Spend Analysis:
Making Sense Of Data

The business environment today is one of melted borders and global reach. The markets for business as well as the supply base for organizations today is vastly different from what it was even 5 years ago. With an increased reach and a more extensive supply chain comes inherent complexity. Whether it is ensuring seamless supply of materials or ensuring compliance within the organization, organizations need to engage in much more complex processes and workflows. This magnifies the need for spend data and brings under the scanner the importance of enterprise spend data management.

Today, spend data analysis is no longer a nice to have but a vital need of the enterprise. But simply collating spend data from the various sources in the enterprise- which in itself is a major challenge- does not achieve anything concrete.

This whitepaper looks at

- The challenges and benefits of enterprise spend data classification and

- Elaborates on the processes that can help successfully extract actionable information from your spend data which in turn can help organizations create strategic sourcing initiatives and achieve savings.

Changing business trends

The rapid rise of global enterprises has created a business environment vastly removed from the one that companies operated in even as few as 5 years ago. The major trends that directly create the need for data within organizations include

Globalization

Many organizations today have business units as well as suppliers functioning in several different countries. This creates an increased challenge of collating data from disparate source systems, languages and taxonomies. The challenge is to create a proper system that can bring together and analyze this data to ensure process consistency within the organization.

Volatility

With the increase in globalization of the supply chain, comes an increase in volatility. Whether it is rapidly changing prices of commodities, varying exchange rates or even geographical disasters which might affect your off-shore manufacturing units, the increase in volatility in today's business environment is extremely high. In this situation the need for consolidated data from all business units, markets and exchanges is necessary. In fact in many instances the data is necessary in an almost real time format.

Also with the rise in automated processes within every facet of the organization, there is more data available. With more data comes the challenge of increased complexity in data analysis. Spend data analysis is no longer a business nice to have. It has become more of a business necessity. Spend data now can be utilized beyond procurement analysis to extend to the processes of customer and supplier management and even business development and marketing. In short there has been an evolution of spend analysis to a more strategic process.

Path to superior results for a procurement department

More Data

More Analysis

Streamlined Processes

More Expertise

Superior Results
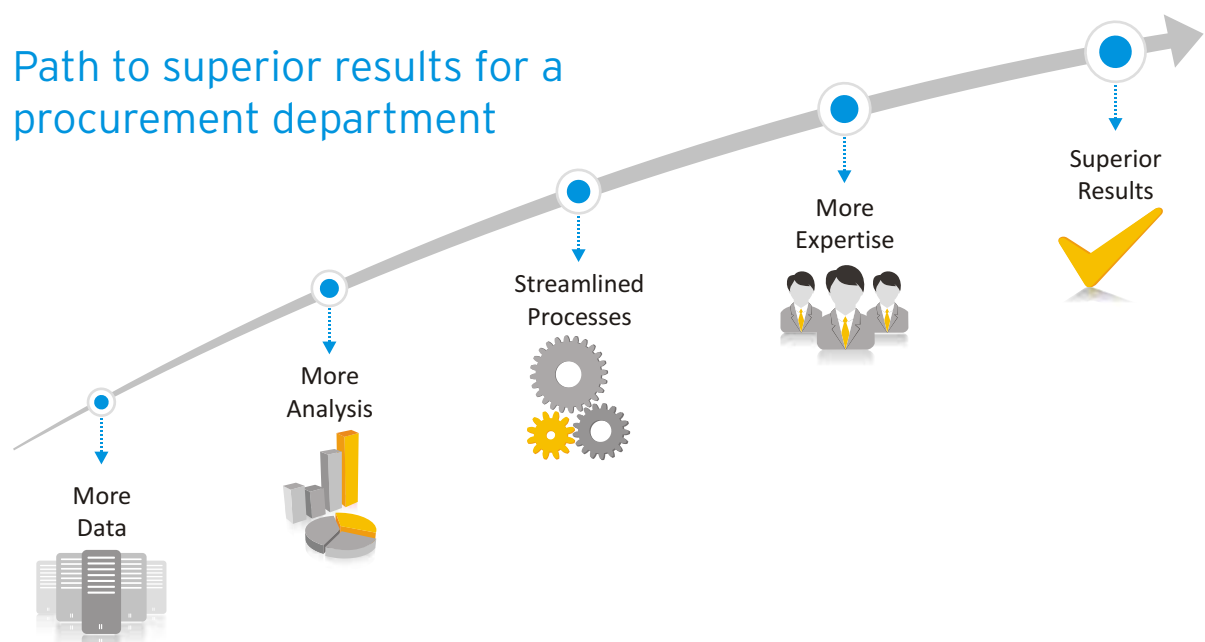
Challenges of enterprise data management

Now that we understand the increased importance of data management within the organization, let us look at the challenges in obtaining and understanding this data.

Too much data

The sheer number of business units, suppliers and automated systems creates a volume of data which is immense compared to what we saw earlier. Handling this data without an organized data analysis and management system in place can lead to disastrous results.

Lack of standardized data

Data exists today in a multitude of languages, source systems and formats; this can be within different business units or even within functional departments. Comprehensive analysis of organizational data can be tedious and at times downright impossible

Plant	Item Description	Material code	Material Group
US	647445 HP NC6000 LAPTOP WIRELESS		Office supp
German	Latitut	43211503	Notizbuchcomputer
Australia	HP NC6000 Latutude		Computer
England	NX6120 notebook / 256MB RAM	DELL-L131	"Mach & Equip, Misc"
Australia	KINGSTON 256MB PC2700 HP PAVIL	0206ZX	Mainframe Purchases
France	Ordinateur portable donné pour la haute de Napoleon	XSDF12	Équipement d'Office

Lack of quality data

Not only is the data not in a standard format but it also exists in incomplete and sometimes incoherent formats. This extends the data analysis process since all this incoherent data needs to be deciphered and brought into a standard format.

Lack of a standard process or solution to collate and analyze data.

Even though organizations understand the value of spend data analysis it is shocking to see how many organizations resort to manual processes or half baked excel sheets to tackle this data.

> "Only 22% of enterprises are currently utilizing fully automated spend analysis systems and processes"
> - Aberdeen Benchmark Report 2010

The challenge faced by organizations is not just to collate the data but to convert it into information that can contribute to organizational strategy.

The pitfalls of bad data

Of course lack or poor quality of data will affect almost every aspect of your procurement process. Lack of proper spend data can lead to missed out savings opportunities as well as create issues of too many suppliers for a single category.

Lack of spend data can also create issues of reduced visibility into compliance to contracted terms with suppliers as well as no monitoring of maverick spend. This can lead to missing out on volume discounts and make supplier rationalization impossible.

Thus without spend analysis procurement can never evolve into a strategic contributor to sourcing projects and will end up stabbing in the dark for savings.
So now that we discussed the importance of spend analysis let's take a look at it from a very basic point of view.

Spend Analysis

Spend analysis is nothing but the process of extracting and collating spend data, analyzing it and using it for reporting trends and opportunities.

Spend analysis tools helps CPOs and CFOs gain insights into what their company buys and from whom

"Spend analysis can assist category managers (64%) in consolidating spending, right sizing their supply base and having real time visibility into spending against budgets of these categories"

- Aberdeen Benchmark Report 2010

"70% of organizations across the globe have seen an increase in spend visibility as a direct result of the spend analysis function and its associated processes"

- Aberdeen Benchmark Report 2010

Collect Data

Extract Data

Cleanse Data

Classify Data

Report and Analyze
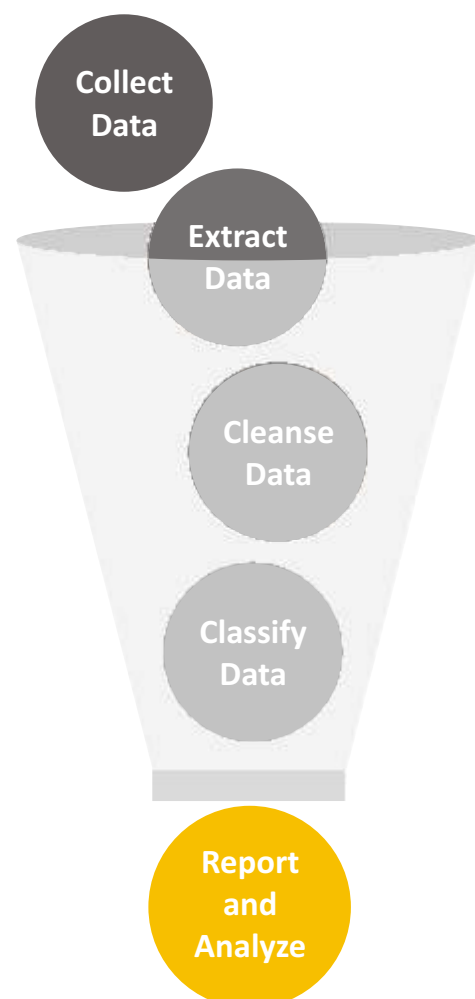
So what should an ideal Spend Analysis system achieve?

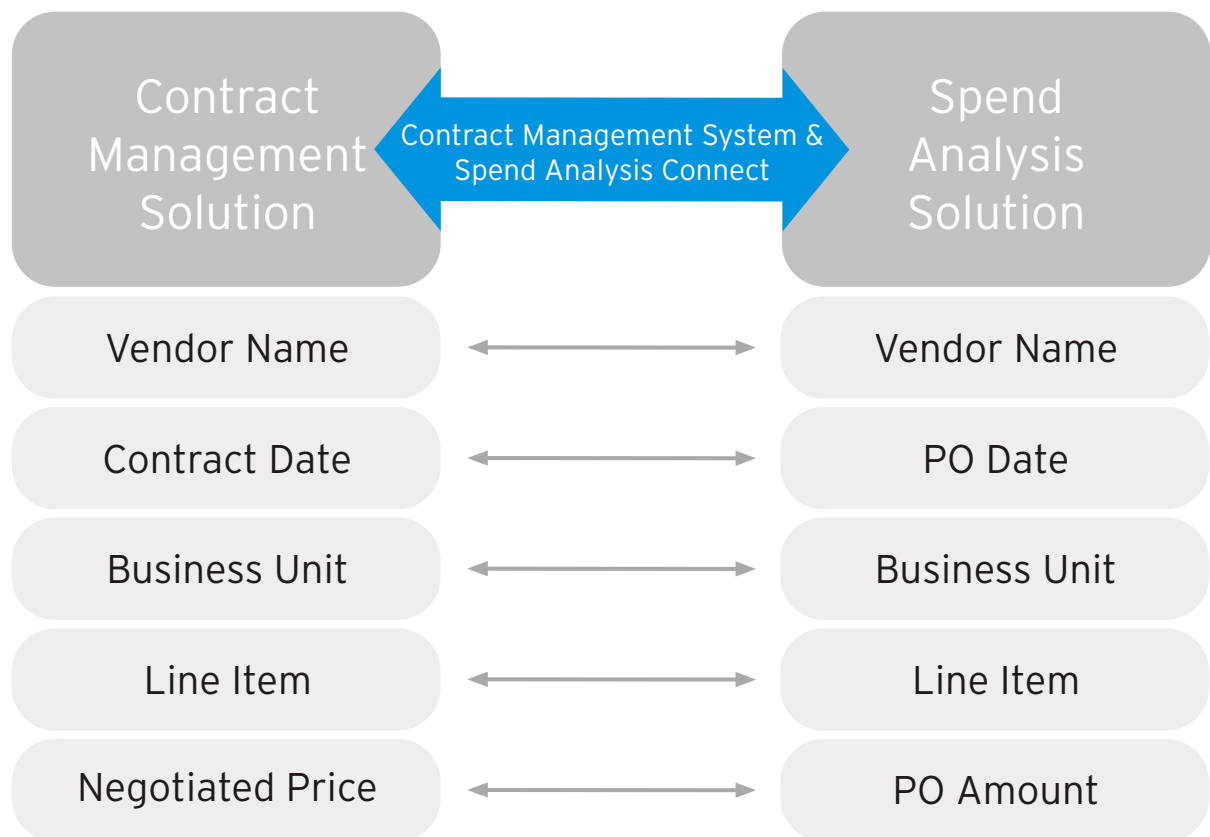Single taxonomy structure to classify all spend data

The proliferation of enterprises across multiple geographies and supply markets leads to data input from multiple source systems and languages. Every business unit or even different functions within the same business unit may be using individual taxonomies for the classification of the same commodity. A spend analysis solution automates the process of collating this data and assigning a single taxonomy to it across the organization. One of the most used taxonomy standards is UNSPSC. Several organizations also prefer home grown taxonomies. The organization needs to come to terms and agree upon a single acceptable taxonomy which can be implemented across the enterprise. The data classification should be granular and then combined with an analytics tool that not only reads the data and gives you a full picture of your spend but also provides what if analysis and suggest areas where savings opportunities can be mined.

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US	647445 HP Nc6000 LAPTOP WIRELESS		Office supp	43211503	Notebook Computers
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Map spend data to sourcing categories and contracts

To realize the value of the data that has been mined through spend analysis, it should be tracked to commodities to devise sourcing strategies. Visibility in to spend classified by suppliers will also help create rationalization strategies that can create opportunities for savings.

Spend data should also be mapped to contracts to understand the level of off contract spend within the organization and measure contract compliance.

Contract Management Solution	Contract Management System & Spend Analysis Connect	Spend Analysis Solution
Vendor Name	⟷	Vendor Name
Contract Date	⟷	PO Date
Business Unit	⟷	Business Unit
Line Item	⟷	Line Item
Negotiated Price	⟷	PO Amount

In the figure above we can see how the combination of a contract management solution and spend analysis solution helps in the tracking of spend across vendors, business units, commodity and the price being paid. This tracking keeps a tab on spend across vendors thus ensuring compliance of contracts in place.

Scalable process across enterprise business units and functional departments

Spend analysis solutions should be able to create scalable processes within the organizations. It is imperative to achieve this that the solution selected should be intuitive and very easy to use which can foster adoption among end users.

Integrate seamlessly with existing solutions

Solutions selected should seamlessly integrate with existing ERP solutions and even other automated solutions within your sourcing process like contract management or supplier management solutions. This will not only streamline processes but also create additional insight to spend data in the form of supplier and contract intelligence.

Benefits

The obvious benefits of spend analysis are,

BENEFIT	HOW	FACTS
More Spend under management	By integrating procurement data across the organization, spend analysis provides increased visibility into the total spend by commodities and suppliers.	Best in class organizations place nearly 71% of their spend under management and have realized and fully implemented 10% cost savings - Aberdeen Benchmark Report 2010
Savings from Sourcing	By increasing spend visibility, spend analysis provides insights into what a company buys and from whom. This insight in turn provides savings opportunities from the sourcing activities carried out by the organization.	Enterprises are able to achieve on an average 5.4% cost savings at the end of a sourcing project - Aberdeen Benchmark Report 2010
Reduced maverick spend and increased contract compliance	By monitoring contract compliance companies are able to get more control over maverick spending and reduce procurement costs by driving more spend through preferred suppliers.	Companies report an average increase in contract compliance of 30.6% after a spend analysis program is initiated - Aberdeen Benchmark Report 2010

Besides these, spend analysis also helps in devising future sourcing strategies by helping identify supplier and category trends. These may include strategies based on supplier rationalization, purchase price variance and spend by geographical region.

The checkpoints

Decide taxonomy

Clearly define taxonomy for classification that is accepted throughout the organization. The taxonomy can be standard like UNSPSC or e-Class or home grown taxonomies as long as they help create a classification which is granular.

Determine cost savings baseline with finance to ensure clarity and credibility on savings achieved

Align with the finance department within the organization to decide a baseline for cost savings before the spend analysis solution is implemented. It is very important that procurement works hand in hand with the finance department to create a base line or benchmark for the savings that can be achieved from a spend or strategic sourcing endeavor. This will help procurement effectively represent cost savings at the end of the year with respect to budget allocation.

Conclusion

Implementation of spend analysis in organizations has clear benefits in terms of achieving savings by increasing visibility into the various spend carried out by organizations. The increased visibility obtained from Spend analysis in combination with tools like contract management helps curtail maverick spending which in turn also improves on the savings realized by organizations. However before implementing spend analysis, organizations must ensure their existing data within the organizations is classified and categorized appropriately.

About Zycus

At Zycus we are 100% dedicated to positioning procurement at the heart of business performance. For more than a decade we have been the world's most trusted leader in Spend Analysis. With our spirit of innovation and a passion to help procurement create even greater business advantages, we have evolved our portfolio to a full suite of Procurement Performance Solutions – Spend Analysis, e-Sourcing, Contract Management, Supplier Management, and Financial Savings Management.

Behind every Zycus solution stands an organization that possesses deep, detailed procurement expertise and a sharp focus on being responsive to customers. We are a large – 600+ and growing – company with a physical presence in virtually every major region of the globe. We see each customer as a partner in innovation and no client is too small to deserve our attention.

With more than 200 solution deployments among Global 1000 clients, we search the world continually for procurement practices proven to drive competitive business performance. We incorporate these practices into easy-to-use solutions that give procurement teams the power to get moving quickly – from any point of departure – and to continue innovating and pushing business and procurement performance to new heights.

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