

Adding value and driving performance with spend analysis

By Chris Dwyer

Spend data can provide tremendous value for procurement, both to increase visibility into spending and to promote superior sourcing decisions. However, the public sector faces a range of challenges related to spend data, such as tracking and monitoring budget dollars from the government and gaining visibility into the source funds of government grants. New Aberdeen Group research suggests that public sector enterprises, while achieving respectable cost savings on their purchasing spend, have failed to place the majority of their spending under management and lag top-performing companies significantly with respect to spend analysis automation.

Aberdeen Group's *Spend Analysis: Transforming Data Into Value* study details advances made by best-in-class enterprises related to the spend analysis function and its processes (data collection, data cleansing, data enrichment and reporting/analysis). Superior performance is evident across the most significant of procurement metrics: spend under management, sourcing cycle time, cost savings and contract compliance.

The table below details the performance advantage achieved by top-performing enterprises compared to public sector organizations:

- 43 percent shorter cycle time
- 37 percent higher rate of spend under management
- 17 percent higher cost savings, and
- 14 percent higher rate of compliance to contracts.

Although public sector organizations have readily demonstrated their ability to drive savings (an

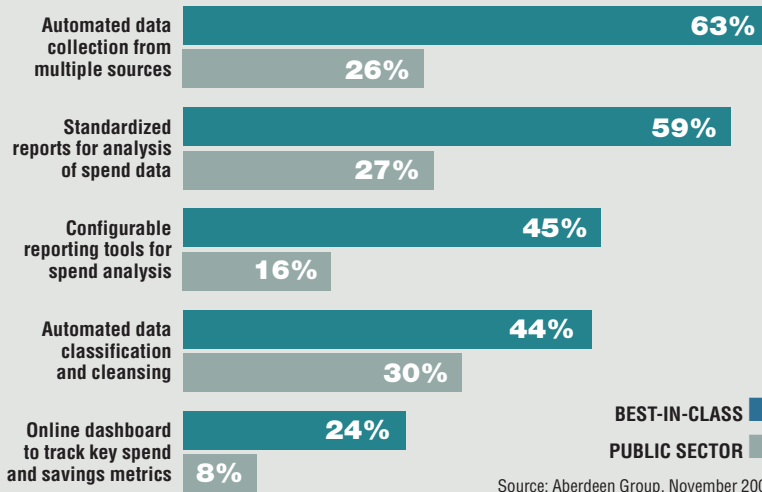
important factor in times when government budgeting is substandard), they have failed to grasp control over their spending. Because budgeting, fund-tracking and spend consolidation are top pressures and challenges for this sector, these organizations need to strengthen their spend control using spend analysis initiatives.

Automated spend analysis systems cultivate a repeatable process that easily collects, aggregates, cleanses and analyzes enterprise-wide spend data to fuel business objectives and to elevate procurement performance. (See *Spend Analysis Solution Functionalities* diagram above.)

Best-in-class enterprises use the following automated spend analysis functionalities to drive superior performance:

- **Automated data collection from multiple sources**
culls data from various enterprise sources, such as ERP, general ledger and A/P. Since public sector

SPEND ANALYSIS SOLUTION FUNCTIONALITIES



Source: Aberdeen Group, November 2009

PERFORMANCE COMPARISON, BEST-IN-CLASS VERSUS PUBLIC SECTOR

PERFORMANCE METRIC	BEST-IN-CLASS	PUBLIC SECTOR
Spend under management	76%	48%
Sourcing cycle time	32 days	56.4 days
Cost savings	12%	10%
Contract compliance	74%	64%

Source: Aberdeen Group, November 2009

organizations typically involve governmental funds, grants and other sources in their spending, it is critical for them to automate their data collection to ensure these sector-specific sources of data are culled on a frequent and consistent basis.

- **Standardized reporting** establishes a consistent baseline for spend analysis reports, which to many enterprises is the most alluring factor of this procurement function. The “slice-and-dice” functionality of a spend analysis system cuts enterprise spend data in any number of ways by allowing buyers to view their

spend at a supplier, cost or category level. Procurement professionals in the public sector need a standardized form of reporting to manage the distribution of various government grants and funds to ensure that spend analysis reports correctly reflect proper budgeting items.

- **Automated data classification and cleansing** help enterprises avoid the “garbage in, garbage out” rule to analyzing spend data. For public sector organizations to ensure the quality of their spend data, they should move to an automated system to enhance the classification and cleansing processes. This will help improve existing data and make certain that data in spend analysis accurately reveals the real-time information public procurement professionals need to support an actionable data strategy that tracks, monitors and utilizes government funds and grants.

Required actions

Although many procurement professionals in the public sector have, at best, an average grip on their spending, they must improve their existing spend analysis processes to achieve performance on par with best-in-class enterprises. These enterprises should look to achieve the following:

- **Automate the core processes within the spend analysis cycle.** Automated data collection, cleansing, enrichment and reporting are the components that drive the spend analysis function.
- **Enrich spend data.** Less than a quarter of public sector organizations are currently enriching their spend data with supplier and financial risk information, which has aided top-performing enterprises in mitigating the risks brought about by current economic conditions.
- **Standardize the spend analysis reporting structure across the organization.** Generating spend analysis reports and analyzing this data is the core benefit of the spend analysis function.

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Chris Dwyer is research analyst, Aberdeen Global Supply Management. This article is excerpted from a report based on the Aberdeen Group's September 2009 Spend Analysis research study. Reprinted by permission.