

NATIONAL E-PROCUREMENT PROJECT GUIDANCE NOTES

IMPLEMENTING E-PROCUREMENT (E-PURCHASING)

Title:	Implementing e-Procurement (e-Purchasing)
Identification:	Defines the issues affecting the success of e-Purchasing solutions in organisations and some of the tools and techniques that can be used to reduce the risk of failure after go-live.
Version:	4.0
Date of Issue:	16 th March 2004
Current Status:	Final
Prepared By:	Ken Cole and Rowena Ward, Strategic Procurement Services

Contents

1.	Introduction and Definitions	3
2.	e-Purchasing Issues	4
	2.1 Policies and Procedures	4
	2.2 Internal Stakeholders	6
	2.3 Suppliers	7
	2.4 System Availability and Information	8
	2.5 Ownership	10
3.	Conclusions	12
4.	Links to Other Documents	13

1. Introduction and Definitions

Change management plays a big part in the preparation stage of e-Procurement, but it becomes even more important when implementation actually starts. This is the time when real resistance can arise, as people can use actual examples to back up their arguments and enlist support from other stakeholders. The resistance is often easier to manage if the e-Procurement project team has actively engaged with stakeholders from the start of the project. However, if the solution fails to work, generates more work for people or does not let them do their job properly, then resistance will be encountered.

We would like to stress that the majority of issues identified in this document will not be faced by organisations that have planned their e-Procurement projects effectively. Most organisations will only face a relatively small number of issues that can be easily overcome with the help of some of the positive advice contained here. The advice will also be of use to organisations that are in the process of planning their e-Procurement projects and wish to avoid the pitfalls.

This guidance explores the reactions that stakeholders **may** have to e-Procurement once it becomes a reality and the reasons behind those reactions. It suggests methods and techniques to help to:

- Identify points and causes of resistance and how to deal with them
- Pinpoint potential problem areas and manage reactions
- Plan for and manage teething problems
- Carry the change through to a stage where e-Procurement is no longer new but is an embedded tool delivering benefits

For the purposes of this document e-Purchasing is defined as the technology solutions that address the Requisition to Pay processes in the procurement life cycle and includes:

- Market Places and Web Catalogues
- e-Procurement solutions
- Purchase Order Processing
- Accounts Payable
- Suppliers' own websites
- Purchasing Cards

It assumes good knowledge of e-Purchasing tools and their use.

2. e-Purchasing Issues

This section outlines some of the key issues that are often encountered following the piloting and roll out of an e-Purchasing solution.

These points are often the reasons why the success of pilots is not continued into everyday use and longer-term benefits fail to materialise.

Resistance to the solution can manifest itself in different ways varying from outright disagreement to complaining to others and undermining confidence. As a general rule, larger organisations with a more disparate range of services and delivery mechanisms are likely to find more lines of resistance or objection. This is often because of the:

- Larger numbers of stakeholders involved
- Greater complexity of issues and relationships between stakeholders
- Organisational tensions
- Increased likelihood that the project team has not been able to communicate with or involve all the users of the new system

However, regardless of the size of the organisation, resistance to an e-Purchasing solution can be equally intense if the procurement function is absent or lacks status in an organisation, or if the change is not understood, owned and managed.

While it is important to recognise the structural and organisational differences between small District Councils and large County Councils, levels of resistance may be very similar albeit for slightly different reasons. The former tend to be less complex and are more restricted in the types of services they provide and these can be delivered through well-established and trusted procurement mechanisms. The latter sometimes do not have a single identity and contain strong service-based departments with specialist procurement activities such as Education and Social Services. In either case, a new system that is perceived to threaten these scenarios will encounter strong resistance.

For the purposes of this guidance we have grouped an analysis of the following four points under five headings:

- Likely issues organisations may face
- The reasons why the issues may occur
- The impact that the issues may have on the organisation
- Ways of overcoming the problems

2.1 Policies and Procedures

Once the system is live, many people expect all the stated benefits to manifest themselves immediately. In the ideal world costs fall, processes become easy to follow and routine tasks are automated. In reality the following issues may soon arise.

National e-Procurement Project – Guidance Notes

- **New non-value add tasks.** Some tasks will be re-assigned (like invoice entry or the placement of orders, for example) meaning that:
 - There can be additional pressure on some stakeholder groups to undertake new tasks that were not expected and are perceived as not adding value – this was supposed to save time!
 - Staff who have tasks removed from them (through centralisation or decentralisation) may feel that they are losing control or feel that their positions are threatened

There can also be a tendency to introduce 'reconciliation' as more information becomes available, meaning that benefits already achieved are lost. A good example of this is manually coding each line on a Purchasing Card statement regardless of the value, rather than using a bucket code for all expenditure incurred using this route.

- **Some prices appear to go up.** For example, suppliers may factor Purchasing Card charges (levied by the Card provider on the supplier) and/or system overheads to support the introduction of new systems and technology to receive orders back in to their prices. Other factors may be changes in the discount structure where rebates are made once certain thresholds are achieved rather than discounts provided for each service. In some instances 'price loading' may occur where the costs of fast moving lines are increased while those for slow moving or obsolescent lines are decreased. This is difficult to detect using paper based solutions but can become visible through electronic trading.
- **Overall procurement spend appears to increase.** If it becomes easier to acquire products and services through on-contract buying it may initially appear that expenditure is rising with some suppliers. People using the system and ordering more while browsing through an electronic catalogue may be one cause of this. However, control over the suppliers and catalogues that staff have access to is more likely to mean a reduction in off contract buying with other suppliers. Prior to e-Purchasing very few organisations can identify exactly what they buy from each supplier, and in some instances there are hundreds of suppliers used to supply the same products and services which can often disguise actual spend on a particular category (especially if effective procurement classification does not exist).
- **Confusion on procurement routes occurs.** In some cases, business issues may not have been resolved before the system was implemented (such as defining the low value strategy and policies), and internal procedures not re-written in line with the new system. Alternatively, the changes may not have been communicated to staff as clearly as they could have been. This can lead to confusion amongst users and result in duplication of effort or people not using the system as it was intended
- **Priority conflicts become evident.** In some instances there are priority conflicts or tensions in the procurement process. In simple terms the three main variables in routine purchases are cost, supplier delivery (lead-time) and quality. As an example, the system may support a catalogue offering reduced cost but at the expense of a longer delivery time. This may not be important for most products/services, but for some "time is of the essence" rather than cost. True conflicts (as opposed to conflicts generated through poor practice or poor planning) need to be resolved when contracts and suppliers are set up to allow for flexibility and choice while retaining the principles of achieving best value for money.

Potential Solutions

Issue	Actions
New perceived non-value add tasks need doing	This is about communication to stakeholders and explaining to them how the new system will change the content of their work. There should be no surprises. Ongoing forums for all stakeholder groups to share concerns in a non-threatening environment will ensure that issues are raised early and additional (unplanned) activities, such as unnecessary reconciliation, are not introduced.
Some prices appear to go up	Suppliers <u>may</u> attempt to find a mechanism to recoup costs. One immediate change that people notice when using new e-Purchasing systems is the availability of more information. Trends become evident and exceptions show up in a way that is not possible with a paper based system. Closer relationships with suppliers and an open understanding on how they are to fund any changes should be in place as should spot checking to look for evidence of attempts to pass back cost or carry out price loading (particularly in electronic catalogues).
Overall procurement spend appears to increase	The presence of good baseline data, accurately coded, will help overcome this problem. While expenditure may appear to rise in some areas, it should be possible to show offsets in other areas. For example, expenditure rises for five suppliers in a given category is fine if it is offset by similar reductions for twenty five others in the same category.
Confusion on procurement routes occurs	All procurement routes should have been mapped during the planning stage. See NePP guidance on Process Re-engineering available from the IDeA web site (see Section 4). Revisit information in procedures and on the procurement intranet and re-educate stakeholders or revise processes as appropriate.
Priority conflicts become evident	This emphasises the value of having access to procurement expertise so that these potential priority conflicts can be managed in the solution design and in the content of available sources.

2.2 Internal Stakeholders

Relationships with internal stakeholders can change over time given the dynamic nature of all organisations. Perceptions and priorities also change and it is possible that some stakeholders will attempt to promote their objection to the system on the grounds that it obstructs their own ability to deliver services to other internal stakeholders or the wider public. In this instance some of the following claims may be made.

- Adverse impact on service delivery.** Some service departments will argue that the suppliers on the system are either not relevant to their core activities (which their existing operational systems adequately support) or that it is not possible to acquire what they need through it. The latter point is usually related to services not products, such as agency or temporary staff where procurement can be more complex. It has sometimes been argued that as the coverage of the new system is incomplete in terms of suppliers, catalogues or functionality it would have an adverse impact on service delivery as system users would have to use different systems to trade with a supplier, would have to duplicate data entry between systems or change their business processes. This would then be used as an excuse to not follow new procedures or use the system.
- Conflict with existing departmental systems.** Most departments in councils have specialist operational systems that support service delivery. Some of these systems (e.g. in Education, Social Services, Highways) support procurement activities alongside other operational functionality (e.g. managing a carer package). In these instances, they will often resist using the new system on the grounds that it either undermines the operational one or creates duplication of activity through having to use two systems.

- **Change of departmental priorities.** The need to resource other departmental priorities or a change of policy and/or direction can cause your project to lose its status or have its resources withdrawn. For example, resources may be transferred to other 'e' projects, which are citizen focussed. This can be caused by several factors including a change of political control at a local level, different priorities set by Members or by a shift in policy from central Government.

Potential Solutions

Issue	Actions
Adverse impact on service delivery	This is an emotive objection, but often deployed by some stakeholders involved in front line service delivery. If it is not possible to include relevant suppliers and there are genuine objections, look for other areas in which to make progress.
Conflict with existing departmental systems	New systems should not try to replicate functionality in existing departmental systems. Departmental systems that already provide appropriate procurement functionality should be recognised and interfaced to central systems.
Change of departmental priorities	Ensure that the procurement champion is briefed if problems are likely to occur and use long term planning, so that future costs are programmed in advance and not piecemeal.

2.3 Suppliers

Supplier relationships need to change with e-Procurement and it is important to ensure that suppliers understand the changes and support them. Imposed changes (on either side) can seriously affect the mechanics of the relationship. Readers are referred to the NePP guidance on Supplier Adoption available from the IDeA web site (see Section 4).

- **Problems with Supplier Adoption.** Suppliers will not always fit into your plans or may want you to do things their way. This may be because your processes and systems do not match those used by most of their other customers or because your business is insufficient to justify them making changes (numbers of transactions and values should always be checked). Forcing suppliers to adopt your preferred trading method can be problematic, particularly if there are no alternatives readily to hand. It can also manifest itself through supplier non-compliance by way of:
 - Not quoting or quoting incorrect Purchase Order Numbers
 - Incorrect routing of invoices
 - Invoices sent after tax point date – backdated invoices
 - Invoice details not matching order details
 - Not using your chosen classification or version

While some universal methods of electronic trading arguably should become standard practice (e.g. BACS payments for all **trade** suppliers), others should be promoted more pragmatically. For example, there are choices for suppliers in terms of receiving orders, including punch out, e-mail, auto-fax and Electronic Data Interchange (EDI).

- **Number of suppliers increases.** This can be good or bad depending on the market sector. For example, while diminishing the number of office furniture and catering suppliers is usually a good thing for aggregation purposes, some areas such as specialist equipment and home care will benefit from having more suppliers. Some organisations have made the mistake of seeing the number of

suppliers that are 'e' enabled as being key, rather than gaining suppliers from different markets and expanding the scope for trading. There is little value in having multiple suppliers for low value tactical products/services, when these are better served by fewer suppliers underpinned by corporate contracts. Also, little is served by offering users multiple electronic catalogues to compare prices, when the saving made is many times outweighed by the cost of maintaining the catalogues and the staff time expended in making comparisons.

- **Suppliers circumventing the procedures.** The large number of suppliers for routine products and services means that suppliers will try to find other opportunities for selling more, such as emailing, sending CD-ROMS, direct mailing 'special offers' and the use of loss leaders, especially if encouraged by staff who are also trying to circumvent procedures.
- **Cross-selling.** This is a popular technique where suppliers establish a trading arrangement for a defined product or service and then encourage more spend on a related one (e.g. PC companies pushing extra memory upgrade for hardware).

Potential Solutions

Issue	Actions
Problems with Supplier Adoption	The NePP has produced specific guidance on supplier adoption. In terms of supplier non-compliance, organisations need to determine their responses prior to implementation. In some cases suppliers that persistently fail to comply can be replaced, whereas in others face to face negotiation/persuasion may be the better remedy.
Number of suppliers increases	If this is the desired outcome because of shortage of suppliers or the need to involve small and/or local business then fine. Otherwise, techniques such as a category strategy (see section 3) should be investigated.
Suppliers circumventing the procedures	The issue here is to ensure that attempts to encourage off contract spend fail. This can be achieved through a combination of having excellent contracts in place with a bar on using non-system suppliers. Remember, if the contracts are poor, then people will use this as an excuse to avoid using them and justify their position on using alternatives.
Cross-selling	This will always be a problem for an organisation, and will only diminish once sound and reliable contracts are in place and widely used.

2.4 System Availability and Information

System availability and the quality of the information provided are key factors in gaining and maintaining support. People need to trust the system to work, save them time and improve the quality of the job in hand. Failure in these two areas is usually down to one or more of the following issues, most of which should have been identified during the design and implementation phase of the project.

- **Buyers not trusting the system.** This can result in orders being placed manually with the result that the coverage and perceived value of the information in the systems also diminishes. Not trusting the system can be due to:
 - Suppliers not being available on the system
 - Supplier not wishing to accept an electronic order, or needing a paper/faxed order
 - System not able to support the product/service being purchased
 - Incomplete coverage, in that it only supports a part of the job (e.g. ordering but not receipting)

- Urgency of order, necessitating the use of another ordering route
 - A previously poor IT experience
 - System not being available when required (e.g. out of hours)
 - System set up and/or supporting process is too complex, meaning that it takes longer to do things than using the previous system
- **Internal Audit prefers manual procedures.** This can be due to lack of management information (MI) to instil the confidence needed to remove manual checks. MI must always be implemented at the outset assuming that a phased roll out programme and/or implementation is used. This also underlines the need for building systems that support getting data out, not just putting data in. If an e-Purchasing does not reflect audit requirement such as separation of duties, or the retention of electronic documentation, then additional manual tasks will be required. If people are forced to use manual systems in addition to the new system (i.e. duplicating effort), the latter will always suffer in the long term.
 - **Key business benefits not materialising.** The full benefit of e-Purchasing will only be accrued if the project is finished. However, in some instances, because of factors such as financial availability and the need for time to manage cultural change, a multi-phased approach to the project is used. Whereas some benefits may be realised before the completion of the project (such as accuracy of orders), full benefits will only be accrued if appropriate investment is made and the implementation is completed with full corporate backing. An incomplete project can mean that you have actually increased inefficiencies by creating an additional trading option in addition to the order pads, telephone etc., which cannot be removed as a means of placing orders. Note that some inefficiencies may be necessary during intermediate stages or until appropriate technology is available for the Authority's requirements.
 - **Absence of key system components.** Integration to operational and finance systems and the provision of Management Information (MI) are often implemented as separate phases of an e-Purchasing project as they are deemed by some people to be easier to deliver once a live system is up and running. Delivering key benefits such as time saving through single data entry and the ability to identify savings is directly linked to the provision of MI and fully integrated systems. Planning to implement and deliver this once a system is live is therefore very high risk and may mean that implementation decisions need to be revisited. These elements are fundamental to realising the stated benefits in the business case and ensuring stakeholder acceptance. If they fail to materialise, for whatever reason, support for the system will evaporate quickly.
 - **Incomplete coverage of buying activity.** This is often caused by not knowing 'who's doing the buying' in the first instance and is especially common in organisations where buying is highly decentralised. This means that the system does not cover all of the procurement categories or means that some important stakeholder groups are not consulted with regards to requirements or kept in the communications loop.
 - **Poor or inaccurate information.** The system needs to be able to support a procurement classification hierarchy in addition to the usual budget codes if procurement rather than financial data is to be forthcoming. This is a difficult area and readers should refer to the documents on this subject available from the IDeA web site (see Section 4). For the purposes of this guidance the following points are the most important:

National e-Procurement Project – Guidance Notes

- Distinction is made in the system between procurement coding (the part or catalogue number used by the supplier) and procurement classification (your own structure for analysing third party expenditure)
- An appropriate procurement classification structure (e.g. UNSPSC or NSV) is supported by and used in the system
- The chosen procurement classification structure can be supported internally, including applying new versions of the structure and/or specific code changes

Potential Solutions

Issue	Actions
Buyers not trusting the system	Regular feedback and meetings to identify problem areas and possible areas for future improvement (such as bringing additional suppliers on-line or the introduction of more corporate contracts) can help here. Actual reasons need to be distilled from situations where poor planning or poor practice has resulted in off-system buying and a recognised (closely monitored) procurement route should be in place for true emergencies.
Internal Audit prefers manual procedures	This is an education process. In many instances, if internal audit have been involved in system and process design this is not an issue. However, some projects still involve auditors at the later stages, which can cause a problem and the retention of manual checks. If manual steps have been included, then a programme should be developed to continually review the value of the steps with a view to removing non-value add activities with the consent of auditors. Standing Orders must be updated to reflect the new processes.
Key business benefits not materialising	The Business Case should detail how business benefits will be delivered together with critical dependencies. If benefits are not materialising, a Post Implementation Review (PIR) of the project may show up how this could be rectified. Effective communication with stakeholders of longer term benefits and the vision for purchasing systems will help in overcoming short term issues.
Absence of key system components	Interfacing with other systems and the provision of information are the most common components of an e-Purchasing system that are overlooked or identified for a 'future phase' of the project.
Incomplete coverage of buying activity	If gaps do become apparent, an action plan for closing them should be developed by the project team at the earliest opportunity.
Poor or inaccurate information	Information needs and standards should be considered as a part of the initial design of the system. This objection is very difficult to address once a system is live, particularly if the base data is either not being collected or in the wrong format.

2.5 Ownership

Ownership of the system, like ownership of change, is very important if it is to become established and integrated into procurement activity. More often than not, people lose sight of the vision for procurement, assuming there is one, and the part that the new system plays in making the vision a reality. Lack of ownership of the new system will usually cause some or all of the following to occur:

- **Loss of direction.** This leads to people forgetting what they are trying to achieve through using the system and finding excuses not to use it. It is easy to blame technology.
- **Senior management loses interest.** Once a system goes live successfully, senior managers usually move on to the next priority on their agenda. However, this is one tool in the introduction of strategic procurement into an organisation. If senior managers fail to continue championing the system, then user interest tends to wane.

National e-Procurement Project – Guidance Notes

- **Inability to support the system.** The right skills are not always available to support the system, no one in-house has had the experience, the consultant project manager has left and no one has taken ownership of the new system.
- **Reluctance to get rid of the order pads, spreadsheets, etc.** These are tried and trusted and owned by the people using them. Also, people can always produce a piece of paper to show what they did, it is the safe option.

Potential Solutions

Issue	Actions
Loss of direction	A clear vision for procurement, championed by senior management should prevent this issue occurring
Senior management loses interest	While they may lose interest in a system, there is no excuse for losing interest in procurement. As an e-Purchasing system is a part of the broader implementation of procurement, senior managers should still continue to champion the system aspects.
Inability to support the system	An appropriate route for system support should always be decided as a part of the selection process. This is poor planning, but sadly it still happens and the only option is to identify an appropriate individual and plan for skills and knowledge development, potentially with some additional short term support from the solution provider or a consultant.
Reluctance to get rid of the order pads, spreadsheets, etc	A new e-Purchasing system should not have to compete with order pads and other manual processes. Once the system is live, these should be removed, otherwise 'e' becomes just a duplicated method of trading and process efficiencies available are lost.

3. Conclusions

- Monitor, listen and be prepared to make changes – it is unlikely that you will get it right first time, and users will appreciate openness and honesty.
- People's expectations must be set for the long term, perhaps for as much as five years where little has been done with procurement to date. Change can only be introduced in stages to allow both people and the organisation to adapt and accept the changes. The Marketing and Communications Plan is a very important tool in this process as it sets out policies on issues such as required changes, communication with stakeholders, gaining ownership and support for the changes and managing objections and concerns.
- Senior buy-in and director ownership must continue after the system is live and they must continue to champion it and encourage further developments and upgrades.
- The project does not finish after go-live: the system and relationships it contains are dynamic.
- Ensure that any follow-on phases are approved and budgeted for at the outset.
- Never cut corners, particularly on training and stakeholder consultation and involvement.
- Systems are not the solution to introducing strategic procurement into an organisation; they are a tool and are a part of a much larger change management process. Little will be achieved by just introducing a new e-Purchasing system unless it is accompanied by the use of best practice, streamlined processes and people with analytical and commercial awareness skills.

4. Links to Other Documents

The following web sites and documents provide useful additional information on this subject:

- General papers on e-Procurement and managing change (www.idea.gov.uk/knowledge/eprocurement)

Prepared by:

Strategic Procurement Services



Strategic Procurement Services

PO Box 58

Prudhoe

Northumberland

NE41 8ZA

www.strategicps.co.uk

info@strategicps.co.uk