Managing Payments to Optimize Successful Management of Sponsored Public Events[1]

By Pierre Levaslot

ABSTRACT

Organizing an event is an extremely complex task: in 2017, "Event coordinator" was ranked 5th most stressful job by Forbes, just after "Police officer" [13]. Payment management is particularly crucial to the success or failure of individual events, event management businesses and their clients. This study aims at providing guidelines about how to handle payments between an event owner and an event management company, in the context of a sponsored public event. Several contracts have been analyzed with a multi-attribute decision making method to determine the most relevant solutions. Three solutions stand out as good compromises between financial security, performance incentive and user-friendliness: Cost plus incentive-fee, Cost plus award-fee and Flexible fixed-price methods. The paper suggests considering the specificities of the three suggested contracts before selecting one according to the specific context of the event.

Key words: Event management, Event organizer, Project Management, Payment, Incentive, Award, Fixed-price, Liquidated damages, Sponsored events, Public events

INTRODUCTION

The Events Industry is a massive and growing business: it was worth £42.3 billion in the UK in 2015 and is expected to rise by 8% [1]. Yet, organizing a large event can be a difficult and complex task. Events are unique and temporary endeavors usually thrown in a specific context involving a multitude of factors. With an average budget of £65,943 per event in the UK in 2015, the stakes are too high to endure amateurism [1]. Therefore, event organizing companies are often hired to provide the experience and expertise necessary. This can be a perfect solution provided that the event management contract is adequately detailed and protects both parties. Carefully handling payments is particularly crucial because the client can be investing an important amount of money and the organizer is incurring significant expenses. This need is reinforced by the risky and uncertain environment of the public event business: one must deal with sales, affluence, logistics, venue booking, safety, government regulations, etc. When the

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contract is not properly set, the failure or mismanagement of one party can have a disastrous impact on the other party and lead to important economic losses. This is why event businesses must understand that estimating and agreeing on the budget is not sufficient, one must also consider how payments will take place and which legal protection can be implemented.

This paper aims at providing guidelines to manage payments effectively in an event management contract and more particularly in the context of a free public event supported by sponsors. It uses multi-attribute analysis to benchmark an agreement for a 5k Run/Walk event and several contract templates that have proved themselves over time in the construction industry. It considers the ways to ensure financial flexibility, safety and motivation. It shows that specific payments methods can be set up to ensure that both parties have enough financial security while offering financial leeway and performance incentives.

To summarize this paper has been created to answer the following questions regarding payments in sponsored public event management contracts:

1) How to ensure financial security for both parties?
2) How to foster performance and project success?
3) How to keep the financial agreement user-friendly?

METHODOLOGY

Feasible alternatives

In order to find the most effective solution to handle payments for the management of sponsored public events, a standard event management contract has been benchmarked against construction and civil engineering guidelines and contracts that have proved to be reliable and that are backed by major organizations in the field. The contracts which have been analyzed are an event management agreement for a 5k run/walk owned by the 9/11 Memorial [2], "General Conditions of the Contract for Construction" from The American Institute of Architects [3], contract guidelines form the Guild of Project Controls [4], "Work Zone Road User Costs" from the U.S. Department of transportation [5], contract templates from ConsensusDocs [6], "The Project Resource Manual" from The Construction Specifications Institute [7], "Standard General Conditions of the Construction Contract" from EJCDC [8] and "Conditions of Contract for Construction" from FIDIC [9]. These documents provide a complete set of payment practices that is the basis for the data analysis.

For this paper, the following payment alternatives will be considered: Firm fixed-price, a flexible Fixed-price method, Fixed-price incentive-fee, Cost plus incentive-fee, Cost plus award-fee and Cost plus fixed-fee.

The analysis will be carried out using multi-attribute decision making which is particularly adequate when some subjective variables are involved. The compensatory model allows to score the alternatives using a ratio scale. Then, the additive weighting technique takes into account the relative importance of each scoring criteria. The criteria that have been chosen to assess the

contract alternatives are: financial security for the owner, financial security for the contractor, performance incentive, financial flexibility offered to the contractor, transparency and clarity of the costs and easy implementation. These criteria cover the whole range opened by the three questions that this paper addresses. The different payment alternatives will be presented and analyzed considering each criterion.

Development of outcomes

The first option is a firm fixed-price contract. Once set, the fee will not be adjusted no matter which difficulties the contractor faces during the project. Therefore, for both parties, costs are transparent and this contract has the lightest administrative burden. This is a good incentive for the contractor to minimize costs and project duration because all savings directly increases its profits. However, the contractor assumes full risk and responsibility for the project which may result in financial loss. For the client, it makes it easier to compare the price of bids and it has low the financial risks. But the client is still at risk if he fails to define the scope very precisely because the product might not be what was imagined or the contractor could file claims for additional work that was missing in the contract.

The second option is a more flexible kind of fixed-price contract that allows using fixed unit prices and allows adjustments as shown in the FIDIC [9] and AIA [3] documents. The contract price can be calculated with both lump sums and unit prices linked to estimated quantities. After project start, the costs can still be adjusted if there are changes in legislation or in the cost of labor, goods and other inputs of the work. If estimated quantities are changed, the unit price should also be equitably reconsidered. The owner can also supply provisional sums for specific events that alleviate some of the financial risks on the contractor's shoulders. In practice, the contractor allocates the contract sum to the various portions of work in a Schedule of values at the start of the project. Then, at established payment dates, the progress of the work is reviewed and the contractor is paid for the completed work in accordance with the amount specified in the Schedule of values. Hence, the owner has control over the progress of the project and can apply retainage if the work does not comply with the contract. The Schedule of values backed by a price breakdown makes it easier to negotiate changes and their associated price for both parties. As a consequence, this contract is transparent but not as clear as firm fixed-price because cost adjustments may happen. The contractor has the same profits incentive and some of the financial risks is alleviated through "unit price x quantity" pricing and provisions. The owner has more control over the progress of the project and the output but it also requires more involvement.

The third option is a cost plus fixed-fee contract, just like the one used in the event management agreement from the 9/11 Memorial [2]. The contractor is reimbursed for all its direct costs provided that they are within the price range estimated in the approved budget. If the costs are over the budget, they must be pre-authorized by the owner if the Contractor seeks reimbursement. But the contractor also gets a fixed fee that pays for its overhead and profits. This fixed fee is parted in invoices that are paid at specific dates relative to the event date, it ensures that the contractor gets enough money at the time when the workload is heavy: 70%

during the planning and preparation phase and 20% the month of the event when the coordination and overseeing takes place, in the 5k run/walk contract [2].

In this type of contract, the contractor does not need to inflate the cost estimates to cover its risks so the final cost should be lower than with other contract types. Moreover, the contractor must disclose all of the costs charged to the owner and it gains nothing from cutting down on direct costs, that's why the output should meet the desired quality. However, the contract cost is just an estimate at the beginning of the project, the owner takes responsibility for the financial risks and costs fluctuations. It also requires additional administrative labor for the owner to process reimbursements. Even though the contract budget acts as a maximum price, the contractor does not have an urge to reduce direct costs. For the contractor, the amount of the fixed fee remains the same as long as the product delivery is accepted, so there is no real performance incentive unless he can finish ahead of time to minimize its overhead costs. This method is very useful when the owner is not sure about some elements in the work package because it allows the owner to rely on the expertise of the contractor thanks to the transparency of "open book" contracting.

The fourth and fifth options are respectively to use a cost-plus incentive fee contract and a fixed-price incentive fee. We have already discussed the difference between cost reimbursement and fixed-price. The Work Zone User Costs guideline [5] expose the "incentive" solution in detail as part of a schedule-focused contracting strategy for time-sensitive projects. For projects that need to be completed by a specific date, it suggests using no-excuse incentives and interim milestones. The no-excuse incentive clause sets a firm completion date with no-excuse for delay. Concretely, it means that if the project is completed by or before a specific date, the contractor receives incentives, otherwise the owner will apply liquidated damages to compensate its prejudice.

If a completion after the intended finish date is conceivable, then applying disincentives would be more adequate. The interim milestones are intermediate completion dates at which the contractor agrees to complete specific portions of a project. It allows to secure that critical intermediate phases are finished on-time and to apply incentive and disincentives for each of them. The incentives and/or disincentives are specified in the contract at the start of the project with a formula that takes in quantifiable success criteria. If a criterion is qualitative, it is transformed into a number by devising a rating scale. This method enhances the contractor's motivation and efficiency to achieve the selected criteria (budget, time, quality, scope…) but it needs to be properly set. Indeed, the owner needs accurate time and budget estimates so that the incentives are neither too easy nor too costly to reach.

To be attractive to the contractor, an incentive must be more valuable than the cost required to accelerate the project with additional resources and equipment. Also, this method requires more planning work, checking estimates, devising incentives and setting up evaluation practices. The tight schedule may lead to a conflicting relationship between parties; in particular, change requests will be difficult to negotiate.

The sixth option is the cost plus award fee contract. This is a cost reimbursement contract with an incentive fee to motivate the good performance of the contractor. However, the amount of the incentive fee is not determined in advance with a formula. Instead, this method is applied when it is not possible to establish negotiated objective targets. It happens when the success criteria are too subjective or cannot be clearly defined or estimated. The amount of the award fee is decided at the end when the owner evaluates the contractor's performance. To do so, the owner creates an award fee plan that states the performance criteria, the methodology and the entity which will take the unilateral decision for the award amount. This method motivates the contractor to perform well, it provides evaluation flexibility for the owner and it encourages communication and discipline between parties. Indeed, as the award is subjective, the contractor must improve both its productivity and behavior to please the owner. Nevertheless, the subjective nature of the incentive can also lead to disputes and is a financial uncertainty for the contractor.

A few other options have been discarded as obviously not relevant for our event planning context. Cost sharing may be great if the event owner does not have all the resources necessary: for example, an association or a venue owner may partner with an event organization firm for a special event. The time + cost method or A+B method is good to minimize the project duration but in our context, the completion by a specific date is more important than the overall duration plus the rental time of an eventual venue is already included in the budget bid. Finally, the fixed price with economic adjustment is more adapted to long-term projects.

Selection criteria

This analysis of the pros and cons of the different payment methods lead us to the following rating of each option considering the six criteria identified earlier. Each criterion is given a score between 0 and 5: 0 being the worst score and 5 being the best score (See Figure 1). "Performance incentive" is the incentive that the contractor gets to perform efficiently. "Financial flexibility for the contractor" is the financial leeway that is given to the contractor to allow him to perform the tasks, it is commonly accepted that "a positive cash flow is clearly of benefit to the Contractor" [9].

"Transparency of costs" is the ability for both parties to know how money is spent by the other party. "Easy implementation" is the ease to set up the contract and then to implement it, it is hindered by tasks that require administrative labor like the ability to adjust prices during the contract or the necessity to monitor success criteria to calculate incentives.

Qualitative score	Quantitative score
Excellent	5
Very good	4
Good	3
Neutral	2
Bad	1
Very bad	0

Figure 1: Grading scale for attributes (By author)

The scope of this paper is the management of a sponsored event which is open to the public. In this context, the goals of the event are to achieve customer satisfaction, raise awareness about a message and raise funds via sponsorship. As the owner directly relies on sponsorship to fund the event, it needs to have a strong reputation, credibility and reliability. As a consequence, Financial security for the owner and Transparency of costs are fundamental to support the sustainable development of the owner's organization.

We can discard the alternatives that have received a score of 0 for at least one of these two criteria. The Firm fixed-price contract does not provide enough transparency about how the contractor is spending money and it may lead to abuses that jeopardize the owner's image, this option is rejected. The Cost plus fixed-fee contract lacks financial security for the owner: the project may prove to be costlier than expected, the contractor is not urged to make savings and the amount of the incentive fee is not reduced in case of bad performance, this option is rejected too.

These results will be interpreted in the context of the management a free public event whose goals are to achieve customer satisfaction, raise awareness about a cause and raise funds via sponsorship.

Attribute	Firm fixed-price	"Flexible" fixed-price (AIA)	Fixed-price incentive-fee	Cost plus incentive-fee	Cost plus award-fee	Cost plus fixed-fee
Financial security for the owner	5	4	3	2	1	0
Financial security for the contractor	0	2	2	4	3	5
Performance incentive	2	2	5	4	5	0
Financial flexibility for the contractor	1	3	1	5	5	5
Transparency of costs	0	3	1	5	4	5
Easy implementation	5	4	4	1	2	3

Figure 2: Contract scoring (By author)

FINDINGS

Analysis of the alternatives

Multi-Attribute Decision Making will be applied with an additive weighting technique to consider the relative importance of attributes. The attributes are now going to be ranked from the most important to the least important. As was said earlier, in the context of a sponsored event, it is fundamental to maintain a strong reputation, credibility and reliability. So, *Financial security for the owner* and *Transparency of costs* are the most crucial attributes. Then, *Financial security for the contractor* is necessary to ensure fairness, sustainable relationships and also to avoid putting off potential contractors which might be high performers but are not willing to assume high financial risks. *Performance incentives* are naturally valuable to improve the realization of a project. *Financial flexibility* for the contractor is essential because the event business can be quite unpredictable due to factors concerning sales, affluence, logistics, venue booking, renowned guests. Finally, *Easy implementation* of the contract is handy, especially for small companies and small event projects. But unless the owner organization lacks the means to administer the contract, its impact on the project success should be lower than the other criteria: often, this administrative burden is linked to useful planning, controlling or adjustment activities.

As a consequence, the criteria were attributed weights as shown in Figure 3.

Attribute	Weight	Normalized weight
Financial security for the owner	4	0.24
Financial security for the contractor	3	0.18
Performance incentive	3	0.18
Financial flexibility for the contractor	2	0.12
Transparency of costs	4	0.24
Easy implementation	1	0.06
SUM	17	1.00

Figure 3: Normalizing the weight of attributes (By author)

The scores that were determined in Figure 2 must be converted into dimensionless values.

Attribute	Firm fixed-price	"Flexible" fixed-price (AIA)	Fixed-price incentive-fee	Cost plus incentive-fee	Cost plus award-fee	Cost plus fixed-fee
Financial security for the owner	1,00	0,80	0,60	0,40	0,20	0,00
Financial security for the contractor	0,00	0,40	0,40	0,80	0,60	1,00
Performance incentive	0,40	0,40	1,00	0,80	1,00	0,00
Financial flexibility for the contractor	0,00	0,50	0,00	1,00	1,00	1,00
Transparency of costs	0,00	0,60	0,20	1,00	0,80	1,00
Easy implementation	1,00	0,75	0,75	0,00	0,25	0,50

Figure 4: Dimensionless rating of alternatives (By author)

Final scores are computed taking into account the weight of attributes.

Attribute	"Flexible" fixed-price (AIA)	Fixed-price incentive-fee	Cost plus incentive-fee	Cost plus award-fee
Financial security for the owner	0,19	0,14	0,09	0,05
Financial security for the contractor	0,07	0,07	0,14	0,11
Performance incentive	0,07	0,18	0,14	0,18
Financial flexibility for the contractor	0,06	0,00	0,12	0,12
Transparency of costs	0,14	0,05	0,24	0,19
Easy implementation	0,04	0,04	0,00	0,01
SUM	0,57	0,48	0,73	0,65

Figure 5: Final scores using a ratio scale (By author)

Selection of the preferred alternative

From this analysis, it appears that the Fixed-price incentive fee option clearly lags behind, it is 34% worse than the best option. The three other contracts would be advisable depending on the specific context of the event project: they all score more than 50% in our grading strategy. The best option is the Cost plus incentive-fee, with a score of 0,73 it is already a compromise but it is still 12% better than the runner-up. This method is very effective if the nature of the project allows one to set up and monitor indicators to calculate an incentive-fee. In the specific scope of this paper, one could monitor on-time completion, cost savings, value of sponsorships secured, number of participants registered, number and seriousness of incidents during the event and satisfaction of participants.

Even though this is a cost-reimbursement contract, the owner can set price ranges for the overall contract or for every work package: this is a good compromise between security and flexibility to deal with the uncertainties of the event business. However, if it is too hard to set up a quantitative formula to determine the incentive-fee, one can use a Cost plus award-fee. It makes it easier to subjectively determine the award fee based on participants satisfaction, sponsors satisfaction or quality of the event for example. Then, if the owner wants to keep a tight control over the contract cost, the Flexible fixed-price option is a good alternative. It is rated 22% worse than the Cost-plus incentive fee but it gives enough financial security to both parties while maintaining some degree of flexibility to face uncertainties. To sum up, the ranking of the most advisable solutions from best to worse would be: Cost plus incentive-fee, Cost plus award-fee, Flexible fixed-price.

Performance monitoring and post-evaluation

No matter which solution is chosen based on the specific context, performance should be monitored and evaluated. Realizing a before and after Pareto analysis is particularly efficient to assess the benefits of using a different payment approach. In the context of event management, the most common issues that are reported are: Failure to anticipate risk and uncertainties, Miscalculating the event's size, Bad service quality and dissatisfied customers, Not keeping up with change, Weak event promotion, Poor management processes (workload management, methods, experience). The frequency of these issues should be monitored. This evaluation needs to be done by the owner and/or contractor at the end of each project, it will help to assess, compare and justify the choice of a payment strategy.

CONCLUSIONS

This paper aimed at providing guidelines for handling payments for a sponsored public event. It had to propose solutions to improve financial security for both parties, to foster performance and project success and to keep the financial agreement user-friendly. These needs were assessed through six criteria with relative weights: financial security for the owner, financial security for the contractor, performance incentive, financial flexibility offered to the contractor, transparency and clarity of the costs and easy implementation. At the end of the analysis, three preferred solutions stand out and they have been ranked from best to worst: Cost plus incentive-fee, Cost plus award-fee and Flexible fixed-price.

The three preferred solutions are well adapted to the event management context. However, they are compromises, one should understand their particular features before selecting one according to the specific project context.

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