



ISM/Forrester Research *Report On eBusiness* July 2002

Executive Summary

The organizations that we surveyed made significant strides in using the Internet for purchasing over the past three months. For the quarter ending in June 2002, the percentage of organizations purchasing both direct and indirect materials jumped substantially from the previous quarter, returning to the adoption trend seen in surveys conducted throughout 2001. Among the more significant increases from the *Q1 Report On eBusiness* were: More than 90% of large-volume buying organizations reported purchasing some indirect materials online, and almost three-fourths of these organizations purchased some direct materials online. In addition, a larger fraction of companies reported collaborating with suppliers online and also reported higher levels of satisfaction with their suppliers' online capabilities.

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 survey for the quarter ending in June 2002 was modified slightly from previous quarters. Changes in specific questions will be noted throughout the report.

This *Report* is composed of the survey responses of 331 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 | 331 | 168 | 163 | 131 | 185 |
| Median annual purchases (millions) | \$75 | \$75 | \$37 | \$375 | \$17 |

*Fifteen 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

- **Most companies remained in the early stages of online purchasing – but non-manufacturers reported greater adoption.** Only 17.1% of all respondents reported being about halfway or further along the way toward fully adopting the Net, while 18.9% report no progress at all toward adopting the Net. Non-manufacturers reported the greatest adoption rate – 21.3% of non-manufacturing respondents reported that they are about halfway or further along the way toward fully adopting the Net.

Note: In prior quarters, respondents were asked to estimate their progress in terms of the percentage of full adoption. The survey for the quarter ending in June 2002, however, asked respondents to estimate progress in the following categories: Don't plan to use the Internet; None, but thinking about it; Some progress; About halfway adopted; Mostly adopted; or Fully adopted. As a result, direct comparison of the progress toward fully adopting the Internet in Q2 2002 with prior quarters is not possible.

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% | 4.1% | 5.8% | 2.6% | 6.4% |
| None, but thinking about it | 13.9% | 14.2% | 13.5% | 9.4% | 17.4% |
| Some progress | 64% | 68.9% | 59.4% | 69.2% | 60.5% |
| About halfway adopted | 10.2% | 8.8% | 11.6% | 11.1% | 9.9% |
| More than halfway adopted | 6.9% | 4.1% | 9.7% | 7.7% | 5.8% |

- **Limited budgets and unclear ROI remain significant barriers to adoption.** When asked about obstacles to their Internet activities, organizations most often mentioned a lack of budget or resources and the difficulty justifying the investment. Companies also mentioned integration issues – including the lack of standards and issues with integrating different legacy systems – as significant concerns.

- **The Internet declined slightly in importance for overall purchasing plans.** Looking ahead to the next 12 months, 83.1% of organizations said that the Internet would be important, a slight decrease over last quarter's level (85.1%). The percentage of large-volume purchasers describing the Net as very important or critical declined significantly to 38.8% from last quarter's 52.7%.

Looking ahead over the next 12 months, how important is the use of the Internet in your overall purchasing/supply management plans?

| | All respondents | Manufacturers | Non-manufacturers | Buy more than \$100 million per year | Buy less than \$100 million per year |
|--------------------|-----------------|---------------|-------------------|--------------------------------------|--------------------------------------|
| Not important | 17% | 16.4% | 17.6% | 14.7% | 18.8% |
| Somewhat important | 49.1% | 54.7% | 43.4% | 46.5% | 50.6% |
| Very important | 30.2% | 25.2% | 35.2% | 34.1% | 27.8% |
| Critical | 3.8% | 3.8% | 3.8% | 4.7% | 2.8% |

- **Most purchasers saw little change in cost of ownership.** 62.4% of respondents reported no change in the cost of ownership of products or services from their Internet activities over the past three months – a slight decrease from last quarter's 64.3%. The percentage of manufacturers reporting cost savings increased from 28.3% in Q1 to 32.7% in Q2 while the fraction of non-manufacturers reporting cost savings decreased slightly from 29.1% to 27.1%.

Over the last three months, how have your online purchasing/supply management activities impacted 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 | 7.6% | 5% | 10.3% | 7% | 7.5% |
| No change | 62.4% | 62.3% | 62.6% | 51.6% | 70.1% |
| Decreased | 25.5% | 27% | 23.9% | 35.2% | 19% |
| Significantly decreased | 4.5% | 5.7% | 3.2% | 6.3% | 3.4% |

- **Small-volume purchasers are increasingly changing their procurement processes.** 11.1% 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 10.7%. While large-volume purchasing organizations continued to report making significant changes to their processes substantially more often than small-volume purchasing organizations did (15.6% versus 8.5%), this gap narrowed from the previous quarter in which 17.5% of large-volume purchasers versus only 5.5% of small-volume purchasers reported significant change.

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 | 88.9% | 90.6% | 87.2% | 84.4% | 91.5% |
| Significant/dramatic change | 11.1% | 9.4% | 12.8% | 15.6% | 8.5% |

Online Buying Activities

- Organizations are increasingly buying indirect materials online.** 84.2% of respondents bought some indirect materials online during the past three months – a significant increase from last quarter’s 78.1%. This increase was reflected in all segments, but the percentage of non-manufacturers reporting purchasing some indirect materials online saw the biggest jump (from 77.7% last quarter to 87.5% this quarter). The average amount spent online on indirect materials by non-manufacturers increased to 10.0% from last quarter’s level of 9.3%.

Did you purchase goods/services over 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 | 84.2% | 80.9% | 87.5% | 92.2% | 78.9% |
| Average amount of indirect materials purchased online | 8.7% | 7.4% | 10.0% | 10.1% | 8.0% |

- Online purchases of direct materials by large-volume buyers surged.** A greater percentage of purchasers in all segments reported buying direct materials online last quarter – 64.6% of respondents bought some direct materials online during the past three months, versus only 53.3% in Q1. Almost three-quarters of large buyers (74%) reported purchasing some direct materials online – a significant increase both over last quarter’s 56.5% as well as over the previous high of 61.3% in Q4 2001. The percentage of direct materials purchased online increased in all segments, with the overall average rising to 6.6% from 5.7% in Q1.

Did you purchase goods/services over 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 | 64.6% | 59.6% | 69.6% | 74% | 57.9% |
| Average amount of direct materials purchased online | 6.6% | 4.4% | 8.8% | 8.4% | 5.6% |

- **Adoption of online auctions increased slightly – but momentum slowed.** 22.4% of respondents indicated that they bought products or services through an online auction, an increase from last quarter’s level of 20.2%. Manufacturers reported an increase in the use of online auctions over Q1 (from 24.1% to 29.6%), but adoption was essentially flat from Q4 2001 (29.5%). The use of online auctions by large-volume purchasers declined from 36.8% in Q1 to 32.5% in Q2, but auction use by small-volume purchasers jumped to 15.8% – a significant increase from last quarter’s 8.6% and from the previous high of 11.5% in Q4 2001. However, the eBAM index fell in all segments, with the overall eBAM index falling to 0.2 – a 0.1 decrease from last quarter.

Did you purchase goods/services through an online auction over the Internet?

| | 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 | 22.4% | 29.6% | 15.2% | 32.5% | 15.8% |
| eBAM index | 0.2 | 0.3 | 0.1 | 0.5 | 0 |

- **Large-volume buyers made significant use of electronic marketplaces and private hubs.** 29.1% of respondents bought goods or services via an electronic marketplace or private hub. More than a third of large buyers purchased goods and services through an electronic marketplace or private hub. The overall eBAM index for online purchasing venues was a negligible 0.2.

Note: In prior quarters, respondents were asked about their use of electronic marketplaces. Since the Q2 survey asked respondents about the combined usage of electronic marketplaces and private hubs, the Q2 results are not directly comparable to the Q1 results.

Did you purchase goods/services through an electronic marketplace or private hub that links buyers and sellers?

| | 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 | 29.1% | 30.5% | 27.8% | 34.9% | 24.2% |
| eBAM index | 0.2 | 0.3 | 0.2 | 0.3 | 0.2 |

- **Large-volume buyers reduced their use of the Internet for RFP processes.** 60.6% of respondents used the Internet as part of an RFP process, a slight decrease from last quarter's level of 62.6%. Use of the Net for RFPs plunged among large-volume-purchasing organizations from 72.2% to 62.5%, but rose among small-volume buyers from 56.9% to 59.2%. The eBAM index for RFP adoption fell in all segments, with the overall eBAM index falling from 1.0 to 0.6.

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 | 60.6% | 59.2% | 62% | 62.5% | 59.2% |
| eBAM index | 0.6 | 0.8 | 0.5 | 0.8 | 0.6 |

- **Almost one-third of buyers purchased through procurement tools that use the Internet.** 30.9% of respondents used an enterprisewide procurement tool that incorporates the Internet. Large-volume buyers used Internet-based procurement tools substantially more frequently than small-volume buyers (40.5% versus 22.8%). The overall eBAM index for the use of enterprisewide procurement tools is a modest 0.5.

Note: This question is new for the Q2 survey.

Did you purchase goods/services using an enterprisewide procurement tool that incorporates the Internet?

| | All respondents | Manufacturers | Non-manufacturers | Buy more than \$100 million per year | Buy less than \$100 million per year |
|--|------------------------|----------------------|--------------------------|---|---|
| Used the enterprisewide procurement tool | 30.9% | 30.9% | 30.9% | 40.5% | 22.8% |
| eBAM index | 0.5 | 0.6 | 0.4 | 0.7 | 0.3 |

Supplier Relationships

- **Small-volume buyers continued to increase their online collaboration.** For the first time, more than half of buyers surveyed reported collaborating with suppliers online. 51.5% of buying organizations used the Internet to collaborate with suppliers – a slight increase from last quarter’s 48.2%. Small-volume purchasers reported increasing their use of the Internet for collaboration from 40.6% in Q1 to 44% in Q2. The overall eBAM index for online collaboration remained moderately positive at 0.9.

Did you collaborate with suppliers using Internet-based supply chain tools?

| | 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 | 51.5% | 53.6% | 49.4% | 59.1% | 44% |
| eBAM index | 0.9 | 0.9 | 0.8 | 1.0 | 0.8 |

- **Purchasers are more satisfied with suppliers’ online capabilities.** The percentage of buying organizations reporting that their preferred suppliers’ online capabilities were either very good or excellent increased from 10.5% to 13.2%. Small-volume buyers reported the largest increase in this positive assessment (from 9.5% to 14.9%).

How would you rate the online capabilities (including content and product selection tools) of your current preferred product or services suppliers?

| | All respondents | Manufacturers | Non-manufacturers | Buy more than \$100 million per year | Buy less than \$100 million per year |
|---------------------|-----------------|---------------|-------------------|--------------------------------------|--------------------------------------|
| Very good/excellent | 13.2% | 9.7% | 16.7% | 11.3% | 14.9% |
| Good | 53.3% | 51.9% | 54.7% | 54% | 50.6% |
| Very bad/poor | 33.6% | 38.3% | 28.7% | 34.7% | 34.5% |

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