

**Strategic Spend Visibility:  
Untapped Potential for Cost Reduction**

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## Executive Summary

Chances are that most sourcing professionals have read all of the Aberdeen and AMR reports on spend analysis and spend visibility and are quite impressed at the opportunity for savings they reported, on the order of 10% to 15% on 55% to 75% of untapped spend and 6% of spend in managed categories [08,01,07,etc.], and are now itching to bring spend analysis and spend visibility into the organization. But before this step is taken, it is important to realize that these research reports fail to consider the spend analysis value curve [27], which tends to flatten out within one to three years. That's right! ***If an organization embarks on a traditional spend analysis and visibility program***, which is tactically oriented, ***it will find that the savings opportunities quickly dry up*** and that the 5X to 10X ROI that was initially experienced quickly becomes, if the organization is lucky, a 1.5X to 2X ROI as all the platform does is help the buyers maintain negotiated cost reductions during contract renewals and catch repeated attempts at maverick spending after organizational users think that they are no longer being watched.

Why do the savings disappear so rapidly with a traditional, tactical, spend analysis or spend visibility initiative? Because there is only so much that can be done with Accounts Payable (AP) data. More specifically, all that AP data does is identify the top spend buckets by supplier, category, and commodity, and, correspondingly, the low-hanging fruit savings opportunities which are easily identified as the top categories, commodities, and supplier relationships where the organization doesn't have contracts and performance management programs in place (and where the typical payment amounts are above the range that defines "market average"). Since this analysis is relatively quick and easy to do (once there is visibility into organizational AP data), and since a good spend visibility solution will decrease sourcing cycle time by 50% to 75%, it's not long before an average organization *exhausts* its savings opportunities from a tactical spend visibility project.

But this doesn't have to be the case. A shift from a tactical view to a strategic view, which includes other types of data, can multiply savings opportunities and, more importantly, find new opportunities year after year. For example, adding invoice data allows for the identification of overpayments and uncollected rebates, which are common in categories like office supplies, electronics, and (offsite) storage and which often represent millions of dollars in instant refunds. It also allows for the improvement of inventory turns, which can quickly shave 10% to 20% off of inventory costs.

And if the data is enriched, a whole plethora of new opportunities open up. Adding diversity data allows an organization to target government MWBE programs. Third-party corporate data can be used in fraud detection. Carbon footprint data enables regulatory compliance. And so on. The opportunities, and savings, become endless. In fact, as demonstrated on a hypothetical CPG company, a strategic program could multiply the organizational savings opportunity by five in the first three years and generate strong returns for years to come! That's why strategic spend visibility is needed.



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## **An Introduction to Spend Visibility**

One could follow common practice and simply define spend visibility as the ability to determine who is buying what from whom, when, where, and at what total spend amount across the organization. But then one would simply be using the standard definition of spend analysis, which is often confused with cleansing, classification, enrichment, and/or dashboard reporting -- which spend visibility is not. So this does not help much in conveying an understanding of what spend visibility is.

Realizing that a fundamental requirement of visibility is transparency across the organization, and not just in the Sourcing / Procurement / Supply Chain Management function, one could take a more modern viewpoint and define spend visibility as the ability to identify, track, and report on cross-organizational spending across the organization. In other words, each and every individual can see what they're spending, what their department is spending, whether or not it's on contract, and how it affects the organization. This is better, but misses the point that visibility into historical spend isn't useful unless it's actionable.

In order for spend data to be actionable, it has to provide a buyer with enough detail to act on it. Just knowing that the organization spent 10 million on widgets from Wranglers in North America last year isn't very helpful if the buyer doesn't know how many, at what locations, and whether or not there was any purchase price variance (against contracted terms). The organization might have a \$1,000,000 cost reduction opportunity, it might have a \$100,000 cost reduction opportunity, and it might have a \$100 cost reduction opportunity. It won't know unless all of the relevant details can be accessed.

That's why we're going to define spend visibility as the ability to transparently identify, track, report, and analyze organizational spend to derive meaningful and actionable insights across the organization. In other words, everyone who makes a major spending decision has access to spend, everyone who makes a major spending decision can see the impacts of their spending decisions, everyone who has responsibility for a budget line can plot trends, and everyone who is interested in contributing to a cost reduction can identify the potential impacts of a new spending decision based on those trends.

Note that while the organization will need clean, classified, and, in some cases, enriched data to extract maximum value from its visibility platform, visibility is not the same as cleansing, classification, or enrichment and the organization should not get caught up in the marketing hullabaloo that currently pervades the spend analysis space. Cleansing and classification isn't very hard, especially with a rule based system that lets the organization overlay exception mapping rules on top of the "secret sauce" of map the GL codes, map the vendors, map the vendor+GL codes that most big name consultancies have been using for years to achieve 80% to 90% spend accuracy. Furthermore, when all of the organizational spend managers are also users, it will find that it will quickly be able to identify inconsistencies and errors, which it will be able to quickly fix once and for all with appropriate exception overlay rules. It will quickly approach 100% accuracy on the spend that matters without any Artificial Intelligence, without an extensive outsourced mapping effort, and without any enrichment. This is because classification-centrism is the pyrite of spend analysis, with a shiny luster that lures prospectors away and causes them to ignore the massive value contained in the gold vein just a few kilometers away, a value that will only be unearthed when the organization has full visibility into its spend.

## **The Benefits of Tactical Spend Visibility are Great ...**

One needs to look no further than the press releases of any major spend analysis or spend visibility vendor or analyst house to see that the *initial* results from a concentrated spend visibility effort focused on Accounts Payable (AP) data can be astounding. With typical savings approaching 12% or more, typical ROIs exceeding 10X, and typical spend under management double, if not triple, that of other firms, it's easy to see that the benefits from initial deployments are significant. A large enterprise with over a billion dollars in spend can quickly see well over a hundred million in savings, and PPG saw savings of over half a billion within 2 years. [03,06] One leading high-tech organization identified 180 million in quick-hit opportunities from purchase price variance and supplier optimization alone! [05]

The initial benefits of a spend visibility initiative, which are generally tactical in nature, and focused primarily on AP data, are numerous and valuable to an organization struggling to achieve sustainable cost reductions. If the initiative is done right, the organization will see savings from at least a half dozen different savings opportunities, and if the data is enriched and if invoice data is also analyzed, the organization can easily see savings from a dozen different opportunities, which are all tactical in nature in that they can all be realized simply through visibility and straight-forward analysis.

Good visibility into AP data will yield the following benefits:

### ***Accurate Identification of the Low Hanging Fruit***

Once an organization has visibility into its AP spend and can identify its top n suppliers, top n categories, and top n commodities and do a comparison of spending patterns against market prices in those categories that are not under contract or coming up for renewal, it can quickly identify real savings opportunities that can be tackled immediately. Plus, it can now leverage all of its organizational spend in negotiations, which is probably more than its buyers knew about as different divisions will buy different products from the same supplier, and this can lead to significant savings if the total spend is significant.

### ***Increased Savings from Strategic Sourcing Efforts***

Spend visibility significantly increases the amount of savings an organization will see from its strategic sourcing efforts -- up to 12%. [02] The only other sourcing technology that can guarantee double digit savings on average is decision optimization (and if it is combined with spend visibility, savings in excess of 20% are not uncommon). Some vendors claim to have never seen an ROI of less than 10X on a spend visibility initiative [04]. When one considers that an organization can start a spend visibility and analysis initiative for under 100K and easily save over 1M, it's easy to see why.

## ***Shorter Sourcing Cycle Times***

Aberdeen Group, which has done numerous spend analysis and spend visibility studies over the past five years, have found that spend visibility provides a 25% to 75% reduction in average sourcing cycle time. In fact, in *Spend Analysis: Transforming Data into Value* [07], they found that while the sourcing cycle at an average company was 61 days, the sourcing cycle at a best-in-class company was a mere 31 days compared to the sourcing cycle of 126 days at a laggard company! In other words, visibility will allow a buyer to conduct at least twice as many sourcing events a year, and, at the very least, double an organization's savings opportunities. And considering that many companies, including Johns Manville [05], see a 10% plus savings on strategic sourcing opportunities identified through spend analysis, an organization quickly gets a lot of bang for its spend visibility buck.

## ***More Spend Under Management***

Simply by identifying more opportunities and conducting more events, an organization is increasing its spend under management, which is defined as the percentage of spend that is managed by the Procurement organization. (Note that management does not imply that the spend has to be strategically sourced. For some categories, like office supplies or electronics, the best strategy is often spot-buys on the open market or automated reverse auctions.) Every time an organization analyzes a category that it now has visibility into and comes up with a best practice, which might be strategic negotiation, might be reverse auction, or might be spot buy on the open market, it's increasing its spend under management. Instead of having 25% to 35% spend under management, the organization will quickly accelerate towards 75% (or more) of spend under management. [07, 12]

## ***Better Contract Compliance Rates***

Once the organization has more spend under management and starts to monitor its spending on a regular (e.g. quarterly, monthly, or even weekly) basis (through a regular refresh of the underlying AP spend cube), the organization will find that it's quickly able to catch maverick spending more quickly and confront the perpetrators while the spend is still a recent occurrence and fresh in their minds. Once people know they're being watched, they'll be more cognizant about complying with the contracts in place, even if the organization doesn't have a fancy e-Procurement system.

### ***Supplier Consolidation***

Once an organization digs deeper into its AP cube and starts analyzing its cross-organizational spend by supplier, one of the first things it will discover is that 80% of organizational spend is with less than 20% of organizational suppliers. However, over time, as spend is consolidated in each managed category with the right suppliers, it will find that the number of active suppliers decreases, and the percentage of suppliers who receive 80% of organizational spend steadily increases, indicating greater organizational efficiency. This will increase savings as it takes a lot of time and resources to manage a supplier relationship.

### ***Part Standardization***

Just like the organization will begin to use fewer suppliers over time as it diverts spend to the right suppliers for each category it brings under management, it will find that it also consolidate its spend across fewer SKUs (Stock Keeping Units). For example, before an organization starts its spend visibility project, it is likely that it will be buying three types of paper for the same printer, five types of laptops for its sale staff, and seven types of printers in legal and marketing, when, in each case, a single SKU would do. Not only will an organization increase its leverage by standardizing on a single SKU, but it'll decrease its inventory tracking and management costs, which will also translate into increased savings.

### ***Product Rationalization***

Hand in hand with part standardization, over time an organization will divert spend to the right products for each category it brings under management. Once it has visibility into the cost of each product that it buys, and can compare the costs to other similar products, it will build up a picture of not only what it should be paying, but what it should be buying, and in what quantity. For example, there is at least one office supplies vendor that will charge more for an off-contract purchase of a package of 5 toner cartridges than for an on-contract purchase of a package of 10 toner cartridges.

### ***Budget Improvement***

Once an organization has complete historical information on spend for the last three to five years by category, commodity, and department, no longer will a budget be something that can only be produced with a roulette wheel. With accurate spend visibility, the organization will be producing detailed, precise budgets instead of approximate guesses.

## ***Rebates and Refunds from Overpayments***

Once the organization has identified the low-hanging fruit, increased savings from its sourcing efforts, increased spend under management, improved contract compliance, consolidated the supply base, standardized and rationalized its parts, and improved its budget process, it is ready to move beyond AP data to other types of data that also offer significant savings opportunities. The next step is to analyze its invoice data.

An analysis of invoice data that includes a purchase price variance and summary analysis against all payments made in the contract term will assist an organization in identifying overcharges and rebates, which are very common in office supplies, electronics, and (offsite) storage. Once an organization has identified the overcharges and rebates, it can go after them. In some organizations, these rebates and refunds are so significant that there are a number of consultancies who make their living simply on overpayment and refund collection, as many companies without spend visibility routinely overspend millions of dollars on a number of these categories on an annual basis.

## ***Faster Inventory Turn Rates***

Visibility into invoices will allow for a detailed analysis of each commodity which will reveal not only how much the organization is buying, but in what quantities and when. As a result, it will be able to calculate actual demand patterns and speed up its inventory turn rates. This will reduce inventory storage costs and increase organizational savings.

## ***Identification of MWBE opportunities***

If the organization enriches its AP or invoice data with MWBE data, it will not only be able to identify which suppliers are getting the most business, but which of these suppliers are minority or women owned and might qualify the organization for government grants, credits, or rebates. This translates into greater organizational savings.

***It should be quite obvious by now that savings of over 10% are possible just from an initial tactical implementation of a spend visibility system that focuses solely on AP and invoice data, especially considering that an average organization has 55% of spend untapped.*** [08] In fact, an organization will likely achieve 7% savings just from the improvement in compliance with contract pricing! [02] Furthermore, these savings will come quickly. For example, consider the case of Johns Manville, which, just through supplier rationalization, price rationalization, and strategic sourcing saved over 35 million on the first 350 million of their 2 billion of annual spend. [05] Then there's Heinz, who saved 10M and identified an additional 35M to go after in just 12 months, and there's Diebold, who saved 100M in the first three years and expects to save another 100M in the next two years. [12] The initial savings are just the tip of the iceberg.

## **But Strategic Spend Visibility Returns are Spectacular**

While the *initial* short-term benefits, which are often realized in the first six to nine months of a tactical spend visibility initiative focused on AP and invoice data, will be significant, and even as high as 15% in some instances, it is the long-term benefits of a strategic spend visibility effort that are truly spectacular. Once horizontal spend visibility across the organization is obtained and used to approach cost reduction in a strategic manner, new cost reduction opportunities will materialize on a regular basis.

### ***Fraud Detection***

Without a spend visibility system, it's likely that Accounts Payable is unable to detect multiple occurrences of the same invoice or payments to ghost companies. The first situation is more common than one might think. Suppliers who don't get paid on time will regularly resubmit invoices, which can get in the system twice, and some suppliers will submit entire invoices with partial shipments. Then, the more devious suppliers will include line items not shipped and then bill for the items again when they are shipped, hoping for an *accidental* double payment. Then there are the less than honorable employees, like the sales guy who submitted the same high three-figure invoice for the same client meeting six months in a row because it was an easy \$372 in his pocket every month. And even if the organization catches some of these, how will it catch payments to suppliers that are just shell companies set up to collect payment for services that were never rendered? Considering that retail fraud alone accounted for 42.2 billion in fraud in the US in 2009, and that 25.5 billion of that was employee theft and supply chain fraud, can an organization really afford not to be screening for fraud? Especially since there's a 3 in 4 chance that it has already fallen victim to corporate payment fraud? [25] AP visibility will allow the organization to identify double payments, invoice visibility will allow it to identify double billings, and enriched data will allow for the detection of shell companies that might be setup merely to allow fraudulently billing.

### ***Regulatory Compliance***

New regulations, like SOX, mandate enhanced financial reporting disclosures which are hard to achieve without detailed visibility into spend. Furthermore, these new acts require internal controls for assuring the accuracy of financial reports and disclosures, and point-based systems don't fit the bill. With spend visibility, an organization can be more confident that its 10-Ks, 10-Qs, and other annual financial reports accurately depict the financial position and that the authorities won't be coming after the C-suite with criminal charges. In addition, regulations in the pipe, like carbon disclosure, will likely require detailed accounting of the carbon footprint of all purchased products and services -- an accounting that will require enterprise-wide visibility into enriched data.

## ***Predictive Modeling***

Once an organization has full historical visibility into its spend and invoice data, it can begin to apply analytical models to forecast future demand and extrapolate future prices based on historical trends. It can statistically determine the best time to lock in prices and the optimal contract lengths. It can even model expected demand mixes and look for opportunities to bundle items and negotiate additional volume discounts. In other words, it can start to optimize its inventory management practices. When Dell rolled out an inventory optimization pilot, it reduced its inventory costs by 55% in a mere 90 days! [26] While some results might not be as extravagant, most organizations can shave 10% to 20% off of inventory costs just through better inventory planning and management.

## ***P&L Planning***

Once an organization starts down the predictive modeling road and starts extrapolating demands, pricing and expected inventory levels on its AP and invoice data, it has laid the foundations of an outbound cash flow analysis. Once it augments this with a projected inbound cash flow, which can easily be constructed from a historical analysis of its sales and accounts receivable data, *which is just another cube in a flexible spend visibility system*, it has the basis for a sound, forward-looking cash flow analysis. From this, it can not only start to project profit and loss (P&L), but use this result of its spend visibility based analyses to identify opportunities that could simultaneously reduce costs and increase sales, and greatly improve the organization's expected P&L going forward.

## ***Risk Analysis***

Just like one can use spend visibility on AP data to identify opportunities for supplier consolidation and part rationalization, one can identify sole-source opportunities or dependencies on limited-supply parts that could pose supply risks in the future and diversify supply on those parts for which a shortage would post a major disruption. But the risk analysis potential of true spend visibility doesn't stop there. One can use leading indicators like late delivery and reduced quality from the WMS and augmented supplier credit and risk scores from third party rating agencies to perform one's own forward-looking financial / bankruptcy risk analysis. One can analyze the costs of a currency fluctuation to help one define risk management policies up front. One can even analyze period-over-period inventory turn-over and accounts receivable data and define one's own economic indicators to help one identify when a product, or market, is reaching critical mass or nearing its end of life. And if one's analysis is sophisticated enough, one will even be able to pick up leading economic indicators of a recession.

## ***M&A Spend Rationalization Opportunities***

Most businesses pursue mergers and acquisitions (M&A) based on synergies that they expect will allow them to address a greater market share with new products and services with a reduced cost-base that should result from workforce reductions, after the elimination of duplicate functions, and increased volume leverage on high spend categories. However, volume leverage is only one sourcing strategy, and it can't even come into play until existing contracts come up for renewal. However, if a detailed spend analysis is done on combined AP data before the merger, new opportunities can be identified on the combined spend which will allow for faster realization of cost savings.

## ***Proactive Cost Avoidance***

With a good spend visibility system, everyone can see how much each day of delay in signing a contract costs the organization. If a buyer does the analysis and discovers that the organization has to order \$500,000 of product every week just to meet organizational needs at a 10% premium over what was just verbally negotiated, one knows that every week of delay in dotting the i's and crossing the t's on the contract is costing the organization \$50,000. This allows the organization to focus on capturing *real* savings opportunities.

## ***Savings Across the Organization***

Right now, primarily due to a lack of spend visibility across the organization, outside of Supply Chain Management and Finance, utilization of spend analysis is 10% or less in most cases. (While utilization in Business Development is almost 20%, utilization in HR, PR, Marketing, and Legal is 10% or less. [07]) But Supply Chain isn't the only organization ripe with savings opportunities. Finance, IT, Marketing, and even Legal are ripe with savings opportunities that are easily realized with true spend visibility.

### **Finance**

The average cost of requisition-to-order processing in High-Tech and similar best-in-class enterprises is between \$17 and \$13, respectively. In comparison, Finance enterprises have an average requisition-to-order processing cost of \$29. [11] And, due to a lack of visibility, most Finance organizations don't even know this. After all, only 46% of Finance chiefs see real integration between purchasing and finance processes. [15] Simply increasing spend visibility on invoices within finance, and reducing associated processing costs, will save the organization a bundle.

## IT

IT is also rife with savings opportunities. Considering that strategic sourcing of PCs and Laptops can yield 10% to 15% savings in good times, and 20% in recessionary times [12]; that a smaller, local, integrator may be as much as 20% to 40% less on a day-rate basis than a national one [14], and that 8 of every 10 dollars that companies spend on IT is "dead money" [18], IT could save a small fortune on their product, service, and maintenance costs if they understood the true costs and where the real savings opportunities lie. And given that Gartner [20] and Forrester [19] are both forecasting an overall growth in global IT spend of at least 4.6% this year, these savings opportunities, which are as high as 11.3% across the board [21], are only going to increase.

## Marketing

Best-in-Class companies who strategically source their marketing spend save an average of 14.7% on five marketing and spend categories compared with a mere 7.8% savings for all other enterprises. They also have a 77.5% higher compliance rate and 27% lower rate of re-orders. [10] With good visibility, an average marketing organization can easily find 20% to 25% savings with Procurement's help. [12]

## Legal

Between 50% [22] and 60% [13] of Legal spend goes to outside firms, which are usually paid at whatever hourly rate they decide to bill, without any attempt at negotiation or any consideration of the use of alternate fee arrangements (AFA). Furthermore, when one considers that an outside counsel typically costs 50% more than an inside counsel [24], one can see that Legal spend is just ripe with cost savings opportunities. For example, by taking "*a very sharp pencil to our patent-generation costs*" and developing "*a number of low-cost sources for our legal work*", Motorola slashed its legal spend by \$200 million between 200 and 2005. AOL moved to innovative AFAs and saves over 4 million each year [23]. And Levi Strauss has cut its legal spend by 20% through the use of AFAs for 100% of its routine outside counsel spend. [16] Furthermore, savings can be found in the public sector as well. Six London boroughs recently joined together to slash almost 1.5 million Euros a year in legal fees. [17]

## How Spectacular is Strategic Spend Visibility?

*The savings opportunities identified in the last section are just the tip of the iceberg.* A recent study found that at an average organization, 55% of spend goes untapped, 10% to 15% of missed savings opportunities are left in unexamined categories, and 6% of spend is left on the table in currently "managed" categories [08] -- all of which could be easily rectified with a good spend visibility system that gives everyone in the organization timely visibility into spend and the effects of their spending decisions.

The reality is that just like strategic sourcing decision optimization and related advanced negotiation methods will save an organization, on average, 12% above and beyond what it would save with a reverse auction, strategically applied spend analysis will save up to 12% beyond what the organization would have saved without using it. But, in reality, the calculation is not this simple or this straight forward. First of all, on a traditional sourcing project, tactical spend analysis can save an organization up to 12%, which means that the savings from strategic spend analysis will vary from project to project. Second, and most important, the real savings from strategic spend analysis come from its application to projects where tactical spend analysis can not be (successfully) applied and its ability to generate returns year after year, in comparison to tactical spend analysis where the value curve flattens out over time [27]. In fact, the returns from tactical spend analysis decrease so rapidly that less than one third of organizations will continue a traditional, tactical, spend analysis program beyond three years, and almost a third will discontinue the program within a year [08]. That's why organizations must get strategic.

To illustrate the increased savings potential, let's take a fictional CPG Manufacturer, who might have cost breakdowns similar to what is described in Table 1, and consider the cost savings differential between a tactical application of spend visibility and a strategic one. We will assume, in both analyses, that the company starts with 25% of Procurement Spend Under Management, decreases its average sourcing cycle time, which starts at 120 days, by about 30% each year while correspondingly increasing SUM by approximately 42% each year, and that it decreases maverick spend, which is currently 40%, each year.

For our analysis of the tactical application of spend visibility, we'll assume that the manufacturer decreases maverick spend by 50% each year, which we will assume will decrease unrealized savings by 50% each year for simplicity, and this is not unrealistic given the typical results identified in a tactical spend visibility or analysis program over the last five years in studies done by Aberdeen and AMR. We'll also assume a progressing sophistication in spend analysis capability over 3 years and a conservative savings plan of 8%, 6%, and 4%, which assumes the high-potential savings categories among the low-hanging fruit are tackled first.

**Table 1 – A Spend Breakdown for a CPG Company**

			<b>Category</b>	<b>% Division</b>	<b>% Budget</b>
<b>Division</b>	<b>Budget %</b>	<b>Manufacturing</b>	Raw Materials	70.00	42.00
Manufacturing	60.00		Power	10.00	6.00
Marketing	15.00		Facilities	15.00	9.00
Legal	5.00		Wages	5.00	3.00
IT	10.00	<b>Marketing</b>	Services	70.00	10.50
HR	3.00		Wages	20.00	3.00
Finance	5.00		Facilities	10.00	1.50
Admin	2.00	<b>IT</b>	Hardware	25.00	2.50
			Software	40.00	4.00
			Services	20.00	2.00
			Wages	10.00	1.00
			Facilities	5.00	0.50
		<b>HR</b>	Services	20.00	0.60
			Wages	60.00	1.80
			Facilities	20.00	0.60
<b>Category</b>	<b>Budget %</b>	<b>Finance</b>	Services	30.00	1.50
Raw Materials	42.00		Wages	50.00	2.50
Power	6.00		Facilities	20.00	1.00
Facilities	13.50	<b>Admin</b>	Services	50.00	1.00
Wages	13.90		Wages	30.00	0.60
Services	18.10		Facilities	20.00	0.40
Hardware	2.50	<b>Legal</b>	Services	50.00	2.50
Software	4.00		Wages	40.00	2.00
			Facilities	10.00	0.50

Furthermore, for our analysis of the tactical application of spend visibility, we'll assume that they are unable to tackle the sacred Marketing, Legal, and HR cows, that IT will only let them source commodity hardware, and that Manufacturing will only let them assist on the one third of facilities spend that is used for warehousing and inventory management. This gives us the projected program results summarized in Table 2, which amount to a projected program savings of 1.27% of total organizational spend over three years, for a total cost reduction of approximately 1.27M for a 100M company, 6.35M for a 500M company, and 12.7M for a 1B company.

**Table 2 –Three-Year Savings from a Tactical Spend Visibility Program**

	<b>Year 0</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	
<b>SUM</b>	25	35.5	50.5	72	
<b>Average Negotiated Savings</b>	0	8%	6%	4%	
<b>Average Realized Savings</b>	60%	80%	90%	95%	
<b>Incremental Savings</b>		0.67%	0.81%	0.81%	
<b>Total Spend Savings from</b>					
<b>Raw Materials</b>		0.28%	0.34%	0.34%	
<b>Power</b>		0.04%	0.05%	0.05%	
<b>Hardware</b>		0.02%	0.02%	0.02%	
<b>Facilities</b>		0.03%	0.04%	0.04%	
		<b>0.37%</b>	<b>0.45%</b>	<b>0.45%</b>	1.27%
<b>Total Savings</b>					
	<b>100M</b>	0.37M	0.45M	0.45M	<b>1.27M</b>
	<b>500M</b>	1.85M	2.25M	2.25M	<b>6.35M</b>
	<b>1000M</b>	3.70M	4.50M	4.50M	<b>12.70M</b>

Now we'll compare this to the results that could be obtained by instead embarking on a strategic spend visibility program where additional insight, greater spend rationalization, and better demand management and inventory scheduling allows the more strategic organization to increase the average negotiated savings by 25%. We'll also assume that better fraud detection capabilities assists in further deterring maverick spending attempts in each program year (as some maverick spend will be redirected to companies that make it personally profitable for the buyer to do so). We'll also assume that the strategic effort includes Legal, Marketing, and IT who embark in joint efforts to bring the services spend under control, and, consistent with savings potentials outlined in the previous section, manage to save 20%, 16%, and 12% on their services spend in the first three years.

Furthermore, we'll also assume that the proactive risk analysis included in the strategic application of spend analysis mitigates the cost of each significant supply chain disruption they typically experience on an annual basis by 50%, as the risk-based analysis allows them to identify and mitigate sole-source or sole-geography risks on parts that could shut down production, and that the improved tracking and reporting capabilities of the system negates the cost of a separate regulatory reporting effort, which would have been an additional 0.5% of organizational spend in the first year. In this situation, which is summarized in Table 3, we would now have a projected program savings of 5.65% of total organizational spend over the first three years, for a savings of 5.65M for a 100M company, 28.24M for a 500M company, and 56.48M for a 1B company.

**Table 3 – Three-Year Savings from a Strategic Spend Visibility Program**

	<b>Year 0</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	
<b>SUM</b>	25	35.5	50.5	72	
<b>Average Neg. Savings</b>	0	10%	7.50%	5.25%	
<b>Average Realized Savings</b>	60%	90%	96%	99%	
<b>Incremental Savings</b>		0.95%	1.08%	1.11%	
<b>Services SUM</b>	0	35.00%	55.00%	75.00%	
<b>Average Neg. Savings</b>	0	20.00%	16.00%	12.00%	
<b>Average Realized Savings</b>	0%	80%	90%	95%	
<b>Incremental Savings</b>		5.60%	2.88%	2.28%	
<b>Savings of Total Spend By</b>					
<b>Raw Materials</b>		0.40%	0.45%	0.46%	
<b>Power</b>		0.06%	0.07%	0.07%	
<b>Hardware</b>		0.02%	0.03%	0.03%	
<b>Facilities</b>		0.03%	0.04%	0.04%	
<b>Services</b>		1.01%	0.52%	0.41%	
<b>Risk Management</b>		0.50%	0.50%	0.50%	
<b>Report Savings</b>		0.50%	0.00%	0.00%	
		<b>2.52%</b>	<b>1.61%</b>	<b>1.51%</b>	5.65%
<b>Total Savings</b>					
	<b>100M</b>	2.52M	1.61M	1.51M	<b>5.65M</b>
	<b>500M</b>	12.62M	8.06M	7.56M	<b>18.25M</b>
	<b>1000M</b>	25.24M	16.12M	1.51M	<b>56.50M</b>

And while savings will vary based upon an organization’s particular spend breakdown, spend under management, and level of sourcing maturity, it should be clear that a strategic spend analysis effort can deliver an ROI that is many multiples of what a purely tactical spend analysis project will deliver. While not all strategic programs will deliver a 5X return over a tactical program, additional returns of 2-3X will not be uncommon and in some situations, returns of over 5X will be possible.

## **Enterprise Strategic Spend Visibility is Easy!**

All modern spend visibility tools support client-server or web-based modes and can be easily distributed to all users of the organization. Furthermore, the best tools allow a buyer to load up, access, and make sense of a reasonable chunk of organization data (centered on a category, supplier, or other item of interest) at 80%+ classification accuracy in a matter of hours (and sometimes minutes). The best providers can successfully integrate dozens of data sources in a matter of weeks and set up automated refresh procedures, based on customized mapping and cleansing rules that *the buyers* define, that can automatically extract new data from all enterprise systems and update the organization's spend visibility application monthly, and sometimes even weekly.

Once the tool is online, an organizational user can always get an immediate assessment of who is buying what from whom, when, where, and at what total spend amount across the organization -- and this assessment is only as out of date as the last refresh. And this information can be instantly communicated throughout the organization. This not only provides validation that the sourcing decisions are sound, but gives staff faith in the data the decisions are based on. This goes a long way towards getting people to buy in to the policies and contracts that are created by Procurement, which is key to reducing maverick spend across the organization.

Now, given that top performers are twice as likely to utilize web-based reporting to track key spend and savings metrics, almost 90% more likely to link spend visibility and analysis with contract lifecycle management and e-sourcing, and 31% more likely to leverage spend analysis in sourcing opportunities, shouldn't the organization get the visibility it needs to join them. [01] Especially considering this visibility could easily be worth 10% of organizational spend? To put this in perspective, an organization would likely have to double, if not triple, its sales to realize the same bottom line impact that organizational spend visibility can provide. In today's economy, that's not likely to happen. So embrace strategic spend visibility, and get ready for the year over year over year cost reductions it will deliver!

## Summary

***The savings opportunities identified in a tactical spend visibility project are just the tip of the iceberg.*** A recent study found that at an average organization, 55% of spend goes untapped, 10% to 15% of missed savings opportunities are left in unexamined categories, and 6% of spend is left on the table in currently "managed" categories [08] -- all of which could be easily rectified with a strategic spend visibility initiative that gives everyone in the organization timely visibility into spend and the effects of their spending decisions.

Simply put, classification-centrism is the pyrite (fools' gold) of [tactical AP] spend analysis, aiming squarely at the glitter, while completely ignoring the massive vein beneath. Furthermore, just like one can only see the top 10% of an iceberg, a tactical spend visibility effort focused on AP data will only identify 10% of an organization's savings opportunities. An organization needs a strategic spend visibility effort that lets it dive into all of its organizational spend data – which includes invoice data, inventory data, sales data, supplier data, etc., as this will not only multiply its savings by a large factor (which could be five or higher, as demonstrated by the hypothetical CPG manufacturer), but allow it to uncover new cost reduction opportunities for years and years to come.

Only a strategic spend visibility effort will allow an organization to beat the value curve [27] of traditional, transactional, spend visibility and analysis efforts, which tends to flatten out within one year for aggressive organizations, and within two to three years for the vast majority of organizations – who end up leaving millions of dollars on the table because they don't think to look. ***Don't let this happen to your organization.***

## About Sourcing Innovation

Sourcing Innovation, which launched in 2006, is a resource for sourcing, procurement, and supply chain professionals who are interested in improving themselves and the overall performance of their organizations. Sourcing Innovation is education about, and in-depth analysis of, technologies and approaches that can have a profound impact on the way an organization does business. More information about Sourcing Innovation can be found on the blog itself, at <http://blog.sourcinginnovation.com/>



Rosslyn Analytics is a cloud computing leader who offers strategic Spend Analysis as a Service (SAaaS), which changes the way world-class organizations access, use, share and monitor their spend. Its award-winning web-based automated spend analytics platform, Rapidintel, aligns and empowers ALL employees that can influence spend by delivering visibility of enterprise-wide spend in under a month. This type of technology has a profound impact on levels of profitability as it enables many customers to slash indirect costs by up to 25% within eight weeks. Initial savings occur so rapidly that Rosslyn Analytics guarantees an ROI in six months. Also, enterprises can start with a free, self service version of Rapidintel that gives buyers the ability to run base spending reports and identify duplicate payments, for example, within minutes of loading data into the platform. See <http://www.rosslynanalytics.com>

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