



SAP Ariba 

Key findings and trends from **SAP Ariba** **Benchmarking 2015 - 2017**

Kory Manley, SAP Ariba

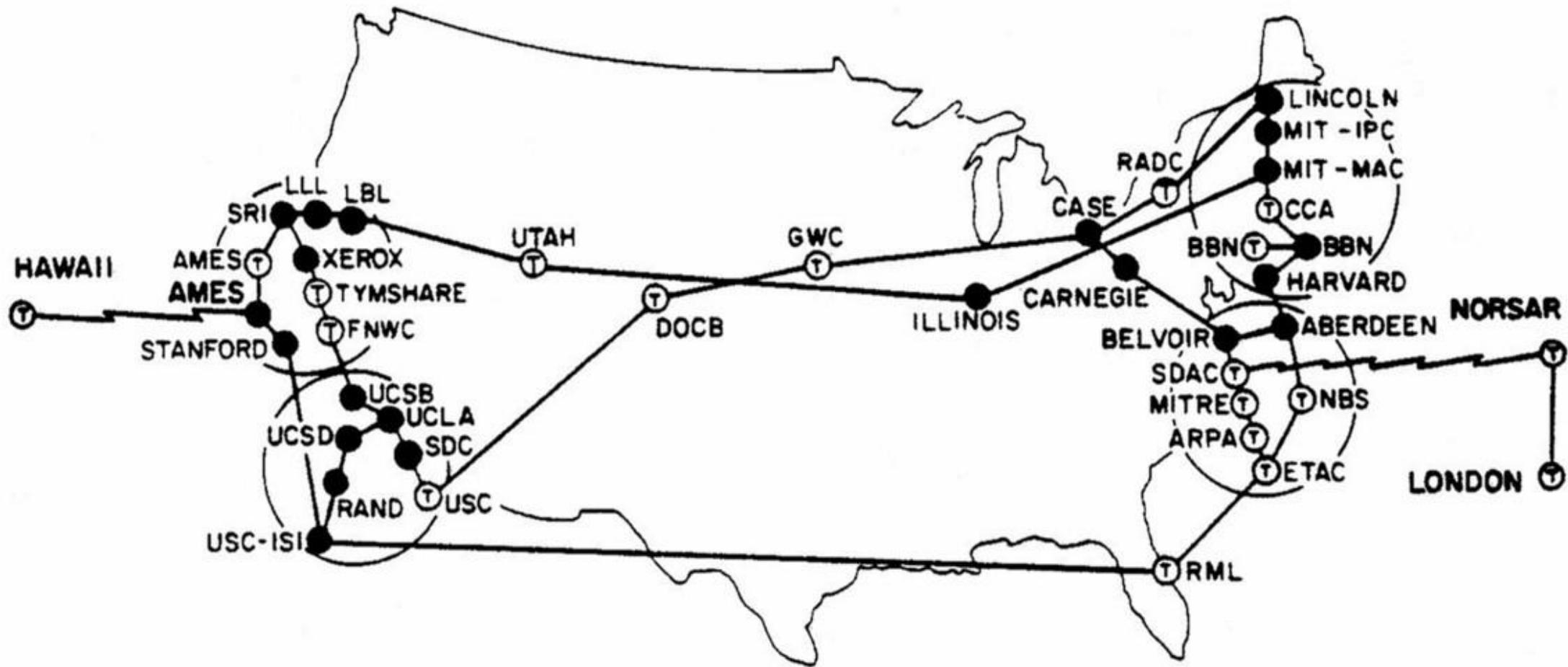
CONFIDENTIAL

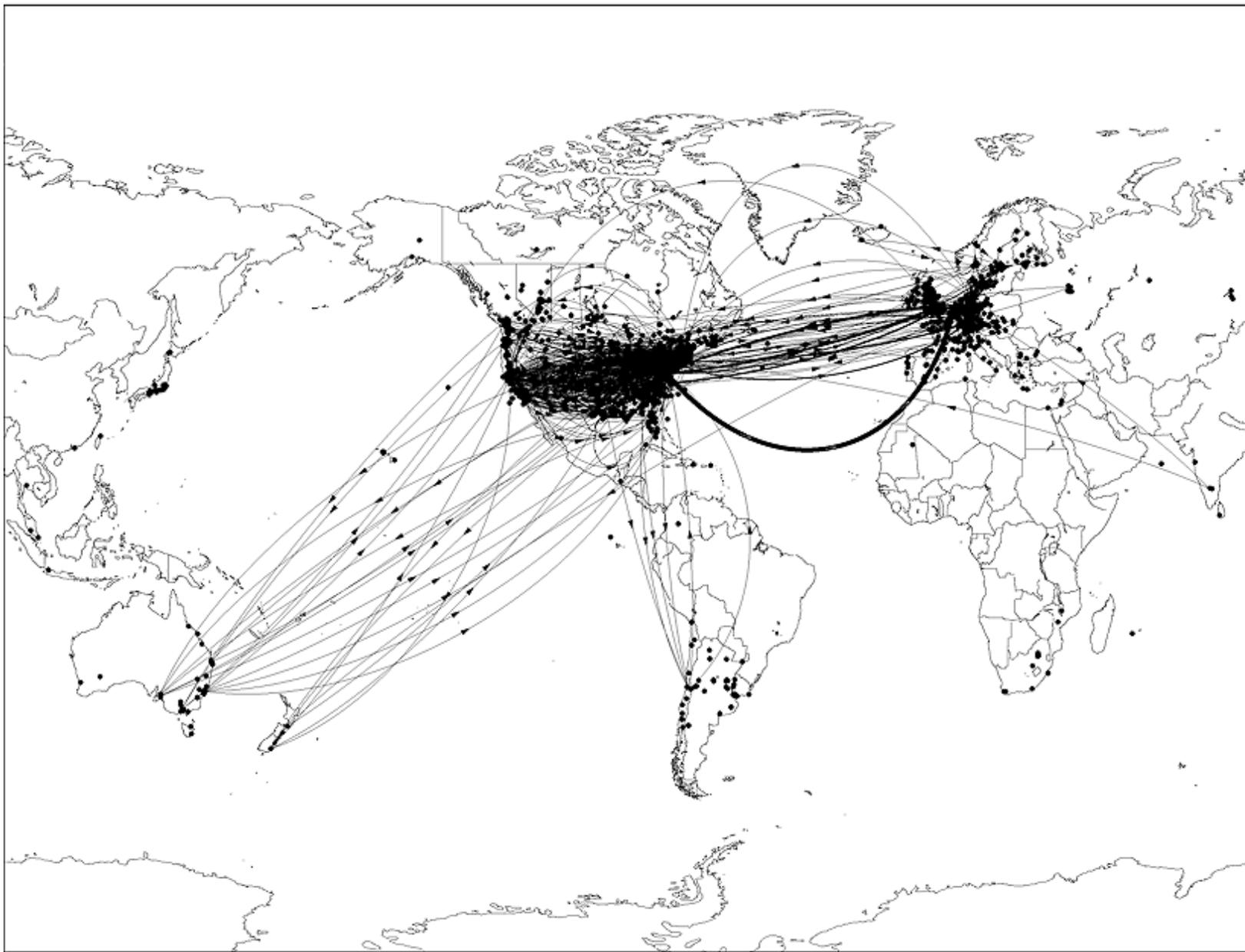
 **Run Simple**





The ARPANET in December 1969





Complete aggregate news flow, worldwide
Line width proportional to directional effective flow volume

DECWRL netmap-2.1 by Brian Reid at Thu May 13 13:49:34 1993
Gall Stereographic Projection, Map center: [15°N, 88°W]

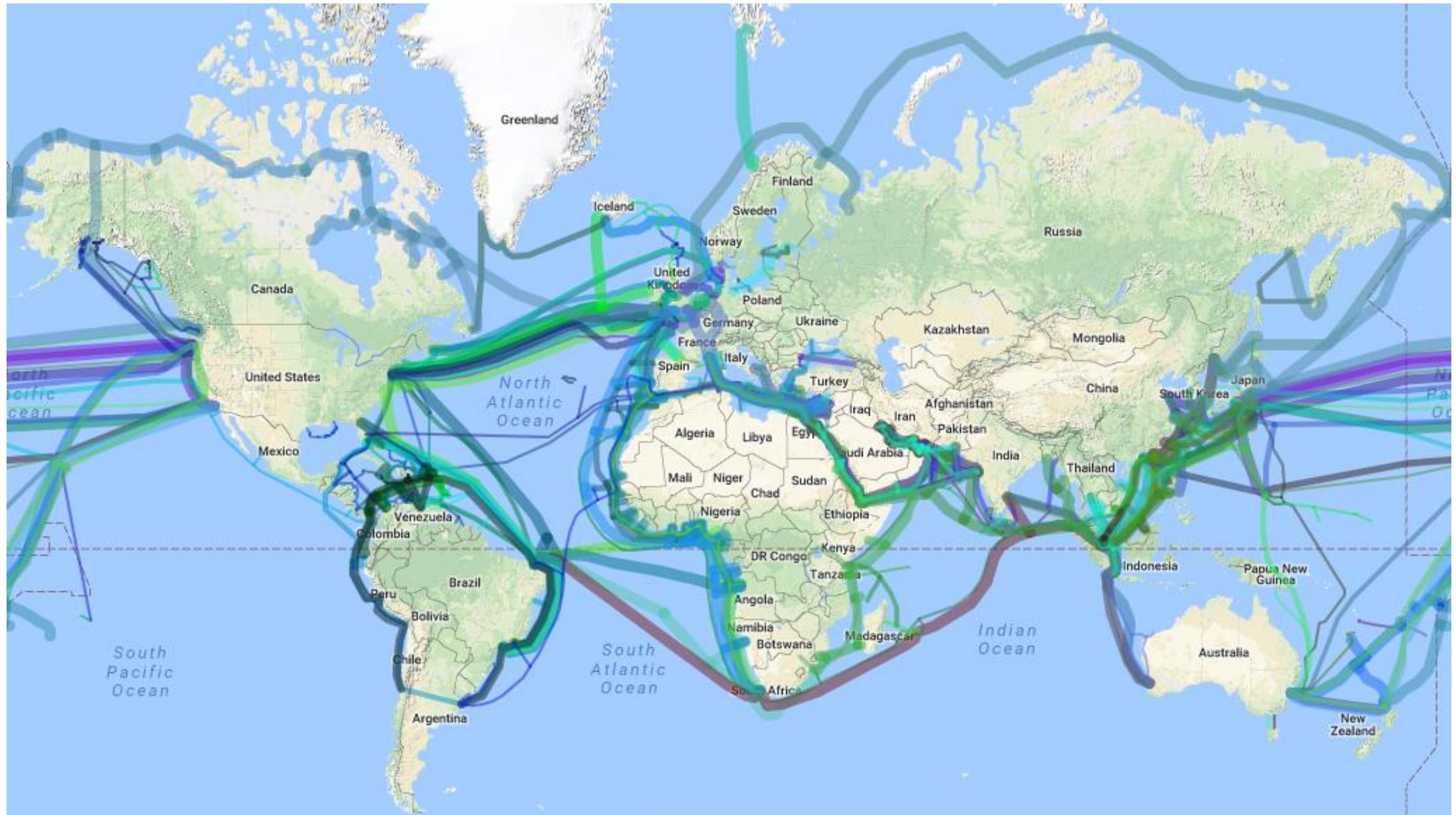
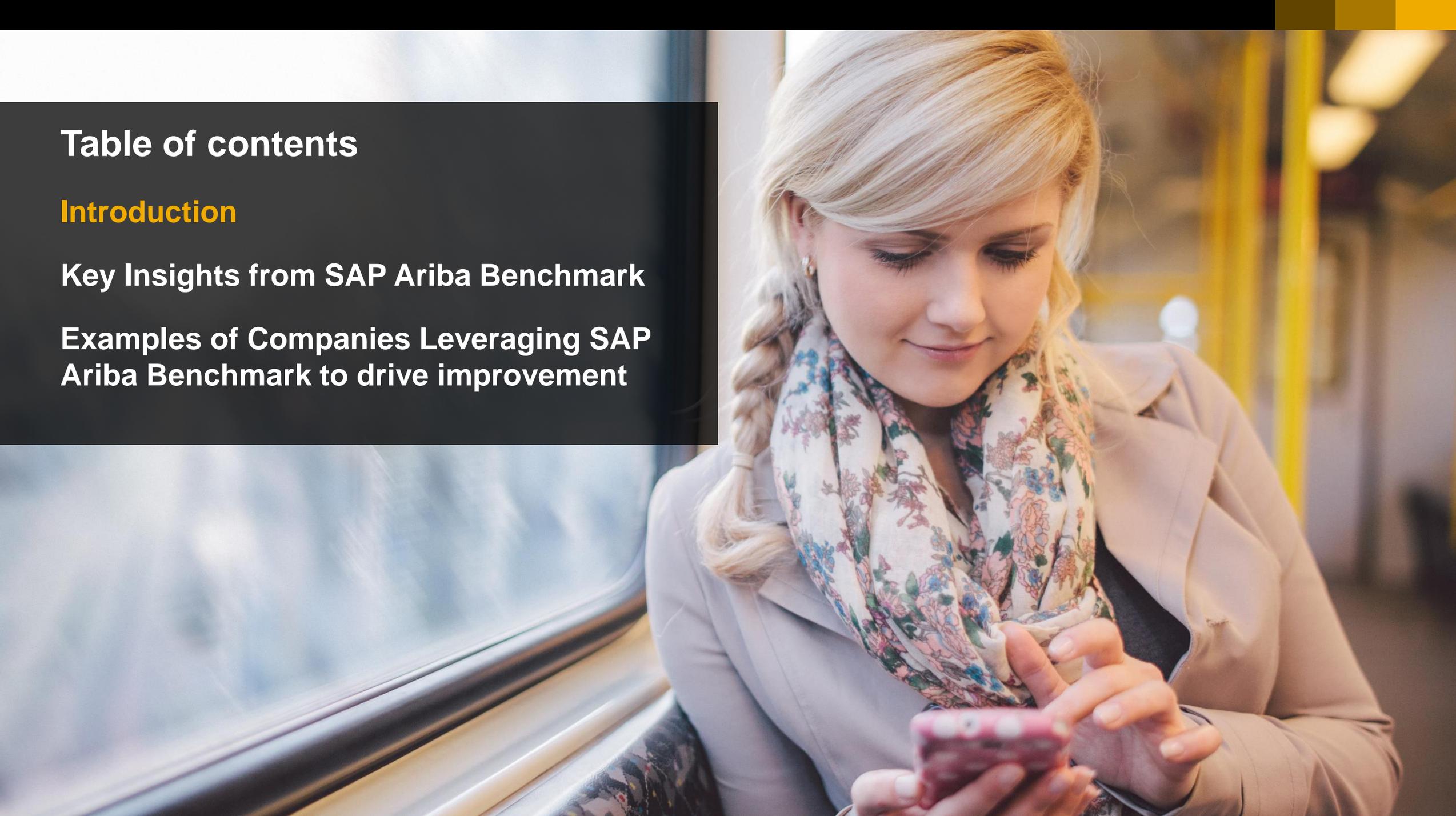


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Key Insights from SAP Ariba Benchmark

Examples of Companies Leveraging SAP Ariba Benchmark to drive improvement



Introduction

All Transformations Start with Understanding What Success Looks Like

A digital transformation starts with a defined digital strategy, roadmap and crisp understanding of what measurable success looks like. However, according to a recent SAP Ariba survey conducted at the 2017 SAP Ariba Las Vegas user conference, 7 out of 10 organizations do not have a clear digital transformation strategy and roadmap nor do they have alignment with their internal stakeholders. A further 76% respondents indicated that they have a low to medium understanding of the value and benefits of digital transformation in source to settle.

While success can be measured across different dimensions: efficiency and effectiveness improvements, stakeholder satisfaction, technology adoption, etc., this document only describes the quantitative components of the success measures. According to the SAP Ariba Benchmark Survey, an annual program that analyzed more than \$400B in spend data across more than 3,500 categories for companies connected to the Ariba® Network, Top performers demonstrated success by:

- Managing and influencing a large proportion of spend with a focus on quality of spend managed
- Delivering value through cost reduction programs and looking beyond sourcing savings to deliver broader value
- Embracing and enabling digital procurement through electronic connectivity
- Unlocking productivity efficiency to enable business operations to operate ALWAYS ON
- Placing emphasis on risk management beyond news tracking
- Delivering bottom-line savings and closing the loopholes through compliance management

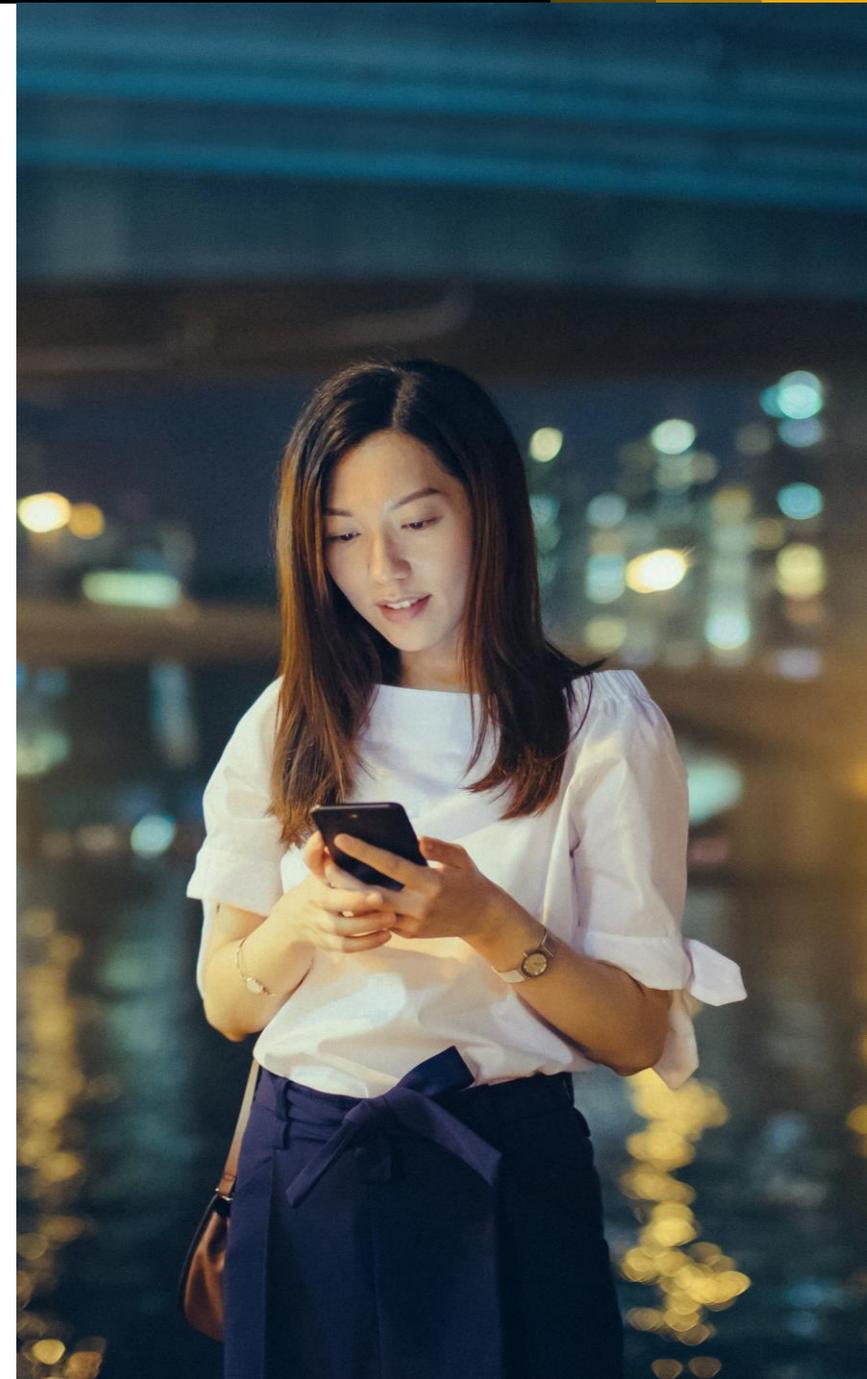
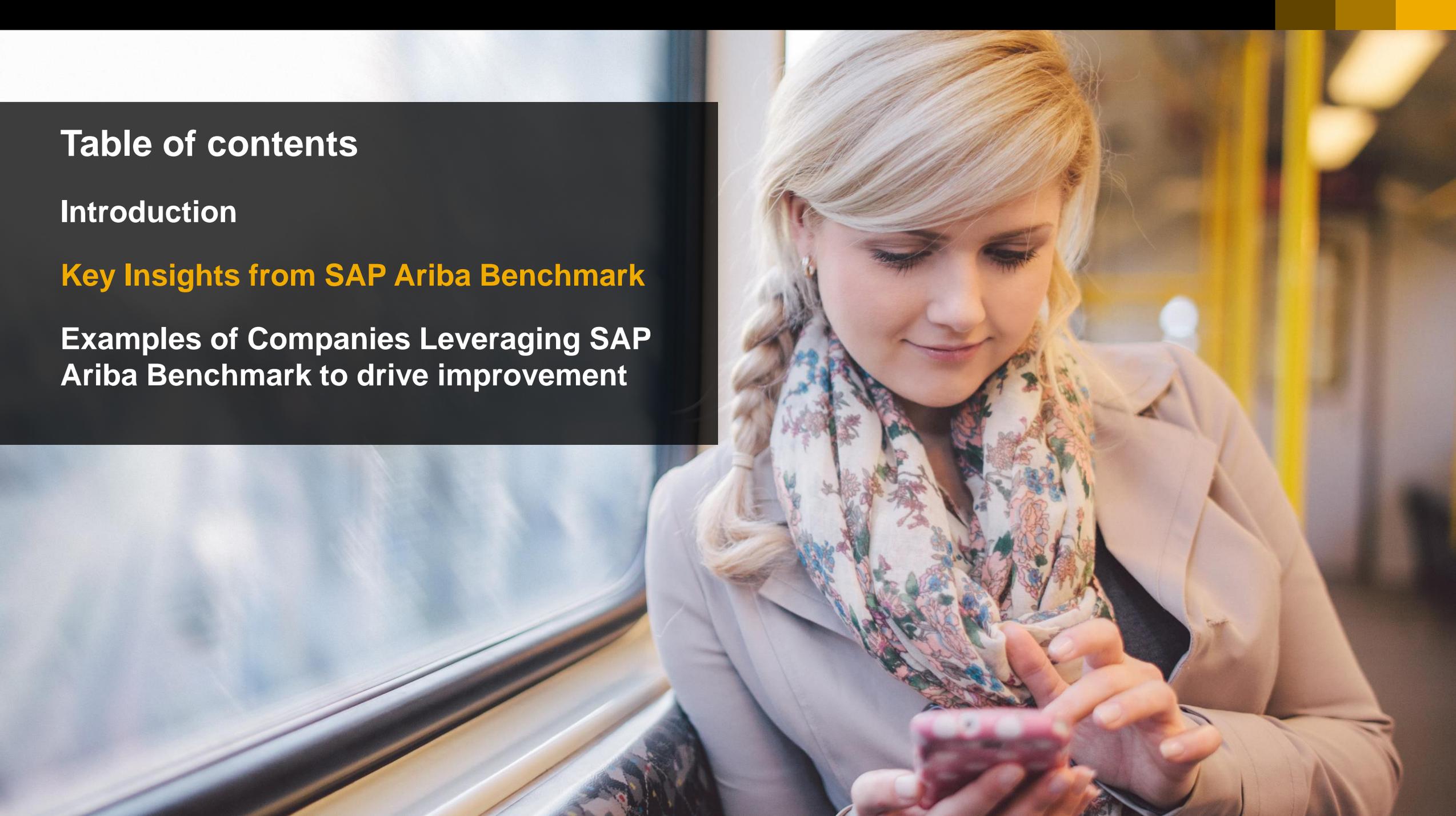


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Examples of Companies Leveraging SAP Ariba Benchmark to drive improvement



Data from the SAP Ariba Benchmark Program yielded 6 key findings

- 1** Procurement is expanding its influence to greater depth
- 2** Capturing savings is important but value matters more
- 3** Digital procurement is firing on all cylinders
- 4** Transactional efficiency enables businesses to be “ALWAYS ON”
- 5** Risk management should be a key focus area
- 6** Compliance delivers bottom-line savings by closing the loopholes



01 Procurement is expanding its influence to greater depth

Why does this matter

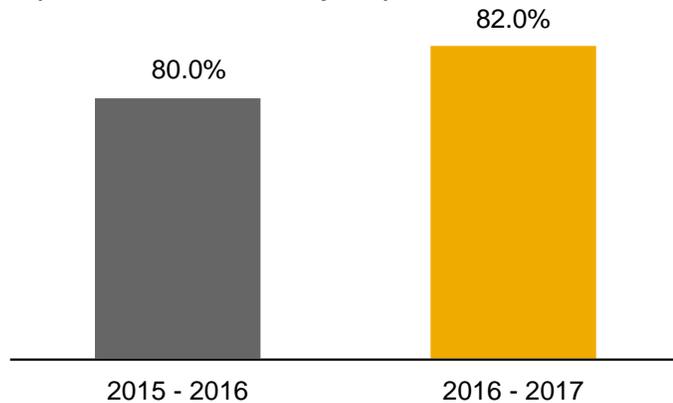
Spend under management is a metric that is used to track the amount and degree of spend that Procurement influences via best practice based Sourcing processes. The higher amount and degree of spend that is influenced, the more potential savings Procurement is typically able to deliver. When comparing spend under management year-over-year, spend under management is trending higher with a large population of customers indicating that Procurement is also playing a more strategic role within the organization and participating in decision-making.

How to improve performance in this area

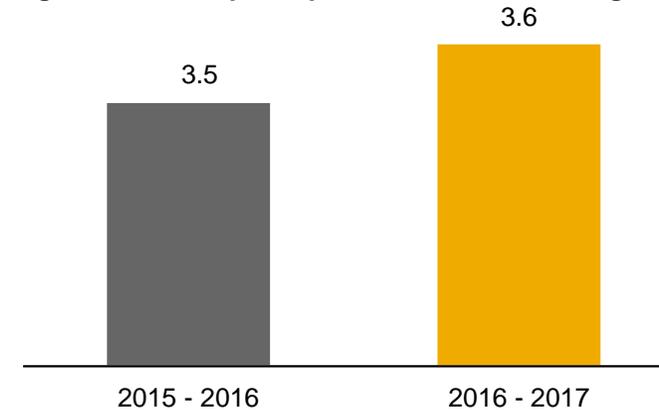
The challenge that most Procurement organizations face is asking and convincing business unit leaders to allow them access to their spend and deliver the associated savings. Nonetheless, this can be accomplished several ways:

- Alignment and cross-functional teaming across the organization
- Education and ensuring the organization understands the value proposition of Procurement's involvement beyond traditional cost savings
- Demonstrating quick-win results
- Top-down mandate from Leadership within the organization to voice importance of participation
- Success measurement via scorecard to track performance and direction

Sourcing Spend Under Management
(in % of Addressable Spend)



BEST PRACTICE: Procurement plays a strategic role within the organization and participates in decision-making



■ Ariba Top Quartile in 2015 - 2016 ■ Ariba Top Quartile in 2016 - 2017

02 Capturing savings is important but value matters more

Why does this matter

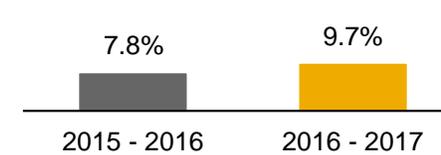
Sourcing savings is an important metric to measure to demonstrate Procurement's contribution. It is typically measured several ways: cost reduction, cost avoidance and operational cost benefits. While it is important to continue to measure sourcing savings, organizations should track broader efficiency and effectiveness value drivers beyond sourcing savings to include Compliance Spend, Maverick Spend, % of spend under discounts, % of invoices without exceptions, etc.

How to improve performance in this area

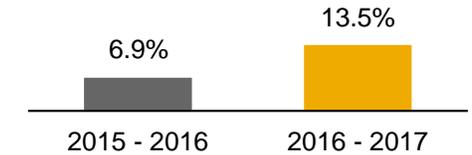
To improve sourcing savings and track broader value measures, organizations should:

- Schedule spend reviews with stakeholders to identify new areas of consolidation or contract review
- Focus on large global categories, but employ rigor in geographic markets to drive local competitiveness
- Formalize comprehensive category strategy with focus on all savings levers, engage key stakeholders, optimize specifications, measure total cost of ownership and measure outcomes
- Consider a demand management strategy to reduce and optimize volume through formal category buying policies
- Create a tactical sourcing strategy to drive one-off buys (Ariba Spot Buy as example) where spend is not formally sourced
- Evaluate other effectiveness measures beyond cost reduction savings (to include some of the metrics above)

Total Sourcing Savings

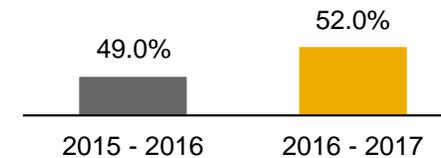


Sourcing Savings from Ariba Sourcing Solution

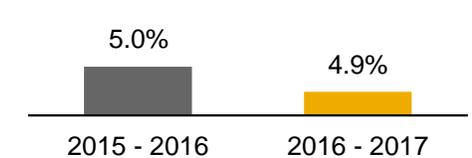


Broader Value Drivers

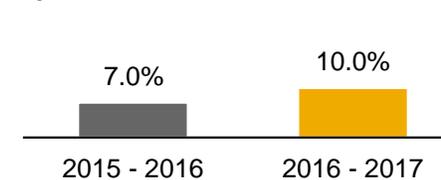
Compliant Spend



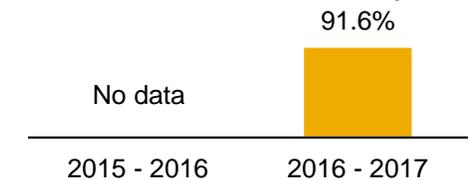
Maverick Spend



% of Spend Under Discounts



% of Ariba Invoices without Exceptions



■ Ariba Top Quartile in 2015 - 2016

■ Ariba Top Quartile in 2016 - 2017

03 Digital procurement is firing on all cylinders

Why does this matter

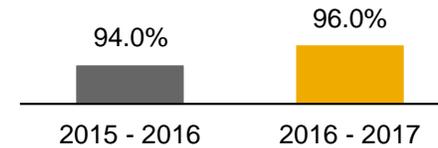
Digital transactional processing enables transactional efficiency from an effort and cycle time perspective. In addition, having digital catalogs and contracts enables users to find the right item at the right price – improving compliance

How to improve performance in this area

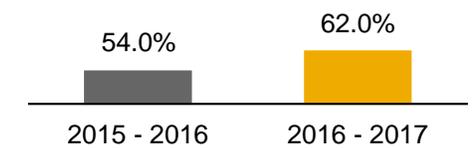
To increase digital transactional processing, organizations should:

- Determine the optimal buy and pay channels and create an optimized flow-path for both buying and paying that scales to different spend categories
- Evaluate enabling more suppliers on the business network to transact electronically – consider Light Accounts as a strategy to enable all suppliers
- Determine catalogs and contracts to enable that will drive increase user adoption
- Enable spot buy and guided buying as quick wins to drive immediate user adoption and enablement
- For quick wins – determine suppliers that are already enabled on the business network and start transacting with them first!

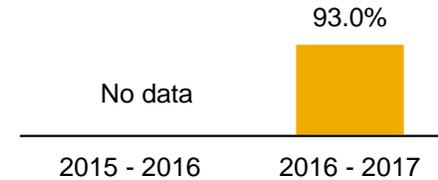
% of electronic PO spend



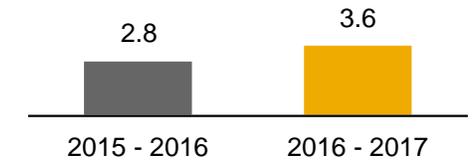
% of invoices that are electronic



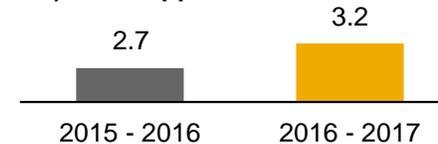
% of transactions on catalog, contract or BPO



BEST PRACTICE: Invoice capture is automated and validated via e-Invoicing solutions to alleviate the workload of AP



BEST PRACTICE: Company participates in electronic commerce (business network) with suppliers and enables electronic exchange of business documents



■ Ariba Top Quartile in 2015 - 2016 ■ Ariba Top Quartile in 2016 - 2017

04 Transactional efficiency enable businesses to operate ALWAYS ON

Why does this matter

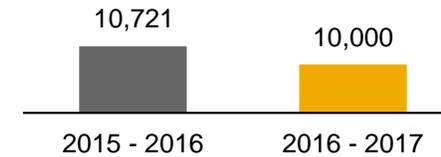
Transactional efficiency can be accomplished through the requisition and purchase order processing process or invoice processing process. Being efficient at transaction processing allows an organization to do more with less. Based on the benchmarks below and an average wage rate of \$68K, the average organization (which processes 7,326 PO's per FTE) will save up to \$248K per 100K PO's that are processed (assuming a benchmark of 10K PO's per FTE).

How to improve performance in this area

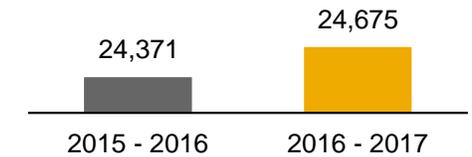
To increase transactional efficiency, organizations should:

- Consider enabling self-service requisition across the organization
- Consider enabling more suppliers catalog to help quickly increase user adoption – users want to see their suppliers items available digitally
- Utilize light account and spot buy as strategies for quickly enabling suppliers and immediately enabling digital transactions
- Formalize and implement internal policy similar to “No PO No Pay”

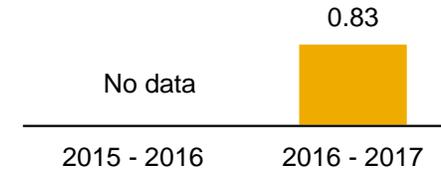
PO's per FTE



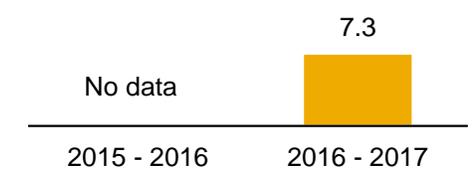
Invoices per FTE



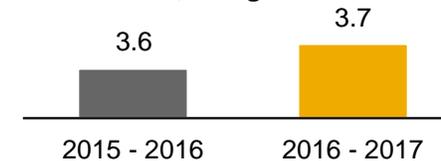
Ariba PO Cycle Time (days)



Ariba Invoice Cycle Time (days)



BEST PRACTICE: The organization supports self-service requisition for material and service items, using on-line catalogs with rules-based checks enabled



■ Ariba Top Quartile in 2015 - 2016 ■ Ariba Top Quartile in 2016 - 2017

05 Risk Management Should Be a Key Focus

Why does this matter

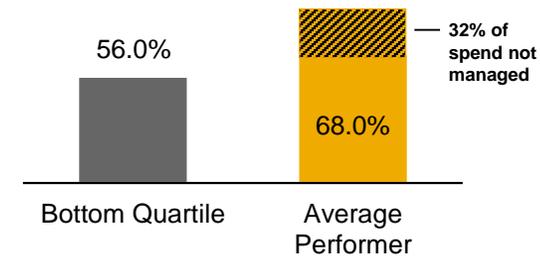
The average company manages 68% of their spend. This leaves 32% of spend that is unmanaged. This is even lower for the bottom 25% companies, who only manage 56% of their spend. In addition, if 80% of an average company's spend is concentrated with 4.5% of suppliers, that indicates there is a long tail of suppliers that make-up a small proportion of spend. Whichever way you look at it, it still constitutes a large number of suppliers. It is important to track and manage all the spend and suppliers because of unintended supply chain risks that may occur.

How to improve performance in this area

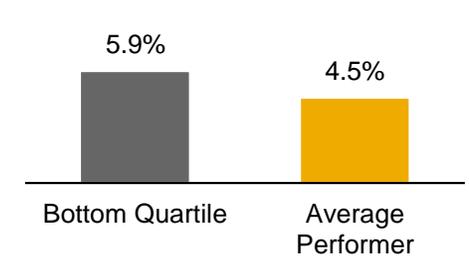
To start enabling a risk management program, organizations should:

- Evaluate newly available technology tools in the marketplace that allow you to systemically track all your suppliers and bubble the risky ones to the top
- Review supplier base to determine which suppliers are more risky than others and quantify the exposure these suppliers have to the business (from a revenue or cost perspective)
- Enable Spotbuy to eliminate riskiness of transacting with 1-off suppliers

Sourcing Spend Under Management (in % of Addressable Spend)



% of Suppliers that Make-up 80% of Spend



More than 30% of an average company's spend is **not managed**
AND
There is a **long-tail** of suppliers to "Manage"

06 Compliance Delivers Bottom-Line Savings by Closing the Loopholes

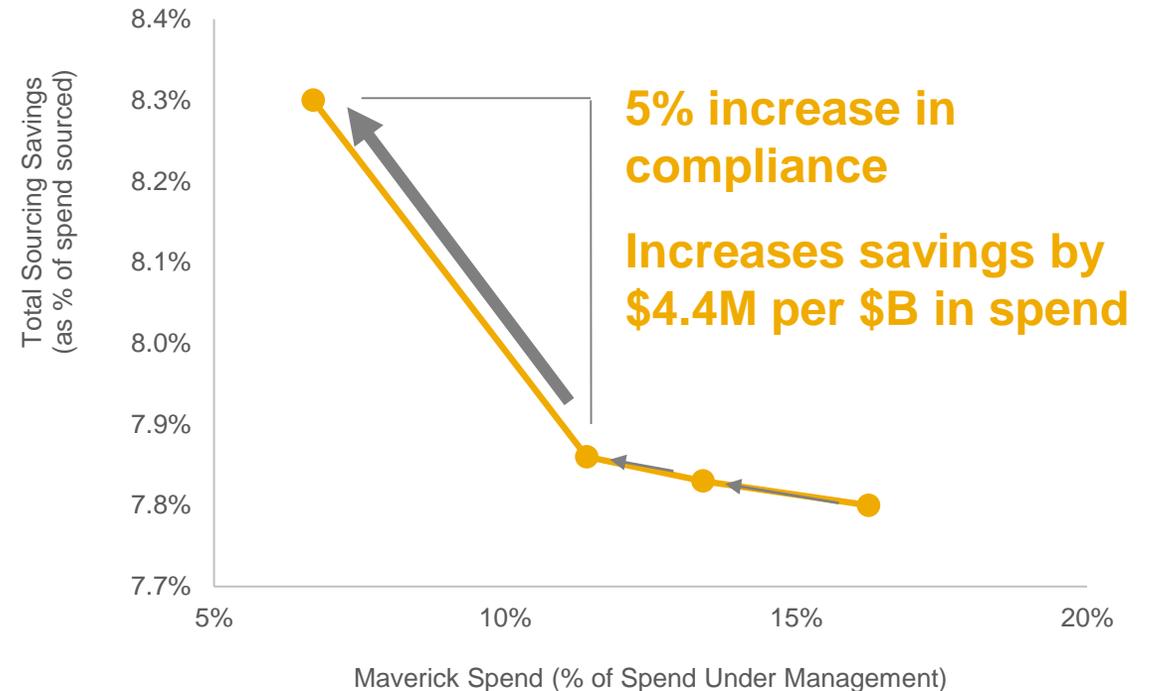
Why does this matter

Negotiated category sourcing savings will never materialize and hit the bottom line unless the category negotiated is implemented and transactions start flowing against the contracted pricing and terms. As such, it is important to measure how compliant the organization is against the negotiated pricing and terms.

How to improve performance in this area

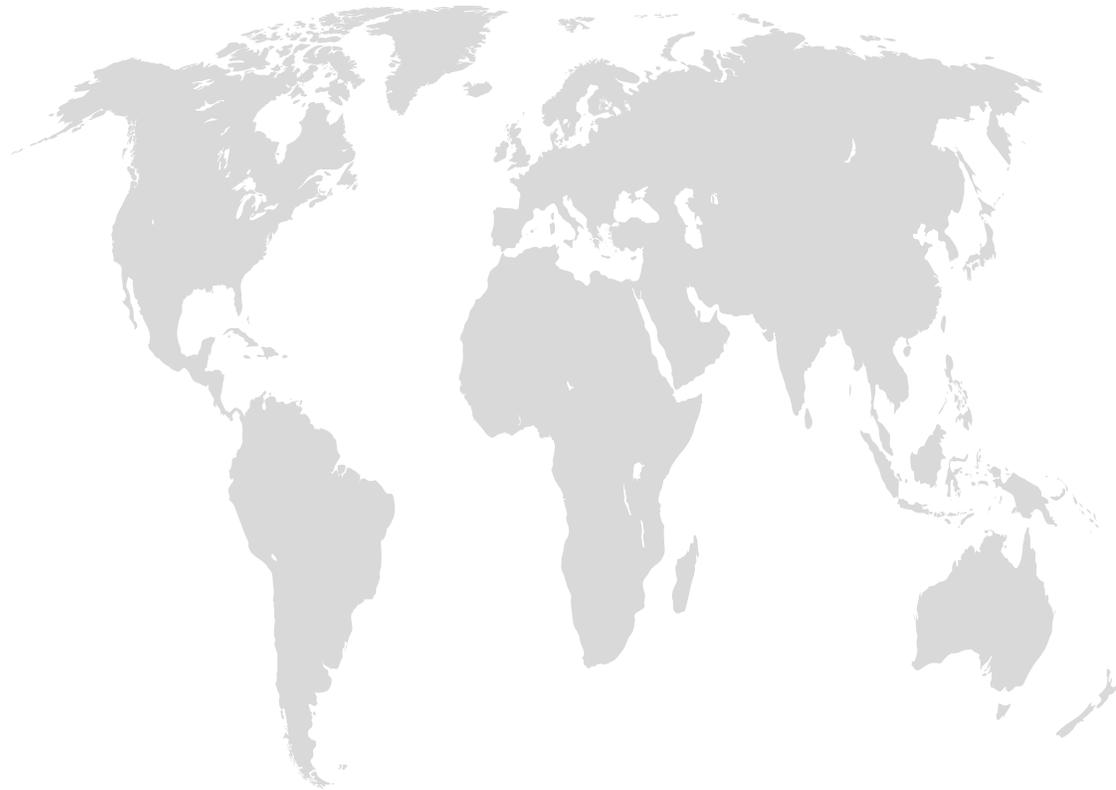
To increase compliance, organization's should:

- Create catalogs/contract items (based on negotiated contract) that users can select and buy from in the purchasing system
- Ensure that negotiated pricing terms and conditions are enabled in the purchasing system
- Create reports that track anytime a user goes rogue – provide users with understanding that going rogue erodes any future negotiated savings and destroying the company's reputation
- Leverage suppliers to implement the category and to get buy-in from users
- Evaluate SAP Ariba guided buying that directs users to preferred pricing and suppliers



Industry Specific Benchmarks – O&G

Oil and Gas BUYERS activity over the Ariba Network



\$9B

PO spend over the Network for Oil and Gas buyers



3%

of total Network PO spend

80%

of Oil and Gas PO spend



Fuel, MRO, Chemicals and Gases, Logistics, Facilities and Construction and IT

6.2K

Number of suppliers transacting with Oil and Gas buyers

730K

Number of PO's transmitted by Oil and Gas buyers

Note:

All data is trailing 12 months

Key findings and trends from SAP Ariba Benchmarks

01

Procurement is expanding its influence to greater depth.



82%



Sourcing spend under management

Procurement increasingly plays a **strategic** role within the organization.

02

Capturing savings is important but value matters more.



9.7%



Sourcing savings as a percentage of spend sourced

Procurement is actively tracking other sources of **value contribution**.

03

Digital procurement is firing on all cylinders.



62%



Percentage of total invoices submitted electronically

Adoption of invoice automation and validation through e-invoicing solutions.

Key findings and trends from SAP Ariba Benchmarks

04

Transactional efficiency enables businesses to be “ALWAYS ON.”



10,000



POs per full-time employee

Procurement supports **self-service** requisition for material and service items using online catalogs.

05

Risk management should be a key focus area.



32%

Average organization’s spend is **not managed**.

4.5%

Average company’s total supplier count makes up **80%** of spend.

06

Compliance delivers bottom-line savings by closing the loopholes.

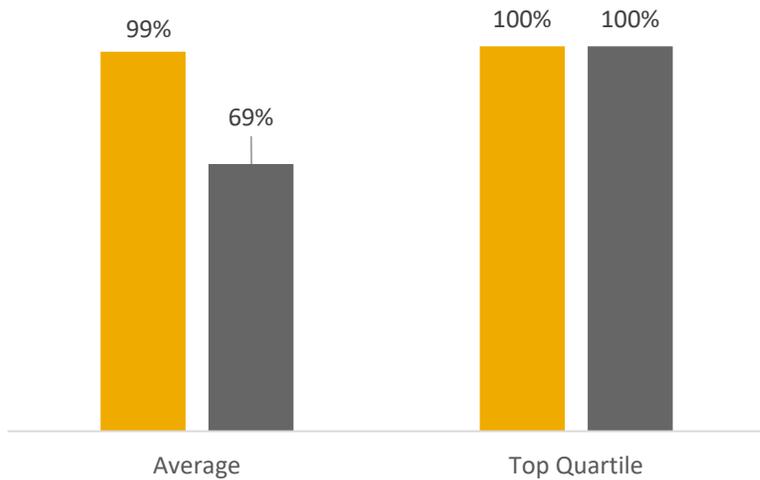


5%

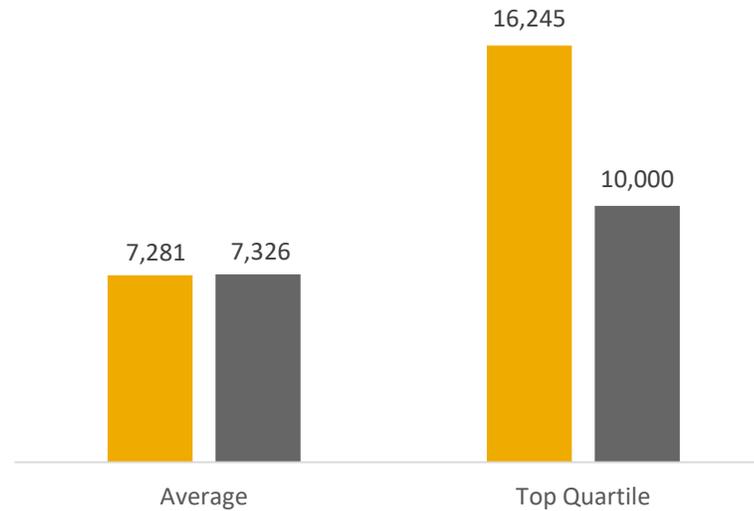
Increase in compliance will increase savings by **\$4.4 million** for each billion dollar spend

There are several areas where Energy and Natural Resources organizations are doing well..

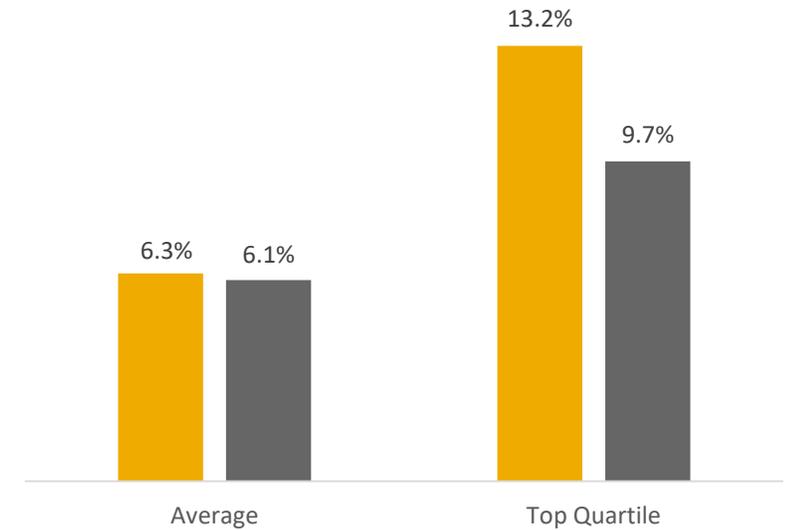
Invoice Count via AN as % of Ariba Invoice Count



POs per FTE



Sourcing savings rate



■ Energy and Natural Resources
■ Cross-Industry

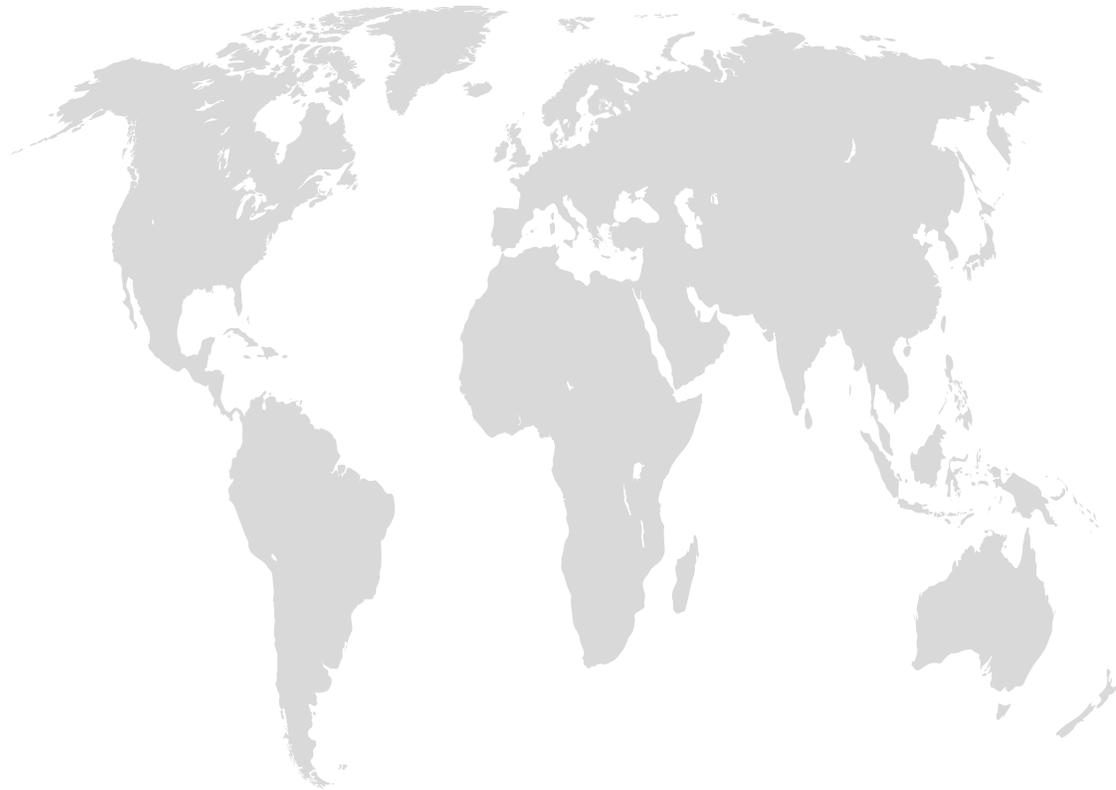
..however, there are still opportunities for improvement

| TREND | IMPLICATION | BENCHMARK DATA FOR AVERAGE ORGANIZATIONS | |
|--|---|--|--------|
| <p>1 A higher number of suppliers (per \$B in spend)</p> | <ul style="list-style-type: none"> Higher cost to manage suppliers Potential opportunities to rationalize suppliers | 4,648 | 4,137 |
| <p>2 Lower supplier invoices per AP FTE</p> | <ul style="list-style-type: none"> Opportunity to drive invoicing efficiency improvements | 14,672 | 17,139 |
| <p>3 Lower electronic PO rate (PO count via AN as % of Ariba PO count)</p> | <ul style="list-style-type: none"> Manual PO dissemination to suppliers Opportunities to increase PO productivity | 69.9% | 76.5% |
| <p>4 Lower proportion of PO transactions that are created via contracts / catalog for compliance (% of Ariba PO transactions against contract/catalog)</p> | <ul style="list-style-type: none"> Opportunities to introduce more contract and catalog based orders | 53.4% | 64% |
| <p>5 Lower % of spend under discount</p> | <ul style="list-style-type: none"> Opportunity to improve working capital | 2.5% | 6.6% |

■ Energy and Natural Resources
■ Cross-Industry

Industry Specific Benchmarks – Life Science

Life Sciences BUYERS activity over the Ariba Network



\$39B

PO spend over the
Network for Life Science
buyers



12%

of total Network PO
spend

80%

of Life Science PO
spend



**Clinical & Medical,
Marketing, Consulting, IT, Lab
Supplies and Facilities spend**

18.2K

Number of suppliers transacting with Life Science buyers

1.7M

Number of PO's transmitted by Life Science buyers

Note:

All data is trailing 12 months

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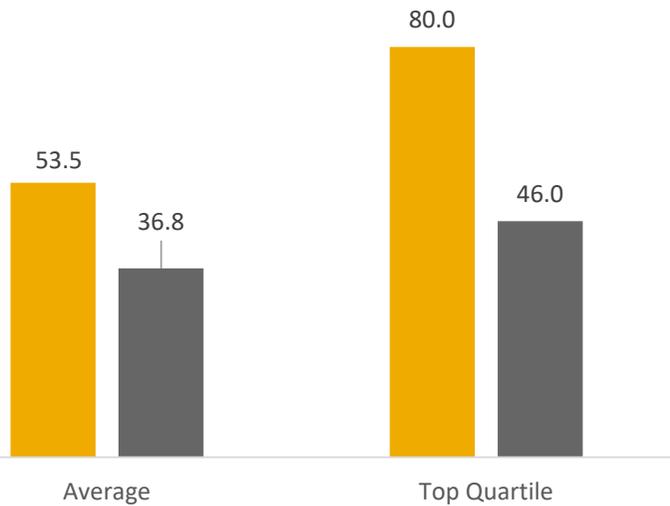


5%

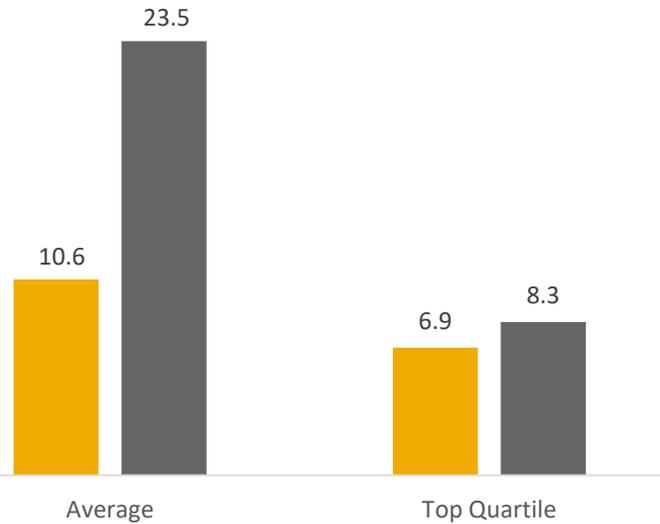
Increase in compliance will increase savings by **\$4.4 million** for each billion dollar spend

There are several areas where Life Sciences organizations are doing well..

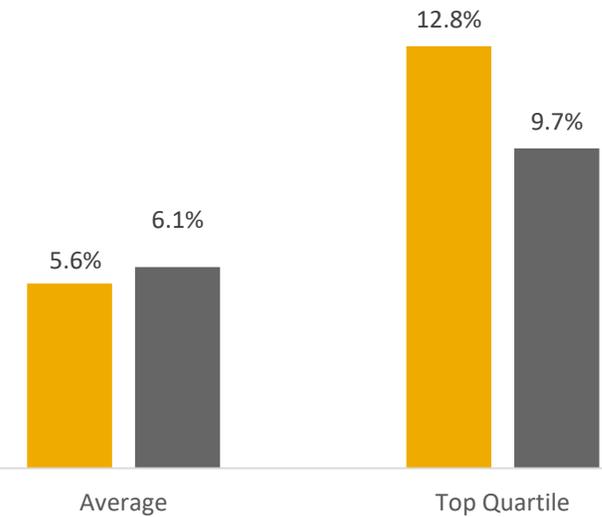
DPO



Operational Procurement FTEs (per \$B in spend)



Sourcing savings rate



■ Life Sciences
■ Cross-Industry

..however, there is room for improvement in several areas

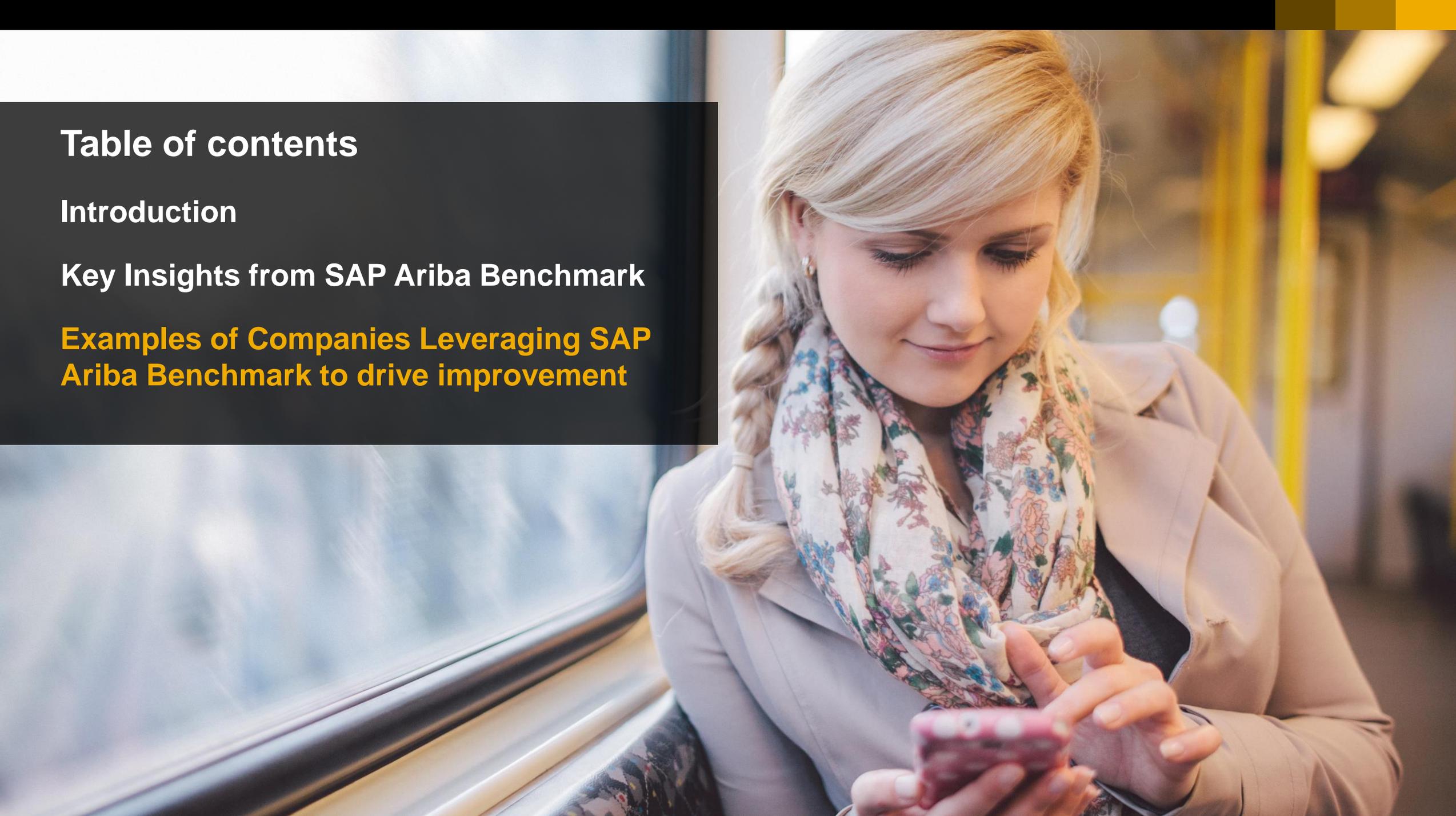
| TREND | IMPLICATION | BENCHMARK DATA | | | | | | | | | |
|--|---|--|--------|---------------|----------------|--------------------|-------|-------|-------------------------|-------|--------|
| <p>1 Lower proportion of addressable spend</p> | <p>Opportunities to increase addressable spend and spend under management</p> | <table border="1"> <tr> <td>Metric</td> <td>Life Sciences</td> <td>Cross-Industry</td> </tr> <tr> <td>Addressable Spend</td> <td>62%</td> <td>63%</td> </tr> </table> | Metric | Life Sciences | Cross-Industry | Addressable Spend | 62% | 63% | | | |
| Metric | Life Sciences | Cross-Industry | | | | | | | | | |
| Addressable Spend | 62% | 63% | | | | | | | | | |
| <p>2 A higher number of suppliers (per \$B in spend)</p> | <p>Higher cost to manage suppliers Potential opportunities to rationalize suppliers</p> | <table border="1"> <tr> <td>Metric</td> <td>Life Sciences</td> <td>Cross-Industry</td> </tr> <tr> <td>Average Suppliers</td> <td>5,913</td> <td>4,136</td> </tr> <tr> <td>Top Quartile Suppliers</td> <td>2,504</td> <td>1,875</td> </tr> </table> | Metric | Life Sciences | Cross-Industry | Average Suppliers | 5,913 | 4,136 | Top Quartile Suppliers | 2,504 | 1,875 |
| Metric | Life Sciences | Cross-Industry | | | | | | | | | |
| Average Suppliers | 5,913 | 4,136 | | | | | | | | | |
| Top Quartile Suppliers | 2,504 | 1,875 | | | | | | | | | |
| <p>3 Sourcing projects generally take longer to complete (days)</p> | <p>Inefficiency in sourcing process i.e. bottlenecks, too many approval gates, etc.</p> | <table border="1"> <tr> <td>Metric</td> <td>Life Sciences</td> <td>Cross-Industry</td> </tr> <tr> <td>Average Duration</td> <td>53</td> <td>37</td> </tr> <tr> <td>Top Quartile Duration</td> <td>27</td> <td>16</td> </tr> </table> | Metric | Life Sciences | Cross-Industry | Average Duration | 53 | 37 | Top Quartile Duration | 27 | 16 |
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| Top Quartile Duration | 27 | 16 | | | | | | | | | |
| <p>4 Lower proportion of transactions that are created via contracts / catalog for compliance (% of Ariba PO transactions against contract/catalog)</p> | <p>Low compliance rates and low usage of negotiated contracts</p> | <table border="1"> <tr> <td>Metric</td> <td>Life Sciences</td> <td>Cross-Industry</td> </tr> <tr> <td>Average Compliance</td> <td>32.5%</td> <td>64%</td> </tr> <tr> <td>Top Quartile Compliance</td> <td>40.5%</td> <td>92%</td> </tr> </table> | Metric | Life Sciences | Cross-Industry | Average Compliance | 32.5% | 64% | Top Quartile Compliance | 40.5% | 92% |
| Metric | Life Sciences | Cross-Industry | | | | | | | | | |
| Average Compliance | 32.5% | 64% | | | | | | | | | |
| Top Quartile Compliance | 40.5% | 92% | | | | | | | | | |
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| Metric | Life Sciences | Cross-Industry | | | | | | | | | |
| Average PO/FTE | 5,385 | 7,326 | | | | | | | | | |
| Top Quartile PO/FTE | 9,100 | 10,000 | | | | | | | | | |

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Introduction

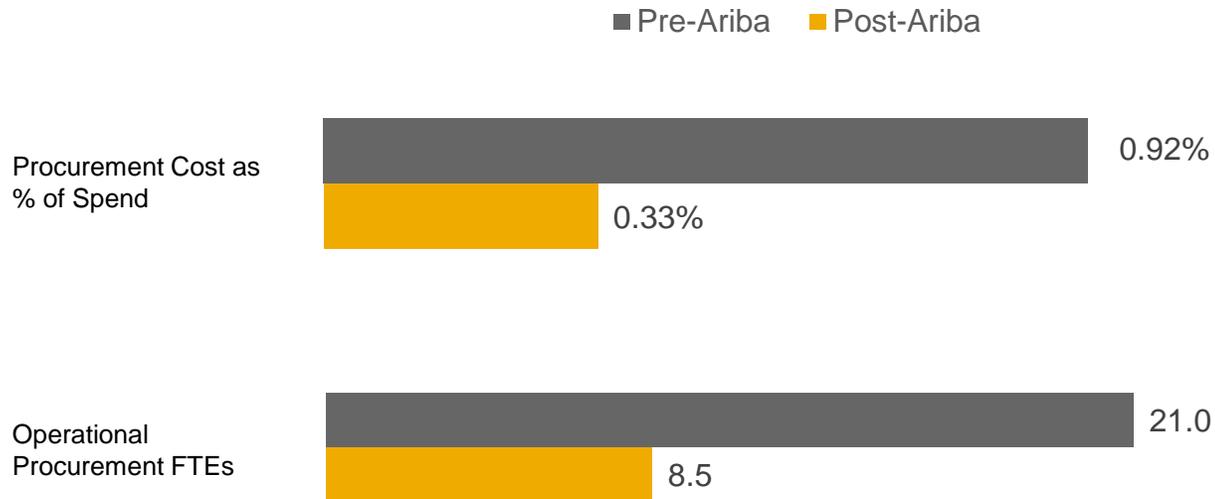
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Examples of Companies Leveraging SAP Ariba Benchmark to drive improvement



Best in Class

Global semiconductor company benefits from Ariba Buying and Invoicing to drive operational efficiency



64%

Reduction in Procurement Overhead Cost

60%

Reduction in Operational Procurement FTEs



Methodology for Analysis

The metrics and best practices to calculate pre-Ariba and post-Ariba performance utilizes data from the SAP Value Lifecycle Manager platform and the SAP Ariba benchmark program.

The pre-Ariba data is a customer's performance before they have acquired any Ariba solutions while the post-Ariba data is a customer's performance from their participation in the SAP Ariba benchmark program.



Best in Class

Large utility company benefits from Ariba Network to drive operational efficiency and improved best practice adoption



42%

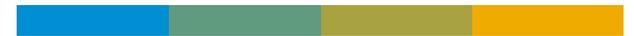
Reduction in Procurement Overhead Cost

Best Practice: Invoice capture is automated and validated via e-Invoicing solutions to alleviate the workload of AP



2x

adoption improvement
Invoice capture is automated and validated via the Ariba Network



Methodology for Analysis

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