ISM/Forrester Research *Report On eBusiness*
July 2003

Executive Summary

For the quarter ending in June 2003, the percentage of direct materials purchased online surpassed the percentage of indirect materials purchased using the Net for the first time in the 11 quarters of this report. Companies spent an average of 11.7% of their total direct materials spend using the Net in Q2 2003, up 1.7% from Q1. Indirect materials spending remained flat at 11.0%, with a 0.6% increase to 13.5% for non-manufacturing companies offsetting a 1.0% decline to 8.4% for manufacturers. The percentage of companies that used the Net as part of an RFP process declined 4.0% to 61.8%, but among companies that used the Net for RFPs, 97% increased or maintained their usage this quarter. 60.6% of companies collaborated with suppliers online in Q2, an increase of 1.5% from Q1. 93% of companies that collaborated online increased or maintained their level of collaboration during the previous three months.

Methodology

The ISM/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 600 manufacturing and non-manufacturing organizations belonging to the ISM 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.

The *Report* is composed of the survey responses of 290 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	290	144	146	115	171
Median annual	$75	$75	$75	$375	$17

purchases (millions)						

*Four 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 engaged in 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

- **Large-volume purchasers increase adoption of the Net.** The percentage of companies that have made some progress toward adopting the Net for procurement declined slightly for the first time in four quarters, from 86.3% in Q1 to 85.6% in Q2. 94.2% of large-volume purchasers have made some progress toward adopting the Net, up from 93.6% in Q1.

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	5.6%	7.5%	3.6%	1.9%	8.0%
None, but thinking about it	8.9%	12.0%	5.8%	3.8%	11.7%
Some progress	62.6%	61.7%	63.5%	59.6%	64.4%
About halfway adopted	12.6%	9.0%	16.1%	19.2%	8.6%
Mostly adopted	7.8%	7.5%	8.0 %	13.5%	4.3%
Fully adopted	2.6%	2.3%	2.9%	1.9%	3.1%

- **The Net continues to grow in importance for all companies.** Over the next 12 months, 87.3% of organizations said that the Internet would be important, a 3.2% increase over last quarter. 7.0% fewer (13.5%) large-volume purchasers said the Net is critical, but 10.7% more

(42.3%) said it was very important to their purchasing strategy than in Q1. Among small-volume purchasers, the percentage that said the Net was important rose 5.3% to 85.8%.

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	12.7%	14.8%	10.6%	10.8%	14.2%
Somewhat important	47.9%	51.4%	44.4%	33.3%	56.2%
Very important	30.6%	25.4%	35.9%	42.3%	23.7%
Critical	8.8%	8.5%	9.2%	13.5%	5.9%

- **Buyers are more ready for online purchasing than suppliers.** When asked about issues that affected their eBusiness initiatives, respondents continued to mention that they have been hampered in Net adoption due to their suppliers' lack of capabilities. Many buyers are ready to increase their online purchasing but are limited by the capabilities of trading partner systems. Several respondents also mentioned internal challenges regarding dual data entry associated with their online purchasing systems as a barrier to increased adoption of the Net.
- **Companies are less positive about cost savings.** The percentage of companies that reported an increase in their total cost of ownership grew 1.1% to 11.4% in Q2. The percentage of purchasers reporting a decrease in total cost of ownership increased slightly, from 28.9% to 30.0%, while most (58.6%) reported no change from purchasing on the Internet.

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

	All respondents	**Manufacturers**	**Non-manufacturers**	**Buy more than $100 million per year**	**Buy less than $100 million per year**
Significant increase	1.8%	1.4%	2.2%	1.8%	1.8%
Minor increase	9.6%	6.4%	12.9%	10.9%	8.4%
No change	58.6%	63.1%	54.0%	46.4%	66.9%
Decreased	25.7%	24.8%	26.6%	32.7%	21.1%
Significantly decreased	4.3%	4.3%	4.3%	8.2%	1.8%

- **Large companies make substantial changes to their procurement processes.** In Q2, the percentage of large purchasers that made significant or dramatic changes to their procurement processes increased 6.3% to 22.7%. 8.4% fewer small-volume purchasers (42.9%) made any change to their processes in Q2. Overall, 3.2% fewer companies made changes (51.8%), but those making changes were more likely to have made significant or dramatic changes (12.8% in Q2 versus 9.3% in Q1).

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 change	48.2%	51.1%	45.4%	34.5%	57.1%
Minor change	39.0%	35.5%	42.6%	42.7%	36.3%
Significant/ dramatic change	12.8%	13.5%	12.0%	22.7%	6.6%

Online Buying Activities

- **Online purchasing of indirect materials is flat.** 87.9% of respondents bought some indirect materials online in Q2 -- a 0.5% decrease from last quarter. Small-volume purchasers increased their online spend as a percentage of total indirect materials spend by 0.6% to 9.9%, while large-volume purchasers decreased their spending from 13.8% to 12.8%. Manufacturing companies decreased their average online spending from 9.5% to 8.4% in Q2. Non-manufacturers offset this decline, increasing purchases from 12.9% to 13.5% of indirect materials.

*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	87.9%	86.4%	89.4%	91.7%	85.7%
Average amount of indirect	11.0%	8.4%	13.5%	12.8%	9.9%

materials purchased online					

- **Direct materials purchasing surpasses online indirect materials purchases.** Companies reported purchasing 11.7% of their direct materials online in Q2, up 1.7% from Q1 and surpassing indirect materials for the first time. Online spending by large companies increased 4.8% from 11.5% to 16.3% of direct materials. The percentage of companies using the Net for any of their direct materials purchasing declined 0.4% to 74.1%. Non-manufacturers increased their use of the Net, purchasing 14.6% of direct materials on the Internet, an increase of 2.2% from Q1.

*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	74.1%	70.4%	77.9%	80.7%	69.8%
Average amount of direct materials purchased online	11.7%	8.8%	14.6%	16.3%	8.8%

- **Large companies expand use of online auctions.** 43.9% of large-volume purchasers used online auctions to procure materials in Q2, a 5.0% increase over Q1. 11.2% of large purchasers procured through online auctions significantly more than the previous three months -- a 7.5% increase. In Q2, 25.3% of companies participated in online auctions, down 1.1% from Q1. The overall eBAM index rose to 0.4 overall and 0.8 for large purchasers.

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	25.3%	29.1%	21.5%	43.9%	13.3%

online auction					
EBAM index	0.4	0.5	0.3	0.8	0.2

- **Non-manufacturers increase use of online marketplaces.** 36.1% of non-manufacturers purchased through online marketplaces in Q2, up 4.4% from Q1. 15.1% of non-manufacturers increased their usage of online marketplaces, while only 1.5% decreased use. Overall, 2.0% more companies used online marketplaces (34.7% in Q2 versus 32.7% in Q1). The eBAM index for online marketplaces increased to 0.5, up from 0.3 last 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	34.7%	33.3%	36.1%	46.2%	26.9%
eBAM index	0.5	0.4	0.5	0.5	0.5

- **Companies extend use of the Internet for RFPs.** 61.8% of companies used the Net for RFPs in Q2, a drop of 4.0% from Q1. Despite the overall drop, 27.5% of companies increased their usage of the Net for RFPs, 4.7% more than in Q1. 60.0% of companies are using the Net as much or more than they were in the previous quarter. While 1.5% fewer large companies used the Net for RFPs, 7.5% more used the Net significantly more than in the previous three months. Among large companies using the Net for RFPs, 98.6% used the Net as much or more than the previous three months, with more than half increasing their usage level. The overall eBAM index was moderately positive at 1.0 compared with 0.6 in Q1.

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	61.8%	61.0%	62.6%	67.0%	57.5%
eBAM index	1.0	1.0	1.0	1.4	0.7

- **Use of procurement tools by large companies grew.** In Q2, 41.9% of companies used an enterprisewide procurement tool, a 1.8% increase over Q1. 12.5% of large companies used procurement tools significantly more than the previous three months, compared with 7.3% in Q1. The overall eBAM index was moderately positive at 0.7, compared with 0.5 in Q1. The eBAM index for large-volume purchasers increased to 1.2 in Q2, compared with 0.8 in Q1.

Did you use an enterprisewide procurement tool?

	All respondents	Manufacturers	Non-manufacturers	Buy more than $100 million per year	Buy less than $100 million per year
Used an enterprisewide procurement tool	41.9%	45.3%	38.5%	57.7%	30.8%
eBAM index	0.7	0.6	0.7	1.2	0.3

Supplier Relationships

- **Large companies increase their online collaboration with suppliers.** 60.6% of companies collaborated with suppliers online in Q2, a 1.5% increase over the prior quarter. Large companies led this advance, with 73.4% using the Net for collaboration versus 64.2% in Q1. 36.7% of large purchasers collaborated with suppliers more than during the previous three months, an increase of 6.4%. The overall eBAM index remains moderately positive at 0.8.

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	60.6%	57.9%	63.5%	73.4%	52.4%
eBAM index	0.8	0.8	0.9	1.2	0.6

- **Satisfaction with suppliers' online capabilities rose.** The percentage of companies rating their suppliers' online capabilities as good, very good, or excellent climbed 5.6% to 73.0%. Non-manufacturing companies rated their suppliers' capabilities the highest, with 77.2% rating them as good, very good, or excellent, up 5.2% from Q1.

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/	16.1%	11.4%	20.6%	20.4%	13.4%

excellent					
Good	56.9%	57.3%	56.6%	51.9%	59.6%
Very bad/poor	26.9%	31.3%	22.8%	27.8%	27.0%

CONTACTS

Kristen Kioa
ISM
+1 800/888-6276, extension 3015
kkioa@ism.ws

Tina Murphy
Forrester Research
+1 617/613-6032
press@forrester.com