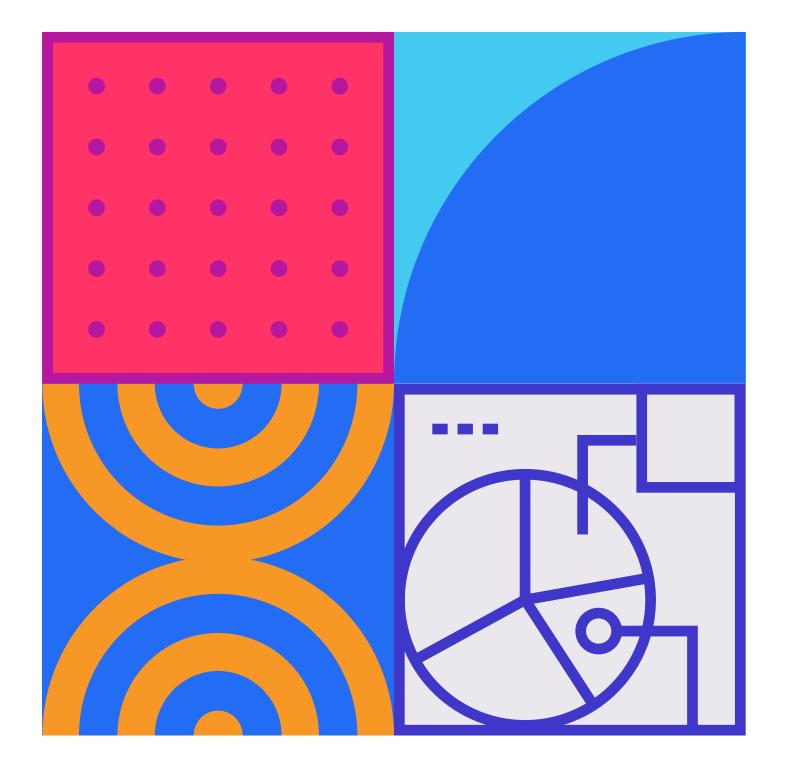# Five business cases for enriching spend data

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> By analyzing large amounts of data from diverse sources, we can gain context and correlations that wouldn't have otherwise occurred to us.

Warren Buffet

By becoming stewards for vital data in the organization, procurement can tap into new levels of value for stakeholders. Investing in data is helping functions unlock enterprise objectives, from CSR targets to P2P performance. Business leaders are using cloud-hosted and delivered tools to overcome legacy issues and to channel the large volumes of data scattered within and external to companies.

Investing in technology should lead to savings and efficiency, but without the right quality of data, this quickly becomes a limited and frustrating venture. The abundance of data and the capabilities of the cloud offers business leaders many different routes to turning spend analytics into an accessible source of enterprise value.

This paper reveals how procurement can become a strategic advisor to the organization, showing how to exploit data using the latest technologies and best practices. Looking at five individual cases, it's clear that the opportunities for those prepared to focus on the data are tangible, commercial and communicable.

As noted by Gartner, virtually every business operation has one or more areas where near real-time analytic services or active analytics should be applied.

Firms that have invested in data have realized improved situational awareness and, through that, better and faster decision making and superior customer service, revenue growth, cost reduction and risk avoidance.

## Buying opportunity

Procurement can do that and more, but as yet it remains a largely untapped opportunity. The function sits at a cross-section of business that interfaces with the whole value chain, and yet relies heavily on trust; the kind that cements a relationship with a supplier, the kind that executives seek to build as they press for further influence, or the kind of trust that so many teams place in technology, hoping for results from clicks.

In reality, misplaced trust undermines the ability to be precise, aware and forward-thinking at all times; exactly what analysis and predictive capabilities would seek to enable.

From engineering firms manipulating supplier data to effectively identify and reduce supplier risk for key parts, to services-based business centralizing indirect spend decisions through improved data-led spend analytics, investing in the capabilities to capture, cleanse and interpret data is a shift in mindset from simply adopting solution after solution, but it is a vital one.

In fact, Cranfield School of Management's visiting professor in supply chain management, Alan Braithwaite, goes further, having spoken at length about how in years to come, procurement will become a "steward of the data" within the organization and the supply chain, managing the flow of information to enable decisions across these environments.

## A building imperative

This, then, is the frontier of every team's development: not the tools, not the spend, but the data. Organizations are wising up to this opportunity; according to a recent study by CapGemini, 87% of supply chain managers view end-to-end supply chain visibility and co-ordination across the supply chain as the key modern challenge. Which, of course, isn't to overlook the fundamental objective of producing bottom-line results.

Research conducted by Rosslyn in partnership with Michael Lamoureux, editor of *Sourcing Innovation*, reveals that with the right systems in place, the average company can tap into cost reduction and savings opportunities that could collectively add up to 30%, or more, from spend across major direct and indirect categories.

The business proposition of using data as a platform for commercial value is built on leveraging what is unique about the information. In industries where customer-buying trends are driven by sustainability/CSR and ethical sourcing considerations, for example, transparency relating to supplier diversity profiles and standards inevitably impacts buying behaviors.

Leaders and their teams are becoming more effective at using data to realize these goals; Peter Hobday, global purchasing process and development director and deputy CPO with Paris-based technology services company Atos, is a prime example.

Hobday's team harvested and manipulated data in its indirect categories to improve conversations with stakeholders around areas such as fleet. That engagement resulted in decisions such as the one to choose cars generating no more than 120 grams of $CO_2$ per kilometer. As it takes a few years to refresh the entire fleet, Atos's average $CO_2$ emissions have been on a downward trend – that's data that procurement collects, publishes every six months and provides for the company's environmental statements.

# 61%

of procurement executives said that they would be investing in technology to harness big data

## Time to invest

Research by Andrew McAfee and Erik Brynjolfsson of the Massachusetts Institute of Technology found that those companies which utilize big data see productivity and profitability rise by between 5% and 6% compared with those that do not.

Among those leading the field, there are some who have reinvented the way they have gone about positioning themselves. Initially, they focused on supply chain and corporate spend information and used this as a lever to greater influence and greater governance.

Swiss technology group ABB's senior procurement team, for example, has positioned the function as a source of spend insight that enables stakeholders to unlock savings, cash flow, manage spend more efficiently and unearth value in the supply base. What has begun to happen for that group, and many others who've adopted data as their primary currency, is a virtuous cycle as trust begins to develop; trust from stakeholders that procurement has the answers, and that they can show them the answers through the data.

> As supply chains become more global, complex and independent, it is essential for decision makers to have concrete facts and intelligence about where their facilities and their suppliers' facilities are located.
>
> **Jonathon Hall**
> EVP FM Global

Since Rosslyn became the first company to provide spend analytics in the cloud in 2009, the market has evolved, both in terms of the maturity of tools and its adoption. Spend analysis is no longer the domain of just procurement.

It can, should and is being used to mitigate supply-chain risks, reduce employee fraud and much more, with procurement acting as the enabler for its counterparts.

## ① The business case in terms of risk management

IT managers tend to regard risk data as an IT issue, while risk managers see it as the prerogative of the risk department, but when it comes to the supply chain, procurement needs to take on all those perspectives in order to understand where risk lies in the supply base.

As Jonathan Hall, an executive vice president with FM Global, which recently published its *Resilience Index*, told Spend Matters blog, "As supply chains become more global, complex and independent, it is essential for decision makers to have concrete facts and intelligence about where their facilities and their suppliers' facilities are located."

Prevention and mitigation strategies are nothing without the ability to monitor potential risk. On a basic level, the case is simple: What you don't know can hurt you. Whether that comprises simple questions, such as where your suppliers (and their suppliers) have their factories, or more complex requirements, such as how vulnerable your suppliers are to particular financial circumstances; understanding the impact of changing circumstances requires information, just as it affords the opportunity to identify weak links where action is required.

Across directs and indirects, businesses rely on the consistency of supply and when that trust is tested, the onus is on procurement to respond. Effective risk management and resilience can make a huge difference to a business—the business case is to be found in the regulatory penalties avoided, the ability to provide uninterrupted service to customers and the lack of cost incurred repairing the damage of realized risk. Given the presence of that kind of information and the stakes involved, making the case for enriching risk management with relevant data is becoming increasingly impossible to ignore.

### Five key data points

1. **Financial health of suppliers**
2. **Occurrence of single source supply**
3. **Geographical location of suppliers and fulfilment supply chain**
4. **Impact of commodity price movements on cost of directs**
5. **Supplier qualification of current and future supply base**

### Five key opportunities

1. **Enrich spend data** with geo-political information to tell your risk team if you're working with companies that have been blacklisted by foreign governments
2. **Improve supplier visibility**, leading to more effective supply chain and risk mapping
3. **Enhance understanding of financial vulnerability** of suppliers and the potential effect of economic shifts
4. **Provide insight into market data** that could enable forecasting and improve the resilience of the business to unexpected changes in market conditions
5. **Record data to demonstrate compliance** with company targets and regulatory statutes

## ② The business case in terms of supplier management

Supplier management strategy requires alignment with the core components of data analytics from understanding the present to predicting future events and prescribing actions.

Organizations' supplier management of the future will employ sophisticated analytics and comprehensive, real-time information to enable decisions in the supply base. For some of the largest companies in the world, those capabilities have been developing for years, already leveraging cross-functional teams to provide data analysis from within the IT function to increase the accuracy of support systems.

Following those principles, procurement teams that are able to build a central platform to manage supplier information can apply analytics and communicate the outcomes to stakeholders. Simple opportunities, such as supplier rationalization, performance management, contract control and governance can have advantages that translate into savings and efficiency—arguments that require little interpretation from stakeholders.

As yet, recent research shows that only 25% of procurement functions have visibility into contract compliance rates and fewer still have insight into supplier performance. By enriching spend data with historic prices, market benchmarks, internal cost information, revenue forecasts, news and supplier performance ratings, businesses are equipping themselves to dramatically address their costs.

As an example, a well-known food manufacturer recently went on a journey to focus its core suppliers, reducing a supply base of 10,000 to 3,300 over six years. The ignition for that transformation was the ability to harness data. One discovery along the way was that the company was buying 28 specifications of one basic line item, a problem they were able to then oversee and fix, contributing to significant savings along the way.

## Five key data points

1. **Supplier compliance with sensitive attributes that require monitoring**
2. **Supplier performance scorecards**
3. **Transactional engagements with each supplier across the business**
4. **Supplier classification for segmentation purposes**
5. **Contract management**

## Five key opportunities

1. **Enrich spend data** with contract spend thresholds to enable your procurement team to enhance compliance and negotiate better deals with suppliers
2. **Analyzing trends in supplier performance** can open scope for improvements, aid negotiations and help identify opportunity for attracting innovation
3. **One single touch point** for information on key suppliers to tackle issues such as multiple approaches to the same supplier
4. **Engagement from stakeholders** allows the users greater insight into the relationship, the spend history and the relevant metrics for their part of the business
5. **Arm your selection and sourcing operation** with valuable bench-marking and market information

**③**

# The business case in terms of budget holders

Machinery is a great example of a facet of production that can be expensive, inefficient, risk-prone and yet not necessarily under the control of procurement. Looking at MRO (maintenance, repair and overhaul) spend, a category manager is able to make decisions, adjustments and, ultimately, effect savings and enable allocation of resources, if they can better analyze the equipment.

The same, then, is true of suppliers: if procurement can help suppliers be more efficient in manufacturing the products they buy, they might also be able to influence the cost of those. Using data for predictive maintenance and statistical process control, suppliers can track when anything abnormal is detected, for example, a turbine engine beginning to consume more oil than usual.

On the commodity side of the organization, the ability to apply predictive analytics from everything from weather events to market shifts can have a huge influence on buying tactics—so much so that investment in direct purchasing is, for many of the largest buying organizations around the world, largely a race to have enough data to create hedging strategies against the next swing.

Meanwhile, in the procurement organization itself, the costs of poor stock management, doubling up on supplier spend, misaligned specifications and ineffective governance resulting in maverick spend, all present opportunities for improvement.

Acquiring the tools to improve spend analysis and manage supplier data is a coveted achievement, if one that requires co-ordination and cross-functional engagement. Businesses (like biotech firm Novozymes) have developed their own apps to control spend on areas like travel, while others have put their faith in cloud-based systems, influenced by SAP's acquisition of Ariba in 2012 and its subsequent focus on software focused on facilitating organization-wide spend.

## Five key data points

1. **Monitor spend performance in key categories**
2. **Measure total cost**
3. **Development of supply base and of key relationships in each category**
4. **Supplier performance relative to relevant benchmarks**
5. **Provide insight into category trends and suppliers' ability to respond**

## Five key opportunities

1. Enrich spend data with information on suppliers that you can provide to strategy teams when they are making decisions about the wider business
2. Measure the impact of category strategies and the impact on bottom and top line financials
3. Harness category data to inform category strategies and enable forecasting
4. Improve governance in key categories
5. Demonstrate opportunities for greater procurement input across areas of spend

**(4)**

# The business case in terms of the purchasing process

Being able to track key metrics in the purchasing process is not only inestimably important for delivering to procurement's core goals, but also a key bridge into the finance function.

Data can open the door to improving payment accuracy, cash flow optimization and process effectiveness. However, it's often overlooked in favor of technology solutions that seem to offer control of process, but in fact rely heavily on effective data management and governance. Large organizations that have augmented their data capabilities and harness P2P analytics have seen results. Optimizing relevant supply chain data to produce accurate and efficient systems is the cornerstone of that effort.

When we refer to optimized systems, these aren't just geared towards understanding where spend is going; there's also actionable information on the performance of the payment process, the kind that is hugely valuable to treasury, accounts payable and finance. Particularly in businesses looking to have a tighter grip on cash flow or use tools such as factoring, being able to put the data in the hands of those with influence in the P2P process is a vital enabler.

When a multinational consumer goods manufacturer recently set about aligning its payment terms and developing 'straight-through' processing of e-invoicing, the team identified the inefficiencies in the existing process, developed master data mapping and was able to introduce validations and testing in order to dramatically improve the process.

As more and more organizations turn their attention to P2P and the automation of various processes therein, it becomes apparent how inaccurate spend data or financial data can damage the payment process.

It's fair to say that the entire process runs on information, from knowing where POs and invoices are, to understanding where buyer-supplier disconnects can occur. These interactions will soon all take place online and the pressure on procurement to deliver visibility into trading relationships will be consistent and impossible to fulfil without investment in data.

## Five key data points

1. **Cash flow, payment speed, invoice turnaround**
2. **Fulfilment of SLAs and contract stipulations**
3. **Governance of the requisitioning, sourcing and spend process**
4. **Irregularities in the payment process**
5. **Effective alignment with the accounts payable process**

## Five key opportunities

1. **Enrich spend data** with accounts payable data to provide your finance team with insight into whether or not your organization is leaking cash by not preventing erroneous payments to suppliers
2. **Monitor and enhance cash flow** with greater visibility into constrictions in the payment process
3. **Identify opportunities for greater efficiency**, through tighter controls or, perhaps, technology solutions
4. **Monitor the implementation and effectiveness of governance strategies**
5. **Demonstrate opportunities for greater procurement input** across areas of spend

# ⑤

## The business case in terms of Corporate Social Responsibility (CSR)

Whether you look at the horse-meat scandal in Europe or the US Government's commitment to identifying and eliminating the presence of conflict minerals in corporate supply chains, it's clear that the problems for a business that relies on its CSR reputation are just as much about understanding where vulnerabilities lie as it is about being able to enforce the desired behavior among suppliers.

Likewise, the issue with making promises about a firm's commitment to social responsibility is that while there are decisions that will improve performance and reduce risk, there are simply too many unknowns in the supply chain to be able to make definitive judgements or take action. When the US Government announced plans to punish corporations if they were found to have conflict minerals in their supply chains, it sent a shockwave through businesses as they realized that they simply didn't know whether tracking those minerals was possible, let alone who the suppliers were. Organizations have invested hundreds of millions as the prospect of CSR as a revenue generator has become a reality—meanwhile, consumers have become increasingly interested in where the products they buy come from, and what transgressions occur in the supply chain.

Audits provide a weapon to measure performance, though by no means a flawless one, while there's a rising trend among sophisticated organization to monitor news and trawl for potential problems. Data here creates a platform, not just for knowing who your suppliers are, but where vulnerability might exist.

Another initiative that has gained traction revolves around the possibility of sharing supplier performance data. Being able to tap into a more comprehensive appraisal of where performance hasn't been up to scratch makes the scrutiny of supplier more thorough and even the standards applied more comprehensive.

Sourcing practitioners have been clear about the challenge they face: individual buyers determined the weight of CSR needs in their sourcing activities. If CSR is rising up the priority list, investing in data will be necessary to unlock the possibility of a central CSR policy that could be measured and held up against internal, industry and regulatory standards.

### Five key data points

1. **Supplier diversity ratings**
2. **Performance data against a CSR scorecard**
3. **Aggregated news on emergent social and environmental risks**
4. **Supplier performance relative to industry benchmarks**
5. **Measurements of carbon emissions or waste, for example**

### Five key opportunities

1. **Enrich spend data** with information on the environmental impact of suppliers to get a holistic view on CSR performance in the supply chain
2. **Enable budget holders to implement 'green' strategies** with supplier selection
3. **Build a supplier mapping capability** to identify regions and line items where CSR risk might exist
4. **Enhanced reporting** against company-wide CSR objectives
5. **Build CSR considerations into sourcing and requisitioning procedures**

> **If procurement is to achieve any meaningful insights, there is an imperative to employ the necessary tools, processes, and mindset.**

## Conclusion

From the Internet of Things to the recognition around big data, there's no question that the awareness around the presence and importance of data is on the rise. But if procurement is to achieve any meaningful insights, there is an imperative to employ the necessary tools, processes, and mindset.

By using the cloud, procurement can bring the data to stakeholders and democratize the platform. By focusing on data, rather than technology, it is possible to:

- Enhance spend visibility across the organization
- Reduce tech spend and improve data quality
- Overcome siloed behavior and deliver enterprise value efficiently

**Greater influence, greater value to the business, greater capabilities: investment in data is essential for the future of procurement and the entire organization.**

**Get in touch today to find out more.**

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