



**institute for  
supply management**

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



## **ISM/Forrester Research Report On eBusiness January 2002**

### **Executive Summary**

The organizations that we surveyed made significant strides in adopting the Internet over the past three months. For the quarter ending in December 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 October 2001 *Report On eBusiness* was that large-volume buying organizations reported a dramatic increase in cost savings and a significant jump in the importance of the Internet.

### **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 361 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	361	177	184	123	170
Median annual purchases (millions)	\$75	\$75	\$37	\$375	\$17

Notes:

\*Sixty-eight respondents declined to provide overall purchasing data -- this number is considerably larger than in previous reports.

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 the economic downturn.** When asked about obstacles to their Internet activities, organizations most often mentioned two items: the impact of the slowing business environment and their suppliers' lack of capabilities.
- **Organizations remained in the early stages -- but made significant progress -- in online purchasing.** While only 21.6% of all respondents report being more than 20% along the way toward fully adopting the Net, purchasers made significant strides in this quarter. For the first time, more than half of all organizations reported that they are beyond the earliest stage of adopting the Internet (57.1%) -- a significant increase over Q3 2001 (49.4%). Non-manufacturers and large-volume buying organizations reported having made the most progress.

*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	2.8%	3.5%	2.2%	4.1%	3.0%
<5%	40.0%	43.4%	36.8%	29.5%	49.7%
5% to 20%	35.5%	38.2%	33.0%	36.1%	31.7%
21% to 40%	11.5%	8.7%	14.3%	18.0%	7.8%
>40%	10.1%	6.3%	13.7%	12.3%	7.8%

- The Internet has increased in importance for large-volume purchasers.** Looking ahead to the next 12 months, 86.6% of organizations saw the Internet as important, a small increase over last quarter's level (84.4%). Large-volume purchasers continued to describe the Net as important more frequently than smaller-volume purchasers did (91% versus 81.1%). Large-volume purchasers that reported the Net as being either very important or critical increased sharply from the previous quarter (from 42.5% to 53.3%) -- while smaller-volume buying organizations that reported the Net as being either very important or critical increased slightly from the previous quarter (from 24.1% to 26.1%).

*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	13.4%	14.5%	12.5%	9.0%	18.9%
Somewhat important	48.3%	52.6%	44.0%	37.7%	55.0%
Very important	33.3%	27.2%	39.1%	45.1%	24.9%
Critical	5.0%	5.8%	4.3%	8.2%	1.2%

- Large-volume purchasers are increasingly reporting cost savings.** 29.1% of organizations reported cost savings from their Internet activities -- a considerable increase from last quarter's 23.1%. The number of large-volume purchasers reporting cost savings increased dramatically (from 28.4% to 45.5%) while the number of smaller-volume buying organizations reporting cost savings 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 product or services?*

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Increased	9.1%	8.3%	9.9%	7.4%	7.8%
No change	61.8%	60.6%	63.0%	47.1%	72.9%
Decreased	27.1%	27.6%	26.5%	40.5%	18.7%
Significantly decreased	2.0%	3.5%	0.6%	5.0%	0.6%

- Organizations are increasingly changing their procurement processes.** While only 9.7% of organizations reported that the Internet has introduced major changes to their procurement processes over the past three months, this number represents an increase from last quarter's level of 6%. Large-volume buying organizations reported the most dramatic increase over last quarter (from 7.9% to 16.0%) and continued to report making significant changes to their processes more often than small-volume buying organizations did (16% versus 6%). Non-manufacturers reported making significant or major changes more often than manufacturers did (11.6% versus 7.6%).

*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	90.3%	92.4%	88.4%	84.0%	94.0%
Significant/dramatic change	9.7%	7.6%	11.6%	16.0%	6.0%

### Online Buying Activities

- Organizations are increasingly buying indirect materials online.** 77.5% of respondents bought some indirect materials online during the past three months -- an increase from 75.3% in the previous quarter. Large-volume-buying organizations used the Internet for indirect materials more often than small-volume-buying organizations did (88.1% versus 67.1%). The average amount spent online increased to 9.5% from last quarter's level of 7.1%.

*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	77.5%	80.0%	75.1%	88.1%	67.1%
Average amount of indirect materials purchased online	9.5%	9.2%	9.7%	11.9%	7.0%

- **Large organizations are increasingly buying direct materials online.** 57.2% of respondents bought some direct materials online during the past three months -- an increase from 55.8% in the previous quarter. The number of large-volume purchasers that purchased direct materials on the Internet increased (from 54.7% to 61.3%) while the number of small-volume purchasers that purchased direct materials on the Internet decreased (from 56.7% to 53.6%). The average amount of direct materials purchased on the Internet increased sharply to 6.2% from 5.3% in the previous quarter.

*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	57.2%	54.3%	60.0%	61.3%	53.6%
Average amount of direct materials purchased online	6.2%	5.1%	7.1%	7.2%	4.7%

- **Manufacturers led the increase in using online auctions.** 23.1% of organizations indicated that they bought products or services through an online auction, an increase from last quarter's level of 17.4%. Manufacturers reported the sharpest increase in the use of online auctions (from 21.0% to 29.5%) and used online auctions more frequently than non-manufacturers did (29.5% versus 16.9%). Large-volume purchasers reported the most significant use of online auctions -- significantly outpacing smaller-volume purchasers (37.3% versus 11.5%). The overall eBAM index remained positive at 0.4 -- a slight increase from the previous quarter's level (0.2).

*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	23.1%	29.5%	16.9%	37.3%	11.5%
eBAM index	0.4	0.5	0.2	0.7	0.1

- Large-volume purchasers increased their participation in online marketplaces.** 26.4% of organizations bought goods or services via online marketplaces -- an increase from 22.8% in the previous quarter. The biggest increase in using online marketplaces was reported by large-volume-buying organizations (from 24.8% to 31.6%) and manufacturers (from 21.4% to 26.7%). Small-volume purchasers, on the other hand, decreased their use of online marketplaces (from 21.2% to 17.6%). The overall eBAM index remains negligible at 0.3 -- a small increase from 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	26.4%	26.7%	26.2%	31.6%	17.6%
eBAM index	0.3	0.3	0.3	0.3	0.1

- Organizations are increasingly using the Internet for RFPs.** 61.0% of respondents used the Internet as part of an RFP process, an increase from last quarter's level of 53.5%. Every type of organization reported an increase -- led by large-volume-buying organizations (from 56.1% to 65%) and manufacturers (from 52.4% to 62.0%). The overall eBAM index remained moderately positive at 1.0 -- up from last quarter's 0.7 level.

*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	61.0%	62.0%	60.0%	65.0%	58.4%
eBAM index	1.0	0.8	1.1	1.2	0.9

### Supplier Relationships

- **More organizations used the Internet to identify new suppliers.** Every type of buying organization reported an increase in using the Internet to identify new suppliers. Large-volume-buying organizations reported the most increased use in this area (from 82.5% to 88.4%). The overall eBAM index remains positive at 1.5 -- the same level as 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	87.6%	86.0%	89.1%	88.4%	87.0%
eBAM index	1.5	1.4	1.5	1.3	1.6

- **Small-volume purchasers and nonmanufacturers increased their online collaboration.** The number of buying organizations that used the Internet to collaborate with suppliers remained relatively constant at 49.3%. Small-volume purchasers (from 38.1% to 40.3%) and nonmanufacturers (from 46.3% to 48.3%) increased their online collaboration with suppliers. After reporting significant jumps in their online collaboration last quarter, large-volume purchasers and manufacturers reported slight decreases in their use of the Internet for collaboration. The overall eBAM index remains moderately positive at 0.8 -- a slight decrease from last quarter's level of 0.9.

*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	49.3%	50.3%	48.3%	62.4%	40.3%
eBAM index	0.8	0.9	0.7	1.0	0.6

- Purchasers were more satisfied with suppliers' online capabilities.** The number of buying organizations reporting that their preferred suppliers' online capabilities were either very good or excellent increased from last quarter (from 6.9% to 10.7%). Manufacturers reported the largest increase in this positive assessment of suppliers' abilities (from 3.4% to 11.8%).

*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	10.7%	11.8%	9.7%	13.5%	7.7%
Good	56.4%	51.6%	60.8%	56.8%	53.2%
Very bad/poor	32.9%	36.6%	29.5%	29.7%	39.1%

**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. Beginning with this *Report*, the NAPM/Forrester Research *Report On eBusiness* will be renamed the ISM/Forrester Research *Report On eBusiness*. For further information, see ISM's Web site at [www.ism.ws](http://www.ism.ws).

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