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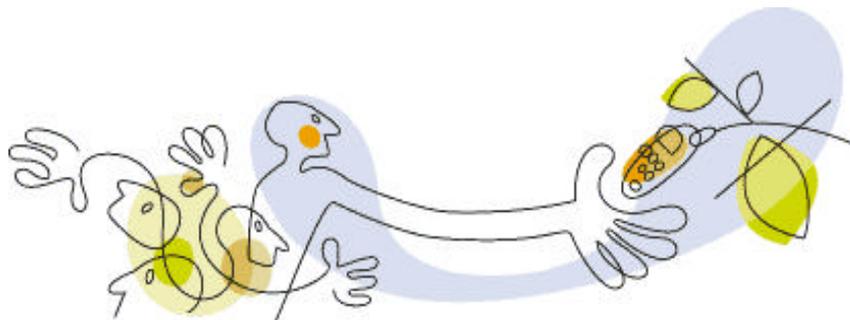
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Making Byatt Happen

A white paper by Ken Cole, MCIPS



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Setting the Scene

In June 2001, Sir Ian Byatt's taskforce, commissioned by the Government to review "the state of procurement skills and practice in local Government in England", produced its report.

The report has created a significant amount of activity in local council's and has contributed to a wider debate on the role of procurement in the drive for improvement in the quality and cost effectiveness of local services. The content of the report is well balanced and logically argued, departing from the traditional dogma of "if only the public sector would learn from the private sector". Indeed, Byatt even went as far as to recommend proactive involvement by central Government with some pump priming for specific projects such as e-Procurement.

The two questions for most council's are how can we make the Byatt report a reality and is it worth the investment in time and resources given the continuing pressure on front line services?

This White Paper seeks to address those questions and provide answers, which can help local councils in their decision making process. The first part of the paper draws on experience from other sectors, particularly central Government, exploring the hidden dangers and major opportunities that lay ahead for councils. The second part looks at the use of e-Procurement and the relationship with existing corporate systems, showing how councils can reduce risks and develop solutions to fit their budgets and business needs. Sarah Wood (Director of Finance and Performance Review at Birmingham City Council) was recently quoted as saying "***the Byatt Report is not a one-size-fits-all***" (*Supply Management 18 October 2001*). This is a valid viewpoint in that although there is lots of similarity between all Councils, there is an important need to recognise diversity and varying business priorities.

Part 1 – Making Procurement Successful for your Council

Learning from the past

Local Government is fortunate in that it has the lessons and experience from establishing procurement in central Government to use as its guide in implementing Byatt's recommendations. Central Government started on the road to modernising procurement in 1984 with the publication of the Management and Personnel Office's (MPO) report "Government Purchasing – A report to the Prime Minister". This set out a series of recommendations for improving central Government Procurement, similar to Byatt, and led to the creation of the Central Unit of Purchasing (CUP) – based initially in the Cabinet Office then moving to H M Treasury.

One of the key differences from Byatt was the immediate need to generate savings as a means of demonstrating the value of a professional procurement operation. A target for civil Government departments of reducing their procurement spend by 5% (£303 million) was set from the Cabinet Office/H M Treasury. By November 1988, *Purchasing and Supply Management* was reporting a headline "**Treasury lashed as purchasing initiative flops**". The then Director of CUP told the Committee of Public Accounts, "**We have an organisational problem, a structure problem and we have to carry the Civil Service with us**". The various exchanges, which provide an excellent insight into the workings of Government, can be read in the 39th *Report from the Committee of Public Accounts*.

Prior to the launch of the Office of Government Commerce (OGC) in 1999, the CUP had to undertake a series of relaunches, often packaged under the names of new policy initiatives, in order to convince Ministers and top Civil Servants of how procurement can contribute to reduced costs and better services. These relaunches included Competing for Quality (Cm 1730) – 1991, Setting New Standards (Cm 2840) – 1995 and Efficiency in Civil Government Procurement - 1998.

The latter document reported (page 33 – para 5.10), "**there is a lack of recognition at senior levels of the key role procurement can play in delivering departmental and agency business objectives**" – this being thirteen years after the launch of CUP and after a lot of effort from Civil Servants to make things happen. The former Director of CUP, Neil Deverill, recognised some of the evident successes when he said, "**Government organisations actually can be very good at procurement; they just didn't know it**" (*PSP Magazine February 1996*).

Local councils can learn many lessons from studying the experience of central Government procurement, notwithstanding the excellent messages and recommendations from Byatt and his team. In broad terms, the Government Purchasing Initiative as it was originally known has struggled to make sustained progress for a number of reasons, including:

- Lack of ownership from civil Government departments (it was seen as H M Treasury owned)
- Serious underestimation by top managers and consultants of the extent of cultural change needed to make real progress in the Civil Service
- Inability to pay market rates for senior Procurement roles
- Policy and initiative overload by Ministers (of all political persuasions)
- Absence of strategic leadership from the “centre” (H M Treasury / Cabinet Office)
- Absence of procurement champions at top management level to ensure continuous progress in civil Government departments

The early years of procurement in central Government were punctuated by regular disagreements over “targets and savings” for departments. Departments felt somewhat aggrieved that procurement savings were a back door way of cutting budgets, while H M Treasury despaired at the fact that “savings” never materialised and were just spent on other Departmental Projects. There was speculation that in many cases the savings claimed by some departments were meaningless as prudent management of procurement exercises at the start of a financial year were often more than cancelled out by the end of year annuality rush.

However, some excellent progress was made in the area of training and setting up a dedicated procurement specialism. The Civil Service College (CSC) was at the forefront of developing a modern and valuable training programme designed for training and educating people in all aspects of procurement. Local councils are strongly recommended to evaluate the Certificate of Competence and broad based procurement training programmes delivered by the CSC. The designation of specific posts as requiring professional procurement expertise was also a move away from the generalist ethos of the Civil Service. The problem for central Government is that like all segments of the Public Sector, the remuneration is not comparable with the private sector. Qualified procurement specialists with a good understanding of public sector procurement practices often find new careers in the private sector.

This will become a big challenge for local Government, where council's decide to invest in procurement. For local Government, one of the main constraints is its hierarchical structure with accompanying spine points for pay. A London Borough, Metropolitan Borough, County

Council or Unitary Authority will typically need to pay about £70k per annum to attract a Procurement Director with the right blend of commercial knowledge and strong management attributes. Notwithstanding that Members will need to be 'sold' the business case for such an investment, there is also the issue of where to locate the post (e.g. Corporate/Chief Executive's Department) and the pay relativities with other Chief Officers.

The investment in people skills and exploitation of existing procurement knowledge in councils are critical first steps in implementing Byatt. e-Procurement is one of the tools that the Procurement Team will need to deliver results, not the solution to the challenges identified by the Byatt Team.

Getting it right – the benefits for Councils

It should not go unacknowledged that there are significant benefits professional procurement can deliver to your council and the local Community. Experience shows that councils will gain benefits in numerous ways. These include:

- Unit Cost reductions through better and streamlined contracts and collaboration arrangements, improved specifications, shared information
- Reduction in the 'procurement overhead', with staff managing value add activity (e.g. contract management, supplier improvement programmes, risk analysis, and procurement planning) rather than administering pieces of paper
- Fewer but better suppliers, motivated, managed and informed to serve the Council
- Real progress on policy initiatives such as Green procurement, support for local small enterprises, Public Private Partnerships, innovative bidding
- Better control of cash flow, budgets and spend profiles with integrated Procurement and Financial planning and asset management
- Better-motivated staff, working in multi-disciplinary teams focused on outputs and delivery rather than following processes
- Internal service level agreements with Procurement acting as a service provider and enabler rather than a barrier to progress
- Reduced risk; minimising the loss of critical suppliers, eliminating poor supplier performance and moving towards a commercial rather than legal approach to contracts

A few organisations have reduced their procurement spend by up to 15% over five years, through investment in strategic procurement.

Achieving the right business model is the most important step in unlocking the significant benefits that professional procurement can deliver. Clearly, there are differences in the size and complexity of councils. A small district council does not require the same business model, organisational structure and investment resource as a large county council and this has been recognised by the successful use of Buying Consortia since 1972. The key to the whole process is having a full understanding of the scale and impact of procurement on council business and then deciding on the appropriate model to suit the operation. This may appear a straightforward exercise, but is complicated by several factors, including:

- Potential skill shortages of good procurement staff that have knowledge of how to exploit and manage strategic rather than tactical scenarios – meaning that your council may not be able to recruit the right people
- Cultural and political attrition preventing the optimum structures and resources being put in place
- Acknowledgement that the real benefits from strategic procurement can take several years to achieve and are dependent of the optimum working and interaction of people, processes and technology – this could deter investment for reasons of expediency

Procurement is essentially a dynamic rather than static operation. Most councils will be able to secure some quick wins with relatively little effort, but the progression of year-on-year savings combined with genuine service improvements requires a clear vision, strong leadership from the top (Chief Officers and Members) and the management will to succeed. Experience from all sectors shows that early savings and efficiency gains are often very modest in comparison to those that are achieved when the combination of knowledgeable people and modern and flexible technology is accomplished. The problem is that it may take several years to achieve.

Results are not achieved by throwing technology and expensive consultants at the perceived problems from the outset – often to meet a politically driven target. Councils will need to be clear about what they expect to achieve from the adoption of strategic procurement, who will deliver the results and in what timescale. If procurement is seen as “yet another policy initiative” competing for an already diminishing pot of resources, nothing will be achieved.

Learning from other organisations

The Byatt Report was thorough and logical in its review of procurement in local Government and provided a fine blueprint on what needed to be achieved. However, organisations in both the public and private sectors have followed similar paths over the last fifteen years and have often not realised the full benefits, which are available to them. Barriers to achieving success are varied but include:

- *Top Managers not convinced*

The top management of organisations (particularly central Government) neither accepted nor understood the need for a professional procurement operation. This created investment and skills shortages as procurement was seen as a passing fad. Even until recently, some Heads of procurement in Government departments were still advisory and on term contracts rather than having executive authority and being a part of the corporate team

- *Poor internal marketing*

The procurement operation was poor at marketing its capability and value and became recognised as having a policing role creating delays and barriers rather than an enabling role cutting deals and improving service. Too much emphasis was given to inflexibly following the rules (e.g. EU/GATT* Directives in Public Sector) rather than helping budget holders fulfil their needs in a timely and cost effective manner (* Note: These Directives were set up to introduce competition into the Public Sector - particularly Italy - as a part of the creation of the Single Market. They are invariably over zealously interpreted by most Public Sector bodies)

- *Suppliers excluded*

Suppliers were seen as the enemy and kept at arms length under the guise of being even handed. This excluded organisations from a wealth of new ideas and expertise, which could have been used to reduce costs and improve the quality of products and services delivered

- *Changing the Culture*

Many organisations were not ready for the cultural changes needed to deliver results and gain ownership. The successful management of change is a science in its own right. Marketing and Communications Strategies were absent which meant that changes were not owned, understood and accepted by people they affected. This created inertia and often resistance from people who saw other agendas behind establishing procurement

- *Dependency on Consultants*

Too much reliance was given to using outside consultants for shaping the thinking of the organisation, many of which had little or no understanding of strategic procurement but were hired for their name. This led to the creation of extensive reports, which were either shelved



when funds ran out or fell victim of the “not invented here” viewpoint. Consultants do have a role to play, but as a part of a multi-disciplinary internal team working to tightly defined goals and outputs. They should never be hired simply to show evidence of activity or worse still to give credibility to the work of internal stakeholders

- *Incomplete solution*

Strategic procurement only works when there is a successful interaction of three elements - motivated and knowledgeable people, streamlined procedures and processes and flexible integrated technology. If any element is missing, results will be very disappointing and people will lose interest

There is no reason why any council should not tackle the introduction of strategic procurement with full confidence. Many have the capability and will to succeed, the key is to manage the risks and learn from the experiences of other organisations. Above all there are more and more success stories, which should and can be emulated.

Part 2 – E-Procurement, myths, realities and opportunities

Separating Fact from Fiction

Since e-procurement started to emerge as a business issue and opportunity some five years ago there has been a massive gap between some software vendor claims and reality, particularly in the US. Claims of dramatic savings, of up to 80% of existing procurement spend for some commodities and warning organisations that they would be uncompetitive if they were not early adopters, has created uncertainty and limited the exponential growth predicted by analysts such as Gartner and Forrester Research. As with Electronic Data Interchange (EDI) in the 1980s, most organisations did not believe the claims and were sceptical about statistics, such as the e-procurement market in the UK being worth \$31 billion in 2001.

At the same time, software companies started to go bust. Just2Clicks disappeared in 2001, and the CEO was quoted in the *Daily Telegraph* (30th June 2001) as saying, “we were hit by the fact that 80% of British businesses said they were going to spend on B2B e-commerce and have not done so. Most of the other B2B websites have either gone bust already or are running out of cash”. To undermine confidence still further, *The Financial Times* (5th April 2001) quoted Marcus Ryu, Ariba vice-president of Corporate Strategy, as saying “Marketplaces are dead”.

A lot of the case studies presented by potential providers have their origins in the US and particularly the manufacturing sector, which are not representative of UK Public Sector procurement activity. There are some good examples of “e” solutions in place in the UK, and councils should be aware that there are many quick wins that can be achieved at relatively little cost. These include paying suppliers by BACS, use of autofaxing technology for sending orders and remittances, and using existing IT systems to automate the requisition to payment process for all low value transactions.

The number of potential solution providers has continued to diminish. At the same time, there has been some segmentation into niche players and sector specific solutions providers as the “one solution fits all” approach to e-procurement has been exposed as a fallacy. In essence most solutions only address some parts of the full procurement life cycle. For some local councils, e-procurement solutions will be made up of integrated components addressing different stages of the life cycle and potentially addressing the purchasing of specialised commodities/services through different technology solutions.



Getting Started

It is clear that there are significant gains to be derived from the deployment of an e-procurement solution. However, like all strategic e-commerce projects, it is important that an organisation is successfully managing a procurement strategy in the first instance. To maximise the ROI on your project, councils also need to be aware of a number of ground rules. These include:

- e-Procurement manifests itself in different forms, and a combination of different technologies and solutions may be required to make strategic procurement a reality. This is because most of the significant savings and improvements will come from the acquisition and management of services. There is no such thing as a 'one solution fits all' option
- Business cases need to be based on actual savings, not efficiency/productivity improvements, and someone needs to be responsible for ensuring that the savings are delivered and accrued
- Some of the benefits claimed for e-procurement can be delivered through the proper use of, and integration with, existing IT solutions such as the financial system. Many councils have invested in IT solutions and not made the most of them
- Electronic trading will only be desirable and cost effective with a range of suppliers where the market profile and characteristics determine there is a business case for both the council and the supplier. Many SME's are not e-enabled, and councils will need to work with suppliers to encourage low cost, low risk entry into the world of electronic trading. This is an ideal area for consortia working at regional level.
- Be prepared to change current business processes and not simply automate the existing ones. Many of the current processes are paper driven and do not reflect the power and capability of modern technology
- Procurement is multi-disciplinary and requires buy in from all stakeholders if early adoption is to be achieved

Councils should also conduct a full analysis of their current procurement activities in order to determine business priorities, potential resourcing requirements and the opportunity for

achieving quick wins. The latter point is important as it builds confidence at all levels, and can often be achieved without a large financial outlay or carrying risk.

The Project Team should be broad based, recognising the multi-stakeholder nature of procurement and encouraging the widest possible ownership of the project. Solutions specifications should be open in every respect and support best procurement business practices. Requirements should encourage innovation from prospective bidders and set out the business model for the future rather than document existing procedures. This will be critical later as it is very important that providers of all procurement and e-procurement solutions demonstrate that their systems were designed to support best procurement practices and that they have the necessary procurement expertise to advise their customers on optimum and appropriate business models.

Again, councils should recognise that an e-procurement project, like most other IT projects, is likely to be delivered in phases. It is wise to allow for future acquisition phases as some requirements, particularly for larger councils, cannot be defined until more is understood about the composition and priorities of the procurement business (e.g. Knowledge Management solutions for professional procurement specialists). This will be constrained by the pace at which accompanying cultural changes are introduced and accepted.

In summary, the potential of e-procurement solutions will be fulfilled if they are:

- Easy to implement and integrate with existing IT systems
- Low cost and low risk, lending themselves to pilot implementations and rapid return on investment (less than one year)
- Not about unrestricted access to catalogues and do not bypass predefined procurement and financial authorities
- Easy to use for all stakeholders with the minimum of training
- Accompanied by a parallel investment in people skills, cultural change and knowledge management, so that everyone understands why they are being used and how they can enhance both current job satisfaction as well as improve delivery of community services
- Not accompanied by overstated benefits – some can only be achieved with sustained system usage and measurement of Key Performance Indicators (KPIs) with an ongoing improvement plan based on better information

Building Awareness of e-Procurement

Organisations that state they are “trying to achieve e-procurement” without understanding fully what it means, run the risk of investing in a misguided strategy and inappropriate solution. Typically, industry commentators defining what they understand by e-procurement will talk in terms of web technologies, automation, electronic catalogues and B2B communication – often to fit the capabilities of their preferred solution. Clearly, these aspects will form part of any e-solution, but there are additional factors that will contribute to a clearer definition of the final nature of the adopted e-procurement solution.

- *Leveraging current back-office systems*

Some financial and other operational systems owned by councils have not been implemented or exploited to their full capability. This should be where the first audit is carried out. e-Procurement requires the use of existing technology if it is to fulfil its maximum potential.

- *Targeting savings*

The main reason for adopting e-procurement solutions is to leverage savings and provide efficiency and productivity improvements. Using supplier and transaction analysis techniques, Councils can gain a reasonable picture of their segmented spend and supply base and how it divides between four quadrants: Tactical Acquisition, Tactical Profit, Strategic Security and Strategic Critical. Each quadrant offers a different magnitude for savings, as well as requiring different solutions and approaches depending on the profile of the organisation and their associated purchasing strategy.

- *Budgetary availability*

It would be foolish to expect to implement a full e-procurement solution across all commodity areas in any one financial year. Pilots need to be undertaken, knowledge and skill sets need to grow, and most importantly the culture of the organisation needs to adapt to the new changes. Sensibly, most councils should be looking to spread their financial provision for e-procurement over three financial years.



- *Procurement skills and knowledge*

Strong Procurement skills are scarce and cost money. Some councils may decide to “grow their own”, but should have a recruitment and retention policy to help keep the best people in place. Adopting e-procurement solutions needs to be approached with caution if such skills and knowledge are missing, as the return on investment will be severely diminished. Ordering electronically requires little skill and delivers a tiny percentage of savings. In comparison, the deployment of accurate information and market knowledge by an experienced buyer in negotiation with a potential supplier during a multi million Pound contract has the potential to deliver significant savings. This is another good reason to ensure that technology grows in parallel with the council’s commerciality. The latter takes longer to achieve but is a critical success factor if the technology is to produce an attractive return on investment.

Solutions Selection

This white paper strongly recommends the adoption of e-procurement, however, does not recommend any one e-procurement provider.

Some councils will have established procedures and evaluation criteria to evaluate and select a provider. These should include the following considerations:

- Check the procurement credentials of the solutions provider and the qualifications of the people involved in design and implementation (i.e. are they qualified and experienced Procurement specialists)
- Watch for the “lock in” approach. Just because you have purchased an ERP solution doesn’t mean that you have to go to the same providers for your solutions – indeed their offerings have a poor synergy with the UK Public Sector
- Resist solutions that tell you that you have to change other systems as well in order to deliver benefits - this is more the exception than the rule
- Try to deal directly with the solutions provider(s) rather than consultancy firms – you are likely to pay more and in some instances may not get the solution that you are looking for, but one they are best suited to implement
- Check for hidden costs – particularly in back-office integration, upgrades and maintenance charges
- Pilot projects are always the sensible way to proceed – don’t feel obliged to give commitment to a full implementation of any solution
- Look carefully at referenceability – absence of a reference site doesn’t necessarily equate to a poor solution, but it does mean that you could inherit the associated risks of being a guinea pig
- Check how the solution is best delivered – are there options such as Application Service Provision (ASP), and if so, what are the costs and risks
- Know and agree from the outset what savings and improvements will be made, who is responsible for their delivery and over what period – business cases should have a return on investment of less than one year or it becomes difficult to measure success and in some cases justify investment
- Ensure the creation of a shared risk register with the solutions supplier(s)
- Confirm the engagement of suppliers is included in the e-procurement project scope and that the process of bringing on suppliers meets with your sourcing strategy

Summarising e-Procurement benefits

Constructing a business case for e-procurement can be quite challenging, although there are a number of small consultancy companies that specialise in producing such documents. Broadly speaking, e-procurement in its broadest definition (i.e. incorporating existing IT solutions, business intelligence tools and purchasing cards) will give a wide range of benefits. These can be grouped into the following categories:

- Save money through:
 - More *efficient* procurement
 - More *effective* procurement
 - Improved control
- Improving Customer Service
- Ensure Legislative Compliance by:
 - Enforcing compliance with statutes and law
 - Supporting council policy

Against these categories is a wide range of identified benefits some of which are tangible, others subjective and quite a few which can only be accrued through making changes to processes and building historical data. Councils will need to decide which of these categories best suits their local circumstances. In some cases a combination of categories and benefits will be required, bearing in mind that an attractive business case for members can be created around improved service delivery.

The savings formula for e-procurement can be complex, given that there are numerous models for business case construction. The baseline is that savings for the broad definition of e-procurement can range from 2 to 15% of annual procurement spend. Typically, councils would be wise to target 2 to 5% as the higher levels can only be achieved with the optimum balance of commerciality and technology.

Bearing in mind that larger councils have levels of procurement expenditure in the £100 million to £200 million range, it does not take long to see why it is worth taking the Byatt Report seriously.



Towards Procurement Excellence

The Byatt Report provides a good foundation for local councils to take steps towards achieving Procurement Excellence. A council that is prepared to learn from the experience of others and risk getting things wrong occasionally will make progress. The goal of achieving Procurement Excellence is challenging but attainable, but it will take time to realise, possibly up to five years. The benefits for those councils that achieve it through the right combination of people, support systems and streamlined processes will eclipse those that see procurement as yet another policy initiative. Some will not make it, but there is no reason why many should not achieve a favourable benchmark against the best in the UK private sector by the end of 2005. The question for your council is where do you want your procurement business to be by that date?



About Ken Cole

The author of this White Paper, Ken Cole MCIPS, is a Partner in Strategic Procurement Service, which he formed in October 2001. He was formerly the head of QSP's Centre for Procurement Excellence having joined the company in 1995. Prior to joining QSP, he spent 19 years as a Senior Civil Servant, latterly as Director of the Home Office's PROMIS Project. He was also the architect of the Government's inter-departmental PURSUIT Project while working for H M Treasury in 1989, and is an acknowledged expert on Procurement and e-Procurement systems. He has been a member of the CIPS Information Systems Committee since 1996 and became its Chairman in June 2001.

About Biomni

Biomni is a leading provider of e-procurement solutions, offering buyers and suppliers the benefit of tried and tested software supported by a comprehensive range of services. It is the first e-procurement provider to be awarded the Chartered Institute of Purchasing and Supply (CIPS) certification for excellence in purchasing policies and procedures.

Founded in November 1999, Biomni manages the largest e-procurement trading community in Europe. It is committed to meeting the needs of its customers and provides flexible solutions, based on a secure architecture that can easily be integrated into existing enterprise systems. The Biomni purchasing solution Directa™, supplier gateway Provida™ and transaction hub Connecta™, enable organisations to realise the substantial cost savings and competitive advantage of a successful e-procurement strategy.

Based in the UK, with five regional support areas and resources in mainland Europe, Biomni has a range of customers, suppliers and partners operating within its community. Biomni currently supports over 2,000 European organisations in the public and private sectors. More than 700 suppliers are accessed through Biomni's transaction engine, which handles over 50,000 transactions each working day.

More information on Biomni can be found at its Web site: www.biomni.com.