Collaboration between Brand Name Beauty and their Subsidiaries: How to resolve project and contract disputes?¹,²

Agathe Gélis

ABSTRACT

As the disputes between Brand Name Beauty project and its subsidiaries continue to grow, their impact on projects on cost, time and sustainability become hard to handle for both parties. Indeed, how to manage these situations as they can be challenging but also at high risk for the contractor and the owner? First regarding project management but also contract management by doing the right choice of standardized contract to reduce the disputes and create a win-win relationship. Thus, the main aim of this paper is to explain how to choose the appropriate contract regarding some criteria to prevent the risk and disputes for the project to succeed. To help to do that, the paper uses some resources from other fields (construction, researches, fashion area) and legal contract descriptions to have a better understanding and comparison of the alternatives and how they respond to some projects. Based on some criteria these alternatives (types of contracts) are compared and analyzed by doing some modeling of their impact on these disputes. Finally, according to the results found, one type of contract is clearly the solution of this paper questions and it is the IPD Contract. Indeed, this contract can have a real positive impact if it is well written and followed to solve the dispute between both parties.

Keywords: Dispute resolution, beauty industry, contract, sustainable development, acquisition, diversity of brands, license agreement

INTRODUCTION

“Nowadays, the Beauty industry is valued at 445 billion dollars”³ and will not stop growing in the next years to come. Indeed, big brand name beauty like L’Oréal, Shiseido, Estée Lauder Companies, Unilever, Coty, P&G or J&J own most beauty companies with license agreement and

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¹ Editor’s note: Student papers are authored by graduate or undergraduate students based on coursework at accredited universities or training programs. This paper was prepared for the course “International Contract Management” facilitated by Dr Paul D. Giannalvo of PT Mitrata Citragraha, Jakarta, Indonesia as an Adjunct Professor under contract to SKEMA Business School for the program Master of Science in Project and Programme Management and Business Development. http://www.skema.edu/programmes/masters-of-science. For more information on this global program (Lille and Paris in France; Belo Horizonte in Brazil), contact Dr Paul Gardiner, Global Programme Director, at paul.gardiner@skema.edu.


acquisitions. Current major portfolio changing shape the evolution of these companies. This image from the Business Insider explains clearly all the global brand portfolio today:

![Brand Ownership by Conglomerate](image)

**Figure 1: "Brand Ownership by Conglomerate"**

Parent brands are constantly improving their portfolio management. First, by acquiring new independent brands where every project or program manager must analyze the better investment with high return and low risks for the big brand. But also, found the right team for the job, manage diversity and different cultures people, have the appropriate compensation for them if not, disputes can appear. Thus, the project manager decides to launch some projects with specific brands and teams to create a win-win collaboration. But, “project manager can also

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decide to reshape completely their portfolio like KAO Japanese cosmetics group.\(^5\) They have recently reorganized the portfolio management to develop internationally by separating into two groups their brands. One group for the global brands and the other for the regional brands. Then, each project manager focuses on one brand of each group and decide what will be the key priority for the project and strategy to adopt. Thus, their international’s prestige brands Kanebo and Sensai goal is to be expended to other markets and distributed on every channel. All these projects can be a source of disputes between the two parties.

Moreover, through the Deloitte’s study on “Shades for success: influence in the beauty market”\(^6\) of 2017 we will understand why they must change their portfolio management and search for new projects. Indeed, some new challenges are part of this new growth. First, the new demographics with millennials born between 1980 -2000 who are digital consumers, influencers and so becoming the main concern for global brand beauty. Indeed, their consumption habits are leading the way for other generations to follow because it is an example of youth and long-life. The second factor is geography, with growing economies in the Middle East and Africa (10,5%), Asia (10%) or South-Korea and its innovations. Finally, the third factor is a new business model different from traditional beauty brand and based on digital innovations like Birchbox or Glossier. These medium-sized independent brands are putting big brand companies like L’Oréal or P&G at risk by challenging them to appeal to new generations and develop innovative products.

\[\text{Graphic 1: "Small is the new big"}\]\(^7\)


As this graphic shows from Deloitte’s study, global brands are losing shares in front of independent brands and therefore, they are buying or making license agreement to have a better sustainable development and enjoy their fame close to millennials to raise profits. Thus, competition is high between big brand name beauty to acquire these small independent brands. For example, L’Oréal bought Indie’s cosmetics brands like Urban Decay, NYX, IT Cosmetics to enter a new market. Estée Lauder Company is focusing first on fragrance brands recently with the acquisition of Kilian fragrance but also on collaborations with Kendall Jenner and Victoria Beckham to appeal Millennials.

Finally, what is at stake concerning acquisitions and contract types? As disputes can appear between global brands with competition, we will focus on the disputes within the relations of the larger brand with the smallest. First, we must understand what is bounding the global brand with the independent one and then see why there are some problems and finally how to solve them.

**Problem definitions**

**Project Management**: "an investment that requires a set of logically linked and coordinated activities performed over a finite period of time in order to accomplish a unique result in support of the desired outcome"\(^8\). As an example, “L’Oréal celebrates the 40\(^{th}\) anniversary of China’s Reform and Opening-up project”\(^9\) in 2018. Indeed, L’Oréal China became since 1997 the key priority for the brand because it is the second-biggest market in the world and represents a big opportunity to raise their outcomes. Thus, every day the beauty product manager creates and launches new innovative products like lipstick to meet Chinese demand.

**Program Management**: “A program is a group of related projects managed in a coordinated manner to obtain benefits not available from managing them individually. Program management is the application of knowledge, skills, tools and techniques to meet program requirements. Organizations with mature program management are far more successful than those without it, according to our research”\(^10\). “The Global Alliance for Project Performance Standards (GAPPS) based on research by Sergio Pellegrinelli offer us a definition of “program””\(^11\):

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\(^8\) Duncan, B. (2018). Once more into the breach ... what exactly is a "project"? Retrieved from https://www.linkedin.com/feed/update/urn:li:activity:6357416976318558208/


Thus, an example of a Strategic Program is the worldwide long-term collaboration between “L’Oréal and Valentino since 2018 to create, develop and distribute fragrances and luxury beauty”\(^\text{13}\). This will lead to a stronger collaboration and further projects. So, the beauty product manager must manage this new project along with others.

**Asset Manager:** “is normally a functional manager who is responsible to allocate scarce and/or limited resources (assets) to acquire, create, expand upon and eventually dispose of organizational assets. The asset manager’s primary or key focus is Return on Assets (ROA) and the majority of projects the Asset Manager is responsible for are funded using the Capital Asset Budgeting Process, more commonly known as CAPEX”\(^\text{14}\). There are 5 asset classes: “Human assets (HR), Information assets (IT, Engineering), Physical assets ("plant manager" or “heavy equipment shop”), Financial assets (accounting), Intangible assets “difference between a company’s book value and market

capitalization value”.”\textsuperscript{15}

As an example, L’Oréal launching a new lipstick, for the beauty product manager, his assets will be:

- Human assets: the team, collaborators, clients, suppliers
- Information assets: clinics and researchers, database, engineers
- Physical assets: building, laboratory, car, furniture, office equipment, packaging, materials, components
- Financial assets: price to fix, cost, investment, budget
- Intangible assets: brand reputation, know-how, knowledge and recognition, intellectual property, trademarks, patents, brand names, logos, formulas, inventions

Finally, an asset portfolio would be grouping all those assets and give a percentage for each necessary for the good development of the project for the beauty product manager.

Portfolio of projects: “the objective being to minimize the risk and maximize the return. Any organization, be it Owner or Contractor has a portfolio of assets (resources) available to dedicate to projects, with the objective being to develop the best “mix” of projects which will generate the most favorable return on those assets”\textsuperscript{16}. As an example, Coty’s strategy is to “celebrate and liberate the diversity of your beauty”\textsuperscript{17}. So, this portfolio could include sub-projects portfolio like “exploring the potential of circular design in our ingredients and packaging”\textsuperscript{18} or do inclusive beauty with “\textit{We Stand for You} - a social action program tackling prejudice and discrimination based on gender, sexual orientation, disability and ethnicity”\textsuperscript{19}.


Fishbone analysis of the disputes:

To go deeper, some disputes can be detailed. One is the internal disagreements between the global brand project manager and the subsidiary leading to a conflict of interests concerning the project. Indeed, big beauty companies buy independent brands to reduce the competition but don’t consider or respect what they expect in return. They take advantage by letting them have financial risks on their rights without affecting the whole group. Then, money issues about royalties or investment or workforce compensation create disputes. Finally, as an example, independent brands can sell a licensed product to other channels and put the licensor at risks by not following the written contract. In term of contracts, some small brands can keep their knowledge and just sell their name and sometimes big brand beauties use them as theirs. So, breach of contracts can be limited by choosing the right one and

All in all, the relation between both should be based on trust and efficient facing contracts and project management to ensure a win-win situation. Indeed, one can allow the other to know a global experience and be distributed everywhere while the smaller helps conquer new millennials consumers by digital savvy.

To summarize,
1. How can disputes be reduced by writing better (standardized) contracts?

2. How standardized contracts will lead to fewer disputes?

METHODOLOGY

The objective is to solve and mitigate contracts disputes between owners and contractors by focusing on standardized contract efficiency to assume risks and have opportunities. To do so, some references like “the Integrated Project Delivery contracts”\(^\text{21}\) and “the Guild of Project Controls on managing contracts”\(^\text{22}\) are necessary to develop each alternative and compare them to select the best one to reduce disputes.

STEP 2 Feasible alternative solutions

Cost Plus Percentage Contract (CPPC): “the contractor is reimbursed for the direct costs it incurs in performing the work plus a percentage of the allowable costs as a fee. Depending on the contract, the percentage is often pure profit, but may or may not include project indirect costs, such as home office overhead. This is also known as “open book” contracting as the contractor must validate all costs charged against the project, including home office overhead costs.”\(^\text{23}\)

Cost Plus Fixed Fee Contract (CPFF): “the contractor is paid for the normal expenses for a project, plus an additional fixed fee for their services. These allow the contractor to collect a profit on the project, and they encourage economic production in various industries. In general, the expenses in a cost-plus-fixed-fee are calculated according to market values. However, the “fixed fee” portion of the contract may be subject to negotiation between the parties and can therefore, vary according to the needs in each project.”\(^\text{24}\)

Cost Plus Award Fee Contract (CPAF): “cost-reimbursement contract that provides for an incentive fee consisting of an award amount that the contractor may earn for performance and that is sufficient to provide motivation for excellence in such areas as cost, schedule and technical performance.”\(^\text{25}\)

Cost Plus Incentive Fee Contract (CPIF): “cost-reimbursement contract that provides for an initially negotiated fee to be adjusted later by a formula based on the relationship of total

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allowable costs to total target costs. Like a cost-plus contract, the price paid by the buyer to the seller changes in relation to costs, in order to reduce the risks assumed by the contractor (seller).”

**Cost Reimbursable Contract (CR):** “Cost-reimbursement types of contracts provide for the payment of allowable incurred direct costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer.”

**Cost Sharing Contract (CS):** identical to Cost Reimbursable contracts except that instead of only one party providing the funding, both parties share in the costs

**Fixed Price Incentive Fee Contract (FPIF):** “fixed-price contract that provides for adjusting profit and establishing the final contract price by application of a formula based on the relationship of total final negotiated cost to total target cost. The final price is subject to a price ceiling, negotiated at the outset. This is also known as a “Fixed Price with Guaranteed Maximum” or a “Guaranteed Not to Exceed” contract. Essentially, it is a target cost contract but with a cap.”

**Fixed Price W/ Economic Adjustment Contract (FP/EPA):** designed to cope with the economic uncertainties that threaten long-term fixed-price arrangements. The economic price adjustment (EPA) provisions provide for both price increases and decrease to protect the Government and the contractor from the effects of economic changes.

**Firm Fixed Unit Price Contract (FFUP):** “A job order contract is a long-term, indefinite delivery-indefinite quantity contract for construction services delivered on an on-call basis through firm fixed price delivery orders based on pre-established unit prices.”

**Firm Fixed Price Contract (FFP):** “provides for a price that is not subject to any adjustment based on the contractor’s cost experience in performing the contract. This contract type places upon the contractor maximum risk and full responsibility for all costs and resulting profit or loss.”

**Integrated Project Delivery Contract (IPD):** “seeks to eliminate costly waste and miscommunication in design and construction and provide the owner with early and reliable cost and schedule certainty. It does so by bringing all the key participants to the table early in the

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design process and making them jointly responsible for a collaboratively validated design, budget and schedule.”

**STEP 3 Outcomes for each alternative:**

As the Guild of Project Controls on managing contracts explains, “contract type is a function of scope definition and the willingness of both owner and contractor to assume risks and exploit opportunities, hopefully to the benefit of all parties but sometimes to the detriment of one or both parties.”

So, we will see on the next figures the outcomes for each alternative on that and understand what the difference between all contract is and which one to choose.

![Contract Type Outcomes](image)

Figure 4: “Detailed Explanation of what Garrett’s Graphic is showing us”

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With these figures, we can understand who is responsible for the risk and see some disputes because most of the time, owners choose a specific contract to get rid of risk responsibilities and give them to the contractor. Consequently, the contractor may not manage well the risks comparing to the owner. For the IPD contract, there is share financial risks but above all, the risk is allocated to the party better positioned to manage it. Thus, we can rank thanks to these references the solutions from better to worse:

\[
\text{IPD} > \text{CS} > \text{CR} > \text{FFUP} > \text{CPIF} > \text{FPIF} > \text{FFP} > \text{FP/EPA} > \text{CPAF} > \text{CPFF} > \text{CPPC}
\]
STEP 4: Selection of the criteria

According to “the Evaluation Criteria Use of evaluation criteria for procurement of Goods, Works, and Non-consulting Services using RFB and RFP”\(^\text{35}\), we can choose 10 criteria here:

**Cost**: evaluation of cost using a methodology that is appropriate to the nature of the procurement including: “adjusted Bid/Proposal price; or ii. adjusted Bid/Proposal price plus the running/recurrent cost over the useful lifetime of the asset on a net present cost basis (life-cycle costs)”\(^\text{36}\)

**Quality**: evaluation of quality using a methodology to determine the degree to which the Goods, Works, Non-consulting Services or Consulting Services meet or exceed the requirements.

**Risk**: criteria that mitigate the relevant assessed risk.

**Sustainability**: criteria that consider stated economic, environmental, and social benefits in support of the project objectives, showing the flexibility of the contract and how they can manage the change.

**Innovation**: criteria that allow assessment of innovation in the design and/or delivery of the Goods, Works, Non-consulting Services, or Consulting Services and that give solutions to go through the possibilities.

**Time**: scheduling and meeting deadlines are very important, money is time and all types of contracts must respect it.

**Control**: project manager can write well contracts, take internal sign-offs, record negotiation, control the process and monitor the project thanks to contract control.

**Management of scope**: how to define an appropriate scope when the technical characteristics of the project are not specifically defined.

**Value for money**: provides the most efficient method for obtaining the value for money.

**Availability of extra resources**: requires adequate staff in numbers and experience to supervise and/or manage the contract.


Risk management is a crucial step to resolve a dispute between big brand beauties and its subsidiaries because if it is well managed to depend on projects, the contractor and the owner will have a fair return on investment. Then, managing cost is very important regarding estimation, budget to create a monetary value if not well managed, disputes will rise, and the project won’t be viable. Finally, schedule and deliver on time the project is the key success for all contracts if not, disputes may grow and make the project fail.

According to the “ConsensusDocs: Contract Catalog” and “the Integrated Project Delivery contracts” we can compare the criteria with the alternatives with a multi-attribute decision making:

Table 2: “Pairwise comparison of criteria”  

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<th>Sustainability</th>
<th>Cost</th>
<th>Quality</th>
<th>Innovation</th>
<th>Time</th>
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</table>

Risk management is a crucial step to resolve a dispute between big brand beauties and its subsidiaries because if it is well managed to depend on projects, the contractor and the owner will have a fair return on investment. Then, managing cost is very important regarding estimation, budget to create a monetary value if not well managed, disputes will rise, and the project won’t be viable. Finally, schedule and deliver on time the project is the key success for all contracts if not, disputes may grow and make the project fail.

According to the “ConsensusDocs: Contract Catalog” and “the Integrated Project Delivery contracts” we can compare the criteria with the alternatives with a multi-attribute decision making:

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37 From Author
The colors used are:

- **RED/Worse**: the criteria are badly managed in one alternative
- **YELLOW/Equal**: the criteria are not well managed in the alternative
- **GREEN/Better**: the criteria are best managed in an alternative

Thanks to this table, we can already see that some alternatives solutions can be removed such as CPPC, FP/EPA, and CPAF because they have the worst results on risks, costs and deliver on time. Consequently, for the brand beauty companies, these contracts will not reduce disputes with the subsidiaries because they are not in a win-win situation with high risks for both.

**FINDINGS**

**Step 5 Analysis and comparison of the alternatives:**

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After choosing and ranking both alternative solutions and criteria and removed some alternatives, we can continue by analyzing them together by using a Compensatory model of Additive Weighting Technique. The comparison is as follow: Here we quantify the criteria with the score 0, 0.5, 1.

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Table 4: “quantification of the criteria” 41

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Table 5: “Quantitative analysis” 42

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4125 By Author
4226 By Author
### Table 6: “Additive Weighting Analysis”

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</tr>
<tr>
<td>Time</td>
<td>3</td>
<td>0.65</td>
<td>0.5</td>
<td>0.027</td>
<td>0.5</td>
<td>0.060</td>
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<tr>
<td>Control</td>
<td>5</td>
<td>0.69</td>
<td>1.0</td>
<td>0.081</td>
<td>0.5</td>
<td>0.045</td>
<td>0.5</td>
<td>0.045</td>
</tr>
<tr>
<td>Management of scope</td>
<td>6</td>
<td>0.11</td>
<td>0.5</td>
<td>0.051</td>
<td>1.0</td>
<td>0.169</td>
<td>1.0</td>
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<tr>
<td>Value for money</td>
<td>8</td>
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<td>1.0</td>
<td>0.146</td>
<td>0.5</td>
<td>0.073</td>
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<tr>
<td>Availability of extra-</td>
<td>9</td>
<td>0.16</td>
<td>0.5</td>
<td>0.082</td>
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<td>6.5</td>
<td>0.091</td>
<td>6.0</td>
<td>0.582</td>
<td>7.0</td>
<td>0.591</td>
</tr>
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</table>

There, the best alternative solution remains IPD and the worst one is CR regarding their ranking. We will see further the score for each alternative and decide which is fit to reduce disputes.

**STEP 6 Selection of the preferred alternative:**

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4327 By Author
According to the Additive Weighting Analysis score, the worse alternative to consider is CR and FPIF contracts because in all the criteria we have been selected, they perform badly and do not fit at all to our subject on resolving disputes between Brand Name Beauty companies and its subsidiaries.

So, here the rank of the alternative solutions from better to worse to reduce disputes:

IPD > CS > CPFF > FFUP> FFP> CPIF>FPIF > CR

Therefore, the best solution according to the previous table is IPD Contract because it can be highly used in those projects to reduce disputes regarding the criteria and other aspects we are showing now according to “the Integrated Project Delivery contracts” 44:

- **Risks:** “In IPD Contract, risk and reward are value-based and appropriately balanced among all team members over the life of a project.” 45 “When evaluating project delivery alternatives, parties should determine how the different alternatives mitigate the business risks faced by the project and its participants, as well as how they respond to liability concerns.” 46

- **Cost:** “The overall project cost is a prime metric that is established at the project inception and tracked throughout the life of the project with agreed upon an emphasis on life cycle and sustainability components. Included are the cost of the actual work, non-incentive-based compensation (fees for services) and appropriate contingencies.” 47

- **Sustainability:** “One key area of opportunity for improvement from traditional delivery approaches is to set more aggressive goals for sustainability. Metrics can be established for lifecycle goals for all aspects of a project. Rating criteria such as Green Globes, LEED® or SB Tool may be melded into the overall goals and incremental steps monitored throughout the design and delivery process.” 48

- **Innovation:** “Integrated projects often rely on cutting-edge technologies. Technologies are specified at project initiation to maximize functionality, generality and interoperability. Open and interoperable data exchanges based on disciplined and transparent data structures are essential to support IPD. Because open standards best enable communications among all participants, a technology that is compliant with open standards is used whenever available.” 49

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- **Quality**: “New technological tools available to IPD team members, including BIM, provide the opportunity to reduce errors within design documents as well as conflicts between trades—all well before purchasing of systems and products. Collaboration among the participants leverages these tools to create an atmosphere where the quality of service, design and execution are integral to the project. The measurement of quality is based on metrics appropriate to the project type and is compared to previously completed projects of similar nature. As more IPD projects are undertaken by an owner or an industry, quality standards may increase.”

### STEP 7 Performance monitoring and post-evaluation

After doing all the previous steps, the best alternative solution chosen is IPD Contracts to reduce disputes. Indeed, the product manager can choose this type of contract to face any disputes between the brand name beauty company and its subsidiary. Then, to see if this kind of contract is well managed and implemented within this kind of projects and relationships, some tools and strategies can be put in place:

- The Pareto Analysis of the situation before the implementation of the solution and one after to see if the solution is effective on real projects.
- Write down perfectly the IPD Project allows the contractor and the owner to understand fully in what they are bonding.
- Record feedback on the use of this kind of contract on concrete projects to perform an overlook on the improvement of the solution
- Record how the dispute is really avoiding within the project and see if other dispute can be raised through this kind of project.

### CONCLUSION/RECOMMENDATIONS

Through this paper, we can now understand how to reduce disputes between brand-name beauty companies and its subsidiaries through some research on how choosing the right written standard contract. Indeed, according to these criteria: risk, cost, sustainability, innovation and quality, we saw their impact on the alternatives chosen which are the different types of contract. These are: CPPC, CPFF, CPAF, CPIF, CR, CS, FPIF, FP/EPA, FFUP, FFP, IPD contracts and have been classified according to the importance of the criteria in our subject.

All in all, one contract above all meets the subject expectation and it is the IPD Contract because it remains the better alternative for resolving disputes in this case. Indeed, the risk is shared, the cost is well managed, and the other criteria are also respected in this contract. It is necessary that all of them are managed properly to resolve disputes and, to be well written like that all

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parties can understand and make no mistake on what they engage themselves in by signing this type of contract.

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About the Author

Agathe Gélis
Paris, France

Agathe Gélis is a French student in SKEMA Business School in Paris, doing her MSc in Project and Program Management and Business Development. Thanks to this MSc she is now accredited Agile and Prince2 and search to develop its experiences and contacts in project management. Born in the southwest of France, she made two years in “Classe Préparatoires aux Grandes Ecoles de Commerces” to prepare for the entry exam to French Business Schools. When she entered Skema, she went to live in Nice in France for almost two years before doing one semester in Raleigh, North Carolina. She also lived in Costa Rica in 2012 for one year and a half and keep trying to study abroad and in the future work worldwide. Finally, for the past few years, between her studies, she acquired some experiences in real estate area by working in a rental agency for four months, and as a manager in a French wine shop called “Nicolas” for two months.

Agathe Gélis lives in Paris, France and can be contacted at agathe.gelis@skema.edu