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# Challenging times

Tom Wilson discusses the importance of prompt payment in the current economic climate.

Public sector organisations in the UK are under increasing pressure to provide better services to stakeholders in terms of quality, value, prompt payment, security, transparency and personalisation. In addition, there is a clear requirement for the UK public sector to look to improve efficiencies to support a high level of sustainable service delivery. In the current economic climate, organisations are expected to do this with fewer resources in real terms.

The Operational Efficiency Programme (OEP) report, published alongside Budget Report 2009, forms a key part of the Government's drive to achieve greater efficiency savings across public spending. The report suggests potential savings of £15 billion by 2013-14, compared to 2007-08 spending, of which £6 billion is to come from collaborative procurement.

Previously, the European Union's i2010 eGovernment Action Plan called for

as part of an overall procurement and payments strategy.

The OEP report states that while the UK public sector has 'the potential to become an extremely powerful purchaser,' in general procurement of common goods and services is fragmented; management information on government expenditure is regarded as poor; and the procurement environment as a whole is seen as complex and uncoordinated. Public sector organisations are also seen to be challenged by a lack of skilled resources and a lack of structure in strategic supplier relationship management processes.

Procurement cards enable an organisation to achieve process efficiencies, provide better management and accounting information, enhance supplier relationships and contribute to a sustainable procurement environment. Rather than merely a low-value order tool, procurement cards are seen as having an important role within a suite of P2P ('purchase-to-pay') tools, directly contributing to an organisation's efforts to achieve the efficiency savings targets set by the Government.

The e-payments and smart payments arena has dramatically changed with exciting new products which can contribute significantly to the percentage of payments processed electronically. Physical cards no longer require to be issued. A step change has taken place through the development of limited controlled payment numbers. Compliance – a major contributor to the delivery of savings from procurement – can now be driven through e-payments.

Following the initial implementation of Enterprise Resource Planning (ERP), e-marketplaces and e-procurement, there is now a greater maturity across the UK public sector on purchase-to-pay solutions. Having invested substantially in ERPs and e-procurement, public sector organisations are now looking to secure greater efficiencies from their investments by integrating with other 'eSolutions'.

Procurement cards can be a beneficial tool in addressing many of the key focus areas in central and local government. For example, the Glover Review states in *Accelerating the SME economic engine* that there is a need for public sector organisations to work in an innovative and inclusive manner to create a more transparent procurement process. SMEs constitute more than 99 per cent of businesses in the UK, employ 59 per cent of the private sector workforce and account for 52 per cent of business turnover. A critical issue for SMEs is cash-flow and liquidity. Across the UK, they now face a £26 billion late payment problem – a 40 per cent increase from 2008 figures – and a staggering additional £7.4 billion of overdue late payments. Procurement cards make a difference as a speedy payment mechanism.

New research from commercial credit reference agency Graydon UK suggests that the Government's pledge to ease the cash-flow problems faced by small firms through the payment by government departments of trade invoices in ten rather than 30 days is taking longer than expected. The survey, conducted in March 2009, reveals that just one per cent of small businesses questioned which are currently supplying government agencies are now receiving payments due to them within the pledged ten-day period.

With the average payment in the UK currently standing between 30 and 60 days, these results indicate that the majority of SMEs consider that government departments are still no different to others in the market, in terms of payment procedures.

Further afield, European businesses spend a minimum of €25 billion each year on chasing late payments from consumers and businesses. Research by leading credit management services company Intrum Justitia shows that European governments could provide a €65 billion stimulus to their home economies by simply paying invoices owed to suppliers in full and on time. This could prove a real lifeline to European

businesses and in particular SMEs, who are fighting for survival in these challenging times.

The social care system in the UK has also recently been under scrutiny, with increasing demands for more effective and efficient service delivery. One response to the challenge of consistent and fair funding for social care has been the advent of personal budgets. The personalisation of care in the health sector would involve paying the individual budget onto a prepaid card, rather than into a bank account. Analysis of prepaid opportunities suggests potential time savings of up to 135 days a year and cost savings of up to 21% can be achieved.

The case for using procurement cards in an overall P2P strategy is strong, but take-up has been disappointing. Despite the rise in usage of procurement cards since they were first introduced and their potential to improve efficiency, the real benefits have rarely been maximised. The secret to a successful implementation is to adopt three key strategies – an implementation approach grounded in effective programme management; segmentation in launch and roll-out; and the deployment of the right products for the right outcomes.

## Segmentation by commodity

An organisation typically has a mix of low- and high-value orders and contracts, and procurement cards have generally been used for low-value order processing. While these should bring quick savings, the real benefits will be seen by looking at the overall return on investment of implementing a procurement card system as part of a sourcing strategy.

To maximise the benefits of procurement cards, a clear P2P channel strategy has to be in place, making effective use of both procurement cards and other e-procurement solutions for different categories of expenditure. By characterising and prioritising commodities according to volume and expenditure, an organisation can identify the areas in which procurement cards can be most beneficial.

Procurement cards can be successfully implemented within public sector organisations regardless of size and ambition. The flexibility of procurement cards means that organisations can use different implementation strategies to find the best fit.

With a basic or traditional implementation, an organisation can implement procurement cards in isolation for specific categories of expenditure.



Typically used for low-value orders, this type of implementation will reduce the number of invoices and cut transaction costs.

For a commodity-focused implementation, procurement cards are built into an organisation's sourcing strategy. Where there is a high volume of transactions, procurement cards can reduce the number of purchase orders and invoices in the procurement process.

The benefits of procurement cards will be optimised when introduced as part of an organisation's overall P2P strategy alongside other e-procurement solutions. Procurement cards integrate well into e-procurement and financial back-end systems, and this feature means that the benefits will translate into all areas of the procurement strategy.

The new GPC framework from Buying Solutions, which has now been implemented for prepaid products and will be implemented on 1 February 2010 for other products, allows the public sector to take advantage of new products and innovation.

Will this provide the platform for a major step forward in e-payments, purchase-to-pay and increased liquidity across the UK economy? For the economy's sake, the framework agreements which Buying Solutions has put in place should be widely adopted and implemented. Eliminating the friction and opportunity costs of expediting late payments could increase GDP by as much as 0.5 per cent.

In response to the current recession, the Government has launched numerous initiatives to drive public sector improvements. Procurement is seen as

a key area in which these improvements can be manifested.

Procurement cards are a robust, proven tool and can bring significant benefits to public sector organisations whatever their size. However, they need to be deployed as part of an overall procurement strategy. To maximise benefits organisations need to focus on the end-to-end business process and view procurement cards as a tool within the procurement eco-system – and not just as a purchasing or payment mechanism. ☞

## In summary...

- Procurement cards enable an organisation to achieve process efficiencies, provide better management and accounting information, enhance supplier relationships and contribute to a sustainable procurement environment
- Further afield, European businesses spend a minimum of €25 billion each year on chasing late payments from consumers and businesses
- To maximise the benefits of procurement cards, a clear P2P channel strategy has to be in place, making effective use of both procurement cards and other e-procurement solutions for different categories of expenditure

## Further information...

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improvements in integrated eServices provided by governments to the public. The Plan states that electronic procurement and invoicing can result in savings in total procurement costs of 5 per cent and reduce transaction costs by 10 per cent or more.

Procurement cards were originally developed to modernise and improve the efficiency of an organisation's low-value procurement process. However, they should now be seen as part of a solution that goes beyond low-value orders.

In addition to fulfilling purchasing and payment requirements, procurement cards bring optimal benefits when used