

## Global Supply Management: 2006 Overview

### Summary

In many ways, 2006 was a transitional year for supply management.

- **Market events** – Consolidations, new solution providers, maturing technology
- **Trends** – Focus on people and skills, SRM/CRM convergence, strength in Europe and China
- **Aberdeen** – Harte-Hanks, CPO Summit, unprecedented research coverage

Recommendations:

- Focus on the basics, like cost savings and core KPIs
- Watch emerging trends and adopt them based on your level of risk aversion
- Dedicate more resources to people relationships (i.e., staff, suppliers, sales)

### Market Events

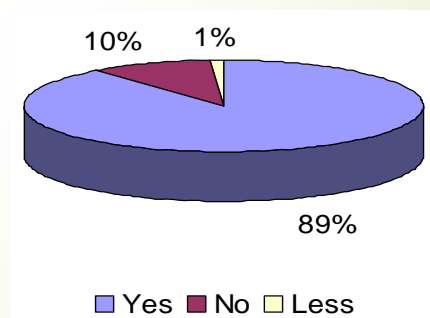
#### Consolidation

There were many mergers and acquisitions throughout 2006 (e.g., SAP added [Frictionless](#) and a whole new flavor to its SRM offering; Emptoris doubled down with contracts player [diCarta](#) and sourcing company, [MindFlow](#); [Click Commerce](#) pulled Elance into its toolbox only to end up with larger Illinois Tool Works, Procuri's aim was [TrueSource](#); while Equifax expanded its city limits to [Austin-Tetra](#); and AmEx came to shore with Harbor Payments).

There were also many new partnerships (i2 and [Dassault](#), A.T. Kearney and UGS and Tata, SciQuest and Procuri), including several between large financial service firms and traditional supply management solution providers (Ariba & MasterCard as well as AmEx and Rearden).

Together with these developments for solution providers, procurement organizations have continued to change as well—they are increasingly more strategic and promise even greater enterprise value in the future.

**Figure 1: Is Procurement More Strategic?**



Source: Aberdeen Group, November 2006

### Innovative Technology – The Price is Right

One of the signs of a healthy market is competition as well as new entrants. 2006 saw several new entrants, perhaps the most interesting of all being **Coupa Software**. There are multiple open source procurement software projects listed on Sourceforge.net, but none is more active or more favorably ranked than Coupa. Coupa has delivered an open source e-procurement application with several industry firsts, like content tagging. Another active open source procurement project to watch is **TenderSystem**.

Beyond procurement-centric open source applications, there are many others which may benefit procurement professionals in areas like accounting and project management. There are full ERP systems available in the open source community (e.g., **Openbravo**). One procurement executive we spoke to said, “*I used an open source project management application to manage activities related to sourcing.*” While not yet a major threat for large deployments in multi-national enterprises, open source does promise to make the market more competitive on the whole and to offer large enterprise-class functionality to the smallest of organizations.

### Innovative Business Models – The Price is Still Right

The saying that “you get what you pay for” doesn’t always hold true in our innovative, high-tech world. In fact, as with the open source example above, it is amazing how much you can get for free. Such is the case with the recently announced partnership between **US Bank** and **Elcom**. Customers of US Bank’s commercial card products have free access to Elcom software and a series of pre-connected suppliers and catalogs. Other news this year came from **MFG.com**—an online marketplace which provides free On-Demand sourcing to buyers. They acquired **SourcingParts.com** and added a host of new features to their free offering.

### Maturing Technology

Several companies have shown success in 2006 even without major acquisitions or partnerships for free software. The strategy for these companies has been to stay focused on a niche area and continue to fine-tune the technology. Three good examples are **OB10**, **Vinimaya** and **Aravo**. All are fairly narrow in terms of the scope of their offering when compared to procurement software suite providers like **Ariba**, **Perfect Commerce**, **Ketera**, and **Procuri**. When compared to **Oracle** and **SAP** they seem almost miniscule.

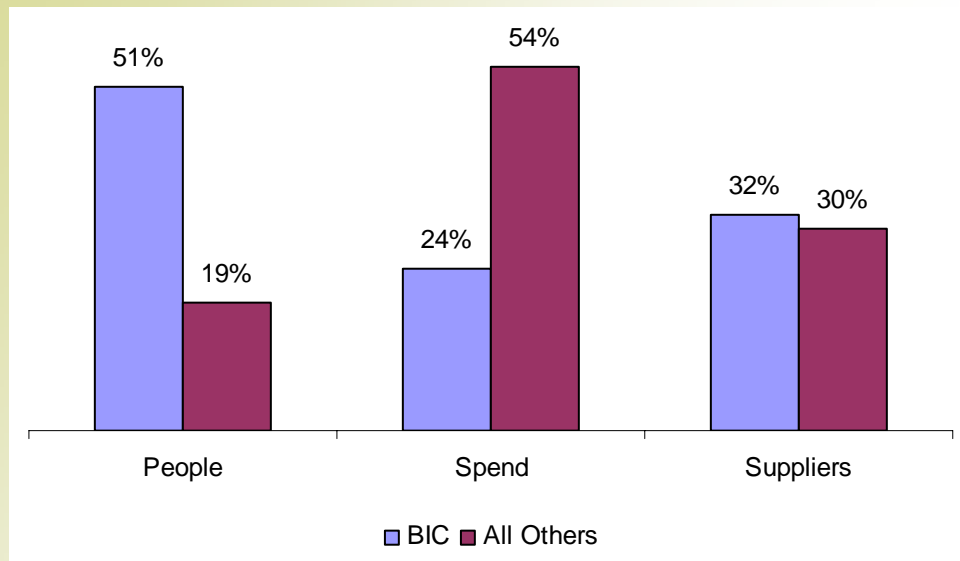
It is their focus and a narrow footprint that has enabled OB10, Vinimaya, Aravo and others to successfully penetrate the ERP installed base almost without hitting the radar. On the other hand, larger procurement suite providers definitely hit the radar of internal ERP champions and external ERP salespeople. OB10’s focus is on streamlined, automated invoice communication. Vinimaya’s focus is on supplier catalog content syndication and search. Aravo’s focus is on supplier information management. With continued success in 2007, look for these and similar companies to become targets for strategic partnerships and possibly acquisition.

## Trends

### People, People, People

Best in Class CPOs rank recruiting, training, retaining and aligning their organizations as their number-one goal, while Industry Average peers rank the same as number-three (Figure 2). Supplier rationalization, collaboration and development is number-two for both. It is easy to see the importance that Best in Class CPOs put on people, both inside and outside the organization. Clearly, this focus is part of what makes them Best in Class, not just a luxury they can afford as a result of their superior performance.

**Figure 2: Top 3 CPO Goals**



Source: Aberdeen Group, November 2006

**2007: The Year of the Supplier?**

Three-fourths of the research participants consider supply risk and supplier relationships as top performance metrics. As noted above, improving supplier development and collaboration is the number-two goal for all CPOs. Further illustration of the focus on suppliers for this same period of time is the ongoing investment in supporting technologies (e.g., supplier networks & portals) and the ability to get leverage from existing technologies that are still somewhat new and are only now entering a 2.0 phase (e.g., e-sourcing, e-procurement, e-payables). 2007 could likely be the “year of the supplier.”

**The Bottom Line**

Executive management wants to see spend data presented in the same terms that enterprise financial performance is measured. For public companies this often equates to EPS (earnings per share). Other financial metrics to be considered include ROIC (return on invested capital), WACC (weighted average cost of capital), and EVA (economic value add). If ROIC is greater than WACC then EVA is positive and you are adding value to the organization. This data is best presented in a simple dashboard that is easily accessible and provides ample drill-down capabilities for additional details by time, product or service line, sub-organization, geography, commodity and supplier.

**SRM / CRM Convergence**

As procurement takes an increasing role in product innovation and demand planning, leading enterprises are starting to understand that a large part of their relationship with external end customers is in fact, defined by their own suppliers and supply chain. As noted in his keynote at the [CPO Summit](#),

*“Innovation is the best opportunity [that companies] have to differentiate themselves...Many good ideas come from customers, business partners and suppliers.”*

- John Paterson, CPO of IBM

The GSM team couldn't agree more and we believe more CPOs will start driving the convergence of the procurement and sales functions in 2007. Emerging trends include: 1) spending more structured time with sales and external end customers, 2) hiring sales and marketing experts into the procurement team, and 3) utilizing CRM-type tools to track supplier interactions and savings quotas.

### Getting a Handle on T&E Expenses

Being the second largest controllable category of spend, travel and entertainment is certainly attracting a lot of attention. As procurement gets more involved in controlling and managing travel costs and suppliers, technology providers offer more innovative tools (e.g., end-to-end T&E expense management and travel booking within one solution). In addition to providing the ability to capture expenses and monitor compliance after-the-fact, these tools can actually enforce policies before expenses are incurred.

### Global Trends

Many solution providers have expanded significantly in order to support growing global business in 2006. **i-Faber** expanded into Germany and several eastern European countries. **A.T. Kearney Procurement Solutions** is expanding rapidly in China. The trend of globalization for these and many other solution providers bodes well for CPOs. Whether they're doing business across many borders or not, customers of these solution providers will benefit from the experience gained and the improvement being made to support a more diverse set of procurement demands.

## Aberdeen Group

### Harte-Hanks




Harte-Hanks' acquisition of Aberdeen Group truly signifies a shift in the methodology and delivery of technology-oriented research. Aberdeen's mantra has always been "research for the masses" and with Harte-Hanks' global resources, including their 2+ million entry CIT database, this concept is significantly enhanced.



### The 2006 CPOs Summit

*The Second Annual CPO's Summit* (November 16-17) was a great success, with 212 procurement executives from 136 enterprises representing **\$1.46 trillion** in spend. Look for the event during the same time in 2007, which will again bring together a world-class procurement community in order to share valuable knowledge and experiences.

### *Aberdeen Awards: And the Winners . . .*

The Aberdeen Achievement Awards which were announced at the CPO Summit recognized the efforts and successful performance of procurement organizations in five categories.

<p><b>Process Excellence Award</b> Enterprises that have demonstrated process ingenuity, agility, flexibility, and scalability to address evolving business requirements.</p>	
<p><b>Executive Stewardship Award</b> Enterprises that have overcome tremendous obstacles and achieved new performance heights as a result of direct involvement and leadership from exceptional executive management.</p>	
<p><b>Business Evolution Award</b> Enterprises that have demonstrated the ability to manage the flow of information across internal functional practices to achieve demonstrable business growth.</p>	

<p><b>Innovation in Technology Award</b> Enterprises that have maximized leveraged technology solutions to solve pressing business issues to positively impact company performance.</p>	
<p><b>Performance Excellence Award</b> Enterprises that have harnessed the performance impacts of value chain activities and mastered methodologies for financial, operational, and customer-centric performance excellence.</p>	

## GSM Research

In 2006, the Global Supply Management Team surveyed approximately 3,000 executives, authored 18 benchmark reports and numerous derivative research pieces. Some of the topic areas included:

- Strategic sourcing
- E-procurement
- Contract management
- Direct materials sourcing
- Supplier enablement
- Procurement outsourcing
- Spending analysis / Spend intelligence
- T&E expense management
- On-Demand supply management
- Supply visibility and risk

## Conclusions and Recommendations

- **Focus on the basics, like cost savings and core KPIs** – Never lose sight of the fundamental objective to deliver value to enterprise and to express that in meaningful for financial terms. Recognize that everyone still measures procurement based on cost savings, but leverage additional KPIs to track your performance and garner additional support (e.g., % of suppliers = 80% of spend, procurement ROI).
- **Watch emerging trends and adopt them based on your level of risk aversion** – 2007 will bring additional innovation and opportunity, but watch those trends that have emerged in 2006 particularly close. The majority of them will gain momentum in the coming 12 months. Being near the crest of the wave will give you a competitive advantage. In particular, we recommend learning from and adopting sales methodologies and tools.

**Dedicate more resources to people relationships (i.e., staff, suppliers, sales)** – Now more than ever CPOs must invest to recruit, train and retain their people. Top performers

will tend to slip away into other parts of the enterprise if they are not carefully managed. Be sure to retain a core team of top performers. Similar attention must be placed on relationships with peer groups like sales and finance. And suppliers certainly deserve equal time and attention as another key human resource.

## Related Research

[\*The CPO's Strategic Agenda: Managing People, Managing Spend\*](#); November 2006

[\*CPO's Summit: \\$1.46 Trillion on Tap\*](#); November 2006

[\*Source-to-Settle: Compliance Clues for the CFO\*](#); October 2006

[\*Global Supply Management Research Agenda\*](#)

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