

# eProcurement in action

A guide to eProcurement for the public sector

Spring 2005

*blue frog two*



## About blue frog

The 'Blue Frog' made its initial appearance on the front cover of OGC's, *'eProcurement: Cutting through the hype,'* published in autumn 2002. Based on extensive research and on the conclusions of live pilots, it provided a 'how-to' guide to eProcurement. The distinctively coloured amphibian has quickly become something of an icon of OGC's guidance and ongoing commitment to eProcurement for the public sector.

Since 2002 OGC's remit has changed to incorporate the challenges of Sir Peter Gershon's Efficiency Review and the extension of its influence into the wider public sector. In addition, eProcurement is a fast-moving and dynamic area. In short, 'Blue Frog' needed updating – 'Blue Frog Two' was spawned.



Responding to the UK government's directive to transform public sector procurement from a paper-based, 'labour-intensive' process to an efficient, eCommerce discipline, central government departments and agencies as well as local government authorities across the country have made substantial progress in developing electronic procurement.



**John Oughton**

Chief Executive, Office of Government Commerce

"The government is committed to the development of electronic commerce and to creating the right environment for this activity in the UK. The government is also committed to making its processes more efficient and releasing more resources to be used in the frontline delivery of improved services. eProcurement supports both of these objectives by helping to make

the purchase of goods and services more efficient, and by enabling organisations to get better deals and establish effective relationships with suppliers.

Today, it is estimated that eProcurement systems are being used in almost a third of all central government procurement transactions. In local government, a third of local authorities have already implemented eProcurement systems, with a similar number in the process of implementing one. This report reviews the experience of many of these organisations, and others beyond the public sector, and identifies some of the lessons they have learnt.

eProcurement is a significant contributor to the Government's efficiency programme. Sharing experience is a key factor in enabling organisations to meet these challenging targets. *'eProcurement in action'* provides clear, evidence-based guidance that will help public sector bodies implement their systems and realise the benefits from eProcurement."

A handwritten signature in black ink, appearing to read "John Oughton", written over a light blue rectangular background.

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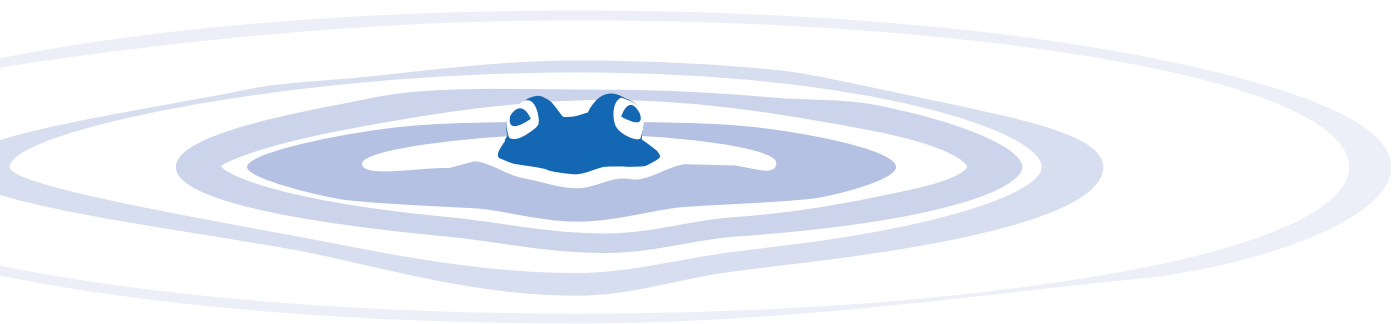
## About OGC

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# Section 1: Introduction

## **1.1 The Office of Government Commerce**

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## 1.1 The Office of Government Commerce

The Office of Government Commerce (OGC) works closely with other procurement advisory bodies to provide advice and guidance to the public sector on the successful adoption of eProcurement. In Autumn 2002 the OGC published *eProcurement: Cutting through the hype*, as a guide to eProcurement for the public sector.

Since Autumn 2002 there have been significant developments for eProcurement: legislative changes have encouraged greater use throughout the European Union; new techniques such as electronic reverse auctions (eAuctions) have become common practice; and the government has launched its drive for greater public sector efficiency following HM Treasury's publication of Sir Peter Gershon's Efficiency Review, *Releasing Resources to the Frontline*, in July 2004.

### Drivers for eProcurement

"eProcurement has an indirect effect on cash savings by providing the access to good deals. One third of the Efficiency Review target is expected to come from procurement, and every £1 saved will be redirected to help improve frontline services."

Martin Sykes, OGC

## 1.2 eProcurement in the public sector

The OGC commissioned research of central government electronic purchasing systems in 2003/4. Government departments and agencies reported on their adoption of eCommerce purchasing systems.

### 1.2.1 Generating £57.8m central government savings

24 departments and agencies deploy eCommerce within their purchase-to-pay processes, 8 actively use electronic auctions and 9 use electronic solutions when tendering for new contracts. Of an estimated 5 million purchase orders being placed by central government each year, almost 30% are now being processed using eProcurement systems.

In 2003/04 almost 30% of central government's 5 million purchase orders per annum were already being placed online.

Departments and agencies placed significant focus on using electronic auctions (in which suppliers compete online by improving their price offer to buyers during a short 'live' online session). eAuctions have proved relatively easy to implement and can provide impressive 'quick win' savings averaging over 13%, with IT hardware savings achieving as much as 23%.

### 1.2.2 In step with the private sector

In its survey of private sector business (*Business in the Information Age 2003*; Booz, Allen, Hamilton), the DTI found that UK companies considered that one of the key roles for technology was to: 'drive supply chain efficiencies and to unlock value for the buyer'. The Office of National Statistics' own research (*Enterprise e-commerce: measurement and impact* ONS 2003) drew similar conclusions. Of the 7,000 companies polled it found that: 'those using eCommerce for purchasing have a significant productivity advantage over those who don't.'

The message from public and private sector alike is clear: 'e' stands for efficient, effective and empowered and its use can generate significant savings.



## 1.3 eProcurement in action

This report provides information on how central government, local government and strategic private sector partners are introducing and developing eCommerce systems for public sector purchasing.

We have included supporting information on standards, security and EU directives, as well as case studies on successful implementations.

### What is e-procurement?

Electronic procurement (eProcurement) is the use of electronic tools and systems to increase efficiency and reduce costs during each stage of the purchasing process.

#### 1.3.1 Making it happen

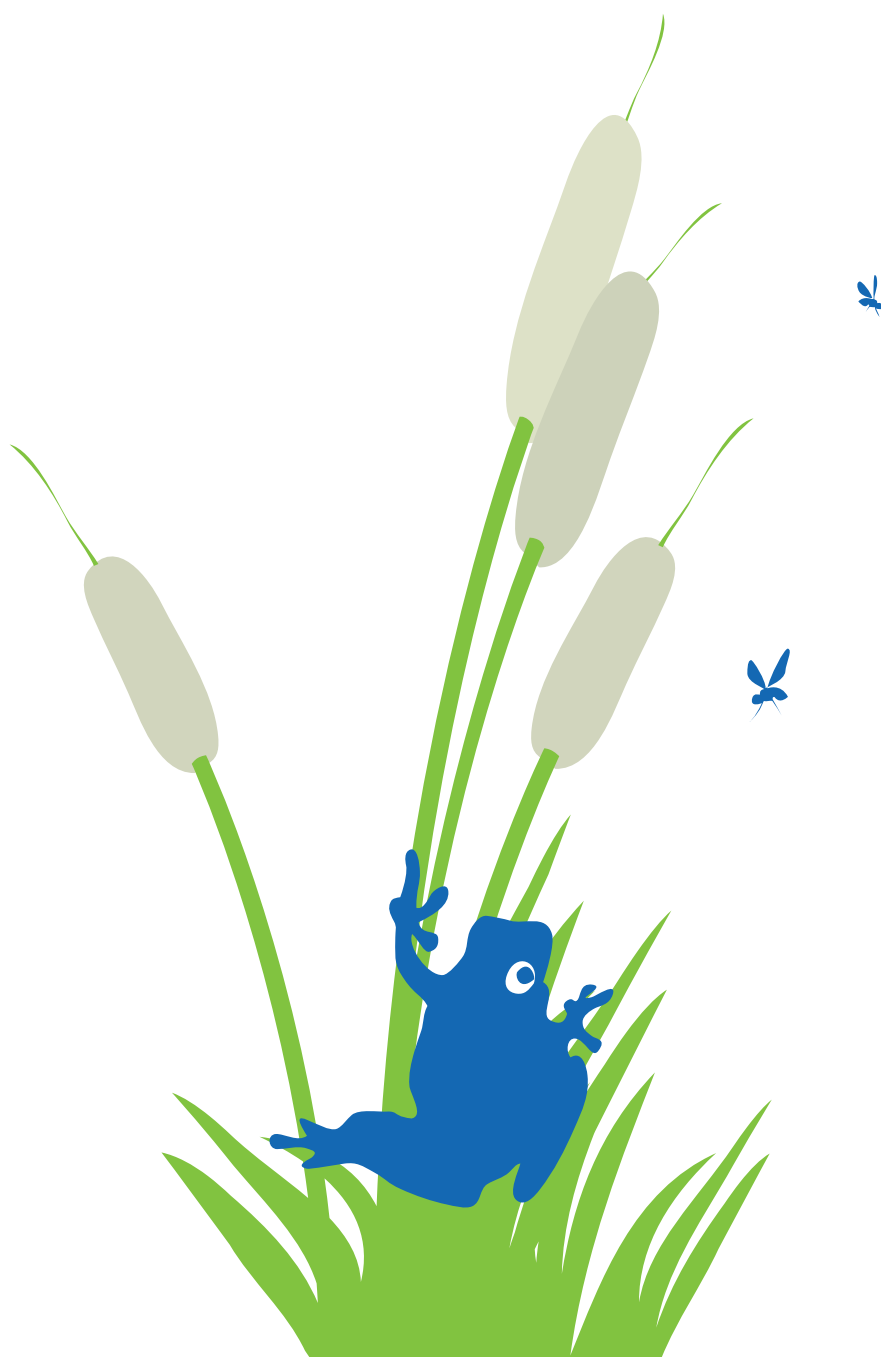
In preparing this report, interviews were conducted with more than 40 public and private sector practitioners involved in implementing eProcurement programmes. These people worked with buying organisations, IT solution providers and policy-making bodies: their contributions ensured the report reflects proven practice, rather than untried theory.

The findings will help all those involved at a senior level in Procurement strategy - evaluating, planning, implementing and operating - make the right decisions throughout eProcurement projects, contributing to successful and more efficient purchasing processes. It will also be an invaluable reference for associated business practitioners in procurement, finance, IT and human resources who need to play an active part in securing the benefits of electronic trading.

## 1.4 Further information

The full document is freely available to print or download from the OGC web site ([www.ogc.gov.uk](http://www.ogc.gov.uk))

OGC is also able to assist with enquiries from public sector organisations seeking further specific information or eProcurement advice. OGC can be contacted on 0845 000 4999 or by visiting the web site.



## Section 2: Why eProcurement?

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## 2.1 eBeginnings

The UK is rapidly embracing electronic commerce (eCommerce). Recent studies<sup>1</sup> show that the UK's eCommerce environment is one of the strongest in the world. The latest government figures<sup>2</sup> reveal that 29% of UK companies bought online in 2003, up 13% from the 2002 figures. Although larger businesses are more inclined to buy online, small companies are introducing new eCommerce technologies at an increasingly fast rate.

The UK government has been driving the adoption of eCommerce across the public sector since 1998<sup>3</sup>. There have been many well-publicised targets for the online delivery of government services to the public, and many for the delivery of savings through implementing electronic procurement (eProcurement), a key component of eCommerce.

In 2002, the OGC ran an ePilots programme in order to research eProcurement systems and services, and understand their applicability to Central Civil Government. This project saw seven public sector organisations implement a variety of solutions, including the first reverse auction run by the UK government. The findings from the ePilots programme were published by the OGC in "eProcurement: cutting through the hype", which has since been widely used by public sector organisations looking to modernise their procurement function.

Today eProcurement is seen as a key enabler to achieving greater public sector efficiency, which is high on the government's agenda and was the goal behind Sir Peter Gershon's review of the public sector, *Releasing Resources to the Front Line* (the 'Efficiency Review')<sup>4</sup> published in July 2004 and commissioned by the Prime Minister.

"The public sector is one of the biggest purchasers of goods and services in the economy. In 2003-04, the public sector spent over £100bn purchasing, for example, utilities, ICT systems and services, as well as professional services, temporary labour, construction, social housing, social care, and environmental services."

Sir Peter Gershon, *Releasing Resources to the Front Line*, July 2004

The Efficiency Review identified that the UK public sector spends over £100bn a year on bought-in goods and services. Furthermore, it set a target of more than £20bn of efficiency savings for delivery by 2007/8. The aim is to release this money for improved delivery of frontline services to the public. Approximately one third of the savings, some £6-7bn, is expected to come from improved procurement, principally through more efficient processes and improved contracts.

To achieve these savings, public sector bodies (PSBs) who have not already done so will need to review the way they buy goods and services and:

- improve purchasing processes
- maintain best practice in purchasing
- reduce order error rates
- establish improved relationships with suppliers
- reduce timescales for purchasing and tendering activity
- collect and report on spend activity, and
- make real cash savings on prices paid.

European Union policy also promotes eProcurement. The EU's *eEurope 2005 Action Plan* recommended that: 'By end 2005, member states should carry out a significant part of public procurement electronically'. The plan also noted that: 'Reducing costs is most efficiently achieved through the use of the internet in supply chain management, including eProcurement'. The new EU Consolidated Directive published in March 2004 has gone one step further by making specific provisions for the adoption of eProcurement throughout the EU.

1 Booz Allan Hamilton Survey 2004

2 Annual Government e-Commerce Survey 2004

3 First targets were set in the Competitiveness White Paper, 1998

4 Available online at <http://www.civilservice.gov.uk/>

## 2.2 The role of OGC in the UK

The OGC has the leading role in meeting the government's objectives for achieving value for money in public procurement. eProcurement is considered an important contributor and a potential quick-win.

OGC's Supervisory Board approved a strategy in October 2002 for the adoption of electronic procurement by central civil government. This strategy follows extensive research into how eProcurement can bring added value to departments' procurement activity and has the objective of delivering £250m of value for money (VfM) improvements through eProcurement during the Spending Review 2002 period (April 2003 - March 2006). This target forms one part of the broader OGC goal of achieving £3bn of VfM procurement savings over the same period.

To help achieve this target, OGC provides support to organisations in:

- making their business case for eProcurement
- understanding their purchasing profile
- preparing for change, and
- ensuring eProcurement best practice is adopted.

“There is a risk that departments will halt their current plans for eProcurement to wait and see what comes out of the Efficiency Review.

However, the message from OGC is ‘Don’t stop! It’s even more important to do something now’”.

John Oughton, OGC

## 2.3 What's happening in Europe?

Some of the key eProcurement developments in Europe are shown below.

Country	eAuctions	eProcurement Activity P2P	eSourcing	More Info
Austria		E-Shop		<a href="http://www.e-shop.gv.at">www.e-shop.gv.at</a>
Belgium			JEPP (Joint Electronic Public Procurement)	<a href="http://www.jepp.be">www.jepp.be</a>
Denmark		DOIP (Danish Public Procurement Portal)		<a href="http://www.doip.dk">www.doip.dk</a>
France	ixarm portal achatpublic	ixarm portal	ixarm portal SAOMAP achatpublic	<a href="http://www.ixarm.com">www.ixarm.com</a> <a href="http://saomap.application.equipement.gouv.fr">saomap.application.equipement.gouv.fr</a> <a href="http://www.achatpublic.com">www.achatpublic.com</a>
Germany		Öffentlicher Eink@uf Online	Öffentlicher Eink@uf Online	
Ireland		Implementing an online catalogue	Supplier Registration and Opportunities website	<a href="http://www.etenders.gov.ie">www.etenders.gov.ie</a>
Italy	Acquisti in Rete della Pubblica Amministrazione	Acquisti in Rete della Pubblica Amministrazione	Acquisti in Rete della Pubblica Amministrazione	<a href="http://www.acquistinretepa.it">www.acquistinretepa.it</a>
Norway		eHandel Marketplace		<a href="http://www.ehandel.no">www.ehandel.no</a>
Portugal	Piloting electronic reverse auctions (eAuctions)	eProcurement portal launched in 2004		<a href="http://www.unic.gov.pt/UMIC/">http://www.unic.gov.pt/UMIC/</a>
Sweden		Public Internet e-Procurement System for framework agreements		<a href="http://www.avropa.nu/">http://www.avropa.nu/</a>

There are many successful eProcurement solutions within Europe. However, at time of going to print there is no single government organisation in Europe that has implemented a comprehensive suite of electronic tools and systems to support all public procurement activity. Comparatively, the UK government has made admirable progress in this area. Considerable investment and commitment to eProcurement continues across Europe.

## 2.4 EU directives

The EU encourages the use of eProcurement. The new EU Consolidated Directives and EU Invoicing Directives make clear provision for the use of electronic tools and techniques within public sector purchasing across Europe. The EU acknowledges that automating processes and enabling opportunities to be advertised and tendered online fully supports the aims and objectives of cross-border trading, non-discrimination and fair and open competition. They are also encouraged by the transparency and auditability of online transactions.

Innovative tools such as electronic reverse auctions are provided for within the new Directives, and the EU has even gone a step further by introducing a new process, Dynamic Purchasing Systems, an online-only process whereby suppliers can compete for contracts.

For further details see section 5 eProcurement policy and standards.

## 2.5 eProcurement in central government

The OGC has collected data every six months from Central Civil Government to monitor electronic procurement activity and plans. Measurement is made using the eProcurement Assessment Tool (ePAT), which has been approved by the National Audit Office (NAO). The aims of the ePAT have been to:

- Assess the readiness of central government organisations for adopting eProcurement solutions
- Assist departments and agencies with their business cases and benefits realisation programmes
- Measure improvements achieved through eProcurement
- Enable OGC to plan appropriate actions to support the adoption of eProcurement.

### 2.5.1 First year results: April 2003 - March 2004

**In the year to March 2004, Central Civil Government had realised over £57.8m of value for money improvements through eProcurement.**

By September 2004 the first full year of ePAT data had been collected for the period April 2003 to March 2004. Value for money (VfM) improvements of over £57.8m had been delivered through eProcurement. The following table provides a breakdown of these improvements.

	VfM improvement			
	eAuctions	P2Pe	Tendering	Total
Full Year 2003/4	£5,999,670	£51,624,553	£213,100	£57,837,323

VfM Improvements from eProcurement in Central Civil Government, April 2003 to March 2004.

Much of this achievement was delivered by a small number of the large departments which had implemented purchase-to-pay (P2P) solutions (that is, the automation of processes from the point of purchase to the settlement of payment). During this period the take-up of electronic sourcing (eSourcing) and electronic reverse auctions (eAuction) were still in their early stages.

### 2.5.2 eProcurement adoption

Adoption of eProcurement tools across central civil government is growing steadily. Almost a third of departments and agencies surveyed have already implemented purchase-to-pay systems, with a similar number planning to do so. Although adoption of electronic Auctions is still in the early stages, almost half the organisations surveyed are intending to implement eAuctions in the future.

## 2.6 Elsewhere in the public sector

The opportunity for savings through eProcurement is not confined to central government departments and agencies. The public sector as a whole is estimated to spend approximately £109bn<sup>5</sup> on the procurement of goods and services each year.

### 2.6.1 Health - NHS Purchasing and Supply Agency (NHS PASA)

NHS PASA is the centre of expertise, knowledge and guidance on purchasing and supply matters for the health service.

- As well as advising on policy, the Agency also contracts on a national basis for products and services that are strategically critical to the NHS
- NHS PASA is also instrumental in encouraging the take-up of eCommerce throughout the health sector. Some of their eProcurement initiatives include the NHS Supplier Information Database, NHS-eCat catalogue solution, eAuctions and eSourcing pilots.

Further details of the guidance and activities conducted by NHS PASA can be found at [www.pasa.nhs.uk](http://www.pasa.nhs.uk). Also available from NHS PASA is "eResults", an NHS-specific supplement to OGC's "eProcurement in action".

### 2.6.2 Defence - Defence Logistics Organisation (DLO)

DLO provides procurement services to the Ministry of Defence. With a resource budget of £9bn, the challenge to the DLO is to deliver agreed outputs to their customers at greatly reduced costs. These savings are essential to maintaining modern, capable front-line forces in the future.

- The DLO partnered with IT systems integrator CapGemini to develop a secure trading environment called the Defence Electronic Commerce Service (DECS). Its aim is to enable electronic commerce between all Ministry of Defence (MoD) organisations, increasing efficiencies and savings in procurement. DECS went live in August 2002, and now has almost 500 suppliers and 3,000 MoD users.

In addition to linking directly to MoD suppliers, DECS is also linked into the privately-owned Exostar marketplace, developed for the aerospace and defence industry.

The Defence Logistics Organisation has also conducted a number of successful eAuctions and is making plans for an eTendering service.

Further details of the activities conducted by the DLO can be found at [www.mod.uk/dlo/](http://www.mod.uk/dlo/).

### 2.6.3 Local government: National eProcurement Project (NePP)

The NePP was set up in September 2002 as the first of several national projects funded by the Office of the Deputy Prime Minister to help local government meet their 2005 target for offering eGovernment services. The aim was to help councils take full advantage of eProcurement and raise the profile of procurement within local authorities.



NePP offered a range of support services to councils including:

- Technical overviews of the various solutions, including purchase-to-pay, eAuctions, eTendering and purchasing cards
- Help with planning the implementation of solutions
- Experience-sharing events to help local authorities learn from their peers, and
- Guidance on identifying and measuring the benefits.

This work has achieved considerable success. The most recent survey undertaken by NePP indicates that:

- 125 local authorities have, or are currently implementing solutions
- 109 local authorities are in the process of sourcing a solution
- 110 local authorities are preparing for eProcurement.

Once this high level of momentum had been achieved, NePP's primary focus shifted to one-to-one tailored consultancy to help councils overcome obstacles in areas such as spend analysis or developing a business case.

Further details of the guidance and activities conducted by NePP can be found at [www.nepp.org.uk](http://www.nepp.org.uk).

#### 2.6.4 Local government: IDeA:marketplace

The Improvement and Development Agency (IDeA) was established in March 2002 to assist local government to provide better services by improving process, saving time and avoiding unnecessary cost.

- Hosted by platform provider eGovernment Solutions (eGS), the IDeA:marketplace allows councils to use eProcurement without the need to implement any software of their own
- Larger organisations can integrate their finance systems, or other purchase-to-pay solutions to minimise re-keying of data, saving time and reducing errors.

The biggest success of the marketplace so far has been in generating cash savings by providing authorities with access to cheaper collaborative contracts than were previously used. Savings of between 0.5% and 1.5% of total procurement spend have been identified (plus further savings on aggregated commodity purchasing) and with over £40bn spent annually by local government on third-party goods and services, the opportunity for savings is clearly significant.

Further details of the guidance and activities conducted by IDeA can be found at [www.idea.gov.uk](http://www.idea.gov.uk).

#### 2.6.5 Scotland: eProcurement Scotl@nd

The Scottish Executive went live with a hosted purchase-to-pay marketplace for the Scottish public sector in March 2002. eProcurement Scotl@nd is managed by CapGemini using technology from Elcom, and provides central and local government bodies as well as the NHS in Scotland with the following functionality:

- End-to-end processes from requisitions to invoice matching
- Integration with finance systems
- Catalogue management tools for buyer organisations
- 'Punch out' to supplier web sites
- Management information reports
- Electronic tendering.

#### eAuction

a pilot eAuction was conducted by the Scottish Executive in February 2004. This was the final stage of a procurement to purchase 2,500 computers and 800 monitors. Four suppliers were short-listed to participate in the eAuction, and placed 31 bids over the course of the 45 minute event. The resulting saving was around £400,000 against the previous contract price, and £300,000 against the reserve price. A purchase order for the full value of around £1m was placed via eProcurement Scotl@nd the next day.

Buyer adoption increased during 2004 with 19 organisations now using the service, and others joining. Spend through the system increased tenfold from 2003 to 2004, with £70m of spend and over 100,000 orders processed during the period January to July 2004.

eProcurement Scotl@nd also offers an eTendering function (50 tenders have been managed through the system to date) and an eAuction pilot was conducted in February 2004 as a further extension of the service. The pilot (for IT equipment) generated some £400,000 of price reductions against the previous contract price.

Further details of the guidance and activities of eProcurement Scotland can be found at [www.eprocurementscotland.com](http://www.eprocurementscotland.com).

### 2.6.6 Wales: Welsh Procurement Initiative

In April 2000, a review of Wales' £3bn public sector procurement spend led to the publication of the '*Better Value Wales*' consultation document. Subsequently, a number of pathfinder projects were established by the Welsh Procurement Initiative to drive greater efficiencies in procurement, allowing resources to be freed up for the provision of frontline services. A target was set to reach £90m per annum savings by 2010.

- The national procurement web site was funded by the Welsh Development Agency and launched in December 2003. Over 50% of public sector organisations in Wales use the site and, by September 2004, more than 4,000 businesses had registered
- The Welsh Purchasing Card was launched in April 2002 and is expected to generate efficiency savings of at least £600,000 a year
- Two eAuction pilots were run. The second, for office goods was run in October 2004 on behalf of all 104 Welsh public sector bodies. A pre-auction tender process resulted in a lowest price of £5.2 million, a £4.2 million saving compared to the initial estimated value. The auction itself, in which 13 suppliers participated, saved a further £1.2 million, for a total saving of £5.4 million.

Further details of the guidance and activities of the Welsh Procurement Initiative can be found at [www.wales.gov.uk/subieconomics/content/bettervalue/](http://www.wales.gov.uk/subieconomics/content/bettervalue/) or [www.xchangewales.co.uk](http://www.xchangewales.co.uk)

### 2.6.7 Supplier Route to Government (SRG2)

The SRG2 aims to become the main gateway for businesses to access government opportunities for lower value contracts for goods and services. The project builds on the success of the OGC West Midlands Pilot Portal. It will deliver a national web portal that will enable local and central government departments to advertise low value contract opportunities to business. Provided jointly by the Small Business Service (SBS) and OGC the portal will make it much easier for government buyers to do business with a greater diversity of suppliers. The national portal is planned to launch in summer 2005.

Further details on the Supplier Route to Government Project can be found at [www.supplyinggovernment.gov.uk/newportal.asp](http://www.supplyinggovernment.gov.uk/newportal.asp)

## Section 3: eProcurement best practice

### 3.1 The 'Quick Wins' Approach

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### 3.2 Implementing eProcurement

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### 3.3 Purchasing cards (P-cards)

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### 3.4 eAuctions

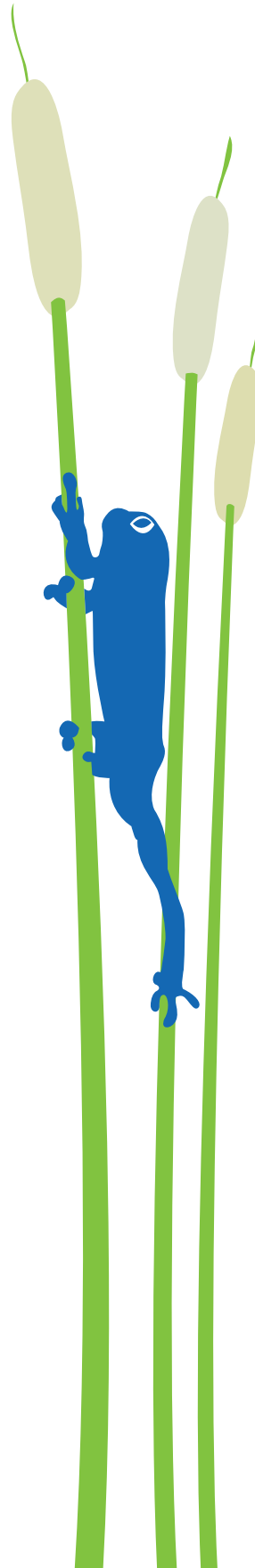
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### 3.5 Purchase-to-pay

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### 3.6 eSourcing

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### 3.1 The 'Quick Wins' Approach

To modernise procurement processes, certain 'e-tools' will be required. One problem often encountered at the start of an eProcurement programme is deciding which tools to implement and in what order.

Quick wins can:

- Establish the credibility of the eProcurement programme, and
- Help to generate funding for the rest of the programme.

*"An early spend analysis will almost always uncover some areas where quick win savings can be made. These early savings can then be used to invest in a broader eProcurement programme."*

Ian Makgill, Ticon

Experience from case study organisations suggest that the following approach is an effective way to implement an eProcurement programme:

1. Consider implementing a Government Procurement Card (GPC) programme. This is the most obvious quick win which can create immediate efficiency gains and achieve process savings across most low value spend.
2. Implement eAuctions as soon as possible. These can generate clear cash savings for funding further investment in eProcurement.
3. Implement P2P to make the procurement processes as efficient as possible and to start capturing data on spending patterns as useful management information.
4. Implement eSourcing solutions to improve professionalism of procurement staff and ongoing supplier relationships.

#### Drivers for eProcurement

*"Currently, the order process when frontline staff need to get hold of something is often a long, drawn-out process. If the right deal has already been done, and the staff member could simply order the goods/services off their screen, then not only would this result in a price saving, but that member of staff would have more time free in order to do their job."*

Martin Sykes, OGC

Experience shows that taking a gradual approach and not trying to implement too much too quickly is the best method of achieving success. As case study contributors have reported:

- "Do it in bite-sized chunks rather than big bang", Bill McNulty, Gateshead Council
- "We learnt from experience. We went more slowly but we built something more sustainable", Richard Wheeler, Shell
- "What's common amongst the implementation failures is the attempt to do a "big bang" approach. You have to use 'e' appropriately, and understanding that it's better to be less ambitious at the outset and then extend as is appropriate", Christine Harland, University of Bath.

### 3.2 Implementing eProcurement

A wide variety of electronic procurement (eProcurement) tools have been developed over recent years to help organisations source, contract and purchase more efficiently and effectively.

Broadly, eProcurement tools relate to two aspects of procurement:

- Sourcing activity, and
- Transactional purchasing.

### 3.2.1 Sourcing Activity (eSourcing)

The eSourcing tools described in this section can help buyers establish optimum contracts with suppliers, and manage them effectively. The tools include supplier databases and electronic tendering tools, evaluation, collaboration and negotiation tools. Also included are eAuction tools and those tools which support contract management activity.

### 3.2.2 Transactional Purchasing (ePurchasing)

The ePurchasing tools described in this section can help procurement professionals and end users achieve more efficient processes and more accurate order details. The two aims of (a) maximising control and (b) process efficiency are the function of ePurchasing tools such as purchase-to-pay systems, purchasing cards and electronic invoicing solutions.

### 3.2.3 User Guide

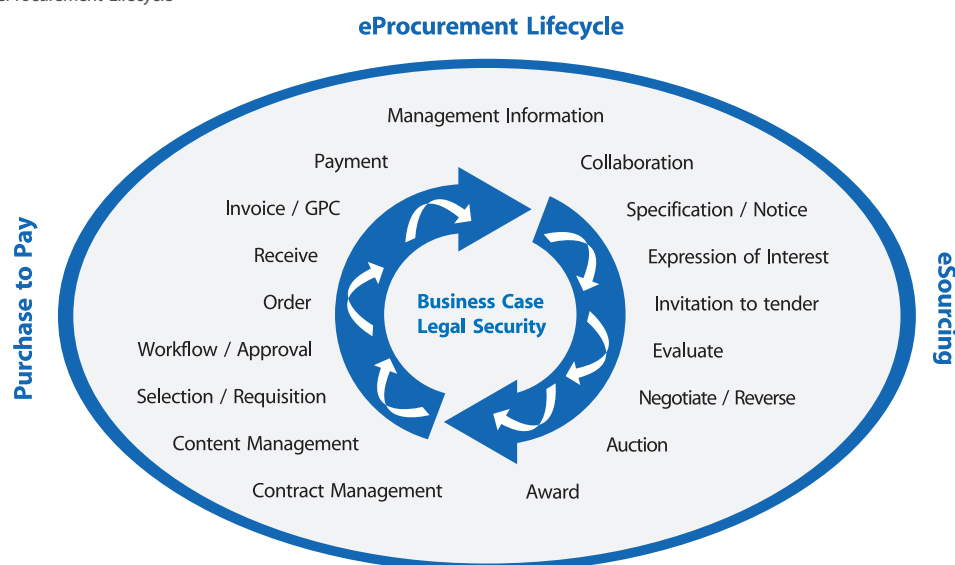
Although the tools fall broadly within these two categories, some tools can be implemented in isolation. Based on the recommendations of experienced implementers, the OGC suggests that:

- eAuction tools are now a mature technology that can generally be implemented more quickly than other eSourcing tools. As eAuctions are currently proving a clear “quick win” in cash releasing terms, their earliest implementation is strongly recommended
- The Government Procurement Card (GPC) is an established and widely-accepted programme. Implementing the GPC will provide most organisations with immediate process efficiency gains and the capability to better meet prompt payment targets. A GPC programme will often complement a later P2P project and can ease staff transition to new processes.

Therefore, in addressing eProcurement implementation we have separated eAuctions from general eSourcing, and separated Procurement Cards from general ePurchasing.

The diagram below shows where eSourcing and ePurchasing (called Purchase to Pay) tools fit in the procurement life cycle as classified by the Chartered Institute of Purchasing and Supply (CIPS).

CIPS eProcurement Lifecycle



## 3.3 Purchasing cards (P-cards)

Purchasing cards (P-cards) are similar in principle to charge cards used by consumers (for example suppliers are paid within five days; the buyer is billed monthly in a consolidated invoice), but with extra features which make them more suitable for business-to-business purchasing. These can include:

- Controls such as restricting card use to particular commodity areas
- Individual transaction values, and
- Monthly expenditure limits.

The purchasing information provided to the buying organisation by an issuing bank on each monthly statement depends on the degree of detail automatically generated by each supplier. This can range from the supplier name, date and transaction value, to line item detail against each item ordered, free text entry for the input of account codes, and VAT values.

### 3.3.1 UK public sector: government procurement card (GPC)

Visa, through several high street issuing banks, provides the P-card programme for the UK public sector: the Government Procurement Card (GPC). The contract was first let in 1997 on behalf of central government and its success led to the GPC programme being opened to the whole UK public sector in 2003.

Today the GPC programme is the most developed P-card programme in Europe. By September 2004, 379 card programmes were in place, with almost 60,000 cards in circulation. Monthly card expenditure and usage exceeds £30m and 200,000 transactions.

To date, just over £1bn has been spent using the GPC, resulting in an estimated saving for the taxpayer of £172m.

GPC can be implemented quickly by any public sector organisation. OGCBuying.solutions manages the GPC framework agreement and there are contracts in place with most of the leading banks in the UK who run the card programmes.

For further information on the GPC visit <http://online.ogcbuyingsolutions.gov.uk/>

### 3.3.2 Implementing P-Cards

#### Card holders (users)

P-Cards should be distributed to anyone in the organisation who needs to requisition low value goods, and some services.

#### Functionality

P-Cards enable each card holder to be allocated a spend limit per transaction and a total spend limit per month. The GPC and some other P-Card programmes also enable spend to be regulated by blocking spend categories for particular users.

Individual transaction data is captured by the supplier at time of sale and transmitted to the issuing bank which provides the card programme. A monthly consolidated statement is provided in paper format or electronically to the purchasing organisation for approval and payment.

### 3.3.3 Supplier participation in P-card programmes

Many suppliers already accept consumer credit and debit card payments and no extra equipment is required to accept P-cards. The costs to suppliers in accepting credit, debit and P-card payments are:

- A small transaction charge (normally ranging from 1-4%), and
- The cost of implementing the card processing equipment. This cost increases with the higher level capabilities.

### 3.3.4 Benefits of P-cards

- Process savings: it has been calculated that the average savings per transaction of a P-card payment process over a traditional invoice payment process is £28<sup>6</sup>
- Prompt payment discounts reduce the amount paid for goods and services
- Guaranteeing prompt payment is a significant benefit to suppliers, particularly small and medium sized enterprises as it generates cash flow
- Increased compliance with contracts.

School kitchen staff were given the GPC for ordering catering supplies. As the GPC invoice comes through monthly, whereas catering was invoiced per order, we've taken 35,500 invoices out of the system.

Russell Darling, Bristol City Council

## 3.4 eAuctions

In an electronic reverse auction (eAuction) potential suppliers compete online and in 'real time', providing prices for the goods/services under auction. Prices start at one level and gradually, throughout the course of the eAuction, reduce as suppliers offer improved terms in order to gain the contract.

eAuctions can be based on price alone or can be weighted to account for other criteria such as quality, delivery or service levels.

### eAuctions

"I don't see an eAuction as any different to a standard negotiation. It's just more efficient and more consistent. It's fairer because it's neutral and every supplier uses it exactly the same way."

Rob Rousou, elcom

As an example of their effectiveness, the Department for Constitutional Affairs' eAuction for court reporters and transcript services recorded an impressive 10% savings off an annual budget of £10m. See section 6, case studies.

### 3.4.1 Electronic reverse auctions (ERA) framework

By December 2003, OGCbuying.solutions, together with OGC had established the electronic reverse auctions framework for the UK public sector. Each of the eAuction service providers on the framework offers public sector organisations assistance with:

- Assessment of the suitability of forthcoming contracts to the eAuction process
- Advice and guidance on strategy and
- Supplier training and ‘test’ eAuction events.

For further information on the ERA framework visit <http://online.ogcbuyingsolutions.gov.uk/>.

### 3.4.2 Initial results from eAuctions

Initial results from central civil government eAuctions have been impressive. Of the 17 eAuctions run by six departments and agencies for financial year to March 2004, savings averaged 13.4% over a total affected spend of £44.8m.

Commodity	Number of auctions	Average saving
Stationery	4	9.7%
IT equipment	2	23.0%
Utilities	2	11.7%
Other goods	6	12.6%
Services	3	12.8%
<b>Total:</b>	<b>17</b>	<b>13.4%</b>

CCG savings on eAuctions, April 2003 - March 2004

Note: OGC has been monitoring eAuction activity across government and figures in November 2004 showed an increase in average savings.

Of the 40 recorded eAuctions to November 2004, for a diverse range of goods and services, recorded savings were averaging an impressive 22%.

### 3.4.3 eAuction benefits

- Government eAuction activity shows an average saving of 13.4%<sup>7</sup> over previous contract value
- Improved preparation and planning for the tendering process
- Opportunity for suppliers to submit revised bids for a contract (as opposed to the formal tendering process)
- Increased market knowledge for buyers and suppliers. Suppliers particularly benefit from increased awareness of competitor pricing
- Provides a more level playing field for suppliers
- Improved quality of service.

In the Independent Assessment into the Development of Auctions as a Purchasing Tool (I-ADAPT)<sup>8</sup> study, buyers were asked how suppliers’ performance had changed since using an eAuction. The results were:

- Flexibility up 22%
- Quality of the product or service up 20%
- Delivery/reliability up 12%
- Dependability (keeping promises) up 11%, and
- Account or customer support up 8%.

### 3.4.4 Implementing eAuctions

#### A key part of tendering

eAuctions do not replace **tendering**: they are a part of it and provide cost-effective, fast and transparent conclusions to a full tendering process. eAuctions may be based on securing the lowest price, or on most economically advantageous bid (price, payment terms, supply schedules).

Only those suppliers who have successfully pre-qualified (i.e. they have satisfied all tendering criteria such as quality processes, financial stability and environmental policies) should be invited to participate.

#### Identifying purchases suitable for eAuctions

The OGC has created an interactive online eAuction decision tool to assist buyers when they are considering the suitability to particular goods or services. The tool is available at [www.ogc.gov.uk](http://www.ogc.gov.uk).

<sup>7</sup> OGC figures for central government, November 2004

<sup>8</sup> Research conducted by the Chartered Institute of Purchasing & Supply (CIPS) and the University of West of England, in association with Oracle and BT.



"We see eAuctions as a fair and transparent way of achieving a good market price, not as a means of squeezing the vendors' margins. We have looked into how many contracts have been terminated because of poor vendor performance and it is very few. We will continue to use eAuctions as a valid tool in the procurement toolkit."

Richard Wheeler, Shell

### Considering an eAuction strategy

The complexity of an organisation's procurement will affect the eAuction strategy. Some basic considerations for all requirements, whether complex or simple, are:

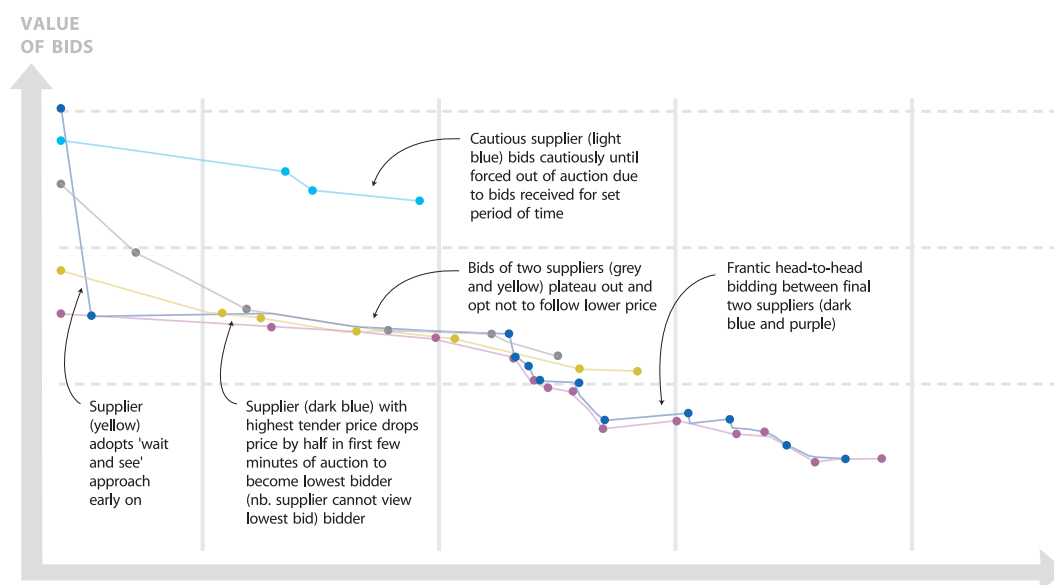
- **Starting price:** what will be the starting price criteria? E.g. an indicative price submitted by suppliers in an earlier stage of the tendering process?
- **Bid decrements:** what will be the minimum level by which a supplier can reduce their bid below the current lowest? For a £100,000 contract a bid decrement of £2,000 - £5,000 would be reasonable
- **Duration:** what will be the duration of the event?

- **Extensions:** what extensions will be granted? E.g. If any bids are received within the last five minutes of the eAuction an extension of 5 minutes might be granted for other bidders to respond
- **Weightings:** more complex eAuctions will allow suppliers to revise their bids in respect of criteria including, but not restricted to, price. Advice on all aspects of conducting eAuctions should be sought from the service provider.

### 3.4.5 Suppliers and eAuctions

Suppliers are generally co-operative about participating in eAuctions. Buyers should maintain excellent communications with suppliers, being open and providing all relevant operational and technical information (this is a legal requirement). Buyers should also provide supplier inductions to eAuctions and a test eAuction prior to the live event if necessary to ensure supplier familiarity with both the process and the technology.

The diagram below shows the supplier activity during an actual eAuction event. Each supplier adopted a different strategy for participation: some bidding lower prices early, others holding back. Suppliers in this event could see where they stood in the bidding process and the value of other bids, but not the names of other bidders.



### 3.4.6 Use of eAuctions in the Construction Industry

The UK public sector is implementing eAuctions as a valuable tool for improving the purchasing process. There is now more experience in both the public and private sectors to demonstrate that eAuctions have been found to improve professionalism, speed up process and, in many cases, reduce the purchase price for goods and services. Within the UK Public Sector, eAuctions are being implemented in accordance with best practice, supported by a professional Code of Conduct. eAuctions form only one stage of a full quality tender process. eAuctions themselves can be complex with weighted options to take account of factors other than price throughout the process. This approach ensures that contracts continue to be awarded on a value for money basis, in line with Government policy, and not on price alone.

The Construction Industry has been progressing with adoption of eCommerce in the same way as other sectors. However, there have been some strong objections to Electronic Reverse Auctions (eAuctions) from some sections of the industry. OGC has received representations from trade associations and other bodies. Sections of the industry have seen eAuctions as a return to lowest price purchasing, threatening already low margins. The industry also perceives eAuctions as challenging the principles of the Achieving Excellence in Construction initiative<sup>9</sup>, such as an integrated supply chain approach to construction procurement based on optimum whole-life value. The OGC has explored the use of eAuctions in construction. It is working closely with industry to explore and facilitate their adoption where appropriate.

## 3.5 Purchase-to-pay

Purchase-to-pay tools are software and systems which allow online trading and transactions between buyer and supplier.

They include:

- **Buy-side systems**, designed to streamline the internal workflow associated with procurement
- **Marketplaces** hosted on the internet where many buyers and suppliers can trade online
- **Sell-side solutions**, or suppliers' own web shops.

These tools offer a variety of functions to support transactional purchasing, e.g. catalogues, Requests for Quotations (RFQs), shopping basket, workflow, checkout, receipting, invoicing and payment, as well as any follow-on activity in the event of error, such as credit note and returns handling.

Implementing a P2P system can free up significant amounts of staff time, reduce order error rates and substantially reduce off-contract ordering (known as 'maverick purchasing').

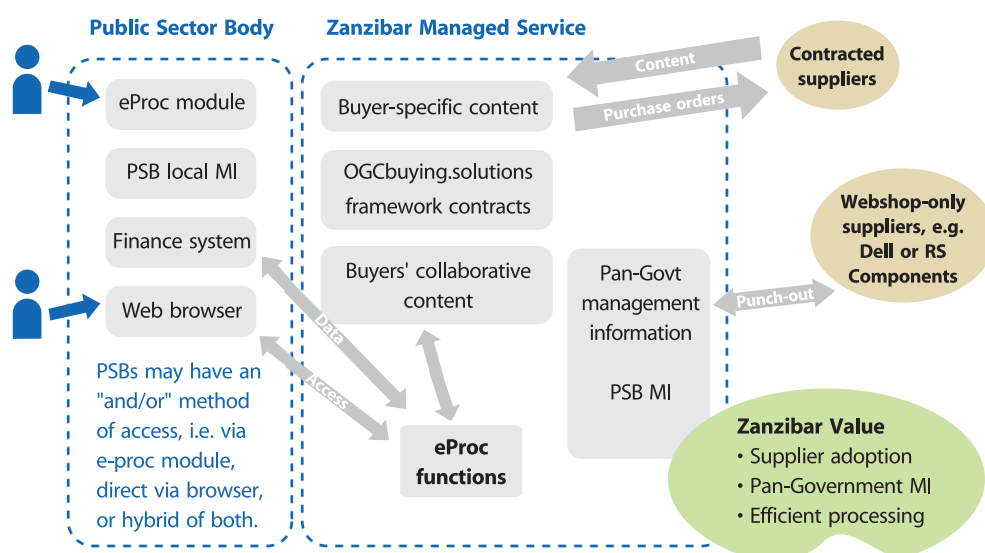
**P2P systems can enable more efficient purchasing processes, improved supplier relationships and improved value for money (VfM).**

P2P allows organisations to capture their spend and management information and also provide a full audit trail of transactions and help organisations meet their commitments under the Freedom of Information Act and the Data Protection Act.

Within the UK public sector three of the central procurement organisations have established framework agreements or managed services for the provision of P2P-related solutions on behalf of all or some public sector organisations.

### 3.5.1 UK public sector P2P systems: Project Zanzibar

OGCbuying.solutions, in collaboration with OGC, is developing a purchase-to-pay marketplace for the UK public sector, currently known as Project Zanzibar. Zanzibar will provide public sector organisations with access to purchase-to-pay functionality and a wide range of catalogues without necessarily needing to implement software locally. See *Zanzibar overview* below.



Zanzibar is scheduled to go live in mid-2005 with a number of central civil government organisations already committed to using the service. It will be available to the whole of the public sector.

Zanzibar will provide:

- An electronic marketplace presenting products and services offered by various suppliers to government
- Effective collaboration between public sector bodies (PSBs) to ensure optimum VFM from shared supplier contracts
- Reduced cost of managing electronic catalogues for PSBs and suppliers
- Transaction data on aggregated public sector procurement activity
- Flexible solution for those with their own eProcurement systems to access catalogues from OGCbuying.solutions plus those available to other PSBs

- Powerful management information tool for PSBs to extract valuable intelligence on further opportunities for collaboration and VFM improvements
- A single point of contact where suppliers to PSBs can provide product and service information.

For further information on Project Zanzibar visit [www.ogc.gov.uk](http://www.ogc.gov.uk).

Following contract award, access to the service will be available from <http://online.ogcbuyingsolutions.gov.uk/>.

#### eProcurement and Zanzibar

"Zanzibar will provide better access to collaborative deals and therefore lower costs per unit. It will be simple for public organisations to gain access to Zanzibar, making it a quick win for efficiency."

Amabel Grant, OGC

### 3.5.2 UK public sector P2P systems: IdeA:Marketplace

The Improvement and Development Agency (IDeA) is behind the IdeA:marketplace, an electronic procurement and trading system for local government. It provides the following advantages and benefits to participating organisations:

- A dedicated electronic procurement solution
- Reduces purchase costs
- Reduces process time and costs
- Provides the opportunity for meeting the challenge of 2005<sup>10</sup>
- Offers a tested and proven platform
- Increases collaboration between authorities, and
- Provides a tool for management information.

For further information on the IdeA:Marketplace visit [www.idea.gov.uk/marketplace/](http://www.idea.gov.uk/marketplace/).

### 3.5.3 UK public sector P2P systems: eProcurement Scotl@nd

The Scottish Executive has implemented a P2P system called eProcurement Scotl@nd (ePS), a marketplace for the Scottish public sector. The scope of the service includes the analysis of an individual buying organisation's requirements and priorities, followed by the development, delivery, support and management of eProcurement services to the Scottish public sector buying organisation and their suppliers.

The standard service elements of eProcurement Scotl@nd include:

- Pre-implementation 'scope and readiness' consultancy
- Application service provision
- Buying organisation implementation
- Supplier e-enablement, and
- Service support, development and management.

eProcurement Scotl@nd is the recommended eProcurement solution for the Scottish public sector. For further information visit [www.eprocurementscotland.com/](http://www.eprocurementscotland.com/).

### 3.5.4 Potential savings of P2P

Research conducted for OGC demonstrated an average process saving for a fully automated purchase-to-pay transaction of up to £41 per transaction. In the absence of any other available baseline data, you could use this figure to estimate the potential savings. A more accurate benefits measurement can be obtained by examining the average time taken in your organisation to process a transaction before and after implementation, and factoring into this the fully weighted salary costs of each individual involved in the process.

### 3.5.5 Implementing purchase-to-pay (P2P)

#### Users

Users of a purchase-to-pay solution can come from anywhere in the organisation where individuals need to requisition goods and services, or to authorise their purchase. They are generally much more widely used than other solutions such as eAuctions and eSourcing tools, so ease-of-use is a major consideration.

#### Functionality

A P2P solution will come equipped with some or all of the following elements:

#### Change Management

*"At the Home Office we rolled out a procurement system before our eProcurement system to provide staff with 'practice' and get them used to some of the new processes, e.g. workflow."*

Clive Jones, Home Office

<sup>10</sup> All local authorities are producing annual IEG statements by 2005, they must provide all services electronically.

### Catalogues

An online catalogue is a database of suppliers' products and services available to buy online. Online catalogues should be easy to use and allow for fast identification of products and services. Contract pricing specific to the organisation must be visible to requisitioners.

The screen below shows the home page of the OGCbuying.solutions catalogue available at <http://online.ogcbuyingsolutions.gov.uk/>. Users are able to access catalogues and product information like this via their own P2P solutions.



### Free-text items

Providing 'free-text' capability within a P2P solution equates to writing out a manual purchase order, but on the system. It enables requisitioners to purchase non-catalogue items using the same system, procedures and workflow as for catalogue purchases.

### Punch-out

Punch-out is the term used to describe access to a supplier's web site directly from the buyer's P2P system without the need to re-enter a user name and password. Punch-out allows a requisitioner to search for goods or services on a supplier site, then add them to a shopping basket and process the order on the buyer's own system.

### Electronic request for quotes (eRFQ)

An eRFQ enables users to invite suppliers into 'mini competitions' using their P2P solution. The ability to attach documents, such as a specification of requirements, is usually offered.

### Shopping basket

Requisitioners buying online use the 'shopping basket' function to select goods/services prior to completing the online purchase. Items can be held in the basket unprocessed for a specified period of time.

### Check-out

Once users have selected the required purchases, they proceed to the 'check-out' to complete the transaction. At this stage, various additional pieces of information are input, such as name of requisitioner, date, cost centre, delivery address, etc.

### Approval workflow

Approval workflow can be programmed into P2P solutions to enable automatic routing of orders to the financial or business authorisers required to approve an order before it is placed.

### Order despatch

Once the requisition has been approved, the system will create the purchase order automatically. The order may be sent to the supplier by a number of different means. Common ways to send the order electronically include:

- XML (extensible mark-up language), a low cost, flexible solution which also allows easy integration with suppliers' systems
- E-mail, which requires the supplier to copy information into their own system manually
- EDI, an electronic data standard which allows the supplier to automatically load orders into their own systems, but has relatively high costs
- Fax, sent automatically once the PO is approved.

### Electronic goods receipting

Electronic goods receipting - recording on the system what has been delivered and when - can be undertaken manually or, in some larger storage areas, by bar-code reading equipment.

### Invoice matching

A three-way matching process is generally applied to invoices received. If the supplier, quantity, items and prices on the invoice match up with the *purchase order* and the *goods receipt note*, payment may be automatically generated. Two-way matching is an alternative and refers to the matching of *purchase order* with *invoice*.

Many organisations now receive large, consolidated invoices for P-card or mobile phone expenditure. However, these invoices can be difficult to process and reconcile. Tools are available to automate processing (see the case study, "Electronic invoice processing saves £400k" in section 6).

#### Freeing up time for 'value-add' services

"The actual process is very streamlined - at the most a front-end user spends about 5 minutes on the system. That's one of the biggest benefits. Users don't have to see the invoice because as long as they've generated a purchase order and receipted the goods or services when they're delivered, then they've done their bit."

Tony Spencer, HM Customs & Excise & Sasha McConnell, Inland Revenue

### Electronic invoicing (eInvoicing)

Recent developments and legislation allow invoices to be sent and stored electronically. Once received by the buying organisation, the data on the invoice is automatically entered into the finance system. For more information on the HMCE guidance on eInvoicing see section 5.

### Self-billing

Some organisations now automatically generate a payment to their suppliers on delivery of the ordered goods or service. Notification is sent to the supplier to inform them that payment has been made. For more information on the HMCE guidance for self-billing see section 5.

### P-card and government procurement card payment function

P-Cards and government procurement cards can be used as a payment mechanism within purchase-to-pay systems in three ways:

- **Manual entry:** Users enter P-card details at point of sale (online at the catalogue's 'checkout')
- **Embedded cards:** Unique P-card numbers are stored against each user's profile in the system. Users do not need to enter, or even see their actual card number. These are fed straight into the purchasing system
- **Lodged cards:** Unique P-card numbers are issued to suppliers who have a contract with the buying organisation. When the buyer makes a purchase they can authorise payment by means of the lodged card. This is the most secure means of online purchasing using P-cards.

### 3.5.6 Supplier engagement in P2P

Experienced P2P buying organisations such as Bristol City Council, Office of the Deputy Prime Minister and the Scottish Executive recommend that buying organisations recognise different suppliers' approaches to P2P implementations.

Some larger suppliers have already invested in P2P systems which they would like buying organisations to use. These are the suppliers with whom full and even integrated P2P may be possible today through 'punch-out'. Those who have yet to invest are probably still deciding on the 'when' and 'how' in order to maximise their business growth. The variables include business objectives, market share, knowledge of eCommerce, ability to invest, size, market sector and level of skills. And to make it more complicated, there is no particular identifiable trend.

"Improved order accuracy is much better for RS as it removes the cost of order return and retrieval of incorrect goods. It also improves customer satisfaction. The online service mirrors RS's traditional telephone ordering service in many ways, such as confirmation of stock availability at point of order, but also gives customers other benefits such as the capability to track orders, see order history and save parts lists."

Keith LaRoche, eCommerce Sales Manager,  
RS Components

Examples of the different levels of supplier engagement currently available are:

- **Free-text entry** to a P2P system with supplier assigned a high level UNSPSC (see section 5) code
- **Punch-out** to a supplier site
- Joining a **marketplace**
- Supplier providing a catalogue to a **buyer's P2P system**.

In section 6, case studies, the Bristol City Council case study describes how Russell Darling and his team have approached their suppliers, many of whom are local Small and Medium Enterprises (SMEs), with a 3-tier strategy. Also included is a case study from maintenance, repairs and operations supplier RS Components. They have a comprehensive eCommerce strategy that is very much driven by business objectives.

### 3.5.7 Electronic marketplaces

An electronic marketplace is a 'communal' P2P system where a number of buyers and suppliers exchange information and transact online with each other in a secure environment. Their content (different suppliers' eCatalogues) and the various purchasing transactions are often managed by a third party (usually an IT service provider or hosting service).

Zanzibar, IDeA:marketplace and eProcurement Scotl@nd are examples of marketplaces in the public sector. The benefits and functionality are explained in 2.6 and 3.5.

### 3.5.8 Sell-side solutions, or Supplier web shops

An online catalogue of products available from only one supplier. These sites are similar to retail consumer sites from high street supermarkets, electrical stores, etc. as they offer the same functions - search, compare specifications, shopping basket, check-out - plus delivery tracking, online payment and reporting functions.

Most are updated and managed by individual suppliers and many are customised for different user organisations so that they include and display only those products and prices which have been contracted. This helps prevent 'maverick buying' of products outside of the agreed portfolio.

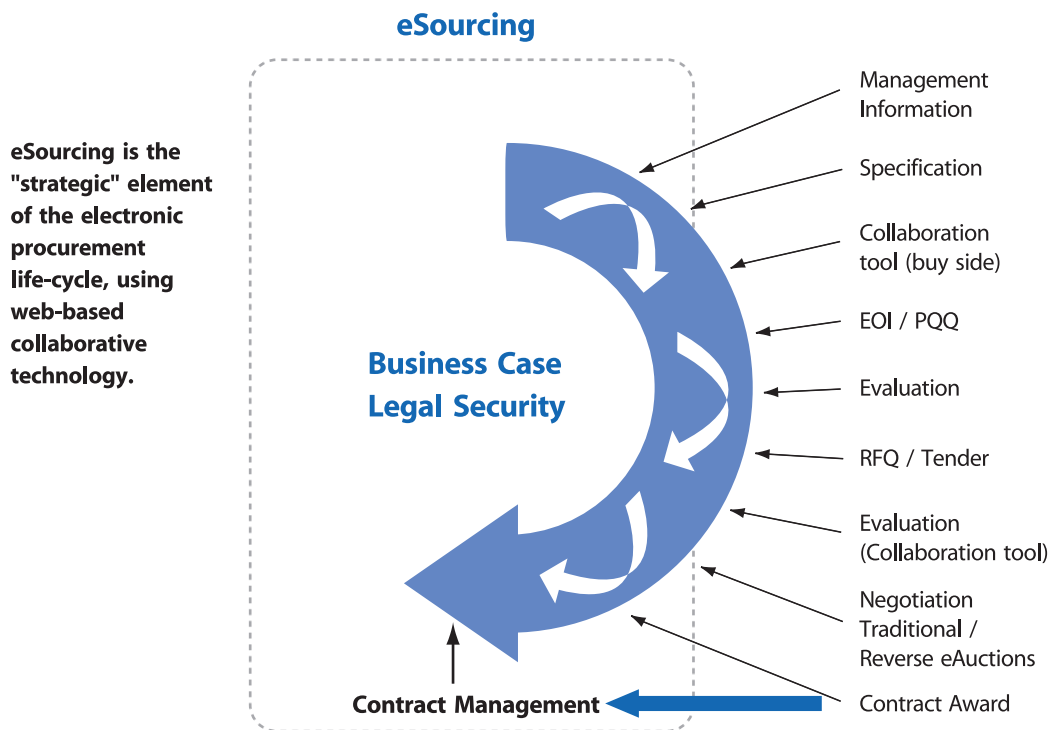
## 3.6 eSourcing

Electronic sourcing (eSourcing) is the use of internet technology to establish, manage and monitor contracts. It includes:

- eTendering (which may include electronic reverse auctions (eAuctions))
- eEvaluation
- eCollaboration, and
- eContract Management.

### 3.6.1 UK Public Sector eSourcing managed service

OGCbuying.solutions, in collaboration with OGC, has established an eSourcing managed service for the UK public sector which includes eTendering, eEvaluation, eContract Management and eCollaboration. The service is delivered by a single service provider via a secure hosted site. Support and services such as training, advice and guidance are also provided. See 3.6.2 below.



The eSourcing service enables public sector organisations to electronically:

- Identify and research potential suppliers
- Advertise requirements
- Generate pre-qualification questionnaire
- Create an Invitation to Tender (ITT) and Invitation to Negotiate (ITN)
- Provide an electronic Request for Quotation (eRFQ)



- Receive responses, including tenders, with a secure opening process
- Evaluate tenders
- Undertake some negotiation and issue contract award
- Manage contracts, and
- Collaborate.

The eSourcing service enables suppliers to:

- Upload basic registration information
- Submit an expression of interest
- Answer pre-qualification questionnaires
- Respond to ITTs and ITNs
- Respond to eRFQs, and
- Collaborate.

For further information on the eSourcing framework visit <http://online.ogcbuyingsolutions.gov.uk/>

### 3.6.2 Implementing eSourcing

#### Users

eSourcing tools support strategic purchasing activity and therefore their primary users are professional procurement teams. For some tendering activity, e.g. evaluation, the procurement team is also likely to work with the relevant business team within the organisation. Therefore, eEvaluation and eCollaboration tools may also have users within the relevant business units.

The other key users of eSourcing tools are suppliers. Supplier representatives will have access to eTendering tools. They may in some circumstances also have access to eCollaboration and eContract Management tools.

Implementing eSourcing can bring many benefits to both buying organisations and their suppliers.

Process efficiencies, reduction in overhead costs, reduced timescales from identification of requirement to contract award are all achievable to both buyers and suppliers.

Each of the eSourcing tools can be implemented separately or together depending on the individual requirements of the buying organisation.

### 3.6.3 Supplier information databases

Supplier information databases, such as the database created in 2002 by the National Health Services Purchasing and Supply Agency (NHS PASA) are effectively 'up to date' online supplier profiles which contain standardised information about companies who regularly tender for contracts.

The database is usually hosted by the tendering body or a group to whom the tenderer belongs (the National Health Service supplier information database is hosted centrally and accessible by health service trusts and buying confederations as and when they need to refer to it). Potential suppliers can register to join the database and, when accepted, they then provide a profile (which they can update) of core information such as:

- Corporate status
- Financial background
- Quality accreditations
- Environmental policies, and
- Health & safety, employment and security policies.

This information usually reflects the range of information required by tendering public sector bodies at the early 'Expression of Interest' or 'Request for Information' stage of a tender process. Tender evaluators are authorised to access each supplier's information online.

Hard copy submissions are not therefore required and both suppliers and buyers can complete this stage of the tender process with greater flexibility, at lower cost and in less time.

### 3.6.4 Electronic Tendering (eTendering)

eTendering solutions enable the contracting authority to manage the full lifecycle of the tendering process online. This includes supplier sourcing, advertising the requirement, issuing the Invitation to Tender and other tender documents, supplier completion and submission of the tender return, and a closed tender box. The contracting organisation can use the eTendering tool to receive and respond to bidders' questions and to communicate with individual or all suppliers throughout the process.

### 3.6.5 Electronic evaluation (eEvaluation)

An automated process of tender evaluation against pre-agreed criteria. eEvaluation allows evaluation panels to streamline processes for:

- Developing and structuring assessment criteria
- Conducting tender evaluation, and
- Comparing tender responses.

### 3.6.6 eCollaboration

This tool is provided via an extranet (a shared working environment) to enable geographically-dispersed groups to discuss and document-share during any part of the tendering process.

### 3.6.7 eContract management

This is an online tool that helps to establish, manage and monitor contracts including collating supplier bid histories including the value and number of contracts awarded. The tool will notify buyers (via email) when contracts are due for renewal and collates supplier performance information against contractually agreed criteria.

### 3.6.8 Benefits of eSourcing

There are many potential benefits to both buyers and suppliers of implementing eSourcing tools. These are primarily process savings, which allow an existing team of professional buyers to reduce the time spent on any one procurement exercise.

One UK public sector organisation interviewed by OGC found that the most significant process savings were in the area of tender evaluation. This organisation conducts approximately 50 OJEU tenders a year and estimates the cost of each to be over £10,000 in staff-related costs. Their eTendering solution reduced staff time requirements by 25% with a process saving of £2,500 per tender.

### Benefits to buying organisations

- Reduces cost of the competitive tendering process:
  - Saving staff time on the completion of tender documents
  - Saving staff time on the evaluation process
  - Saving staff time on the contract management process
  - Overheads - printing, copying, paper and postage/courier services
- Encourages greater competition
- Enables collaboration and standardised supplier communication
- Provides spend and performance analysis, and provides a knowledge base
- Monitors supplier compliance
- Encourages all parties to follow best practice
- Improved management information leading to improved measurement of the department's success in meeting objectives
- Promotes professional, up-to-date perception by suppliers.

### Benefits to suppliers

- Reduced cost of the process of tendering to government:
  - Saves staff time on completing the tender responses
  - Reduces overheads: printing, copying, paper and postage/courier services
  - Allows longer lead times - can submit electronic tenders up to deadline
- Simplifies identification of relevant opportunities through automatic generation of new tender notifications
- Widens supplier opportunities: they can: view and engage in tendering opportunities without being constrained by location
- Online access to all current tender information on a self-service basis.

“While the return on investment for eSourcing can be very positive, it is not a goal in itself. In order for an eSourcing programme to be successful, it must form part of an integrated approach to elevate the purchasing function”.<sup>11</sup>

### 3.6.9 Potential savings through eSourcing

Many of the benefits of eSourcing, such as improved management information, should enable buying organisations to tender more effectively, which will lead to improved contractual terms and pricing.

However, most implementers to date have focused on two primary areas when measuring the benefits:

- Reduction in costs associated with advertising and distributing tenders, and
- Process savings due to automating and simplifying tasks such as tender evaluation.

Recent research from Deloitte Consulting<sup>12</sup> into local authority use of eTendering found that it can deliver the following benefits:

- Savings in process costs of:
  - Up to 15% for an eRFQ
  - Up to 25% for a mini tender (below OJEU threshold), and
  - Up to 28% for a full tender (above OJEU threshold)
- Savings in overhead costs of up to £50 per tender.

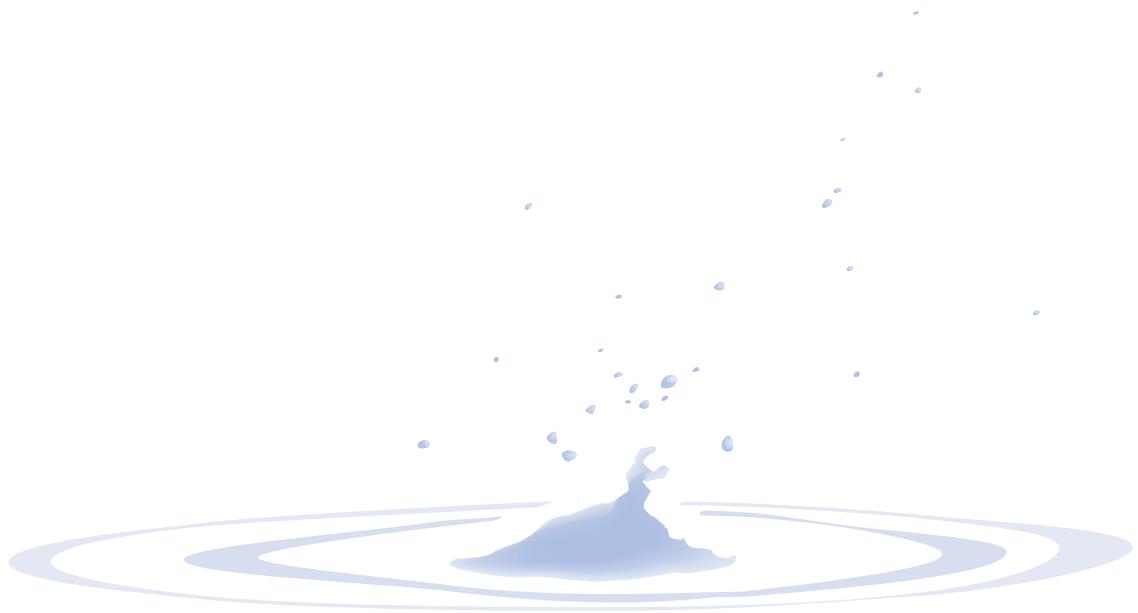
### 3.6.10 Supplier engagement in eSourcing

eSourcing tools provide many benefits to suppliers and, indeed, a key driver for many purchasing organisations in implementing eSourcing tools is to ease the cost and administrative burden of the traditional tendering process for suppliers.

The only area where suppliers may still be wary is online security, particularly confidentiality, data integrity and non-repudiation. Please see section 5: eProcurement policy and standards for further information, as well as eGU and CESG at [http://www.govtalk.gov.uk/documents/security\\_v4.pdf](http://www.govtalk.gov.uk/documents/security_v4.pdf); <http://e-government.cabinetoffice.gov.uk/homepage/fs/en>; and <http://www.cesg.org>.

<sup>11</sup> e-Sourcing, a BuyIT Guideline, November 2004

<sup>12</sup> How to... Quantify and realise the benefits from e-Tendering, National e-Procurement Project, April 2004



## Section 4: eProcurement in action

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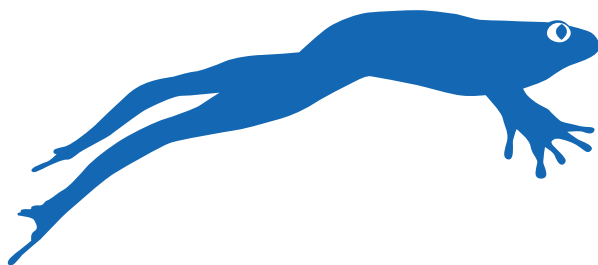
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## 4.1 Getting started

Implementing electronic procurement (eProcurement) solutions will require up-front investment. Purchasing the system, allocating staff to the project to undertake such tasks as project management, change management and supplier engagement, all form part of that investment. To achieve the go-ahead for this commitment and expenditure an organisation will require a business case.

Such a business case must demonstrate that the projected value of the benefits from the investment will make the costs worthwhile. Not all benefits will be financial. Less tangible benefits such as increased customer satisfaction can also be taken into account when demonstrating the value of the investment.

A business case for eProcurement must accommodate a range of stakeholders affected by the project. These are likely to include as a minimum:

- Suppliers
- End-user requisitioners
- Stock controllers (where applicable)
- Procurement department
- Finance department, and
- IT department.

They might also include human resources, internal audit and representatives of core business units.

The business case needs to accurately define the current purchasing processes, operations and costs and compare them with an eProcurement environment. To do this, an analysis of existing expenditure and processes is necessary.

*“Over the course of a wide-ranging eProcurement programme, the first year is typically one of investment, the second year is the start of the payback period, while the third year is when the savings really kick in.”*

David Eakin, BuyIT

### 4.1.1 Spend analysis

The starting point of any eProcurement programme should be an analysis of current spending patterns to identify who is buying what goods and services, from which suppliers, at what total cost, and with what frequency.

The knowledge gained from this exercise will help to:

- Identify savings opportunities
- Identify which eProcurement tools are most suitable for each category of spend
- Confirm the most suitable order in which to introduce these tools, and
- Develop a business plan which demonstrates achievable savings.

Research by Aberdeen Group and Penton Media Inc. found that although nearly 80% of organisations surveyed view spend analysis as ‘very important; or ‘critical’, only half actually have a spend analysis programme. However those that had done so were able to measure the reduction in their total spending which averaged 12%.

#### 4.1.2 Collecting baseline data

Many organisations find the initial purchasing data (baseline data) difficult to obtain and therefore analyse. This is because of the poor quality of existing purchasing data. However, most organisations will be able to extract some high level data from the accounts payable system. For those with a developed purchasing card (P-card) programme there might also be low value/high volume data available in statements from the issuing bank.

##### Spend analysis

“Even minimal up-front spend analysis will generate long-term benefits both in terms of systems implementation and longer term goals, and helps you know what to tackle first.”

Ian Makgill, Ticon

This finance data can be extracted into a spreadsheet or database to show each invoice line for the previous financial year. The information will be dependent on the functionality and accuracy of data within the accounts payable system.

The suggested minimum data requirement is:

- Supplier name
- General ledger code
- Invoice number
- Invoice date, and
- Amount - by line item if available.

If any other information is available, such as cost centre, commodity code and a contract reference, then a deeper analysis of transactions and baseline data will be possible.

Baseline data is important because it provides a snapshot of an organisation’s current position, and is also the starting point for measuring the return on investment from an eProcurement system.

#### 4.1.3 Making sense of the data

With a snapshot of this purchasing data available, you can start to develop a strategy for each category of spend. This should include which (if any) eProcurement tools are most suitable for that category, what savings opportunities there are, and when the strategy should be put in place.

The following questions should be considered:

Questions	Considerations
Which are the low-value, high volume commodities and suppliers?	These areas are likely to be most suitable for handling with a P2P or P-card programme.
Are these low-value, high-volume areas suitable for being catalogued?	If so, can the supplier provide suitable catalogue content? If not, consider whether punch-out or free-text ordering is appropriate.
For which categories are long term agreements due for renewal?	These areas may lend themselves to eAuction and possible eSourcing techniques when the contracts need to be renewed.
Which suppliers are most business-critical?	Consider the nature of existing supplier relationships before embarking on electronic reverse auctions (eAuctions) in these areas, even though spend may be high.  Are there sufficient suitable suppliers to make a competitive market?  Would the cost/risk of switching supplier outweigh any apparent benefit?  Is there a case for multiple sourcing to reduce risk? Do not commence or pilot with a strategic supplier.  <b><i>For further information on purchases suitable for eAuctions please refer to Section 3: eProcurement best practice.</i></b>
Which commodity areas have an annual spend of greater than OJEU limits?	Ensure that EU procurement regulations are being complied with.
How many suppliers raised only a single invoice in the last year?	Consider whether a supplier rationalisation programme should be undertaken to reduce the overhead of dealing with these suppliers.  Investigate whether these suppliers reveal problems with contract leakage, and consider how that can be addressed.
Which suppliers raise the most invoices?	Consider whether electronic invoicing (eInvoicing) or self-billing could reduce the process cost of handling these invoice transactions.  Consider consolidated invoicing.
Which cost centres purchase which commodities most frequently?	This information may help you to structure a roll-out plan for your eProcurement systems.
To what proportion of your total spend could strategic sourcing techniques be applied?	Consider whether using eSourcing techniques to put contracts in place in new commodity areas may reap benefits.



## 4.2 Business case

Public Sector Bodies (PSBs) will often construct their business case in line with the guidance in HM Treasury's *Green Book*<sup>13</sup>. The following table shows five key aspects of the project which must be considered and illustrates some of the factors which might be relevant for an eProcurement project:

Strategic fit	Options appraisal	Commercial case	Economic case	Project management case
What is the business need for the proposed change? How does it support the strategic objectives?	Have a wide range of options for change been considered?	How will the solution be procured?	How will the solution be funded?	Can the project be achieved with your current capacity and capability?
<p>How does the project support initiatives such as the 2005 "Modernising Government" agenda?</p> <p>Will the project contribute to the cash savings required for the Efficiency Review? In what way?</p> <p>Is there an opportunity for increased use of framework contracts to achieve greater VfM?</p> <p>Will it help to ensure the legality of all procurement processes in line with EU directives?</p> <p>What are the benefits for your suppliers?</p>	<p>Can you use solutions available from central framework contracts (e.g. OGCbuying, solutions in the public sector)?</p> <p>Have outsourced procurement options been considered?</p> <p>Are any existing marketplace solutions suitable for your needs?</p> <p>Does your finance solution provider offer eProcurement modules?</p> <p>What are the costs, benefits, risks and dependencies of each?</p>	<p>Can you use solutions available from OGCbuying, solutions framework contracts?</p> <p>Have opportunities for collaborative projects been considered?</p> <p>Will the proposed solution costs be in excess of EU procurement thresholds?</p>	<p>Can initial savings from pilot projects be used to fund further investment? E.g. savings from electronic reverse auctions?</p> <p>Are any central funds available to support your project?</p> <p>What payment options can be explored, e.g. risk/benefit sharing with your service provider, or interim payments?</p>	<p>Who are the stakeholders in your project?</p> <p>Is your IT infrastructure suitable for eProcurement - is browser access available to all users?</p> <p>What integration must be achieved with your finance system? HR system?</p> <p>How will change management be addressed?</p> <p>How will supplier engagement be addressed?</p> <p>Will any procurement training or retraining be required?</p>

13 Available from <http://greenbook.treasury.gov.uk/>

## 4.3 Benefits realisation and measurement

It is critical to measure the benefits of an eProcurement implementation project to report on ongoing success and progress. A measurement plan must make use of a variety of key performance indicators (KPIs) to demonstrate achievement of benefits. Benefits can be broken down into two categories:

- **Tangible benefits:** release hard cash savings
- **Intangible benefits:** increase the overall efficiency of the business but does not release obvious cash savings, e.g. cultural change.

Measurement criteria should aim to cover benefits and efficiencies in both of these categories.

**Tangible benefits:** can be derived from management information (MI) extracted from the system, to include:

- Number of orders processed through the system
- Percentage of total volume of orders processed through the system
- Value of orders processed through the system
- Percentage of total spend processed through the system
- Level of contract compliance.

**Intangible benefits:** can be derived from user and supplier satisfaction surveys.

- Modernisation
- Improved relations with suppliers
- Level of user satisfaction and empowerment
- Facilitation of collaboration
- Opportunity for benchmarking prices paid.

**“One eAuction saved 65% on £3.5m spend in one council. You can’t **not** do it!”.**

Gary Richardson, IDeA

The Central Science Laboratory (CSL) went live with their eProcurement system in April 2002. They have since met their objectives for eProcurement which included aggregating orders for improved buying power, reducing the number of suppliers used and elimination of duplication of effort. The CSL have realised significant savings as a result, e.g. in order processing a 10% improvement equates to £37.5k, a significant figure considering the size of the CSL. The new system had reduced administrative burden for staff allowing them to concentrate on their core business of science and research activities.

Kent Police have successfully eAuctioned stationery to achieve annual savings of £481k. This translates to real improvements in front line services representing a further 17 police officers, 48 newly liveried police cars or upkeep for 1,600 dogs.

The DVLA’s eEnabling of the purchasing cycle has harnessed many new electronic innovations such as electronic ordering, sourcing and tendering as well as eAuctions. They have achieved savings of over £400k and also recognise the importance of utilising the management information captured by these new tools to improve their procurement decision making.

A strategy for benefits recovery should also be put in place at the start of the implementation. Depending on the aims of the eProcurement programme, options might include one or more of:

- Reinvestment of savings into the eProcurement programme budget
- Reinvestment of savings into improved service delivery, or
- Top-slicing from departmental budgets.

A detailed study into quantifying and realising the benefits of a range of eProcurement tools has been conducted by Deloitte Consulting on behalf of the National eProcurement Project (NePP). The results of this work can be found online at [www.idea.gov.uk](http://www.idea.gov.uk).

## 4.4 Change management

Implementing any of the eProcurement tools will require substantial investment and initiate considerable change within an organisation. They will also affect supplier relationships. Based on experience, some recommended actions to help achieve successful organisational change when implementing eProcurement are:

### 4.4.1 Project set-up

Experience shows that the best results are often delivered when using a formal project management methodology, such as PRINCE2™ (refer to [www.ogc.gov.uk/prince](http://www.ogc.gov.uk/prince)). OGC is able to offer advice on project management.

### 4.4.2 Appointing a change manager

Change management is about initiating and controlling change in a structured way. A change manager should ideally have key skills including project management and planning, communication and leadership.

'Organisational change management' is a service available through OGCbuying.solutions' pre-tendered frameworks. Visit <http://online.ogcbuyingsolutions.gov.uk/>, professional services, management & business consultancy, for further information.

"We appointed a dedicated person to manage change and provide training. We also held a number of awareness seminars and gave staff demos of the system. We made sure that staff were aware of what was coming and, by focusing on the benefits to them, the seminars seemed to work very well."

Paul Cattroll, DVLA

### 4.4.3 Identifying stakeholders

Your stakeholders for an eProcurement implementation need to be identified and typically might include:

#### Internal:

- Senior management
- Procurement team
- Finance team
- IT team
- Audit team
- Administrators
- Budget holders
- Human resources team
- All requisitioning staff.

#### External

- OGC and other public sector bodies
- Suppliers of goods and services.

Once identified, stakeholders should be consulted and brought into the project through a cross-functional working group or other consultative body.

### 4.4.4 Communication

Communication is critical to achieving successful change management. It is important to:

- Give an overview of the project
- Identify key drivers, e.g. modernisation, meeting government targets
- Detail expected benefits, e.g. improved relationships with suppliers, more money for front-line services
- Outline timescales
- Describe proposed consultation - when and with whom?
- Identify key personnel on the project and provide contact information.

“Communication is the biggest challenge in driving business change. Users need to understand the benefits, but education is a time-consuming process. It’s no good just telling them they have to do x, y, or z - the natural human reaction is that they want to know **why** they ought to do so, particularly if they own the budget.”

Tony Spencer, HM Customs and Excise

The above might be supplemented by a list of ‘frequently asked questions’ for publication. The nomination of a local champion - ideally a well-known individual representing the views of a particular regional office or function - would assist.

For examples of successful newsletters see <http://www.marketplace.plc.uk/csBristol.htm> and <http://www.eprocurementscotland.com/>.

#### 4.4.5 Cultural change

Cultural change will take many forms and affect many areas.

**IT change:** new systems and working practices may best be introduced through a pilot scheme in one area of the business or one department. Additional IT support skills or functions may be required.

**Process and procedural change:** the technology itself is greatly devalued without accompanying efficiencies in process, such as reducing the number of approvals orders require, introducing goods receipting and automated 3-way invoice matching. Processes can be modified after system go-live to ease the strain of change on an organisation at any one time.

**Staff roles and responsibilities:** more efficient processes, fewer errors and reduced manual invoice processing all contribute to freeing up staff time for other, more productive, tasks.

## 4.5 Collaboration

Collaboration is about organisations joining forces to harness the influence of their combined buying power and expertise. Within the public sector there is much opportunity for successful collaboration. The internet and eProcurement offer the communication possibilities to enable successful collaboration.

Examples of successful collaboration in eProcurement can be demonstrated by:

- **eProcurement Scotl@nd**, a marketplace for the Scottish public sector
- **North East Purchasing Organisation (NEPO)** a consortium of 11 local authorities who have jointly adopted purchasing systems
- **Department for Transport (DfT)** with their agencies, the Driver and Vehicle Licensing Agency (DVLA) and the Driving Standards Agency (DSA), who have, or are about to implement, the same financial and P2P solution
- **Bristol City Council**, where public and private sector organisations have successfully joined forces to progress the procurement, SME and social development agendas in the local area, and
- **Essex Marketplace**, which allows smaller local councils to take advantage of the greater buying power of Essex County Council.

The NHS is also implementing regional supply confederations. NHS PASA, the health service’s lead agency for exploiting eProcurement, is working to assist a number of NHS trusts and related bodies to join forces and aggregate their purchasing power. Initial results suggest that substantial savings can be made.

“In the North East of England, 42 NHS organisations have collectively decided to implement and fund a single finance and eProcurement system. They will implement a single procurement process and a single catalogue.”

Joe Walsh, NHS PASA

### 5.1 European and UK policy

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## 5.1 European and UK policy

Public Sector Bodies (PSBs) in the UK who implement eProcurement systems must ensure that any associated new procedures adhere to the same legal and policy obligations that govern all public procurement. Specifically, eProcurement must be compatible with the rules of the European Commission (EC)<sup>14</sup> and the UK government's value for money (VfM) policy<sup>15</sup>. In reality, eProcurement systems, due to their transparency and full auditability, will often help PSBs improve compliance with UK and European legislation.

### 5.1.1 European Commission (EC) Consolidated Directive (2004/18/EC)

One of the aims of the Consolidated Directive (2004/18/EC) is to give a supportive policy approach to eProcurement adoption across the member states. The new provisions on eProcurement cover the following areas:

- Electronic reverse auctions (eAuctions)
- Dynamic Purchasing Systems (DPS)
- Rules applicable to communication
- Requirements relating to equipment for the electronic receipt of tenders, requests to participate and plans and projects in design contests.

The full text of the new Consolidated Directive is available online at:  
[http://europa.eu.int/eur-lex/pri/en/oj/dat/2004/l\\_134/l\\_13420040430en01140240.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2004/l_134/l_13420040430en01140240.pdf).

While the directive sets out the principles and requirements, EU member states will be responsible for its implementation, and PSBs will be responsible for its application. The directive must be incorporated into UK legislation by 31 January 2006. For advice on the directive or any other policy questions contact OGC's Procurement Policy Unit or consult [www.ogc.gov.uk](http://www.ogc.gov.uk).

### 5.1.2 Dynamic Purchasing Systems

Dynamic Purchasing Systems (DPS) are new electronic tools approved by the EC Consolidated Directive. Intended for regularly purchased goods and services, a DPS is open to any suppliers which have submitted an indicative tender that complies with the specification and that satisfies the selection criteria. Following an initial competition using the EC Open Procedure, new suppliers can join at any time for the duration of the DPS, which can be up to 4 years.

By opening the DPS to as broad a range of suppliers as possible, the aim is to assist the public sector in maximising Value for Money from these common purchases.

## 5.2 HMCE guidance on eInvoicing and self-billing

HM Customs & Excise (HMCE) ensures businesses make the correct VAT declarations and comply with VAT rules. HMCE has responsibility for enforcing UK legislation for tax invoicing, including electronic invoicing (eInvoicing) and self-billing. The European Union (EU) Invoicing Directive (2001/115/EC of 20 December 2001) came into force on 1 January 2004, introduced with the aim of facilitating and removing barriers to eInvoicing. Since this date all EU countries have to allow tax invoices to be transmitted electronically. HMCE fully supports and encourages eInvoicing and will try to assist where appropriate.

<sup>14</sup> Accessed (English version) at [http://europa.eu.int/index\\_en.htm](http://europa.eu.int/index_en.htm)

<sup>15</sup> Chapter 22, Government Accounting, further information from: <http://www.government-accounting.gov.uk/current/frames.htm>

## 5.3 Electronic invoicing (eInvoicing)

Electronic invoicing is the transmission and storage of invoices, without the delivery of paper documents, by electronic means. The minimum requirements (advised by HMCE) for businesses using eInvoicing are:

- Ensure the correct VAT-related content is included on an eInvoice (as detailed in the EU Invoicing Directive)
  - The same content requirements apply to eInvoices as apply to paper invoices (see HMCE notice 700 *The VAT Guide*)
  - Additional information is required for invoices issued for cross border supplies (see HMCE notice 725 *The Single Market*)
- Demonstrate the invoice is for a genuine supply
- Follow a fully auditable process; and
- Provide access to HMCE auditors to all invoices including eInvoices.

Credit notes or similar documents must contain the same information as the eInvoice as well as information to enable the original invoice to be identified.

Suppliers sending batches of invoices electronically may record details that are common to the individual invoices once per computer file rather than once per invoice. That is, instead of repeating the full name and address of your customer on every invoice in the batch, this information could be shown on the batch header, with an abridged or coded version within each individual invoice message.

Suppliers may invoice electronically only when the authenticity of the invoice origin and the integrity of the invoice data can be guaranteed by:

- An advanced electronic signature (applies to UK and other EU member states. Please see above right for information on HMCE's policy on digital signatures)
- Electronic data interchange (EDI), e.g. UN/EDIFACT
- Other reasonable means (for supplies within the UK).

HMCE are prepared to accept other means of authenticating eInvoices for supplies made within the UK. However, suppliers must be able to impose a satisfactory level of control over the integrity of invoice data.

VAT registered businesses must notify HMCE of their intention to transmit or receive tax documents electronically no later than 30 days following the date of implementation. This is a legal requirement.

Further information and access to the HMCE notices can be found by visiting: [www.hmce.gov.uk](http://www.hmce.gov.uk) (public notices and information sheets, public notices):

Notice 700	<i>The VAT Guide</i>
Notice 725	<i>The Single Market</i>
Notice 700/63	<i>Electronic Invoicing</i>

### 5.3.1 Self-billing

Self-billing is an arrangement whereby the customer determines the value of goods or services supplied, raises the supplier's invoice and forwards a copy to the supplier, with, or separately from, the payment. It may be a paper-based or an electronic process.

In essence it is the reverse of normal practice and therefore potentially confusing. It is used because it has three advantages:

- Reduces administration of invoices. Suppliers do not need to generate or send an invoice and customers just pay for what they've received, so less clerical time is involved on both sides
- The buyer doesn't need to retype that same invoice into their accounting system so accounting errors are avoided
- Suppliers should also get paid more promptly as there is no need for the buyer to match the invoice against a goods receipt note, and no danger of invoice mismatches.

Self-billing is increasing in use and, since the EU Invoicing Directive of 1 January 2004, self-billing is permitted without prior authorisation from relevant tax offices.

### Self-billing risks

Self-billing (both manual and electronic) creates two additional risks over the 'normal' invoice process. These are:

- **The customer is responsible for calculating the amount of input tax** that he will recover from HMCE
- **The supplier might treat the self-billing invoice from his customer as though it were an invoice from a supplier** and recover the VAT as though it were input tax. This is more likely with electronic self-billing since the supplier's systems or procedures may not automatically prevent it.

As a result of these risks, it is highly recommended that when considering the introduction of eInvoicing with self-billing, organisations first consult HMCE. Below is an overview of the minimum responsibilities that each party, the customer and the supplier, must adhere to when processing the payment of supplies using electronic self-billing. **For full details (and information specific to manual self-billing) please refer to HMCE notice 700/62 Self-billing.**

A **customer** is responsible for:

- Establishing a self-billing agreement with suppliers:
  - An HMCE standard template is available within HMCE notice 700/62 self-billing, should you wish to use it
  - If a supplier changes VAT registration status then a new self-billing agreement will be required
- Raising self-billed invoices for all transactions covered by the self-billing agreement(s). These must show, as a minimum:
  - The supplier's name, address and VAT registration number, together with all other details required on a full VAT tax invoice (see HMCE notice 700 The VAT Guide)
- Keeping a list of suppliers covered by a self-billing agreement:
  - The list can be in any 'reasonable' format and may be electronic or paper based. If electronic then it may be in a popular format such as 'Word' or 'Excel' or a suitable equivalent. Additionally it may be incorporated into the customers accounting system but must be identifiable as a separate list

- The minimum information that must be made available is the supplier's name, VAT registration number, and address
- Lists should be updated regularly and must be made available to HMCE on request.

A **supplier** is responsible for:

- Agreeing to accept self-billed invoices raised by their customers for the duration of the self-billing agreement
- Establishing procedures to process self-billed invoices as if they were sales invoices:
  - Accounting software systems currently do not do this
  - HMCE require manual self billed invoices clearly to show the following statement 'The VAT shown is your output tax due to HM Customs & Excise'. This requirement has the force of law, but in an electronic environment, HMCE accept that including a plain language instruction is neither efficient, nor useful. Instead HMCE require the supplier's self-billing system to include either an automated, or a procedural, control to ensure that the VAT in the electronic self billed invoice is not processed as input tax
- Not issuing their own tax invoice to customers for supplies covered by a self-billing agreement.
- Agreeing to notify customers with whom they have signed self-billing agreements if their VAT registration status changes.

Since the implementation of the EU Invoicing Directive there is no longer a requirement to notify HMCE either before or after commencing use of a self-billing system. HMCE's requirements for self-billing systems are set out in notice 700/62 and compliance with those requirements is checked as part of HMCE's normal tax audit activity. Further information and access to HMCE notices can be found by visiting: [www.hmce.gov.uk](http://www.hmce.gov.uk) (public notices and information sheets, public notices):

Notice 700      *The VAT Guide*  
 Notice 700/62      *Self-billing*



### 5.3.2 Cross-border invoicing and self-billing

HMCE requires additional information to be included on invoices, including eInvoices and self-billed invoices, which cover supplies from the UK to businesses in other EU member states. Details of these requirements are in HMCE notice 725 The Single Market.

Other EU member states have their own self-billing regulations. A self-billing invoice issued by a customer in another EU member state to a UK supplier would have to meet UK requirements. Conversely, a UK customer issuing a self-billed invoice to another EU member state would need to meet the requirements of that state.

In all cross border trade, the correct VAT treatment will depend on whether the supplies involved are of goods or services and whether they are from, or to, other EU member states, or countries outside the EU.

Much information is available from HMCE concerning cross border invoicing and customs requirements; and the rules applicable to Intra EU trade statistics at [www.hmce.gov.uk](http://www.hmce.gov.uk), including:

Notice 700/62	<i>Self-billing</i>
Notice 700/63	<i>Electronic invoicing</i>
Notice 702	<i>Imports</i>
Notice 703	<i>Exports and removals of goods from the United Kingdom</i>
Notice 60	<i>Intrastat</i>
Notice 725	<i>The Single Market</i>
Notice 725	<i>The Single Market also contains a list of tax authorities for each member state of the EU.</i>

Some VAT relevant information, including some relating to invoicing and self-billing for all EU member states can be obtained from the EU commission website at [http://europa.eu.int/comm/taxation\\_customs/publications/info\\_doc/vat\\_ec.htm](http://europa.eu.int/comm/taxation_customs/publications/info_doc/vat_ec.htm)

### 5.3.3 Storage of electronic invoices

The following rules govern the storage of eInvoices:

- HMCE assumes that invoices transmitted electronically will be stored electronically. If you wish to store eInvoices in a paper format then you must seek approval from HMCE
- For VAT purposes records must be retained for six years. If the 6-year rule causes serious storage problems or undue expense, HMCE may allow a shorter retention period
- If records are stored in another EU member state, online access to those records must be possible. They must be made available to HMCE on demand within a reasonable period
- Records can be stored anywhere worldwide provided that the country in which they are stored complies with European Data Protection principles and arrangements for audit access are similar to EU standards
- HMCE can require records to be held in, or translated into, English.

### 5.3.4 Digital signatures

Digital signatures are an accepted method of eInvoice authentication under the terms of the EU Invoicing Directive. However, because software would be needed to generate the digital signature at the supplier end and validate it at the recipient end HMCE does not insist upon their use within the UK as the only means of validating eInvoices.

Without other controls and some other audit trail the digital signature does not necessarily prove an invoice's authenticity.

There are different policies regarding the mandating of digital signatures for eInvoicing (self-billing and digital signatures) across the EU. Germany, Austria and Spain mandate their use, while some of the new member states, e.g. Poland, are considering it.

Visit [www.hmce.gov.uk](http://www.hmce.gov.uk) (public notices and information sheets, public notices) for further information.

### 5.3.5 Government procurement card (GPC)

The GPC issuing banks were validated as meeting HMCE requirements during the early stages of the implementation of the GPC programme within the UK public sector. Banks and credit card companies also issue detailed procedural guidance to all suppliers and card users.

Further information and access to the HMCE notices can be found by visiting [www.hmce.gov.uk](http://www.hmce.gov.uk) (public notices and information sheets, public notices). Notice 701/48 *Corporate Purchasing Cards* provides specific guidance in this area and is accessible through this website.

### 5.3.6 Future developments

#### Accreditation

HMCE are currently developing a standard for tax processing in software. Parties that are active in the industry will have an input into its development. It will provide a level of accreditation for software developers to achieve. The possibility of accreditation will be pursued over the next two years.

For further information visit [www.hmce.gov.uk](http://www.hmce.gov.uk) or call the HMCE National Advice Service on 0845 010 9000.

**Please note that under a government restructure HMCE is in the process of being merged with the Inland Revenue. It is expected at time of publication that the new merged organisation will come into being during April 2005 and be called Her Majesty's Revenue and Customs.**

## 5.4 Electronic records management (ERM)

The increasing electronic delivery of public services to business and the citizen is, in turn, producing more electronic records. Electronic records unlock content previously difficult to access in paper form, enable more effective sharing of information and contribute to knowledge exchange. However, they need to be retained and maintained over the medium to long term as the records also demonstrate accountability.

Privacy and access issues, and particularly freedom of information legislation, require that electronic records be managed consistently within regulatory environments.

The management of electronic records is recognised as one of the vital underpinning elements in the eGovernment programme. It is also critical in helping organisations meet the requirements of the Freedom of Information Act 2000 (January 2005) - with a key requirement being that all public sector bodies should communicate electronically.

The National Archives will continue to monitor the state of ERM. From 2005 this will be under The Lord Chancellor's Code of Practice on Management of Records. The code gives records management guidance relevant to the Freedom of Information Act.

The National Archives can also assist public sector organisations through:

- A programme to develop functional requirements for ERM systems, and to approve software products against those requirements
- Comprehensive guidelines on the management, appraisal and preservation of electronic records
- A set of practical toolkits to help organisations develop electronic document and records management.

Further information on ERM can be located at: [www.nationalarchives.gov.uk/electronicrecords/](http://www.nationalarchives.gov.uk/electronicrecords/).

## 5.5 Commodity classification coding

Commodity classification coding is the assignment of a structured coding mechanism to goods and services that a buying organisation may wish to purchase. The purpose of assigning commodity coding is for easy identification of products or services which are similar in function, or related in some way e.g. a mobile phone and a mobile phone cover. Coding is a buyer's tool to enable more accurate online catalogue searching and more accurate management information to be reported.

One of the most widely adopted of the commodity coding structures is the United Nations Standard Product and Services Code (UNSPSC). For further information and to view this coding structure visit <http://www.unspsc.org/>

### 5.5.1 About UNSPSC

UNSPSC is an open, worldwide cross-industry standard for efficient, accurate classification of products and services. It offers a single classification system that can be used for:

- Company-wide visibility of spend analysis
- Cost-effective procurement optimisation, and
- Full exploitation of electronic commerce capabilities.

### 5.5.2 Public sector coding

#### Common Procurement Vocabulary (CPV)

The Common Procurement Vocabulary (CPV) coding system is **mandated** for Contracting Authorities of EU member states for use in OJEU Notices.

CPV establishes a single classification system for public procurement aimed at standardising the references used by contracting authorities to describe the subject of procurement contracts. CPV can be viewed in full at [www.simap.eu.int/](http://www.simap.eu.int/)

UK contracting authorities must legally comply with the EU requirement to include CPV codes on all OJEU notices and competitions in order to fulfil the UK's obligations under the EC rules. Doing so provides valuable information on procurement activity across the EU.

However, the CPV code does not lend itself well to capturing spend data at an organisational level. As a result, public sector bodies often adopt a different coding structure to suit their purchasing activity and spend analysis. It is therefore recommended they adopt CPV plus another coding structure.

Within the UK public sector:

- OGC<sup>16</sup> has stated that UNSPSC is the recommended commodity coding structure for central civil government
- Scottish Executive strongly encourages the UNSPSC coding of catalogues to allow consistent analysis of Management Information through the eProcurement Scotl@nd system
- The NHS Purchasing and Supply Agency recommends the adoption of the 'eClass'. It uses a similar alpha structure of its predecessor product coding system, the National Supplier Vocabulary (NSV). eClass is entirely internal to the NHS and NHS PASA has mapped it to UNSPSC for continuity with the wider public sector
- Within the MoD a number of different classifications are used by the different services, but all are based on the NATO stock numbers.

## 5.6 Interoperability: talking the same language

System interoperability is the smooth transition of data between systems internally within an organisation, e.g. between an eProcurement system and a finance system, and externally, e.g. between a buyer's eProcurement system and supplier's eCommerce system.

The preferred method of data flow today is eXtensible Mark-Up Language (XML). The eGovernment Interoperability Framework (eGIF) states that XML is a core standard for data exchange between the UK government and business.

Consultation with representatives of central civil government, the NHS and local authorities also resulted in a joint public sector team designing a core procurement and payment process. This has been developed using Unified Modelling Language (UML) into a specification containing 14 electronic message descriptions. These messages are intended to ensure eProcurement interoperability in the UK public sector.

Throughout its development, the OGC interoperability model has also been open to public consultation. Internationally, a large portion of the current Interchange of Data between Administrations (IDA) EU interoperability model is based on the OGC model.

The latest version of the functional requirements for these eProcurement messages can be found at <http://www.ogc.gov.uk/> (eProcurement Standards).

These standards are recommended within the eGovernment Interoperability Framework (eGIF) Version 6.0. The eGIF Framework and the eGovernment schema guidelines for XML can be viewed in full at <http://www.govtalk.gov.uk/>.

## 5.7 Online security

Online security is one of the key issues highlighted in the *eGovernment Strategy Framework Policy and Guidelines* document, which describes best practice for the deployment of appropriate security procedures.

### 5.7.1 Online security and eProcurement

Before implementing any electronic procurement solution, organisations should conduct an assessment of all risks to information and services. This will determine which of the security levels described in the eGovernment framework (see table below) should be applied to the new service.

Impact	Level 0	Level 1	Level 2	Level 3
Inconvenience	Minimal	Minor	Significant	Substantial
Financial loss	Minimal	Minor	Significant	Substantial
Damage to standing or reputation	None	Minor	Significant	Substantial
Distress	None	Minor	Significant	Substantial
Release of personally or commercially sensitive data to third parties	None	None	Some	Some
Assistance in the commission or of hindrance to the detection of a serious crime	None	None	Some	Some
Risk to personal safety	None	None	None	Some

With an eProcurement system, the higher the value or confidentiality of the transactions through the system, the higher the required security level will be.

The level chosen by a public sector body as being appropriate to eProcurement will affect a number of other security decisions including:

- **User identification:** Verification of user via unique user ID
- **Authentication:** Validation (through password or digital certificate) that user ID belongs to the user who presented it
- **Access control:** Verification of privileges of authenticated users
- **Integrity:** Reported verification that data does not change at any point in the audit trail
- **Non-repudiation:** Verification of authorship and integrity of transactions. This authenticates the audit trail associated with the transaction
- **Confidentiality:** Prevention of access by unauthorised entities.

Some of the security-sensitive areas that are specific to different eProcurement techniques are covered in more detail below.

### 5.7.2 Purchasing cards (P-cards)

Wherever P-card details (including government procurement card details) are sent to suppliers electronically, secure, encrypted channels should be used to send this data over the internet, as well as protecting the details stored within the purchasing system from unauthorised viewing. Delivery of P-card details via unsecured e-mail does not provide an acceptable level of security.

The recently adopted 'Verified by Visa' security mechanism can be implemented by solution providers and supplier web shops to provide an additional level of security. An online equivalent to 'chip and PIN' technology, this authenticates both the buyer and supplier involved in any transaction by requesting a password plus the card details. Further information is available at [www.visa.co.uk](http://www.visa.co.uk).

### 5.7.3 Electronic sourcing (eSourcing) and eAuctions

Both eSourcing (including eTendering) and eAuction solutions must comply with the new *Consolidated Public Procurement Directive*.

In general, article 42 of the new directive requires the following:

- **Means of communication** must not restrict access to a tendering procedure for potential participants
- **The communication and storage** of tenders must protect the integrity of the content
- **The storage of tenders and requests** to participate must ensure that contracting authorities are not able to open tenders before the deadline
- **Specifications** for electronic submissions of tenders and requests to participate, including encryption, must be available to all parties.

OGCbuying.solutions' eSourcing managed service and eAuctions frameworks are both fully security-compliant with the directive and government policy.

### 5.7.4 Electronic signatures and digital certificates

The e-Government Unit (eGU) is operating a government-related public key infrastructure (PKI) project to provide higher security for government users. Through PKI, digital certificates (see 'trust certificates' below) can be issued to departments. In turn, these departments can issue certificates to staff in accordance with Article 42 (5)(c) of the Consolidated Directive. Instead of PKI, users might consider other forms of security, such as username and password protection across a 128-bit secure socket layer (SSL) connection.

### 5.7.5 'Trust certificates'

See [www.govtalk.gov.uk/policydocs/policydocs\\_list.asp?topic=56](http://www.govtalk.gov.uk/policydocs/policydocs_list.asp?topic=56):

'Trust services' are the means by which e-Government users can verify their user status, and therefore confirm their eligibility to access certain sites or undertake certain tasks online.

Users are issued with some form of ID (a certificate or a physical smartcard for example) which contains details of that user's credentials - their name, perhaps their employer, or the duration for which the certificate is valid. Once this initial validation has been done, trusted users can access a web site, for example, on presentation of the user name, password and trust evidence.

### 5.7.6 Authentication controls

Any purchasing system must support authentication of users so that individual transactions can be traced back to the relevant person. Generally this is by user name and password.

Alternatively the authentication mechanism could use *network logins* or other directory services, while higher security requirements may demand token-based methods such as digital certificates, smartcards or biometric devices. These latter options, based on the common security principle of requiring 'something you have' (e.g. a smartcard) as well as 'something you know' (such as a password or a PIN) achieve a much higher degree of security. See 'trust certificates' above.

### 5.7.7 Access controls

To ensure users only have access to the functions required to do their jobs, an eProcurement system should incorporate a 'roles-based' access control mechanism. This should allow a particular role to be assigned to each user of the application, and to determine which functional areas this role incorporates.

### 5.7.8 Applets, scripting and punch-out

Some applications which only require users to have access to the internet via a web browser may also require additional software to be installed and run on the local machine, such as ActiveX components, Java applets, browser scripts and cookies. Security policy should allow these software components to be installed and run.

Punch-out is a technique where users of a P2P system can gain access to suppliers' web sites to build quotations and place orders. To use punch-out, an organisation's firewall and each user's browser security settings must allow this, without compromising security.

### 5.7.9 Audit trails

A robust eProcurement solution should incorporate a comprehensive audit trail, with recording of who did what and when at various key stages of the purchasing process. The system should also allow rules to be incorporated, e.g. the person who approves a requisition must be different from the requisition originator. Setting such principles within the purchasing application can be a useful countermeasure against possible fraud.

### 5.7.10 Business continuity

To protect historic data in the event of a system failure, or to allow a purchasing department to continue off-site in the event of disaster, security arrangements should also include a business continuity plan. This should detail:

- **Precautions** to prevent disasters from occurring such as virus checking
- **Physical security** in the premises where the application is held, and
- **Duplication of data** onto multiple storage devices
- **Procedures** to follow in the event of an unrecoverable disaster e.g. retrieval of off-site backups or relocating to a 'warm recovery' server which contains all your historical data.

Finally, it is important to test any continuity plans on a regular basis. The time to discover that not all relevant files are backed up is during a test drill, not when trying to recover after a catastrophic failure!

#### More information

[www.govtalk.gov.uk/documents/security\\_v4.pdf](http://www.govtalk.gov.uk/documents/security_v4.pdf)

[www.e-government.cabinetoffice.gov.uk](http://www.e-government.cabinetoffice.gov.uk)

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

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## 6.1 Public sector: embedding eProcurement



**Driver and Vehicle  
Licensing Agency**  
[www.dvla.gov.uk](http://www.dvla.gov.uk)

### Introduction

The DVLA have successfully embedded the GPC, P2P and eAuctions within their organisation, and are now looking to implement eSourcing tools. They have run an effective change programme to secure the acceptance of their new systems and processes internally and are working in collaboration with their parent Department, Department for Transport (DfT) to leverage mutual benefits.

### Background

Already running a successful GPC programme, the DVLA decided to continue to improve the efficiency of their purchasing process by implementing a P2P solution. Their parent department, DfT, had already selected SAP as their P2P solution provider. Paul Cattroll of DVLA said, "We had the confidence that if DfT had recently tested the marketplace then there was little benefit in us going back out to test it again. We had the opportunity to simply switch on SAP's Enterprise Buyer Professional (EBP) functionality and so it made sense for us to go down that route to leverage the benefits of collaborating with our parent organisation."

DVLA implemented SAP EBP in June 2003 running a pilot until August with around 150 users. Following the pilot they expanded to 1,000 users, many of whom were existing GPC cardholders. DVLA is structured into five buying areas which carry out the core purchasing on behalf of the Agency. These buying groups were already users of SAP and other systems prior to the implementation of EBP, so were already familiar with purchasing systems.

DVLA also decided to trial eAuctions. They started by running three pilot eAuctions, for goods and services.

All three eAuctions provided a positive result, achieving from 10-18% savings. DVLA offset the cost of the eAuctions against the savings achieved so that the cost was fully covered. These findings were presented to the DVLA Board in August 2003 who endorsed eAuctions as a progressive move for procurement.

DVLA set up a small, short-term contract for eAuction service provision before calling off the OGcbuying.solutions Electronic Reverse Auction<sup>17</sup> framework. They have run several successful eAuctions since.

"We had lots of staff asking us when we were going to implement online purchasing, as opposed to only a tiny percentage, maybe 2% of staff, who gave us any problems.

Even so, we appointed a dedicated person to manage change and provide training. We also held a number of awareness seminars and gave staff demos of the system. We made sure that staff were aware of what was coming and, by focusing on the benefits to them, the seminars seemed to work very well."

Paul Cattroll, DVLA

<sup>17</sup> For further information visit <http://online.ogcbuyingsolutions.gov.uk/>



### **Benefits**

Implementing EBP provided DVLA with an improved user interface and the ability to begin electronic invoice processing. Implementing eAuctions has realised cost saving benefits. However, they believe their principal benefit so far has come from the reduction in purchasing staff needed to deal with the low value, repetitive purchasing. Their core purchasing team of 14 staff has been reduced by two through redeployment, and they have not needed to replace any staff that have left.

DVLA's other core objective was a move away from stores. P2P has facilitated direct supply from supplier to desktop allowing DVLA to greatly reduce storage space and overall activity in the stores area. This reduction in activity going through stores puts DVLA on course for a good return on investment. Space is becoming premium in the area and they are always looking for new space for server rooms etc.

### **Conclusion**

The DVLA are reaping the benefits of implementing eProcurement solutions by realising efficiency improvements and achieving real cash returns on their investments. To continue with their already considerable success, their next initiative will be to introduce electronic tendering.

## 6.2 Corporate sector: embedding eProcurement



**Shell**  
[www.shell.com](http://www.shell.com)

### Introduction

Shell announced their eProcurement project in January 2000. By the end of 2002 the key implementation was complete and eProcurement had become a standard part of the way Shell does business. Shell regards eAuctions very much as a valuable procurement tool and have now run some of the biggest and most complex eAuction events in the oil industry.

### Background

Shell launched their eProcurement programme at a time when the internet was moving fast. They moved quickly - announcing their project in January 2000, going live with their first operating unit in March and implementing in a further four operating units by the end of May. In September they decided to take stock and review what they had learned in those nine months.

They decided to give more formality to the project and brought in a senior project manager to take a lead. As a result, implementation slowed in pace but something more sustainable was built. The project was re-approved in December 2000 and the tools and infrastructure were delivered to time and budget at the end of 2002. Growth in use of the system has been slower than originally envisaged but in 2004 Shell reviewed its programme and has recommitted to eProcurement, focusing on high-volume vendors. Now over 40 locations use the system, routing transactions to suppliers via the oil and petrochemical exchange, Trade-Ranger.

In March 2000 Shell agreed a strategy for the implementation of eAuctions. The two key criteria were:

- It was going to be self service and 'another tool in the professional buyer's toolkit'
- There was going to be just one eAuction service provider across Shell.

They awarded the service provision contract to FreeMarkets (now part of Ariba), buyers started to use it and it took off. Many of the earlier events were lower value so Shell put a lot of effort into identifying bigger contracts. They hired experts to provide support to Shell's own staff for some of the more complicated events and developed a structured programme of change management.

*"We see eAuctions as a fair and transparent way of achieving a good market price, not as a means of squeezing the vendors' margins. We have looked into how many contracts have been terminated because of poor vendor performance and it is very few. We will continue to use eAuctions as a valid tool in the procurement toolkit."*

Richard Wheeler, Shell

Shell have now run some of the biggest and most complex eAuction events in the oil industry for contracts such as a pipeline, a multi-year contract for off-shore supply vessels and complete greenfield construction projects. The value of the contracts auctioned reaches into billions of dollars.

eAuctions today are very much embedded into their procurement toolkit. Internationally, they have over 500 registered users of the system and since January 2001 they have run several thousand events. They now adopt the 'Why not use an eAuction?' approach.



## Benefits

Today Shell can realise the benefits of their efforts. They are able to extract comprehensive Management Information from their systems. They capture about 90% of their total spend from two routes: A direct feed of eProcurement spend from their central eProcurement hub into their MI System, and a detailed upload of purchase and invoice line item detail extracted from ERP systems and fed into their MI System in batch files.

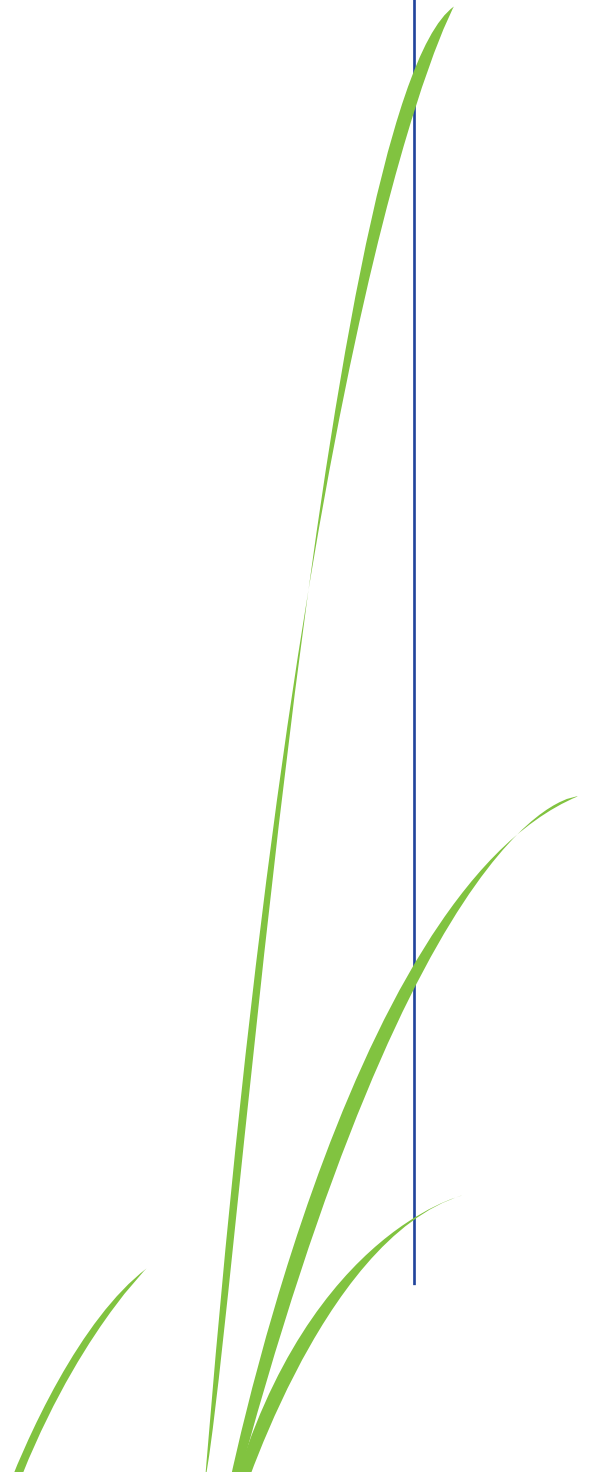
The ultimate vision continues to be data capture in a consistent format and this is achievable when the data is captured direct from a catalogue without human intervention. Shell expects to see the level of MI captured through the eProcurement system increasing over time.

“MI is a big step forward for Shell. We are working on making sure our classification system, the Products and Service Group Code, is applied uniformly by all our companies. We are working hard to improve the quality of data to make sure the processed information is useful.”

Richard Wheeler, Shell

## Conclusion

Implementing eProcurement and eAuctions has been beneficial to Shell. They are realising benefits from process efficiency, compliance, better procurement practice and data gathering, and they are committed to ongoing success.



## 6.3 Successful supplier engagement



**Bristol City Council**  
[www.bristol-city.gov.uk](http://www.bristol-city.gov.uk)

### Introduction

Bristol City Council (BCC) launched Bristol eBusiness in May 2003. Realising early on the importance of supplier engagement for the success of their venture they partnered with a number of local businesses, created a dedicated supplier engagement team and coined the term "Kickstart". Today they have over 140 suppliers ready to trade with them online and more than 300 are signed-up to their initiative. Their supplier adoption events achieve 100% sign-up of attendees.

### Background

BCC are a devolved authority consisting of around 400 organisations. They transact with over 19,000 different suppliers every year. When they began their P2P implementation they realised that it was going to be impossible to bring all of their suppliers on board. They reviewed their spending and decided on a target of 2,500 suppliers who between them accounted for about 80% of business.

However, this was still a huge number of suppliers and they needed to consider the best way to bring them on board.

### The Supplier Engagement Solution

BCC partnered with @UK plc<sup>18</sup> who provided exactly the type of solution BCC wanted for their suppliers, many of whom are small and medium sized enterprises (SMEs). Russ Darling, BCC, said "The @UK plc solution enabled us to roll something out to our suppliers that they could use to trade online with us for just £48, £240 or £480 per annum depending on the number of pages they wanted on their catalogue. This enabled us to go out to our suppliers with a cost, tell them what we were doing and get them online and trading with us."

BCC also put in place a project team consisting of their procurement and economic development units, their IT team and they employed a full-time business support for the team who brought new skills in marketing and co-ordination.

One role of Kickstart is to co-ordinate with BCC's external partners for the project, each of whom provide a specific supporting role in the process of enabling Bristol businesses to trade online, including business development, support and training. BCC partners are:

- Business West
- Learn Direct
- Sage
- South West Region Development Agency, and
- E-Skills.

The Kickstart team is also responsible for planning the supplier adoption events, which boast a 100% sign-up rate from attendees. The success of these events is attributed to a number of factors including ensuring the correct person, the decision-maker, is the supplier representative who attends and ensuring that all of the BCC business partners are available at the event to answer any questions on the spot.

## Conclusion

Russ Darling, BCC said "One thing we've learned is that you cannot assume that all your suppliers are at the same point when it comes to trading online. Some are fantastically techie... very capable, already have their own solution that is easy to interface with. Others have never switched on a computer before and their daughter does all their IT stuff for them in the bedroom. We have loads of those".

Therefore, although BCC have achieved sign-up to Bristol eBusiness from 300 suppliers, these suppliers represent the top end - those most interested in what the council is doing in eProcurement. In order to achieve their ultimate aim of engaging with 2,500 of their suppliers, BCC have adopted a flexible 3-tier strategy - three different methods of enabling the Authority to trade more efficiently with its suppliers:

- @UK and the Bristol eBusiness initiative
- GPC (Government Procurement Card), and
- One-to-one relationships with some strategic suppliers.

BCC are stating in all of their new contracts "you must be able to trade online". Their flexible approach and future contractual obligations for eTrading capability will ensure that BCC continue to experience the successful engagement of their suppliers that they have enjoyed to date.

For further information on any of the Bristol City Council partners visit:

### The Consortium

[www.theconsortium.co.uk/](http://www.theconsortium.co.uk/)

### @UK plc

[www.uk-plc.com/](http://www.uk-plc.com/)

### Business West

[www.businesswest.co.uk](http://www.businesswest.co.uk)

### Learn Direct

[www.learndirect-ltw.co.uk/](http://www.learndirect-ltw.co.uk/)

### Sage

[www.sage.com/](http://www.sage.com/)

### South-West RDA

[www.southwestrda.org.uk/](http://www.southwestrda.org.uk/)

### e-Skills

[www.e-skills.com](http://www.e-skills.com)

## 6.4 Trading electronically: the supplier experience



**RS Components**  
rswww.com

### Introduction

rswww.com is now firmly established as a 'business as usual' trading channel for international maintenance, repair and operations supplier RS Components. With some 135,000 stock items in its catalogue, and over 450,000 registered users in the UK, RS processes 18,000 orders everyday with 22% of these placed online. Internationally, RS Components sites receive 750,000 hits a month.

### Background

Some 15 years ago, RS investigated how they could help reduce customers' procurement process costs by bringing efficiencies into the entire supply chain. RS's customers' ordering requirements are typically unplanned, unforecastable and urgently required. Usual for their customers was the need to place many low value orders, often for a small number of items. RS felt it was important to work with their customers to develop a simpler, faster way of trading to remove costs from both sides of the supply chain. A number of key areas were identified and an integrated transactional web site was developed - suitable for use with all vendors, marketplaces and exchanges.

RS recruited a number of technology partners to help them deliver, in six months, an internet trading channel that was fully integrated into the RS back-office sales processing and warehousing systems. The new site was piloted in January 1998.

### Increase in traffic is satisfied by web

Value added technical support data has always been a vital offer from RS. Prior to implementing its eCommerce capability RS's technical support staff took 2,000 telephone calls per day. Today, RS receives an additional 6,500 requests from customers for technical support data. It is able to cope with this increased demand by automating the process online.

Adopting and developing eCommerce is as much about change management as about the technology. Together with their customers RS have developed a number of activities aimed at driving compliance, including marketing campaigns, targeted emails, and customer sales visits. They try to understand the end-users' day to day requirements within the customer organisation and monitor contract compliance closely. Areas of leakage are quickly identified with appropriate support activity (education, training and online support) to help motivate a change in behaviour.

### Benefits

Today, RS finds that ordering errors are reduced significantly due to data integrity throughout the entire order process. Customers can buy with confidence from a bespoke dynamic web site, removing the need for re-keying and duplicating processes, which in turn reduces the risk of errors.

- Part numbers, names and prices are 100% accurate at source
- Orders cannot be placed for incorrect and invalid product codes as these are not recognised on the site
- Customers attempting to order an obsolete item are alerted and encouraged to order a suitable replacement product
- There is no data re-keying required by the purchaser's order processing staff or, due to back end integration, RS's sales processing staff.

Keith LaRoche, eCommerce Sales Manager, RS, said "Improved order accuracy is much better for RS as it removes the cost of order return and retrieval of incorrect goods. It also improves customer satisfaction. The online service mirrors RS's traditional telephone ordering service in many ways, such as confirmation of stock availability at point of order, but also gives customers other benefits such as the capability to track orders, see order history and save parts lists."

### Conclusion

Today, the eCommerce team based in the UK manages over 80 web sites to support a global presence. Common branding and functionality are key but the need to support local languages and currencies are critical.

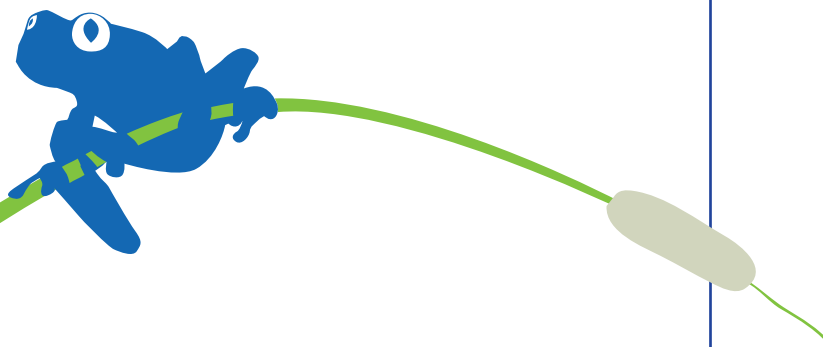
For RS some of the biggest challenges to supporting eCommerce integrations come in the sheer diversity of technical formats. Product codification formats, variations in data transfer and security formats remain key challenges.

To facilitate the diversity of formats and number of integrations, RS have developed a central hub that facilitates all their eCommerce trading. This allows them to achieve an efficient integration with every vendor in any market.

Although the web site now accounts for an impressive 22% of RS's UK business, the telephone is still the major ordering channel for customers. The remaining orders are placed by fax and through the trade counters. That said a significant number of customers will use more than one channel, e.g. searching for and checking details of a product on the web, then placing the final order by phone or fax.

Demand remains strong with three to four enquiries every week from customers requesting support for their eProcurement implementations. There is a much stronger sense of realism from all parties into what will make this technology work.

Customers who approach RS with realistic deployment schedules, supported by detailed change management programs will ensure RS's support. By working together, both RS and its customers can demonstrate real conviction in the benefits of the technology and also their ability to 'make it happen'.



## 6.5 eAuction saves £3.2m



**Department for Constitutional Affairs**  
[www.dca.gov.uk](http://www.dca.gov.uk)

### Introduction

The DCA has achieved an impressive 11% saving over previous contract price for a complex services requirement in just their second electronic reverse auction (eAuction) event run by Bravo Solution<sup>19</sup>. It is believed that the new contract will save as much as £3.2m over its four year duration.

### Background

DCA have tendered for Court Reporting Services and provision of copy transcripts since the Courts Act 1971. The contract is divided into 13 geographical regions across England & Wales. A niche market, the overall requirement is delivered by a number of small to medium size suppliers. The contract provides approximately 150 Computer Aided Transcription (CAT) writers to Crown Courts each day.

The DCA identified that, even for such a niche area, the market place was both stable and diverse enough to promote real competition (a critical requirement in running a successful eAuction).

Each region was competed as a single, but interdependent, lot. This enabled the suppliers to compete simultaneously for one or more areas. At the end of the eAuction contracts were awarded to a total of eight suppliers.

Troy Martin, Senior Procurement Manager for DCA, said "We received bids from ten suppliers including a new supplier to the market. During pre-qualification this figure was reduced to nine suppliers that we were confident could fulfil our requirements. These suppliers were invited to participate in the eAuction."

The eAuction was set for a 40 minute duration with five minute extensions being applied upon receipt of new bids. Due to the large number of bids received (322) the event ultimately lasted for five hours.

### Suppliers' Reactions

None of the suppliers had any previous experience of eAuctions and so approached the event with a degree of caution. The DCA, in conjunction with Bravo Solution, alleviated their concerns prior to the event by hosting supplier briefing sessions and one-to-one training. A full support service was available to suppliers throughout the event.

However, some suppliers expressed concern following the event over the duration of the eAuction.

### Benefits

As a result of the eAuction the DCA achieved an impressive 11% saving on their requirements for Court Reporting Services. The DCA believe the new contract will save as much as £3.2m over its four year duration which will contribute to Efficiency Review gains and the required re-investment of savings into delivery of frontline services.

These savings are in contrast to DCA's previous experience in this market which has historically seen prices rise with each re-compete.

### Conclusion

Ian Currie, Procurement Division Head of Operations, believes, "Whereas eAuctions are being sold as cost reducing tools and enablers to savings, I think that what we are really using them for is to achieve true market value. In many instances this will reduce the purchase price paid."

The DCA had previously run an eAuction for gas services and more are planned for the future. They view eAuctions as a valuable tool to be used wherever appropriate. The DCA's approach is to assume the use of an eAuction unless there are good reasons for not doing so in a particular case.



## 6.6 eSourcing reduces process by up to 60%



**Woking Borough Council**  
[www.woking.gov.uk](http://www.woking.gov.uk)

### Introduction

Woking Borough Council ran an eSourcing pilot in order to provide real data to inform their procurement modernisation programme. The successful pilot saw eTendering systems being tested in parallel with manual processes for true measurement of efficiency benefits. The results were impressive. Processing an average tender was down 58% in time and the cost to the awarding authority was reduced from £13,030 to £5,361.

### Background

In August 2003 Woking Borough Council reassessed its procurement in an attempt to meet the growing list of legislative and statutory initiatives targeting public procurement. They identified that they would need to modernise their sourcing strategy.

They launched an eSourcing pilot. Council personnel worked with CompuCares<sup>20</sup> to review the internal procurement processes against published best practice and to evaluate the eSourcing software applications.

In establishing the scope of the pilot, the council decided to run the pilot eSourcing process in parallel to a traditional paper process. This enabled them to measure accurately the efficiencies and cost savings achieved by electronic processing.

The eSourcing review included use of a tender lodgement application and a software product (TenderMAX) incorporating contract planning, risk management, tender creation, tender evaluation and tools for best value for money (VfM) assessment.

### Benefits

As a result of the pilot Woking identified a number of business processes that could be automated. These were found to be highly beneficial in improving the overall quality of tender structure and question format. They also raised the level of probity surrounding the tender process.

A productivity win came from realising that pre-qualification could be automated or merged with the tender, thereby allowing the tender software to automatically draw rapid shortlists. This removed an entire stage from the tendering process.

The pilot identified significant time and operational improvements:

- Time from tender creation to lodgement reduced by 61%
- Time to handle tender response receipting, data entry and data analysis reduced by 80%
- Time taken to process tenders reduced by 58%
- Cost of process reduced from £13,030 down to £5,361 per average tender (based on a labour rate of £50 per hour)
- Printing, production and distribution costs reduced by £650
- Suppliers identified the process saved them time in completing questions by as much as 25%.

The software also introduced some new innovations including the identification of service level requirements and KPIs around which to build supplier relationship management strategies. The process highlighted the opportunity to cross-pollinate skills with other councils. As a general rule, the software fitted very well into the council's current procurement culture.

### Conclusion

Following successful conclusion of the pilot Woking is fully embracing a procurement modernisation programme. The pilot has identified significant return on investment opportunities promising to deliver substantial business efficiencies including reducing the overall time to award contracts by as much as 60%.

## 6.7 Electronic invoice processing saves £400k



**Department for Environment  
Food and Rural Affairs**  
[www.defra.gov.uk](http://www.defra.gov.uk)

### Introduction

Defra have realised over £400,000 of efficiency savings from the implementation of an electronic solution, Tritorr's<sup>21</sup> Invoice BackOffice (IBO), to streamline the processing of their previously complicated mobile phone bills.

### Background

Until February 2004, processing Defra's quarterly mobile phone invoice was a manual task and equated to the receipt of three large boxes of A4 paper for Defra's 2,500 mobile phones.

The process for verifying the data in order to pay the invoice was labour-intensive. Error rates were high and the supplier was paid consistently late and in a piecemeal fashion.

### An invoice processing solution

Defra realised that there were means by which this invoice could be more efficiently processed, and contracted Tritorr to provide their Invoice BackOffice (IBO) solution. IBO provided an invoice processing solution that enabled Defra to verify and approve their consolidated mobile phone invoices entirely electronically. It also facilitated an electronic interface of the approved file direct to their Oracle Financial System.

Within a few months, and following a data cleanse and reconciliation of users and handsets, Defra was processing its mobile phone invoice entirely online. Every user verifies the statement online and every statement is electronically approved by a manager. All transactions are precisely cost coded and a complete audit trail is maintained.

### Benefits

In addition to the significant improvements that Defra now have in terms of control, accuracy and efficiency, automating this process has produced savings:

- Hard cash savings in the region of £165,000 from highlighting and correcting billing errors
- Annual process cost savings in the region of £235,000 by automating a previously manual task (according to process cost estimates published by the OGC).

The mobile phone provider is also benefiting. Electronic delivery of the invoice has reduced paper and courier costs, and payment is now made in full and on time saving their staff time in chasing late payment and sorting out queries.

*"IBO now gives us a totally electronic service. It's faster and better. Most of the savings are not in the centre but in the business areas themselves. Previously everyone was receiving a paper statement, manually checking it and then getting it approved before posting it off for subsequent input to the Payables system for payment. It was very time consuming. Some people had it down to a fine art, but most didn't and as a result we had no visibility if there was an issue preventing payment.*

*We might be saving as much as 2 hours a quarter per phone holder, plus of course, the central back office savings by the eradication of the need to key in this high volume invoice."*

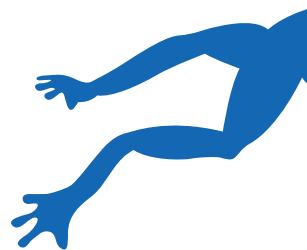
*Jack Doig, Procure to Pay Project Manager, Defra*

## Conclusion

Brian Bath, eProcurement Project Programme Manager at Defra commented:

*"IBO contributes to the overall efficiency achieved by Defra's P2P solution, buy4Defra. It provides an efficient way for us to process complex invoices that we are unable to process directly through P2P."*

Defra has already extended their use of IBO to other supplies such as parcel services and hire cars and is looking to IBO as the solution for telecoms and utilities bills. Defra also utilises Triton's Card BackOffice (CBO) solution for the electronic receipt, on-line verification and approval of government procurement card and corporate card statements.



## 6.8 Collaboration in outsourcing P2P



**Warrington  
Borough Council**  
[www.warrington.gov.uk](http://www.warrington.gov.uk)

### Introduction

The 'enable' initiative was pioneered by Warrington, Vale Royal and Macclesfield Borough Councils. It has already proven purchasing efficiencies by reducing the average processing time for a transaction from four hours to just under an hour, and the Councils are also seeing purchase price benefits due to collaborative purchasing. The initiative uses a P2P marketplace to provide the councils with collaborative access to a procurement service provided by third-party AtoZ Supplies<sup>22</sup>.

### Background

In 2001 Warrington Borough Council had one purchasing professional and no central purchasing unit. They knew that their day-to-day procurement was inefficient but putting things right was too big a job for one person to manage effectively. After considering a number of potential solutions they decided to source a third party who could provide them with a fully integrated P2P solution including electronic catalogues, ordering, goods received and invoice and credit facilities. They also wanted the solution to provide the council with commitment accounting.

Warrington knew that other local councils had similar issues to them. Having gained approval to proceed in Warrington they therefore took their proposal to other councils in the area. Macclesfield and Vale Royal joined Warrington at an early stage of the project.

### The solution

At the end of 2002 Warrington completed their sourcing process and opted for a consortium of AtoZ Supplies as the procurement service provider, using the UK Procure Exchange to deliver the electronic solution. An important factor in that decision was that they felt they demonstrated the best cultural fit.

From starting the project in January 2003 they went live in the May. Irene Maguire, 'enable' Client Manager, Warrington Borough Council said, "One of the reasons for this quick implementation was that we didn't need to go through a lengthy supplier adoption programme to get individual catalogues onto the marketplace. AtoZ already had an electronic catalogue containing multiple suppliers' products for commodities such as stationery, IT consumables and workwear, so we had access to these commodities from day one. We are continually working with AtoZ to develop the catalogue."

Integrating the new solution to the finance systems was fairly complex as each council has a different finance system. However, the difficulties were overcome and the councils have been receiving electronic invoices for all purchases since day one of go live. Invoices electronically match with purchase orders and goods received notes and payment is then automatically generated and made electronically. The project will shortly go live with electronic credit notes.

To ensure the ongoing delivery of cost and efficiency benefits, the solution is mandated in all of the councils so far on board. They also encouraged user buy-in by having in place cross-functional implementation teams which, after implementation, became user groups for people to exchange experiences. These measures seem to have proved successful in encouraging use of the system.

## Benefits

Warrington did some base-lining of business process early on which has enabled them to calculate that the average processing time for a transaction is down from over four hours to just under an hour thanks to the new solution.

They are also seeing purchase price benefits due to collaborative purchasing. Irene Maguire observes, "It's not always easy to measure benefits, as it's difficult to compare like with like, but a huge advantage is being sure about quality, being able to standardise on products and seeing a definite reduction in 'maverick' buying. Additionally, AtoZ provide us with a price promise, and also benchmark prices against other organisations, so that we know we're achieving value for money."

## Conclusion

Identifying the right service provider took the initiative longer than expected, however was worthwhile in order to form such a successful collaboration. This collaboration, lead by Warrington Borough Council, had the courage of their convictions despite initial misgivings about what seemed like a radical approach. However, putting in place an outsourced P2P solution has certainly been a success for this initiative which has proved that collaboration can work - not just between councils but with private sector organisations as well.

Staffordshire Moorlands District Council has recently joined the collaboration which is now seeing considerable interest from other councils. The smaller Councils often seem nervous about joining the initiative, but if anything they probably have the most to gain by taking advantage of the spending power of collaborative arrangements.







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