Institute of Refractories Engineers

Contract & Strategy – A Users View

IRE Training Day
25 September 2008

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I.R.E.

Introduction

- Refractories are an essential ‘enabler’ in many high temperature processes
- Refractories sourcing is an influential component of ‘refractories total cost of ownership’
- Commercial imperatives in terms of Refractories procurement include:
  - Security of supply
  - Matching supply to plant requirements
  - Quality/H+S standards met and ‘fitness for purpose’ (not always the same thing!)
  - Cost management

Why have a Contract?

- Security of supply!!!!
- Formal communication of:
  - Responsibilities
  - Scope
  - Commercial terms
  - Other requirements
- Legal protection: Terms and Conditions

Contract Strategy – Main Considerations:

- Scope – Requirements
- Market Considerations
- Available Suppliers
- End-User base

Contract Strategy - Scope

Scope. What are the requirements of the end-users?

- Volume/Spend (i.e Size of the contract in tonnes/£/€)
- Products (i.e materials required to perform the installation or service)
- Other services (e.g. technical, installation, full line service)

How Much?…….Of What?……What Else?

Contract Strategy – Market Conditions

- Rising?
- Falling?
- Political influences?
  - Tariffs, licenses
- Importance of market intelligence
  - Best knowledge to make best decision (is it a good time to go out to the market? Should we look for extension?)

Influences:
Raw materials, Supply & Demand etc.

Contract Strategy – End Users

- End-User Base. Where are the products/services going to be used?
  - Single site
  - Multi-site
  - National/Regional/Global
- Specific Requirements/Preferences.

Contract Approaches - Examples

- Direct site – single or multiple supplier(s)
- National/Regional/Global Contracts
- *Need to consider which approach gives maximum value to the end-user(s)*

Contract Approach – Direct Site

Direct site

- Used when scope is very specific to an individual site/process
- Advantages: Effective use of procurement professional resource, Most knowledgeable personnel are dealing with the contract
- Disadvantages: May not capture all Supplier knowledge available within the company to enable best solution/price/products

Contract Approach – Direct Site Example

Ingot Casting – Holloware

- Ø Operation on single TSG Site
- Ø No product overlap with other sites
- Ø Focus resource
- Ø Dedicated supplier support

Contract Approach - Global Contracts

National/Regional/Global Contracts

- Coordinated Approach
- ‘Single Face to Market’
- Used when a number of sites have a similar product/service requirement or the supply base is common
- Advantages: Shares best practice and knowledge, increases spend volume leverage
- Disadvantages: Requires strong procurement resource to ensure best multi-site alignment of requirement fit

Contract Approach - Global Contract Example

Concast – Black Graphite

- Used on all TSG Sites
- Common product types
- Common Supplier base
- Commonality of contract approaches

Types of Contract

Types of Contract

- What type of contract best suits business needs?
- How do we currently do it?
- Does it work well?
- What options do we have?
- How do we go about setting up a contract?

Types of Contract: Primary Examples (1)

- Material supply:
  - Scope limited to purchase of materials only
  - May still include performance related payment terms
- Services supply (technical, installation)
  - No material purchase scope

Types of Contract: Primary Examples (2)

- Combined material and services
  - Service and materials scope but without management responsibility – may be most applicable on one-off capital project
- Managed service:
  - Application area up to the full scope of the plant may have all refractories scope managed by the supplier (including 3rd party sourcing)
  - Payment related to specific measured output quantity (e.g. Cost per tonne of liquid steel)

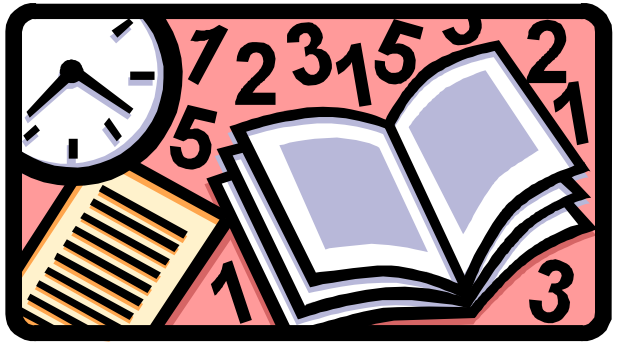
Types of Contract: Advantages & Disadvantages

- Material supply:
  - Advantages: Flexibility, works easily with multi-supplier scenarios
  - Disadvantages: Significant input from end-user required to optimise performance
- Services supply (technical, installation)
  - Advantages: No ‘preferences’ in terms of material supply
  - Disadvantages: Introduction of new materials, link to performance more difficult
- Managed service:
  - Advantages: Single point of contact, reduces end-user management activities, in theory performance monitoring should be implicit
  - Disadvantages: Lack of end-user ‘ownership’, can effectively ‘de-skill’ the end-user resource (hard to bring back ‘in-house’), reduces development?

Minimising Risk

Minimising Risk

- Assuming all technically practicable means have been made to reduce risks associated with use of a product/service other contractual means may be employed to reduce ‘commercial’ risks.
- Methods employed:
  - Conditions
  - Warranties/Guarantees
  - Service Level Agreements



Minimising Risk

- Conditions:
  - A term so essential to the existence of the contract that even a minor breach gives the purchaser the right to terminate the contract and sue for refund together with claim for consequential loss.
    - e.g. Time is of the essence: Failure to deliver on time would warrant legal pursuit
- Warranty:
  - A term not vital to the existence of the contract – a breach does not give a right to terminate the contract but is limited to giving the purchaser a right to claim for damages
    - e.g. Supplier will maintain 7 days ‘stock’ on site
    - (However if the supplier runs out of material they may breach a condition)

Minimising Risk - Limitations

- Consequential Loss:
  - Difficult to debate and argue.
  - Assignment of ‘blame’
  - Negotiations may be costly and lengthy
- Monitoring of SLA’s
  - Resource issues

Essential to try and predict and preempt any possible negative in a contract and build in the necessary ‘conditions’

Summary

- Contract Strategy:
  - Main considerations; Scope, Market, Suppliers, Users
  - Approaches; Local, Global
- Types of Contract:
  - Service level; Materials, Service, Managed
- Risk and Warranty:
  - Minimising risk; Conditions, Warranties, SLA’s
  - Limitations; Responsibility, Monitoring