



Challenges Mastering Spend Management

August 2004



Executive Summary

In March and April of 2004, Ariba, Inc. (formerly FreeMarkets, Inc.) conducted a study to understand the difficulties confronting sourcing organizations and areas where additional support is most required. Three common themes emerged: a need for companies to continue to drive organizational **productivity**, the ongoing challenge of achieving **cost savings**, and difficulties in **access and analysis of consolidated spend data** across the enterprise.

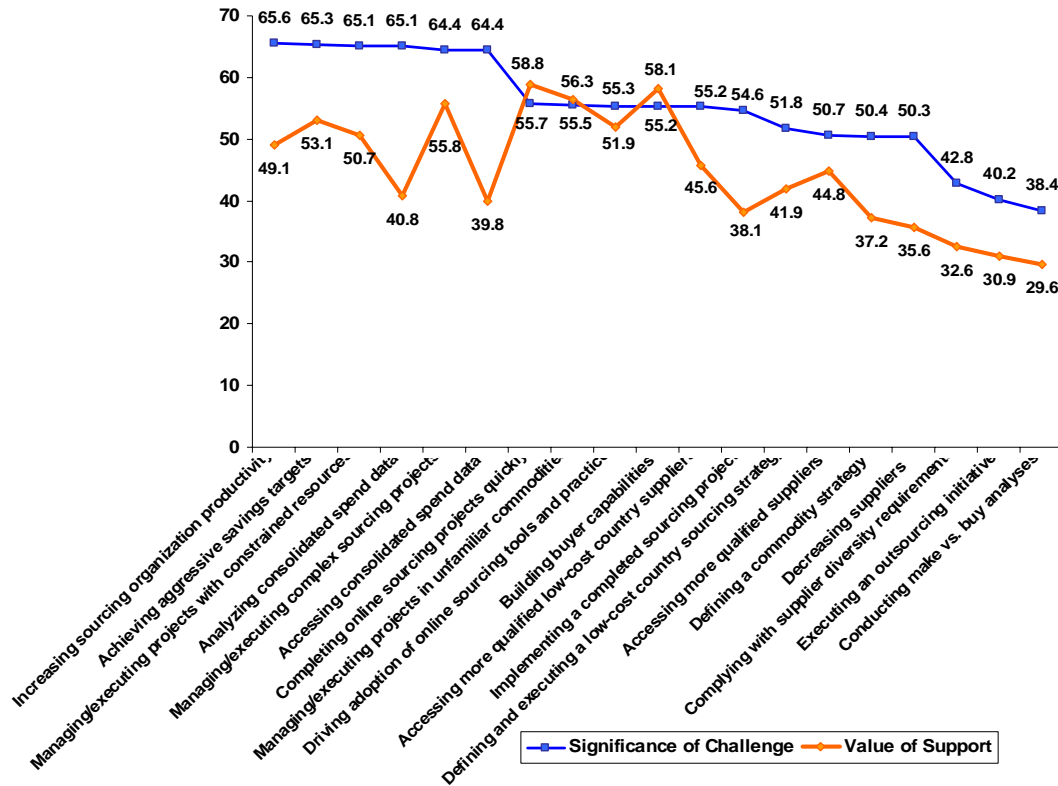
RESPONDENT PROFILE

Respondents came from a variety of industries, roles, regions, and company sizes. Respondents were from the Americas, Asia Pacific, Europe and the Middle East/Africa. Approximately 85 percent of the respondents worked for companies with more than \$1B in annual revenue. At the typical respondent company, procurement of most direct and indirect spend is controlled by a central sourcing team while procurement of a moderate amount of spend is controlled at the division, business unit, or plant level. Over 75 percent of the respondents were at the manager, director or VP level. Respondents had an average of over two and a half years of online sourcing experience and the respondent's company had an average of two and a half years of experience as well. (See "Methodology" section for full survey, aggregate respondent profile, and data collection approach.)

CRITICAL CHALLENGES AND SUPPORT NEEDS

Sourcing professionals in various roles at companies across the world identified the most significant challenges facing their organizations and areas where they most valued support in overcoming these challenges. Survey participants were asked to rate the significance of nineteen challenges on a scale of 1 to 5, with 1 indicating "Low" and 5 indicating "High". Each challenge was assigned an overall score based on the average response received and the percentage of responses that were scored as a 4 or 5. Using the same set of challenges, survey participants were asked to rate the value of support from a third party in helping their companies overcome these challenges on a scale of 1 to 5, with 1 indicating "Low" and 5 indicating "High". Each support area was assigned an overall score based on the average response received and the percentage of responses that were scored as a 4 or 5. The graph below represents the overall results of the survey. (See the "Methodology" section for more details on how the scores were determined.)

Top Sourcing Organization Challenges and Support Needs: Overall Scoring



Key Challenges

Six challenges were identified as being of the highest significance. **Increasing sourcing organization productivity** topped the list of challenges (65.6), followed closely by **achieving aggressive savings targets** (65.3), echoing today’s economic climate with companies pressed to do more with less while making a positive impact on the bottom line. Close behind were the challenges of **managing and executing sourcing projects when buyers are busy with other projects** (65.1), again pointing to the need to stretch resources; **managing and executing complex sourcing projects** (64.4); and **accessing and analyzing consolidated spend data** across the organization (64.4 and 65.1 respectively). Of those six discrete challenges, the two that were indicated as being of high significance by the greatest number of respondents are analyzing consolidated spend data to drive sourcing strategy (58.8% of all respondents) and gaining access to the company’s consolidated spend data (57.9%).

The challenges scoring lowest in significance across all respondents were: complying with supplier diversity requirements (42.8), executing an outsourcing initiative following a make-versus-buy analysis (40.2), and conducting a make-versus-buy analysis (38.4).

| | Challenge | Score | % (4 or 5) | Overall Score | |
|----|--|-------|------------|---------------|---------|
| 1 | Increasing the productivity of my company's sourcing organization | 3.68 | 57.6% | 65.6 | HIGHEST |
| 2 | Achieving aggressive savings targets | 3.66 | 57.3% | 65.3 | |
| 3 | Managing and executing sourcing projects when buyers are busy with other projects | 3.63 | 57.6% | 65.1 | |
| 3 | Analyzing my company's consolidated spend data to drive sourcing strategy | 3.57 | 58.8% | 65.1 | |
| 5 | Managing and executing particularly complex sourcing projects | 3.58 | 57.3% | 64.4 | |
| 5 | Gaining access to my company's consolidated spend data | 3.54 | 57.9% | 64.4 | |
| 7 | Completing online sourcing projects quickly | 3.12 | 45.7% | 55.7 | HIGH |
| 8 | Managing and executing sourcing projects for commodity categories in which buyers don't have expertise | 3.31 | 44.8% | 55.5 | |
| 9 | Driving adoption of online sourcing tools and practices | 3.34 | 43.9% | 55.3 | |
| 10 | Ensuring that buyers know how to set up and manage online sourcing projects | 3.25 | 45.4% | 55.2 | |
| 10 | Increasing the number of qualified suppliers from low-cost countries in my company's projects | 3.22 | 46.0% | 55.2 | |
| 12 | Implementing a completed sourcing project | 3.26 | 43.9% | 54.6 | |
| 13 | Defining and executing a low-cost country sourcing strategy | 3.09 | 41.8% | 51.8 | MEDIUM |
| 14 | Increasing the number of qualified suppliers in my company's projects | 3.18 | 37.7% | 50.7 | |
| 15 | Defining a commodity strategy | 3.12 | 38.3% | 50.4 | |
| 16 | Decreasing the number of suppliers with whom my company does business | 3.18 | 37.1% | 50.3 | |
| 17 | Complying with supplier diversity requirements | 2.80 | 29.7% | 42.8 | LOWEST |
| 18 | Executing on an outsourcing initiative following a make vs. buy analysis | 2.76 | 25.2% | 40.2 | |
| 19 | Conducting make vs. buy analyses | 2.67 | 23.4% | 38.4 | |

Key Support Needs

Overall, companies value third-party support most around ensuring **time and cost efficiencies, online sourcing competency and adoption**, and **execution of complex or unfamiliar sourcing projects**. Respondents gave the highest scores to the four listed below.

1. Completing online sourcing projects quickly (58.8)
2. Ensuring that buyers know how to set up and manage online sourcing projects (58.1)

3. Managing and executing sourcing projects for commodity categories in which buyers don't have expertise (56.3)
4. Managing and executing particularly complex sourcing projects (55.8)

Of the most significant challenges identified by respondents, **increasing sourcing organization productivity** (49.1) ranked eighth in terms of value of support with **gaining access to consolidated spend data** (46.3) ranking ninth and **analyzing consolidated spend data to drive sourcing strategy** (40.8) falling out of the top ten.

| Rank | Challenge | Score | % (4 or 5) | Overall Score | |
|------|--|-------|------------|---------------|---------|
| 1 | Completing online sourcing projects quickly | 3.36 | 50.4% | 58.8 | HIGHEST |
| 2 | Ensuring that buyers know how to set up and manage online sourcing projects | 3.35 | 49.3% | 58.1 | |
| 3 | Managing and executing sourcing projects for commodity categories in which buyers don't have expertise | 3.30 | 46.6% | 56.3 | |
| 4 | Managing and executing particularly complex sourcing projects | 3.27 | 46.3% | 55.8 | |

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|----|---|------|-------|------|------|
| 5 | Achieving aggressive savings targets | 3.16 | 43.0% | 53.1 | HIGH |
| 6 | Driving adoption of online sourcing tools and practices | 3.13 | 41.2% | 51.9 | |
| 7 | Managing and executing sourcing projects when buyers are busy with other projects | 3.10 | 39.5% | 50.7 | |
| 8 | Increasing the productivity of my company's sourcing organization | 3.07 | 36.8% | 49.1 | |
| 9 | Gaining access to my company's consolidated spend data | 3.54 | 27.3% | 46.3 | |
| 10 | Increasing the number of qualified suppliers from low-cost countries in my company's projects | 2.87 | 33.8% | 45.6 | |
| 11 | Increasing the number of qualified suppliers in my company's projects | 2.88 | 32.0% | 44.8 | |

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|----|---|------|-------|------|--------|
| 12 | Defining and executing a low-cost country sourcing strategy | 2.75 | 28.8% | 41.9 | MEDIUM |
| 13 | Analyzing my company's consolidated spend data to drive sourcing strategy | 2.67 | 28.2% | 40.8 | |
| 14 | Implementing a completed sourcing project | 2.63 | 23.7% | 38.1 | |
| 15 | Defining a commodity strategy | 2.62 | 22.0% | 37.2 | |
| 16 | Decreasing the number of suppliers with whom my company does business | 2.54 | 20.5% | 35.6 | |

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|----|--|------|-------|------|--------|
| 17 | Complying with supplier diversity requirements | 2.36 | 17.8% | 32.6 | LOWEST |
| 18 | Executing on an outsourcing initiative following a make vs. buy analysis | 2.33 | 15.1% | 30.9 | |
| 19 | Conducting make vs. buy analyses | 2.29 | 13.4% | 29.6 | |