



Chainlink Workbook 2

Manufacturer/subcontractor integration arrangements

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Introduction

This module addresses the need for closer working relationships between manufacturers and subcontractors with an emphasis on formalised agreements. The relevance of mutual collateral guarantees is also covered.

Like most good ideas the concept is simple: manufacturers and subcontractors working together as a team, driving down costs, improving quality, innovating and accelerating products to market far more effectively than in a traditional 'them and us' relationship. Formal partnering tie-ups between manufacturers and subcontractors are a proven, yet massively under-utilised, route to improved construction efficiency.

Limitations

Formal partnering relationships with subcontractors are not necessarily the optimum route to market for a manufacturing company's entire output. In many cases the manufacturer will use a 'licensed' or 'approved' network to market full, added-value systems, perhaps with some form of back-to-back guarantee and, at the same time, sell individual components through more conventional channels. This demonstrates that the system is non-restrictive and ensures all the manufacturer's eggs are not in the one commercial basket.

The Benefits

This module is primarily aimed at:

1. Construction product manufacturers/material suppliers seeking:
 - i. closer, long-term, working relationships with installers
 - ii. a route to enhanced profitability through the supply of added-value systems
 - iii. a means of improving installed quality and whole-life costs
 - iv. a way of meeting changing market expectations such as the demand for 'best-value' solutions and to supply and fix guarantees
 - v. to realise real cost savings and other tangible benefits of collaborative working including:

- Enhanced customer satisfaction through ongoing productivity and quality improvements leading to reduced waste, reduced defects, lower cost of ownership, innovative solutions, on-time and on-cost completions.
- Quicker concept-to-completion cycles and improved response times to market demands, especially safety, sustainability, replication, modularity, etc.
- Lower up-front material prices derived from more efficient and recurring transactional mechanisms, economies of scale, elimination of unnecessary competitive tendering costs, removal of excessive design overlap, improved order scheduling, etc.
- Reduction in interface problems and predefined defect remediation procedures.
- The creation of supply-chain configurations that lend themselves to project insurance and insurance-backed collateral guarantees.
- Early engagement allowing design input and improved JIT (just-in-time) site scheduling for lower costs and improved inventory control.
- Greater scope for less reliance on increasingly scarce skills through pre-assembly, standardisation and modularisation.
- Market-focused innovation. Solutions can be co-engineered for greater site safety, improved sustainability, rapid installation, reduced waste, reduced maintenance etc.
- Elimination/reduction of the tangle of claims and litigation which characterise the industry.
- More focused and efficient research and development. Reduced development timescales. The confidence and wherewithal to invest in sustainable, prefabricated and material efficient solutions.
- Facilitated decision-making at all levels through sharing cost data, design data, production and installation possibilities and limitations etc.
- Documented evidence and track record of long-term supply chain partnering relationships for bidding purposes.
- Greater financial stability and certainty of outcome through being in a position to negotiate and enter strategic partnering relationships with repeat customers.

2. Specialist subcontractors entering, or seeking to enter, a manufacturer licensing arrangement.

3. Project and term contract managers assembling supply chains.

Formal partnering relationships with subcontractors are not necessarily the optimum route to market for a manufacturing company's entire output. In many cases the manufacturer will use a licensed network to market full, added-value, systems, perhaps with some form of back-to-back guarantee and, at the same time, sell individual components through more conventional channels. This demonstrates that the route to market is non-restrictive and ensures that all the manufacturer's commercial eggs are not in one basket.

However, there are one or two key recommendations:

1. When marketing products/systems, under a formalised manufacturer/subcontractor relationship, it is recommended that the network be granted sole rights of supply. Where such exclusivity forms part of the partnering agreement there must be absolutely no exceptions if network commitment and trust are to be maintained.
2. If it is not possible for commercial, legal or other reasons for the subcontractor network to enjoy supply exclusivity, it will be necessary to provide the partnering network with other differentiating benefits and incentives. The provision of joint guarantees might be an example of this.
3. Supplying through intermediaries such as builder's merchants or specialist distributors is often the preferred route to market for many products. This does not preclude the use of this approach but allowances must be made for the additional interfaces involved and the history of prior engagement. For more details on intermediary integration refer to **Module 3**.

Types of manufacturer/subcontractor relationship

Two levels of formal manufacturers/subcontractor schemes are considered in this Toolkit as follows:

'Approved Contractor' schemes

'Approved Contractor' schemes include those where the relationship with the manufacturer concerned is governed by a formal agreement. 'Approved Contractors' or 'Accreditees' must meet strict criteria in areas such as solvency, resources, performance, quality control, health and safety, etc. Manufacturer-driven training is usually obligatory. 'Approved

'Licensed Contractor' schemes

In 'Licensed Contractor' schemes the subcontractor is licensed to supply a proprietary product or system from the principal manufacturer. This results in a degree of exclusivity and a higher degree of manufacturer/subcontractor interdependence. 'Licensed Contractor' schemes normally involve a legally binding licence agreement and consequently tend to be more

Contractor' relationships are usually less restrictive/ binding than licensing arrangements.

comprehensive and rigorous than 'Approved Contractor' schemes.

Recommendation – do not breach the distribution agreement

Experience shows that some of the most successful manufacturer/subcontractor relationships involve the supply of a proprietary system(s) through a licensed subcontractor network. Where this is the case, the system(s) involved must be distributed exclusively through the network with absolutely no exceptions. Only in this way can the necessary trust and commitment from the subcontractor network be fostered and maintained.

Supplying through intermediaries.

Supplying through intermediaries such as builder's merchants or specialist distributors is often the preferred route to market for many products. This does not preclude the use of formal manufacturer/subcontractor relationships but allowances must be made for the additional interfaces involved and the history of prior engagement. For more details on integration with intermediaries refer to **MODULE 3**.

Relevance

Aimed at:

- Construction product manufacturers/material suppliers.
- Specialist subcontractors entering, or seeking to enter, a manufacturer licensing arrangement.

Of interest to:

- Project and term contract managers assembling supply chains.
- Repeat clients assembling integrated supply chains.

Using this Toolkit module

Each key step in the development of a formal partnering relationship between manufacturers and supplier is identified in the 'Process' column. The 'Culture and Activities' column then provides a summary of the necessary ethos and actions required for their implementation. The adjacent 'Tools and Techniques' column provides recommendations, Toolkit cross-references and links to external supporting information.

Note: Users of this Toolkit module are encouraged to explore the other sections of this Toolkit to determine their position in the overall construction supply spectrum, to better understand the benefits and workings of the integration concept and to gain an appreciation of the need for collective supply chain focus to ensure a satisfactory end result.

In the matrix below the following definitions apply:

- 'Principal Company': a company responsible for setting up and leading the network. Usually a manufacturer or other supplier.
- 'Licensee': a company operating under licence to a Principal Company. Usually a specialist subcontractor or intermediary.
- 'Accreditee': an 'approved' company operating within a formal approval system set up and administered by a Principal Company. Usually a specialist subcontractor or intermediary.
- 'Network': a group of independent Licensees or Accreditees under the leadership of a Principal Company.

Workbook

Step	Process	Culture and activities	Tools and techniques
2.1	Determine the need	<ul style="list-style-type: none">• Is this form of partnering appropriate?• Does it have a good fit with your corporate strategy?• For which of your products/	Refer to the Decision flowchart See case study - Bekaert Fencing

services/systems is it appropriate?

- Does it open up the potential for supplying highly differentiated, added-value systems? Consider the competitive advantages this might afford.

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2.2 Core principles

- Mutual trust amongst all network participants.
- Genuine commitment from top management of the partnering organisations.
- Communicating the vision – sell the idea internally.
- Principal Company capable of exerting network leadership to achieve communal goals.
- Comprehension and dedication to integrated working throughout the network.
- A clearly defined strategy that sets out the aims, objectives and long-term goals.
- Clear, measurable, value-for-money benefits for all parties.
- Agreed, measurable and realistic performance indicators.
- Formal and informal communication between all parties.
- Creation of an environment of continuous learning and improvement.
- Suitable dispute resolution systems.
- Where possible, proprietary systems and assemblies supplied as all-inclusive 'material packages'.

The Construction Manufacturers' Partnering Association (COMPASS), through its Charter scheme provides a means of establishing a cultural framework for the pursuit of supply chain integration. See the **COMPASS** website for details.

Tip: Chief Executive of Principal Company, or other individual with the authority to commit the organisation and lead the necessary cultural change, to set up and lead a series of in-house seminar/ workshops covering the rationale behind the partnering model, the objectives and the cultural/ organisational changes necessary. These to be positive, interactive sessions with the aim of securing 100% staff commitment to the network/partnering philosophy.

The Principal Company

The Principal Company must visibly commit to promoting/ specifying the Licensee/ Accreditee network. This network promotion can be strengthened by the use of a differentiating factor, preferably specifiable, that is unique to the network offer. For example, a particular product or system itself may be exclusive to the network or the Network members may provide a unique added-value benefit such as a collateral warranty scheme.

2.3 Planning stage

Identify the products/systems covered by the licensing arrangements.

Portfolio analysis refs CIPS Best Value Procurement

Consideration of any necessary re-organisation to facilitate and progress partnering principles.

Examine the marketing implications - cost, competitor reaction, customer perceptions.

The Partnering Agreement.

The Partnering Agreement is the non-binding code of practice that governs the relationship between the Principal and its Licensees/Accreditees. It is distinct from a legally constituted licence or service contract which may form part of the relationship.

Guidance Note No 1 Aug 2000; PSL Partnering Guides can be found on the [PSL website](#).

A typical agreement might address, inter alia:

- the terms and conditions of the Licence, including assignment of rights to licensee
- prior disclosure of existing commercial affiliations
- standards of service including tender response
- quality of workmanship
- design/detail approvals and specification compliance
- warranty provisions and relative liabilities
- inspection/audit regime
- operative training requirements
- terms of business
- incentive scheme details
- probationary, review, termination and exit conditions
- Licensee support packages.

2.4 Selecting partners

Partner selection programme.

The number of contractors in a licensed/ accredited network will vary depending on factors such as the nature of the business and the availability of suitable candidates. Aim for good geographical coverage, a healthy degree of intra-network competition and an ability to competitively service market demand in both large and small projects.

When establishing a subcontractor network, care must be exercised to ensure that current legislation with respect to competition and restrictive practices is not inadvertently flouted.

Tip: Be quick, be first – and get the best partners available!

Sell the business case to prospective partners e.g. strategic advantage, exclusivity, support, long-term relationship, cost savings, etc.

Invite prospects to introductory, no obligation seminars or one-to-ones to discuss the possibilities and gauge their commitment. Assess candidate partners using a rigorous quality-based selection system covering both quantitative and qualitative criteria.

Use this Toolkit to give the process structure and a shared belief foundation. **Tip:** Give the highest priority to developing the cultural aspects of your partnering relationships. Make sure you comply with the provisions of the Competition Act 1998 (see the [HMSO website](#) for more information), and relevant EU procurement Directives and other legislation. In general, membership of a subcontractor network must be open to all contractors that can meet the published licence/contract criteria and these must be lawful and reasonable. Take legal advice.

2.5 Address relational/ process interface issues

In most construction procurement scenarios, transactional and process-related improvements offer huge scope for cost/efficiency gains.

See **Module 1: Customer/ supplier procurement integration**

2.6 Agreeing measurable objectives

Short- medium- and long-term targets for both the Principal Company and its Accreditees/Licensees must be established. These objectives may be global, i.e. communal, or specific, and might include:

- commitment levels
- partnering-specific business levels
- profitability goals
- technical goals
- product development goals
- commercial
- cultural
- cost savings
- quality improvements
- resource employment/allocation
- service levels and response times.

Tip: Make sure you set objectives that encourage a high degree of engagement and interaction. Remember – the greatest success will accrue from the mutual attainment of common goals.

2.7 Determination of Key Performance Indicators

Benchmarking/milestoning through KPIs is an essential part of the management process, enabling continuous improvement to be measured and compared against both the network objectives and industry norms.

Use the **COMPASS** Charter Key Performance Indicators or similar as a straightforward means of monitoring and measuring progress. Ensure that licences are an integral part of the benchmarking process, measuring as well as being measured.

Tip: Publicise the benchmark

2.8 Management and communications

Network management

Ensure that a democratic and transparent network management process is in place to engender trust, commitment, enthusiasm and network 'ownership'.

Cultural transformation through education, emulation training and example is the goal.

These relationship-building aspects of the Network must be underpinned by effective monitoring & measurement systems.

Establish a mechanism for driving the cultural processes within the Principal Company and throughout the Licencee / Accreditee Network. The aim is to oversee the integration strategy with your partners through promoting, guiding and monitoring.

Consider setting up a Joint Review Team to review network progress against KPIs and other objectives, agree on new targets, assess/allocate risk and resolve contentious issues as they arise.

See **Resources**.

Continually review and audit network performance.

Tip: Don't compromise on quality or commitment.

If a licensee consistently fails to deliver against its agreed objectives then:

- a. Reconsider the objectives to determine their validity/attainability. Adjust if necessary.
- b. Discuss the requirements with the licensee in question with a view to rectification.
- c. If all else fails, determine the licence agreement in accordance with the termination terms therein.

Risk management

Establishing a licensed contractor network is not about risk transferral; it is about risk management and removal. At this stage, the team should set out the basis for sharing risks. The correct management, monitoring and measurement systems will ensure that risk is identified, minimised and shared equitably. In some areas, insurance can be a means of transferring/controlling risk.

Adopt the COMPASS Charter Key Performance Indicators or equivalent as a straightforward means of monitoring and measuring continuous improvement. Note that the COMPASS KPIs meet the market monitoring requirements of ISO 9001: 2000, saving unnecessary duplication of work. For details go to the **COMPASS** website.

See *Control of Risk – A Guide to the Systematic*

Management of Risk from Construction, available from CIRIA.

See *The Partnering Toolkit* pp 26, 27 available from **BSRIA**.

Training

Training will play a vital role in any manufacturers/subcontractor partnership.

Network motivation

Network relationships must be nurtured, stimulated and rewarded.

Tip: Prepare a joint training programme to meet the commercial, technical and cultural aspects of the programme and in accordance with the agreed KPIs.

Ensure, through regular communications such as face-to-face meetings, conferences and newsletters, that everyone involved in the manufacturing organisation and its licensed network are fully aware of the KPIs and their significance.

Hold regular, at least annual, network conferences to foster team spirit and trust, share knowledge, educate and motivate. Encourage network social and team building events.

Incentive schemes

Incentive schemes can be a useful means of engendering commitment and focus.

Give consideration to an awards scheme to honour best performance; celebrate success and foster competition amongst the network.

Tip: Consider introducing a self-financing incentive scheme tied to:

- i. achievement of business targets, and
- ii. meeting and exceeding KPI targets.

2.9

Adding value, differentiation and control through collateral guarantees

Assured performance can be offered through insurance-backed, supply and fix guarantees. Shared liabilities and independent auditing of workmanship ensures quality compliance.

For further information on manufacturer's combined product/workmanship insurance-backed guarantees refer to the **COMPASS** website.

The COMPASSure insurance scheme is an example of an independently audited guarantee that is available on a 'single-premium total-turnover' basis.

<p>2.10</p>	<p>STEPS FORWARD</p> <p>Product co-development and innovation</p>	<p>A mature contractor network will develop the trust, confidence, mutual respect and interdependence to allow collaborative innovation and product development programmes.</p>	<p>Consider regular collaborative design workshops with the aim of reducing waste, improving quality, simplifying interfaces and producing value-engineered solutions</p> <p>Tip: Start small and concentrate on easy-to-implement and cost-efficient product enhancements rather than long-term R&D programmes.</p> <p>Design for installability, manufacturability, sustainability, rationalisation, standardisation, simplification and safety.</p>
<p>2.11</p>	<p>Collaborative marketing</p>	<p>Established contractors can collaborate in promoting the network's generic 'best value' advantages without prejudice to its competitive facets. In this way even a small network can exert significant promotional leverage.</p>	<p>Consider the development of shared cost joint promotional programmes</p>
<p>2.12</p>	<p>Develop compatible electronic and other streamlined interfaces</p>		<p>See Module 1 Customer/Supplier Procurement Integration</p>
<p>2.13</p>	<p>Vertical integration</p>	<p>Develop vertical partnering relationships with clients, principal contractors, consultants, etc</p>	
<p>2.14</p>	<p>Refine, improve and develop</p>	<p>Licensed networks are an evolutionary species! Continually apply the lessons learnt from feedback, reviews, successes and failures. Improve, improve, improve!</p>	<p>See Module 1 Customer/supplier procurement integration; see PSL Partnering Guides at the PSL website.</p>
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