

Case Study: Gloucester City: Purchase-to-Pay Efficiency Improvement with ABC

The Challenge

Gloucester City Council realised that ABC has the potential to set the focus for BPR within a process and also to quantify its effect. They decided to use the purchase-to-pay process to prove the concept as well as driving improvements for purchasing transactions. They set up a cross-functional team, led by their Resources Manager, to review the council-wide procurement process with a view to improving efficiency. This project was part of their response to the Gershon efficiency agenda and was needed to inform their Annual Efficiency Statement (AES).

The Solution

“Rough-cut ABC”, a slightly modified form of Activity Based Costing (ABC), has proved to be the simple answer. The results of the exercise, which lasted four weeks, was a clear understanding of the issues within the purchasing process and a shopping list of proposals for improving efficiency.

Output from this provided the cost of the purchasing process in two key respects:

1. Total cost (including staff time) for each order placed with an external supplier – in other words the unit cost of output that will form the baseline for their Annual Efficiency Statement (AES).
2. Total Non-Value Adding cost within the overall process – and hence an indication of the inefficiencies that could be removed using BPR or other techniques.

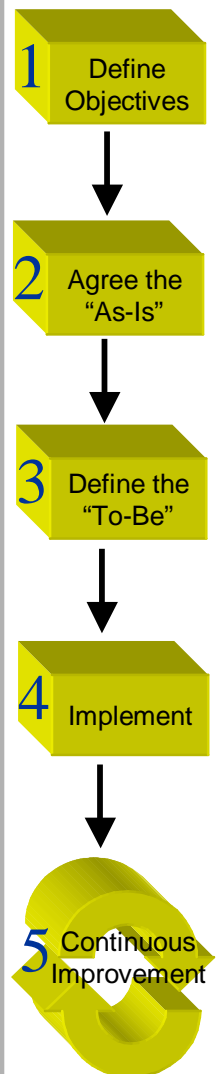
What we delivered

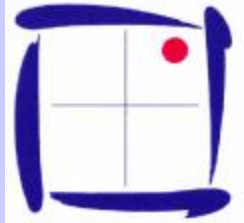
We first trained their in-house team (which included members from ICT, Finance and Executive Office and Internal Audit) in the principles of ABC and the data collection techniques needed to build an ABC model.

We then coached the team members as they then undertook a series of one-hour interviews with a selected sample of staff who originated, processed or received purchases of goods or services within the Council. Following these interviews we guided them in mapping the purchasing process, using Excel – making the maps more accessible to all staff..

We delivered a further workshop to help them analyse the activities within the process in terms of Value Adding, Sustaining and Non-ValueAdding, using the model shown on the next page.

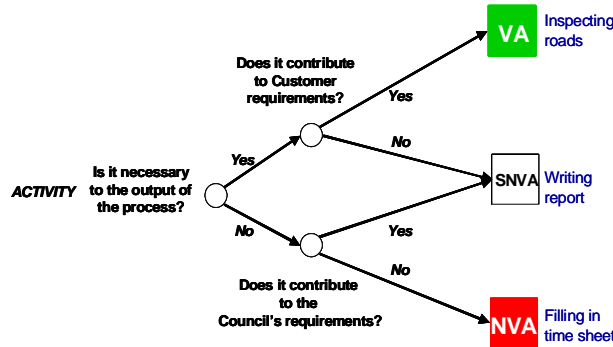
We trained a team member in the use of the (free) ValueAdding ABC software to create the ABC model, analyse the results and use the model for other ABC exercises.





Implementing the results

Combining the output of the ABC model with the process map, the team was able to identify Non-Value Add (NVA – see the diagram below) activities together with their cost to the Council.



Like many other organisations, the current transaction cost for the process of requisition, purchase order and invoice approval was found to more than the value of goods being purchased in a significant number of orders.

Armed with this knowledge, the team undertook BPR to remove the bulk of the NVA activities whilst retaining the essential elements of the process. In particular, attention was paid to control elements necessary for audit purposes. The team identified savings that when implemented would reduce the transaction cost for each purchase by nearly 50%. As this time would not result in the removal of posts, the savings would be non-cashable.

The team used the ABC outputs, maps and other information gleaned during the project to make efficiency improvements recommendations for the Executive Team to authorise for implementation.

The benefits

- Ø Identification of 50% efficiency improvement in P2P
- Ø A basis for evaluating a different process for purchasing low value items
- Ø The Council now has a functioning ABC model for use in other processes – already been used to cost Benefits authentication
- Ø The team were also able to make a rough assessment of the time staff within each Service spent on their main activities other than the purchasing process

Following the exercise, Wendy Fabbro, Resources Manager, commented: *"In common with many councils we knew that we could improve efficiency, but this model has provided a clear picture of the scale and detail to help us realise benefits. A very positive by-product has been that we have 'engaged' a group of largely administrative staff who previously were not sure how they could make a direct contribution to modernising the council."*

