

British Airways

“Ariba Spend Management is the best solution in the market for helping us to achieve our goal of reducing cumulative running costs by £300 million by 2005. Ariba provides the lowest total cost of ownership available on the market, while offering an unrivalled depth of functionality out of the box. Ariba was also a good cultural fit with our organisation and the strength of its large and loyal installed customer base makes it a lowrisk supplier.”

Silla Maizey, Procurement Director, British Airways



British Airways (BA) is Europe's largest airline flying to more than 550 destinations in 94 countries. More than 44 million people took to the skies with the airline in 2003 alone.

BA services its global network from a centralised operation in the UK. Over eighty-five per cent of employees are based in either London Heathrow or London Gatwick and the company's headquarters are located at Waterside on the outskirts of Heathrow.

Addressing Industry Challenges

The airline industry has traditionally been characterised by steep fluctuations in demand, despite a steady long-term growth in passenger numbers. The last few years, however, have been particularly tough for the industry with several events conspiring together to result in huge losses and bankruptcies of several established airlines.

Carriers have been forced to respond and find ways to retain their profit margins. "Revenues are weak in the industry at the moment so we have had to find ways to take cost out of the business," says Maizey at BA. Its response was to launch an initiative called 'Future Size and Shape' in 2001. This called for a ten per cent operating margin to be achieved through £650 million cost savings over the period 2002 to 2004, an additional £450 million cost reduction from 2003 to 2005 and a £300 million employee cost reduction from 2004-6.

Cost Reduction Goals

- 10% operating margin required through £650 million cost savings over the period from 2002 to 2004
- An additional £450 million cost reduction from 2003 to 2005
- And a £300 million employee cost reduction from 2004 to 2006

Addressing Procurement Shortcomings

To help achieve its ambitious savings targets, BA needed to re-examine its procurement function. By the end of the 1990s, BA was spending more than £4 billion annually with suppliers, processing more than 350,000 orders per annum, and paying more than half a million invoices. In addition, its top 150 suppliers accounted for more than 80 per cent of its spend.

Senior managers recognised that this situation was far from ideal and launched a transformation programme in 1999 to find cost savings in procurement, increase control over spending and encourage more informed purchasing.

As part of this programme, a Director of Procurement was appointed, the operations contracts and purchasing departments having been merged and an expert brought in as Head of Strategy and Performance, to bring a fresh approach to BA. The organisation also hired the management consultancy firm Accenture to help develop its transformation programme.

Procurement gained even greater priority in 2001 when it was incorporated into BA's 'Future Size and Shape' initiative, looking at delivering sustainable, profitable performance for the business. BA's philosophy has always been to see technology as an enabler, not the driver, of business change. Whereas it had been using technology throughout its history to tackle areas of direct spend (such as engineering, catering, fuel purchasing, and user charges), it had never looked at using technology to improve indirect spend Procurement (all categories that do not directly support flying activities), despite the fact that it accounted for up to £1 billion of spend.

To tackle this opportunity, the Procurement department engaged Spend Management company Ariba to help improve management of its indirect purchasing categories. In early 2001, the team launched Ariba® Buyer™ in the UK. This was a significant launch for the carrier, helping to implement improved transactional Procurement processes for up to £1 billion of external spend.

- *The world's biggest international airline*
- *Flies to more than 550 destinations in 94 countries*
- *Last year, more than 44 million people flew British Airways*

Improving Procurement Processes Further

In April 2003, BA's Executive Committee reinforced the importance of strategic sourcing as a key element of its 'Future Size and Shape' programme, and BA began a search for a specialist vendor to help realise its goal of reducing cumulative running costs by £300 million by 2005.

"Having tried various ways to control and manage our spend, including manual strategic sourcing, we realised that the only way to ensure real savings and compliance was by internally implementing eSourcing to provide a systematic, closed-loop approach to our sourcing and procurement activities," says Maizey. "Only by using a solution that can seamlessly manage this entire process were we going to have any chance of reaching our objectives as part of BA's wider cost-cutting and efficiency drive."

In July 2003, Ariba was selected as BA's partner in this area and the company began the full implementation of Ariba's Spend Management solution adding Ariba® Enterprise Sourcing™, Ariba® Contracts™, Ariba® Category Management™ and Ariba® Analysis™ to its existing Ariba Buyer solution.

Rollout of Ariba's Spend Management modules started in February 2004, initially with a small group of suppliers. BA will extend the programme to further key suppliers over the next 12 months.

Adding up the Benefits

BA's implementation of Ariba Spend Management has exceeded expectations and the airline saw a rapid ROI in five months. For the period 2003 - 2004, BA is estimated to have made savings of more than £80 million, with an average annual saving per procurement MPE of £380,000.

Specific savings opportunities include: 12 per cent cost saving on US in-flight catering; 11 per cent savings across all UK printing activities; and nine per cent savings in US logistics. There has also been significant cost reductions in ground fuel (Heathrow and Gatwick);

- *Spending more than £4 billion annually with suppliers*
- *More than 350,000 orders per annum*

crew accommodation in San Francisco, Los Angeles, Barcelona and Madrid; catering in Beijing, Zurich and Geneva; virtual private network provision; and ground handling for Basle, Zurich and Geneva.

Spend visibility has also increased dramatically. "We have seen a four-fold increase in orders processed through Ariba Buyer since the first quarter of 2003," says Maizey. "We are also in the process of reducing our UK supplier base from 14,000 to 2,000 and in 2003 had achieved a reduction in the UK supplier roster of 64 per cent."

Increasing the use of preferred suppliers amongst buyers has also reduced maverick spending. This has resulted in more goods and services being purchased at lower prices and allows BA to check that orders are not sent to suppliers unless they are for the right goods and services, and at the negotiated price.

Errors as a result of manual processing have also dramatically fallen with more than 80 per cent of purchases now being processed electronically. Average transaction cost has been reduced by 40 per cent and BA estimates that employee productivity has improved by 48 per cent, as staff has begun to focus on value-add activities. BA has also been able to reduce its engineering inventory—reducing inventory levels by over £200 million.

Perhaps more importantly, perceptions amongst staff about the role of procurement have also been changed. "Procurement now is less about processing orders and more about strategic sourcing and finding the best quality products and services for the company at the best price," says Maizey.

Looking Ahead

In March 2004, the Procurement Group considered its future priorities in rolling out Ariba Spend Management further throughout the organisation.

BA currently has 2,800 preferred suppliers, of which 700 are transacted through Ariba Buyer. However, over 5,000 supplier records exist, suggesting there is still significant scope for increasing compliance to preferred suppliers.

BA also plans to extend the number of Ariba Buyer catalogues to encompass further commodities and suppliers. This is seen as critical because catalogues simplify the ordering process and encourage use of preferred suppliers. An increased use of catalogues will also improve requisition accuracy and, consequently, speed up the approval process and reduce invoice mismatches.

Ariba Spend Management is already being rolled out to overseas operations and subsidiaries, which should be completed by the end of 2004. BA will also integrate Ariba Contracts with Ariba Buyer, which will help to ensure that orders placed with suppliers are in line with agreed terms. And finally BA intends to link all suppliers to electronic invoicing by implementing Ariba's Invoicing software over the next 18 months.

"Working with Ariba has been instrumental in helping us realise our cost saving objectives, and demonstrating the critical role procurement can play when industry revenues are down. Moving forward, we plan to expand our use of Ariba Spend Management to ensure the whole company benefits from the new procurement process," says Maizey.

Spend Management Results

- ROI in five months
- 2003 – 2004, BA savings of more than £80 million, with an average annual saving per procurement MPE of £380,000
- Four-fold increase in orders processed through Ariba Buyer
- Reduction in UK supplier base from 14,000 to 2,000
- Reduction in inventory levels by over £200 million
- Employee productivity improved by 48 per cent; Average transaction cost reduced by 40 per cent
- 80 per cent of purchases now processed electronically



807 11th Avenue
Sunnyvale, CA 94089
1-650-390-1000
www.ariba.com

About British Airways

British Airways is the world's biggest international airline, carrying more passengers from one country to another than any of its competitors. Also, one of the world's longest established airlines, it has always been regarded as an industry-leader.

Last year, more than 44 million people chose to fly on the 499,000 flights that it operated. That's the equivalent of 80 passengers checking in every minute around the clock, and a British Airways flight taking off or landing every 60 seconds. The airline also carried more than 907,000 tonnes of freight and mail last year (up 1.1 per cent on the previous year) - equivalent to one tonne loaded every 35 seconds.

British Airways is one of the founding partners of the oneworld alliance, which took off in February 1999.

The website is www.britishairways.com. Media information can be viewed at www.britishairways.com/press. oneworld's website is www.oneworldalliance.com.

About Ariba, Inc.

Ariba, Inc. is the leading provider of spend management solutions to help companies realize rapid and sustainable bottom line results. Successful companies around the world in every industry use Ariba Spend Management software and services. Ariba can be contacted in the U.S. at 1.650.390.1000 or at www.ariba.com.