



# IMPLEMENTING THE **ePROCUREMENT** MANDATE

Technology Choices and Key Decision Factors



Sponsored by:



Public **Spend** Matters Europe

# EXECUTIVE SUMMARY

The most significant changes to the EU procurement regulations for many years were announced recently. In this paper, we look at the implications of one key element of the changes. That is the move by the European Commission to mandate the use of “*eProcurement*” (e-communications and e-tendering in reality) across the EU member states.

The paper looks at the challenges for governments and for the individual contracting authorities that have to implement the new rules. After explaining the background to the new directives, and defining exactly what is meant by “*eProcurement*” in terms of the mandate, the various key issues are discussed in terms of the choices facing users, for example, cost, the time required to implement systems, and their capability and performance.

Each of these issues is discussed and in some cases the answers cannot be clear-cut. For instance, a centralising approach may work well in some countries but will not in others.

The paper makes one very clear recommendation: for governments and contracting authorities to select existing solutions and solution providers rather than choose to develop a bespoke solution. That applies whether the bespoke system is to be built by internal resources (e.g. the in-house IT team) or by an external IT provider or consulting firm. The reasons for this are very clear and include cost, flexibility, future-proofing and capability.

## Three key decisions for users are then discussed and analysed

### 01

Should governments look to impose solutions centrally or let the market determine the various solutions that will be chosen by contracting authorities?

### 02

Are SaaS (software as a service) or on-premise solutions generally preferable?

### 03

Are off-the-shelf SaaS solutions preferable to bespoke software development?

## THE NEW DIRECTIVES

Technology already plays an important role in public procurement, and with the mandates for eProcurement, that topic becomes central to the transposition and implementation process. In many countries, this is uncontroversial and should not be difficult for the authorities to achieve.

### ➤ The importance of public procurement

Across Europe, governments spend about 2 trillion Euros a year with third-party suppliers. That in itself shows the importance of public sector procurement. But it is not simply a question of spending this money sensibly and achieving value for money.

The EU procurement regime is designed to achieve several objectives. It also aims to open up opportunities to organisations from all around the community and beyond in the interests of free trade and economic growth. And as well as aiming to provide the best possible value for money for EU citizens, it also seeks to eliminate as far as possible fraud and corruption. So the EU “treaty principles” such as equal treatment, proportionality and transparency support these goals through the EU procurement directives.

### ➤ New EU Procurement Directives

The most significant set of changes to the EU procurement rules for many years were announced in 2013. The new directives cover a wide range of changes, such as new procedures, reduced burden on bidders in some areas, and a greater scope for “innovation procurement.”

Two elements of the Directives are of particular interest in technology terms. Critically, contracting authorities have been mandated to use “eProcurement” by 2016.

Whilst there is still some lack of clarity (as we write this in September 2014) around exactly what must be made available and when, the intent is that all communication of contract opportunities and document availability for potential bidders must be electronic, as will the e-submission of responses by those organisations tendering. Countries and contracting authorities are liable for penalties, such as fines, from the Commission if they do not achieve this in the agreed timeframe.

Note that this requirement does not really affect the purchase-to-pay (P2P) or transactional aspects of the procurement process – the process cycle that covers requisitioning and ordering, invoicing and payment.

## ➤ Implications and Challenges for Governments

The Directives must now be transposed into local law in every EU country. That brings a range of challenges, from training and education of procurement and other staff, to communication with the supply markets and changes to established processes.

Technology already plays an important role in public procurement, and with the mandates for eProcurement (and eInvoicing), that topic becomes central to the transposition and implementation process. In many countries, this is uncontroversial and should not be difficult for the authorities to achieve.

The leaders in eProcurement (eTendering in particular) have a higher proportion of contracting authorities at least carrying out electronic advertising and receipt of expressions of interest, even if full, end-to-end online sourcing is less usual.

Some governments will also have to decide whether they wish to take a more centralist approach to implementing the Directives. So for example, if eProcurement is not well developed, should there be a central national approach, or just support offered at local level to contracting authorities that need to modernise their systems? These are major decisions.

So in many countries and individual organisations, there is a lot to do. Given the need to implement new systems, train staff and bring a huge supplier base on board, many of them small firms, there is a need for well considered but rapid action in many cases.

## ➤ Challenges for contracting Authorities and Suppliers

For individual organisations (“contracting authorities”), the new rules will require changes to the way they work, for example, in use of new procedures, as well as the technology mandates. For some, the appropriate technology will already be in place. For others, that are operating public procurement in a purely manual manner, there is a need to start taking action in the next few months to ensure solutions can be properly considered, selected and implemented.

## UNDERSTANDING PUBLIC PROCUREMENT

The transactional element of procurement (P2P), which tends to be post-contract award focused, such as requisitioning, ordering and invoicing, is often handled through ERP systems and is therefore of less interest at EU Commission level.

### ➤ Pre-Award vs. Post-Award

#### **But what is meant by eProcurement?**

There are various definitions, which often hinge on the difference between eProcurement and eTendering. In the private sector, eProcurement is often used to mean the technology that supports the post-contract award purchase-to-pay or transactional cycle. eTendering is then used to describe the technology used around the pre-contract award phase, the category management or strategic sourcing cycle - so supplier selection, tendering, and contract management.

The EU Directives have led to a focus on advertising contract opportunities, making it easy for potential suppliers to submit proposals electronically, and a fair, transparent and proportionate selection process. Increasingly, over the past twenty years, technology (generally called eProcurement) has become more and more important in the development of public sector procurement and in helping to achieve the goals.

In discussion of technology in the EU context, most of the interest in public procurement has been around automating and systemising the sourcing process - but somewhat confusingly, it is generally termed eProcurement.

The transactional element of procurement (P2P), which tends to be post-contract-award-focused, such as requisitioning, ordering and invoicing, is often handled through ERP systems and is therefore of less interest at EU Commission level.

This paper will therefore use the standard eProcurement terminology, but bear in mind that eTendering might be a more accurate term. The key activities and elements of interest in any case relate to seeking and identifying potential suppliers, selecting the best supplier or suppliers through a robust process and putting in place contracts. This includes advertising requirements, handling expressions of interest, communicating with potential suppliers, and the various stages of the selection process (e.g. PQQ, ITT, ITPD), which can vary depending on the procurement procedure chosen and the detailed process. Those activities define our interest in the supporting technology.

## ISSUES TO CONSIDER WHEN IMPLEMENTING PUBLIC EPROCUREMENT

The leading companies are well established, with track records going back for 10 years or more, and have developed solutions that support simplification and usability, whilst maintaining that public sector compliance.

### ➤ The Public Sector Need

eProcurement for the public sector requires specific functionality. For example, focus on clear process and tracking of when bids are submitted, documentation of supplier questions, security issues, and formal evaluation processes are all key factors that do not necessarily have quite the same criticality for the private sector.

And whilst many requirements are defined by the EU regulations, there are national or even regional differences too. In response to this, a range of technology providers have developed a specialism in the public sector market. Some are also strong in the private sector; others focus almost entirely on the public. The leading companies are well established, with track records going back for 10 years or more, and have developed solutions that support simplification and usability, whilst maintaining that public sector compliance.

### ➤ The Requirements of Public eProcurement

So what needs to be considered when contracting authorities, or governments, are looking to select and implement an eProcurement (eSourcing) solution?

Clearly, the first point to be made is that all authorities must comply with local laws. There will be some variations between countries even within the overall framework of the EU Directives.

But there are issues to be considered, whether the choice is to develop a solution in-house, commission a bespoke development, or buy an already available system.

**Here are the key factors that Spend Matters has identified based on our significant experience in private and public sectors:**

**01**

**UP - FRONT COSTS**

The initial cost of acquiring the system, whether that is bought-in licence or SaaS subscription if an external product is chosen, or development / in-house build cost if that route is used.

**02**

**RUNNING COSTS**

The ongoing annual cost of operating the system. That might include licences, upgrades and support costs if it is an externally purchased system; or maintenance and staff (or consulting resource) costs if it is a bespoke internally developed system.

**03**

**TIME REQUIRED**

The user should consider the time it will take to achieve a fully operational system. A proprietary off-the-shelf system will still take some time for configuration, training and implementation. But generally this will be a considerably shorter period of time than developing a new system from scratch.

**04**

**CAPABILITY AND PERFORMANCE**

How does the system actually meet the needs of the buying organisation(s)? How well will it execute the required processes and tasks, some very specific to the public sector, and will it run effectively, without system failures, delays or other issues?

**05**

**FLEXIBILITY AND INTEGRATION**

The solution must fit and integrate appropriately with other systems e.g. P2P, spend analytics. This is important from both a cost perspective and to ensure the efficiency of the procurement operation. It also needs to be considered both on day one and in terms of how flexible the chosen system is in terms of integrating with possible future technology developments.

**06**

**EASE OF USE**

This is vital for both internal casual users and procurement professionals, and for suppliers. This will have a major effect on user adoption levels; a strategy of keeping a system simple to begin with and introducing new functionality or modules over time has been shown to be effective for good adoption.

**07**

**FUTURE-PROOFING**

How will the system cope with new requirements or opportunities? For instance, the legal and regulatory regime will change again no doubt, which may force changes to the system.

**08**

**SERVICE**

Any system will require help-desk-type support to both buyers and suppliers, as well as market development activities in order to engage buyers and suppliers and push for adoption and full utilisation.

**09**

**SUPPLY-SIDE ISSUES**

The most forward-thinking contracting authorities (and indeed private sector buyers) look to engage with a community of suppliers and potential suppliers. How can this be developed, either in a manner directly linked to the software or through additional services?

## COMPARISON OF DIFFERENT EPROCUREMENT IMPLEMENTATION MODELS

In our experience, an internally developed system is often a ‘vanity project.’ That may be a harsh comment, but we have seen such projects created to justify the jobs of senior IT people, or to give the procurement director something to boast about at conferences!

### ➤ The choices for Governments and Contracting Authorities

For all governments, but most significantly those where eProcurement is not well established already, there are a number of options in terms of ensuring that eProcurement is introduced as required. Similar options face individual contracting authorities, at least where the national government has not imposed a standard solution.

---

#### The key decisions are:

---

# 01

---

Whether to allow an open market in eProcurement systems, i.e. let each contracting authority determine itself which solution it will use to fulfill the Directive, or whether to impose central (national or regional) solutions.

---

# 02

---

Whether to choose an on-premise or software as a service (SaaS) solution.

---

# 03

---

Whether to build a bespoke eProcurement system, or buy a proprietary off-the-shelf solution available on the market already.

---

## ➤ Centrally imposed or Free Market

Looking at the decisions that need to be made by governments and contracting authorities, it is clear that every situation is different and must be considered in the light of specific circumstances.

In terms of whether governments should allow freedom of choice by contracting authorities, or impose a national or regional solution, it is not possible to make a firm recommendation that applies across the EU. So much depends on the current situation and the political environment. For instance, the strength of the regional structure in Germany makes it unlikely that the national government will ever mandate a single national system. In other countries, including the UK, there is so much variation already that a single national solution is unlikely to be a serious option.

However, a national approach has obvious benefits, such as consistency and one system for suppliers and buyers alike to become familiar with. So it may be a good option for countries at an early stage of eProcurement development.

But even here, there are some issues to consider, including the risk of putting “all your eggs in one basket” and the possibility of lock-in-to-one-system that might not prove to be the best option over time. There is often little desire or reason for innovation, for instance, if an effective monopoly situation is created.

## ➤ SaaS versus on-premise solution

---

**The issues to consider under this heading include:**

---

### 01 **COST**

Generally, the cost of SaaS will be lower than an on-premise solution, although different providers and models will have different costs. That is likely to be true in terms of both up-front costs and ongoing maintenance or similar fees.

### 02 **TECHNOLOGY**

A SaaS approach will generally be faster to implement, with lower costs associated with that phase compared with an on-premise installation.

### 03 **INNOVATION**

Updates and new innovations will generally be quicker and easier to implement. The provider can make just one change to the system to improve performance or perhaps to meet a new regulatory requirement, which is then applied to all clients using that system.

### 04 **AVAILABILITY**

Whilst every provider is different, the availability of SaaS systems is generally higher than that of on-premise solutions. Reputable providers will have the highest levels of security to protect their products and customers.

## > SaaS (off-the-shelf) versus software development

The decision contains a number of very important issues that need to be considered:

### 01 DELIVERY RISK

There is a proven market of successful and competent software firms around Europe and beyond that provide this sort of product. Any bespoke software development carries the element of risk that does not apply for existing providers and products.

### 02 COSTS

An existing solution will have transparent and known costs. A competitive process should be used to source the technology, driving value for money. Building a new system can and often does lead to large and virtually open-ended costs, as the buyer is often hit by cost overruns, unexpected add-ons, and so on.

### 03 FUNCTIONALITY

By definition, any internally developed solution is unproven, with inevitable doubts about its capability and functionality. This is a high-risk option compared with using a proven solution.

### 04 LEAD TIMES

In terms of development and implementation, they are almost certainly much longer for the internal option, with little guarantee of hitting any initially quoted timescales.

### 05 FUTURE-PROOFING

An off-the-shelf solution from a reputable provider will be virtually “future-proof.” Providers will pick up on new EU regulations and other new requirements, with an automatic upgrade path with costs defrayed across multiple users. An in-house developed system has unknown and almost limitless potential costs for upgrades and changes.

### 06 FLEXIBILITY AND EXPERTISE

Internal solutions are also likely to be inflexible in terms of staff – there is no pool of experts already available with experience of using the solution. That pool certainly exists for the more successful off-the-shelf solutions.

### 07 INTEGRATION ISSUES

The eProcurement system may well need to integrate with ERP, e-Invoicing or other systems. A proprietary system will almost certainly have this facility and if it needs to be updated as systems change, that will happen without the prompting of the buyer. A bespoke system may not integrate or may require expensive work at regular intervals to maintain compatibility.

**Clearly, all of these tend to favour the argument for the off-the-shelf approach.**

---

### **But are there any benefits in developing a bespoke solution?**

---

Some may feel it gives the opportunity to meet very specific needs, particularly if the organisation believes it has genuinely special requirements. However, given the proven track record in many different environments that off-the-shelf systems can offer, it is unlikely that any organisation cannot find a ready solution to their needs.

In our experience, an internally developed system is often a 'vanity project.' That may be a harsh comment, but we have seen such projects created to justify the jobs of senior IT people, or to give the procurement director something to boast about at conferences! They are not good business reasons for ignoring the available and ready market.

---

# CONCLUSIONS

---

We cannot offer definite views on which option to choose in terms of the national / local issue, depending as it does on very particular situations in different organisations and countries at the moment. SaaS versus on-premise is also not an absolutely clear-cut decision, and issues such as security may be critical to a small number of users. But for the majority of cases, the SaaS option will be the most beneficial, and that is being borne out by what is happening in the market.

There is one major recommendation, however, that Spend Matters is happy to make, based on our many years of experience implementing, running, advising and analysing procurement systems.

That recommendation is to select an existing solution and solution provider rather than choosing to develop a bespoke solution.

That applies whether the bespoke system is to be built by internal resources (e.g. the in-house IT team) or by an external IT provider or consulting firm.

In our view, it seems almost inconceivable that any organisation, whether a national or regional government or indeed a single contracting authority, would seriously consider a “build your own” strategy to meet the requirement for eProcurement as laid out in the EU Directives. Even the apparent positives listed earlier do not stand up to much examination, whilst the issues and risks are considerable. As well as the timescales and costs involved in building a bespoke system, the likely pace of change in terms of both technology advances, and perhaps in terms of new regulatory frameworks, adds considerably to the risk and likely future costs of maintaining a stand-alone system.

A reputable, proven systems provider will be constantly adapting and improving their system to meet these needs. Their cost of doing so is spread across many clients, minimising both cost and effort for the client organisation. There are expert and innovative players in the market with years of operation of public eTendering reflected in their solutions; these have years of development and sophistication that is almost impossible to re-create in a home-grown solution.

And of course the innovation of these providers is gathered from the ideas and needs of many clients - a “crowd-sourced” approach to improving public procurement software, in effect.

As countries, regions and contracting authorities take steps to meet the EU’s eProcurement mandate, they will need to make a number of key decisions. But we strongly recommend that organisations should look to an existing market solution rather than starting from scratch themselves with a bespoke development project.

# ABOUT THE AUTHOR

## Peter Smith

Managing Editor, Spend Matters Europe Ltd.

Peter has 30 years' experience in procurement and supply chain as a manager, procurement director, consultant, analyst and writer.

He edits Spend Matters UK / Europe and Public Spend Matters Europe, and with Jason Busch, the founder of Spend Matters in the US, has developed the websites into a leading web-based resource for procurement and industry professionals. Peter is also Managing Director of Procurement Excellence Ltd, a leading specialist consulting firm, and is recognised as one of the UK's leading experts in public and private sector procurement performance improvement.

Peter has an MA in Mathematics from Cambridge University, is a Fellow and was 2003 President of the Chartered Institute of Purchasing and Supply, and his first (co-authored) book, "Buying Professional Services," was published by Economist Books in June 2010. He is an adviser to the UK's National Audit Office on public sector procurement issues and, before moving into consultancy, he was Procurement Director for the NatWest Group, the Department of Social Security (the DSS) and the Dun & Bradstreet Corporation, and held senior positions in the Mars Group.

Further information on this topic and others can be found at the website <http://public.spendmatters.eu/>, or we can be contacted at [psmith@spendmatters.com](mailto:psmith@spendmatters.com). Reproduction of this publication in any form without prior written permission is forbidden.

**Spend Matters** is thankful for the support of **Vortal**, our sponsor for this paper. **Spend Matters** sponsors have no additional opportunity to influence the content or research of **Spend Matters** material or products relative to other software or services providers.



---

Edifício Visconde de Alvalade  
Rua Prof. Fernando da Fonseca, 3.º  
1600-616 Lisboa - PORTUGAL  
[www.vortal.biz](http://www.vortal.biz)

---

Public **Spend** Matters Europe

92 Park Street, Camberley  
GU153NY United Kingdom  
<http://public.spendmatters.eu/>