

# HOUSING PROCUREMENT

## FOUR WHITEPAPER



# HOUSING AGENCIES: HARNESS TECHNOLOGY TO CONTROL COST

Controlling costs is a core objective for social housing organisations. As community needs are rising faster than the pace of revenue generation, the housing sector faces an escalating challenge to identify operational efficiencies wherever possible. One area that holds significant opportunities for gains is the procurement process. From 'purchase to pay' to the streamlining of processes in order to reduce overheads and boost overall performance by more accurate forecasting, the management and evaluation of supplier contracts is an extremely promising option for an increasing number of organisations in this sector.

But is there a secure procedure for doing so?

Inspired by the experience of procurement specialist and technology consultancy Four (four.co.uk) in partnership with its housing association customers, this document sets out some key steps to becoming a better and more integrated organisation for senior housing sector managers and finance directors.

These will enable them to increase operational efficiency, improve corporate governance processes, and enhance fiscal control - thus making the whole procurement process far more transparent. In turn, this will ensure that each organisation can secure the best product, supplier and price for each and every item of overhead.

Effective procurement starts with a clear understanding of the organisation and its internal processes. Identifying and eliminating inefficiency often demands changes in organisational culture, as well as in the technology systems that underpin existing processes.

This document will work through the various dimensions of technology transformation and offer practical advice and support materials to cover all of the necessary steps towards integration.

- Understand the need for procurement efficiency and the drivers for change
- See how procurement technology will enable housing organisations to improve
- Successfully implement technology changes
- Learn from real life case studies

## You can reduce your overheads, too

"Enterprises that utilise manual tools for spend analysis show an incremental increase in cost savings from sourcing efforts of 3.2% after a formal spend analysis program has been launched. Incrementally improving technology utilisation also incrementally improves savings. However, the pinnacle is reached by those companies that truly embrace technology for spend analysis as they demonstrate an incremental increase in cost savings from sourcing of 7.4%."

- 'Spend Analysis, Working Too Hard for the Money',  
Aberdeen Group, August 2007

To date, the affordable housing sector has paid scant attention to Maintenance, Repair and Operations (MRO). Most housing providers have expended little or no resource on managing the money spent on products and services consumed through office management. This can include such consumables as office desks or computers; computer peripherals, stationery and so on, or even the processes through which these products and services are acquired.

At the same time, it is almost a truism that all housing organisations have mastered the basics of integrating their housing management system, such as Academy, CTX or Orchard', along with their financial systems.

Yet, for MRO purchases, how many housing organisations are you aware of that are no longer reliant upon cumbersome, paper-based processes - let alone those who have implemented a procurement solution from which they are reaping huge efficiency gains through the integration of these automated techniques?

**According to the Aberdeen Group, 60% of organisations rely on manual tools to collect and analyse data, resulting in limited spend visibility and the inability to improve cost savings.**



Plainly, not all organisations have yet reached the same point when it comes to using technology to manage their office overheads and integrate procurement and finance. This can be a worry, as not doing so perpetuates real and costly problems.

### *Financial control*

- Without a procurement strategy tasked with contract negotiation and supplier relationship management, the organisation fails to achieve best leverage of its purchasing power and ensure best value from suppliers. Meanwhile, with multiple and local supplier purchasing, costs are high and service is also often compromised.
- Common purchasing functions in a housing organisation - take requisition generation, authorisation, payment reconciliation processes and data entry simplification, for example - too often get routed manually, leaving time-consuming processes in place. In this situation, without an effective system in place, the easiest route is often outside corporate control. The impact of such non-authorised spend is that economies of scale are lost and off-contract buying invites risk and the possibility of fraud.
- Poor visibility of outstanding and mismatched invoices, purchase orders or receipts prevents issues from being resolved quickly. Procurement experts have consistently found that the manual process of reconciling invoices with purchase orders and delivery notes results in significant and costly errors.
- Financial information on the cost pipeline cannot be easily resourced. As a result, the organisation can often struggle to gain an overall picture of spending patterns, let alone see a forward-looking plan of expenditure that has already been committed. This hampers the ability to spot problems early and take the required remedial action to ensure that direct costs do not escalate; key ways, of course, to deliver and demonstrate best value to trustees or board members.

### *Organisational efficiency/employee productivity-negative factors*

- Firefighting problems instead of proactively dealing with them is inefficient and vastly time consuming. Employees waste a great deal of time recreating or

requesting documents that already exist, as this is deemed more efficient than trying to track down the originals or introduce templates with pre-filled information. This is as true for senior staff as it is for the office junior. In addition, these processes are often so cumbersome that employees will find shortcut solutions, such as purchasing goods on credit cards and claiming this back on expenses.

- Standard documentation for ordering or requisitioning and a central, ratified supplier base etc. may not exist. This hampers the introduction of workflow strategies, as well as leaving employees less well-informed about the correct procedure to follow when making a purchase.
- Remote workers (those working from home, or in other offices, for example) tend to find it difficult to gain access to the relevant documentation, thus increasing employee inefficiency.
- System users may not be prompted with reminders to action common tasks. This includes not only authorisation but also repetitive work procedures such as the creation of requisitions, invoices, supplier scheduling and commitment reports, etc.

### *Management information gaps*

- Without a central, unifying 'file', information (such as supplier purchase orders, requisition notes and invoices, receipts or other account files) that is vital to management - and other key stakeholders - is often too hard to track down, hindering efforts to gain an overall picture of the current status of a project or business objective.
- The difficulties related to the offering of commitments statements and commitment specifications - let alone cost-pipeline visibility - in a clear and meaningful format means that knowing which project, spend category or area of responsibility is committed to spending can be problematic.

The verdict is clear - social housing organisations need to demonstrate best practice in housing sector purchasing. Without establishing control over the procurement processes outlined above, the Financial Director will not be able to answer any value for money questions directed from board members, trustees - or, as importantly those being housed.



## Counting the cost

Translating the cost of these inefficiencies into lost revenue can be quite a shock for housing managers. According to a recent report by technology research company Aberdeen Group (August 2006), only 23 per cent of companies have aligned spend visibility programmes, and that failure to do so is costing them more than £130.5 billion a year in missed savings opportunities.

Such an approach to purchasing, whilst endemic (“Mounting a business case is too difficult in this area” is a common cry) is, in essence, dangerously short-sighted and potentially very damaging. However, such reservations are only to be expected. This need for rigorous assessment of potential IT investment has become a key issue for the public sector, especially in the wake of the Gershon Review (the Gershon Independent Review of Public Sector Efficiency, published July 2004).

The good news is that it doesn't have to be this way. There are the clear and established benefits of cost reduction and improved financial control, both of which can be calculated and included within any business.

For most social housing organisations, the aforementioned consumables represent between a significant portion of cost base. Aberdeen research has shown that enterprises have been able to achieve a 5% to 20% cost savings for each new pound of spend if savings - which can be made, and easily - are quickly realised, they thus go straight to the bottom line, allowing housing organisations the potential to pass those savings on, achieving immediate and highly visible improvements in costs, service and administration.

There's even better news - these automated techniques are just as applicable to the context of day-to-day business, whether this is ordering IT equipment or managing expenses and contracts for capital works, maintenance and commodity procurement. Today, more than ever before, housing organisations need to be able to make more sophisticated purchasing decisions from the information they have to hand, controlling costs more adequately to service clients more effectively. Staff need to be able to collaborate more effectively across the business, thus achieving more timely results for the organisation and the recipients of its services.

This means that there is a need for systems to be able talk to each other; this ultimately enables people working together in a more effective manner. If you think of it this way, it is not hard to make a case for the integration of your procurement and finance systems (and housing management solutions), thus streamlining your purchasing processes.



## True integration of your procurement system to your accounting package is a fundamental requirement

By adopting appropriate spend control systems to streamline processes and concentrating spend with a few suppliers to get better discounts, social housing organisations can reduce purchasing costs. The automation of requisition generation, authorisation and payment reconciliation processes removes the reliance on paper, increases efficiency and minimises errors. New spend control systems that are built on the latest Microsoft technologies and standards are now available to facilitate system integration. All of them also integrate with familiar Microsoft Office tools such as Word and Excel. The benefit is that you already own and understand these tools: you've already got the skills in-house, which brings down the cost of implementation and training significantly.

Research carried out by management experts the McKinsey Group (2003) found that, for organisations with sound purchasing principles in place, the more heavy their usage of software tools for procurement, the more costs they were able to save. In fact, on average, the companies from the sample used in McKinsey's research began to realise the value of deploying software solutions once they had used them for approximately 13% of their expenditure.

## The 'people' aspects of technology change

We've talked about technology, but, of course, what can hamper return on investment is not spending enough time on the 'people' aspects of change. It's simple - if an organisation doesn't address the reluctance of most people to change what they do today, it will not realise the benefits of a successful office overhead and purchasing spend strategy. Users will still have to manually fulfil their needs - or find non-authorised shortcuts, thus inviting corporate risk and the potential for fraud. In addition, managers will have incomplete visibility, executives will experience reduced control and the whole organisation will suffer as savings continue to be missed.

Change needs to be managed positively. One way in which this can be achieved effectively is a step-by-step approach, working from the bottom up to secure the all important buy-in of staff. This avoids any sense of change being driven from the top down, helping to accelerate acceptance of new ways of working.

## The difference a procurement solution can make

The overall aim of any such change should be to use the right procurement techniques to enable organisations to:

- Streamline processes, thus delivering significant productivity and ease-of-use benefits. Requisition processes are automated, ensuring that authorisations require a simple, one-click sign-off, while personnel can track the status of their requisition online, regardless of where other team members or budget holders are based. This reduces staff time spent on chasing items.
- Create an automated process which enables organisations to effectively control the purchasing habits of their employees at every level. Notification of overdue tasks may be sent to both staff and management, for example.
- Make non-approved purchasing impossible and, critically, unnecessary, as system procedures ensure that staff time is not compromised by inefficient procurement processes.

- not only in the reduction of ad hoc purchases, but also in relation to the achievement of best value and improved services.
- Monitor and measure the quality of the service delivered by centrally contracted suppliers. By so doing, organisations have the correct information to drive purchasing strategy and support contract renegotiation.
- Manage your housing association better through the removal of time consuming purchasing authorisation processes. With single-click sign-off, senior staff can make the most of integration with existing financial systems to proactively manage budgets.
- Speed up business processes and make them less vulnerable to human error through the use of workflow systems. These can highlight exceptions based on pre-defined thresholds, thus ensuring that problems - such as invoices not matching goods ordered or delivered - are immediately highlighted and dealt with.
- Offer real-time visibility of information which enables managers to monitor spending patterns and ascertain the impact of each requisition on the budget. The next logical step would be to take proactive steps regarding potential and actual budget, significantly improving overall financial control.
- Provide improved visibility, together with tight integration with finance systems, giving finance directors the ability to deliver and demonstrate best value to the business.

## Finding the right solution

So, what should you look for in a procurement solution?

A good purchasing and overhead management solution should provide the following basic features:

- Integration with your financial system. Throughout the life of the transaction, budgets and commitments are checked against your financials at the point of conception to produce an up-to-the-minute report; the availability of funds for purchasing are also checked as appropriate.



- Workflow management of processes such as invoice creation, authorisation and matching functionality, whether dependent upon value, item, supplier, site-specific attributes or available authorisers - to any required level of sophistication. Any mismatched transactions are returned electronically to the originator of the order for resolution and each iteration of the order is audit-trailed for complete control.
- Business intelligence capability that facilitates the drilling down into information; data can thus be 'sliced and diced' (by area of responsibility, or project, or spend category, or user) and transactions and documentation sourced - including those commitments not yet on the books.
- Ease of use by any employee, in sync with the Microsoft user interface and as widely accessible as possible (via the Web). Each user experience should be personalised for delivery against any specified scope of responsibility.
- The capability to integrate easily with other related applications, from housing management systems to other types of finance, document management and business intelligence systems, as well as new product features that may be deployed in the future.



### Housing management and finance under one roof

This final point about integration is particularly pertinent. Once they have squeezed the cost of overheads and operational procurement, organisations need to turn their attention to the cost of procurement for their core business, whether that is day-to-day repairs, major development costs or planned maintenance costs.

An integrated housing management database and spend control system can help housing organisations put processes and procedures in place to underpin a value for money approach. The adoption of appropriate spend control systems can streamline processes and help to concentrate spend on fewer suppliers, thus securing better savings and discounts. In this way, organisations can reduce purchasing costs substantially, as the volume of products and services purchased is so great.

For social landlords, this translates into the ability to deliver and demonstrate best value to a diverse group of stakeholders, including, importantly, the leaseholder and housing tenants themselves.

### Case Study: Wandle Housing Association makes procurement as efficient as the rest of its accounting approach

Wandle Housing Association owns and manages over 5,600 properties in 11 London boroughs including Bromley, Croydon, Lewisham and Wandsworth. Wandle has a track record of nearly four decades of proven experience in housing provision, its management and IT teams are based in three South London sites.

Like all such organisations, Wandle takes pride in its careful budget management, crucial for a cost-conscious culture. However, its performance was being hampered by an older and increasingly inflexible purchasing system.

"We manage a large number of transactions," says Wandle's IT Manager, Gordon Taylor. But whilst the association ran its accounting process very efficiently, with built-in error handling and consistency measures, the availability of details on the organisation's actual spending position could sometimes lag behind.

This was mainly because the team was not always able to log data on purchases that had yet to be invoiced, perhaps, for example, for items such as staff training. This could sometimes lead to the raising of purchase orders after an invoice arrived, a situation which is never ideal. Taylor believed that if he could better integrate purchasing with the existing back-end accounting platform, it would be much easier for staff to track expenditure as it was incurred, and, at the same time, help senior staff to better manage their budgets.

Wandle made the decision to find a technology solution that was able to work with its own organisational procedures and procedures without introducing significant disruption to the back-end accounting platform, which is SunSystems-based. There was also a very tight timeframe for the go-live date - April, the beginning of the financial year.

Performance, for example, has had to be second to none - and, of course, it has been, with Taylor describing the system's performance as exemplary since its commencement in April 2007. Taylor describes one of the benefits of the iPOS system, provided by Four, as its ability to work quickly through the large database of purchase order items in order to find the desired element. However, speed was just one of the requirements. The new system was also tasked with a brief to be as user-friendly as possible,



thus differentiating itself from the older, unloved system - another objective that Four has met with relish.

“One of the benefits of iPOS over the previous system is the ability to create a template for ordering key items, and for that template to be used again and again to raise invoices for the same amount on a regular basis. We had a real struggle with the old system because people had to re-key information, so there is an awful lot of time saved from a user’s point of view once they are able to raise an order for the same thing, over again, whenever needed,” Taylor says.

Another attraction of the iPOS approach was the ease of integration with the association’s existing accounting package. The implementation of integration has been necessary not just with Wandle’s accounts system, but also the housing management system which handles requests such as those for repairs, maintenance, contracts and so on, all of which are raised by finance.

The introduction of iPOS is also helping management to gain more visibility of the current financial state of the business. Taylor adds: “iPOS lets you see in real time what your budgets are doing and this is something that the old system just couldn’t. From a manager’s point of view, I can see whether we can afford a suggested new item. For the next financial year everything in the budgets will be placed within iPOS so we’ll know exactly how much money we’ve got to spend - and how much we’ve spent already.” The system is being used by a wide variety of staff across the organisation, and it is proving popular. As Taylor comments: “The system is so flexible, speedy and reliable that people know that when they are going to raise an order they are going to be able to do so quite quickly.”

Taylor and his team also appreciate that, through the use of iPOS, navigation time is cut down significantly. “In the last system it was very difficult to move around the different processes in purchasing,” he says. “Now, for instance, if something is requisitioned you can send it back to the requisitioner and say, ‘I’m not going to approve this’, for whatever reason. You couldn’t do that in the last system; all that could be done was a flat cancellation and an email conversation would have to follow. You had to step outside the system, basically. But now, once the requisition is raised within iPOS, you can really see what it is and how it is structured - so if there is a need, it is easy to amend and keep everything inside the system’s boundaries, which is more efficient.”

For Wandle, the main benefit of the iPOS technology centre is the ease of use when making orders and requisitions, whether they are one-off or repeat in nature. This is aligned with a capacity to bundle up requisitions into a single, more generic order, as well as creating purchasing templates that can be used for recurring items.

Wandle can already see where additional functionality could be particularly useful. Other future extensions, for example, will include allowing outside contractors to raise their own invoices on the system.

Overall, it’s what iPOS is doing now that has impressed Taylor the most. “From a user’s point of view - and also from an IT point of view - we’ve had simply no problems with it at all. It’s just one of those things that seems to work, and, best of all, it has already started to save us an awful lot of time.”

### Case study: Four helps makes supplier payments that much quicker and easier



Using BACS technology from Four, West Mercia Housing Group is improving the operational efficiency of purchase requisitioning and supplier payments. West Mercia Housing Group provides services for its partner housing associations - Harden, Kemble and Nexus. Between them, they are responsible for the provision of homes for supported housing needs and over 5,000 privately leased properties in the West Midlands, Worcestershire and Herefordshire. West Mercia has a proven track record of ten years in housing association management; its marketing, HR, IT and management teams are based in Bromsgrove, Worcestershire.

“The need for internal efficiencies was driving us,” says the Group’s Finance Manager, Mark Fieldhouse. When it came to paying suppliers, the efficiency of the finance function was hampered by lengthy cheque runs. Due to drawn-out bank reconciliation processes, current details of the organisation’s actual spending position were sometimes delayed. In the main, this was because the finance team was issuing and signing a large number of cheques, enveloping remittance advices and then performing manual bank reconciliations.

If West Mercia Group could better integrate the payment of suppliers with its accounting platform, SunSystems, then the effective tracking of cash flow would become easier for employees. At the same time, back office staff

would be enabled to make better and more productive use of their time.

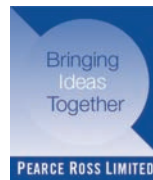
The housing group made the decision to go with a BACS and electronic remittance system supplied by procurement specialists Four. Fieldhouse acknowledges that the additional support offered by Four was one of the key factors affecting his decision to work with them. Fieldhouse has found Four to be supportive and whenever he has needed to contact them, he asserts that they have been “very helpful”.

For West Mercia Group, the main benefit in using the BACS technology centre is the ease of use when making electronic supplier payments and automated emailing of supplier remittances, whether they are one-off transactions or regular creditors.

“We have a solution that has significantly cut back office time, which is where we want to be”, says Fieldhouse, “for West Mercia, our suppliers and our housing customers.”

### Who we work with

Four work in partnership with the leading housing finance systems specialists Pearce Ross Limited - consistently delivering superior solutions to each and every customer.





## Where to go from here

So what should you look for in a procurement automation provider and integrator?

A provider that allows an organisation to move at its own pace and budget is a major advantage. An incremental approach based on clearly realisable short term wins - starting small adding more advanced features as the need is defined and your people ready to progress to the next stage - will help deliver consistent project success.

Talk to us to see how we can help you better manage your procurement overheads.

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Four Business Solutions are a company specialising in the delivery of spend management and employee expense solutions for SunSystems accounting software users. Our consultants offer unrivalled integration skills, complex integration project knowledge, and a client focused approach - a combination that has helped us deploy some of the largest and most challenging projects in the industry, on time and on budget, that have streamlined procurement processes for our many global clients.



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Pearce Ross specialises in project management and business process re-engineering of core housing and financial systems. Its services include systems integration, systems development, reporting, training and troubleshooting of existing applications. The consultancy team has worked extensively in the social housing sector for over 15 years with leading financial software like SunSystems as well as many of the proprietary housing management packages.

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