# IBM Business-to-Business Direct e-procurement Overview

Americas B2B Sales and Channels Marketing
December 18, 2003

# Table of Contents

# What is e-procurement?

Software applications that allow buyers to electronically manage day to-day purchasing of direct (raw materials) and indirect (finished) goods from chosen suppliers

**e-Sourcing**

Spend Analysis

Supplier Identification

Supplier Performance Assessment

Sourcing

Invoicing, Reconciliation and Payment

Contract Management

Order Updating and Delivery

Procurement
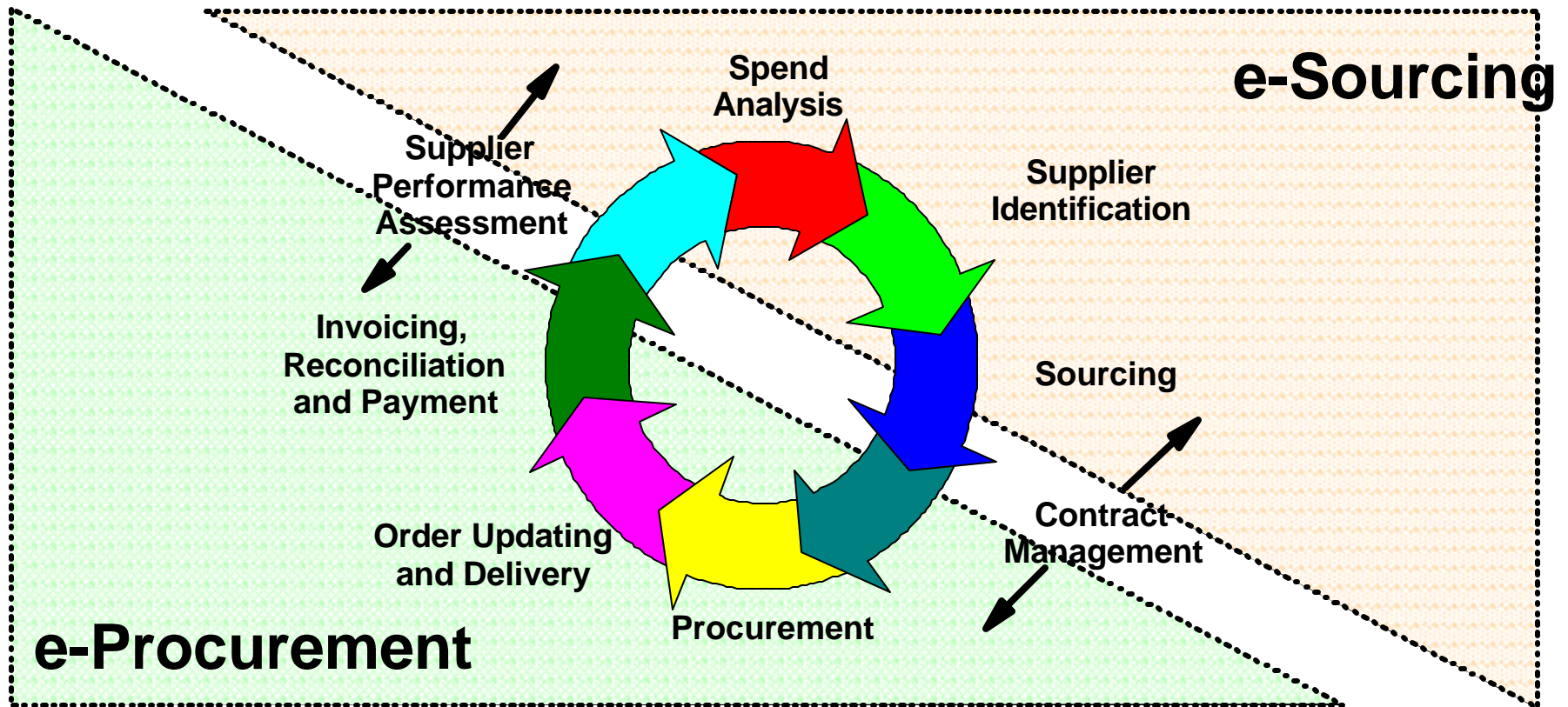
**e-Procurement**

# What are some of the benefits customers realize through e-procurement integration?

**Lower purchasing costs go straight to the 'bottom line'**
- Average purchasing processing costs using e-procurement ($33/requisition) reduced 50 - 90% versus paper-based ($121/requisition) processes
  (e-Procurement – Getting the Best Deal – Ariba & 'e-Procurement: Finally Ready for Primetime' – Aberdeen Group)
- Average purchasing administration costs reduced 2 - 5%
  (The Value Proposition of B2B Dynamic Commerce – Montgomery Research)

**Shortened requisition and fulfillment timeframe**
- Average cycle times reduced 74% from 9.7 days to 2.5 days
  ('e-Procurement: Finally Ready for Primetime' – Aberdeen Group)

**Information collection and sharing**
- Improve data gathering and reporting made possible through the sharing information between buyer and supplier procurement, accounting and ERP systems

**Strategic staff placement**
- Procurement professionals able to focus on "value-add" initiatives such as sourcing and contact negotiation vs. rote ordering tasks
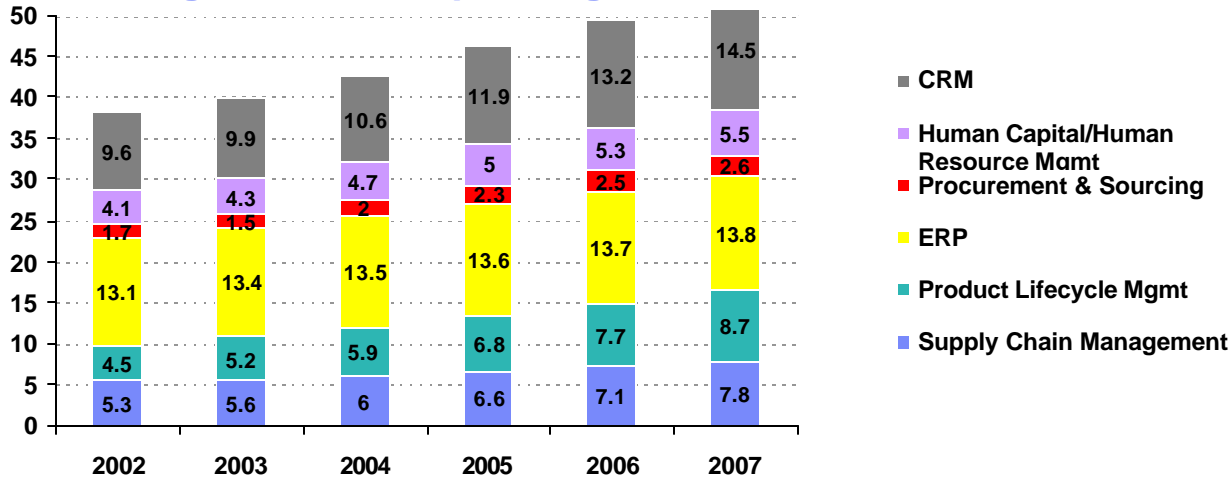
**Immediate return on investment**
- Staffing reductions and saving realized by centralized contract management/purchasing offset e-procurement application investment
- Payback in as little as 18 months based on 1% reduction in SG&A at firms with annual purchasing in excess of $200 million (AMR Research)
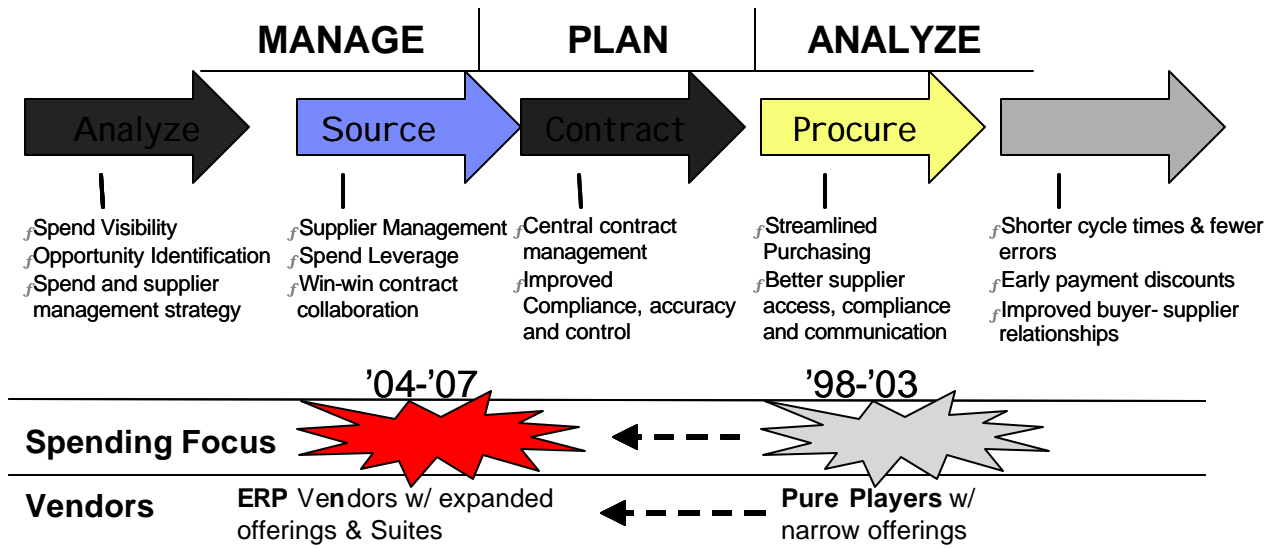
# Table of Contents

**e-procurement and e-sourcing spending, from 2004 to 2007, will grow slightly but remain constant as a percentage of total IT spending**

Chart (stacked bar, years 2002–2007):

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| CRM | 9.6 | 9.9 | 10.6 | 11.9 | 13.2 | 14.5 |
| Human Capital/Human Resource Mgmt | 4.1 | 4.3 | 4.7 | 5 | 5.3 | 5.5 |
| Procurement & Sourcing | 1.7 | 1.5 | 2 | 2.3 | 2.5 | 2.6 |
| ERP | 13.1 | 13.4 | 13.5 | 13.6 | 13.7 | 13.8 |
| Product Lifecycle Mgmt | 4.5 | 5.2 | 5.9 | 6.8 | 7.7 | 8.7 |
| Supply Chain Management | 5.3 | 5.6 | 6 | 6.6 | 7.1 | 7.8 |

Legend:
- ■ CRM
- ■ Human Capital/Human Resource Mgmt
- ■ Procurement & Sourcing
- ■ ERP
- ■ Product Lifecycle Mgmt
- ■ Supply Chain Management

**The majority of growth will be attributable to sourcing as enterprises develop more complete sourcing and procurement strategies**

MANAGE | PLAN | ANALYZE

Process arrows: Analyze → Source → Contract → Procure →

ƒSpend Visibility
ƒOpportunity Identification
ƒSpend and supplier management strategy

ƒSupplier Management
ƒSpend Leverage
ƒWin-win contract collaboration

ƒCentral contract management
ƒImproved Compliance, accuracy and control

ƒStreamlined Purchasing
ƒBetter supplier access, compliance and communication

ƒShorter cycle times & fewer errors
ƒEarly payment discounts
ƒImproved buyer- supplier relationships

'04-'07          '98-'03

**Spending Focus**

**Vendors** — **ERP** Ven**d**ors w/ expanded offerings & Suites ← **Pure Players** w/ narrow offerings

# License purchases of e-procurement software will be concentrated in North America and with enterprises having greater than $1.0 billion in annual revenues

**Licensing Rev by Geo**



**Licensing Rev by Company Size**
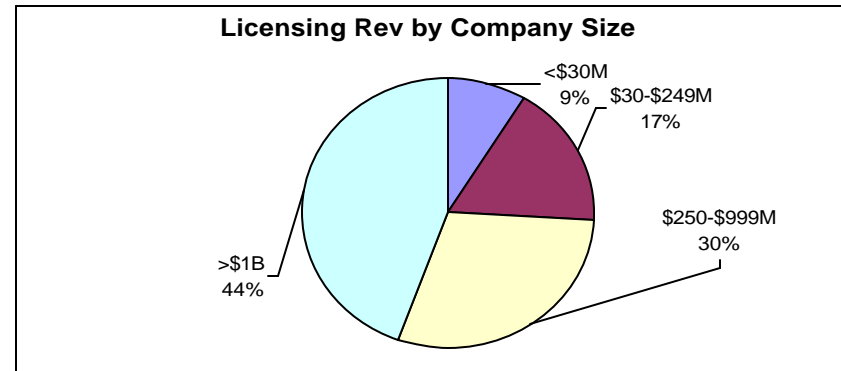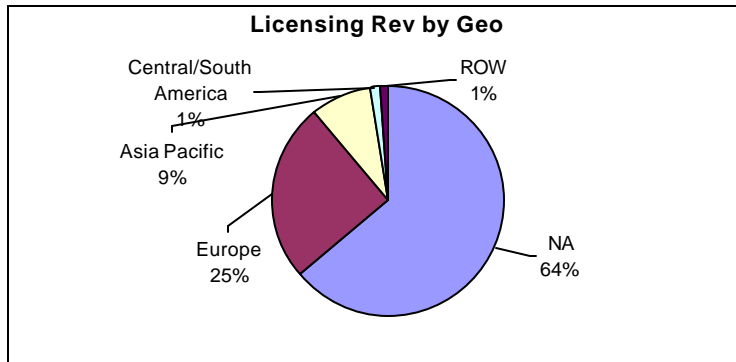


| 2002 e-Procurement Software License Sales by Customer Company Location | | |
|---|---|---|
| | **License Sales ($M)** | **Share** |
| **North America** | 379 | 64% |
| **Europe** | 151 | 25% |
| **Asia Pacific** | 51 | 9% |
| **Central/South America** | 7 | 1% |
| **ROW** | 7 | 15 |
| **Total** | 596 | 100% |

| 2003 e-Procurement Software License Sales by Customer Company Revenue | | |
|---|---|---|
| | **License Sales ($M)** | **Share** |
| **< $30 M** | 52 | 9% |
| **$30 M - $249 M** | 102 | 17% |
| **$250 M - $999 M** | 178 | 30% |
| **>= $1.0 B** | 265 | 44% |
| **Total** | 597 | 100% |

- North American figure represents some global roll-outs where the software is bought out of the US.
- Europe follows the trend in North America, with a majority of the spending centered in the UK.

- While companies with >$1B are the largest portion, most analyst think that the next phase of growth will come from the $250-$999 segment.
- These firms generally have more power over suppliers and find high ROI for eProc investments

# e-procurement and e-sourcing utilization will remains fairly evenly split between manufacturing and service-oriented enterprises

**How much progress have you made in fully implementing the Internet in procurement activities?**

|  | All | Manufacturing | Service |
|---|---|---|---|
| **No plans to implement** | 4% | 6% | 1% |
| **None, but considering** | 11% | 12% | 10% |
| **Some progress** | 59% | 62% | 55% |
| **Partially adopted** | 13% | 8% | 18% |
| **Mostly adopted** | 12% | 9% | 15% |
| **Fully adopted** | 2% | 2% | 1% |

**Did you use an enterprise-wide procurement tool?**

|  | All | Manufacturing | Service |
|---|---|---|---|
| **Yes** | 47% | 43% | 49% |

- A majority of firms report progress toward implementing e-procurement with service-oriented firms leading manufacturing-oriented enterprises
  - e-procurement vendors initially focused efforts on indirect goods but the shift to include e-sourcing will speed manufacturing adoption due to the need to source direct goods inputs

- Retail, Financial Services, Health care and Government lead service industries in e-procurement adoption/spend

- Electronics, Consumer Packaged Goods and Automotive lead manufacturing industries in e-procurement adoption/spending
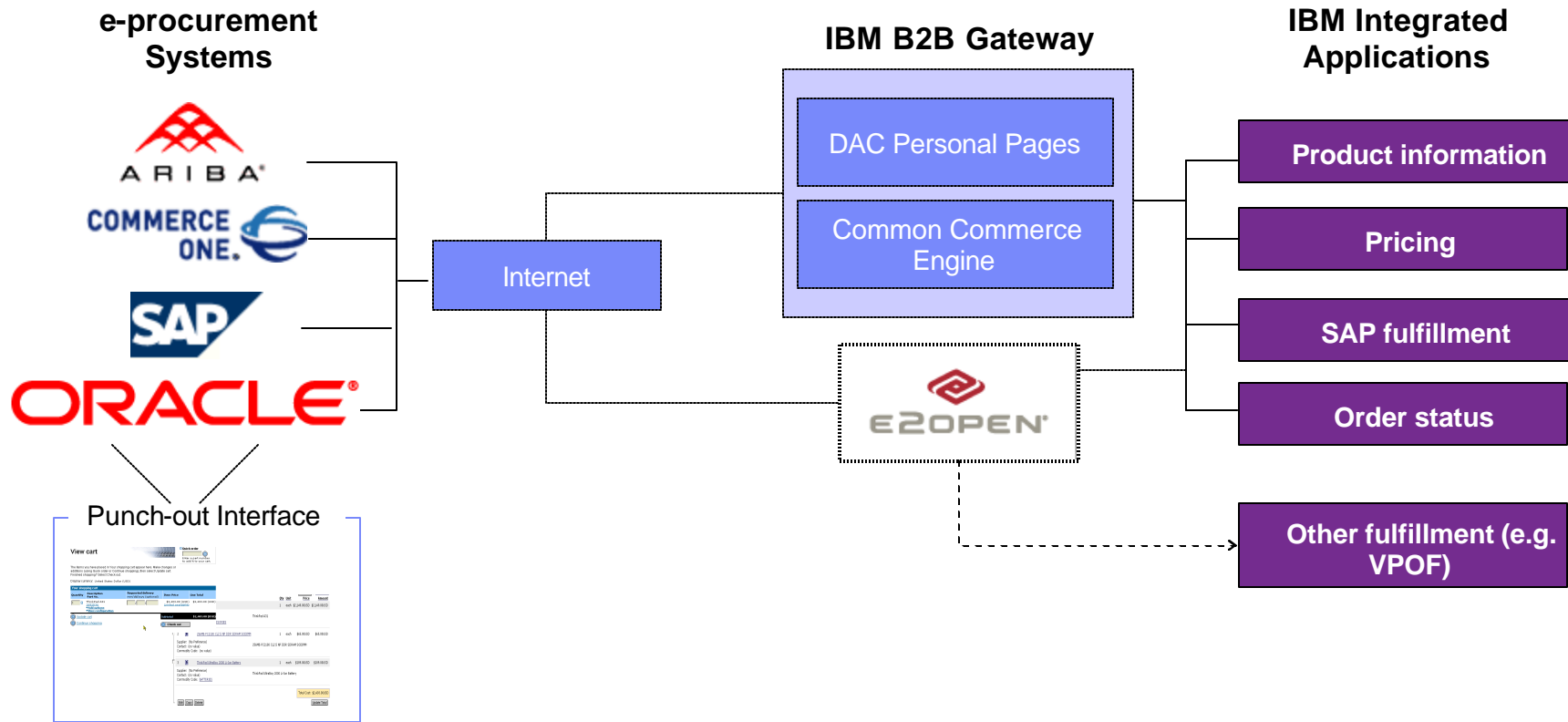
Source: Institute for Supply Management/Forrester Report on Technology in Supply Management (Q2003) – 10/27/03

# Table of Contents

# What is IBM B2B Direct and how will it look in 2004?



**e-procurement Systems**

**IBM B2B Gateway**

**IBM Integrated Applications**

DAC Personal Pages

Common Commerce Engine

Internet

E2OPEN

Product information

Pricing

SAP fulfillment

Order status

Other fulfillment (e.g. VPOF)

Punch-out Interface

Buyer ———————————————— Supplier

Using Common Commerce Engine (CCE), IBM can provide local (buyer-hosted) or punch out (supplier-hosted) catalogs to our B2B customers. IBM can then receive orders in a variety of formats either thru E2Open using cXML, Oracle XML, SAP XML, or via EDI, e-mail or fax.

# Who are IBM's B2B customers?

# Where are our competitors going with B2B e-procurement?

**DELL**

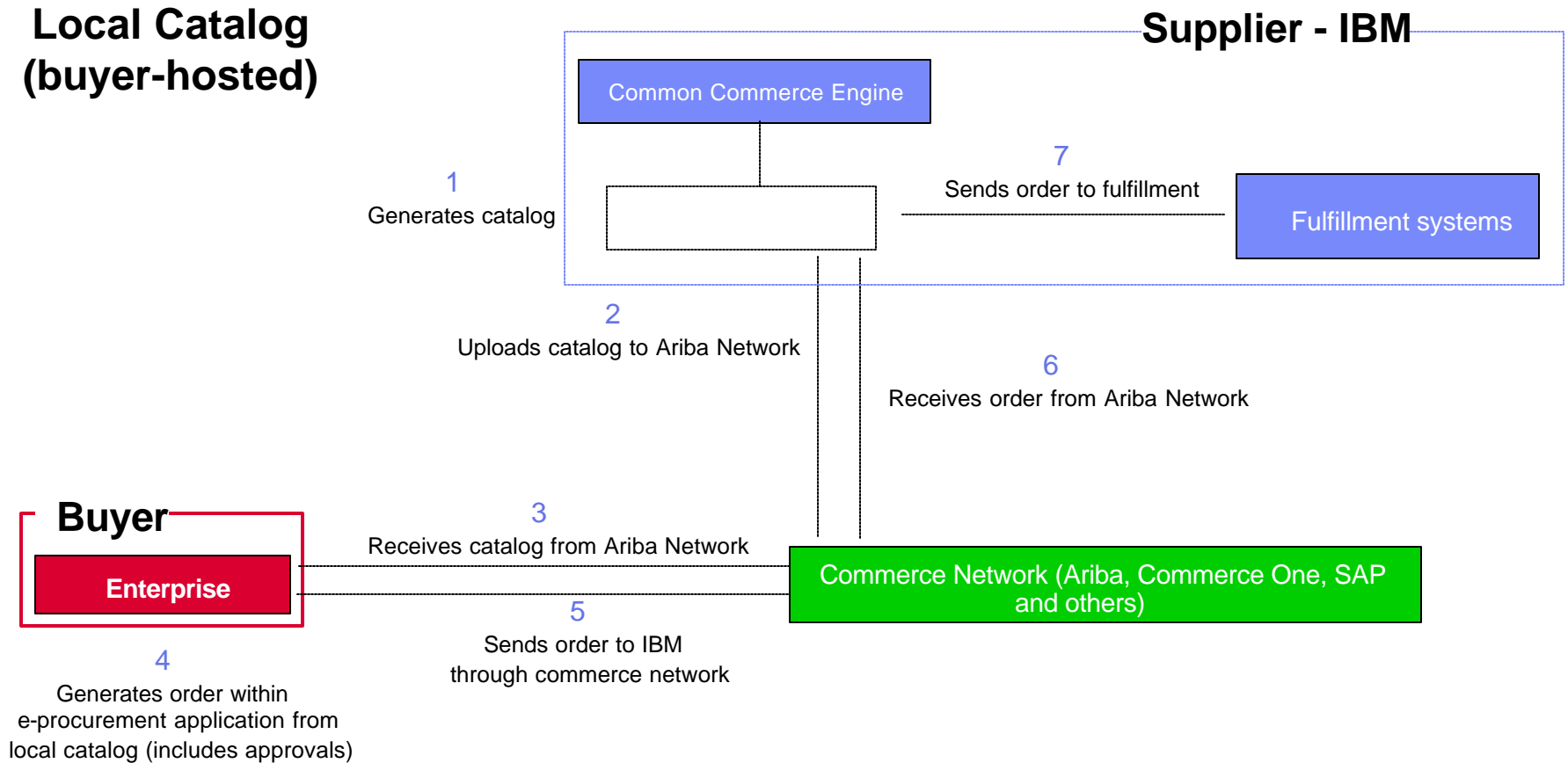| Strategy – focused on automating transactions and reducing mutual cost of conducting business with its largest customers while streamlining the ordering process to the greatest extent possible | | |
|---|---|---|
| **Analyst Perspective** | **Penetration** | **ISVs Supported** |
| End-to-end solution offering from simply linking systems to providing needed HW, SW and implementation resources to help build and deploy an e-procurement solution with linkage to Dell | ▪Approximately 100 enterprise accounts<br>▪90% of accounts in USA with EMEA and AP far behind in adopting | 36 procurement and ERP systems including:<br>•Ariba<br>•CommerceOne<br>•SAP<br>•PeopleSoft<br>•J.D. Edwards |

**hp**

| Strategy – aimed at 'locking in' large customers, shifting transactions to the most economical method and increasing the client's HP-specific information technology spending | | |
|---|---|---|
| **Analyst Perspective** | **Penetration** | **ISVs Supported** |
| Offers two levels of electronic linkage with HP.com Business to Business Sites and HP.com Business to Business Integration (e-procurement)<br>•HP.com B2B Site - a secure website customized for the account – managed and hosted by HP<br>•HP.com B2B Integration - HP added to the list of suppliers available in a company's internal e-procurement system | ▪Approximately 200 enterprise accounts with most spanning two or more geographic regions | Major procurement and ERP systems including:<br>•Ariba<br>•CommerceOne<br>•SAP<br>•PeopleSoft<br>•Oracle<br>•RightWorks |

# How does IBM B2B Direct eCommerce work?

**Local Catalog
(buyer-hosted)**

**Supplier - IBM**

Common Commerce Engine

1
Generates catalog

7
Sends order to fulfillment

Fulfillment systems

2
Uploads catalog to Ariba Network

6
Receives order from Ariba Network

**Buyer**

3
Receives catalog from Ariba Network

**Enterprise**

Commerce Network (Ariba, Commerce One, SAP and others)

5
Sends order to IBM
through commerce network

4
Generates order within
e-procurement application from
local catalog (includes approvals)

# How does IBM B2B Direct eCommerce work?

**Punch-out / round-trip (supplier-hosted) catalog**

**Supplier - IBM**

7
Sends order to fulfillme

Fulfillment systems

1
Generates catalog

3
Completed shopping cart is sent back to e-procurement system

6
Receives order from Commerce Network

Common Commerce Engine

2
Customer punches out to IBM hosted catalog through Commerce Network

**Buyer**

Enterprise

Commerce Network (Ariba, Commerce One, SAP and others)

5
Sends order to IBM through Commerce Network

4
Completes order on e-procurement system
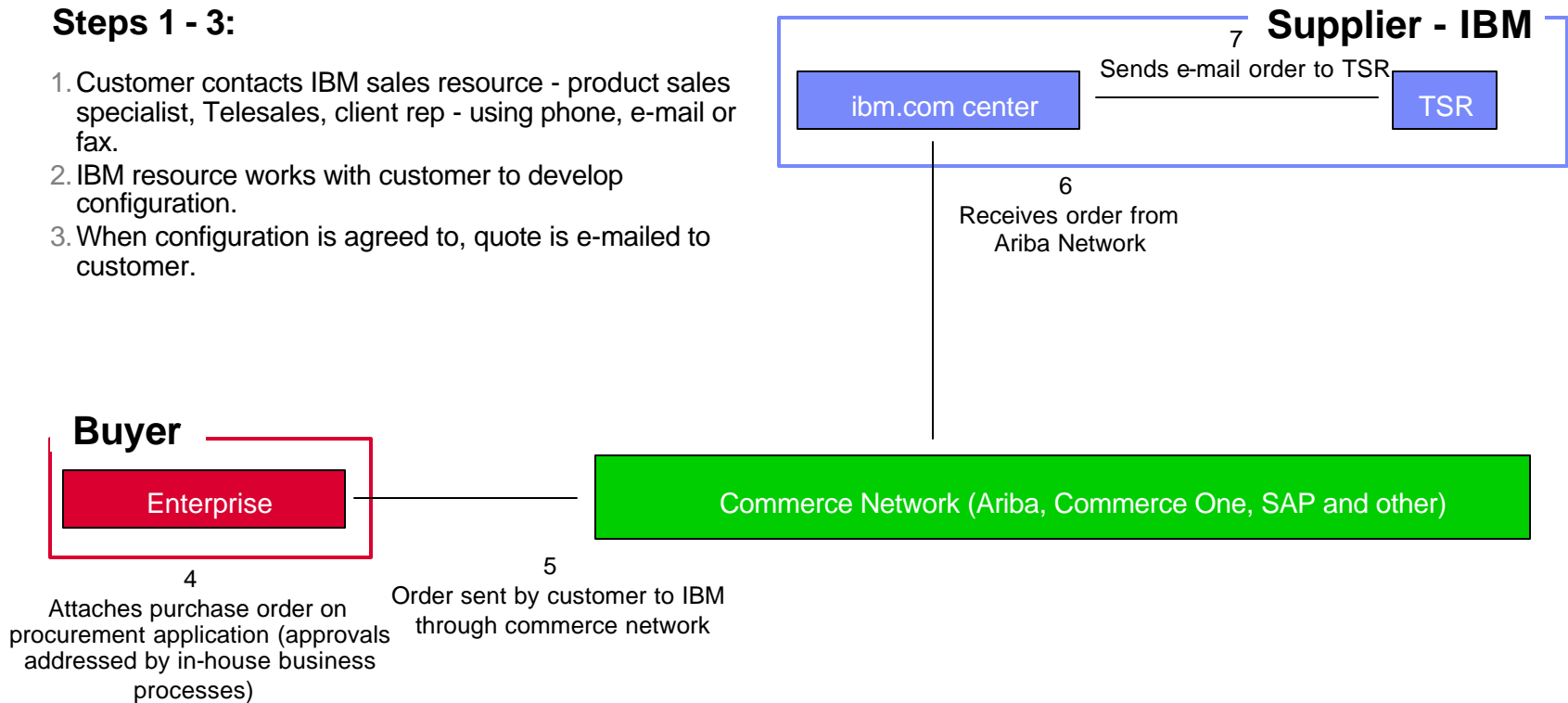(includes approvals)

# How does IBM B2B Direct eCommerce work?

## Non-catalog (free-form) purchase order creation

### Steps 1 - 3:

1. Customer contacts IBM sales resource - product sales specialist, Telesales, client rep - using phone, e-mail or fax.
2. IBM resource works with customer to develop configuration.
3. When configuration is agreed to, quote is e-mailed to customer.

**Supplier - IBM**

7
Sends e-mail order to TSR

ibm.com center          TSR

6
Receives order from
Ariba Network

**Buyer**

Enterprise          Commerce Network (Ariba, Commerce One, SAP and other)

4
Attaches purchase order on procurement application (approvals addressed by in-house business processes)

5
Order sent by customer to IBM through commerce network

# What functionality does IBM B2B Direct currently provide?

| Function | Description | Benefit |
|---|---|---|
| Shopping | Allows for presentation of a Web-based purchasing experience that interfaces with the customer's e-procurement system - Ariba, SAP, Commerce One and Oracle – for validation and order processing | Web-based Graphic User Interface (GUI) provides the customer a content-rich environment within which she may 'learn' and 'experience' the breadth of the IBM product line available to them prior to placing their order |
| Electronic Ordering & Order Status | Allows for complete E2E electronic order processing and notification of customers using Ariba (cXML order), SAP (EBP w/ XML format), CommerceOne (xCBL) and Oracle (OHE format of XML) through all steps of the fulfillment process – order confirmation/reject, manufacturing and shipment notification | Regular electronic updates keep the customer informed on the status of their order and minimize the possibility of costly customer inquiries that must be addresses by CSO or the client rep |
| Gateway | Electronic routing and authentication mechanism which analyzes order and adds applicable customer information – MPP and/or CMR numbers - then routes them to either SAP or a CSO specialist. Gateway also is utilized in providing the proper 'Shopping' experience to the user based on defined account entitlements | Presents the 'right' shopping experience and entitlements to IBM B2B Direct customers. Minimizes time spent on determining critical customer information – contract pricing, etc.. – by automatically providing MPP and CMR references, and minimizes number of 'touches' and time spent on process of order |
| E-Mail | Assisted orders for software, services and complex configured hardware products with manual intervention after being routed by the 'gateway' to an appropriate CSO fulfillment specialist | Provides an additional manner for customers to place orders. Speeds order processing due to automated routing and minimize chance of order error due to CSO validation |
| Web CSO | See Appendix | See Appendix |

# What functionality is planned for B2B Direct?

| Function | Description | Benefit | Availability |
|---|---|---|---|
| e2open cXML Migration | Customer orders currently received through existing IBM 'Gateway' will be move to e2Open. All associated linkages and commerce protocols will be maintained and change over will be transparent to the customer. e-Mail ordering via e2Open to be supported at later date. Test capability will be available in late January thru end of February. | Speeds the process of 'connecting' IBM with a customer and reduces IBM's cost per account enabled | March 2004 |
| Oracle Order Management | Support – billing, order/ship status - for orders placed using Oracle iProcurement application | Provided 'richer' functionality to customers using Oracle iProcurement | March 2004 |
| Blue Horizon Configurator /CTO | Support for true 'configure to order' capability of SAP-enabled product set (PCD, Think, xSeries) and eventually other IBM hardware products as they become SAP-enabled | Allows customers to configure a product to their exact specifications within the context of the products 'available' features and options | July 2004 |
| DAC Fulfillment | B2B-linkage to DAC/Insight organization for DAC-supported customers who want to place orders using their e-procurement application vs. a Web portal, email or traditional method. Orders will electronically flow through e2Open to DAC with only minor short-term loss of functionality such as order status. | Allows IBM and customers to maintain a single order acceptance and fulfillment flow for IBM Direct customers who choose to utilize their procurement application | January 2004 |
| Leasing | Presentation of 'estimated' lease prices within online catalog. Final price calculated and immediately presented after customer chooses leasing term and authorization/verification of customer financing contract is determined by IBM Credit Corp. | Self-service and ordering by customers with lease option. Increased order potential from budget-constrained customers | July 2004 |

# What functionality is planned for B2B Direct? (cntd)

| Feature | Description | Benefit | Availability |
|---------|-------------|---------|--------------|
| e-invoicing | Electronic delivery and reconciliation of customer invoices that expands on the current EDI-based capability. This is a strategic solution that will return an invoice to any e-procurement system but is not currently specked out. | Reduces billing errors, speeds reconciliation/payment and minimizes outstanding accounts receivable | August 2004 |
| Assisted Order Process | e2Open enhancement that will automatically route orders with blank of non-SAP part numbers to directly to appropriate CSO representative for analysis and customer confirmation | Speeds order processing/validation while minimizing the number of 'touches' required to fulfill order | March 2004 |
| Change/ Cancel orders | Proactive identification and automated routing to CSO of orders that customers change or cancel after initial placement for validation, modification and or up-sell. | Allows customer the ability to modify order based on change in requirements while minimizing the chance of order return due to incorrect configuration/product ship resulting from the change or cancellation | August 2004 |
| Attachment automation | Acceptance of orders with attached configuration file for SAP-enabled product set. Stage one called for acceptance and routing via e2Open gateway to CSO while stage two would provide for electronic acceptance, review and input into appropriate backend order entry system. | Virtual automation of order processing for configured hardware product orders | August 2004 |
| UTF8 Shopping Cart/Transaction Hub | Gateway support for electronic catalog orders from countries using double-byte character sets. Presently catalog orders must be made through a browser using UTF8 encoding. | Provides for electronic catalog and Web-enabled GUI to support 'shopping' experience in countries using double-byte character set | AP Specific - July 2004 |
| Multi-brand Support | Hard-coded product configurations – pSeries, iSeries, Storage - using CS Lite configurator that will be routed to CSO for manual order processing and entry | Expanded E2E 'electronic' ordering of IBM product portfolio | March 2004 |

# What are the some of the benefits of IBM B2B Direct?

**24x7x365 Ordering**

▪"Having this B2B extranet solution allows my client to procure our PC products around the clock 24x7, making it easier to do business with IBM and to compete effectively with other direct manufacturers. This offering also improves the productivity of both the client and IBM, increasing overall satisfaction, which translates into additional business for IBM." – John Flynn, Client Executive - **Johnson & Johnson**

**Error-free, Touch less and Faster Order Processing**

▪"The U.S. Postal Service has had its IBM B2B account for approximately 3 years or more which has been very well received by the customer. This is a high volume account for their point of sale cash registers. It simplifies the customer's ordering process and allows them to interact with us dynamically as their business changes. And, it increases my productivity as well because I never have to look at purchase orders anymore." – Mary Sucher, Client Representative - **US Postal Service**

**Timely Account Payment/Reconciliation**

▪"In the eight years I have been working directly with AMEX, Ariba has easily been the most significant thing we have implemented. Prior to that time, the size and scope of the accounts payable (A/P) and accounts receivable (A/R) delinquencies presented a significant problem. As a result of the roll out of Ariba Buyer Network by AMEX, and IBM's participation, a majority of these types of issues have been eliminated. In addition, the impact on A/R collection man-hours for both Marketing and CSO has been significant reduced." – Dan Kuhlman, Business Operations Manager - **American Express**

**Partnership and Customer Satisfaction**

▪"B2B Direct e-procurement has been a big part of Pfizer's centralized procurement and sourcing efforts which are seen as important efforts to reduce costs and increase efficiencies in challenging economic times. IBM B2B e-procurement and Ariba Buyer are critical components of that equation. Together, B2B Direct and Ariba Buyer allow Pfizer Procurement to execute on those business objectives by providing immediate access to IBM technologies and by speeding the ordering process for those technologies." – Dennis Witman, B2B Account Manager - **Pfizer**

# How to engage and get started

**To purchase directly from IBM B2B Direct e-procurement, customers should...**

- Have or have plans to install an e-procurement system - Ariba, CommerceOne, SAP, i2/Rightworks, Oracle, PeopleSoft - supported by IBM

- Maintain an IBM direct (Field or ibm.com) purchasing relationship for the products in question, rather than through an IBM Business Partner

**Does your customer meet these conditions?**

- Complete the B2B Direct customer questionnaire at http://w3-1.ibm.com/sales/americas/marketing/b2b/questionnaire.html and contact **Richard Harper/Atlanta/IBM** (ibm.com Americas, B2B Direct eCommerce Sales Manager) for more information

**Like to know more about B2B Direct?**

- Visit our W3 site at http://w3.ibm.com/sales/americas/b2b or our public Web site at http://www.ibm.com/easyaccess/b2bdirect
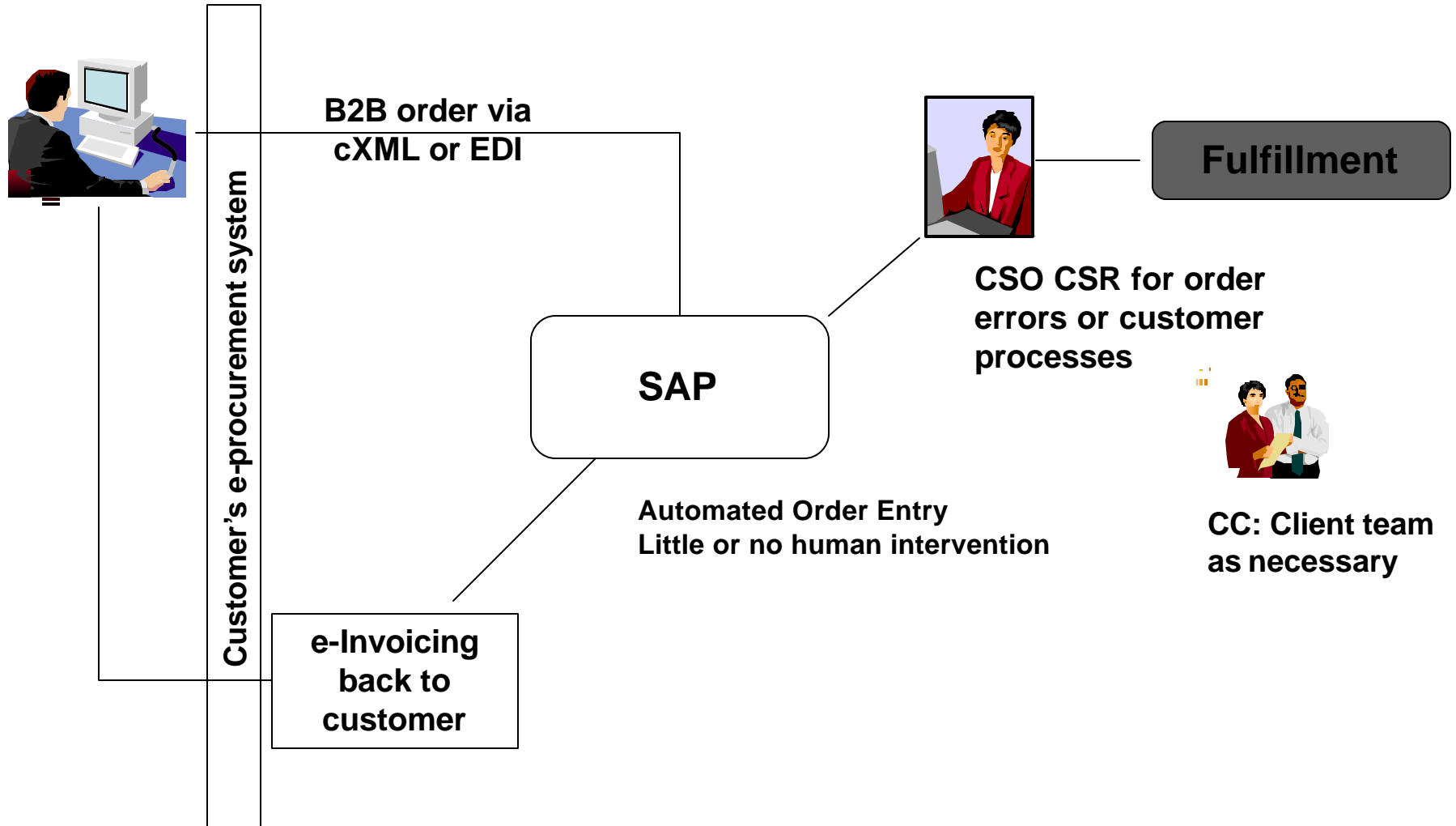
# Table of Contents

# B2B Orders and Web CSR

**Problem**:

- Customers began sending electronic orders to IBM through various means. Orders were not being tracking centrally and could easily be lost, or processed twice. Client teams were not aware that order process had changed or how electronic ordering would impact their current process.

**Solution**:

- Work with CSO to create a process and system to track electronic orders at the CSO level.

- Centralize the process by creating a Web CSR desk to handle order entry.

- Orders would be coded as E channel revenue based on 2003 revenue recognition rules.
    - (Electronic orders with some manual intervention to place the order.)

    - *Does not impact commissions flow.

- Allows for transactional tracking, gives ibm.com control, reduces efforts to "chase revenue."

# How do B2B orders get to me and CSO?  (Non-PCs)

**Customer's e-procurement system**

**B2B order via cXML or EDI**

**SAP**

**Automated Order Entry Little or no human intervention**

**e-Invoicing back to customer**

**Fulfillment**

**CSO CSR for order errors or customer processes**

**CC: Client team as necessary**

# How do B2B orders get to me and CSO?  (PCs)

**Fulfillment**

**Customer's e-procurement system**

**B2B order**
**cXML, XML via email**

**EDI (Legacy & EDI Ops)**
**Web portals**

Orders are
email with
varying
attachments

**Client Team**

**CSO Web CSR**
**e-office**

**CSO**
**Orders marked**
**as 'E' channel**

**e-Invoicing**
**back to**
**customer is**
**available**

**Techline or TSR**
**for configuration**

# OK, so now my customer is using B2B, what does that mean?

- The format of the order may look very different from the paper order you are receiving.

- Orders may not have all of the information you were used to getting or it may have more info than you are used to getting.

- Customers ordering from catalogs will have IBM part numbers and descriptions.

- Customers not ordering from catalogs, at times may need a follow up call to determine what products or services are being ordered.

- The quote process is impacted: Some customers want to send the line items from their quote back to us on the order.  Having TSRs and sales reps aware of this changes the quote format, requiring simple line items with part numbers, descriptions and prices for order submission.

- FOE orders for B2B customers should be coded as E channel where the actual order document will come in electronic at a later date.

- TSRs and Field reps will need to work closely with Web CSO and the B2B Account manager to ensure a smooth transition.