

Linking Spend Analytics and Contract Management to Public Procurement

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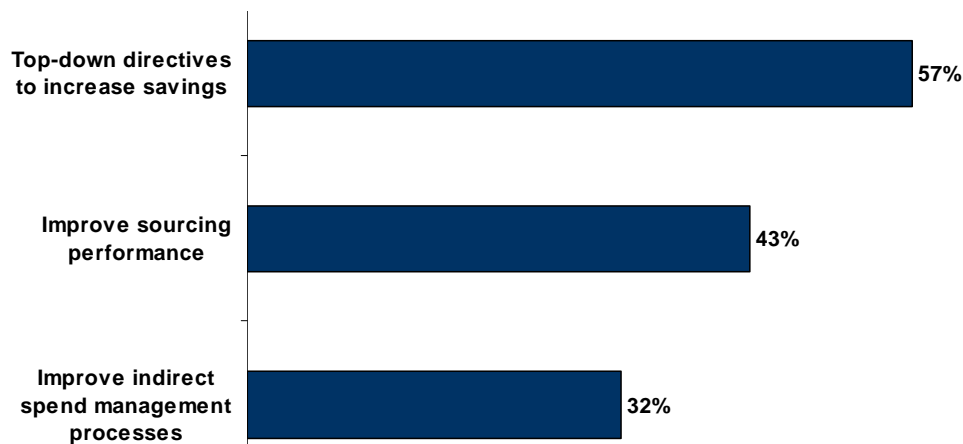
Linking Spend Analytics and Contract Management to Public Procurement

The modern sourcing and procurement organization is faced with a wide variety of challenges and pressures in the pursuit of corporate performance, such as increasing supply risk, exhaustion of savings opportunities, and leakage of cost savings due to poor / insufficient contract lifecycle management execution. Within the public sector, public procurement professionals are faced with these challenges as well as the overarching mission to serve the public and make the most efficient use of governmental funding. Aberdeen research from the upcoming report on the *State of Strategic Sourcing* (April 2011) has found that public sector organizations are lacking behind top corporations in terms of procurement and sourcing performance. Unsatisfactory rates of spend under management and contract compliance, combined with a steady level of savings leakage, is pointing to specific weak links within public sector sourcing programs.

Challenges for Public Procurement Professionals

The economic downturn and subsequent recovery period has wreaked havoc on overall supplier management and forced procurement and sourcing executives to support the age-old adage of "doing more with less." For public procurement professionals, there are a plethora of factors weighing in on their every move, such as environmental issues, economic struggles, and budget shortfalls. Specific sourcing pressures are detailed in Figure 1, and the top challenge, cost savings (57%), is linked to nearly every factor in the path of the average public procurement executive.

Figure 1: Top Pressures Faced by the Public Sector



Source: Aberdeen Group, March 2011

Sector Insight

Aberdeen's Sector Insights provide strategic perspective and analysis of primary research results by industry, market segment, or geography

Public Sector

Public sector respondents represented nearly 11% of the overall pool of respondents in the State of Strategic Sourcing benchmark study

The drive for cost savings has enveloped nearly every move made by public procurement professionals. The notion of "doing more with less" fuses ordinary sourcing objectives with an added layer of complexity that has forced these executives to improve their respective sourcing programs with a robust array of capabilities and solutions to effectively drive value. The quest for cost savings has overshadowed other critical issues within public sector procurement.

An Array of Performance Deficiencies...

As a public procurement executive, there is an overarching mission-critical challenge that underlies the role: preserve public trust and execute decisions with the public's interest in mind. In an age when public / governmental funding and budgeting is at its most scrutinized, it has become crucial for public procurement professionals to leverage their teams and programs to ensure that disruptions do not occur in state / federal initiatives due to a lack of procurement management. When looking at the hard-line sourcing performance metrics that are tied to this role, it is clear that, when compared to Aberdeen's Best-in-Class companies (top 20% of aggregate performers), public sector groups are falling behind the curve (Table I).

Table I: Performance Comparison

Sourcing Performance Metric	Best-in-Class	Public Sector
Spend under management	80%	48%
Realized / implemented cost savings	12%	8%
Procurement contract compliance	78%	40%
Savings leakage	0.26%	1.20%

Source: Aberdeen Group, March 2011

Public sector procurement groups are managing less than half (48%) of their respective groups' spending, a factor which can result in off-contract spending and a lack of visibility into where governmental funds are being utilized. These same organizations are also facing a serious savings leakage issue. The gap between identifying savings and actually realizing them is resulting in a year-over-year rate of 1.2% savings lost to poor execution of contracts and insufficient financial management.

When looking at the utilization of various procurement / sourcing technology solutions and enablers (Figure 2), it is clear that public sector groups are readily taking advantage of their spend analysis systems (75%). However, when linking performance with utilization of key solutions, the conclusion can be made that while public sector organizations are able to identify savings opportunities, they are actively failing to realize those same savings without full leverage of contract management (50%), e-sourcing (33%) and supplier performance management (32%).

Best-in-Class Maturity Framework

Best-in-Class companies in our State of Strategic Sourcing benchmark were noted for their superior performance, including:

- √ 80% of spend under management (nearly 48% higher than all other companies)
- √ 12% realized and implemented cost savings (42% higher than all other organizations)
- √ 78% procurement contract compliance (87% higher than all other companies)

The Best-in-Class are the top 20% of respondents.

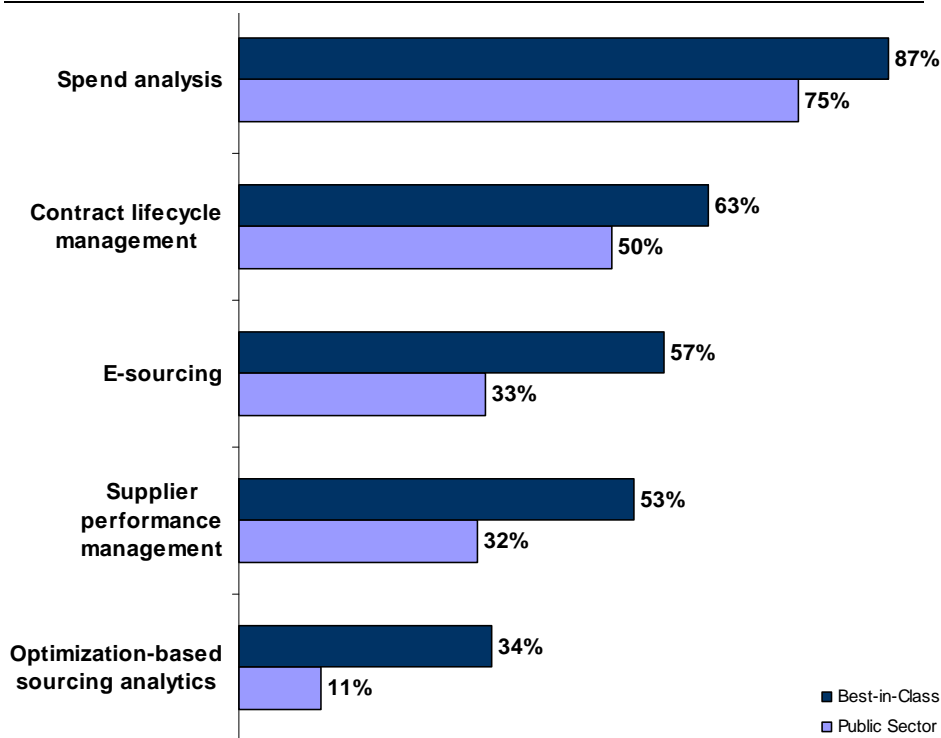
The Industry Average are the middle 50% of respondents.

The Laggards are the bottom 30% of respondents.

“Strategic sourcing is one of seven critical initiatives for 2011 and 2012. Due to budget reductions, our organization is looking for cost savings and efficiencies in managing spend.”

~ Procurement Director, Large North American University

Figure 2: Procurement / Sourcing Solution Utilization



Source: Aberdeen Group, March 2011

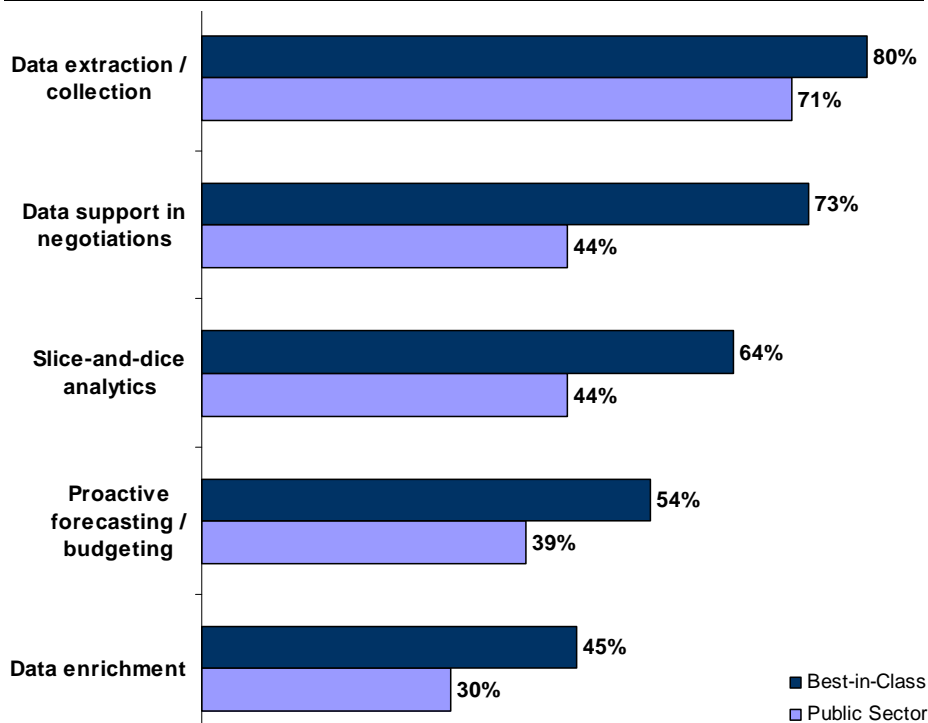
As we will learn in the next section, public sector groups are using spend analysis and contract management functionalities to some degree, but are largely failing to leverage other key aspects, such as data enrichment and reporting / analytics, which can be utilized to improve key procurement and sourcing performance metrics.

Spend Analytics and Contract Management

Spend analysis has become one of the top tools utilized by the modern CPO. This data-digging system allows procurement professionals to tap into the veritable goldmine that is corporate spend data and extract that information for future use. Sourcing execs can utilize the information regarding spending patterns / trends and leverage it as true spend intelligence when negotiating with major suppliers.

While the vast majority (71%) of public sector organizations are currently extracting their spend data for eventual analysis, they are not leveraging this data to its full capacity. As shown in Figure 3, only 44% of public sector groups are using data extracted from spend analysis systems in active negotiations. Worse yet, only 39% are utilizing this data for proactive forecasting and budgeting, a factor that very much could help these groups to overcome the challenges of the current economy.

Figure 3: Spend Analysis Attributes



Source: Aberdeen Group, March 2011

Slice-and-dice analytics (in use in only 44% of public sector groups) is perhaps the premiere functionality within a spend analysis system. Ad-hoc and custom reporting (enabled by slice-and-dice analytics) is a significant means by which analysts dig into spend data and inject spend intelligence into the equation. Slice-and-dice analytics can assist the organization by:

- Providing visibility into the use of public / governmental funds
- Supporting executive decisions regarding which spend categories or commodities should be included in sourcing efforts
- Identifying potential savings opportunities through supplier consolidation and optimization
- Forecasting future spending by city, region, state, etc., allowing public procurement professionals to budget (in real-time)

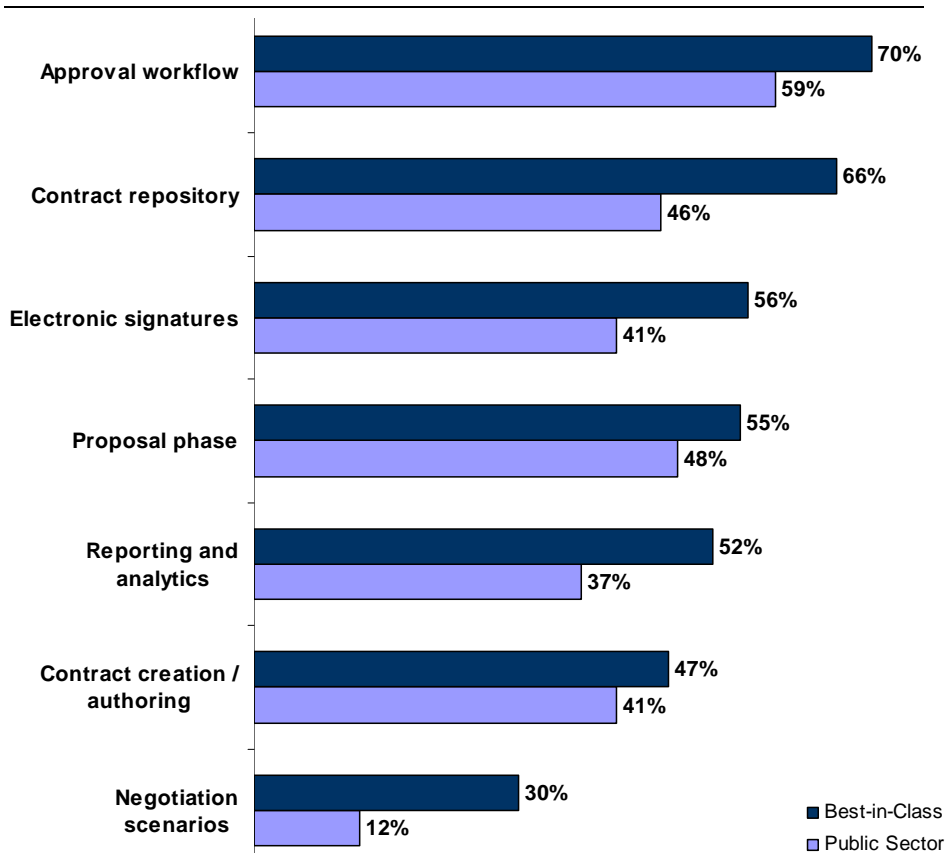
Data enrichment (30%), the weakest link in the spend analysis chain for the public sector, is often an overlooked aspect of this particular program. Supply risk, bankruptcy, and other financial aspects regarding suppliers can be fused into existing spend data to give public procurement executives enhanced visibility into their supplier base. If a potential supplier underwent a major layoff prior to current negotiations, the sourcing team can utilize that information in their decision-making process.

Contract Management: Plugging the Leak

Contract management is often considered a cornerstone of the modern procurement or sourcing program. Contracts have a direct link to the level, frequency and effect of enterprise cost savings, as favorable negotiations with suppliers can pay dividends that are shown via the bottom-line. As with many other internal functions (expense management, accounts payable, etc.), automation and the eradication of paper-based processes typically allows the procurement team to repeat specific methods and speed up creation, approvals, and proposals concerning contracts.

While public sector groups have a handle on some of the basic functionalities within contract lifecycle management, such as approval workflow (59%) and proposals (48%), this sector is not leveraging deeper processes through automation (Figure 4).

Figure 4: Automation of Key Contract Management Processes



Source: Aberdeen Group, March 2011

Although automated reporting and analytics (37%) are often enabled via spend analysis systems, integrating this functionality within a contract lifecycle management program / solution will often have information and analytical tools readily available rather than having to be pulled via a separate spend analytics program. This automated capability can give public

procurement executives a real-time view into the current status of procurement contracts and allow them visibility into execution against specific milestones and delivery dates; this is often a major tool in avoiding savings leakage and can ensure negotiated terms and agreements are met to fully realize expected cost savings.

Automated negotiation scenarios (12%) are a unique means of calculating future cost savings within certain circumstances with suppliers. This is a crucial functionality that can assist public procurement professionals during the contract negotiation phases with key suppliers.

Required Actions for Public Procurement Professionals

The modern public procurement professional faces adversity and challenges that their corporate, private peers have addressed and solved. These executives in the public sector must leverage a series of functionalities within their existing sourcing solutions to maximize savings, spur procurement contract compliance, and increase the level of spend under management. The following recommended actions will assist in improving procurement performance:

- **Continue to rely on spend analytics and lean heavily on slice-and-dice capabilities.** Spend analysis should be the go-to tool for public procurement professionals, as the slice-and-dice capabilities of this enabler can provide visibility into spending of governmental funds and help spur superior negotiations with key suppliers. Best-in-Class companies are 31% more likely than public sector groups to utilize this spend analysis capability.
- **Broaden automated contract management capabilities to expand management of procurement contracts.** Savings leakage is an issue for the modern organization and a component in avoiding this problem is shoring up contract lifecycle management processes through automation. This will enable real-time visibility into compliance intelligence and allow public procurement professionals to accurately forecast future issues concerning contract milestones and delivery dates. Best-in-Class organizations are 60% and 29% more likely, respectively, to automate contract management negotiation scenarios and procurement contract reporting / analytics, two functionalities that can help public sector groups shore up their contract management efforts.
- **Enrich existing spend data with real-time supplier information.** Supply risk and supply chain disruptions are formidable threats that can affect both private and public groups. Spend analysis is already the top tool utilized by public procurement professionals, and these executives can enhance the data pulled from these systems (subsequently enhancing detailed spend reports) by enriching it with real-time information concerning supplier bankruptcy and financial aspects. Top-performing organizations are

over 33% more likely than the public sector to enrich their spend data within their spend analysis systems and programs.

For more information on this or other research topics, please visit [Aberdeen's Global Supply Management research page](#).

Related Research

[Bridging the E-Procurement Gap Through Contract Management](#); March 2011

[Expense Management for a New Decade](#); February 2011

[The CPO's Agenda for a New Decade](#); September 2010

[Spend Analysis: Visibility for Intelligent Decision-Making](#); July 2010

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