E-Procurement savings in Europe

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E-PROCUREMENT SAVINGS IN EUROPE

Since the late 90s the electronic publication of tenders has contributed widely to the spread of electronic communication in government institutions. Initiatives such as the TED-website [i] have been instrumental to improve knowledge of public procurement in the internal market. But beyond electronic publishing there is another challenge that needs to be overcome. Shifting from procurement to electronic procurement.

While this might seem only a minor addition, a good analysis of the issue will illustrate the risks involved.

Public procurement consists of eight phases:

1) Publication of notices
2) Access to tender documents
3) Submission of bids
4) Evaluation of bids
5) Contracting
6) Ordering
7) Invoicing
8) Payment

Some stages consist of a high degree of bureaucracy. Other stages are very complex and require a common set of protocols and standards in order to organise the exchange of complex documents and the interaction between public purchasers and suppliers. The cost of sale and the cost of purchase are at both ends high. For centuries the cry for a level playing field has been heard by small and medium enterprises. No European member state has been without scandals about rigged tenders.

Alain Deckers, head of unit for e-procurement and economic analysis of procurement markets in the DG Internal Market of the European Commission, stresses that given the simplification, better outcomes and value for money, e-procurement will be the most rational action to take. "E-procurement is not an IT-project", says Deckers. Government spending on contracts to buy goods, services and infrastructure accounts for 19% of the EU's GDP. Better rules would help governments use this money more efficiently, leading to more innovation, transparency, jobs and environmentally friendly growth.

A study conducted by Gatewit forecasts a 30 percent reduction in costs thanks to e-procurement when in 2016 e-procurement becomes mandatory for all public entities in the European Union (EU). But this cost cutting is not the only argument that might put a smile on the taxpayers face. Spend analysis, transparency, preventing fraud and more fairness might also contribute highly to a better functioning of the European internal market.

In 2010 the European Union only reached 10% of the set objective of 210 billion € through electronic tenders. The Peppol project forecasts 50 billion € savings.

What is e-procurement?

E-procurement hands nonprocurement professionals the self-service tools to process all steps in buying goods and services. This includes drafting purchase requisitions, identifying suppliers, obtaining approval, managing budgets and communicating purchase orders to suppliers.

What is not e-procurement?

E-procurement is not a *buying module* in an enterprise resource planning (ERP) software suite. But by using an interface like the one offered by Gatewit the occasional buyer gets a streamlined user interface to the organisations ERP suite and this with additional functions such as workflow management, links to catalogues or inventory and external content.

Due to the unstable current economic situation, public authorities are faced with decisions of either reducing the level of services provided or delivering these services more efficiently. E-procurement can significantly make the procurement process simpler, contracts can be concluded more quickly with lower costs, offering better quality as well as stimulating competition across the market, therefore contributing to delivering more efficient services. Increasing the use of e-procurement in Europe can generate significant savings for European taxpayers. Efficiency of public spending would be maximized due to these savings in the current context of fiscal constraints.

Benefits of e-procurement for contracting authorities

Processing costs for contracting authorities are lower and contracts can be concluded more quickly. As a result of easier access to tender opportunities as well as increased transparency, participation in tenders have increased, which consequently brings lower prices and better results.

> When Portuguese government started using e-procurement, they experienced significant price reductions, up to 20%, on their procurement contracts.

> Three years after it was launched, the Welsh e-procurement program delivered benefits of £58 million (December 2011).

> The French central purchasing body estimates that the progressive switch to e-procurement reduced the administrative burden for buyers by 10% (e.g. through faster analysis of bids and easy access to documents) and by another 10% for the legal services involved (as less legal control was required when e-procurement is used).

PORTUGUESE GOVERNMENT:

20%

Price Reduction

WELSH E-PROCUREMENT:

£58 million

Overall Savings

FRENCH E-PROCUREMENT:

10%

Administrative Savings

Benefits of e-procurement for SMEs

SME participation in public procurement is facilitated by e-procurement, simplifying the process as well as reducing the costs of participating in a public tender. Tender opportunities have become more transparent and easier to access. For instance in Ireland, policy makers recommend that contracting authorities use the electronic tendering facility on the national platform (e-Tenders) to promote and facilitate the involvement of more SMEs in public procurement. Experience in the EU and beyond shows that the use of e-procurement has increased the participation of SMEs in public procurement procedures. Most SMEs are already equipped with the necessary tools to carry out e-procurement. According to Eurostat figures published in January 2012, only 1.4% of SMEs did not have access to the internet in 2011 and only 5.29% did not have access to broadband.

Green Paper on Expanding the Use of e-procurement by the European commission looks at the results of European countries, after the introduction of E-procurement.

- *Italian Emilia Romagna's agency Intercent ER offers e-Procurement services including e-Marketplace, e-Catalogues and e-Auctions and is now the reference point for 539 administrations (90% of local agencies). In 2008 it processed transactions amounting to some € 419 million, delivering efficiency benefits of € 67.5 million and time savings of 45 man-years;*

- *The Austrian Federal Procurement Agency centralizes purchases for federal authorities through e-Procurement functionalities. In 2008 it reported savings of €178 million against a procurement volume of €830 million. Benefits seem to significantly outweigh the annual maintenance costs of €5 million, which are less than 3% of the savings;*

- *As of 1 February 2005, all contracting authorities in Denmark may only accept electronic invoices. This reform affects approximately 15 million invoices a year, and applies to the entire public sector, from ministries to nursery schools. The use of e-Invoicing is expected to save the public €100 million every year, on top of savings in internal administrative processes;*

- *In Norway, the Ehandel platform is helping authorities to achieve 20-40% reductions in the time taken to handle orders, receipt of goods and invoicing and delivering price savings in the region of 2-10%;*

- *In the UK, the Buying Solutions site reported in its 2008/09 annual report that it had facilitated sales of over £5 billion, delivering £732 million in savings. The UK also reported savings frequently exceeding 10% (and even up to 45%) through the use of e- Auctions and recently announced plans to use e-Auctions to save the taxpayer up to £270 million by the end of 2011;*

ITALY:

€65,5 million
Efficiency Benefits

45 man-years
Time Savings

AUSTRIA:

€178 million
Centralized Procurement Savings

DENMARK:

€100 million/year
e-invoicing

NORWAY:

20-40%
Time Savings

UK:

€172 million
2008-2009 Savings

■ *In Portugal eProcurement has achieved a 91% ratio and is the national manadatory system. In 2010 the Portuguese government registered 4,349 contracting authorities and 43,462 economic operators using the national eProcurement system. Savings in the first year of mandatory use totaled 16 % in centralized procurement and administrative savings of €28 million.*

■ *The Bundesministerium des Innern (internal affairs) in Bonn started in 2000 with a project that resulted in e-Vergabe. In 2012 the procurement process is 100% electronic. According to Marc Schmidt the savings are 2,25 billion euro annually.*

E-procurement trends in the private sector

Is there a big difference between e-procurement solutions for public and private customers? According to Gatewit, the Portuguese market-leader, there is essentially no big difference, but "*while the public e-procurement should be developed according to the national rules (procurement laws), the private e-procurement will define a set of uniform rules for different buyers.*"

Gatewit won the public tender for ANCP (national agency for procurement in Portugal) and has been a pioneer in the field since 1999. The platform provided will be used by a total of 2316 public entities. With over 25.000 clients worldwide Gatewit monitors daily the needs of both supplier and buyer using e-procurements solutions.

PORTUGAL:

€28 million
Administrative Savings

GERMANY:

€2.25 billion /year
Expected Savings

Pre-Qualified Suppliers
Gatewit Public Sourcing®

Forecasts indicate that SME participation will continue to increase

Mandatory use of E-Procurement

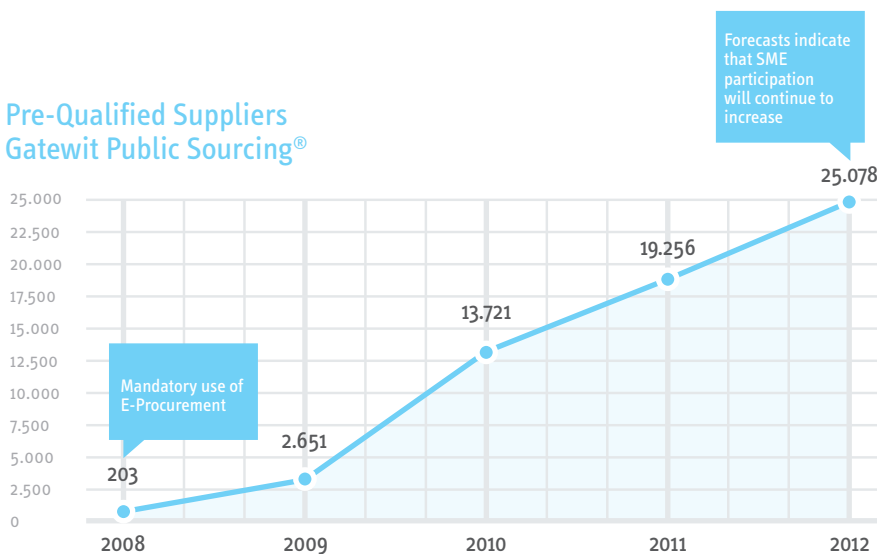|				25.078
203	2.651	13.721	19.256	
2008	2009	2010	2011	2012

Chart: The number of Pre-Qualified suppliers has increased since E-procurement became mandatory in Portugal

"Government and public administration could take a huge advantage of the major IT trends delivering better values and optimizing resources along the way, enlarging the scope of e-services or promoting integration and competitiveness. Public Procurement is an obvious winner within this strategies" said Paulo Magina, president of the Board at ANCP. *"To us e-procurement was a natural choice to improve efficiency in public administration"*.

Cloud based e-procurement platforms is the growing trend. Some e-procurement service companies specialize by industry sector or others provide the full range of supply network services to support global procurement transactions. In some cases, large corporations choose to manage their procurement in-house, which is another growing e-procurement trend. In order to be a world class purchasing organisation, they need to install enterprise-wide software to manage the database and transactions but the high investment costs in time and money invalidates the business case.

E-procurement trends in the government sector

E-procurement services are more extensively being adopted by governments in mature economies as it provides structure, audit trails and transparency of transactions. However, according to World Bank Research, some governments are reluctant to adopt e-procurement system that is so fully transparent, while other governments are often unaware of the benefits e-procurement provides.

In order for a government to achieve the maximum potential of an e-procurement system, certain basic requirements have to be fulfilled first, the World Bank recommends that governments expand their ICT services, guarantee that they have a secure online environment, development of standards and processes, and most importantly, the training for purchasers.

The contracting authorities have computers and the employees are much more computer savvy than generally expected.

E-procurement to be mandatory in Europe by 2016

The European commission has set a deadline across the EU. The Commission has proposed to make e-procurement the rule rather than the exception, by making it the standard method of procurement in the EU by mid-2016.

All contract opportunities will need to be posted online, making all tender documents available, the electronic submission of bids and **making all communication digital**. Central government bodies will have to achieve all this by mid-2014. The wider public sector will have to achieve the first two elements by the same date, but will be given until mid-2016 to meet the communication aspect. The Commission itself will move to full e-procurement by mid-2015.

eTender				
eNotification	eAccess	eSubmission	eEvaluation	eAward

Transposition (June 2014)	CPBs

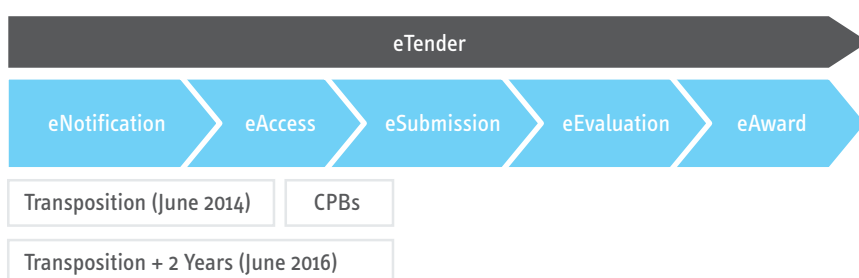| Transposition + 2 Years (June 2016) |
|---|

Image 1: The EC plans to make the following workflow mandatory by 2016 (National Governments by 2014)

The modernisation of procurement legislation is a fact, but it is a work in progress. The Internal Market and Services Directorate-General (DG MARKT), working under the political authority of Commissioner Michel Barnier, is in charge of coordinating this revision of the current legislation. The proposal put forward by the European Commission in April 2012 was considered too long and detailed by the Council of European Municipalities and Regions. Marc Tarabella, member of the European Parliament and rapporteur on the subject, agrees that the need for simplification is great. "*We need more administrative simplification in the rules on public markets. There is a real demand for common ground from the contracting authorities, as well from companies that want to participate more – particularly SMEs and citizens, who want to see better use of public funds. This means more transparency within a truly competitive dialogue with, in particular, easier access to the negotiated procedure, with notice of publication of clearer and more efficient signing criteria, which meet sustainability objectives. There is also a call for more opportunities for cooperation between public authorities. On this point, I believe the Commission interprets the case law of the court too restrictively*", says Tarabella.

The Portuguese case

In Portugal e-procurement became standard in 2008 and savings have already achieved 20 percent. Portugal's mandatory e-Procurement system has been successful according to recent data that shows:

- €10 000 000 000 contracted through e-procurement;
- 16 % savings in centralized procurement;
- Administrative savings of €28 million per year.

In 2010 Portugal reached a 91% e-procurement ratio according to the Manchester Ministerial Declaration. An overall reduction between 6% and 12% is estimated to have been saved for total public expenditure due to e-tendering and Procurement Business Intelligence Instruments (PBI).

Why did Portugal use e-procurement?

The traditional Procurement system in Portugal was **inefficient** and **ineffective**. It was an **expensive, complex and slow** process that required multiple levels of bureaucracy. Public procurement needed to become **cheaper, easier and faster**.

The main issues that moved Portuguese officials to implement e-procurement:

- Procurement dispersed and uncoordinated;
- Suppliers applied different prices across public administration;
- Lack of data about own practices: what goods, what prices, what suppliers, what quantities;
- Suppliers were much better informed than buyers.

The old model was replaced with a new system. All contracting authorities belonging to the Central Administration and all public bodies use e-procurement fulfilling their needs.

- All procedures are done through e-tendering;
- All proposals are opened at the same time;
- All competitors know which proposal won and why.

PORTUGAL: 2008

€10.000 million
e-procurement

16%
Savings in
Centralized Procurement

€28 million
Administrative
Savings

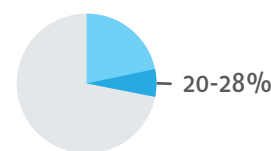The use of e-procurement systems in Portugal resulted in a number of advantages

- Increase Transparency through streamlined and efficient Procurement processes;

- Increase competition and access reducing the barriers that small and medium-sized enterprises face when competing for public sector contracts;

- Increase savings by enabling faster transactions and less use of paper.

- Better monitoring of procurement;

- Supporting the development of centralized procurement administration resulting in the potential reduction of costly procurement back-office functions and taking advantage of economies of scale in procurement administration;

- Wider administrative modernization and simplification, encouraging the integration of various administrative processes as well as the diffusion of information technology solutions within and by government and society more generally.

The expected savings in the Portugese case were the following:
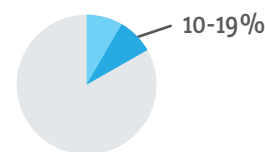
- online auctions: 20-28 %;

- aggregation/combining: 10-19%;

- diverse bundling: 12-18%;

- digital procedures: 8-20%;

- digital contracts: 2-5%;

- purchase orders: 7-22%.

The first year of **mandatory e-procurement** was 2010. The total number of public procurements deals was 79.739 and this represented 10.957.575.384 €. From that total 45.013 were done by e-procurement (total worth 8.200.992.596 €). So about 75% was done electronically.
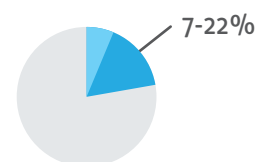
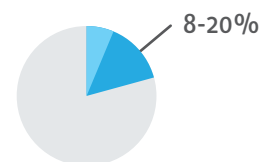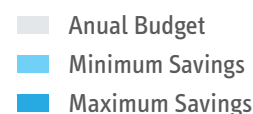The platform provider Gatewit had a market share of 60% of these transactions.

PORTUGAL EXPECTED SAVINGS

20-28%

eAuction

10-19%

eAggregation

7-22%

Requisition & Ordering

8-20%

eTender

Anual Budget
Minimum Savings
Maximum Savings

Forecast procurement technologies

The procurement application market continues to exhibit growth according to research done by the market research company Gartner [ii].

"This highly dynamic market is still a work in progress, as is the procurement function, which continues its evolution from a largely clerical function to a strategic enabler of profitability and agility."

Market researchers foresee an annual growth of the software market of over 10%. Not only governments will be investing in procurement technologies but also manufacturing, financial services and health services.

Software as a Service (SaaS) solutions in the cloud are mainstream according to the analysts. The advantage of the SaaS-approach is that it is an easy way in and the project can be halted fairly easy when it does not meet the expectations? But do companies or governments come to the conclusion that e-procurement sounds better than it is? "*Procurement teams that have deployed this type of application rarely return to paper-based processes*" according to Gartner. Strategic sourcing applications are the preferred sourcing tool for mature procurement organisations.

The implementation of e-procurement normally starts to prevent *out-of-control buying* and to consolidate negotiation buying power. Soon advantages like understanding pricing and spending occur. The contract management functions also prove to be a significant step towards more transparency in purchasing. Contract management desktop tools such as Word, Excel or Sharepoint from Microsoft are seamlessly integrated and the nonprofessional buyer can easily keep using his standard office applications.

ii (Gartner 2011)

Integration with ERP systems is therefore a key function for both buyers and sellers.

Spend analysis can generate better policy by the government. E.g. a school's water, gas and electricity spending pattern. Comparing these different contracts, different consumption can contribute extensively to improve market conditions and possible savings on the operational side. Productivity and efficiency gains for both buyers and suppliers are measureable. The reallocation of gained time will be an interesting topic in these troubled times. Another unexpected gain is the storage and transportation of the tons of paper generated in the classic procurement process. Digital archiving and the reduced paper trail will result in 25 times less paper, less archival space and no transport or postal costs.
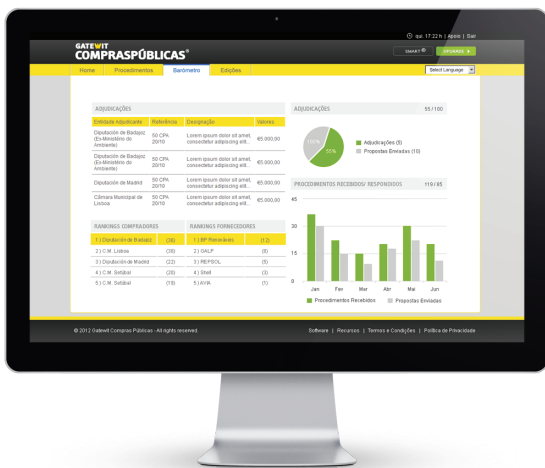

Image 2: Gatewit's Public Sourcing Platform interface

E-procurement solutions provide users with a **self-service experience** guiding them through all steps of buying goods and services. The Procurement professional inserts data to publish tenders or to select preferred suppliers. The streamlining of the interface is the biggest differentiator when it comes to ease of use.

Greater
Operational Savings

Less
Transportation Costs

25%
Paper Reduction

Is e-procurement causing a digital divide?

Small and medium sized enterprises (SME's) are not yet involved in e-procurement, according to Jonathan Faull, general director for "Internal Market and Services" at the European Commission in Brussels. It will be important to identify further steps for SME access. Faull pledges that the EC will be practicing what it preaches. The EC is on the way to full e-procurement itself and the EC will be playing their part in driving the market. The Scottish Government e-procurement project resulted in 45% of the expenditures going to SME's while SME's makes up 37% of the Scottish GDP. Scott Bell of Scottisch Procurement Directorate explains that his government pays 97% of its invoices within 10 days and that any call for tender include a rule that subcontractors should be paid within 30 days. These measures contribute largely to the increased SME participation.

Intracommunitary trade is another issue. Since most e-procurement systems in the public sector work with local digital signatures or e-ID's, the access by enterprises from other member states might cause an obstacle. Most projects allow foreign suppliers to work with login and password, but the specter of protectionism is luring. A paneuropean digital ID or full interoperability might be crucial since login and passwords are less secure.

ABOUT GATEWIT

Gatewit is a European leading e-procurement platform developer and provider (since 1999). Gatewit designs, develops, supports and promotes IT applications using highly secure technology to enable central and local governments and international corporations to manage their procurement processes. It was the first Portuguese company to publicly present (late 2005) an electronic platform that allowed the purchase of goods in accordance with the legislation in force at the time.

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