

# Spend Analytics: Enabling the Journey to Category Management



## INTRODUCTION

The most successful procurement organizations manage spend with some form of category management. Achieving success in category management requires a journey of many steps, from a tactical to a strategic approach. One of the most complex stages, and the most foundational, is establishing a spend analytics program that provides essential insight for creating a strategic procurement organization.

Evolving into a strategic organization and establishing a spend analytics program is top of mind for many procurement executives. In a recent ProcureAbility survey, 78% of respondents indicated that they plan to undertake procurement-specific IT upgrades in the next 2-5 years, and 44% said that these upgrades will be analytics-specific. Without detailed knowledge of spend, though, success as a procurement organization will be difficult, if not impossible.

To help you on your journey to category management success, this whitepaper discusses:

- **The importance of spend analytics to a category management program**
- **How your company can evolve along the Spend Analytics Maturity continuum**

### IMPORTANT DEFINITIONS

**Spend Analysis** refers to the process that organizations undergo to breakdown spend data and gain insight (see our white paper Spend Analysis Basics for a deep dive on the spend analysis process and what insights you can gain).

**Spend Analytics** refers to the broader set of tools and insights provided by undergoing the spend analysis process.



## WHY IS SPEND ANALYTICS IMPORTANT?

A robust Spend Analytics program forms the basis of each part of the procurement process, from strategic to tactical. These programs also enable your team to conduct a proper spend analysis, which provides the foundation for a well-informed strategic sourcing event.

**Procurement Strategy:** Spend analysis forms the basis of a strategic assessment and opportunity analysis by indicating which categories to organize strategic efforts around and which to manage transactionally. Spend analysis is a critical input to determine savings opportunities for each category.

$$\text{Savings Opportunity} = \text{Total Spend} * \text{Sourceable \%} * \text{Estimated Savings \%}$$

**Category Strategy:** Spend analysis influences category strategy by providing the detailed foundation for deciding on the approach. For example:

- *Too many suppliers:* Undertake steps to consolidate
- *Too few suppliers:* Undertake steps to diversify
- *High spend:* Manage with a team and strategically source when needed
- *Low spend:* Use transactional buying processes or simply renew the contract

**Strategic Sourcing:** Spend analysis enables savings through strategic sourcing by identifying total savings

opportunities, driving participation, and providing information for negotiation.

#### **Before the event**

The internal analysis that takes place before a sourcing event includes reviewing the category's spend profile. Determining spend distribution across products and suppliers informs your ability as a sourcing professional to concentrate volume and aggregate spend.

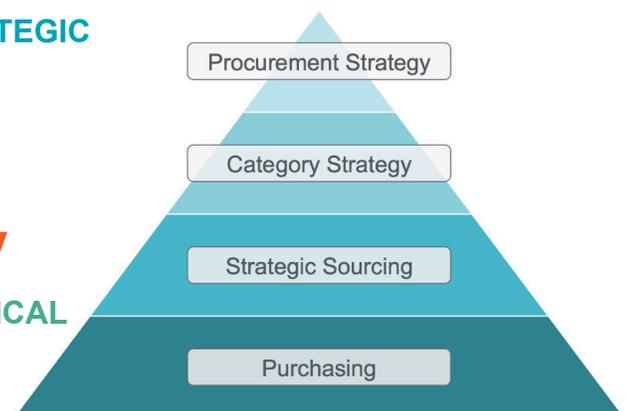
#### **During the event**

Enhance supplier participation in your event by featuring the total spend information in the RFP to generate excitement and interest among the supply base. This strategy is especially effective in tight supply markets.

FIGURE 1: Procurement Program Pyramid

### STRATEGIC

### TACTICAL



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### End of the event

Spend guarantees can be used as negotiation leverage to attain discounts or rebates from suppliers. Knowing your spend profile, both past and present, will help you feel more comfortable agreeing to a minimum spend in exchange for a percentage discount or rebate.

**Purchasing:** Buyers review spend analytics and leverage this information during daily negotiations or to bundle purchases. Providing your buyers with easy access to the latest spend information is important to keep them aware of most recent price paid, spend under management and other key metrics.

## WHERE DO I STAND? The 5 Stages of Spend Analytics Maturity

### BACKWARD LOOKING

The beginning stages of a well-formed spend analytics program may provide insights into past spend over a defined period of time. Spend is analyzed intermittently and data is pulled as needed. Frequent interactions with IT or an analytics group may be necessary to pull data.



**STAGE 1 | Ad Hoc:** Category managers and sourcing specialists analyze spend on a small scale, when needed, to source a category.

**What Ad Hoc organizations look like:** Analytics is not recognized as a source of strategic value. Data sources are typically disparate and disjointed. Efforts to aggregate and analyze data are led by a single individual with a strong focus, without an organizational mandate.

**Strategy to get here:** Follow the process as outlined in our whitepaper titled *What is Spend Analysis?*



**STAGE 2 | Scheduled Analysis:** An analytics professional or small team periodically generates a full spend cube covering a certain period, typically 1 year.

**What Scheduled Analysis organizations look like:** Analytics is recognized as a valuable source of information, enabling most sourcing events and annual strategy refreshes. Middle management sponsors and leads the periodic spend cube refresh. Procurement aligns with IT to pull data, which is disparate and disjointed.

**Strategy to get here:** Designate an internal analytics team or find a professional analytics firm to work with.

### LIVE UPDATING

These stages of Spend Analytics allow continuous, live insights. Analytic platforms are directly linked to procurement, ERP, AP, and travel systems, pulling spend data as it occurs.



**STAGE 3 | Best-in-Class Tools:** Analyze live data with an integrated platform built from best-in-class analytics tools like Excel, Alteryx, KNIME, Power BI, Tableau, or R.

Spend categorization occurs in the tools after spend is loaded into the ERP or AP system.

**What Best-in-Class Tools organizations look like:** Leadership recognizes the value of data-driven decision-making and engages an internal data analyst to manage and construct a platform to analyze spend. Data informs category strategies, most sourcing decisions, and large-scale negotiations. Category managers, sourcing specialists, and leadership have access to data on request from data analysts.

FIGURE 2: The 5 Stages of Spend Analytics Maturity



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**Strategy to get here:** Engage IT to setup connections to AP and ERP systems. Engage an employee with data analysis expertise to write categorization algorithms (see highlighted equation on page 2) and build data visualizations.



**STAGE 4 | System Integrated:** A professionally designed spend analytics platform provides insights and is directly integrated with data systems. Two types of professional analytics platforms are currently prevalent:

- On-suite to a current P2P or S2P system that automatically categorizes spend as it occurs. Spend categorization occurs at the requisition stage.
- SaaS solution that bolts on to the current ERP and AP systems. These platforms use machine learning algorithms to cleanse and categorize spend and provide visualization software to enhance insights.

**What System Integrated organizations look like:** Executives place heavy emphasis on the use of data. Data supports nearly every aspect of procurement, including procurement strategy, category strategies, contract negotiations, and buying decisions. Spend analytics is easily and centrally available to all members of the procurement organization through an online portal. A small team of data analysts manages data integrity and provides access to advanced analytic insights.

**Strategy to get here:** Engage an analytics provider to install an integrated analytics platform that categorizes spend as it occurs. The step from Stage 3 to Stage 4

may be the biggest in the maturity model due to costs related to technology integrations and challenges presented by data sensitivity.

## FORWARD LOOKING

The final stage of spend analytics provides insight into future spend through predictive analytics.



**STAGE 5 | System Integrated – Predictive:**

This stage is the future of spend analytics in which technology platforms are directly integrated across multiple IT systems, pulling pipeline data from your customer relationship management (CRM) platform, historical spend data, and market trend data from third-party sources.

**What System Integrated-Predictive organizations look like:** Executive leadership sees data analytics as the cornerstone of strategic value, relying on and seeking data for almost all decisions. Executives regularly review clear metrics and KPIs. A dedicated team of specialists applies advanced analytical techniques to produce insights, using clustering, machine learning, and predictive algorithms. A harmonized dataset supports analytics and drives insights, providing a single source of truth.

**Strategy to get here:** Engage a provider. Current technology at this level is limited, but several suppliers are on the cutting edge.

*Note: Building internal capabilities to reach Stage 4 or 5 is possible, but would require building a dedicated predictive analytics team and deep-seated alignment with IT.*

## ABOUT PROCUREABILITY



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## CONCLUSION

Best-in-class category management requires best-in-class spend analytics. This information supports and enables all levels of a procurement organization, from buyers in daily negotiations to the CPO, in organizing the team's structure. Integrating these insights into your everyday decisions requires a move from tactical to strategic, which is closely followed by the team's maturity in spend analytics. Determining where you are on the journey is the first step of determining how to get to the next stage. As you grow from Ad Hoc analytics to System Integrated-Predictive analytics, be sure to account for your organization's needs and goals.