

# Spend Analysis Example: How To Conduct A Spend Analysis



For your organization to be at its best, every stakeholder needs to know what's being spent by whom—and what kind of return you're getting on your investment for each dollar spent. Performing regular and thorough spend analysis, powered by accurate and complete data and best practices, can help you understand where your money's going, as well as reveal actionable insights you can turn into opportunities to optimize your workflows for greater productivity and profits.

Carefully reviewing a spend analysis example, using the right software, and following a set of basic processes will enable you to gain insight into, and control over, your own spend while simultaneously improving strategic sourcing, business process management, and overall organizational health.

## What is Spend Analysis?

Collecting detailed information for all your company's transactions and using data management tools called spend analytics, you can gain not only a complete picture of your company's overall spend structure, but use the insights you glean from examining it to make meaningful and effective changes that generate additional savings and value. This data might include a variety of sources.

During spend analysis, all of this data is collected, organized, cleaned, and then finally analyzed to obtain whatever data supports the current objective. Spend analysis has a wide variety of applications, and can be used to improve internal processes across business units, take advantage of savings opportunities, and engage in more strategic sourcing throughout the company's entire supply chain, just to name a few examples.

Companies who have embraced digital transformation will use spend analysis software, either as a standalone application or, more commonly, as part of a comprehensive eProcurement solution such as PurchaseControl. This system may be your primary financial data management application, or connected to other software systems such as your office suite, accounting software, and enterprise resource planning (ERP) applications.

By centralizing data management and eliminating time consuming and outdated methods of data analysis, modern procurement spend analysis gives you the big picture *and* the “nitty-gritty” of both direct and indirect spend, all while helping you identify patterns and problems you can leverage or correct, respectively, to help your business thrive.

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*spend management are mutually supported.”*

## **Benefits of Spend Analysis**

Your company’s specific goals for spend analysis, and the spend analysis process itself, will likely be different than those used by your competitors. But regardless of your goals, spend analysis has some definite benefits when done properly, including:

### **Greater Spend Data Visibility.**

Because it requires clean and complete data to ensure accurate insights, spend analysis gives procurement teams an opportunity not just to analyze the data they have, but to create an environment where data management and spend management are mutually supported.

Through process optimization and internal controls, regular spend analysis helps ensure *all* spend data—both for direct spend like raw materials and essential equipment and indirect spend on office supplies, marketing, etc.—is captured, organized, and secured in the cloud.

Management has real-time access to data they can trust when creating spend and cash flow forecasts, setting budgets, refining spend categories, or engaging in supplier relationship management to take advantage of savings opportunities and strategic partnerships.

Total visibility also helps banish maverick spend and insulates your organization against invoice fraud.

### **Capturing More Savings—and Building More**

## Value

Procurement has long been tasked with locating cost savings wherever possible. But with the availability of more sophisticated data analysis tools and process enhancements like automation, data can be manipulated more deftly.

Spend analysis helps procurement teams identify areas where savings can be captured:

- Improving internal processes (e.g., lowering cycle times for purchase orders and invoices)
- Replacing or rehabilitating underperforming vendors
- Pursuing savings opportunities by leveraging economies of scale, special limited-time terms, and adjusting spend forecasts and budgets to compensate for problems expected (e.g., seasonality, changes in industry or governmental policy) and unexpected (supply chain disruption due to global pandemic, natural disaster, etc.)

But spend analysis is about much more than cost reductions. It also helps procurement professionals create and preserve value. Less tangible assets like public goodwill and reputation (along with absolutely tangible benefits such as additional sales and referrals) can be obtained and preserved by partnering with diverse suppliers who support your company's efforts to be a responsible corporate citizen.

In addition, spend analytics can reveal opportunities to refine your sourcing for quality, performance, and reliability, building a strategic sourcing strategy that cuts costs *and* builds value by lowering total cost of ownership (TCO) across spend categories and down to the item level.

# Spend Analysis Example—Seven Steps to Success

Companies of all sizes and types can achieve effective and accurate spend analysis, regardless of their objective, by following a series of simple processes based on spend cube analysis:

1. **Identify Your Objective.** Spend analysis is not a one-size fits all affair. It works best when you have a specific goal in mind, especially if you're looking for patterns within the data to support (for example) process improvement.

Some potential objectives might include:

- Cutting costs in specific categories, departments, etc.
- Eliminating maverick spend and invoice fraud.
- Reducing risk through supply chain and supplier management.
- Improving the accuracy and completeness of your spend forecasts
- Procurement process improvement, e.g. optimizing invoice approval cycle times or identifying and eliminating bottlenecks in the purchase order creation process.

2. **Identify Spend Data Sources.** This includes all sources of spend data, from across all business units, departments, and teams. Data sets will likely include:

- Accounts payable invoices
- Spend data from your eProcurement solution
- The general ledger
- Pcard and credit card transactions
- Enterprise Resource Planning (ERP) software
- Any remaining manual Excel spreadsheets or other documents not

already incorporated into your eProcurement system

3. **Collect and Consolidate Data.** If you don't already have a centralized, cloud-based procurement solution in place, ensure you've developed processes either to transfer all information into a common format, or allow all your data sources to "talk" to one another to avoid errors, inconsistencies, duplicates, and other potentially disastrous data errors.
4. **Clean Your Data.** Useful insights are born from complete and accurate data sets. Once you've collected all your data, review it for transaction, category, and item-level errors, and then correct them. Standardize your clean data for easy analysis and viewing.
5. **Link Suppliers and Categorize Spend.** This is especially important if you're looking for insights related to supplier management, but grouping suppliers together based on purchase data, payment terms, frequency of purchase, spend category, etc. is essential to reliable top-level analysis. Use a standardized categorization system, such as the United Nations Standard Products and Services Code (UNSPSC), to organize and track all your direct and indirect spend.
6. **Perform Spend Analysis.** With all your data in place, you can use your software tools to "slice and dice" it in support of your objectives from Step 1. For example, if your objective was to streamline your supply chain, you could look at how much of your spend is dedicated to underperforming or non-strategic suppliers and adjust your supply chain to move some of that spend to preferred suppliers who offer better terms, greater reliability, or less risk.  
To provide another example, if your goal was to improve your overall contract management through both process improvements and more efficient spend, you could review all contracts, identify those with pending renewals, and then:

- Identify non-strategic redundancies (i.e., redundancies that are

incidental, rather than designed to provide contextual support for business continuity in the event of a crisis)

- Identify contracts with strong potential for renegotiation based on vendor performance, compliance, or your own investment and innovation plans for the coming financial period.
- Assign teams familiar with these vendors to work with legal and revisit these contracts to remove unnecessary dead weight from the supply chain, renegotiate from a stronger position backed by data, or engage in supplier relationship management to craft new contract terms for shared initiatives.

To give a final example, if your analysis identifies areas of excess risk created by single source suppliers of crucial materials whose shipments have to travel a considerable distance, you could research local vendors and pursue contingency contracts with them to better insulate your supply chain and protect business continuity.

7. **Rinse, Reassess, and Repeat.** Your spend data doesn't stand still, and neither should your analysis. Use the insights revealed by spend analytics to pursue your goals, and be ready to repeat the process regularly as your data grows and you identify new objectives to pursue.

## Not All Spend Management Platforms Are Created Equal

When you're choosing a procurement solution, remember that spend analysis is only as useful as the accuracy and completeness of the data sets feeding it. Make sure you choose a solution that gives you:

- Complete, centralized, and cloud-based data storage and management,

accessible from both desktop and mobile platforms. Capturing not just spend data, but all related data (including detailed information related to supplier performance and compliance, market trends, social media and consumer trends, regulatory concerns, and global economic events) ensures the best possible data goes in, for the best possible results coming out.

The end result is better budgets, more accurate forecasts, reports, and audits, greater agility with more control over cash flow, and, ultimately, greater competitive strength, innovation, and profitability across all business units.

- Digital tools like process automation (powered by machine learning) in conjunction with powerful spend analysis tools. Eliminating time-consuming manual processes improves accuracy and speed, and supports real-time access to the very latest data for analysis, forecasting, and decision making.

Plus, it frees your team to focus on strategic tasks like supplier relationship building, contract management, and crafting a sourcing strategy and supply chain that are agile, resilient, and helpful in shifting procurement away from being a mere cost center and toward its new role as a powerful value creation engine for your entire business.

## **Analyze Your Spend for Strategic Sourcing and Smart Decision-Making**

Do you know where your money's going? Are you building value while you're cutting costs? Spend analysis makes it possible to know the answers to these questions in real time so you can make smarter, more strategic spending decisions that will help your company perform and grow.



Invest in the right spend analysis tools and follow best practices, and you'll be able to transform your spend data into actionable insights, a healthier bottom line, and an agile, resilient organization that makes the most of every dollar it spends.

Track, Evaluate, Monitor, and  
Optimize Your Spend with Powerful  
Data Tools from PurchaseControl

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