SpendHQ

Why Spend Analytics is the Backbone of Procurement Performance

Today's procurement teams can't accomplish much without the insights that come from spend analytics. Operations are simply too complex and decentralized for teams to call audibles based on what they think they see playing out. Here are five not so obvious reasons why.

BUILDING BRIDGES WITH STAKEHOLDERS

A recent study that we conducted with Procurious revealed that Procurement's most important stakeholders doubt the accuracy of the function's data. This distrust creates a serious dilemma for Procurement—the function relies on buy-in from business units and executives, but these stakeholders are naturally less likely to work with Procurement when it doesn't have the data to drive meaningful projects.

Spend analytics solves this issue by transforming organizational spend data into comprehensive, digestible information. With it, Procurement can find project and cost savings opportunities that open the door for productive collaboration. When stakeholders know that Procurement's data is accurate and can help them drive real results, they become partners working toward a common objective instead of adversaries working against each other for their own goals.

ESTABLISH LEAD INDICATORS

Lead indicators are a critical factor in execution-based operations. Not only do they make operational excellence measurable, but they also allow teams to create tasks that drive specific results, also known as lag indicators. However,

if we rewind even further, we'll find that all teams need insights into what their lead indicators should be. For Procurement, spend analytics is the source of those insights.

As we've established, spend analytics gives you context on static data points like spend totals by supplier, category, and other data dimensions. Using this context, it becomes easy to identify which levers produce which results. Then you can create a plan to do more of certain activities and less of others. As time goes on, you can even use your spend analytics and savings tracking to optimize your activities and create data-driven standard operating procedures that practically automate positive results.

SPEND ANALYTICS CREATE ACCOUNTABILITY

Because Procurement's data sets are so large and spread out across so many systems, it's difficult to determine the cause of savings leakages even when you can find them. There's often little you can do to make corrections unless you want to spend valuable time playing corporate detective.

Spend analytics does away with the need for sleuthing completely. Not only does it reveal issues and opportunities, but it also makes it very clear where they're coming from. When teams have a quality spend analytics software, addressing maverick spend is usually as simple as sending an email with the relevant contract terms. Likewise, securing a cost savings is as easy as looking at which suppliers would be the best fit for a contract.

However, accountability isn't only an outward tool for Procurement. While most teams are always working hard to secure savings and mitigate risk, results rarely materialize overnight. Sometimes suppliers push contracts back or wider issues outside of Procurement's control disrupt supply chains.

In these instances, Procurement can fall back on the data in its spend analytics platform to forecast results. Likewise, teams with a procurement performance management platform can supply leadership with regular reporting, savings tracking, and visibility into Procurement's project pipeline. Doing so makes it easy to communicate what the team is working on and what they've already achieved.

Procurement professionals should be wary though—accountability is an important performance management mechanism that should keep them honest as well. If they aren't capitalizing on cost savings opportunities or pursuing non-financial initiatives to the best of their ability, the numbers will tell that story too.

MOVING THE NEEDLE IN THE RIGHT DIRECTION

"Don't jump to conclusions" is more than just good advice for your personal life. It's also surprisingly relevant to procurement performance. But because most Procurement data is scattered over numerous tools, most teams only have visibility into around 40% of their spend, leaving them without a choice.

Having visibility into less than half of your spend is a serious roadblock to spend management. However, it's not the easiest issue to solve, so many teams rely on this limited perspective to find projects and evaluate their performance. Unfortunately, following inconclusive data opens the door to decisions that decrease productivity, increase production costs, create more risk, or hurt ESG initiatives!

Having holistic spend visibility and analytics avoids this issue. First, spending doesn't happen in a vacuum. By giving you a comprehensive look at your spend data, spend analytics reveals contributing factors and informs your decisions. Secondly, spend analytics shows teams all their options so they can prioritize the most pressing ones now and tackle

other major opportunities later. The result is greater net savings, more meaningful impact, and clarity on the strategic initiatives that will drive the business forward.

FINDING THE LESS OBVIOUS PROJECTS

As moving the needle in the right direction shows us, the full effects of a spend management decision aren't always easy to predict. This is also true when it comes to the size of a project's impact. Sometimes, the most obvious opportunities aren't the ones with the most potential.

This is because spend data is akin to a reef—the most exciting events are actively happening deep under the water. If you look down from the surface, you'll only see the shallowest coral. But when you dive in with a mask and an oxygen tank, you'll see the undercurrents, minnows, and big fish that drive the development of the ecosystem.
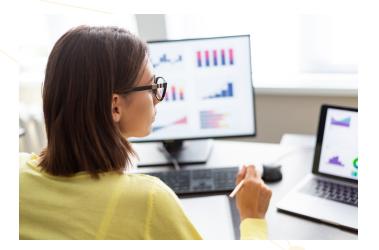
Likewise, your spend data is a world of trends, tail spend, and weighty supplier dynamics. Without spend analytics, your influence is limited to the projects swimming near the surface, even if you manage to gather your data comprehensively. Once you put on your mask and oxygen tank though, you can see all the opportunities in front of you. Then there's almost no limit to what you can achieve.

WHAT GETS IN THE WAY OF SPEND ANALYTICS?

Spend analytics transforms spend data into insights and allows Procurement and its stakeholders to see the story of organizational spend at a glance. It's an indispensable tool in the journey toward procurement performance, but this isn't news to anyone.

Gathering Procurement data is hard because it's spread out across a handful of tools including ERPs, BIs, suites, and other processing platforms that all format data differently. Add in various business units, mergers, and acquisitions and you have a melting pot of data that's far too complex for a single human to make sense of. To make matters more complicated, spending never stops, meaning you need to refresh data at least bi-monthly to maintain any meaningful insights into spend.

Even turning to a dedicated spend analytics tool is often inadequate because many platforms have inefficient and inaccurate implementation processes. Not only do they require months of categorization workshops, but they also start with spend taxonomies that are built for Finance, not Procurement. The result is a platform with a fraction of your data and a categorization you can't trust.

For many companies, this is too high a price to pay for spend analytics. Instead, they use the roughly 40-60% of data that lives in their suites to pursue initiatives. But as we've already established, this can lead to counterproductive decisions and it *will lead* to missed opportunities.

At SpendHQ, we know that turning raw data into analytics is complicated, which is why you don't have to do it alone. Leveraging over 20 years of procurement expertise and a cutting-edge AI model trained on $7 trillion+ of analyzed spend, our specialized implementation methodology rapidly cleans, normalizes, and categorizes your organization's data. This unique approach allows us to achieve an industry-leading 97% categorization rate, delivering comprehensive insights within weeks, not months.

Are you ready to see the possibilities that spend analytics unlocks in action? Click below or visit us at spendhq.com now to schedule a demo.

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See how our platform can bring your strategy to life.

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