The Intelligent Customer Concept

The concept of “Intelligent Customer” (IC) was first developed by Office for Nuclear Regulation (ONR) and has gained international acceptance. IC can be defined:

“As an intelligent customer, in the context of nuclear safety, the management of the facility should know what is required, should fully understand the need for a contractor's services, should specify requirements, should supervise the work and should technically review the output before, during and after implementation. The concept of intelligent customer relates to the attributes of an organisation rather than the capabilities of individual post holders.”

Intelligent Customer Capability can be defined as “The capability of the organisation to have a clear understanding and knowledge of the product or service being supplied”.

Many organisations have a mixture of activities that are carried out internally by their own staff or contracted out to a third party. The ‘Intelligent Customer’ principle mainly relates to a capability required of organisations when using contractors. The extent of the required capability should be commensurate with the hazard and the size of the organisation.

The concept of the intelligent customer is a relatively new one. However much now is being written about the intelligent customer or the lack of customer intelligence in terms of shared services, outsourcing and external service delivery projects. Some examples of projects that have failed and the lessons learned are detailed below and provide useful considerations for organisations engaging in a shared services project.

‘A repeated criticism levelled against UK Government outsourcing projects, particularly those at the larger end of the scale, has been that the people who commission the projects lack the commercial expertise and nous to be intelligent buyers, and the people who eventually manage or lead the project similarly lack the necessary skills to do so. This skills deficit and lack of leadership culture has been acknowledged as a key cause for failure in many projects in recent reports by the UK Public Administration Select Committee (PASC) on (UK) Government and IT and the UK National Audit Office on Shared Services.

The 2011 PASC report on Government and IT for instance found that: "Managing suppliers is as important as deciding who to contract with in the first place. To be able to perform both of these functions government needs the capacity to act as an intelligent customer. This involves having a small group within government with the skills to both procure and manage a contract in partnership with its suppliers. Currently the Government seems unable to strike the right balance between allowing contractors enough freedom to operate and ensuring there are appropriate controls and monitoring in-house. The Government needs to develop the skills necessary to fill this gap. This should also involve recruiting more IT professionals with experience of the SME sector to help deliver the objective of greater SME involvement’’

According to the UK National Audit Office, the Shared Services initiative, which should have been a cost-saving exercise, ran £500m over budget to the cost of the taxpayer.

“The initiative for government departments to share back-office functions has suffered from an approach which made participation voluntary and tailored services to meet the differing needs of individual

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2 http://www.hse.gov.uk/humanfactors/topics/customers.htm 25 6 13
3 (UK) Government and IT - "A Recipe For Rip-Offs": Time For A New Approach, Public Administration Select Committee, 28th July 2011
departments,” said Amyas Morse, Head of the National Audit office. “The result was over-complexity, reduced flexibility and a failure to cut costs.”

In its hard-hitting report, the NAO points out that this compares to the private sector which has typically saved in excess of 20%, with a less than five year return on investment.

1. It concludes: “Most customers of shared service centers have not driven benefits. By insisting on overly customised processes, they have not acted as intelligent customers.
2. “Most have not optimised benefits from the implemented solutions or adequately worked with the centers to understand the cost drivers.
3. “Departments and agencies have been hampered by the lack of detailed cost information and benchmarks. The centers have prioritised increasing the number of customers or implementing new software, rather than working with existing customers to drive efficiency.”
4. It found the software used by the centers was complex and expensive to maintain and upgrade. Despite significant investment, two of the centers intend to re-implement their systems with simpler, standard software.

NAO also takes the Cabinet Office and Civil Service Steering Board to task for failing to do more to ensure shared services were implemented appropriately. “More could have been done to challenge the performance achieved by customers and providers. They could have established reliable cost and performance benchmarks and done more to document best practice and lessons learned from customers.”

The Centre for Infrastructure Development, at the University of Manchester, Business School’s April 2012 business report provides a number of considerations in terms of the intelligent customer. It points to the challenge of rebuilding the Eastern Terminal campus at London Heathrow Airport in 2008 for 30m passengers a year in the middle of one of the world’s busiest airports bear’s lessons for all. The conflation of many challenges faced by this project could be compared to a perfect storm: a challenging budget and timescale, the need to coordinate multiple design build consortiums, the need to keep the large number of airlines forming the STAR alliance happy and engaged, the paramount issues of ensuring safety and security, the perception, that the commercial strategy the company had used to deliver T5 turned out to be a very expensive way to deliver an airport terminal and should not be repeated; and last but not least, the need to avoid another botched opening after the debacle which was the opening of the Heathrow’s terminal 5 in 2008 when thousands of fights had to be cancelled due to numerous operational issues.

Different perspectives on how the intelligent customer can build an organisation, a culture and a positive environment where customer, stakeholder and supplier relationships thrive and generate value through major projects exist. The British Airport Authority (BAA) faced this storm and has coined and invested in developing the notion of the Intelligent Client since 2009. This notion encapsulates ten operational


5 The Leadership and governance of megaprojects, CID report No.3/2012 University of Manchester
principles or commandments set out in Figure 1 below:

The Major Projects Association in the UK in its paper on ‘What makes an Intelligent Client’ sets out a number of key conclusions reached by Malcolm Noyce, Executive Director, MPA:

• Leaders of projects have to manage the boundary between stability (predictability) and instability. Under pressure (stress) the brain directs energy to the part of the brain that deals with survival, rather than to the part that deals with creative decision making. Perception, not logic, drives behaviour.

• An (emotionally) intelligent client has to understand people and build trust.

• An intelligent client should understand and define its needs (of the project); define its requirements fully; select the contractor competitively and fairly and reward through incentivized contracts; support the contractor and enforce the contract fairly; bring projects together to make the whole (programme); commission the projects and measure their effectiveness.

• In addition to specifying its requirements and outputs, the client should tell suppliers what the client will not do.

• When specified by the client, the contractor can align its own internal incentives with those of the client.

• Clients should be willing to clear obstacles for the contractor to benefit suppliers.

• Insurers consider the reputation of the client and its record in delivering projects. Changes in senior management may impact on premiums. Intelligent clients can modify requirements for bonds in relation to the type and structure of the project risks.

• Within certain clients such as the MOD, contractors often have the longest on-project knowledge because of the cycling of senior civil service posts. However, clients can structure which components should be kept in-house and which can be contracted out for external support, while still ensuring a virtual enterprise.

• Public sector clients cannot be a single entity because of the political dimension.

• The client culture can impact on a project – for example the desire for, or avoidance of, new techniques.
• ‘Bottom-up’ impacts on clients can result from trust and results from the supply chain leading to a lighter hands-on role from the client.