CHALLENGING THE STATUS QUO:
The Case For Engineering Firms to Partner With Subconsultants Like Contractors Partner with Trade Subcontractors To Manage Subconsultant Risk
Discussion Roadmap

• Introduction: Risk Case & Terminology
• Common Subcontracting Risks & Issues
• Prime Contractor Approach
• Prime Consultant Approach
• Risk & Business Cases For Adopting a Partner Program
• Program Design & Implementation
• Questions
Introduction: Risk Case & Terminology
Risk Case for Discussion

- **Risks Related to Utilizing Subconsultants**
  - Subcontracts are vital part of project delivery and value chain for many design & consulting firms.
  - Subconsultants often perform a material portion of services contracted to Prime Consultant.
  - Risk of Subconsultant underperformance, breach, default, or failure reside with Prime Consultant as vicariously liable for those services and as the holder of the Prime Contract.
Risk Case for Discussion

• If Your Firm is Exposed to These Risks, Potentially Impacts:
  • Insurance Costs (Claims)
  • Client Trust (Relationship)
  • Profitability (Extra Project Management)

• How Do You Manage Those Risks?
  • Exclude Scope; Contracts; Insurance

• Our Partner Program Idea is a Risk Management Strategy
  Focused on Relationship Formation (i.e. “Picking a Dance Partner”)

• P.S.... We’ll Explore The Business Case Too
Presentation Terminology

- **Prime Consultant**: Design/consulting firm holding Prime Contract for design/consulting services with a project owner or a design-build contractor.
- **Subconsultant**: Design/consulting firm that subcontracts with Prime Consultant.
- **Prime Contractor**: Construction company holding Prime Contract for construction services/work with a project owner.
- **Subcontractor**: Trade or specialty construction services company that subcontracts with Prime Contractor.
- **Subcontract(ing)**: Methodology by which a Prime Consultant or Prime Contractor procures a portion of services or work under the Prime Contract from a Subconsultant or Subcontractor.
- **Prime Contract**: Primary contract between project owner and Consultant or Contractor.
Common Subcontracting Risks
Design & Construction Industry Challenges

- Extreme Fragmentation
- Highly Regulated, Highly Opaque
- Multi-Jurisdiction Practice
- Just-In-Time Project Schedules
- Non-Standard Deal Structures
- Complex Contract Chains
- Low Trust Marketplace
Subconsultant & Subcontractor Challenges

• Technical Qualifications & Capabilities
• Reliable Scope, Fee, Resource Plan, & Schedule
• Prolonged Contract Negotiations vs. Schedule
• Adequate Technical & Project Management Performance
• Confirmation of Adequate Insurance Coverage & Financial Capacity
• Validation of Licensure, Authority to Practice, & Good Standing
• Supplier Diversity Objectives/Requirements
• USFCPA, UKABA, CFPOA [etc...] and Financial Integrity Compliance
Prime Contractor Approach
Partnering: Prequalification & Relationship Management

• Ubiquitous utilization

Join our partner database.
Partner Program

- Persistent, organized program for:
  - Sourcing subcontractors
  - Prequalification
  - Relationship management

- Forming a relationship, undertaking due diligence, and building trust in advance of entering into a contract for a specific project.
Why Prime Contractors Use Partner Programs

• Verify Insurance, Bonding, & Financial Capacity
• Safety & Quality Qualifications & Capabilities
• Indication of Technical Capability
• Develop Sources of Reliable [Early] Quantity & Pricing Estimates
• Speed-To-Contract [Speed-To-Field]
• Grows Trust, Mitigating Against Disputes
• Design Professional Licensing (Design Firms & Specialty Subs)
How Prime Contractors Deploy Partner Programs

• Web-Based (Increasing Cloud-Based)
• Onboarding Tool
• Knowledge Management
• Integrated With Other Systems of Record
• Utilization Reporting
• Compliance Reporting
• Automates Annual Renewals
Prime Consultant Approach
Contrast: Prime Consultant Approach

- Just 3 of ENR Top 20 Pure Design Firms (Early Adopters)
- Most firms include in project management and defer the task
Why Are Prime Consultants Resistant? [Hesitant]? [Not Doing This]?

- Learned Profession vs. Commodity
- Project-Specific Task vs. Enterprise Strategy
- Undervaluation of Breach or Default Risk
- Tendency to Decouple Subcontract From Prime Contract
- Conflict Avoidance
- Who Owns It?
Get Over It & Steal The Idea
Risk Management & Business Cases for Adopting a Partner Program
Proactive Step to De-Risk Projects

- Move Up & Left
Proactive Step to De-Risk Projects

• Move Up & Left

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Why Prime Consultants Should Adopt Partner Programs: Risk Management Case

- Prequalify Unpleasantries (Licensing, Insurance, Contract Terms)
- Speed-To-Contract: Limit Gap Period Risk & Delay
- Migrate From Anecdote to Analytics: Technical & Scope/Fee
- Confirm Software Stack & Cyber/Data/Info Security
- Verify Compliance: Financial Integrity, FAR, Contract

...On an Enterprise Basis
Why Prime Consultants Should Adopt Partner Programs: The Business Case

- Diversity, Equity & Inclusion (DEI)
- Environmental, Social, and Governance (ESG)
- Migrate From Anecdote to Analytics: Relationship Insights
- Deal Velocity: Book-to-Bill & Backlog
- Business Development Opportunities

...On an Enterprise Basis
Program Design & Implementation
Consider The 3P’s:

- People
- Process
- Platform
Design & Implementation: People

• System Owner & Administrator
• Maintenance Responsibility
• Business Development
• Project Management
• Finance/Legal/Risk/Contracts
Design & Implementation: Process

• **Design:**
  • Criteria & Data Management
  • Platform
  • Training

• **Implementation:**
  • Update/Renewal Frequency
  • Reporting
  • Continuous Improvement
Design & Implementation: Platform

- Cloud Application vs. Online Interface
- Integrations with Other Systems
- Adapt vs. Create
- Purpose-Built Apps vs. Self-Developed
Design Firm Solutions

✓ Pre-Renewal Strategy
✓ Benchmark Data
✓ Cyber Assessment
✓ Market Risk or Project Risk
✓ Enterprise Risk & Risk Ops Consulting
✓ M&A Evaluation & Due Diligence

If your firm is confronted with any of these risk issues, please don’t hesitate to contact us for a solution.

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