

NATIONAL E-PROCUREMENT PROJECT GUIDANCE NOTES

IMPLEMENTING E-PROCUREMENT (E-SOURCING)

Title:	Implementing e-Procurement (e-Sourcing)
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1. Introduction and Definitions

Change management plays a big part in the preparation and implementation stages of e-Procurement, but it becomes even more important when solutions start to be used in earnest. 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 or confuses users 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 benefit of this document, e-Sourcing is the generic name given to supplier registration, contract management tools, e-quotations, e-tenders and e-auctions.

e-Sourcing can provide considerable benefits if implemented successfully. Often pilot projects are carefully selected and resourced and lead to impressive benefits being realised over a relatively short period of time and with very little cost overhead. However, organisations rapidly fall into the trap of not establishing appropriate policies, procedures and internal relationships to ensure that the benefits continue to be realised and the right decisions made as new opportunities appear. Also, it is important not to lose valuable face-to-face contact, which puts suppliers at ease and encourages them to ask questions and explore the authority's requirements in more detail.

Organisations will not only fail to deliver benefits, but may even undermine their capability to deliver services effectively if e-Sourcing projects fail through:

- Damaging key supplier relationships
- Paying too much for goods and services
- Damaging the supply market, causing future sourcing problems (e.g. by creating conditions where suppliers do not wish to bid for public sector business)
- Appearing to be unethical

This guidance outlines some general issues and risks that buying organisations face through

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implementing e-Sourcing as an accepted means to reduce direct costs, and some of the tools and techniques that could be considered to reduce the risks.

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

2. e-Sourcing Issues

This section outlines some of the key issues that are often encountered following the piloting and initial roll out of e-Sourcing solutions.

These points are often the reasons why the success of pilots is not continued into everyday use and further benefits are either not as impressive or fail to materialise. Some points will be more relevant than others depending on which e-Sourcing solutions have been implemented.

For the purposes of this guidance we have used four headings to group:

- 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

Local authorities have European, national and local procurement rules and regulations which must be followed. Prior to e-Sourcing, these will have been implemented using or processes including signing authorities, preferred supplier agreements and sealed bids. After the introduction of e-Sourcing, the following outcomes are possible:

- Internal stakeholders such as Audit and Legal can remain unconvinced that e-Sourcing is appropriate for a public sector organisation
- Departmental users become confused over which procedure to follow, which tools to use and when to involve procurement experts
- Suppliers refuse to participate or participate reluctantly as they do not believe they will be treated fairly and will incur more work for less reward

Organisations need to ensure and be able to demonstrate that any sourcing process has been consistent and fair, including the use of any e-Sourcing tools. If suppliers start to lose interest, then further opportunities to develop e-Sourcing will be compromised. e-Sourcing tools offer greater transparency on communication organisations should still consider:

- Did the suppliers fully understand the specification and what was expected of them through the process?
- Did all suppliers have access to the same information at the same times?
- Did all suppliers have an equal opportunity to bid, including SMEs, local suppliers and niche providers?
- Did the buying authority provide objectivity and respect anonymity?
- Were other bids/quotes accepted by any other means – before, during or after?

It is important that the buying authority properly evaluates potential suppliers prior to including them in tender and auction lists and is content that it would place a contract with them if they were successful. If an unknown contractor proves to be successful and proper evaluations have not been made, it may mean that costly re-work needs to be undertaken post contract award. While this can happen using manual sourcing techniques, following a change in policy for example, it can also become an issue if the potential supply base is expanded through e-Sourcing.

Buyers can be tempted to use different e-Sourcing solutions for inappropriate contracts. e-Sourcing is a set of tools, and as with all 'e' solutions, 'one size does not fit all'. Demonstrating impressive savings during a pilot with the support of a service provider can be very appealing to internal customers. However, e-Sourcing should be approached with caution. If used for the wrong products and services they can have the following effects:

- Relationships with suppliers are damaged. For example organisations should not use e-Auctions where relationships need to be strategic partnerships
- The cost of the process outweighs any savings. This can happen either when the sales margin is not there, or when suppliers collude to manage pricing
- There is not a sufficiently competitive market, so not enough potential suppliers are found to participate
- e-Sourcing contracts where it is difficult or impossible to create exact specifications can mean that suppliers are misled or confused and the results are inconclusive
- Choosing the wrong e-Auction option may result in suppliers only bidding for attractive lots, leaving the Council's overall requirements unmet
- Suppliers attempt to 'buy the business' for reasons such as market share and then are unable to deliver at the agreed costs

Potential Solutions

Issue	Actions
<p>Concern remains over whether e-Sourcing complies with internal contract rules and financial regulations</p>	<ul style="list-style-type: none"> • Ensure early (and senior) stakeholder involvement (particularly legal and audit) especially during solution evaluation and policy setting • Review procedures and solution configuration to ensure that security profiles, authority levels and workflow are set according to standing orders and financial regulations • Ensure that e-Sourcing solutions are configured to comply with UK public sector requirements including appropriate advertising of tenders; management of open, restricted and negotiated tenders; management of key dates, 2-stage tendering, quotations and audit requirements • The revised EU Public Procurement directives (see www.oqc.gov.uk) allow for e-sourcing and other similar tools to be used

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Issue	Actions
Internal procedures do not accurately reflect the way that e-Sourcing is to be used	<ul style="list-style-type: none"> • Review internal procedures, ensuring that they include: <ul style="list-style-type: none"> ○ Where and how to use e-Sourcing including Quotations, Tenders and Auctions ○ Stakeholder involvement ○ Supplier communication requirements (both ways) ○ Ethics statement in relation to e-Sourcing ○ Audit requirements ○ Use of service providers • Importance of clear and unambiguous performance based specifications
Contractual commitments are made with inappropriate suppliers	<ul style="list-style-type: none"> • Introduce pro-active supplier qualification whenever a new supplier registers for business (over a suitable threshold) • Share supplier qualification with other local authorities and public sector bodies in the region • Use approved lists wherever possible, avoiding 'open' tenders • Use solution functionality wherever possible to capture qualification detail, e.g. is supplier VAT registered, have a bank account, appropriate health & safety certification etc. depending on the procurement categories to be supplied • Consider using third party service providers to generate supplier listings and pre-qualify potential suppliers
e-Sourcing is used for inappropriate contracts	<ul style="list-style-type: none"> • Establish ownership of e-Sourcing with the head of procurement (or a chief officer if such a post does not exist) who must ultimately agree where and how e-Sourcing is to be used, and oversee the preparation and follow up activities • Pilot using e-Auctions through purchasing consortia

2.2 Organisational Issues

Organisations, particularly their senior managers, can become focused on the cost reductions achieved by e-Sourcing tools, and dismiss the value of the procurement function, especially as e-Sourcing tools make tasks that have always been done by skilled procurement professionals appear 'quick' and 'easy'. Organisations fail to realise that the real opportunity to influence costs and outcomes are at the pre-sourcing stage with the development of performance based specifications, innovative bidding techniques and a commercial awareness of the market. Similarly, where consortia have been used to manage sourcing activities in the past, there can be pressure from individual consortia members to undertake their own sourcing if they perceive short-term gains.

Overall, there is a risk that if organisations see e-Sourcing as a tool that can be used by any person undertaking a commissioning exercise then the following outcomes will occur:

- Market knowledge is lost or dispersed as there is a tendency towards using suppliers that are pre-registered and pre-qualified as opposed to researching and evaluating the market
- The potential benefits of aggregation are lost as more procurement decisions are delegated to less experienced staff
- Good procurement practices and skills that have been developed such as single points of contact and procurement planning are lost

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- Supplier relationships are adversely affected. Individual buyers may not take into account the whole service that a supplier provides and satisfy their own particular requirements
- In competitive markets, existing and potential suppliers will either condition internal customers, buyers and technical specialists against using e-Sourcing or will seek to influence the specification in their favour. Experienced buyers will be used to this, but if sourcing has been devolved to less experienced users then this can result in poor value for money
- Where independent procurement experts (outside of the department or outside of the organisation) cease to be involved, there can be increased pressure to award on price as opposed to total cost or broader quality criteria

The use of electronic communication encourages collaboration as well as facilitating expenditure aggregation internally and with other public sector organisations. However, buying authorities need to be aware that mass collaboration can damage a competitive market, leaving them open to future cost increases or the risk of non-supply. Aggregating to the point where the demand can only be met by a small number of supply organisations for example is neither financially desirable nor in the spirit of the wider corporate and social responsibility agenda.

Finally, there is the issue of whose budget pays for the e-Sourcing solution overhead and who benefits from the savings. This issue is not solely an e-Sourcing issue, but it often results in e-Sourcing pilots failing to be rolled out or being restricted as to where they can be deployed.

Process ownership and corporate procedures need to be established alongside the e-Sourcing solution. If they are not, there can be resistance by devolved buyers over when and where e-Sourcing solutions should be utilised.

Potential Solutions

Issue	Actions
Benefits are lost as procurement expenditure is devolved or procurement expertise is not used in the acquisition process	<ul style="list-style-type: none"> • Ensure that the benefits of corporate buying or consortia buying are established and all members (of the consortia) agree to participate (thus removing the temptation to opt out) • Try to identify where benefits/savings will be made in advance, and determine the most appropriate techniques for realising them. The importance of the specification should not be overlooked
Aggregation limits the potential supply base	<ul style="list-style-type: none"> • Consider using e-Sourcing to support the development of a common specification but with local variations if it is deemed more appropriate to use different suppliers • Ensure common supplier registration and pre-qualification procedures and forms are used to enable suppliers to bid for more than one opportunity if appropriate

Issue	Actions
Organisation stops receiving best value, spend increases or unplanned spend is identified	<ul style="list-style-type: none"> • Establish who is to carry out sourcing activities in the organisation and limit commitment authority to those individuals • Ensure that comprehensive training is provided to buyers who will use e-Sourcing; not just on the e-Sourcing solutions, but also in best procurement practice • Set policies to state that sourcing activities are ultimately owned by the head of procurement (or a nominated chief officer) and audit all e-Sourcing activity against good practice and documented procedures • For higher risk/value contracts use multi-disciplined teams to develop specifications and share supplier and contract evaluation • Ensure specifications and evaluation criteria are designed to deliver best value and not lowest price (which may result in manual evaluation if e-Sourcing solutions do not support the evaluation algorithms required)
Cost of e-Sourcing is uneconomical	<ul style="list-style-type: none"> • Where possible avoid one-off charges by e-Sourcing solution providers and aim to include an annual amount in the corporate budget based on overall usage and consolidated benefits (financial and otherwise) • Consider funding e-Sourcing through a consortium • Negotiate annual license fees with solution providers as opposed to pay-as-you-go or event based charging • Always evaluate the cost/benefit of additional services required from third parties

2.3 Suppliers

Potential suppliers are often reluctant to do business with the public sector due to the complexities of the procurement process, the lack of information on who to contact and the cost and resources required to compete for work. e-Sourcing can help overcome this by enabling suppliers to:

- Register their interest in providing a service to a Council or a group within a designated region
- Obtain up-to-date information on policies, procedures and future contract requirements
- Provide a fair and transparent opportunity for them to compete

However Councils need to be aware that e-Sourcing does not provide all the answers and there are other policy issues to consider, including:

- Some supplier groups (such as SMEs, local suppliers or niche providers) can be unintentionally excluded through poor marketing by the Council or where their own marketing presence is not sufficient to attract the interest of solution providers
- Suppliers can be deterred by the perceived costs of the technology or the additional skills and resources they believe are required
- Increased collaboration means that some suppliers groups (such as SMEs, local suppliers or niche providers) are excluded as demand is aggregated beyond their ability to service the contract

Levels of enthusiasm for e-Auctioning in particular will vary widely among suppliers. Some suppliers will feel that the use of e-Auctioning opens new opportunities, which they would not have been considered for in the past, while others will be concerned that their differentiators will not be recognised. Suppliers' views

on whether or not to compete (and ultimately the strategy they will take during the e-Auction) will be based on:

- Whether they think there is business to win or to lose
- How important and attractive is the buying organisation and/or the potential business
- How competitive the current market is, including how much capacity they have to deliver
- Whether there are future opportunities that they may not have to bid for (and can claw back some of their lost profit)
- Their previous experiences of e-Auctions
- How much competitive intelligence they can gain about the buying organisation, competitors and their proposal, even if they do not win

Supplier relationships need to be monitored following the award of a contract for the following reasons:

- Often buying authorities fail to plan the move from a *competitive* to a *cooperative* stance. e-Sourcing, especially e-Auctioning, can be very impersonal and highly competitive. The buying authority must be able to move to a good working relationship quickly following the award of contract
- Incumbent suppliers will often put pressure on buyers and internal customers to resist competitive sourcing, especially if they feel that they have built strong relationships or have developed services or products specifically for a Council. Buyers need to be confident of their approach and the longer term impact that this will have on any relationships
- Most suppliers will look to recoup any perceived losses by inflating prices on items that may not be contracted or competitively tendered. This often happens where suppliers feel that they have lost the relationship that they may have once had with the Council or where contracts are for shorter periods. The total cost of the contract and any additional spend/cost variations made to the supplier should be monitored

Suppliers will bid or quote based on their cost to serve (if they know it) and in highly competitive markets will often cut their prices to the bone based on the guarantees given by buyers in order to win business from competitors. Often buying authorities find it difficult or do not have sufficient management information to accurately forecast the volumes of goods that they require or provide an accurate specification of services they may wish to procure. If this business becomes unprofitable then the supply can be jeopardised and the long-term market suffers if suppliers cannot stay in business.

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Potential Solutions

Issue	Actions
SMEs, local suppliers and niche providers are excluded	<ul style="list-style-type: none"> • Identify other business support organisations (such as regional development associations, Business Link, local chambers of commerce or minority support groups) who may already have relationships with these suppliers and use them to support your marketing campaign • Standardise your procurement process and forms with other neighbouring Councils and public sector organisations including: <ul style="list-style-type: none"> ○ Single, online supplier registration procedure ○ Accredit suppliers in a single pre-qualification stage covering standard requirements such as health and safety, equal opportunities and environmental policies • Ensure that your <i>How to Do Business with the Council</i> guide is updated to reflect your e-Sourcing strategy • Put as much information as possible onto your web site • Publish details on current contract sizes and expiry dates to encourage registrations • Create a supplier directory, which provides a weighted rating for suppliers that the authority wishes to conduct business with
Suppliers do not have access to the technology required	<ul style="list-style-type: none"> • This is often perception, as most suppliers will have access to fax or email and the Internet, however: <ul style="list-style-type: none"> ○ Consider the possibility of providing funding for technology ○ Provide training and awareness sessions potentially through partners such as Business Link ○ Provide information on IT literacy courses available locally
Suppliers refuse to participate in e-Auctions	<ul style="list-style-type: none"> • Revisit your strategy. Is the e-Auction attractive enough? - i.e. is there sufficient profit margin, is the contract value high enough, are there unattractive lots or is the specification too complex? • Suppliers must be sold on the benefits to them of participating in e-Auctions • Take e-Auction solution providers' advice and if necessary use them to educate and train suppliers • Carefully consider the specification. Consider using imaginative and attractive lots so that the widest range of suppliers, including niche providers and small businesses, will want to participate • Ensure that suppliers understand why you are intending to e-Auction and what will be expected of them • Ensure that you stick to the rules that you've established. Use a generic procedure and ethics guide and communicate these with the suppliers • Link your e-Sourcing strategy to you wider supplier adoption strategies – build the information they need to know into your other communications with them.

Issue	Actions
<p>Relationships are negatively affected causing problems with service delivery</p>	<ul style="list-style-type: none"> • Ensure that critical relationships are recognised prior to e-Sourcing • Buying organisations must evaluate each e-Sourcing activity immediately following the award of contract. Any issues with internal customers, the new supplier and unsuccessful suppliers must be addressed • Ensure that the contract is monitored and that expectations on both sides are met or proactively managed • Ensure that each e-Sourcing activity is approached fairly • Consider e-Sourcing along side procurement category management and supplier relationship management • The <i>National Procurement Strategy for Local Government</i> illustrates how to use innovative approaches to ensure that procurement activities are sustainable for local communities.

2.4 Solutions and Solution Providers

As buying organisations become more sophisticated at using e-Sourcing tools they find that the solutions cannot effectively support their requirements. e-Sourcing is still a relatively immature market, often lacking the investment in functionality that the finance and ERP solutions have had. As a result some of the functionality that authorities might need is not yet available in e-Sourcing solutions.

Solutions fail to classify suppliers and their products/services using appropriate procurement classifications meaning that:

- Supplier registration is difficult and/or inaccurate as suppliers have to imaginatively use keywords and descriptions
- Supplier selection is inaccurate as suppliers use different coding structures and definitions resulting in additional work for suppliers (reading and rejecting invitations to participate) and buyers (pre-qualifying higher numbers of potential suppliers)

Organisations often fail to utilise solution providers beyond the (often free) support given for pilots, and attempt to run e-Sourcing activities, including e-Auctions, without the independent and experienced support that they can bring. Many e-Sourcing benefits are generated through access to an increased supply base and additional market knowledge, which they may not have internally. Additionally, buying authorities may experience supplier and audit resistance as there is no independent third party monitoring the process. Conversely, over dependence on solution providers may mean that you have inadvertently outsourced an important part of your procurement process.

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Potential Solutions

Issue	Actions
<p>Solutions are not sophisticated enough to support requirements</p>	<ul style="list-style-type: none"> • Consider using different solutions for different projects. Some solutions are ideal for e-Auctioning simple commodities, whereas others are more suited to multi-parametric e-Auctioning for example • Accept that you may need manual steps in the process and that e-Sourcing may not be appropriate for everything. Use solutions to automate the communication of tenders, then manually evaluate results using spreadsheets for example • Work closely with solution providers and user groups to further develop solutions to support local government requirements • Set and re-set expectations of all stakeholder groups, emphasise benefits that are being realised • Continue to monitor user feedback (including suppliers) as users become more used to the systems and use this to proactively manage resistance and force change
<p>Solutions do not support procurement classification</p> <ul style="list-style-type: none"> • Supplier registration is inaccurate • Solution identifies inappropriate suppliers by contract resulting in additional work for them and you 	<ul style="list-style-type: none"> • Wherever possible define your own categories to support accurate supplier registration, ideally in conjunction with neighbouring authorities in the region or within an established consortia • Pre-qualify registered suppliers and their services by category and re-categorise if necessary • Involve suppliers as early as possible in the procurement cycle. Publish summary contract requirements at an early stage and invite them to register an interest
<p>Knowledge, skills and control are lost to service providers</p> <p>Internal resources are not available to effectively support e-Sourcing events</p>	<ul style="list-style-type: none"> • Revisit procedures and ensure that they identify when and where to use the different e-Sourcing tools and when, where and how to use third party service providers • Establish internal resources to support e-Sourcing and ensure that skills are transferred from service providers • Establish who is to carry out sourcing activities in the organisation and develop multi disciplined teams to build up experience and skills • Utilise knowledge and experience in neighbouring authorities and purchasing consortia

3. Conclusions

- Ensure that all internal stakeholders understand the vision for e-Sourcing, how it is to be used and the benefits that can be expected
- Ensure that e-Sourcing is implemented to help deliver the procurement strategy and that European, national and local procurement regulations are recognised
- A category strategy for similar types of products and services is often helpful setting out policies on matters such as the procurement routes available, usage of particular contracts and/or suppliers, engagement with suppliers and most importantly a nominated owner for each identified category. Having this in place will simplify determining how e-Sourcing is to be used and the specific benefits that are to be realised
- e-Sourcing is not a replacement for best procurement practice, but it may highlight weaknesses in offline or traditional processes, such as the quality of specifications
- e-Sourcing must be implemented as part of a wider programme of procurement improvements
- Do not assume that e-Sourcing will be instinctive; even if the technology is straightforward, there is likely to be a need for training and support to ensure that those staff using it have the required level of understanding of procurement practices, supplier management, contract management, etc.
- Benefit from the experience and independence of solution/service providers, but ensure that specialist knowledge is not lost and that the solution provider is acting independently
- Be realistic in setting expectations with internal stakeholders. Ensure that internal customers understand the risks and rewards
- Do not underestimate the requirement for communication with potential suppliers, to put them at ease and understand their issues

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)
- Advice on e-Sourcing and the latest changes to the EU Public Procurement directives (www.ogc.gov.uk)
- The National Procurement Strategy for Local Government (www.odpm.gov.uk)

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