



## VERTICAL CASE STUDIES

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# Thames Water and Efficio

No-one understands the outsourcing relationship between Thames Water and Efficio consulting like Ian Bolger – as the former Head of Supply Chain at Thames, he led the outsourcing strategy development and was TUPE'd across to Efficio with his core sourcing staff. This has placed him in the perfect position to discuss the challenges and impact that the deal has had on Thames Water's procurement capability. Here's Ian's story...

### **Flushing Out Waste-cost Through Smarter Procurement**

Thames Water is the UK's largest water and waste provider, serving the capital and over 13 million customers, through a 140,000km underground network and 2000+ plants, processing five billion litres daily. Procurement has a full remit accountable for an annual operational spend of £500m and a £5bn year capital investment programme. As a regulated utility, its revenue and cost base is set every five years by the regulator Ofwat. With no opportunity to grow "top-line" revenue, cost-efficiency is mission-critical.

A 2010 strategic review revealed some crucial weaknesses that needed to be addressed – increasing demand for procurement support; a prevalence of complex projects requiring significant business change; pressure on headcount and budgets; the need to flex resources up and down to meet fluctuating demand; and a potential retention risk in the core senior procurement staff leading circa 70 percent of savings. "Project Turbo" was established, led by procurement with a full cross-functional team sponsored by COO and CFO, with the aim of implementing an accelerated transformation of the procurement function, with the objectives to make an immediate "step-change" of procurement's agility, capability and capacity, creating a sustainable, flexible solution to delight all stakeholders.

The targets were bold:

- 20percent reduction in operating expenditure, with a high dependency on procurement driven savings which comprised 30percent+ of total operational savings
- Significant additional efficiency gains in capital procurement (making a cumulative 30percent+ improvement vs the previous five year regulatory budget period)
- Strategic make/buy reviews required on many departments and activities; strong requirement for complex business process re-design

### **Efficio Consulting**

Thames Water challenged the most innovative outsourcing suppliers to help them create a new delivery model, one which would provide them with complete resource flexibility and ensure the service provider had significant stake in the successful delivery – aligning interests. Efficio Consulting, developed a powerful transformation model, and were awarded a five year contract in February 2011, which involved the transfer of 21 Thames Water sourcing staff on April 1st.

Transferred Thames Water staff work in integrated teams with Efficio consultants – located alongside Thames Water stakeholders in their HQ to maximise business relationships. The contract also includes an explicit requirement to develop people and processes so the transformed function could come back in house after five years, if Thames Water so wished.

Efficio now sources Thames Water spend (£2.5 billion spend over five years), utilising its extensive experience of sourcing complex categories. Efficio offers a supremely flexible service,

where resources can be turned up or down as it suits the client to exactly match demand – with additional resources funded from a gain share of the savings delivered.

The first twelve months were an outstanding success, exceeding all objectives and providing a very high quality of service to internal customers. The new operating model combines the best of both worlds, wrapping high-quality consulting resources around a core of experienced Thames Water staff – doubling resources within weeks, with unlimited additional consulting resource just a phone call away – financed out of the results they deliver. The Efficio operating model, was then tailored to exactly meet Thames' requirements – which took the traditional procurement service providers to the limits of their appetite for risk. The Thames Water ROI is compelling and business stakeholders have highly praised the service.

### First Year Results

The best measure of success is the strong endorsement of the internal customers, who can now access "talent on tap" and have renewed confidence that procurement can help them deliver their business objectives, however challenging. 12 months after go-live the transformation has exceeded all objectives:

- **Savings** – running well above contractual targets which were over four times the original internal TW plan (worth an additional £69 million), achieved by rescheduling projects, applying additional high-skilled consultant resources, enhanced sourcing and analysis processes and tools
- **ROI of 6:1** – comparing incremental costs vs. benefits and 29percent headcount reduction
- **Quality** – excellent client satisfaction average 4.3 of 5 on project scorecards and increased "pull" for procurement services
- **Full flexibility** – all stakeholder requests accommodated – resources doubled within five weeks with 19 consultants deployed meeting all business demands for support
- **Sustainable solution** – instead of reducing the core team, Efficio has invested in hiring seven new high-quality permanent staff. The transferred Thames Water staff have excellent morale with four promotions and significant training delivered

### Key Challenges to Surmount: The Tender Trap

A major challenge Efficio faced was to change the traditional perception of procurement as 'the guys who run the tenders.' Its consultants worked hard to educate the business about the wider value they could add by breaking the mould of the commercial strategy being decided, and then brought to procurement to actually go out and buy it.

In any project, the opportunity to add value decreases over time. As it was, by the time procurement got involved, there was much less opportunity to influence the direction of travel. Procurers were often excluded from the initial strategic analysis assumptions – this is a missed opportunity to utilise the full skillset available. If it is expected that procurement merely manages the tender process, the predominant skillset is around running a strong process – rather than working closer with the business to

really analyse the "business need" and apply creative commercial strategies. This skillset is often not suited to work closely with the business teams to challenge and influence the strategy.

### The Early Bird Catches the Worm

Part of the rationale for outsourcing to Efficio was to add value by getting engaged much earlier in the process. This meant injecting the higher level, consultancy style skillset into the department, giving it much increased capability in analytics and leveraging Efficio's broad knowledge from its work with blue-chip clients in multiple sectors.

Efficio's ability to take large volumes of business data, manipulate and analyse it quickly, uncovered key insights that challenged existing assumptions about how Thames' spend operates and how the supply market operates – in many cases, identifying new opportunities and unlocking complex spend categories.

This frequently involved cost analysis of material and usage in the process – demonstrating that by altering the business process, changing the material used and reducing the overall cost. It is essential to think in terms of total cost. By examining the process, Efficio found that it was often possible to meet the business need, but pay a lower overall cost. That might even mean paying more for a chemical – the unit price might rise, but if that means buying a higher concentration, less is used. Meaning less logistics, less storage, less process handling to get a better cost overall. Previously, tenders usually sought to buy the same service or product configuration – hopefully a bit cheaper. Efficio changed that.

### Changing Perceptions Internally – "Walk a mile in my shoes"

As well as more highly developed analytical capability, Efficio also brought in a wider market understanding garnered from working across a variety of sectors. Having a good wide scan of the same sort of applications and issues being solved in multiple sectors allows for different strategies and models to be presented.

A huge challenge is always winning the confidence of key senior stakeholders, particularly where new executives have joined from a business where procurement had a lower profile. Some were initially quite challenging, but once they understand the value procurement can add, they were supportive. Efficio focused the procurement staff on getting closer to the business users, to ensure they fully understood the business issues and were better placed to suggest alternative approaches and commercial solutions.

One area that the Thames procurement team had found challenging was the IT department. They are technically competent, generally understand the supply market and technologies quite well, and often are quite reluctant to involve procurement. Thames and Efficio worked hard to build relationships with the IT team – placing dedicated resources, re-engineering the procurement processes – all aimed at making procurement "easy to do business with". The philosophy is simple – if you can understand what the client's going through, then you are better placed to understand their behaviours and suggest solutions and improvements.

## Getting to Knowing You..... and You and You

When consultants come in, they don't know the business very well. They come in fresh, but armed with a skillset where they can learn very quickly. Thames and Efficio formalised a programme where procurement get out into the business more to understand the real issues. Now category managers are more focused outwards into the business, literally spending more time with the function managers, being on site, attending their monthly meetings, they get chance to understand the hotspots and proactively drive the business plan forward.

Efficio also helped to make management staff more empowered to leverage their business knowledge and focus on their core commercial roles. With Efficio taking full accountability for the whole procurement and supplier management activity, the remaining Thames Water senior procurement staff were freed to spend more time with the business, talking to stakeholders and suppliers – rather than managing large numbers of direct reports and other "tactical" time-heavy tasks.

## The Right Tools for the Right Job: Now and For the Future

Efficio created a powerful set of analysis tools and processes to help internal business units at Thames Water to identify their commercial opportunities and define the best route to reaching these goals. The supplier relationship toolkit identifies the key considerations, on a case by case basis, in the crucial areas of quality, potential to innovate and service vs. cost. From there, it helps develop a prioritised programme of what needs to be changed, and what actions must be taken to improve things, driving a cycle of continuous improvement. This was an improvement in itself, bringing a commonality of approach and best practice to replace the various ad hoc informal processes from across the business.

As well as improving the processes, steps were taken to help all staff achieve their full potential: The transferred Thames Water's staff and new hires, receive the same personal development support as Efficio's staff. They attend the Efficio training academy, with access to all the same course and resources. Day-to-day, they operate in buddy teams with experienced consultants, learning new skills and sharing business knowledge. It's a powerful symbiotic relationship: the indigenous Thames Water staff know the business inside-out, so by working shoulder-to-shoulder they learn from each other.

## Success Tracking: Hard and Soft

A rigorous savings sign off process gets the budget holder and the finance department involved, right from the beginning of the project, to the point of implementation and beyond. When outsourcing there is a strong desire, particularly on the supplier's part, to demonstrate success, so that everyone understands and appreciates the value being delivered.

A year into each deal, the details are handed over to finance, which track the budget over the following 12 months. After that, finance is in a position to conduct a stringent audit – independent from anyone involved in the deal's management – that measures the validity of the savings (and the calculations!).

A set of softer measures are also monitored, to track the benefits of innovation or extra added value. These are not built into the contract, but often provide opportunities to catalogue benefits that business users really value. This process also generates opportunities that will only deliver benefits when they are actually implemented, and they become cost benefits. So, in this way the soft meets the hard – where the innovation hits the bottom line, that's the true measure of outsourcing success.

## Staying Relevant: the Next Challenge

Although the first year results were excellent, there is always room for improvement.

Thames Water had a five year business plan, under-pinned by assumptions of millions of pounds worth of cost savings. This was a resource constrained plan – reflecting the procurement department's resources. By engaging with Efficio to enhance its procurement function, Thames Water was able to increase the total of the proposed five year savings by £69 million. Employing Efficio's best practice – its advanced sourcing tools and processes, and by hiring more people, ultimately doubling the team size, enabled Thames to make enhanced savings by achieving savings earlier –i.e. delivering projects scheduled for year three of the business plan, in year one.

But it's not just about results – the way it's done is critical. The very positive stakeholder feedback and an average score of 4.3 out of 5 across over 60 completed projects shows the business value of the new skills on offer and recognises the very professional approach Efficio brings – as much as the end result.

Creating a "fact-rich" analysis of the business spend has proved critical to unlock value and prompt good honest conversations about what needs to change to achieve better value. Focusing relentlessly on creating value for the customer, and at all times treating them as you would want to be treated is key. That's the secret to staying relevant: working closely with the business users to identify value and then delivering it in the right way – making procurement the "first call" made for all issues on cost, service and supplier performance.

