

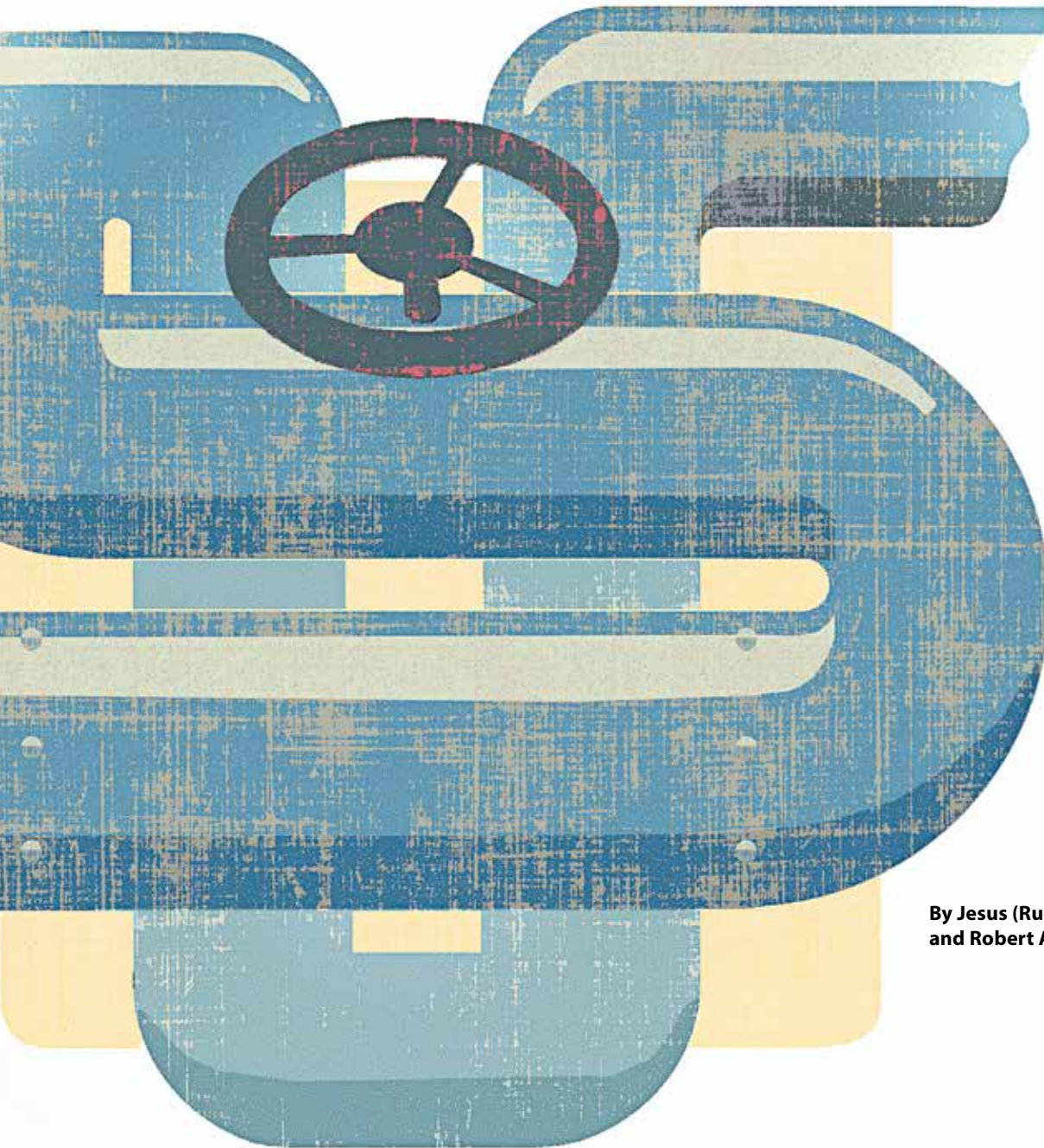
Raising *the* Public Sector *Bar Through* Private Sector Best Practices

Washington Suburban Sanitary Commission (WSSC), one of the nation's largest and oldest public utilities, turned to best-in-class procurement practices from the private sector to deliver big savings to its bottom line.

Who hasn't heard the story about the federal government's acquisition of \$5,000 toilets and \$600 hammers? Then, there's Astronaut John Glenn's famous quip about the Apollo Spacecraft having been provided by the lowest bidder? Over the years, public sector procurement has been characterized as wasteful, inflexible, bureaucratic, and slow—and with some just cause. Public procurement employees are often seen as inflexible, unresponsive, and uncaring, a by-product of their tenure or membership in a collective bargaining organization.

These stereotypes are founded on a few aspects of public sector procurement that differ from private sector procurement. One is the fact that public procurement is tightly confined by government policies, regulations, and state and/or federal laws that are not only difficult to change and update, but which also have the added feature of sending those who violate them to jail. These laws also require potential suppliers to navigate an endless numbers of proverbial hoops





**By Jesus (Rudy) Gonzalez
and Robert A. Rudzki**

Jesus (Rudy) Gonzalez is Strategic Sourcing Group Leader of the Washington Suburban Sanitary Commission. He can be reached by e-mail at rudy.gonzalez@wsscwater.com. For more information, visit www.wsscwater.com/home.html.

*Robert A. Rudzki is the President of Greybeard Advisors LLC, and a former Fortune 500 Senior Vice President & Chief Procurement Officer. He is the author of *Beat the Odds: Avoid Corporate Death and Build a Resilient Enterprise*. He can be reached by e-mail at rudzki@greybeardadvisors.com. For more information, visit www.greybeardadvisors.com.*



Public procurement is seen as a low bid competitive environment, with high barriers to entry.

while rewarding the successful low bidders with tons of paperwork and other contract compliance requirements.

As a result, public procurement is seen as a low bid competitive environment, with high barriers to entry, dominated by well-entrenched and politically connected mega-companies that provide the government overpriced products and services. Entrepreneurship, innovation, and continuous improvement are not expected and many times are simply not understood by public entity employees. The modus operandi is “if it works, don’t change it” or “that’s the way we’ve always done it.” Negotiations are rare and supplier partnerships (and other private industry best practices) are often discouraged as not applicable, or more times than we would like to admit, as against regulations or illegal. The most familiar, and often cited, performance metric for procurement personnel is the number of years until they qualify for full retirement.

Although this view is presented here with tongue somewhat firmly planted in cheek, it is the predominant view of those who are unfamiliar with the most current trends in public sector supply management—leading trends exemplified by the remarkable transformation story underway at the Washington Suburban Sanitary Commission (WSSC).

Mission and Strategic Priorities of WSSC

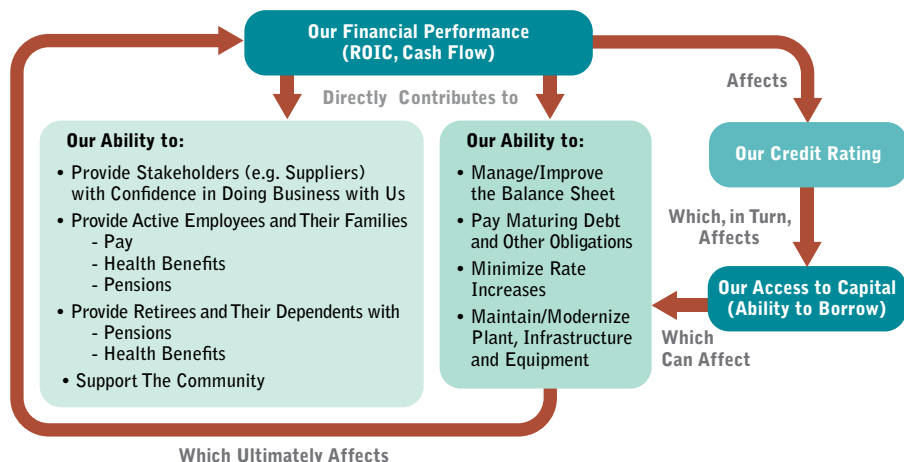
Established in 1918, the Washington Suburban Sanitary Commission is one of the largest and oldest of the nation’s original environmentally “green” companies. Since its founding, this \$1.3 billion dollar (capital and operating budget) bi-county organization has provided water and wastewater services to Prince George’s County and Montgomery County, the two counties that surround Washington D.C. on the Maryland side of the nation’s capital. This well respected public utility manages an infrastructure of nearly 5,600 miles of fresh water pipeline and 5,400 miles of sewer lines. It does so in the face of many challenges common among the country’s aging infrastructure, such as rising repair and maintenance costs, ever-stricter environmental regulations, the rising cost of capital, and a public outcry against year-over-year customer rate and fee increases.

For 97 Years, WSSC has prided itself as a world-class provider of water and wastewater services to its customers. However, in 2012 the CEO/general manager and board of commissioners realized that in order to maintain that status amidst the myriad financial and regulatory pressures, a greater focus would have to be brought to the organization’s supply chain management (SCM) abilities. This focus was communicated to customers, suppliers, and employees

when the commissioners included supply chain management and supplier diversity as one of WSSC’s strategic priorities. Up until this time, the acquisition office (WSSC’s term for the procurement department) was largely seen as an administrative function. As a result, supply management was extremely siloed, completely reactive, and saddled with unacceptably long procurement cycle times. Moreover, a lack of current best practices, tools and technologies, and complacency with outdated methodologies made acquisitions an easy target as the source for any and all of the organization’s ills. Because WSSC could

EXHIBIT 1

Why Financial Performance is Important in the Public Sector



Source: Greybeard Advisors LLC

not be a world class water and wastewater utility without a world class supply management process, a mandate came down to accelerate the transformation by adopting best practices from the private sector.

Key Learnings for the Public Sector Based on Successful SCM Transformations in the Private Sector

To set the stage, it is useful to address upfront a key point: In the public sector, financial performance is important for several fundamental reasons—it affects the credit rating of the entity, which in turn affects the ability (and the cost) to borrow when needed to support current and future operations; it contributes directly to the ability to minimize rate increases, and the ability to modernize and maintain infrastructure; and it also directly contributes to the ability to serve multiple stakeholder groups (as described further in Exhibit 1).

With this background established, let's turn to a more specific SCM-oriented discussion. Every CPO or chief supply chain officer needs to be conversant with the performance improvement framework shown in Exhibit 2. This is the essence of creating a strategic role for supply management that can directly affect financial and operating performance. Let's walk through this framework briefly.

Two important measures of performance are return on invested capital (ROIC) and cash flow. ROIC is calculated by taking the annual earnings of an organization (essentially: revenues minus costs equals earnings) and dividing it by the total capital invested in that entity (long-term debt and stockholder's equity). ROIC is important because it is an indicator of the current health of a business; ROIC needs to exceed the cost of capital. An organization that operates where ROIC is lower than its cost of capital is essentially liquidating itself. In the public sector, this probably will result in increases in taxes or fees, and/or a reduction of services provided—neither of

which is likely to be welcomed by stakeholders.

Improving earnings helps to improve both ROIC and cash flow. Reducing the capital needed to operate your entity also helps to improve ROIC and cash flow. Improving earnings while also reducing the capital needed to run the organization has a powerful compounding effect on ROIC and cash flow.

So how do we go about improving earnings? There are two fundamental ways: revenue enhancements and cost reductions. Supply management can—and should—play an important role in each of those areas, as indicated with examples shown in Exhibit 2. Supply management should, for example, take a leadership role in creating a more responsive supply chain, thereby helping the company to win more business (and increase revenues) from customers. Supply management should also take the lead in applying good processes to better manage all areas of spend, not just those typically assigned to procurement.

So far so good, but how do we reduce the capital needed to run the operation? There are two ways: working capital improvements and capital expenditure improvements. Once again, supply management can play an important role in each of those areas. In many organizations, for example, there is no clear responsibility for analyzing and coordinating supplier payment terms, or inventory consignment programs. These areas are ideally suited for supply management to take a lead

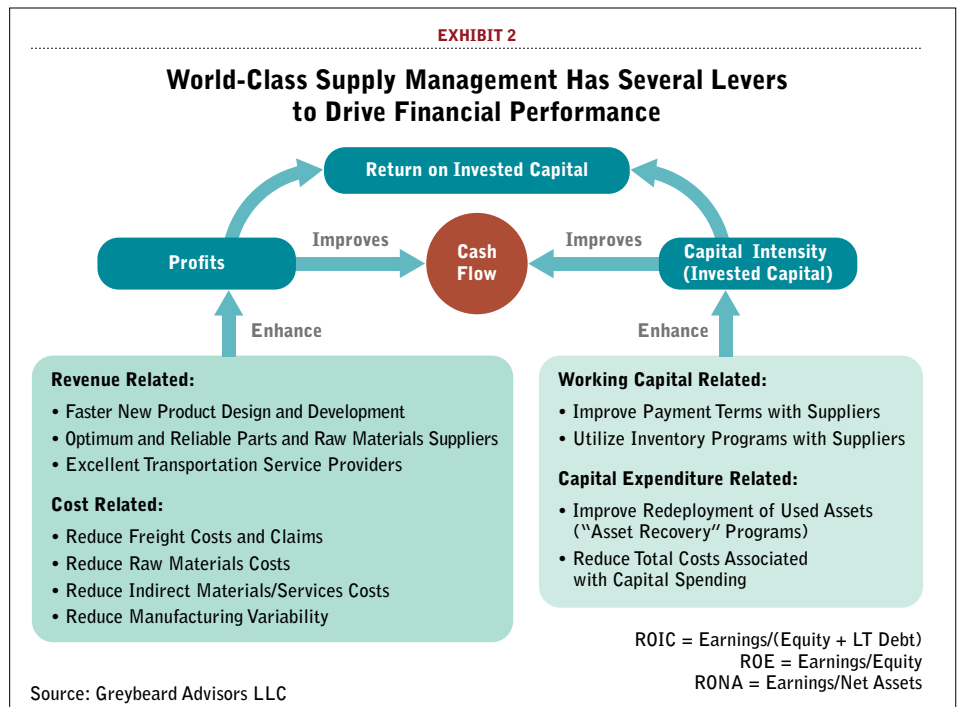
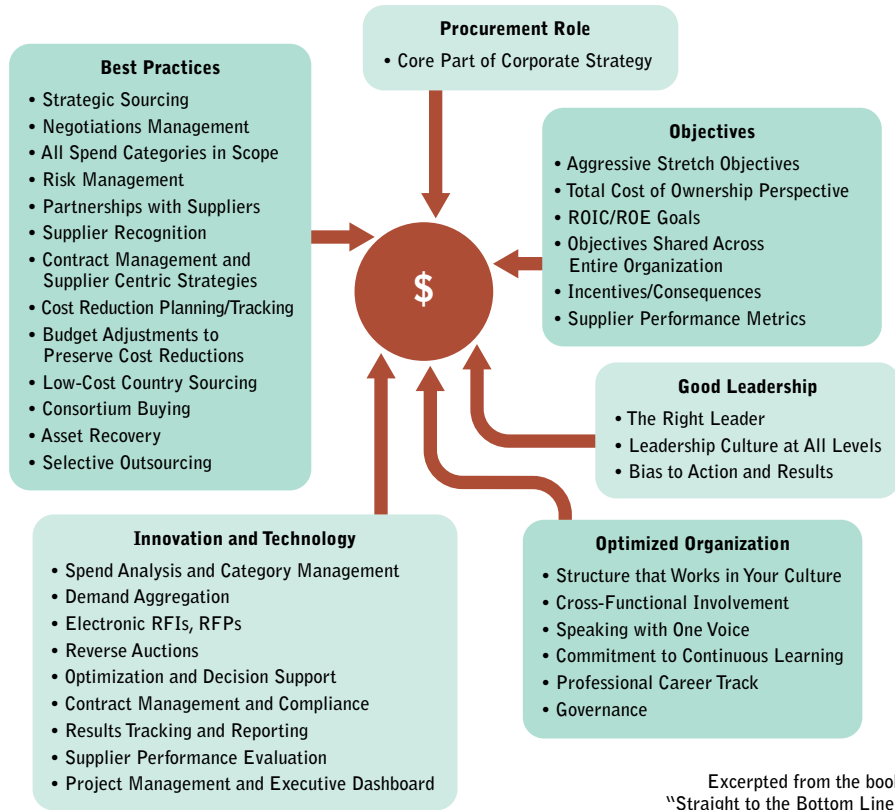


EXHIBIT 3

Achieving World-Class Sustainable Results Requires Attention to Transformation Initiatives Across Six Key Dimensions



Excerpted from the book "Straight to the Bottom Line" (Rudzki et al.)

Source: Greybeard Advisors LLC

executive audience, you relate those improvement opportunities to the company’s income statement and balance sheet. Going that extra step allows you to demonstrate the impact of supply management on net income, earnings per share, ROIC, and cash flow—all key areas of interest for senior executives. It’s a powerful way to communicate the enormous potential of a transformed supply management organization in the language of senior executives and in a manner relevant to your organization.

Supply management transformation refers to the successful conversion or metamorphosis of supply management from a transaction-based, reactive function to a pro-active, strategic driver of organizational performance—whose input is regularly sought by other areas of the company.

Companies that have successfully transformed their supply management activities into world-class performers have paid attention to six key dimensions of transformation.

role. With regard to capital expenditures, experience demonstrates that the sooner procurement is involved in new projects (even at the concept stage), the better the overall project economics and ramp-up time will be. In addition, redeploying idle assets, or monetizing those idle assets, are useful value creators.

A thorough opportunity assessment for supply management requires a careful and independent evaluation of the improvement opportunities in each of the four categories shown in Exhibit 2. Then, to tie it together for the

As shown in Exhibit 3, those dimensions are procurement’s role, objectives, leadership, organization, best practices, and innovation and technology. Underlying these six core dimensions (plus internal and external communications) are more than 30 specific initiatives that ultimately comprise a comprehensive transformation plan. (A more detailed discussion of this “star chart” transformation framework appears in Chapter 3 of the book *Next Level Supply Management Excellence*, by Robert A. Rudzki and Robert J. Trent.



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With that framework in mind, let's turn now to WSSC's groundbreaking experience transforming its SCM activities.

The Initial and Ongoing Success of WSSC's Transformation

In 2012, WSSC's Acquisition Director began to develop a supply management transformation process designed to change the supply chain management function from a siloed, reactive, low-bid approach to a collaborative, data-driven, "total cost of operations" approach.

As a precursor, a set of procurement regulations was adopted by the Commission. Prior to that, the acquisition process was governed by a disparate set of internal memoranda, standard procedures, policies, and an outdated purchasing manual. The procurement regulations, modeled after the American Bar Association template, were designed to be concise and comprehensive to address current needs, yet flexible enough to accommodate the various future unknown scenarios, circumstances, and needs. For the first time in the almost 100 years of the Commission's history, a single set of regulations would govern the procurement function at WSSC. Along with these regulations, the acquisition office was changed in name to the procurement office and the acquisition director became the chief procurement officer (CPO); both to better represent the new direction for the supply management function at WSSC.

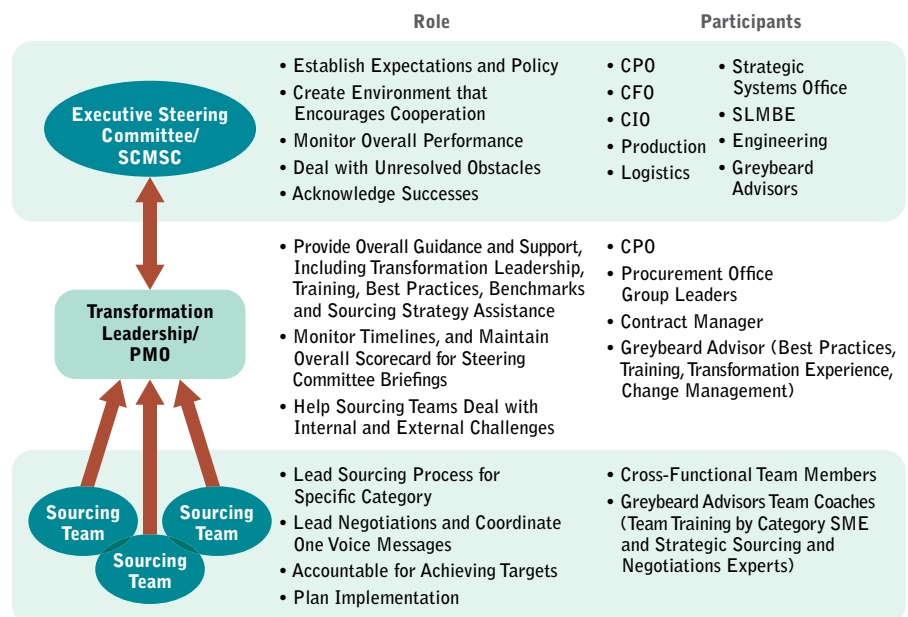
Once the regulatory barriers to world-class supply management had been addressed, the acquisition director enlisted the help of well-respected supply management advisors

to conduct a comprehensive assessment of current operations, provide a gap analysis between the current state and world-class supply chain management (SCM), and develop a detailed roadmap (and a business case) for a sustainable supply chain management transformation. The crucial first step that everything else is built upon—the assessment—was conducted based on Graybeard Advisors' framework, reflected in Exhibit 3.

The assessment did indeed confirm that the procurement office was viewed as a problem for the respondents because of long cycle times, inconsistent requirements, poor communication, and a lack of understanding of their clients' day-to-day needs and operations. Using the gap analysis, a detailed roadmap was developed. The CPO and the advisor presented three roadmap options to the CEO and general manager: slow, medium, and fast. The GM approved the fast roadmap with a comprehensive transformation

EXHIBIT 4

Program Resources Consist of Cross-Functional Teams, with Clear Governance and Project Leadership



Source: Greybeard Advisors LLC



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initiative designed to deliver a total ROI of 700 percent within 36 months, while building and enhancing internal capabilities.

In order to ensure the success of the SCM initiative and to provide governance over its activities, a supply chain management steering committee (SCMSC) was established. In addition to the CPO, committee members included the CFO, interim chief operations officer, chief of production, and chief information officer. Additionally the steering committee was supported by the director of strategic systems and the chief of staff as the committee's champion. The committee's specific roles included approving strategic sourcing initiatives, removing barriers, providing resources, and communicating the progress of the SCM transformation initiative to executive leadership and the board of commissioners (Exhibit 4).

As discussed previously, WSSC has a long organizational history that includes growing into one of the country's most respected and largest water and waste-

water utilities. Along with this proud history came a unique organizational culture: Changing this culture proved to be the most significant barrier to achieving a sustainable SCM transformation. At WSSC, the SCMSC had two initial tasks: The first was to develop the first wave of strategic sourcing teams. These teams had a scope involving an area of spending (as described below), and were comprised of cross-functional team members. The team was charged with understanding the supply market, understanding the internal users' needs, establishing a sourcing strategy and negotiations strategy, executing that strategy, and implementing the new supply agreement and actively managing the supplier relationship. The second task was to gain approval for a redesign of the procurement office. These two tasks proved to be the strongest drivers of cultural change at WSSC.

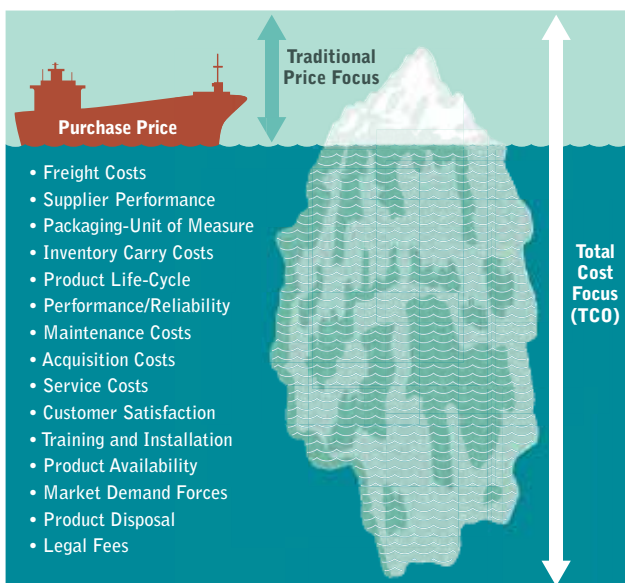
In August of 2014, the procurement office was formally re-organized into a procurement center of excellence. The focus prior to this redesign had been primarily category based, such as goods and services versus architectural, engineering, and construction. The new structure provided for four distinct groups, each with a clear tactical or strategic focus.

In this new structure, the strategic sourcing group was responsible for facilitating all strategic sourcing team initiatives. The procurement group was responsible for more tactical day-to-day operations and problem-solving. The operations and administration group was responsible for "back office" processes such as the procurement office budget, procurement card program, bonds and insurance, procurement systems and procedures, diversity liaison, materials management liaison, and supply risk. The contracting officer representatives group was responsible for supporting field operations by being procurement subject matter experts with a goal of reducing bottlenecks by addressing items that would otherwise be directed to the CPO.

The new WSSC procurement regulations provided a flexible regulatory framework that the transformation could function within. The procurement office re-design provided a change from a tactical (reactive) to a strategic (pro-active) supply management approach. Building upon those foundation blocks, implementation of strategic sourcing and strategic sourcing teams, along with

EXHIBIT 5

Best Practices Focus on Total Cost of Operations (TCO), Not Merely Price



Source: Greybeard Advisors LLC

its reliance on data and fact driven decision making, its entrepreneurial focus on total cost of operations, and its execution through cross-functional collaborative teams, provided the single most enduring result with respect to changing the supply management culture at WSSC.

Cross-functional teams in particular contributed to a change in culture. Team members realized that a seemingly unsubstantial decision by them could morph into a much larger dilemma throughout the supply chain. As a result, team members began to make decisions based on the total cost of ownership (TCO) impact on WSSC (Exhibit 5) and not just whether the decision was good or bad for their department. Gary Gumm, WSSC's interim chief operations officer, and an active member of the steering committee, viewed the positive effect on WSSC's culture to be at least as important—if not more important—than the financial successes of the teams.

Strategic sourcing and strategic sourcing teams are now the primary activity that generate cost reductions and contribute to ROI. The teams follow Greybeard Advisors' six phase Strategic Sourcing & Negotiations Management (SSNM) process with the SCMSC providing oversight and approval at each phase-gate. Each cross-functional team is composed of WSSC staff from different operating departments (engineering and construction, production, utility services, logistics) as well as support departments members (finance, IT, strategic systems, diversity office) and a member of the procurement office to facilitate the process.

Since the inception of strategic sourcing, WSSC has initiated seven sourcing teams. These include (1) prestressed concrete cylindrical pipe (PCCP), (2) water main rehabilitation, relocation and replacement, (3) ductile iron pipe, (4) bulk chemicals, (5) fleet, (6) water tank rehabilitation and (7) bio-solids management. So far, these teams have delivered cost reduction opportunities in excess of \$15 million and cost avoidance in excess of \$10 million. Additional teams are being formed as we go to print.

Interestingly, all of the strategic sourcing teams started with the same mindset: to fix what was wrong in the procurement process. Although each team had its own set of market conditions, technical limitations, and

Successes abound

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time constraints, each team shared a common “aha!” moment when, as a result of the rigorous process, team members came to realize that a key root cause of their team's problems were not found in the procurement office, but rather were as a result of pre-sourcing activities (e.g. poor planning, coordination, or poorly defined requirements) and/or as a result of post-award activities (e.g. lack of implementation plan, or poor contract compliance monitoring).

In the end, through the adoption and embedding of private sector best practices, including a robust, cross-functional SSNM process, the supply chain management function at WSSC was transformed from everyone's favorite scapegoat to a leader of culture change at WSSC.

Final Words of Advice for Public Sector CFOs and Procurement Leaders

Management guru and author C.K. Prahalad always told executives to think big. “Set ambitious goals,” he advised, “and then figure out how to mobilize the resources to achieve them—rather than the other way around.” He added: “Most organizations limit themselves because they focus primarily on what they believe they can afford.”

The authors hope that the ground-breaking SCM transformation at WSSC can inspire other public sector organizations to break out of conventional thought patterns, dramatically improve their financial and operating performance, and enhance their capabilities to achieve their public sector missions. ☺☺

**Note: this article includes an excerpt from the book Next Level Supply Management Excellence, by Robert A. Rudzki & Robert J. Trent, J. Ross Publishing. The excerpt relates to Exhibits 2 and 3.*