Executive Summary

In less than a decade, e-procurement has traversed the journey of being ridiculed as a poster child for the dot com bust to being praised as a source of competitive advantage for high performing enterprises. Best-in-Class enterprises demonstrate that automation and integration with other systems has transformed procurement into an information hub supporting decision making and business planning, while also driving significant improvements in transaction processing, contract compliance, and financial reporting. This is the fifth in a series of Aberdeen benchmark studies, which have been conducted since 1998, focusing on e-procurement performance and examining the goals, hurdles, strategies and results of 622 enterprises. This report also identifies the practices employed by Best-in-Class enterprises to maximize spend under control and optimize the value of their e-procurement initiative.

Best-in-Class Performance

Aberdeen used two key performance indicators to distinguish Best-in-Class enterprises: percent of spend under management and average requisition-to-order cycle time. Best-in-Class enterprises:

- Place, on average, 26% more spend under management than all other enterprises
- Have, on average, 25% less maverick spend than all other firms
- Report a requisition-to-order processing cost that is, on average, 33% lower than all other enterprises and a requisition-to-order cycle time that is, on average, 61% lower than all other firms

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics with respect to their e-procurement initiatives, including:

- Utilize electronic purchase orders that integrate directly with vendor’s order management system 33% more often than all others
- Have an extended e-procurement system that integrates with finance and accounts payable 36% more often than all other enterprises

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, enterprises must:

- Utilize electronic transactions, and leverage supplier networks and catalog management solutions
- Ensure integration of e-procurement solutions with accounts payable and ERP systems to optimize capabilities and maximize performance
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Chapter One: Benchmarking the Best-in-Class

Business Context
Gone are the days when procurement was just a transactional center for processing requisitions and placing orders. The transformation of procurement has shifted this one-time back office function from a tactical function to an integrally strategic business operation that bolsters the bottom-line of an enterprise by delivering operational efficiencies and cost savings. Acting first as an information hub that supports business planning and decision making, e-procurement improves performance on routine tasks such as transaction processing, enabling monitoring and enforcement of regulatory compliance, and financial reporting. As procurement has matured and progressed, so have the related tools and services available to organizations. However, leveraging e-procurement solutions for supplier enablement, gaining user support, and improving adoption and integration with other business units remain challenges for enterprises.

Drivers of E-procurement Initiatives
Top of mind for procurement professionals seeking to improve the performance of their e-procurement initiatives is efficiency (Figure 1).

Figure 1: Top Pressures Driving E-procurement Initiatives

| Lack of requisition-to-pay process efficiency | 66% |
| Improve compliance (contract, process, price) | 41% |
| Improve visibility of spend | 30% |
| Lower transaction costs | 27% |
| Increase spend under management | 23% |

Source: Aberdeen Group, October 2007

Automating the requisition-to-pay process enables enterprises to improve process efficiency, increase productivity, and ultimately reduce procurement transaction costs, which is also a critical pressure cited.

In addition to improvements in process efficiencies and lower transaction costs, compliance is also recognized as a means to deliver enterprise value. Driving compliance to negotiated contracts improves the bottom-line by

Fast Facts
√ More than half of respondents indicated that their top driver behind e-procurement initiatives is to streamline the requisition-to-pay cycle
√ 51% of enterprises indicated that their top strategy was to utilize technology to automate their procurement processes
reducing savings leakage and facilitates realization of savings from these agreements.

Recognizing the benefits of an e-procurement solution, enterprises attempt to bridge the gap between theory and reality by adopting technology to automate and improve their purchasing performance as their top strategy for e-procurement (Figure 2).

**Figure 2: Top Strategies to Improve Procurement**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automating processes by adding technology</td>
<td>51%</td>
</tr>
<tr>
<td>Centralizing procurement operations</td>
<td>38%</td>
</tr>
<tr>
<td>Integrating e-procurement with contract compliance and accounts payable</td>
<td>33%</td>
</tr>
<tr>
<td>Conducting spend data analysis</td>
<td>23%</td>
</tr>
<tr>
<td>Increasing visibility by developing reporting tools</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, September 2007

“To maximize contract compliance in our facility, we have fully automated the process of updating our item catalog and contract information in our MMIS (ERP system). When a contract is activated or updated at our Group Purchasing Organization (GPO), they send all contract information out electronically and it is entered into our MMIS system through an interface. This way we are insured to have real-time pricing for items purchased from these vendors. This automated process has saved countless hours of time spend on manually entering this information and tracking contracts.”

~ Mike Maggio, Systems Specialist, Woman’s Hospital

**Case Study: Yale University Procurement Success**

With the goals of streamlining the order-to-settle process, improving the efficiencies of its purchasing and accounts payable department, and delighting the end-user community, Yale University deployed an e-procurement solution across the campus for its 4000+ faculty and staff in 2006.

The workflow-enabled e-procurement is fully integrated with Yale’s ERP and inventory management solution, and thus provides a unified shopping solution for end users. End users can now quickly access best pricing with preferred Yale contract suppliers, find items available through the Yale stockrooms, compare products across suppliers, and deliver their approved orders directly to suppliers.

Careful planning with regards to change management has led to high adoption of the solution by the end users. From the end user point of view, shopping and ordering now takes a few minutes rather than days, with the requisition-to-order cycle streamlined by a simplified workflow.

With the goal of achieving greater institutional cost savings by aggregating and leveraging University-wide volume for products and services, Yale has extended the e-procurement solution to one of its hospitals.

“We have received positive feedback from our customers highlighting the fact that this application enables them to ‘search and order’ easier, as well as offers a simplified work flow driven approach, for approving orders.”

~Chris Mihok
Director, Purchasing Services,
Yale University

Leveraging technology benefits the organization on two fronts - first, manual, paper-based procurement processes that are error-prone are automated, providing efficiencies within the enterprise. Second, the quality
of supplier relationships is improved because information is more readily exchanged and transactions are processed in a more timely and efficient manner.

Additionally, as procurement interacts with various departments of an enterprise, including accounts payable, finance, and budgets, and requires significant change management across all business units, successful e-procurement solution deployment requires a centralized purchasing department that is championed by top-level executives.

### Case Study: Centralizing Procurement is Not Trivial

A large media company in North America (with annual revenues greater than $1.5B and annual spend of more than $250M) has had an e-procurement solution in place for more than a year. The enterprise has more than 20 business units.

Currently, the enterprise is struggling to realize the benefits of its e-procurement initiative, as it has rolled out the e-procurement solution to only a few business units. Additionally, the firm estimates its requisition-to-order processing cost to be more than $100 per cycle. End-user adoption is a key challenge and driver of (poor) performance.

The enterprise hopes to centralize procurement operations and standardize processes to drive adoption and improve e-procurement performance.

Our study revealed that a center-led e-procurement initiative generally leads to better end-user adoption and greater procurement ROI from an e-procurement initiative.

### Case Study: A Global Retailer in UK Centralized Purchasing

Faced with the challenge of accommodating each group’s specific business requirements, a global retailer in the UK selected an on-demand e-procurement solution to accelerate the purchasing process, generate economies of scale, and drive compliance. The on-demand solution was deployed across 15 group companies in just four months. End-users noted the ease-of-use of the system, which minimized the need for on-site user training.

This project was the group’s early attempt at consolidated spend across some of its companies and therefore enabled impressive savings in the cost of MRO products purchased using the on-demand solution. Additional benefits include improved business intelligence and visibility into the purchasing patterns across group companies, leading to considerable opportunities to develop more effective sourcing strategies.

“E-procurement solutions are not just about cost savings any more, they are also the tool to ensure compliance and promote business controls, while automating the processes within an enterprise.”

~Manager, a global retailer in the UK
E-procurement Delivers

Performance improvements due to e-procurement activities are readily apparent. Table 1 highlights the average performance improvements realized by enterprises as a result of utilization of e-procurement solutions and services.

Table 1: Impact of E-procurement Initiatives on Performance

<table>
<thead>
<tr>
<th>Performance Area</th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spend under management</td>
<td>48%</td>
<td>65%</td>
</tr>
<tr>
<td>Requisition-to-order costs</td>
<td>$60</td>
<td>$31</td>
</tr>
<tr>
<td>Requisition-to-order cycles</td>
<td>11.0 days</td>
<td>4.4 days</td>
</tr>
<tr>
<td>Percentage of maverick (off-contract) spend</td>
<td>39%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, October 2007

As a result of their e-procurement initiative, enterprises, on average, displayed a 35% improvement in spend under management, with a 41% reduction in maverick spend. Additionally, enterprises reduced their requisition-to-order cost by approximately 100%, and more than halved their transaction cycle time. In addition to improvement in various performance areas, enterprises reported negotiating, on average, a 4.75% incremental discount with suppliers after implementing their e-procurement solution. This savings is attributed to spend aggregation with key suppliers as a result of greater visibility, and additional discounts from suppliers for sending electronic purchase orders that integrate directly with their order management systems. While enterprises clearly enjoy benefits from their e-procurement initiatives, sailing has not been entirely smooth and challenges remain.

Table 2: Average E-procurement Performance from 2001 to 2007

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total suppliers enabled</td>
<td>30</td>
<td>253</td>
<td>361</td>
<td>315</td>
</tr>
<tr>
<td>Total end-users</td>
<td>1,000</td>
<td>2,309</td>
<td>1,381</td>
<td>1,760</td>
</tr>
<tr>
<td>User adoption rate</td>
<td>12%</td>
<td>44%</td>
<td>68%</td>
<td>52%</td>
</tr>
<tr>
<td>Indirect spend managed by system</td>
<td>18%</td>
<td>38%</td>
<td>55%</td>
<td>65%</td>
</tr>
<tr>
<td>Service spend managed by system</td>
<td>-</td>
<td>32.7%</td>
<td>29.3%</td>
<td>26.5%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, October 2007

Across metrics such as number of suppliers enabled, end user adoption, and services spend under system, enterprise performance has remained flat or even declined most recently (Table 2). Though enterprises have proven successful at driving more spend under management, they have not been nearly as successful in expanding the base of suppliers transacted through the e-procurement system. Results from the survey respondents of the benchmark study reveal that, on average, an enterprise has 3,737 suppliers
in their indirect spend vendor master list, but has only 224 indirect supplier catalogs available. The data also reveals that only 27% of the catalogable spend of an enterprise is available to the requisitioning community in existing online catalogs. The low ratio of enabled suppliers to total suppliers (6%) and the small percentage of the catalogable spend available to requestors in online catalogs can be explained by the fact that, on average, an enterprises takes approximately 24 days to on-board a new supplier into their e-procurement system, and it takes more than 14 days to process and implement a change in an e-procurement catalog. Thus, supplier enablement and catalog maintenance in the e-procurement system remain a challenge for enterprises. As a result, not surprisingly, data reveals that nearly 34% of the requisitions generated in the e-procurement system are not based on a catalog (i.e. the requestor simply describes the item to be purchased rather than including a part number, price, or unit of measure).

In addition to supplier enablement, user adoption continues to be a challenging aspect of an e-procurement initiative. End users and solution providers acknowledge that careful planning with regards to change management and solution deployment, and an intuitive, easy to use procurement system is required to drive user adoption. End users revealed that punchout catalogs (a customized supplier-hosted catalog where shopping experience is similar to that on an online website such as www.amazon.com) drive greater user adoption than internally hosted catalogs that are manually updated and cleansed by the buying enterprise.

The Maturity Class Framework

Top performing enterprises leverage their e-procurement solution to automate multiple facets of their requisition-to-order cycle and continue to place more spend under their management. Aberdeen used the following two key performance criteria to distinguish Best-in-Class companies from Industry Average and Laggard organizations: percentage of enterprise under management and requisition-to-order cycle time. Table 3 summarizes the findings and defines Best-in-Class performance.

Table 3: E-procurement Benchmark Performance

<table>
<thead>
<tr>
<th>Definition of Maturity Class</th>
<th>Mean Class Performance</th>
</tr>
</thead>
</table>
| **Best-in-Class:** Top 20% of aggregate performance scorers | • 78% of enterprise spend is under management
• 1 to 2 days to complete requisition-to-purchase order cycle |
| **Industry Average:** Middle 50% of aggregate performance scorers | • 67% of enterprise spend is under management
• 3 to 4 days to complete requisition-to-purchase order cycle |
| **Laggard:** Bottom 30% of aggregate performance scorers | • 50% of enterprise spend is under management
• 7 to 8 days to complete requisition-to-purchase order cycle |

“The quickest way to on-board a supplier in the e-procurement system is by allowing non-catalog items. It takes only a few minutes to enter supplier contact information and an order can be sent out. However, [for such orders] there is no control over the price charged by the vendor. In contrast, it takes months to enable a punchout catalog.”

~Manager, a large retailer in UK

Source: Aberdeen Group, October 2007
Best-in-Class PACE Model

Aberdeen research reveals that reducing requisition-to-pay transaction costs, while improving compliance with existing contracts and processes are amongst the top pressures behind an enterprises e-procurement initiative (Figure 1). In order to alleviate these pressures, organizations must utilize a combination of strategic actions, organizational capabilities, and enabling technologies that are outlined in the PACE framework in Table 4.

Table 4: The Best-in-Class PACE Framework

<table>
<thead>
<tr>
<th>Pressures</th>
<th>Actions</th>
<th>Capabilities</th>
<th>Enablers</th>
</tr>
</thead>
</table>
| ƒ Lack of requisition-to-pay efficiency | ƒ Automating processes by adding technology  
ƒ Centralizing procurement operations  
ƒ Expanding e-procurement footprint, which is tightly coupled with contract compliance, invoice reconciliation, and payment solutions | ƒ Ability and willingness to send electronic purchase orders over the internet  
ƒ Clearly defined executive sponsor for e-procurement adoption and compliance  
ƒ Cross-functional coordination with procurement, finance, IT, budget, etc.  
ƒ Willingness to understand, learn, and adopt new and emerging technologies  
ƒ Reporting capabilities | ƒ Electronic purchase orders in EDI or XML format  
ƒ Supplier / transaction network  
ƒ Invoice reconciliation and payment application / network  
ƒ On-demand services and direct materials procurement solution that integrates with ERP  
ƒ Spend analysis (data cleansing and classification) software  
ƒ Catalog management tools |

Source: Aberdeen Group, October 2007

The Key Performance Indicators (KPIs) related to contract management and transaction costs are reductions in maverick (or off-contract) spending and the cost to process a single requisition-to-order cycle costs, respectively. Figure 3 compares the performance of Best-in-Class with Industry Average and Laggard enterprises on these KPIs.

Figure 3: Incremental Performance Improvements

Source: Aberdeen Group, October 2007
As a result of their e-procurement initiative, Best-in-Class enterprises had a maverick spend, on average of 17%, which was 25% lower than that of all other enterprises. Additionally, Best-in-Class enterprises were able to lower their requisition-to-order cost from $59 to $22; which was 33% lower than all other enterprises.
Chapter Two: Benchmarking Requirements for Success

The difficulties faced by an enterprise’s procurement group are often eased by the utilization of an e-procurement application. However, technology is not a solution by itself; Best-in-Class performance is buoyed by combining technology utilization with a strong emphasis on process control and standardization across the enterprise.

Case Study: A Global Manufacturer’s Procurement Initiative

Struggling with user adoption and facing long cycle times from using an in-house software solution, a global manufacturer deployed an e-procurement solution. The goals of the e-procurement initiative were to streamline the internal processes to reduce cost and cycle times, improve process visibility, and increase user adoption.

As a result of deploying the e-procurement solution, the manufacturer now has access to two dozen customized reports that track operational metrics such as overall spend, volume of orders, and support issue resolution timeframes. More importantly, for their internal audience, the manufacturer is able to track cycle time from an order raised through approval. This ultimately provides the manufacturer with the business control necessary to provide end user satisfaction and meet their business objectives. Though the global manufacturer has streamlined its operations with an e-procurement solution, catalog maintenance remains a challenge.

Competitive Assessment

Table 5 segments e-procurement users based on their processes, capabilities, technologies, and strategies in five major areas:

- **Process** – The level of standardization across the enterprise and the efficiency of current procurement processes
- **Organization** – Organizational structure, skills, and decision-making alignment across the company – also a set of actively tracked performance metrics
- **Knowledge** – Program visibility into KPIs – total spend, cycle times, user penetration, and compliance (price, process, governance); level of training and on-going support
- **Technology** – Breadth of e-procurement technology footprint and how well it is integrated to support the broader source-to-settle framework and all supply management initiatives
- **Performance** – The ability of an organization to measure the benefits of technology deployment, including an assessment of actual performance against key compliance metrics

These characteristics serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

“When BAE Systems realized that [our aerospace network provider] could offer us the same product in a secure, hosted environment, the company recognized immediate savings by moving to a Software as a Service (SaaS) model. Additionally, BAE Systems no longer shoulders risk to deliver mission critical performance, that burden sits with [our provider]. As a result, our organization has witnessed increased visibility to spend and a resulting cost containment through [our provider’s] centralized method of procurement process enablement.”

~ David Fitzgibbon, BAE Systems Management Team
<table>
<thead>
<tr>
<th></th>
<th>Best-in-Class</th>
<th>Average</th>
<th>Laggards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Process</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement processes standardized across the enterprise</td>
<td>68%</td>
<td>56%</td>
<td>48%</td>
</tr>
<tr>
<td>Utilize catalog management services or tools</td>
<td>68%</td>
<td>60%</td>
<td>53%</td>
</tr>
<tr>
<td>Periodic supplier rationalizing</td>
<td>54%</td>
<td>39%</td>
<td>37%</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clearly defined executive sponsor or champion</td>
<td>79%</td>
<td>72%</td>
<td>62%</td>
</tr>
<tr>
<td>Center-led procurement organization</td>
<td>78%</td>
<td>67%</td>
<td>61%</td>
</tr>
<tr>
<td>Highly visible power users that are actively engaged</td>
<td>56%</td>
<td>45%</td>
<td>38%</td>
</tr>
<tr>
<td>Cross-functional coordination amongst procurement, finance, A/P</td>
<td>79%</td>
<td>65%</td>
<td>59%</td>
</tr>
<tr>
<td><strong>Knowledge</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metrics in place to evaluate performance</td>
<td>53%</td>
<td>43%</td>
<td>36%</td>
</tr>
<tr>
<td>Implement reporting capabilities</td>
<td>56%</td>
<td>48%</td>
<td>39%</td>
</tr>
<tr>
<td>Integrate e-procurement system with e-payables</td>
<td>75%</td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td>Utilize electronic purchase orders</td>
<td>84%</td>
<td>65%</td>
<td>51%</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-demand services procurement solution that integrates with ERP</td>
<td>42%</td>
<td>28%</td>
<td>20%</td>
</tr>
<tr>
<td>Conduct spend analysis (data cleansing and classification) software</td>
<td>56%</td>
<td>45%</td>
<td>41%</td>
</tr>
<tr>
<td>Deploy category-specific procurement solution (e.g. T&amp;E, contract labor, MRO etc.)</td>
<td>54%</td>
<td>48%</td>
<td>36%</td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Well-defined metrics, incentives, and penalties to drive compliance</td>
<td>33%</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>Online dashboard to monitor spend performance metrics</td>
<td>38%</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>Supplier performance management</td>
<td>46%</td>
<td>34%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, October 2007
Capabilities and Enablers

Aberdeen’s global supply management research has shown time and again that the deployment of process automation tools enables procurement organizations to place more spend under management and improve procurement performance. Enterprises also typically experience a host of other advantages that relate to cost savings, process efficiencies, and the ability of procurement departments to deliver greater strategic value across the enterprise.

Process

E-procurement touches every aspect of an enterprise including various business units, accounts payable department, budgets department, and finance department. Hence, deployment of an enterprise-wide solution requires a centralized department that is championed by executive management. Seventy-eight percent (78%) of Best-in-Class enterprises have a center-led procurement department, which is championed by a senior manager.

Supplier enablement and catalog management remains key challenges for all enterprises. Best-in-Class enterprises, on average, with 69% of their catalog maintenance done outside the enterprise, rely more heavily on external suppliers and solution providers to manage their existing catalogs and other supplier enablement activities than all other enterprises.

Additionally, 54% of Best-in-Class enterprises conduct periodic supplier rationalization to aggregate spend. Most importantly, the Best-in-Class realize that technology is a process-enabler and not a process by itself. Best-in-Class enterprises understand that rigorous processes to drive compliance and user adoption are required to be in place before introducing a new technology.

Case Study: How Integration with Existing Systems Impacts Spend Capture?

A large Canadian financial institution with annual spend exceeding $2.5B has utilized an e-procurement solution to manage its indirect spend for more than seven years. The annual indirect spend, which does not include services spend, for the financial institution is approximately only 20% of its annual total spend. Currently, the services spend, which constitutes approximately 75% of total spend, is managed manually via phone, fax, e-mail, and excel.

The roadblock in selecting a services e-procurement solution is integration of the new system with the current e-procurement solution. The enterprise is concerned that lack of integration will lead to challenges in user adoption and change management. This has prevented the enterprise from capturing approximately 75% of its annual spend. The institution has and is evaluating a suitable services procurement solution.

“We developed the standard operating procedures for vendors that outlined our expectations on how they were to implement and maintain their catalogs on [our e-procurement solution].”

~ Manager, Fortune 500 Company
**Organization, Performance, and Knowledge Management**

Seventy-eight percent (78%) of Best-in-Class enterprises have a center-led purchasing department, which is championed by a senior executive. This champion is directly linked to top procurement and financial executives and ensures information flow and coordination between finance, procurement, and accounts payable departments. Additionally the champion drives system adoption by promoting highly visible power users who are actively engaged with the user community.

Thirty-eight percent (38%) of Best-in-Class enterprises also reported the consistent use of an online dashboard to monitor key compliance performance metrics, including suppliers enabled, supplier performance, requisitions issued per month, off-catalog requisitions, and price variance and spend compliance.

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**Case Study: YRCW E-procurement Success Story**

YRC Worldwide (YRCW), one of the largest transportation service providers in the world, has seven different companies under various brands, including Yellow Transportation, Roadway, and YRC Logistics. The enterprise struggled with a mainframe-based order system, wherein MRO orders from field locations were captured in a mainframe report, and then sent to the suppliers by the purchasing department.

In 2002, YRCW replaced the mainframe system with an on-demand procurement solution to allow seamless transition of the orders from the ordering location to the vendor. The solution has now rolled out to all seven companies, wherein each company is set as a business unit, with a common vendor base. By utilizing the e-procurement solution, YRCW was able to facilitate consistent application of the enterprise’s procurement policies, while consolidating and proving visibility to each company’s spend. This provided hard data for contract negotiations and resulted in year-over-year discounts that improved the bottom-line of the enterprise. Since the implementation of the e-procurement solution, the increased compliance and vendor management have been significant drivers in achieving year-over-year savings averaging 9% on products purchased through the system.

---

**Technology**

The Best-in-Class enterprises have adopted the following procurement related technologies to improve performance:

- **Electronic purchase orders.** To eliminate the manual delivery of error-prone paper-based purchase orders, 84% of Best-in-Class enterprises use electronic purchase orders in EDI or XML format that are transmitted via the internet directly into suppliers Order Management System (OMS), with no human intervention. Direct integration of the purchase orders with supplier’s OMS leads to cost savings at the supplier end, part of which is returned to the buying organization in the form of additional discounts. In comparison to Industry Average firms, the Best-in-Class are 29% more likely to use electronic purchase orders and 65% more likely to do so than Laggard enterprises.

---

“It’s all about M.I.E. (Make It Easy):

- MIE to access the system
- MIE to search for products
- MIE to place orders

Basically, we work for the internal customer in providing accurate, timely, competitive and seamless procurement services; [e-procurement solution] is a key tool in delivering on that goal.”

~ Steve Roush, Manager, YRC Worldwide
• **Supplier Networks.** 57% of Best-in-Class transfer the task of supplier enablement, catalog maintenance, and electronic purchase order integration to a third-party network provider by utilizing supplier networks or catalogs hubs. By providing one central outlet to handle PO’s, invoices, and catalog management, these networks improve enablement rates without impacting internal resources or placing undo burdens on suppliers. Our survey revealed that Best-in-Class enterprises are 50% more likely to use supplier networks than Industry Average firms, and are more than 100% likely than Laggard enterprises.

• **On-demand procurement:** Best-in-Class, on average, displayed 56% more usage of on-demand e-procurement solution to manage spend that integrates with the ERP system than all other enterprises. These on-demand e-procurement solution were found particularly useful to capture services spend, which is not typically captured by a traditional e-procurement solution.

Best-in-Class performers employing above strategies have realized significantly greater efficiencies, cost reductions, and greater compliance with existing contracts (Figure 3). On average, Best-in-Class enterprises have **29% more on-contract spend**, with their **requisition-to-order cost being 32% lower** than Industry Average firms.

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**Case Study: Children’s Memorial Hospital**

Despite implementing a new ERP system, the purchasing processes at Children’s Memorial Hospital were highly manual. To improve productivity and better serve the needs of clinicians, the hospital connected to a trading exchange, which enabled it to transact business electronically with multiple vendors with a single internet connection. By automating the requisition-to-order process, the hospital freed staff time to better align resources with organizational priorities. Purchasing staff now spends more time understanding clinical customers’ needs, analyzing purchasing trends, identifying new contracting opportunities, and implementing better inventory management principles.

Since the implementation of the new system in 2007, Children’s Memorial Hospital has documented significant savings, while raising the stature of the purchasing department. In addition, the hospital has increased the number of electronic trading partners from 2 to more than 44, reduced paper requisitions by two-thirds, increased the percentage of electronic orders from approximately 25% to 80%, reduced Days Sales Outstanding (DSO) with a prime vendor from greater than 50 days to less than 10 days.

“By utilizing the electronic exchange, we have transformed the workforce from a reactive to a proactive one. The staff, by viewing exceptions, simply fixes that needs to be fixed. As a result, we have redeployed resources to drive inventory reductions and improve compliance with existing contracts.”

— Mike Schiller, Director, Purchasing and Supply Systems, Children’s Memorial Hospital

Following is another case describing the impact of on-demand e-procurement solutions at Network Rail in UK.
Network Rail, owner and operator of Britain’s rail infrastructure, has an annual revenue approaching £4bn. They utilize an on-demand e-procurement solution that delivers a web-based purchasing environment for nearly 3,000 engineering personnel to build and track 2,000 orders per day.

The solution facilitates a particularly critical compliance process; namely the selection and purchasing of controlled items – those parts that are safety certified and used within the UK’s rail infrastructure – as well as a wide range of standard issue items such as tools and electrical goods required to conduct maintenance and repairs. The on-demand solution sources products electronically from multiple providers, often with several streams being consolidated.

The solution also gives users visibility into lead times, allowing engineers to accurately plan jobs. Integration of e-procurement with third-party warehousing and logistics systems gives Network Rail engineers up-to-date visibility of stock information on more than 250,000 parts across 360 stocking points nationwide. Additionally, changes to production schedules are recorded and monitored in the system, which then automatically updates delivery schedules, allowing engineers to amend planned job schedules accordingly.
Chapter Three: Required Actions

Recognizing their more strategic role within the enterprise and the subsequent need to deliver bottom-line results, procurement departments are busy engaging in a critical transformation. E-procurement is now the standard for Best-in-Class and has resulted in improved enterprise performance. Based on our research efforts, Aberdeen the recommends following strategies for improved results:

Laggard Steps to Success

- **Structure a center-led procurement under an executive champion**
  
  Since e-procurement touches every aspect of an enterprise, and requires significant change management across all business units, a center-led structure would leverage the capabilities and interests of business partners and stakeholders. Prior to applying any automated solutions, an enterprise must ensure that the process is efficient. Best-in-Class enterprises are 27% **more likely** than Laggard enterprises to have a center-led procurement structure that is championed by an executive.

- **Leverage supplier networks and catalog hubs**
  
  By utilizing the supplier enablement capabilities of networks and hub services, Laggards will be able to drive user adoption and increase spend through the e-procurement system, while minimizing internal effort to on-board suppliers. Best-in-Class enterprises are **more than twice as likely** than Laggard enterprises to utilize supplier networks.

- **Enable electronic purchase orders**
  
  Laggards must reduce manual paper-based purchase orders to reduce errors and eliminate repetitive work. Additionally, electronic purchase orders eliminate data-entry tasks at the supplier end, and help to build better relationships and negotiate superior discounts. The Best-in-Class are 65% **more likely** than Laggard enterprises to use electronic purchase orders in EDI or XML format.

Industry Average Steps to Success

- **Expand the e-procurement footprint to integrate with contract compliance, invoice reconciliation, and payment solutions**
  
  Integrating procurement with accounts payable and contract management solutions will provide greater visibility into compliance with existing contracts and ease the processes related to invoice reconciliation and payments. Additionally, in case of any changes to existing contracts, such integration may allow automatic updates to existing catalog pricing. Procurement departments of Best-in-Class enterprises are 27% **more likely** to be integrated with accounts payable than Industry Average enterprises.

Fast Facts

- 79% of Best-in-Class have cross-functional coordination amongst purchasing, finance, and A/P
- 57% of Best-in-Class utilize a supplier network
- 56% of Best-in-Class conduct periodic spend analysis to cleanse data and improve classification of items
• Embrace on-demand solutions that integrate with ERP

In case an enterprise lacks capabilities in managing services related spend, a category typically not captured by a traditional e-procurement system, use of an on-demand solution that integrates with the ERP may significantly reduce off-contract spend. Best-in-Class enterprises are **50% more likely** to utilize on-demand e-procurement solutions to manage services spend than Industry Average enterprises.

• Conduct periodic spend analysis and supplier rationalizing

Some kind of rudimentary manual spend analysis is conducted by most firms. However, enterprises should automate the process to cleanse data periodically and improve classification of items purchased. This will provide better visibility into spend, which in turn will provide opportunities to aggregate spend under key suppliers. Additionally, spend analysis will drive compliance to negotiated contracts leading to a reduction in savings leakage. Best-in-Class companies are **24% more likely** to conduct spend analysis and supplier rationalization than Industry Average enterprises.

### Best-in-Class Steps to Success

• Add processes, people, and technology to manage complex items or services

Complex items such as travel and entertainment, scientific equipment and materials, IT hardware, and services, which require configuration, engineering or collaboration with subject matter experts, often go beyond the capabilities of a standard e-procurement solution. For these complex categories, define the process carefully, and then add technology and people to make it work. If a category requires solution matter expertise, consider outsourcing all or parts of the spend category.

• Leverage incremental business process outsourcing services

Outsourcing procurement-related activities such as catalog enablement and management, or purchase order processing to a third-party brings advantages of economies of scales and lowers the total cost of ownership for the enterprise and supplier. Outsourcing also allows an enterprise to effectively manage complex categories that require solution matter expertise and reallocate procurement personnel to more strategic, value-add tasks.

• Link procurement with finance and treasury

Integrating e-procurement transactions and payments will allow enterprises to better comply with existing contracts and budgets, and assist in working capital optimization. Additionally, this will improve financial reporting capabilities and drive regulatory compliance. Aggregation of information from purchasing, accounts payable, treasury, and finance will also support business planning and decision making.
Appendix A: Research Methodology

Between September and October 2007, Aberdeen examined the use of, experiences with, and intentions around e-procurement solutions of more than 622 enterprises in a diverse set of industries.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on e-procurement strategies, experiences, and results.

Responding enterprises included the following:

- **Job title:** The majority of the research sample included respondents with the following job titles: C-level executive (12%); vice president (8%); director (21%); manager (37%); staff, consultants and other (21%).

- **Job function:** Leading job functions in the research sample were: procurement (55%); logistics / supply chain (12%); information technology (8%); business process management (6%); finance (4%); other (15%).

- **Industry:** High technology (16%); financial services (10%); public sector (7%); and a distribution across 29 other industries.

- **Geography:** The majority of respondents (53%) were from North America. Remaining respondents were from the Western Europe region (24%); the Asia-Pacific region (11%); and distribution across the Northern Europe, Eastern and Central Europe, Middle East and Africa regions (12%).

- **Company size:** Fifty-two percent (52%) of respondents were from large enterprises (annual revenues above US $1 billion); 29% were from midsize enterprises (annual revenues between $50 million and $1 billion); and 19% of respondents were from small businesses (annual revenues of $50 million or less).

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of the E-Procurement: Trials and Triumphs report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.
### Table 6: The PACE Framework Key

<table>
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<th>Overview</th>
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<td>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</td>
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<td><strong>Pressures</strong> — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</td>
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<td><strong>Actions</strong> — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)</td>
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<td><strong>Capabilities</strong> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)</td>
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<td><strong>Enablers</strong> — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</td>
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Source: Aberdeen Group, October 2007

### Table 7: The Competitive Framework Key

<table>
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<td>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</td>
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<td><strong>Best-in-Class (20%)</strong> — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</td>
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<tr>
<td><strong>Industry Average (50%)</strong> — Practices that represent the average or norm, and result in average industry performance.</td>
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<td><strong>Laggards (30%)</strong> — Practices that are significantly behind the average of the industry, and result in below average performance.</td>
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In the following categories:

- **Process** — What is the scope of process standardization? What is the efficiency and effectiveness of this process?
- **Organization** — How is your company currently organized to manage and optimize this particular process?
- **Knowledge** — What visibility do you have into key data and intelligence required to manage this process?
- **Technology** — What level of automation have you used to support this process? How is this automation integrated and aligned?
- **Performance** — What do you measure? How frequently? What’s your actual performance?

Source: Aberdeen Group, October 2007

### Table 8: The Relationship Between PACE and the Competitive Framework

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<th>PACE and the Competitive Framework – How They Interact</th>
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<td>Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</td>
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Source: Aberdeen Group, October 2007
Appendix B:
Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report include:

- The E-Procurement Benchmark Report: Less Hype, More Results, December 2004
- Best Practices in E-Procurement: Reducing Costs and Value through Online Buying, December 2005
- E-Procurement Benchmark Report: E-Procurement 2.0, August 2006
- Source-to/Settle: Compliance Clues for the CFO, October 2006
- Supplier Enablement: Connecting with Suppliers to Build Lasting Relationships, May 2007

Information on these and any other Aberdeen publications can be found at http://www.aberdeen.com/channel/procs.asp.

Aberdeen’s 2007 Global Supply Management Research Agenda is also available.


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Author: Amit Gupta, Research Analyst, Global Supply Management, amit.gupta@aberdeen.com
William Browning III, Research Analyst, Global Supply Management, william.browning@aberdeen.com

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