
Unlocking eProcurement ROI Through Supplier Enablement

An Enterworks, Inc. Client Case Study

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In the beginning, the numbers— and the challenges— were staggering. How could a major manufacturing division with thousands of *offline* suppliers get returns on its multi-million dollar investment in an *online* procurement system? The clock was ticking, and the pressure was building on the manufacturer's procurement director and IT manager.

Hopes had been high when the company completed its lengthy evaluation of procurement systems and settled on an Ariba platform. The implementation and custom configuration went relatively smoothly, but all along the company knew suppliers would have to come online before the system— indeed, their entire eProcurement process— would be successful.

Complex Background Issues

As the early hyperbole about B2B eCommerce faded in 2001, the realization emerged that online buying and selling would prove far more difficult than anyone had imagined. Front- and back-end systems were rarely well-integrated within companies, let alone *between* trading partners. Buyers and suppliers alike were strapped for technical resources, and with a softening economy, additional cost cutting loomed. Management was asking that more be done with less, so the time and dollars that might have been available in better times to experiment with new technologies were out of the question.

Against this backdrop, previously strained relationships between buyers and suppliers only made the situation worse. Neither side of the equation wanted to shoulder a disproportionate share of the solution cost (assuming a genuine solution *could* be found). Although a few innovative

SUMMARY

A global manufacturer **saved \$274,000** in procurement transaction costs during the first financial quarter after it enabled an initial group of its suppliers for online procurement. This leap in eProcurement ROI also delivered “win-win” value to the supplier base— but cost the manufacturer **nothing**.

Other case study highlights:

- Although it achieves economies of scale, **focusing only on enabling high-spend suppliers for electronic transactions does little to cut overall procurement processing costs.**
- **The greatest gains in procurement cost reduction come from also enabling significant numbers of mid-tier and lower-tier suppliers** who represent the highest **volume** (not the highest dollar **value**) of transactions. In this case study, second-tier suppliers who represented **only 12% of the buyer's spend** were costing the buyer **13 times more in processing costs** than first-tier, high-spend suppliers.
- **Buyers must be willing to deliver a mandate to suppliers** that says by a specific deadline the suppliers **must** provide electronic content. Anything less will likely doom supplier adoption plans at the outset. Along with the mandate, buyers should offer an attractive solution to suppliers— one that **brings them value and doesn't cut their margins**. In this case study, the buyer found such a solution, and **80%** of his targeted suppliers implemented it at virtually **no cost to the buyer**.
- **Regional** buying personnel— those with **direct relationships with second- and third-tier suppliers**— should leverage their relationships to ramp the critical mass of suppliers.

[I]nternal visibility of the [supplier enablement] effort was equally high, particularly among the executive managers, who were eager... to achieve the potential cost savings and efficiency gains from eProcurement

buyers and suppliers attempted to develop joint systems, most suppliers stood their ground while buyers turned to buying networks or third party “content factories” to convert disparate supplier content for the buyer’s procurement system. Isolated efforts and buyer reliance on manual conversion efforts defeated the whole point of automation, and the benefits of online procurement continued to elude both buyers and suppliers.

Enter a Global Manufacturer

The company featured in this case study is a well-recognized manufacturer with worldwide revenues approaching \$65 billion. The company has more than 100 factories in 33 countries, focusing on regional markets to achieve efficiency and profitability even at low production volumes.

Each of this manufacturer’s regional operations depend on thousands of suppliers. This case study centers on one of these regional operations. With additional eProcurement initiatives being planned, this customer has requested that their name not be disclosed for the time being, and from here on we will refer to this manufacturing organization as “the buyer” in this case study.

Under the Gun

The investment the buyer had made in its Ariba procurement system was a significant one, and expectations for the success of the new system were high throughout the company. The sizeable price tag meant the internal visibility of the effort was equally high, particularly among the company’s executives, who were eager for the manufacturer to achieve the potential cost savings and efficiency gains from eProcurement.

The spotlight on the buyer’s eProcurement initiative was focused squarely on two managers. One was the buyer’s procurement director, who was directly responsible for the rollout of the procurement system. He also managed the manufacturer’s supplier relationships, and thus had the task of ensuring rapid and widespread adoption of the eProcurement system by the manufacturer’s suppliers. The other manager ran the buyer’s IT department. He had worked closely with the procurement director to define the new system’s requirements, evaluate and select the system, and implement and customize it.

Both of these individuals were experienced managers— a necessity, given the challenges they faced. Neither had extensive staffs. Neither had significant budgets. Yet both were feeling the pressure to deliver results within a short time frame.

First Steps— and a New Realization

The two managers moved quickly to bring the manufacturer’s “big dollar” suppliers on board first. It seemed logical to target the suppliers who represented the buyer’s greatest spend for several reasons:

- The proverbial 20% of the buyer’s suppliers represented the proverbial 80% of the buyer’s spend
- The buyer’s big dollar suppliers typically were larger organizations with more technical resources than their smaller counterparts across the supplier base
- The volume of business conducted with these suppliers was incentive enough for the suppliers to comply quickly
- In a number of cases, these suppliers already were supplying some form of electronic catalog content

For the most part, the managers’ assumptions about bringing their largest suppliers on board proved true. That’s not to say there weren’t a few rough spots over the course of the initial six to nine months. For example, the additional edge in technical resources that large suppliers had over their second and third tier counterparts didn’t necessarily guarantee that those resources would be prioritized in favor of the buyer’s eProcurement initiative. In a number of cases, the supplier— though willing to conform to the buyer’s requested format— took an unexpectedly long time to work through the process from initial discussion to development, testing, and production.

Selecting which of their large suppliers to enable also proved tricky for the buyer’s managers, who had to operate simultaneously under a mandate— unrelated to their eProcurement initiative— to consolidate their company’s spend by continuously evaluating, and sometimes reducing, the number of suppliers.

Overall, however, this first phase of the buyer’s supplier enablement went smoothly, although it took longer than expected, as many combined business and technical initiatives so often do.

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But when the financial folks ran the numbers after the large suppliers came on board, a discovery was made.

Solving Only Half the Problem

The numbers showed that, from a spend perspective, the managers had met their *initial* goal: they had brought on board the company’s largest suppliers— those that accounted for the majority of the buyer’s spend. The manufacturer’s largest orders now were running through the procurement system, with clearly identified cost savings and efficiency gains from conducting these transactions online, rather than offline.

In the quest to generate substantial ROI from the buyer’s eProcurement system, however, the numbers showed that overall cost savings and efficiency gains were only modest. Worst yet, it was clear they were not likely to improve significantly going forward.

The reason was simple. While eProcurement cost and efficiency is influenced by the dollar value of each transaction between the buyer and supplier, addressing “spend” is working only half of the eProcurement success equation. The other half of the equation must focus on the number of transactions— and the *cost* of each transaction— independent of the dollar value of the transaction.

Simply put, a \$100,000 order and a \$1,000 order cost the same amount to move through the procurement process. And since smaller orders greatly outnumber larger orders, the greatest cost savings and efficiency gains come from addressing this higher volume of transactions, typically conducted with hundreds or thousands of second and third tier suppliers.

A closer look revealed that targeting transactions across these lower tiers of the supplier base would yield cost savings for other reasons as well. Smaller suppliers, lacking technical resources and experience, typically required far more support from the buyer than larger suppliers. Bringing these suppliers online would greatly reduce the time and attention spent by the buyer’s already overburdened IT and supplier relationship staffs.

This realization eludes many companies seeking eProcurement ROI, according to Bob Lewis, president of Enterworks:

Time and time again, we see large procurement organizations pointing to “success” at bringing

their largest suppliers online. While doing so is a necessary step, it inevitably creates a false impression of eProcurement progress— at least until somebody runs the numbers.

Different Suppliers, Different Approach

Once the procurement director and IT manager in this case study realized the answer to eProcurement ROI lay in enabling their mid-level and lower-level suppliers, they knew their approach had to be different. They knew they first had to answer questions like:

- If the majority of these targeted suppliers aren't already doing business online, will we have to conduct some sort of “educational” phase before we can even begin to implement a solution?
- How can we enable second and third tier suppliers without creating an even greater support burden for us? The buyer's managers had seen other manufacturers undertake massive efforts to convert inbound supplier content, and they knew they did not have the resources to take that approach. Is there a way to make suppliers self-sufficient?
- Even in the “perfect world” envisioned by the buyer's managers— when all suppliers' catalog content arrived electronically— what will be the technical and business process management issues to incorporate the content in the procurement system and integrate it all?
- Given the number of suppliers involved, how will we convince all (or at least most) of them to adopt our procurement format in a reasonably short time frame? What if the effort gets bogged down simply because of the sheer number of suppliers? Will issuing a mandate accelerate supplier adoption— or backfire?

Going for the Gold

As the buyer's procurement director began planning how he would approach his suppliers, he realized that his existing relationships with many of them would help him make his case. He was, after all, not a high level corporate officer operating from halfway around the globe. Instead, he was considered to be “a local” and was well respected by the suppliers in his region.

This lesson is often lost on global procurement organizations, according to Bob Lewis of Enterworks:

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Directing any kind of supplier enablement program from afar almost never works. The goals back at “corporate” are inevitably set too high, with expectations based on the self-perceived clout of the buying organization. Even when eProcurement efforts stall after only the “big spend” suppliers are on board, the corporate folks often don’t realize the value of maximizing the relationships their regional people have with their suppliers. Corporate folks can do the deals with the big spend suppliers, but regional relationships must be the basis for any successful adoption of mid- and lower-tier suppliers.

Confident about his direct relationships with his company’s suppliers, the procurement director developed a plan. To enable the suppliers who could deliver his eProcurement ROI, the procurement director followed these steps:

1. He first identified those suppliers with whom he did more than 50 transactions per year. By focusing on the *number* of transactions, rather than the *value* of the transactions, the procurement director was targeting the area for greatest improvement.
2. He then notified all of these suppliers that his company was moving to electronic procurement, and if the suppliers wanted to continue selling to his company, they would have to provide electronic content by a specified date.

John Jones, director of the Supplier Enablement Program at Enterworks, considers this first step— “the mandate”— essential:

Probably no question gets more internal discussion in buying organizations than how forceful to be with suppliers about delivering electronic content. Inevitably someone raises the fear that suppliers will be alienated by an approach they perceive to be heavy-handed, and the result typically is that the buying organization makes only a half-hearted appeal to suppliers to provide electronic content. Almost without exception, this approach fails miserably.

Whenever we see a supplier adoption initiative that has dragged on and fallen way below expectations, the buying organization always tells us— without exception— that their single biggest regret is that they didn’t give their suppliers a firm mandate at the outset to deliver electronic content by a specific date.

3. The procurement director invited his selected suppliers to a summit, where he offered them a unique choice of paths to becoming enabled for eProcurement with his company. Presenting an 85-page document that detailed Ariba’s formatting requirements, the procurement director suggested the suppliers could:

- (a) Convert their content to the required format themselves,
- (b) Contract with a third party to perform the conversion, or
- (c) Acquire Enterworks Catalog Builder™. Catalog Builder is a Windows®-based desktop application that integrates suppliers' catalog content from multiple sources — Excel® spreadsheets, databases, Web pages, and more— in real time. Catalog Builder delivers catalog content rationalized, standardized, and pre-formatted for specific buying organizations' eProcurement platforms. In this case, copies of Catalog Builder had been pre-configured by Enterworks for the specific implementation of the buyer's Ariba system.

Since Catalog Builder allows suppliers to create and publish electronic catalogs without having to know eProcurement formatting or coding specifications, and since it was being offered at a low price (\$2,500), most of the suppliers obtained the product shortly after the buyer's summit.

A parts supplier who attended the summit expressed a common sentiment:

We don't have the technical resources inhouse to prepare content for an eProcurement system. Even if we did, managing the business has to take priority over training content converters or testing catalogs before loading. We took one look at the 85-page formatting manual, and the decision to get Catalog Builder was easy.

The supplier now uses Catalog Builder to manage his 20,000-item parts catalog and submit it error-free to the buyer.

Assessing the Results

Within the first full quarter after his supplier summit, 80% of the suppliers who attended were fully complying with the procurement director's mandate for electronic content. Other statistics were equally impressive:

- His costs dropped from \$65 per manual transaction to \$13 for an electronic transaction— a decrease of 80%.

The Promise of Online Buying Realized



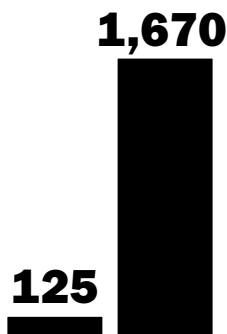
Comparing the per transaction cost of offline processing (left) with online processing (right) as tracked by the buyer in this case study.

The Higher Costs of Lower Value Transactions in the Second Tier and Below



Quarterly Spend (\$millions)

The buyer's quarterly spend for a selected tier one supplier (left) and a tier two supplier (right).



Quarterly Transactions

The tier two supplier (right), who got only 12% of the buyer's spend compared to the tier one supplier (as shown in top graph), represented more than 13 times the transactions (and thus 13 times the total transaction processing costs) as the tier one supplier (left).

- By processing 5,255 automated transactions from newly enabled suppliers, he saved \$274,000 in the first quarter after launch.
- The emphasis on suppliers with whom the buyer conducted a higher *number* of transactions (as opposed to higher *dollar* transactions) paid off particularly well. The total spent with one particular tier one supplier was \$1,653,304 in the course of 125 transactions during the quarter. Yet a tier two supplier who represented only \$200,019 in spend was involved in a whopping 1,670 transactions! Although representing only 12% of the larger supplier's spend, the transaction processing for the smaller supplier was costing the buyer more than 13 times what it cost to process transactions with the tier one supplier.

Lessons Learned

In follow-up discussions the manufacturing buyer in this case study and Enterworks personnel summarized several key lessons from the buyer's successful supplier enablement initiative:

1. Effective supplier ramping requires both centralized and decentralized approaches. To arrange global contracts at the best prices, centralized buyers (typically high in the organization) must secure the large suppliers who conduct high dollar transactions with the buyer. But regional buying personnel— those with direct relationships with second and third tier suppliers— should leverage their relationships to ramp the critical mass of suppliers who represent the lower dollar (but more frequent) transactions that cumulatively are more costly, support intensive, and time consuming.
2. Buyers must be willing to deliver a mandate to suppliers that says by *this* date they *must* provide electronic format in *this* format. Anything less will likely doom supplier adoption plans at the outset.
3. Along with the mandate, buyers should offer an attractive solution to suppliers— one that brings them value and doesn't call on them to cut farther into their profit. The more value suppliers see— and the simpler the solution is— the more they will become self-sufficient, and the more costs the buyer will reduce or avoid altogether.

About Enterworks Supplier Enablement Program

Under its Supplier Enablement Program, Enterworks partners with eProcurement buyers to ensure that Enterworks Catalog Builder™ outputs catalog content accurately formatted for the buyer's specific procurement system. Enterworks then introduces Catalog Builder to the buyer's suppliers with special packaging and quick implementation. Enterworks' Supplier Enablement Program is available at little or no cost to procurement organizations, and individual copies of Catalog Builder are offered to suppliers at pre-arranged pricing to ensure rapid adoption and immediate value, both to suppliers and the buying organization.

About Enterworks Catalog Builder

Enterworks Catalog Builder™ is an easy-to-use, low cost, Windows®-based desktop application that integrates suppliers' catalog content from multiple sources — Excel® spreadsheets, databases, Web pages, and more— in real time. Catalog Builder delivers catalog content rationalized, standardized, and pre-formatted for specific buying organizations' eProcurement platforms, including Ariba, Clarus, Commerce One, Oracle, and SAP. Using Enterworks Catalog Builder allows suppliers to create and publish electronic catalogs without having to know eProcurement formatting or coding specifications.

About Enterworks, Inc.

Enterworks® develops, markets and supports software that enables buyers and suppliers to create, manage and share electronic catalogs. The company's catalog solution customers include global buyers such as Honda, Motorola, and Schlumberger, as well as suppliers in retail and manufacturing industries worldwide. Enterworks' applications are built on proven business process and content integration technology used by the world's largest manufacturing companies, financial services firms, technology providers, and US government military and intelligence agencies. In addition, the company's solutions are embedded by global technology vendors and marketed by partners worldwide. For additional details about Enterworks and its solutions, visit www.enterworks.com or call 888-242-8356.

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