



















Best Practice Network

A BuyIT Framework for Effective Purchasing Exploiting technology within the Purchasing Cycle

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Forewords



One of the prime objectives of the Government is to secure efficiency benefits from the e-enablement of business processes across the whole public sector. The introduction of ICT into Purchasing provides clear opportunities and benefits for organisations. It can ensure better contracts, lower costs and also more effective relationships with suppliers. These new ways of working, however, also bring with them many challenges. I am delighted that the BuyIT Early Adopter organisations have produced this Best Practice Framework, which provides clear guidelines to help others take full advantage of the many benefits that can be achieved from this very important function.

John Oughton
Chief Executive
Office of Government Commerce



The advent of e-Procurement provided organisations with the opportunity to create more efficient linkages with supply chain partners. However, the dot.com bust raised doubts about benefits delivery and the need to invest in this area. In the meantime early adopters have continued to quietly reap the benefits, extending the footprint beyond transactional commodity purchasing into the integrated use of technology for both the sourcing and procure-to-pay processes. This paper gives insights into the challenges these organisations faced, how they addressed them, and how benefits such as process efficiency, service improvement, cost reduction and spend visibility can be delivered.

Bernard Brown
Head of Atos Consulting
UK, Americas and Asia



Purchasing is often the area where the greatest savings can be made within any organisation. E-enabling Purchasing helps to achieve those savings sooner as well as bringing other benefits such as best practice processes and quality Management Information. The most effective way to understand how to handle e-enablement correctly, and to make the maximum savings quickly, is by learning from others who have tried them before, and have established the right way to use them. Developed by BuyIT members, this Best Practice Framework provides a clear understanding of all these issues from both a buyer and supplier viewpoint and is an invaluable aid to help organisations gain the benefits of best in class Purchasing.

Frits Janssen
CEO
BuyIT Best Practice Network

A BuyIT Framework for Effective Purchasing

Exploiting technology within the Purchasing Cycle

Why this Framework is Important

Effective purchasing is critical to the sustained success of any organisation. This is as true in the public sector as in the private. For example, in the Government Efficiency Review, Purchasing has been identified as the area to make the largest contribution to the overall savings.

The benefits of getting it right are significant: up to 15% cost savings, 50% process efficiencies, 75% service improvement and visibility of spend in real time to support executive decision making.

This Framework has been developed by the BuyIT Best Practice Network of leading UK early adopters to help you understand the key issues to address. It captures their joint experiences to enable others to derive the maximum advantage from their experience.

Introduction to this Framework

It is a key area for improving business performance; savings and benefits realised here flow straight to the bottom line. The continuous drive to increase profit margins, improve efficiency, and improve service to the customer have forced companies to look at how they manage their spend.

Applies to all sectors

In the public sector, the Gershon Report has led to a renewed focus on internal efficiency. Purchasing is a major theme in the pan-government Efficiency Programme, which seeks to release resources from the back office to improve front line services.

Effective purchasing strategy required

Different sectors need different purchasing strategies but, regardless of this, realisation of the cost and efficiency benefits requires an effective purchasing strategy, implemented by a skilled team and enabled by the appropriate technology.

And an integrated suite of tools

The vision for early adopters has now shifted from implementation of point solutions for non-strategic spend categories such as commodities, to the integration of a complementary suite of tools throughout the entire purchasing process and across all categories of spend, as required to support the drivers of their business and marketplace.

In the more complex spend categories especially, the focus needs to extend beyond the boundary of the company and into the supplier base - the 'extended enterprise'. Initially this link was provided through EDI which proved useful within stable, high volume supply chains where there were generally a small number of major relationships. Over the past few years the 'reach' has been extended through the use of the Internet, reducing entry and operational costs to allow all suppliers, including smaller companies, to interact electronically with you, reducing inefficiency and improving speed and information flow right across the supply chain, not just within your organisation.

The Executive Overview of the BuyIT Best Practice Framework on Effective Purchasing is available at <http://www.buyitnet.org>

A BuyIT Framework for Effective Purchasing

Exploiting technology within the Purchasing Cycle

Benefits of Effective Purchasing

Each of the various e-Procurement tools drives business benefit in slightly different ways, however at a generic level they can be classed under the headings below:

Cost of goods and services (C)	Savings made in the cost of the goods or services, using the technology as an effective tool to support price setting in the tendering process, and then driving contract compliance. Average savings of 5%-15% are common.
Process efficiency (P)	Benefits accrued from reduced time spent in administration, elimination of duplicate process steps internally and within suppliers, automation of manual low value tasks from the process. Process costs can be reduced by as much as 40%-50%.
Service improvement (S)	Reduced process times to improve responsiveness to customers, and empowerment of staff to enable them to do their job better. Cycle time reductions of 50% – 75% have been achieved.
Visibility of spend (V)	Access to key management information to support decision making; capture and analysis of the organisation's spend behaviour, better monitoring and control; compliance to contractual arrangements of sourced products with approved suppliers and to the process for ordering these.

It is important to note that although the percentage improvements around process efficiencies and service improvement are high, the primary driver of bottom line value is savings to cost of goods and services, as illustrated in Figure 1.

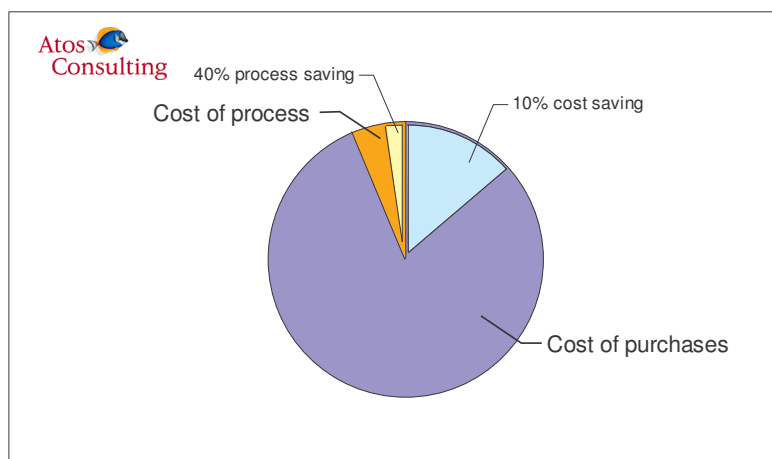


Figure 1: Drivers of bottom line value

Once the easier categories have been streamlined and modernised, the focus needs to be on the more complex service areas where the greatest cost and efficiency benefits are to be had.

In these categories especially, the focus needs to extend beyond the boundary of the company and into the supplier base - the 'extended enterprise'. The use of the Internet has reduced entry and operation costs,

A BuyIT Framework for Effective Purchasing

Exploiting technology within the Purchasing Cycle

allowing all suppliers, including smaller companies, to interact electronically with you, reducing inefficiency and improving speed and information flow right across the supply chain, not just within your organisation.

Investment in skills and technologies

To achieve these results you need to invest in and deploy the right purchasing skills and technologies, informed by best practice experience and based on a strategy driven by your business priorities.

The right purchasing skills

Our members have found using a Framework such as proposed in this document can be helpful to prioritise their skilled resources and implement the appropriate technologies.

Often key resources will be already heavily engaged in running the day to day business, and prioritising their time appropriately will require senior management commitment.

The technology-enabled systems and tools

The term “e-Procurement” was coined to describe the use of technology-enabled purchasing systems and tools, as shown red in Figure 2 and in the Framework for Effective Purchasing (below).

Note the difference between those technologies that can improve the sourcing process, which operate at a strategic level, those that can be used to streamline the transactional purchase-to-pay (P2P) processes and those which aid management information and visibility of spend.

The footprint of these generic products focus on different parts of the purchasing process but vendor offerings may overlap. Which particular offering is appropriate and when it should be deployed should always be determined by the underlying business driver.

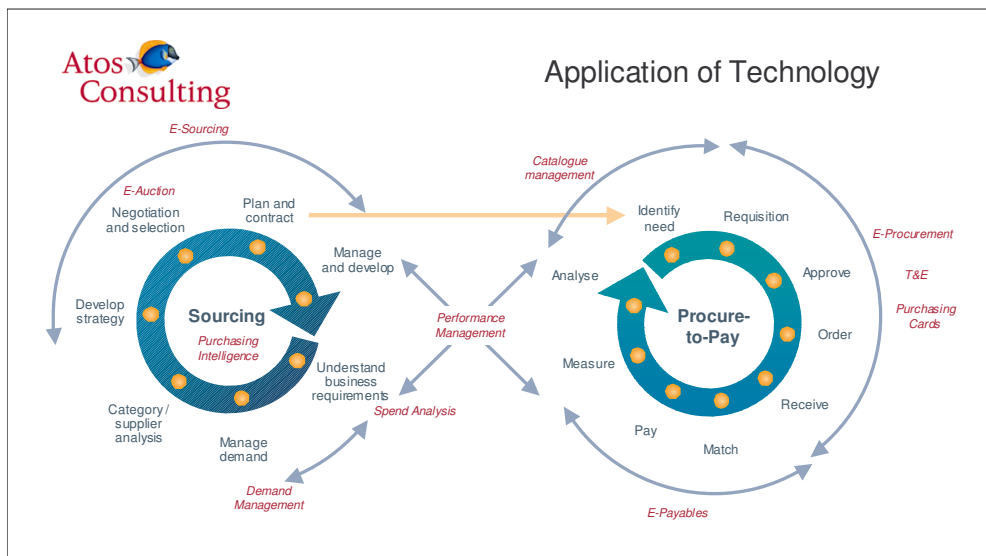


Figure 2: Application of Technology

A BuyIT Framework for Effective Purchasing

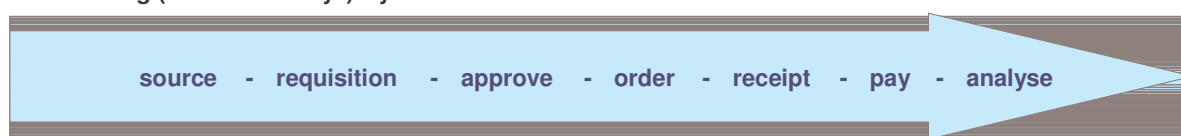
Exploiting technology within the Purchasing Cycle

The terminology has become somewhat confusing over the past few years with terms such as Supplier Relationship Management, Demand Management and Spend Management appearing, each addressing different areas. To help to bring clarity to this area, a full list of these enablers follows, suggesting when it is appropriate to use them and a brief account of their impacts on the business benefits.

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Framework for Effective Purchasing

Purchasing (“Source to Pay”) Cycle



The technology-enabled systems and tools

e-Sourcing Tools:-	e-Procurement Tools:-	e-Payment Tools:-	Management Information Tools:-
e-Tender	Catalogues	e-Invoicing & e-Payment	Benchmarking
e-RFQ	Complex goods and services	Procurement Card	Contract management
e-Auction	Content and Catalogue Management	Travel & Expenses	Supplier Performance
Supplier Adoption	e-Marketplaces		Performance Management
Demand Management			Spend Analysis
Purchasing Intelligence			

A BuyIT Framework for Effective Purchasing

Exploiting technology within the Purchasing Cycle

The key technology enablers and their impacts on business benefits

Enabler	Brief Description	C	P	S	V
Content and Catalogue Management	The process and tools required to marshal and manage catalogue content from diverse suppliers, and make this available online to the relevant parts of the business. A key element to help drive down cost for large volume items.		✓	✓	✓
Contract management	Contract management solutions provide the functionality to manage client and supplier business agreements through their lifecycle including planning, negotiation, measuring and managing exceptions, and closing. Important to help maximise savings, often added after many of the other elements are in place.		✓		✓
Demand management	Use of technology to improve the ability to forecast and control demand and link to associated suppliers with supply plans. An important link to customers and to ensure that the right materials and services are being sourced. Often implemented later to further improve on good customer management processes.	✓	✓		✓
e-Auctions	The use of online auction facilities as a tool in price setting during negotiation. Often adopted early to help drive change and to gain some early sourcing wins.	✓		✓	✓
e-Invoicing and e-Payment	Use of technology to automate the matching of invoices to purchases orders and then managing the settlement process. An important element in reducing process cost, as much wasted time often lies in handling errors if this process is not working well.		✓	✓	✓
e-Marketplaces	An online trading forum, providing the ability for customers and suppliers to conduct business to business transactions in a many to many network. Often supporting purchasing for a specific industry or sector, and in many cases providing support for other business processes. A common strategy for connectivity with suppliers, content management and to drive tools such as collaboration.	✓	✓	✓	✓
e-Procurement	The use of workflow, electronic forms and electronic catalogues to automate the Requisition to Purchase Order process, and integration of this online into the supplier systems. The central ICT tool used in Purchasing and often the first one implemented, as it enables collection of the management information needed to drive the rest of the programme.	✓	✓	✓	✓
e-Sourcing	The use of online tools to support basic RFP/RFQ activities in tendering, through to the more complex collaborative design and purchase of complex capital projects.	✓	✓	✓	✓

A BuyIT Framework for Effective Purchasing

Exploiting technology within the Purchasing Cycle

Enabler	Brief Description	C	P	S	V
Performance Management	Use of technology to measure objectively the performance on both sides of the contract for mutual benefit. A key element of Supplier Management.	✓	✓	✓	✓
Purchasing / Procurement Card	Corporate Purchasing cards provide a higher level of contract compliance control than expense cards, and deliver enhanced management information for improved spend analysis. Should be considered for early implementation in order to capture spend and supplier information.		✓	✓	✓
Purchasing Intelligence	Use of technology to provide an effective management dashboard for purchasing, combining current business performance with progress on sourcing programmes and broader market intelligence to support better decision making. Used to further improve good sourcing; should be considered for later implementation.		✓		✓
Spend Analysis	Capturing and analysing the spend profile of the business with a view to tracking compliance and identifying opportunities for improvement. Vital for sourcing at any stage of maturity. Can take feeds from e-Procurement, Purchasing Cards, etc.				✓
Travel & Expenses	T&E systems are now becoming common to support spend leakage through the personal travel and expenses areas. Important to enable better spend visibility and analysis in the Travel Commodity.	✓	✓	✓	✓

The footprint of these generic products focus on different parts of the purchasing process but vendor offerings may overlap. Which particular offering is appropriate will be determined by the underlying business driver.

Potential Barriers

Management buy-in

The subject of benefits realisation has hampered the effective adoption of e-Procurement for some years. Amongst the challenges raised are; does use of technology truly allow cost reduction, or is this just more effective purchasing? Do we have the resources and skills to do this? Are process benefits truly realised without staff headcount reduction?

It is important that the Board and Management understand the business drivers for the project from the outset, with clear targets being set in the business case to confirm that the implementation is progressing to plan and that management then take ownership of helping to achieve this business case. Experience from early adopters shows that an integrated approach to change is required, joining technology enablement, training and people / organisational development, and a strategic sourcing project. This may require repositioning the purchasing function within the business and recognising it as a board room topic.

A BuyIT Framework for Effective Purchasing

Exploiting technology within the Purchasing Cycle

It is also important to identify who will be responsible for the ongoing realisation of benefits once a project has been implemented.

Ultimately the people deliver the benefit, the technology is an enabler. Finding the right people, and making sure they have the right skills is an essential part of any project. It should also be noted that 'people' savings are rarely realised as headcount reductions, however the time released can be deployed on higher value activities, such as front line service or sourcing. Taking the time to quantify and understand how the freed time will be deployed at the outset will often drive thinking in implementation plans. Subsequently measuring if these benefits are being realised to plan is also a vital part of maintaining management buy in.

Where projects can be self financing this avoids some of the internal disputes that can arise around attribution of benefit where the streams are separated.

User buy-in

Having attained the support of the management team, the next common barrier is the buy-in of the end users within the business. Is a model of centralised or de-centralised purchasing more appropriate? If they have benefited from a high level of service through decentralised purchasing, the corporate value for money argument will have to be clear in order for people to understand why they have to change.

Having got the buy in, challenges may continue; are they aware of the new contracts? Will they comply with them, or will spend leakage outside of contract occur? A joint approach to resolving this is often required, by requiring suppliers to quote valid PO numbers on their invoices, and identifying purchasing champions who can be available to help their business areas after the initial project communication and training has occurred. It can often be advisable to tie personal objectives and incentives to performance metrics that link with benefits realisation.

Purchasing buy-in

e-Procurement projects will often require changes to the structure, processes, and skills of a current buying organisation. Where local buying cells exist, processes may have been tailored to suit local needs, and a common process and infrastructure may be resisted. It may be necessary to consider centralising the purchasing team, and developing skills to move them from P2P activities to strategic sourcing. Resistance may be encountered with local perceptions that it works well currently, which are not informed by the wider corporate picture.

Sustaining the benefits

Some programmes have successfully delivered savings in the short term, but have failed to implement appropriate organisational structure, policies, processes and education due to a focus on achievement of tactical benefits. Consequentially, once the project team has dissolved, the benefits have not been sustainable. As a rule, around 40% of the project effort should be expended on these areas if sustainable benefit is the goal.

Supplier Buy-in

Suppliers are an essential part of the purchasing process, and early involvement of the supply base builds more advocacy and support. Suppliers' access to appropriate technology is less of a barrier than it was, and willingness to participate is less of a problem now that these projects have moved into the mainstream. A more common challenge from suppliers may be the supplier wanting to push for a more advanced solution than required, building on their own investments in this space. Another common challenge from the supplier market occurs where there is an increasing prevalence of joint venture /

A BuyIT Framework for Effective Purchasing

Exploiting technology within the Purchasing Cycle

consortium contracts. To effectively put in place a common infrastructure and information sharing solution in these cases is challenging because of the number of parties who have to agree.

The eight key issues to address to deliver Effective Procurement

1. Understand the business driver for change

Determine where to focus first. A good implementation plan will demonstrably be linked to the purchasing strategy, and hence to the overall business strategy.

Understand the primary requirement for the project. This will help you focus during implementation and determine the technology entry point.

Identify your senior management champion(s) and their 'hot buttons' and make sure these are addressed early in the project.

Plan the implementation in manageable chunks. Some 'quick wins' can often make a technology enablement project self financing but do not lose sight of the higher value opportunities that require greater effort.

2. Information is the driver

The single most important message for organisations seeking to improve their purchasing is that information drives the realisation of benefits. Establish which are the biggest areas of influenceable spend. Understand the segmentation of suppliers and how strategic they are to the business, as well as gain insights into the drivers of the markets they operate in. Identify opportunities for rationalisation, and where strengthening of key supplier relationships is a more appropriate strategy.

3. Have the right systems and tools in place

Your procurement strategy will normally include streamlining of procure-to-pay processes and the introduction of e-procurement; the development of enterprise-wide framework contracts, supplier rationalisation and purchase cards to reduce the level and cost of ad hoc purchasing; negotiation with key suppliers to move away from multiple invoices and the introduction of e-invoicing, etc.

All of these require that the appropriate systems and tools are in place when needed to deliver the changes, provide better management information and enable effective purchasing.

4. Skills and resources

Mobilisation of the correct team is vital but however well planned your improvement programme, one thing is certain – you won't have enough skills and resources to carry out the work. You will also need representation from the business units to drive requirements, purchasing, finance, audit, and IT.

5. Firm leadership and good communication

The key to generating the cost benefits and collecting timely management information to improve decision-making is gaining 100% uptake of e-procurement systems and getting 100% compliance to using the contractual frameworks. Achieving this is not just a matter of having the right technologies – it needs firm leadership and good communication.

A BuyIT Framework for Effective Purchasing

Exploiting technology within the Purchasing Cycle

6. Management and User buy-in

The key to successful deployment of the tools is intelligent and effective Change Management. It is important that the business case allocates clear accountability for realisation of the cost and efficiency targets to line and unit managers – not just IT and procurement.

Overcoming local resistance is essential to delivery of benefits. Ultimately it's the **people** that deliver the benefit - the technology is just an enabler.

7. Get supplier buy-in early

Suppliers are an essential part of the purchasing process, and early involvement of the supply base builds more advocacy and support. Suppliers' access to appropriate technology is less of a barrier than it was, and willingness to participate is less of a problem now that these projects have moved into the mainstream.

8. Its not just about 'quick wins'

Programmes focusing on tactical quick wins can fail to implement the organisational structure, policies, processes and education needed to achieve the greater medium term benefits. Realising the full benefits of effective purchasing takes sustained effort, ongoing review and continuous improvement.

Conclusion

There is clear evidence¹ from early adopters to suggest the benefits can and have been fully realised. Awareness of the challenges and early planning to resolve these from the outset will lead to successful implementation, and realisation of the targeted benefits.

Case Studies

Over the last four years e-Procurement has helped Reuters to reduce costs significantly and to deliver:

- Competitive supply markets in virtually every major category of spend;
- Faster and far more efficient P2P processes;
- Essential streamlining of resources in the logistics, sourcing and accounts payable arenas;
- Major reductions in 'paper management'.

BAE Systems, a 90,000 strong company with 1200 buyers in 160 locations, have achieved significant benefits from e-Procurement, including:

- 80% of transactions conducted via single e-commerce link to suppliers' systems via Exostar;
- A single Buy Site purchasing system for indirect procurement - improved compliance means lower prices;
- An integrated supplier information system resulting in 40% lower support costs;
- Cost and cycle time reduction through e-Sourcing, including over 750 e-Auctions.

e-Procurement can help to deliver benefits beyond purchasing.

The MOD has used e-Procurement to:

¹ The e-Procurement Benchmark; less hype more results. Aberdeen Group, Dec 2004.

A BuyIT Framework for Effective Purchasing

Exploiting technology within the Purchasing Cycle

- Make its stock ordering/reordering more dynamic;
- Reduce storage requirements enabling storage to be rationalised and significant cost savings achieved.

In a commercial situation this type of saving can make an enormous difference to the bottom line.

The BuyIT e-Procurement Best Practice Network

BuyIT is the leading ICT Best Practice Network with a mission to:

“help organisations realise the business benefits from Information & Communications Technology by identifying and promoting best practice in e-business”.

Set up under the auspices of DTI in 1995, the BuyIT Best Practice Network is open to all organisations, both private and public sector, including government and leading trade and professional bodies. BuyIT is recognised by government and ICT industry bodies as a valuable forum for access and exchange of information.

- BuyIT promotes Best Practice through the publication of Guidelines, Networking, Media Relations and its Website.
- It manages Experiencing Sharing programmes addressing the key areas of e-Business, e-Government, Supply Chain / Purchasing, Shared Services / Business Process Outsourcing, Customer Relationship Management (e-CRM), Oracle, SAP and Fast Moving Consumer Goods (FMCG).
- In addition, BuyIT Supports Government Programmes such as the Efficiency Review, Whitehall Shared Services Forum (WSSF), Local e-Government Strategies and Local e-Gov National Projects.

For a full list of members and access to all the published guidelines please visit our website: www.buyitnet.org



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