

**REASONS  
e-PROCUREMENT  
PROJECTS FAIL TO  
ACHIEVE THEIR ROI**  
(and ways to overcome them)

## Introduction

In 2000, the B2B 'revolution' was in full swing. Today, the reality is sobering.

One company we interviewed invested \$5 million in a Vertical Market only to see the organization shut down without executing a single transaction. Another company paid consultants for over **30,000** hours of work to implement an e-Procurement solution. Today, they have a handful of catalogs up and running with a compliance rate below 50%.

These experiences are not unique. According to Gartner Group:

**After 12–24 months of deployment, few clients have moved beyond more than five to 10 suppliers of indirect goods<sup>1</sup>**

The following graphic represents a typical ROI projection used to justify the purchase of an e-Procurement system in the recent past (see Figure 1).

In this example, the costs in Year One include e-Procurement software, integration, implementation, internal IT costs, and content development. The costs in the following

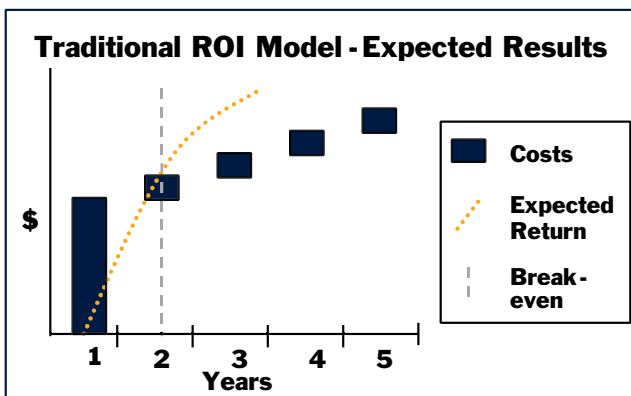


Figure 1

years include software maintenance, content management, and on-going IT expenses. The return is from process efficiencies, compliance savings, spend consolidation, and maverick spend reduction.

Most of the projects in Gartner's survey had ROI projections based on 'soft cost' or process efficiencies and the use of

more suppliers and greater end user adoption than they have been able to achieve. Finally, the supplier catalogs that have been implemented represent lower spend volumes, undermining the ROI.

For this and other reasons, Gartner Group found that the timeframe for e-Procurement ROI may exceed four years (see Figure 2).

<sup>1</sup>E-Procurement Project ROI: One Last Time, by D. Hope-Ross, April 10, 2001, Gartner Group.

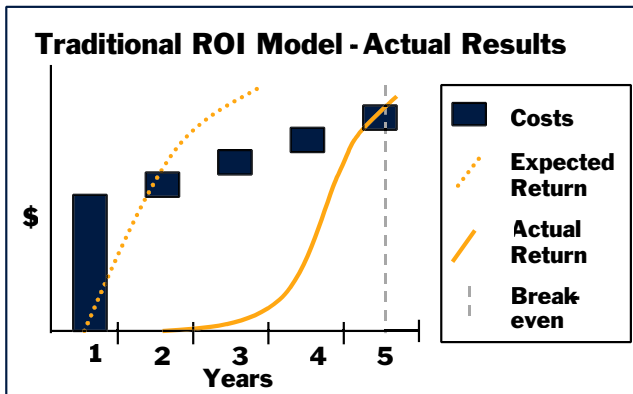


Figure 2

This leaves many companies asking, *“Is there a way to pursue an e-Procurement strategy that achieves its goals and provides a strong return on investment in a reasonable timeframe?”*

Having been in the procurement field for over a decade, we have experienced the challenges in this paper with over 130 clients and we have studied the

lessons learned from others. As a result, we have continuously adapted our approach to ensure that our customers realize the true promise of e-Procurement.

We have proven that there is a way to drive a measurable and compelling return on e-Procurement investments in a short timeframe. However, it requires a different, more comprehensive approach.

### **Lack of Focus on Unit Cost Savings**

A multinational clothing manufacturer recently canceled their e-Procurement project after 24 months and millions in fees due to their inability to obtain supplier content. When the implementation ran over and money was tight, the lack of tangible results forced the CEO to cancel the project.

In this case, lack of focus on supplier content gives insight into the way the company and their consultants perceived the project.

*“The project is about technology that will enable savings”.*

We believe this is flawed. The thought process should be:

*“The project is about **savings, enabled and sustained** with technology”.*

### **SOLUTION: Focus the Project on Achieving Bottom Line Savings**

Sourcing strategy and technology are two vital halves of the solution. A sourcing strategy is needed to identify and pursue the unit cost savings that will drive the return. The technology is needed to capture and sustain those savings over time. A company can identify enough savings while the implementation is underway to completely fund the project, possibly within the first year. For example, we saved a \$1 billion manufacturer \$800,000 in savings on a \$4 million steel buy within the first four weeks, which funded the first several years of the project.

ICG Commerce provides two avenues for rapid unit cost savings. We aggregate the spend of our customer base and negotiate deals with premiere suppliers in over 40 categories. These ‘pre-sourced’ deals provide immediate savings. ICG Commerce also provides Enabled

Sourcing Services that can produce results on more complex or strategic categories within a few months.

Our recommendation is to perform strategic sourcing in parallel with the technology implementation realizing savings in year one to offset the costs. By executing several savings-focused sourcing events right away, the following ROI model is possible (see Figure 3).

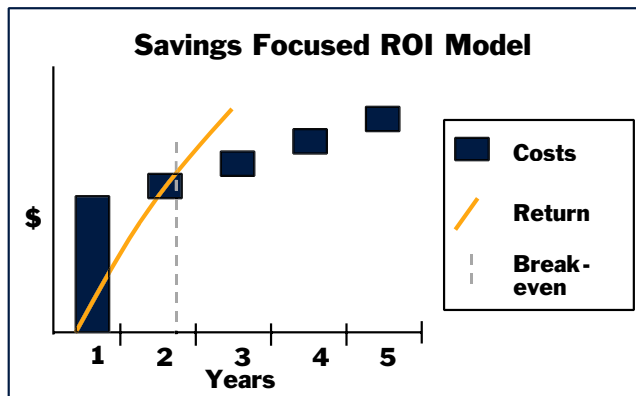


Figure 3

The return depicted here is conservative. More aggressive sourcing will produce greater benefits even sooner.

### Lack of an Overarching Procurement Strategy

“e” is not everything. An e-Procurement project should be as much about procurement as it is about technology. Many unsuccessful projects we have reviewed had procurement related goals but did not include the activities necessary to fully execute them.

So, how does a lack of focus on procurement strategy promote project failure? A \$3 billion diversified manufacturer found out the hard way. Without a clear strategy the company could not decide which categories to automate first. In addition, target commodity volumes were highly inaccurate because the manufacturer lacked a complete understanding of company spend. This led to long project delays and a lack of confidence in the ROI projections. Ultimately, the project was canceled.

Another common mistake is the lack of a thoughtful category roll out plan. Initial categories should be selected based upon potential for success. A manufacturer might select industrial MRO (Maintenance, Repair, and Operations supplies) categories as early targets given high transaction volume and a large amount of spend. However, these categories are often complex, can require custom product configuration, have end users that may not have access to a computer or may be uncomfortable with technology, and have a supply base with wide variances in sophistication. The success of this type of category in phase one is highly dependent upon the company’s circumstances and the specific suppliers.

## **SOLUTION: *Develop an Overarching Procurement Strategy***

A procurement strategy is intended to provide a roadmap to savings enabled by the technology. A high-level spend analysis is a critical first step in any procurement strategy. We have analyzed over \$100 billion in spend over the past 12 months alone for companies ranging from \$250 million in revenues to \$26 billion. Without exception, the results of this brief analysis are eye opening and more accurate than internal category volume projections.

From the spend analysis companies should develop a tailored savings strategy for each category using the most appropriate combination of sourcing and procurement services and technologies. Depending on the category it may be appropriate to rationalize the supply base and streamline procurement processes. Regardless of the approach selected, the goal is to reduce the total cost of the goods and services procured.

### **Catalog and Content Roadblocks**

A publicly traded, \$2.5 billion heavy manufacturer spent several million dollars on an e-Procurement solution in 1999. Today, the software sits on a shelf, unused. Why? They were unable to develop or obtain the electronic catalogs for the products they wanted to procure.

Content, the descriptive information associated with an item in a catalog, is one of the most underestimated aspects of e-Procurement. Many suppliers do not currently have content in electronic format and thus customers must generate their own. The cost and complexity of such development is daunting. One of the leading content development firms charges three to six dollars to cleanse and rationalize per catalog line item, or SKU, to build a catalog. These catalogs can range from a small 100 SKU catalog to an industrial maintenance catalog that has in excess of 150,000 SKUs.

Catalog development is only the beginning. Every time a supplier makes a change, eliminates an item, or adds new items, the catalog must be updated. One 4,000-location retailer shared with us that the cost of dealing with exceptions created by inconsistencies between their catalogs and the suppliers' totally erased the process efficiencies of e-Procurement.

Generally, an ROI model for e-Procurement is anchored by the dollars procured through the engine. Without content, users obviously cannot buy at the expected rate and therefore the ROI model is undermined.

## **SOLUTION: *Leverage Existing Catalog and Content Solutions***

ICG Commerce operates an 'aggregated Exchange' consisting of preferred suppliers in over 40 categories. We have invested millions of dollars in content creation with top tier vendors in each category. While most companies struggle to deploy five to ten categories within

24 months, through our RealExchange ICG Commerce has the ability to connect customers to over forty categories within the first year and handles all of the maintenance and updating. Since the pricing reflects the aggregated volume of over 130 customers, most companies see between 5 to 15% unit cost savings which helps accelerate the ROI.

ICG Commerce can also develop private catalogs for your preferred suppliers or for suppliers identified through our strategic sourcing efforts. For high spend categories with a small set of SKUs, the cost of catalog development is minimal.

We clearly understand that catalog content is a critical component of a successful e-Procurement solution. Catalogs that provide correct part numbers, price, and commodity codes improve the productivity and satisfaction of requisitioners that in turn supports user adoption. To ensure client satisfaction and a successful implementation, ICG Commerce is an integral part of the initial supplier catalog roll-out during implementation and remains active throughout the life of the project providing ongoing catalog management services.

### **Low End User Adoption**

Effectively facilitating employee's transition to new buying tools and procedures is also critical to e-Procurement success. If people do not use the new technology, then the ROI model is, once again, compromised.

A \$500 million manufacturer of steel products rolled out an e-Procurement pilot project to its plants. The company did not have a change management plan and or an overarching procurement strategy. Employees resisted the use of unfamiliar tools and the introduction of revised buying procedures. Despite later mandates by company executives, the lack of early focus on change management resulted in poor adoption and therefore no substantial savings.

This is an extreme case and it has an even sadder ending. The manufacturer has since been forced to close several plants and implemented layoffs at the pilot plant. Given the circumstances, an overarching procurement strategy, combined with strategic sourcing, might have produced real unit cost savings in the early phase of the project. This windfall could have been the fuel that ignited enthusiasm within the plants, especially if the employees knew it had the potential to save jobs.

### **SOLUTION: *Develop a Change Management Strategy***

Change management can be the least expensive aspect of an e-Procurement project but lack of it is a leading cause of project failure. ICG Commerce recognized this critical area and has developed a 70-module solution to address it. PowerSource<sup>SM</sup> is a set of change management tools designed exclusively for use in e-Procurement implementations. It includes templates for employee communications, training, internal marketing, and much more. By applying our

change management experience and tools we have delivered 100% category adoption at a major national airline and successfully trained over 1500 users for a \$7 billion national telecom company in less than 90 days.

### **Summary**

Establishing a successful e-Procurement solution that will drive a measurable and compelling return on investment requires a comprehensive, results focused approach. Organizations that focus each phase of their project to drive savings and maximize return on investment are best prepared to successfully address the challenges of implementing e-Procurement and achieve measurable, bottom line benefits from their solution.



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