

Feeling the Pain

how procurement strategies are evolving in the water industry

by Lee Hewitt

Many commentators have said that the fastest way to move backwards in business is to stand still. This is very much the case in the utilities market where the drive to be at the regulatory “frontier” of performance is uppermost in the strategic view of the boardroom. In the water sector, competing organisations strive to achieve a level of commercial and operational performance that will lead to more favourable price reviews and efficiency challenges. This has led to an emergence of the Procurement department, evolving in many cases from a part of a support services function to a standalone business unit, based upon the ability to directly influence stakeholder value.

The procurement strategy engaged by water companies on their capital spend programmes has increasingly become a differentiator in delivering required performance levels and has led to more innovative approaches. These approaches have varied between a number of contracting strategies including:

- * traditional one-off-events;
- * frameworks;
- * prime contracting;
- * project partnering;
- * alliancing.

So what have been the major drivers in water companies selecting the appropriate strategy? It may be:

- * price;
- * market aspiration;
- * risk and reward profile;
- * collaboration;
- * desire to become an attractive client.

Clearly, all play their part in the decision making process, but will carry different weightings dependent on the outlook of the organisation. However, in businesses that are risk averse in nature the resultant change, if any, is not always dynamic enough to realise the benefits expected by stakeholders and regulators alike. For example, an organisation that has had a successful track record in managing its supply chain upon an adversarial basis may consider the adoption of a collaborative, shared risk and reward model as too risky a profile to take on, even though potential benefits are significantly greater than existing arrangements.

So what would it take for organisations to embrace a different approach?

The major enabler, or blocker (depending on which side of the fence you are on), to delivering a change of significant magnitude is the client’s readiness for that change. Ideally, visionaries within the business have identified the need to change, prepared the organisation for that change and smoothed the way for its delivery. However, experience tells us that the spark for change is typically upon feeling pain of some description and arguably this is why differing strategies have been adopted across the industry. In the absence of a visionary, significant change only occurs when that pain has been felt, whether that is an imposed stretching regulatory challenge, inability to secure resources to meet obligations, or perhaps contractual relationships that turn sour with disastrous commercial impact.

The decision to undertake a change in procurement strategy is only the first step. There needs to be significant development of the thinking, behaviours and relationships of individuals within both the client and contracting organisations in order to create a sustainable platform for change. Without this the risk of relationships breaking down and an adversarial environment emerging is significantly increased.

An example where an organisation has adopted significant change over the past 15 years is Welsh Water.

Welsh Water has developed its contracting strategies for its capital projects delivery over the previous regulatory periods, moving from traditional contracting which failed to deliver against expectations, to project partnering, and alliancing, out performing the regulatory challenge on each occasion.

This shift to a successful collaborative, jointly incentivised shared risk and reward procurement model for its capital works has contributed to the regulatory raising of the bar, but Welsh Water are not standing still. For the forthcoming regulatory period they have widened their alliancing arrangement to incentivise all parties in the Welsh Water business model including Capital, Operations and Billing and Income. This evolution would only be possible on the platform of a culture ready for change. Welsh Water have invested significantly in developing a lean, dynamic, change friendly organisation which gives this innovative procurement strategy the best springboard for success.

We have already mentioned about the desire to become an attractive client. Over the next five years with a continued growth of civils related construction sectors, for example gas, electricity, highways and rail, and the heightened propensity for players to cross sectors for greener grass, the ability to attract the “A team” in order to deliver optimum performance will become harder and harder. This will be compounded by the much publicised shortage of skilled resource in the UK construction market.

Organisations will have to take a close look at the sustainability of their procurement strategy. Clearly, more of the same will not do. Our experience with Welsh Water has shown us that collaboration, working together under hard commercial drivers has generated the magnitude of benefits required of modern progressive utility business, but what is more important is that the **thinking is continually moving forward against a back drop of an organisation able to support innovation and embrace change.**

Note: The author of this article, Lee Hewitt, is Head of Procurement, ChandlerKBS. ■