

# F203: Negotiating Risk - Contracts Management Comes to the Forefront

Presenter:

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Schlumberger

# Discussion Overview

- **Who is Schlumberger?**
- **Contract Life Cycle**
- **What is Risk?**
- **Why is Negotiating Risk Important?**
- **The Role of Contracts Management**

# Schlumberger “At a Glance”

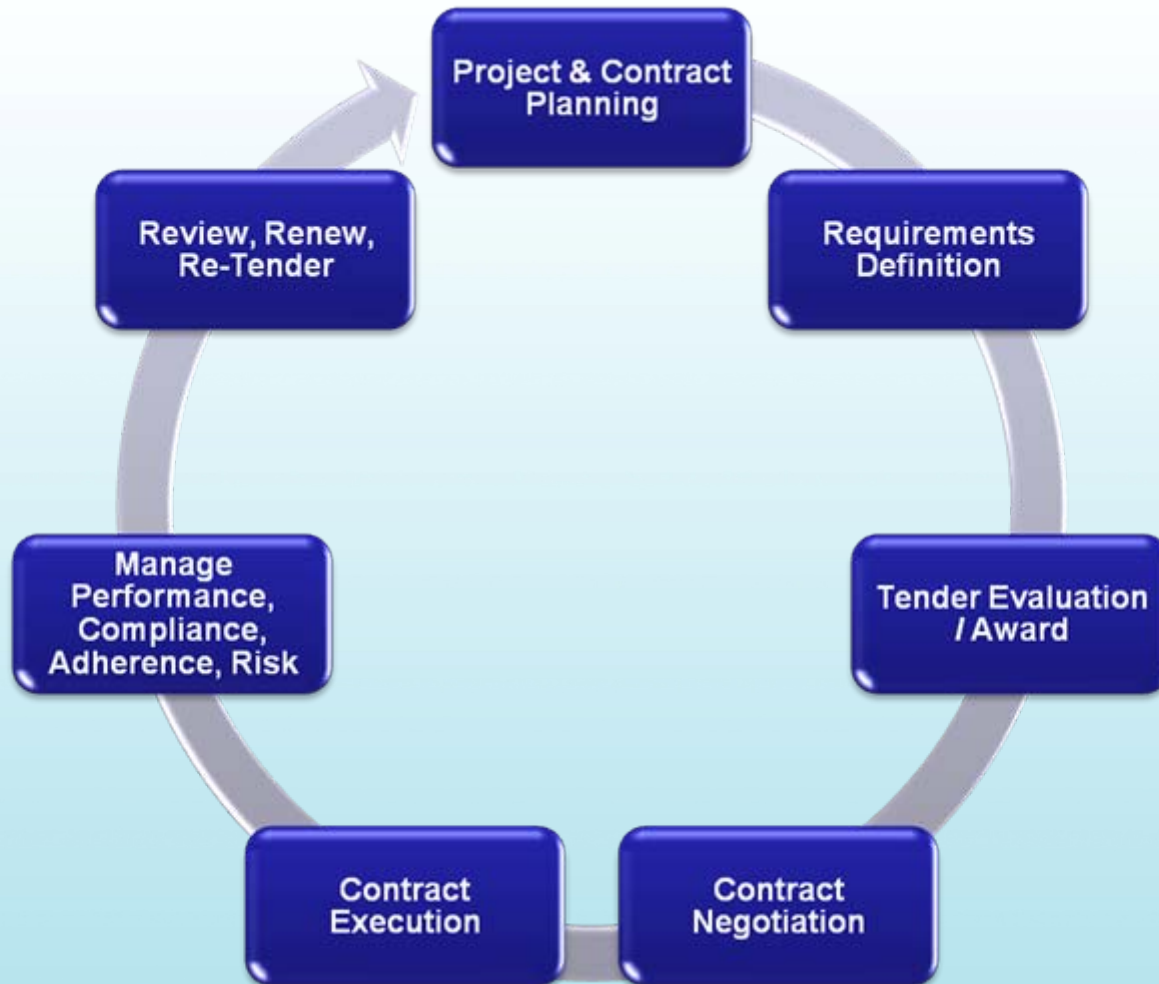
- Oilfield Services Provider, Founded in 1912
- \$27.16 billion operating revenue (2008)
- 87,000 employees of 140 nationalities
- Principal Offices: Paris, Houston, The Hague
- 80 countries, 33 Geomarket Regions
- Commitment to Excellence in Service  
Delivery Anytime, Anywhere

# **In Tough Economic Environments Contracts Management Must...**

1. Effectively Manage the entire Contract Life Cycle
2. Actively Negotiate Business and Legal Risks
3. Extract Value from Existing Contracts
4. Proactively Monitor Contract Events, Triggers and Opportunities
5. Preserve & Solidify Strategic Relationships

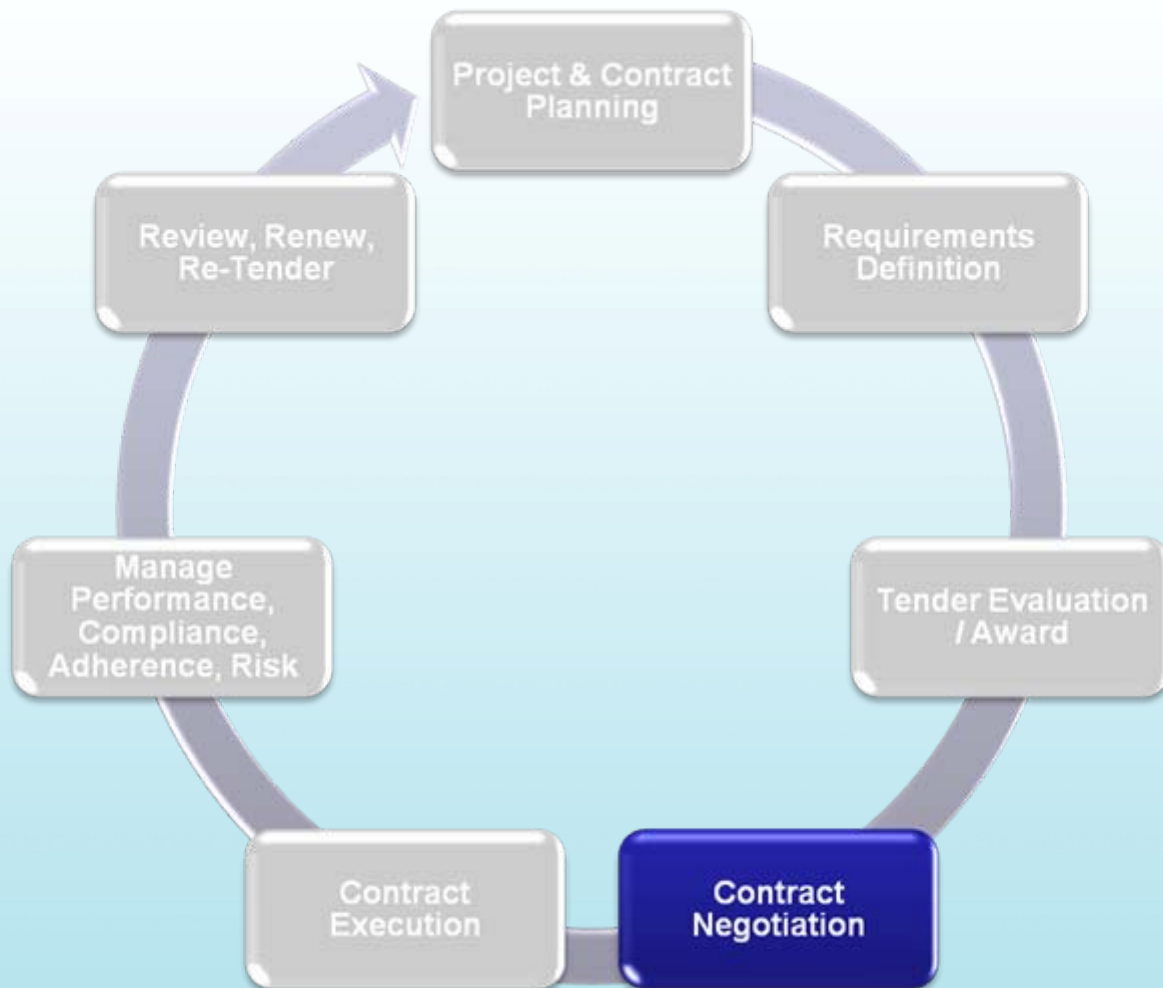


# Contract Life Cycle

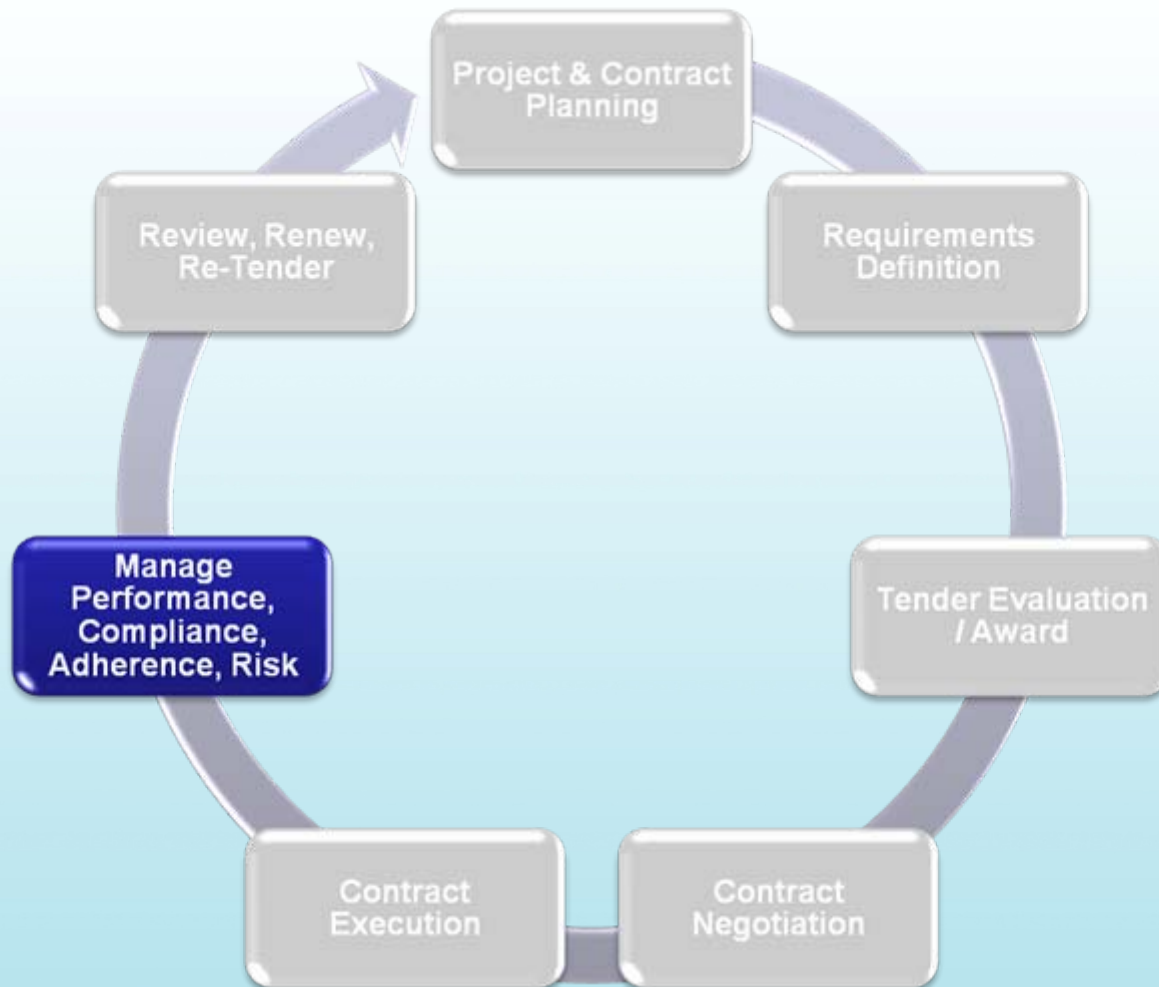




# Contract Negotiation



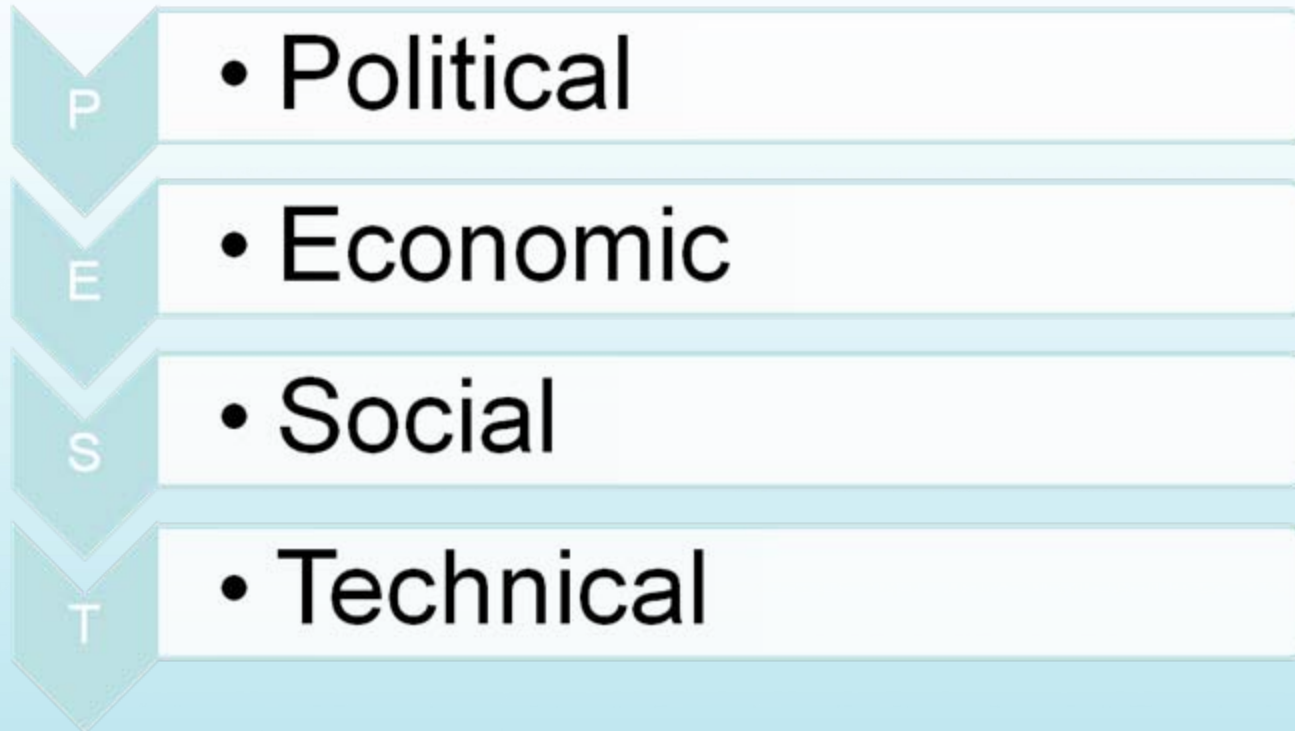
# “Post-Execution” Contract Management



# What is Risk?

The **threat or probability** that an action or event, will **adversely or beneficially** affect an organisation's ability to **achieve its objectives**

# Understanding Risk



*Pest Analysis*

# Understanding Risk

## **Political Factors**

Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples include:

- environmental regulations
- trade restrictions and tariffs
- political stability

## **Economic Factors**

Economic factors affect the purchasing power of potential customers and the firm's cost of capital. The following are examples of factors in the macroeconomy:

- economic growth
- interest rates
- exchange rates

Pest Analysis

# Understanding Risk

## Social Factors

Social factors include the demographic and cultural aspects of the external macroenvironment. These factors affect customer needs and the size of potential markets. Some social factors include:

- health consciousness
- age distribution
- emphasis on safety

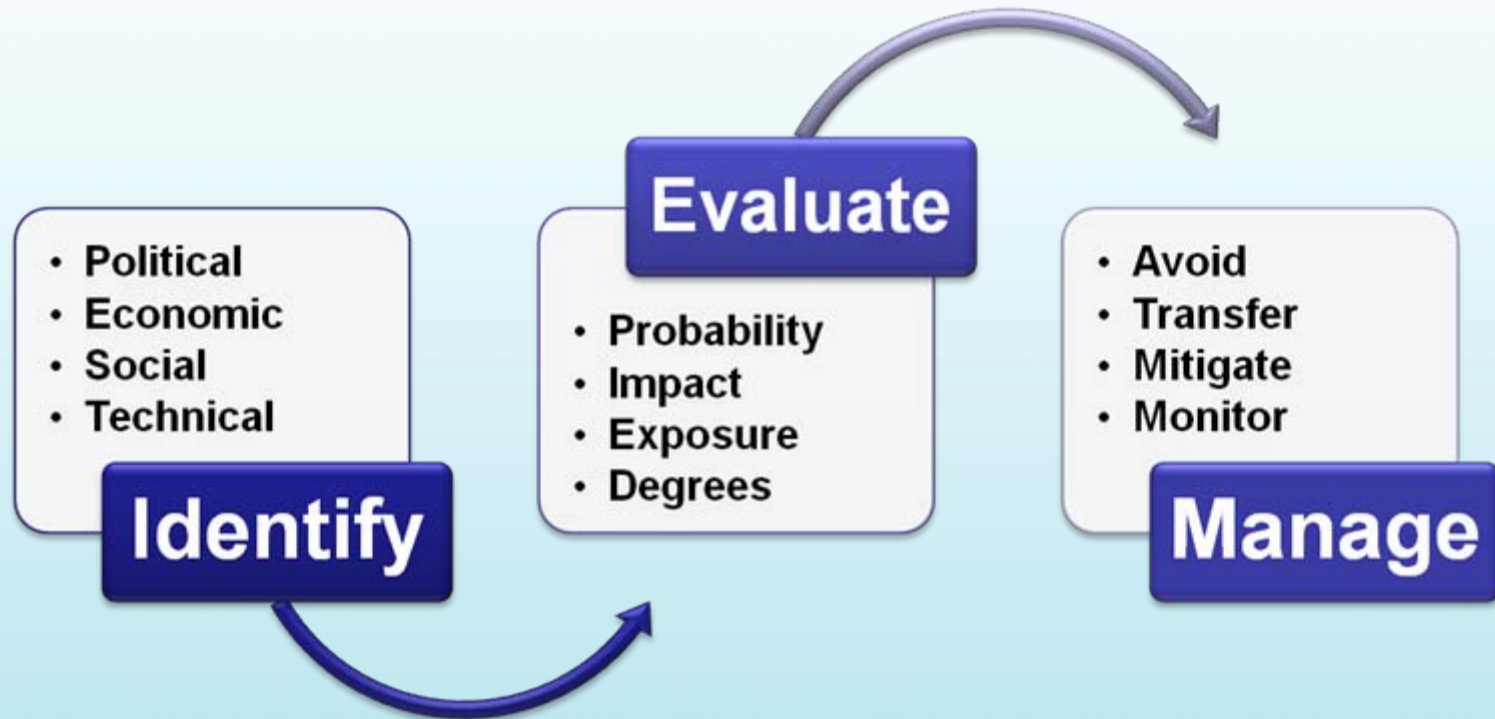
## Technological Factors

Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some technological factors include:

- R&D activity
- Automation
- technology incentives
- rate of technological change

Pest Analysis

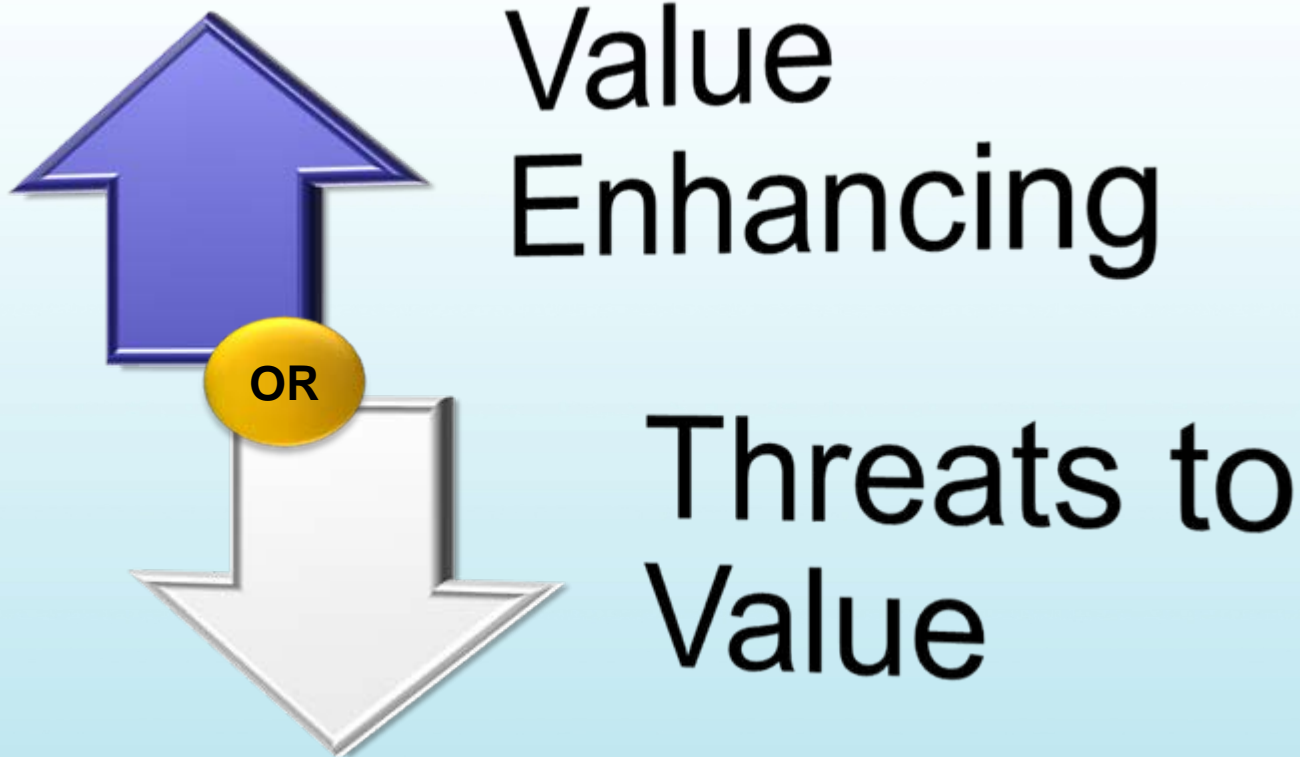
# Risk Management Steps



# Contract Negotiation Fundamentals

1. Align with Business Strategy
2. Short and Long-Term Focused
3. Objectives-Driven
4. Results-Oriented
5. Clear Boundaries (*Thresholds and Limits*)
6. Value-Focused

# Contract Provisions Can Be Either...



**Negotiation Strategies Should Contemplate  
Impacts to Value Structure**

# Important Provisions in a Challenging Environment

## 1. “Core” Provisions

- Term
- Scope
- Pricing
- Payment

**Monitor, Preserve & Protect these Provisions**

# Important Provisions in a Challenging Environment

## 2. Value Enhancing Provisions

- Pricing / Commodity Index Triggers
- Discounts
- KPI's
- Milestones & Deliverables
- Incentives
- Expiration / Extensions
- Performance Audits

**Proactively Monitor Performance, Measure  
Results Capture Immediate Value**

# Important Provisions in a Challenging Environment

## 3. Threats to Value

- Failures, Delays, Cancellations
- Accidents, Injuries and Damage
- Credit or Financial Changes
- Force Majeure
- Governmental Actions / Legislation
- Penalties

**Monitor, Mitigate, Avoid, Act**

# **Role of Contracts Management**

- 1. Proactive, Engaged Commercial Partner**
- 2. End-to-End Contract Management**  
*(Throughout Life Cycle)*
- 3. Contract “Intelligence” & Visibility**
- 4. Valued Service Delivery**
- 5. “Bottom-Line” Commercial Focus**

# The Commercial Challenge

“Organizations which don’t manage their contracts effectively will be at a tremendous competitive disadvantage”

*Tim Cummins, Director IACCM*

*International Association for Contract and Commercial Management*

Questions?

Thank You!