

Partnering to Procure the Network Effect

*Using the Internet to
gain control of procurement
gives Ariba's partners
network access to the 'last
untapped gold mine in
Corporate America.'*

FDX is in the business of selling supply chain solutions and business process re-engineering. Who did it turn to for its own Maintenance, Repair and Operations (MRO) management system?

"Ariba," says Toby Redshaw, vice president, Global Supply Chain Integration for FDX's Federal Express unit, Collierville, Tenn. "Since that's our bread and butter, and we turned to them for our own MRO procurement system, that's a strong statement."

Faced with increasing competition from global markets, many companies are now looking for better ways to improve productivity and manage costs in the procurement of business operating resources – purchases made by organizations required to conduct daily business activities not materially tied directly to production. Such purchases include information technology and telecommunications equipment; professional services; and recurring MRO items, such as office supplies, repair parts and maintenance, printing and travel services.

Historically, operating resource procurement has been burdened with high administrative costs, significant off-contract spending, and increased prices for goods and



by Thomas Van Housen

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services. The Internet today allows organizations to participate in newly established services like the Ariba Network to radically change their procedures and reduce these burdens and costs through eProcurement. Says Redshaw, “With the Ariba system in place, I have absolute, detailed, down-to-the-penny numbers, and I get them in front of my CFO and my bosses as often as I can.”

Building customer relationships

At the center of this trend is the building of customer relationships. To paraphrase Freud, companies still wonder, “What do customers want?”



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For Redshaw, the answer is simple. “I’m not interested in cutting deals that end up based on cost only, where I’m your lowest margin customer. I’m interested in creating long-term partnerships where I have very solid, high-quality supplier

relationships.”

Partnering with Ariba Inc., FedEx has integrated Ariba’s Operating Resource Management System software, or ORMS, for nearly all of its 145,000 employees worldwide. Redshaw explains that his company’s goal is to become the favorite of every supplier it deals with. “We’re mandating to our vendors that they use this system as the means of getting information to the people at FedEx who are buying the goods, thereby simplifying their end of the business. Right there, our vendors have got savings. We are now easier and cheaper to do business with.

The vendors love that; it shows up on their income line.”

Since 1984 FedEx has been putting devices in customers’ offices to automate their logistical processes, such as tracking, paperwork, and invoicing. Today, all the hardware

procurement for enabling customer sites – some 40,000 items including desktop computing, peripherals and small servers – along with FedEx’s own office supplies and other Maintenance, Repair and Operations buying, now flows through ORMS on the company’s intranet.

Teamwork for the launch

Ariba and FedEx launched the eCommerce initiative within three months of signing the contract. Redshaw has high regard for the implementation support team at Ariba. “They’ve been the best in implementation partnering I’ve ever seen. There are some tough technical implementation process issues with a system like this. We could stumble through it and figure it out, but whenever we needed them, they’d parachute in one of their smart people and we’d be done in a day instead of two weeks. Or often, proactively, I’d have monthly meetings with my counterpart on the team at Ariba and the other vendors on this, KPMG and PeopleSoft, and the Ariba folks would say, ‘You know, I’ve looked at your project plan and I think this is going to be a real tough nut to crack a couple of weeks from now. We’ll have somebody there with you.’ That’s the opposite of normal behavior. The Ariba software is really just the glue – it’s the user interface, the value-add for the

Network

users. One of the hard parts is underneath. You have to change the way your business works, and that's where a lot of the financial savings come from...the efficiencies, the speed at which you do business."

Redshaw looks back to the early business planning stages and recalls, "We are very, very stingy with capital inside FedEx. Return on capital is something our owners, like any good shareholders, are focused on. So we compete with ourselves internally for capital. There's a set amount of capital, and you have to clear a very arduous ROI hurdle to even get into the internal fight over who gets what capital. And that's a smart way to do things because you want your return on capital to be optimized."

Early returns

As Redshaw explains, "We wrote up our business case, projecting our three-year return, saying 'this is how much will have to hit the income line to justify our spending the money and the time on this project.' We got the project approved and we got funded, which means we'd cleared those pretty stringent hurdles. By December 1999, eleven months into the project, we had booked all of the anticipated three-year ROI – more than three times the estimated return that we used to get the project approved. For any typical company, operational resource spending is normally 20 to 30 percent of the entire expense budget. If you can save five to 10 percent of that, it's just huge."

The spend initiative

The Operational Resource Spend initiative at FDX involved three key areas of focus: Technology (Ariba,

PeopleSoft, Inacom), Business Process Re-Engineering (FedEx, along with consulting partner KPMG, applying these principles to streamline its own internal MRO procurement practices), and Logistics.

"The vast majority is always the physical stuff," says Redshaw. "The Internet and Ariba do two things for you. They speed up your business. They digitize a bunch of old and inefficient physical processes. They allow you to aggregate spend to achieve huge dollar savings. Whether you're talking business-to-business commerce or you're talking a radically re-engineered internal supply chain, there's one common thing: most of what is acquired or sold is physical goods.

"Now, what do you need in that environment? You need a huge physical network. You need a digital network layered on top of that, because you have to have information about every transaction. No one is buying 'We're really, really good.' They're buying 'We're really, really good and we can prove it.'

"The real value is being able to take that data and pass it along to customers. So who's tightly plugged into the future of the Internet, knows how all of that works, and has had years and years of playing in that kind of space? Who has a big physical network with a huge digital network layered on top of it that can move all the physical goods coming out of either an internal supply chain or B2B? It's FedEx. If the Internet didn't exist, we'd have to invent it. It's just a perfect fit for us."

Business benefits

Redshaw emphasizes the business



Staples IS Manager

Marcia Mitchell directed the team that implemented and rolled out ORMS. "Our ultimate goal is to cut the cost and hassle of running our own business, and negotiate better contracts by being able to automate a lot of what was previously done in a manual fashion."



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benefits of using ORMS and the Ariba Network:

◆ **Prevents maverick buying.** “How do you stop rogue spending? You can threaten them; the carrot or stick approach. But, how do you benefit-sell it? Here’s an easy-to-use, walk-up interface. You don’t even have to leave your desk and that stuff will be in your hands by tomorrow or the next day.”

◆ **Aggregating all of the spend to get a deeper discount.** “FedEx can open the books to better negotiate with suppliers and achieve the best prices.”

◆ **Aggregating the demand.** “To create competition and do opportunistic buying.”

◆ **Streamline.** “Planning for implementation of this new, cool technology allows for business process re-engineering to simultaneously take fat out of the process. In some processes we’ve eliminated half of the steps.”

◆ **Redeploy talent.** “Right off the bat, 13 people who had been doing manual PO processing are now redeployed doing more value-added stuff.

“FedEx is one of the only companies I’ve seen where people actually try to work themselves out of a job. You get rewarded for that here. Create a new process where there’s no need for you anymore and we’ll give you something else cool to do. What Ariba does fits right into our culture. The employees love it!”

Strategic sourcing at Seagate

Dan L. Whitney, director of Worldwide Indirect Material at Seagate Technology, Inc., Scotts Valley, Calif., couldn’t agree more.

In its worldwide effort to move to strategic sourcing, Seagate, the world’s largest manufacturer of disk drives, magnetic disks and read-write heads, is using Ariba to free up MRO resources. “We’ve totally revamped internally what we call indirect purchasing by taking people out of traditional tactical buying, where they’re punching in orders all day long, and setting them up in very strategic commodity management positions.

“Seagate is at the leading edge of eProcurement because we’re the first company to take it from a domestic to an international implementation,” explains Whitney. “Ariba is our partner, part of our team.”

To land the Seagate account, Ariba achieved perfect scores – five out of a possible five – in the following critical areas: Technology, Quality, Cost of Ownership, Flexibility and Service. “The big ERP-type companies [we looked at] slipped in the last two areas, Flexibility and Service, because they’re so huge that they can’t help it – it’s built into their product. And so anything we did within their product was going to slow down the performance of our base ERP system,” says Whitney. “We use the Oracle system. With Ariba as a bolt-on, with its own workflow, it just takes data from the system.”

Partnering front to back

In February, 1999, Staples Inc., Framingham, Mass., was named a “Cornerstone Supplier” in the Ariba network, integrating its supplier catalogue content with Ariba’s ORMS.

That initial partnership quickly led to Staples’ implementing ORMS for its own internal MRO procure-

Seagate...is using Ariba to free up MRO resources

ment initiative.

Marcia Mitchell, IS manager at Staples Inc., directed the team that implemented and rolled out ORMS to 2,000 users in the company's corporate environment. "We use the Ariba system to purchase commodities, do travel and expense reporting, receive electronic invoices from our suppliers, and for various accounting systems," Mitchell says. "We've put mechanisms in place to gain efficiencies in placing orders, and validate information with Accounting for payment and faster expense report reimbursement. Our

ultimate goal is to cut the cost and hassle of running our own business, and negotiate better contracts by being able to automate a lot of what was previously done in a manual fashion."


The rush is on

In partnering with Ariba to install ORMS and gain access to the Ariba Network, buyers and sellers are using eCommerce and the network effect to deepen their business-to-business relationships. Sellers are using the inherent transparency of the network to electronically extend

their offerings to their customers' desktops, while at the same time prospecting for new customers.

This same network transparency gives buyers a golden opportunity to aggregate spend and determine the best providers for each element of their MRO procurement. And perhaps most important, organizations are, for the first time, able to incorporate business rules into the network itself to electronically manage and control the entire process.

As FedEx's Redshaw says, "It's the last untapped gold mine in Corporate America."

The rush is on. 

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