Advanced Spend Analytics – A Powerful Procurement Tool for Gaining Organizational Efficiencies

How choosing the right spend-analytics technology

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I. Introduction

Traditionally, the procurement organization has often been overlooked as a strategic source of competitive advantage. Today, however, technology has supercharged the ability of procurement to deliver added value across the entire organization.

Recent research shows that procurement organizations that have adopted advanced automation technologies operate with 21% lower labor costs and are more effective at delivering services to internal and external customers.[1]

With greater analytic capabilities, Chief Procurement Officers (CPOs) have also gained a deeper understanding about their supply chains and, as a result, are taking on increasingly strategic and advisory roles in support of the overall business strategy. World-class procurement organizations are shown to achieve a 2.2 times higher return on investment than their peers and are five times more likely to be viewed as a valued business partner.[2]

While great strides have been made in procurement automation, one of the last remaining, and perhaps greatest opportunities for creating value, lies in spend analytics. Applying advanced analytics tools enables real-time visibility of accurate direct and indirect spend data meaning that CPOs and other heads of procurement are able to make data driven decisions quicker and with more confidence than ever before.

Through clear visibility of spend spikes, consolidation and negotiation opportunities, PO and on-contract spend compliance issues, procurement can maximize value across multiple strategic and operational areas, including increasing (and tracking) realized savings, improving internal compliance, mitigating general supply risk and specific supplier risk, optimizing budget allocations, streamlining processes, gaining labor efficiencies, supercharging Financial Planning and Analysis (FP&A) teams and strengthening key supplier relationships.

In this playbook, we will examine the uses and potential benefits of spend-analytics tools, how to go about choosing the optimal technology solution, when to choose a stand-alone solution versus an entire procurement-management technology suite, and best practices in implementing spend-analytics technology.

By the end of the playbook, readers will:

○   Understand why spend management is a top priority for procurement professionals

○   Learn how spend-analytics tools can solve the problems of transparency, multiple data sources/systems, spend-category definitions and reliance on Excel spreadsheets.

○   Learn some of the key steps in implementing spend-analytics tools.

○   Be able to identify priorities in choosing a technology vendor.

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II. The spend-management priority — The need to know now

While cost management has always made the top five priorities of procurement professionals, today the need to keep an ever-closer eye on direct, indirect, maverick and tail spend is at its peak. Maverick spend is defined as spending that occurs outside of contractual agreements and tail spend are purchases that make up roughly 80% of transactions, but only 20% of spend volume. Most tail spend tends to be maverick spending.

According to a survey of Chief Procurement Officers in August 2020, respondents identified cost management as their top priority, commanding nearly eight times more focus in day-to-day operations.[3] And these efforts are not likely to subside any time soon.

> " **The need for procurement to better manage their spend has become a board-level discussion in most companies.**"
>
> — Chris Sawchuk, The Hackett Group

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In a midyear 2020 survey of more than 1,000 executives worldwide, two of three executives said they expected to pursue cost-reduction strategies over the next 12 months, compared with 38% before COVID-19.[4]

Chris Sawchuk, principal and global procurement advisory practice leader at The Hackett Group, concludes that spend management is a hot topic at the most strategic levels, noting that "the need for procurement to better manage their spend has become a board-level discussion in most companies."

"Accordingly, procurement organizations are scurrying to try to understand the level of diversification they have within their supply base, only to find out that they don't have clean and accurate data to make those assessments or have visibility across the entire enterprise," Sawchuk added.

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III. Why an advanced spend-analytics tool is a must-have

OUT OF SIGHT, OUT OF MIND

Increasing enterprise-wide accurate visibility across all types of spend is the first step to achieving long-term value in strategic sourcing, said Dan Gianfreda, Director of Customer Success at SCANMARKET, a source-to-contract procurement technology and services company, based in the EU and the United States. Unfortunately, many sourcing executives are constrained by dispersed, unclassified data across too many disparate systems to facilitate good decision-making and drive bottom-line improvements.

Much of the problem is that procurement isn't able to see their spend data from their Enterprise Resource Planning (ERP) systems. They often need data scientists to manually pull the data from the ERP systems, create pivot tables and advanced reporting, which is a manual and a lengthy process. At the same time, companies are at the mercy of the quality of the data being entered into their ERP solutions — data that's typically categorized manually, if at all. Without a spend-analysis tool that

can cleanse, categorize and normalize the data, companies don't understand what they're spending or have a way of knowing if the data is accurate. "Ultimately, it will be impossible to see real-time data or make decisions in real time. You can't manage what you can't see," said Gianfreda.

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EXCEL DEPENDENCY — DEATH BY 1,000 CUTS

The potential for data errors in spend analysis is magnified by procurement organizations' ongoing dependency on the use of Excel spreadsheets. According to LevaData's 2019 Cognitive Sourcing Study, one out of every two procurement organizations in its survey still used Excel spreadsheets to store and analyze their spending patterns.[5]

The problem with Excel, is that it's highly prone to error. Data is pulled manually from an ERP, into an Excel spreadsheet, then into a business intelligence (BI) tool and is sliced and diced many different ways. Columns have to be mapped, making sure the supplier name goes into the correct column, with the correct spelling. It might be spelled five different ways in different ERP systems across the enterprise. There's no way of knowing if data is being entered into the right spend category or if spend categories are consistent.
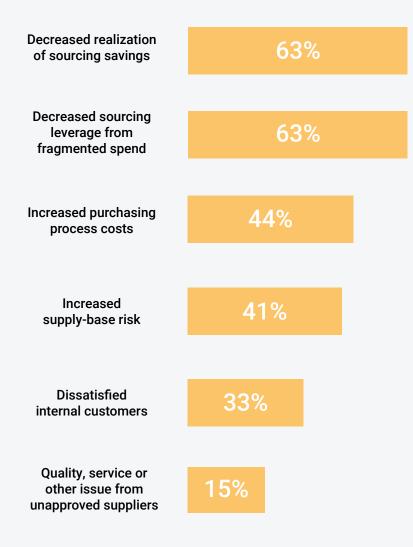
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THE ELEPHANT IN THE ROOM — MAVERICK SPEND

Maverick spend is the bane of most procurement departments. It is highly invisible and the source of potentially huge losses in efficiencies and negotiated savings. According to APQC's 2019 Open Standards Benchmarking in Procurement study of organizations with a minimum of $500 million in annual revenue, bottom-performing organizations' maverick purchasing represented 2.5% or more of their total purchases. For top performers in procurement, maverick spend amounted to 1% of total purchases.[6]

For companies with yearly purchases of $1 billion, this translates into $10 million in unmanaged maverick spend. This price tag also comes with hidden consequences — No. 1 being loss of savings, followed by decreased sourcing leverage and increased processing costs.

At the same time, maverick spending often has the effect of undermining the work of the procurement department. Even if companies think that they've done a good job in sourcing all of the main categories, getting the best possible prices and terms with the best suppliers, the fact that people are purchasing outside those contracts is undoing all that work. Procuremen heads wouldn't necessarily have any real visibility into that, so they have no way of correcting the behavior.

Percentage of Organizations

Decreased realization of sourcing savings	63%
Decreased sourcing leverage from fragmented spend	63%
Increased purchasing process costs	44%
Increased supply-base risk	41%
Dissatisfied internal customers	33%
Quality, service or other issue from unapproved suppliers	15%

Source: User Experience and Maverick Spend Study, The Hackett Group, 2019

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IV. Six ways advanced spend-analytics capabilities can add value across the entire enterprise

Now more than ever, procurement professionals understand that to gain true, accurate visibility of spend data is critical, especially against a backdrop of a highly digitalized competitive landscape: the ability to course-correct through a real-time accurate feedback loop is vital in the fight to gain a competitive advantage and, ultimately, to optimize the bottom-line.

Advanced spend-analytics technology is the only solution to the problems of human error, Excel dependency, disparate data sources and a general lack of visibility into both managed and unmanaged spend. The following are six key ways spend-analytics tools can improve spend management across the entire enterprise.

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1) MEET STRATEGIC AND OPERATIONAL OBJECTIVES

Advanced spend-analytics solutions are designed to create better visibility into spend patterns across the organization. Increasing transparency into the supply chain highlights the opportunities to diversify supply, create efficiencies around supply management and maximize the potential to meet increasing pressures to more tightly manage costs.

2) REDUCE RISK BY INCREASING TRANSPARENCY

Advanced spend-analytics solutions can identify purchasing patterns in both direct and indirect spend. By identifying categories where the company might rely on only a few suppliers for a large percentage of its spend, an automated solution can alert procurement officers to high-risk spending scenarios.

3) OPTIMIZE DIRECT AND INDIRECT SPENDING

Advanced spend-analytics technology can identify where multiple vendors are supplying the same products, thereby providing the opportunity for the procurement teams to either consolidate their spend or consider price-negotiation options.

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4) IMPROVE LABOR EFFICIENCY AND DATA ACCURACY

One of the biggest challenges for large and small companies alike is categorizing data. All companies can draw data from their spend accounts, but categorizing data is typically manual and prone to error. A technology solution based on artificial intelligence and a rule engine can read an invoice line-item description and categorize the purchase automatically, eliminating the need for manual entry and thereby improving labor efficiency and reducing costs. At the same time, AI can ensure the data is accurate and categorized the same way, or normalized across the entire company.

5) UNDERSTAND MAVERICK SPEND

For unmanaged spend categories, where a large number of suppliers are typical, and purchases are made outside of agreed contracts, spend-analytics tools can help identify sourcing opportunities, potentially consolidate suppliers and capture potential savings.

6) SUPERCHARGE YOUR FP&A TEAMS

Spend-analytics tools can help procurement understand potential sources of savings, thereby allowing FP&A teams to build more accurate cost-management scenarios. At the same time, it offers finance teams greater insights into contract compliance and payment terms across multiple vendors.

V. Choosing an advanced spend-analytics tool — A CPO's checklist

1. IDENTIFY YOUR PROJECT SCOPE.

○ Determine if a department-by-department rollout, a line-of-business rollout or a full-enterprise strategy fits your objectives.

○ The more extensive the application, the greater transparency across the entire company. However, for companies with significantly different business units, or subs, onboarding one at a time might make more sense and deliver faster results.

2. PREPARE YOUR DATA

○ Determine your data sources — such as your ERP, Purchase Ledger systems Purchase to Pay (P2P) software or manual processes.

○ Organize your data so it can be cleansed and categorized correctly by a preferred vendor.

○ Don't worry if you think your data quality isn't good enough to justify the investment in a spend analytics tool.

○ You will still gain valuable insights from making the data more accurate and visible.

○ Cleansing, categorizing, and normalizing the data will improve the quality significantly.

○ The weakness in your data will become very apparent, allowing you to take action to improve data collection/compliance going forward.

○ You will likely be defining further data rules together with your vendor to achieve maximum consistency in categorization.

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3. CHOOSE YOUR VENDOR

- Determine your vendor choice parameters — price, ease of use, aftermarket support.

- Do you need a vendor that can seamlessly accommodate multiple data sources? Determine the advantages of choosing a spend-analytics tool alone or a complete source-to-pay solution (S2P).

- Best-of-breed spend analytics tools will be compatible with any platform, including a company's ERP system. When companies have yet to automate their procurement processes, a complete S2P suite that includes an advanced data analytics tool will offer ease of implementation, and a more cost effective end to end solution.

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A S2C platform is a great starting point for spend analytics. – even if you don't feel you are ready to use the online sourcing tools yet. By choosing a vendor that can offer spend analytics as well as source-to-contract tools you make sure you are able to take action on the new insights you get from the spend tool."

— Glenn Danielsen, SCANMARKET

VI. CONCLUSION

Companies worldwide have recognized the importance of understanding their spend to help them achieve their cost-management strategies. Consequently, procurement professionals are increasingly turning to spend-analytics technology solutions to provide greater visibility into companywide spending patterns.

Best practices in implementing a spend-analytics tool start with knowing the extent to which automation can deliver on multiple benefits. By increasing transparency into the supply chain, procurement officers can identify new opportunities to diversify suppliers, reduce risk, consolidate vendors and gain better terms.

Meanwhile, a technology solution based on advanced Artificial Intelligence (AI) can solve the problem of spend categorization and manual-entry errors. Similarly, maverick spend is exposed and potentially reorganized into managed spend categories. Finally, by choosing the right vendor, advanced analytics solutions can solve the problems of multiple data sources and diverse spend taxonomies and eliminate the Excel dependency that plagues one in two procurement organizations today, giving procurement professionals the power to make data driven decisions on time.

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SOURCES

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