over the bridges in a set sequence on a very specific schedule, so that the completion works could occur, also in sequence.”

“So there were project-critical interfaces both before and after that juncture. If you tried to do that with a standard subcontract, or a totally independent, once-removed version of a suballiance, you would be setting up for failure.”

“The Abigroup and Leighton JV had to be intimately involved with the (sub) alliance.”

The (sub) alliance board comprised three people: Palmer (representing ALJV), VSL's managing director Steve Grogan, and Graeme Peck, an independent member. The founder of infrastructure advisory firm Evans & Peck, the latter is a registered arbitrator (and a member of the Dispute Resolutions Board of Australia), a ‘veteran constructor’, and a well-known and respected engineer within the industry.

### Tell-tale partner worthiness factor: reaction under pressure

Commenting in general on both alliances and sub-alliances, Palmer believes “the best ones never look like they've come under pressure because they manage their way through it and take it all in their stride.”

“Those that produce, let's say, ‘the next level down’ in terms of a successful outcome, are those that *do* come under pressure but make the right decisions and come out fine.”

“Then there are the ones that come under pressure and fail.”

“And finally, there are the ones that never get tested, so you never know.”

The M7 (sub) alliance with VSL did, in

fact, find itself under pressure in terms of schedule. It had been heading for a reasonable degree of gainshare prior to being put under this pressure (which Palmer says resulted from circumstances over which they had no control). The (sub) alliance responded by duplicating resources and did, in the end, meet the timeframe.

“One of the things you hear constantly is the need for a ‘best-for-project’ approach. But in a (sub) alliance you sometimes find goals or a working environment that are actually in conflict with those of the overall project.”

“At that point, the success of both the (sub) alliance and the total project relies on how you handle this and the choices you make with regard to it. Sometimes the choice is one between realizing your gainshare or committing to a best-for-project outcome.”

“On all occasions that we've been faced with this one, my view is that the (sub) alliance made the right decision i.e. for the overall project. And that sacrifice has turned out to have been a strategic longer-term move for the (sub) alliance partners in the end, because we've gone on to bring them in as partners on subsequent projects.”

“However, in anticipation of this sometimes inevitable conflict arising in a (sub) alliance, we ensure the risk profile of their contract is such that they can't actually *lose* money; that it's a risk-free venture. That fact encourages them to make best for total project decisions. That's supported by clarity over what the best-for-project decision actually *is*, and that clarity is attained by virtue of the integrated representation of the head contract parties on the (sub) alliance.”

“It's one thing to sit on the Alliance Leadership Team (ALT) of a sub-alliance and say, ‘We need the sub-alliance to do this’, and quite another to be sitting *inside* the sub-alliance saying, ‘We need to do this.’”

“If you run a sub-alliance - or an alliance within any form of head contract - it's much more difficult to fail. And operating like this was a critical success factor in getting those bridges and their hand-over procedures conducted in the necessary timeframe and in the necessarily tightly synchronised manner.”

*“One of the important things that really helped that alliance was that many of the people had come from the M7 project and knew each other. We didn't have to build the relationship; it was a simple continuation of it. It was a deliberate strategy to use as many of the exact same team members as possible - despite the entirely differently scale of the project.”*

Mark Palmer

## ASPECT ENVIRONMENTAL LINING

### CONSTRUCTION

- Secondary Containment
- Gas Barrier Membranes
- Stormwater Management Tanks
- EPS Wrapping



### CIVIL

- Landfill Liners and Caps
- Pond and Dam Liners
- Solid and Hazardous Waste Enclosures



### RURAL

- Dairy Effluent Liners
- Stand Off Pad Liners
- Irrigation and Frost Protection Ponds



• Independent suppliers and installers • Comprehensive Material and Installation Warranties • QA Documentation specific to your project

info@aspectlining.co.nz 0800 464 235 www.aspectlining.co.nz







Windsor Flood Evacuation Route – the longest bridge in New South Wales.

It underpinned the project's completion eight months ahead of schedule.

"Now, could we have achieved the same result with a straight subcontract? Yes, we could. And we would have paid hefty for it, in the form of acceleration costs."

### Extracting exponential value from relationships and learning

The Windsor Flood Evacuation Route project was a contract let by the NSW Roads & Traffic Authority (RTA) to Abigroup in 2006. Its bridge component – the longest bridge in New South Wales – required its on-site construction, for which Abigroup opted for another alliance with VSL. This time, Abigroup and VSL were the sole partners of the (sub) alliance.

Abigroup supplied the segments to the (sub) alliance and facilitated the design on its behalf.

"It was a huge success. We delivered it a year early and in gainshare for both Abigroup and the alliance with VSL. "This alliance/sub-alliance fell into the 'never looked like it came under pressure' category. Certainly there were any number of areas where it could have fallen into strife, but we planned it so well that it never did. Any small issue that did arise, we just took in our stride.

"One of the important things that really helped that alliance was that many of the people had come from the M7 project and knew each other. We didn't have to *build* the relationship; it was a simple continuation of it. It was a deliberate strategy to use as many of the exact same team members as possible – despite the entirely differently scale of the project."

Palmer says one of the key areas the partnership was able to capitalise on, in terms of its established relationship and previous experience on the M7, was safety.

"Safety was, and still is, one of the

critical concerns for the entire industry. We looked at how we could use our joint M7 learning to improve our performance on the Windsor project.

We did, and that was one of an additional range of activities that represented vast improvements over the way we did them on the M7."

### Multiple, concurrent sub-alliances

Palmer had been involved in the bid and then on the Alliance Leadership Team for the first half of the Windsor Flood Evacuation Route project, before leaving to take up the position of deputy project director on Brisbane's \$2b Gateway Upgrade Project (a Design & Construct deed, with Queensland Motorways Limited as the client) – another joint venture for Abigroup and Leighton.

A world-class iconic structure, the six-lane Gateway Bridge needed to be duplicated, producing a second bridge (and a total 12-lane capacity) to take the ever-increasing traffic flow generated by a continually-expanding Brisbane City.

"There were obviously large numbers of subcontract arrangements on a big project like that," explains Palmer. "We chose to run four of these as (sub) alliances. One was with the maintenance group, one was with the designers, one was with VSL (for the construction of the Gateway Bridge itself), and the other one was a six-way alliance with four different piling contractors i.e. the Leighton and Abigroup JV with Vibropile, Frankipile, Keller Ground Engineering and Piling Contractors, all four of these being members of the Keller Group, the largest piling contractor group in Australia."

For the Keller Group, this represented the largest contract it had ever entered into. This particular (sub) alliance started out at around \$70m in value and ended up closer to \$100m, although the increase was not related to the (sub) alliance; rather, it was an issue of scope

enlargement.

Meantime, the (sub) alliance with VSL included the construction of a casting yard to deliver pre-cast elements to the bridge, as well as to the rest of the project.

"When the original Gateway Bridge was built back in the mid 80s, it was the largest example of this type of bridge i.e. it was a cast in-situ balanced cantilever box girder with a main span of 260 metres.

"The overall project involved about 25km worth of road works (some of it greenfield and in soft soils) through the airport area, with the widening of the southern entry to the bridge to accommodate 120,000 exiting vehicles per day.

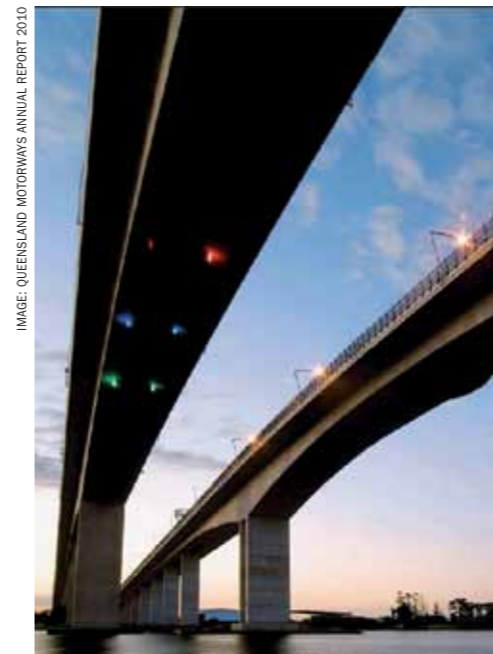
"Aside from the soft-soil greenfield challenges, it was largely brownfield with all the incumbent challenges of that, as well as being generally complicated and time-constrained," Palmer said. "And in the middle of the roading projects was the bridge itself, spanning the Brisbane River.

"That's a complicated bridge for anybody to construct – and the sub-alliance was only involved with the construction of the bridge which, in itself, represented about a quarter of the total project's value."

### Faith in the process

At this point, Palmer points out the significance of a critical differentiator of sub-alliances that are created within the context of a hard dollar – rather than an alliance – head contract: "With an alliance head contract the contractor assumes limited risk; the client accepts the ultimate risk past the pain share sacrifice. So, at the head contract level, it does in fact reach a point at which, if a project were to go totally pear-shaped, the risk is the client's. That's the basic nature of an alliance.

"However, where the head contract is



Brisbane's Gateway Upgrade Project duplicated the existing Brisbane River crossing.

a hard dollar Design & Construct, there is very little cost over-run risk that stays with the client. All or much of it is pushed on to the contractor.

"So you're sitting in a full risk transfer project and, in this scenario, one of the best ways to limit your risk is to transfer as much of it as possible to the subcontractor, and to pay for that privilege. It's certainly an unusual situation that those sitting at the head contract level would be willing to entertain the concept of a sub-alliance, in which no risk is transferred to the subcontractor.

"But that's exactly what we did in all of these (sub) alliances: on the M7, the Windsor Flood Evacuation Route, and the Gateway Upgrade Project."

Palmer goes on to explain the well-calculated elements of the reasoning behind these – on the face of it – risky, and perhaps even questionable, decisions.

"It was a way of engaging – and engaging *with* – the specialist skill sets that we needed for that work. The specific way we went about it meant that the companies we engaged with were more inclined to deliver us their best resources – which they did.

"I honestly think that the best financial outcome is going to be brought about by this style of (sub) alliance rather than a back-to-back contract, because projects of this size and scale have many risks that – even if priced correctly – would, in a back-to-back contract, be much higher than what we could achieve in a (sub) alliance. That's simply because the head contractor has guaranteed to carry the cost of the risk, and so the subcontractor isn't including this in his price.

"Also, in a back-to-back, there would have been no opportunity to gain more savings, but there is in an alliance, by virtue of

gain share. If you have everybody working together in an integrated fashion, you get great innovations quite often, and these drive great savings. You don't get that in a subcontract; you *do* get it in a (sub) alliance.

"If you have a back-to-back deed the price can only end up higher, but with the gain share incentive of alliancing, you have the distinct possibility that the end cost can actually come out lower than budget."

### Are sub-alliancing VfM benefits felt to their fullest extent by the client?

Ian Barringham, general manager – major projects, VSL Australia (with whom Abigroup partnered on the projects mentioned in this chapter), believes end-clients *could* be achieving even greater budgetary benefits from sub-alliances than some currently are.

"One of the concerns I have come [sic] out of sub-alliances with is the [sic] end-client's degree of acceptance of the sub-alliance partner in the alliance team – or in the head contract, where we're not talking about an alliance delivery.

"Some clients (project owners) simply prefer to always go out to the market for the pricing of specialist work. That leaves a potential sub-alliance partner reticent to put forward 'value' options or alternative offers. In our case, we are a specialist contractor, and in instances where the client is going to take our alternative offers back to the market, we would rather not place our intellectual property in that precarious position. It makes us reluctant to be proactive with highly-specific VfM suggestions, where the client would otherwise have enjoyed these from us."

These sentiments, he points out, relate to the stage at which the alliance team itself is under formation.

"At the outset, the commercial arrangements are not as clear as when the project is actually up and running, and so the relationship between the [Non-Owner Participants] NOPS and the client is not as robust. We would be happier if clients were more accepting of the involvement of specialist subcontractors as sub-alliance partners when proposed by NOPS. 🚩

*"Some clients (project owners) simply prefer to always go out to the market for the pricing of specialist work. That leaves a potential sub-alliance partner reticent to put forward 'value' options or alternative offers.*

*"In our case, we are a specialist contractor, and in instances where the client is going to take our alternative offers back to the market, we would rather not place our intellectual property in that precarious position.*

*"It makes us reluctant to be proactive with highly-specific VfM suggestions, where the client would otherwise have enjoyed these from us."*

*Ian Barringham, general manager, Major Projects, VSL Australia*

*Cracking the VfM Code: How to Identify & Deliver Genuine Value for Money in Collaborative Contracting* is the result of two years' background research and investigation by author, Jordan Kelly. It features numerous up-close-and-personal interviews with industry, thought and opinion leaders from around Australia, New Zealand and further afield, and captures in detail all aspects of the energetic and robust "VfM" debate.

The book is available separately or in conjunction with the second book in the series, *Cracking the VfM Code in Collaborative Contract Bidding: Value for Money... Understanding It & Articulating Your Ability to Deliver It* from the author's website: [www.bidstrategist.com](http://www.bidstrategist.com)

