



IBM GLOBAL PROCUREMENT

A CORPORATE VIEW ON e-PROCUREMENT

PROJECTING IBM THROUGH THE SUPPLY CHAIN



IBM EUROPE, MIDDLE EAST, AFRICA



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Agenda

- ▶ **Background**
- ▶ **What is the e-procurement challenge**
- ▶ **How does the web play**
- ▶ **What are our plans**
- ▶ **What is the future**

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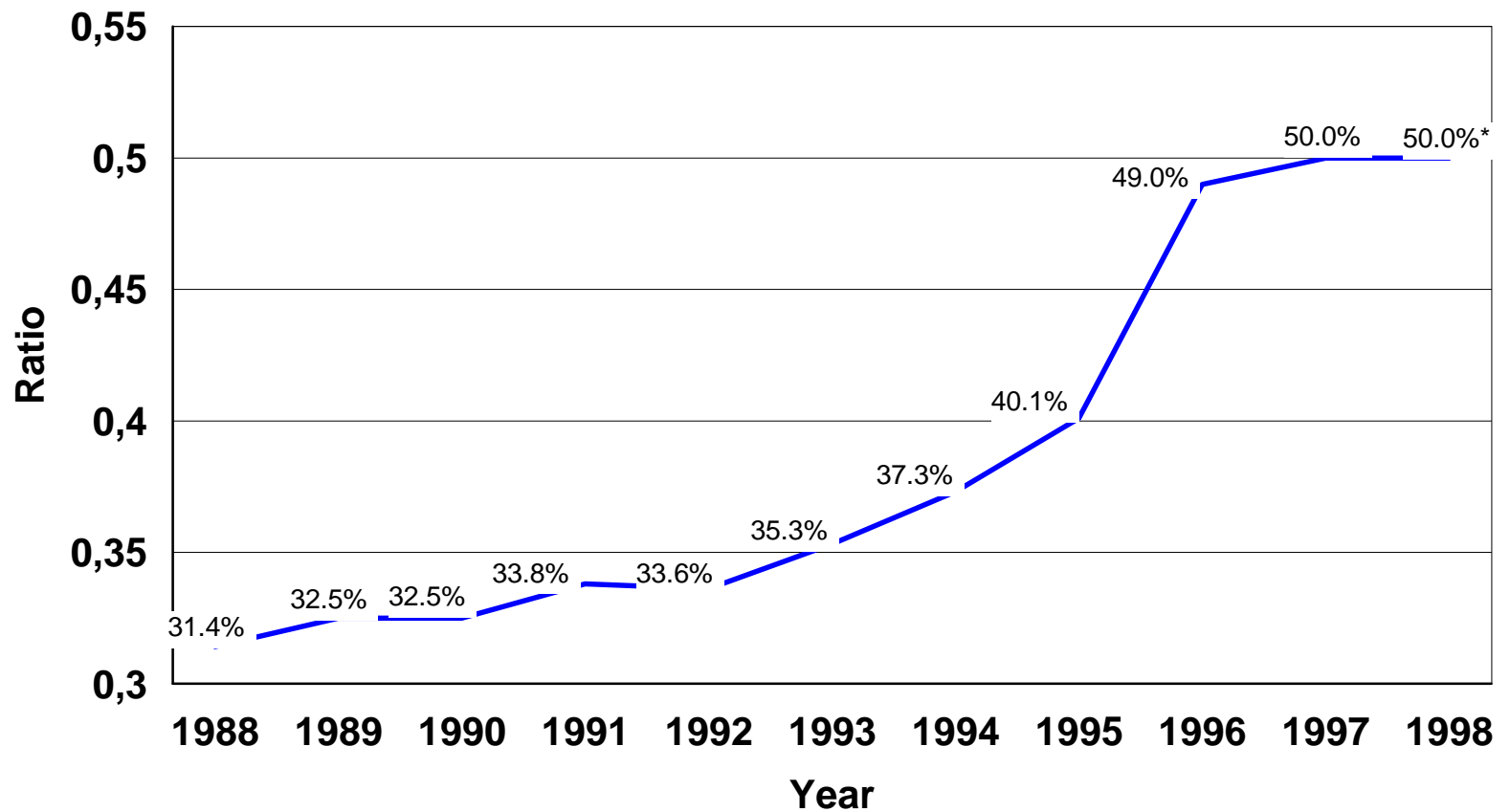
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BACKGROUND



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WHY IS STRATEGIC SOURCING IMPORTANT TO IBM?



*1998 - Preliminary

Note: 1996, 1997 include Distribution Procurement, all SW royalties, restated Advantis





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Procurement's Call to Action 1990 - 1993

Number of Procurement Organizations - Hundreds !

- Country
- Division
- Business Units

Number of contracts per supplier - Average 5

Procurement Population

- 5% Sourcing
- 75% Fulfillment
- 20% Contracts/Others

Transactions

Production "Automated" Purchase Order/Invoice

GP "Manual" Purchase Order/Invoice

Business Metrics

Early 1990's

Savings/Competiveness ?

Escapes(By Pass) 30%

Audit Satisfaction 55%

Client Satisfaction 40%

P.O. Processing Cycle Time 30 days

Contract	
Cycle Time	6-12 months
Length	40 (+) pages





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Multi-Year Effort

Phase I

- Commodity Structure
- Globalization of Teams
- Skills Enhancement
- Management System
- Supplier Feedback/Survey
- Cost Savings Metric

Phase II

- Client Feedback/Survey
- Development/Client Alignment
- Process Reengineering
- Transaction Automation
- Linkage to Other Reengineering Initiatives
- Supplier Involvement
- Common Systems Developed
- Change Management Culture
- Competitiveness as Measured Against Industry

Phase III

- Joint Procurement/Client Scorecard
- Process Deployed
- Systems Deployed/Removal of Legacy Systems
- Supplier Integration/Collaboration
- Absolute Competitiveness/Total Cost Management
- Web Enablement
- Process/Transactions/Spend
- Supplier Coverage
- Business Model Alignment



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First stage of the reengineering process

■ Strategy

- Developed a strategic commodity sourcing plan

■ Process

- Focus on supplier leverage
- Developed commodity teams
- Developed external market view
- Developed supplier relationships
- New relationship T&Q (Technology & Qualification).
- Alternative requests and measurements

■ People

- External hires for key professionals
- Developed extensive procurement and sourcing curriculum
- Instituted incentive systems
- Developed internal customer focus

■ Technology

- Adopted common purchase engine (SAP)
 - Target: 80% electronic fulfillment
- Insist on electronic links to suppliers
 - Target: 100% on EDI
- Standardize on requisition front end to SAP for end-users

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The transformation of Procurement has delivered impressive results to date

Business Metrics	Early 1990's	Today
Savings/Competiveness	?	\$7.1B
Escapes (By Pass)	30%	<2%
Audit Satisfaction	55%	100%
Client Satisfaction	40%	>85%
P.O. Processing Cycle Time	30 days	1 day
Web/Electronic Transaction		100%
Contract Cycle Time Length	6-12 months 40 (+) pages	30 days 6 pages

\$7.10 billion in savings





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WHAT IS THE E-PROCUREMENT CHALLENGE

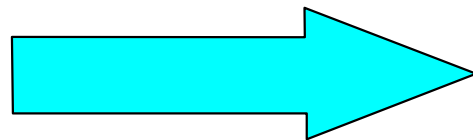
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▶ IBM' S VISION

- OPERATE
IN MULTI-COUNTRY
IN MULTI-CURRENCY
IN MULTI-LINGUAL ENVIRONMENT
AND WITH DIFFERENT TAXATION SYSTEMS
- HOW TO INTERLOCK ALL PROCESSES ?
- THE SOLUTION **e-PROCUREMENT**
ASSOCIATED WITH **e-BUSINESS** OFFERINGS

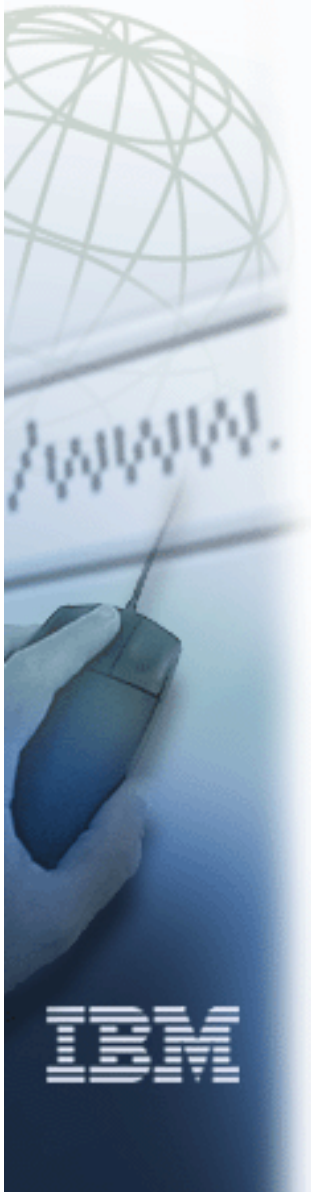
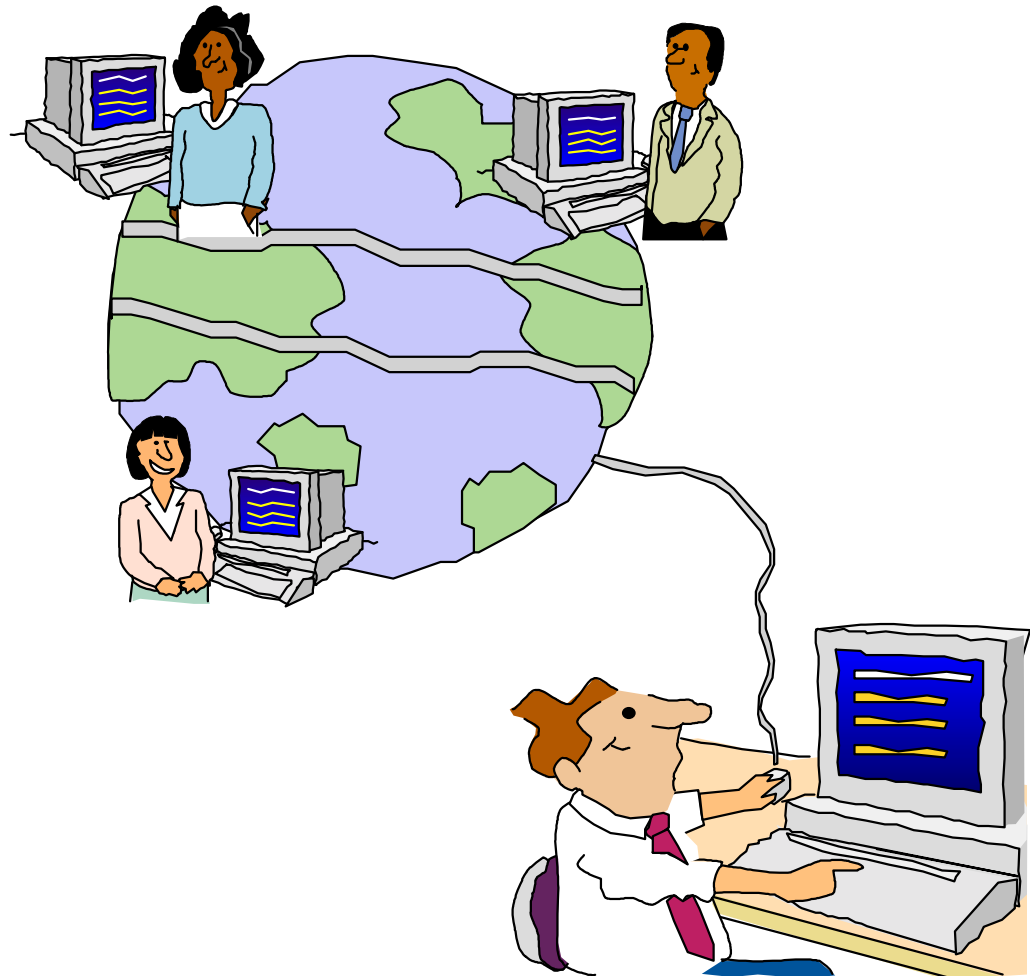


**THE
WEB**

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e-Procurement - How does the web play



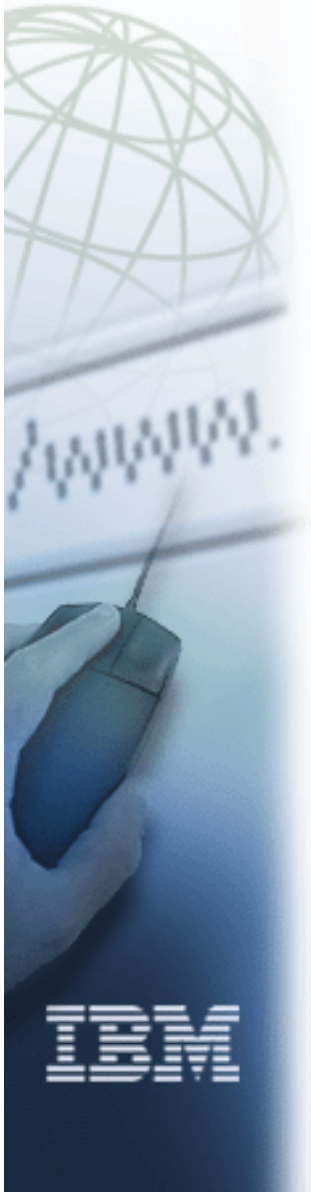
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What is e-Procurement?

- ▶ **IBM's e-Procurement strategy is to exploit the web in all aspects of the procurement process through global, replicable solutions.**

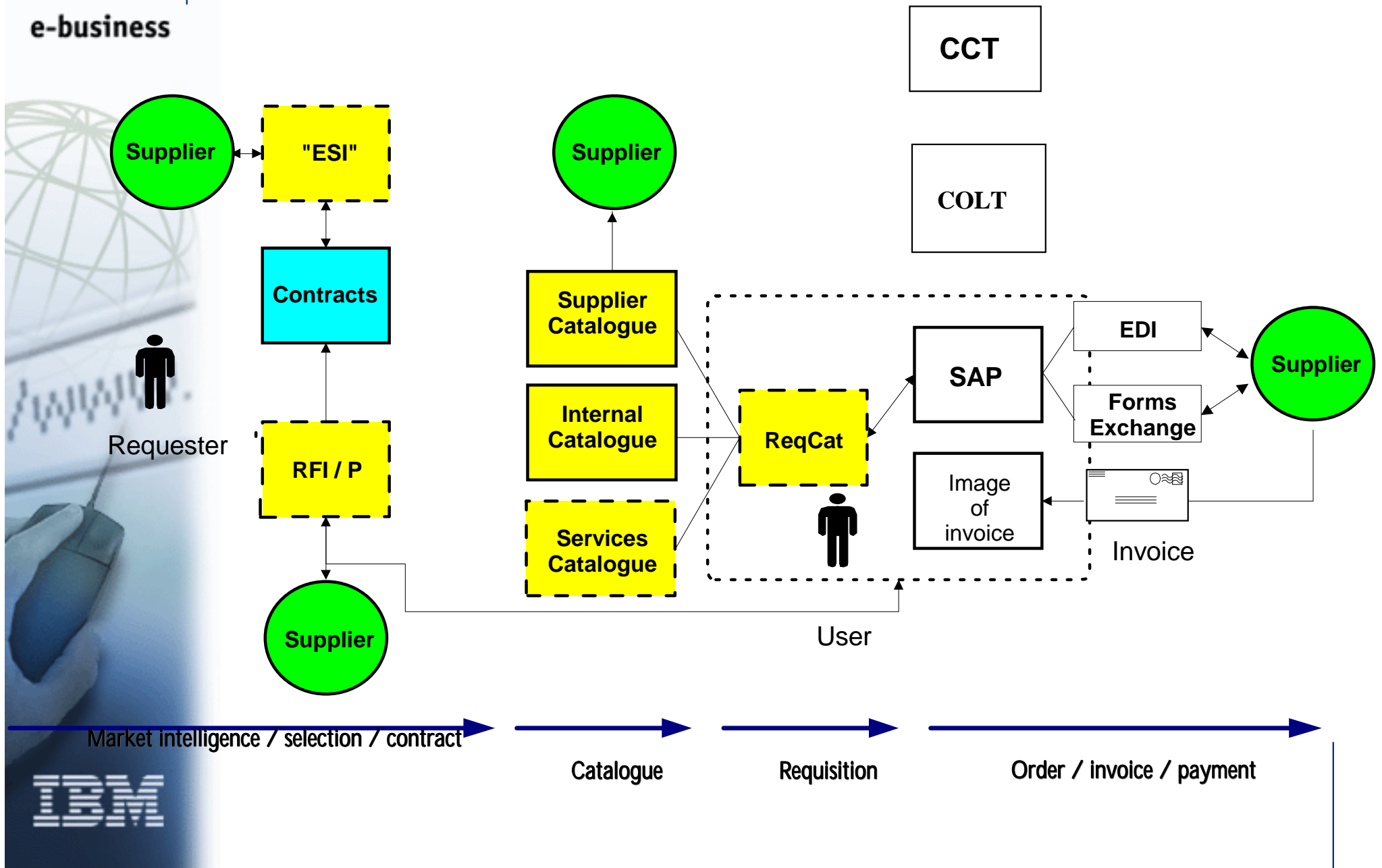


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System Architecture

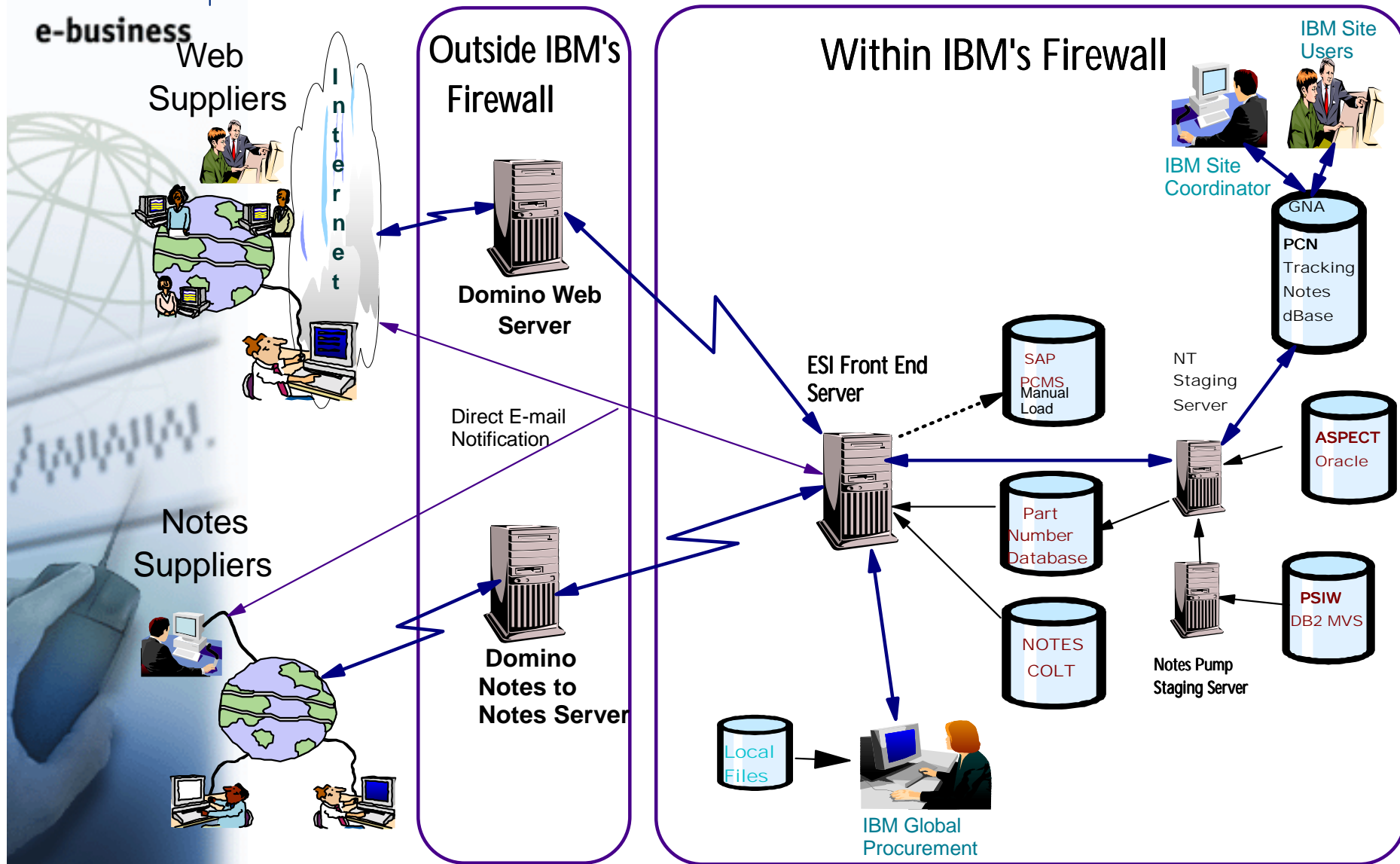




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ESI Architecture

GLOBAL NETWORK ARCHITECTURE ENVIRONMENT





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e-Procurement Initiatives

- ▶ **Electronic Supply-Chain Interlock (ESI)**
- ▶ **Forms Exchange (FOX)**
- ▶ **Internet Quoting**
- ▶ **Logo Merchandise**
- ▶ **Low \$ Strategy**
- ▶ **Open Buying on the Internet (OBI)**
- ▶ **Procurement Knowledge Management**
- ▶ **Req/Cat Web**
- ▶ **Technical Skills Matching**
- ▶ **Travel Web Site**

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ESI Value Statement

ESI is an e-business portal that enhances communication, collaboration and management of data flow between IBM and its suppliers in a secure and organized workflow environment.

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Electronic Supply-Chain Interlock (ESI)

- ▶ a Domino-based management and communication tool that provides the extended supply chain 24-hour online access to procurement information, such as commodity management, keyword and part numbers databases. ESI is intended to be a one-stop interface to all IBM Global Procurement supply chain activities, including returns, shipments, catalogs, bidding, common profiles, general information access, and more fully automated reconciliations and specifications.
- ▶ For more information please visit the following web site:
<http://procure.sby1.ibm.com/proctest.nsf/WebPages/LL00-3XVLFC?OpenDocument>

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ESI Project Objectives

Electronic communication and information exchange

Notes and WEB

Single point of entry for all ESI applications

Provide users timely, accurate, and reliable information

online data access with update capability

24x7 secure access through Notes and the Internet (SSL)

Encompass supply-chain processes:

contracts, awards, report cards, quoting, RFI's, forecasting, roadmaps, pricing, quality, qualifications, PCN's, specifications and general communication.

Automatically documented workflow

audit trail

Integrate with strategic procurement systems

ie: COLT, PSIW, ASPECT, PCN





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ESI Supplier Requirements

PC with Web Browser or Lotus Notes

Web Browsers

- ▶ Netscape 4.0 or higher (Preferred Browser)
- ▶ Microsoft Internet Explore 5.0 or higher

Lotus Notes

- ▶ Version 4.5 or higher

Dial In Users

56K modem (performance)

Education

Focal point to educate and register other users

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Forms Exchange (FOX)

- ▶ a Web-EDI application offered by IBM Global Services, allows suppliers to receive electronic purchase orders from Global Procurement and automatically generate invoices from them. This application accelerates the purchase order, invoicing and payment process, and improves its quality and efficiency.
- ▶ For more information visit the following web site:
[http://procure.sby1.ibm.com/proctest.nsf/e-Procurement/e-Procurement+Projects/Forms+Exchange+\(FOX\)](http://procure.sby1.ibm.com/proctest.nsf/e-Procurement/e-Procurement+Projects/Forms+Exchange+(FOX))

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FOX: Key Information

- Minimal Hardware required to implement
- Implementation of Forms Exchange within days
- Dedicated Help Desk for our Suppliers
- No previous EDI education or knowledge requirement
- EFT Compatible to expedite payments
- No major capital investment
- No fee for implementation
- Service is free through 12/99
- Can identify errors & prompt for Corrections
- Free training / enablement session
- Efficiency / time savings in managing administrative tasks
- Simplification of internal paperwork
- Cost reduction in the management of paperwork
- Automatic audit trail of interactions between the parties
- Rapid turn-around of transactions
- Excellent administrative and technical support
- System security and easy to use (downloadable) user manual
- Do not need Data Mapping

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Internet Quoting

- ▶ is a Web-based quoting solution that will standardize IBM's Request for Information and Quoting processes across all commodities. IQ's end to end process will encompass everything from bid formulation to response evaluation and will be integrated with IBM's strategic procurement systems. The solution will be user friendly and will be easily scalable to accommodate a large number of users and quote information.
- ▶ For more information visit the following web site:
<http://procure.sby1.ibm.com/proctest.nsf/WebPages/JHIL-47NJUC?OpenDocument>

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Quoting Process

Current

Highly Manual

Buyer Centric

Disparate
Processes

Regional Focus

Existing Supplier
Base

Future

Real-time
Collaboration

Integration with
Strategic Procurement
Solutions

Business Centric

Common Process

Global Focus

New Suppliers

Value

Cost Savings

Cycle-time Reduction

Global Bid Process

Improve
Communications

Productivity

Improve Supplier
Management

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Internet Quoting

Project Objectives

- ▶ Standardize the quoting process across all commodities for both open and directed bidding
 - Production Procurement
 - General Procurement
- ▶ Encompass end-to-end quoting process
 - Request for Quotes
 - Request for Proposal
 - Request for Information
 - Marketing Opportunity
 - Unsolicited Proposals
- ▶ Must be easy to use and provide
 - Global access
 - Secure transaction processing
 - 24 hour availability
- ▶ Automatic logging of all transactions
- ▶ Integrate with strategic procurement systems

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Internet Quoting

Benefits

- ▶ One common quoting process for IBM Global Procurement
- ▶ Eliminate redundant management of information
 - Information resides in one place
- ▶ Improve efficiency and data integrity
- ▶ Reduce administrative cost and cycle time
- ▶ Global secure access
 - Secure Socket Layer (SSL)

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Internet Quoting

Supplier Requirements

- ▶ PC with Web Browser and access to the Internet
 - Netscape 4.0 or higher
 - Microsoft Internet Explorer 4.0 or higher

- ▶ Dial-in Users
 - 56kbps modem

- ▶ Education
 - On-line help available as well as help center
 - Easy to use and intuitive

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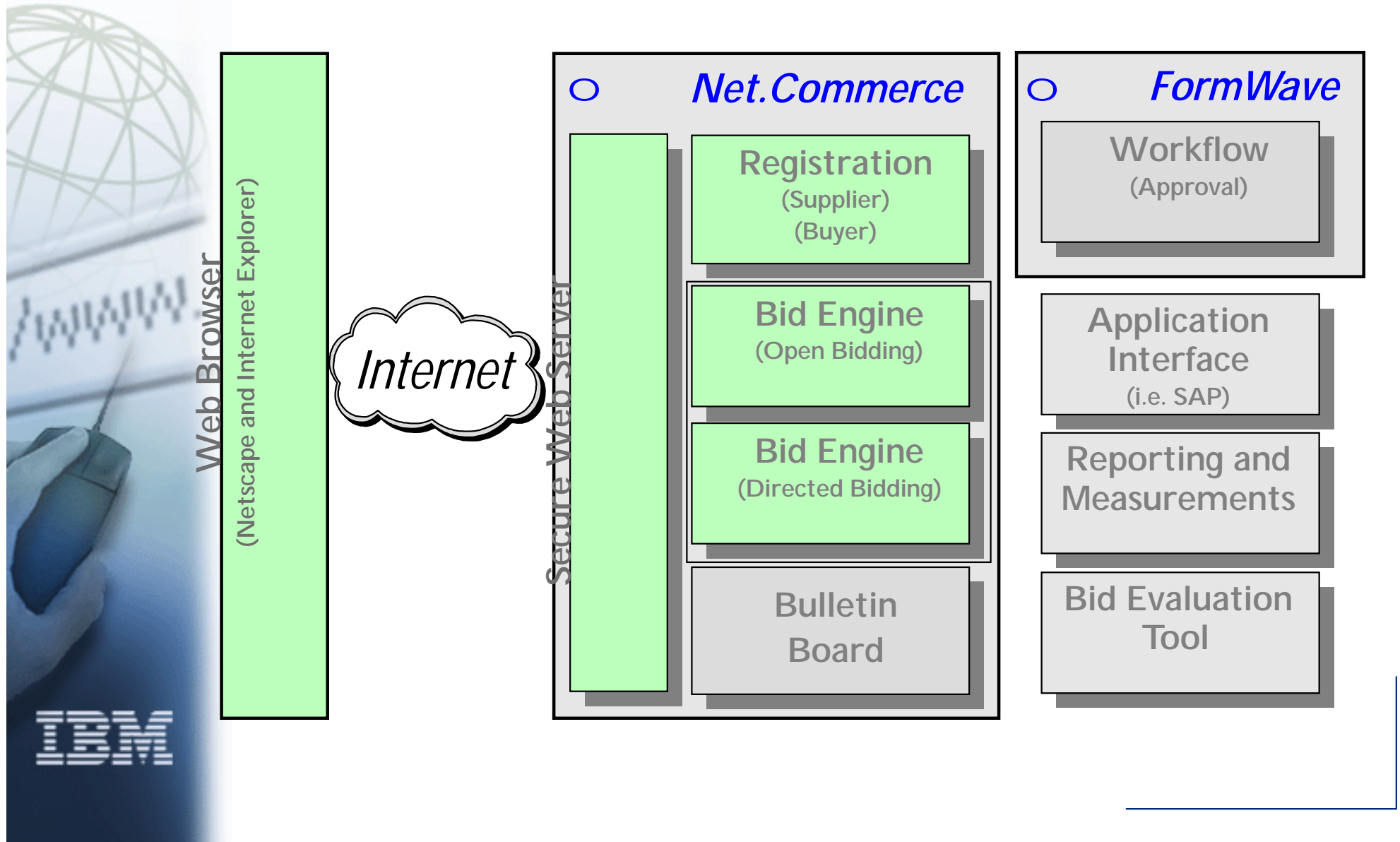
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Internet Quoting

Architecture Overview





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Logo Merchandise

- ▶ is a joint effort between Marketing and Global Procurement to provide an e-business solution for ordering merchandise that bears the IBM logo. It is a good example of the end-to-end IBM fulfillment process: shopping; ordering; approval routing; sending orders to suppliers; invoicing; and payment. In addition, the Logo Merchandise model reduces transaction processing costs by eliminating the use of purchase orders.
- ▶ For more information visit Logo Merchandise on the web at <http://ibmlws001.ibm.net/html/home.html>.

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Low \$ Strategy

- ▶ **A substantial amount of Low \$ Spend Is currently executed via paper without e-commerce solutions. Low \$ Strategies seek to create innovative e-solutions to decrease processing time and costs.**

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Potential Low \$ e-solutions

- ▶ **The following tools may be used to foster e-solutions:**
- ▶ **Intelligent Internet Catalog (Clever)**
 - An IBM interactive virtual catalog on the web.
- ▶ **Procurement Card**
 - Corporate purchasing card that offers a physical or cardless process.
- ▶ **IBM Purchasing Portal**
 - The proposed gateway to all of IBM's systems, tools and communication vehicles via the web for buyers and suppliers.
- ▶ **Enhanced Skills Matching Tool**
 - The expansion of the current Technical Skills Matching Tool which matches qualified candidates to IBM outsourcing opportunities.
- ▶ **Internet Quoting Tool**
 - A tool that allows buyers to post requests (RFI/RFQ/RFP) on the world wide web to specified suppliers or to the general public and for suppliers to submit corresponding responses back thru the same tool to the buyers.

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Procurement Knowledge Management

- ▶ **will be an information marketplace for market intelligence on the web. It will allow commodity sourcing teams and the Procurement community at large to access information that will ultimately reduce the cost of what we buy.**
- ▶ **For more information visit:
<http://procure.sby1.ibm.com/proctest.nsf/WebPages/JHIL-47NK7V?OpenDocument>.**

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Req/Cat-Web

- ▶ a paperless, web-based requisitioning tool that includes catalogs (both internal and Supplier catalogs via Open Buying on the Internet (OBI) technology) and automated approval workflow. Requesters may also place orders to meet specific needs by describing the scope of work and the items or services to be purchased. The application derives accounting information by commodity code and type of purchase. Approval processes are predefined and requisitions are routed to SAP or CAAPS where a PO can be issued via a Buyer or an automated process (e.g. ASAP). Req/Cat Web will replace Req/Cat on Lotus Notes.

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Technical Services Skills Matching

- ▶ provides an electronic link between the requester who needs technical services and the supplier who can provide them. Once the requester enters a statement of work into the online database, an e-mail notification is sent automatically to the supplier(s) whose internal system distributes the requests to the supplier's branch offices. When a candidate is identified, the supplier attaches a soft copy of the resume to the database record. The requester is notified that a response has been received and that one or more resumes are ready for review.
- ▶ For more information visit the Technical Services Skills Matching web site at:
<http://procure.sby1.ibm.com/proctest.nsf/e-Procurement/e-Procurement+Projects/Technical+Services+Skill+ Matching>

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Travel Web Site

- ▶ provides IBM travelers a central repository of all travel-related information and offers online reservations. At the same time, it allows multiple content owners in Procurement and Finance to control and quickly publish information.
- ▶ Access the Travel Web Site at:
<http://w3-ibm.com/travel>

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DRIVERS TO EDI AND WEB-EDI

- ▶ **PRODUCTIVITY**
- ▶ **EFFICIENCY**
- ▶ **SPEED**
- ▶ **ACCURACY**
- ▶ **STANDARDIZATION**
- ▶ **REPLICABLE SOLUTIONS**
- ▶ **THE SNOWBALL EFFECT: WHAT WORKS FOR YOU WORKS FOR YOUR TRADING PARTNERS AND THEIR PARTNERS TOO...**

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▶ **ELECTRONIC DATA INTERCHANGE - THE BENEFITS**

- REDUCE ACQUISITION COSTS
- IMPROVES ACCURACY
- FASTER COMMUNICATION
- RESPONSIVENESS
- FLEXIBILITY
- ENHANCED BUSINESS PARTNERS RELATIONSHIP
- SUPPORTS OTHER MANUFACTURING STRATEGIES
- CYCLE TIME REDUCTION
- EARLY SUPPLIER INVOLVEMENT
- JUST-IN-TIME
- IMPROVED CASH FLOW
- INVENTORY REDUCTION

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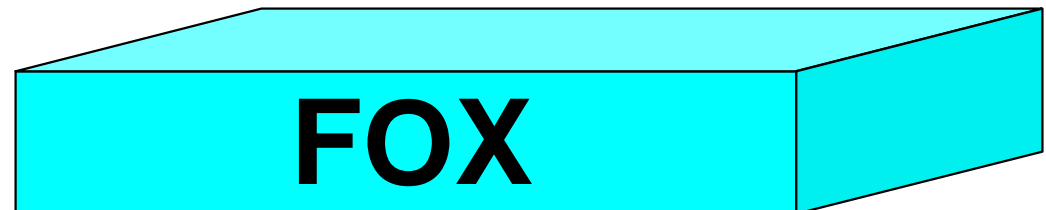
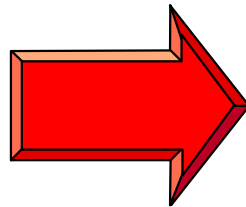
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THE AIM : FULL COVERAGE

- **ENHANCE ELECTRONIC TRADING TO COVER ALL SUPPLIERS**
- **THE 80/20 RULE**
 - EDI COVERED 80% OF OUR PURCHASES WITH 20% OF SUPPLIERS
 - WHAT ABOUT THE 80% SUPPLIERS ?
- **SEVERAL ALTERNATIVES LOOKED AT, ALL LINKED TO VAN SOLUTIONS, AS LENGTHY AND DIFFICULT AS EDI !!!**



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WEB-EDI (FOX) VS EDI

- ▶ **WEB-EDI TARGETS SMALLER TRADING PARTNERS**
 - **COMPLEMENTS EDI , BUT AT A LOWER COST**
 - **USES INTERNET**
 - **NO ADVANCED TECHNOLOGY REQUIREMENTS**

- ▶ **EDI 'S MAJOR ADVANTAGES OVER WEB-EDI**
 - **COMPUTER TO COMPUTER**
 - **USES INDUSTRY STANDARDS**

- ▶ **EDI TARGETS LARGE ENTERPRISES WHO RUN ADVANCED APPLICATIONS**

- ▶ **IN IBM WE PROCESS MILLIONS OF TRANSACTIONS A YEAR. CAN YOU IMAGINE THE OUTCOME OF OUR BUSINESS CASE !**

- ▶ **IN EMEA COUNTRIES:**
 - IT TOOK IBM 5 YEARS TO EDI ENABLE 375 SUPPLIERS**
 - IT TOOK IBM 5 MONTHS TO ENABLE 2500 SUPPLIERS TO FOX**





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CHALLENGES AND CONSTRAINTS

- ▶ ENVIRONMENT
- ▶ MULTI-COUNTRY, MULTI-LANGUAGE, MULTI-CURRENCY
- ▶ DIFFERENT LEGAL STRUCTURES
- ▶ DIFFERENT TAXATION SYSTEMS (VAT...)
- ▶ SPECIFIC COUNTRY REQUIREMENTS
- ▶ SUPPLIERS' READINESS: CHANGING PROCESS
- ▶ OTHER FUNCTIONS RELUCTANT TO FOLLOW
- ▶ TIGHT IMPLEMENTATION SCHEDULE
- ▶ INCONSISTENCY BETWEEN NUMBER OF POs AND INVOICES
- ▶ WHAT HAPPENS IF THERE IS A CHANGE IN MY REQUIREMENTS ?
- ▶ ETC...

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WHAT IS REQUIRED FOR A SUCCESSFUL EDI OR WEB-EDI IMPLEMENTATION

- ▶ SENIOR EXECUTIVE COMMITMENT
- ▶ ASSIGN CLEAR TARGETS
- ▶ CLEAR ROLES AND RESPONSIBILITIES
- ▶ ESTABLISH STEERING COMMITTEE
- ▶ ESTABLISH A PROJECT OFFICE AND COC
- ▶ GOOD EDUCATION PLAN
- ▶ REGULAR STATUS MEETINGS: DAILY, WEEKLY, MONTHLY
- ▶ GOOD TRACKING MECHANISM
- ▶ FULL DEDICATION AND SUPPORT FROM ALL INVOLVED FUNCTIONS
- ▶ AVAILABILITY OF A HELP DESK

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THE RECOGNITIONS

- ▶ **THE CHAIRMAN'S AWARD FOR e-PROCUREMENT**
- ▶ **MEDAL OF EXCELLENCE FROM THE PURCHASING MAGAZINE**
- ▶ **"SOME OF OUR PAST WINNERS HAVE EXCELLED IN CERTAIN AREAS, BUT NOBODY'S DONE AS WELL AS IBM"**
- ▶ **"IBM'S USE OF THE INTERNET FOR PURCHASING AND OTHER e-COMMERCE ACTIVITIES IS FAR AHEAD OF WHERE MOST COMPANIES ARE. THEY ARE TALKING ABOUT IT, IBM IS INTO IT BIG TIMES"**

KEVIN FITZGERALD, THE EDITOR, IN RECOGNITION OF IBM PROCUREMENT





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THE BUSINESS CASE

HOW MUCH IS YOUR INVESTMENT ?

WHAT IS THE NUMBER OF YOUR CORE SUPPLIERS ?

HOW MANY TRANSACTIONS PER ANNUM DO YOU HAVE WITH THOSE CORE SUPPLIERS?

WHAT IS YOUR EXPECTED SAVINGS PER TRANSACTION , USING FOX ?

HOW MUCH SAVINGS PER ANNUM CAN YOU ACHIEVE AND WHAT IS THE ROI ?





ACHIEVEMENTS AND BUSINESS OUTLOOK OF e-PROCUREMENT

- ▶ IBM'S INTERNET INITIATIVE WITH SUPPLIERS SAVED THE COMPANY \$70M IN 1998
- ▶ MORE THAN 1000 SUPPLIERS ENABLED
- ▶ 1999 ACHIEVEMENTS :
 - ▶ BETWEEN 10 AND 12 BILLION PURCHASE DOLLARS PROCESSED ELECTRONICALLY
 - ▶ WITH AROUND 80% OF SUPPLIERS
 - ▶ REPRESENTING MORE THAN 10000 CORE SUPPLIERS INTERNET ENABLED
 - ▶ GENERATING \$240M SAVINGS

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Are you ready for e-business?

- **Where is your business today?**
- **Where do you want it to go?**
- **What should you demand of your suppliers?**
- **Victory in e-Business belongs to those who embrace a strategy that leads itself to constant innovation. Is your e-Business strategy fit enough to survive?**
- **Are you willing to be leaders in your industry?**





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THE FUTURE AND IBM'S PLANS

- ▶ **EXTENSIVE USE OF THE NET**
- ▶ **MOVE TO PAPERLESS ENVIRONMENT**
- ▶ **EDI AND WEB-EDI REMAIN ONLY SOLUTIONS FOR EFFECTIVE EXCHANGE OF BUSINESS TRANSACTIONS. THEY REPRESENT IBM 'S ONLY WAY OF DOING BUSINESS WITH SUPPLIERS IN A STRUCTURED WAY.**
- ▶ **XML WILL BE SEEN AS NEW TECHNOLOGY**
- ▶ **OTHER SIMILAR INITIATIVES WILL EMERGE, ALL CENTERED AROUND THE USE OF THE INTERNET AND ELECTRONIC TRADING**
- ▶ **WITH THOSE TECHNOLOGIES, IBM WANTS TO MAINTAIN ITS LEADERSHIP POSITION.**

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