

Assessment of Excellence in Procurement 2002

How Leaders Create Value Through eSupply Management

Ten years ago, A.T. Kearney launched the first in a series of studies of Leadership Practices in Procurement, with 25 participants from North America. Over this decade, both the procurement function and the series have gained prominence. The 2002 Assessment of Excellence in Procurement is the first benchmarking study to focus on the impact of eSupply Management on large companies globally. A.T. Kearney surveyed 147 participants from five continents, representing leaders from 22 industries in the Manufacturing, Process Industry and Services sectors. These companies averaged \$9.5 billion in 2000 revenues, with EBIT of 14.2% and eSupply Management IT spend of 0.07% of revenues.

The scope of this year's study was originally eProcurement. However, in the past few years, the term **eProcurement** has become clouded by over-optimistic predictions and a blizzard of ambiguous labels. For greater clarity, we have adopted the term **eSupply Management**, which encompasses eDesign Collaboration, eSourcing, eCategory Management, eOrdering and eLogistics Collaboration.

The 2002 study captured the procurement function at a pivotal time: vast new potential is being revealed in terms of eSupply Management benefits, as well as in tool capabilities and even the role of the CPO. This summary highlights the major conclusions:

- Research showed that companies would nearly quadruple base case savings by capturing eSourcing's full potential. Extrapolating to the Fortune Global 500, this would represent potential savings of \$330 billion.

- Leaders distinguish themselves by taking a bolder, more complete and proactive approach to adopting eSupply Management, while others concentrate on transaction processing
- Looking ahead, eSupply Management tools are evolving rapidly, and CPOs will either seize the opportunity to become boardroom level leaders, or will be at risk of being outsourced

WHAT IS E-SUPPLY MANAGEMENT LEADERSHIP WORTH?

While 96% of companies surveyed engage in eSupply Management, their activities cover only about 11% of their spend base. Even so, eSupply Management produced clear benefits:

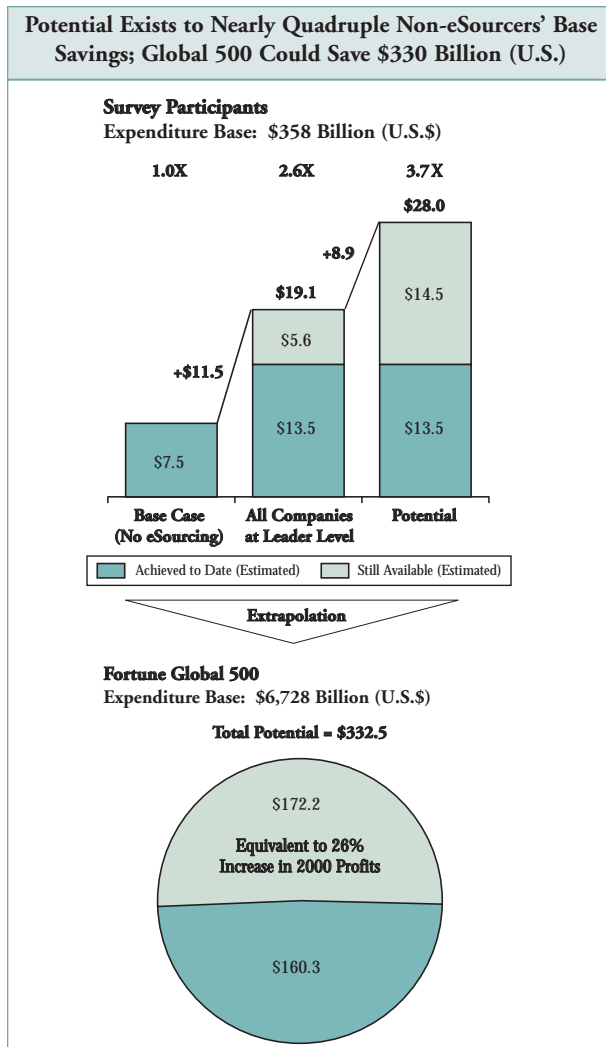
- Reduced costs on covered spend up to 10% through strategic sourcing using eSourcing tools
- Reduced order cycle time 41% through e-catalogs and end user ordering
- Reduced supply management head count up to 10% through eliminating or automating low value activities

We also found that eSourcing achieves significant savings with minimal investment.

- Leaders who eSource today nearly double the savings of non-eSourcers by saving at a higher rate across more of their spend
- If non-eSourcers captured the full potential savings available, they would quadruple their base case savings of \$7.5 billion. Leaders in sourcing achieved savings of \$13.5 billion, but left an additional \$5.6 billion on the table by not applying tools to the bulk of their spend. If the survey population matched leaders' savings rates and applied sourcing to 80% of their spend categories, they would save \$28 billion
- If the Fortune Global 500 matched the leaders' savings rate and covered 80% of their spend, they would save about \$330 billion
- It takes a relatively small expenditure to get these

results. Spending \$1.5 billion for IT technology tools, implementation and change management would deliver savings of \$19.1 billion for the study participants. This leverage of 13:1 is close to the medieval alchemists' dream of turning base metals to gold

Yet leaders could be doing considerably more.



CEOs increasingly expect supply management to contribute to the top line. eSupply Management's value building blocks, beginning with the highest value added, include design—revenue growth through innovation and marketing—followed by sourcing, ordering and monitoring for internal and

external cost reduction. However, less than a quarter of respondents have met their revenue aims through eSupply Management.

Design. Although design could contribute the greatest value, participants are focusing on the other three building blocks, leaving design opportunities under-exploited. Not surprisingly, few companies feel that they obtain high value from revenue-generating eSupply Management tools, nor do they expect to over the next year.

Source. Despite a stated interest in collaboration, most companies feel that the greatest value lies in basic sourcing strategies such as creating price dynamics, using consistent specifications, and consolidating their spend. However, they expect greater value over the next year from collaborative activities like joint process improvement (45% agreeing) and relationship management (31%). Participants also indicate higher expectations for e-negotiations and e-RFx tools than for net markets and consortia.

Order. Over half of the participants find value in streamlined order generation through eOrdering. They will seek further benefits from supplier payment processing and e-logistics during the next year.

Monitor. Spend profiling tools provide more robust and accurate data in the monitoring, and companies expect greater value from the whole range of eCategory Management tools.

WHAT DISTINGUISHES E-SUPPLY MANAGEMENT LEADERS?

The study defined leaders as those companies that met or exceeded eSupply Management objectives for a significant portion of their spend base (any of the following criteria: 35% coverage of direct materials spend, 60% of indirect materials, or 40% of the total spend.)

One fifth of companies ranked as “successful

experimenters”, successfully meeting objectives, but only 8% emerged as clear leaders. Leaders shared the following characteristics:

Strategy and organizational alignment

- Over 75% of leaders believe that their eSupply Management strategy is aligned with eCommerce strategy and with procurement objectives
 - The CPO leads the eSupply Management charge in all leading companies, and the effort gets broad executive level support
 - Leaders use eSupply Management to migrate procurement professionals to higher value activities
 - Training the rest of the organization is recognized as a key to success
- Capabilities development and toolset functionality
- Leaders consistently invest more in eSupply Management IT relative to their spend base
 - Over half the leaders use eTools across all spend segments, gaining experience in more supply markets
 - They drive for implementation ahead of schedule to get feedback and learn from the experience
 - Leaders bring their suppliers with them along the path to eSupply Management readiness
 - They are e-enabled with a greater percent of their suppliers across all spend segments
 - 75% of leaders have developed or are developing their own private marketplaces
 - But not even the leaders successfully use eTools to address revenue growth and design, which remain unexploited opportunities

WHAT LIES AHEAD?

We see evolution in two areas: eTool capabilities and the CPO function itself.

eTools today are exiting the stand alone phase and moving toward integration, with intelligent

solutions likely in two to five years when eSupply Management fully emerges. Technology buyer factors—such as industry and company characteristics and legacy systems—will play a major role in determining the fate of eSupply Management technology. Three directions appear possible:

- “Steady Growth,” based on incremental market growth with a gradual shakeout among eTool providers
- “Crashing Wave,” similar to the dot.com bubble, in which eSupply Management is viewed as a management fad and a major shakeout takes place among tool providers
- “Golden Age of eSupply Management,” with strong early adopters showing incremental growth and benefits, and in which the eTool integration rampart is breached

Turning to the CPO role, a Darwinian shakeout looms ahead. As procurement transitions into supply management, the requirements to gain and sustain leadership get even tougher. At the ultimate stage of excellence, the CPOs’ goal will be to deliver business competitive advantage; the focus of efforts will be top-line value generation; the critical skill to act as supply market strategist; they will become early adopters of eDesign tools and the role will be that of boardroom level leader.

Much like IT organizations around 1985, procurement organizations face stark choices. They can develop into a strategic weapon, become an internal utility, or be outsourced. The same is true for the CPO as an individual. Leaders will create high-performance supply management organizations. Distant followers are at risk of functional extinction.

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