

Case Study: Scottish Water Implements Innovative Collaborative Responsibility Service Delivery Model

Equaterra Advises Scottish Water on IT Outsourcing Strategy Operated Under Public Sector Procurement Guidelines

At a Glance

Company Profile

Scottish Water is a publicly owned organisation with a head office in Dunfermline and principal offices in Aberdeen, Dundee, Edinburgh, Glasgow and Inverness. It employs just over 3,700 people across Scotland and has around five million customers.

It is the fourth largest water and waste water services provider in the UK and is in Scotland's list of top 20 businesses by turnover. Thousands of assets are operated and maintained - over 47,000 kilometres of water pipes, 49,000 kilometres of sewer pipes, 1963 waste water treatment works and 319 water treatment works, plus pumping stations, sludge treatment centres and reservoirs.

Services Featured

- IT Outsourcing

Business Processes Involved

- Procurement

Executive Summary

In order to meet challenging cost saving and service delivery requirements set by the industry regulator, Scottish Water engaged Equaterra. Working collaboratively with Scottish Water, Equaterra recommended and supported the use of innovative commercial terms and governance in order to ensure that cost and service delivery objectives were achieved.

A successful and pioneering solution resulted in contracts with service providers which offered guaranteed cost savings of 20%, improved service levels and a collaborative responsibility model able to deliver sustainable value.

Business Challenge

Scottish Water was founded following the merger of Scotland's regional water companies. Soon after, it carried out a major transformation of its business in order to meet major efficiency and service challenges set by its industry regulator. Integral to this transformation was a major IT development programme which not only underpinned the business changes and greatly contributed to meeting the regulatory targets, but also delivered a modern, robust and sustainable technology platform.

Following this development programme, Scottish Water IT implemented a strategy which was designed to further reduce costs, enhance the existing service and drive value in the business through the exploitation of innovative approaches in the use of technology. It was at this point that Equaterra was engaged.

The strategy centred around the creation of a multi service provider delivery model that involved major IT companies delivering services into Scottish Water under the control and governance of the IT department.

In recognition of the risks involved in such a strategy, Scottish Water engaged Equaterra to provide advice for both the procurement exercise itself and the development of a contractual and governance regime that would manage the many challenges associated with this model and its successful ongoing operation.

As this cost saving requirement was in addition to significant reductions achieved at the time of the formation of Scottish Water, the solution put forward by Equaterra had to be a highly efficient one.

Key Drivers and Requirements

Scottish Water had three key requirements for the outsourcing of their IT services:

1. They wanted more than one supplier.
2. They wanted effective collaboration between the suppliers to ensure the successful delivery of an end-to-end service.
3. They wanted 'best of breed' companies – the market leaders in their fields.

The rationale behind this approach was twofold:

1. Not only would it ensure performance within the services that the supplier was contracted to, but it would also oblige the supplier to work with the other service providers to ensure that the entire model worked effectively.
2. Having supply arrangements with a selection of IT providers would increase the pool of expertise available to Scottish Water and add value to the deal.

A governance regime was also created to ensure the sustainable value of the contract. Two forums were introduced, a Governance Forum involving all suppliers which focused on operational issues and the 'Captain's Table' forum which focused on broader, more strategic issues - those involved were senior representatives of the client organisation and service providers who could ensure that best practice was applied to strategy development and issue resolution. The value attached to this forum was evident by the fact that the CEO of Scottish Water chose to be its chairman.

The Selection Process

Service providers were required to pitch for individual services rather than the contract as a whole. These were divided into the following service lots:

- Service desk
- Desktop support
- IT infrastructure
- Application management
- Communications services
- Framework for application development
- Integration and data warehousing

From the initial pool of potential service provider partners, sourced through a 'Pre-Qualification Questionnaire', an initial shortlist was created. An 'Invitation to Negotiate' process and a 'Best and Final Offer' stage then identified the final three chosen candidates.

How We Helped

EquaTerra delivered the expertise to develop the collaborative responsibility model contract regime. This was achieved through the creation of a groundbreaking mutual interest incentive previously absent from other sourcing initiatives in the multi sourcing arena.

This process had to be operated under public sector guidelines (which can sometimes increase project duration). However, EquaTerra's expertise allowed an accelerated approach using parallel negotiation and due diligence to be used. This resulted in the finalisation of robust service provider contracts in a dramatically reduced timescale in order to meet tight client deadlines.

Key drivers of success were as follows:

- A collaborative responsibility model was integrated from the outset. This meant that before suppliers were allowed to take part in the process they were obliged to buy into this model. A key success factor was making this service provider requirement legally binding to avoid back-tracking at a later date.
- Service providers being required to tender for business for each of the seven service lots rather than the whole contract encouraged suppliers to focus their efforts only on winning the service contracts where their offering was strongest, rather than proposing a tender for the contract as a whole.
- Operation Level Agreements (often relied upon heavily in projects of this nature) were replaced with the collaborative responsibility model detailed here. Part of the reason for this was the desire to eliminate time and resources being wasted by suppliers debating who was responsible for issues such as the resolution of system failures.
- The enhanced approach to the governance of the working relationships meant that Scottish Water was able to benefit from the expertise of the service provider organisations, not just their account teams.

- While this project was underway, a parallel accelerated project also established contracts for five suppliers which qualified these companies to bid for numerous ad-hoc projects as they arose.

Results

Scottish Water's three major service providers were contracted via an innovative structure. This not only ensured performance within the services that the supplier was contracted to, but also tied the service provider to working with their counterparts to ensure that the entire model worked effectively. The performance and reward structure that EquaTerra created through working collaboratively with Scottish Water ensured that each supplier was contractually obligated to the other, as well as to Scottish Water, thus ensuring the sustainable delivery of true end to end service management.

As a result, there is now a quantifiable expected cost saving of 20%. This is possible because these cost savings have been underwritten with the service providers in order to guarantee delivery for Scottish Water.

In addition, a further endorsement of both the collaborative model and EquaTerra's management of the process, is the fact that the service providers involved were enthusiastic and supportive of the framework chosen.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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