

September, 2008

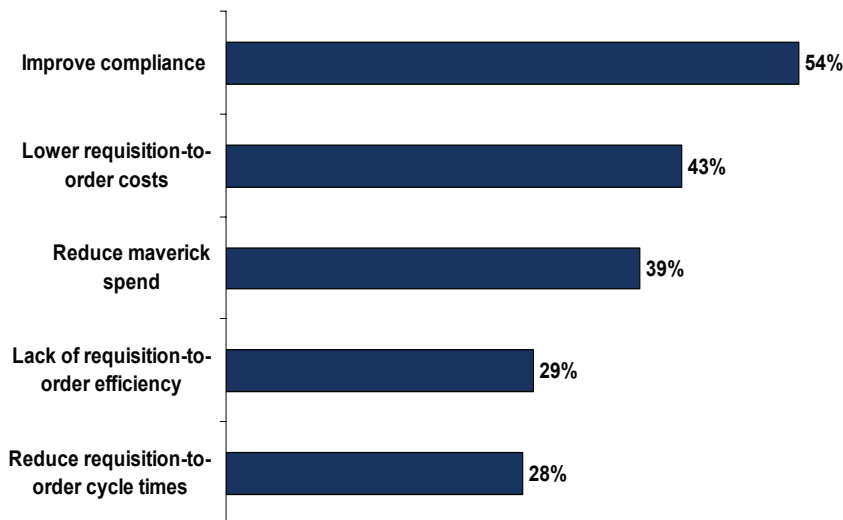
## The Impact of E-Procurement in North America

Aberdeen's August 2008 research, *The E-Procurement Benchmark Report: Driving Year-Over-Year Superior Performance* found that enterprises in North America have significantly improved their procurement performance after implementing an e-procurement solution. This Sector Insight will compare the procurement performance of North American enterprises with that of Best-in-Class firms and provide actionable recommendations for North America enterprises to further improve their procurement performance.

### Pressures Behind Procurement Automation

Between June and August of 2008 Aberdeen conducted its annual e-procurement benchmark study to understand the goals, strategies, and performance of over 400 enterprises. Although technology solutions within the e-procurement space have evolved since its inception years ago, North American enterprises have not lost focus on the core goals within the procurement department: reduce costs and improve compliance.

**Figure 1: Top Drivers of E-Procurement Initiatives in North America**



Source: Aberdeen Group, September 2008

Enterprises participating in the research indicated that there is enormous pressure to reduce requisition-to-order costs and improve compliance with existing contracts and internal processes, leaving the door wide open for e-procurement solutions and their many "right price, right time" purchasing attributes. Driving compliance to negotiated contracts improves the bottom-line by reducing savings leakage and facilitates realization of savings from these agreements.

### Sector Insight

Aberdeen's Sector Insights provide strategic introspective and analysis of primary research results by industry, market segment, or geography

### Sector Definition

Enterprises in North America comprise 54% of the more than 400 end users surveyed in the August 2008 study, *The E-Procurement Benchmark Report: Driving Year-Over-Year Superior Performance*

## The Impact of E-Procurement Solutions

Performance improvements due to e-procurement activities are readily apparent, as evidenced in Table 1, which highlights the average performance improvements realized by North American enterprises as a result of utilization of e-procurement initiatives. Most notable is the reduction in requisition-to-order processing cost and times, as well as reduction in maverick spend, indicating that these enterprises have performed well on the top drivers behind their e-procurement initiative (Figure 1).

With the positive impact of e-procurement initiatives, North American enterprises participating in the research indicated that 'on-average' they expect their annual budget for e-procurement to increase by 1.5% in the next fiscal year.

**Table 1: Impact of E-Procurement Initiatives in North America**

Performance Area	Before	After
Requisition-to-order costs	\$54	\$27
Requisition-to-order cycle time	8.8 days	2.7 days
Spend under management	39%	59%
Percentage of maverick spend	35%	21%

Source: Aberdeen Group, September 2008

## E- Procurement Performance Comparison

As displayed in Table 2, North American enterprises lag behind Best-in-Class performance across all key performance metrics. Driving this performance gap is the difference in organizational capabilities and technology enablers deployed by the Best-in-Class compared to those by North American enterprises (Figure 2).

**Table 2: Comparison of Key Performance Metrics**

Performance Metric	Best-in-Class	North America
Percentage of maverick spend	15%	21%
Requisition to order cycle cost	\$23	\$27
Requisition to order cycle time	0.9 days	2.7 days
Spend under management	88%	59%
Average time to on-board a new supplier into system	12.4 days	17.3 days
Average time to process and implement a catalog change	3.1 days	7.5 days
Percent of suppliers enabled to receive and deliver electronic transactions	27%	24%

Source: Aberdeen Group, September 2008

### Spend Under Management

The classic measure of procurement's impact upon an enterprise is the percentage of non-payroll-related spend that falls under management of this group, what is commonly referred to as **spend under management**. Aberdeen research has shown that enterprises have been able to achieve a 5% to 20% cost savings for each new dollar of spend brought under management.

### Definition

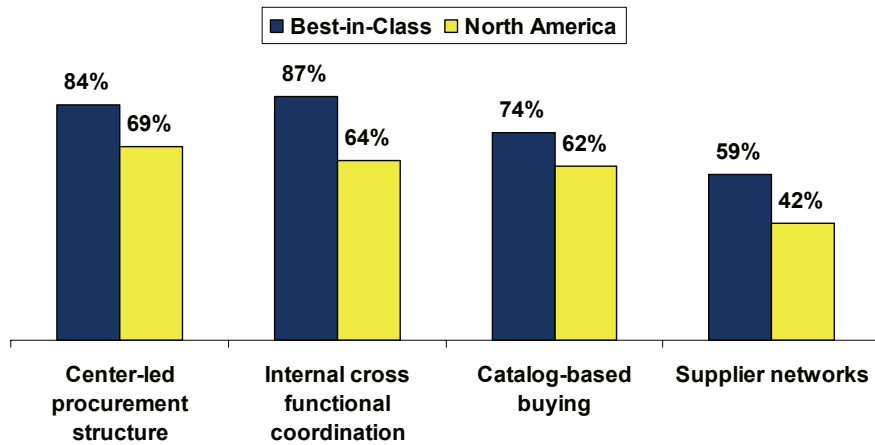
**Requisition-to-order** process includes the following sub-processes: requisition creation by the requestor, dollar amount approval and / or category approval by various approvers, source requisition into a purchase order by a buyer, and sending the order to supplier.

With regards to organizations capabilities, the Best-in-Class are 21% and 36% more likely than North American enterprises to have a center-led procurement structure, and display internal collaboration amongst procurement, finance, A/P, treasury and IT departments; respectively. Center-led procurement, leveraged by 84% of top-performing organizations, is a critical factor that aligns with e-procurement technology. It is characterized by centralized procurement processes that ensure all activity is channeled through a single procurement department. Without this in place, enterprises are sacrificing key spend visibility and losing savings to non-compliance and maverick spend. Center-led procurement boosts compliance of purchase orders with existing negotiated contracts as well as providing central logging of contracts - which promotes easy access in a single, central database.

“E-procurement has eliminated the majority of the manual tasks associated with procurement. Our technology solutions have allowed us to automate nearly all aspects of supply chain management.”

~ Bobby Hill, Manager,  
Carteret General Hospital,  
North America

**Figure 2: Comparison of Capabilities and Enablers**



Source: Aberdeen Group, September 2008

With regards to technology enablers, Best-in-Class firms are 19% and 40% more likely to utilize supplier networks and display catalog-based buying than North American enterprises; respectively.

**Aberdeen Insights — The Power of Internal Collaboration**

Internal collaboration is fast becoming a top internal strategy for achieving superior procurement results. The free-flow of information between key internal units, such as procurement, finance, A/P, treasury, and IT, can lead to significant benefits to the procurement department, as shown in Table 3.

*continued*

**Aberdeen Insights — The Power of Internal Collaboration**

**Table 3: Performance Advantage for Enterprises Displaying Internal Collaboration**

Performance Metric	Collaborative	Non-Collaborative
Spend under management	<b>68%</b>	<b>54%</b>
Cost to process / complete a single requisition-to-order cycle	<b>\$24</b>	<b>\$29</b>
Time to complete a requisition-to-order cycle	<b>3.3 days</b>	<b>4.2 days</b>
"Maverick" spend	<b>17%</b>	<b>21%</b>
Percentage of PO's compliant to existing signed contracts	<b>71%</b>	<b>56%</b>

Source: Aberdeen Group, September 2008

Enterprises that actively encourage collaboration between internal stakeholders display greater spend under management, leading to increased cost savings, better process efficiency, greater compliance, and additional dollars tagged to the bottom-line. Aberdeen research found that the Best-in-Class are 48% more likely than their peers to display internal collaboration amongst procurement, IT, finance, A/P, and treasury.

**Top Picks for E-Procurement Technology Solution Providers**

Based on survey data collected for Aberdeen's *E-Procurement* benchmark, following are the top solution providers for North American firms: Oracle, Ariba, and SAP.

**Case in Point**

Faced with manual paper-based requisitioning and ordering processes, in October 2006 Delta Dental of Wisconsin implemented an on-demand procurement solution to manage its indirect spend related to IT equipment and office supplies. The primary driver behind the implementation was to ensure compliance with negotiated contracts, while automating the requisition-to-order approval cycle.

Since implementing the on-demand e-procurement solution, Delta Dental of Wisconsin has realized many benefits, including capturing approximately \$3 million annual spend on IT equipment and office supplies, automating the purchase order approval cycle, reducing audit preparation days by two days and review time by half a day, and providing managers with the ability to see real-time spend against budgets.

“By automating our purchasing and expense processes, we have been able to manage our growing business without hiring additional staff. Everyone is on board with the system, from end users who submit expense reports and purchase requisitions all the way to our external auditors who can see, with just a few mouse clicks, the extent of our internal controls.”

~ Terrie Bucholtz, Controller for Delta Dental of Wisconsin

**Required Actions**

To achieve Best-in-Class performance, North American enterprises should leverage the following recommendations:

- **Structure a center-led procurement department.** To effectively revamp any e-procurement initiative, enterprises must first look to centralization and standardization of all procurement activity. A center-led approach will ensure that all procurement actions are channeled through a single unit.
- **Institute cross-functional coordination (collaboration) amongst key internal stakeholders.** A free-flow of information is one of the many benefits of internal collaboration; North American enterprises can help reduce off-contract spend with the proper communication between finance, procurement, and other divisions.
- **Leverage supplier networks and catalog hubs.** By utilizing the supplier enablement capabilities of networks and hub services, North American enterprises will be able to drive user adoption and increase spend through the e-procurement system, while minimizing internal effort to on-board suppliers.

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### Related Research

<a href="#">E-Procurement: Trials and Triumphs;</a> October 2007	<a href="#">The E-Procurement Benchmark Report;</a> August 2008
<a href="#">CFO's View of Procurement;</a> November 2007	<a href="#">The Supplier Enablement Benchmark Report;</a> April 2008
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