

# Efficio Case Studies

Candidate Brief

Subcontractor Procurement

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## Candidate Brief – Context & Task

### **Context:**

Gowrie Construction new Head of Procurement has asked to meet you in 20 minutes to discuss how they can reduce cost in the Construction & Maintenance category.

They currently use a mixture of both in-house operatives and third-party subcontractors to complete Construction & Maintenance work for its clients.

Overall company spend on subcontractors is significant and the Head of Procurement is convinced that the money spent in the Construction & Maintenance category can be reduced without compromising client satisfaction / quality of work.

### **Task:**

Based on the information provided, please prepare and deliver a short presentation to meet the 3 objectives of the CPO

1. Suggest some procurement opportunities to reduce cost in the Construction & Maintenance category
2. Explain why we have chosen these opportunities
3. How much could Efficio save Gowrie Construction?

All proposals will need to be supported by a savings figure that has been calculated using the data provided and any assumptions made by the candidate

### **Meeting:**

The Operations Manager and Head of Procurement will both be in the room for the update (*note - the Efficio interviewers will be in role*). Please bring any useful supporting calculations / data into the meeting.

## Candidate Brief – Colleague Brief

**Notes from a colleague that used to work for Gowrie Construction. They have provided you with some background on the company and subcontractors.**

**About Gowrie Construction:** It is a large contracting company in the utilities industry that uses a mixture of both in-house operatives and third party subcontractors to complete construction and maintenance work for its clients.

**What work does Gowrie Construction do for its customers/clients:**

- Erecting overhead power cables
- Building and maintaining electricity substations
- Excavating to fix a leaking water pipe, then reinstating it

This work is delivered by either own operatives or subcontractors

**Previous Consultancy Work for Gowrie Construction:** Some organisations have focused in the past on efficiency (i.e. how much work can be done per day) – this is usually out of scope for Procurement work in this area as contractors are resistant to being challenged in this way.

**About Subcontractors:** Subcontractors tend to be small, local businesses (up to 10 employees maximum) and are mainly used to provide additional delivery capacity at times when Gowrie Construction has a lot of work, or to cover specialist tasks not in the skill set of the own operatives. They tend to drive around in pairs in their vans with any equipment they require for the task.

**Market for Subcontractors:** Subcontractors are generally in high demand throughout the industry and do not often need to make an effort to find enough work. For that reason they can be fairly picky regarding which companies they work for. Additionally, most subcontractors are not overly concerned with growing their businesses, they are happy having the level of work they have today and the lifestyle it gives them.

**Own Operatives V Subcontractors:** Subcontractors and own operatives work in almost exactly the same way, that is to say that they use the same types of construction equipment and materials and generally complete work to the same quality. Gowrie Construction has put in place deals with key suppliers of equipment and materials that their own operatives use.

**Subcontractor Charging:** When the company uses a subcontractor, the subcontractor generally charges a lump sum fee which normally includes all its costs incurred to complete the work, plus a profit margin. Its costs would consist of things like salaries, renting construction equipment, buying materials (e.g. concrete), van lease, back office costs, etc.

## Candidate Brief – Operations Manager Interview notes

### Operations Manager Meeting

*Your colleague on the project interviewed the Operations Manager in the staff coffee shop – The Operations Manager wasn't willing to meet in office, didn't have a lot of time and was a little rude. His follow up email is on the right.*

*The Operations Managers team is responsible for scheduling the workload, and liaise day to day with the in-house and contractor teams*

### **Spend:**

Subcontractor spend is £24m annually. This compares to spend for their own operatives which is £79.8m annually for the 1000 operative employees and all other job related requirements.

The average cost of a subcontractor is £400 per day (including all cost components).

### **Utilisation:**

The in-house team are scheduled to work 200 days per year, with the remainder being holidays, training days etc. The utilisation of subcontractors is not tracked as they are paid by job.

Utilisation of the in-house operatives shows that 190,000 actual days are worked per year.

Right now there is a company wide hiring freeze from the CEO as part of the cost saving position – this may change in the future but no clear info on this

### **Cost of vans:**

Each in-house van costs around £9,000 a year to run (including; fuel, insurance, lease, etc). When the subcontractors go to complete work they will always take one van between typically two subcontractor workers.

### **Email from the Operations Manager**

Hi,

As requested, here is the average breakdown of contractor spend:

- Salaries 44%;
- Profit 9%;
- Materials 7%;
- Machinery equipment 3%;
- Overheads: 21%;
- Other charges 4%;
- Fleet of vans (inc. related costs) 12%

### **You should also know:**

- You will not be able to reduce Salaries and Profit – subcontractors can be very picky and therefore will just go elsewhere
- You will not be able to consolidate spend with fewer suppliers as the work is typically very local and there are no regional players
- “Other charges” includes: penalties, specialist equip etc.

Regards,

Operations Manager

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