

Spend Analysis: the Foundation of Supply Management Excellence

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Why Spend Analysis?

What drives people to choose spend analysis? It all comes down to saving money, not a very complex notion in today's economic environment. The CPO's first and foremost objective every fiscal year is saving money. Solving that problem starts with information. For some CPO's, the first question is, "What are we buying?"

What we have learned over the past ten years is that all sourcing, contracting and e-procurement efforts are for nought if we are not able to track what we are actually buying from two perspectives:

- Base-lining of savings- the front-end of the process where we
 - Look at with whom and what and how we buy
 - Identify and prioritize where to focus efforts
 - Set baselines and targets for savings
- Tracking of savings – the back-end of the process where we ask
 - Have we performed as we had hoped and expected?
 - Are we living up to the contracts that we just spent a number of months sourcing and negotiating?

Why do many people think that spend analysis technology is not helpful in answering these questions? First, many people cannot understand how this is better because they think they already have all the data needed. While they do have all of the data needed, they come to realize they do not understand what they are spending. This is mainly because they rely on reports from General Ledger accounts and Accounts Payable systems which are not designed like sourcing people think.

So, sourcing people are not doing as good of a job as they thought. People now are taking it more seriously as the technology and understanding of how to apply it to both base lining and tracking of savings have come to the forefront.

What Do You Need from Your Spend Data?

It is important to understand the purchasing information to determine what the strategy should be. For example, typical questions that need to be answered include:

- What are my own internal demand patterns?
- Who do we buy from and at what price and terms?
- What can I commit to in the coming years which may allow me to leverage volume to get better pricing?

More information is always better. When you have a solid baseline leveraging multiple years of transaction history and information from all the vendors that you have purchased from (e.g., 50 vendors in a category instead of just the two that are preferred), there is always incremental value that you can bring to the sourcing negotiation. To get this level of insight, procurement organizations should look for the following six attributes in their spend visibility system:

1. Must be holistic – i.e., does it capture all data, not just data from one system?
2. Must be categorized (mapped) to the right category and vendor.
3. Must be mapped to the right level to make decisions. Anybody can categorize data, but that doesn't mean it is categorized accurately. If 20% of the spend is grouped in the “miscellaneous” category or is not to the right level of depth (e.g., only mapped to the technology category, not to the distributed PC/hardware category), then it is useless for sourcing decisions.
4. Must be usefully presented so end users - whether they be CPO, VP of Sourcing, commodity managers or buyers - can easily navigate within the data to answer their questions.
5. Must be able to update the data quickly so you are not relying on stale data to make decisions.
6. Must be able to update mis-classified data quickly – usually directly from end user feedback – this leads to higher quality data and greater buy-in from the procurement team

What's the “Secret Sauce” of Spend Analysis?

Many spend analysis vendors woo and wow prospective buyers with their fancy visualization tools.

Source: www.nextlevelsupply.com

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The technology micro-site of the book *Next Level Supply Management Excellence*

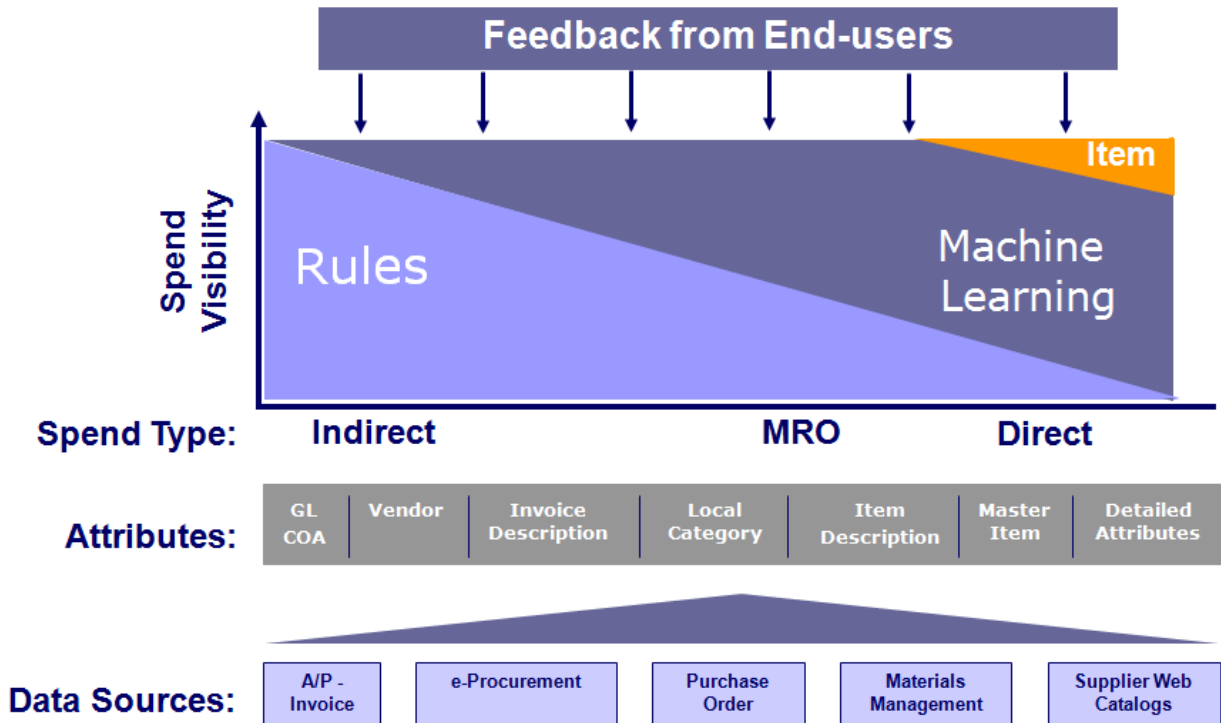


Figure 1: Leveraging Various Technology Approaches to Classify Transaction Data

Don't get me wrong. Self-serve reporting, visualization tools and analytical horsepower are critical software capabilities of any enterprise-class spend analysis application. You don't want to have to hire an analyst to create meaning reports for you in Excel. Even the ERP vendors and IBM have gotten the message as seen in their acquisitions of Business Objects, Cognos and Hyperion.

However, data analysis is only about 10% of the value of a spend analysis application, and most any analytics package provides a good starting point for this. The real challenge, and where 90% of the value of a spend analysis solution comes from, is in the data management effort. This involves bringing data in from multiple sources, cleansing, categorizing and linking the data together. Software automation and content libraries make this process faster, lower cost and more easy to replicate.