VOLUME VI NUMBER 3

EXECUTIVE AGENDA

IDEAS *and* INSIGHTS *for* BUSINESS LEADERS

OPERATIONS:
Focusing on the Core of Today's Business

A.T. KEARNEY

EXECUTIVE AGENDA VOLUME VI NUMBER 3

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Unlocking Value from E-Supply Management

In some quarters, e-supply management has gotten a bad name for failing to live up to initial expectations. Why aren't companies consistently achieving results? Overreliance on technology, coupled with too little attention to strategy and organizational capabilities, is holding them back.

Today's marketers and salespeople have spoken, and their message is clear: Technology adds immeasurable value to virtually any task. Remember when you first bought your children a home computer? They ran through a quick tutorial and dazzled you with their new talent and knowledge, right?

Right in the world of kid computing, perhaps, but not necessarily in business. Obtaining the tool is only the first step toward e-empowerment. As with any tool, computers take time and experience to master—and in some situations, they won't lend an edge. They can help students learn, increase workplace productivity and connect users to new worlds of possibility—but when they don't, the computer salesperson is the sole beneficiary.

In the business world, e-supply management—the use of technology to improve all aspects of procurement and its related processes—can be an indispensable tool. A glance at the results some companies have achieved through e-supply management shows its promise:

- A 90 percent reduction in transaction costs
- A 2 to 6 percent incremental reduction in cost for purchased goods and services
- A 40 percent reduction in renegade spend

Once embedded in the organization and linked with suppliers, e-supply management also helps reduce costs and improve performance by strengthening procurement's role in product design and supply chain management. And through improved information quality, accessibility and timeliness, e-supply management helps achieve the oft-touted "enterprise transparency" that leading companies strive to attain.

But few companies have reaped the results they had hoped for from their initial investments in e-procurement. In A.T. Kearney's 2002 Assessment of Excellence in Procurement study, for example, companies revealed that scarcely 20 percent of orders were being handled through e-procurement, versus a goal of 45 percent. Similarly disappointing results were reported in cycle-time reduction and process-cost reduction.

Not surprisingly, executives are wondering how best to move forward, with a sort of bell curve forming around three common responses: moving ahead aggressively, proceeding with caution and staying on the sidelines. Those choosing this last course of action are waiting for the market to mature further, gambling that they will not be left too far behind the competition. Companies that proceed with caution adopt proven point solutions, run geography-specific pilots, and take similar small steps toward full e-supply management. Enterprises that move ahead aggressively can exploit the burst bubble and ongoing shakeup among e-service providers to gain competitive advantage.

Of course, there is more to achieving results through e-supply management than technology adoption; companies need to instill a new mindset throughout the organization. A.T. Kearney's experience has revealed five essential keys to help unlock e-supply management's full potential:

- Take a comprehensive view that links technology strategy to the overall supply management strategy
- Understand e-supply management's true sources of value
- Ensure effective technology linkage and integration
- Drive implementation along three dimensions—technology, categories and organization—with a heavy focus on change management
- Track and capture the value generated at every step

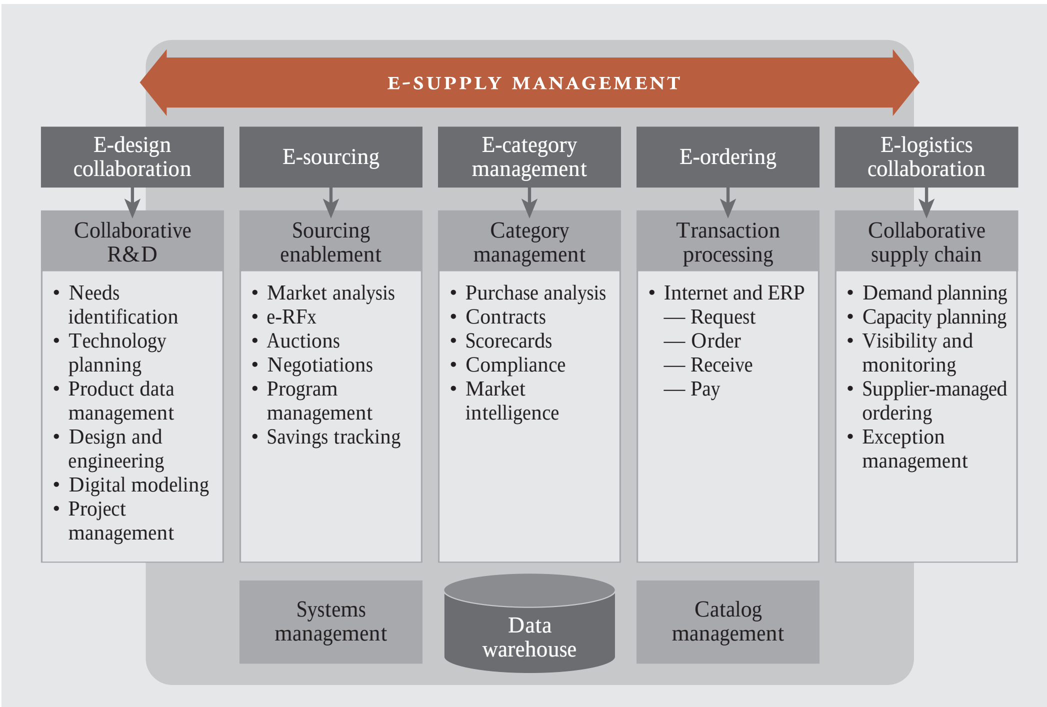
In this article, we draw on our experience working with leading companies worldwide and our ongoing research to explore these keys.

LINK TECHNOLOGY WITH OVERALL STRATEGY

Many companies fail to achieve substantial results from e-supply management because they do not blend it with the supply management organization. But in best-practice companies, e-supply management is an integral part of the overall procurement strategy, and e-supply resources are positioned within the supply management organization rather than shunted off to the information technology (IT) organization.

Every aspect of a company's procurement capability holds opportunities to employ enabling technology. E-supply management encompasses six core components,

Figure 1: *The E-Supply Management Framework*



Source: A.T. Kearney

as shown in figure 1: e-design collaboration, e-sourcing, e-category management, e-ordering and e-logistics collaboration, with e-supply data management underlying and powering the other five.

E-sourcing, e-category management and e-ordering activities typically fall within the procurement function. E-sourcing technologies, such as online auctions and e-RFx tools, help take strategic sourcing to the next level by improving the efficiency and effectiveness of traditional strategic sourcing efforts. These tools also make it practical to source smaller categories, extending potential benefits. E-category management focuses on creating transparency and extending visibility for category managers so they can develop better strategies, make more informed decisions and improve their ability to mitigate risk.

E-supply data management tools play a significant role in e-category management. They extend clean, accurate and timely expenditure data to the individual part or purchased service level, to real-time supplier performance monitoring and, where appropriate, to external intelligence feeds that track company performance against outside indicators. A company can streamline its order-to-pay process through e-ordering tools and close cooperation with suppliers. To stay connected with small, specialized suppliers that lack the resources to invest in new systems, some companies have created web-based electronic data interchange systems.

E-design collaboration and e-logistics collaboration tools improve cross-functional collaboration with suppliers. E-design tools can grow the top line: Companies that incorporate suppliers' ideas and capabilities are better positioned to create new technologies and innovative offerings, deliver more value and bring products to market more quickly. Collaborative design tools based on internet technology allow a company's engineering, manufacturing and supply management organizations to work together with suppliers. Web-based tools make e-logistics collaboration possible by enabling customers and suppliers to conduct joint demand and capacity planning and track orders and goods in transit.

UNDERSTAND THE TRUE SOURCES OF VALUE

Almost every company that has tried e-supply management has discovered the value it provides by automating activities at the order and monitor stage, which eliminates paperwork and shifts processes closer to the actual end users. But companies that limit themselves to this area—where most savings stem from headcount reductions—barely scratch the surface. Much more value can be gained when a company extends its efforts to sourcing and design.

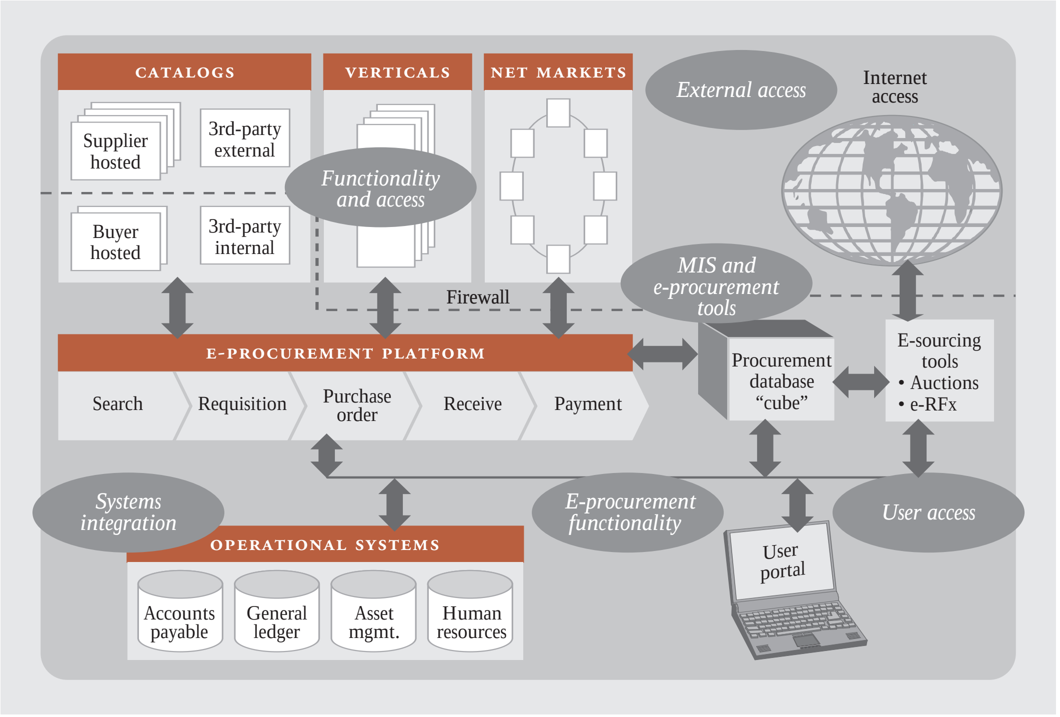
E-sourcing is delivering the most value of all the e-supply management processes. It brings immediate cycle and resource reductions and, based on A.T. Kearney's experience, a significant 2 to 6 percent increase in incremental savings over traditional approaches. To derive the full value of e-sourcing, organizations have to change their mindset—from asking "Why should I auction?" to "Why wouldn't I auction?"

Leading companies are using e-sourcing for 50 percent of their external expenditures and conducting dozens of events each month.

Leading companies are using e-sourcing for 50 percent of their external expenditures and conducting dozens of events each month. One early adopter, Volkswagen, had already hosted some 6,800 auctions covering more than US$96 billion in expenditures as of June 2005.

Other leading players include GE, Dell, Campbell Soup and Gillette. These companies have all made e-sourcing technology an integral part of their strategic sourcing process, and have, through experience, perfected strategies and tactics to get the most value from these tools. They have been rewarded with more potential sources of supply, more price transparency and, as

Figure 2: *E-Supply Management Technology Linkage*



Source: A.T. Kearney

a result, better prices. They have also benefited from substantial technology-driven efficiencies, which allow them to achieve attractive results in half the time and with a fraction of the resources employed in more traditional approaches.

Category solutions—category-specific vertical chains that encompass ordering, sourcing, supplier management and logistics—also represent a substantial opportunity. Travel, print, temporary labor, and maintenance, repair and operations (MRO) have been among the most popular. While many solutions and providers proved short-lived in the dot.com aftermath, we believe vertical offerings will make a comeback as providers find the right combination of value, sustainability and more reasonable growth expectations.

The greatest potential for e-supply management lies in the design stage, through cross-enterprise collaboration with suppliers. Companies that have achieved savings through e-sourcing find e-design collaboration to be a powerful follow-up; they can improve margins by identifying and eliminating waste throughout the supply chain. A.T. Kearney recently helped a major automotive supplier achieve US$120 million in annualized cost reduction in its product lineup through collaborative product redesign and improved implementation processes. The key was the early involvement of procurement in the product life cycle, supported by the right set of e-collaboration tools.

ENSURE EFFECTIVE INTEGRATION

Integration of transactional and decision-support applications is key to realizing the vision of closed-loop spend management, which addresses all potential value leakage points—including "invisible" expenditures, sub-optimal negotiations, underutilized contracts and maverick spend *(see figure 2 on page 69)*. The implementation path to reach this goal demands rigorous prioritization of integration requirements. Our experience indicates that technology linkages are most crucial at two points: throughout the order-to-cash transaction cycle, and in data feeds to support sourcing initiatives.

Many companies face the daunting challenge of integrating their fragmented and dated IT infrastructures. Companies that have already streamlined and updated their systems infrastructure have a clear advantage in integrating e-supply management technologies—and are often cited as shining success stories of speedy, seamless e-supply management implementation. The reality for most companies, unfortunately, is that technology integration is a difficult, resource-draining and time-consuming undertaking.

For some applications, such as e-ordering technology, integration with accounts payable, asset management, maintenance and myriad other systems is critical to reaping full value. However, stand-alone or partially integrated applications such as e-sourcing technology can still offer significant value. While integrating e-sourcing tools into ERP systems will likely provide benefits, at this point in the technology life cycle stand-alone tools are far superior.

CONSIDER THREE DIMENSIONS: TECHNOLOGY, CATEGORIES AND ORGANIZATION

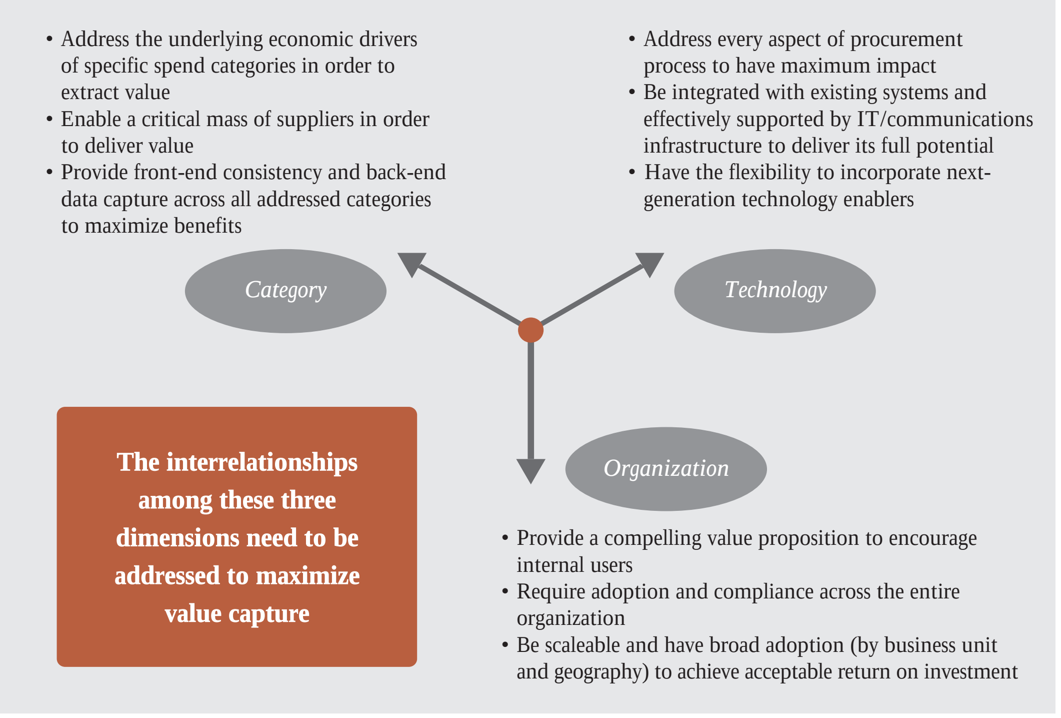
To successfully implement e-supply management, management and project teams need to recognize that the effort is ultimately not about changing technology, but about *effecting change*. Change must occur along three key dimensions: technology, categories and suppliers, and organization and users *(see figure 3)*.

The case for change in technology is relatively simple. Technology brings about efficiency, speed and improvement in process results. Of course, business value ultimately determines the strength of the case.

For categories and associated suppliers, the picture is less clear, especially as suppliers have become overwhelmed by multiple, and sometimes conflicting, technology-enablement requirements from customers. Further, the right technology solution for a given category is often oversimplified (witness the overblown expectations of e-catalog functionality).

By far the biggest challenge lies in organizational change. For e-supply management to take root, a site- or user-driven strategy

Figure 3: *E-Supply Management — Three Key Dimensions of Change*



Source: A.T. Kearney

works best for category management. This seems counterintuitive at first glance, as many e-supply management rollout plans are based on which categories and suppliers may deliver the biggest benefits. The drawback to this approach is that each function within an organization finds scattered, select work processes changed, while others are still done "the old way." A site- or user-driven approach, supported by training, is more likely to result in lasting change.

For example, rather than sequencing the ramp-up of electronic catalogs based on the size and transaction volume of categories, and thereby on potential savings, one major bank started with the users' perspective. It mapped all the items that administrative assistants would buy, from office supplies and travel to flowers, and e-enabled that entire group of categories in one wave. It coupled the implementation of these electronic catalogs with a focused communications and training initiative for administrative assistants. The result: The number of adopters, the speed of adoption and satisfaction rates were all higher than usual.

TRACK AND CAPTURE VALUE

As a company advances toward a state of full e-supply management status, it must track and capture the value generated along the way. Initiatives can be derailed when they hit hurdles or cost pressures, especially when their champions lack a credible means to convey the benefits already achieved or still to be tapped.

On the surface, it appears simple to track e-supply management savings. For instance, in sourcing direct materials, companies should seemingly be able to compare pre- and post-sourcing prices paid to see the benefits. But a consistent savings-tracking methodology must be established and followed, with baseline pricing as a key input at the front end. Mix, volume, rate and gross margin can all complicate measuring the success of an effort in an individual category. Additionally, underlying commodity price movements may have to be factored into any evaluation of savings. Indirect goods and services pose a greater tracking challenge, though leading companies are beginning to address this area.

Non-price savings from e-supply management can be even more difficult to track. Cost reductions realized at the order and monitor stage are often gained through headcount reductions, which may not be readily apparent in tracking savings, especially when this includes fractions of people's time. Design improvements can be even harder to quantify; benefits can be lost on stakeholders and management unless a conscious effort is made to track—and even promote—them.

Value capture relies heavily on a disciplined approach to budget control, lest the executive suite misinterpret e-supply management as merely a way to buy things cheaply. The efficiencies gained through these efforts need to be clearly earmarked so benefits do not dissipate elsewhere in the organization.

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TIME TO COMMIT

Increasingly becoming a source of competitive differentiation, e-supply management is a topic companies cannot afford to pursue half-heartedly. Leaders secure faster, deeper and broader benefits from their supply base, not just on the cost front (e-sourcing), but also by growing the top line through innovation (e-collaboration) and improved flexibility, total cost of ownership, and service (e-logistics). Leaders are also achieving a higher level of information access and transparency (e-supply data management and e-category management) that, coupled with good management capabilities, help them make insightful and timely decisions.

Bristol-Myers Squibb, Delta Airlines, IBM and Unilever, for example, have spent considerable effort on implementing holistic e-supply management strategies. They have invested in developing high-integrity procurement data warehouses, fed by transactional purchasing systems that capture relevant data at the source. They have also implemented e-sourcing technologies to make the most of their strategic sourcing and category management processes. Finally, they are applying e-supply management and collaborative design tools to more closely link procurement and product innovation processes. The net result is superior productivity and new ways of capturing and creating value.

While most companies have taken the initial steps toward e-supply management, the journey continues as companies and technologies evolve in tandem. An organization needs to experiment as it plans its mix of major and minor investments, properly balance start-ups against established tool and service providers, and blend massive step-change and more incremental improvements. Companies that create a thoughtful plan but also move ahead aggressively to fully implement e-supply management can unlock value—and position themselves for continued success.

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