



Spend analytics

Getting bang for your buck

by Richard Bray

In the military, “situational awareness” (SA) means understanding what is going on. The idea is to provide battlefield commanders with a complete and accurate picture of events, so they can make the right decisions.

In procurement, SA could soon be providing managers with the same kind of capability but in the battle of “bang for the buck,” it stands for “spend analytics,” or spending analysis. No matter what the phrase, the intention is the same – to display information about all of an organization’s spending in a comprehensive and comprehensible manner.

There may be a good reason why senior managers prefer to occupy their time with vision and leave specifics to others, because when all the details are rolled up, information can be so manipulated as to be meaningless, or arrive too late to influence the outcomes.

A good, working definition of spend analysis comes from the Aberdeen Group, which calls it “the process of aggregating, cleansing, and analyzing corporate spending data for the purposes of reducing costs and improving operational performance.”

In April 2003, the federal Auditor General’s office (OAG) wrote, “As part of its financial information strategy (FIS), the government has invested over \$600 million in new financial systems, policies, and training. Despite being in place for two years, the new FIS infrastructure is still not being used to its full potential.”

The OAG report said that managers find it hard to get the financial information they need online, so they have kept their own spreadsheets and dedicated systems to integrate data.

According to the Auditor General, “These ‘black books’ provide them with the more complete, timely, and accurate picture of their financial operations that they need for making appropriate decisions, projections, and future plans.” By definition, however, these managers are working with snapshots of their own operations. No matter how accurate and useful they are in that context, they may not contribute to an integrated picture of the spending of a whole branch, or the department itself, or the entire government.

The OAG report said, “Departments have implemented, or are planning to implement, a number of financial data quality assurance practices, but these practices vary by department and within departments. In addition, there is no formal process to gather and share departmental best practices for ensuring the quality of financial data either inside the departments or among them.”

The corporate world, according to the Aberdeen Group, is no different from government: “Few businesses truly understand how much they spend, on which products and with which suppliers.” Worldwide, they identify an opportunity for US\$260 billion in annual savings.

The benefits of comprehensive spend analysis can include better contract compliance, increased leverage with suppliers, a sharp reduction in maverick or off-contract buying and a means of measuring and comparing contractor performance.

Needless to say, vendors are chasing this opportunity with a variety of software offerings that can cost as much as US\$1 million. Whatever the sticker price, it may be a fraction of the total cost to implement spend analysis within an organization.

There are several best practices in a spend analysis implementation, according to Aberdeen Group. Managers should look at a greater proportion of total spending, and look across the entire enterprise. Spending must be classified at a detailed level, and take into account non-financial information about the buyer-supplier relationship. Finally, as much of the essential spend analysis as possible should be automated, so management receives reports in time to make decisions.

A close look at the key processes in spend analysis reveal just how tough, time-consuming and potentially disruptive a spend analysis exercise can be. First is extraction, or the acquisition of all relevant internal and external business information. That means assembling detailed data about all suppliers and all spending. Validation looks at the accuracy of the data arriving from the extraction stage. Only at that point can cleansing and classification sort out the apples and oranges, to discover that the \$5 pens in British Columbia are really the same as the \$4 plotting heads in Saskatchewan, or that ABC Distribution is really a subsidiary of XYZ Suppliers and therefore should be offering a volume discount. Data enhancement brings in relevant information, like how vendors performed and contract terms. The most important piece for managers is analysis – what is the true picture of the organization’s spending?

The federal government spends more than \$160 billion every year and Aberdeen Group claims corporations can save up to 20 percent of total spending through comprehensive spend analysis.

In an environment where IT spending seems to be constantly raising, not lowering the cost of government services, an investment in spend analysis might make a pleasant change. ☺

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