Supplier Networks v2.0
A Look at Commerce in the Cloud

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Constantine G. Limberakis
Executive Summary

In an effort to better understand the use of supplier networks today, the Supplier Networks v2.0: A Look at Commerce in the Cloud study examines the results of over 120 survey respondents, with a specific emphasis on how the functionality of supplier networks has expanded beyond the traditional perceptions of transaction centered vehicles for procurement. With 57% of respondents indicating supplier networks are very important to the enterprise, Aberdeen explores the impact supplier networks are having on spend management at large, and shares some of the emerging trends based on the example of Best-in-Class companies.

Best-in-Class Performance

Aberdeen used the following performance criteria to distinguish Best-in-Class companies:

- 80% of total spend under management of the procurement group (compared to 48% for Laggards)
- 56% of spend represented by the supplier network (compared to 39% for Laggards)

Competitive Maturity Assessment

Survey results show that the firms demonstrating Best-in-Class performance shared several common characteristics with respect to the use of supplier networks, including:

- 45% of supplier credentials and compliance documents exchanged on the network, which is 80% more than Laggards
- 46% use online supplier discovery over the supplier network, which is 60% more than Laggards.
- 60% of purchase orders are transmitted electronically through a supplier network, which is 62% more than Laggards

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance companies must:

- Continue the expansion of supplier networks to replace manual and paper-based transactions through an electronic exchange
- Expand the use of supplier collaboration on supplier networks in areas such as supplier management and working capital management
- Develop cross-functional across procurement, finance, AP, treasury, and IT functions to increase adoption of supplier networks and evolving functionality based on cloud frameworks
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Chapter One:
Benchmarking the Best-in-Class

Supplier networks today are seeing a redirection in their purpose from a decade ago. While the interoperability of supplier networks is certainly a long way off to the likes of mobile phone networks, it is noteworthy to understand how much they have changed since their inception. Based on the original focus to be “buyer-centric” transaction oriented integration points, supplier networks today are becoming a necessary strategy for increasing spend under management through the increased use of electronic purchase orders and invoices, while lowering the costs related to procurement and supplier management activities. This study looks at the current supplier network landscape and provides insights into how Best-in-Class organizations are using them today.

The Business Context

Supplier networks for both direct and indirect spend are still not a prerequisite for doing electronic commerce. Even though supplier networks provide cost efficiency and time benefits of exchanging documents electronically, most organizations still need to accept traditional means such as fax and email orders, particularly from small to medium sized suppliers. Older frameworks (such as EDI-VAN) in the past required a myriad of integration solutions and integration communities that increased the time and cost of integration. However, based on flexibility in “cloud technology” and the need to access global suppliers today, supplier networks are seeing a re-purposing or evolution from a decade ago.

In fact, Aberdeen research shows that leading organizations today are effectively using them beyond traditional transaction focused “catalog to pay” processes by extending their benefits into areas that address Business-to-Business (B2B) integration efforts for both direct and indirect supply chains. June 2011 Aberdeen Research for Supplier Networks: Moving Beyond the Traditions of eProcurement, demonstrates that of the organizations using supplier networks, 76% indicated that identifying new suppliers and market opportunities is the main reason for their use. Supplier networks are also providing organizations with an opportunity to establish stronger supplier relationships by demonstrating a 33% higher rate of suppliers meeting capability / performance thresholds, and 12% higher rate of on-time delivery than those not using them.

Supplier Network Landscape

Based on Aberdeen’s latest survey on supplier networks, there is a large landscape of supplier networks that currently exist which widely vary in terms of scope and purpose. Represented in Table 1, supplier networks can have a very different purpose within the “source-to-settle” lifecycle which are designed according to the needs of specific industry verticals, categories or the business scope for which they are intended. Moreover, supplier

<table>
<thead>
<tr>
<th>Fast Facts</th>
<th>The top three benefits shared by organization suppliers in collaborating on a supplier network</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔ (31%) - Increased sales opportunities</td>
<td></td>
</tr>
<tr>
<td>✔ (28%) - Improved visibility into buying organization’s processes</td>
<td></td>
</tr>
<tr>
<td>✔ (26%) - Accelerated order-to-cash cycle</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Definitions</th>
<th>Direct spend refers to the purchases of goods and services that are directly incorporated into a product being manufactured.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Indirect spend refers to purchases of goods and services not directly incorporated into a product being manufactured. It includes all of the supplies and resources necessary to run a business.</td>
</tr>
<tr>
<td></td>
<td>Supplier network “enables” commerce and collaboration between buyers and suppliers. Supplier networks include any electronic means to communicate with suppliers such as through an exchange, gateway, hub, marketplace or portal.</td>
</tr>
</tbody>
</table>
networks are not exclusive, which means organizations can use more than one depending on the purpose for which it is being used.

Table 1: Supplier Network Landscape

<table>
<thead>
<tr>
<th>Network Type</th>
<th>Description</th>
<th>Percent Usage (n=121)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Social Network</td>
<td>Relationship-based network to facilitate the exchange of compliance, risk, and performance information as well as to discover new buying and selling opportunities, but not focused on process.</td>
<td>9%</td>
</tr>
<tr>
<td>Proprietary Supplier Portal</td>
<td>Buyer-sponsored network leveraging 3rd party technology; used expressly for use with preferred suppliers, business partners and vendors within an internal corporate community; used exclusively with suppliers setup point-to-point.</td>
<td>31%</td>
</tr>
<tr>
<td>Vertical Focused Consortium</td>
<td>Network that is dominant in a specific industry that encourages suppliers to participate (e.g. automotive, aerospace, chemicals, etc.)</td>
<td>15%</td>
</tr>
<tr>
<td>Category Focused Network</td>
<td>Network with special functionality and extensive supplier membership of dominant suppliers in key categories (e.g. commodities, complex spend, industrial MRO, retail, services, travel)</td>
<td>18%</td>
</tr>
<tr>
<td>Global Commerce Network</td>
<td>Vendor-named network offering a wide range of document types and order-to-pay processing and includes solutions used in other upstream and/or downstream processes.</td>
<td>16%</td>
</tr>
<tr>
<td>Order-to-Pay Network</td>
<td>Vendor-named network focused exclusively on automating exchange of purchase orders, invoices, payments, discounts and AP automation.</td>
<td>21%</td>
</tr>
<tr>
<td>Payment Gateway</td>
<td>Gateway built on existing payment solutions to provide a complete one-stop shop for all payments to suppliers whether from AP or other sources.</td>
<td>11%</td>
</tr>
<tr>
<td>EDI VAN</td>
<td>EDI VAN (EDI Value Added Network), referred to often as a regional post office; essentially connects supplier systems to back-office applications.</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, March 2012

Keeping these differences in mind, Table 1 shows that most organizations responding to the Aberdeen survey are still using proprietary supplier portals (31%) as part of their framework for either direct or indirect supply chains. Typically proprietary networks provide a “closed” network, which in this case means that they are not open to suppliers joining on their own without buyer consent. This infrastructure puts a limitation on the ability to discover suppliers on these networks, but may be designed as such for the purposes...
of the proprietary information being shared related to direct or strategic supply chains for which they are being used; thus these types of networks tend to be closed to outside suppliers unless invited via RFP.

Other networks that are more common in the spend management sphere (recognized as category focused, global commerce networks, order to pay or vertical focused) tend to be more open to suppliers by their purpose and design that essentially allows suppliers to join in a virtual marketplace regardless if they are invited by a buyer. This framework encourages buyers to start discovery and supplier evaluation directly on the supplier network to identify opportunities within an existing commerce framework that can save time, particularly if the supplier is already enabled.

**Pressures in Enabling Suppliers on Supplier Networks**

As the evolution of supplier networks from transaction-focused solutions to true collaborative networks takes shape, key challenges continue to undermine true commerce efforts that underpin the context of supplier enablement and spend management related to supplier networks. The majority of responses shown in Figure 1 point to two core areas: (45%) stating to enable more B2B e-commerce with suppliers and (42%) need to reduce procurement operating costs.

**Figure 1: Top Pressures for Supplier Enablement**

- Need to enable more B2B e-commerce with suppliers: 45%
- Need to reduce procurement operating costs: 42%
- Need to improve quality of supplier information: 24%
- Need to reduce accounts payable operating costs: 18%
- Need to improve channels for communicating with prospective or existing suppliers: 18%

Source: Aberdeen Group, March 2012

The first of these pressures clearly points to the need for improving the use of a technology to increase the electronic exchange of documents which includes those both on the upstream (i.e. RFx) as well as those on the downstream (i.e. purchase orders, invoices). The second points to improvements needed in both process and technology for reducing costs by increasing efficiencies in the communication and transactions between buyers and suppliers. In terms of the third main goal, improving the quality of supplier information (24%), supplier networks provide a means to consolidate supplier collection and information gathering based on the use.

**Who Pays for the Network?**

There are a variety of options supplier networks provide for who pays for its use. Below is a breakdown of how respondents answered in terms of the payment model of supplier networks currently being used:

- √ 30% - Buyer
- √ 23% - Supplier
- √ 11% - Freemium
- √ 5% - Freemium and Buyer
- √ 3% - Freemium and Supplier
- √ 19% - Buyer and Supplier
- √ 11% - All three

*Freemium* – implies a service that is free to join and perform core services; charge for advanced features, functionality or related products and services.
of these suppliers through the network. Moreover, supplier networks are providing a central means that can integrate third-party market data and are allowing buyers and suppliers to collect information throughout the supplier lifecycle.

Part of the challenge for supplier enablement is the pressure put on suppliers to making an investment/business decision for adopting a particular supplier network. For example, as found in B2B Integration and Collaboration: Strategies for Building a ROI Business Case, suppliers recognize a variety of options outside of supplier networks or portals that consist of supplier transactions and document collaboration. The results of 191 survey respondents in that study show that only 11% of organizations used a web-based supplier portal and 6% indicated using a supplier network or marketplace, while a majority of suppliers were still using traditional means such as phone (21%) and fax (15%). Getting to the first step requires more knowledge of how to get suppliers on-boarded, and providing them with an understanding of the benefits that can be gained through their use.

Figure 2: Top Supplier Barriers in Adopting a Supplier Network

<table>
<thead>
<tr>
<th>Barriers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don't know</td>
<td>32%</td>
</tr>
<tr>
<td>There are too many networks to support</td>
<td>27%</td>
</tr>
<tr>
<td>Lack of ability to support technical specifications</td>
<td>27%</td>
</tr>
<tr>
<td>Proprietary nature of the network</td>
<td>25%</td>
</tr>
<tr>
<td>There are too few buyers and suppliers using them</td>
<td>25%</td>
</tr>
<tr>
<td>Cost of subscription for suppliers is too high</td>
<td>20%</td>
</tr>
</tbody>
</table>

Based on Figure 2, it also appears buying organizations need to take a more proactive approach to understand why their supplier may be reluctant to join a supplier network, where 32% of respondents indicated not even knowing what the barrier is keeping their suppliers from joining. This is followed by the lack of ability to support technical specifications (27%), too many networks to support, (27%) and proprietary nature of the network (25%).

These barriers point to a wider macro challenge for providers of supplier networks that is highly-dependent on the ease and flexibility of the supplier network being able to accommodate both buyer and supplier needs, and in the ability to promote the benefits of joining, such as collaboration and document-sharing.

**Strategic Goals for Supplier Networks**

To mitigate challenges of increasing the electronic commerce and reducing procurement operating costs, organizations today are focused on three key goals as a part of their supplier network initiative.

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"We just started our efforts a couple of months back, but the feedback from our suppliers is great. The system was built to be transparent in giving our suppliers the available information needed by them to forecast their business with us, and forecast their cash flow."

~ Systems and Procedures Manager, Oil Development Company, UAE
First and foremost is the idea of optimizing supplier collaboration (41%), which hinges on the ability to understand how to effectively communicate with suppliers and to optimize efficiency, accuracy and profitability. This collaboration starts with understanding supplier needs and priorities in allocating the proper resources with the buying organizations using supplier networks. If proper planning efforts are made, both buyers and suppliers can take advantage of integration infrastructure to accept and receive documents from one another in achieving a common goal of increasing commerce efficiency.

Second, using a supplier network encourages suppliers to increase transactions in an automated electronic basis especially, P2P based transactions such as purchase orders, payments and change orders. For example, 72% of respondents indicated they are using purchase orders through a supplier network, 59% use invoices and 54% use change orders. As adoption looks to be increasing for supplier networks, electronic processes being considered in the next year include many non-transaction based areas such as sharing of compliance documents (e.g. sustainability, conflict minerals, other regulatory documents) (31%), use of sourcing/RFPs (25%) and dynamic discounting strategies (24%).

Third, through the use of supplier networks, organizations create an audit trail of transaction activity that can be used for increasing transparency into a specific process status that can ultimately result in reduced costs and increased efficiencies (i.e. identifying where a payment is, finding an order number, recognizing a supplier ID). In terms of reduced cost, the cost to complete a single requisition to order cycle in ($USD) was $33.45 for those not using a supplier network compared to $22.30 for those using a supplier network. In terms of efficiency, the average number of days to complete a requisition to order cycle averaged 15.5 days for those not using a supplier network versus 11.2 days for those using one.
The Maturity Class Framework

Top-performing enterprises can properly manage their source to settle processes by using improving key process and technologies that automate with their suppliers through supplier networks. As part of this study, Aberdeen used two key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations:

- **Spend under management** is the percentage of direct or indirect spend that a procurement organization manages or controls
- **Spend on the supplier network** is the percentage of total spend captured going through the supplier network

Table 2: Mean Class Performance by Maturity Class

<table>
<thead>
<tr>
<th>Definition of Maturity Class</th>
<th>Mean Class Performance of Contract Management</th>
</tr>
</thead>
</table>
| **Best-in-Class:** Top 20% of aggregate performance scorers | • 80% of spend under management  
• 56% of spend captured on the supplier network |
| **Industry Average:** Middle 50% of aggregate performance scorers | • 61% of spend under management  
• 44% of spend captured on the supplier network |
| **Laggard:** Bottom 30% of aggregate performance scorers | • 48% of spend under management  
• 39% of spend captured on the supplier network |

Source: Aberdeen Group, March 2012

The Best-in-Class PACE Model

Leveraging a modern contract management initiative that incorporates these performance metrics requires strategies, capabilities, and enablers shown in the PACE Framework in Table 3.

Table 3: The Best-in-Class PACE Framework

<table>
<thead>
<tr>
<th>Pressures</th>
<th>Actions</th>
<th>Capabilities</th>
<th>Key Enablers</th>
</tr>
</thead>
</table>
| • Need to enable more B2B e-commerce with suppliers | • Measure supplier performance relative to supplier network activities  
• Implement supplier information management in conjunction with supplier network  
• Increase the percentage of electronic purchase orders transmitted to suppliers | • Updating and connecting supplier information through the supplier network  
• Established a dedicated supplier management / enablement team  
• Purchasing policies are easily shared with suppliers to enforce compliance  
• Integrate data from supplier network into eProcurement, ERP or other back-end enterprise systems | • Centralized storefront / shopping cart  
• Electronic routing for purchase orders  
• eInvoicing (e.g. PO flip, enabled invoice generation for suppliers)  
• Electronic routing for advanced transaction types  
• Supplier self-service / supplier collaboration tools on supplier network  
• Document exchange and sharing |

Source: Aberdeen Group, March 2012
Strategic Actions of Supplier Networks

As an aggregation of data being collected, supplier networks provide a means to assist in creating a consistent and consolidated view of information and data when it comes to contract procurement compliance strategies. Based on the survey respondents, maturity classes across the board are taking actions to improve contract management, purchasing and supplier management initiatives through their supplier networks.

Figure 4: Top Strategic Actions for Supplier Networks

![Figure 4: Top Strategic Actions for Supplier Networks](image)

As Figure 4 shows, all maturity classes across the board are focusing on using supplier networks to provide enhanced inquiry capabilities for contract and purchasing compliance within all the areas of “source-to-pay.” This is followed by increasing the percentage of electronic purchase orders transmitted to suppliers, implementing supplier management aspects on the supplier network (i.e. information and performance) and the increasing number of suppliers identified on the network.

Benefits and Perceptions of Supplier Networks

Based on Figure 5, it interesting to note the difference between how Best-in-Class and their peers are experiencing the benefits of supplier networks. The Best-in-Class are 30% more likely to indicate importance for the reduction of supply chain costs and 80% more likely to share increased supplier collaboration. Differences in stated capabilities may be due to higher adoption of advanced features on supplier networks for Best-in-Class in comparison to their peers in areas such as supplier self-service / supplier collaboration tools (discussed further in Chapter Two).
Figure 5: Top Benefits of Supplier Networks

- Reduced supply chain costs: 48% Best-In-Class, 37% All Others
- Reduction of manual processes: 40% Best-In-Class, 41% All Others
- Improved supplier collaboration: 21% Best-In-Class, 38% All Others
- Increased use of eProcurement Platform: 28% Best-In-Class, 14% All Others
- Reduced procurement costs: 33% Best-In-Class, 24% All Others

Source Aberdeen Group, March 2012

It is noteworthy to also see that all other organizations (the Industry Average and Laggards combined) rank the capture of procurement savings higher than Best-in-Class as a top benefit for using a supplier network. This may be based on the initial efficiencies gained in the early roll-outs of the supplier networks. For example, 34% of Best-in-Class organizations have been using a supplier network for five years or more, compared to 24% for all others. It would therefore appear that those using supplier networks for a shorter time initially see the benefits directly impacting procurement whereas, while those using it longer begin to see the benefits across wider "supply chain" processes.

Perceived Value of Supplier Networks

Despite perceptions of supplier networks being prohibitive, increased interest in supplier networks is evident based on the market consolidation of vendors and increased partnering of solution providers across networks. Aberdeen attributes this increased demand to a continued need to drive costs down, improve supplier insights and the goal to take advantage of positive developments in cloud technologies. Figure 6 demonstrates the priority enterprises assigned to supplier network activities where 14% of survey respondents consider supplier networks critical and 43% consider them very important.

Figure 6: Enterprise Priority for Supplier Networks

Don't know, 1%
Critical, 14%
Very Important, 43%
Neutral, 12%
Moderate, 13%
Low, 17%

Source Aberdeen Group, March 2012

“We are currently rolling out a supplier network program with a client. The concern is utilization and getting suppliers on-boarded. With new ERP’s, the portals present a challenge if you are wanting to leverage a third party network. We may have to manage two IDs.”

~ Consultant for Anti-Virus & Security Technology Software
Chapter Two: Benchmarking Requirements for Success

Best-in-Class organizations make effective use of supplier networks for key process areas that are tied to the wider goal of identifying process efficiency, but are also impacted by decisions based on the underlying technology used for managing source-to-pay processes. In fact, nearly a third (31%) of respondents selected a supplier network based on its e-procurement/P2P platform.

Supplier Network Case Study

A $3 billion rent-to-own operator with over 23 retail installments was challenged to improve the management of its indirect spend. The task of improving the management of $500M worth of indirect spend was given to the Senior Director of the Procure-to-Pay (P2P) who directly reported to the CPO. The procurement team also consisted of a manager reporting to the senior director. Reporting to the manager were 11 people, three of which were specifically focused on procurement.

Not new to e-procurement and supplier networks, the Senior Director was familiar to the space with two previous implementations of e-procurement platforms prior to the current tool. Today, the indirect spend landscape is managed using a new SaaS-based e-procurement tool for procure to pay processes, while a separate upstream platform is used for managing spend analysis, strategic sourcing and contract management.

The selection of the supplier network in question came “hand-in-hand” with the e-procurement platform. When the organization went out to bid on different products they looked at many platforms, but were looking for something with core functionality that was not overblown and was easy to use for end users and easy to administer for the procurement team. The procurement team was ultimately looking for a way to gain efficiencies through a simpler straightforward procurement tool and an easier means to use the supplier network to its full potential.

As part of the process of on-boarding suppliers, the e-procurement tool directly integrated the on-boarding of the supplier with the supplier network which made the process for inviting suppliers to join the network a relatively seamless process, essentially sending them an invite with some credentials after a buyer request was made in the system. Once a submission is made, the supplier master in the e-procurement tool denoted the supplier as linked, and thus is added as part of the supplier network.

continued

Fast Facts

- The average number of days to complete a requisition to order cycle averaged 15.5 days for those not using a supplier network versus 11.2 days for those using one.
- The cost to complete a single requisition to order cycle in ($USD) was $33.45 for those not using a supplier network compared to $22.30 for those using a supplier network.

"Success has been with ease of use. The adoption has been simple and straightforward. However improvements could be made in the area of catalog loading and approval via the supplier portal. This functionality is available, but is currently not able to add custom fields to the catalog template."

~ Senior Manager
Global Sourcing
Sustainable Plastic Packaging Provider
Supplier Network Case Study

The list suppliers for products today is still very small, but currently the organization has implemented four punch-out catalogs and roughly 30 on-board catalogs with suppliers on the supplier network. These catalogs encompass roughly 165 categories ranging from CAPEX, Furniture and Fixtures, IT, Office supplies, Marketing, and Services.

Overall, the biggest benefit from using the e-procurement platform in conjunction with the supplier network has been an “efficiency kick”– i.e. high-volume / low-dollar invoices and funneling those types of suppliers into the supplier network. The cost to processing hasn’t changed much from one system to the next - the cost to process and invoice has relatively stayed the same at around $3.60 per invoice. However, the efficiencies gained from converting manual processes to automated ones for supplier on-boarding, PO processing and invoice handling, has allowed the organization to reduce overhead and cut costs by remove resources that were previously needed to complete the same tasks now being accomplished online in the supplier network.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of 121 organizations to determine whether their performance ranked as Best-in-Class. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) process (the approaches they take to execute spend analysis operations); (2) organization (corporate focus and collaboration among stakeholders); (3) knowledge management (contextualizing spend data and exposing it to key stakeholders); (4) technology (the selection of the appropriate spend analysis tools and the effective deployment of those tools). These characteristics (identified in Table 4) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 4: The Competitive Framework

<table>
<thead>
<tr>
<th></th>
<th>Best-in-Class</th>
<th>Average</th>
<th>Laggards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Process</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Updating and connecting supplier information through the supplier network</td>
<td>59%</td>
<td>55%</td>
<td>36%</td>
</tr>
<tr>
<td>Suppliers take ownership of catalog content while still ensuring buyers have control of content and pricing</td>
<td>49%</td>
<td>31%</td>
<td>21%</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive sponsorship of supplier enablement activities</td>
<td>54%</td>
<td>39%</td>
<td>30%</td>
</tr>
<tr>
<td>Established a dedicated supplier management / enablement team</td>
<td>42%</td>
<td>38%</td>
<td>33%</td>
</tr>
</tbody>
</table>
Best-in-Class Capabilities

Best-in-Class organizations rely on specific process, organization, knowledge, technology, and performance factors to improve “source-to-pay” processes. As part of this aspect, supplier networks are playing a key role for how organizations are changing their ability to conduct B2B commerce activities with suppliers. While the competitive framework provides a general overview of these capabilities, the following section provides an analysis of the comparative capabilities led by Best-in-Class organizations.

"Generally speaking, one of the main challenges experienced currently and in the past was with the on-boarding of smaller suppliers. For instance, a lot of work was necessary in getting smaller suppliers that could not work with XML or EDI on their own."

~ Sr. Director Procure to Pay National (US) chain of Rent-to-Own Stores
**Process: Beyond Transactions into Supplier Management**

One of the main developments in supplier networks is the increased focus on processes managing supplier based information through supplier networks. One example of this is in the updating and connecting of supplier information via the supplier network. With a higher usage of supplier networks as part of their supplier management strategy, Best-in-Class organizations are 63% more likely than Laggards to update and connect supplier information through a supplier network than Laggards. The information being shared goes beyond transaction data and focuses on getting a more holistic picture of a supplier for mitigating supplier risk and improving performance. Best-in-Class organizations are also 37% more likely to share compliance documents on suppliers (e.g. sustainability, Foreign Corrupt Practices Act, conflict minerals, and other regulatory documents) over the supplier network than both Industry Average and Laggards.

Another process area in which Best-in-Class are advancing is related to supplier network usage, which hinges on increased supplier interaction and activity. In this regard, 31% of Best-in-Class organizations stated their suppliers had improved visibility into their processes compared to 19% for Laggards. Evidence for this is also shown in the ability to increase supplier participation in efforts normally pushed by the buying organizations in the past. For instance, the Best-in-Class are 3.7 times more likely to use supplier self-service / supplier collaboration tools on the supplier network than Laggards. This also translates into more participation by suppliers on supplier networks and a feeling of empowerment for suppliers. In another example, Best-in-Class suppliers are 1.3 times more likely to take ownership of catalog content, while still ensuring buyers have control of content and pricing.

**Organization: Establishing Support for Supplier Enablement**

Similar to past Aberdeen reports on supplier enablement and supplier networks, securing executive support of supplier enablement efforts is an important aspect for promoting the use of technology to enable transactions. The Aberdeen report, *B2B Integration and Collaboration: Trading Partner Enablement for Multi-Enterprise Supply Chains*, shows that 53% of respondents do not have top level management support and 70% of respondents do not have a good alignment between line of business and IT teams with respect to B2B integration and collaboration.

Nearly 70% of the Best-in-Class assign a high level of priority to supplier network-focused activities at ‘very important’ to ‘critical,’ compared to 52% for all other organizations. A sign for the higher priority is demonstrated through the ability to create dedicated supplier management / enablement teams, something 42% of Best-in-Class companies have established compared to 33% of Laggards. Supplier network promotion must also be communicated from the corporate office and dictated / shaped by wider organizational strategies. The lack support prevents adoption of suppliers into the network and opportunities that can promote collaboration and improve visibility into the entire source-to-settle process. In this regard,
Best-in-Class organizations are 80% more likely than Laggards to have executive sponsorship of supplier enablement activities.

**Knowledge Management: Knowledge for Compliance**

Knowledge management with regard to supplier networks is driven on the ability to share information with suppliers for leveraging a common commerce goal or objective. Organizations that effectively share corporate policy and procedure through supplier networks can leverage the power of the network to communicate to their suppliers. Best-in-Class organizations are 74% more likely to have standardized supplier enablement processes on the supplier network than Laggards.

By providing knowledge of purchasing policies and procedures over the network, leading organizations are also able to not only promote the use of supplier network for automating source to pay, but also on a more fundamental aspect of procurement, attain compliance. For instance 63% of the Best-in-Class stated a key action item was in achieving contract and procurement compliance compared to 52% for Industry Average and Laggards.

This higher focus on compliance is reflected in the Best-in-Class ability to keep maverick spend low through a combination of contract management efforts and use of supplier networks. For instance, the Best-in-Class are 31% more likely to have implemented a contract management solution, while having a lower average maverick spend at 9% (compared to 18% for all other organizations). By sharing purchasing policies on the supplier network, suppliers are likely to be more aware of policy and procedures that can contribute to reducing maverick spend. In this regard, the Best-in-Class are 46% more likely to describe an ability to easily-share purchasing policies with suppliers for enforcing compliance.

**Performance Management: Supplier and Spend**

Best-in-Class organizations are 63% more likely than Laggards to be able to establish well-defined metrics for incentives and penalties for their suppliers through the use of documentation and supplier related sites affiliated with the supplier management teams. Establishing or extending these programs through a supplier network also increases the visibility to both existing and potential suppliers.

Another performance management capability is their higher use of supplier community risk and performance-scoring of suppliers. Modern supplier networks enhance the ability to identify and manage suppliers through the use of third-party integration services. In this regard, the Best-in-Class are 1.2 times more likely to have this type of capability than Laggards.

**Technology: Looking at Traditional vs. Emerging Areas**

"Our business has a strong history of sourcing from China, but as a result of increased pricing pressures we were compelled to try and identify alternative suppliers through the supplier network connectivity of our cloud based e-sourcing platform. Based on the discovery feature we were able to identify a local supplier for procurement efforts allowing us to reduce lead time from 120 days to 30 days. Through this effort not only are we saving time, but we've also been able to locally source a key product with a provider in our backyard."

~ Strategic Sourcing Manager
US-Based Craft Store Manufacturer
catalog management, purchase order generation and electronic invoicing. One area that could be highlighted is in the higher enablement of centralized store fronts / shopping carts as part of the integration between supplier networks and back end systems. Higher enablement in this area demonstrates an advanced ability to promote the usage of e-procurement investments in conjunction with supplier network efforts, and is a primary reason for the use of the supplier networks. This finding also comes in tandem with the ability to integrate data from supplier networks into e-procurement, ERP or other back-end enterprise systems, a technical capability Best-in-Class are four times more likely to have than Laggards.

**Figure 7: Traditional Usage of Supplier Networks**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Best-in-Class</th>
<th>All Others</th>
<th>Source Aberdeen Group, March 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Catalog management</td>
<td>44%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>Centralized storefront / shopping cart</td>
<td>31%</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>Electronic catalog connectivity (e.g. punch-out, round-trip)</td>
<td>36%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>Electronic routing for purchase orders (e.g. EDI)</td>
<td>38%</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>Electronic routing for purchase orders (e.g. XML)</td>
<td>52%</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>eInvoicing</td>
<td>34%</td>
<td>43%</td>
<td></td>
</tr>
</tbody>
</table>

**Emerging Areas for Supplier Networks**

Another look at supplier networks provides insights into areas that are expanding the purpose of using these solutions. Based on Figure 8, it is evident the Best-in-Class are leveraging the cloud capabilities for business document archival, supplier collaboration, and supplier discovery / sourcing available on supplier networks at higher levels than their peers. For instance, Best-in-Class organizations are 69% more likely to use business document archival on the supplier network and 1.1- times more likely to be using a supplier self-service feature with their suppliers. Areas that are expected to influence the use of supplier networks include the trend of supplier discovery / sourcing and working capital management (dynamic discounting). Already a part of many vertical-focused consortiums in areas like automotive and aerospace, Aberdeen projects that the trend of supplier management and payments is expanding into network platforms identified as global supplier and order-to-pay that generally have evolved off of e-procurement frameworks. By broadening the functionality, these changes demonstrate the evolution of supplier networks today from “buyer-centric” tools to commerce centric platforms.

“We do not believe in one model only in leveraging a supplier network for invoicing. In fact there is room for roaming network and direct connection and some paper invoices. Our organization wants to be open to the sharing of the invoices between the different providers (whether e-Invoicing or software development). In fact including cost, the openness of the supplier network from an eInvoicing perspective was a key selection criteria since we are working in multiple countries in Europe and expanding into a more global footprint.”

~ Director
Global Telecommunications Company
Establishing a Basis for Choosing Supplier Network

Survey respondents are looking at a number of options related to how they select a supplier network. The top reason for both Best-in-Class (52%) and all others (36%) points to an independent process by which the supplier network was evaluated to integrate with the back-end purchasing and / or AP system. This is an indicator that supplier networks are being chosen outside of the traditional “catalog/purchase” rubric and considers areas such as invoicing as a determining factor given multiple enterprise platforms and ease of integration. This is followed by a more platform driven approach of selection based on a pre-connected / affiliated e-procurement platform (38% for the Best-in-Class, 29% for all others) and third based recognition/used by most others in the industry (21% for the Best-in-Class, 24% for all others).

Figure 9: Primary Reasons Why Supplier Network Was Chosen

"With most of our clients the invoice and payment process is a black box as to when we are going to see payments from our customers. By using our solution we are able to understand exactly where the invoice is in the payment process, and when payment will be received. As such, we can plan accordingly. In addition by using dynamic discounting we are able to accelerate payment by accepting a small concession of a few basis points to receive payment up to 45 days earlier. As a company growing three-times year-over-year, this dramatically accelerates our ability to invest in new features and provide exceptional service to our customers. Further, we see the benefit of the supplier network; because once we are vetted and setup on the network, we can operate with our Fortune 100 customers the same way a much larger company with larger infrastructure is able to."

~ Carson Conant, CEO
Mediafly
Leading Enterprise Presentation Platform Provider
Chapter Three: Required Actions

All organizations need to evaluate their current use of supplier networks and understand the benefits of achieving the next state of maturity. Considering the wide landscape and taxonomy of supplier networks illustrated in Chapter One, organizations have different reasons for enabling supplier networks as part of their infrastructure but all share common challenges in improving buyer supplier relations for enabling commerce activities. Each of the maturity classes described in this report could improve in certain areas. The following are some of these areas:

Laggard Steps to Success

- **Increase the percentage of electronic purchase orders transmitted to suppliers.** Industry Average organizations are 65% more likely to take this as an action item than Laggards. Therefore, Laggards should be looking to increase the amount of purchase orders pushed electronically for increasing process efficiency. For instance, the percentage of total purchase orders transmitted electronically to supplier (excluding fax and email) as stated by 48% for Industry Average compared to Laggards for 37%. Increased volume of electronic POs also translates into a shorter requisition-to-order cycle of 7.34 days for Industry Average compared to 15 days for Laggards.

- **Enable integration of supplier discovery with strategic sourcing activities.** Laggards need to look into the use of identifying more potential suppliers on supplier networks if they are using networks that are open to supplier discovery and sourcing capabilities. Only 18% of Laggards indicated they are using supplier discovery and sourcing as a technical enabler on their supplier network with Industry Average being 93% more likely to have this capability than Laggards. Increasing these efforts helps to promote suppliers on joining “open” supplier networks as well assisting organizations in identifying suppliers that can meet unique requirements such as compliance, diversity or regional requirements that may have not been identified otherwise.

- **Improve management of disputes through supplier network collaboration.** Improving the process of resolving supplier disputes (particularly through the supplier network) translates into lower cycle times for document exchange and transactions. In this regard, the Industry Average are 1.6 times more likely to have this capability compared to Laggards. One way for improvement in this area is by suppliers taking ownership of catalog content while still ensuring buyers have control of content and pricing. This empowers suppliers to exchange catalog information through the network while ensuring the buying organization has control over the buying process. Industry Average companies are 48% more likely to have this capability than Laggards.
Industry Average Steps to Success

- **Develop access to outsourcing / knowledge of content management services.** One key feature that many networks provide is the ability to outsource key implementation and integration of services through the supplier network. This capability saves time and money for buyer and supplier resources to focus specifically on the business processes versus technical integration setup of document transaction mechanism (i.e. EDI, XML) and other enablement requirements. In fact, the Best-in-Class are four-times as likely as the Industry Average to be using these types of services.

- **Implement community risk and performance-scoring.** The Best-in-Class are 83% more likely than the Industry Average to implement community risk and performance-scoring mechanisms as part of their supplier network strategy. Having this information on the network provides further insights into existing and prospective suppliers that may already be on the network while providing a more accurate perspective of the risks and how suppliers are performing relative to buyer needs. This capability also provides a way to decrease the time to identify potential supplier alternatives that may already be enabled and ready to do business on the supplier network.

- **Leverage business document archival.** Archiving of historical transactions is critical for auditing, reporting, and other functions. By archiving documents, organizations are able to see the history captured in a viewable and online format on the supplier network. Many platforms often allow the maintenance of transaction data for up to a year or more for the purposes of auditing and storage. In this regard, Best-in-Class organizations are 63% more likely than the Industry Average to use business document archival on a supplier network.

Best-in-Class Steps to Success

- **Leverage social networking to engage in discussions and collaboration around suppliers.** Only 10% of Best-in-Class organizations indicated having implemented social networking to engage in discussions and collaboration around suppliers. As leaders in their peer group, those identified as Best-in-Class organizations should continue to adopt areas that incorporate the use of social networks as they relate to the ability to create user based content, obtain feedback and obtain supplier ratings at large. Still an evolving area, information from social networking ties into the wider ability to manage supplier information through supplier networks.

- **Integrate working capital management into supplier network approaches.** As a newer aspect developing in procurement and payables management, not all supplier networks currently provide this capability. Only 8% of Best-in-Class organizations indicated having currently implemented dynamic

"We have progressed to the point that our entire preferred and manufacturing approved supply base is connected and has access to updates, quotes, and communication with our company."

~ Supply Chain Manager
Global Product & Parts Manufacturer for Semiconductor & Technology Industries

Aberdeen Insights

The use of Electronic Data Interchange (EDI), which started the vision of electronic commerce in the mid-1960s, was driven by desire for the paperless office that could improve communication with suppliers and potentially eliminate potential keying errors from manual entries.

With the development of standards like ANSI X12 for EDI and Extensible Mark-up Language (XML) in concert with the explosion of the Internet, a commerce framework was created for transacting and exchanging information between buyers and suppliers.

It is in this context from which the idea of "supplier networks" really emerged about a decade ago.
discounting as a part of a supplier enablement or supplier network initiative. However, 22% are planning to implement a dynamic discounting solution within the next 12 months.

### Aberdeen Insights — Summary

In conclusion, supplier networks have a long way before there is an oligopoly of supplier network players where switching is as easy as a mobile phone plan. But reasons for the increased interest in supplier networks are still based on the initial idea of a decade ago in creating paperless commerce. Aberdeen believes the renewed and ongoing development of supplier networks is based on increased market activity (i.e. acquisition and partnerships) and technology investment pointing to three core areas within the context of the modern supply chain:

1. **Ongoing challenge of lowering costs through automated purchasing and payments.** This is the ongoing goal of creating a uniform platform for managing transactions and solving the challenge of improving ordering and payment efficiencies through the expansion of these activities on a common transaction platform.

2. **Improving sourcing and supplier information insights for reducing supplier risk and improving performance.** This is the ongoing goal of pushing or expanding the means to improve supplier management via document collaboration, market insights and discovery/identification. The use of a common network for buyers and suppliers promotes information sharing and increases visibility into spend.

3. **The ongoing evolution of B2B e-Commerce within the “cloud-based” frameworks.** Expansion into social and mobile aspects in the cloud for business, and its influence on decision making provides new frameworks that can expanding technology networks to improve access to information and the ability manage communication and commerce transactions.

Ultimately, the question of using a supplier networks is not an “if” but a “how.” With the changes taking place in an increasingly-focused global economy, organizations will continue to look for ways to leverage the connectivity of the “network.” In looking at the past critiques of supplier networks, v1.0 was the lack of the ability to connect and collaborate; to see the full fruition of supplier networks the market trend will continue to see technology driven in finding new and innovative ways to bring buyers and suppliers together for supplier networks v2.0 - doing commerce in the cloud.

"Suppliers in our marketplace have seen increased sales and transaction volume immediately during the initial year. Some suppliers see a plateau after the initial year, but most experience steady growth. The few suppliers which have seen no growth or a decrease were ones who did not actively promote their products and services on-site. Our supplier network provides the opportunity for growth, but it falls back on the supplier to utilize the opportunity."

~ Purchasing Systems Administrator
Disease Research Institution
Appendix A: Research Methodology

In March 2012, Aberdeen examined the use, the experiences, and the intentions of 121 enterprises using supplier networks in a diverse set of industries. Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on strategies, experiences, and results. Responding enterprises included the following:

- **Job title:** (21%) Executive (CEO, President, Chairman, EVP/SVP, CFO / VP Finance / Controller), (2%) CIO / VP IT, CTO, (20%) Procurement / Sourcing Manager, (3%) Partner/Principal, (12%) Director, (20%) Manager, (4%) Staff, (12%) Consultant, (6%) Other

- **Department / function:** The research sample included respondents from the following departments or functions: (38%) Procurement, (18%) Logistics / Supply Chain, (9%) Sourcing, (6%) Business Process Management, (5%) Business Development / Sales, (5%) Operations (4%) Information Technology, (4%) Finance, (11%) Other

- **Industry:** The research sample included respondents from various industries which included: Aerospace and defense, Apparel, Automotive / other vehicles, Chemicals, Computer equipment, hardware or peripherals, Construction/Engineering, Consumer Electronics, Consumer packaged goods, Education, Field / repair services, Financial services, Food / beverage / General Manufacturing, Government, Health (medical/dental devices), Industrial equipment manufacturing, Insurance, Industrial product manufacturing, IT consulting, Oil/Gas, Pharmaceutical, Software, Telecommunications, Transportation, Travel, Utilities, Wholesale Distribution

- **Geography:** The majority of respondents (46%) were from North America. Remaining respondents were from Europe (33%) and Asia-Pacific region (12%) and Middle East & Africa (7%), (2%) South/Central America and Caribbean.

- **Company size:** 39% of respondents were from large enterprises (annual revenues US $1 billion or above); 18% were from enterprises (annual revenues between $250 million and $1 billion); 19% were from enterprises (annual revenues between $50 million and $250 million); and 24% of respondents were from small businesses (annual revenues of $50 million or less).

- **Known Headcount:** 30% of respondents were from large enterprises (headcount greater than 2,500 employees); 29% were from midsize enterprises (headcount between 251 and 2500 employees); and 28% of respondents were from small businesses (headcount between 1 and 250 employees) (13% - Don’t Know or Don’t Measure)

### Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- The evolution of supplier management from its beginnings of tactical transaction approaches to strategic use a collaborative commerce tool.
- Increased automation and sharing of data such as supplier certifications being used as of supplier networks today.
- Better understand the basis for how supplier networks are selected as part of an enterprise framework.
- See the expanded use of supplier networks into areas outside of invoicing and payment that now are beginning to capture working capital management.
- Increased priority being assigned to supplier networks as result of technology changes driven by cloud frameworks.
Table 5: The PACE Framework Key

<table>
<thead>
<tr>
<th>Overview</th>
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</table>
| Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:  
  **Pressures** — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)  
  **Actions** — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)  
  **Capabilities** — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)  
  **Enablers** — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management) |

Source: Aberdeen Group, April 2012

Table 6: The Competitive Framework Key

<table>
<thead>
<tr>
<th>Overview</th>
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</table>
| The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:  
  **Best-in-Class (20%)** — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.  
  **Industry Average (50%)** — Practices that represent the average or norm, and result in average industry performance.  
  **Laggards (30%)** — Practices that are significantly behind the average of the industry, and result in below average performance.  

In the following categories:  
  **Process** — What is the scope of process standardization? What is the efficiency and effectiveness of this process?  
  **Organization** — How is your company currently organized to manage and optimize this particular process?  
  **Knowledge** — What visibility do you have into key data and intelligence required to manage this process?  
  **Technology** — What level of automation have you used to support this process? How is this automation integrated and aligned?  
  **Performance** — What do you measure? How frequently? What’s your actual performance? |

Source: Aberdeen Group, April 2012

Table 7: PACE and the Competitive Framework

<table>
<thead>
<tr>
<th>PACE and the Competitive Framework – How They Interact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, April 2012
Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- **Dynamic Procurement: The CPO as Collaborator, Innovator and Strategist**, Benchmark. August 2011
- **Supplier Networks: Moving Beyond the Traditions of E-procurement**, Research Brief. June 2011

Information on these and any other Aberdeen publications can be found at [www.aberdeen.com](http://www.aberdeen.com).

Author: Constantine G. Limberakis, Senior Research Analyst, Global Supply Management, (constantine.limberakis@aberdeen.com)

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