

## 4. Planning your approach



## Introduction

■ Current Purchasing Profile	3
■ Collecting Baseline Data	5
■ Business Process Re-engineering 	6
■ Change Management 	8
■ eProcurement and the Wider Agenda	9
• Finance	
• IT	
■ Technology Options	11
• In-house or ASP?	
• System Type	
■ Payment Models 	13
■ Key Messages	14

 All content bearing this symbol provides information that can contribute to building your business case. Assistance is also available from the OGC. Contact [eCommerce@ogc.gsi.gov.uk](mailto:eCommerce@ogc.gsi.gov.uk) or [servicedesk@ogc.gsi.gov.uk](mailto:servicedesk@ogc.gsi.gov.uk).

**When considering the modernisation of your Procurement function, you must understand your current position, where it is you want to get to and how you are going to get there.**

Your eProcurement project should be run using a formal project management methodology and be the subject of a Gateway Review<sup>1</sup> process to help ensure a successful project that meets its objectives and delivers to time and budget.

In order to answer ‘where am I starting from?’ and ‘where do I want to get to?’ you must:

- understand your current purchasing profile;
- define how the spend should be managed in the future i.e. what is strategic and what is tactical;
- understand your procurement process(es); and
- define what your ideal process(es) should be.

In order to answer ‘how do I get there?’ consider:

- Business Process Re-engineering (BPR);
- change management i.e. the managed process of reaching your goals;
- how eProcurement fits with other business areas in your GDA; and
- technology options.

<sup>1</sup> Details of the Gateway Review can be found at <http://www.ogc.gov.uk/>



## ■ Current Purchasing Profile



**Allocate resources to analyse your GDA's current spend profile (who spends your money, when it is spent, what it is spent on, where it is spent and how).**

Taking the time to examine your processes, people, supply base and systems will help you to identify opportunities for improvement, building confidence around the proposed approach and helping in the setting of feasible timescales and targets. This initial analysis (baseline data), as a minimum, should establish:

- total spend: your GDA's procurement spend over a given time period (usually one year);
- value of transactions:
  - which goods and services are being purchased?
  - when are purchases made?
  - are there peaks and troughs?
  - who are the key suppliers?
  - how much is being spent on each good/service?
  - how much is being spent with each supplier?
  - who are the key buyers or buyer groups?
- volume of transactions: the number of purchase orders raised and invoices registered:
  - by good/service;
  - by supplier; and
  - by buyer or buyer group.

You must also establish the cost of your existing process; segment and cost the elements of the process so you can make measurements as you e-enable them later (e.g. sourcing, authorisation, goods receiving).

This will enable you to:

- prioritise your implementation in terms of:
  - tools and techniques (*see Appendix A: Tools & Techniques*);
  - individual users or user groups; and
  - suppliers.
- calculate potential savings in terms of:
  - cost savings; and
  - process efficiency savings.
- measure and report on your success after go-live.



# Current Purchasing Profile

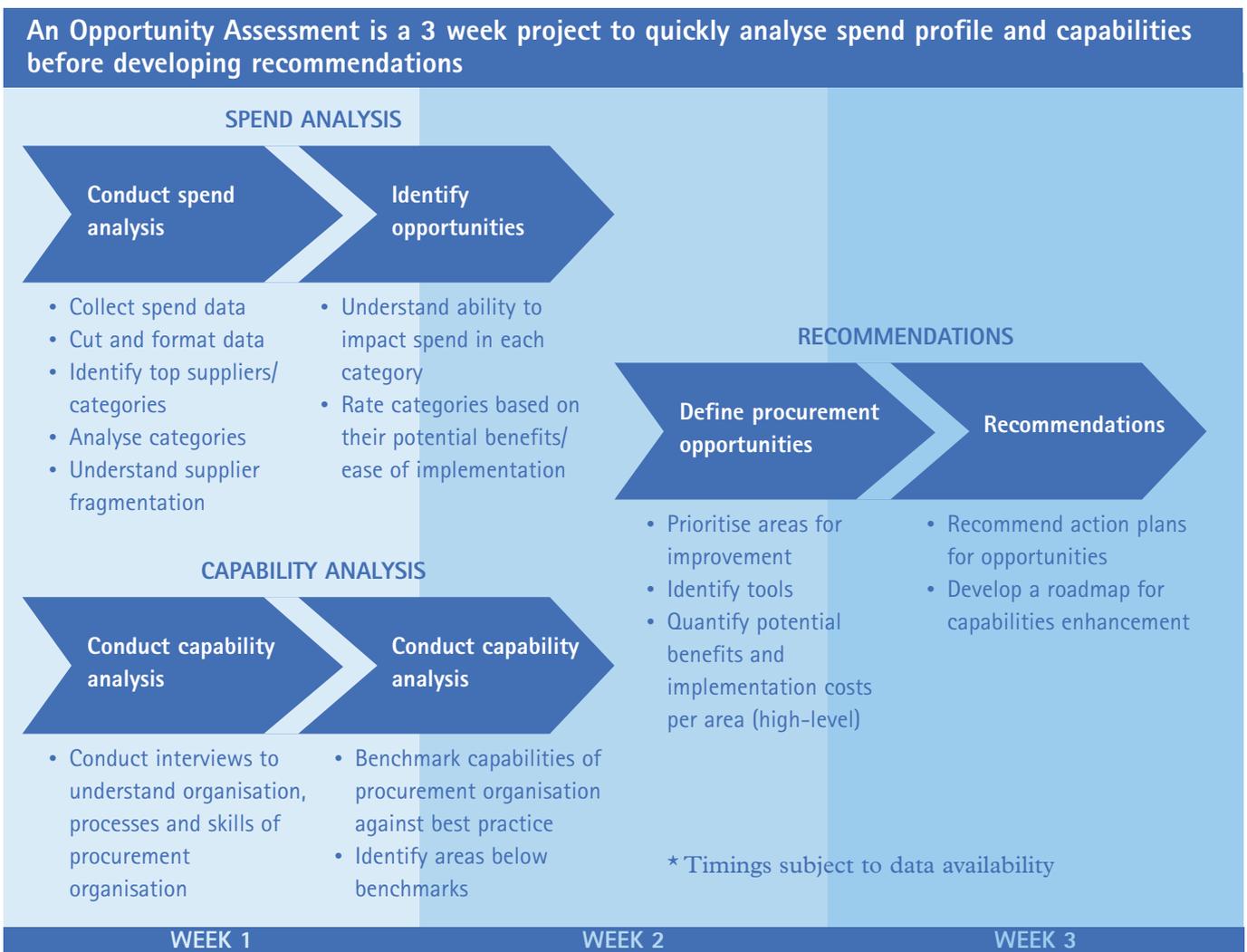
Early successes will drive the project forward and an initial spend analysis is germane to identifying where these early successes are likely to be.

Figure 1 demonstrates one approach to analysing your spend profile and capabilities.

“In hindsight we should have examined where current spend was taking place in the organisation before embarking on eProcurement and would subsequently have had a different scope - i.e. driving test centres would not have been given computers and access to the system as they only order 1-2 items per week.”

David Rothrie, DSA

Figure 1:  
An Opportunity Assessment, Accenture 2002



## ■ Collecting the Baseline Data

If your GDA has baseline data available, it is likely to be held in the accounts payable system.

For those with a developed GPC programme there might also be low value/high volume data available in the files from your issuing bank.

**If your GDA has baseline data available, it is likely to be held in the accounts payable system. For those with a developed GPC programme there might also be low value/high volume data available in the files from your issuing bank.**

However, if the reports available cannot provide the required information, adopt a pragmatic approach – the analysis does not need to be absolutely perfect. You could, for example, record a sample couple of months of data and take a view as to how representative the sample is of a year's procurement activity.

Application of procurement elements, such as commodity coding, to raw finance data may require more dedicated effort; the investment in collation of data should be proportionate to the return it gives, but bear in mind that baseline data provides a starting point for measuring your success and measuring your Return on Investment (ROI).

# Business Process Re-engineering

**When you understand what is going on in your organisation currently, you should examine your processes in detail and, where appropriate, change them to eliminate inefficiencies and reduce cost.**

eProcurement systems offer distinct advantages over a manual process and you should be aware of these when reviewing your processes:

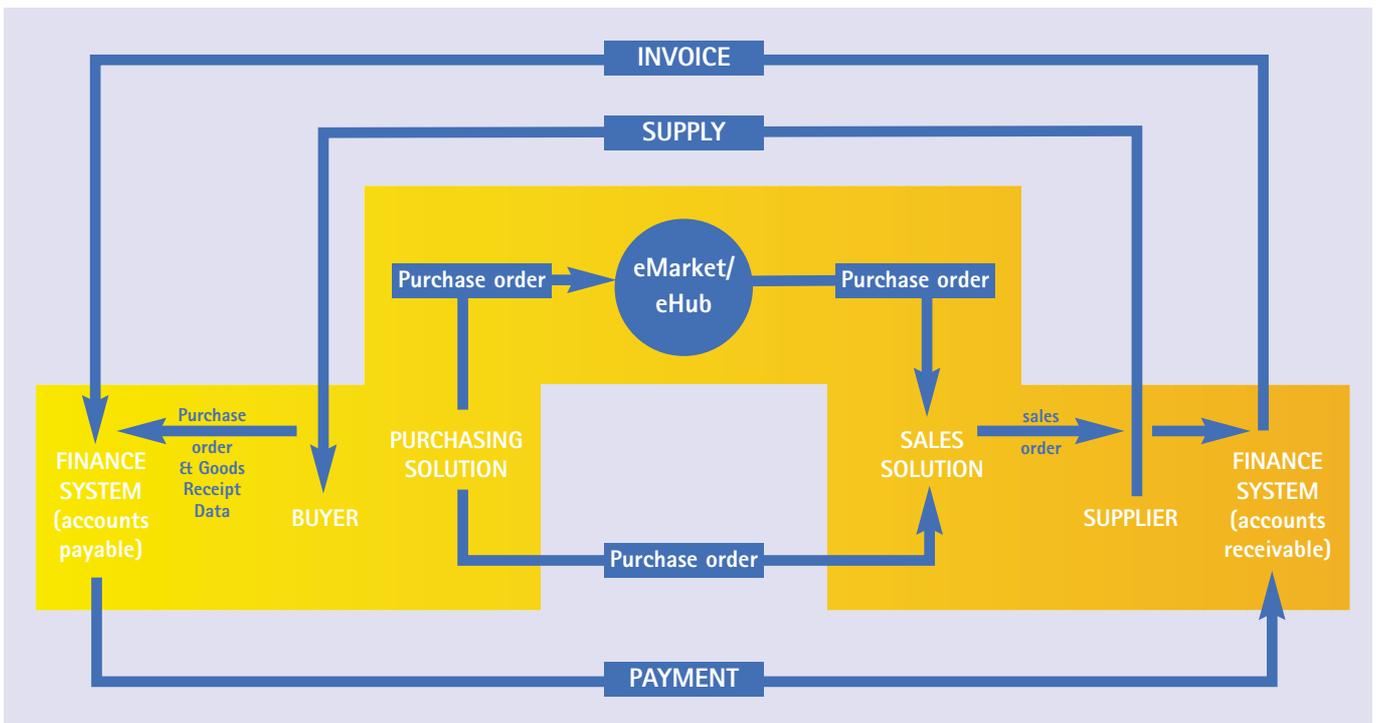
- total transparency, documenting every data entry on the system to provide a complete audit trail;

- improved control of spend facilitated by configured workflow and content control, e.g. where corporate standards exist for particular purchases e.g. IT hardware, the system can be configured such that the order can only be placed once it has been approved by the relevant IT approver;

- three-way invoice matching – automated payment of an invoice that matches (i) a purchase order for price, and (ii) a goods received record for quantity.

Figure 2 shows a simple electronic purchase order process.

Figure 2:  
Simple Electronic Purchase Order Process, Tritorr 2002



## ■ Business Process Re-engineering

BPR should address:

### ■ **Process**

- authorisation limits (including self-authorisation);
- corporate standards approval (e.g. IT hardware purchases);
- invoice approvals; and
- segregation of duties.

### ■ **Supplier Relationships**

- which are strategic;
- number of suppliers (especially for same / similar products and services); and
- payment terms.

### ■ **Relationship with finance**

- roles and responsibilities; and
- invoice handling and matching.

### ■ **Procedures**

- compliance with purchasing procedures and standards; and
- purchase contract/framework agreement utilisation.

### ■ **People issues**

- are the required skills available?
- do you have sufficient resource?

eProcurement will give your GDA the comfort to streamline its processes and take the bureaucracy out of the purchasing cycle.

"Be aware that different sections of the department may have totally different processes and buying behaviours."

Simon Derbyshire, CGEY

# Change Management

**The eProcurement market has gradually moved from one of software provision to one of service provision (see Chapter 2: eProcurement Market) and increasing emphasis is being given to the ‘people’ issues involved in implementation.**

eProcurement will change the way many people do their jobs and it impacts everyone who purchases or approves the purchase of goods and services across the GDA.

Key stakeholders will vary between organisations but are likely to include representatives from all or some of the following:

## ■ Internal

- Procurement;
- Finance;
- IT;
- Human resources;
- Key user areas; and
- Senior management.

## ■ External

- Suppliers;
- Ministers;
- Unions; and
- OGC and wider government.

In the ePilots, kick-off workshops were effective in achieving a widespread understanding of the change drivers. They also enabled communication of the project plan to the key stakeholders, helping to ensure their buy-in to the project from a very early stage. This approach is recommended in order to achieve change successfully.

Successful change management for eProcurement can be achieved by:

## ■ Consultation

- identify and engage key stakeholders at the earliest possible opportunity; and
- consult impacted business areas on the scope of the project and the change process.

## ■ Communication

- effectively communicating the impact of eProcurement on different business functions and, where necessary, on individuals and their jobs;
- use ‘local champions’ to take the message back to their colleagues; and
- commit to an effective communication strategy for before, during and after implementation.

## ■ Issue Resolution

- resolve any issues quickly and effectively.

“Our initial blueprint stakeholder workshop was invaluable in gaining the understanding and support of a wide range of staff. They contributed to the definition process and became committed to the challenge ahead.”

David Rothrie, DSA

# eProcurement and the Wider Agenda

**Your eProcurement strategy must work in the context of other corporate strategies, most notably your Finance and IT Strategies.**

## Finance

You must consider:

- the relationship between Procurement and Finance:
  - where different parts of the process should be carried out, e.g. goods receipting and invoice matching;
- the relationship between the eProcurement system and your accounts payable and general ledger system modules:
  - no connection;
  - interface (one-way data transfer); or
  - fully integrated (two-way real-time data integration).

In most instances a simple interface between eProcurement and finance systems will be the most cost-effective option. The ePilots found that a simple interface, uploading purchase information from the eProcurement system to accounts payable, worked very well. It provided the finance system with the information required to automate the three-way matching process (order, receipt and invoice).

“In reality, a simple one-way interface is sufficient in most cases to prevent re-keying of order details by the finance department.”

Graeme Swan, Accenture

By not connecting the systems you will lose many of the opportunities for process efficiency such as three-way invoice matching, eradicating the need for data re-keying, and removal of multiple authorisations per transaction.

Fully integrated solutions might come at the cost of other functionality which might be more important to your GDA. It is likely to be an expensive option and can also lead to technical problems maintaining the system connectivity.

eProcurement will, in the longer term, enable significant process improvements for payment in the form of eInvoicing, self billing or by using an embedded or virtual GPC (*see Appendix A: Tools and Techniques*). These benefits can only be maximised by the provision of an operational connection between the eProcurement and finance systems; your decision on the level of system connectivity should be business needs driven.

“The greatest impact in finance was in the earlier stages of the pilot when there was some initial difficulty in building the interface - due, at least in part, to our finance system provider being unable to provide the required information. However once it was up and running, the effect on the day-to-day running of finance was minimal.

The transparent approval flow was of benefit, particularly for obtaining approval from the finance department for capital purchases. This was also the stage when fixed asset numbers were allocated to these purchases, in order for them to be loaded to the fixed asset register at the interface stage.”

Madhu Solanki, Head of Finance, PITO

## ■ eProcurement and the Wider Agenda

### IT

The IT division will be required to support the new system. If you select an Application Service Provider (ASP), the support required from your in-house IT will be confined to providing browser capability on the desktop and internet access in accordance with your department's security policy; the ASP should provide all other support. You must ensure that the ASP you select can work with your existing technical and security infrastructure (unless you are prepared to change these).

If you select an in-house option whereby you bring the server and eProcurement application on to your own infrastructure, within your own firewall and security regime, then your in-house IT staff will be required to learn about maintaining a new system and software. IT must be involved in the decision making process for eProcurement. If you decide on the in-house option then their co-operation and support will be necessary throughout.

You must be prepared for your IT division, particularly if an outsourced team, to prioritise a schedule of implementation and testing for eProcurement against other commitments outside of your project. Begin discussions early.

"Supporting an infrastructure implemented by a third party, to be used by Procurement, presented a challenge to the IT team.

We needed to be confident that we could support the system when the providers left."

Margaret Curtis, IT Manager, CCLRC

## Technology Options

**Your choice of system and provider must be driven by your business requirements, i.e. once you have identified the parts of the procurement process that you want to e-enable you can consider which eProcurement tools you will need.**

You will need to consider your IT infrastructure, existing and planned capability, to ensure that it can support an eProcurement roll-out, bearing in mind that there may be variations across your GDA, e.g. the infrastructure in outlying offices may have lower capacity than main offices. Be cautious of buying functionality that you do not need and may never use. Not only is there value for money implications, but there are also security implications (*see Appendix B: Security and Standards*).

Your technology choices include:

- In-house or Application Service Provider (ASP)?
- Best of Breed, Purchase Order Processing Module or Enterprise Resource Planning (Finance System add-on)?

### In-House or ASP?

eProcurement, like most 'traditional' business systems, can be run in-house by your own IT team if this is important to you. However, an increasing number of eProcurement solutions are being provided as a service; in other words, the application itself is hosted by a solution provider and accessed remotely over the internet. This type of provision is a clear advantage of 'e' systems for several reasons:

- the system is run by dedicated experts;
- maintenance, backup, disaster recovery etc., are the responsibility of the service provider;
- the cost of an initial outlay on software and hardware is avoided; you pay for the service as you use it; and
- it is easier for your GDA to change provider if, in time, the system fails to meet your requirements.

You should not dismiss the opportunity of eProcurement service provision simply because all other business systems are run in-house. Make your decision based on business requirement and the financing model that your business case can withstand.

Within the ePilots two GDAs hosted in-house solutions and have cited the benefits as:

- control: ownership of the security of the system and timings of upgrades; and
- convenience: help is on-site and users recognise the in-house IT team.

They also advise that the in-house IT team must be well resourced and have existing expertise.

## ■ Technology Options

### System Type

In making your selection it is essential that you run a competition for an eProcurement solution and essential that your eProcurement requirements are included in the competition for any integrated solution; evaluate all systems on an equal footing. Your specification of requirements should be business needs driven and your contract award should be based on best value for money. Providers that are experts in finance and accounting applications may offer “free” procurement add-ons to their systems but before accepting such an offer, you should consider very carefully:

- is the add-on really free in terms of whole life costs?
- does the provider have a proven track record in supplier adoption?
- does the provider have a proven track record in user uptake?
- does the application offered provide the breadth and depth of functionality you require; does it meet your specification?
- is full integration with the finance system a key requirement and is it offered at the expense of more important functionality in the eProcurement system?
- does the provider understand the requirements of the Purchasing function as well as it does those of the Finance function?
- if you have identified a need for business process re-engineering (BPR) and/or change management, does the provider have the skills to assist you with these?

Your specification  
of requirements should be  
business needs driven  
and your contract award  
should be based on  
best value for money.

## ■ Payment Models

### **eProcurement provides for flexible payment mechanisms that include options such as:**

- risk/benefit sharing – no up front investment required. Payment is made to the service provider as a share of benefits achieved.
- fixed costs – a fixed sum is agreed between the GDA and service provider for provision of the eProcurement solutions and any support contracted, for a pre-defined period, e.g. you could pay an initial one-off charge and fixed annual maintenance charges.
- transaction charges – charges applied by the service provider for every transaction made through the system. These charges might be fixed or a percentage of the transaction cost.

You should explore the options to minimise risk and maximise affordability.

“...budgets typically broke down into three components (i) implementation costs accounted for more than 50% of total costs on average. This included systems integration work, process re-engineering and change management; (ii) hardware and software costs which ranged from 15-30%; and (iii) overall catalogue creation costs, which also typically ranged from 15-30%.”  
Accenture Market Research

Cost make-up for eProcurement can broadly be separated into:

- software, licensing and annual maintenance;
- hardware purchase and installation;
- consultancy fees:
  - project management
  - requirements analysis
  - design & configuration
  - testing
  - process re-engineering
  - change management
  - system interface
  - user and system administrator training
  - supplier adoption and punch-out
  - supplier training
- catalogue creation and management;
- network upgrade; and
- help desk support.

Nearly all activities for eProcurement are charged at a consultancy day rate, so future-proof your contract so that if your scope grows, the extra cost is affordable.

Establish  
where you are  
starting from,  
where you want to get to,  
and how you are going to get there.

## Key Messages

- Establish where you are starting from, where you want to get to, and how you are going to get there.
- Understand where you are starting from in terms of both spend profile and procurement processes.
- Be prepared to review and, if necessary, re-engineer your processes.
- Identify and involve key stakeholders at the earliest opportunity and commit to effective communications throughout.
- Align your strategy with Finance and IT and be prepared to work closely with them throughout.
- Understand the technology options and make your decisions based on business need and IT infrastructure.

