

E-Procurement Beyond the Hype: Companies Increase Spend Under Management, Reduce Costs with E-Procurement Systems

Key Finding

Enterprises today are using e-procurement to manage more requisitions, spend categories, and suppliers than ever before. On average, enterprises participating in this benchmark reduced off-contract (“maverick”) spending by 64%, reduced requisition-to-order cycles by 66% and increased total spend under management of procurement group by 20%. Increasing spend under management is a key tactic, as each new dollar brought under management can yield 5% to 20% cost reductions, according to Aberdeen research.

Research Results and Impact

The hype over e-procurement has long been muted, but the value impact of this requisition-to-order solution and spend management approach continues to crescendo. In the mid-1990s, e-procurement burst on the scene full of promise, but the value proposition for these solutions was damaged by hype, immature applications, and valuations of early market. When the dot-com bubble burst, several solution providers went out of business and many e-procurement initiatives were stalled in their tracks. However, more recent advances in e-procurement technologies, implementation, and management techniques, and delivery and pricing methods, have accelerated the adoption and value of e-procurement over the past decade. In addition to these advances, complimentary technologies such as sourcing and contract management have also accelerated the adoption and value of e-procurement by providing better negotiated prices for the e-procurement system to use (sourcing) and enabling contract compliance (contract management).

E-Procurement Benefits on the Rise

Study participants in Aberdeen’s [E-Procurement Benchmark Report](#) outperformed Aberdeen’s 2001 and 1998 e-procurement benchmarks in total spending managed via e-procurement, suppliers enabled, user adoption, and reduction in unapproved spending.

On average, enterprises participating in this recent benchmark:

Recommendations for Action

- ✓ Align company executives and policies to drive adoption and compliance.
- ✓ Try a smaller project by leveraging an on-demand provider
- ✓ Transition supplier enablement and management activities to a supplier network or catalog hub managed by a third-party.
- ✓ Adopt complementary functionality or solutions to manage and control a broader range of spending, such as business services.
- ✓ Extend deployment footprint to include order-to-pay activities
- ✓ Leverage spend data for improved sourcing and compliance management.

Announcement

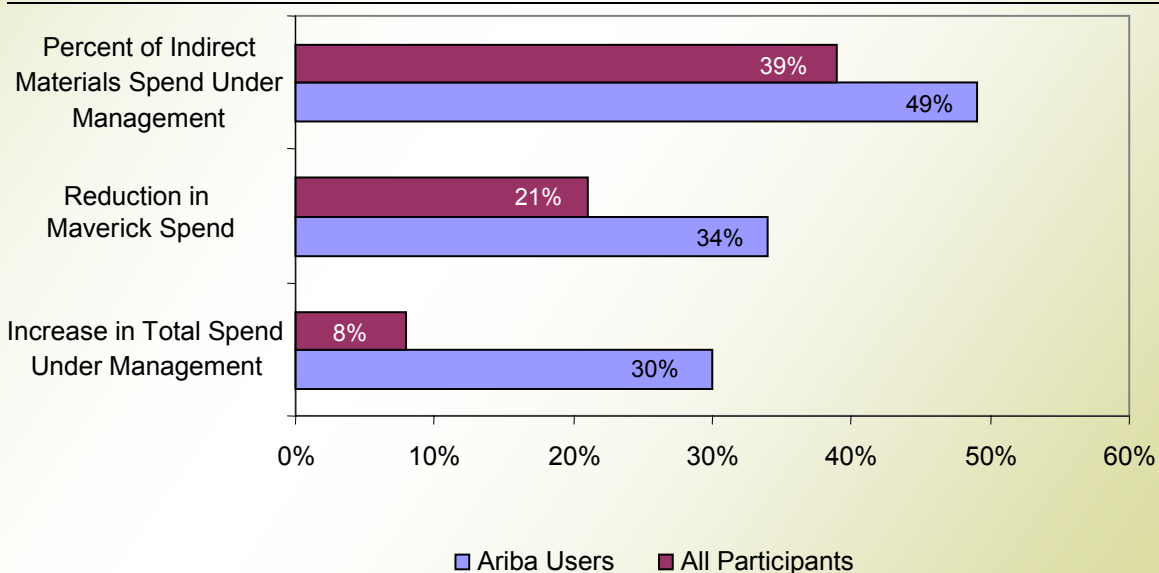
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- Reduced off-contract (“maverick”) spending by 64%,
- Reduced prices by 7.3% for spend brought back onto contract,
- Reduced requisition-to-order cycles by 66%,
- Reduced requisition-to-order costs by 58%, and
- Increased total spend under management of procurement group by 20%. (Each new dollar brought under management can yield 5% to 20% cost reductions).

Perhaps a more telling takeaway is the performance improvements companies have realized from deploying e-procurement solutions from a particular vendor. Spend management solution provider Ariba offers its e-procurement platforms to many Fortune 500 companies in multiple industries, and according to Aberdeen’s recent research findings, companies that have deployed Ariba solutions are outperforming their peers in multiple areas.

According to Aberdeen’s recent survey data, Ariba users have reduced off-contract (“maverick”) spending since deploying e-procurement systems by an average of 34%, while in contrast, all other respondents have reduced maverick spending by just 21% since deployment. In addition, as a result of deploying e-procurement systems, Ariba users increased spend under management by 30% while all other respondents increased spend under management by just 8%. Ariba users, on average, are managing 46% of total indirect materials spend through their e-procurements systems, as compared to all other respondents who are managing just 35% of indirect materials spend through e-procurement (Figure 1).

Figure 1: Percent of Total Indirect Materials Spend Managed Through e-Procurement



Source: AberdeenGroup, April 2006

Case in Point — Hewlett-Packard

Hewlett-Packard (HP), a Fortune 11, global manufacturer of technology products with annual sales of \$80 billion, is the largest information technology company in the world. The company selected Ariba Buyer as its procurement platform back in 1998, and currently has Ariba Buyer, Ariba Category Procurement, and OB10 (for invoices) deployed at the firm. HP looks to the vendor as a leader in spend management technology and is in the process of planning

deployment across all procurement functions (direct, indirect, services) of Ariba Analysis, Ariba Category Management, Ariba Sourcing, Ariba Contract Workbench, Ariba Compliance, and Ariba Supplier Performance Measurement.

The company's indirect supply base is 45,000 suppliers, but 82% of HP's indirect spend is with 265 suppliers. A staggering 95% of HP's annual indirect spend of \$13 billion flows through the Ariba e-procurement system, and the company has seen the following quantitative benefits from deploying the platform:

- Operation expense was reduced from 0.95% of total spend in 2002 to 0.75% in 2005.
- Implementation onto a standardized platform has resulted in the retirement of more than 100 legacy systems with estimated savings of \$7 million annually.
- Contract compliance has reached approximately 80%.

Aberdeen Conclusions

The chief finding of Aberdeen's *E-Procurement Benchmark* is that despite the initial hype and resulting aftermath, e-procurement really works. Respondents report measurable improvements in costs, compliance, productivity, and spend under management. And respondents that have deployed e-procurement systems from Ariba are reporting benefits significantly higher than their peers.

Recommendations for Action

Enterprises looking to improve spend compliance and control should give e-procurement a second look. Likewise, early adopters should invest to reinvigorate or extend underperforming initiatives. Aberdeen recommends the following strategies for the best results:

- Align company executives and policies to drive adoption and compliance.
- Try an on-demand solution for a lower up-front investment.
- Transition supplier enablement and management activities to a supplier network or catalog hub managed by a third-party.
- Adopt complementary functionality or solutions to manage and control a broader range of spending, such as business services.
- Extend deployment footprint to include order-to-pay activities.
- Leverage spend data for improved sourcing and compliance management.

Related Research

[*The e-Procurement Benchmark Report*](#);
December 2004

[*The Supplier Enablement Benchmark Report*](#);
March 2006

[*The Contract Management Benchmark Report*](#);
March 2006

[*Best Practices in e-Procurement*](#);
December 2005

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