



**NAPM/Forrester Research Report On eBusiness
January 2001**

Executive Summary

Most organizations are just beginning to use the Internet for their procurement activities. As a result, they are not reporting much online buying for either indirect or direct materials. Respondents, however, expect the Internet to play an important role in their future plans. There's some momentum in the adoption of the Internet for activities like finding new suppliers and collaborating with suppliers. In most areas, larger organizations are doing more online than their smaller counterparts.

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 the responses to questions asked of purchasing and 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 committee.

This report comprises the survey responses of 368 organizations. To understand the difference in online behaviors of these organizations, responses were analyzed along three dimensions: 1) the results of all organizations; 2) the comparison of manufacturing and non-manufacturing organizations; and 3) the 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	368	182	186	146*	206*
Median annual purchases (millions)	\$75	\$175	\$37	\$375	\$17
Median annual revenues (millions)	\$250	\$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 to -5 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

- **Most organizations are in the early stages of online purchasing.** Nearly half of all organizations reported that they are in the earliest stage of adopting the Internet. Less than 7% reported being more than 40% of the way toward full adoption. Large dollar buyers are further along -- more than three times as many of these organizations report being more than 40% of the way toward full adoption compared with smaller-dollar-volume purchasers (11.1 % versus 3.0%).

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	2.3%	2.3%	2.2%	1.4%	3.0%
<5%	48.4%	51.4%	45.5%	41.3%	54.0%
5% to 20%	32.5%	30.6%	34.3%	34.3%	31.5%
21% to 40%	10.0%	9.2%	10.7%	11.9%	8.5%
>40%	6.8%	6.5%	7.3%	11.1%	3.0%

- **The Internet is an important part of purchasing plans.** Looking ahead over the next 12 months, 87% of organizations see the Internet as important. Most large-dollar buyers have higher expectations for the Internet, seeing it as either very important or critical more often than smaller organizations (51% versus 33%)

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

	All respondents	Manufacturers	Non-manufacturers	Buy more than \$100 million per year	Buy less than \$100 million per year
Not important	13.0%	11.5%	14.4%	8.3%	16.7%
Somewhat important	46.4%	47.1%	45.9%	40.7%	50.2%
Very important	33.8%	33.3%	34.3%	42.0%	28.1%
Critical	6.8%	8.0%	5.5%	9.0%	4.9%

- **Few organizations have seen cost savings from buying on the Internet.** Only 26.6% of companies reported cost savings from their Internet activities. Large organizations reported reductions more often than smaller organizations (33.1% versus 22.0%).

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	7.4%	6.4%	8.5%	7.7%	7.0%
No change	66.0%	65.3%	66.7%	59.2%	71.0%
Decreased	24.0%	25.4%	22.6%	28.2%	21.0%
Significantly decreased	2.6%	2.9%	2.3%	4.9%	1.0%

- **Few organizations have seen the Internet significantly change their procurement processes.** Some organizations (7.7%) report that the Internet has introduced major changes to their procurement processes. Large organizations report having significant or major changes from the Internet more than three times as often as smaller organizations report (12.9% versus 3.5%). Non-manufacturers report having significant or major changes from the Internet almost twice as often as manufacturers report (10.1% versus 5.3%).

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	92.3%	94.7%	89.9%	87.1%	96.5%
Significant/dramatic change	7.7%	5.3%	10.1%	12.9%	3.5%

Online Buying Activities

- A majority of organizations buys some indirect materials online:** Many organizations (61.3%) bought some indirect materials online during the past three months. Large organizations used the Internet more often than smaller organizations (67.9% versus 57.4%). The overall eBusiness adoption momentum index (eBAM) for this activity is moderately positive, although the index for large organizations is twice as big as for smaller organizations (1.6 versus 0.8).

Did you purchase indirect 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	61.3%	65.7%	57.0%	66.7%	57.7%
Median amount of indirect materials bought on the Internet	1.0%	1.0%	<1.0%	1.0%	<1.0%
eBAM index	1.1	1.3	1.0	1.6	0.8

- Less than half of manufacturers bought direct materials online.** Only 39.3% of manufacturers have purchased some direct materials via the Internet. The overall eBAM index is moderately positive (0.7).

Did you purchase direct goods/services over the Internet via any means?

	Manufacturers
Bought some direct materials on the Internet	39.3%
Median amount of indirect materials bought on the Internet	<1.0%
eBAM index	0.7

- Few organizations bought through online auctions.** Only 15.8% of organizations indicated that they bought products or services through an online auction. Manufacturers used online auctions more than twice as often as non-manufacturers (22.5% versus 9.4%). Large-volume organizations used online auctions almost three times as often as smaller-volume organizations (25.0% versus 8.5%). The overall eBAM index is negligible at 0.3, though the index is higher for manufacturers and larger organizations.

Did you purchase goods/services through an auction 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 materials through an online auction	15.8%	22.5%	9.4%	25.0%	8.5%
eBAM index	0.3	0.4	0.1	0.5	0.1

- **Few organizations bought through online marketplaces.** Only 19.1% of organizations bought goods or services through online marketplaces and the overall eBAM index is negligible at 0.3. Large-volume purchasers used online marketplaces only slightly more than smaller-volume buyers (20.1% versus 18.5%), but their adoption momentum is twice as big (0.5 versus 0.2).

Did you purchase goods/services through 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	19.1%	18.3%	19.9%	20.1%	18.5%
eBAM index	0.3	0.4	0.2	0.5	0.2

- **Nearly half of organizations used the Internet for RFPs.** 47.9% of organizations used the Internet as part of an RFP process. The overall eBAM index is moderately positive for this activity at 0.9.

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	47.9%	48.8%	47.0%	47.9%	47.9%
eBAM index	0.9	1.0	0.9	1.0	0.9

Supplier Relationships

- **Most organizations use the Internet to identify new suppliers.** Most organizations (79.5%) used the Internet to identify new suppliers. The overall eBAM index is significantly positive at 2.0.

Did you identify new suppliers over 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	79.5%	77.6%	81.4%	76.3%	82.6%
eBAM index	2.0	1.9	2.1	1.8	2.1

- **Half of the organizations collaborate with suppliers online.** 50.4% of organizations used the Internet to collaborate with suppliers. The overall eBAM index is moderately positive at 1.2.

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	50.4%	53.8%	47.1%	53.5%	48.2%
eBAM index	1.2	1.3	1.0	1.3	1.1

- **Organizations are often dissatisfied with suppliers' online capabilities.** Only 9.4% of organizations viewed their preferred suppliers' online capabilities as either very good or excellent. Approximately four times as many organizations found suppliers to be either very bad or poor (37.8%).

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	9.4%	7.9%	10.8%	12.6%	7.4%
Good	52.8%	50.0%	55.7%	48.1%	52.6%
Very bad/poor	37.8%	42.1%	33.5%	39.3%	37.0%