

UNLOCKING VALUE WITH SPEND ANALYTICS

The Business Case
for Data-Driven
Procurement

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August 2024



Introduction

IN TODAY'S HYPER-COMPETITIVE BUSINESS ENVIRONMENT, ORGANIZATIONS ARE UNDER CONSTANT PRESSURE TO OPTIMIZE COSTS, ENHANCE OPERATIONAL EFFICIENCY, AND DRIVE PROFITABILITY.

PROCUREMENT, PERCEIVED BY MANY AS A BACK-OFFICE FUNCTION, HAS EMERGED AS A STRATEGIC LEVER FOR ACHIEVING THESE GOALS.

However, to fully harness procurements' power and level the playing field with suppliers, companies must embrace advanced spend analytics solutions to ensure that the spend data that they are using is clean and accurate. For most companies, their spend data is in multiple, siloed systems, possibly in multiple languages and currencies, fragmented and comes complete with gaps. This is not the ideal basis for data driven decision making.

This white paper presents a compelling business case for investing in spend analytics, detailing the benefits, ROI, and strategic advantages that such a solution offers.

Today's business environment is both hyper-competitive but is also complicated with the backdrop of wars in Ukraine and Israel and wider tensions driven by elections in key countries and global supply chain uncertainty.

Within this environment, procurement teams are often understaffed, under-resourced and very stretched. If you add repetitive administrative or transactional tasks to this scenario and recruiting and retaining your best talent can become an adventure.

One of the key challenges that many procurement teams face is that they do not have any dedicated budget to invest in supporting technology.

Travel and expenses will be covered where necessary, but this is often as far as the procurement team budget goes. Forward looking companies recognize the value that a well-managed and supported procurement function can bring to operations and the bottom line, but there is still a mindset in some companies that 'buying is easy', which means that the procurement team face a battle to justify any expense on support tools that would improve their way of working and contribution to the company results and tackle the challenges that they face.

With these factors in mind, if a budget can be identified and allocated to support procurement, some digital support could work wonders in terms of improving the way that the procurement team works and assisting the team to deliver better results for the business, whatever the focus is.

Access to accurate spend data can be seen as a fundamental starting point for the procurement team, but in many cases, this is not available and there are often no tools in place to make this data available. Using the ERP system to extract spend data does not usually represent much of a step forward for procurement. ERPs are an evolution of MRPs, and their focus is generally still on supporting the supply chain planning and finance functions.

Try extracting spend data from your ERP system and the experience is unlikely to be intuitive and the results are likely to be underwhelming. There are still cases where an Excel file will be sent to key internal contacts to collect spend data ahead of supplier review meetings or negotiations which is a time-consuming exercise and will invariably lack the accuracy that is really required.

Making changes to tailor an ERP system for individual company requirement is likely to be a lengthy and expensive process,

so an additional tool or piece of software could represent the solution. Different companies will take different approaches, often driven by the experience and preferences of the CFO and the CIO. Some companies lean towards an end-to-end solution from their ERP supplier, so a company using SAP will use Ariba to support procurement and SuccessFactors to support HR. Other companies will seek best-in class solutions where extra functionality is required.

Some companies pursue another possibility and try to develop their own solution. This is not very well documented, but it generally takes a lot of internal resources and time, and the solutions delivered rarely reach the performance levels of the solutions that are available on the market and available immediately. The delay that the development process adds represents an opportunity cost that should also be factored into this make or buy decision.

The reality is often that many companies have multiple ERP systems, possibly from multiple vendors, across their business with additional tools being used for different business functions, Excel included, and this makes the task of defining the spend cube a significant challenge.

A spend analytics solution can really help procurement to gain an accurate overview of total spend across a business and allow detailed interrogation of this data.

Taking a slight step back, spend analytics is the process of collecting, cleansing, categorizing, and analyzing expenditure data to support the objective of reducing procurement costs, improving efficiency, and monitoring compliance. A robust spend analytics solution provides visibility into spending patterns, identifies savings opportunities, drives positive outcomes and supports strategic, data-based decision-making.

The Need for Spend Analytics

To take a more detailed look at the need for spend analytics, we can start with the old IT world adage ‘garbage in, garbage out.’ If an overview of company spend is required, the first challenge is to identify where the relevant spend data is held.

If spend data is spread across multiple locations and systems, from ERP platforms all the way through to Excel files, then it will be in different formats, and possibly in different languages and currencies.

To be able to combine this data, it first needs to be cleaned and converted into one language and currency.

If the data from different sources was accurate apart from its’ format, then the data is no longer garbage.

‘data can now be used as the basis of data driven decision making’

The data can now be harmonized and categorized to create a spend cube. This data can now be used as the basis of data driven decision making. Procurement now has what is sometimes referred to as its 'one source of truth.'

Many companies do not have this process in place, and as a result their lack of accurate spend data means that they will face one or more of the procurement challenges that are outlined below:

- **Lack of Spend Visibility:** Organizations struggle to identify inefficiencies and savings opportunities without a comprehensive overview of spending. Access to a basic spend cube should be a fundamental target for procurement organizations.
- **Fragmented Data:** As previously mentioned, procurement data is often siloed across different systems and departments, possibly languages and currencies, making it difficult to analyze and act upon.
- **Supplier Management:** Identifying and managing the right suppliers is challenging without access to detailed spend data. Suppliers will have access to their own sales data, which is invariably more accurate than the spend data that most procurement teams have access to. A good spend analytics process will help to level this playing field.
- **Compliance and Risk:** Ensuring compliance with procurement policies and mitigating risk require detailed insights into spending behavior. This area covers everything from ensuring that goods and services supplied are according to the negotiated contracts to tracking the results of sustainability programs.



Benefits of a Spend Analytics Solution

Any procurement teams' starting point should be access to clean spend data; the reality is that this is often not the case. It has already been observed that organizations track their sales data very carefully and their sales teams will have access to a lot of supporting data and reports.

Spend data does not usually receive this level of attention, yet there are multiple benefits that follow the use of a good spend analytics solution. These benefits are summarized below and broken into key areas where spend analytics can drive advantages.

Cost Savings and Efficiency

- **Identifying Savings Opportunities:** By analyzing spend data, organizations can identify patterns and opportunities for cost savings, such as consolidating suppliers or negotiating better terms. This could be seen as garbage in, diamonds out.
- **Reducing Maverick Spend:** Ensuring compliance with procurement policies and approved suppliers reduces unauthorized spending, leading to significant cost savings and a reduction of the risk of users buying incorrectly specified items.
- **Optimizing Procurement Processes:** Spend analytics highlights inefficiencies in procurement processes, enabling continuous improvement and cost reduction.



Enhanced Supplier Management

- **Supplier Performance Monitoring:** Tracking supplier performance using accurate spend data helps in making informed decisions about supplier selection and management.
- **Risk Mitigation:** With detailed spend insights, identifying and mitigating risks related to supplier dependency, financial stability, and compliance becomes more accessible.

Improved Decision-Making

- **Data-Driven Strategies:** Spend analytics provides the data that procurement needs for strategic decision-making, helping organizations align procurement strategies with business objectives. Most procurement managers prefer data driven decisions to relying on gut-feel or hunches.
- **Budget Management:** Accurate spend data supports better budgeting and financial planning, leading to more effective resource allocation.

Working Capital Management

- **Payment Terms Management:** You can use spend analytics to optimize your payment terms by extending payment periods or negotiating early payment discounts. Based upon on the Weighted Average Cost of Capital, optimizing payment terms can drive significant cash flow improvements and bottom-line benefits.

- **Supplier Consolidation:** Spend analytics often reveals opportunities to consolidate suppliers, which, in addition to delivering savings, can lead to reductions in inventory and the amount of working capital tied up in raw materials stock.

Compliance and Risk Management

- **Policy Adherence:** Monitoring spend data ensures adherence to procurement policies and regulatory requirements. Some companies implement a ‘no PO, no pay’ policy to discourage maverick spend, but spend analytics can track attempts by individuals to go off-piste and place orders with unknown or unqualified suppliers.
- **Fraud Detection:** Anomalies in spending patterns can indicate potential fraud, allowing for timely intervention.

Return on Investment (ROI)

At the start of this paper, we considered some of the challenges that procurement face both operationally and in justifying any expense on supporting tools or technology.

If procurement select the right partners, investing in a spend analytics solution can offer a substantial ROI in the following areas:

- **Direct Cost Savings:** Organizations can achieve significant cost reductions by identifying and acting on savings opportunities. Working with a good spend analytics company usually delivers actionable insights that lead to negotiated savings. Every time savings is reported, they positively contribute to the bottom line.
- **Operational Efficiency:** Streamlined procurement processes and reduced maverick spend lead to operational efficiencies and cost savings. A good spend analytics solution will also help organizations to reduce their number of suppliers through consolidation and a reduction of the tail spend, which in turn should lead to better prices from the remaining supplier base and increased profitability, plus the potential to reduce inventory and improve the working capital position.
- **Strategic Value:** Improved supplier management and risk mitigation contribute to the long-term strategic value of the company and drives competitive advantage.

Case Study

Industrial Distribution Company

A large manufacturing and distribution company implemented the **ProcureVue™** spend analytics solution and quickly realized the following benefits:

- **Savings** – identified over \$44MM in real savings opportunities across the network on a total spend of \$1.7 billion and delivered over \$400k in tracked savings in the first six weeks of engagement from quick-hitter items in additional human capital avoidances, making the ROI less than eight weeks
- **Cleansed & Harmonized** – transactional data from multiple systems across the company was cleansed for anomalous and duplicated transactions and incorrect units of measure, then correctly classified for the first time in company history
- **Enriched** – the cleansed and harmonized data was enriched with key indices around labor, freight, raw material costs, energy, etc., then processed with our proprietary dynamic cost build giving a true should-cost of key product categories across the enterprise
- **Unified** – data from fourteen different systems and seven acquisitions in the last eighteen months are now housed in one virtual system allowing for instant synergy insights to be identified and implemented faster and smoother than ever before. The company now had its' one source of truth.

By using the processed spend data, consolidating suppliers and negotiating better terms, the company achieved substantial cost savings and improved supplier performance on an ongoing basis.

Implementation Considerations

It is not a secret that many initiatives fail due to a poorly thought-out implementation process. Using change management techniques from the start of the introduction process for some new technology can really help with to maximize the benefits that are expected to be delivered.

Once the scope is clear, establishing a cross functional team with members from all functions that have contact points for the new technology is a good place to start. The procurement team should lead the introduction of new technology focused on enhancing procurement operations, and including members of the finance and IT teams is essential. The following points should also be addressed:

- **Data Integration** – Integrating data from various sources is critical for a comprehensive view of spend. Ensuring that the spend analytics solution is data source agnostic and seamlessly integrates with existing ERP and procurement systems is vital.
- **Data Quality** – The accuracy of spend analytics depends on the quality of data. Invest in data cleansing and classification as the starting point of the journey to ensure reliable insights.
- **User Adoption** – Ensure that the procurement team and the key stakeholders understand the value that can be driven by using a spend analytics solution and are trained to use the solution effectively where required. Employing change management processes is crucial for successful, long-term implementation. Using the standard internal terminology and descriptions for goods, services and categories that are individual to each company will help to make the processed spend data more intuitive and easier to work with.
- **Scalability** – Companies should select a solution that can scale up in line with the organization's growth and evolving procurement needs.

Conclusion

‘ Transform procurement from a cost center to a strategic asset ’

IN AN ERA where the need for data-driven decision-making is increasingly paramount, a spend analytics solution is no longer a luxury but a necessity for organizations aiming to optimize procurement, drive cost savings, and gain a competitive edge. The benefits, from cost reduction to enhanced strategic decision-making, make a compelling business case for investment. By leveraging spend analytics, organizations can transform procurement from a cost center to a strategic asset, driving long-term value and sustainability.

About ProcureVue™

ProcureVue™ was created by accomplished procurement leaders and data scientists with diverse industry expertise and is focused exclusively on strategic sourcing, spend analytics, and procurement process transformation.

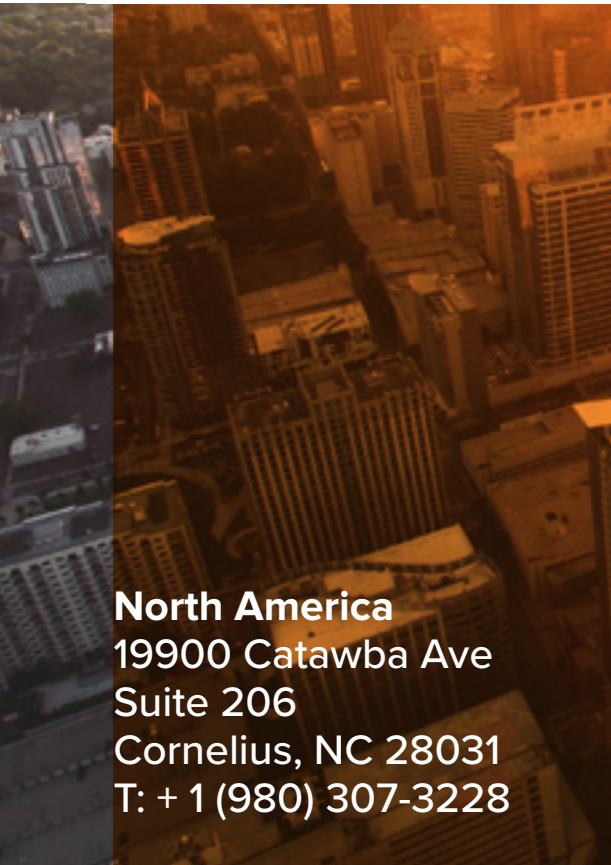
Our platform is an AI-driven spend data analytics tool that generates rapid, accurate, and detailed VUEs delivering total visibility into spend data and provides quickly deliverable, meaningful and impactful outcomes.

Our full-service SaaS spend VUE solution, combined with our data optimization services and direct consultative approach, gives clear insight into your spending so you can confidently deliver on identified opportunities in real-time and on an ongoing basis.

We use deep learning AI to empower our clients to realize impactful outcomes utilizing innovative and dynamic software technology.

Our first step is to cleanse the data; the data is then harmonized, enriched and categorized. Spend categorization, spend analysis, and benefits identification are generated using our AI to provide unprecedented VUEs and insights into your data through our cloud-based solution.

The consultative approach that ProcureVue™ offers, means we can work with senior leadership and stakeholders to develop the best strategy that supports your current business needs from concept to negotiations to completion.

An aerial photograph of a city skyline, showing numerous skyscrapers and buildings. The image is tinted with a warm, orange-brown color.

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A photograph showing a close-up of vibrant orange and yellow autumn leaves in the foreground. In the background, a street scene with colorful buildings is visible, also tinted with an orange-brown color.

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