

# Driving Spend Management through Advanced Analytics

***Companies that have been successful in implementing a spend management process have done so by building a sophisticated analytical approach into their procurement and sourcing functions.***

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The current difficult and fickle economic landscape has served as a catalyst for companies across the globe to cut costs. One of the first steps toward this objective is a detailed

look at spending to determine how short-term and, hopefully, long-term, sustainable savings can be achieved. Similar to personal budgeting, companies examine how much, where, and with whom they are spending money to identify potential opportunities to reduce expenditures. To better understand their spend data, companies have discovered that an effective spend management process/system is critical.

This assessment is neither new nor surprising. Organizations have been working toward improved spend visibility for decades. Those that have been successful in implementing a spend management process have done so by building a sophisticated analytical approach into their procurement and sourcing functions. Analytics has now become one of the key competencies that differentiate leading procurement organizations from followers. Leveraging it to gain complete insight into spend has been a game changer for procurement. This skill is quickly becoming a prerequisite for procurement professionals as indicated by the results of A.T. Kearney's 2011 Assessment of Excellence in Procurement (AEP) Study. Participants in the study reported an average increase of 30 percent in spend analytics skills over the prior three years. (For more on this study,

see the article in this issue "Follow the Leaders: Seven Ways to Procurement Excellence.")

So the questions become, how can companies achieve optimal spend visibility? What does "good" spend visibility look like? How does analytics play into this? In order to address these questions, one must first examine the current state of spend management in most companies.

## Spend Management Current State

Though companies have identified spend management as an enabler for driving cost savings, many have yet to fully implement a spend management process that would provide them with improved "spend visibility" to identify potential opportunities to reduce expenditures and improve contract compliance. More than 80 percent of all AEP 2011 participants report that spend visibility is a moderate or major contributor to value creation—by far the largest contributor to value creation of all other process capabilities surveyed.

So where does the problem lie? The primary information source supporting many current spend management processes is some type of spend database that provides a consolidated view of the company's historical external payment data. More often than not, decision makers lack confidence in their spend data due to the manual nature of consolidation and cleansing. Multiple systems, dissimilar data architectures, ad hoc extract processes, and multiple data owners create a data landscape that is difficult to manage and analyze. Furthermore, lack of visibility and availability resulting from

a decentralized external payment landscape renders many companies powerless over their spend data.

Many different factors drive this decentralized data landscape:

- Purchasing platforms may not be integrated with payable systems, so visibility into purchase order details are not easily combined with accurate accounts payable information.

- Companies that have grown through mergers and acquisitions often maintain multiple payable systems, creating an accounting challenge even before attempting to integrate purchase details.

- Maverick spend transacted through purchase cards, wire transfers, or transportation management systems contributes complexity through the proliferation of additional platforms.

This lack of spend visibility makes companies more vulnerable to financial and operational risks, forcing them into a reactive state. Without real-time access to purchase information, contract non-compliance is difficult to identify and remedy. Lack of historical data may also negatively impact an organization's ability to develop cogent category strategies that are fact-based and to incorporate advanced sourcing techniques.

## What the Leaders Do

The leaders address these issues through an optimal spend management approach called Closed Loop Spend Management (CLSM). It consists of a centralized spend database connected to the company's purchasing, contract compliance, and performance tracking systems. CLSM encompasses the entire procurement value chain from initial sourcing and supplier selection through order and receipt, and then completing the loop with contract compliance and performance management. Within the CLSM system is a real-time centralized view of what is being purchased, from whom and at what price, and the associated contract terms, including compliance to contract terms (service level agreements, payment terms, joint process improvement initiatives, and so forth). An integrated spend management strategy combined with an appropriate level of technology investment enables the realization of greater benefit by supporting synergies throughout the procurement process.

Leveraging the visibility that a CLSM system provides, companies can repurpose efforts from manual data manipulation to higher value-add analytics. Manual processes such as tracking contract compliance by comparing information in the accounts payable and purchase order systems with paper contracts, or contracts that are not centrally stored, will no longer be required. This time can be refocused on any number of strategic activities such as

category management, supplier relationship management, and advanced analytics that will drive significant value to the bottom line.

## Moving in an Analytical Direction

An internal spend management process supports the transformation of the procurement group from a tactical to a strategic function. With that transformation, procurement is viewed as a value-creating organization by enabling faster access to better data that can be leveraged in the development of both category and sourcing strategies.

As noted previously, companies are beginning to understand the value of analytics and are investing to develop this capability. The AEP study identified that while a majority of participants keep responsibility for executing the spend analysis process with category and sourcing managers, companies are increasingly building internal business intelligence and analytics-focused teams to manage and leverage their ever-growing data volumes and develop swift, meaningful insights.

Procurement functions are also moving in this direction. Yet because they have historically not required advanced analytical and technical skills, this is often a capability gap which needs to be filled. It is essential to either augment existing groups with a dedicated analytical team, or re-evaluate the current job descriptions to equip resources with the requisite tools to enable analytical flexibility.

## Analytics and Procurement: The Next Evolution

With data growing at an exponential rate and spend management becoming increasingly complex, there are additional analytical levers that need to be activated in the procurement process. Ensuring that analytical resources are available to meet these demands is essential not only to the spend data management process, but to the entire procurement function. As the 2011 AEP report noted, "Looking ahead, performance tracking tools, business intelligence and analytics will have the most impact on procurement organizations."

The meaningful and insightful analysis garnered from data accessibility will result in exponential benefits and provide a means to showcase, as well as measure, procurement's performance. More importantly, quantifying these benefits in a way that resonates across the executive suite also will increase the strategic importance of the procurement function. Dashboards showing high-level views of current and historical trends will effectively highlight progress as well as areas for improvement to executives. Once leadership teams have visibility into the data, they will want to ensure that all insights are useful and actionable. These benefits elevate internal analytic capabilities from an afterthought to a core competency.