



WHY CFOs CAN'T AFFORD TO IGNORE SPEND ANALYSIS

LEVERAGING SPEND ANALYTICS SOLUTIONS CAN
PROVIDE SHORT- AND LONG-TERM VALUE

Spend analytics solutions are often overlooked by CFOs as they seek ways to better align procurement and finance. As defined by the Chartered Institute of Procurement & Supply, spend analysis is a process for “analyzing the historical purchasing data of an organization to provide answers to questions concerning spend visibility, compliance, and control.”

Why should finance leaders pay attention to spend analytics? Organizations with better spend analysis strategies typically have more mature procurement processes and robust supplier relationships, according to benchmarking firm APQC. A spend analysis program can provide valuable visibility into an organization's procurement spending, which in turn allows the organization to consolidate both its suppliers and its spending.

According to APQC, an organization with a spend analysis program and \$5 billion in revenue would spend \$8,500,000 on procurement activities. By comparison, a similarly sized organization without a spend analysis program would spend about \$19,500,000 on the same activities. This represents an additional \$11 million in procurement cost for organizations that do not engage in spend analysis.

In addition to cost reductions, spend analysis can improve cycle times, process efficiency, and staff productivity.

While the short-term ROI on spend analytics is impressive, there are also some long-view benefits that aren't often on the radar of CFOs. These include better demand management and business planning, sales performance, and supply chain optimization.

Data fuels the spend analysis engine, but simply collecting data from various functions across the enterprise is not enough to realize the benefits. CFOs have to invest in the tools and people needed to take action based on the data analysis. It is not just about understanding what has happened, but leveraging the insights to drive future decisions.

This white paper will examine some of the challenges of implementing spend analysis tools, the immediate and more forward-looking benefits, and best practices for achieving ROI.



CURRENT CHALLENGES IN SPEND ANALYSIS

A variety of factors contribute to the challenges that surround spend analysis in the 21st century. Unfortunately, first among these is reliance on manual processes. Additionally, a lack of uniformity in both data formats and in sharing data in a timely manner impact how and when business decisions are made.

These issues drive home the need for data visibility, according to Joe Payne, Senior Vice President, Source-to-Pay, Corcentric. “Data visibility is essential to building a spend management strategy. It’s not, for example, knowing how many pens we purchased. The question becomes what are we doing with that insight to save money on office supplies.”

Manual processes and siloed processes hamper the ability to share and enrich data for better decision-making. “When there is no centralized manner for sharing information, you’re not taking advantage of all of the data that is being collected,” said Jimmy LeFever, Senior Research Director of Global Procurement Advisory, The Hackett Group.

Another roadblock for many companies is that they have set up Intermediary solution for gathering data but there is no strategy for data enrichment. “It is not just about gathering, enriching and analyzing data, it is also about creating a compelling story with the data that engages stakeholders into action,” said Chris Sawchuk, Principal and Global Procurement Advisory Practice Leader, The Hackett Group.

Sawchuk said procurement organizations are also lagging in terms of ensuring that the staff is proficient at data modeling and analytics. “Not everyone is expected to be a data scientist, but everyone in the organization should be comfortable engaging with data.”

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**— JIMMY LEFEVER,
SENIOR RESEARCH
DIRECTOR OF GLOBAL
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THE HACKETT GROUP**

HOW AUTOMATING SPEND MANAGEMENT **CAN HELP OVERCOME CHALLENGES**

By automating some manual tasks, such as identifying errors in purchase orders, your organization can improve processing times and boost staff productivity.

Automating approval processes and workflows reduces risk, according to Adam F. Schabel, Director, Conway MacKenzie, Inc. “Invoicing is a key area where automation ensures compliance. When machines are matching invoices and purchase orders, for example, you nearly eliminate the issue of overpaying.”

Establishing a centralized data repository for spend management helps manage working capital and cash flow more easily, Payne noted. “For example, your organization may want to take advantage of an early pay discount, but in a non-digitized world, the invoice might not get to accounts payable until after the transaction was eligible for the discount.”

Schabel also noted that improving the accuracy and quality of spend management data supports better decision-making. “There are frequent changes in part numbers and descriptions, for example, and having a process for change management ensures that you’re comparing apples to apples.”

Improving spend management processes also enables organizations to leverage supplier performance and related data to optimize relationships. “In an increasingly competitive, regulated economic environment, analyzing supplier information enables your organization to recognize potential issues with suppliers and address them quickly, before they impact your business,” LeFever said.

Visibility becomes even more critical as merger and acquisition activity is expected to heat up in 2020, according to [J.P. Morgan](#) and other reports. In these situations, one organization may have centralized and well-organized spend management processes, while the other does not, making the processes of evaluating redundancies in spend and identifying opportunities to consolidate a considerable challenge. “In an M&A situation, a primary focus is lowering the cost of ownership and identifying opportunities for consolidation, and automation is key to achieving those goals,” Payne said.

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MAKING THE CASE FOR INVESTING IN **SPEND MANAGEMENT ANALYSIS**

As with any investment, CFOs are charged with making the case for advanced procurement analytics. The ROI calculations are impressive — reduced manual labor, greater efficiency, fewer errors, and more timely data that is formatted consistently for comparison.

While companies can leverage automation to reduce the resources dedicated to previously manual processes, there are longer-term gains to be had by apply technology to get the data needed for analysis into the system faster. “The idea is to take less time getting data from point A to point B to ensure that there are no delays and all of the data is accurate, which is essential to spend analysis,” Schabel noted.

Spend management analysis cements its value when organizations take a more qualitative approach, according to Payne. “Managing risk and compliance is a key issue. Once you have a handle on how many contracts you have, you can get an idea of where you are spending money and what the organization’s contractual obligations are.”

Organizations need to look beyond the data contained in their own internal systems to realize the full value of spend management. “You need to cultivate other sources of data beyond the borders of procurement as well as your enterprise,” said The Hackett Group’s Sawchuk. “To begin, ask stakeholders what intelligence they don’t have but need to know and use that to guide you in determining a way to get it. It may mean going beyond the four walls of your enterprise and accessing such channels as social media.”

Successful organizations focus on getting better information on how money is being spent in the organization, rather than simply making the data available. “You really need to go beyond visibility and move toward getting your arms around spend management,” Payne said. “That means involving supply chain, marketing, operations, accounting, and IT.”

Data has to be classified so that it is meaningful beyond the procurement function, Payne concluded. “The data has to align to the needs and goals of the business.”

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CONCLUSION

Gathering data about how the organization is spending money is only half the battle. Top performers leverage that data to improve decision-making and proactively respond to trends in the business and the global economy. Organizations without insight into spend management are simply reacting after the fact and missing opportunities to grow the business and foster better relationship with suppliers.

Finance leaders who fail to take spend management to the next level risk losing out on cost savings and efficiencies. There is also a real danger in falling behind by being unaware of the importance of spend analysis and not considering the consequences of ignoring this vital tool. Leaders who focus on spend analysis are well positioned to meet the challenges of a modern business environment head on.

KEY TAKEAWAYS INCLUDE:

- **Companies face a number of hurdles to truly understanding spend, including siloed systems and manual processes for managing spending that result in poor data quality and gaps in compliance and sharing.**
- **Spend management solutions can improve efficiency and visibility, but that's only the beginning. Armed with better data, organizations can make adjustments to how and where they are spending in order to be more nimble in today's continuously evolving business environment.**
- **Improving spend analysis puts companies in the position to identify trends in time to take a proactive, rather than a reactive, approach that positions the company for the future.**

ABOUT CORCENTRIC

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