



**NAPM/Forrester Research Report On eBusiness
April 2001**

Executive Summary

Most organizations surveyed continue to report that they are in early stages of adopting Internet-based buying. For the quarter ending in March 2001, the number of organizations purchasing both direct and indirect materials increased and momentum for most online activities remained strong -- albeit down slightly from last quarter. The most pronounced change from the January 2001 *Report On eBusiness* is in the relationship between manufacturers and their suppliers. Manufacturers report significantly lower levels of collaboration with suppliers, as well as substantially increased dissatisfaction with suppliers' online capabilities.

Methodology

The NAPM/Forrester Research *Report On eBusiness* measures the adoption of Internet-based procurement and tracks online activity for both manufacturing and nonmanufacturing organizations.

The report is based on data compiled from a survey sent to supply management executives in more than 700 manufacturing and nonmanufacturing organizations belonging to the NAPM Business Survey Committees. Membership on these committees is diversified by standard industrial classification (SIC), based on each organization's contribution to gross domestic product (GDP). All geographical areas are represented on the committees.

This report is composed of the survey responses of 407 organizations. To understand the difference in online behaviors of these organizations, responses were analyzed along three classifications: 1) the results of all organizations; 2) a comparison of manufacturing and nonmanufacturing organizations; and 3) a comparison of companies that procure more than \$100 million per year and those that procure less than \$100 million per year.

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Number of respondents	407	215	192	152*	251*
Median annual purchases (millions)	\$75	\$75	\$37	\$375	\$17
Median annual revenues (millions)	\$175	\$175	\$175	\$1,500	\$75

*Note: Some respondents declined to provide overall purchasing and revenue data.

The adoption rate for new online activities is measured by the eBusiness Adoption Momentum (eBAM) index. The eBAM index ranges from +5.0 to -5.0 and evaluates the number of organizations doing an online activity, as well as the increasing or decreasing pace of change in their usage. The index points to the following pace of adoption:

- 3.1 to 5.0 Extremely positive
- 1.6 to 3.0 Significantly positive
- 0.6 to 1.5 Moderately positive
- 0.5 to 0.5 Negligible
- 1.5 to -0.6 Moderately negative
- 3.0 to -1.6 Significantly negative
- 5.0 to -3.1 Extremely negative

Overall Internet Adoption

- **Online efforts were slowed by economic downturn.** When asked about obstacles to their Internet activities, organizations most often mentioned three items: the overall slowdown of their businesses; the difficulties of internal and external integration; and the lack of data standards.
- **Organizations remained in the early stages of online purchasing.** More than half of all organizations reported that they are in the earliest stage of adopting the Internet (50.9%). Large-dollar buyers and nonmanufacturers report the most progress -- but less than one-quarter of these firms view themselves as more than 20% along the way toward completion of their online efforts.

How much progress have you made toward fully adopting the Internet in your purchasing activities?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Don't plan to use the Internet	2.3%	1.9%	2.7%	1.4%	2.8%
<5%	50.9%	55.5%	45.7%	43.2%	55.5%
5% to 20%	31.1%	33.5%	28.5%	35.8%	28.3%
21% to 40%	8.1%	4.3%	12.4%	6.8%	8.9%
>40%	7.6%	4.7%	10.7%	12.8%	4.4%

- **The Internet remains an important part of purchasing plans, but manufacturers have lowered their expectations.** Looking ahead to the next 12 months, 88% of organizations see the Internet as important, a slight increase over 87% from last quarter. While the importance of the Internet increased overall, manufacturers (from 41.3% to 31%) and small-volume purchasers (from 33% to 23.8%) had a sharp decline in reporting the Internet as being very important or critical. Large-dollar buyers have the highest expectations for the Internet, seeing it as either very important or critical more often than smaller organizations (51% versus 23.8%)

How important is the use of the Internet in your overall purchasing plans for the next 12 months?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Not important	12.0%	12.2%	11.7%	9.8%	13.3%
Somewhat important	53.9%	56.8%	50.5%	39.2%	62.9%
Very important	28.2%	24.9%	31.9%	39.9%	21.0%
Critical	6.0%	6.1%	5.9%	11.1%	2.8%

- **A minority of organizations saw cost savings from buying on the Internet.** Only 26.1% of organizations reported cost savings from their Internet activities -- a very slight decrease from last quarter (26.6%). Large-buying organizations reported reductions more often than smaller organizations (35.1% versus 20.4%).

During the last three months, how have your online purchasing activities affected the total cost of ownership of your product or services?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Increased	8.1%	5.8%	11.0%	4.0%	10.8%
No change	65.8%	67.6%	63.7%	60.9%	68.9%
Decreased	23.0%	23.8%	22.0%	29.8%	18.7%
Significantly decreased	3.1%	2.9%	3.3%	5.3%	1.7%

- **Few organizations have seen significant changes to their procurement processes.** Only 6.3% of organizations report that the Internet has introduced major changes to their procurement processes, a decrease from last quarter's level of 7.7%. Large-volume buying organizations report having significant or major changes from the Internet nearly twice as often as small-volume buying organizations (8.7% versus 4.9%). These bigger buyers also had the most significant drop in changes from last quarter (from 12.9% to 8.7%). Nonmanufacturers report having significant or major changes from the Internet more often than manufacturers (7.6% versus 5.2%).

How has the Internet changed your internal procurement procedures?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
No/minor change	93.7%	94.8%	92.4%	91.3%	95.1%
Significant/dramatic change	6.3%	5.2%	7.6%	8.7%	4.9%

Online Buying Activities

- Organizations increasingly buy indirect materials online.** Most organizations (70.9%) bought some indirect materials online during the past three months -- a substantial increase from the previous quarter (61.3%). Large-volume buying organizations used the Internet more often than small-volume buying organizations (76.7% versus 67.4%). The overall eBAM index for this activity remains moderately positive, although the eBAM for large-volume buying organizations is twice that for small-volume buying organizations (1.5 versus 0.8).

Did you purchase indirect goods/services on the Internet via any means?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Bought some indirect materials on the Internet	70.9%	69.4%	72.8%	76.7%	67.4%
Median amount of indirect materials bought on the Internet	1% to 5%	1% to 5%	1% to 5%	1% to 5%	1% to 5%
Average amount purchased by organizations that buy some indirect materials online	9.3%	8.3%	10.5%	10.7%	8.4%
eBAM index	1.1	1.1	1.1	1.5	0.8

- Less than half of organizations surveyed bought direct materials online.** 45.7% of organizations have purchased some direct materials via the Internet. The overall eBAM index is moderately positive (0.7).

Did you purchase direct goods/services on the Internet via any means?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Bought some direct materials on the Internet	45.7%	36.3%	58.8%	40.5%	49.0%
Median amount of direct materials bought on the Internet	1% to 5%	1% to 5%	1% to 5%	1% to 5%	1 to 5%
Average amount purchased by organizations that buy some direct materials online	11.7%	8.2%	14.8%	14.2%	10.5%
eBAM index	0.7	0.4	1.0	0.9	0.5

- **Organizations continued low levels of participation in online auctions.** Only 15% of organizations indicated that they bought products or services through an online auction, a slight decrease from last quarter's level of 15.8%. Manufacturers used online auctions almost three times as often as nonmanufacturers (20.9% versus 7.5%). Large-volume buying organizations used online auctions more than twice as often as small-volume buying organizations (23.4% versus 9.5%). The overall eBAM index remains negligible at 0.3 -- the same as the previous quarter.

Did you purchase goods/services through an Internet auction via any means?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Bought some materials through an online auction	15.0%	20.9%	7.5%	23.4%	9.5%
eBAM index	0.3	0.5	0.2	0.5	0.2

- **Organizations slowly increased their participation in online marketplaces.** Only 22.7% of organizations bought goods or services through online marketplaces -- an increase from 19.1% in the previous quarter. All organization segments reported increases, with the biggest increase occurring with large-volume buyers (from 20.1% to 28.2%). These large-volume purchasers used online marketplaces significantly more than small-volume buyers (28.2% versus 19.1%). While the use of these venues expands, the overall eBAM index remains negligible at 0.3 -- the same as the previous quarter.

Did you purchase goods/services through an online marketplace?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Bought some materials through an online marketplace	22.7%	21.5%	24.1%	28.2%	19.1%
eBAM index	0.3	0.4	0.2	0.5	0.2

- **Nearly half of responding organizations used the Internet for RFPs.** 48.8% of organizations used the Internet as part of an RFP process, a slight increase from 47.9% last quarter. The overall eBAM index is moderately positive for this activity at 1.0 -- up only slightly from 0.9 last quarter.

Did you use the Internet as part of an RFP process?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Used the Internet as part of an RFP process	48.8%	48.5%	49.1%	53.3%	46.0%
eBAM index	1.0	0.9	1.1	1.2	0.9

Supplier Relationships

- **Organizations continued to use the Internet to identify new suppliers.** Most organizations (80.7%) used the Internet to identify new suppliers, a slight increase over last quarter (79.5%). The overall eBAM index remains significantly positive at 1.8 -- although down slightly from last quarter's 2.0.

Did you identify new suppliers using the Internet?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Used the Internet to identify new suppliers	80.7%	78.9%	82.9%	78.6%	82.1%
eBAM index	1.8	1.8	1.9	1.9	1.8

- **Manufacturers slowed their online collaboration with suppliers.** 42.8% of organizations used the Internet to collaborate with suppliers, representing a significant decrease from last quarter (50.4%). The biggest drop came from manufacturers (from 53.8% to 39.7%) and small-buying organizations (from 48.2% to 34.8%). The overall eBAM index remains moderately positive at 0.9 -- down from 1.2 last quarter.

Did you use the Internet to collaborate with suppliers?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Used the Internet to collaborate with suppliers	42.8%	39.7%	46.5%	55.6%	34.8%
eBAM index	0.9	0.7	1.1	1.3	0.7

- Manufacturers are often dissatisfied with suppliers' online capabilities.** While the majority of respondents reported that their suppliers' online capabilities are good, only 7.6% of organizations viewed their preferred suppliers' online capabilities as either very good or excellent -- a decrease from 9.4% last quarter. Organizations reported their key suppliers to be either very bad or poor (36.6%), four times more often than they reported suppliers being very good or excellent. Manufacturers were the least-satisfied -- reporting their key suppliers to be either very bad or poor more than 14 times as often as they reported their suppliers being very good or excellent (43.7% versus 3%).

How would you rate the online capabilities of your current preferred suppliers?

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Very good/excellent	7.6%	3.0%	12.7%	11.6%	5.2%
Good	55.8%	53.3%	58.6%	53.1%	57.5%
Very bad/poor	36.6%	43.7%	28.7%	35.4%	37.3%

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