

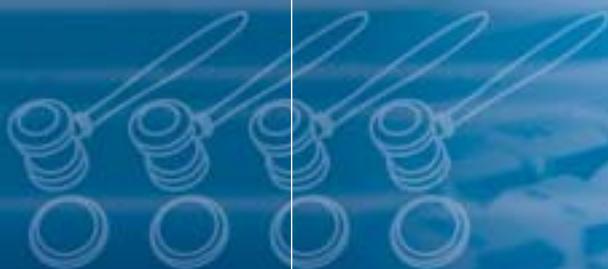


The Benefits of e-Procurement

Local e-Gov - National e-Procurement Project

www.nepp.org.uk

www.idea.gov.uk/knowledge/eprocurement



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local e-gov

Introducing the Benefits of e-Procurement

The National e-procurement Project (NePP) was launched in October 2002. The project has delivered real practical support and guidance to help authorities plan the stages of an e-procurement implementation. Having consulted widely with authorities, we have been able to provide guidance to authorities on the key stumbling blocks on the route to an implementation, providing valuable, focussed guidance for the full range of English Local Authorities.

A key element of the NePP has been the drive towards the uptake of e-procurement. Choosing to adopt e-procurement is never a decision taken solely by the procurement department, it is a corporate decision with wide reaching implications. All e-procurement solutions require preparation, organisational commitment and time investment; most also require a financial investment.

To justify corporate projects of this nature it is necessary to ensure that the benefits will outweigh the costs. The NePP has commissioned a significant study into the benefits of e-procurement using the experience of key pilot authorities who have implemented an e-procurement solution.

The NePP selected the Government Sourcing team from Deloitte to conduct this research. Deloitte have analysed the use of the following technologies in twelve pilot authorities:

- e-purchasing
- procurement cards
- e-tendering
- e-auctions

Studies took place over a three month period and a summary of the results is compiled in the following pages. Four detailed 'How to...' guides for each of the technologies are also available online, giving authorities concise guidance on how to analyse and develop an outline business case for the implementation of each solution in their authority.

The findings of this paper are based on experience of Local Authorities who have implemented e-procurement systems, this provides a sample for analysis, from which reasoned conclusions have been drawn. These conclusions have been further assessed and validated by suppliers of e-procurement solutions and consultancies to Local Authorities.

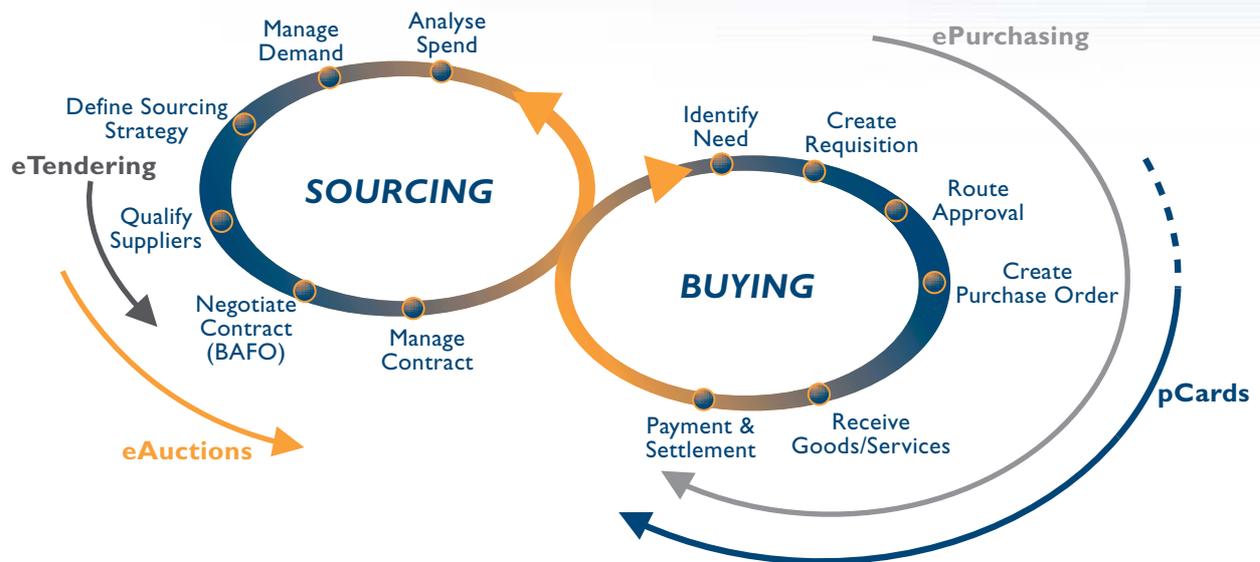
NePP, National e-Procurement Project 2004

Study commissioned by the NePP, research and findings by Deloitte MCS Limited



What is e-Procurement?

e-Procurement is a tool to enable procurement activities, including sourcing, ordering, commissioning, receiving and making payments for the whole spectrum of an authority's activities. The prime objective is to e-enable the management of the supply chain that can be achieved by stand alone, shared or integrated software tools.



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Sourcing is the process by which an authority identifies, selects, and manages its suppliers.

Buying goods and services is the transactional process executed by many members of the authority during the day to day delivery of services.

e-Procurement is a collective term for a range of technologies that can be used to automate the internal and external processes associated with sourcing and buying.

This strand of the NePP project has focused on two solutions that e-enable sourcing (e-tendering and e-auctions) and two solutions that e-enable buying (e-purchasing and procurement cards).

Why should I be interested?

There is increasing evidence that best practice procurement coupled with e-procurement solutions can deliver significant benefits to authorities, as the following table illustrates;

Sourcing	Expected benefits
Reduction in the cost of goods and services	£1.1bn*
e-Tendering process efficiencies	725 Full time equivalents**
e-Tendering overhead cost savings	£8m*
Buying	
e-Purchasing & procurement card process efficiencies	2,560 Full time equivalents**

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*Using an average potential saving across all authorities

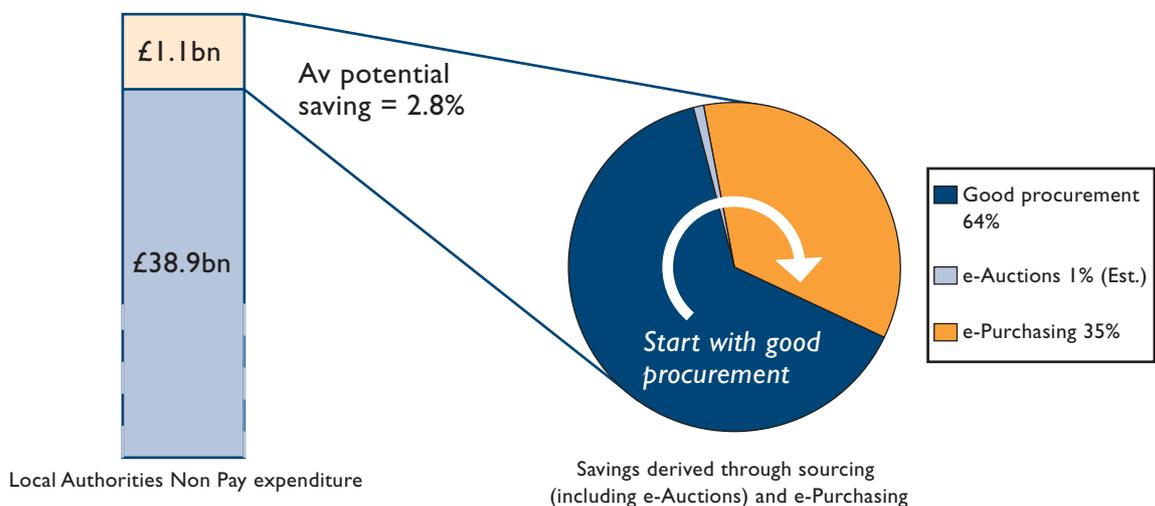
** Process efficiencies are achieved from the entire purchase to pay cycle and are indicative of capacity made available for front-line activities

Where do the savings come from?

Target benefits have been determined through a comprehensive review of the empirical evidence available. However, it should be recognised that there is a significantly larger pool of evidence for the more mature solutions, of e-purchasing and procurement cards, than for the emerging solutions of e-tendering and e-auctions.

What are the benefits?

Reduction in the cost of goods and services. In an average authority e-purchasing can deliver savings of 2.8% of total non-pay expenditure.



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Process efficiencies:

- e-Purchasing can deliver average savings of £26 per transaction
- Procurement cards can deliver average savings of £33 per transaction
- e-Tendering can deliver average savings of 13% for a RFQ, 21% for a non-OJEU tender and 25% for an OJEU tender;
- e-Auctions can deliver savings in process time and costs associated with the Best and Final Offer (BAFO) stage of a procurement. There is insufficient evidence in local authorities to quantify this benefit.

Overhead costs: total potential savings of £8m are available across all authorities from reducing the overhead costs of tenders.

Valuable **intangible benefits** to an authority include:

- Enabling staff to concentrate on their prime function;
- Meeting the Prompt Payment Targets and statute;
- Meeting e-government targets and;
- Financial transparency and accountability.

Benefits to suppliers - reduction in ordering and processing costs, reduced paperwork, improved cash flow and reduced cost of credit control.

How much can be saved?

To put the tangible savings into perspective, the following tables summarise indicative benefits for an individual authority and for local government overall. These benefits will need to be validated through a specific business case for an authority.

Reduction in the cost of goods and services			
	Low (£m)	Average (£m)	High (£m)
All Authorities:	480	1,120	1,800
Per authority			
County	2.1	4.9	7.9
Unitary	1.5	3.5	5.6
District	0.2	0.4	0.7

Tendering Process Efficiencies (FTE)					
	RFQ (FTE)	Non-OJEU (FTE)	OJEU (FTE)	Total per Authority (FTE)	Total all Authorities (FTE)
All Authorities					726
Per Authority					
County	0.8	3.8	2.4	7	238
Unitary	0.7	1.1	0.6	2.4	274
District	0.3	0.5	0.1	0.9	214

e-Purchasing and procurement card process efficiencies (FTE)		
	Total per Authority (FTE)	Total all Authorities (FTE)
All Authorities		2,560
Per Authority		
County	18	612
Unitary	15	1,710
District	1	238

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Note: 'Unitary' includes Metropolitan & City Councils and London Boroughs

e-Procurement can, therefore, play a key role in helping an authority to make best use of its resources whilst, releasing money and time to be invested in improved service delivery or key technology initiatives.

How can I assess the benefits for my authority?

The level of benefits attained will be influenced by the profile of an authority and the sophistication of its procurement capability across the four dimensions – strategy, technology, processes and organisation. The following “self-assessment template” enables an authority to determine where it is positioned on the benefits range; the greater the degree of sophistication of procurement within an authority, the lower the potential savings that can be realised.

ENABLERS	Level of Benefit Opportunity	
	MIN	MAX
Authority Profile		
Value of non-pay expenditure	Low value	High value
Spend Profile	Low addressable %	High addressable %
Procurement Strategy		
Strategy	Implemented	None
Organisation	Corporate and aligned with services	Decentralised. Viewed as a support function
Supplier Management		
Supplier selection	Few suppliers strategically chosen	Many suppliers, chosen for specific transactions
Relationships with suppliers	Strategic alliances	Adversarial
Supplier performance measurement	Continual	None
Procurement Process		
Forecasting of demand	Aggregated	Departmental
Order fulfilment	Automated	Manual
Technology		
Technology characteristics	Integrated solution	Stand alone system
Purchasing information	Comprehensive	Minimal
External Collaboration		
Collaboration arrangements	Collaborative agreements	Independent agreements

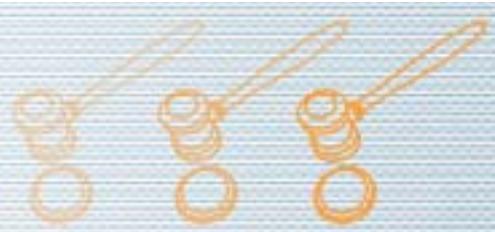
What is an appropriate level of investment?

The costs of implementing an e-procurement solution comprise the hardware and software costs and the resources for project management, process design and change management.

e-Procurement Solution	Indicative costs * (£)
e-Purchasing	£200k - £1m+
Procurement cards	£500 - £16,000 per annum
e-Tendering	Package on-site: £80-150k Package off site: £18-60k per annum
e-Auctions	Managed event: £15-80k Supported event: £5-15k Self-service: £1-5k

* Source: stakeholder workshops.

Collaboration between authorities to jointly procure solutions can reduce the costs incurred by individual authorities.



What are the challenges?

The key challenges to delivering benefits from e-procurement are:

- Maximising on the benefits of e Procurement is conditional on implementing good procurement practice.
- Authorities will need to invest time and money to both identify their opportunity from e-procurement and to deliver the expected benefits. The cost of developing an Outline Business Case using external advisors will be in the range of £15-30k, this cost could be shared amongst a group of authorities working together. The cost of project managing an implementation can be significant, this cost should be assessed as part of the business case.
- Achieving a reduction in the cost of goods and services is critically dependent upon the implementation of good procurement practices, including the use of technology to enforce compliance. Benefits are achieved from strategic sourcing first, followed by culture change, and then the implementation of technology.
- Achieving process efficiencies is critically dependent upon business process redesign, with the technology enabling process simplification and automation.
- Delivering benefits may involve a combination of technologies, such as an e-marketplace for ordering goods and procurement cards for their payment.
- Full benefits will be delivered over a 3-5 year period. This allows time for e-procurement technology to be deployed, business processes to be changed and existing contracts to expire. Sustained commitment over the medium term is, therefore, essential.
- A choice of technology solutions is available. Authorities will, therefore, need to assess what is the right solution, or combination of solutions, for them.
- Achieving the benefits of e-procurement will require the updating of current practices towards best practice. Change management is, therefore, critical to the success of e-procurement.
- e-Procurement lends itself to collaborative arrangements. Combining the purchasing power of organisations is likely to enhance the benefits from a reduction in the cost of goods and services and implementation costs.
- e-Procurement will provide management with choices for benefit recovery e.g. budget cuts, increasing service levels or creating a fund for performance improvement initiatives. Authorities will, therefore, need to define their strategy.

Where can I get further information?

Detailed “How to” guidance notes for e-purchasing, procurement cards, e-tendering and e-auctions are available on the IDeA Knowledge website. They contain fuller information on the benefits available from e-procurement including suggested benchmarks, how to identify your benefits opportunity and how to deliver that opportunity.

A summary of the NePP’s guidance is also available, this provides an overview of the key issues facing authorities in the implementation of e-procurement, including the following: Preparing for e-procurement, Choosing the solution, Supplier Adoption, Implementing e-procurement, Collaboration and Regional Solutions.

In addition, other NePP guidance notes address core issues around the delivery of benefits, such as choosing a solution, change management and supplier adoption. These guidance notes can also be found on the IDeA Knowledge website (www.idea.gov.uk/knowledge/eprocurement/).

The Benefits of e-Procurement

Local e-Gov - National e-Procurement Project

Lead Authority:

- Portsmouth City Council

Research and Findings by:

- Deloitte MCS Limited

Pilot Authorities:

- Corby Borough Council
- Cheshire County Council
- Gateshead Metropolitan Borough Council
- Hertfordshire County Council
- Kirklees Metropolitan Borough Council
- Leeds City Council
- London Borough of Havering
- Nottingham City Council
- Portsmouth City Council
- Solihull Metropolitan Borough Council
- Warrington Borough Council

Input and guidance gratefully received from:

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- Cambridgeshire County Council
- CGEY
- Employers Organisation for local government
- Hampshire County Council
- Huntingdonshire District Council
- London Borough of Newham
- NC Soft
- Office of Government Commerce
- Peoplesoft
- Sensa
- Slough Borough Council
- Staffordshire County Council
- UK Procure
- Visa International
- West Sussex County Council

Project Management by:

- Ticon UK Limited