

KEY QUESTION 2: What will make e-procurement attractive to my suppliers?

Supplier Adoption and Economic Development (Strand 5)

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Summary

- Whichever part of the procurement process you decide to automate, you need to take your suppliers with you. This means maximising the incentives and minimising the barriers:
 - Increase transparency
 - Increase supplier visibility to buyers
 - Make e-ordering easy
 - Reduce payment times and lower transaction costs
- Recognise that lack of access to the internet may be a barrier to some suppliers participating.

What will make e-procurement attractive to my suppliers?

Whichever part of the procurement process you decide to automate, you need to take your suppliers with you. This means maximising the incentives and minimising the perceived barriers. To appreciate what this means you will need to be able to view the landscape from the supplier's point of view. There are advantages and disadvantages in the changes ahead from the supplier's perspective:

e-procurement could benefit suppliers via:

- Increased transparency
- Increased visibility in and access to the market, improved marketing information
- e-Ordering made easy
- Reduced payment times
- Lower transaction costs (inventory costs, error rates etc)

e-procurement is perceived to disadvantage suppliers via:

- Technical barriers
- Investment required (time and money)
- Less direct contact with and access to buyers
- Needs new processes and skills
- Focuses more on price than on added value
- Larger contracts (raises pre-qualification thresholds)
- Security

These issues need to be considered at the time you are designing your e-procurement solution. Take your suppliers into account from the beginning and there will be less persuasion required at the end.

KEY QUESTION 2: What will make e-procurement attractive to my suppliers?

Here are some ideas for how you might address the key incentives that will attract suppliers.

Increased Transparency

From the outside looking in, a supplier who has never traded with the local authority may consider that the process involves a 'closed shop' into which they will never get invited. The more transparent the process, the more likely that a wide range of suppliers will offer their services. Electronic tendering provides a way of making the accreditation process and the selection process more transparent.

The leading example of eTendering among UK local authorities is the LETS electronic tendering system pioneered by Leeds City Council. LETS is a web-based system open to anyone with an e-mail address and access to the internet. Some specific tenders are restricted to pre-approved suppliers. In most cases, however, any interested party can register and download full documents from the site. There is also a named contact in the local authority with whom they can discuss their submission.

LETS has been operating successfully since 2001. Within the first 17 months contracts totalling £392 million had been tendered through the system. 3,500 firms have self-registered and 92% of users rate the site as "good" or "very good". Over 1,500 invitations to tender have been placed on the site.

The scheme has been expanded recently and extended to Bradford, Hull, Sheffield and Wakefield and by the County Councils of East Riding of Yorkshire and North Yorkshire.

One of the almost unique features of the new and expanded site is the ability to see the history of awarded tenders including supplier, price and start date. This not only provides confidence in the process, it also offers smaller suppliers the opportunity to see the prime contractors so that they can offer their services as 2nd tier suppliers.

There is no doubt that the scheme is not only making tendering opportunities more visible to all suppliers, but is demonstrably attracting a wider selection of suppliers.

For a full case study go to Resources – Supplier Adoption, on this site

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Increased Visibility in the Market – a key incentive

One way to attract suppliers is to encourage them to register on an on-line directory, a portal, or a marketplace. An important incentive may be the possibility of advertising their business to a wider market.

Anecdotal evidence, and in-depth case studies following up Supplier Adoption Events (such as the first Supplier Adoption event for the eBristol marketplace in May 2003) suggest that the ability to extend market reach is a key motive in getting involved. At the Bristol event the council were inviting suppliers to join the @UK PLC marketplace, which offers listings on a range of different 'portals' in addition to visibility to the Bristol City Council.

KEY QUESTION 2: What will make e-procurement attractive to my suppliers?

Suppliers attending the event were encouraged to find that by joining the Bristol marketplace they were visible in a number of different markets. However an interesting caveat is that not all the businesses interviewed considered that the ability to trade outside their local area was an advantage, and not all considered that their priority was to grow. See Bristol SME case studies for what suppliers thought.

It is not only a question of visibility to the wider market – it is also a question of visibility to local authority buyers. The simple step of sharing a central supplier list will make it easier for buyers to share information about useful suppliers and help suppliers increase their business with the authority.

Make e-Ordering Easy for the Supplier

When the buyer purchases from a site on the internet they will be choosing products and services from an electronic price list. That means the supplier needs to upload the price list to the site and keep it up to date. The simple act of compiling the list and uploading it to the site may be a barrier to their participation. All the various e-marketplaces that are used by local authorities have met this issue, and tried to tackle it in different ways. These are the main lessons learnt from experience:

- a) the supplier needs a quick and easy way of registering basic details and offerings, and uploading a picture or a logo. It is a good idea to actually practice entering a 'dummy' company yourselves, to understand the process from the suppliers point of view.
- b) Even when the initial set-up is streamlined, many smaller businesses still need additional prompting to take the first step. Some marketplace suppliers will provide a free or subsidised service to actively help with the initial set-up. A 'kick-start' team to focus on working directly with individual business will boost the adoption rate. You will need to leverage additional funds and resources – read **KEY QUESTION 6** and learn how the Trade Local project in Haringey used European funds to provide hands-on help to get suppliers online.
- c) If offering products the supplier needs a quick and easy way of uploading their catalogue to the marketplace and keeping it up to date. The slicker the solution the more willing the suppliers to participate.
- d) Suppliers who do not sell from a catalogue still need a way of advertising their wares. Spend on services may represent up to 80% of your budget – so it is important to test any proposed system to see whether it is suitable for ordering services as well as goods.

For more information about supplier-friendly marketplaces see the detailed guideline '**Building a Supplier-Friendly Marketplace?**' on this web site

Reduce Payment Times

The point in the purchasing cycle that is of central interest to suppliers is receipt of payment. Any automation that brings swifter payments is going to be welcomed. This can be achieved hand-in-hand with any ordering process – one-off contracts, ongoing contracts, ad-hoc purchases. It is highlighted here because by building it into your Supplier Adoption strategy you will certainly find more suppliers willing to come on board.

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Here are some of the options you will be considering:

- Use P-Cards. The advantages and disadvantages of P-cards are covered in 'Choosing a Solution' (Strand 4).
- Pay all suppliers by BACs directly from your financial system. You will find sample letters to suppliers inviting them to submit details for BACs payments on our **Resources** page on this site.
- For utility bills, and other cases where you are billed regularly against a contract, set up a system for automatically importing and paying the monthly bills.
- Where you place purchase orders, generate the supplier's invoice within your financial system directly from your purchase order. Sometimes this is called 'self-billing'. This is a feature of the larger financial systems such as the Oracle Suppliers Portal.
- E-invoice software imports purchase orders placed in a marketplace and converts them to supplier invoices when the goods or services have been delivered. Many marketplaces offer the feature of exporting orders, but you will need to ensure that your financial system is capable of converting them to purchase invoices.
- For complex projects there are online contract management systems that will help to manage contractor payments. See www.buildonline.com.

There is more guidance about e-payment solutions on this site.

Lower Transaction Costs

Where an e-marketplace is tailored specifically for local authority buyers, such as the IDeA Marketplace or the London and Roses Marketplaces, suppliers lose the benefit of extended market visibility, but gain on ease of use and potentially lower transaction costs.

There are benefits to both supplier and buyer in joining a local authority e-marketplace. The supplier does not have to shoe-horn their catalogue into a standard marketplace layout. The buyer can have a unique front-end that suits their procurement standards. Case studies of the IDeA, Roses and London Marketplaces are available on this site. Here are two more (very different) examples...

St Helens have developed a bespoke private marketplace using 'TABS' software. When they request quotations from suppliers they ask the supplier to fill out and return a spreadsheet template. St Helen's procurement staff then enter the prices from this spreadsheet into an internal database. Any additional agreement on price inflation or quantity discounts is covered in text in the terms and conditions, which staff use to update prices as necessary. Local suppliers in the Manchester, Merseyside, Warrington and St Helens area are well represented in the system. This is a very practical approach which gives the buyers advantages in terms of price visibility, but minimises the effort required by suppliers to upload data.

Bristol use the 'Consortium' portal for educational supplies. The consortium brings together a number of educational supply catalogues into a single electronic catalogue for schools to order over the internet. The unique feature of this solution is that the orders can be downloaded straight into the Council's financial system without re-keying. The consortium is paid as soon as the invoice is cleared. This reduces the transaction cost for both buyer and supplier.

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This kind of bespoke solution may be attractive if your authority is already committed to a long-term contract with a distributor, and you need to automate the ordering process. The total contract must be sufficiently worthwhile to the distributor to justify the software investment. It is particularly suitable for high volume low value transactions which can be ordered by the users - such as stationery and consumables.

Is Internet Technology a Barrier to the Smaller Business?

The answer depends very much on who you ask, and which area they operate in.

The overall percentage of small businesses which have access to the internet is in the region of 70% ("Business in the Information Age – International Benchmarking Study 2002"). However this varies by geography, culture and sector. Surveys by the Business Links in the South West suggest a lower percentage in rural areas. The Ethnic Minority Business Forum suggests that the percentage of internet connectivity in ethnic minority businesses can drop as low as 35%. When working with suppliers who are in the 'knowledge economy', the basic technology is unlikely to be a barrier. It is service businesses who tend to communicate via visit, phone, or mail rather than email.

Slough Borough has been a pioneer in the field of e-ordering, one of the first authorities to recruit existing suppliers onto the IDeA marketplace. As part of their programme to widen the field to more suppliers, Slough (with Essex County Council) undertook a study to research the existing baseline in terms of e-readiness.

They found that of 166 small suppliers surveyed 88% had access to the internet at work, and 82% used email. The study also attempted to grade the suppliers e-readiness status according to the rungs of the 'e-adoption ladder', While the 'ladder' model did not fit too well, the results of the survey brought out some other useful statistics. For example 42% of businesses used broadband and 65% received orders by email.

For a full case study, go to Resources – Supplier Adoption, on this site.

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In those cases where you find that e-readiness is a barrier to supplier adoption you can signpost the suppliers to local business support programmes. This collaborative approach is covered in **KEY QUESTION 5**.