



3 Fallacies that Plague the Achievement of True Spend Visibility:

THE CASE FOR BEST-OF-BREED SPEND ANALYSIS

**A WHITE PAPER BY CONSTANTINE LIMBERAKIS
DIRECTOR OF PRODUCT MARKETING AT SPENDHQ**

About the Author



Constantine is responsible for product marketing at SpendHQ. He is considered a subject matter expert in the field of procurement, contract management, and supply management, providing a unique mix of market research and business experience. Prior to the appointment to his new role at SpendHQ, Constantine advised and led senior procurement and business leaders as the senior research director at the Hackett Group.

Executive Summary

As a veteran in the space of procurement technology, I can honestly say there is a wider variety of procurement technologies available today than ever before. Consider the evolution of all solutions that can touch procurement, including strategic sourcing, purchase-to-pay, and the expansion of niche solutions in areas such as contract management, supplier management, and services procurement. Yet despite all of the technology solutions at our disposal, most enterprises still struggle with the nuances of spend data management and the ability to transform it into actionable intelligence.

But not all the blame can be placed squarely on technology. Spend analysis is also a discipline that requires skills in handling ever-larger data sets. It also requires organizations to take an iterative approach to creating value in spend analysis as new spend patterns and sourcing opportunities are uncovered. This often means working with outside data and spend experts with best-practice experience in conducting spend analysis to help transform how sourcing and procurement teams leverage spend data.

We at SpendHQ recognize that getting better visibility for spend analysis can be a challenge. This paper identifies three common fallacies that explain why many still struggle with spend analysis and outlines why a best-of-breed spend analysis approach makes sense for most organizations today.

Data-Driven Approaches Start with Spend Analysis

In a digital world of big data, the importance of analytics in organizational decision-making is paramount. To achieve positive financial outcomes and stay competitive, organizations must learn to become data-driven by collecting, mining, and analyzing their business activities using advanced analytical tools and techniques. For procurement, it's about aligning their data-driven goals with wider business imperatives around spend data. This starts with spend analysis.

So, what is spend analysis? Spend analysis is the process of taking all the sources of spend data and creating spend visibility across all the dimensions of corporate spend. When used effectively, spend analysis activities create intelligence and deliver value: Spend analysis can be used by procurement to recapture lost savings due to maverick spend by identifying which suppliers are being used on which categories. Spend analysis can help sourcing professionals identify new strategic sourcing opportunities for rationalizing a supply base or as a basis for renegotiating contracts. Spend analysis can assist finance and the wider business in tracking spend against budgets and identify working capital opportunities. Finally, spend analysis provides a verifiable means to measure procurement's efficiency and effectiveness at delivering value.

In a recent survey of global procurement leaders, 50% of respondents noted the main purpose for leveraging data analytics is for cost optimization¹. Another study shows that improving reporting and analytics is a priority for 89% of respondents, yet only 22% believe they already perform well in this area². These and similar studies shine a light on the importance of getting real-time insights into spend data and that having a data-driven procurement strategy must start with spend analysis.

3 Spend Analysis Fallacies

There are many ways of engaging in spend analysis. However, in our experience, those less familiar with spend analysis as a discipline may oversimplify what it takes to be successful, or they may think spend analysis can be solved with technology alone. Based on conversations we have in the marketplace today, we've identified three common fallacies around spend analysis that has plagued procurement's ability to achieve true spend visibility.

1. "We have the expertise to manage spend analysis efforts in-house."
2. "Spend analysis is just BI for procurement."
3. "A Spend Suite can handle all my spend analysis needs."

¹DELOITTE GLOBAL CPO SURVEY 2018

²ENABLING SMARTER PROCUREMENT: HOW MODERN SOFTWARE CAN HELP ADDRESS CHIEF PROCUREMENT OFFICERS' NEW PRIORITIES. FORRESTER. MAY 2018



#1 – “We have the expertise to manage spend analysis efforts in-house.”

Regardless of how mature a procurement organization is with its spend analysis efforts, spend data will invariably come from many different places, including AP systems, P-cards, T&E or expense management, and/or payment consolidators (transportation, utilities, etc.), not to mention third-party sources for enriched vendor data. Yet knowing where all spend data resides and managing it for spend analysis is never a one-and-done process, but more of an iterative data exercise over time.

One reason for this is that many industries are in constant flux due to mergers and divestitures, in which spend data management becomes a fluid process of pulling data from a growing number of sources.

Given the rapid pace of M&A change in industries such as life sciences, health care, technology, and private equity firms, it's not uncommon to have multiple instances of the same ERP or e-procurement technology that still need to be reconciled into spend data. So, whether by API interface or file load, merging data with multiple data formats from dozens of locations in multiple currencies has become standard for organizations seeking true spend visibility. Data expertise is required to interpret, understand, and harmonize the spend data into a spend cube for creating one “source of truth.”

But optimizing spend data to get to that source of truth can be a tedious process. It requires extensive analysis and use of best-practice data techniques beyond traditional IT consulting engagements focused on technology. Moreover, it is rare to find an individual who has depth in both procurements IT skill sets. And it is equally rare to find a highly skilled IT person who understands the nuances of procurement.

In this regard, working with best-of-breed spend analysis experts become a sound approach—leveraging proven data optimization processes and skills enable internal sourcing and procurement teams to focus on more strategic tasks.

Moreover, as a result, a provider's experience with the spend in specific industries and the extraction of data from specific systems can play a big role in the quality of spend categorization and results.³

³ SPEND ANALYSIS: THE FOUNDATION FOR PROCUREMENT EXCELLENCE. ARDENT PARTNERS. JANUARY 2017

Common Procurement Fallacy



“I have enough expertise and resources to start spend analysis in-house.”

“There are all sorts of interesting techniques to categorize the data and do it faster, and you get to a much smarter answer. But what often ends up happening is the business partners don't recognize the data. So, while the data might be better categorized, it doesn't match the way they historically looked at it. That can cause a rift between teams that clearly recognize the value of spend analytics and with the business that looks at the data a slightly different way.”

– David Schannon, Partner with Bain & Company



For instance, an essential part of the data extraction process is the ability to create category taxonomies that mirror an organization's supply base for each category. While several taxonomy approaches in classifying spend data for analysis exist, experience shows us that granularity at the subcategory level is the most proven and effective approach to creating value.

Research even demonstrates that performing analysis at the subcategory level can drive as much as a sevenfold reduction in maverick spend and 54% greater savings.⁴

For Additional Information,
Download Our White Paper:

**“Spend Analytics Partnership
vs Internal Solution Case Study”**

Once spend data has been optimized and put into a spend analysis solution, taking a gradual approach to interpreting the data becomes paramount for preventing information overload and for building trust and consensus within the organization. This means that even after a spend analysis solution is in place, working with an experienced best-of-breed provider can be essential for initiating first-phase spend analysis initiatives that focus on extracting insights out of the spend data, understanding supplier relationships that cut across spend categories, and helping to identify strategic sourcing opportunities. During this time, the team will focus on categorization accuracy, which often requires tweaks to data categorization based on business unit feedback.

The bottom line is that doing spend analysis well requires significant investments in data handling technology, categorization taxonomy design, emerging technologies related to machine learning and AI, and other automation technologies to create repeatable processes. Even for the largest companies, it typically does not make sense in terms of cost or focus to attempt to build this capability in-house when it is so readily available for hyper-efficient best-of-breed providers who leverage the cost over hundreds of clients.

#2 – “Spend analysis is just BI for procurement.”

Today there is growing pressure to leverage technologies used by other parts of the business for engaging in data-driven analytics exercises. In this regard, many organizations have invested in advanced business intelligence (BI) technologies as part of broader efforts to replace the use of manual spreadsheets or homegrown tools. The strategy is based on using a single tool to analyze business data across the board that hopes to succeed in multiple areas—whether it's sales, marketing, finance, or any other function, such as procurement. The decision to use BI tools is not unwarranted.

Some of the largest technology providers in the market are focused on developing the latest in advanced data visualization techniques, such as predictive modeling using BI tools. Moreover,

⁴ TEN CRITICAL SUCCESS FACTORS FOR SPEND ANALYSIS SOFTWARE IMPLEMENTATIONS. THE HACKETT GROUP. 2016



solutions from big-name providers such as Microsoft Power BI, Qlik, and Tableau are frequently recognized by industry analysts for offering the latest and greatest in visualization that promotes self-service analytics. But BI tools are like a Swiss Army knife and can do anything you ask. Since they are not designed for a specific business function out of the box, they often fail to provide the insights necessary for discrete business function initiatives. It's no wonder that research from

Common Procurement Fallacy



“Spend analysis is just BI for procurement.”

“There’s a lot of ways for a company to take your data to enrich it, categorize it, classify it, and put it into a nice visualization engine. But at some point, clients come back to us and say ‘The data looks great, the tool looks great, but my team is still struggling with what to do with the data.’”

– Kirk Poucher, Managing Director Strategy & Operations at SpendHQ

Gartner finds that between 70% and 80% of corporate business intelligence projects fail.⁵ For procurement, general BI tools lack specific procurement intelligence that end up requiring expensive manual categorization and vendor resolution. Since spend analysis is really a “technology-enabled service” and not just software, a BI-centric approach will also frequently miss the boat for most procurement organizations when complexities arise. Moreover, internal IT groups tend to lack expertise in spend data management, leaving procurement on its own to build and maintain a complex data management operation.

On the other hand, established spend analytics solution providers will have a pre-categorized database of millions of vendors. And if you select the right best-of-breed provider, especially one with deep sourcing and procurement expertise, best practices and actionable intelligence should be immediately available without extensive data mining.

Working with a best-of-breed spend analysis provider results in three sources of value not attainable with BI tools alone. These include spend data management expertise, sourcing categorization expertise, and purpose-built visualizations and dashboards that speak to procurement users in their own language. Therefore, even though BI tools may be highly customizable and may even deliver the latest “bells and whistles” in the world of analytics, the effort to accommodate spend requirements makes BI tools on their own too difficult and expensive for procurement teams to manage.

⁵ [HTTPS://WWW.CIO.COM/ARTICLE/3221430/BUSINESS-INTELLIGENCE/4-REASONS-MOST-COMPANIES-FAIL-AT-BUSINESS-INTELLIGENCE.HTML](https://www.cio.com/article/3221430/BUSINESS-INTELLIGENCE/4-REASONS-MOST-COMPANIES-FAIL-AT-BUSINESS-INTELLIGENCE.HTML)



Ultimately, a procurement organization's value is in driving savings and compliance, not data manipulation. And if they must rely on a third party for analytics support, it is critical that their partner has deep procurement expertise, which most IT departments lack.

#3 – “A Spend Suite can handle all my spend analysis needs.”

A handful of strategic sourcing or source-to-pay suites today offer spend analysis as one of many offerings under one “platform” or “suite.” Some of these procurement suites started in e-sourcing or procure-to-pay but have since focused their direction on building a cloud-based platform with other features, such as supplier management, contract management, and services procurement. Others have simply acquired the spend analysis technology as part of their source-to-pay suite.

Common Procurement Fallacy



“A spend suite can handle all my spend analysis needs.”

“Unless you have a very mature organization across the board (and not just procurement), you really don't realize the benefits of an end-to-end source-to-pay solution. So, especially as it relates to spend analytics, it's important to choose a partner experienced in sourcing and category management and [who] has played a role in that space.”

— Erik Sternisha, VP Lead of Procurement Operations / Center of Excellence at Cushman & Wakefield

Regardless of approach, the philosophy of a suite seeks to be all things to all people, so that the software provider can secure the end-to-end procurement needs of a customer, but at the cost of focus and differentiation. While suites are coordinated in their acquisition strategy, spend analytics is often seen as a bolt-on capability, where there isn't much emphasis placed on truly understanding why a company needs a spend analysis tool or how to structure spend data in a way to provide the most value to procurement. Spend analysis is simply one of a number of modules.

Moreover, while suite providers will look to add spend analytics to support typical use cases such as opportunity identification and maverick spend elimination, they will also need to support a wide range of

process analytics across a number of other aspects within the suite (e.g., “invoice velocity” or “percent of spend on invoice”). A best-of-breed provider of spend analytics, however, is typically coming from a different place. They will have a much deeper focus on the core value proposition of spend analytics, which is delivering a solution purpose-built for analyzing spend data and providing insights related to spend visibility, compliance, and **CONTROL**.

For More Insight Into SpendHQ, Download This Research Brief from Spend Matters:

“The SpendHQ Customer Experience: What Makes It Great”



Another challenge with suites is assuming all data flows through one system. In theory, a suite-based spend analytics solution makes sense as it can analyze the spend that comes through the other modules, such as a procure-to-pay platform. Therefore, a core argument behind using the suite is that putting all the technology under one roof allows for better data sharing and integration. However, even world-class suites typically have less than 80% of spend under management, and a common implementation will be much lower. Spend data always resides in other systems.

For example, tremendous detail may be in third-party platforms such as freight payment systems, managed services providers in areas such as temporary labor, capital accounts, data from recent acquisitions, P-card, value-added resellers, and many others. In addition, most companies' internal spend is often corrupt, with multiple vendor entries for the same vendors and spend coded for accounting purposes rather than to meet procurement's needs. Therefore, the spend will almost always require further consolidation, cleanup, and enrichment. Because of this additional work, the suite simply becomes another data source. In a best-of-breed world, this data can be obtained through a simple file extract, essentially eliminating the "value of integration."

And while suites have a tremendous incentive to create new offerings, as noted above, much of their new revenue comes from having more to sell to existing customers. So, their development priority quickly shifts away from spend analytics, once it is in place, to areas more likely to generate new sources of revenue. They are not "betting the farm" on spend analytics and often feel they only need something that is "good enough" for RFPs, so there is little incentive to be the best. A best-of-breed provider, however, is completely dedicated to the niche and must sink or swim on its spend analytics capabilities alone.

Finally, one of the most significant factors in the suites versus best-of-breed argument relates to market valuation. Due to the data cleanup that is always required for spend data accuracy, spend analytics is very much a tech-enabled "managed service" and not a true Software as a Service solution. Since valuations on pure SaaS solutions are generally higher and can be weighed down by components of the solution that require ongoing services, suite vendors typically either over-automate spend analytics, usually at the cost of accuracy and expertise, or even downplay spend analytics and attempt to keep it as a smaller component of the revenue mix to avoid a valuation penalty.

Keeping in mind that most suite software providers are venture-backed and are losing money, those invested in suites hope to get major returns through a sale or an IPO and valuation. When a company is burning millions of dollars in investor capital each month, some might say valuation is the most important thing on their mind – not creating value through spend analysis.



Concluding Thoughts

While technology matters more than ever in a digital world, much of the value delivered with spend analysis is based on how a procurement organization takes on the task. When procurement organizations realize they've outgrown outdated methods for spend analytics, such as using spreadsheets or homegrown tools, they need to make a true assessment of their capabilities. So, like other areas within procurement, addressing spend analysis should not be done without considering a balance of people, process, and technology.

Yet the mistake we often see procurement organizations make is to misjudge the task or put too much emphasis on technology to solve the problem. Many CPOs, and particularly new CPOs, will also make implementing a full suite a priority in the expectation that they will gain both control and visibility. But they often underestimate the execution risk of a major software implementation, especially one that requires so much change in people's buying behavior. Many implementations end up underperforming in terms of spend under management or data quality. As a result, visibility, such as it is, is delayed for months or even years because results coming from the deployed solution simply cannot be trusted.

Even if you have good-quality data that you transform into useful and relevant information, it's not always easy to interpret and tell a story with it. Whether data visualization is an art or a science, best-practice UI/UX design requires an alignment of spend data in a way that sourcing and procurement professionals can leverage for exploration (i.e., identifying spending trends or patterns) and in an explanatory way (i.e., for sharing where savings and compliance opportunities exist for the business).

We often hear from procurement professionals that taking a focused best-in-breed approach offers a better alternative by allowing them to put spend analysis at the heart of their procurement initiatives. Those looking at spend analysis as a strategy for delivering consistent, year-over-year procurement value should consider a best-in-breed solution for achieving true spend visibility.

The SpendHQ Difference

Insight Sourcing Group's SaaS Spend Analytics Division, SpendHQ, is currently helping hundreds of procurement organizations and their teams across almost all industries solve the compliance challenge. Currently analyzing over \$2B in spend each year to identify new savings opportunities and to manage compliance, SpendHQ was built by procurement professionals familiar with your vendors and your spend profile. To learn more about how SpendHQ could better support your organization today, [please visit www.spendhq.com](http://www.spendhq.com).





SpendHQ

5555 Triangle Parkway

Suite 250

Atlanta, GA 30092

(888) 880-2190

www.SpendHQ.com

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