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Strategic Relationships: The Key to ROI in E-Procurement

September 2002

Custom Consulting Analysis

Table of Contents

Strategic Relationships: The Key to ROI in E-Procurement

Sections

Figures

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Custom Consulting Analysis

Strategic Relationships: The Key to ROI in E-Procurement

A real return on investment (ROI) for business-to-business electronic procurement (B2B e-procurement) systems continues to elude many organizations. Although they attempt to reduce costs by investing in systems such as Ariba Buyer, Oracle iProcurement, SAP Enterprise Buyer and others, many organizations are not seeing the bottom-line results they were expecting.

The primary cause of this is the complexity and expense of introducing changes—not only internally, with the procurement operations, but externally as well. Organizations can achieve significant ROI in B2B e-procurement; the key is to consider the primary ROI drivers for their B2B e-procurement initiative.

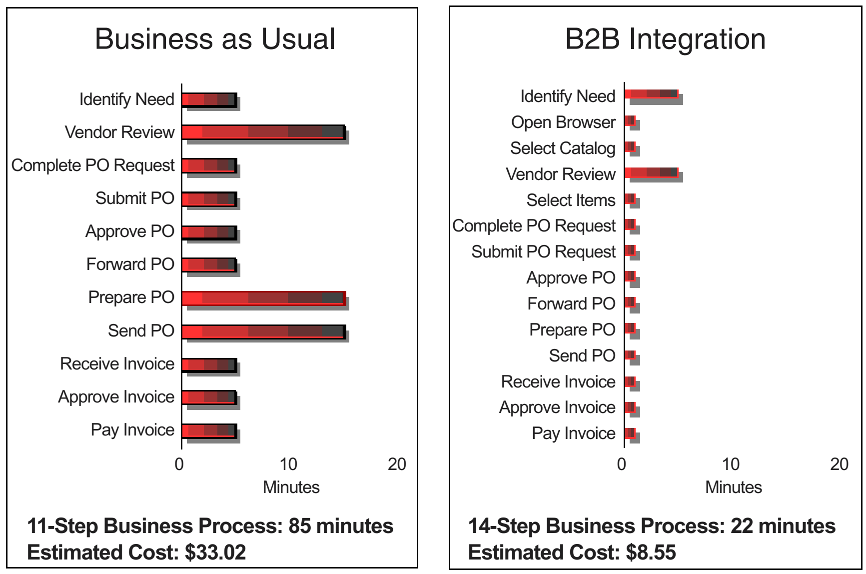
According to research conducted by Gartner, a typical non-B2B e-procurement buying process can be broken into 11 steps that consume, on average, about 85 minutes (see Figure 1). If one assumes average costs based on a $40,000 per-year employee, the simple math shows that this process can cost a company approximately $33 per order. In a company that produces 10 million transactions per year, this translates to an annual procurement cost of $330 million.

Now, compare that organization to one in which the buyer and suppliers have established tightly integrated B2B e-procurement processes. Based on Gartner's numbers, this alternative buying process requires three more steps (14 versus 11); but, because of the efficiencies created by integrating the buyer's and supplier's business systems, it consumes only 22 minutes. Applying the same average costs, the integrated B2B e-procurement process costs the company approximately $8.50 per order, reducing the company's per-order cost by 74 percent—and resulting in savings of $245 million.

How does a company achieve these kinds of business savings and efficiencies? First, once they have invested in Internet-ready e-procurement systems, they must successfully deploy them across their organization. Second, they must leverage these systems by converting all purchasing through them.

Figure 1 **B2B Integration Payoffs**

Buyers that tightly integrate their buying processes with supplier systems can achieve dramatic declines in costs.



Source: Summit Strategies, Inc.
www.summitstrat.com

Most companies believe that the first part of this equation—selecting, installing and deploying an e-procurement system—is the most important part of their e-procurement strategy. In truth, the real secret to success—along with the biggest stumbling block—lies in the second part of the equation. Here's why.

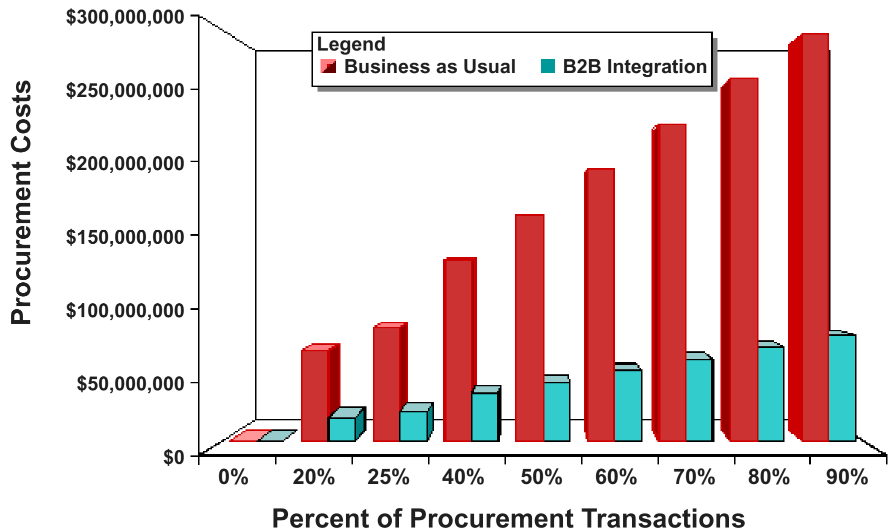
Section 1 The Volume Game

Simply put, the real payoff from e-procurement investments comes when companies drive volume transactions through these systems. One of the easiest ways to illustrate this is to use a scenario similar to our first, looking at a company whose transaction volume is approximately 10 million transactions per year (see Figure 2). Now, add $1.5 million for the cost of a new e-procurement system, and stack another $250,000 on top of this number to handle supplier integration costs.

The result is that, even at the highest procurement-transaction rate, a B2B e-procurement approach will consistently cost companies only a fraction of the total amount associated with doing business as usual. Our analysis underscores that a company's B2B e-procurement strategy—especially one that doesn't aggressively ramp up transaction rates—could affect costs to a significant degree.

Figure 2 **B2B Integration Payoffs, Total Procurement Costs**

Even at the highest procurement transaction rate, a B2B e-procurement approach will consistently cost companies a fraction of the costs associated with doing business as usual.



Source: Summit Strategies, Inc.
www.summitstrat.com

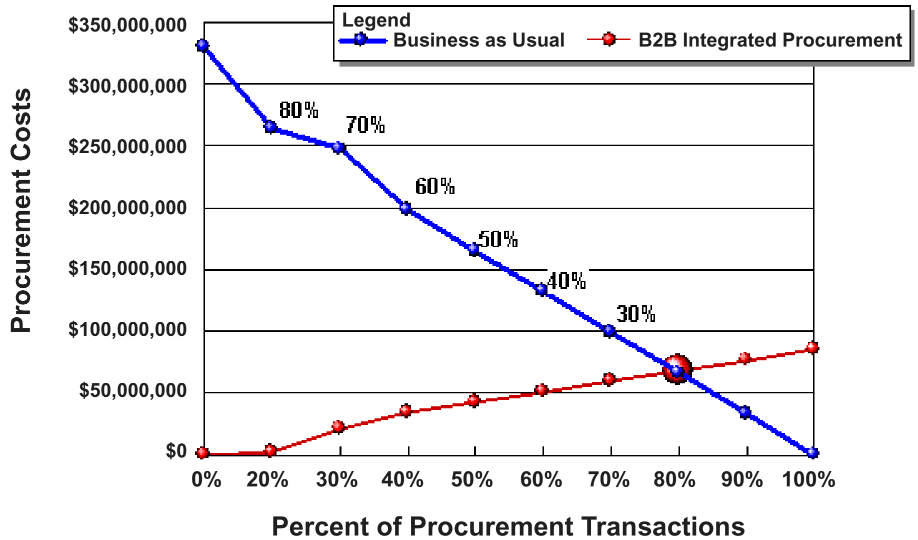
The scenario in Figure 3 maps the impact of trying to execute a dual approach, in which a company integrates its systems with some suppliers, but channels only a small portion of its total procurement activities (in this example, 10 million transactions per year) through these connections. Our analysis shows that a company is unlikely to achieve target cost reductions until it channels 80 percent of its transactions through an integrated B2B e-procurement environment.

This, of course, begs the most important question: How can companies quickly achieve the volume of transaction levels necessary to truly leverage their e-procurement and B2B integration investments? The answer is fairly simple—form strategic B2B e-procurement relationships; but, putting it into practice is complex:

- Start by making a list of the product categories and suppliers that represent 80 percent of your company's e-procurement transactions. Get as close to this number as you can;
- Prioritize each commodity/supplier based on its volume of transaction; and
- Evaluate supplier capability, experience and investments in e-procurement technologies to determine their ability to support an e-procurement initiative.

Figure 3 **Achieving Target B2B Cost Reductions**

Companies are unlikely to achieve target cost reductions unless they channel 80 percent of e-procurement transactions through an integrated B2B e-procurement environment.



Source: Summit Strategies, Inc.
www.summitstrat.com

Why is this type of analysis important? Because there's much more to forming a strategic B2B e-procurement relationship with a supplier than product mix, pricing or purchasing volume discounts. Success comes from choosing suppliers that have already made—and will continue to make—B2B e-procurement investments that support *your* initiatives, and drive down costs even further.

Section 2 Today's Supplier: Strategic Versus Contract

In the past, two of the main reasons contract suppliers won business were pricing and customer support. As seen in the previous examples, pricing is no longer the key to lowering procurement costs. The new procurement landscape makes it essential for suppliers to have both the investment and expertise to enable an e-procurement application as quickly as possible.

Suppliers must now be considered strategic partners. Significant cost reductions can be realized simply by deploying an e-procurement application; but, without supplier integration, considerable potential ROI is lost.

Let's take a look at the qualities that define a strategic supplier, and at three companies that stand out as strong examples of a new breed of B2B e-procurement innovators: Dell Computer, Staples and W.W. Grainger.

Section 3 What Makes a Supplier Strategic?

Essentially, being a strategic supplier involves both capability and capital: *Suppliers must have made both initial and ongoing investments in their infrastructure to support e-procurement.*

Initial investment and early experience are strong indicators of strategic supplier capability. Dell Computer, for example, began its B2B e-procurement integration program two years ago, but has already successfully integrated its business processes with more than 150 enterprise customers using e-procurement applications. Their success lies in their significant investments in flexible enabling technologies, such as webMethods B2B Enterprise Server Application and its configurable Web-procurement application. Dell's corporate Website can be accessed at www.Dell.com.

Staples has also amassed an impressive roster of B2B e-procurement customer relationships since launching its efforts in 2000. To date, Staples has integrated its systems with more than 150 enterprise customers. Like Dell, Staples has also invested in technologies that provide adaptability and flexibility: webMethods B2B Enterprise Server Application and Trigo. They have also upgraded their Web-based e-procurement application, StaplesLink.com, to IBM's WebSphere platform. Additional information on Staples can be found at www.staples.com.

Grainger started its integration journey in late 1999, and completed its first customer implementation in 2000. Grainger has invested in technologies such as webMethods B2B Enterprise Server and the Resolution EBS Centrifuge product to increase ease of access and integration capabilities to Grainger's corporate Website, www.grainger.com. Grainger delivers e-procurement-enabled connections to 150 customers, using established integrated connections with 20 third-party partners, as well as connecting directly with customers.

Each of these suppliers has continued to invest in infrastructure that allows them to closely monitor all electronic transactions, ensuring a clean delivery of at least 90 percent or better of those transactions to their fulfillment processes.

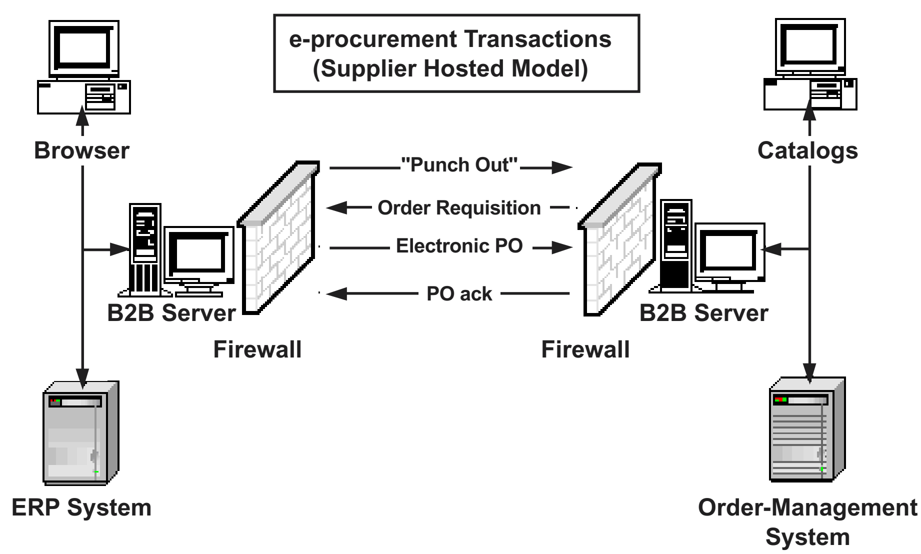
Section 4 Suppliers Must Have the Talent to Deploy This Capability to Their Customers

Not surprisingly, Dell, Staples and Grainger have all seen the fruits of their early investments pay off. Each company has continued to make investments to allow flexibility and adaptability for B2B e-procurement applications.

Dell Computer, for example, has fine-tuned its methods to the point where the company can deploy B2B e-procurement solutions in days. Staples has committed to an implementation period of less than 30 days, and offers a customer-implementation Website tool, Staples.b2b.com, to assist its customers in setting up Staples on their e-procurement application. Grainger has also fine-tuned their processes, and can typically implement and test a fully integrated customer solution within 30 days. Of course, timelines are dependent on customer readiness, requirements for additional customization, customer-resource commitment, previous engagement experience and familiarity with the e-procurement platform (see Figure 4 for an example of the e-procurement processes).

Each of these suppliers operates formal B2B e-procurement integration programs, complete with seasoned developers and customer support staff. All three suppliers have not only crafted and documented various supplier- and buyer-hosted processes, but have also developed detailed integration guides that customers can use to plan, deploy and manage these B2B e-procurement connections.

Figure 4 **B2B E-Procurement-Supplier Hosted Solution**



1. A buyer logs on to the company's e-procurement system, intranet, or approved marketplace and uses an approved catalog to shop for a product.
2. If the buyer needs to research or custom-configure and price a component, the e-procurement system automatically transfers the buyer to the correct link or company-specific extranet to perform these functions.
3. When the order is complete and the buyer hits the "submit" button, the site transfers the order to the company's e-procurement system, where it is processed and steps through the approval process.
4. After the order is approved, it begins its electronic journey through the supplier's ordering, manufacturing and fulfillment systems.

Source: Dell Computer, Staples and W.W. Grainger

Section 5 Suppliers Must Have Partnerships With E-Procurement Vendors to Keep in Step With Customers' Applications

Swift integration and fast time to benefit result from another supplier commonality: deep expertise based on sound relationships. Dell, Staples and Grainger, for instance, pre-developed B2B connections between their business systems and the industry's leading e-procurement vendors, including Ariba, Commerce One Operations, SAP, Oracle, PeopleSoft and others. Having these connections in place prior to engaging the customer allows suppliers like these not only to have the ability to quickly connect, but also the knowledge and experience with the platform to assist in the implementation. They also maintain ongoing relationships through seats on the advisory boards of the industry's leading e-procurement vendors. This approach allows leading suppliers to not only plan for future functionality of the applications, but to influence the applications' future capabilities on behalf of their customers.

Rather than follow different—or even parallel—B2B e-procurement paths, Dell, Staples and Grainger have also shaped an informal alliance to share best practices and collectively agree on a common set of supported B2B e-procurement interconnection protocols and standards. This will allow their customers to easily connect to any of these companies' extranets—and to leading industry exchanges.

This approach can provide advantages to every company in the emerging B2B e-procurement ecosystem. Suppliers like Dell, Staples and Grainger benefit by sharing their hard-won knowledge and expertise on the best and fastest ways to deliver world-class B2B e-procurement integration to their customers. Customers gain by achieving standardization across their supplier requirements, and avoiding the costs and delays associated with crafting a different B2B e-procurement connection for each supplier. Thus, a quicker ROI results in suppliers that not only partner with e-procurement vendors, but form partnerships with other suppliers.

Section 6 Selecting Strategic Suppliers

Although there is obviously more to the process of selecting a strategic supplier than can be covered in this brief report, our research indicates that most companies can quickly assess B2B e-procurement capability by posing specific questions to suppliers. Figure 5 illustrates a set of questions that can help identify strategic suppliers.

These questions set a high standard for your suppliers for two very important reasons: first, a B2B e-procurement integration project is not the place to learn the ropes along with your suppliers. Delays only reduce the opportunity for bottom-line impact of a potential ROI. Second, the advantages of swift integration and fast time to benefit are something that cannot be overemphasized, and they need not be a point of compromise. Many leading suppliers have already made the investments necessary to establish themselves as B2B e-procurement integration leaders.

Figure 5 **Assessing Strategic Supplier Capabilities**

Our research indicates that most companies can quickly assess B2B e-procurement capability by posing specific questions to suppliers.

1. What investment has the supplier made to B2B-enable its own business systems? For example, has the supplier already established connections with its back-end order-management systems to reduce cycle times?
2. How many successful customer integrations has the supplier completed to date? Has the supplier completed at least 50 successful integrations within the past year?
3. Does the supplier have a formal B2B e-procurement integration program? Does this program include a fully documented engagement process and supporting documents that will guide your organization through the B2B e-procurement integration process?
4. Does the supplier support the industry's major e-procurement systems, such as Ariba, Commerce One, SAP, Oracle and PeopleSoft, or marketplaces such as Pantellos, DSSI, I-Procure and Exostar? Will the supplier support both buyer and supplier hosted catalogs and processes?
5. Will the supplier customize the system to your company's requirements (within reason)? Does it have internal consultants (or a strategic relationship with third-party consultants) to provide these custom integration services?
6. Does the supplier have strategic relationships with leading e-procurement vendors (e.g., sits on the vendor's advisory board)? Does the supplier work closely with these vendors to ensure that new capabilities and features address your mutual requirements?
7. Does the supplier provide a dedicated support staff (available by phone and e-mail) that can resolve issues during *and after* the integration process? Can the supplier's sales or support staff quickly customize or update the catalog and price list when necessary?

Source: Summit Strategies, Inc.
www.summitstrat.com

Section 7 The Bottom Line

How can a company maximize ROI in this new era of procurement by having strategic relationships? Consider the following:

- Recognize that the primary drivers for ROI for your B2B e-procurement initiative is cost per transaction across the board—from purchase to payment. Develop metrics to track your progress;
- Be prepared to commit necessary resources on your end to ensure timely supplier implementation and user adoption;
- Deploy your Internet-ready e-procurement systems across your entire organization, to eliminate opportunity losses with manual processing;

- Leverage your systems by converting all purchasing through the system;
- Use a strategic-supplier profile to evaluate and select suppliers capable of tightly integrating with your system to drive volume transactions, with a goal of channeling 80 percent of your transactions through an integrated B2B e-procurement environment; and
- Finally, partner only with suppliers that can quickly channel purchasing through your B2B e-procurement platform.

Companies that see past a single-supplier connection strategy, looking instead to leverage their B2B e-procurement investments by forming relationships with allied suppliers, will be able to quickly and easily expand their roster of digital suppliers and drive transaction volume—dramatically accelerating their e-procurement investment's ROI.

About Dell

Dell Computer (Nasdaq: DELL) is a premier provider of products and services required for customers worldwide to build their information-technology and Internet infrastructures. The company's revenue for the past four quarters totaled $31.2 billion. Dell, through its direct business model, designs, manufactures and customizes products and services to customer requirements, and offers an extensive selection of software and peripherals. Information on Dell and its products can be obtained at www.dell.com.

About Staples

Staples is an $11 billion retailer of office supplies, business services, furniture and technology to consumers and businesses, from home-based businesses to Fortune 500 companies in the United States, Canada, the United Kingdom, Germany, the Netherlands and Portugal. Headquartered outside of Boston, Massachusetts, Staples invented the "office superstore" concept and today is the largest operator of office superstores in the world. The company has approximately 53,000 associates serving customers through more than 1,400 office superstores, mail-order catalogs, e-commerce and a contract business. More information about the company is available at www.staples.com.

About W.W. Grainger

W.W. Grainger (NYSE: GWW), with 2001 sales of $4.8 billion, is the leading North American industrial distributor of products used by businesses to maintain, repair and operate their facilities. Grainger shares are traded on the New York and Chicago stock exchanges. For more information, visit Grainger online at www.grainger.com.

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