



STANDARD

Procurement organizations should use spend analysis to leverage buying power, reduce costs, provide better management and oversight of suppliers, and to develop an informed procurement strategy. Spend analysis should include the identification, automated collection, cleansing, grouping, categorization, and analysis of all spend data for the goods and services purchased for the organization.

Definition

Spend Analysis is the process of collecting, cleansing, classifying and analyzing expenditure data from all sources within the organization (i.e. purchasing card, eProcurement systems, etc.). The process analyzes the current, past and forecasted expenditures to allow visibility of data by supplier, by commodity or service, and by department within the organization. Spend analysis can be used to make future management decisions by providing answers to such questions as: what was bought; when was it bought; where was it purchased; how many suppliers were used and how much was spent with each; how much was paid for the item.

Element 1.1: Identify and Collect Spend Data²

Procurement should work to identify all spend data, internal and external, for the organization. Once spend data sources are identified, the data should be collected and automated. Gathering spend data begins with:

- *Creation and review of a spend data system map:* Begin by understanding which systems contain data required to create a complete spend record. As noted above, this map should include both internal systems (e.g. ERP, e-Procurement, Accounts Payable) and external systems (e.g. P-card).
- *Performance of a spend data quality assessment:* Examine the completeness of spend data, identify additional data elements that might be required to create a detailed spend record and assess the accuracy and depth of existing data classifications
- *Assessment of classification schema:* Assess the number, type, and usefulness of classification schemes currently used across the organization. Determine if existing schemes can be consolidated or if underused schemes can be replaced. Also assess whether existing schemes can be mapped to an industry standard scheme to enable analysis of organizational spend
- *Review of data management processes:* Understand existing procedures and systems used for extracting, cleansing, and classifying spend data. Note which functions require spend data and which resources actually perform the spend data management activities
- *Review of data storage, reporting, and analysis capabilities:* Examine how your organization stores and analyzes spend data. Determine requirements for spend data access, types of reports, and frequency of such requests. Ensure data is accessible and can be efficiently analyzed and drilled into to meet the needs of decision makers.

Public Procurement Practice

SPEND ANALYSIS *(Cont'd)*

Element 1.2: Cleanse, Group, and Categorize Spend Data

Once data is collected, it should be cleansed to remove any duplicates or errors, grouped, and categorized. These processes are necessary to insure accurate organization and correlation of spend data and to enable actionable analyses.

- Grouping and categorizing spend data should be done by adopting an internal taxonomy or by adopting an industry-standard classification scheme.
- Higher-level classification of spend at the category or supplier level is the first step in grouping and categorizing spend data. Examples include: categorizing goods and services that are being acquired; determining how many suppliers are being used for specific categories; and how much the organization is spending on specific categories, in total and with each supplier.
- Item-level detail of spend data enables a precise view of spending with each supplier and for each commodity on an organizational, departmental, project, and buyer basis.
- Additional enhancements should also be applied to the collected spend data. These include but are not limited to: contract terms, minority or women owned business status, alternative parts data, industry pricing indexes, average selling prices, supplier financial risk scores, performance information, lead times, inflation.

Element 1.3: Create Repeatable Processes (Automation)

Excellence in spend data management requires that spend data extraction, classification, enhancement, and analysis activities be supported by automation and services that can streamline existing procedures and make spending analysis a repeatable process.

- Creating a repeatable process may require directly licensing automated data cleansing and classification software or engaging consultants or other service providers that leverage such solutions to deliver a turnkey spend data management service.
- Procurement should seek to incorporate the knowledge of internal sourcing and commodity experts into the automated system through the use of software engine rules and self-learning capabilities.
- Procurement should seek to generate automated monthly reports of the most current spend data to ensure that the most current spend position of the organization is being considered in new procurements.

Element 1.4: Analyzing Spend Data

Regular analysis of collected spend data is necessary to support management decisions for the organization, and better oversight of supplier relationships. The analysis should:

- Assess whether the current procurement structure, processes, and roles are adequate to support a more strategic approach to acquiring goods and services (e.g. whether cross-functional commodity teams would provide more effective, coordinated management of high-dollar, high-volume categories of goods, services, and suppliers on an on-going basis).

With the implementation of regular Spend Analysis, procurement should aim to use the data to:

- Reduce material and service costs through informed strategic sourcing strategies based on the data
- Eliminate duplicate suppliers. (Reduction depends on previous efforts.)
- Improve contract compliance
- Use contract pricing to create savings
- Meet regulatory reporting rules
- Improve inventory management by cutting excess stocks
- Lower inventory costs
- Reduce expediting costs
- Improve product management by cutting unnecessary part introductions
- Increase part reuse
- Align design and supply strategies
- Facilitate early supplier integration
- Reduce spend analysis project cycles
- Refocus procurement professionals on strategic tasks



Background

Spend analysis is the first step in developing and achieving an overall strategic procurement strategy for the organization. When done correctly, it allows the organization to identify opportunities to leverage buying power, reduce costs, improve operational performance and provide better management and oversight of suppliers, while improving relationships with internal and external stakeholders.

Spend analysis begins with identifying sources for collecting spend related data for the organization. These sources can be both internal (i.e. procurement, financial, or logistics systems) and external (i.e. procurement card). Once data is collected it should be cleansed, grouped, categorized and analyzed.

Finally, the data should be updated regularly and the spend analysis process should be performed on a continual basis to support decisions on strategic sourcing and procurement management for the organization.

- 1 NIGP. (2012). Spend analysis. In NIGP public procurement dictionary of terms. Herndon, VA: NIGP.
- 2 Adapted from Aberdeen. (2004). Best practices in spend analysis: Cure for a corporate epidemic. Retrieved from www.aberdeen.com
- 3 If spend data is in the custody of an external source or department (e.g. audit, finance), it is recommended to take a multiskilled team approach to gathering and compiling the data.
- 4 It is important to be mindful that some industry standard schemes were built to classify specific items at the lower levels, while others were created to identify industry/ vendor classifications.
- 5 Aberdeen. (2004). Best practices in spend analysis: Cure for a corporate epidemic. Retrieved from www.aberdeen.com
- 6 Op. cit. Aberdeen. (2004).
- 7 "...there will continue to be needs for commodity managers to classify exceptions that cannot be managed by the system" (Aberdeen, 2004).
- 8 U.S. Government Accountability Office (GAO). (2004). Best practices: Using spend analysis to help agencies take a more strategic approach to procurement. Retrieved from <http://www.gao.gov/new.items/do4870.pdf>
- 9 Specific targets listed here are based on research from the Aberdeen Group. Aberdeen. (2004). Best practices for spending analysis: Cure for a corporate epidemic. Retrieved from http://www.unspsc.org/AdminFolder/Documents/3Qo4-Minahan-BP_Spend_Analysis_Rpt110304f.pdf
- 10 At a minimum data requested for a spend analysis should include accounts payable transaction data.