



PETER GRANGER

TACTICS

SPEND ANALYSIS

In our previous article on Spend Analysis and Procurement Strategy (August/September 2007), we discussed the role of spend analysis in procurement. In particular we discussed how to clean and sort the raw data using the 'fix it when you find it' philosophy.

Having assembled a base of data from the relevant system sources, cleaned up the data and improved its consistency, the next step is to exploit the data in pursuit of some strategic and tactical procurement objectives. This article discusses numerous fertile fields of exploration including payment landscapes, commodity analysis, vendor analysis, organisational analysis, contract compliance monitoring and auditing.

PAYMENT LANDSCAPES

There are many ways that goods and services are paid for by an organisation:

- Raising a purchase order (PO) and matching a supplier invoice with the PO before passing the invoice through to the accounts payable system for cheque production or direct bank credit.
- Running an open account with a supplier (such as a travel management company) and reconciling monthly accounts against some internal manual log of requests.
- Using a corporate credit card such as a purchasing card, 'lodged' card or Travel & Entertainment card in conjunction with an expense management system.
- Reimbursing employees who purchase with their own financial resources.
- Receiving an electronic file of invoices and line items from suppliers and passing it through an expense management system.

The payment industry has been producing best practice reports for nearly 10 years advocating how particular methods can save time and money by reducing the handling cost and improving accuracy and transparency. The metrics of electronic solutions

over manual processes are well established and generally not disputed. However, payment process make-overs typically fail to deliver to expectations.

This has little to do with the technology and mainly to do with change management - the ability to quantify an opportunity, set and communicate objectives, implement change and then monitor and communicate progress towards the opportunity.

Spend analytics play a vital role by revealing the profiles of payment activity. Imagine that the entire outgoings of your organisation for the past three years from all business processes as described above can be collected and categorised in as many ways as there is data stored on the transaction such as payment methods, amounts, dates, merchant category codes, vendors, departments and general ledger accounts.

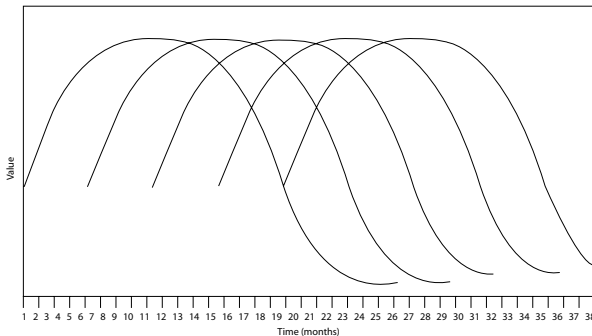
You can see that certain commodities which naturally lend themselves to one particular efficient payment method are, in fact, being purchased using three. You can quickly spot and quantify the opportunity, effectively setting the objective. For example you may find that office stationery supplies are being purchased by card, PO/EFT and employee reimbursement. Not only have you found an opportunity to reduce costs by going 100 per cent to cards but you have uncovered the use of non-preferred suppliers in some departments with the problem becoming worse around May and June (probably due to increased merchant advertising at year end).

Armed with this information, you can target the expansion of the card program, focusing on those departments and individuals who haven't used cards for whatever reason. By refreshing the spend analysis data set each month you can track compliance to the corporate decision to use cards exclusively for this commodity and publish the progressive results to the stakeholders involved.

COMMODITY ANALYSIS

Every experienced sourcer knows that a variety of goods and services will collect themselves in a convenient spot in the general ledger and that the ERP system is not the place to get anything other than high level financial data. At the same time they know that a particular commodity will be spread across a range of general ledger locations based on different payments systems, including those used to reimburse employees.

Familying of vendors and commodity mapping vendors and general ledger codes in combination provides a substantially improved classification of commodity spend. With a spend analysis tool operating on a data set, the commodity related transactions can be de-tangled from their various homes and examined as a coherent set.



The payment landscape examination described above would have been significantly compromised without being able to unmask office supplies from their multiple disguises. At a minimum, the potential spend would have been miscalculated thus complicating contract negotiation. Without the intuitive improvement delivered by the sourcing analyst, monitoring purchasing behaviour after putting strategic sourcing arrangements in place would be very difficult as well as being relatively pointless.

VENDOR ANALYSIS

Continuing with the example of office supply purchases, the payment mechanism intervention will also reveal the use of non-preferred vendors. Because there are so many different payment systems, the mandating of one particular vendor or set of vendors will be quite beyond the capability of the organisation – it simply could not police such a policy.

However, a spend analysis data set that collects all payments made from all sources creates such an opportunity. Using the same set of data that was used for payment method intervention, the analyst can focus on the commodity of office-supplies and identify the vendors who appear in that sub data set. The size of the spend is quickly recognisable, leading to the opportunity for negotiating preferred supplier arrangements and contract prices.

Once mandated, the analyst can track the effect of the new arrangements on a monthly basis and can identify leakage from

the contract. Because the data set can be drilled down to the actual transaction that took place, the analyst can find the department and buyer who is using non-mandated suppliers and take corrective action. On the other side, again using the same data, the analyst can find variations to contract prices and initiate reclaim with the particular vendor.

ORGANISATIONAL ANALYSIS

Most organisations are good at describing themselves. One data attribute that they almost always structure in a clear and unambiguous manner is their own organisational coding. Often this extends to project coding which can be contained within an organisational unit or can spread across organisational boundaries.

Seeing the bigger picture of commodities and vendors is vital for procurement strategy, but being able to dissect and locate purchasing behaviours inside an organisation is just as important for the tactical implementation of a plan. A spend analysis data set and quality spend analysis tool will allow use of organisational and project windows (dimensions) to isolate patterns of behaviour and communicate messages to selected audiences.

The politics of procurement transformation are well known to procurement professionals and require deft handling. Having the facts in the form of incontrovertible data and being able to present those facts in a compelling manner is half the

ProcureNet

Supply Chain Recruitment Specialists
Networking Australasia

ProcureNet provides the most cost-effective recruitment process for temporary and permanent Supply Chain staff.

- Project & Strategic Procurement
- Contracts Administration
- Purchasing & Expediting
- Materials & Inventory Control
- Warehousing & Logistics
- ... and much more

At ProcureNet, we know the Supply Chain...

ProcureNet franchised offices serve a wide range of industries, from mining, oil & gas, automotive, aviation and defence, to service providers including government and public utilities in every Australian state and territory plus overseas.

ProcureNet's consultants have first-hand knowledge of your staff requirements, which together with our extensive global database of qualified and experienced candidates, provide the key to finding the right people for your succession plan.

ProcureNet Holds the Key to Succession

www.procurenet.com.au



battle and the procurement executive should expect this support of their spend analysis tool.

AUDIT

With a spend data set that collects all payments made from all sources, new and efficient audit opportunities open up.

As the spend analysis tool offers dynamic views of a common data set that is actually comprised of source transactions, an analyst can use it as a divining rod to assess the effect of various financial controls.

For example, by looking at our office supplies example, a vendor can be isolated and payments to the vendor be dissected by department, transaction amount and dates, potentially highlighting multiple payments for the one supply item. Using similar techniques, duplicate invoices can be spotted and rectified.

Payments made outside of policy, such as exceeding authorisation limits for an organisational unit or commodity, can be picked up and investigated further in the source systems.

The sorts of enquiries that an auditor can make are limited only by the data elements captured in the source data. A good spend analytics tool will allow the audit analyst to create views (dimensions) of data in an interactive manner and set them up to cross reference and intersect with each other.

Transaction identification is a matter of a few clicks and all is revealed.

IMPLEMENTATION MATTERS

People sometimes regard spend analytics as a 'one-time' exercise that picks the low hanging fruit and whose incremental value proposition diminishes quickly.

However, as Figure 1. shows, an organisation can undertake a series of projects that involve the identification of opportunity, implementation of response and monitoring of success thereby returning value for its efforts. In fact, the benefits that can be demonstrated by the first project, create the momentum for successive projects within the spend management domain.

Traditionally the five different activities we have described would be completed across a number of different systems. Most often these will be financial systems that support the accounting obligations of the organisation but rarely do they hold the rich data that procurement analysts need.

It is almost axiomatic that finance and procurement needs are different and never shall they both be satisfied by the one solution.

The great benefit of a spend analytics data set and spend analytics tool is that these needs can be met from a common data store paired with an interpretative tool that constantly changes the orientation of its enquiry. Recognising that the project is a journey of discovery, the analyst, the data set and the spend analytics tool mould into a dynamically evolving activity in pursuit of spend management improvement.

Peter Granger is the CEO of Inlogik Pty Ltd. ■

success at your fingertips

Robert Walters' **Supply Chain & Procurement division** guarantees a premium level of service by utilising a combination of search techniques, a strong advertising presence and a well established candidate database.

Our dedicated consultants have the capacity to tailor the recruitment process to suit each requirement. We specialise in the temporary, contract and permanent recruitment of professionals across all industries ranging from:

**procurement director • procurement/purchasing manager • strategic sourcing specialist
commercial manager • category manager • procurement/supply analyst • supply chain director
supply chain manager • demand/supply manager • demand/supply planner**

So why not put our knowledge, network and experience to work for you?

australia

Paul Cutcliffe

Ph: **+61 (0)2 8289 3100**

Email: aus.proc@robertwalters.com.au

new zealand

Simon MacFarlane

Ph: **+64 (0)9 302 2280**

Email: nz.proc@robertwalters.co.nz

www.robertwalters.com

ROBERT WALTERS

AUSTRALIA BELGIUM FRANCE HONG KONG IRELAND JAPAN LUXEMBOURG MALAYSIA NETHERLANDS NEW ZEALAND SINGAPORE SOUTH AFRICA SPAIN UK USA

specialist professional recruitment