

**Topic:**  
CAD & The  
Internet

## On-line trading in the Public Sector

### The Governments E-Procurement 2005 initiative - what it means to you

*iCAD is produced by Business Advantage, a B2B research, business development and marketing consulting practice operating in the global IT, Digital and Telecommunications sectors.*

As part of the ongoing focus by UK Government PLC in trying to ensure that every pound of tax payers money is spent efficiently, a massive initiative has been put into place to encourage every Central and Local Government department to be in a position within the next two years to be able to “trade” electronically with its suppliers.

The rationale behind this initiative is the National E Procurement Project, which has identified that on a Government spend of some £80Bn, it costs in the region of £5bn to administer the expenditure using traditional paper based invoicing, payment and settlement processes. Accordingly this figure can be doubled, as all suppliers will incur their own costs as part of their administration process. If these statistics are vaguely accurate it represents a massive waste of time and money being spent in placing orders and paying the bills.

Management consultants have spent decades trying to “cost” the process of a paper based ordering and payment system. The conclusion is, no matter which side of the equation you are on, when all elements are taken into account, the average cost to either the Supplier or the Buyer is at least £50 to process a purchase or sales transaction.

If company ‘A’ is taking orders at a value of £25, invoicing via snail mail, receiving cheques in the post and burying your finance department in data entry and reconciliation, then that transaction has made a loss of £25 before the supply has been made.

The Government e-Procurement initiatives have been put into place in order to reduce the cost of the Government departments processing these low value and high volume orders. An automated solution will reduce the cost of the order/payment process by a factor of 10. The current process is bleeding money. How many hospitals could be built for a mere percentage of that £5bn cost?

It may be unreasonable to expect all Public Sector spending to be converted to a completely electronic system, however the principle has to be right. As a result, every Local Authority in the UK is engaged in trying to establish a way of electronically placing orders with Suppliers and paying for the goods and services by 2005/2006.

All businesses should consider the implication of on-line trading, regardless of whether it trades in the Public Sector or not. All businesses pay business rates, which are a contributor to the Local Authority spending pot. This alone should be enough to persuade all business to support the initiative.

Many businesses enjoy the kudos of having a large Blue Chip company as part of the client list. However this could be seen as a negative. The single most important issue with any SME is cash flow. However, when it comes to getting an invoice paid in line with your own payment terms, the Blue Chip's are the worst.

Due to the sheer volume of invoices and internal processes in a large company, it can be impossible to get your invoice through the sausage machine in anything less than 30 days. In fact 60 to 90 days payment terms are not unusual.

The current Public Sector e-Procurement initiative is capable of reducing the normal 30/60 day payment schedule to a more agreeable 2/3 days. Many Government departments are starting to adopt Procurement Card Programmes that does exactly this. The supplier may well have to pay a small percentage fee for the pleasure of prompt payment, but as they say, 'Quick Cash is King' especially to the SME.

Suppliers to the Government market are already being approached to get engaged in this 2005 e-government initiative. Naturally there will be some Government red tape to contend with, but one should consider how this would affect the cash flow of the business and the bank balance.

The Public Sector procurement process will undergo massive reforms. With suppliers and Local Authorities working in synchronisation with each, all procurement transactions in this sector will be slicker and faster. The future of the process will be pure cutting edge. Suppliers will receive all orders by email, ten seconds after it was sent. Receiving payment will be two or three days after goods or services have been delivered. This will not be the typical Luddite business swamped in paper work and red tape. The outcome will generate more orders for the supplier with greatly improved cash flow, with the Local Authority benefiting from smoother supply lines. In a nutshell, it will be a win win situation all round.

Get an on-line presence, find out which government clients of yours have an e-Government initiative and get in first, it will make those chats with the bank manager far easier and help you sleep at night.

More information on the Governments E-Procurement 2005 initiative can be found at:

<http://www.localgov.gov.uk>

<http://www.exorgroup.co.uk>

*Written by Marc Wood, CEO of EXOR Management Services*



Spring 2005

**For further information contact Marc Wood at:**  
**Exor Management Services**  
**Tel: 01992 707272**  
**Email: [info@exorgroup.co.uk](mailto:info@exorgroup.co.uk)**  
**Web: <http://www.exorgroup.co.uk>**

#### **About Exor Management Services**

Exor Management Services is an established Accreditation Body providing Supplier and Contractor Accreditation Services for more than 10% of Public Sector Authorities (PSAs) in the UK. Exor is the only Accreditation Body providing a world-class capability across all categories of public spending and all types of supplier, from Sole Traders through to FTSE 100 Companies.

Please [Click HERE](#) to leave a comment or question.



Pel House, 35 Station Square, Petts Wood, Kent, BR5 1LZ, United Kingdom  
**Tel:** +44 (0)1689 873636 **Email:** [info@business-advantage.com](mailto:info@business-advantage.com) **Web:** [www.business-advantage.com](http://www.business-advantage.com)