



# Performance contracts make sense for more than just energy

X&Y Partners

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## Performance contracts make sense for more than just energy

“ Performance contracts are popular among ESCOs (Energy Service Companies), but they should also be used in other areas

If you want to reduce energy costs but cannot afford the required equipment upgrades, you'll likely find an ESCO (Energy Service Company) willing to install everything for free, in exchange for part of the future savings. But if your company is services based, most likely the bulk of the costs are in human resources and in the supply chain, not in energy. Applying the same ESCO model to these areas can thus make a lot of sense.

The Portuguese NHS (National Health System) recently asked us to assist them in preparing the 2020 Carbon Reduction Strategy for their public healthcare network. The objective of this work was twofold: on the one hand, it should address the sectoral carbon emissions legislations that are being put in place across Europe; on the other hand, it should contribute to reduce the 8.000+ Million Euro budget required to run this network of more than 70 hospitals and 340 primary care centers.

The two objectives are closer than one might think. Of the 26 initiatives analyzed (Exhibit 1), half of them result in carbon reductions and are economically feasible (Exhibit 2).

1	Green purchasing implementation processes and systems	13B	Use of more efficient lighting technologies
2	Optimizing medical consumables utilization	14	Optimizing the use of electrical equipment
3	Optimizing administrative consumables utilization	15	Staff training and awareness for resource reduction and optimization
4	Optimization of Stock Management	16	Hardware and software efficiency improvement
5	Reducing meals environmental impact	17	Targets follow-up procedure creation
6	Cogeneration / trigeneration installation and operation	17	Targets follow-up procedure implementation
7	Use of renewable energy to produce thermal energy	18	Processes dematerialization
8	Use of renewable energy for electricity generation	19	Biomedical waste reduction and triage optimization
9	Optimization of electric bills	19	Urban waste reduction and triage optimization
10	Improving buildings thermal efficiency	20	Water collection and reuse
11A	Improving climate control systems	21	Water consumption reduction
11B	Improvements to existing HVAC systems	22	Staff commuting optimization
11C	Replacement of existing HVAC systems for more efficient technologies	23	Business travel and equipment transport optimization
11D	Improvements to existing ventilation systems	24	Patients transport optimization between health care units
12	Passive ventilation systems adoption	25	Patient's own vehicle use reduction
13A	Lighting control systems improvement	26	Complementary Diagnostic and Therapeutic Exams request optimization and capacity maximization

Supply chain	Energy	Operations	Waste & Water	Transport	Patients
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Source: X&Y Partners

Exhibit 1 - Considered carbon and cost reduction initiatives

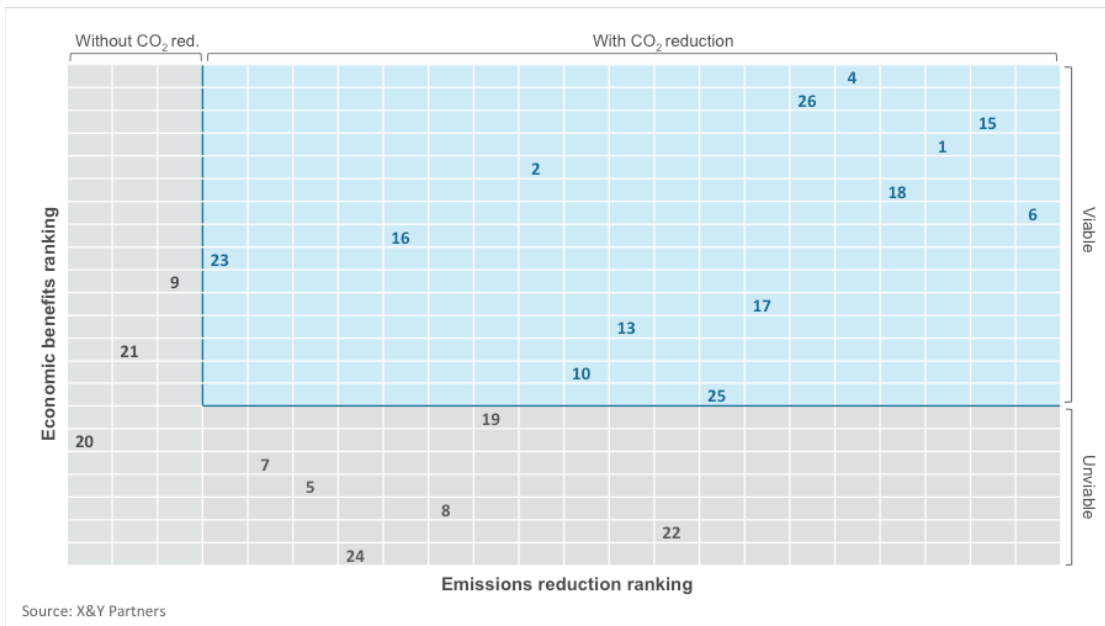


Exhibit 2 - Correlation between environmental and economical benefits, for an illustrative hospital

The other interesting conclusion is that most of the carbon and cost savings potential is not in energy, but in supply chain management and operations. In the two hospitals and one primary care center that we analyzed, energy represented only 26% of the total carbon footprint and 1% of the total budget, while supply chain activities and human resources took more than 50% of the carbon footprint and 85% of the budget (Exhibit 3).

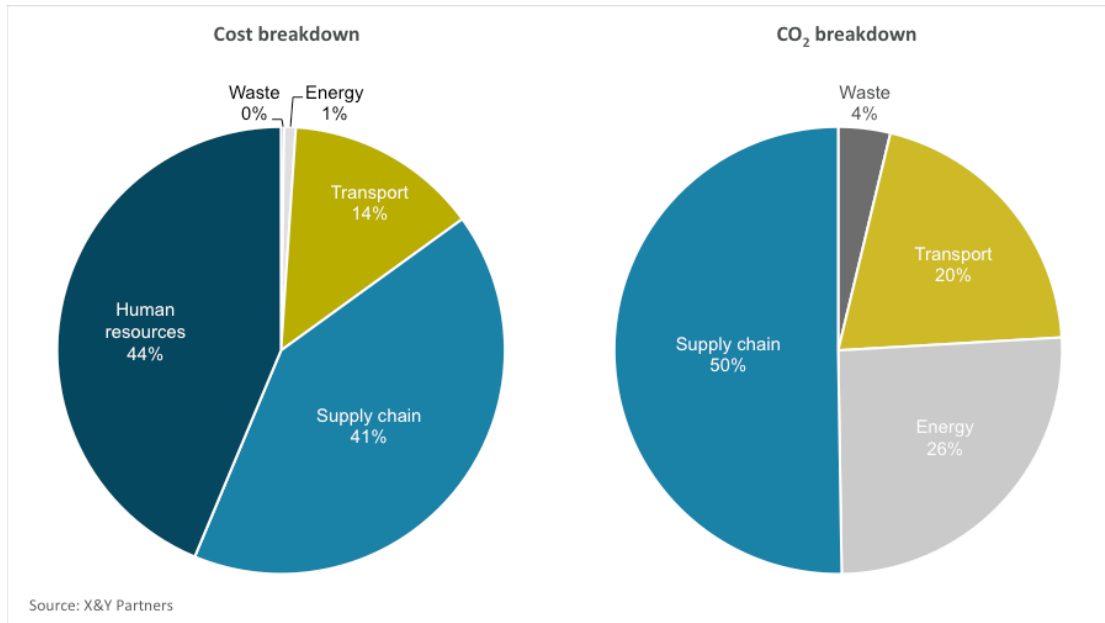


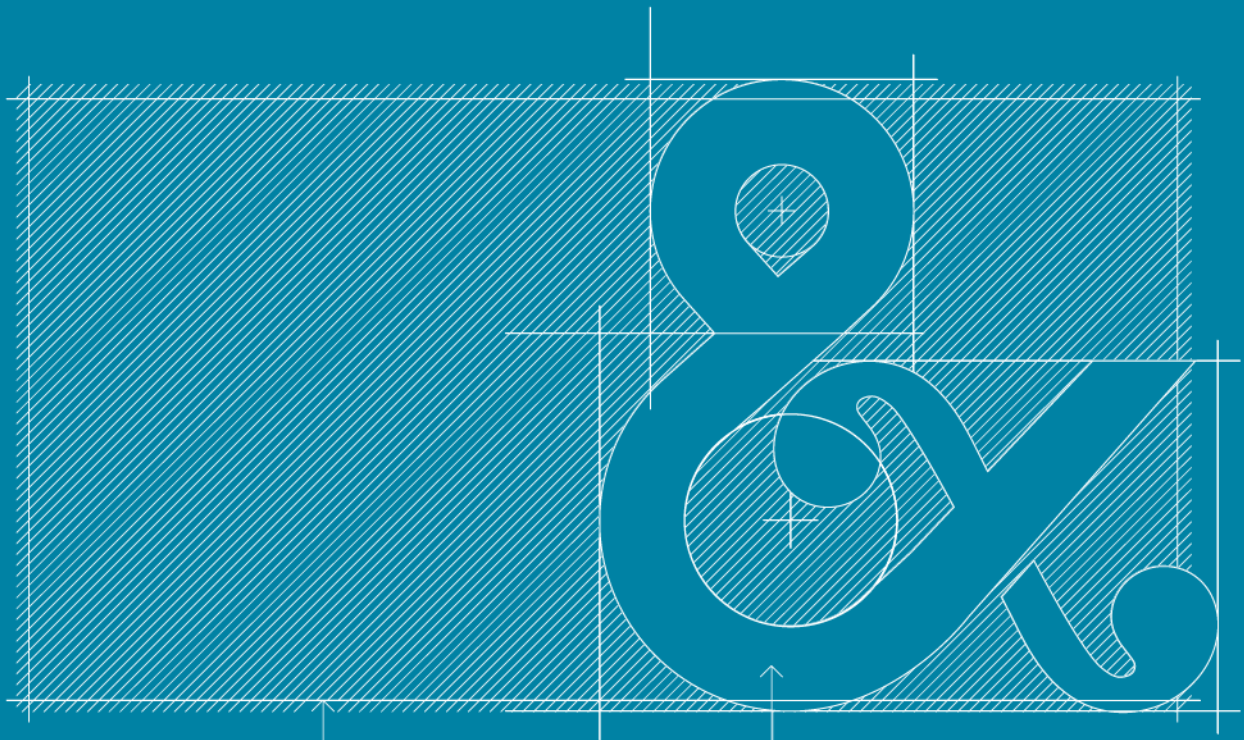
Exhibit 3 - Cost and carbon footprint breakdown

Most of the carbon/cost saving initiatives that can be applied to these areas are based on lean practices that are already common in manufacturing but less so in services, such as smart procurement, Kanban stock management and just-in-time workflows. And, similarly to what already happens with energy efficiency initiatives, the investment required to implement these practices could be financed through a performance contract. Let's take an example:

*Installing a Kanban stock management system in a 600 bed hospital will require an initial investment of approximately 2.2M€. These systems typically lead to a measurable decrease in purchasing of at least 10%, or 1.75M€/year for this example. An investor that takes 25% of these savings for 10 years will thus make a ROI (Return on Investment) of 35% (7% discount rate), which is in line with what ESCOs typically make.*

Besides healthcare, the same model can be applied to other sectors with high procurement and/or human resources costs, such as retail, tourism & travel, telecommunications or the public sector.

Have a look at the attached Point of View for additional information.



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