



# Aberdeen Group

## OnSite

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## FedEx Taps e-Procurement to Keep Operations Soaring, Costs Grounded

### **Executive Summary**

FedEx Corporation delivers nearly five million packages a day; this makes operations support at FedEx Corp. a mission-critical function. To keep all levels of operations — from delivery fleets to IT infrastructure — in top-notch working order, FedEx needed to streamline and automate its paper-based procurement processes. FedEx chose Ariba Inc. to provide the technology infrastructure to support its e-Procurement initiatives and saw a full return on investment (ROI) within three months. FedEx was able to save time and money in purchase order (P.O.) processing, to achieve more competitive pricing from suppliers, and give its own employees better, if not overnight, response.

### **Company Background**

FedEx Corp. is a \$20 billion global enterprise, consisting of FedEx Express, FedEx Ground, FedEx Freight, FedEx Custom Critical, FedEx Trade Networks and FedEx Services. FedEx has over 370 facilities in the U.S. and Canada alone, and a presence in over 211 countries worldwide.

In total, Fedex spends over \$7 billion dollars annually on indirect goods and services. These include office supplies, cell phones, pagers, food services and catering, delivery carrier supplies, vehicle parts, technology (such as PCs, routers and hubs), and books, magazines and other subscriptions.

### **Business Challenge**

“Our business is getting a package from one place to another in a short time,” said Chris Cawein, manager of business systems at FedEx Express. “If we need something to get a plane off the ground, a truck on the road — anything that affects our organization — we have to make sure we have it.”

Although FedEx had a centralized purchasing infrastructure, the company relied on inefficient paper-based processes to manage indirect purchase requisitions, ordering, and fulfillment. When the company needed an item, FedEx employees would fill out purchase requests by hand and mail these to the central logging facility. Clerical employees would keypunch these requests into a homegrown tracking system where requisitions were assigned to a buyer. The buyer would try to source and buy the items requested, eventually creating a paper purchase order, which had to be keypunched into the legacy system as well. “It was a very labor-intensive and manual process,” said Cawein.

### Selection Criteria

FedEx identified e-Procurement as a key strategy to automate and streamline the whole procurement process. In early 1999, FedEx evaluated a number of e-Procurement solutions based on three primary factors:

1. Ability to integrate with a heterogeneous computing environment;
2. Inclusion of dynamic workflow to deliver better control over corporate purchasing; and
3. Delivery of powerful reporting tools to facilitate spend analysis and purchasing pattern identification.

The company selected the B-to-B Commerce Platform from Ariba to satisfy these requirements, and for the ease of use of the Ariba Buyer system.

### Deployment

Deployment went quickly; FedEx Express implemented the Ariba system within a month. The company was able to load its existing business rules and establish new rules in the same timeframe it took to simply map a new process and finalize a plan for business system implementation in the past.

FedEx began seeing a ROI, as processing requisitions —the time a person requests an item until the item shows up at the person's desk — shrank from weeks to days. While it previously took four to five days for a purchase order requisition to move through the approval chain and get signatures from the appropriate parties, approvals can now happen within one day.

To date, 12,000 to 13,000 employees have used the system, but FedEx plans to give 20,000 to 25,000 users access to the e-Procurement system. Additionally, the Web-based front-end allows any worker authorized to work on FedEx's behalf, such as outside contractors like auto mechanics that maintain the FedEx fleet in smaller cities, to also order through the e-Procurement system.

Eighty percent of U.S. Fed Ex employees have access to the system today; eventually over 220,000 people could be using the system, as FedEx expands its implementation to Europe, North Africa, Asia Pacific, and South America. Indeed, FedEx plans to expand e-Procurement to its other operating companies as well.

FedEx Corp., FedEx Express, and FedEx Services, the sales, marketing, and the IT support unit, are currently using Ariba Buyer, but FedEx is aggressively rolling Ariba technologies out to all of the FedEx Corp. companies. This includes an implementation of Ariba marketplace offerings at FedEx Ground, where the opportunity for process and product cost savings among its network of buyers exists.

**Results**

Since the advent of Internet automation in purchasing at FedEx, overall purchasing cycle times have been reduced from 20% to 70%, depending on items purchased. For example, purchase requests for PCs have gone from taking 17 to 19 days to process to just two days.

The 20 to 30 person clerical department that key-punched requisitions and purchase orders into the mainframe system has been reassigned, saving FedEx considerable overhead. Less than 15 people are now involved full-time in purchase processing, with remaining personnel now focused on more strategic activities.

By implementing company-wide strategic sourcing initiatives three to four years ago, FedEx reduced the number of suppliers by more than half, from 90,000 to 110,000 down to 40,000 to 50,000. Of the 2,500 suppliers that FedEx does regular business with, 75 are currently enabled on the Ariba system. These Ariba-enabled suppliers represent FedEx’s largest volume buys. The improvement in these contracts alone has saved FedEx money above and beyond the cost of the Ariba Buyer system.

The main ROI factor was additional competition among vendors alerted to new purchasing contracts with the Ariba Buyer product.

“Now suppliers know they are going head-to-head,” said Cawein, “so they very aggressively price products to gain business.”

For example, in the technology arena, FedEx has seen savings of up to 40% since it started purchasing PCs through the Ariba system. With FedEx spending \$378,000,000 on information technology in its 2001 fiscal year, that amounts to huge savings.

Today, only about 20% of FedEx’s 25,000 yearly requisitions go through the Ariba Buyer system; FedEx expects additional savings as purchases in other product areas start flowing through the system as well. The number of requisitions processed through the Ariba Buyer system will increase dramatically, Cawein noted, as the company steps up its compliance efforts over the next year.

e-Procurement Best Practices	<b>Company Name</b>
	FedEx Corp.
	<b>e-Procurement Solution Provider</b>
	Ariba Inc.
	<b>Process Time Savings</b>
	Purchase request to goods delivery: 17 to 19 days to two days, depending on goods
	<b>Process Cost Savings</b>
Related clerical employees re-assigned	
<b>Purchased Product/Service/Material Cost Savings</b>	
Up to 40%, depending on goods purchased	
<b>Additional Savings/Benefits</b>	
Able to re-deploy people to more strategic tasks, extend system to contractors	

**Aberdeen Conclusions**

FedEx Corp. had everything to gain by automating its procurement practices — money saved in processes, products purchased, and better response times to the day-to-day requests that keep the overnight leader in business. It was able to recoup the money invested in Ariba technologies quickly, and the savings are poised to grow, as it exemplifies what disciplined purchasing and well-informed sourcing can be. With just one-fifth of its procurement spend being automated and tracked through the system, FedEx should continue to expand its e-Procurement activities in terms of users, suppliers, and deployment footprint worldwide to garner even more buying benefits.

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*Aberdeen Group, Inc.  
One Boston Place  
Boston, Massachusetts  
02108  
USA*

*Telephone: 617 723 7890  
Fax: 617 723 7897  
[www.aberdeen.com](http://www.aberdeen.com)*

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