



**institute for
supply management**

**(formerly the National Association
of Purchasing Management)**



ISM/Forrester Research Report On eBusiness April 2002

Executive Summary

The organizations that we surveyed made little or no progress in adopting the Internet over the past three months. For the quarter ending in March 2002, the number of organizations purchasing both direct and indirect materials remained essentially the same as the previous quarter, and adoption of most online activities was largely unchanged. But some areas continue to build momentum. Among the more significant changes from the January 2002 *Report On eBusiness*: large-volume buying organizations reported a significant increase in the use of the Internet for RFPs while non-manufacturers reported an increased use of the Net for collaboration with suppliers.

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 350 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	350	174	176	129	200
Median annual purchases (millions)	\$37	\$75	\$37	\$375	\$17

*Twenty-one 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

- **The economic downturn slowed online efforts.** When asked about obstacles to their Internet activities, organizations most often mentioned a lack of budget or resources and the impact of the slowing business environment. Integration with legacy systems and supplier readiness were also mentioned as significant concerns.
- **Organizations remained in the early stages of online purchasing -- but small purchasers made significant progress.** Only 18.4% of all respondents reported being more than 20% along the way toward fully adopting the Net -- a minor decrease from Q4 2001 (21.6%). For the first time, more than half of the small organizations we surveyed reported that they are beyond the earliest stage of adopting the Internet (55%) -- a significant increase over last quarter (47.3%). But only 18.7% of large purchasers reported being more than 20% along the way toward fully adopting the Net, versus 30.3% in Q4 2001.

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	2.6%	2.3%	2.9%	3.1%	2.5%
<5%	40.5%	49.7%	31.4%	36.7%	42.5%
5% to 20%	38.5%	35.3%	41.7%	41.4%	37.0%
21% to 40%	9.5%	4.0%	14.9%	8.6%	11.0%
>40%	8.9%	8.7%	9.1%	10.1%	7.0%

- **The Internet remains important for large-volume purchasers.** Looking ahead to the next 12 months, 85.1% of organizations said that the Internet would be important, a slight decrease over last quarter's level (86.6%). Large-volume purchasers continued to describe the Net as very important or critical significantly more often than smaller volume purchasers did (52.7% versus 28%).

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	14.9%	13.2%	16.5%	13.2%	16.0%
Somewhat important	46.6%	52.9%	40.3%	34.1%	56.0%
Very important	33.7%	29.3%	38.1%	47.3%	24.5%
Critical	4.9%	4.6%	5.1%	5.4%	3.5%

- **Large-volume purchasers are less positive about cost savings.** 28.7% of organizations reported cost savings from their Internet activities -- slightly less than last quarter's 29.1%. The number of large-volume purchasers reporting cost savings decreased (from 45.5% to 38.3%) while the number of smaller volume purchasing organizations reporting cost savings (20.4%) remained nearly the same as last quarter (19.3%).

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
Increased	7.0%	5.8%	8.2%	10.2%	4.6%
No change	64.3%	65.9%	62.8%	51.6%	75.0%
Decreased	24.9%	24.3%	25.6%	31.3%	18.4%
Significantly decreased	3.8%	4.0%	3.5%	7.0%	2.0%

- Manufacturers are increasingly changing their procurement processes.** 10.7% of organizations reported that the Internet has introduced major changes to their procurement processes over the past three months -- only slightly higher than last quarter's level of 9.7%. While fewer non-manufacturers made major changes to their procurement procedures over the past three months than last quarter (8% versus 11.6%), more manufacturers reported making major changes (13.3% versus 7.6%). Large-volume purchasing organizations continued to report making significant changes to their processes more often than small-volume purchasing organizations did (17.5% versus 5.5%).

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	89.3%	86.7%	92.0%	82.5%	94.5%
Significant/dramatic change	10.7%	13.3%	8.0%	17.5%	5.5%

Online Buying Activities

- Small-volume buyers are increasingly buying indirect materials online.** 78.1% of respondents bought some indirect materials online during the past three months -- about the same as last quarter (77.5%). More small-volume-purchasing organizations used the Internet for buying indirect materials over the last three months than in the previous quarter (73.4% versus 67.1%). The average amount spent online on indirect materials by large-volume purchasers decreased slightly to 9.8% from last quarter's level of 11.9%.

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	78.1%	78.6%	77.7%	87.7%	73.4%
Average amount of indirect materials purchased online	8.3%	7.2%	9.3%	9.8%	7.5%

- **Organizations decreased online direct materials purchases.** Fewer purchasers in all segments reported buying direct materials online last quarter -- only 53.3% of respondents bought some direct materials online during the past three months, versus 57.2% in the previous quarter. But while large-volume purchasers reduced the amount of direct materials bought on the Internet from an average 7.2% to 4.8%, the amount of direct materials bought by small-volume-purchasing organizations on average increased slightly from 4.7% to 5.8%.

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	53.3%	48.5%	58.2%	56.5%	51.8%
Average amount of direct materials purchased online	5.7%	4.3%	7.0%	4.8%	5.8%

- **Organizations decreased their use of online auctions.** 20.2% of respondents indicated that they bought products or services through an online auction, a decrease from last quarter's level of 23.1%. Manufacturers reported the largest decrease in the use of online auctions (from 29.5% to 24.1%). Large-volume purchasers continued to use online auctions significantly more than smaller-volume purchasers (36.8% versus 8.6%). The overall eBAM index remained positive at 0.3, a 0.1 decrease from last 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	20.2%	24.1%	16.4%	36.8%	8.6%
eBAM index	0.3	0.4	0.2	0.7	0.1

- **Organizations reduced their participation in online marketplaces.** 22.2% of respondents bought goods or services via online marketplaces -- a decrease from 26.4% in the previous quarter. The biggest drop in using online marketplaces was reported by manufacturers (from 26.7% to 18.2%). Both large-volume and small volume purchasers decreased their use of online marketplaces (from 31.6% to 28.7% and from 17.6% to 16.1%, respectively). The overall eBAM index remains unchanged at a negligible 0.3.

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	22.2%	18.2%	26.1%	28.7%	16.1%
eBAM index	0.3	0.3	0.4	0.4	0.2

- **Large-volume buyers increased their use of the Internet for RFPs.** 62.6% of respondents used the Internet as part of an RFP process, a slight increase from last quarter's level of 61%. Use of the Net for RFPs jumped among large-volume-purchasing organizations from 65% to 72.2% but fell slightly among small-volume buyers from 58.4% to 56.9%. The overall eBAM index remained moderately positive at 1.0.

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	62.6%	63.5%	61.7%	72.2%	56.9%
eBAM index	1.0	1.0	0.9	1.4	0.7

Supplier Relationships

- **Large-volume buyers pull back on the use of the Internet to identify new suppliers.**

The number of purchasing organizations that used the Internet to identify new suppliers decreased slightly (from 87.6% to 85.5%), led by large-volume buyers (from 88.4% to 84.9%) and non-manufacturers (from 89.1% to 82.1%). The overall eBAM index remains positive at 1.6 -- a slight increase from last quarter.

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	85.5%	89.0%	82.1%	84.9%	86.4%
eBAM index	1.6	1.6	1.5	1.4	1.6

- **Non-manufacturers continued to increase their online collaboration.** The number of buying organizations that used the Internet to collaborate with suppliers was down slightly to 48.2% from 49.3%. But non-manufacturers continued to increase the use of the Net for online collaboration (from 48.3% to 52.4%). Large-volume purchasers and manufacturers reported decreases in their use of the Internet for collaboration (from 62.4% to 59.8% and 50.3% to 44%, respectively). The overall eBAM index remains moderately positive at 0.9 -- a slight increase from last quarter's level of 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	48.2%	44.0%	52.4%	59.8%	40.6%
eBAM index	0.9	0.9	0.9	1.0	0.8

- Purchasers' overall satisfaction level with suppliers' online capabilities remains largely unchanged.** The number of buying organizations reporting that their preferred suppliers' online capabilities were either very good or excellent was relatively unchanged from last quarter (from 10.7% to 10.5%). Non-manufacturers reported an increase in this positive assessment of suppliers' abilities (from 9.7% to 12.6%), while manufacturers reported a decrease from 11.8% to 8.3%.

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	10.5%	8.3%	12.6%	11.3%	9.5%
Good	56.1%	54.2%	58.1%	58.1%	54.5%
Very bad/poor	33.4%	37.5%	29.3%	30.6%	36.2%

Note: In May 2001, the membership of the National Association of Purchasing Management voted to change the association's name to the Institute for Supply Management™. This change became effective January 1, 2002. For further information, see ISM's Web site at www.ism.ws.

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