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1. Introduction

At a time of sluggish market growth, speed, efficiency and reliability are just some of the precursors to competitive advantage. In a weak economic climate, strengthening the bottom line is critical for profitability and delivering shareholder value. With nearly half of most companies' revenues being spent on purchasing activities, one of the fastest and most economical ways to deliver improved results is to reduce the cost of procurement and sourcing.

It is a fact that a number of companies have reduced their sourcing and procurement costs by putting these processes on the Internet, enabling new levels of collaboration between buyers and suppliers. The results include improved inventory management, lower transaction costs, and better pricing for all types of goods and services. Not only this, but these companies now receive a substantially more reliable service from their own suppliers and deliver a far more flexible and reliable service to their customers. These companies deliver a more reliable service at a lower cost than their competitors, enjoying better profitability into the bargain. But is it a coincidence that these companies rank among the most successful?

In May and June 2002 Benchmark Research Ltd., on behalf of Commerce One, undertook a survey of 150 of the largest companies in the USA, UK and Germany with a view to identifying those businesses that have performed most strongly in recent times. Having identified high performing businesses we evaluated their current strategies with the aim of understanding whether procurement and sourcing policies and strategies were most closely associated with strong business performance.

The report details the findings of this research, mapping out the strategies that have been most closely associated with corporate success in recent years.
2. Methodology

150 telephone interviews have been completed, 50 in the USA, 50 in Germany and 50 in the UK. Target respondents were all senior purchasing/procurement strategists within the companies concerned.

The research focused on organisations with 5,000+ staff. If the respondent was not able to answer regarding strategy for the whole business they could still provide answers on behalf of an operating subsidiary or a major business division. However, answers on behalf of operating subsidiaries/business units were only accepted if they employed more than 5,000 staff in that division/business unit.

All sectors of industry and commerce were included in the research apart from local and central government.

An analysis of the universe of such large organisations reveals that around half of all companies with 5,000+ staff fall into the 5,000-9,999 staff category. The remainder employed more than 10,000 staff. The final sample composition was weighted in each case to represent the overall universe structure.

Of the final interviews completed...

72 answered for business units employing 5,000-9,999 staff
77 answered for business units employing 10,000+ staff
1 respondent knew they employed 5,000+ staff but did not know the exact number.

These results were weighted to provide a 50/50 representation between the two sizes.

In order to achieve 150 completed interviews Benchmark contacted a significant number of organisations, of which 599 refused to participate in the research. Therefore, the survey achieved a response rate of 20% overall.
3. Executive Summary

3.1 Characteristics of Global High Performers

The highest performing companies in the USA, UK and Germany have enjoyed the following business benefits during recent years:

- More than twice as likely to have outperformed their competitors in terms of market share than low performing businesses during the past financial year.
- Three times as likely to have outperformed their competitors in terms of profitability during the past financial year.
- Over twenty times as likely to have made cost savings in excess of 10% from their purchasing budgets in the past three years.
- Over fourteen times as likely to have made cost savings in excess of 10% from the administrative costs of order processing in the past three years.
- Seven times as likely to have seen a measurable improvement in the reliability of their suppliers.
- Six times as likely to have successfully reduced stocks whilst still meeting the needs of internal customers.
- Three times as likely to have successfully reduced stocks whilst still meeting all the needs of external customers.
- Ten times as likely to have been able to reduce the prices of their products and services.
- Four times as likely to describe themselves as being “notably more price competitive”.
- Over three times as likely to have measured an improvement in customer satisfaction.

3.2 Factors Driving Global High Performance

There is little doubt that these staggering performance gains have been driven by an effective deployment of e-procurement technology. These companies are not just more likely to possess e-procurement solutions but are more likely to have successfully integrated it with suppliers databases and corporate ERP. These companies are...

- Purchasing three times as much online as low performers.
- Providing five times as many employees with the ability to request purchases online.
- Twice as likely to purchase from a supplier’s online catalogue.
- Three times as likely to use trading exchanges.
- Nearly four times as likely to buy via online auctions.
- Twice as likely to possess a central database of supplier information that links into e-procurement.
- Twice as likely to provide an automated format for internal customers to submit requests for a purchase.
- Eight times as likely to have integrated e-procurement with ERP/SCM.
4. Characteristics of High Performing Companies

By measuring general business performance, cost control and supply chain performance, it is possible to divide companies into three basic groups:

- High Performers – i.e. the 30% of companies that achieve the best overall results.
- Low Performers – 30% achieving the poorest results.
- Average Performers – the remaining 40%

<table>
<thead>
<tr>
<th>Performance Criteria</th>
<th>High [46]</th>
<th>Ave [57]</th>
<th>Low [47]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company’s market share has outperformed its major competitors during the past year</td>
<td>83%</td>
<td>64%</td>
<td>37%</td>
</tr>
<tr>
<td>Company profitability has outperformed the market average during the past year</td>
<td>77%</td>
<td>55%</td>
<td>24%</td>
</tr>
<tr>
<td>Company has experienced ANY cost savings from its overall procurement budget during the past 3 years</td>
<td>97%</td>
<td>89%</td>
<td>59%</td>
</tr>
<tr>
<td>Company has experienced a 10%+ cost saving from its overall procurement budget during the past 3 years</td>
<td>65%</td>
<td>46%</td>
<td>3%</td>
</tr>
<tr>
<td>Company has experienced ANY cost saving from the administrative cost of processing orders during the past 3 years</td>
<td>89%</td>
<td>50%</td>
<td>21%</td>
</tr>
<tr>
<td>Company has experienced a 10%+ cost saving from the administrative cost of processing orders during the past 3 years</td>
<td>57%</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>Procurement can now process greater volumes of work with the same or fewer staff</td>
<td>89%</td>
<td>73%</td>
<td>50%</td>
</tr>
<tr>
<td>We have seen a measurable improvement in the reliability of our suppliers</td>
<td>83%</td>
<td>43%</td>
<td>12%</td>
</tr>
<tr>
<td>Our suppliers are far more flexible and responsive</td>
<td>80%</td>
<td>41%</td>
<td>25%</td>
</tr>
<tr>
<td>We are now able to hold considerably fewer stocks of consumables and still meet the needs of our internal customers</td>
<td>74%</td>
<td>50%</td>
<td>13%</td>
</tr>
<tr>
<td>We are now able to hold considerably fewer stocks of materials, spares and finished goods etc and still meet the needs of our external customers</td>
<td>76%</td>
<td>48%</td>
<td>24%</td>
</tr>
<tr>
<td>Our customer satisfaction surveys show that our customers are more satisfied with our reliability and flexibility</td>
<td>80%</td>
<td>44%</td>
<td>23%</td>
</tr>
<tr>
<td>We have been able to reduce the prices of our products/services</td>
<td>84%</td>
<td>47%</td>
<td>8%</td>
</tr>
<tr>
<td>Our company is notably more price competitive now</td>
<td>79%</td>
<td>43%</td>
<td>19%</td>
</tr>
</tbody>
</table>
On considering all the performance criteria measured, it is clear that the High Performers are outcompeting Low Performers by a factor of three or more. This surely places the top 30% in an exceptionally strong position for the future and the lower 30% in serious trouble.

Having identified the fact that significant differences exist, it is important to understand what strategies and policies high performers are pursuing that have led to such spectacular success.

5. Sourcing & Purchasing Policy

A larger proportion of the purchasing budget is usually covered by a formal sourcing plan in higher performing companies.

![Proportion of Purchasing Covered by a Sourcing Plan](image)

Base: 46 High performers/ 57 average performers/ 47 low performers.

**Figure 1**
Some differences are evident at a country level. In both the UK and USA around 64% of procurement activity is coupled with a sourcing plan. In Germany, however, the proportion falls to 49%.

Overall 64% of purchasing is currently covered by formal written contracts. However, this does not vary significantly between High and Low performers or between different countries. The only exception is Germany, where 71% is covered by contract. This finding appears to have limited significance overall as this factor is not a significant driver of performance. Nevertheless, the greater use of formal contracts in Germany may reflect an attempt to compensate for a relative lack of formal sourcing plans.

69% of purchasing is controlled directly by the purchasing function. This proportion does not vary significantly by country, or between high and low performing businesses. It is therefore common practice that the purchasing function handles the majority of purchases directly.

The number of active suppliers also varies little from company to company. The norm is for one third of suppliers to account for 80% of purchasing (in value terms). The ratio of suppliers used to company size does not vary substantially and consequently has no impact on performance. Such differences as exist would appear to be regional. UK companies use the most suppliers (a typical UK company of 10,000 staff will have 3,571 suppliers). American and German companies use fewer suppliers (averaging 2,381 and 2,041 respectively for a company of 10,000 staff).

Most companies with over 5,000 staff have adopted fairly similar policies for purchasing strategy. Of all the policies we investigated only the presence or absence of a formal sourcing plan appears to have an impact on performance at all.

It is only by putting processes on the Internet that companies have been able to achieve a step change in business performance. It is this, and this alone, that has fuelled the success of global High Performers.
6. Running Purchasing Processes Over the Internet

6.1 Purchasing Online

The advent of e-business technology has provided companies with the opportunity to fulfil their purchasing requirements online. It is clear that the ability to conduct transactions electronically represents a critical driver of business performance.

![Proportion of Purchasing Transactions Made Online](image)

**Figure 2**

High performers are purchasing three times as much online as low performers. In addition, high performers provide five times as many staff with the ability to place internal orders online.
In every area measured by the survey there is a direct correlation between high levels of e-business/e-procurement activity and high business performance.

<table>
<thead>
<tr>
<th>Method</th>
<th>High [46]</th>
<th>Ave [57]</th>
<th>Low [47]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase via a supplier’s online catalogue/shopping cart</td>
<td>66%</td>
<td>57%</td>
<td>33%</td>
</tr>
<tr>
<td>Buy via online auctions</td>
<td>43%</td>
<td>20%</td>
<td>12%</td>
</tr>
<tr>
<td>Purchase via own specialist e-procurement software</td>
<td>- - 41%  - -</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>We place orders via a trading exchange (Commerce One, Ariba, Oracle etc)</td>
<td>24%</td>
<td>- - 7%  - -</td>
<td></td>
</tr>
</tbody>
</table>

One of the most significant findings relates to online auctions. High performers are four times as likely to be purchasing via online auctions than low performers. 24% of High Performers are using trading exchange technology, compared with only 7% of other companies. High performers are also twice as likely to be using supplier catalogue technology to source products and services.

In some of these areas Germany lags behind the UK and US. In both the UK and US around 60% purchase via supplier catalogues, compared with 40% in Germany. Similarly e-procurement software is in use in 40% of UK and US companies compared to just 30% in Germany. The most striking difference is in terms of auction technology, used in ten times as many US and UK companies.
6.2 Integration of e-Procurement/Trading Exchange Solutions with Databases of Supplier Information

The extent to which companies are able to link e-procurement/trading exchange solutions in with a central electronic database of suppliers plays an important role in determining high performance.

![Graph showing the ability to link e-procurement/Trading Exchange Technology in with a central supplier database.]

Figure 3

The extent to which online purchasing technology is effectively linked with an electronic database of supplier information makes a big difference to business performance. High performers are twice as likely as low performers to have linked their e-procurement solutions to a central database of supplier information. The synergy of the two linked together clearly provides for a more seamless operation overall, speeding up processes and, as a result, boosting business performance.
6.3 Deployment of Auction Technology

The use of auction technology also plays a key role in delivering high business performance.

![Deployment of Auctioning Technology](image)

**Figure 4**

In most cases auction technology is only being used to source a small number of suppliers. However low performers are, again, less likely to a) be using it at all and b) be using it to any significant degree.
Use of auction technology is highest in the USA (38%), although the UK is not far behind (32%). Germany appears extremely reticent by contrast with only 3%. In fact a significant number of companies have conducted trials with auction technology in Germany (54%). However, the Germans appear far more reluctant than the US and UK to apply the technology in earnest.

6.4 Functionality of e-Procurement/Trading Exchange Technology Employed

Again, it is evident that those companies that have invested the most in developing more comprehensive/functional online trading technology have reaped the highest rewards in terms of the impact on their business performance.

Table 3: Functionality of e-Procurement/Trading Exchange Technology
[Base: 150 respondents]

<table>
<thead>
<tr>
<th>Method</th>
<th>High [46]</th>
<th>Ave [57]</th>
<th>Low [47]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receive regular price update information from suppliers electronically to update our vendor database</td>
<td>38%</td>
<td>- - - 24% - - -</td>
<td></td>
</tr>
<tr>
<td>Provides an automated format for internal customers to submit requests for purchases</td>
<td>36%</td>
<td>23%</td>
<td>16%</td>
</tr>
<tr>
<td>Issues tenders to potential suppliers electronically &amp; receives bids back in a standard electronic format/structure</td>
<td>31%</td>
<td>- - - 17% - - -</td>
<td></td>
</tr>
<tr>
<td>Integration to ERP/SCM for automated order processing (i.e. no re-keying or manual intervention is necessary to move data from e-procurement to ERP &amp; visa versa)</td>
<td>31%</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>Can cope with transactions in several different currencies</td>
<td>27%</td>
<td>25%</td>
<td>9%</td>
</tr>
</tbody>
</table>

A particularly important difference lies in the provision of an automated format for internal customers to submit requests for purchases (present in double the number of High performers than Low performers). When this is done within the framework of a comprehensive trading and procurement solution it serves to speed up internal processes considerably.

The ability to integrate core business systems such as ERP and SCM with e-procurement solutions is also a critical success factor. Low performing companies are eight times less likely to have integrated their e-procurement solutions with their core business systems. Again, the
synergy gained from a large scale fully integrated solution is the key to streamlining processes and delivering substantial competitive advantage.

Overall it is clear that the biggest benefits stem from a seamless, integrated e-procurement and ERP/SCM solution, based around a comprehensive database of supplier information that provides standard electronic formats through which employees can place orders and suppliers can submit quotations. Companies that possess this kind of technology infrastructure consistently out-perform competitors who lack it.

7. Future Business Challenges

Table 4 shows how the relative perception of future priorities varies between high and low performing companies.

Table 3: Functionality of e-Procurement/Trading Exchange Technology
[Base: 150 respondents]

<table>
<thead>
<tr>
<th>Method</th>
<th>High [46]</th>
<th>Ave [57]</th>
<th>Low [47]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realising more cost reductions</td>
<td>3.8</td>
<td>3.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Getting procurement to work more closely with other areas of the business</td>
<td>3.3</td>
<td>3.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Accelerating supplier negotiations</td>
<td>3.3</td>
<td>3.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Reducing time spent by procurement staff on tendering/contract negotiation</td>
<td>3.2</td>
<td>3.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Introducing e-procurement/e-sourcing technologies</td>
<td>3.2</td>
<td>3.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Rationalising the current number of suppliers</td>
<td>3.1</td>
<td>3.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Introducing e-procurement in your supply chain</td>
<td>3.0</td>
<td>2.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Getting internal purchasing processes under the direct control of the procurement function</td>
<td>2.9</td>
<td>3.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Finding easier ways to identify new and reliable sources of supply</td>
<td>2.8</td>
<td>3.1</td>
<td>3.1</td>
</tr>
<tr>
<td>Getting more intellectual property from key suppliers</td>
<td>2.8</td>
<td>2.6</td>
<td>2.4</td>
</tr>
</tbody>
</table>
Overall, we can identify and isolate three different groups of challenges as follows:

**Challenges, for aspiring high performers:** These challenges are considered very important by all businesses but receive a notably higher priority in Low Performers. These challenges appear more daunting to Low Performers than to those who have already enjoyed some measure of success. These challenges are therefore symptomatic of companies playing “catch-up” with the market leaders:

- Realising more cost reductions
- Getting procurement to work more closely with other areas of the business

Both of these are lower priorities for High Performers – probably because they have already been partly achieved.

**High Performance Challenges:** These challenges are more likely to be prioritised by high performing businesses and least likely to be prioritised by Low Performers:

- Introducing e-procurement/e-sourcing technologies
- Introducing e-procurement in your supply chain
- Getting more intellectual property from key suppliers
- Reducing time spent by procurement staff on tendering/contract negotiation

In order to join the top performing 30% it is necessary to give a high priority to these four challenges.

**Challenges for Laggards:** These represent challenges the Low Performers fail to acknowledge BUT which are perceived as important by other companies. Attaching a lower priority to these factors is symptomatic of a company that is under-performing:

- Accelerating supplier negotiations
- Getting internal purchasing processes under the direct control of the procurement function
- Rationalising the current number of suppliers
8. Regional Variations

Table 4: Regional Differences in Factors Driving High Performance
[Base: 150]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of all Purchasing covered by a sourcing plan</td>
<td>66%</td>
<td>63%</td>
<td>65%</td>
<td>49%</td>
</tr>
<tr>
<td>Proportion of all purchasing (in value terms) made online</td>
<td>18%</td>
<td>12%</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>Proportion of all employees who can request a purchase online</td>
<td>10%</td>
<td>9%</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Purchase via a supplier’s online catalogue/shopping cart</td>
<td>66%</td>
<td>61%</td>
<td>57%</td>
<td>40%</td>
</tr>
<tr>
<td>Purchase over a trading exchange</td>
<td>24%</td>
<td>17%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Purchase using e-procurement software</td>
<td>42%</td>
<td>42%</td>
<td>41%</td>
<td>30%</td>
</tr>
<tr>
<td>Purchase via online auctions</td>
<td>43%</td>
<td>38%</td>
<td>32%</td>
<td>3%</td>
</tr>
<tr>
<td>Buy via online auctions from a significant number of suppliers</td>
<td>7%</td>
<td>14%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Possess e-procurement and/or trading exchange technology that is linked to an extensive central database of supplier information</td>
<td>40%</td>
<td>34%</td>
<td>30%</td>
<td>22%</td>
</tr>
<tr>
<td>e-procurement solution provides an automated format for internal customers to submit requests for purchases</td>
<td>36%</td>
<td>40%</td>
<td>30%</td>
<td>6%</td>
</tr>
<tr>
<td>e-procurement is integrated with ERP/SCM</td>
<td>31%</td>
<td>24%</td>
<td>20%</td>
<td>4%</td>
</tr>
<tr>
<td>e-procurement receives regular price update information from suppliers to update our vendor database</td>
<td>38%</td>
<td>40%</td>
<td>18%</td>
<td>26%</td>
</tr>
<tr>
<td>e-procurement issues tenders to suppliers electronically &amp; receives bids back in a standard format</td>
<td>31%</td>
<td>30%</td>
<td>22%</td>
<td>12%</td>
</tr>
</tbody>
</table>
8.1 USA

The USA performance most closely matches that of global High Performers. However, there is still room for improvement. The areas where US performance is most likely to fall short are:

- Proportion of all purchasing (in value terms) made online
- e-procurement is integrated with ERP/SCM

and, to a lesser extent...

- Purchase over a trading exchange such as Commerce One, Ariba or Oracle etc

In these areas in particular the average performance of large American companies falls short of the combined performance of the best US, UK and German companies.

The average level of USA e-procurement deployment approximates to about 94% of the levels achieved by the global High Performers.

8.2 UK

The UK performance more closely matches that of the USA than Germany. UK performance generally represents a global average but, in a few instances, matches US performance almost exactly. Areas where there would appear to be room for significant future improvement include...

- Purchase over a trading exchange such as Commerce One, Ariba or Oracle etc
- Buy via online auctions from a significant number of suppliers
- e-procurement receives regular price update information from suppliers to update our vendor database

The average level of UK e-procurement deployment approximates to around 78% of the levels achieved by the global High Performers.
8.3 Germany

There appears to be significant German reticence towards e-procurement technologies. German companies are willing to trial technologies such as auctioning but are reluctant to deploy it on a substantial scale.

Overall the average level of e-procurement deployment in Germany approximates to around 47% of the levels achieved by the global high performers. The consequence of this is evident in terms of business performance:

- 50% of UK and US companies have achieved cost savings in excess of 10% on their purchasing budgets during the past 3 years. In Germany only 14% have achieved this.
- 40% of US companies have reduced the administrative costs of processing an order by over 10% in the past 3 years. This has been matched by 24% of UK companies but only by 6% of German companies.
- 76% of US companies believe their company is notably more price competitive now than it was 3 years ago. This falls slightly to 61% in the UK but is only 3% in Germany.
- 52% of US companies can be categorised as global High Performers. In the UK this applies to 36% but in Germany to only 2%.

Behind these differences lies a significant reluctance to fully embrace e-procurement technologies in a significant number of German companies.
9. Further Information

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