

Spend Analysis:

Pulling Back the Cover on Savings

October 2008

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Executive Summary

With global enterprises facing, perhaps, the strongest recessionary headwinds in a lifetime, Chief Procurement Officers (CPOs) and other procurement leaders will be forced to do even more with even less over the next 12 to 18 months. While desperate times may call for desperate measures, a majority of procurement departments need only take a "back-to-basics" approach to uncover huge reserves of potential savings. Consider: **one quarter** of all enterprises today do not have a formal spend analysis program; and of those that do, **more than half** fail to link the output of their spend analysis with their strategic sourcing efforts. As the key findings in this report will show, developing or enhancing a spend analysis program and closing process gaps to ensure tight linkage to the sourcing process are straightforward and practical ways to attain greater savings and deliver greater value in this period of uncertainty and strict budgets.

Best-in-Class Performance

Aberdeen evaluated over 280 enterprises in September and October of 2008 and distinguished Best-in-Class enterprises by the following performance criteria: percentage of spend under management, contract compliance rates, and savings from strategic sourcing.

Competitive Maturity Assessment

Best-in-Class firms shared several common characteristics with respect to their spend analysis initiatives. These top-performing enterprises are:

- **Twice as likely to** utilize web-based reporting and dashboards to track key spend and savings metrics
- **Between 80% and 90% more likely** to tightly link spend analysis systems with contract lifecycle management and e-sourcing systems
- **46% more likely** to possess category expertise within the procurement department
- **31% more likely** to leverage spend analysis in sourcing opportunities

Required Actions

In addition to the specific recommendations in Chapter Three of this report, enterprises seeking to achieve Best-in-Class performance should:

- Develop advanced spend analysis reporting capabilities
- Leverage spend data as part of every strategic sourcing effort
- Develop, enhance or augment internal category, supply market and sourcing process expertise

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

"The key criteria for success of our spend analysis program are the identification and achievement of cost reduction opportunities, as well as overcoming global implementation barriers like data quality disparity."

~ Procurement Manager, Large North American CPG Firm

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Chapter One: Benchmarking the Best-in-Class

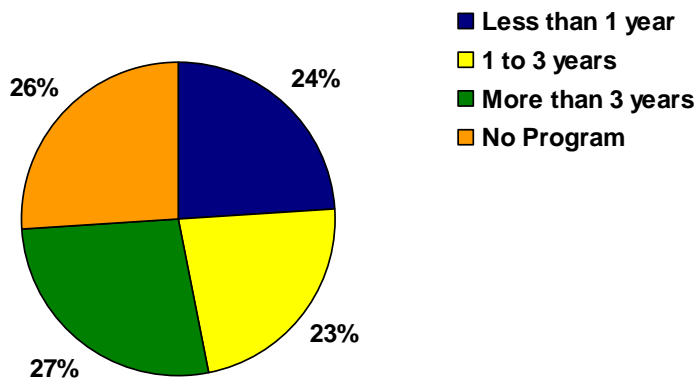
Imagine that the **Chief Executive** of a global enterprise:

- Had a **CFO** who admitted that she did not know the company's cost of capital and lacked any visibility into calculating its gross margin or quick ratio
- Had a **Vice President of Sales** who admitted that he did not know the company's average deal size or win percentage and lacked visibility into the current sales pipeline
- Had a **Vice President of Manufacturing** who admitted that she did not know the products' total cycle times and lacked visibility into any utilization or quality metrics

Among the likely results from any of these hypothetical scenarios would be an extraordinary loss of confidence in the enterprise's operating capabilities and its future performance, as well as highly probable job terminations that could reasonably include the Chief Executive; each scenario would demand immediate corrective action to ensure process and data visibility. The good news is that each of the above scenarios would appear highly unlikely in today's business environment.

Now consider a **Chief Procurement Officer (CPO)** who admits that his department does not have a formal spend analysis program (26% of all enterprises as seen in Figure 1), that it fails to leverage spend data in its sourcing activities (52% of all enterprises), and that it lacks rich visibility into overall spend (42% of all enterprises). In these all too real occurrences, should there be a lack of confidence in the procurement department's capabilities and its ability to drive performance? Should the head of procurement's job be at risk? What corrective action should be taken?

Figure 1: Spend Analysis Program Maturity



Source: Aberdeen Group, October 2008

Fast Facts

- ✓ **Cost savings (67%)** and **increasing spend under management (64%)** are the top criteria used to measure the effectiveness of a spend analysis initiative
- ✓ Enterprises that leverage spend data in their sourcing efforts **save 67% more** than enterprises that do not

"We can run detailed reports that reflect commodity spend by region and by business. This has been our main success within spend analysis, leading to significant global cost reductions."

~ CPO, Small North American Firm

How can a level of process or data visibility that would be unacceptable and wholly damaging for many other enterprise functions be fairly commonplace among procurement departments around the world?

Business Context

Upon consideration of the discussion above, it becomes clear that despite some clear strides forward over the past decade, procurement as a profession and an industry that remains in transition. On one hand, there are CPOs, like those who have given presentations at Aberdeen's [CPO Summit](#), that possess the breadth of skills and depth of experience to lead large departments, business units, and entire companies. On the other hand, there are leaders of procurement departments who find themselves ill-equipped and ill-positioned to drive transformational change through their department and deliver strategic value across the enterprise. Aberdeen believes that those procurement departments grappling with poor visibility and those current and future executives striving to lead a new generation of procurement departments (call them "CPOs-in-waiting") will have a unique opportunity to drive bottom-line improvements during a period where top-line improvements will be scarce. As the discussion on the spend analysis advantage at the end of Chapter Two shows, effective spend analysis programs can drive significant and quantifiable benefits.

"Spend analysis has helped us in identifying on- and off-contract spend at the category and contract level. There's been much quicker turn-around time to identify products and categories for sourcing opportunities, which covers a much improved wider range of products than before."

~ Supply Chain / Logistics
Manager, Large Health /
Medical Services Enterprise

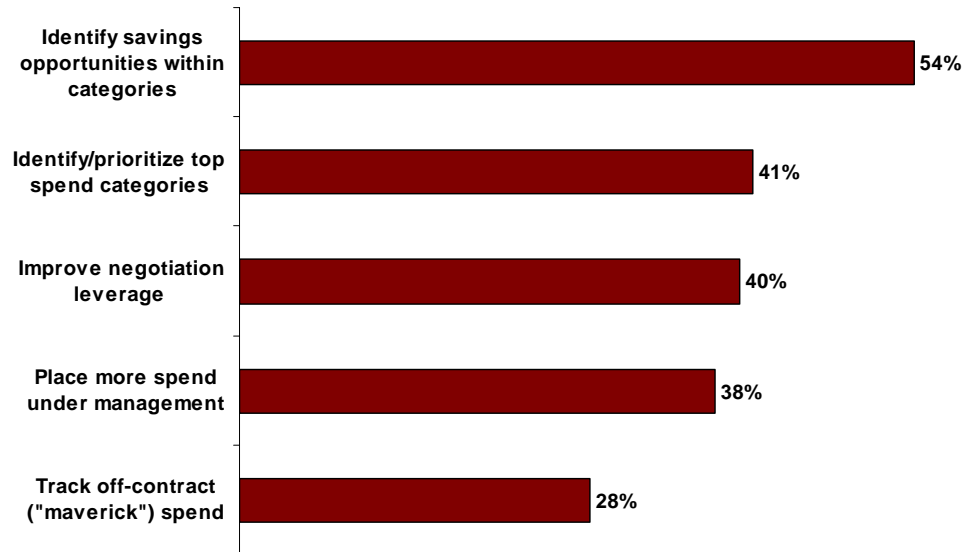
Improving KPIs

[CPO Rising: The CPO's Agenda for 2008](#) published earlier this year showed that the top KPIs for global CPOs and their organizations are 1) identified savings and 2) the percentage of spend under management. Best-in-Class enterprises understand that improved spend visibility helps procurement departments identify savings opportunities by category, which may in turn, lead to an increased involvement in managing these same categories.

More Savings, Sooner

Professionals working in sourcing and procurement know that no matter what other goals and objectives are set before them, driving savings is also expected. As indicated in Figure 3, 54% of enterprises feel the need to identify savings opportunities within spend categories as a primary reason to focus on spend analysis. Enterprises are also under pressure to prioritize the management of their top spend categories (41%), improve negotiation leverage (40%), and place more spend under management (38%). In an increasingly data-driven world where fact-based decision-making is increasingly the norm, the intensity of these demands on procurement departments will only increase and create a growing need for sourcing professionals and category managers to have (or develop) a reasonable level of quantitative skills to manage and analyze spend data that ultimately enhances their category, process, and supply market experience and aptitude.

Figure 2: Top Pressures Causing Enterprises to Focus on Spend Analysis



Source: Aberdeen Group, October 2008

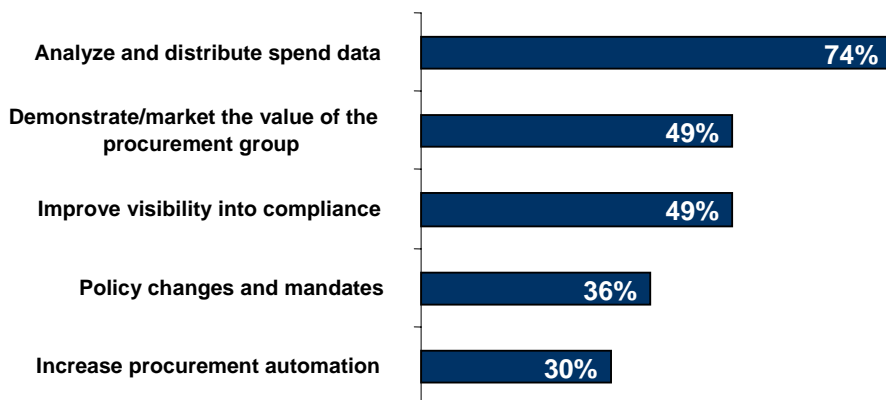
Improving Visibility, Managing More Spend

Aberdeen research has shown that procurement groups that place more spend under management typically experience a host of other advantages related to cost savings, process efficiency, and the ability to deliver greater strategic value across the enterprise. For the 350-plus CPOs and other executives that participated in the [CPO Rising: The CPO's Agenda for 2008](#) report, spend analysis is viewed as the best mechanism to increase the amount of spend under management.

Spend Under Management

The classic measure of procurement's impact upon an enterprise is the percentage of all non-payroll-related spend that falls under management of this group, what is commonly referred to as **spend under management**. Aberdeen research has shown that enterprises have been able to achieve a 5% to 20% cost savings for each new dollar of spend brought under management.

Figure 3: Top Strategies to Increase Spend Under Management

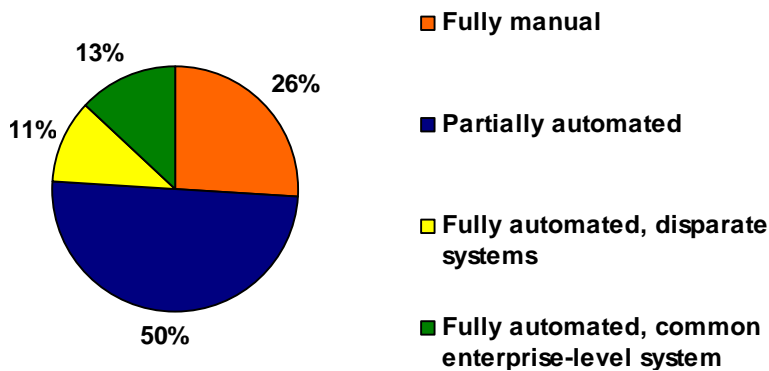


Source: Aberdeen Group, February 2008

Spend Analysis - Process Automation

For spend analysis, the cost of not acting demands the attention of procurement and finance executives. If time and resources cannot be committed to automating all or some aspects of the spend analysis process, manual / people intensive efforts (which would include Excel or Access-only driven projects) that are linked to strategic planning or specific sourcing initiatives are worthwhile investments. Figure 4 shows the levels of automation that exist in the marketplace today.

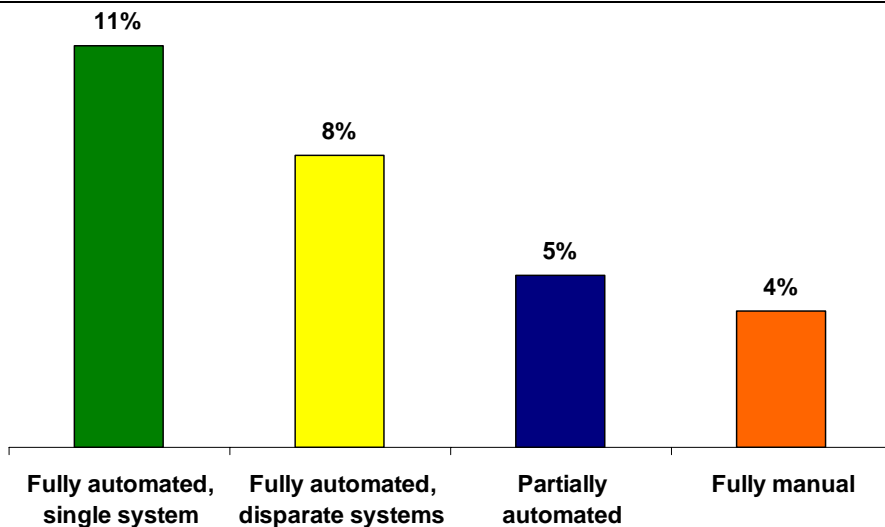
Figure 4: Automation Levels for Spend Analysis Processes



Source: Aberdeen Group, October 2008

If budgets do allow for investments in fully-automated solutions, the average savings from sourcing efforts after a spend analysis program has been started can justify the investment (see Figure 5). Speed of data updates or refreshes, general accuracy, and analytical and reporting constraints are the typical criticisms leveled at the manual process. Additionally, manual processes are generally not repeatable and require a significant amount of re-work for each effort.

Figure 5: Average Savings from Sourcing Efforts



Source: Aberdeen Group, October 2008

The Benefits of Automation

The procurement department in a large financial services firm was averaging 8% savings from its sourcing initiatives, but was managing only 30% of total spend. Eighteen months after deploying a fully-automated spend analysis solution, the department had more than doubled the percentage of spend under management to 65% and increased its average savings from sourcing efforts to 3%. According to its Director of Procurement, "Spend visibility has had the greatest impact because it has allowed us to leverage spend for sourcing and initiate compliance monitoring."

The Maturity Class Framework

Aberdeen used three key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations: percentage of spend under management, percentage of realized savings from sourcing efforts, and percentage of compliance to negotiated contractual agreements.

Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 75% of spend under management ▪ 17% realized savings from sourcing efforts ▪ 76% compliance to negotiated contractual agreements
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 60% spend under management ▪ 9% realized savings from sourcing efforts ▪ 53% compliance to negotiated contractual agreements
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 55% spend under management ▪ 5% realized savings from sourcing efforts ▪ 35% compliance to negotiated contractual agreements

Source: Aberdeen Group, October 2008

The Best-in-Class PACE Model

Using spend analysis tools and the associated functionalities to drive spend under management and identify savings opportunities requires a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized as shown in Table 2.

Table 2: The Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> Identify new opportunities for savings 	<ul style="list-style-type: none"> Standardized formal spend analysis processes and methods Evaluate all spend data sources and quality of information 	<ul style="list-style-type: none"> Visibility into enterprise-wide spend across all categories Ability to collect data from multiple sources Ability to analyze and develop reports on spend data Ability to leverage spend data to identify sourcing opportunities Ability to identify and prioritize opportunities for savings within a spend category 	<ul style="list-style-type: none"> Automated spend data classification and cleansing Automated data extraction (from multiple sources) Integration with CLM system for tracking of maverick spending Integration with e-sourcing and e-procurement systems Standardized reports for analysis of spend data Configurable reporting tools for analysis of spend data Online dashboard to track key spend and savings metrics

Source: Aberdeen Group, October 2008

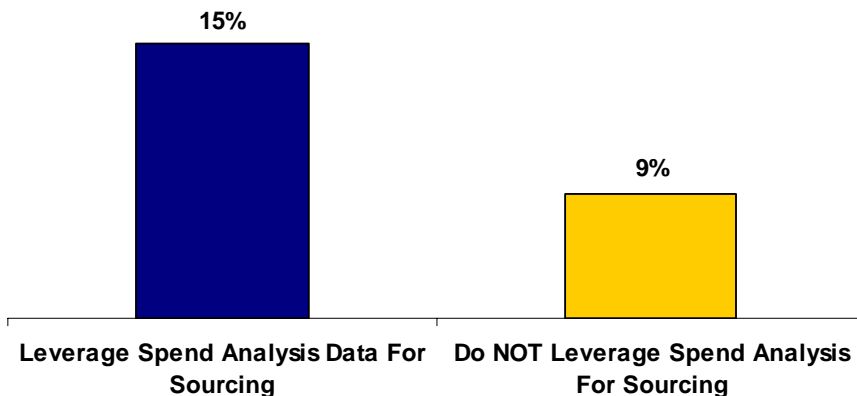
Source-to-Savings: Leveraging Spend Data

The ability to identify, prioritize and execute strategic sourcing efforts is built upon the foundation of spend visibility, so the efforts to organize and analyze enterprise spend will be for naught if no action is taken on it. Visibility into spend and the capability to slice, dice and drill down into current data can provide extraordinary insight into spending behaviors and patterns and should drive the strategic sourcing pipeline planning process. Enterprises who actively leverage this data in their sourcing process have experienced 67% higher savings on their spend (Figure 6). Savings aren't the only direct benefit of utilizing spend data in sourcing decisions; enterprises undertaking this process as part of their sourcing efforts have driven 25% more spend under management and 11% higher contract compliance.

"Having our spend analysis system integrated with e-sourcing and e-procurement platforms has created additional sourcing opportunities and increased overall market visibility."

~ CEO, Small Aerospace Firm

Figure 6: Leveraging Spend Data for Sourcing Savings



Source: Aberdeen Group, October 2008

Case Study — Source-to-Savings

A large North American CPG company, with nearly \$2 billion in revenue, has had a spend analysis breakthrough. A spend analysis program that automates the data extraction and classification of spend data drawn from 30 distinct ERP systems has driven nearly **\$10 million in cost savings over the past year** as a result of its use of spend data in its sourcing efforts.

"[Given the number of source systems we have in place,] spend analysis is the best way for us to view all of our spend data," said the Director of Procurement. "When we first started this [initiative]," the Director said, "there were limitations as to what capabilities our ERP systems could provide in terms of actionable spend data... Classification was the initial key for us."

Although the benefits achieved in the first year were far beyond initial projections, they are not settling with what they have accomplished. "As we work with our corporate office, we are actively identifying even more opportunities for savings," the Procurement Director added. "There's still more out there."

As we will see in Chapter Two, sourcing professionals and category managers that are leveraging spend data culled from a standardized spend analysis process are impacting bottom-line performance while increasing both spend under management and overall contract compliance.

Chapter Two: Benchmarking Requirements for Success

Spend Analysis (and the visibility it enables) provides the necessary foundation for procurement organizations seeking to make better, more informed sourcing decisions. Benefits accrue across a range of areas including: (1) improving strategic sourcing efforts (2) tracking contract compliance and limiting maverick spend and (3) improving procurement operations and expanding procurement scope. By analyzing reports generated from spend analysis data, sourcing professionals within an organization can discover what their enterprise is buying, who they are buying from (and at what cost), how frequently they are buying, and which department or business unit is doing the buying. However, there are challenges involved with organizing and analyzing data, as well as with the general management of spend analysis processes.

The Challenges of Spend Data

Not all spend data is good data...the successful aggregation and extraction of data for detailed spend analysis reporting does not automatically translate into actionable intelligence - finesse and sometimes brute-force efforts are often required. The raw spend data is the primary challenge (Figure 7) for a majority of enterprises, whether it is poor data quality (55%) or where and how the data is stored (too many sources 51%).

Figure 7: Hurdles to Successful Spend Analysis



Source: Aberdeen Group, October 2008

While data enrichment can improve data quality, there are limits to the impact of the enrichment that are driven by the source system, coding scheme, and enterprise procurement practices. When spend data is

Fast Facts

- ✓ **The majority of Best-in-Class organizations (64%)** possess an ability to identify and prioritize sourcing opportunities from their spend analysis reports
- ✓ The Best-in-Class are **53% to 156% more likely** to have different advanced reporting capabilities for spend analysis
- ✓ The Best-in-Class are **twice as likely** to have fully-automated the data enrichment process

managed by multiple, disparate systems, formatting for extraction and the development of a unified enterprise-level commodity schema can present significant barriers to success. Lack of standardization and automation of spend analysis processes also pose problems for many enterprises.

Organization of Spend Data

Spend analysis can be performed in variety of ways, utilizing anything from basic Excel spreadsheets to technology solutions that can automate every step of the process. As discussed in Chapter One, enterprises that fully automate the process see superior results, on average, but no matter the level of automation, enterprises should work to ensure that they perform the following activities:

- **Data collection and extraction.** The initial step in the process is to identify the key spend data and develop a plan to extract it from its current sources. For many enterprise, this means pulling data into a centralized repository from a variety of sources, including e-procurement, accounts payable, ERP, and other back-end or transactional systems.
- **Data cleansing and classification.** Once aggregated, the data must be assimilated and organized into a usable format. This part of the process includes deleting duplicate entries and organizing the data in a way that makes sense at the enterprise-level and across all source systems.
- **Data enrichment.** Once the data is cleansed and classified, a data enrichment process is performed to make the data more useful and understandable. This process normally includes the mapping of all data to a standard commodity structure and the actual data enrichment. For commodity mapping, 69% of enterprises participating in this study use a custom structure, while 23% of enterprises utilize UNSPSC. The data enrichment process seeks to enhance the transactional data by linking it with pertinent data from other sources like an internal supplier performance management system or an external supplier information service that focuses on diversity or financial performance and risk measurement.

Analysis and Reporting

After data is properly organized (extracted, cleansed, classified, and enriched) enterprises can begin to analyze the data and develop reports that executives, sourcing professionals, and category managers can use to inform their decisions. Most programs will identify a series of standard reports that each professional or job role will want to view and use regularly, particularly after a data refresh (when new data is added to the current repository). While timeliness and accuracy are vital aspects of a spend analysis program, the value-add components in this part of the process are found in the "slice and dice" capabilities that let users cross-tab data and generate custom or ad-hoc reports that allow the data to be viewed and analyzed in a variety of

"As a direct result of our spend analysis program, our leveraged buying power is increased, as well as the ability to compare pricing for goods and services. Contract compliance has increased and maverick spend decreased."

~ Supply Chain / Logistics
Director, Commonwealth of
Virginia, Department of
General Services

"Configurable reporting tools for analysis of spend data have had the biggest impact on our organization. It has resulted in reduced maverick buying, increased spend under management, and rationalization of our supplier base."

~ Peter de Bruin, Procurement,
Large Utilities Provider

ways (by supplier, by category as examples) and offer an ability to "drill down" into the data to the item and transaction level.

Case Study — The Data-Mining Guru

Although a large financial services firm has had a spend analysis program in place for just over one year, they have already seen significant benefits. One primary benefit is that the procurement organization can now "slice" its spend data by business unit and by vendor, providing a deeper view into enterprise spend.

"Our biggest advantage is the level in which we can now view our spend data," reports the firm's Chief Procurement Officer. The CPO provided an example of the value of the new reporting capabilities within the spend analysis initiative. Relying on an internal "data-mining guru," the CPO asked for a report on a particular supplier to see which business units within the company had been spending money with the supplier and what specific items were purchased. "Our guy ran a quick report and we found out which internal divisions had active contracts with this vendor," he said, adding that with this visibility, they were able to compare the vendor negotiated rates against the rates in their spend data, which identified an instance of off-contract spend.

"We now have the ability to identify people in our company as spend owners," the CPO said.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute spend analysis); (2) **organization** (corporate focus and collaboration among stakeholders within respective spend analysis programs); (3) **knowledge management** (contextualizing spend data and leveraging it for more informed sourcing decisions); (4) **technology** (the selection of appropriate spend analysis tools and effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure results and drive superior performance). These characteristics (identified in Table 4) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

"All of the spend information is captured, but it's not organized very well for easy extraction. It is also not set up to read in traditional purchasing ways; there is no direct correlation to price-per-item on purchase orders."

~ Director of Supply Chain,
Large North American
Enterprise

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Standardized processes for all spend analysis activity		
	40%	33%	28%
	Ability to leverage spend data to identify sourcing opportunities		
	64%	54%	43%
	Ability to identify and prioritize opportunities for savings within a spend category		
	50%	43%	39%
	Ability to analyze and develop reports on spend data		
	67%	58%	39%
Organization	Executive support for spend analysis initiatives		
	70%	55%	44%
	Cross-functional review of spend data for strategic planning		
	46%	38%	28%
Knowledge	Visibility into enterprise-wide spend across all categories (commodities and services)		
	53%	49%	35%
	Commodity management expertise within procurement and/or sourcing departments		
	67%	50%	41%
Technology	Spend analysis technology currently in use:		
	<ul style="list-style-type: none"> ▪ 49% standardized reports for spend data ▪ 46% configurable reporting tools for analysis of spend data ▪ 41% online reporting/ dashboard to track key spend and savings metrics 	<ul style="list-style-type: none"> ▪ 48% standardized reports for spend data ▪ 34% configurable reporting tools for analysis of spend data ▪ 19% online reporting/ dashboard to track key spend and savings metrics 	<ul style="list-style-type: none"> ▪ 33% standardized reports for spend data ▪ 25% configurable reporting tools for analysis of spend data ▪ 13% online reporting/ dashboard to track key spend and savings metrics
Performance	Ability to analyze and develop reports based upon spend data to track performance:		
	<ul style="list-style-type: none"> ▪ 46% regular reviews of contract compliance 	<ul style="list-style-type: none"> ▪ 35% regular reviews of contract compliance 	<ul style="list-style-type: none"> ▪ 27% regular reviews of contract compliance

“We’ve been able to attain strong macro level visibility, as well as actionable data on high-priced and capital items.”

~ Mark Kinsey, Director of Business Development, Government Organization

Source: Aberdeen Group, October 2008

Capabilities and Enablers

Aberdeen's analysis of Best-in-Class enterprises reveals a set of processes, standards, and technology (described in the Competitive Framework). By leveraging key components of the framework, top-performing enterprises successfully identify more savings from an average strategic sourcing initiative, have a higher percentage of spend under the management of procurement and achieve superior rates of contract compliance.

Process

The challenges of poor data quality combined with the complexity of combining data from disparate systems (in different structures) into a single unified data set demand rigorous and repeatable processes. Best-in-Class enterprises employ standardized processes across the entire spend analysis process to a greater degree (40%) than their peers.

The majority of Best-in-Class enterprises (64%) also possess the ability to identify sourcing opportunities within their spend data reports. The results of this capability are seen in the significantly higher savings rates achieved from strategic sourcing activity.

Organization

Success in the sourcing realm breeds success in other areas for sourcing teams as business stakeholders and functional peers are more likely to partner on sourcing projects if there is an expectation of value creation. Collaborative reviews of spend data performed with the business owners, done at 46% of Best-in-Class enterprises, help procurement identify errors within the spend data and streamline the cleansing and classification steps of the spend analysis process.

Executive support for spend analysis initiatives, in place at 70% of Best-in-Class enterprises is often the first and most powerful driver for a successful spend analysis initiative. This sponsorship can be invaluable as different factions within the enterprise may otherwise have difficulty gaining consensus on things like standardized commodity schemes and reports.

Knowledge Management

Best-in-Class enterprises possess visibility into enterprise spend across categories (53%), a key factor in developing and executing a strategic sourcing pipeline. Understanding historical buying patterns can enable sourcing professionals to develop Requests for Proposal (RFP) with superior demand detail and more clearly defined requirements which should lead to superior price discovery and translate into greater savings.

Having visibility into spend is but one step in the larger strategic sourcing process. Sixty-seven percent (67%) of Best-in-Class enterprises possess commodity management expertise within the procurement ranks as well.

“Spend analysis has helped us generate spend under management. We’ve leveraged the data to drive savings strategies.”

~ Bhawna Bhatia, Procurement
Manager, Large Asia / Pacific
Organization

Technology

Technology is a vital component of any effective spend analysis program. Best-in-Class enterprises are leveraging the following technology aspects in their spend analysis efforts:

- Standardized reports, available in 49% of Best-in-Class enterprises, present spend data in a consistent format, allowing procurement departments to more readily identify sourcing opportunities and spending trends
- Web-based reporting and dashboards used to track key spend and savings metrics, available in 41% of Best-in-Class enterprises, provide a detailed and timely view into key performance metrics that help executives allocate resources to the areas with greatest potential opportunity or need
- The Best-in-Class are 25% more likely to auto-classify their spend and 1.6-times more likely to utilize a fully automated data enrichment process

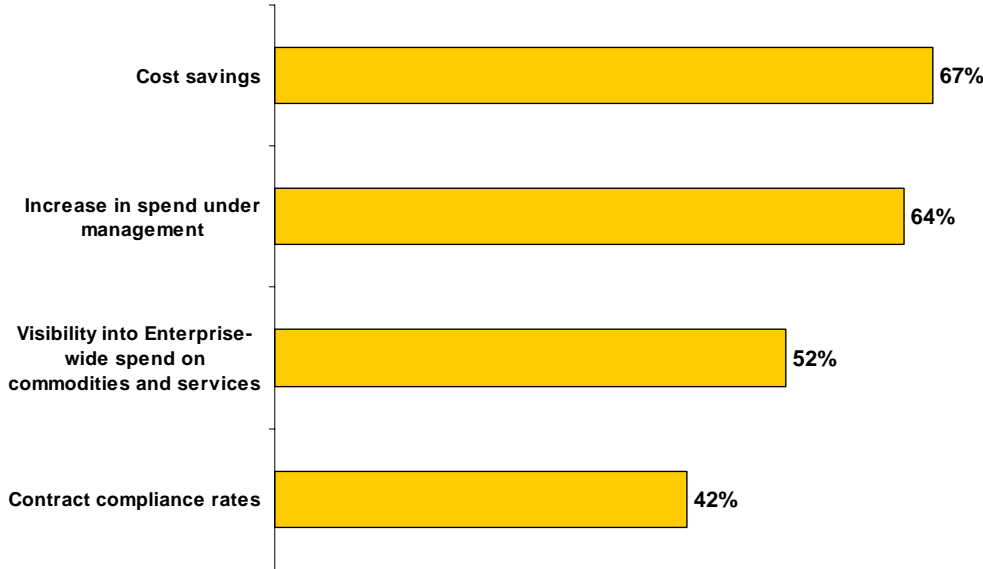
Performance Management

Contract compliance ensures that benefits from spend analysis and sourcing activities are realized. Savings leakage (the gap between identified and realized savings) is a significant concern for most procurement departments and often occurs due to poor contract processes and poor post-contract buying behavior. By conducting regular audits of contract compliance (performed by 46% of the Best-in-Class), enterprises put in place a mechanism to help minimize savings leakage and identify maverick spend and thereby reduce it going forward.

Rating the Performance of a Spend Analysis Initiative

Procurement and sourcing professionals use several measures to gauge the effectiveness and overall value of their spend analysis programs. However, in an age where the dollar needs to be stretched as far as it can go, enterprises report cost savings (67%) and the increase in spend placed under management (64%) as the top criteria to measure the effectiveness and overall success of a spend analysis initiative (Figure 8).

Figure 8: Criteria Used to Evaluate Performance of Spend Analysis Programs



Source: Aberdeen Group, October 2008

**Aberdeen Insight —
The Spend Analysis Advantage: Making the Business Case**

Aberdeen’s global supply management research has shown time and again that the deployment of process automation tools enables procurement organizations to place more spend under management. As shown in this report, and earlier Aberdeen research efforts, companies that place more spend under management typically experience a host of other advantages as they relate to cost savings, process efficiency, and the ability of procurement departments to deliver greater strategic value across the enterprise. This report has focused specifically on the benefits that enterprises achieve from their spend analysis programs.

Based upon the data gathered in this research effort from more than 280 enterprises, there can be no doubt: the benefits of investing in a spend analysis initiative and building out a formal spend analysis program outweigh inaction. Table 4 highlights the incremental advantages seen by enterprises in key performance areas after they commence a spend analysis initiative.

continued

**Aberdeen Insight —
The Spend Analysis Advantage: Making the Business Case**

Table 4: The Spend Analysis Advantage

Performance Metric	Incremental Benefit
Average savings achieved from a sourcing effort	93.0%
Spend under management	39.4%
Contract compliance rates	30.6%
Maverick spend reduction	16.3%

Source: Aberdeen Group, October 2008

To be clear and to reiterate a major point, deploying a fully automated spend analysis solution, commencing a fully-manual spend analysis program, or doing something in between will not assure the above results in and of itself.

To derive the full benefits from spend analysis, enterprise-level spend visibility must be matched by a team of sourcing and category pros that can analyze the spend data, identify the best opportunities, and execute successful sourcing projects. The procurement organization must also be capable of engaging business stakeholders and other budget holders with this new-found visibility and partner with these groups to place more spend under management and drive greater value. The department must also be capable of developing mechanisms to ensure contract compliance where it is lacking.

Spend visibility is not the end-game, but rather a foundation upon which a Best-in-Class procurement departments are built.

Chapter Three: Required Actions

In order to effectively generate sourcing success, and the many procurement performance benefits that result from it, enterprises must evaluate their current spend analysis programs and ensure that automation, standardization and organization are all factors in utilizing this valuable process:

Laggard Steps to Success

- **Secure executive support for spend analysis initiatives.** With an executive sponsor to support and guide the initiative, enterprises will be able to avoid many of the pitfalls that a far-reaching, cross-business unit project can encounter. Utilize the spend analysis advantage metrics discussed at the end of Chapter Two to help make the business case for an investment in the necessary spend analysis solutions and resources.
- **Conduct regular reviews of contract compliance.** Only 27% of Laggard organizations are regularly conducting reviews to track off-contract ("maverick") spending. Lower compliance rates typically translate into higher savings leakage and a loss of control and a lower percentage of spend under management. Leverage the spend data to identify transactions that are non-compliant to current contracts and highlight high-risk categories of spend that require active monitoring.
- **Develop or improve current reporting capabilities.** The primary benefit of spend analysis is the ability to understand an enterprise's spend. Data that is organized but lacks a mechanism to analyze the data and develop reports to help drive decision making, is not very useful.

Industry Average Steps to Success

- **Utilize web-based reporting tools and dashboards to track key spend and savings metrics.** Twice as many Best-in-Class enterprises utilize web-based reporting tools and dashboards to track key spend / savings metrics than the Industry Average. This capability provides a real-time, enterprise-level view into current performance and helps sourcing professionals, category managers, and executives focus on their main objectives and make decisions that designed to help achieve them.
- **Automate the entire spend analysis process.** The incremental savings advantage achieved by enterprises that fully-automate the spend analysis process (Figure 5) more than justify an investment in automation tools. Benefits also extend to higher levels of spend under management and contract compliance .

Fast Facts

- √ Enterprises report an average improvement of **92%** in savings from sourcing activities after a spend analysis program is initiated
- √ Enterprises report an average increase in total spend under management of **39.4%** after a spend analysis program is initiated
- √ Enterprises report an average increase in contract compliance of **30.6%** after a spend analysis program is initiated

"Our spend analysis system has not only automated data extraction and classification, it's also allowed us to extract spend data from ten different sources across the United States and Europe. There's been a huge value in gaining full spend visibility to identify opportunities and track compliance."

~ Business Process Manager,
Large CPG Enterprise

- **Take action and leverage spend data in strategic planning and all sourcing initiatives.** A significant part of an enterprise's spend data is actionable - sourcing professionals can analyze reports and identify opportunities for savings, prioritize categories, rationalize suppliers, define superior requirements, and identify supply risk. Enterprises that leverage the spend data during the sourcing processes save 67% more from the average sourcing project than those that do not utilize this data for sourcing.

Best-in-Class Steps to Success

- **Develop, enhance or augment internal category, supply market and sourcing process expertise.** Spend visibility is not the end-game, but rather a starting point for enterprises to drive strategic value across the enterprise. Actionable information should be exploited by professionals with the ability to identify and execute the most compelling opportunities.
- **Link spend analysis processes and tools with e-sourcing and Contract Lifecycle Management (CLM) systems.** Sourcing (or strategic sourcing) should be viewed as a holistic process that begins with spend analysis and continues through contract execution. Closely coupling spend analysis and sourcing activities will ensure that savings opportunities are optimized and that sourcing decisions are driven, in part, by historical spend. The responsibility does not end after a sourcing event has resulted in a finalized contract; spend analysis tools that are linked to CLM can provide an ability to track compliance to negotiated agreements.
- **Leverage spend analysis to rationalize the supply base.** Only 38% of Best-in-Class organizations are focused on rationalizing their supply base. Spend visibility can help enterprises rationalize and categorize suppliers to drive more spend through the suppliers that offer the highest value.

Aberdeen Insight -Linking Processes

The value of spend analysis, though, lies only partially in the data management. Information is useful but is wasted without the proper plan of action. Once spend visibility is attained, it is incumbent upon the procurement team to develop an effective plan of action - to prioritize and then source the categories that will provide the greatest savings impact to the organization.

~ [*Spend Analysis Benchmark: Working Too Hard for the Money*](#)
August 2007

Aberdeen Insight — Cross-Functional Review

Spend data can often tell a compelling story, allowing procurement to take advantage of spending patterns and pinpoint opportunities for sourcing savings. And while some opportunities leap off the screen, not all spend data makes sense to the procurement eye... but, that is ok and to be expected. Disparate systems with a wide range of data elements and coding schemes can make even the most-understood categories difficult to analyze. And then there are the "new" categories that the system can help identify - these are the categories that procurement does not currently manage and may not have the expertise to analyze.

continued

Aberdeen Insight — Cross-Functional Review

By employing cross-functional reviews of data extracted from a spend analysis system, enterprises can involve multiple stakeholders in determining the proper strategic actions regarding future sourcing decisions, as well as identify any gaps in current spend data reports. This collaborative review process can result in better strategic sourcing; in fact, enterprises instituting a cross-functional review of spend data have experienced the following advantages over those that do not perform these reviews:

- **26% lower** rate of "maverick" / off-contract spend
- **17% more** spend under management
- **15% higher** savings from sourcing efforts
- **10% higher** level of compliance to contracts

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Appendix A: Research Methodology

In September and October 2008, Aberdeen examined the use, the experiences, and the intentions of more than 280 enterprises utilizing spend analysis in their procurement and sourcing operations.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on spend analysis strategies, experiences, and results.

Responding enterprises included the following:

- *Job title:* The research sample included respondents with the following job titles: Chief Procurement Officer (6%); other C-level /senior management (11%); Director (23%); Manager (31%).
- *Job function:* The following job functions comprised the research sample: procurement (56%); supply chain / logistics (16%); IT (4%) and finance (4%).
- *Industry:* The research sample included respondents from the following industries: manufacturing (13%); finance (10%), mining / oil (7%) and many others.
- *Geography:* The majority of respondents (74%) were from North America. Remaining respondents were from the Asia-Pacific region (13%) and Europe (9%).
- *Company size:* Fifty-three percent (53%) of respondents were from large enterprises (annual revenues above US \$1 billion); 29% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 18% of respondents were from small businesses (annual revenues of \$50 million or less).

Solution providers recognized as sponsors were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- √ The degree to which spend analysis is leveraged in their procurement and sourcing operations and the financial implications of the technology
- √ The structure and effectiveness of existing spend analysis deployments
- √ Current and planned use of spend analysis to aid operational activities and drive spend under management / savings
- √ The quantifiable benefits that have been derived from spend analysis initiatives

The study aimed to identify emerging best practices for spend analysis, and to provide a framework by which readers could assess their own management capabilities.

Table 5: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, October 2008

Table 6: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, October 2008

Table 7: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, October 2008

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [*Spend Analysis: Working Too Hard for the Money*](#); August 2007
- [*Strategic Sourcing in EMEA*](#); May 2008
- [*Advanced Sourcing & Negotiation: The Art and Science of the Deal*](#); January 2007
- [*CPO Rising: The CPO's Agenda for 2008*](#); February 2008
- [*The CFO's View of Procurement: Same Page, Different Language*](#); November 2007
- [*Contract Lifecycle Management: Views from Procurement, Sales, Finance, and Legal*](#); August 2008
- [*Contract Lifecycle Management and the CFO*](#); April 2007
- [*The CPO's Strategic Agenda: Managing People, Managing Spend*](#); November 2006
- [*Source-to-Settle: Compliance Clues for the CFO*](#); October 2006

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.

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