



**DRAGONFLY**

# Strategic Gaming™ and Procurement

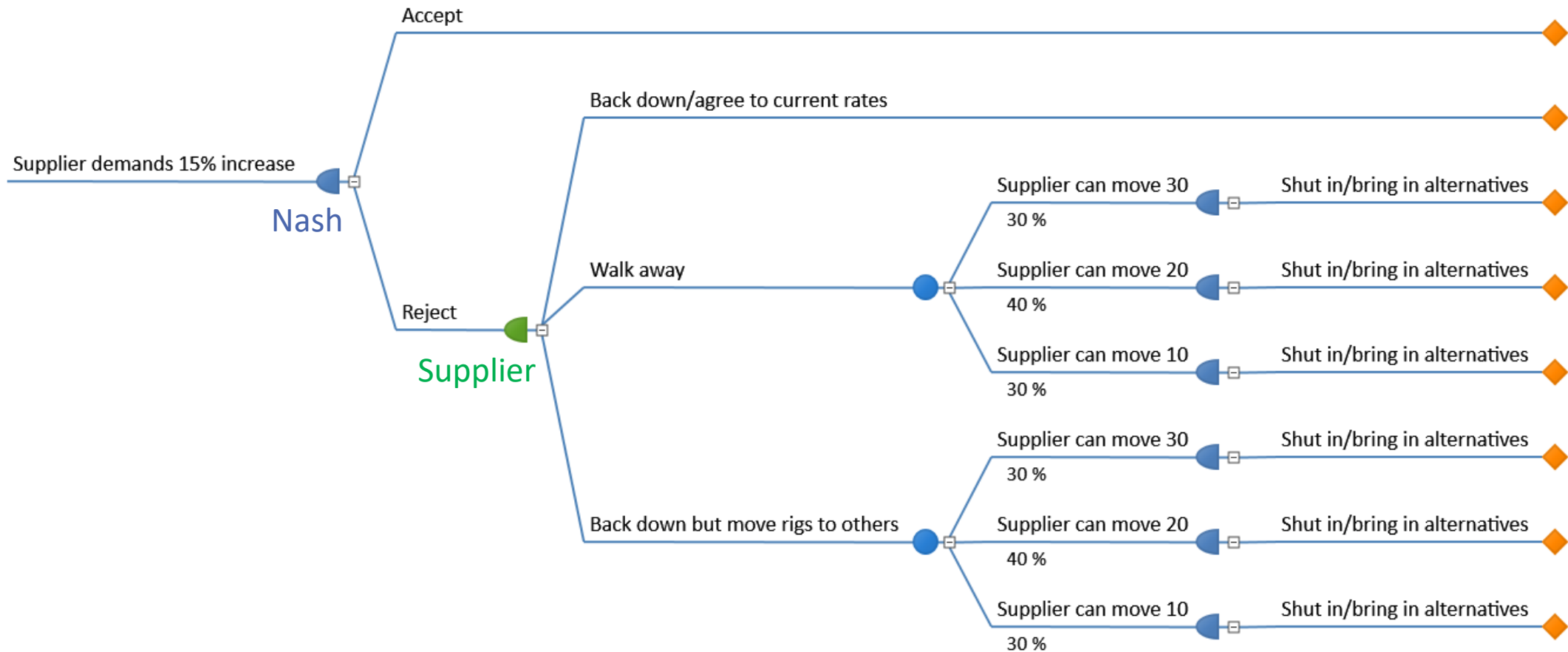
How game theory can help with supplier management

# How we work to improve procurement



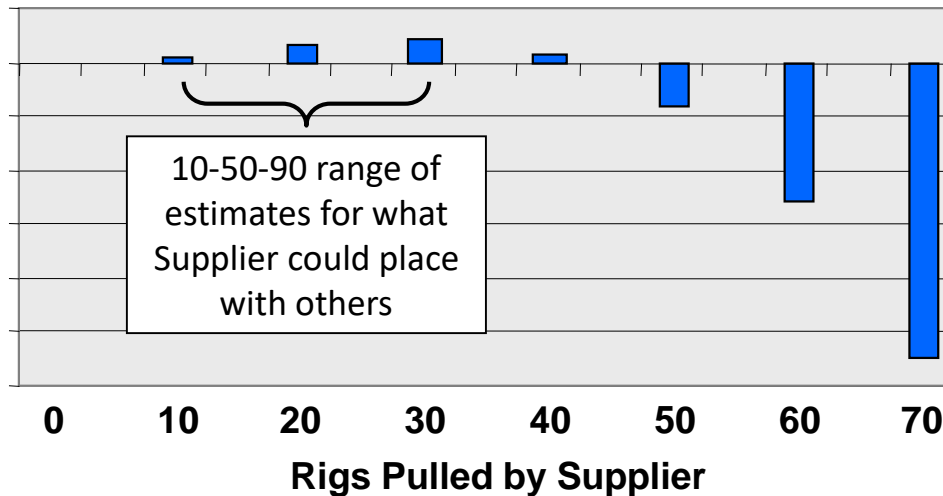
- *Typically we work on projects (e.g., supplier negotiations) to help our clients understand their levers and how far they can push*
- *In so doing, we often provide our clients with tools they can use as they negotiate*
- *Naturally, this involves some coaching, and we can also provide formal training that instills long-term organizational capability*
- *Finally, we can work to ensure that decision-making processes complement these capabilities*

# Supplier negotiations example



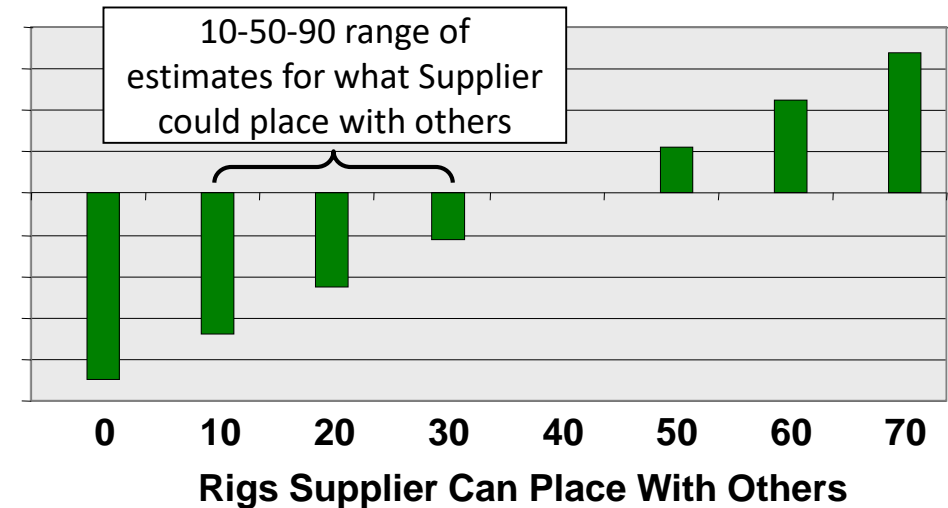
# It turns out, there was a lot of leverage

### Delta NPV to Nash if Supplier Pulls Rigs









*Nash's value rises even if the supplier tries to walk away, and based on the supplier's other opportunities, it is highly unlikely that the supplier can move more than 30*

### Delta NPV to Supplier if Pulls All Rigs



*Supplier will be shooting itself in the foot if it walks away from doing business with Nash*

# Deal structuring & qualitative assessment

Player	Deal Term 1	Deal Term 2	Deal Term 3	Deal Term 4
Blue	Left	No	Weak	High 
Red	Center 	Yes 	In between 	Low
Green	Right 		Strong 	

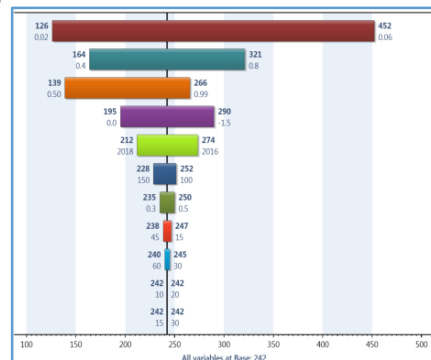
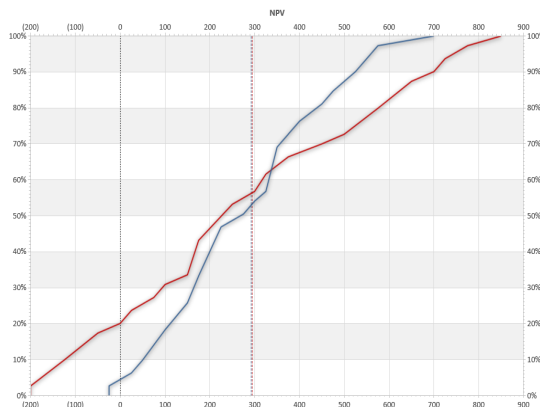
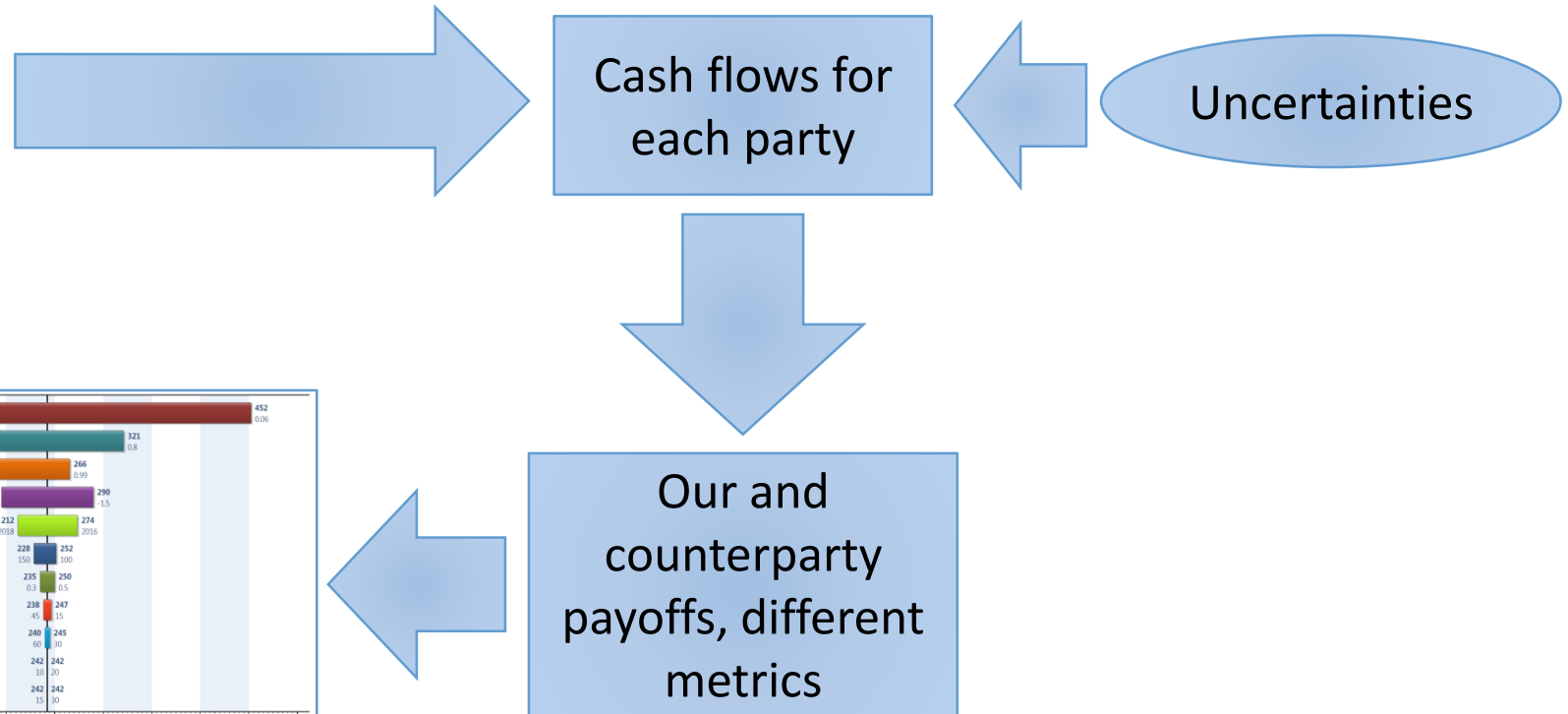
These 4 terms define the deal structure

By putting ourselves in the shoes and minds of the players, we qualitatively assess their preferences on each of the deal terms; here we see there will likely be alignment on deal terms 2 & 4, misalignment on 1 & 3

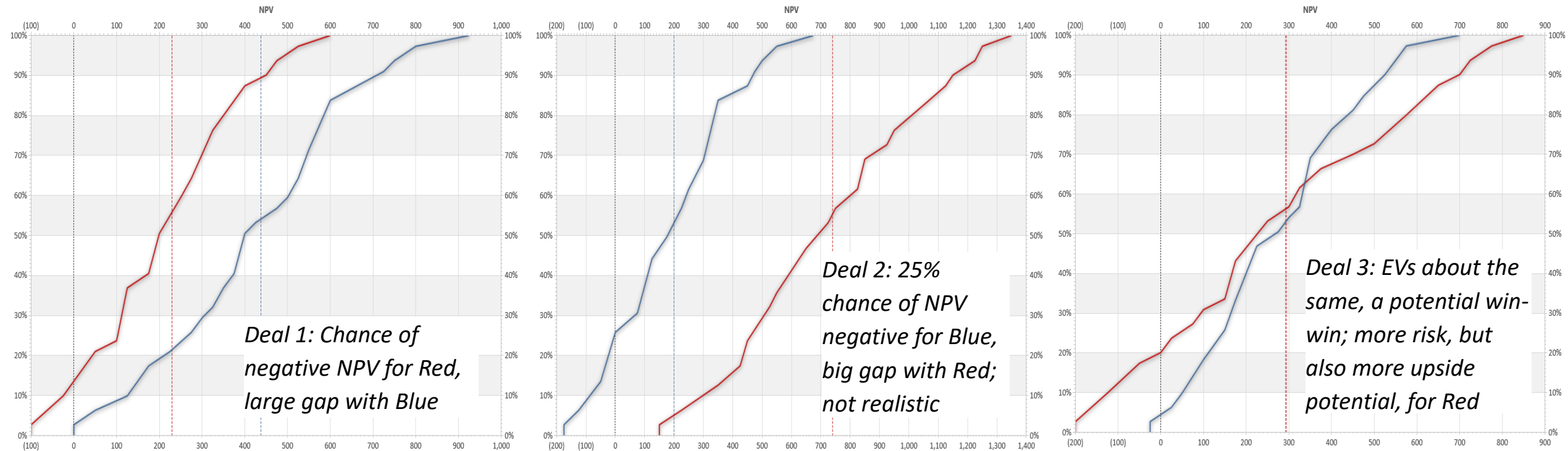
*This approach is often a useful first cut to framing the dimensions of a deal and qualitatively assessing where there are likely win-wins and misalignment; quantitative evaluation can and should, in most cases, follow from such an exercise*

# Economic modeling (negotiations)

Terms	
Price of asset sale	330
Cash deal	Yes
Cash up front	100
Financing	230
Years financing	5
Interest Rate	5%

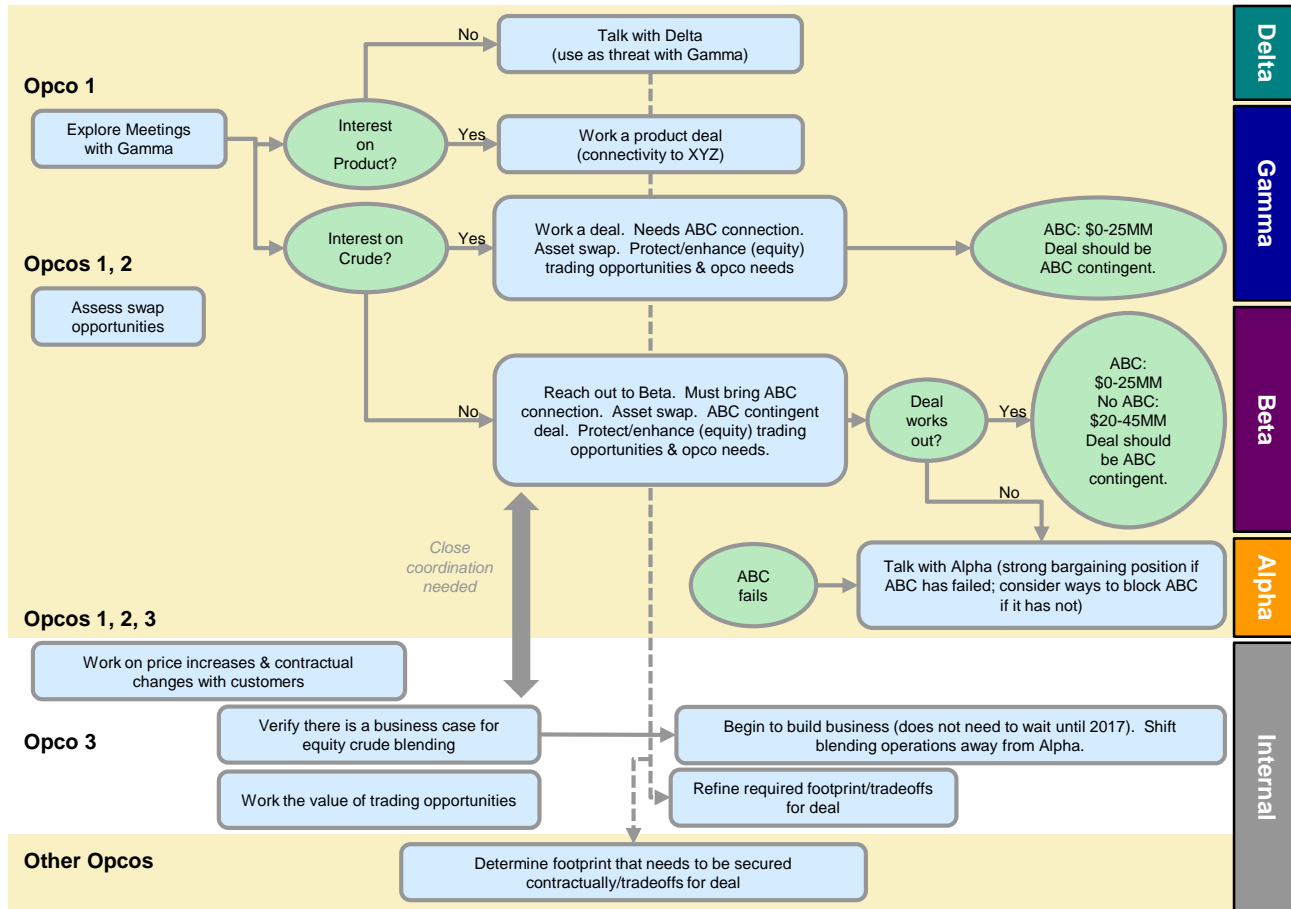


# Including uncertainties, we can evaluate the range of value from different deals



*By identifying and modeling key uncertainties and risks for each player, we can generate s-curves to show the range of potential value. In this case, they provide useful negotiation insights.*

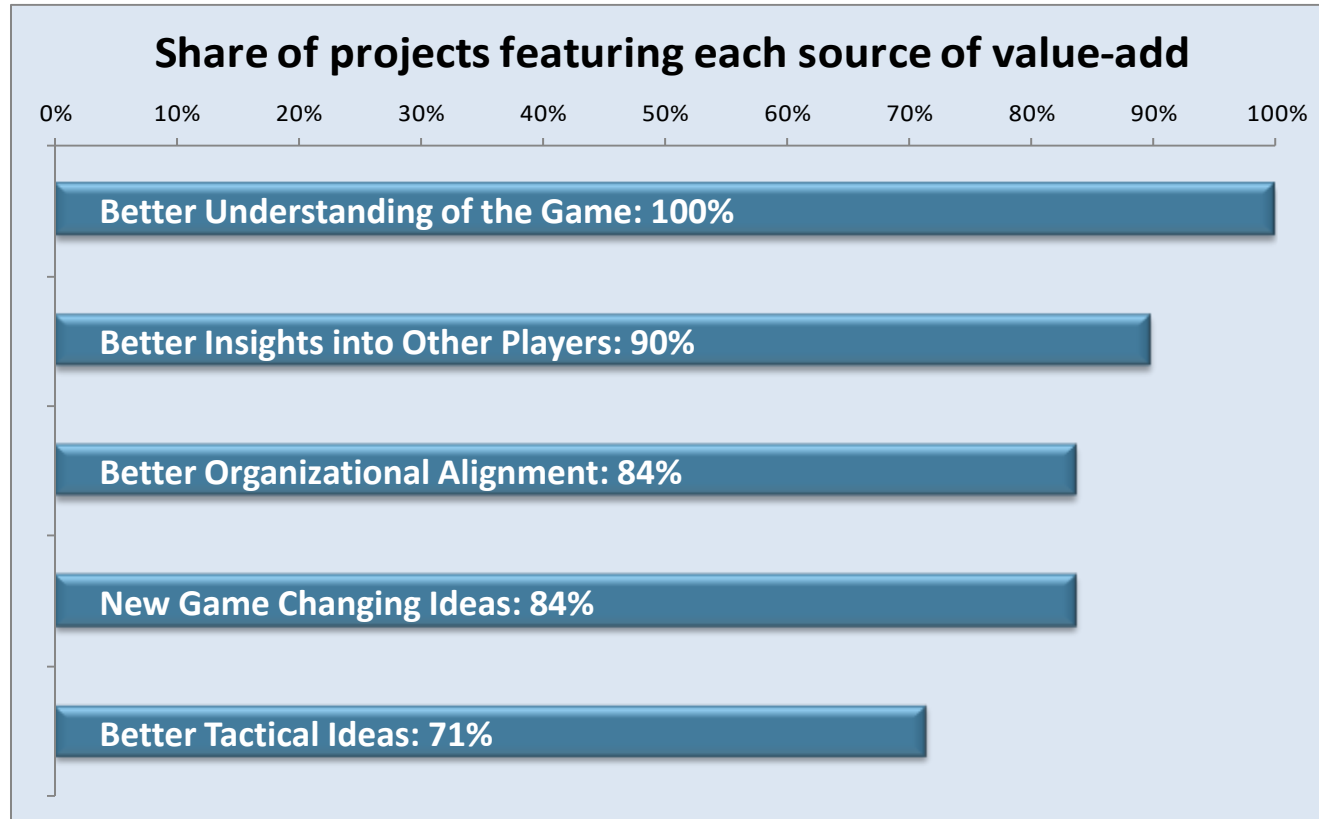
# Projects deliver clear, detailed road maps



*Such road maps are typically supplemented with detailed plans for key interactions and other action items*



# Sources of value-add across 50 projects that used Strategic Gaming™



## Expectations for procurement projects

*Clarity about the potential interactions and deal terms, the win-win space, potential levers*

*Through analysis and development of tactics for eliciting information, more insights into suppliers*

*Ensure procurement is aligned with other functions*

*Creative strategic and tactical ideas to elicit information, send messages, make credible commitments; specify the optimal timing of actions*

*These sources of value have led to billions of dollars in value capture or savings versus clients' momentum strategies*

# Procurement projects and value savings

Project	Estimated Savings
Major equipment on upstream expansion project	\$50-100 mln
Contractor agreement negotiations, Australia LNG project	\$100-200 mln
Major equipment contract for Australia LNG project	\$100-200 mln
Equipment contract for Australia LNG project	\$20-30 mln
Workover rig supplier contract	\$35-50 mln/year
Re-negotiation of contractor agreement, African LNG project	\$200 mln
Housing contract at oil & gas camp	\$70-100 mln
Co-gen contract, onshore oil fields	\$10-30 mln
Refinery steam contract	\$200-300 mln

# Value add examples

**Re-negotiation of contractor agreement:** An oil and gas client needed to renegotiate the terms of a multi-billion-dollar agreement with a contractor, and was starting from what it perceived to be a relatively weak position. Using Strategic Gaming, we showed how the balance of power could be shifted with a comprehensive approach that drew on levers revealed by our analysis. These included ways to extract key cost information from the contractor and to use an arbitration threat to gain concessions. In addition, we helped specify terms that would reduce our client's disproportionate and high risks and create more of a win-win. We also provided a detailed strategic and tactical dynamic road map to support swift and successful execution of this comprehensive approach. This led to a bottom-line improvement of approximately \$200 million.

**Workover rig supplier contract negotiations:** An oil and gas major was faced with repeated price increases on short-term contracts from a key supplier of a particular type of rig. With 75% price increases over the previous 3 years, a recent request for 15% more, and a near-monopoly position for the supplier, the client felt it was at the supplier's mercy. Using Strategic Gaming, we showed the client that it was actually in a strong bargaining position because the supplier had few other alternatives and other suppliers could be brought in to partially displace the key supplier over time. This meant the client could safely reject the 15% increase demand, saving approximately \$35 million for the year. In addition, a creative plan was developed to do away with short-term contracts and constant price increase requests by bidding out the work under long-term contracts to several suppliers. By changing the game in such ways, the client could save 15-20% of its \$250 million in annual expenditures and avoid constant renegotiations.

## Client testimonials

*"You guys played this very well. I didn't expect to achieve this level of savings."*

*"This helped me cut costs and level the playing field with my key suppliers."*

*"The game preparation enabled us to control the negotiations and leave with concessions that exceeded our wildest expectations."*

# Contact

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[Info@DflyStrategy.com](mailto:Info@DflyStrategy.com)

[www.DflyStrategy.com](http://www.DflyStrategy.com)



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