

*Assessment of Excellence
in Procurement 2002*

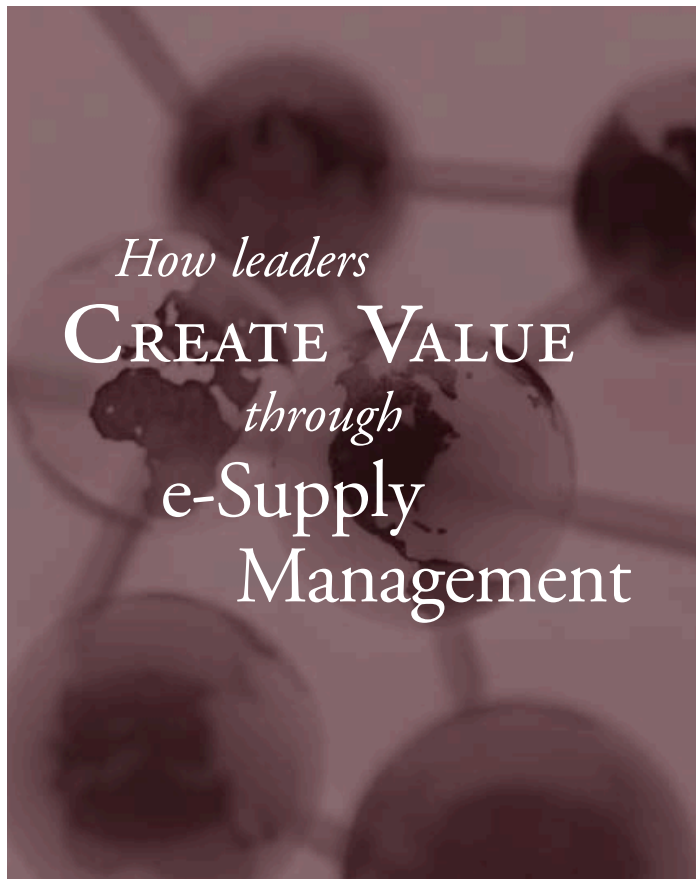
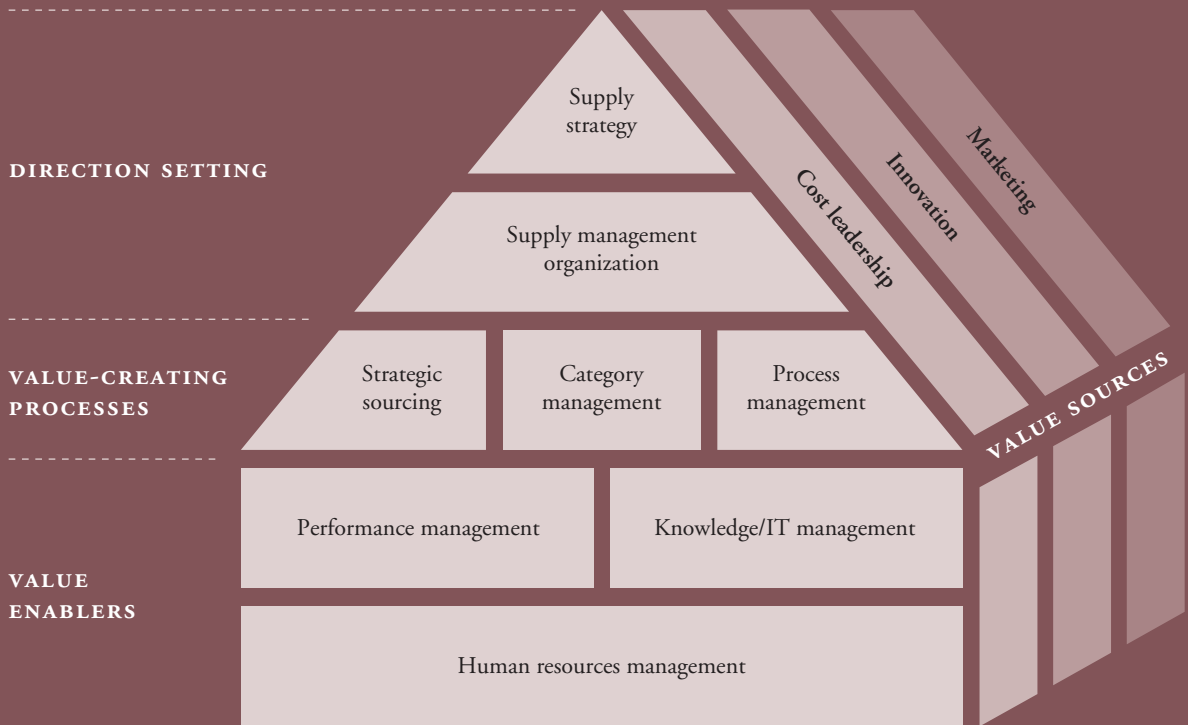


Figure 1: The House of Supply ManagementSM



Source: A.T. Kearney

Introduction

Since 1992, A.T. Kearney has performed a series of studies to explore the trends, business developments and emerging issues surrounding procurement. For 10 years, we have seen leading companies transform a transaction-based business necessity into a strategic weapon with the potential to deliver significant competitive advantage. These leaders use marketplace knowledge and supply relationships to create value via innovation, growth and cost leadership. They have broadened the scope of activities beyond traditional procurement, so that the term of choice has become supply management. Figure 1, A.T. Kearney's House of Supply ManagementSM, illustrates the activities performed within this broader scope.

In 1999, study participants identified Internet-enabled procurement as an emerging trend and were planning their strategies to capture their share of benefits. Just as the study findings were released, the dot.com frenzy was ignited and expectations began to skyrocket: B2B procurement would revolutionize how companies buy goods and services, new software would deliver unimaginable savings, net markets would save participants huge sums, and founders would ride the stock market boom. Then came the bust as systems implementation proved tougher than expected: Promised payoffs did not materialize, and dot.com valuations sank to pennies on the dollar. In less than three years, Internet-enabled procurement saw both the best and the worst of times.

Now that the dust has settled, executives are looking for answers about how to move forward. Is there business value to be gained by applying supply management tools, or is it all merely hype? How are companies really using new technologies to support their buying activities? What results are they achieving? What does it take to succeed? What lies ahead?

In this paper, we answer these questions and more. We begin with a brief summary of results of A.T. Kearney's 2002 Assessment of Excellence in Procurement (AEP) study, the first study to examine the impact of e-supply management on large enterprises across the globe.¹ We discuss the sources of value from supply management, and how e-tools can unlock additional value. Also, based on our findings, we describe the characteristics that distinguish the leading companies in e-supply management from all others. Finally, we explore the future of e-supply management: what lies ahead for the users, the providers and the technologies.

¹We use the term *e-supply management*, rather than *e-procurement*, because technology advances have greatly automated the entire supply management process. *E-supply management* encompasses traditional procurement activities of sourcing, category management, and ordering, as well as linkages with suppliers for design and logistics collaboration.

THE STUDY

AEP 2002 is the first benchmarking study to focus on the impact of e-supply management on large companies around the globe. A.T. Kearney surveyed 147 companies from six continents, representing leaders from 22 industries in the manufacturing, process industries and services sectors. These companies average US\$9.5 billion in 2000 revenues, with EBIT of 14 percent and e-supply management IT spend of 0.07 percent of revenues.

Among our conclusions:

- Companies could nearly quadruple savings by capturing the full potential of e-supply management tools. For example, leading companies have demonstrated that these tools help them to extend rigorous sourcing techniques to a significantly larger portion of their expenditures, and to capture incremental savings due to increased market competition. For a typical company, this expanded spend coverage and higher savings rate could be worth US\$5.7 million in additional benefits for each US\$100 million in expenditures.
- Leaders are differentiated by their bold, complete and active approach to adopting e-supply management, separating them from those companies that concentrate on lower level transaction processing.
- Leaders achieved a 41 percent improvement in cycle time and a 10 percent reduction in staff—and are able to redeploy resources to higher value activities.
- E-supply management technology can be implemented with a relatively small investment while generating an impressive 13:1 return on that investment.

A.T. Kearney performed the 2002 study at a crucial point in the evolution of supply

management—as supply management gains recognition for its value-creating potential, and as expectations for its capabilities continue to rise.

CREATING VALUE FROM SUPPLY MANAGEMENT

Traditionally, companies that employ supply management techniques have focused on reducing their external costs through tough negotiations with suppliers. Tools that support e-sourcing, such as e-RFx and Internet-based negotiations, increase companies' capability to drive out external cost. An additional cost benefit could be achieved with e-ordering technologies, which enable internal cost reduction and increase compliance from streamlined ordering processes (*see sidebar: Components of e-Supply Management*).

Yet there is more to supply management than cost cutting. As Figure 2 on page 4 illustrates, a window of opportunity for revenue growth also opens when companies use all four value-building blocks of supply management:

Design. Involve suppliers in the design of the products and services

Source. Identify and select competitive suppliers, and negotiate price, terms and conditions with suppliers

Order. Trigger and place orders, and receive and pay for purchases

Monitor. Track expenditures and compliance with policies and terms

Increasingly, CEOs expect supply management to improve their top lines. Our previous AEP research revealed that almost one-third of CEOs place innovation and revenue growth atop their list of goals for supply management. Some leading companies are meeting the challenge by looking for more innovative solutions

and marketing support from key suppliers to improve the top line. The leaders are also changing the rules of procurement and sourcing to obtain maximum value from each supply relationship. In effect, they are driving for sustained improvement on both the top and bottom lines.

E-SUPPLY MANAGEMENT

With e-supply management tools, leading companies are pointing the way toward even greater possibilities. But there is still a long way to go. Despite CEOs' increased emphasis on obtaining top-line contributions from supply management, they have had relatively little success in using

Components of e-Supply Management

Gauging progress in "e-procurement" is made difficult by the dizzying array of ambiguous terms used to describe technology-enabled procurement activities. From collaborative commerce to compliance management, e-auctions to e-commerce to e-fulfillment, a blizzard of buzzwords surrounds what A. T. Kearney

describes as e-supply management.

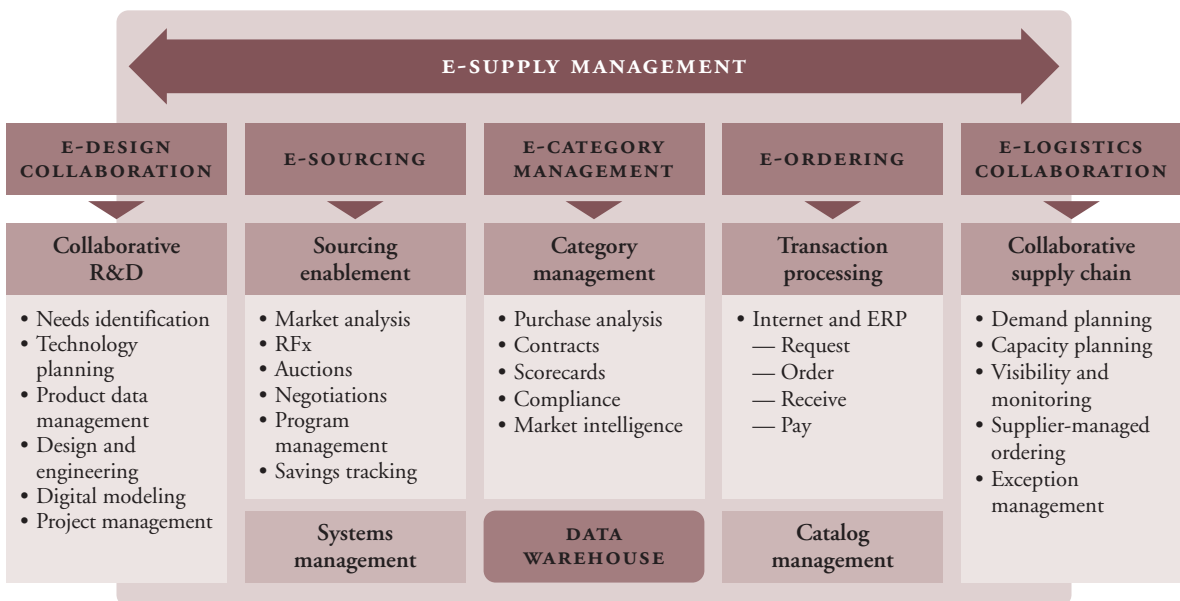
E-supply management includes three families of tools that enable activities traditionally in the scope of procurement:

- *E-sourcing (sourcing enablement)*
- *E-category management (category and supplier relationship management)*

• *E-ordering (transaction processing)*
Two other families of tools enable cross-functional collaboration with suppliers:

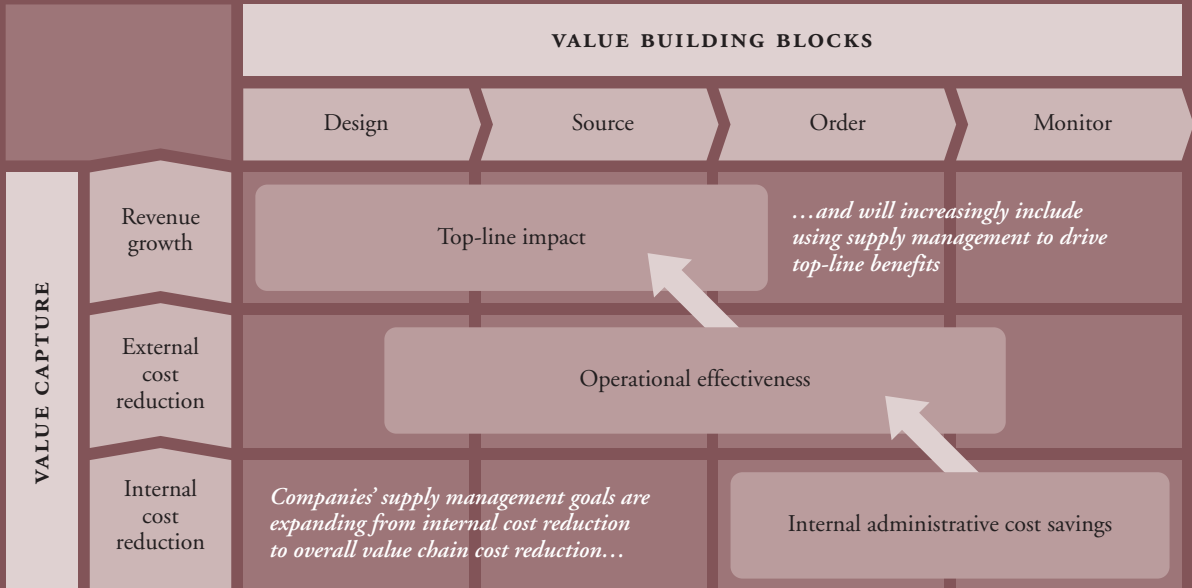
- *E-design collaboration (collaborative research and development)*
- *E-logistics collaboration (collaborative supply chain)*

Figure: The tools of e-supply management



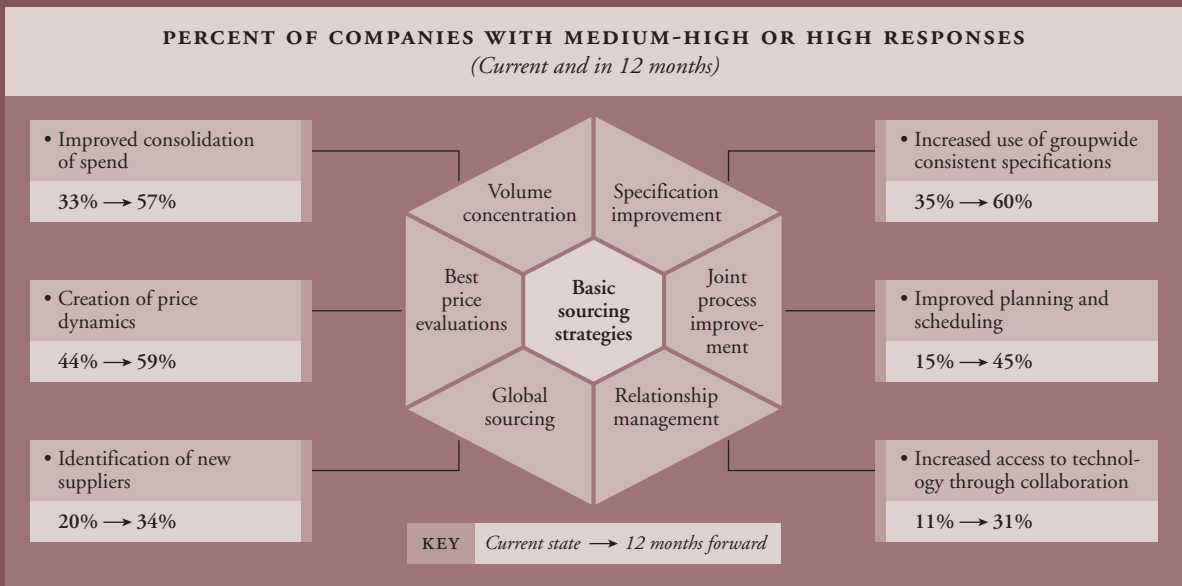
Source: A. T. Kearney

Figure 2: Supply management value-building blocks



Source: A.T. Kearney

Figure 3: Successful value capture levers



Source: A.T. Kearney

e-supply management tools to that end. Fewer than one-quarter of the companies in our study are meeting their revenue aims from e-supply management, and only about half of the companies are meeting their cost reduction goals (*see sidebar: E-Supply Management Tools Are Widely Used, But on a Limited Basis*).

The reasons that the payoffs are not greater become clearer as we examine the ways in which companies are using e-supply management tools.

Using e-tools to support design

Companies that fully exploit opportunities in the design stage of product development have the greatest potential for top-line improvements. Suppliers' ideas and capabilities can contribute mightily to new technologies, innovative offerings and the ability to deliver superior value to cost—and help drive revenue. Leading companies fully involve suppliers and make maximum use of e-design tools. They involve their own engineering, manufacturing and supply management organizations, and work with their suppliers in new and different ways.

However, our study findings reveal that fewer than one in five companies uses e-design tools to involve suppliers in initial product conceptualization or in the product development process. E-supply management tools that power collaborations with suppliers for innovation or improved time-to-market purposes remain a largely untapped source of value.

The reasons are understandable. For example, some companies have yet to break down internal barriers and adopt an integrated process view of product design. Additionally, investments in e-design tools are more difficult to justify than investments in other e-supply management tools. Experience suggests that a better design process

should result in better value products, faster time to market, reduced design rework, and lower manufacturing and warranty costs. But as anyone who has tried to justify investments based on cost avoidance rather than cost reductions knows, it is difficult to make the financial case by comparing against “what might have been.”

E-sourcing delivers significant value

The greatest value e-supply management has delivered to date is its ability to reduce sourcing time and effort, and to extend the reach of already strong traditional sourcing approaches. Figure 3 outlines areas where companies have already earned significant value from their e-sourcing tools, and where other companies expect benefits to occur in the next 12 months.

So far, companies have realized the greatest benefits from enhancing market dynamics (for example, through e-RFIs, e-RFPs and Internet negotiations) and by leveraging their buying power across the corporation. When used in conjunction with solid sourcing processes, these tools allow companies to drive faster results by collapsing the information-gathering and negotiation cycles. They also let companies leverage their sourcing expertise deeper into the spend base by making it practical to source smaller categories.

These types of e-sourcing tools are quickly becoming a mainstay for some major corporations. Volkswagen, for example, aggressively adopted e-sourcing negotiation tools and, as of March 2002, had conducted more than 1,400 auctions covering more than US\$14 billion in expenditures. Motorola is expected to use e-sourcing tools to buy between US\$2 billion and US\$3 billion of its total US\$22 billion in purchasing during 2002.

Despite the benefits e-sourcing tools offer, only about half of the AEP study participants currently use online auctions, and only about 30 percent use e-RFx tools. Because e-enabled strategic sourcing is the major driver of cost reduction in e-supply management, it is not surprising that about half of the participants fell short of cost reduction goals from e-supply management, as noted earlier (*see sidebar: Money Being Left on the Table*).

Looking ahead to the next 12 months, e-sourcing tools aimed at harmonizing specifications, leveraging volume and creating price dynamics will be key to realizing value. Of note, however, is the emergence of more collaborative approaches involving joint process improvement and relationship restructuring as additional techniques to drive top-line value.

Front end versus back end: a disconnect in e-ordering

Our findings reveal that companies that use e-ordering tools to redesign the *entire* order-to-pay process—from front to back and all points in between—are the most successful in their efforts to create value.

For most companies, however, this is more theory than reality; a disconnect exists between the front and back ends of the process. For example, of companies that have streamlined the order-generation process, more than 50 percent have attained high value-add from applying tools to the requisition, approval, and ordering or purchase order sub-processes, while scarcely 20 percent report similar value-add from the receipt and payment sub-processes—with the dispute resolution sub-process lagging well behind.

E-Supply Management Tools Are Widely Used, But on a Limited Basis

The good news is that 96 percent of respondent companies are using e-supply management technologies. However, few of these companies have applied the tools on a widespread basis. Only 11 percent of their total spend is addressed by these new technologies, and even among the major spend segments of direct and indirect materials, penetration is low:

- Direct materials: 14 percent
- Indirect materials: 15 percent
- Services: 4 percent
- Capital spending: 8 percent

Still, e-supply management has delivered clear benefits where it has been applied. For example, during

1999 and 2000, companies with traditional (non-e-enabled) strategic sourcing programs realized 7 percent average annual savings on covered expenditure categories, while those with programs employing e-sourcing tools saved 10 percent, an incremental benefit of more than 40 percent.

E-sourcing tools also let companies drive faster results by collapsing information gathering and negotiations cycles. Additionally, the tools allow them to leverage their sourcing expertise deeper into the spend base by making it more economical to source smaller categories.

Companies using e-catalogs and end-user ordering technologies gained substantial process efficiencies, resulting in an average 41 percent improvement in order cycle time. Procurement organizations have also been made leaner through e-supply management tools, with companies reporting procurement headcount reductions of up to 10 percent as new processes have freed resources from many mundane tasks, such as requisitioning and approval, order placement, delivery confirmation, and payment authorization.

Furthermore, rather than redesign the entire ordering process, some companies create interfaces to link their indirect materials or catalog purchase e-ordering systems with their existing back-office payables processes, which often run on ERP or legacy systems. Even with a more streamlined front end, benefits are limited by inefficiencies in the receipt, match and pay steps.

Still, the area of supplier payment processing and e-logistics is expected to grow over the next year. More than two-thirds of study participants anticipate obtaining high value-add from electronic transmission (through electronic data interchange [EDI] or the Web) of orders to suppliers, and by using online catalogs. Almost half of the participants say they expect to gain value from supplier payment processing and planning, scheduling and inventory management.

E-monitoring: the value of information

Perhaps the most vexing issue facing AEP study participants is the lack of sound information with which to develop a profile of expenditures and to track compliance. Information availability, accuracy, integrity and usability are all hindering current attempts to obtain benefits from e-supply management.

Study participants lament over poor integration among their companies' existing procurement systems. They also cite weak links to other systems such as accounts payable, in addition to limited ability to assemble and analyze information. All are among the top reasons why e-supply management systems fail to meet expectations.

For example, in the past, it has taken months of labor-intensive efforts to assemble, screen, clean and harmonize basic expenditure data—such as item numbers and descriptions,

supplier names and numbers and prices paid—from multiple systems within a company. Because of the cost and time involved, the data is rarely maintained properly and quickly becomes out-of-date. One study participant complained that it took more than a year to build a common database across the company's 70-plus divisions, and the company is still working to clean up supplier names across and within multiple payables systems.

The current generation of e-supply management tools promises to make it easier for companies to initially clean their data and then to maintain it. These tools help create and reinforce discipline around data-coding standards, provide access to refreshable content from external sources, automate data links among disparate systems and bring easy-to-use analytical tools into users' hands. About one-third of the AEP 2002 study participants say they are now obtaining significant value from tools that allow them to capture, classify and consolidate data across the company. By 2003, nearly 60 percent of companies are expected to achieve significant value from such tools. In fact, the company cited earlier with 70-plus divisions is now using data warehousing tools to automate the update process and generate weekly expenditure profiles.

Weaknesses remain, however, in identifying and profiling suppliers, and identifying stakeholders and users. In these areas, companies need to build a better profile of expenditures and improve the integration of data from disparate systems. Indeed, one study participant whose company has engaged in significant merger and acquisition activity commented, "My suppliers tell me that they deal with 16 different companies, all of which go by my company's name."

Currently, only about one-third of participants say they are obtaining high value from their category management tools, citing three areas: user compliance with preferred suppliers and standards, supplier compliance with pricing and terms, and user satisfaction tracking.

However, the compliance monitoring tools may not be the reason for the relatively low value being achieved. The poor results may be due to processes that allow users to circumvent the e-ordering systems and permit “maverick” buying. One high-tech manufacturer, for example, saw its savings diluted by users who had the option of ordering via legacy systems rather than the e-ordering systems. When the manufacturer accelerated the implementation of its new e-ordering system (shifting from a staged implementation), it also created common business processes to avoid over-customizing the software, and effectively shut down the legacy systems. Today, the new system is the sole means for non-production procurement, handling more than US\$1 billion in indirect purchases per year, with compliance checks built into the ordering process.

Within the next year, our findings suggest that close to 60 percent of companies expect that user compliance tools will generate increased value, and almost 50 percent expect to achieve significant value from their supplier compliance systems.

LEADERSHIP IN E-SUPPLY MANAGEMENT

Studies that identify best practices and leadership companies—including A.T. Kearney’s 1999 AEP study—often cite as many as one-quarter of participants as leaders. This is not yet the case for e-supply management. Because it is a new discipline, only 8 percent of the 147 companies we surveyed could be designated as clear leaders. These companies are either meeting or exceeding their e-supply management objectives for a significant portion of their spend base. Many of these leaders are in the automotive and high-tech industries, which points to the importance of e-supply management tools to help design, source and order components.

An additional 21 percent of participants fall into the “successful experimenters” category.

Money Being Left on the Table

Though somewhat obscured by the residual hype, enormous cost-saving potential remains for e-enabled supply management. The companies surveyed in our study achieved US\$13.5 billion in cost savings in 2000 on their US\$358 billion expenditure base through e-supply management. However, if all participants matched the savings rate

of the leading companies, the total would have been US\$19.1 billion.

The case for e-supply management becomes even more compelling with a glance at the return on investment (ROI) offered. Using the investment rates of the leading companies as the benchmark, the US\$19.1 billion potential savings for all surveyed companies could have been achieved

with a US\$1.5 billion expenditure for IT systems, process design, implementation and transformation to achieve nearly a 13:1 ratio.

Additional benefits are available even beyond those captured by the leaders. We estimate that the total potential for the companies surveyed is US\$28 billion through broader, deeper use of available tools.

These companies have met or exceeded planned objectives but have limited spend coverage. Companies in this category represent a wide range of industries, including consumer goods manufacturing, retailing, utilities, pharmaceutical, financial services, and chemical, oil and gas. This suggests that initial success is more an indication of the individual company's attention to e-supply management than its industry affiliation.

Behind the leaders and successful experimenters are the 23 percent of companies that have not met their planned objectives. And 48 percent of companies are still awaiting measurable results. In certain industries—notably financial services, telecom, pharmaceutical, transportation, and chemical, oil and gas—more than half of the participants are clustered in these last two groups. For some, this suggests that the companies are still learning to use e-supply management tools for commodities or capital equipment purchases. For others, where external spend is a smaller percentage of total cost, it could simply be due to internal competition for attention and resources, with procurement low on the list.

E-supply management strategy

The leaders in e-supply management believe that their strategy is well aligned with pertinent related areas. For example, more than three-quarters of the leaders boast strong links between e-supply management and their company's overall e-commerce strategy. A similar percentage of companies report close coordination between their e-supply management objectives and their overall procurement objectives. This alignment suggests that the leaders have a strategic purpose for entering into e-supply management, versus those companies that merely follow trends.

Further, in all leader companies, the chief procurement officer (CPO) provides executive sponsorship to the e-supply management initiative, thus reinforcing its importance in achieving the company's procurement strategy. This contrasts with the 67 percent of companies overall for which the CPO had a similar level of commitment. The leaders enjoy greater support for their e-supply management initiatives from executives, end users and even their suppliers.

Maximizing the value of procurement professionals

With technology freeing up resources dedicated to performing lower-level tasks, the leaders in e-supply management show marked improvements in the value delivered by their procurement workers—often at twice the rate of the general population. For example, 67 percent of participants from the leading companies say that e-supply management has a big impact on improving procurement worker effectiveness; only 33 percent of other companies see an improvement. And 56 percent of the leaders report that e-supply management triggered a change of the procurement organization's role from transaction processor to high-value content provider, compared to 26 percent of the other companies.

Training is crucial to obtaining maximum value from e-supply management, with the leaders allocating more than twice their proportion of IT spend to user training compared to other companies in the study. When asked to project this spend moving forward, the gap closes. The leaders anticipate the establishment of a healthy baseline for their workers, while the other companies expect to approach leadership levels.

Finally, the leaders were far more likely to implement e-supply management technologies ahead of schedule. While doing so may not give them the technically perfect architecture that an IT organization prefers to establish before launching, it does allow them to quickly obtain feedback and learn from the experience. And, of course, they obtain savings more quickly.

Bringing suppliers along

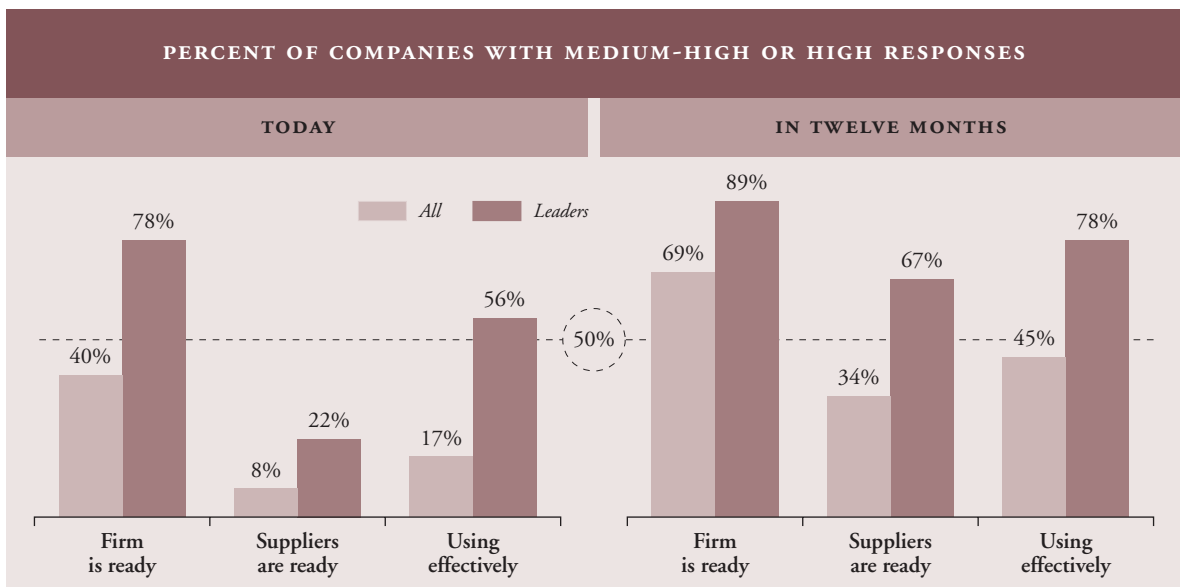
Compared to the general population of companies, leaders are especially optimistic about their ability to bring their suppliers along the path to e-supply management readiness. Figure 4 shows the breakdown of current and future states in terms of participant readiness and supplier readiness.

Not surprisingly, the leaders are “e-enabled” in tandem with a greater percentage of their

suppliers across all spend segments. By the end of 2002, 80 percent of the leaders’ direct material suppliers are expected to be e-enabled, followed by service providers (76 percent), indirect materials (64 percent), and capital spending (62 percent). In each area, this is at least 18 percentage points higher than the rate expected by the general population of companies, with the greatest gap occurring in service providers (29 percent versus the leaders’ 76 percent).

Leaders also leverage their advantage by building private supplier hubs specifically attuned to their needs, often as an alternative to public net markets and consortia. Companies such as Volkswagen, John Deere and Hewlett-Packard have created sophisticated supplier portals that enable a wide range of interaction with suppliers—from conducting e-negotiations and collaborating on product design and supply

Figure 4: Firm and supplier e-supply management readiness



Source: A.T. Kearney

chain issues, to tracking continuous improvement initiatives, reporting supplier performance, and sharing access to company-specific policies and procedures (such as supplier quality manuals translated into local languages). This development bodes poorly for the future of public markets, which for a host of reasons have failed to deliver on their initial promises.

It is worth noting that for all their e-supply market successes, not even the leaders are using e-tools to fully address revenue growth and design, which remain under-exploited opportunities. Unlocking this source of value is one remaining key for all businesses, and a potential strategy the laggards could employ to move up and join the leaders.

THE FUTURE OF E-SUPPLY MANAGEMENT

Although it is impossible to predict future developments with absolute certainty, we can confidently forecast the continued evolution of technology-enabled supply management tools.

Looking back, we see that our current path was already being laid out a decade ago through document exchange tools, mainly via EDI and email. These advances fueled reductions in cycle time and inventory, as well as cost reductions in the order-to-pay process.

The Internet's evolution and the boom in e-commerce, along with the realization that ERP tools did not sufficiently meet procurement needs, led to the development of a variety of procurement stand-alone tools in the late 1990s. Pushed by a number of software vendors, these functionally focused tools catered mostly to center-led procurement organizations. We are just now leaving this period.

Today, we stand on the cusp of a new era that will be defined by integrated procurement

tools. Reacting to marketplace frustration with the connectivity of wave one tools and ERP systems, and the need to develop more value-added functions and links with other key processes and systems, these new technologies are acutely focused on process.

Looking forward, we envision the development of supply chain intelligent solutions—innovations that promote a market of one and trading networks. These tools will add more value-added functions, while improving the integration of each enterprise with its suppliers and customers alike. As this evolution occurs, companies will likely follow an established adoption pattern: Early market enthusiasts—such as the leaders in our AEP survey—will give way to main-market acceptance. Innovators, seeking immediate impact more than an established ROI, are generally willing to live with early glitches; companies in the main market do not come in until they are convinced of a tool's value.

Evolving technology users

The realization of e-supply management's potential will also require that technology users evolve. Company needs and readiness will influence the nature and pace of change and market demand. Pertinent factors will include industry characteristics and dynamics, the nature and degree of executive sponsorship, the company's stage of excellence in supply management best practices, experience with—and results received from—e-supply management efforts to date, and the stature and influence of supply management within the enterprise.

An e-tool adoption strategy will also be influenced by legacy architecture and systems. The nature and type of a company's existing ERP systems will be one consideration, along

with the degree of integration among business processes. Those companies without an existing ERP system will provide a substantial greenfield opportunity.

Finally, an e-supply management technology strategy will revolve around two fundamental options. Companies may either opt for an ERP-centric approach, or a best-of-breed approach that transcends ERP systems. The best-of-breed approach draws from leading tool experts (for deep content and technical capability in a particular toolset) as well as top category specialists (for integrated solutions tailored to specific spend categories).

Three possible market directions

Combining our study findings with our supply chain expertise, we see three possible directions for the e-supply management technology market.

The first is a “steady growth” path, characterized by incremental or evolutionary market growth. In this scenario, e-tools mature and reflect a growing understanding of supply management needs and practices. The benefits are clear and quantifiable, allowing for a transition from functional adaptation to process application. As the market evolves, a gradual shakeout among providers will be expected, just as in any other maturing industry.

A far less desirable direction, the “crashing wave,” would mirror the dot.com bubble of 2000. Should e-supply management’s ROI fail to materialize on a broad scale, this could come to pass, leaving it with the ugly label of a management fad akin to TQM (total quality management) or BPR (business process reengineering). A major shakeout would ensue in this sector.

Ideally, we will instead enter a period of “rapid adoption,” in which the “e” designation

becomes redundant and is ultimately dropped from e-supply management. Availability and use of e-tools that overcome the integration bottleneck via plug-and-play capability will become commonplace. Compatibility among these tools will enable all parties to quickly reach a threshold level of readiness, and beyond. Instead of just using tools to source, order and monitor, companies will expand into collaborative R&D and supply chain applications.

2005: e-supply management becomes a commodity

Whichever direction the supply management market may take, one prediction seems fairly safe: By 2005, the core of e-supply management—e-sourcing, e-category management and e-ordering—will become a commodity.

In e-sourcing, the leading providers will emerge by 2005. Tools will be available in several forms: on an application service provider basis as “behind the firewall” applications or as an embedded function in ERP systems. Providers will keep their insights fresh by continuously leveraging e-RFx usage across multiple companies: sourcing the same category multiple times a year across many companies, for example, rather than a single company sourcing an item once every two years. An infrastructure of de facto standards will be developed for templates, bid approaches and metrics. Category insights will be embedded in e-RFx templates and will include key cost drivers, value chain leverage points and factors that help differentiate suppliers. E-negotiation tools will be upgraded continuously to keep pace with e-RFx insights.

In e-category management, tool providers will still be emerging. Given the broad range of tools included in this family, few if any compre-

In all leader companies, the chief procurement officer (CPO) provides executive sponsorship to the e-supply management initiative.

hensive solutions will exist by 2005. Several tools will be available to develop a profile of expenditures, offering greater integration with ordering and payables to allow “on-demand” data extraction and analysis. Compliance management tools will be built into e-ordering systems, and supplier scorecard systems will likely be homegrown, reflecting each company’s own philosophy toward measurement and communications with its supply base. Contract management tools will continue to mature, with ties to decision support tools that allow companies to compare the benefit and constraint trade-offs within and among contracts.

Also by 2005, ERP systems providers will emerge as the market leaders for e-ordering. They will have developed or acquired catalog-based Internet ordering to handle indirect purchases, integrating with their ERP-based receipt and payment processes. These systems providers will continue to enhance processes and technologies to drive ERP and EDI ordering and logistics collaboration between large companies and their major direct materials suppliers. Companies will also take advantage of Extensible Markup Language (XML) and web-based services for new applications requiring data exchange. Internet-based ordering systems will be used to emulate EDI for smaller direct materials suppliers. Specialized software to power net markets and exchanges will be available.

In the area of e-design collaboration, tools will become increasingly sophisticated to allow

greater integration of design and engineering, product data management and digital modeling. The major providers will offer greatly enhanced cross-platform design capabilities that allow different systems across the supply chain to work well together. Such integration is already underway. For example, two giants in this arena, EDS’ Product Lifecycle Management (PLM) Solutions unit and Parametric Technology Corporation (PTC), recently announced that their systems will be compatible.

The market for e-logistics collaboration will still be evolving in 2005. From a technology standpoint, web-based tools will enable customers and suppliers to conduct joint demand and capacity planning, and to maintain visibility of orders and goods in transit. These tools will also help companies monitor exceptions, suggest responses and even automate corrective actions. However, the impending shakeout in the software provider market means today’s plethora of niche players will either be acquired or disappear.

Even in 2005, integration will remain a key hurdle for both software providers and users. ERP providers will follow a “land-grab” strategy, adding e-supply management tools to their e-ordering base in an effort to offer a one-stop shopping solution. Providers with best-of-breed tools will work with middleware suppliers to offer tailored solutions. For users faced with alternatives, the final choice of provider will be influenced by both their own legacy systems and their previous investments.

Preparing for the Future

While today's e-supply management leaders have a competitive edge, they also offer a glimpse of e-supply management's vast potential for all companies. All companies can benefit from understanding where they are today and how ready they are for the future (*see E-Supply Management Self-Assessment on next page*). Even the leaders identified in our study are aware that they still have areas to address and value to capture.

Leaders remain distinguished by their bold, complete and active approach to adopting e-supply management, while the others seek mastery of lower level tasks such as transaction processing. As this field continues to evolve rapidly, companies face fundamental decisions about how they will use e-supply management tools. Among the options:

- Aggressively exploit the full range of tools to capture top- and bottom-line value from supply relationships
- Selectively adopt e-supply management technologies as efficiency tools to improve internal processes
- Fall behind and risk becoming severely disadvantaged by taking a highly conservative approach to e-supply management technologies

Tomorrow's leaders will be those companies that begin to explore their options and make informed decisions today.

E-Supply Management Self-Assessment

Leading companies share several characteristics in their approaches to strategy and organization and to processes and technologies related to e-supply management. The following self-assessment provides a quick indicator of your company's readiness to capitalize on the opportunities identified in this paper and suggests possible next steps.

For each characteristic, rate your company on a 1 to 5 scale (1 = Not at all, 3 = Partially, 5 = Fully)

CHARACTERISTICS OF LEADING COMPANIES	1	2	3	4	5
STRATEGY AND ORGANIZATION					
E-supply management strategy is aligned with the overall corporate strategy					
The chief procurement officer provides executive sponsorship of e-supply management initiatives					
E-supply management receives strong executive-level support and broad operational support from the organization					
Higher levels of investment are made in e-supply management					
E-supply management tools are producing significant incremental benefits from a range of sources (such as top line, external spend, internal spend)					
PROCESSES AND TECHNOLOGY					
E-sourcing tools are applied to a majority of the spend					
E-supply management is used to improve the productivity of the procurement organization and enable it to assume higher value-added responsibilities					
A large volume of procurement transactions are conducted through e-enabled systems					
E-supply management tools are increasingly being deployed to drive compliance and thus increase realized savings					
The procurement organization is ahead of, and actively leads, its suppliers in e-supply management implementation					
SCORING					
<i>>45 points = Current leader: Must continue to evolve in a rapidly changing environment.</i>					
<i>33–45 points = Emerging leader: Must fill critical gaps to reach leadership levels.</i>					
<i>20–32 points = Behind: Must build foundation capabilities now.</i>					
<i><20 points = At risk: Must launch remedial actions immediately to avoid competitive disadvantage.</i>					

A.T. Kearney is an innovative, corporate-focused management consulting firm known for high quality, tangible results and its working-partner style. The firm was established in 1926 to provide management advice concerning issues on the CEO's agenda. Today, our 5,000 employees worldwide serve the largest global clients in all major industries.

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For more information or additional copies, contact Marketing & Communications at:

A.T. Kearney, Inc.
222 West Adams Street
Chicago, Illinois 60606 U.S.A.
1 312 648 0111
fax 1 312 223 6200
email: insight@atkearney.com
www.atkearney.com

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