



Becoming the Institute for  
Supply Management™  
in January 2002



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

**Executive Summary**

Most organizations surveyed continue to report that they are in early stages of adopting Internet-based buying. For the quarter ending in September 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 July 2001 *Report On eBusiness* was the dramatic increase in collaboration reported by manufacturers and large-volume purchasers.

**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 a survey sent to supply management executives in more than 600 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 committees.

This report is composed of the survey responses of 418 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.

	<b>All respondents</b>	<b>Manufacturers</b>	<b>Non-manufacturers</b>	<b>Buy more than \$100 million per year</b>	<b>Buy less than \$100 million per year</b>
Number of respondents	418	225	193	168*	228*
Median annual purchases (millions)	\$75	\$75	\$37	\$375	\$17

Median annual revenues (millions)**	\$212	\$210	\$212	\$850	\$71
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Notes:

\*Some respondents declined to provide overall purchasing and revenue data.

\*\*Prior to the October 2001 report, revenues were reported within ranges. In the report, revenues were reported as an exact number. These changes caused a significant change in median revenues from 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 three items: the impact of the slowing business environment, integration issues with internal systems, and the lack of capabilities of their suppliers.
- **Organizations remained in the early stages of online purchasing.** Less than half of all organizations reported that they are in the earliest stage of adopting the Internet (46.9%). Non-manufacturers and large-volume buying organizations reported the most progress -- but less than one-sixth of these firms viewed themselves as having completed more than 20% of their online efforts.

*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	3.7%	4.1%	3.2%	3.3%	4.0%
<5%	46.9%	55.0%	37.6%	43.6%	49.6%
5% to 20%	36.1%	29.8%	43.4%	35.9%	36.3%
21% to 40%	5.9%	5.0%	6.9%	7.7%	4.4%
>40%	7.4%	6.0%	9.0%	9.4%	5.8%

- **The Internet remained important -- especially for large buyers.** Looking ahead to the next 12 months, 84.4% of organizations see the Internet as important, the same as last quarter's level. While the importance of the Internet remained the same overall, less large-volume purchasers viewed the Internet as important (from 90.1% to 85.6%), and these larger buyers had the sharpest decline in reporting the Internet as being critical (from 9.8% to 6.6%). Even with this decline, large-dollar buyers continued to have the highest expectations for the Internet, seeing it as either very important or critical more often than smaller organizations (42.5% versus 24.1%).

*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	15.6%	17.4%	13.7%	14.4%	16.7%
Somewhat important	52.1%	54.3%	49.5%	43.1%	59.2%
Very important	27.9%	25.1%	31.1%	35.9%	21.5%
Critical	4.4%	3.2%	5.8%	6.6%	2.6%

- **Fewer organizations achieved cost savings.** Only 23.1% of organizations reported cost savings from their Internet activities -- a decrease from last quarter (29.3%). The largest drop in reported savings occurred with small buyers (from 28.1% to 18.7%) and with non-manufacturers (from 29.1% to 20.0%). Large-volume buyers continued to report cost savings more often than smaller buyers did (28.4% versus 18.7%).

*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	9.6%	4.7%	15.6%	11.9%	7.8%
No change	67.3%	69.8%	64.4%	59.7%	73.5%
Decreased	21.3%	23.7%	18.3%	25.6%	17.8%
Significantly decreased	1.8%	1.9%	1.7%	2.8%	0.9%

- **Buying organizations reported less significant changes to their procurement processes.** Only 6.0% of organizations reported that the Internet has introduced major changes to their procurement processes over the last three months, a slight drop from last quarter's level of 7.3%. Large-volume-buying organizations reported having significant or major changes from the Internet more often than small-volume-buying organizations did (7.9% versus 4.6%).

*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	94.0%	94.4%	93.5%	92.1%	95.4%
Significant/dramatic change	6.0%	5.6%	6.5%	7.9%	4.6%

### Online Buying Activities

- **Organizations increasingly bought indirect materials online.** Three-fourths of the respondents bought some indirect materials online during the past three months -- an increase from the previous quarter (72.7%). Large-volume-buying organizations used the Internet for indirect materials more often than small-volume-buying organizations did (82.4% versus 69.5%). Large-volume online buyers purchased significantly more than smaller buyers purchased (9.0% versus 5.5%). Overall, the total average amount spent online remained at last quarter's level of 7%.

*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	75.3%	78.5%	71.1%	82.4%	69.5%
Average amount of indirect materials purchased online	7.1%	6.3%	7.1%	9.0%	5.5%

- **More organizations bought direct materials online.** 55.8% of organizations purchased some direct materials via the Internet -- an increase from last quarter (53.8%). Large-volume online buyers bought more over the Internet than small-volume online buyers bought (5.8% versus 4.9%). The average amount of direct materials purchased on the Internet remained at the same level as last quarter (5%).

*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	55.8%	53.5%	58.5%	54.7%	56.7%
Average amount of direct materials purchased online	5.3%	4.6%	6.1%	5.8%	4.9%

- Small-volume buyers slowed their use of online auctions.** 17.4% of organizations indicated that they bought products or services through an online auction, a decrease from last quarter's 20.4%. This reduction was driven by small buyers that reduced their use of these venues dramatically (from 13.9% to 7.3%). Large-volume-buying organizations, on the other hand, increased their use of online auctions, using these online environments more than four times as often as small-volume-buying organizations (29.8% versus 7.3%). Manufacturers used online auctions significantly more often than non-manufacturers did (21.0% versus 13.2%). The overall eBAM index remains negligible at 0.2 -- a slight decrease from the previous 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	17.4%	21.0%	13.2%	29.8%	7.3%
eBAM index	0.2	0.2	0.1	0.4	0.0

- Organizations decreased their participation in online marketplaces.** 22.8% of organizations bought goods or services via online marketplaces -- a decrease from 25.2% in the previous quarter. The biggest decline came from large-volume-buying organizations (from 30.5% to 24.8%). The overall eBAM index remains negligible at 0.1 -- a small drop 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	22.8%	21.4%	24.4%	24.8%	21.2%
eBAM index	0.1	0.1	0.1	0.2	0.0

- **All organizations increasingly used the Internet for RFPs.** More than half of organizations used the Internet as part of an RFP process, an increase from last quarter (from 49.8% to 53.5%). Every type of organization reported an increase, led by large-buying organizations (from 51.0% to 56.1%) and manufacturers (from 47.8% to 52.4%). The overall eBAM index is moderately positive at 0.7 -- up slightly from last quarter's 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	53.5%	52.4%	54.8%	56.1%	51.4%
eBAM index	0.7	0.6	0.7	1.0	0.5

### 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. Small-volume-buying organizations reported the most increased use (from 81.3% to 86.2%) The overall eBAM index remains positive -- but dropped slightly (from 1.6 to 1.5).

*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	84.5%	82.2%	87.2%	82.5%	86.2%
eBAM index	1.5	1.5	1.4	1.4	1.5

- **Large-volume buyers and manufacturers increased their online collaboration dramatically.** The number of buying organizations that used the Internet to collaborate with suppliers grew from 43.6% to 49.5%. Large-volume buyers (from 46.4% to 63.5%) and manufacturers (from 40.0% to 52.2%) reported significant increases. Small-volume buyers cut back on their online collaboration with suppliers (from 41.4% to 38.1%). The overall eBAM index remains moderately positive at 0.9 -- up from 0.7 last quarter.

*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	49.5%	52.2%	46.3%	63.5%	38.1%
eBAM index	0.9	1.0	0.8	1.1	0.7

- **Buyers were less satisfied with suppliers' online capabilities.** The number of buying organizations reporting that their preferred suppliers' online capabilities were either very good or excellent dropped from last quarter (from 11.5% to 6.9%). This low number of fully satisfied buyers represents less than one-fourth of the buyers that are dissatisfied with these supplier capabilities (6.9% versus 33.5%).

*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	6.9%	3.4%	10.8%	7.1%	6.6%
Good	59.6%	62.1%	56.8%	58.9%	60.2%
Very bad/poor	33.5%	34.5%	32.4%	33.9%	33.2%

**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 will become effective January 1, 2002. At that time, this report will be renamed the ISM/Forrester Research *Report On eBusiness*. For further information, see NAPM's Web site at [www.napm.org](http://www.napm.org).

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