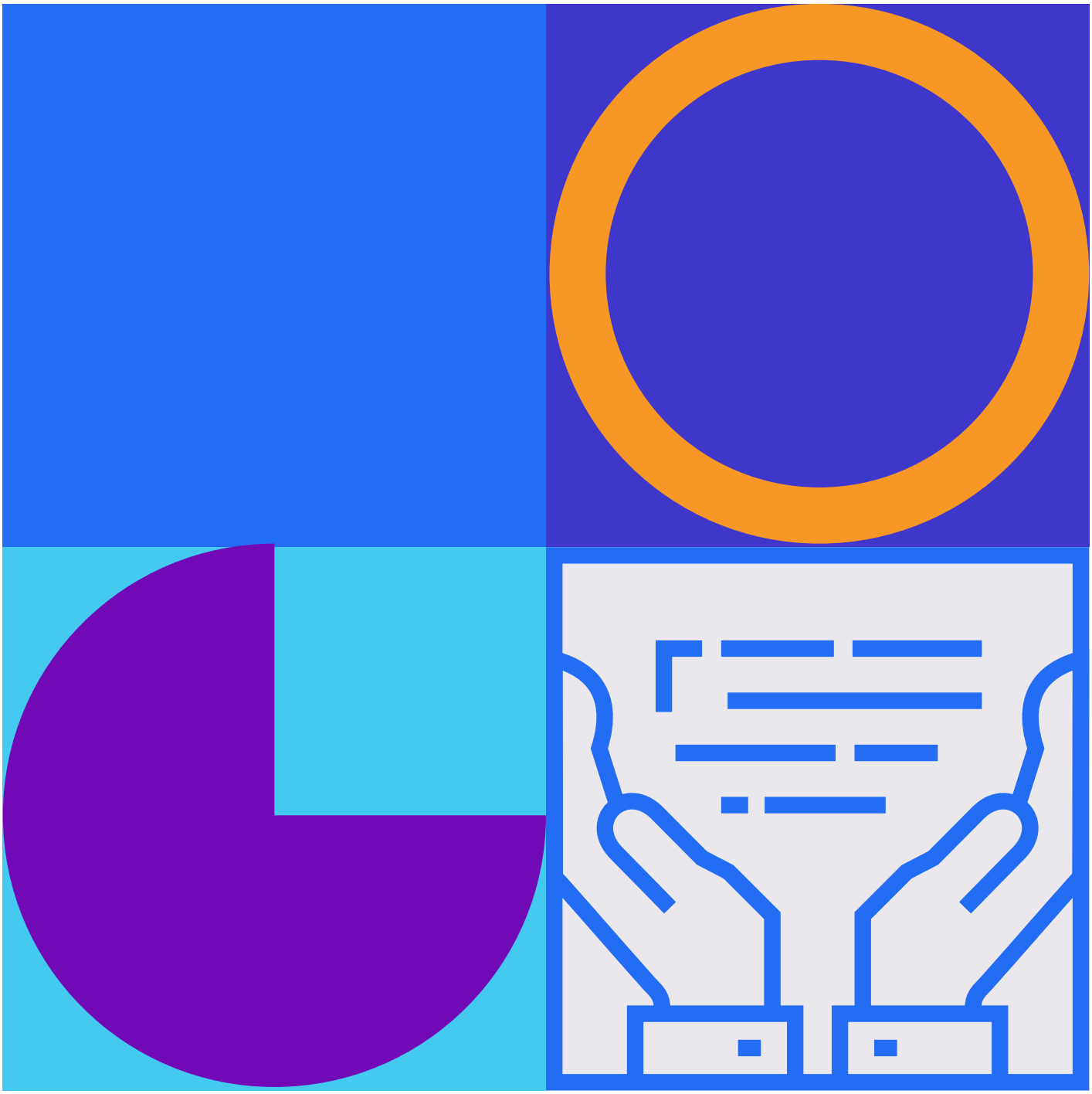
WHITE PAPER

rosslyn

# The high cost of bad data for procurement



Data and information are now as vital to an organization's well-being and future success as oxygen is to humans. And without a fresh supply of clean, unpolluted data, companies will struggle to survive.

Source: The Data Warehousing Institute (TDWI)

According to The Data Warehousing Institute (TDWI), in the US alone, bad, dirty, inaccurate or missing data costs companies over $600 billion a year.

No company can avoid the repercussions of bad data, irrespective of industry, department, or location.

Left unaddressed, the impact will only increase as bad data propagates across systems, data quality continues to deteriorate, and the cost of complex data cleansing spirals out of control.

At a time when data volumes are experiencing exponential growth and show no signs of abating, it comes as no surprise that astute organizations are turning their attention to data management and analytics as a means to not only reduce the cost of bad data but also to mitigate the risks and impact to their bottom line.

In this white paper, we will discuss the business impact of bad data and how procurement and supply chain professionals can address this to improve bottom line performance.

# $600bn

The estimated cost to US companies for bad, dirty, inaccurate or missing data in the US alone.

Source: The Data Warehousing Institute (TDWI)

## The impact

### In the simplest of terms, there are two main ways companies use data:

**Operationally** - to keep the business running effectively and efficiently.

**Strategically** - for analysis to gain deeper insights and intelligence in order to make smarter decisions, identify new opportunities and mitigate risk.

Both of these uses rely heavily on high quality data–both structured and unstructured-in order to optimize performance and achieve business goals.

It would be naïve to suggest that bad data will be eliminated completely. However, as data volumes continue to grow and data sources continue to expand, the cost and complexity of fixing data problems–accuracy, security, management–exponentially grows.

Failure to act now simply places organizations in a weakened state - unable to optimize procurement strategies and forced to spend significant funds on time-consuming, manual tasks merely to compensate for the problems caused by bad data.

> Clean data is the path to success. Clean data leads to insight. Insight leads to better decisions. Better decisions lead to effectiveness.

**Michael Ashmore**
Director, Pitney Bowes Software

### Operational efficiencies and productivity

A well-developed data-management strategy coupled with a clearly defined data-governance policy is a long-term commitment to ensuring accuracy, compliance and use of data. Processes and technologies need to be implemented in order to ensure continual development and adoption of such initiatives.

A data-management strategy can significantly reduce the time invested, resources required and costs associated with data cleansing. In so doing, time may be better spent on higher value areas of data management, such as data enrichment enabling more accurate analysis and data consumption.

Without ongoing data-quality efforts, daily business requests, such as ad hoc or time-sensitive reports, can leave business users spending hours manipulating Excel spreadsheets or data to try to find answers to questions proposed by management. Some workers can spend up to 50 percent of their time reworking, validating and manually searching for results to formulate an answer to make business decisions. In turn, this inflates opportunity costs and impacts business efficiency and productivity.

According to Aberdeen Group, organizations with information-governance tools, including data quality and data management, not only have more accurate data to start with, but they are improving at almost three times the rate of their competitors. With more reliable data, such organizations in turn see improvements in business efficiency. Every data-centric task and function, from billing and invoicing to overall supply chain management benefits from access to accurate, timely data.

## Decision making and opportunity

Procurement and supply chains rely increasingly on data, not only to enhance core activities, but to expand mandates into areas such as risk management, innovation, and enterprise-wide coordination.

Imagine a procurement team so deeply connected to its suppliers that it gains access to all relevant data on cost structures, supply availability, lead times, and financial and operational risks, as well as service and quality metrics for its supply base. Understanding these dimensions can lead to vastly improved, data-driven decision making.

> Poor information quality costs organizations 20-35% of operating revenue wasted in recovery from process failure, information scrap and re-work.
>
> Larry English,
> Total Information Quality Management (TIQM)

The procurement team becomes well positioned to negotiate the right prices, adapt its own planning, or switch to alternative suppliers in the case of supply shortages. Such an approach also helps suppliers improve deteriorating quality levels by applying intelligent insights that were previously unattainable.

Very often however, companies rely on data that is inconsistent, incomplete, incorrect, outdated, duplicated, or incorrectly categorized. The result? Direct cost to the business arising from decisions based on old assumptions or invalid data.

Here are a few ways that data-driven decision making underpinned by a consistent data management strategy can be of benefit:

- **Creating opportunity** – Easy visibility into accurate data can present many opportunities that may otherwise be missed or overlooked. These include consolidation of sourcing and performance-management opportunities, such as payment terms, payment methods and frequency.
- **Cost savings** – There are often missed opportunities if the data is not readily available or missing context. This includes savings achieved from sourcing events, spend-under management, contract compliance rates and maverick-spend reduction.
- **Proactive supplier management** – Incorrectly associating or parenting suppliers can often result in the loss of opportunity. Organizations with a data-management strategy in place are finding it easier to identify opportunities for price breaks and volume discounts, to score card suppliers more accurately, and to gain a clearer understanding of which suppliers offer the most value for specific products or services.
- **Vendor master-file management** – For most companies, the vendor master file is riddled with inconsistent, missing, duplicate or outdated information. Because it contains all the contact, tax, and contract information for each vendor, inaccurate information can lead to duplicate payments, unpaid invoices, and fraudulent payments. A clean and accurate file is essential to prevent errors, reduce risk and streamline regulatory compliance.

## Risk management and mitigation

Supply chain risk mitigation is now high on the procurement agenda, particularly in light of recent financial crises, natural disasters and supplier failures.

The key goal of data management and analytics is to gain sufficient intelligence and forward-looking insight to enable decisions that will minimise risk and increase competitiveness.

However, with less than 50 percent of management confident in the data contained within their systems, any decision based on bad, or untrusted data, is of questionable reliability.

**≤50%**

of management are confident in the data contained within their systems.

Source: The Data Warehousing Institute (TDWI)

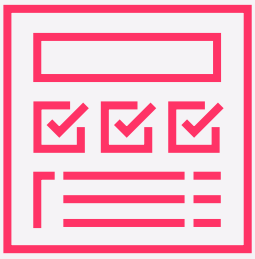
- **BDI - BDO** – Decisions are only as good as the data and information they're based on. Focus has to be placed on ensuring data is gathered, entered, stored, managed and analyzed in a controlled manner using the best possible data-management and analytics solutions available.
- **Forecasting and predictive analytics** – Making decisions with bad data can send companies down the wrong path, resulting in costly corrections and wasted assets. For example, bad forecast data may result in higher inventory carrying costs.
- **Credit checking and fraud identification** – Enriching internally held data with external credit and/or fraud data enables companies to track credit worthiness and identify fraudulent behaviour as an ongoing practice. This allows for visibility to make quick adjustments when changes occur.
- **Compliance** – Violation of regulatory compliance mandates, such as Sarbanes-Oxley, Basel II, Solvency II or SEPA, have direct cost implications. Comprehensive data management is vital to ensure compliance and mitigate risk.
- **Materials management** – For companies sourcing materials or components from high-risk locations, the ability to quickly access and analyze accurate, timely data is vital in order to make more informed risk-based decisions in the case of emergency or natural disaster.

## Bridge the gap between business and data

Today's businesses are faced with the challenge of setting and implementing new strategies for data management and analytics in an environment with an unprecedented pace of change. This is only set to accelerate as data management and analytics make the steady transition to the cloud.

To optimize both strategy and operations, IT and data specialists need to work alongside business decision makers to implement a data-driven culture, to promote data-sharing best practices and to develop clear data-management and data-governance policies.

Without such policies, employees will struggle to understand the value and impact of the data they work with every day to their business. The value of insightful decision making will prove elusive and the opportunities to increase business efficiencies, productivity, competitiveness and profitability will be lost.



**89%**

of companies believe that their departmental budgets are being wasted as a result of inaccurate data.

Global Data Quality Research, Experian QAS

## Data quality is a journey, not a destination

According to Experian, business data may decay by up to 37 percent each year. Businesses must put in place practices that keep their data current and so perform day-to-day operations efficiently and competitively.

Ongoing, long-term data quality can offer confidence in answering questions such as, “How do I find that extra 3 percent cost saving,” or even offer immediate visibility into high-risk situations such as, “My vendor of a critical component has moved into an area that may be a high-risk flood zone.”

Here are the essential components to a successful data-management strategy.

- **Discover** – So often, companies are unaware of data available to them and therefore drive decision making based on incomplete data views. The problem arises from procurement and supply chain data being stored across multiple disparate, distributed systems often across multiple locations–each of which may then have different access and usage rights attached to them.

  Taking the time to discover core data assets, to identify and scope data sources, to profile data sets required for integration and to align data discovery with desired business outcomes provides the basis for the development of a sound data management strategy.
- **Cleanse** – Equipping your business with the ability to quickly and easily integrate data from multiple sources into a single repository ready for cleansing, classification and categorization is an essential step towards detecting and eliminating bad data.
- **Enrich** – Enhancing and adding value to integrated and cleansed data through data enrichment enables organizations to gain a deep understanding of and insight into supplier location, credit worthiness, risk exposure and behavior. Enrichment opens up new opportunities to develop optimized procurement and supply chain strategies by delivering analytics-ready data for dynamic analysis, visualization and reporting across the organisation.
- **Establish a single data-management and analytics platform** – While raw data may be "dirty at source", the use of point solutions to support each of the discrete tasks of data integration, cleansing and enrichment only compounds the problem of bad data.

  Selecting a single platform that unifies all of the core disciplines of data management and analytics including data integration, cleansing, enrichment, visualization and reporting is proven to reduce the impact of bad data.

> “Dirty data is to a business, what dirty drinking water is to a human. It fundamentally affects the vitality and effectiveness of its operations and can ultimately lead to its demise. And, just as world-class athletes perform at their best when they enrich their drinking water, world-class businesses perform at their best when they enrich their data.”
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> **Michael Ashmore**
> Director, Pitney Bowes Software

**About Rosslyn**
Since 2005, Rosslyn has been at the forefront of helping organizations deliver accelerated business value through data insight. With thousands of users in over fifty countries, we empower organizations to automate critical business processes and analytics through simple, self-service tools.

Our portfolio of services ranges from AI-driven Procurement Analytics to Data Management.

Let us reveal the story within your data. Speak to a member of the Rosslyn team to find out how on **+44 020 3285 8008** or email us at **info@rosslyn.ai**.

**Rosslyn. Now you see it.**


**www.rosslyn.ai**