B2B e-Procurement In the Chemical Industry

April 5, 2001
Discussion Outline

- Business Objectives of e-Procurement
- The Real World
- How IBM approaches the e-Procurement challenge
- Lessons learned
- How About You?
Where Are The Paybacks?

Process/Work Flow Improvement
- Decrease Paper, Approvals, Work
- Decrease the Cost of Doing Business
  - Automate requisition, approval and payment processes
  - Eliminate Paper & Non-Value Adding Processes
  - Streamline Accounts Payable -- Evaluated Receiving or Negative Confirmation, confusing payments
- Decrease Lead Time
  - Lead Time = Inventory

Improved Buying
- Understanding Spending
  - Who’s Purchasing What From Whom
  - Comparative Cost Centers
- Leverage Volume Purchasing
- Source ‘Best Price’
  - Eliminate Price Variances (Price variances of over 200% on same items)
Why e-Procurement! -- To exploit the leverage opportunity, the web is critical

<table>
<thead>
<tr>
<th>Type of Supplier</th>
<th>Percent of Spend</th>
<th>Web Value Add</th>
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<tbody>
<tr>
<td>Core</td>
<td>80%</td>
<td>➢ Enabling greater collaboration and integration with key partnerships</td>
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<tr>
<td>Commodity</td>
<td>15%</td>
<td>➢ Building critical mass and efficient markets thru trading networks</td>
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<tr>
<td>Emerging</td>
<td>5%</td>
<td>➢ Extending the reach to niche suppliers</td>
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<tr>
<td></td>
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<td>➢ Leverage existing suppliers</td>
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A Case History

- Two years ago IBM bought $1.5 billion on line... 90% of IBM’s $45 billion supply budget will be spent online this year.
- Suppliers’ engineers who once traveled to IBM to examine blueprints now receive them online, have online discussions and suggest alternatives to reduce costs significantly.
- Transaction costs for low value items are reduced to pennies per order.
IBM’s Own Internal Reengineering Efforts in Procurement Have Delivered Impressive Results

<table>
<thead>
<tr>
<th>Business Metrics</th>
<th>Early 1990’s</th>
<th>Today</th>
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<tbody>
<tr>
<td>Escapes (By Pass)</td>
<td>30%</td>
<td>&lt;2%</td>
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<tr>
<td>Cost of Acquisition/Procurement Burden</td>
<td>1.9%</td>
<td>&lt;1%</td>
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<tr>
<td>Audit Satisfaction</td>
<td>55%</td>
<td>89%</td>
</tr>
<tr>
<td>Client Satisfaction</td>
<td>40%</td>
<td>&gt;85%</td>
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<tr>
<td>P.O. Processing Cycle Time</td>
<td>30 days</td>
<td>1 day</td>
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<tr>
<td>EDI P.O. Transmission</td>
<td></td>
<td>85%</td>
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<tr>
<td>Contract Cycle Time Length</td>
<td>6-12 months</td>
<td>30 days</td>
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<tr>
<td></td>
<td>40 (+) pages</td>
<td>6 pages</td>
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$6.5 billion in savings
Compared to the industry, IBM has achieved considerable success in streamlining procurement performance.

### Procurement Efficiency & Effectiveness

**IBM vs. Industry**

- **Procurement Expenses as % of Total Cost (Efficiency)**
  - IBM: 1.1%
  - Industry: 4.0%

- **Cost "Escapes" as % of Total Cost (Effectiveness)**
  - IBM: 2.0%
  - Industry: 46.9%

- **% of Total Cost with Leverage Opportunity (Effectiveness)**
  - IBM: 51.0%
  - Industry: 97.0%
IBM’s Total Procurement Solution Comprises Several Interdependent Components

The Approach

- Procurement Strategy
- Strategic Sourcing
- Process Redesign
- e-procurement
- Business Process Management
- Change Management

Streamline Automate
Simplify
IBM’s e-procurement Assessment Helps to Quickly Identify Opportunity Areas & Develop a "Blueprint" of Key Initiatives

Assessment is key for Procurement strategy

- Involvement of Procurement stakeholders
- Identifies potential benefit areas
- Ranks benefit areas by their greatest yield
- Recommendations are tailored to a specific company
Assessment Can Be Completed in Approximately 4 - 5 Weeks

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<th>STEP</th>
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<tbody>
<tr>
<td>1. Review Documentation</td>
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<td>2. Conduct Interviews and Establish Goals and Objectives</td>
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<td>3. Conduct LASER Assessment</td>
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<td>4. Conduct e-Procurement Workshop</td>
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- **Initial Management Interviews**
- **LAZER Workshops**
- **e-Procurement Strategy Workshops**

How About You?

◆ (Key checkpoint meetings)
Address Three Levels of Impact on the Business Enterprise

**Key Business Questions**

- What should we do?
- How should we do it?
- How do we implement it?

**Business Competencies**

- Customer Value/Relationship Management
- Organizational Change
- e-business
- Supply Chain Realignment, Integration and Management
- e-Procurement
- Information Technology Strategy and Planning
- ERP Implementation Services
- Innovation Strategy
- Knowledge Management

How About You?
You may want to start by assessing where you are today vs. where you need to be?
e-business and Business Intelligence Provide Opportunities to Extend Your Capabilities
Lessons Learned

What we have learned from deploying web applications?

- Keep it simple
- Focus on speed and accuracy, not precision
- Scalability, usability and flexibility are critical
- Not everybody has a PC
- Not everybody loves their PC
- Need to streamline IT approval process
- Integration to legacy systems is key
- Internationalization is more than translation
- Get suppliers involved early
- Don't automate... reengineer
- Let the business strategy drive the technology
Lessons Learned

- e-Procurement is a core component of an e-business transformation
- Can deliver high ROI’s in a short time frame
- Basis for future strategic advantage