



# Building the Business Case for e-Procurement / ROI

**A BuyIT e-Procurement Best Practice Guideline  
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# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline



### Contents

1	Building the business case for e-Procurement.....	5
2	e-Procurement as part of an effective procurement strategy.....	5
3	Why invest in e-Procurement?.....	6
4	How does e-Procurement work and what are the options?.....	7
5	How does a company achieve the Return on Investment?.....	8
5.1	Benefits from e-enabling transactions.....	9
5.1.1	Transaction benefits.....	9
5.1.2	Compliance benefits.....	9
5.1.3	Management information benefits.....	10
5.1.4	Price benefits.....	10
5.1.5	Payment benefits.....	11
5.2	e-Sourcing and Internet auctions.....	11
5.3	Why act now?.....	12
5.3.1	Think big, start small, manage tightly and scale up fast.....	12
5.3.2	Pilots.....	12
5.4	The barriers and risks.....	12
5.4.1	Need for visible executive sponsorship.....	13
5.4.2	Motivating end-users.....	13
5.4.3	Cross-company cultural differences.....	13
5.4.4	Bringing the suppliers on-board.....	14
5.4.5	Avoid being seduced by the technology.....	14
6	Managing the catalogues.....	14
7	Marketplaces.....	15
7.1	Independent marketplaces.....	15
7.2	Private marketplaces.....	16
8	Components of the business case.....	17
8.1	The Benefits.....	17
8.1.1	Transactional benefits.....	17

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

8.1.2	Compliance benefits .....	17
8.1.3	Management information benefits .....	17
8.1.4	Price benefits .....	17
8.1.5	Payment benefits .....	18
8.1.6	Intangible benefits .....	18
8.2	The cost elements .....	18
8.3	The process .....	20
8.3.1	Present case .....	21
8.3.2	Issue specification of requirements .....	21
9	Tips .....	21
10	A business case template .....	22
10.1	Management summary .....	22
10.2	Background .....	23
10.3	Strategic fit .....	23
10.4	Market analysis .....	23
10.5	Project proposal .....	23
10.6	Commercial considerations .....	23
10.7	Financial analysis .....	23
10.8	Risks and sensitivities .....	24
10.9	Other options .....	24
10.10	Implementation .....	24
10.11	Recommendation .....	24
11	Conclusion .....	24

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

### Foreword

Stephen Timms

In order to respond to the e-Business challenge we must seize every opportunity: in selling, improving core business processes and in purchasing. e-Procurement is, in theory, the easiest and safest of these - but too few firms are actually implementing it. And it is vital, if we wish to maintain our leading position, that we take action to increase the understanding and confidence among companies in the UK.

I am therefore delighted to be able to welcome the publication of these revised e-Procurement Guidelines, which are designed to help purchasers and suppliers understand e-Procurement. By taking advantage of the Internet, purchasing organisations will be able to become more efficient in the way they buy from, and collaborate with, their suppliers. The Guidelines include a framework to help them build the business case.

Now is the time to act.

Stephen Timms, Minister of State for E-Commerce and Competitiveness

Alistair Fulton

The original version of this guideline, published in December 2000 set out to capture our members' early experience of implementing e-Procurement systems and to bring this to the attention of UK organisations to help them adopt best practice. The purpose of this updated version is to reflect a consensus on what is now understood to be best practice by the leading e-Procurement practitioners – purchasers and suppliers, system providers and consultancies, who have been generous with their time and information. I am grateful for the support of our members and I am delighted that the Minister of State for E-Commerce and Competitiveness continues to support our efforts.

Alistair Fulton, Chairman of BuyIT

Ken James

e-Procurement is changing the dynamics of purchasing and supply management in all organisations. Consequently there is greater emphasis on cost, knowledge management and culture. CIPS is pleased to have worked with BuyIT to produce this e-Procurement Guideline which will enable many more organisations to successfully introduce e-Procurement strategies.

Ken James, Chief Executive, Chartered Institute of Purchasing & Supply

# Building the Business Case

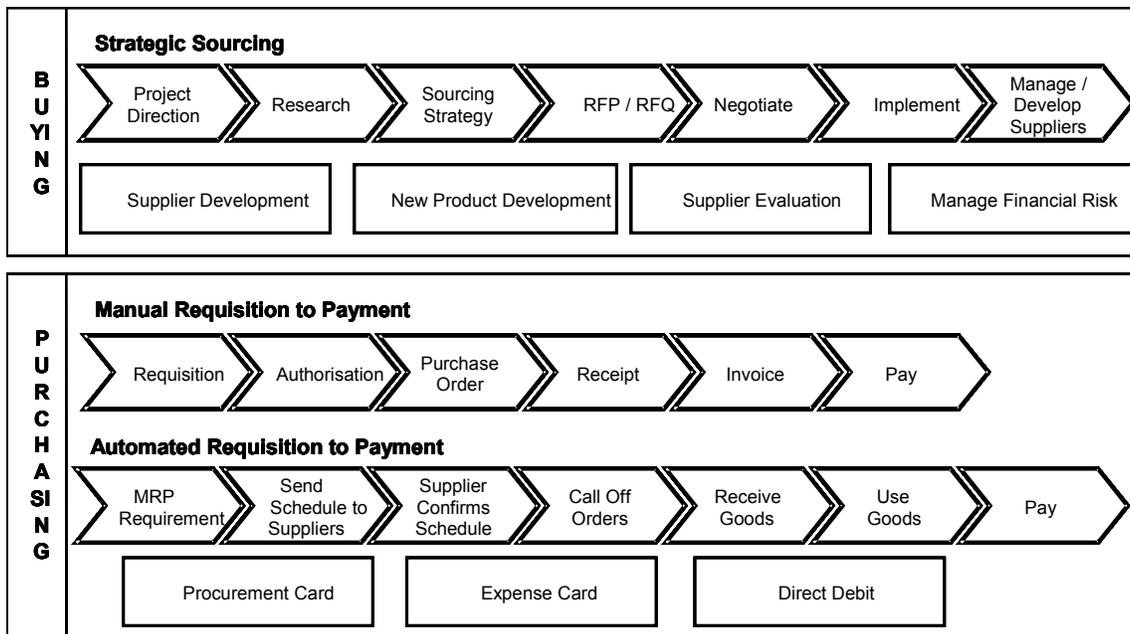
## A BuyIT e-Procurement Best Practice Guideline

### 1 Building the business case for e-Procurement

This guideline is aimed primarily at the heads of purchasing organisations. It focuses on building the business case to take advantage of the benefits available from the introduction of e-enabled purchasing.<sup>1</sup>

For the purposes of this guideline, e-Procurement covers the procurement process from sourcing through to the transactional activities and payment. Implementation of e-Procurement automates the internal and external processes associated with the procurement process.

The main procurement processes can be described as in the following document. Basically, they are separated between the sourcing process (negotiation of commercial agreements with suppliers) and the purchasing process (purchasing items at the user level from existing contracts). The e-enabled processes referred to are e-Procurement, e-Purchasing and e-Sourcing.



### 2 e-Procurement as part of an effective procurement strategy

Although e-Procurement is often a catalyst for the Board to focus on purchasing, it should always be seen in the context of an effective procurement strategy.

<sup>1</sup> Input and data for this Guideline comes from the experiences of BuyIT e- Procurement Network members.

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

Different organisations are at different stages of development of their procurement capability. The internal procurement department needs to be sufficiently developed to implement e-Procurement. It is usually regarded as stage three in a four-stage sequence:

1. Purchasing as a cost centre – little data collection or control, not IT enabled, no focus on supplier relationships. A business-to-business supplier will recognise this stage in its customers who depend on them for data to understand their purchasing activities.
2. Strategic sourcing introduced – recognition of purchasing as a key area for leveraged cost improvement. Managed selection of suppliers for higher value purchasing, better data collection (usually still outside the ERP), but ‘maverick’ buying is rife.
3. e-Procurement - brings enterprise level visibility of all purchasing at little cost for the first time. Creates the opportunity for effective end-user relationship with suppliers under centralised control.
4. The future – sourcing and purchasing as part of a global trading community. Real-time transactions, collaborative relationships, dynamic control vested in end-users within strict commercially-based governance.

Also, it is vital to acknowledge e-Procurement should not be implemented as a standalone project within the purchasing department, but in conjunction with other initiatives underway. For example, if an organisation aims to introduce e-Requisition tools and catalogues for the IT consumables category, it should first perform a strategic sourcing project on this category to ensure it has a sound commercial agreement, covering all its needs, from a supplier that is able to take part in its e-Procurement initiative.

Some example pitfalls of not implementing e-Procurement as part of the wider procurement strategy could be:

- Implementing catalogues that do not provide sufficient coverage of a category and hence do not generate large transaction volumes or savings.
- Implementing catalogues from several suppliers for one category, when the suppliers should have been rationalised. This will increase costs and reduce savings potential.

### 3 Why invest in e-Procurement?

In times of economic uncertainty and slow-growing revenues, reducing the cost base of an organisation is the single measure that can best improve the bottom line. For a typical company, a 5% reduction in purchasing cost can increase the bottom line as much as a 30% increase in sales.

‘Indirect’ goods and services spend presents a huge opportunity. Benchmarks show that on average 36% of organisations' external spend is on indirect goods and services, including office equipment, stationery, printing, repair and maintenance supplies, IT resources, travel, contract staff, consultants and contractors.

Over the last few years numerous Internet enabled applications have been developed to help organisations achieve procurement savings and e-Procurement projects have been as integral to organisations' procurement strategies to achieve these cost reductions.

e-Procurement is often perceived as the least risky e-Business initiative: the quantified benefits of e-Procurement are well-documented and it can be piloted in non-competitive areas of the business, where the commercial consequences of conducting unsuccessful trials are minimal.

The e-enablement of purchasing activities often starts with transacting low value, high volume non-strategic goods and services that support the business – variously described as 'Indirects', ‘MRO’ (maintenance, repair & operations) or NPR (non-production related). The main benefits of e-Purchasing lie in reduced transaction costs

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

and better compliance to pre-negotiated contracts.

Also many organisations – and increasingly government bodies- are turning to online auctions and online sourcing to negotiate and buy online a wide range of goods, often including IT hardware and consumables.

As the e-Procurement solutions market matures it is also beginning to offer e-Procurement of more complex products and services, and ‘Directs’ or ‘Goods for Resale’. The latter takes us into e-Collaboration with suppliers - a major topic in itself, which will not be dealt with here but will be picked up in a future BuyIT guideline.

The procurement of non-production goods and services is seldom automated and controlled effectively. e-Procurement of these Indirect supplies provides a quick, low risk opportunity to deliver e-Commerce capabilities into the business, improve service to end-users and save money – savings which go straight to the bottom line and recur year on year. e-Procurement, however, is more than e-enabling a purchasing relationship with low-value suppliers. Choosing the right solution/s has become complex, and implementing it involves reconsidering some basic business processes.

### **4 How does e-Procurement work and what are the options?**

There is a range of in-house and outsourced solutions available to achieve this.

e-Procurement applications can be divided into 2 types. First e-Requisition applications are focused on the purchasing by end users of goods and services. e-Sourcing applications focus on facilitating the commercial negotiation with the company’s suppliers. These applications often include e-Auction functionality.

From a technical point of view, e-Procurement solutions can be stand-alone, with no more than a data interface with back office systems. This is often seen as an interim solution (e.g. while diverse ERP platforms are brought into line) to full integration, which provides the greatest transaction cost benefits.

These applications are available through a wide range of ‘channels’:

- Companies can buy software licenses and install e-Procurement applications behind their firewall
- use an Application Service Provider (ASP).

This is generally the case for e-Sourcing applications. In some cases the company will wish to provide a private marketplace for selected suppliers to carry out transactions, encouraging collaboration across the supply chain. The company may also join an industry sponsored electronic exchange – whether sector-focused (vertical marketplaces) or general (horizontal marketplaces) to buy and sell.

This document provides an overview of these options. The market is too complex and fast-moving for a detailed profile to be included in this guideline.

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## A BuyIT e-Procurement Best Practice Guideline

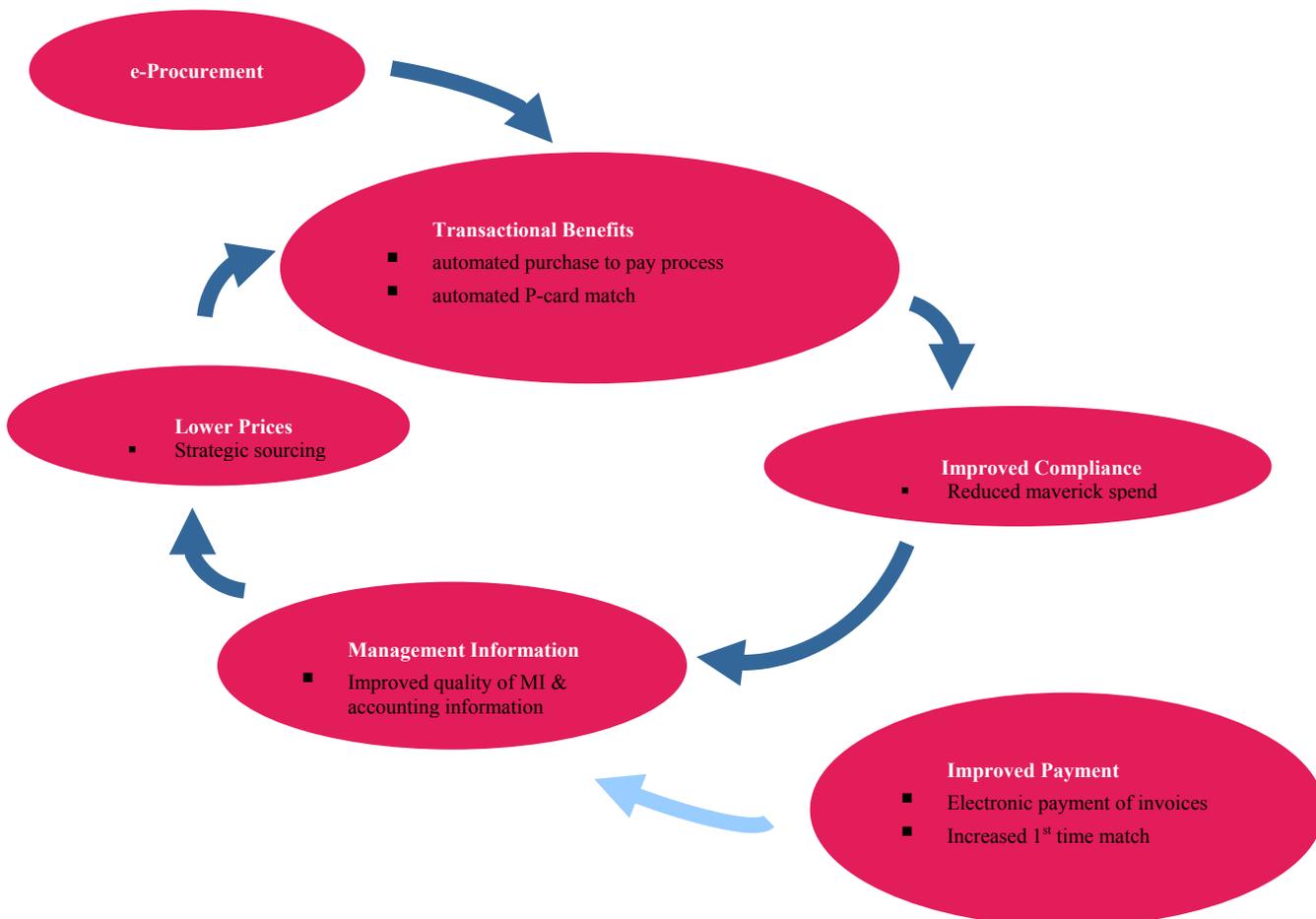
### 5 How does a company achieve the Return on Investment?

Early adopters of e-Procurement, including Reuters, CISCO, HP, Visa, Swiss Air Group, Phillips and Honeywell, claimed savings on their 'indirect' spend of between 8 and 15% and sub 12 month project paybacks. Benchmark studies and research were also undertaken by organisation such as North American Purchasing Managers Association, Gartner, Forrester and Aberdeen which supported these claims as achievable.

However more recently there has been a shift towards more realistic ROI figures and payback timescales. These recognise that organisations which have already introduced strategic sourcing will have taken out some of the cost saving benefits available. Discussions at the BuyIT e-Procurement Experience-Sharing Group suggest that realistic annual savings from initial e-Procurement projects are roughly twice the project investment costs but that, due to ramp up times for the savings, payback timescales may be longer than a year.

The main savings drivers for e-Procurement are - Transactional benefits, Compliance benefits, Management information benefits, Price benefits and Payment benefits.

These are interdependent, as illustrated:



# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

There are two sources of tangible benefit achievable from e-Procurement:

- Reduction in **purchase price** – direct delivery of savings to the bottom line. Implementing a transaction –e-Purchasing- tool will not in itself reduce the price paid to suppliers for goods and services. Through an increase in contract compliance (users buying from pre-negotiated supplier contracts rather than locally) the overall price paid for goods and services should decrease. e-Sourcing applications support commercial negotiation processes with suppliers to improve supply conditions and price
- Reduction in **process costs** – more effective use of time, which can be translated into financial benefit if properly managed and measured

There are also Intangible benefits, such as cultural change and enabling e-Business into the organisation which are not measurable but may be a motivation to introduce e-Procurement. It is important not to misclassify ‘soft’ but measurable benefits as intangible, just because measurement may be more difficult.

For more on measuring benefits see the BuyIT Guideline: Measuring the benefits from e-Procurement – what to measure and how to measure it. Available at [www.buyitnet.org](http://www.buyitnet.org).

[Note that e-Collaboration benefits are not dealt with in this guideline.]

### 5.1 Benefits from e-enabling transactions

This section discusses the benefits from e-Purchasing applications; e-Sourcing applications will be addressed in a separate section.

#### Transaction benefits

Until now, in many organisations, only the higher value suppliers have been actively managed. Using e-Procurement to focus on the remainder can save a further 20% of total support costs (*source: Aberdeen Group*).

e-Procurement enables the purchase to pay process online. A typical example of the electronic processing of the requisition to payment cycle uses a web based transacting tool whereby items are selected predominantly from pre-sourced catalogues and submitted for electronic approval. This tool is then linked to the back end ERP system for entry, payment of invoices and collation of management information.

Automating the purchase to pay process (including automation of P-card purchasing) leads to greater time savings and efficiency due to:

- global, automated, processes incorporating best practice and eliminating unnecessary activities
- e-enabled relationship with suppliers speeds procurement cycle times and facilitates supplier performance improvements
- greater data accuracy minimises ordering inaccuracies and provides the essential foundation for better management through measurement and analysis.

#### Compliance benefits

In many cases within an organisation, compliance and maverick spend is a significant issue, not because employees deliberately purchase outside of preferred arrangements, but rather through lack of awareness that a

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

preferred arrangement is in place. e-Procurement addresses this issue through tools such as catalogues and standard order processing and approval processes.

Users going outside corporate supply contracts to buy PCs or paperclips locally can represent as much as 80% of external support spend. Although the reasons for local purchasing are often justified (centrally negotiated contracts out of step with end user needs, corporate benefits poorly communicated, no direct benefit to local unit,...) it typically costs organisations 20% more than it should for the items bought (source: Gartner). Savings of up to 37% are claimed from improved compliance using e-Procurement (source: PWC). However, end-users will only comply if:

- they perceive the benefits - see “The barriers and risks” in section 5.4
- there is a simple and quick requisition to payment process e.g. user friendly interface, pre-sourced catalogues tailored to the requirements of the individual user
- they have access to a simple and quick strategic sourcing process e.g. standard procurement processes and tools, easily accessible information
- the e-Purchasing system is the only purchasing mechanism available.

In addition to the role of compliance as the key to better management information and price negotiation benefits, adherence to pre-negotiated supplier agreements and a reduction in maverick spend will in itself reduce price, i.e. spend which occurs outside of the defined procurement process is more expensive in terms of company wide costs than negotiated company wide contracts.

### Management information benefits

The fact that key information (cost centre, commodity codes etc) is hard coded against the user dramatically reduces coding errors and provides highly detailed and easily accessible data. This is essential to maximise the financial benefits of strategic sourcing. A successful e-Procurement implementation will provide high quality detailed management information and will minimise the need for data warehousing or resource-heavy data mining.

Reports from the management system will enable the improvement of service to end-users and allow effective monitoring as to where the system is not being used, so that the necessary action can be taken to improve the service, communicate this to end-users and convince them of the value of using the e-Procurement system.

### Price benefits

Implementing an e-Purchasing system will not itself reduce the individual price of goods and services provided by a supplier. e-Purchasing is, however, a powerful way to ensure benefits captured during a strategic sourcing effort effectively translate into savings and are not lost through poor contract compliance.

In turn, e-Purchasing can become a source of data for strategic sourcing activities and lead to:

- identification of cost saving opportunities through supplier spend consolidation, which might lead to placing improved national or global contracts, e.g. for IT. Typically, savings of over 10% can be made through optimising contracts nationally and (if appropriate) globally (*source: Benchmark Partners*)
- the ability to treat low value, high volume spend strategically. Central monitoring captures ‘demand’ from end users as it arises and determines where additional savings can be made
- the ability to prove to suppliers that using e-Purchasing as a tool ensures end users do honour their

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

preferred contract status.

This will enhance ability to negotiate down prices through:

- greatly enhanced capture and therefore reliability of spend information
- increased confidence that spend volumes can be guaranteed from increased compliance with the system thus allowing volume price breaks and discounts to be achieved
- knowing what is being purchased will help drive standardisation across the organisation, leading to lower support costs (e.g. IT).

### Payment benefits

The successful operation of the first four benefits enables electronic payment of invoices. The benefits of e-Invoicing are often under-assessed or ignored.

This includes the ability for the Accounts Payable/Finance department to better control business cashflow and manage the efficient payment of suppliers due to more streamlined procurement processes providing more timely and accurate information to the Accounts Payable department.

Potential benefits include reduced manpower and reduced spend on postage and stationery. A purchase order is said to cost an average of £65. Savings of up to 90% on purchase order costs have been quoted by HP (£100–£10) and 70% at US-based Amgen (£40–£12 using the Chemdex marketplace). Much of this is achieved by reducing staffing levels, without which an organisation will not get anything like these levels of bottom-line savings. Many companies are down-playing this as a tangible benefit as they do not plan to reduce headcount as a result.

During negotiations the Procurement Manager can more credibly guarantee the supplier a level of prompt payment (e.g. 95% on terms), which was not possible prior to e-Procurement. A better price can be negotiated as a result.

### 5.2 e-Sourcing and Internet auctions

e-Sourcing is the process of researching and negotiating commercial agreements with suppliers online.

Currently e-Sourcing applications offer 2 main functionalities:

- Online RFQ (or RFI). The buyer asks potential suppliers about their company and their goods & services. The answers will then be analysed through the application
- Online auctions. The buyer invites suppliers to bid for a contract. Suppliers bid by lowering the price at which they are ready to supply the goods or services.

e-Sourcing can be a very fast and cost effective way to start using e-Procurement applications. It can also help determine the price and commercial terms of the goods to be contained in the e-Purchasing catalogues.

Savings in the range 10 – 20% can be achieved from first runs of on-line bidding and auctions, with further gains of 3 – 7% on second runs of the programmes. This applies principally to commodity buying where there is little value in a sustained supplier relationship, but it is too early to know whether this level of savings will be realisable in the longer-term. Here again, the IT hardware and consumables categories are often part of the first wave of e-Sourcing implementation.

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

In the public sector this needs particular attention to ensure the principles of transparency and equity of treatment for suppliers are respected and demonstrable for audit.

Many of the leading vendors now sell an integrated strategic sourcing tool to complement their existing e-Procurement offerings, although this is still an immature area and often organisations implement different, non-integrated, solutions.

### 5.3 Why act now?

#### Think big, start small, manage tightly and scale up fast

Organisations implementing e-Procurement have confirmed the real benefits of 'learning by doing' through the realisation of pilot programmes, because:

- The market continues to change
- It's not about technology – the real lessons are in the 'soft' issues surrounding implementation
- The experience of these organisations confirms the importance of quickly undertaking short pilots (e.g. 90–100 days) before moving ahead with a full-scale roll-out.

The consensus is to think big, start small, manage tightly and scale up fast.

#### Pilots

Most organisations start an e-Procurement project by running selected pilots rather than through a 'big bang' approach.

The value of the pilot will be greater if it includes a few areas where e-Procurement can add particular value or it is expected that problems may arise. However, do not underestimate the importance of a successful pilot in setting expectations and the damage to credibility if it fails – don't be too ambitious.

Pilots should be limited in scope – for example, selected combinations of purchase types and customers; interfacing rather than integration with ERP and accounts payables systems. They should enable the company to gain experience and learn lessons, including:

- An understanding of the concepts, introducing them into the thinking of the organisation
- An exploration of the 'soft' (people) issues surrounding implementation; e-Procurement will challenge attitudes and change the way people work. The key to success is the ability to motivate and support the right people
- An opportunity to evaluate the available technology and check for scalability, to look at internal skills and decide between doing things in-house or bringing in specialist service providers
- The qualitative and quantitative 'proof of concept' for a final business case.

### 5.4 The barriers and risks

Introduction of e-Procurement entails major changes, often apparently running counter to the corporate culture, which in most organisations is to empower local business units. Care will be needed to manage the 'soft' aspects including:

- Need for visible executive sponsorship

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

- Motivating end-users to adopt the new systems
- Re-engineering internal processes and dealing with cross-company cultural differences
- and effort will be needed to avoid being seduced by the technology.

### Need for visible executive sponsorship

Clear executive sponsorship is critical to provide guidance and project sponsorship and to get all the different e-Procurement stakeholders to actively take part in the success of the project. A clear example of this was the very strong stance taken by the CEO of one large organisation in May 1999. When he declared his company would achieve results from its e-Business strategy by year's end, it was a tall order. Within eight weeks, a strategy team delivered a statement of intent to move forward over the next 18 months. In tandem, they launched a significant number of e-Business initiatives aimed at reaching out to suppliers and customers.

In less than 90 days, the organisation's first four e-Procurement sites went live in Europe and the United States--with an additional 16 sites up and running just 120 days later.

### Motivating end-users

Talk to the end-users about their requirements and explain the benefits to them. End-users will only want to use the system if they have a say in what is offered and if it is 'sold' to them as offering real benefits; typically:

- **Easier** – no hassle, 'click to order' from desktop PC, reducing staff time invested
- **Faster** – instant processing of order and speedier response
- **Better** – improved quality of service e.g. delivery-to-desk
- **Cheaper** – better value for money, budgets will stretch further. NB: e-Procurement must deliver savings on the end-user's bottom line – they won't bother if the savings only benefit the central procurement department.

A well designed e-Procurement system should provide:

- A simple to use and intuitive front end
- A 'one-stop-shop'
- Full visibility of the status of their requests
- Simple workflow rules to enable authorisation to be carried out with minimal delay.

Careful selection of suppliers (and the products they offer) is essential to motivate the end users to rely on the e-Purchasing system rather than on traditional manual orders.

### Cross-company cultural differences

Experience has shown that overcoming cross-company cultural differences (cross department in public sector organisations) represent the major challenge, rather than technical or process issues. These 'soft' issues are different in each organisation and need to be identified and addressed – a key objective for the pilot scheme.

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

### Bringing the suppliers on-board

When implementing an e-Purchasing application, supplier engagement is a crucial success factor. They will provide all the information necessary to build and maintain catalogues, and have to integrate with the technology platform that is to be set-up.

Some supplier companies are still not ready to integrate e-Procurement, while others are veterans of several e-Procurement projects. An e-readiness analysis of the supply base is essential when selecting which suppliers to bring online (this especially for pilots).

However, obtaining positive supplier engagement can be a difficult task. The market is not yet mature enough for clear benefits to all suppliers to emerge, so some are hanging back. e-Procurement implementation requires on-line suppliers, so attention to working with them needs to be given early on in planning. The BuyIT workbook: Getting Ready for e-Business is available on the BuyIT website for use in working with suppliers.

The system must succeed – it's not the supplier who will get the blame if it does not deliver the benefits. That's why the pilot is so important.

Avoid the 'chicken and egg' problem – ensure that the system has a sufficient critical mass of key suppliers by the time end-users are asked to try the system.

### Avoid being seduced by the technology

A real risk is that senior management becomes seduced by the new opportunities being made available as a result of the web technology and abdicates good business judgment. Boards are getting involved in more and more IT decisions, which is what is needed for the future, but high risk if they don't have the skills but think they do!

- Keep in mind where benefits will come from (some of the benefits claimed by service providers may already have been realised by good procurement management practice)
- Avoid double-counting the benefits (e.g. links with ERP justification)
- Recognise that many of the cost areas are still relatively uncertain (e-Procurement software, catalogue solutions, middleware, integration etc.) and may need to be revisited.

## 6 Managing the catalogues

Electronic catalogues of the goods and services provided by a supplier are at the heart of all e-Purchasing systems. A major learning point from early e-Purchasing projects is the importance - and difficulty - of managing electronic catalogues and their content. When preparing an e-Purchasing programme plan, experience shows 30% or more of the effort will be managing suppliers and getting content online (Accenture benchmark).

An electronic catalogue will typically contain the name of the products, the product hierarchy, a description, its price and all relevant supplier codes and internal codes. These catalogues may contain several hundred or several thousand items per supplier and have to be created, approved and updated so the end users can have access the goods and services they require.

This aspect will become one of the major technical preoccupations of an e-Purchasing project and is where interaction with the suppliers will be a critical factor.

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

Content falls into 3 distinct categories;

<b>Simple Catalogues</b> Typically accounting for 30% of spend and 60% of all transactions	Lists of items with individual descriptions and prices (such as stationery or work wear). Provided as static files or directly via Punch-out or a through a marketplace.
<b>Goods and Services</b> Typically accounting for 40% of spend and 30% of all transactions	Ranging from items with complex descriptions (such as temporary labour) to items requiring configuration (such as PC's). Best provided through direct contact with the supplier or again via Punch-out or a through a marketplace.
<b>Contract driven</b> Typically accounting for 40% of spend and 10% of all transactions	Predominantly populated by internal contracts set up by strategic sourcing or via a sourcing tool allowing commodity managers to analyse contract progress. Examples include cleaning contracts or car leasing

This table is a generalisation as spend can be structured into any of these categories. It does demonstrate though the range of spend that falls outside of spend described loosely as “easy to catalogue”.

Efficiencies come from moving from paper-based post-contract process to electronic message passing. Implementing the capability to use an electronic catalogue also facilitates participation in marketplaces.

## 7 Marketplaces

When preparing an e-Procurement strategy, most organizations face the question of building their e-Procurement capability themselves or getting access to such capability through e-Marketplaces. These marketplaces can be used to get access to pre-loaded e-Purchasing catalogues, e-Purchasing software and/or e-Sourcing applications. Dependant on the category of marketplace an organisation chooses to join; it could also have access to industry or category specific expertise and services.

### 7.1 Independent marketplaces

Independent marketplaces typically operate as independent revenue-generating businesses and broadly fall into one of two categories:

- **Vertical** or consortium marketplaces: electronic exchanges providing a range of capabilities (auctions, reverse auctions, dynamic bid & exchange, trade directories...) within an industry. Often these marketplaces claim to have industry specific expertise, and can given customers access to databases of

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

their industry's suppliers

- **Horizontal** marketplaces: electronic exchanges, usually offering a combination of information, contacts and the opportunity to buy and sell, based around either a community of users or a class of goods or services. Access is usually open to any organisation (normally subject to some entry rules). Public marketplaces are good for buying and selling where there is no advantage from sustained buyer-supplier relationships.

### 7.2 Private marketplaces

**Private** Marketplaces are usually driven by one large enterprise and represent a natural successor to the EDI hub. Access is available only to invited players. Private marketplaces leverage the cost benefits of the Internet to allow secure data sharing and integration with external suppliers.

In all cases, the budget management, requisition authorisation and goods received paperwork (and even payment) is electronic. In many cases, tendering, contracting and opportunities for on-line auctions also feature. Buying is aggregated and management information is collected and processed centrally.

Larger organisations will probably need more than one model to meet their requirements: catalogue software and punch-out or private marketplace solutions which allow them to interact directly with strategic customers/suppliers, and membership of an independent marketplace which enables flexible relationships with low-value high-volume suppliers. The principal decisions any purchasing organisation needs to make are:

Who should host the e-Procurement site?

Who should manage content and transactions?

Remember, the market is still not mature. It is important to avoid becoming 'hard-wired' into specific solution and service providers as standards will emerge and offerings will change. One option would be to use solution providers to 'buffer' until the market settles down. An ASP (Application Service Provider) may also increase flexibility.

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

### 8 Components of the business case

#### 8.1 The Benefits

The business case should identify some or all of the following benefits that are relevant to a particular project or organization.

##### Transactional benefits

Element	Description
Automated purchase to pay process	e-Procurement enables the purchase to pay process online. A typical example of the electronic processing of the requisition to payment cycle uses a web based transacting tool whereby items are selected predominantly from pre-sourced catalogues and submitted for electronic approval. This tool is then linked to the back end ERP system for entry, payment of invoices and collation of management information. This results in increases automation in payments and less mis-matches both of which reduce the cost to process.
Automation of procurement card purchasing	Ability to automate matching of P-card spend to a consolidated statement which removes the need for transactional support.

##### Compliance benefits

Element	Description
Improved compliance	More goods and services are procured from preferred contracts. Requires improved management information for accurate measurement. This results in more use of lower cost contracts and also higher volumes in selected products which can lead, in the future, to more tightly coupled supplier processes and higher rebates.

##### Management information benefits

Element	Description
Improved quality of management information and accounting information	The fact that key information (cost centre, commodity code, etc) is hard coded against the user dramatically reduces coding errors and provides highly detailed and easily accessible data. This is essential to maximise the financial benefits of strategic sourcing. A successful e-Procurement implementation will provide high quality detailed management information. Will negate or the need for Data Warehousing or resource heavy data mining.

##### Price benefits

Element	Description
Strategic Sourcing (lower prices)	The ability to prove to suppliers that e-Procurement is being used as a tool to ensure that users honour their preferred contract status will enhance ability to negotiate down prices.

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

### Payment benefits

Element	Description
Electronic payment of invoices	Reduced manpower, reduced spend on postage and stationery. Ability to negotiate improved payment terms with suppliers. The benefits of e-Invoicing are often under assessed or ignored.
Increased 1st time invoice match	Will save time and resource in Accounts Payable and so can also facilitate headcount reduction.

### Intangible benefits

Element	Description
e-Platform	e-Procurement is potentially the easiest first step in e-Business strategy it also provides a structure to advance to value adding global structures such as shared service centres.
Cultural change	Ease of implementing world class internal cultures (e.g.: all spend having a reference/PO and ease of implementing financial approvals)
Internal database of personnel profiles	A central point of personnel data detailing user, spend profile, department, line manager, etc. which can lead to sourcing being better able to meet users' needs as well as better control of authorisations.
Financial approvals for all spend	Ability to ensure that all spend meets company standards.
High visibility of supplier performance	Ability to easily monitor supplier performance by individual order gives 'live' feedback from the end user to account managers and commodity managers / buyers.

## 8.2 The cost elements

The cost components that need to be accounted for when developing the case will include:

Element	Description	Manpower		Ext
		Int	Ext	Costs
Licence	Upfront cost - typically the software cost may be only 10% of the total project cost.			√
Resourcing	A cross-functional sourcing team with the high-level strategic skills will be required to exploit the new system. In multinational organisations this may include the appointment of similar managers in local units.	√	√	√
Maintenance	Most system providers will charge an annual maintenance fee of 15-18%			√
Cost of creating content	Introduction of catalogue content management to ensure consistent, accurate and up to date product and service information across the supply chain. This is a significant area of cost, but getting it right is vital if end-users are to gain confidence in the new way of purchasing.  Content may be managed internally (resource) or through a 3rd party. Also consider the cost of supplier adoption programmes. The content strategy will most likely be	√	√	√

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

	influenced by the choice of technology Remember to include, as appropriate: new procurement infrastructure, standards, coding and classifications.			
<b>Cost of maintaining content</b>	The items in the catalogues will change regularly, maintenance will vary from supplier maintained (lowest cost option) to externally managed (highest cost)	√	√	√
<b>Cost of connecting to the suppliers</b>	Connecting through a marketplace or hub may reduce the need for costly point to point connections with each supplier but may incur fees or transaction charges			√
<b>Upgrade strategy</b>	In such a fast developing market it is likely that there will be an upgrade to the e-Procurement tool every 18-24 months. High levels of customisation will increase the costs.			√
<b>Transaction costs</b>	Some solutions will involve a charge for each transaction. Typically these will be borne by the supplier adding additional supply chain costs.			√
<b>Increased supplier costs</b>	The content strategy may impact a supplier's development and maintenance costs.			√
<b>Programme management</b>	Essential for a successful implementation - may be internal or consultancy	√	√	
<b>Integration to ERP or A/P</b>	Lowest cost option is no integration (though this may impact resource elsewhere) highest cost is in integration to multiple ERP's. Multiple ERP integration may make this one of the top 3 spend factors.	√	√	√
<b>Process design</b>	Probably carried out with a consulting partner. Will define the strategy for implementation. Process design and customisation may account for up to 40% of the total project costs	√	√	
<b>Configuration / customisation</b>	Each implementation will require some customisation. Most of the cost is typically incurred when attempting to replicate existing processes rather than using the standard processes supplied with the product. Source of resource is likely to be consultancy or from the system provider.	√	√	
<b>Training</b>	Potentially every person in the organisation will be affected as an end user or as an approver. This is a small change for a lot of people	√	√	
<b>Communications</b>	User enrolment is vital to the success of the implementation	√	√	
<b>Internal systems and bandwidth</b>	Increased data flow, especially images, may impact internal networks and internet connections.			√
<b>Software upgrades</b>	Current software may not be sufficient to co-exist with new e-Procurement solutions.			√
<b>Identification of internal data</b>	Large amounts of internal data will be required to set up the e-Procurement solution, this data may need to be manually collected or through ERP integration. (e.g.: cost centres, commodity codes, users). An enhanced purchase data warehouse and analysis tools may be required to enable identification of opportunities for leveraged cost savings	√		
<b>Reorganisation costs</b>	Significant organisational change may occur, not just at the	√		√

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

	time of roll out but in the future as the enablement of future benefits are realised e.g. re-skilling of Procurement staff			
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### 8.3 The process

With some scepticism still surrounding e-Procurement, it is particularly important to have a sound business case to support a decision. The process of creating the business case might include the following steps:

**Set objectives** Identify and document procurement project objectives and ensure these are aligned to business objectives.

**Investigation** Before an organisation can embark on e-Procurement, it needs to understand its current position:

- Analyse current spending and assess opportunities. What is bought and how
- Establish the volumes of transactions and different spend types. Some elements of e-Procurement may already be in use: EDI or purchase cards
- Differentiate between direct and indirect supplies
- Identify areas that seem capable of offering cost reduction and other improvements. Prioritise these 'quick wins'
- Understand if and how existing management information systems are collecting data
- Research the market to find out what is possible. Investigate the various models for e-Procurement and establish how they fit the organisation
- Identify likely suppliers and cost models (e.g. hosted vs. in-house).

**Note:** the *Investigation* steps need to be undertaken in parallel – don't wait for internal analysis before finding out what is possible.

**Set targets** Establish realistic Key Performance Indicators and external benchmarks against which to judge outcomes. Set improvement and minimum savings targets. See the BuyIT Guideline "Measuring the Benefits from e-Procurement – what to measure and how to measure it" for ideas on how to do this.

**Plan** Identify constraints and develop a realistic plan. Considerations include:

- Available skills – recognise any gaps in the user and purchasing staff skills to exploit the e-Technologies
- Managing the changes - the people and cultural dimension, take account of current user satisfaction and supplier relationships
- Finance – timing, size of investment, economics (i.e.: the cost/benefit case)
- New processes, including cross-functional process implications
- Technology – take account of legacy systems, work within IT competencies and consider systems integration, security, audit, standards, usability and scalability of bandwidth / software
- Legal and contractual issues
- Tax efficiency (in multinational sourcing)
- Managing the phasing of the project, managing the monitoring process, securing targets and milestones
- Wider opportunities and concerns, including the option to join an electronic exchange
- Integration to existing systems
- Degree to which selected suppliers are ready and willing to participate.

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

**Present case** Ensure Board level champions and present case to Board.

The business case process is likely to be required initially for a pilot to develop 'proof of concept' and then in more depth for the roll-out programme.

### 8.4 Issue specification of requirements

Develop and issue the requirements specification to selected suppliers.

Develop an evaluation template to enable the purchasing group to evaluate each of the potential suppliers of e-Procurement solutions and differentiate against key requirements.

## 9 Tips

Organisations which have started implementing e-Procurement have already learned some key lessons, which are summarised here to help:

- Consider adopting new processes rather than simply e-enabling existing ones – remember automating inefficient systems is a proven way to make things worse!
- Base potential savings at the lower end of the estimates quoted above
- Take account of any rationalisation of purchasing that may have already achieved cost savings. Typically this will have concentrated on higher value purchasing. The scope for consolidating the remaining spend should still be substantial
- Concentrate first on areas where the highest proportion of external spend occurs and where rapid savings can be made, preferably areas where the Board champion has greatest influence and control
- Allow sufficient time and effort for re-definition of procurement business processes and rules – these will involve changes to existing local policies and can be expected to encounter resistance (example: sign-off authority limits)
- The formation of product and services supplier catalogue content may involve bringing in new preferred suppliers accessible via the system. Allow time and effort for negotiations and bringing them on-line. Thought also needs to be given to the exit strategy for existing suppliers not selected, especially where they are part of local business communities
- Be aware of emerging standards in content and transaction management. The UN/OASIS framework ebXML, backed by the UK's e-Centre and the Microsoft backed BizTalk are the key emerging standard sets for communicating e-Business information between different systems and applications. Both employ the web-compatible XML language

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

- The prevailing view across industry is that purchasers should not invest in learning how to manage catalogue content – this will become a standard offering in the near future. Focusing on suppliers who are already enabled to transact electronically or the use of an external catalogue company may therefore need to be considered. It is important for successful uptake that initial catalogues cover a broad base of end user requirements
- Given the speed at which this market is moving, the conventional decision-making process may be too long-winded. Look for precedents in the organisation for taking the project outside the normal corporate decision-making framework – but take care to obtain relevant advice including in-house IT expertise
- Allow sufficient time and effort for IS set-up, testing and implementation - treat this as a complex project (see BuyIT ICT Guideline 9 on the BuyIT website)
- Include in preliminary business case sufficient information about the rollout strategy, with pilot programme forecasts of potential savings and the appropriate resource plans, milestones and project management structure to ensure rapid roll-out.

## 10 A business case template

An 11-heading template for a business case is provided here for reference.

### 10.1 Management summary

A succinct and persuasive summary of what is wanted and why. This will incorporate:

**Introduction** A preliminary outline of the purpose of the business base. This might include:

- What is e-Procurement and how it relates to e-Business in general. This may need to appeal to an existing e-enablement policy or to parallel initiatives such as ‘strategic purchasing’
- Why organisations are adopting an e-Procurement strategy
- What kinds of savings are being achieved.

**Description** The principal facts and figures relevant to the decision-making process such as the primary numbers from a cost/benefit analysis.

**Decisions** Spelling out just what decision is required from the business case including, where relevant, who will be the authorised signatories, which main Board Directors or which senior management group will have to give approval.

**Some discussion** An up-front declaration of what if any contentious topics are raised by the business case, such as cross-sector issues in a multi-national, multi-market organisation or which other projects are competing for the same funds. This will deflect such points being raised in opposition to the proposal. But don’t stir up a hornets nest! Consider also internal process issues.

**References** Business cases often do not succeed at the first go, so cross-referencing to previous papers or preliminary reports published earlier is important to put it into context, plus reference to any supporting papers

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

that the Board may require.

### 10.2 Background

The e-Procurement programme may be part of a larger e-Commerce initiative or an element in a process re-engineering programme. Relevant information and detail is required that will put the business case into context as far as the company's financial plans are concerned.

### 10.3 Strategic fit

This describes how the business case proposals for action relate to the overall business strategy, e.g. moving to a service centre infrastructure or e-Procurement as a new enabler of outsourcing procurement. Appeal to appropriate business models in use in the company.

### 10.4 Market analysis

A comprehensive description of the supply market is needed here (size, growth rates, key trends, competition, market shares and leaders, etc.). This should include a hard-nosed comparison of the alternatives.

### 10.5 Project proposal

This section is the core of the business case, fully outlining what is being asked for and why. Here is normally described in detail the deal with the preferred service provider, i.e. their best and final quotation.

### 10.6 Commercial considerations

These will include information on the key drivers behind the business case and what the impact would be, not only on the supply chain but also other areas of the business.

### 10.7 Financial analysis

This will contain summary of IRR, NPV and undiscounted payback period calculations (depending on those favoured by the business) and an assessment of the impact of the proposal on Profit and Loss Account, monthly Cash Flow and ROCE. IRR and NPV will be more relevant to an e-Procurement programme than undiscounted payback as it will tend to be a longer term programme. The financial analysis should include:

- investment in e-Procurement in isolation
- the effect of the spending this money on the company overall and the company's financing
- The effect of doing nothing.

If there are any legal or taxation implications these should be raised here. Other measures and key ratio analysis would be included along with detailed Discounted Cash Flow calculations and other accounting protocols that apply to the business involved.

It is here too that all assumptions should be described in detail. Wherever possible these should be based on historical performance and prior experience.

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

### 10.8 Risks and sensitivities

Comments are required on such risks as the possible influence of both internal and external factors on project performance or delivery both in the short and long term. There will be technology risks and business risks.

### 10.9 Other options

The effect of alternatives and other options needs to be outlined, including a 'do nothing' scenario. Discussion of a 'do-nothing' scenario is important because often there is no physical cost attached to doing nothing but the commercial considerations and the effect on the 'soft' issues could be massive.

### 10.10 Implementation

Under implementation will be included the information about what is involved to realise the benefits of the proposal, including overall as well as milestone timescales (err on the pessimistic side) and who will be in the implementation team. Include internal process issues.

### 10.11 Recommendation

The recommendation should clearly confirm the requirement, detail what form the funding should take and in what timescale and describe the next steps.

## 11 Conclusion

This guideline has covered the case for implementing e-Procurement. The main messages are:

- an organisation's e-Procurement strategy should be conceived as an integrated part of the overall procurement strategy to ensure the business objectives are met
- a variety of options exist to get access to e-Procurement applications and content (self-build / hosted, private or public community, vertical or horizontal integration) and organisations should identify which solution best meets their needs before choosing a specific technology. A main factor to take into account given the rapidly changing market is the flexibility of the solution, and the potential changeover costs associated with it
- pilots implementing carefully selected categories are going to be critical to achieve supplier and end-user adoption, and gain business support for the large scale roll-out
- e-Procurement projects require a balanced mix of skills in technical, business and project management. It is important to aim to engage with suppliers as early as possible.

# Building the Business Case

## A BuyIT e-Procurement Best Practice Guideline

### **The BuyIT e-Procurement Best Practice Network**

The BuyIT e-Procurement Best Practice Network was set up with the backing of DTI and the government's e-Envoy at Cabinet Office to enable UK-based organisations to share experience and accelerate their take-up of e-Business. The Network provides a national programme of facilitated dialogue events; research and guidelines aimed at senior managers in the top UK companies.

An e-Procurement Experience-Sharing Group supports the introduction of e-enabled Procurement systems and processes in member organisations by providing an independent, informal and confidential forum for its members and production of relevant Best Practice Guidelines.

Membership of the e-Business Network is open to private and public sector organisations. For a full list of members and access to all the published guidelines please visit our website:

[www.buyitnet.org](http://www.buyitnet.org)

The BuyIT e-Procurement Best Practice Network is managed by IT World Limited.

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