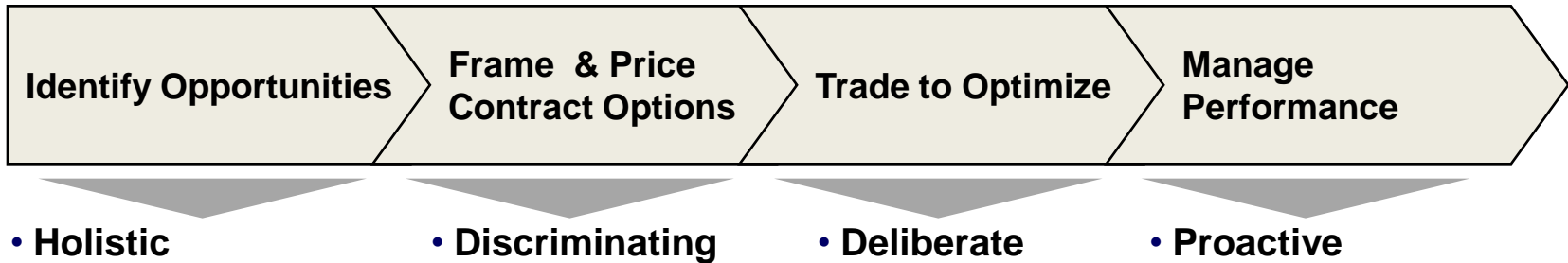




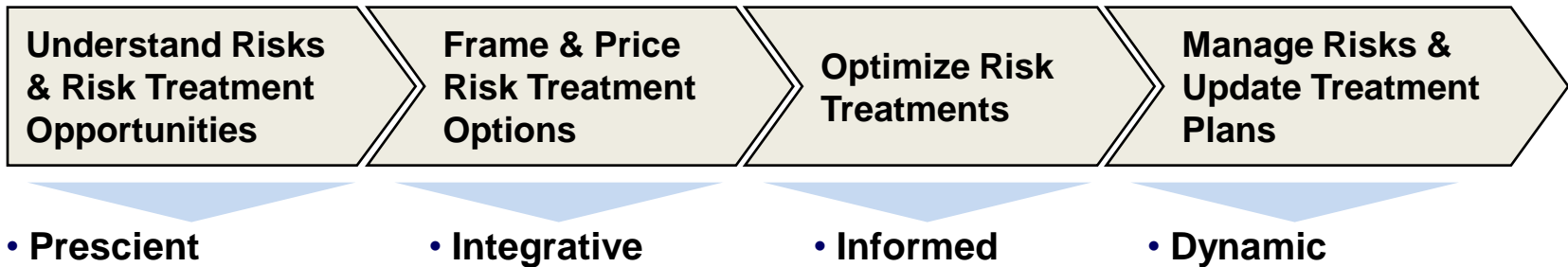
Integration of Value Based Contracting and Risk Management

Value based contracting formally integrates risk management

Value Based Contracting

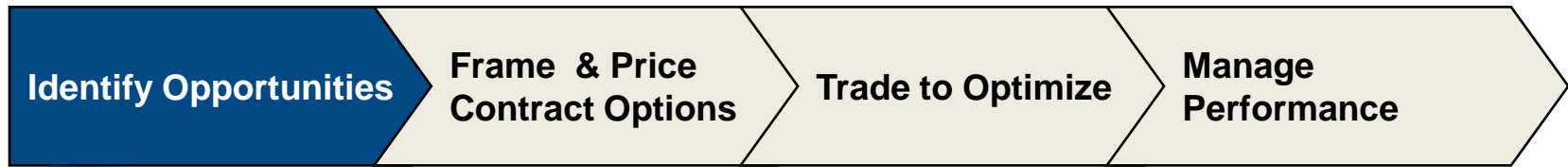


Risk Management



First, value based opportunities are identified and prioritized

Value Based Contracting



	Understand Contract Environment	ID Opportunities	Prioritize Opportunities
Activity	<ul style="list-style-type: none"> • Understand needs, drivers of costs, revenues and risks from both buyer and seller perspectives 	<ul style="list-style-type: none"> • Identify opportunities that reduce costs, increase revenues and/or lower the total cost of risk 	<ul style="list-style-type: none"> • Identify top Value Based Opportunities based on value to buyer and seller
Why	<ul style="list-style-type: none"> • Acquire a full and holistic perspective of the contracting environment 	<ul style="list-style-type: none"> • ID a wide array of opportunities to potentially carry forward into contracting 	<ul style="list-style-type: none"> • Ensure the top opportunities are carried forward into contracting
Aides	<ul style="list-style-type: none"> • Stakeholder Engagement Guide • CRIB Assessment © • Value Chain Assessment Guide 	<ul style="list-style-type: none"> • Opportunity Brainstorming • Opportunity Gallery • Opportunity Map 	<ul style="list-style-type: none"> • Opportunity Log • Opportunity Ranking Guide

Opportunities and contract options are aligned with distinctive value propositions and then priced- to create a commercial menu

Value Based Contracting



	Define Value Options	Craft Contract Menu	Cost & Price Contract Menu Options
Activity	<ul style="list-style-type: none"> Define alternative contract offering themes based on top opportunities and core distinctive value propositions 	<ul style="list-style-type: none"> Describe themes and opportunities with key contract dimensions and embed key trades into each theme 	<ul style="list-style-type: none"> Cost and price contract menu options
Why	<ul style="list-style-type: none"> Version and discriminate buyer value options 	<ul style="list-style-type: none"> Create winning trade space 	<ul style="list-style-type: none"> Differentiate price of contract menu options according to value, costs; risk allocations
Aides	<ul style="list-style-type: none"> Value Proposition Guide 	<ul style="list-style-type: none"> Menu Design Guide Provision decompositions 	<ul style="list-style-type: none"> Price and Volume Option Calculators SRAT©

The contract menu is positioned to discover buyer preferences and to set up and execute win-win trades

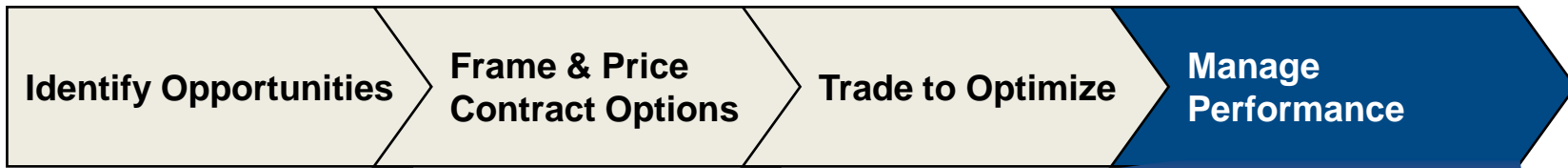
Value Based Contracting



	Position Contract Menu	Define Key Trades	Trade
Activity	<ul style="list-style-type: none"> • Present menu options and variations to options in deliberate stages & discover prices 	<ul style="list-style-type: none"> • Define trading play book and value top trades - including win-wins 	<ul style="list-style-type: none"> • Propose and execute top trades according to trading play book
Why	<ul style="list-style-type: none"> • Discover buyer preferences, willingness to pay and key trade opportunities 	<ul style="list-style-type: none"> • Ensure that trades are deliberate and economic 	<ul style="list-style-type: none"> • Capture maximum value from trading and negotiation
Aides	<ul style="list-style-type: none"> • Positioning Guide • Discovery Guide/ Template 	<ul style="list-style-type: none"> • Trading Play Book Template • SRAT © 	<ul style="list-style-type: none"> • Trading Play Book • Negotiation Checklist

Once executed, the contract is proactively managed to ensure value is captured

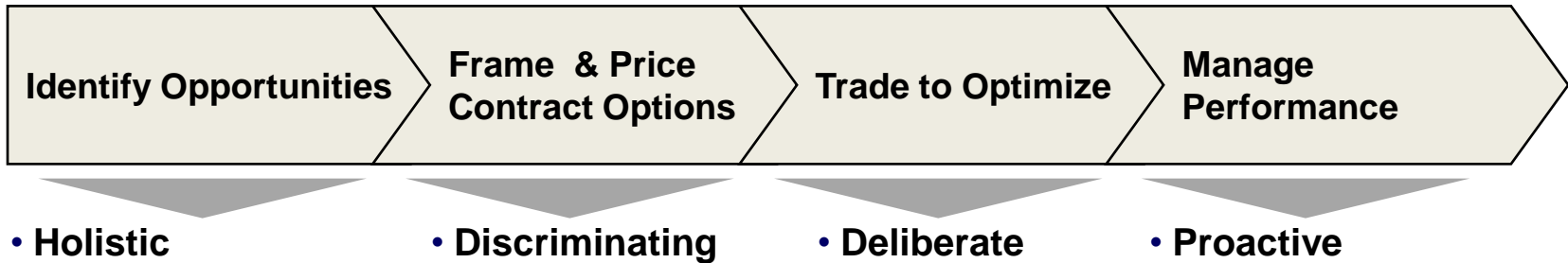
Value Based Contracting



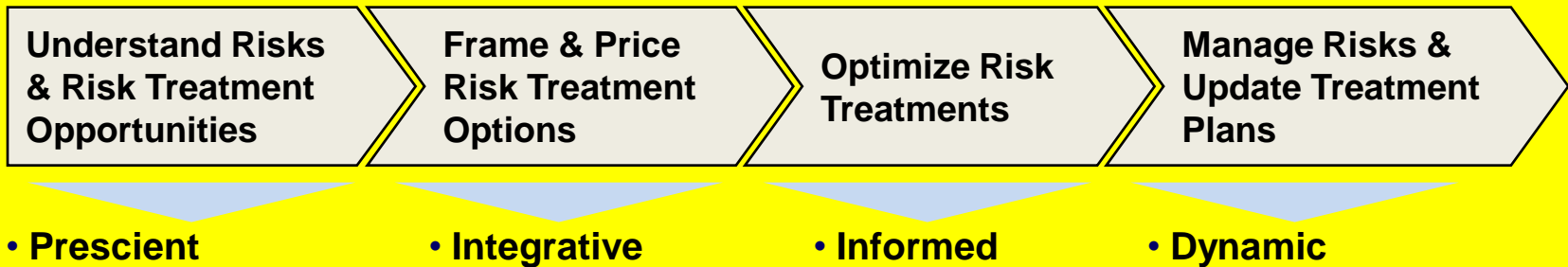
	Implement Transition	Manage Performance & Relationship	Capture & Share Learnings
Activity	<ul style="list-style-type: none"> Initiate start up, align business processes and roles with contract 	<ul style="list-style-type: none"> Manage performance, changes and relationship 	<ul style="list-style-type: none"> Continuously look and back and learn; share learnings and take appropriate improvement actions
Why	<ul style="list-style-type: none"> Ensure a successful contract implementation 	<ul style="list-style-type: none"> Fully monetize and optimize value of contract 	<ul style="list-style-type: none"> Continuously improve contracting process
Aides	<ul style="list-style-type: none"> Transition Plan Checklist 	<ul style="list-style-type: none"> Contract Management Plan Performance Reviews 	<ul style="list-style-type: none"> Opportunity Log Learning Log

Value based contracting formally integrates risk management

Value Based Contracting



Risk Management



Risk management begins with the development of a risk management plan



	Risk Management Planning
Activity	<ul style="list-style-type: none"> • Decide how to approach & plan risk management activities
Why	<ul style="list-style-type: none"> • Ensure that level, type & visibility of risk management activities are appropriate for the type and importance of project/deal
Aides	<ul style="list-style-type: none"> • Risk Management Planning Template

Understanding risks and risk treatment opportunities is the next step



	Identify Risks	Analyze Risks	Develop Treatment Opportunities
Activity	<ul style="list-style-type: none"> Identify buyer and seller risks; their initial significances and interrelationships 	<ul style="list-style-type: none"> Characterize and quantify risks: evaluate likelihood of occurrence and impacts 	<ul style="list-style-type: none"> Develop opportunities for treating key risks
Why	<ul style="list-style-type: none"> Acquire holistic and prescient view of the types and nature of risks inherent in deal 	<ul style="list-style-type: none"> Understand key risks to address and extent to which they can be controlled 	<ul style="list-style-type: none"> Understand opportunities to treat/jointly treat key risks to lower total cost of risk
Aides	<ul style="list-style-type: none"> Brainstorming Risk Checklists/ RBS Risk Relationship Map 	<ul style="list-style-type: none"> Cause – Effect Diagrams Experience Data/ Expert Judgment Risk Register/ SRAT © 	<ul style="list-style-type: none"> Treatment Options Guide Treatment/ Control Map Treatment Opportunities Log

Risk treatment options are defined and aligned with the contract menu and then priced



	Define Risk Treatment Options	Craft Risk Treatment Menu	Cost & Price Risk Treatment Options
Activity	<ul style="list-style-type: none"> Define alternatives for key risk treatments: mitigation actions (preemption & recovery) and risk transfer/sharing options 	<ul style="list-style-type: none"> Describe risk treatment options with key contract dimensions and align with contract menu 	<ul style="list-style-type: none"> Cost and price treatment menu options
Why	<ul style="list-style-type: none"> Version and discriminate risk treatments for key risks 	<ul style="list-style-type: none"> Link and integrate treatment options with contract menu to create trade space for risks 	<ul style="list-style-type: none"> Quantify the economics of alternative risk treatments
Aides	<ul style="list-style-type: none"> Treatment Options Guide Risk Treatment Template 	<ul style="list-style-type: none"> Menu Design Guide Risk Structuring Guide 	<ul style="list-style-type: none"> SRAT © / LRAT ©

Alternative risk treatments are positioned to discover the optimal risk allocation scheme



	Position Treatment Menu	Define Key Risk Trades	Trade
Activity	<ul style="list-style-type: none"> Present treatment options and any variations to options in deliberate stages & discover prices 	<ul style="list-style-type: none"> Define and value top risk trades - including win-wins 	<ul style="list-style-type: none"> Execute top risk trades, update residual risk treatment plans; implement preemptive action plans
Why	<ul style="list-style-type: none"> Discover buyer prices to bear risks, willingness to pay you to bear risks and key trade opportunities 	<ul style="list-style-type: none"> Ensure that risk trades are informed, deliberate and economic 	<ul style="list-style-type: none"> Optimize your total cost of risk (cost to mitigate + price to insure + cost to hold residual risk)
Aides	<ul style="list-style-type: none"> Positioning Guide Discovery Guide/ Template 	<ul style="list-style-type: none"> Trading Play Book Template SRAT © / LRAT © 	<ul style="list-style-type: none"> Trading Play Book Negotiation Checklist Risk Treatment Template

Dynamic risk management is essential to address new risks and ensure that risk treatment plans remain relevant and treatments are effective



	Monitor & Review Risks	Update Risk Treatment Plans	Recover and Analyze
Activity	<ul style="list-style-type: none"> Continuously and dynamically monitor residual risks, and identify new risks in need of treatment 	<ul style="list-style-type: none"> Update risk treatment plan once change in context and/or risk demands 	<ul style="list-style-type: none"> Implement recovery action plan once event occurs and conduct post-event analysis
Why	<ul style="list-style-type: none"> Keep current on risks and ensure readiness to execute recovery action plans 	<ul style="list-style-type: none"> Ensure that risk treatment plans remain relevant 	<ul style="list-style-type: none"> Evaluate effectiveness of plan; learn and gain insights and define future improvements
Aides	<ul style="list-style-type: none"> Risk Reviews Risk Register 	<ul style="list-style-type: none"> Treatment Options Guide Risk Treatment Template 	<ul style="list-style-type: none"> Risk Treatment Plans (*Recovery Actions)