



Sustainable Electronic Procurement Case Study



Simon Safety and Lifting Centre

www.simon-safety.co.uk/

“Decision to accept Purchasing Cards, helps Welsh safety equipment supplier to retain existing business, and generate additional public (and private) sector trade”



1.0 Introduction

1.1 About this Case Study

This publication is based on work undertaken as part of the EPROC project, www.eproc.org, a collaborative European initiative commissioned to encourage and support the adoption of new digital procurement processes and tools by small and medium sized businesses (SMEs). The EPROC project is supported by European Regional Development Funding under the INTERREG IIB North West Europe Community Initiative on Territorial Development.

This eProcurement Case Study – focusing on Purchasing Cards – has been published with the full approval of the business concerned.

1.2 In simple terms, what are Purchasing Cards?

For Local Authorities (LAs), the acquisition of goods and services is a labour intensive, largely manual and paper-based process. The problem is magnified for maintenance, repairs and ad hoc buying, which account for large transaction volumes, but relatively low value purchases.

Purchasing Cards (Pcards) enable nominated employees within a LA or the wider public sector to purchase items without the need of purchase orders or the issuing of subsequent invoices and in so doing help LAs to reach their eGovernment and efficiency savings targets.

As Pcards are processed and authorized at the time a transaction takes place, a supplier will receive prompt payment – Pcards are therefore relevant to both the Purchasing and Payment parts of the EPROC eProcurement model.

For more information on Pcards, see www.eproc.org.

1.3 Synopsis

Simon Safety and Lifting Centre were initially introduced to Pcards at a seminar organized by Pembrokeshire County Council. Given the volume of business they were getting from the Council, it became immediately apparent that it was in their interests to accept this new way of doing business and meet the needs of one of their most important customers.

This Case Study describes how Simon Safety went about reaching the stage where they could accept Pcards, the costs associated with it, and some of what they consider to be the major benefits of having this capability.

2.0 Background

2.1 Business Profile

Simon Safety and Lifting Centre, of Neyland, Pembrokeshire, is an independent supplier of a wide range of safety equipment, personal protective products, clothing, lifting equipment and accessories. The company was originally established as Simon Mechanical in 1993, but the name was changed slightly in 2000, when it became a limited company. It was felt the new identity would better reflect the broader range of safety products the company was selling by that time, but would also retain the name of the founder, Simon Ashton.



Some of the products
Simon Safety sell

The business has grown rapidly in recent years and now has a sales turnover approaching £2.2m – up from £0.25m in 2000 – phenomenal levels of growth by any standards. Sixteen dedicated employees, alongside a clear vision on moving the company forward, have proved the major driving force in the growth of the business. The company is an Investor in People recognised organization and also a BS EN ISO 9001:2000 business – the latter underlines their adherence to various quality management principles.

The majority of their customers originate from the area west of Swansea and as far north as Aberystwyth in Ceredigion – just a small number are from outside these areas. Private customers dominate, although the public sector is an important market, accounting for around 10% of the total turnover.

Most of their sales to the public sector is to Pembrokeshire County Council, whilst their private sector customers include the giant oil company Total, the supermarket chain Asda, and the international housing and development group Taylor Woodrow. In addition to business-to-business and business-to-government customers, there are also over the counter sales to general consumers.

The company estimate that around 80% of their business is from repeat customers; it is therefore no surprise to hear they are a market leader in west Wales. Their growth strategy is based on quality customer service and discounted pricing and it is these strengths that the petro-chemical, construction, agricultural and manufacturing industries now rely on. The company's achievements were formally recognized in 2004, when they were awarded the title of SME of the year and business of the year at the inaugural Pembrokeshire Business Awards.

2.2 Business use of IT

In 2001, the company invested heavily in IT in order to ensure they were operating in the most efficient and effective way, and help them achieve the growth targets they had ambitiously set. The business now has 15 up-to-date

computers connected to a network and they have a broadband Internet connection.

In terms of software, the company recently adopted OGL's prof.Itplus order processing and stock control system, having previously used Sage software. This was a decision they did not take lightly as the investment cost them in the region of £60,000, but it does handle all their sales, purchasing, invoicing and accounts. Simon Safety have a web site with a shopping cart facility, and soon will be purchasing an extra software module from OGL to seamlessly link their on-line ordering facility with their stock levels.

Employees at the company generally have good IT skills, particularly at an operational level, where the management have been proactive in providing in-house training in order to ensure they have the competencies to provide a quality service to both internal and external customers.

2.3 eProcurement Challenge

Simon Safety has been accepting Purchasing Cards since 2003. Their initial introduction to them came via a direct letter of invitation to a seminar organised by Pembrokeshire County Council (PCC) – one of their key customers.

The seminar focused on how PCC was moving forward with eProcurement, but had a particular remit to discuss Purchasing Cards. Mark Smith, Simon Safety's Purchasing manager recalls that they were brutally honest about why they wanted to introduce Pcards – basically they were saying, ***“we deal with tax payers money and have a responsibility to spend that money wisely by exploiting new technology to reduce costs”***. Mark could sympathize with this from both a tax payers point of view and a business perspective: ***“the seminar made it very clear how the Purchasing Card could save time and money for the LA, which you can accept from a business point of view – if you can reduce costs, then great!”***

The underlying message from the seminar was not that it would become mandatory for suppliers to accept them to get business from the Council, but that it was the direction they were heading in. Having always put the interests of their customers first, Mark knew it was important to be responsive and not shy away from the issue: ***“if you're commercially astute, you are aware that if somebody is organizing a seminar on Pcards, then you know that if you don't join in, opportunities ultimately will be limited.”***

Naturally, the management at Simon Safety had their concerns about accepting Pcards. What would they be required to do? How much of their time would it take up? How much would it cost them both in the short and long-term, etc? Most of these worries however were addressed at the seminar and they left feeling it would be a fairly straightforward process.

One particular issue on the agenda at the seminar was what level they would need to be “card capable”. Level 2 and level 3 capability means that enhanced VAT information that would traditionally be documented on an invoice, is entered when the card payment technology is used to process a payment. This is then sent to the card issuer, and a report is produced and

sent to the cardholder – HM Customs and Excise have agreed that (in most cases) this report can replace the invoice as evidence for reclaiming VAT.

Whilst level 3 capability, provides a line by line description of each item purchased along with separate VAT amounts, PCC were happy for them to be level 2 capable, which provides a summarized VAT total. Mark felt the reason they only required them to be level 2 capable, was because most of the products they were selling were of a similar nature, i.e. typically safety products.

In terms of the business case for accepting Pcards, Simon Safety did not see a need to undertake a formal assessment, as they were acutely aware that around 10% of their trade was coming from PCC, and they certainly could not afford to risk losing that! The company were informed that Pcards are best suited to – high volume, low value purchases, one-off and single item purchases, and where the goods being purchased are easily definable – each of these they recognized as being highly relevant to their product offerings and therefore in their case they could foresee Pcards being used heavily. The decision to accept Pcards as Mark put it was essentially a **“no brainer!”**

3.0 Implementing eProcurement

Simon Safety found that it was not too troublesome a journey to get to a position where they could accept Pcards and felt the seminar organized by PCC helped them enormously in preparing them for what would be required.

Their first task was to investigate their options in terms of the equipment they would need – from talking to PCC they knew that a PDQ (Process Data Quick) terminal, or card reader in everyday speak, would be suitable for this purpose. However, although they had an existing terminal that would read credit and debit card details, they needed one which could cater for Pcard transactions, i.e. one that features a VAT input facility and could provide level 2 data.



A PDQ machine

A quick call to Streamline (who were already renting a terminal to them for their debit and credit transactions) to explain they wanted to accept Pcard payments soon resolved any worries they had. It was simply a case of having to upgrade their terminal, for a small additional monthly fee (discussed in section 4.3). Within a month or two, a Streamline engineer had visited the company and installed the new terminal. They also provided a demonstration on how they would go about processing a Pcard payment. It was a fairly simple process, as their Purchasing Manager explained: **“if you can put a mail order transaction through a card terminal, you can process a Purchasing card – it’s as simple as that!”**

Another aspect they had to discuss with Streamline before being able to accept Pcard payments was the issue of the merchant service charge. Clearly

they already had a merchant account with Streamline to accept debit and credit card payments, but needed to find out what percentage fee they would be charged for each Pcard transaction they processed. As it turned out, this was based on a number of factors; including their overall sales turnover, their projected turnover from a Pcard perspective, as well as their likely average Purchasing Card transaction value.

Simon Safety also had a visit from PCC to discuss their requirements from a customer perspective, particularly in relation to how they wanted them to input the card transactions on a daily basis. They would need to input the unique job reference number, the exact commodity code and other such information as detailed in section 4.1 each time they processed an order.

In addition, the management had to inform their local VAT office they were accepting Pcard payments and had to fill in some paperwork to meet this need.

In total, the company estimate it took them about 3 months between deciding to accept Pcards and actually being able to process these transactions, and a good proportion of this time disappeared waiting for Streamline to provide them with a new PDQ machine.



The Welsh Purchasing Card

In terms of their actual time commitment, this was minimal. However they are the first to admit they were in a fortunate position in this respect – after all, they already had their own trade counter and only had to provide a level 2 capability. Essentially then it was only a small step up to accept Pcard payments and so there wasn't a steep learning curve or a lot of investigative work to carry out. It's worth bearing in mind though, that not all businesses might be quite so lucky!

4.0 Change, Impact and Benefits of eProcurement

4.1 Changes in Working Processes

Simon Safety find that the majority of their Pcard orders come via telephone or face-to-face. If the card user telephones then he/she will quote the Pcard number, but if the individual visits the trade counter, the card is swiped on their card reader terminal. A member of staff is then prompted to input the necessary data, including such things as the VAT rate, the commodity code (a customs and excise code for describing goods and services – there about 15 different codes the company use), and the customer reference number. Authorisation of the transaction takes place immediately the Pcard is processed and they usually receive payment within 5 days as illustrated in the diagram below.

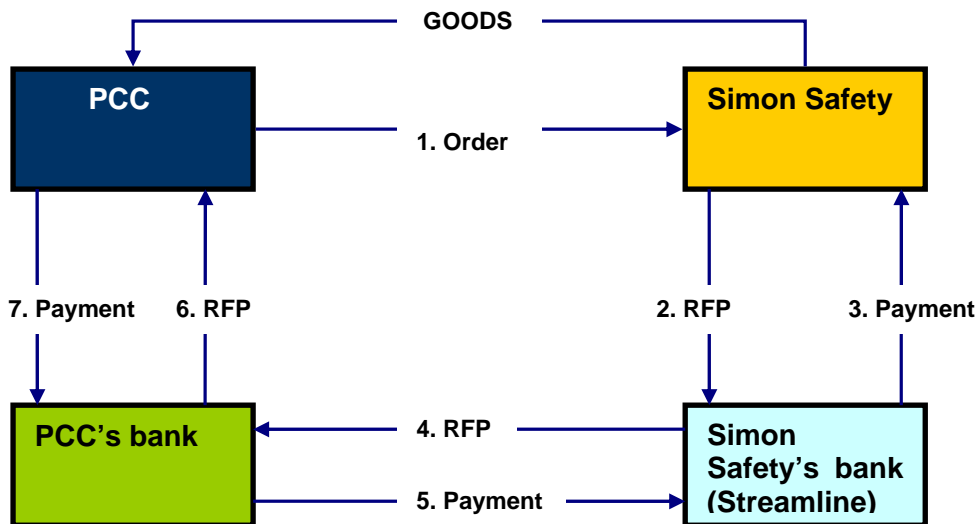


Figure 1 – The Pcard Payment process for Simon Safety (RFP = request for payment)

Although Pcards do eliminate the need for a purchase order, Simon Safety have found they are still required by PCC to provide some form of supporting paperwork or documentation, given that they are only level 2 capable. Of course, if an order is made in person, the paperwork can be handed to the individual, but if it is done over the phone, it is posted to PCC. In those cases when they don't have sufficient stock to dispatch all the goods at once, they have to produce separate documentation on each occasion. In reality though, this is the exception rather than the rule, as they tend to keep large amount of stock in-house to meet customer needs. This policy has tended to bear fruit, particularly for those one-off and ad hoc purchases; as Mark mentioned: ***“you might have somebody from the highways department who has a gully overflowing, and needs to buy safety waders – this won't be on the normal inventory list, and so they'll go out and pay for it using a Pcard”***.

Above and beyond the time it takes them to input information into the card reader terminal as a transaction takes place, the company also have to insert the sales transaction into their Profit Plus order processing and stock control system – this they tend to do at the end of each day.

4.2 Benefits

A number of supplier benefits for accepting Pcards are quoted by public sector organizations and solution providers in their PR material, but what are the main benefits in practice according to Simon Safety?

When quizzed on the issue of whether faster payment with Pcards is a significant benefit over more traditional payment methods, Mark Smith was not overly convinced: ***“the cash flow benefit is nice, but isn't a huge benefit, as it was never really a problem in the past”***.

Mark's response was based on the fact that PCC have always tended to pay them within 15 days, despite having a notice period of double that. Late payments have also hardly ever been an issue. Now they have a Pcard facility they are paid within 3 to 5 days and therefore there clearly is a tangible financial benefit, albeit a small one, of this quicker payment. Of course, for other businesses that may not have customers who are quite as prompt in their payments, this benefit may be far more significant.

Without doubt, the most important benefit is that not only has it helped them retain their business with the Council, but it has also showed them they are willing and able to respond to their needs and in so doing has resulted in a closer customer relationship. The latter has perhaps proved a major factor in their increased sales to the Council since they started accepting Pcards.

It is highly likely then that if they hadn't gone down the Pcard route they would have lost the £75,000 of trade that comes via Pcards each year, and it is certainly doubtful they would have increased sales to the Council in the way they have done over the last 4 years or so.

Although to date they have not widened their public sector customer base as a result of being Pcard enabled, this does not hold true with respect to the private sector. As Mark put it, ***“when the PLCs and the McAlpine's of this world know you have the facility, they will tend to use you! Although they might have their national suppliers, if they are on a job in a remote part of west Wales and need equipment quickly they will tend to come to us just because we can process Pcard payments!”***

Although Mark was not sure of the typical annual value of this business, he was adamant that it was definitely worth shouting about and was certainly in excess of £20,000 per year. Of course, Pcards are ideal for these one-off type purchases as it means the customer does not have to go through the costly process of setting the supplier up in their purchasing system. But who knows, by providing outstanding customer service in such a manner, it could result in them signing large contracts with these organizations in future.

Mark summed up the benefits of Pcards quite concisely: ***“if you haven't got the card option, you might not get the business – so it's nice to get the business rather than alienate yourself from it!”***

Clearly then the opportunity benefits of being Pcard enabled should not be underestimated, both from a public and private sector perspective. But how do these benefits weigh up against the inevitable costs?

4.3 Costs

Prior to accepting Pcards Simon Safety were renting a PDQ machine that handled credit and debit card payments at a rate of £19.95 a month, however in order to provide VAT data they needed to upgrade their terminal. The cost of the rental of the new terminal with the polling charge of £6 a month (an extra charge for dialing into the terminal on a daily basis and sending this information to their merchant bank) is now £22.95, which is £3 more per month.

As their Purchasing Manager was quick to point out, the major additional cost is the merchant service charge – for every transaction they process they are required to pay a 1.75% fee. Given that the total value of their Pcard transactions per year is around £75,000 and their average Pcard order is about £75, it suggests they process about 1,000 Purchasing Card orders per year.

The management also believe that administration costs are greater, on the basis they spend an extra 2 minutes on average dealing with each Pcard transaction, in comparison to the traditional order and payment process.

The additional costs could therefore work out at around £1,600 per year or £135 per month as illustrated in the table below:

Cost item and approach to calculation	Cost
Rental of upgraded PDQ machine @ £3 extra each month	£36
Merchant Service Charge @ 1.75% of £75,000	£1313
Additional administration costs @ 1000 (number of Pcard transactions per year) x 0.033' (extra hours administration time per Pcard transaction) x £8 (cost per hour of staff time to process transaction)	£267
Total per year	£1,616

Table 1: Additional costs per year for accepting Pcards

5.0 Summary

Simon Safety's experience of Purchasing Cards has undoubtedly been a positive one. Yes, there have been and there will continue to be costs involved, but in terms of the bigger – long-term – picture, these can be considered trivial.

Why then do the figures add up?

Back in 2003, when Simon Safety were invited to the seminar organized by PCC, they were supplying a large amount to the Council, and thus it can be easily argued it would have been somewhat risky of them to have overlooked their request, and put their contract with PCC in jeopardy. Evidence to date suggests they did exactly the right thing – indeed not only have they retained the business with the Council, but they have significantly increased trade since 2003.

They have also gained new business with large private sector customers specifically because they have had this facility – and who knows, these “Pcard links” could potentially result in sizeable contracts in future.

The company acknowledges they had an easy ride in terms of implementation – both from a cost and simplicity perspective. Really all they were required to do was upgrade their PDQ machine, and as they were already with Streamline, they didn't even have any account set up fees.

It's usually wise to avoid adopting a one size fits all approach, and this is the case with being Pcard enabled. Some smaller businesses may therefore have to give much more consideration to their return-on-investment. The merchant service charge for example is principally based on volume of transactions and the risk factor and thus ironically small suppliers – those that are usually much more sensitive to costs – are those that can be hit hardest in this area.

Again one needs to adopt a long-term view, and there is potential to gain new contracts just because you have invested in this facility – not only from the public sector, but also from the private sector. Having this capability is clearly then a strong selling point, and it makes sense to advertise this fact.

In Wales, 17 out of 22 Local Authorities are currently using Pcards and a target has been set that by March 2008, 80 of the 104 Welsh public sector organizations will be using them. The latter includes a range of public sector bodies – the NHS, Higher and Further Education and Assembly Sponsored organizations such as the Countryside Council for Wales – there is no escaping it! Any of these can search through the Pcard supplier database at www.purchasingcard.info/ to locate those businesses that accept these cards and could identify suppliers they want to trade with from this list.

An extract from the PCC web site pretty much sums up where the public sector is heading: ***“Suppliers unable to accept payment via Pcard may be precluded from supplying goods/services to Pembrokeshire County Council in the future as many future contracts will require this facility to be provided by tenderers as a fundamental part of the contract.”***

Should Simon Safety be faced with further eProcurement challenges, no doubt they will respond with the same positive strategic intent they showed when PCC first involved them in Pcards, and will ultimately reap the rewards once again.

Simon Safety and Lifting Company can be found at www.simon-safety.co.uk/