Cisco Systems’ pioneering eProcurement network went live in the US in January 1998. That was when US employees were making purchase requests for indirect (non-production) items and services at the rate of 4,000 transactions a month. That rate, escalating daily, was sorely straining the manual requisition system.

Since then, as the leading provider of end-to-end networking solutions, Cisco has more than doubled in revenues – from $8.5 billion in fiscal ’98 to $18.9 billion in fiscal 2000. Thanks to eProcurement, the company has been able to handle the resulting growth of indirect expenditures. Today, 20,000 US employees are entering their requests at the rate of approximately 8,000 transactions a month.

Since implementing the system, based on Ariba Buyer™ and the Hewlett-Packard server platform, “the throughput has been over $1.5 billion in operating spend,” says Sangeeta Grewal, business process design manager for Cisco's corporate supply management group.

The company has thus far realized 10% to 20% savings in the cost of creating purchase orders. But “more importantly,” says Michele Sordal, senior manager of the corporate supply management group, “the Ariba tool has enabled our predefined purchasing methodology, which has increased the productivity of the buyers and other employees.”
All of Cisco is reaping the benefits—the employee requesters and their managers, procurement personnel, and the bottom line. The approval process, which once consumed 40% of the request cycle time, has been dramatically reduced, Grewal says. “Managers immediately get requests and they can even approve them when they are on the road. That means employees no longer have to wait interminably for decisions. They can check the status of an order at any time, and they receive an email as soon as their request has been approved.”

Because of eProcurement and the direct-order program with major suppliers, procurement professionals are spending the majority of their time where it belongs: on supplier management and major expenditures, rather than the laborious processing of low-dollar-value requisitions—60% of the total volume of orders that account for just 9% of the spend.

Ultimately, by increasing the percentage of the commodities purchased through the system and expanding eProcurement’s use globally, Grewal expects that procurement professionals worldwide will be able to spend 90% of their time on strategic activities.

EProcurement also helps in supplier management, providing access to critical information about direct purchasing volume and pricing. Grewal says, “This tells us which commodities we are purchasing from which suppliers and at what price. Armed with this complete information, our buyers can negotiate more effectively with our suppliers.”

Cisco now is preparing to expand all these capabilities and benefits to its operations in Europe and Asia/Pacific, where the company’s growth in revenues and expenditures has been exploding at a faster rate than in the US.

EProcurement on the Rise

EProcurement initiatives are springing up all over, and companies are in search of role models among the pioneers. Cisco provides a blueprint for creating the foundation for online buying of nonproduction goods and services.

What’s surprising about the Cisco implementation is that it was ready to roll it out in 1998. The fact is that, unlike most companies, it had most of the foundation in place:

• central management of procurement and well-defined procedures and programs, including centralized purchasing, a direct-order program for major suppliers, and the procurement card;
• a corporatewide IT infrastructure that includes common ERP business applications that needed to be integrated with eProcurement, such as, finance, human resources, and purchasing;
• a corporate preferred-supplier program, and a total supplier base that had long since been trimmed to 3,000 and the basic terms and conditions negotiated.

Hence, the company had already reaped many benefits of strategic sourcing and standard procedures and policies. It had plucked much of the “low-hanging fruit” that leverages the spending and starts to lower the costs of processing orders.

But indirect procurement was also one of the last bastions of paper-shuffling in the digital world of Cisco, which had long since set out to become the Internet company. With packages tailored to corporate eProcurement appearing on the scene, Cisco set its sights on two goals: making life a lot easier for the employee and the buyer and producing the added benefits that automation of the purchasing cycle could provide.

Grewal describes the shortcomings of the old system: “With our manual requisition system, employees were lost; they didn’t know which route to follow when they wanted to buy a pen as opposed to a telecommunications system or a multimillion-dollar piece of software. Paper requisitions were sent from desk to desk to collect signatures, and requesters didn’t know the status of their request or where it was in the approval cycle.

“We wanted them to be able to use one application to buy what they need and track the status of their order.”
This is a critical part of Cisco's corporate goals. She explains, “Cisco calls this workforce optimization, giving information to employees when and how they need it. EProcurement was that solution, one more enabler of our strategic supplier management strategy.”

She goes on, “Cisco wants to make sure that our own internal processes and programs reflect our concepts in technology and the business need to utilize economies of scale.” In short, when it comes to capitalizing on the Internet's potential, Cisco aims to be a leader in both providing and using technology.

**EProcurement Requirements**

The first phase of Cisco’s effort was business requirements gathering. The absolute musts in developing an eProcurement system include:

- Understanding your current environment, and working with groups that know what it will be like in the future.
- Making sure your sourcing strategies are in place, and working closely with your suppliers and understanding the impact on them—many times people do programs in a silo and don't realize how outside parties are being affected.
- Having purchasing programs, direct order and procurement programs, in place. And you have to have a clear vision as to how to want your purchasing group to work—we knew we wanted our group to be 90% strategic and 10% transactional in terms of where they spent their time.
- Carefully implementing change management processes. We have had high executive sponsorship, and we made sure that everyone viewed this not as a directive, but a process enhancement. We had many corporate policies in place, but there was no tool to measure adherence. Also important is enabling personnel to learn the tool at their convenience. Our new web-based training module is significantly helping our end users to do that.

In selecting an eProcurement vendor and system, Cisco demanded many capabilities, the first of which was ease of use. The application had to have two interfaces: one for new or infrequent users, leading them step by step through the process; and a second for “power users,” the buyers and administrators expert in the shorthand of the purchasing process.

The solution would have to model the company’s business processes, automatically routing requisitions according to configurable business rules. These were rules concerning not only the reporting hierarchy—the people in the chain that had to give their approval—but also the category of goods or services ordered, the prices, the delivery address, and other data elements in the request.

Grewal notes, “While we wanted to hard-code the rules, we needed flexibility at the local level. For instance, every purchase requisition must be approved by a manager, regardless of the dollar amount. We have corporate signature policies that are hard-coded in the eProcurement system, so when you make a requisition, you don't need to think who needs to sign it. But if you are say, in engineering, and you want another person there to sign the requisition, you can add that individual yourself.”

The eProcurement application would also have to leverage Cisco's ERP applications, as well as the existing e-mail applications and directory services. Says Grewal,

**Today, 20,000 US employees are entering their requests at the rate of approximately 8,000 transactions a month.**
“We needed something that would take advantage of these systems and bring these primarily client/server-based applications into the Internet age.”

**Ariba and HP: Strategic Relationships**

Four years ago, eProcurement packages were in their infancy, and of the leaders, Cisco found that Ariba Technologies provided the package and the vision for Internet purchasing that would fill these requirements. The offering included:

- **Ariba Buyer™** [then called ORMS]
- **Ariba B2B Commerce platform**
- **Ariba Commerce Services Network**

“Cisco was Ariba’s number one customer,” says Grewal, “One of our main selection requirements was to work with a leading-edge supplier that understands our business and is willing to accommodate us in the solution. Our functional requirements became part of Ariba Buyer.”

HP provides Cisco’s server platform for Ariba Buyer, two HP 9000 K-Class Enterprise servers for two reasons, she says. One is because HP is a strategic corporate supplier for Cisco, and all that implies in terms of system price/performance and the quality of HP’s service. The other is “Ariba and HP work closely together. Strategic relationships are becoming the key for making decisions about business-critical systems.”

**Suppliers Online**

As the first customer on Ariba, she says, “we had to work with the suppliers to create the catalogs. Even if the supplier had an electronic catalog, we had to make sure that what our employees accessed was Cisco-specific in terms of items and prices.”

Cisco has the catalogs of less than 20 suppliers on the Ariba system now, representing 60% of the transactions and 8% of the dollars spent on indirect items. These are under the direct-order program, and include desktop systems, printers, software, office supplies, promotional items and other goods that can be purchased, upon approval, directly from the supplier.

The items representing lower volume (17% of transactions) and higher dollars (91%) are routed from Ariba Buyer through the back-end purchasing application to the Cisco buyers, who negotiate terms and place the purchase orders.

**Results: Focus on the Users**

As noted at the outset, Cisco is seeing the results that it was looking for:

- ease of use and dramatic savings in purchase processing time for employees and procurement professionals,
- a radical shift for procurement personnel, in terms of the time they spend, from tactical to strategic activities.
- through analysis, greater control of the spend, and
- reduction in the cost of processing purchase orders.

Says Grewal, “Cost savings was never one of our main goals. We knew that better processes and better tools would ultimately reduce our costs. But our primary objective was really to provide an application that helps us deploy our strategy and that was to provide a user-friendly tool to our users. We’ve done that in the US, and now our goal is to provide the same benefits globally over the next few years.”

For more information, please contact your hp or Ariba sales representative.

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