A Solution for the Consolidation and Analysis of Spend Data

The need for systematic control over consolidated spend data is imperative for businesses in all fields, especially for those with a complex structure. This goal can now be effortlessly achieved thanks to a structured Spend Analysis process, supported by technology specifically tailored to such type of activities. BravoSolution has recently consolidated its offering within this sphere. Below are some reflections aimed at defining the "conditions for success" in the development of a Spend Analysis project.

An Introduction to Spend Analysis

Every business, whether in the private or public sector, must define and manage its procurement policy on a daily basis by drawing from information available at any given moment in time and based on its ICT systems.

However, such figures may not be easily available: for instance, the data can be spread around several departments within a company and can reside in several different databases that may not be compatible. In addition, the information may be available in a format that is different from what is actually wanted, which in turn complicates any spend analysis activity at the global level.

In such a scenario, the implementation of any winning purchase strategies, aimed at accomplishing the goals of an up-to-standard Procurement Office, becomes a tough task indeed.

The adoption of a structured Spend Analysis process can solve the aforementioned complexities by allowing the Procurement Office, in relation to specific requests, to avail of real time, ready-to-use purchase information (the spend by individual commodity, type, suppliers, incoterms, etc…) always updated, complete, objective as well as homogeneous among varying spend centres. In virtue of such data, Spend Analysis becomes a powerful support tool in the decision-making process, the definition of spend policies, tactics and strategies whilst at the same time offering Procurement the ways and means for a full control of Buying.

Furthermore, Spend Analysis can also offer support to the annual budgeting procedure and the state of progress in the course of the year besides facilitating control over the implementation of Framework Agreements on the part of every single sourcing point.

Who is Spend Analysis right for?

The need for increased visibility into procurement spend data and the possibility of analysing such information in a user-friendly manner, starting with aggregation parameters that can be tailor-made, is common to enterprises big or small across every field.

Some enterprises are better placed to exploit the 'deeper' benefits stemming out of a structured Spend Analysis solution implementation, to name a few:

> High-complexity companies (multinational, multi-subsidiary, multi-plant, multi-business, Large Groups): to provide uniformity to sourcing data flowing in from varying branches, divisions, factories, peripheral offices.
> Public Administration: to develop spend monitoring policies within the sphere of a sourcing rationalisation process as well as to promote an initiative of aggregation among Local Government Bodies.
> Businesses that have undergone variations in their ownership structure (acquisitions, mergers etc.) and therefore require uniformity in their spend figures.

The importance that consolidated spend data plays in the control process is now gaining ground in Public Administration thanks not only to the pressure to deliver on efficiency but also to comply with specific regulations.

Demands for spend standardisation and consolidation by commodity/product categories come from multiple public organisations, many of whom promote, in varying contexts and characteristics, inter-institutional cooperation models with the goal, among others, of optimising spend activity management. The possibility of being in a position to effortlessly share sourcing figures belonging to different divisions – and then being able to segment them to your liking - is a compelling condition for the success of this initiative.

Last but not least, a Spend Analysis project can effectively support activities such as 'Sector Benchmarking' and 'Price Control', thereby making it possible to avail, in an anonymous and aggregated manner, of spend information relating to different Bodies but grouped under the same 'organisation' (Associations, Consortium of Companies, Industrial Zones, etc)

How to develop an effective spend analysis and consolidation process

Defining Goals

As stated in the sections above, Public Administration as well as many private-sector companies, especially those having a complex structure, face difficulties in performing a global analysis of spend for several reasons.

Data can be spread around several departments within a company and can reside in several different databases; it may not be compatible in terms of currency, unit of measurement, alphabet used in its registration; the same data may feature different codes depending upon the country or division (e.g.: product, family of products, supplier,…). Furthermore, even within the same information system, a supplier may be codified several times, under different codes, by the various departments availing of its services.

To complicate matters, the figures may not yield what is actually needed for consolidation at the corporate level. Such complexities call for a significant effort on the part of companies, both in terms of resources and time, regarding the construction and maintenance of consolidated spend reports; at times the very creation of such reports is hindered.

The experience gained by BravoSolution in this field has made us aware of the pressing need felt by businesses to find an answer to such obstacles and consequently optimise, via the adoption of a structured process, all spend analysis operations with the following goals:

> create a centralised, shared and common overview of the entire procurement chain
> coordinate procurement at a local level
> be aware of who is buying what from whom, provide reliable figures to buyers and management
> identify and activate savings opportunities thanks to the development of synergies among the various structures of a company/group/body
> evaluate the opportunity for sourcing at a central or local level (Tactical/Strategic approach)
> define tangible objectives for managers (local and central): the possibility of exactly quantifying spend worth in a specific area allows for the definition of precise targets (e.g. percentage reduction over previous year)
> enhance spend monitoring vs Budget
> measure use and compliance of Central Framework Agreements at local level (Compliance)
> implement and accelerate synergies in the event of Merger & Acquisition

The Solution

More often than not, the subject of Spend Analysis has so far been dealt with a by a "snapshot" of sourcing data. Such an approach has clearly got its limits especially with regards to companies usually affected by changes in the analysis perimeter (consequent to mergers/acquisitions in the private sector, the creation of sourcing units in the public sector), or where variations in some commodity categories call for a continuous monitoring (as in Health).

To accomplish the goal of allowing analysis of perennially fresh data, it is imperative to assure a regular flow of information as well as an automated and structured consolidation process of spend data. The diagram below (Figure 1) illustrates such a process flow.
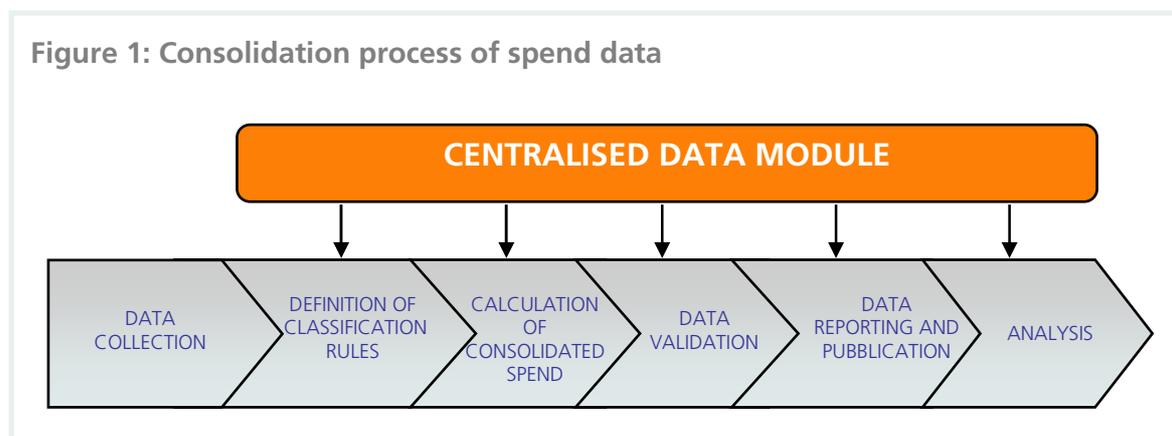
Figure 1: Consolidation process of spend data

Source BravoSolution

To be implemented effectively, a process of this type must be supported not only by a dedicated technological solution but also by some preliminary planning around the setting, organisation and customisation of information flow and content. In particular, with regard to such preliminary activities (Project Set Up), it is imperative to:

> thoroughly define an action perimeter (Companies controlled, Functions involved…)
> obtain the Sponsorship as well as commitment of different Group Companies / Divisions
> define a Centralised Data Module tailored to the type of reporting required
> define process KPIs that reflect project goals

In terms of the choice of technological solutions to be adopted, BravoSolution has listed below a series of useful observations which aim to provide guidance to organisations in selecting the right Spend Analysis tools. The tips that follow have been wholly utilised in the course of Spend Analysis development projects designed for leading international companies, some of which are included in the 'Success Stories' on the following page.

Goals	Spend Analysis Specifications
Centralised overview	> The User must be able to define the level of detail to which information is needed and the levels of aggregation necessary for reporting, according to his/her needs. > The User must be able to customise the rules of convergence between local and central coding criteria, in order to automatically manage the classification process, without modifying data. > The spend classification process must be based on transparent criteria to ensure smooth monitoring and assessment activities. > The solution must cover 100% of the total spend. > Product classification is only one of the available elements for analysis. Other spheres need to be explored, such as the case of multiple coding allocated to one supplier, which can be centralised in a single supplier.
Short implementation time	> The solution must interfere as little as possible with IT systems, thus allowing data collection "as is at source". This helps avoid the tedious and expensive process of customisation of both local and central information systems. > The adoption of a solution tailor-made for spend analysis leads to shorter implementation time and makes users' operations easier. > If used in the ASP (Application Service Provider) mode, the solution enables further reduction in implementation time: the technological infrastructure resides in the provider premises and the provider manages its maintenance, security, updating…

Goals	Spend Analysis Specifications
User friendly tool	> The interface must be user-friendly. > The adopted technology should include the ability to be easily shared by all users and help to get rid of geographical barriers (the Web is a good solution due to its user friendliness). > The availability of standard reports and the opportunity of easily developing new customised reports are the prerequisites for meeting different Procurement Offices' requirements. > The fact that the whole data flow monitoring can be managed within the Procurement Office through the tool user interface is a big advantage.
Management of full-cycle analysis process	> The process of spend classification must be repeated more than once; therefore, the system must ensure transparent classification rules and provide the opportunity for tracing source data in order to allow Procurement to manage the process on its own without any external help (from IT or anybody else). > It must also be possible to operate on the most significant portion of orders in order to limit complex management issues. > The process should be as automated as possible (from current data collection to new data classification) in order to limit the risk of error and allow buyers to devote more time to high added value activities.

The process must be steadily monitored in all its various stages and results must be assessed on a regular basis, pursuant to the model indicated above.

Success Stories

An International group operating in 5 different business segments in the building sector, with a turnover of around €11 Billion. Among one of the first in the field to adopt a solution allowing for the consolidation of spend of hundreds of construction sites world-wide. The objective of the group was to quickly implement a simple and effective management tool for Procurement; by monitoring spend on suppliers, the tool was seen as an alternative to the typical accounting framework governing purchase data.

A Major European energy supplier. The Group is in charge of production, transportation, distribution and marketing of gas, electricity and services to its customers (private clients, companies, general public). With a spend of around €4 Billion per year, the group was in need of a system able to consolidate purchase data in order to cut its spend. Thanks to the adoption of a structured Spend Analysis solution, it was able to gather locally codified sourcing data and centralise the figures automatically, with no need of any modification.

A leading tyre manufacture and marketing company, with branches in around 150 countries. The group understood the importance of having a centralized procurement framework to support the definition of sourcing strategies and rationalise supplier database. The technology, adopted in the ASP mode, was delivered through the Web, a move that made the tool available to each and every buyer throughout the world.

Conclusion

The comments and remarks made so far prove that the objective of wielding full control over spend is achievable, provided that a structured process is implemented, tailored to the user's needs and supported by specific technological tools.

Interfacing with specialists, skilled in the different aspects of the fascinating but complex world of procurement, seems therefore to be crucial for the successful implementation of a Spend Analysis project. Indeed, the professionals will be able to provide the necessary expertise, dedicated technology and specific references, thus raising awareness in Procurement about the obligations and the opportunities stemming out of each single choice that they make.

The support provided by Bravosolution is based on a widely consolidated formula which is applied at every stage of the sourcing process. The solution allows companies to cut down on the time needed for developing a project, thus ensuring its prompt implementation.