



## Maximising Performance of the UK Value Chain

### Introduction

The Prime Minister has committed to enabling 25% of all transactions with Government to be carried out electronically by 2002. The Government has also committed to the increased use of IT (including Internet-based systems) to enable hundreds of millions of pounds of NHS expenditure to be transferred from administrative overheads to service delivery. It is said that in some areas savings of 30% and more can be achieved by improved co-operation between departments with overlapping responsibilities and objectives (e.g. across the legal system or those concerned with taxes and benefits). Many parts of the UK private sector are also under pressure to achieve similar savings in order to remain internationally competitive. Furthermore, most organisations want to achieve significantly higher rates of return from their investments in computers and systems.

One of the main techniques by which the UK private sector, and public sector organisations outside the UK, have achieved savings of this scale is Value Chain Management. Value Chain Management allied to Electronic Commerce can optimise service while minimising resource costs. This approach is not, however, a panacea nor a quick fix, and a number of specific disciplines and approaches are necessary for it to produce best results. There is a need for greatly improved political awareness of both the potential and the pre-requisites for success, and also to improve UK capabilities in this area. EURIM therefore calls for the appointment of a few small skilled Value Chain Management teams, and also for the formation of a UK Value Chain Confederation to bring together best practice across both public and private sectors.

### Recommendations

#### *TO ENHANCE UK COMPETITIVENESS, EURIM RECOMMENDS:*

The formation of a UK Value Chain Confederation to focus on developing and implementing best practice.

Work by its membership to agree common concepts, language, and training. A programme to win the hearts and minds of senior management across the UK.

- Sponsorship for this at Cabinet Minister level.
- The application of more resources and effort to link best practice, electronic commerce, EDI and IT applications, to improve UK Value Chain communications and operations, especially for SMEs. This will also benefit the "Better Government" initiative.

#### *TO ENHANCE PUBLIC SECTOR PERFORMANCE, EURIM SEEKS:*

- Recognition that "best practice" and computer technology need to be allied more cost effectively.
- Agreement from Governments - EU and UK - that they also need to use "best practice".
- Agreement by all UK Departments & Authorities to make greater use of Value Chain Management in dealings with the public, the private sector and each other. Appointment of small, skilled teams to make this happen in key areas of opportunity.
- Confirmation that EU & UK legislation and regulation will respect best practice "partnerships".

The UK's economic position is currently well poised to invest wisely in enhancing competitiveness. Investing imagination and effort as well as modest resources in productivity and efficiency will help to put us and keep us ahead. It is therefore a good moment to launch a Value Chain initiative.

*The following short guide describes the various techniques being used to achieve success, and proposes how Value Chain Management and electronic communications can significantly benefit each other. The full report "Maximising Performance of the UK Value Chain" is available from our Secretariat.*

The UK Value Chain is the total set of processes by which the economy provides the goods and services needed by our internal and external customers, and ultimately by our citizens. Clearly, if we can provide these goods and services more effectively at a lower total cost, we add net value, we improve competitiveness and customer service, and we increase national wealth. Since the demand for goods and services is increasing faster than normal economic growth will provide, opportunities to improve total benefits at a lower overall resource costs need to be seized.

*Value Chain Management* aims to achieve these objectives by simplifying, streamlining and standardising our processes across all sectors of the economy - business, commerce, government, institutions, and the interfaces between all of these. It focuses on enhancing the value of output, and on minimising the costs of input and throughput, by improving speed and certainty of action within and between all partners in the value chain. It emphasises that benefits can only be maximised if information is shared in a more transparent way across each Value Chain. We need to move away from the era where much internal information, such as master data, records of performance and forward plans, are seen as being confidential, and not the business of, or relevant to, the value chain partner. Information can best be shared and total performance maximised, if processes have the required degree of simplification and standardisation. Many processes across the public and private sectors have much more in common than current ways of operating allow. Too often we achieve sub-optimal performance because we operate within functional and departmental silos.

Currently, information is shared electronically among businesses and institutions either by e-mail or fax (which involves individuals interpreting and re-keying data into their own computer systems) or by Electronic Data Interchange. EDI allows the automatic processing and routing of data, but only if partners use the same interpretation of the standards, and this is not achieved sufficiently often at present.

By simplifying and standardising processes across the Value Chain, we can enhance all electronic communications and thereby further improve speed and certainty of action. New SIMPL-EDI standards have now been developed to support this, and these are being submitted for approval at European and UN levels. The principles of SIMPL-EDI now need to be applied to making I.T. applications far more cost effective, including support for Internet use. SIMPL-I.T. will make all business and administration more productive, particularly for the smaller and medium sized enterprise. Although these proposals will not solve the Year 2000 problems of legacy computer systems, they will substantially improve future computing performance.

Many firms and industries have benefited from particular developments within Value Chain Management - Total Quality, Just in Time, Time Compression, Lean Operations, Inter-organisational Networking, Efficient Consumer Response, Supply Chain Management, and many more. However, we need to clarify how the various approaches integrate to achieve overall best practice i.e. simplify both terminology and methodology.

There are many examples of firms benefiting from Value or Supply Chain Management via :-

- *improved* customer service leading to more sales since demand is satisfied cost effectively and customers then feel confident to order more;
- *less* capital and revenue resources including production and distribution capacities, facility duplication, and inventory, since demand and supply are better matched via joint planning by customers and suppliers;
- *less* uncertainty leading to goods and services being able to be used without delay, testing or waste. Better quality is achieved leading to more satisfied customers.

Partners in the UK Value Chain can only maximise their performance by synthesising best practice from the above approaches with electronic networking. When streamlined and standard business and administrative processes, supported by integrated, standard computer applications, are well linked by simple, standard electronic communications, the UK Virtual Enterprise will be truly in place. Getting the

best out of Electronic Commerce demands effective value chain processes. High and cost-effective service across the UK Value Chain demands better electronic communications and computer applications. The application of focused Value Chain Management will benefit most public as well as private organisations. Particular benefits will accrue to the smaller business, which currently incurs too many overheads in doing business with customers and suppliers in different commercial and administrative sectors. SMEs have to use too many varied and costly communications and IT standards.

The UK is well advanced in many of these developments; but, as is too often the case, we are better at defining opportunities than realising the major tangible benefits. Here is an opportunity to improve competitiveness and service levels throughout the economy. It needs much thought, willpower and co-operation, but does not require any major capital investment.

Many of the key groups involved in aspects of Value Chain Management and Electronic Commerce have now agreed that a UK Value Chain Confederation is needed. Government involvement is therefore sought to ensure that the full UK Virtual Enterprise participates.