THOUGHT LEADERSHIP WHITE PAPER

USING SPEND ANALYSIS DATA TO BUILD YOUR SOURCING ROADMAP

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INTRODUCTION

One of the most common complaints heard from procurement professionals when initiating a strategic engagement is, "we have bad data." Unless your organization has absolutely zero data, this isn't likely to be an accurate statement. Organizations paralyze their efforts by debating and arguing about data – engaging in circular discussions – because rather than accept their data as directional, the team believes the data needs to be the "gospel." Routinely, instead of focusing on the percentage of accurate data, many organizations choose to spend time arguing about the smaller percentage of data that may or may not be accurate. As a result, productivity slows or dies. The good news is there are tools to help you avoid getting into this circular debate. This white paper will discuss how to improve the effectiveness of your spend data and spend analytics, ultimately driving effectiveness through your sourcing pipeline and events.

Spend analysis can help you get an accurate view of your organization's spending, your suppliers, and opportunities for improving your sourcing and procurement activities. In fact, spend analysis is often identified by industry experts as one of the most important processes in procurement. Yet many organizations still overlook this crucial step and take costly shortcuts when it comes time to analyze their data, or don't use the proper resources and solutions to master this key initiative. When done correctly, spend analysis can provide a detailed view of your spend and the suppliers with which you are spending. This lays the foundation for identifying and taking advantage of savings opportunities.

There are a number of solutions available to help you collect, cleanse and classify your spend data. Unfortunately, most fall short of actually helping you analyze your business to make more informed decisions about your spending and sourcing activities. Clean and accurate data on your suppliers, costs, risks, and other important criteria is absolutely crucial as a first step in understanding where to focus your sourcing efforts. When coupled with analysis of your organization's goals, market conditions and spending patterns, the data helps you develop a sourcing roadmap to generate better and more predictable results.

SPEND ANALYSIS - TURNING "BAD" TO GOOD

Deeper spend analysis begins with collecting transactional data from every source system. For example, is your organization lacking detailed spend information in a particular category? Consider obtaining line-item data directly from your key suppliers. Does your organization purchase exchange-traded commodities? Try layering commodity price information on top of your spend data. These are just a few common examples from today's market. The point is that other unstructured, non-spend data can be blended into the mix to inform your business decisions. Advanced spend intelligence involves looking at everything related to spend to get the most visibility possible and, in turn, leverage that information. The key is to economically collect all spend-related data – a difficult challenge without the right tools. A truly business-driven solution will collect data on market trends, contracts, forecasts, KPIs, real-time commodity indexes, and any number of other different data points to give your organization access to the full spend picture.

Once data is collected, keep in mind the idea that "one size does not fit all" for your data classification. Your organization is unique, so why would you choose a spend analysis technology that treats your business like every other business in the world? Many traditional spend analysis solutions feed data into a global database using UNSPSC or a single industry-standard taxonomy. A truly customer-driven approach to spend analysis will allow your organization to work together with your project team to define data sources, classification taxonomy and sourcing groups, map the data, define category rollup strategy, determine exchange rates and classification strategy, and more. Your organization should also be able to develop tailored rules and algorithms specific to your business and to classify line-item level transactions. Doing so will enable you to analyze your data in a way that fits your business needs, with the spend and non-spend data you need to develop strategies for driving spend management activities.

MAKING THE DATA WORK FOR YOU

Once you have collected and classified all the data you have determined can assist in your planning processes, it can be challenging to figure out where to start.

Establishing a baseline is a critical first step. At a minimum, this should include understanding what portion of your spend is untouchable. This varies greatly by customer. During your spend analysis project, you should be able to identify non-addressable spend based on company strategy. For any addressable spend, classify contracted spend (including categories and term lengths) and supplier segmentation (preferred and strategic relationships). By summarizing this information you gain alignment and concurrence on what spend should be reviewed for developing a strategic sourcing roadmap.

Next, begin identifying how much you spend with specific suppliers in specific categories. This is where it is important to have your transactions classified to the line-item level of detail. For example, at this level you may discover a number of transactions that are categorized differently from the same supplier. This then enables you to identify which items can be brought together for a sourcing event to maximize supplier discounts. At a high level, market conditions can be reviewed. Will your company continue to need this item? How critical is it to your business operations? At a more granular level you can review the items and look for a gap in price paid to different suppliers (or the same suppliers at different locations), which is generally a good indicator that it is time to take the spend to market.

As you use spend analysis to develop a strategic sourcing roadmap, it's important to distinguish between your organization's recurring (regular and/or repeated spending) and non-recurring (one-time or one-off) spend throughout the data collection and classification process. By looking at your recurring spend over 12-18 months with all of your suppliers, it empowers your organization to forecast and begin building a strategic sourcing plan for the future; this enables resource planning and allocation, as well as savings commitments. Too often, organizations do not incorporate non-recurring spend into a sourcing pipeline, and end up in a reactive mode of procurement. By analyzing your non-recurring spend, you will

likely find trends or categories where forecasting of sourcing events may be able to be done in a more limited window – for example quarterly planning – or at a minimum allow you to anticipate the resources required to support these events.

At this point in the process, you will need to converge your spend analysis with your business and market assessments in support of identifying advanced sourcing opportunities. Although we will not cover these tools within this white paper, we did want to call attention to the fact that these other elements are important and should be considered to properly develop the sourcing roadmap. Using tools such as value chain mapping, influence mapping, stakeholder alignment, and organizational governance, are critical in understanding key priorities and identifying requirements and hurdles that must be managed within the sourcing processes. Transparency into your spend data will help you identify opportunities; overlaying business objectives confirms the viability of a sourcing event. Thus, a robust spend analytics solution lends credibility to your recommendations to internal stakeholders for a sourcing event roadmap that can create lift for your business.

CONCLUSION

If you are working with an outside vendor to undertake your spend analysis project, it is important for that vendor to understand your business's industry and organizational structures. For example, have you properly identified business stakeholders that must support the event? It is key to the success of a strategic spend analysis project, and a resulting sourcing roadmap, to make sure the correct stakeholders in your organization are fully onboard and recognize the value and significance of the project.

In summary, by giving your organization the right tools to successfully bring together all of your data, you will be able to gain greater insights in making long-term decisions and building a roadmap to guide your strategic sourcing. These key business decisions cannot be made based on spend and supplier data alone, but must also take into consideration many additional factors. Ultimately the initiative must have the support of the right stakeholders to ensure repeatable success for months and years to come.

ABOUT SCIQUEST

SciQuest (NASDAQ:SQI) is one of the leading pure-play providers of cloud-based business automation solutions for spend management—offering deep domain knowledge and a leading, customer-driven portfolio. SciQuest solutions enable greater visibility and compliance organization-wide to help you gain control, optimize efficiencies and reduce spend. These cloud-based solutions are easier to implement and proven to deliver measurable, sustainable value with SciQuest's high-touch support, analysis and automation. Learn more about our solutions and how we can help your organization turn spending into savings at www.sciquest.com.

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