

Taking a lean approach in the UK public sector

Taking a lean approach to cost reduction is the only way to make a real difference and MasterCard believes that the third generation Government Procurement Card (GPC III) can make a really significant contribution.

The message is clear. With the current deficit the Public Sector must reduce cost if it is to continue to provide effective services with limited budgets. And it is also clear that progress is being made at an, unusually, fast pace. The ERG is certainly making a mark and is quite right to be putting considerable emphasis on government expenditure, which, of course, is huge.

Re-negotiating contracts with major suppliers and moving towards centralised category procurement makes perfect sense but, to make a real difference, the Public Sector will, probably, be taking a lean approach to cost reduction across the whole of their supply chains. In this they will be looking at the demand for and specification of the services they provide and the way that they are delivered or commissioned; they will be looking at the optimisation of processes to deliver these front-office services; and they will be looking also at how they can make back-office processes more effective. They will be looking at procurement in terms of specifications and demand, pricing and total cost and supplier development – for long-term, sustainable cost management. Or will they? Surely, beating up the big suppliers and centralising strategic sourcing is not where it will stop!

The target operating model for centralising category procurement requires the right management information, effective enabling technology and efficient payment processing if it is to deliver and it is to be expected that GPC III will play a major role in both the effectiveness of the operating model and lean procurement.

GPC III is not simply a set of tools for processing low value orders. Deployed strategically in a total lean approach it can make a contribution to improving procurement processes and in supplier management and development.

There is no doubt that the GPC improves payment processing but it can be used to achieve much more. There is scope to use GPC functionality not only for low value transactions but also for much higher proportions of expenditure, notably with embedded, lodged and prepaid cards, and achieve much higher levels of process efficiency and headcount reduction or redeployment. Position GPC functionality within an overall settlement or eProcurement strategy, potentially through an eSettlement hub, and the benefits will be even greater.

GPC III embedded within the new category contracts will ensure that suppliers are paid within four days, reduce their own internal costs by decreasing the costs of invoice errors and debt collection and, in turn, drive compliance with the negotiated contracts. Suppliers will always prefer the hassle-free route to the maverick route. Reducing total cost in this way will have a positive effect on price especially if new contracts are going to be volume-bound. And, of course, the bigger the volume through the GPC the bigger the issuer rebate.

This also contributes to Government's prompt payment and support to SME initiatives. This can go even further if linked to Supply Chain Finance.



Taking a strategic approach to settlements will improve management information and control. The third generation of GPC includes ancillary products such as MasterCard's Smart Data and InControl which are being deployed to provide better management information and greater visibility and control in transactions. The old obstacles of potential lack of control and visibility have been taken away.

To make maximum use of the management information it will be beneficial if groups of like-minded bodies adopt a collaborative approach to GPC III, also avoiding the cost of multiple re-tendering exercises. Putting groups of organisations on the same GPC III platform will have provide consolidated information as well as contract compliance and through-put rebate.

MasterCard have recently produced a paper in collaboration with Cap Gemini Consulting on how, in the current economic environment, an efficient procurement process can be instrumental in driving efficiency improvements and reducing cost.

[Click here](#) to find out more and receive the paper in full.

If you would like further information on MasterCard's approach to GPC and strategic eSettlements please visit the website: www.mastercard.co.uk/publicsector

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We look forward to hearing from you.

