



**NAPM/Forrester Research Report On eBusiness
July 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 June 2001, the number of organizations purchasing both direct and indirect materials increased and adoption of most online activities continued to grow. The most pronounced change from the April 2001 *Report On eBusiness* is in the expanded use of online auctions and the decrease in online collaboration levels reported by large buying organizations.

Methodology

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

The report is based on data compiled from a survey sent to supply management executives in more than 700 manufacturing and non-manufacturing 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 390 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 non-manufacturing 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	390	208	182	156*	222*
Median annual purchases (millions)	\$75	\$175	\$37	\$375	\$17
Median annual revenues (millions)	\$375	\$375	\$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 integration.** When asked about obstacles to their Internet activities, organizations most often mentioned two items: the efforts required to integrate online buying with their internal systems and the lack of clear benefits that they can see. This represents a shift from last quarter where the predominant comments concerned the economic downturn.
- **Organizations remained in the early stages of online purchasing.** Less than half of all organizations reported that they are in the earliest stage of adopting the Internet (47.2%). Large-dollar buyers and non-manufacturers report the most progress -- but less than one-fifth 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	1.1%	1.5%	0.6%	0.6%	1.4%
<5%	47.2%	53.7%	39.5%	41.5%	51.6%
5% to 20%	36.3%	32.7%	40.7%	38.4%	34.7%
21% to 40%	8.8%	7.3%	10.5%	9.8%	8.0%
>40%	6.6%	4.9%	8.7%	9.8%	4.2%

- **The Internet remained an important part of purchasing plans.** Looking ahead to the next 12 months, 84% of organizations see the Internet as important, a slight decrease from last quarter's level of 88%. While the importance of the Internet lowered slightly, large-volume purchasers (from 51% to 42.9%) and manufacturers (from 31% to 29%) had the sharpest decline in reporting the Internet as being very important or critical. Large-dollar buyers continue to have the highest expectations for the Internet, seeing it as either very important or critical more often than smaller organizations (42.9% versus 27.2%). But small-volume buyers increasingly reported the Internet as being very important or critical compared with last quarter (from 23.8% to 27.2%).

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	15.8%	17.4%	13.9%	9.8%	20.3%
Somewhat important	50.3%	53.6%	46.2%	47.2%	52.5%
Very important	27.6%	24.2%	31.8%	33.1%	23.5%
Critical	6.3%	4.8%	8.1%	9.8%	3.7%

- **Led by small-volume buyers, more organizations achieved cost savings from buying on the Internet.** Only 29.3% of organizations reported cost savings from their Internet activities -- an increase from last quarter (26.1%). Large-buying organizations continued to report reductions more often than small-volume-buying organizations (31% versus 28.1%), but the gap narrowed compared with last quarter. Compared with last quarter, small-volume buyers increasingly reported cost reductions (from 20.4% to 28.1%) while larger-volume buyers less frequently reported cost reductions (from 35.1% to 31%).

During the past 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	5.7%	3.4%	8.5%	7.6%	4.3%
No change	64.9%	67.0%	62.4%	61.4%	67.6%
Decreased	26.6%	26.6%	26.7%	25.3%	27.6%
Significantly decreased	2.7%	3.0%	2.4%	5.7%	0.5%

- **Large-volume buying organizations reported the most significant changes to their procurement processes.** Only 7.3% of organizations report that the Internet has introduced major changes to their procurement processes, a slight increase from last quarter's level of 6.3%. Large-volume-buying organizations report having significant or major changes from the Internet nearly twice as often as small-volume-buying organizations (10.2% 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	92.7%	93.6%	91.6%	89.8%	94.8%
Significant/dramatic change	7.3%	6.4%	8.4%	10.2%	5.2%

Online Buying Activities

- **Organizations increasingly bought indirect materials online.** Most organizations (72.7%) bought some indirect materials online during the past three months -- an increase from the previous quarter (70.9%). Large-volume-buying organizations used the Internet more often than small-volume-buying organizations (77% versus 69.3%). Large-volume online buyers increased their spending on the Internet versus last quarter (from 10.7% to 11.8%) while small-volume online buyers decreased their online spending (from 7.8% to 8.4%).

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	72.7%	72.9%	72.6%	77.0%	69.3%
Average amount purchased by organizations that buy some indirect materials online	9.7%	9.2%	11.0%	11.8%	7.8%

- **Organizations increasingly bought direct materials online.** 53.8% of organizations have purchased some direct materials via the Internet -- a significant increase from last quarter (45.7%). Large-volume online buyers bought almost twice as much over the Internet than small-volume online buyers (13% versus 6.9%).

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	53.8%	51.8%	56.4%	57.6%	50.8%
Average amount purchased by organizations that buy some direct materials online	9.8%	8.6%	11.3%	13.0%	6.9%

- **Organizations increasingly participated in online auctions.** 20.4% of organizations indicated that they bought products or services through an online auction, a significant increase from last quarter's level of 15%. Large-volume-buying organizations used online auctions more than twice as often as small-volume-buying organizations (28.6% versus 13.9%). Manufacturers used online auctions significantly more often than non-manufacturers (25.1% versus 14.3%). 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	20.4%	25.1%	14.3%	28.6%	13.9%
eBAM index	0.3	0.4	0.2	0.5	0.1

- **Organizations increased their participation in online marketplaces.** 25.2% of organizations bought goods or services via online marketplaces -- an increase from 22.7% in the previous quarter. All organization segments reported increases, with the biggest increase from the previous quarter occurring with manufacturers (from 21.5% to 25%). Large-volume purchasers used online marketplaces significantly more than small-volume buyers (30.5% versus 21.2%). 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 via 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	25.2%	25.0%	25.3%	30.5%	21.2%
eBAM index	0.3	0.2	0.4	0.3	0.3

- **Nearly half of responding organizations used the Internet for RFPs.** 49.8% of organizations used the Internet as part of an RFP process, a slight increase from 48.8% last quarter. The overall eBAM index is moderately positive for this activity at 0.6 -- down slightly from 1.0 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	49.8%	47.8%	52.6%	51%	48.9%
eBAM index	0.6	0.5	0.8	0.7	0.6

Supplier Relationships

- **Organizations continued to use the Internet to identify new suppliers.** Most organizations (80%) used the Internet to identify new suppliers, a negligible change from last quarter (80.7%). The overall eBAM index remains significantly positive at 1.6 -- although down slightly from last quarter's 1.8.

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	80.0%	77.8%	82.6%	78.3%	81.3%
eBAM index	1.6	1.4	1.7	1.6	1.5

- **Small-volume buyers increased their online collaboration.** 43.6% of organizations used the Internet to collaborate with suppliers, representing a slight increase from last quarter (42.8%). Small-volume buyers drove this change -- reporting an increase in online collaboration compared with last quarter (from 34.8% to 41.4%). Large-volume buyers on the other hand reported a dramatic decrease in their online collaboration with suppliers (from 55.6% to 46.4%). The overall eBAM index remains moderately positive at 0.7 -- down from 0.9 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	43.6%	40.0%	47.9%	46.4%	41.4%
eBAM index	0.7	0.7	0.7	0.8	0.5

- **Buyers were less dissatisfied with suppliers' online capabilities.** Only 11.5% of organizations viewed their preferred suppliers' online capabilities as either very good or excellent -- compared with 34% of organizations that are dissatisfied with these supplier capabilities. But this dissatisfaction level represents a drop from last quarter (from 36.6% to 34%). Manufacturers were the least-satisfied -- reporting their key suppliers to be either very bad or poor more than five times as often as they reported their suppliers being very good or excellent (39.6% versus 7.8%).

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	11.5%	7.8%	15.9%	12.3%	10.9%
Good	54.5%	52.6%	56.7%	54.5%	54.5%
Very bad/ poor	34%	39.6%	27.4%	33.1%	34.7%