

E-COMMERCE – HELP OR HINDRANCE?

INTRODUCTION

Few issues have occupied the attention of procurement practitioners over the last few years as much as e-commerce. With impending targets to be met and active encouragement from central government, councils have been working hard to ensure that they harness the benefits to be derived from the new technologies while deciding upon the appropriate solution for their business needs.

With that in mind, I thought that it would be useful to pause for a moment to pose the question “e-commerce – help or hindrance?”. Rather than answer the question myself or get colleagues in other authorities to do so, I gave it to someone who has strong public sector experience and knowledge and who can be relied upon to come up with an unbiased answer.

Former civil servant Ken Cole has produced a hard-hitting response to the question posed to him. Tracing the development of e-commerce in the UK public sector, he has drawn upon a variety of sources to provide some interesting conclusions. The paper that Ken has written may not be to everyone’s liking, but it does provide an interesting and balanced view on what has happened and what is likely to happen in the field of e-commerce.

There are lots of good points to take on board in the paper, but the main lesson for me was the need for the procurement profession to keep control of the e-commerce agenda where it affects them and their suppliers. Bringing the benefits of strategic procurement to fruition can only happen if we see e-commerce as a tool in a much broader strategy rather than an end in its own right.



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CHAMPION OR HERETIC?

In an age where technological developments are reaching more organisations and individuals across the world, it seems inconceivable that anyone can write a paper suggesting that they can be anything other than a positive contribution to the common good. Images of the Luddites opposing mechanisation in the textiles industry in the 19th century flash across people's minds at the suggestion that e-commerce in the public sector is currently a hindrance. Surely the benefits to be derived from e-commerce and increased automation are an accepted wisdom that we should all be taking forward with enthusiasm?

At this point I must declare my hand, in that I have been and still am an enthusiastic supporter of e-commerce. Having piloted an Electronic Data Interchange (EDI) project covering the ordering of fresh meat and fish for HM Prison Service in 1994 and marvelled then at the benefits technology could deliver to the purchasing function, I am still happy to debate this question.

From a technological point of view, my 1994 EDI pilot (PROMIS Project Ref PRM/TD1.02/02/1) was a major success (ie it worked!), but the overall conclusions were that:

- The number of suppliers using or willing to adopt EDI was small.
- Communication standards were relatively immature.
- There was widespread concern at the impact on jobs, particularly from administrative staff.

The principle of EDI had been established but the general view was that neither the department nor our suppliers were ready to move forward.

In writing this paper, I have restricted the scope of help or hindrance to the procurement profession only, as clearly the answer to the question will vary according to the stakeholder concerned. I have also restricted many of my observations to local government, but have illustrated points and made comparisons with the whole of the UK

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public sector. The essential point here is that like Finance, IT and Audit, procurement is a universal profession. Fragmentation into segments such as central and local government, health and higher education may be helpful for defining scope, but it also creates unnecessary barriers to transparent collaboration across the UK public sector. So, I pose the question: “e-commerce – help or hindrance?”.

THE STORY SO FAR

The push for using technology in the UK public sector is not new. Central government was awash with projects in the early 1990s as both government ministers and departmental agencies pushed the case for adopting modern technology. By the early 1990s some 7000 suppliers in the UK were trading via EDI, mainly in the retail sector, and even the Royal Naval Armament Depot (RNAD) at Copenacre in Wiltshire had well over 100 suppliers EDI-enabled. However, the majority of organisations failed to be convinced and even in the purchasing world the complaint was that trading was only about sending orders. Few ventured into the world of electronic invoices.

Research showed that the main factors inhibiting the development of EDI ten years ago were:

- Reliability of the technology, including difficulties on agreeing messaging standards for data communication.
- Insufficient transactions for suppliers to be able to justify an adequate return on investment.
- Lack of belief that it would ‘catch on’ as a method of trading.
- Resistance from a variety of stakeholders in the public sector, particularly Legal, Audit and Finance, that it was not an acceptable means of trading.
- Insufficient support from senior managers on both the buy and supply sides who regarded it as a technical issue.

- Competition from other projects and demands, which meant that the necessary investment was rarely forthcoming.
- Failure to change attitudes and manage expectations.
- Difficulty in proving the business case with only limited take-up by suppliers.

WHAT HAS CHANGED IN TEN YEARS?

A realistic analysis of the inhibiting factors shows that significant progress has been made in some areas:

- The explosive growth of the internet has meant that a majority of people now use IT and an increasing number trade electronically, buying and sourcing on a personal basis.
- The technology works, is very affordable and offers both individuals and organisations choices as to how they ‘join in’.
- People are more receptive to the technology inside their organisations as they know from personal experience the benefits and advantages that it can bring.
- Encouragement to participate in ‘e-trading’ has never been stronger and an increasing range of private and public sector services are now conducted either without or with minimal human intervention.

On paper, the prerequisites for e-commerce to flourish in the trading or business-to-business (B2B) arena have never been stronger, but has anything deteriorated since the 1990s that could offset these advances?

One of the major changes took place in May 1997 with the election of the Blair Government. Broadly speaking, this change of government accelerated policies started by its predecessor where reform of the public sector was a cornerstone of policy. By way of example: compulsory competitive tendering was strengthened and rebranded as

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Best Value; more for less was given greater emphasis with procurement suddenly becoming a mainstream profession; and the appetite for technology grew vigorously. Much of this was driven by the commitment to improve front-line services through the allocation of more resources and the reduction of back-office activities.

In addition, the coming of the Millennium and the growth of the internet created a massive growth in technology related expenditure. The so-called Millennium Bug created an unparalleled demand for technology services in the late nineties with organisations either modifying or replacing their IT systems. Similarly, all organisations had to have the new technologies, whether it was the provision of a website or access to email. As the demand for new systems and services in response to the Y2K issue subsided so the IT industry started to look for new market opportunities and revenue streams.

MILLENNIUM EUPHORIA

The increased recognition of the importance of procurement, the identification of the potential benefits to be derived from quicker, more accurate trading combined with the growth in new web technologies provided the opportunity. E-commerce was born around 1998. The rapid adoption of technology in the USA combined with the predominance of American-owned firms in the technology sector started the process. Analyst groups such as Gartner and Forrester Research forecast almost exponential growth in the take-up of e-commerce with the UK market estimated at being worth \$31 billion by 2001. Commerce One and Ariba soon became market leaders in the private sector, delivering multimillion-pound implementations to those multinationals that could afford them, and the marketplace concept came into being, all before the end of 1999.

HARSH REALITY

By 2001, the picture had changed dramatically. E-commerce had not taken off as predicted and the promised benefits were not materialising in

implementations. One large international electronics company cancelled its Ariba e-commerce project and the *Financial Times* reported on 5 April 2001 that: *“Ariba for one has rejected the whole online marketplace concept. At a conference early this week, Marcus Ryu, Vice President of Corporate Strategy, made the stunning statement: ‘Marketplaces are dead’.”*

The whole e-commerce boom at the end of the twentieth century was in reality no more than market hype. Vendors mistook the analysts’ forecasts, which were largely US forecasts anyway, as being factual and expressions of interest from organisations were logged as buying signals. The situation was summarised in the *Daily Telegraph* on 30 June 2001, reporting on the demise of Just2Clicks. Their CEO stated: *“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.”*

With the private sector market dead, partly due to the huge expenditure on solving the Y2K problem, the next target was the UK public sector.

LEADING FROM THE CENTRE

The new Blair administration was keen to see public services modernised. Phrases such as ‘joined-up government’, ‘electronic empowering of citizens’ and ‘modernising government’ soon percolated through the corridors of Whitehall. In opposition, the Labour Party had seen at first hand the power of technology utilised by organisations in the USA in both the private and the public sector. Through studying departments such as the Office of Government Information Technology (OGIT) in Australia, they saw how the coordinated government purchasing of technology, standardisation of systems and active use of e-commerce delivered benefits to both citizen and Exchequer alike. Why not in the UK?

An e-Envoy was installed to champion the cause of modern technology. Peter Gershon completed his review of central government purchasing and recommended the creation of the Office of Government Commerce (OGC). This latter

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point in 1998 was in reality the relaunch of public sector procurement, which had struggled to justify its value since the creation of the original Central Unit on Purchasing (CUP) in 1984.

The combination of these political changes and the rise of e-commerce described earlier generated the conditions for technology companies to actively target the UK public sector. This was given further impetus by the setting of the 2005 e-government target, which called for '95% of *eligible* transactions' (my emphasis) to be conducted through electronic means.

Not surprisingly, central government thinking soon moved across to local government and the publication of the Byatt Report in June 2001, amongst other things, provided a suitable vehicle for seeking change in councils.

ELEVATING PROCUREMENT

The increased recognition of the contribution and value of a sound procurement function in an organisation is welcomed by everyone in the profession. Arguably, the public sector has led the private sector for some time in that organisations such as the Ministry of Defence (MoD) and the National Health Service (NHS) have had professional procurement agencies for over 30 years. With the rise of the service sector at the expense of manufacturing during the 1980s, the public sector became more influential as many service sector organisations had no procurement function whatsoever. The reason for this was simple and well illustrated when a senior manager in a major financial institution asked me in the early 1990s why his company needed to reduce third-party costs when profits were so high. The dictum used by some pioneering companies that £1 off costs contributes the same amount to the bottom line was clearly lost here. Until recently, many service sector companies were unable to indicate their non-payroll third-party expenditure. Rapid decline in profits and the need to find alternative ways to cut costs other than laying off staff changed this view and the value of procurement was elevated by the late 1990s.

THE TAKEOVER

Unfortunately, this elevation coincided with the stampede for e-commerce. By the late 1990s many readers will recall being lectured by a wide range of people about the benefits of procurement, particularly if it had an 'e' stuck in front of it. Wild claims circulated about dramatic savings that could be achieved if only an organisation adopted e-commerce, and specifically e-procurement. The messages varied in terms of the scale of the potential savings and benefits but the common theme was that the people broadcasting the message were not procurement specialists or exponents.

Many people had worked diligently and successfully in organisations to make procurement a boardroom issue and establish its value and contribution to profitability and service quality. Almost overnight, this was undone for many who were told that they had got it all wrong and that e-commerce was the way to reduce costs and improve quality. For the strategic procurement pioneers, e-commerce became an immediate hindrance as it was almost a fad and people arguing for it to be put into a realistic context were accused of self-preservation. I recall arguing with my own directors in 1999 that most claims made for the alleged benefits of e-commerce were erroneous and that e-procurement would only work in an organisation where procurement was established and understood. Fortunately they listened to me on this one!

THE IMPACT OF BYATT

Speaking as a former civil servant and elected member of a London Borough during the 1980s, I believe that local government does get an unfair press. It is very easy to pick on certain councils that have failed abysmally and project this as the norm, but in a majority of councils, members and officers work very hard to deliver excellent services with restricted resources.

Central government had long believed that most councils did not offer value for money and were resistant to change. Hence the steady flow of policy initiatives targets

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and measures. From the procurement perspective, a lot had already been achieved, particularly at county level, prior to the drive for e-commerce. Byatt made many helpful and commonsense recommendations on issues such as collaborative working, performance measurement, local businesses, ownership and recognition, to name but a few. When taken forward they provided an excellent platform for contributing to further service improvements and cost reductions. At face value, Byatt helped put procurement into the political and corporate mainstream.

INITIATIVE OVERLOAD

For most English districts and boroughs and the relatively new unitary authorities, procurement was a new discipline, which few had encountered pre-Byatt, but which clearly warranted further investigation. The problem was that too often e-commerce was seen as a completely separate issue, and one which at face value was considerably more attractive and prestigious in the wider community. Also, e-commerce had a published target, whereas Byatt did not (at least not until the recently published National Procurement Strategy).

This led to a number of developments:

- Greater priority was accorded to e-commerce given its public visibility, rather than procurement, which was often deemed back-office and equated with ordering.
- The definitions and content of e-commerce were very broad in their application, which needed to be prioritised.
- Some thought that by delivering an 'e-procurement' solution they were also meeting the wider procurement challenge.
- The definition of what counted as an 'electronic' and 'eligible' transaction was clarified as until recently the use of the telephone for ordering goods and services would have contributed to the 95% target.

Empirical evidence suggests that many councils are struggling with both the pace and scale of change

demanding of them. This is sometimes referred to as 'initiative overload', particularly where such initiatives demand extra time and resources that have to be contained within existing resources. This is where the view of e-commerce as a hindrance may gain support.

MAKING THE CASE FOR E-COMMERCE

E-commerce is too broad a definition to be either scoped or implemented in most organisations.

In its basic form, e-commerce can be defined as:

Commercial activity that takes place directly between a business, its partners, suppliers and customers utilising a combination of computing and communications technologies.

There are, of course, other definitions of equal validity.

From this definition evolved the concept of e-procurement with which most readers will be familiar. This started out as marketplaces, but has since evolved into what many find a bewildering array of technical terms ranging from electronic catalogues and purchasing cards to portals, XML messages and electronic shopping malls. It is not my intention to list or debate these except to observe that they are all valid and may be applied to produce a return on investment depending on the business metrics of the organisation.

The definition of e-procurement that I have used since 2000 (with acknowledgement to Essex County Council) is:

- E-procurement enables full life-cycle procurement processes to be optimised through the use of web technologies working in conjunction with existing technology.

This puts the emphasis on the business process with technology in support, rather than the other way around. It also encourages people to think about where in the procurement cycle modern technology can be applied. Where organisations have purchased a technology

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solution to bolt onto their business, results have proved very disappointing and are unlikely to have generated the promised return on investment. The main reason for this is that solutions usually address the 'downstream' and routine activities such as ordering and invoicing rather than 'upstream' activities such as sourcing. Many procurement experts have long argued that upstream is where the real business benefits and savings are generated, not in transaction processing.

DISCOVERING THE REAL BENEFITS

Procurement practitioners have long recognised that the definition and measurement of savings is challenging and that there are quite a few models and definitions that carry validity, depending on where they are applied. Factors such as business sector, corporate culture, commodities/services acquired and market drivers help determine the appropriate model.

The following general headings are where benefits can be located and measured:

- Transactional Cost Savings (the most commonly quoted one).
- Value for Money (mainly around sourcing and upstream activities).
- Direct Cost.
- Indirect Cost (including Cost Avoidance).
- Stock.

Most e-procurement vendors used transactional cost reduction together with the 'maverick spend' argument to justify the need for organisations to invest in their solutions. In essence, both these claims are far from convincing. Transactional spend reductions only show tangible cash savings if an organisation is prepared to reduce headcount. Hard cost savings from postage, paper and envelopes are hardly going to excite most budget managers let alone make a business case. Maverick spend

is often a red herring too. Our research over the years shows that most off-contract spend is caused either by people not knowing about the existence of contracts or by the contracts being so inflexible or deficient that people need to go elsewhere to satisfy their requirements.

In the last eighteen months there has been a significant change in the opinions of both vendors and buying organisations. Ninian Wilson (Senior Vice President, Global Procurement at Cable & Wireless) was quoted under a headline 'biggest online savings from sourcing, not transactions' in *Supply Management* (17 October 2002), while the same issue quoted research from *Procurement and Sourcing Applications Report 2001-2006* (AMR Research) which indicated that e-sourcing would be the biggest-selling software by 2004. Closely associated with this is the development of e-auctions, which are designed to take direct cost out of contracts rather than the notional variety. The new National Procurement Strategy for Local Government has recognised these developments under its definition of e-procurement.

It is not within the scope of this paper to consider these technologies, but simply to make two observations, namely that:

- Procurement practitioners will find that this type of technology not only has a sounder business case but also focuses attention on where real benefits and savings can be achieved.
- The development of sourcing and innovative bidding strategies is core to delivering the benefits of strategic procurement and requires expertise and knowledge. This means that e-commerce vendors will have to listen to procurement practitioners if they are to develop the right applications and solutions needed to meet their business challenges.

TILTING THE BALANCE

The thrust of this paper and actual evidence to date has been that e-commerce has been more of a hindrance than a help to procurement practitioners. A combination of

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immature technical solutions, market hype and uninformed claims saw the development of procurement as a profession temporarily stalled and the agenda taken away by other stakeholders such as IT and Finance. Some would argue that we did not make our case with sufficient guile and purpose, but for many, particularly in the private sector, it was hard to resist the e-commerce dash at the turn of this century.

I believe that e-commerce is becoming a help to us now for several reasons:

- Technology is now far more mature and is at last providing tools in areas where we all know savings and benefits can be derived.
- In magnitude and nature savings are not only larger but also more tangible, which is more likely to interest senior managers and budget holders.
- The public sector, particularly central government, needs to make real reductions in running costs if increased public expenditure is to reach the point of delivery. Peter Gershon has already been tasked by the Chancellor of the Exchequer to undertake this review and the numbers being sought are large. The e-procurement team in OGC have a £250 million savings target for civil government from 'e-procurement' over the next three years and they certainly won't achieve this through tinkering with tactical purchasing and electronic catalogues.
- Emerging technologies can be deployed against strategic spend for the first time, which is where procurement practitioners are trying to operate and set the agenda.
- Many of the new e-commerce technologies that support activities such as electronic quotations, business intelligence and direct sourcing are very cost-effective, with a rapid return on investment.

The balance is definitely shifting, but there remain potential problems to overcome, in particular:

- Some organisations, for a variety of reasons, may wish to contain e-procurement in the original transactional scope, which will allow the 2005 target to be met but which will do nothing to address the broader business challenges and opportunities presented by e-commerce.
- The level of savings that the new technologies could help leverage (not deliver) may be overstated and false expectations created.
- There is still a need for quality people to lead negotiations and influence the procurement process. Technology does not deliver savings by itself; it is a tool for professional practitioners to use in their work.
- Projects will still have to compete with other demands – if the cost is too high or the case for e-commerce (beyond e-targets) is not fully understood by senior managers, then expect little progress.
- Organisations still have to learn to do procurement before they do anything else relating to e-commerce. There is no point investigating the benefits of e-commerce if essential facts and figures about the procurement business at hand still take weeks to extract or are best-guess estimates.

CONCLUSIONS

The answer to the question, 'e-commerce – help or hindrance?' from a professional procurement perspective is determined by three variables:

- The time the question was posed.
- The existing level of procurement expertise and sophistication already in place.
- The existing demands, challenges and priorities with which the organisation is already dealing.

Using these three variables, I believe it is possible to draw the following conclusions.

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E-commerce was indeed a hindrance during the late 1990s as very few were prepared for it. Telling senior managers or members that there was no business case for it or that the technology was not proven was seen as being negative or resistant to change. Only in the last eighteen months has it been possible to see e-commerce as a help, as attitudes have changed, lessons have been learnt and solutions suppliers have started to listen rather than lecture.

The revised scope of e-commerce in the procurement context (with subjects such as sourcing, auctions and quotations now covered) is a great help to senior procurement managers, where they are in place. My concern in local government is with district and borough councils who may see the need to do something about procurement and e-commerce as two issues rather than one. Efforts are being made to prevent this from happening, but there is still conflicting advice coming from the centre to complicate this picture. Resources remain stretched at a local level.

Technology vendors have a vested interest in selling e-commerce solutions and consultants and analysts can easily say that the world is ready for e-commerce, pointing to the growth of the internet and the use of

electronic trading in a personal capacity. The great stumbling block is people, even when they have access to technology. This can be people as individuals or people as suppliers. The latter have proved very difficult to bring on board, particularly small and medium-sized enterprises (SMEs).

Procurement practitioners will need to bear in mind the following 2002 statistics about suppliers:

- There were 3.8 million businesses in the UK.
- 99.1% of these employed fewer than 50 people.
- Organisations with fewer than 50 people employed 9.91 million people (43.7% of the workforce).
- There were 2.8 million sole traders (10.6% of the workforce).
- Sole traders generate £155 billion of business each year for the UK economy.

With the pressure on procurement to implement more aspects of the corporate and social responsibility (CSR) agenda there is an increasing possibility that the definitions and timing of e-commerce may once again have to be revised.

ABOUT THE AUTHOR – KEN COLE

Ken Cole is a partner in Strategic Procurement Services (www.strategicps.co.uk), set up to support the organisational and system changes required to assist organisations wishing to achieve procurement excellence. Previously, he worked for solutions and e-commerce provider QSP from 1995, where amongst other things he formed its Centre for Procurement Excellence.

He had a highly successful career in the Civil Service, becoming Senior Principal (Grade 6) at the age of 32 having served in the Ministry of Defence, Cabinet Office, HM Treasury and Home Office.

Ken has been a member of the Chartered Institute of Purchasing and Supply (CIPS) since 1982 and has been chairman of its Information Systems Committee since 2001. In 1993 he was elected to the Freedom of the City of London after becoming a Freeman of the Worshipful Company of Information Technologists and he was a Member in the London Borough of Sutton from 1982 until his retirement in 1990.

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SPS was established to provide best practice consultancy services to support organisations wishing to embrace strategic procurement and achieve procurement excellence.

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