An Introduction to Spend Analysis and Spend Management
Our agenda in outline...

• What are ‘spend analysis’ and ‘spend management’?
• Who are they relevant to?
• Why bother?
• How are they done?
• What might a spend analysis process look like?
• What spend management projects could I undertake after spend analysis to identify savings?
But first, a few questions...

- Who wakes up every morning looking forward to spending their day creating pivot tables and charts in MS Excel?
- Do we have any accountants in the audience?
- Who trusts the data in their finance system to provide them with the answers to procurement questions?
- Who’s undertaken a spend analysis exercise in the past 12 months?
- Who’s planning a spend analysis exercise in the next 12 months?
What are spend analysis & spend management..?

Spend Analysis: What you do to the data...

Spend Management: What you do with the data...
Spend Management

...is the proactive use of spend analysis data to carry out the following within the organization:

- Deliver Savings
- Improve Processes
- Manage Maverick Spend
- Manage Supplier Relationship
- Manage Risk
- Recover Over-payments
- Procure Co-operatively
- Manage Disparity
- Source More Locally
- Ensure Legal Compliance
- Benchmark Relative Position
- Quantify Savings

Spend Data
Who can use it..?

- Budget Holders
- Procurement
- Executive Management
- Finance
- Audit & Legal
- Economic Development
- Spend Data

NIGP

Spikes Cavell
KNow, KNOW, KNOW
Why bother..?
Why bother..?

**Challenges**
- Efficiency
- Cooperation
- Performance
- Capacity & skills
- Policy compliance
- Legislation

**Obstacles**
- Incomplete and poor quality data
- Multiple poorly integrated systems
- No real standards and, as a consequence, every FMS implementation is different
Getting spend analysis done...
You can achieve a lot done with relatively little...

1. Supplier name
2. Supplier address
3. Invoice number
4. Invoice date
5. Spend value
Getting spend analysis done (process)...

1. **DIY**
   - Export from AP, pCard and PO systems

2. Sense check exports

3. Stitch exports together

4. Manually classify suppliers

5. Enhance data on top 25 suppliers

6. Manipulate in Excel, Access etc.
Getting spend analysis done (process)...

1. Export from AP + pCard + PO Systems
2. Standardize data extract
3. Validate accuracy of data extract
4. De-duplicate supplier records
5. Validate value and volume with organization
6. Classify to common taxonomy
7. Manually validate classification
8. Enrich supplier information
9. Link to a master record
10. Provide MI tools and export function
Common spend analysis pitfalls...

1. Assuming classification is easy
2. Assuming data can be ‘stitched’ together
3. Assuming software can do it for you
4. Finance or IT teams too busy to extract
5. Data extracted incorrectly and not checked
6. Relying on user entered classifications
7. Existing tools are designed for analysts
Using spend analysis output...

The 10 Point Plan

1. Invoice Consolidation
2. Long Tail Consolidation
3. Duplicate Payments
4. Improved Terms
5. Category Extension
6. Category Rationalisation
7. Compliance, Contracted Suppliers
8. Cooperation, Common Suppliers
9. Price Variance
10. Category Reengineering
1. Invoice Consolidation

...what do I need to know in order to reduce the number of invoices I receive and process?

**Identifying Savings:**

- 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?
1. Invoice Consolidation

20,988 invoices < $100
2. Long Tail Consolidation

Identifying Savings:

• Which suppliers do I spend less than $1000 per year with?

• Which suppliers do I only have one transaction with per year which I could lose?

• Which departments are using a lot of “one time” suppliers?

• Which categories do we have a lot of small suppliers in?

...what do I need to know in order to consolidate my long tail of suppliers?
2. Long Tail Consolidation

![Graph showing spend distribution by spend range (detail)]

- **442 suppliers**
- **< $1,000**

Spend Distribution - Spend Distribution by Spend Range (Detail)
4. Improved Terms

**Identifying Savings:**

- 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?

...what do I need to know about my own spend in order to negotiate better terms with suppliers?
4. Improved Terms

- 84 suppliers > $250k
5 & 6. Category Rationalization/Extension

Identifying Savings:

• 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?

...where are the opportunities to rationalize/extend my supplier base?
## 5 & 6. Category
### Rationalization/Extension

<table>
<thead>
<tr>
<th>Trade Classification (Detail - NAICS 6 Digit)</th>
<th>Total Spend</th>
<th>Total Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Computer Programming Services</td>
<td>$334,954.99</td>
<td>26</td>
</tr>
<tr>
<td>Administrative Management and General Management Consulting Services</td>
<td>$805,140.59</td>
<td>24</td>
</tr>
<tr>
<td>Offices of Lawyers</td>
<td>$500,639.08</td>
<td>23</td>
</tr>
<tr>
<td>Engineering Services</td>
<td>$1,428,388.13</td>
<td>20</td>
</tr>
<tr>
<td>All Other Business Support Services</td>
<td>$102,289.21</td>
<td>17</td>
</tr>
<tr>
<td>Electrical Apparatus and Equipment, Wiring Supplies, and Related Equipment</td>
<td>$71,931.50</td>
<td>14</td>
</tr>
<tr>
<td>Computer Systems Design Services</td>
<td>$327,698.89</td>
<td>12</td>
</tr>
<tr>
<td>Professional Organizations</td>
<td>$43,405.32</td>
<td>12</td>
</tr>
<tr>
<td>All Other Miscellaneous Store Retailers (except Tobacco Stores)</td>
<td>$80,569.63</td>
<td>11</td>
</tr>
<tr>
<td>Appliance Repair and Maintenance</td>
<td>$91,248.64</td>
<td>10</td>
</tr>
</tbody>
</table>

38 Suppliers in 'Computer Programming and Design Services
7. Compliance, Contracted Suppliers

Identifying Savings

• Which departments aren’t using the preferred/contracted supplier in a given category?

• Which categories of spend don’t have any contracts in them?

• Is my data source up to date enough to deal with off-contract spend quickly?

…where is maverick buying occurring and who is responsible for it?

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7. Compliance, Contracted Suppliers

Identifying Savings

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7. Compliance,
Contracted Suppliers

36% average spend with contracted suppliers
8. Cooperation, Common Suppliers

**Identifying Savings:**

- 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?
8. Cooperation, Common Suppliers

18 Suppliers, $38m aggregate spend
Next steps..?

- Spend analysis is but the first step:
  - DIY or external 3rd party?
  - Start thinking about problem areas
  - Let the data guide you
- A blueprint for ‘Savings Delivery’ is the second step
- A comprehensive ‘Spend Management’ plan is step three
Any questions..?
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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