

Improving your
Business Intelligence
Through Spend
Visibility

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Executive Summary

Managing spend data is one of the most strenuous tasks for any company. The large amount of data and its storage in disparate and dispersed sources makes the problem even larger. The benefits yielded by properly managing spend data are countless. In addition to the proactive reporting, and savings in millions, companies have benefited from the acquired competitive edge that spend management contributes to their success.

There are several approaches to spend management. No one can claim that a best approach does fit all companies. Rather, each approach satisfies different needs. It is, therefore, vital for a company planning to implement a spend management program to conduct a detailed study before applying any software. This paper helps decision makers identify their companies' exact needs and match the appropriate spend management approach accordingly.

This paper also gives a brief overview of the problems caused by poor spend management, discusses the concept of spend visibility, and introduces the different approaches used for spend management.

Poor Spend Data Management: A Chronic Problem!

Managing a company's procurement information; spend and procurement data has always been a major pain. Though, it has become one of the most important priorities along the past few years. The benefits that managing spend data can yield are countless and the costs of delay are definitely immeasurable.

The problem with accumulating and managing supplier and spend management information arises primarily from dispersed and scattered data. Most organizations store spend data in different locations and repositories; inside and outside the organization, making it extremely difficult and time consuming to draw analytical reports on spend data. This tough task made data aggregation and collection from different sources a tedious job that is usually confined to the spend data's financial aspect, that by nature occupied the highest priority, and only done infrequently; usually to support a certain project. According to a study that Aberdeen-Penton performed on 160 US firms, "only half the businesses currently have formal procedures for managing and analyzing spend data. Worse yet, firms with formal procedures in place only examine half of their total spending." In addition, different formats and naming conventions are used for the data stored which makes it even harder to draw meaningful reports, because the data is not stored based on a single standard.

Although the previous problems do have major effects on the ability of the company to make use of its spend data, perhaps the greatest problem lies in the storage and entry of inaccurate data, the human error, which would yield misleading reports even if the data was aggregated correctly.

These shortcomings of spend management often means lack of analytical reports; which in turn leads to disastrous effects on the company's daily operations, and problems in sourcing and supplier management, compliance, inventory management, and product management. Operational problems include: missed savings, weak tracking and reporting, excess stock, redundant orders, and parts proliferation and limited parts reuse (Spend Data Management: Unlocking the Value Across the Extended Enterprise, 2003).

These obstacles and problems are estimated to cost companies \$260 billion in missed savings (Spend Data Management: Unlocking the Value Across the Extended Enterprise, 2003). Procurement problems are not experienced by manufacturing companies alone, but also by different companies in various industries. Cost savings are vital for any company that pursues competition in the market or needs to survive in today's challenging environment.

Spend Visibility: A Growing BI Interest

To maintain its competitiveness, it is crucial for any company to keep up-to-date with new advancements in Information Technology (IT). New applications in Business Intelligence (BI) have enabled organizations realize millions in savings, let alone the competitive advantages gained in the market. It has perhaps become essential for any company planning to survive in today's competitive world to constantly update its IT and Information Systems (IS) infrastructure to keep pace with new advanced trends in the BI field.

Spend management software has been gaining a lot of popularity in the past few years. Statistics have shown that a good spend visibility software can help improve a company's efficiency and performance. This can be identified on both manufacturing and non manufacturing firms across several industries.

Implementing spend management software not only aids in properly organizing spend data; it helps make effective use of the data. Spend management software offers upper management clear visibility to three aspects:

- Spend visibility: analysis of past spend by supplier, organization, commodity, and other dimensions which helps management identify any sourcing opportunities.
- Process visibility: provides management with the ability to analyze the process in order to identify any shortcomings or bottlenecks in the process
- Performance visibility: the ability to track supplier qualitative and quantitative performance indicators (Spend visibility: A guide to effective program design, 2005).

The increased operational efficiency that spend visibility triggers has a tremendous and quantifiable impact on a company's bottom line. Statistics show that companies are realizing savings in millions. Among such companies is Merrill Lynch which

reported \$70 million reduction in purchasing costs, which accounts for over 10% in one year, and over 95% contract compliance (Busch, 1).

The advantages yielded by a professional spend management program helps add credibility to procurement operations and is a key factor in its changeover from a cost center to a profit center. Statistics show that companies practicing spend management have established significant measurable cost, performance, and profit advantages over competition. Needless to say, turning procurement into a profit center has helped a lot of companies acquire a unique competitive advantage.

Organizational changes

Employing a spend management software often requires an overall change in the business strategy and a serious top management commitment. It is also important for the organization to have a high internal flexibility. This speeds up the realization of expected benefits and values. In addition, it is important for companies to perform a careful detailed analysis before adopting a spend management software in order to adequately identify the expected priorities and goals of the program. (Busch)

A spend management program typically involves 6 steps, which might vary from one organization to the other and the maturity level of the program itself. Initially all organization data are extracted from different sources, whether from inside parties (ERP, e-Procurement) and outside parties (Partner systems, credit and procurement cards). The data is then validated to ensure accuracy and completeness. After the validation stage, the data undergoes a cleansing process where errors and discrepancies are eliminated. Once all the data is collected, validated, and cleansed, it is classified according to an agreed upon standard schema. Classification can be based upon an internal schema or on known industry standard, which is usually more comprehensive. Next, the organized data is enriched and enhanced with business information. This may include supplier's financial status and performance information. This definitely helps companies relate figures to information; making more meaningful use of existing data. Now, information is ready for being subjected to advanced and multidimensional analysis. However to make best use of such information, it should be widely accessible by different employees in the organization who are equipped with adequate analytical tools.

Depending on the objective of the spend data management program and its scope, some companies might limit data cleansing to a certain section or timeline, perform an enterprise-wide data warehousing effort but postpone data analysis or settle for simple and primitive information analysis. On the other hand, other companies might follow a “proactive” approach and carry on with detailed data mining and sophisticated data analysis and breakdown. The latter approach usually yields greatest returns, though it might consume a much greater effort and longer period to implement (Spend Data Management: Unlocking the Value Across the Extended Enterprise, 2003).

Enabling the Business Transformation: Different Approaches for SDM (spend data management)

There are several approaches for implementing a spend management program. As mentioned earlier, there is no one best approach but rather several ones; each accommodating different needs and facilities of the company. It is thus imperative for any company wanting to adopt a spend management program to undergo a detailed analysis phase in order to identify the exact needs and requirements. This analysis should include short and long term goals of the program and resources to be committed. It should also include a description of the role the executives see procurement playing in the organization. This analysis also involves management and thus will help build their support (Busch 2).

The most primitive approach in SDM is the manual process. This approach focuses on manually collecting the information and feeding them into basic spreadsheet applications then proceeding in analyses. It is usually done by internal staff or external consultants. While this approach is generally considered the most inferior, it is a quick and cheap alternative for a limited amount of data. The manual approach, however, fails to address several issues. The most significant being the lack of meaningful data. Classifications are inconsistent across different data sets and time span because most probably different individuals classify subjective or incomplete data incoherently. Another problem is the lack of scalability. If external consultants are engaged, the organization can become dependent on them, repeated engagements will be costly, and still prevent total transfer of knowledge to the organization. Still, if a company resorts to do the process internally, it consumes a lot of time regardless of the number of iterations.

The managed-service approach focuses on outsourcing the entire spend analysis program to a consulting firm/vendor. The company will usually provide the vendor with the data in an agreed upon format. The vendor classifies and enriches the data; preferably using an automated technology, and provide the organization's executives with a hosted analytical technology capable of analyzing their classified data.

The managed-service approach allows companies to focus on their core competencies as resources don't need to be tied up and caged within tasks that fall out of their core job scale. In addition, this approach usually has a lower TCO (total cost of ownership) as the vendor is far more efficient and professional than the organization. The managed-service approach also yields faster results as no additional software or hardware needs to be installed. However, there are negatives if a company adopts this approach. Among the negatives are: losing data ownership and forfeiting proactive data practices. The software provided usually has minimal flexibility for customization and integration within the existing infrastructure, not to mention the periodical subscription and maintenance fees paid, which might exceed what is incurred by the self service approach over the long run. Finally a critical negative point is security, as the organization's data is exposed to another entity..

The self-service approach is the third one. An organization actually buys a licensed specialized spend management software. The software provider might train the employees on software usage and ramp up knowledge delivery through a hand-over period to the responsible staff. .

Using the self-service approach enables the organization to make best and optimum use of its data, as it will "own its data". The organization can leverage its data ownership in its best interest and stretch analyses methodologies to the maximum. Data protection and security no longer pose a threat and company data will not be at risk. One of the most important advantages is the company's ability to customize its spend management software according to needs and requirements, that is in addition to the capability of integrating this software with the existing applications and technologies infrastructure in the organization.. However, this approach requires significant resource commitment. For the self-service approach to succeed, it is important to gain the support and collaboration of the related departments and executives. Moreover, this approach takes the longest implementation period and hence the longest cycle to realize any benefits or ROI (Return on Investment). Although the TCO might be lower than the managed-service approach, there can be some costs outside the vendor proposal.

The Hybrid approach is a combination of several of the above approaches. It can be the simultaneous use of more than one of the above approaches or a phased approach where the project plan involves the transition from one type of approach to another. The Hybrid approach can help companies utilize the benefits of more than one approach. For the purpose of this paper I will discuss the phased approach where the company would start with a managed-service for the data classification/enrichment then make a transition to a complete or partial software solution.

The phased approach enables a company to realize ROI quickly as the first stage of data classification/enrichment, which usually takes the longest time, is outsourced. It thus requires a lesser upfront internal resource commitment. The company will own its data and benefit from full integration and customization. The Hybrid approach however requires the highest TCO as it both requires initial service/subscription fees and license/maintenance fees, plus internal resources on ongoing basis. Data security will also be at stake, as it will be outsourced for the data classification/enrichment. Also, the phased approach needs the exact high internal resource commitment of the self-service approach. It is recommended to only host the analytical tools from inside the organization and continue to outsource the data classification/enrichment phase. (Spend Visibility: a Guide to Effective Program design 2005)

Conclusion

Spend management has become one of the most important topics in BI as it helps solve various procurement problems. Its numerous advantages and high ROI justify its TCO. Depending on the objectives and requirements of the company, a specific approach might be adopted, and companies may choose to limit its implementation at a certain stage. Vendors should be flexible enough in order to accommodate different needs of the different clients. Experts, however, recommend that data classification/enrichment is automated, and that companies move beyond the simple data warehousing and analysis. Once a company starts making proactive decisions using a spend management program it will realize a higher ROI, and have a unique competitive advantage.

About ITWorx

ITWorx is the largest software professional services firm in Egypt. The company offers Portals, Business Intelligence, SOA and Product Development services to Global 2000 companies with a focus on Financial, Telecommunication, Government, and Educational institutions, in addition to a number of Independent Software Vendors (ISVs) across North America, Europe and the Middle East.

By partnering with Magic Quadrant technology vendors Microsoft, BEA Systems, Vignette, Business Objects, Sun, IBM, and Oracle, ITWorx leverages its global delivery capability, CMMi Level 3 certified processes, and model driven development tools to seamlessly extend its customers' IT organization augmenting it with agile, high quality productive capabilities, technology competences and vertical industry know-how

ITWorx has developed several basic data warehousing and mining applications for spend data. The solutions developed allowed efficient data warehousing for the company's procurement data. The application also hosted powerful analytical and reporting tools for the different management needs. For more information please contact sales@itworx.com.

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