

## Total Cost Management: The Future of Procurement



Presented by:  
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# Agenda

- The Procurement Imperative
- e-Sourcing: Why You Should Care
- Keys to e-Sourcing Success
- TCM: Capturing the Complete Savings Opportunity
- Conclusions

# Supply Chain Research @ Aberdeen

**Collaborative Product  
Commerce**

**Total Cost  
Management**

**Logistics Resource  
Management**

**Planning**

**Visibility and Event Management**

**Collaboration and Process Management**

**Integration and Connectivity**

**Intelligence and Analytics**

**AberdeenGroup's fact-based research and analysis.**

# Phases of e-Procurement Maturity

## Hype

Pioneers

Pilot

Limited supplier enablement

Promise of spend visibility

## Adoption

Early adopters

Division/BU

Largest/critical suppliers

Limited spend visibility

## Integration

Mainstream

Enterprise wide

Extended suppliers

Extended spend visibility

## Transformation

Pervasive

Interoperable communities

Supply Web integration

Total spend visibility

1996 - 1998

1999 - 2001

2002 - 2003

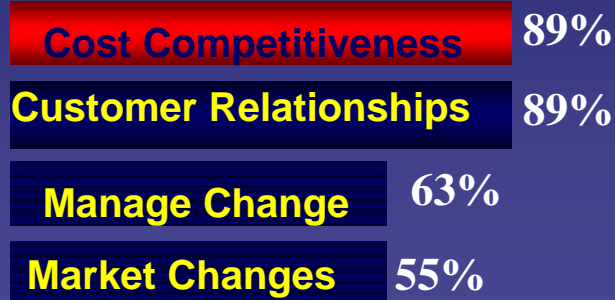
2004 and beyond  
*AberdeenGroup*

# The Procurement Imperative

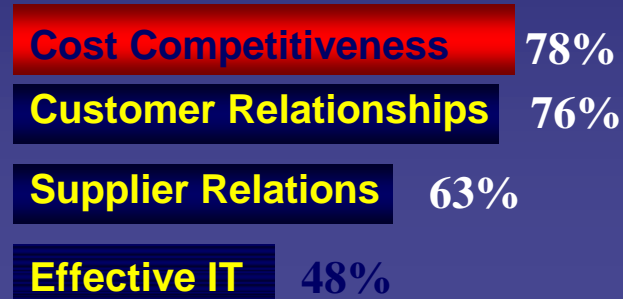
# Cost is a leading concern for most

“What are the most critical issues facing your industry?”

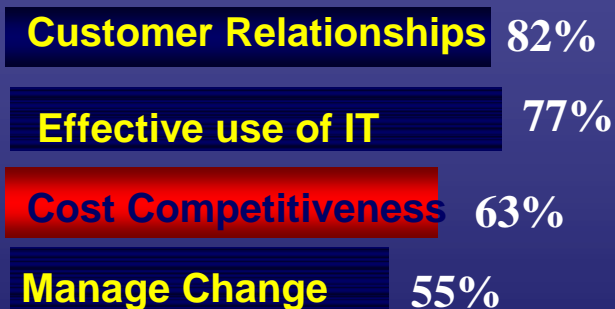
## *Chemicals*



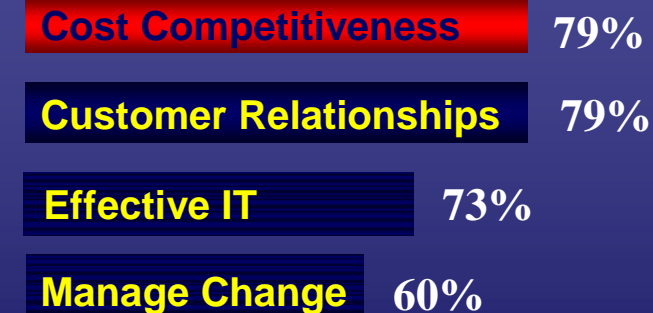
## *Automotive*



## *Financial Institutions*

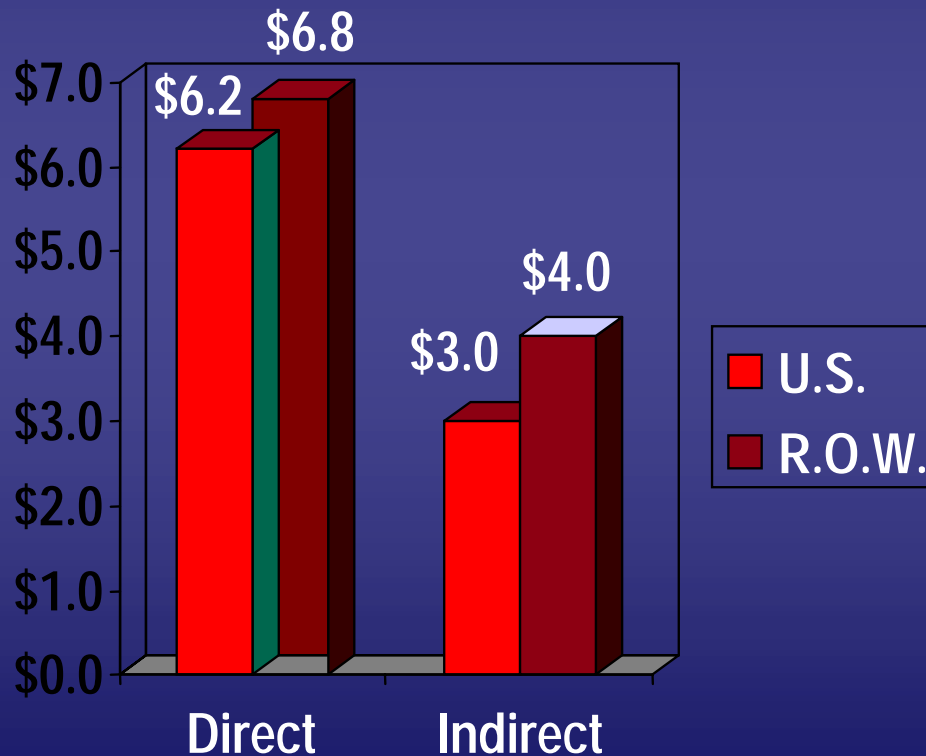


## *Communications/Electronics*



# Procurement provides the greatest opportunity to control costs...

## Corporate expenditures \$ Trillion



- For every \$1 in sales, a company spends 50-cents to 55-cents on purchased materials
- Reductions in purchasing costs translate into dollar-for-dollar improvements in profits
- Supply chain relationships determine a company's overall responsiveness/ competitiveness

# Cost: It ain't all about price!

1. Purchase costs
  - Product costs
  - Process/administration costs
  - Infrastructure costs
2. Finance costs
3. Lifecycle costs



## Procurement Grows Up



# What's putting procurement in the spotlight?

- Globalization
- Consolidation
- Outsourcing
- Mass customization
- Technology

# The new face of the procurement professional.

- Liaison
- Market analyst
- Supply chain assembler
- Monitor

## e-Procurement: From Novel Technology to Core Business Strategy



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# What is e-Procurement?

- Official Aberdeen definition:
  - “Internet-based technologies used to create a Web-based, self-service environment that pushes product selection and order initiation to employee desktops while maintaining corporate trading agreements, workflow, and rules.”
- Translation:
  - e-Procurement offers freedom without choice!

# e-Procurement: This stuff really works!

Combined results of 1998 and 2000 end user surveys.

	Traditional/ Manual	e-Procurement
Price of materials/service	—	5% to 10% reduction
Purchase and fulfillment cycles	8.36 days	2.27 days
Administration costs	\$114 per order requisition	\$31 per order requisition
Reduction in maverick buys	—	51%

# e-Procurement: What they don't tell you.

- Supplier-enablement remains an issue
- Narrow focus on “catalogable” spend
- Overlooks huge sourcing opportunity
- Provides little support for payment issues

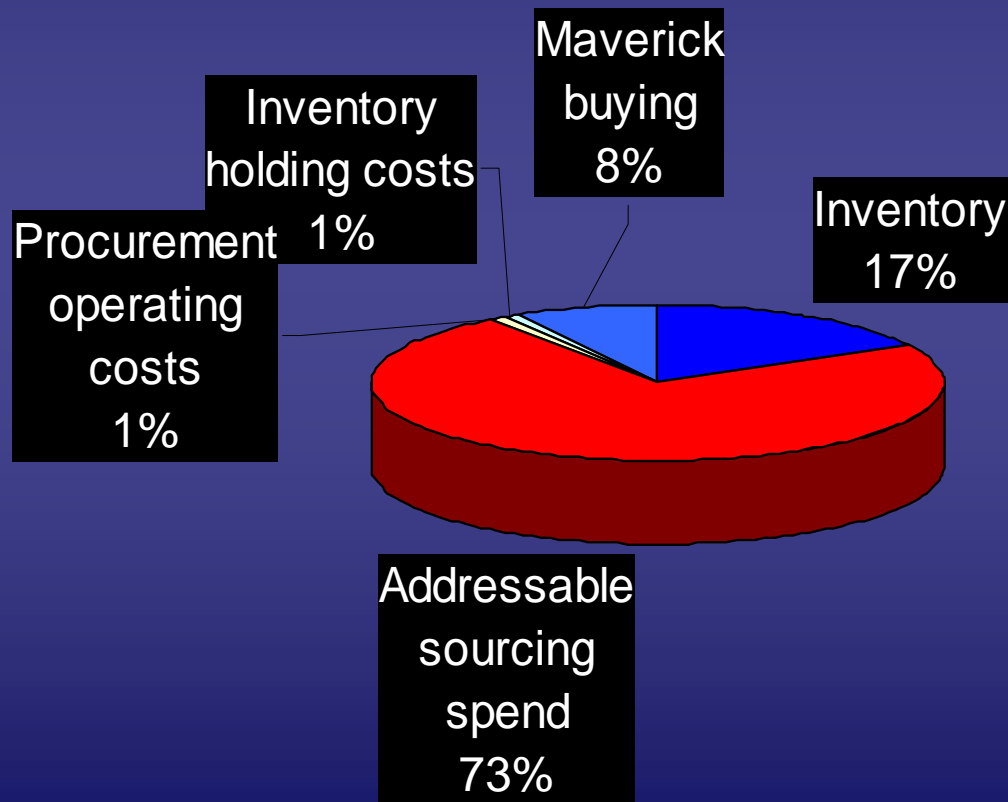


## e-Sourcing Takes Hold



# Sourcing cycle provides the greatest opportunity for procurement savings

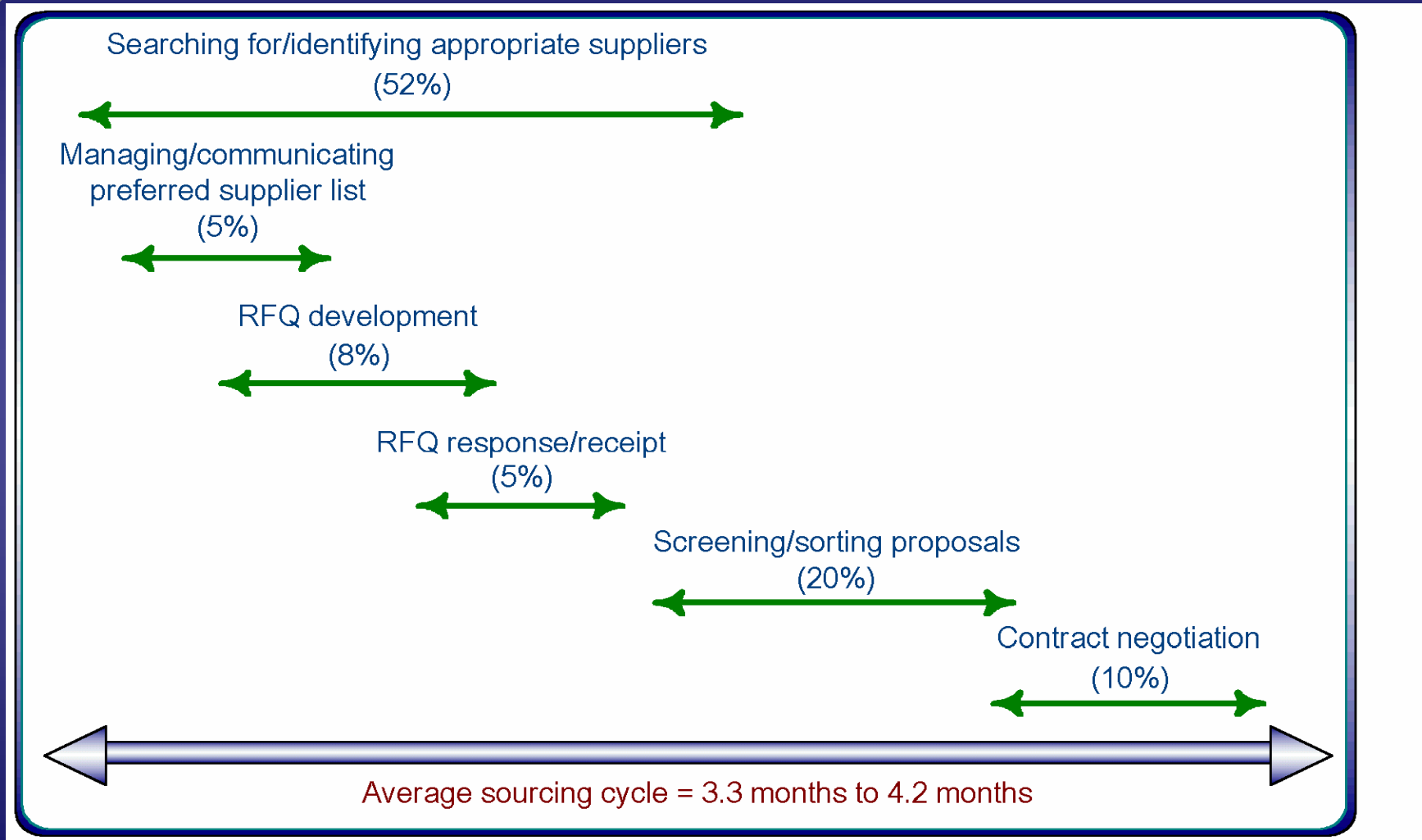
## Key savings opportunities



# Hurdles to effective sourcing

- Insufficient product category expertise
  - Expertise limited to certain categories, geographies, etc.
- Lack of proven sourcing methodologies
  - Sourcing strategies planned and executed on local basis; not repeatable
- Constraints of traditional sourcing “technologies”
  - Communication: EDI, fax, e-mail, phone
  - Analysis: Spreadsheets
- Inability to implement/capture negotiated savings.

# Sourcing remains a long, tedious process for most



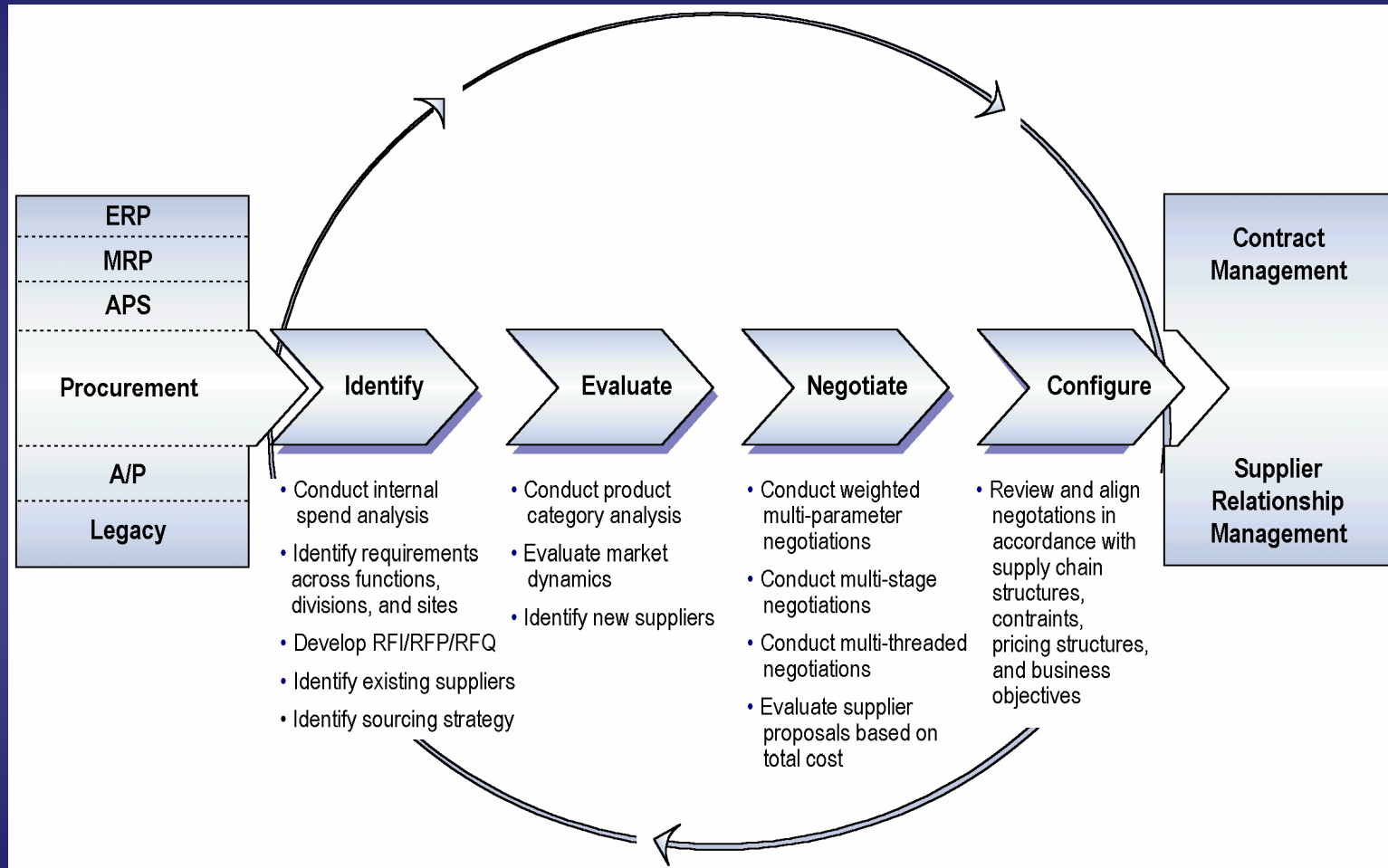
# e-Sourcing: Defined

- e-Sourcing involves the use of Web-based technologies and services for the identification, evaluation, negotiation, and configuration of new products/suppliers

# Goals of Strategic e-Sourcing

- Select products, services, suppliers that offer the *lowest total cost*
- Ensure sourcing decisions support business structures, objectives, and constraints
- Identify best practices that can be repeated and standardized across the enterprise

# Developing an effective e-Sourcing framework



# How e-Sourcing can benefit your organization

- Reduce costs for materials/services (5% - 20%)
- Shorten procurement cycles (25% to 30%)
- **Speed time-to-market cycles (10% to 15%)**
- Reduce administration costs
- Improve ability to create/manage optimal supply base
- Develop/use repeatable sourcing “best” practices



# Beware: Savings Leakage Ahead!

- Procurement/SCM strategy has lagged technology advances.
- Fragmented, isolated approach to procurement improvements.
- Result: Savings “Leakage”
  - Planning — overlooks indirect spending
  - Sourcing — negotiated vs. implemented savings
  - Procurement — controls <20% of spend
  - Contract management — efforts focused on sell-side, if at all
  - Supplier Performance Measurement — fragmented or non-existent

## e-Procurement Best Practices



# Aberdeen's Best Practices Research

- May 2001 – July 2001
  - Identified most mature/successful deployments
- July 2001 — November 2001
  - Interviewed 50-plus deployments
- December 2001
  - “Best Practices in e-Procurement” Report
  - Profiled strategies/experiences of 18 “winners”
- Now collecting entries for
  - *Best Practices in e-Procurement 2002*

# Best Practices for e-Procurement Success

1. Technology is *not* a strategy.
2. Know what you spend.
3. Have a plan
4. Begin by benchmarking
5. Drive e-Procurement from the top. . .

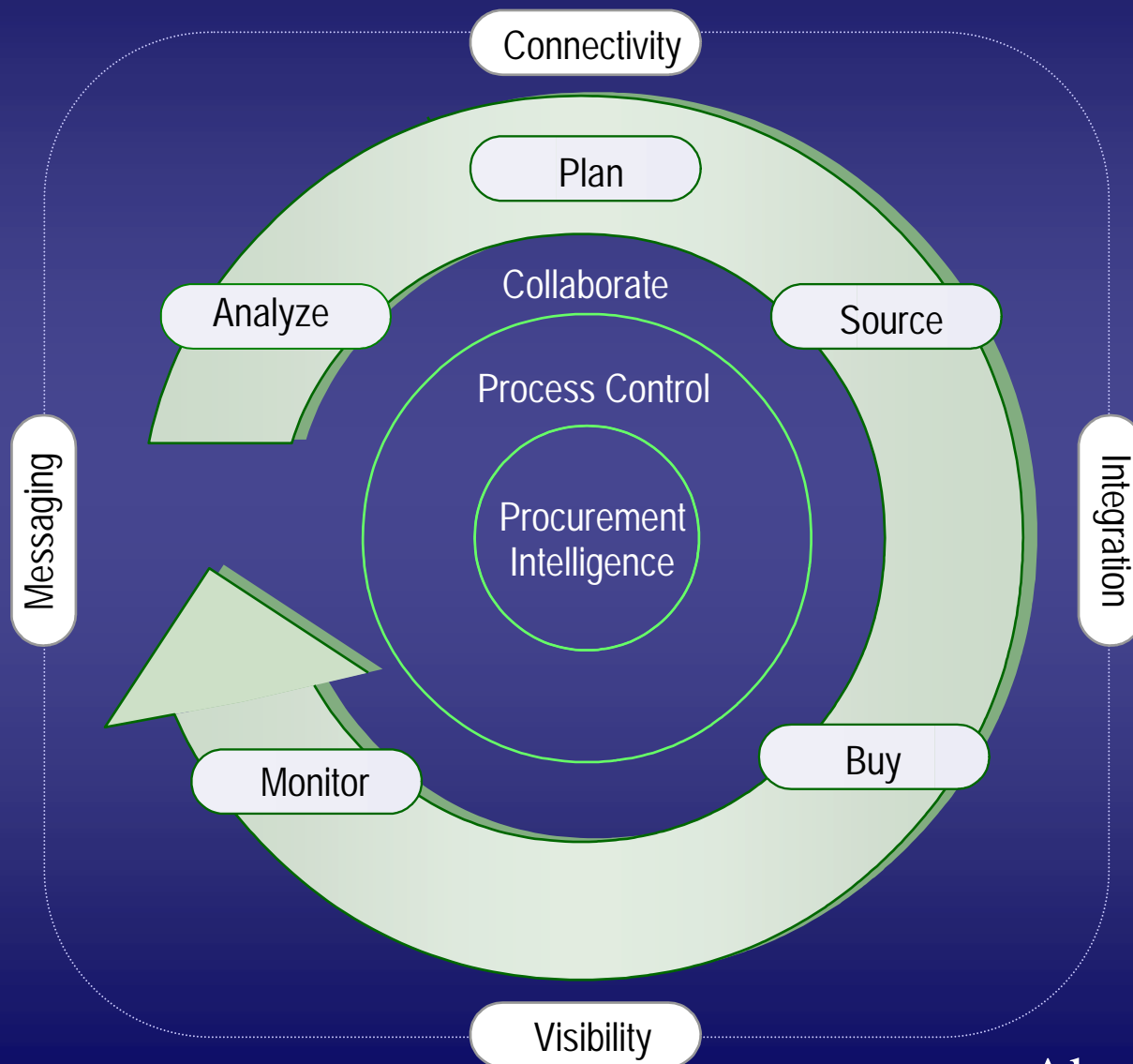
## Best Practices for e-Procurement success (cont.)

6. Get support from the trenches.
7. Designate a champion
8. Supplier participation requires a carrot *and* a stick
9. Start with the low-hanging fruit.
10. Measure, measure, measure.

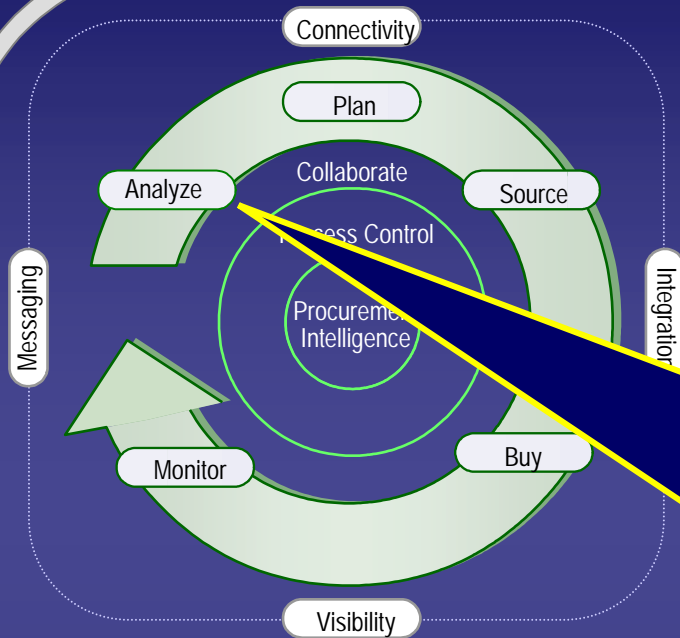
## TCM: Capturing the Complete Savings Opportunity



# Total Cost Management: Capturing the full savings opportunity



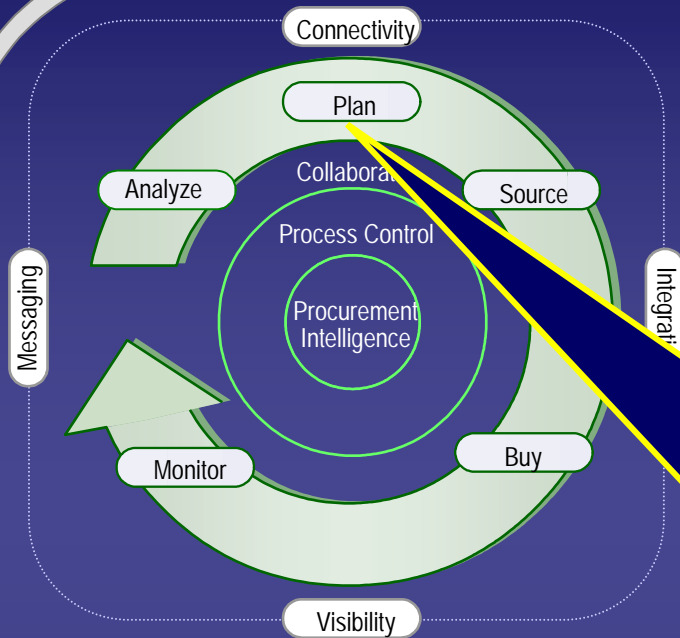
# Step One: Know what you spend.



Conduct company-wide spending analysis to identify and prioritize savings opportunities, including supply base rationalization and purchase aggregation.

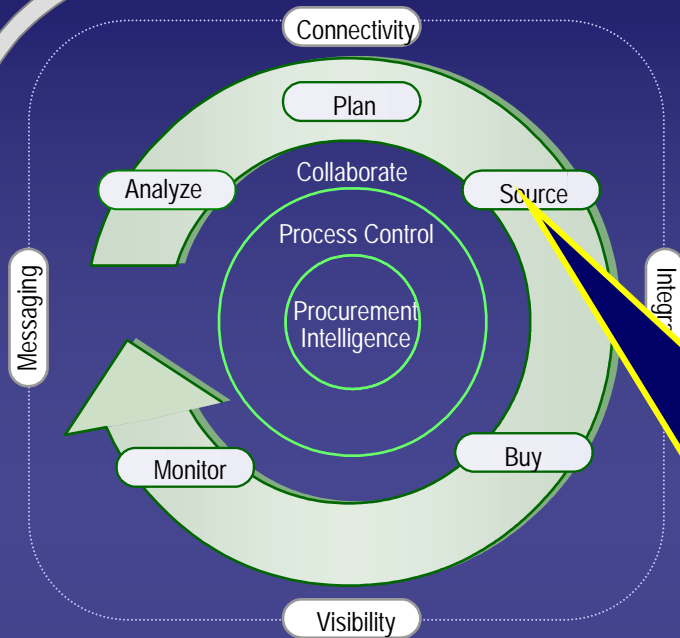


# Step Two: Know what you need.



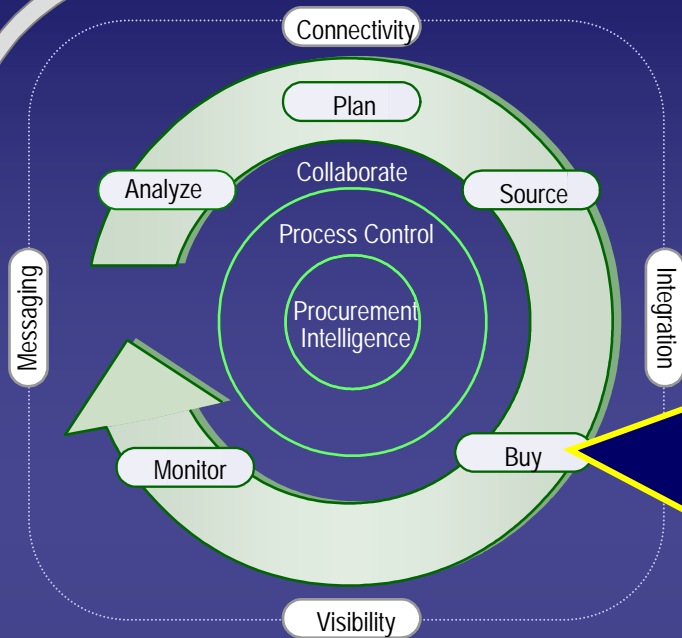
Develop optimal sourcing and procurement strategies based on existing and future purchase requirements across the enterprise.

# Step Three: Capture savings.



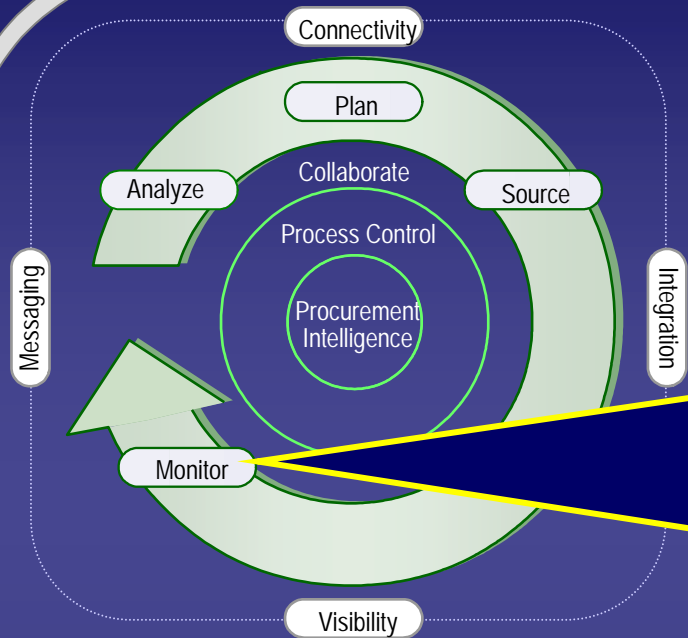
Identify, evaluate, negotiate, and configure optimal trading relationships.

# Step Four: Maintain savings.



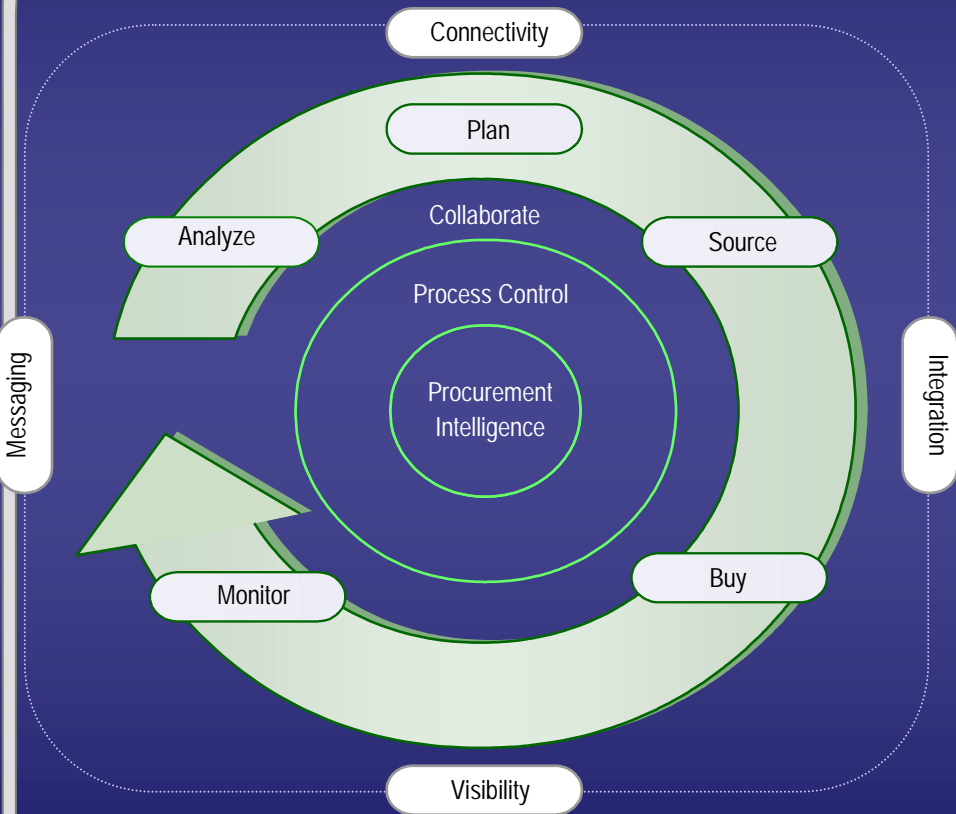
Communicate, execute, and settle payment against negotiated trading agreements and contracts.

# Step Five: Ingrain savings.



Track and enforce internal contract compliance and external supplier performance.

# TCM: Supporting Infrastructure



- Intra-/inter-enterprise collaboration required
- Process control is key
- Procurement intelligence is at the core of success

## Conclusions



# Aberdeen Conclusions

- Procurement is getting “C-Level” attention — *finally*
- Beware: new responsibilities begets new demands
- e-Procurement is a leading *business strategy*. . .  
...but improvements are needed
- TCM is key to capturing the complete savings opportunity
- Act now!....or be relegated to an also-ran

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Thank you!



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