Optimizing Your Spend

An Introduction to Spend Analysis and Spend Management
• What are they?
• Who uses them? Who are they relevant to?
• Why bother?
• How are they done?
• What does a Spend Analysis process look like?
• What spend management projects could I undertake after a spend analysis to identify savings?
IN THE SPIRIT OF TRANSPARENCY...
Do you have easy access to spend analysis data?

What types of data do you spend? Do you have real-time data? What organizations do you have in your organization who spend data you have access to?
Spend Management is what you do with the data.

BETTER SPEND VISIBILITY IS A TWO STEP PROCESS

Spend Analysis is what you do to the data...
WHAT YOU DO TO THE DATA...

- AP Data
- PO Data
- pCard Data

Cleanse

Classify

Enrich

Spend Data
Do you perform analysis of the organization's spend for procurement purposes?

Who analyzes their spend?

- Yes: 52%
- No: 48%
WHAT YOU DO WITH THE DATA...

Spend Data

- Deliver Savings
- Improve Processes
- Manage Maverick Spend
- Manage Supplier Relationship
- Manage Risk
- Recover Over-payments
- Procure Cooperatively
- Reduce Disparity
- Source More Locally
- Ensure Legal Compliance
- Benchmark Relative Position
- Quantify Savings
WHO USES THE DATA?

- Procurement Buyers
- Procurement Managers
- Contract Managers
- Finance Department
- Accounts Payable
- Audit/Legal Departments
- Budget Holders
- Department Heads
- Spenders
- Everyone with a pCard
- Diversity Program Manager
- Economic Development
- Environmental/Sustainability Officers

Spend Data
## Spend Analysis Practice Tied to Element 1.3 of Performance Metrics Practice

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<th>I. Cost Savings and Cost Compliance</th>
<th>II. Supplier and industry development</th>
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WHAT CHALLENGES WILL YOU FACE?

- Raw data is frequently incomplete and of poor quality
- Access to data may be difficult
- Multiple and poorly integrated systems (AP, pCard etc.)
- Time, resources and support may be lacking
WHY BOTHER DOING SPEND ANALYSIS?

- You’re likely being asked to cut spending, but not services.
- Increased pressure to collaborate across sectors
- Concern with local/small/MBE/Sustainable suppliers
- Spend transparency is coming
1. Savings = Strategic Procurement Planning Practice
2. Collaboration = Cooperative Procurement Practice
3. Local/Small/MBE/Sustainable Suppliers = Sustainable Procurement & Performance Metrics Practices
4. Transparency = Transparency Practice
Software Focused
- AP System tools
- E-Procurement tools
- Analytics/BI tools

Data Focused
- Spend Analysis provider
- Hire A Data Analyst

Guidance Focused
- Customized consultancy project
THE FIVE PIECES OF DATA YOU NEED TO DO SPEND ANALYSIS

1. Supplier Name
2. Supplier Address
3. Transaction Number
4. Transaction Date
5. Transaction Value
THE TRADITIONAL DIY APPROACH TO SPEND ANALYSIS

1. Export spend data from all systems
2. Sense check exports
3. Stitch exports together
4. Manipulate in Excel
5. Enhance vendor information (top 25)
6. Manually classify suppliers/spend
IF YOU USE A THIRD PARTY, YOU SHOULD EXPECT

Export spend data from all systems → Standardize exported data → Check fitness/accuracy of data exports → Validate exports with organization

Enrich vendor information from third party sources → Manually validate classifications → Classify vendors/spend to a common system → De-duplicate supplier records

Link to a master record number → Provide MI tools and an export function
• Software tools are not automatic.
• Accurate classification is not easy.
• Data will arrive in many formats.
• Don’t forget to check the data.
• Access to the raw data isn’t necessarily straightforward.
• Try to secure the support you need.
• Get a set of tools you can use or learn to use the ones you have.
EXAMPLES OF SPEND MANAGEMENT PROJECTS

Finding Savings

1. Invoice Consolidation
2. Long Tail Consolidation
3. Improved Terms
4. Category Extension
5. Category Rationalization
6. Compliance, Contracted Suppliers
7. Cooperation, Common Suppliers
8. Category Reengineering
• Which suppliers should I seek weekly/monthly invoices from?
• Which category of suppliers are giving me an invoice volume problem?
• Which suppliers would be best to move order and payment to pCard?
• How much could I save by moving to pCard?
• 43,979 invoices were processed where the value of the invoice was less than $500.
Which suppliers do I spend less than $1000 per year with?
Which suppliers do I only have one transaction with per year?
Which departments are using a lot of ‘one off’ suppliers?
Which categories do we have a lot of small suppliers in?
• 3,813 vendors where less than $1,000 was spent in a 12 month period. That equates to 60.62% of the vendors, but only 0.36% of expenditure.
• Which suppliers do I spend the most with and how many departments do they supply?
• How many other suppliers are in the same category as my top tier suppliers?
• Are all of my departments getting the same “best rate?”
• How much do my top tier suppliers rely on my business?
• There were 89 vendors where this organization spent more than $250,000.
• Which suppliers enjoy a relative monopoly of supply to my organization?
• Which categories do I have too many suppliers in where aggregation could drive costs and prices down?
• What contracts are coming up for renewal where I could rationalize or extend my supplier base?
• 44 vendors of sporting goods for a single organization, one large and many small.
• Which departments aren’t using the preferred/contracted supplier in a given category?
• Which categories of spend don’t have any contracts in them?
• Are there instances where we spend more than was on the original contract?
• Is my data source up to date enough to deal with off-contract spend quickly?
• 36% on average spent with contracted suppliers.
• Which suppliers does my group already share and how much is spent with those suppliers?
• Which categories does the group have the greatest spend/greatest number of suppliers?
• When are the current contracts for members of the group expiring so that we can collaborate?
There were 18 suppliers who supplied all 3 organizations, with a cumulative spend of $38m.
• Spend Analysis is really the first step
  – Get the data in shape first
  – Start thinking about problem areas
• Using tools to analyze the data
  – Let the data guide you
• A Blueprint for Delivering Savings is the last step
Spikes Cavell
KNOW, KNOW, KNOW

PROGRAMS

TRANSFORMATION
TRANSFORM - Savings opportunity assessment, spend & contract visibility, spend aggregation analysis, reporting of delivered savings.

Monthly Update

SPEND MANAGEMENT
FOUNDATION PLUS — spend & contract visibility, spend aggregation analysis, reporting of delivered savings.

Quarterly Update

SPEND VISIBILITY
FOUNDATION - Spend visibility, spend aggregation analysis, reporting of delivered savings.

Annual Update

Our programs are fixed and inclusive. Annual fees for core programs start from as little as $10,000 and are determined using entity type and relative size.

Transparency (spotlightonspend) and capability benchmarking (Monitor) can be purchased as ‘bolt-ons’.

E&I Cooperative Purchasing member institutions have the benefit of a competitively solicited contract from which they can procure Spikes Cavell products and services.

OUR STRATEGIC ALLIANCES
For more information about how the Observatory could help your agency to analyze your spend to find savings, manage maverick buying & identify cooperative purchasing opportunities, please contact:

Jonathan White:
(571) 527 - 8310
jonathan.white@spikescavell.com
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