AberdeenGroup

Procurement Service Providers: Full-Service Procurement for Competitive Advantage

An Executive White Paper

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Procurement Service Providers: Full Service Procurement for Competitive Advantage

Executive Summary

Increased competition and pricing pressures are forcing organizations to develop new strategies for achieving continuous improvements in business processes, employee productivity, and cost reduction. Such pressures are prompting "C-level" executives — chief procurement officers, chief financial officers, and chief executive officers — at an increasing number of companies to make procurement and supply chain management strategic initiatives.

The reason for the growing emphasis on procurement is simple: Purchased products and services represent the majority of an organization's costs. Any reductions in procurement costs flow directly to the bottom line. Procurement is also responsible for the design and management of supplier relationships — ones that ultimately determine an organization's overall cost structure and responsiveness.

Aberdeen research indicates that emerging Internet-based procurement automation (e-Procurement) and reverse-auction technologies can be highly effective tools for improving business processes, increasing productivity, and reducing costs.

e-Procurement automates the business processes and workflow associated with the acquisition and management of non-production ("indirect") goods and services — such as office supplies; computer equipment; and maintenance, repair, and operating (MRO) supplies — which represent a large and poorly controlled expense in most organizations. Aberdeen research finds that early adopters of e-Procurement have realized reductions in prices paid for indirect goods, shortened order-processing cycles, lowered administrative costs, improved inventory management, and reduced off-contract ("maverick") purchasing.

Reverse auction technologies use the low cost and ubiquity of the Internet to create competitive environments for online negotiations between a buyer and multiple sellers. Aberdeen research indicates that reverse auctions can enable buyers to shorten process cycles and negotiate reduced prices for direct and indirect goods.

Despite such benefits, these procurement technologies address only a portion of the overall challenge, primarily automating tactical processes and workflow and providing little if any support for strategic sourcing and supply base management activities. To deliver their maximum value, these technologies must be deployed within a larger procurement framework that incorporates product-category expertise and well-defined sourcing, supply base management, and fulfillment strategies. This procurement framework will enable companies to extract cost savings from all aspects of procurement, enabling maximum return on investment (ROI) on their e-Procurement investments in the shortest possible time.

Aberdeen finds that many midsize and large organizations have determined that they lack the capability, tools, and/or internal product and process expertise to effectively and rapidly leverage their investments in e-Procurement and auction

technologies. Such factors suggest that access to the full benefits of e-Procurement will require a shift from a pure technology approach to a hybrid services model that blends the tactical benefits of procurement automation with the sourcing, product, and process expertise and capabilities of third-party procurement services.

Aberdeen describes firms that deliver this emerging hybrid of technology and procurement services as procurement service providers (PSP). Under the PSP model, e-Procurement and auction technologies will be integrated with product, sourcing, and supply base management services in order to provide total solutions that address the unique requirements and constraints of individual organizations. This hybrid approach could provide immediate access to leading sourcing strategies and extended capabilities, such as demand aggregation. In such a case, a PSP can aggregate spending across organizations in order to negotiate volume discounts and improved service terms. These full-service procurement solutions will be delivered as hosted, Web-based services, reducing the burdens and costs placed on user organizations and enabling rapid and enhanced ROI.

Simply put, the PSP offers multiple opportunities for transactional, process, and unit cost savings by acting as an extension of a company's existing procurement infrastructure, managing the non-strategic product categories and procurement activities that the organization feels it can improve but lacks the internal expertise or focus to manage these activities effectively.

Aberdeen expects the PSP model to be highly attractive to midsize firms that have neither the resources nor the buying volumes to access the full benefits of e-Procurement. The PSP model should equally appeal to larger organizations that have neither the expertise nor the inclination to dedicate significant sourcing and supply chain management resources to indirect and commodity items. Finally, PSP services could help Web-based marketplaces (e-Markets) achieve a level of transaction volume ("liquidity") and user stickiness that will be required for more rapid and continued success.

Simply put, the PSP model enables organizations of all sizes to maximize the benefits of e-Procurement while avoiding the associated burdens and risks.

This Aberdeen *Executive White Paper* articulates the growing importance of procurement. This document also defines the benefits and pitfalls of e-Procurement automation and identifies the transition to the procurement service provider model. This *White Paper* concludes with an evaluation of the technology and services of ICG Commerce, a pioneer of the PSP approach.

Procurement: Key to Competitive Advantage

Global competition, pricing pressures, and finicky financial markets are forcing organizations to develop new strategies for achieving year-over-year improvements in

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both productivity and costs. As a result, nearly every industry has identified the ability to control costs effectively and coordinate activities across the supply chain as a primary source of competitive differentiation.

Aberdeen research suggests that procurement provides the greatest opportunity to improve processes, increase productivity, and reduce costs in the supply chain. Purchased products and services are the single largest expense at most organizations, accounting for 50 cents to 55 cents of every dollar earned in revenue. Reductions in procurement costs translate into a dollar-for-dollar increase in profits. By contrast, improvements in other functional areas, such as sales, are diluted by external factors such as overhead, cost-of-sale, and profit margins.

Case in point: A $5 million reduction in procurement costs increases profits by a corresponding amount. However, a company with a 10% profit margin needs to increase sales by $50 million in order to attain similar profit improvements.

It is during the initial procurement or "sourcing" process that an organization determines the overall cost structure and efficiency of its supply chain. A poor purchase decision can have a negative (and sometimes irrevocable) impact on a company's costs, product quality, and overall responsiveness. Over time, a poorly managed supplier relationship can result in inferior product quality, unpredictable deliveries, and higher prices paid for products and services.

In short, an organization's competitiveness is determined largely by its ability to develop strategies to maximize its ability to procure goods and services efficiently and manage supplier relationships effectively.

Bringing Procurement into the Internet Age

The Internet has forced organizations to place additional emphasis on improving productivity and controlling costs. In just a few short years, the Internet has become a viable platform for business-to-business commerce (e-Commerce) and collaboration. The low cost and ubiquity of this global communications network has enabled new and fully automated business processes and business models that would have been too costly and complex to manage in the physical world.

Yet, despite all its benefits, the Internet has spawned new and global competition, raised customer expectations, and intensified pressures to reduce costs, improve productivity, and speed process cycles. Those companies that do not effectively embrace the challenge and opportunities put forth by the Internet will be at a significant competitive disadvantage and risk extinction.

Aberdeen has evaluated the most common commerce and business processes enabled by the Internet today. Our analysis concludes that procurement automation offers the most direct and effective way for an organization to leverage the Internet to reduce costs, improve employee productivity, and enhance processes. We have

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identified e-Procurement and reverse auctions as the two Internet-based technologies that have the potential to deliver the most rapid and measurable results.

e-Procurement

e-Procurement has proven particularly effective as a tool to automate and streamline corporate purchasing processes for indirect goods and services, such as office supplies, computer equipment, and MRO supplies. Indirect supplies are low-dollar, high-volume purchases that account for 30% to 35% of a typical manufacturer's expenditures and as much as 60% of spending at service firms. *Purchasing* magazine estimates that U.S. businesses spend as much as $1.4 trillion on indirect goods and services each year.

Typically considered non-strategic, the purchase of indirect goods and services has been a widely distributed, poorly controlled, and heavily paper-based activity at most organizations, requiring an inordinate amount of time to process and enabling significant off-contract purchasing. Such maverick buying practices make it difficult for organizations to track expenditures and ensure compliance with corporate contracts, resulting in 15% to 27% higher prices paid for goods and limiting organizations' ability to negotiate favored trading terms with suppliers.

e-Procurement addresses these issues by creating a Web-based, self-service purchasing environment that pushes product selection and order initiation to the desktops of frontline employees while maintaining corporate trading agreements, workflow, and business rules. Aberdeen surveyed users of e-Procurement in December 1998 and again in June 2000. The results of both research efforts indicate that users of e-Procurement have experienced reductions in prices paid for indirect goods, shortened order-processing cycles, lowered administration costs, improved inventory management, and reduced maverick buying (Table 1).

Reverse Auctions

Internet-based, reverse-auction technologies have proven equally effective as tools to automate and streamline buyer-supplier negotiations for both indirect and

Table 1: e-Procurement Delivers *Real* Benefits to Buying Organizations

	Traditional/Manual	e-Procurement
Price reductions: materials and services	—	5% to 10% reduction
Purchase and fulfillment cycles	7.3 days	2 days
Administration costs	$107 per order requisition	$30 per order requisition
Inventory	—	25% to 50% reduction in inventory costs

Source: Aberdeen Group, January 2001

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production ("direct") goods and services. These online negotiation platforms leverage the low cost of the Internet to create highly competitive bidding environments that allow buyers to negotiate with suppliers around the globe.

Reverse auction events provide access to a broad range of information on current market dynamics, including supply constraints, technology innovations, and market pricing. Such market transparency enables buyers to identify the lowest-possible price the market will bear at the time of the negotiation.

Aberdeen research has found that buyers that participate in reverse auctions achieve significant price reductions and dramatically shorter purchase cycles, which enables organizations to quickly respond to changes in market dynamics and customer demand (Table 2). Shorter sourcing cycles also allow buyers to run online negotiation events for a broader range of products and services.

Strategies *Not* Included

Despite the benefits of e-Procurement and reverse auctions, Aberdeen research suggests that organizations cannot realize the full benefits of these technologies without integrating these technologies into a broader procurement framework that includes comprehensive sourcing and supply base management strategies and the category expertise, resources, and tools to execute on these strategies.

Most e-Procurement and auction solutions were originally designed as enterprise-class software applications that were targeted at large, Global 2000 organizations. As a result, many procurement automation solutions continue to display the characteristics of enterprise-class software, which are typically complex, high-cost systems that require significant infrastructure and resources to implement.

Aberdeen research indicates that the typical e-Procurement solution costs $1 million-plus and can take between 9 months and 13 months to implement, depending on the size of the enterprise, required integration points, and the number of trading partners enabled. Reverse auction applications can be implemented for considerably less and in a shorter time period, primarily because these solutions have fewer users and limited integration requirements.

Like most enterprise-class software applications, the majority of e-Procurement and reverse auction offerings are premise-based software solutions that are tied

Table 2: Internet-Based Reverse Auctions

	Traditional/Manual	Internet-based Reverse Auctions
Inventory cost savings	—	5% to 20% reduction
Sourcing cycles	3.3 months to 4.2 months	One month or less

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to lengthy release cycles, ranging from 6 months to 18 months. Deploying functionality upgrades can be a lengthy and complex process that often requires new integration interfaces to be developed for each upgrade. As a result, it is often difficult for organizations to deploy new functionality in a timely fashion.

In addition, most e-Procurement and reverse auction applications have been designed as "one-size-fits-all" point solutions that do not provide sufficient support for the complete breadth of procurement activities or unique requirements of any given organization. For example, few e-Procurement solutions support unplanned ("spot") buys or initial sourcing — activities that offer significant opportunities for procurement savings. Aberdeen research indicates that spot buys account for 30% to 40% of a typical organization's indirect purchases. Sourcing determines the overall cost structure and efficiency of an organization's supply chain. As a result, organizations that are implementing e-Procurement must continue to handle these more complex procurement activities using traditional, manual-based processes.

Reverse auction technologies automate the components of the sourcing process — mainly buyer-seller negotiations. However, these solutions are primarily designed to derive the lowest price, providing little support for evaluating other factors, such as quality, delivery, finance terms, etc., which are often more important criteria in business-to-business negotiations. Using auctions for sourcing complex and strategic items requires organizations to have significant product-domain expertise and methodologies for identifying and evaluating suppliers and their capabilities.

The Importance of a Comprehensive Procurement Framework

Simply put, the overall success of any procurement automation initiative depends on the effective implementation, use, and management of the appropriate technology solution. However, that success also relies on the buying organization's ability to develop the expertise and strategies to rapidly identify, negotiate with, and manage an optimal mix of supply partners.

Accessing the complete benefits of these technologies requires significant technological resources to implement and maintain procurement automation systems product. However, effective execution also requires a high level of product, sourcing, and supply base management expertise to develop and mange the supplier partnerships accessed via these systems.

Such factors have put the high efficiencies and control afforded by the automation of procurement activities beyond the reach of many organizations. As a result, many firms remain bogged down in the "administrivia" of purchasing tasks, which distracts buyers from focusing on more strategic activities, such as sourcing and supply base management. Midsize organizations also lack the purchasing volumes and unique domain expertise required both to negotiate favored trading terms with suppliers and to effectively monitor and manage these suppliers over time.

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In addition, many large enterprises that have adopted e-Procurement and reverse auction solutions are finding that they often lack the internal knowledge on how best to deploy these technologies. While large organizations tend to have more sophisticated procurement expertise, the bulk of these resources are traditionally dedicated to sourcing and managing complex goods and services that are core to their business. Thus, many large enterprises have neither the internal expertise nor the physical "bandwidth" to effectively source and manage the supply base for indirect and non-strategic goods and services. Despite the process and cost benefits of e-Procurement, even the largest enterprises continue to struggle with identifying, negotiating, and managing the supply base for the goods and services that will be purchased through these systems.

Dawn of the Procurement Service Provider

Based on these factors, Aberdeen concludes that accessing the complete procurement opportunity requires an entirely new approach to delivering and deploying procurement automation. This new approach will marry e-Procurement, reverse auctions, and other technologies with a comprehensive range of procurement services, including a proven deployment methodology as well as a deep level of product, sourcing, and supply base management expertise and capability.

The goal of this procurement service provider model is to deliver rapidly deployable procurement solutions that integrate the appropriate mix of technology and services to support the complete and unique procurement requirements and limitations of individual buying organizations. Full-service procurement solutions will be delivered as hosted, Web-based services, reducing the burdens and costs placed on user organizations and enabling rapid and enhanced ROI. As noted above, procurement automation can effect significant transaction efficiencies and savings. Procurement services, on the other hand, can effect unit-cost savings.

Aberdeen has identified the following key characteristics of an effective PSP:

Flexible, best-of-breed technology: A PSP must identify the optimal mix of e-Procurement, auction, content management, and other technologies that it can deploy and maintain in order to support the procurement activities of its clients. Regardless of whether these applications are built internally or licensed from a third-party software vendor, the PSP must become an expert in every application it uses, developing effective methodologies for their rapid deployment and effective maintenance. A PSP must also be able to integrate its procurement offerings into the existing Enterprise Resource Planning (ERP) and legacy systems of its clients.

Procurement services: A PSP must demonstrate significant expertise in a wide range of product categories and be able to support a comprehensive range of procurement activities, including spot buys, sourcing, and purchase aggregation. In particular, the PSP should be uniquely positioned to aggregate spending across multiple buying organizations to negotiate (and re-negotiate) preferred pricing

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and service agreements. The PSP must also have a proven sourcing methodology that can be applied to new product categories, as needed.

Supply base management services: The PSP effectively becomes the supply base manager for its clients, developing partnerships and overseeing an optimal network of suppliers in specific product categories. As such, the PSP must demonstrate proficiency in evaluating and managing the performance of its supply partners. In its partnership with supply partners, PSP provides value to suppliers — generally through process and cost efficiencies and broader customer access.

Internet-based service delivery model: The ability to deliver customized procurement solutions as fully hosted, Web-based services is a key to the success of the PSP model. This Internet-delivery model eliminates the significant up-front software investments, lengthy implementation cycles, and maintenance burdens that characterize enterprise-class procurement applications. Aberdeen research indicates that, on average, hosted solutions can be implemented 25% faster and at nearly half the initial cost of intranet-based applications, which will enable organizations to realize a more rapid ROI and incur lower risks.

Centralized control enables the PSP to attain significant economies of scale and to rapidly deploy new application functionality. This hosted model also provides users with a single point of contact for all needs and issues.

Finally, the most advanced PSPs will have the ability to provide sourcing and supply base management activities on an international basis. Such capabilities can provide midsize organizations with a low-risk way to incorporate offshore suppliers into their supply mix and large, multinational organizations with opportunities to aggregate spending and optimize supply chain structures on a global basis.

Who Will Need a PSP?

Aberdeen predicts that the PSP model will be highly appealing to midsize organizations. Most of these organizations do not have the internal human and financial resources and infrastructure to effectively implement procurement automation internally. These organizations also lack the buying volumes and procurement expertise required to negotiate and manage favored trading terms with suppliers.

We also expect the PSP model to appeal to larger organizations that do not have sufficient experience or methodologies for implementing procurement automation or for rapidly identifying and deploying emerging procurement and sourcing approaches, including online spot buying, reverse auctions, and purchase aggregation. Larger organizations can also benefit from a PSP's ability to deliver and manage a pre-approved supplier network for non-strategic indirect and commodity items. In addition, a PSP can help large enterprises avoid the need to manage, pay, and integrate the activities of the multiple vendors — including consultants, software providers, and systems integrators — that are required to deploy a compre-

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hensive procurement automation strategy. Finally, large, multi-national companies would benefit most from those PSPs that can provide these services on an international level, enabling aggregation and supply chain optimization on a global basis.

PSP services could also appeal to online marketplaces. A tightening of financial markets and a growing user backlash have nearly every e-Market facing increased pressure to increase the volume of transactions they broker (i.e., improve liquidity) and to deliver new services that can provide a secondary revenue stream.

Essentially, the PSP model enables organizations of all sizes to maximize the benefits of e-Procurement while avoiding the associated burdens and risks.

ICG Commerce: Delivering Full Service Procurement to the Masses

Aberdeen analysis concludes that ICG Commerce is one of the first companies to effectively integrate strategic sourcing and procurement consulting services with best-of-breed Internet-based automation, to deliver a comprehensive procurement service that can be tailored to the unique needs of an individual buying organization. With a decade of experience managing procurement operations for Global 2000 companies, ICG Commerce (formerly Purchasing Group, Inc. (PGI)) is a pioneer of the PSP concept, delivering a level of procurement experience and product expertise that will be difficult for others to replicate.

ICG Commerce boasts more than 500 procurement experts focused on sourcing, product-category management, and spot buys, representing some of the broadest reaching procurement expertise in the industry. The company fuses these global procurement services with leading e-Procurement, cataloging, auctioning, and payment technologies to deliver highly customized procurement solutions that are tailored to address the unique requirements of individual buying organizations.

ICG Commerce delivers each custom solution as a fully integrated and hosted Web-based service, which enables customers to access a full range of procurement services and automation, without impacting their internal resources or technology infrastructures. These technologies can be used together as an end-to-end procurement automation solution or deployed separately to address specific aspects of the procurement process. ICG Commerce can also provide comprehensive outsourcing services, whereby it can manage the complete procurement automation and supply base requirements for an organization.

Such a flexible delivery strategy enables ICG Commerce to deliver procurement services to companies that range from midsize firms with little internal infrastructure to large enterprises that have already implemented other e-Procurement, auction, or legacy applications. In short, ICG Commerce displays the key characteristics that Aberdeen has outlined for a successful PSP.

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Flexible, Best-of-Breed Technologies

ICG Commerce uniquely brings together a stable of industry-leading procurement applications with its own internally developed transaction-management and payment technologies to deliver a highly flexible technology platform that supports end-to-end procurement — from requisitioning to payment processing. The core technology components of the ICG Commerce solution include:

- *e-Procurement*: ICG Commerce's RealPurchase is a component-based, e-Procurement offering that combines the strength of ICG Commerce and Ariba technologies into a single solution. The resulting scalability is critical within the PSP environment, which serves the needs of many customers. At the time of publication, ICG Commerce had entered into an agreement with Ariba and had begun to migrate its technology onramp to the Ariba Buyer solution — providing extensive workflow and purchase order (PO)-processing functionality. ICG Commerce will support other e-Procurement and e-Commerce technologies as onramps to its network in order to meet the requirements and preferences of individual customers. Finally, ICG Commerce complements its core e-Procurement offering with full content management services. Relying on catalog management tools and services from Requisite Technologies, ICG Commerce develops and maintains multi-supplier catalogs that reflect the unique products and pricing terms of individual customers and markets.
- *Reverse auctions*: ICG Commerce's RealAuction tool provides a secure and reliable environment for real-time bidding and negotiation. Designed for negotiating large-scale procurement contracts, the solution allows suppliers to bid on single or multiple items, or complete lots or bills of materials (BOMs), as needed. ICG Commerce can leverage this capability to manage aggregated reverse auction events, generating increased benefits to participating buyers. Currently, Moai Technologies, Inc., provides the bidding engine that drives the RealAuction solution.
- *Transaction management*: ICG Commerce has developed a proprietary transaction-management application through which all orders and financial transactions in the company are routed. Known as iTransact, this transaction-processing platform brokers transactions between buying organizations and the ICG Commerce supplier network.
- *Bill presentment and payment*: ICG Commerce has also developed a proprietary bill presentment and payment solution, known as RealPayment, which handles payment and payment reconciliation between buyers and suppliers. The solution currently provides two-way invoice reconciliation, which matches the supplier invoice to the buyer's PO. Buyers benefit from receiving a single bill for all purchases. ICG Commerce provides a single point of contact for any transaction or billing

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discrepancies, enabling buyers to dispute and resolve order, billing, and payment issues online. Returns are currently managed through the ICG Commerce call center, but the company plans to migrate the entire returns management process online within the next six months.

Comprehensive Procurement Services

ICG Commerce's greatest asset is its extensive procurement and product category expertise and its wide range of procurement service capabilities. Building on its internal procurement staff, ICG Commerce recently acquired ePValue, the e-Procurement venture of Accenture (formerly Andersen Consulting). The combined entity boasts 500 procurement and sourcing experts with deep product and supplier management expertise on an international basis. Each of these procurement experts is assigned to one of four functions:

- Category managers focus on tracking market dynamics and managing the supply base for individual product categories;
- Account managers determine the appropriate sourcing and technology deployment strategies for individual customers;
- Sourcing experts source products and services for customers via auctions or spot buys; and
- Supplier relationship managers evaluate and qualify suppliers, negotiate price and service agreements, and monitor supplier performance.

ICG Commerce currently utilizes this expertise to negotiate price and service terms and to manage supplier relationships in more than 70 product categories, including office supplies, computer equipment, MRO supplies, packaging, and telecommunications equipment. The company presents these items in electronic catalogs — which exist on the ICG Exchange — that can be plugged into an e-Procurement system for online product search, comparison, and purchase. ICG Commerce has also developed special programs for items and services that are not easily represented in an electronic catalog. Current programs include printing services, telecommunication services, temporary labor, and transportation services.

At the inception of each customer engagement, ICG Commerce uses a proven "rapid opportunity assessment" (ROA) methodology to conduct a three- to five-day onsite analysis of the buying organization's internal spending patterns, supply strategies, organizational structures, and business requirements. ICG Commerce's sourcing managers use the output of this analysis to recommend to purchasing officers the optimal procurement strategy for each product or service category.

Buying organizations can tap into the ICG Commerce Exchange to purchase directly from electronic catalogs and to access aggregated pricing discounts. ICG Commerce has been able to aggregate the expenditures of its customers to negotiate optimal pricing and service terms. Aberdeen's review of several ICG Com-

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merce customers revealed that these aggregation efforts resulted in typical price savings ranging from 5% to 15%, depending on the product category. As noted above, price savings for particular product categories is expected to improve as additional buying organizations participate in those categories.

ICG Commerce complements its core Exchange offering by responding to customers' spot-buy requests for unique items and services not currently represented in the ICG Commerce Exchange. Examples of recent spot purchases managed by ICG Commerce include rail car jockeys, steel drums, conveyor belts, and specialty motors. In addition to locating these unique items, ICG Commerce provided customers with price discounts of 5% to 45%.

ICG Commerce utilizes its mix of procurement expertise and technology to manage partial or complete sourcing engagements. For example, one of North America's largest producers of heavy trucks tapped ICG Commerce to source a multi-million-dollar order for fasteners. ICG Commerce conducted a comprehensive assessment of the market to identify and qualify 11 potential suppliers to participate in an online auction. Conducted through the RealAuction solution, the negotiation event resulted in a 25% price savings. The success of this auction, as with most auctions, was largely the result of ICG Commerce's sourcing methodology and supplier management prior to and during the auction event.

Other services offered by ICG Commerce include complete procurement outsourcing services, returns management, and dedicated customer service.

It is important to note that ICG Commerce's offerings are not designed to deliver only one-time benefits. Instead, the company measures customers' spending patterns, savings, and compliance on an ongoing basis and uses this information to develop strategies for deriving continual improvements from the supply chain.

Supply Base Management

In its role as supply base or exchange manager, ICG Commerce uses a sophisticated sourcing methodology to evaluate, qualify, and negotiate with suppliers. The company has also developed a stringent supplier performance rating system to ensure that suppliers within its network maintain high levels of quality, on-time delivery, and service. With the addition of Accenture's ePValue group, ICG Commerce has established its supply base management services on an international basis. As noted previously, such global coverage has the potential to benefit both midsize companies that want to access new suppliers overseas and larger, multinational enterprises that want to identify new opportunities for purchase aggregation and to improve supply chain performance across geographically dispersed divisions.

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Internet-Based Service Delivery Model

Key to ICG Commerce's appeal is its adherence to a business model that delivers procurement technology and services as a fully hosted, Web-based service. This hybrid delivery model enables ICG Commerce to design and deploy highly customized procurement solutions in a fraction of the time and cost it takes to implement an enterprise procurement application. This service model also enables ICG Commerce to rapidly add new functionality or alter the configuration of a particular customer's procurement solution as needed. And, as noted previously, the service delivery model enables ICG Commerce to easily "plug-in" any of its services to existing technology infrastructures or e-Markets.

Providing maximum flexibility has not caused ICG Commerce to short-change its scalability or reliability. The company co-locates its entire technology suite at SunGuard, where the ICG Commerce platform is mirrored and fully redundant. Additionally, it is replicated at a secure disaster recovery site. Such backup measures are vital to success in mission-critical business environments.

Through partnerships with application hosting firms such as Core Harbor — an Ariba hosting partner — ICG Commerce is able to deploy and extend its services to midsize and large companies. This hosted offering complements ICG Commerce's direct partnership with Ariba, which lets ICG Commerce offer the Ariba Marketplace Network Edition solution directly to its midsize customers. ICG Commerce will also offer Ariba Buyer to enterprise companies that prefer an e-Procurement solution that can be deployed and maintained behind the firewall. Such an array of offerings and delivery options reinforces ICG Commerce's ability to meet the needs of midsize and large customers on a global basis.

While these represent ICG Commerce's current solution set, the company plans to remain technology-agnostic, providing access to any leading e-Procurement solution as requested by the customer. This technology-independent approach enables an organization that has already implemented an e-Procurement application to plug into the ICG Commerce Exchange in order to leverage ICG Commerce's sourcing and supplier management expertise — as well as its technology assets — to optimize spot buying, sourcing, and supply base management.

ICG Commerce could also plug any of its technologies or services into e-Markets and exchanges, enabling these online markets to expand their footprint and speed time-to-liquidity (Figure 1). For example, Transora, an industry exchange headed by leading CPG companies, has announced that it will offer 30 of ICG Commerce's pre-sourced product catalogs through its marketplace.

Such an open vision would make ICG Commerce appealing to a wider range of customers, and would also make the company's technologies and services extremely complementary to other technology vendors and procurement service providers. In essence, ICG Commerce is positioned to emerge as the bridge that

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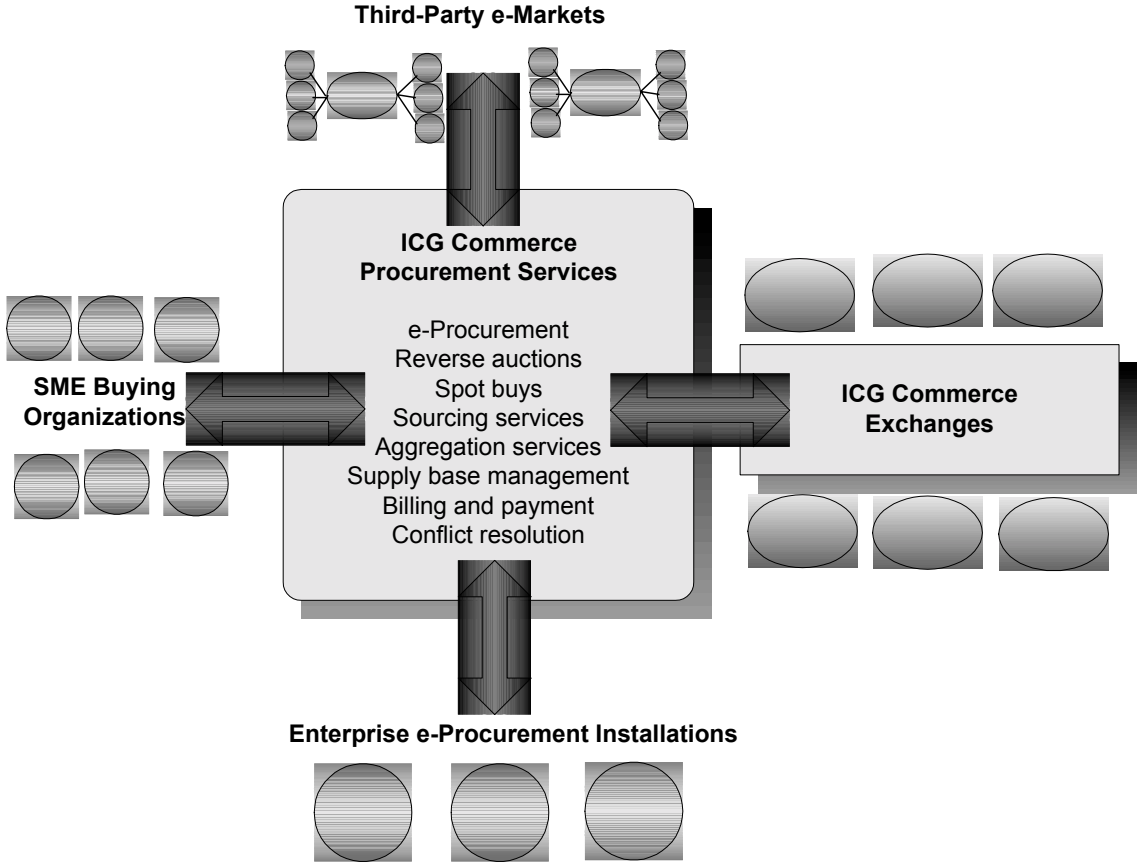
closes the gaps in many of the prevalent Internet-based procurement models, enhancing the process breadth and speeding ROI for existing solutions.

ICG Commerce at Work

ICG Commerce's comprehensive procurement service has already gained significant traction in the marketplace among a wide range of entities — from midsize regional players to large multinational enterprises to third-party marketplaces and service providers. All told, the company boasts more than 65 customers that have committed $10 billion to the ICG Commerce network.

Such broad participation is positioning ICG Commerce to generate a significant "network effect" in which each new customer provides additional purchase volumes that can generate economies of scale and pricing discounts for all the other participants in the ICG Commerce community. A prime example of this network effect occurred recently when consulting-giant EDS selected ICG Commerce as the

Figure 1: The ICG Commerce Online Procurement Services Network



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engine and exchange to power its own procurement service, called CoNext. In this scenario, ICG Commerce will aggregate spending and manage suppliers for CoNext's customers, which are generally large enterprises. The addition of EDS's CoNext and Accenture's ePValue not only validates the ICG Commerce model but also increases the purchase volumes flowing through the ICG Commerce network, enabling further opportunities for process efficiencies and purchase aggregation.

Aberdeen Conclusions

The overall success of any e-Procurement implementation relies on the effective deployment of technology and the deployment of this technology in a larger procurement framework that includes comprehensive sourcing and supply chain strategies as well as deep category expertise.

Unfortunately, early e-Procurement and reverse auction solutions were intranet-based applications that had lengthy implementation cycles and high-priced resource requirements. Like most enterprise applications, these technologies were built to support a select area of procurement functionality, providing little support for strategic activities, such as spot buys, sourcing, and supply base management.

Such factors have put procurement automation (and its related benefits) beyond the reach of most midsize organizations. In addition, many large organizations are finding that they lack the product and process expertise to maximize their investments in procurement technology.

Aberdeen concludes that procurement technologies must be considered within the context of a broader strategy that addresses an organization's procurement, supply chain, and business goals — as well as its infrastructure and resource constraints.

Effectively addressing such challenges requires a transition away from technology-only solutions to a hybrid approach that blends procurement automation with sourcing and supply base management strategies and services. At the center of this new model sits a new breed of company — the procurement service provider — that integrates e-Procurement, reverse auctions, and other technologies with product, sourcing, and supply management expertise, to provide highly customizable procurement solutions that can be delivered as hosted, Web-based services. The PSP will serve as an extension of an organization's existing procurement infrastructure, managing the non-strategic product categories and procurement activities that the organization feels it has opportunities for improvement but lacks the internal expertise and capabilities to manage these activities effectively.

As supply base manager for multiple buying organizations, the PSP is positioned to aggregate spending to negotiate volume discounts and improved service terms. The most advanced PSPs will be able to deliver such services on a global basis.

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This service-oriented procurement model should appeal to midsize organizations that lack the resources and buying volumes to implement and manage a broad e-Procurement initiative. The PSP model can deliver significant benefits to larger organizations that have neither the expertise nor the inclination to dedicate significant resources to managing non-strategic items. Finally, online marketplaces and exchanges could also benefit from the PSP model, which has the potential to deliver a level of liquidity and user stickiness that has been elusive for most e-Markets.

Aberdeen concludes that ICG Commerce is an early leader in the PSP space, having pioneered the approach and now executing on this model both domestically and globally. The company blends deep sourcing and supply base management expertise and over 500 people dedicated solely to procurement with best-of-breed technologies to deliver customized, online procurement solutions tailored to the unique requirements and resource limitations of individual buying organizations.

ICG Commerce's product category managers aggregate the direct and indirect spending of its customer base to negotiate optimal pricing and services with a network of pre-approved suppliers on a global basis. ICG Commerce works with individual customers to determine the appropriate supplier and technology mix needed to maximize their procurement savings opportunity in the shortest time period. The company continually monitors customer implementations and supplier performance to ensure continuous improvements.

In conclusion, ICG Commerce offers a broad range of highly flexible services and technologies that can be delivered either as an end-to-end, turnkey procurement solution or as individual service components. The breadth and depth of its technology assets and procurement services coupled with its global reach give ICG Commerce an early and significant lead in the emerging PSP space to fill the gaps in existing procurement strategies. For midsize to large enterprises and e-Markets, ICG Commerce represents one of the most rapid and effective ways to access the complete benefits of e-Procurement.

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Aberdeen Group is a computer and communications research and consulting organization closely monitoring enterprise-user needs, technological changes and market developments.

Based on a comprehensive analytical framework, Aberdeen provides fresh insights into the future of computing and networking and the implications for users and the industry.

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