SPEND ANALYSIS

A beginner's guide

WHAT IT IS AND WHY WE DO IT

- Spend analysis is basic principle for strategic procurement

- We do it to understand on what is a company spending the most money on, so we can
  - find actionable insight
  - manage risk
  - build better business budgets
  - develop procurement strategies
  - identify savings opportunities
  - implement category management
  - diversify vendors
  - spot unacceptable or fraudulent spending

SPEND ANALYSIS STEPS

1. Decide on the analysis's (key) goal(s) (= What do you want to find out?)

2. Find all the data you need
   o collect all financial data from all the departments within the company and centralize it
   o or use the centralized database if there is one

3. Clean the data (as you go)

4. Group/categorize the data
   o Business team
   o Supplier/vendor name
   o Spend category
   o Frequency
   o Plus other specific for the case categories

5. Analyse the data

6. Create reports so that the managers can take action

COLLECTING AND CLEANING THE DATA

- Use at least the data from 12-16 months for valuable insight

- Collect the data and centralize it

- Set suggestible columns names

- Remove duplicates

- Normalize suppliers names (= Supplier Mapping = Supplier Re-Mapping)

- Classify/categorize the vendors (first develop your classification system)

TYPES OF SPEND ANALYSIS

- Tail Spend Analysis

    The most common way of doing this is carrying out a traditional spend analysis, and then ranking the suppliers based on annual spend. The smaller suppliers that add up to around 20% of total spend are defined as the tail.

- Vendor Spend Analysis

    Spend data is optimized by identifying opportunities for consolidation and enhanced compliance. The aim is to reduce the number of vendors in each category. Vendor spend analysis will facilitate the identification of purchasing trends, buying patterns, as well as monitoring utilization and spend consolidation of key strategic suppliers.

- Category Spend Analysis

    The first step in doing a category spend analysis is understanding the scope and breadth of the category. Allocating spend consistently into categories makes the data easier to navigate, interpret, and understand. Access to detailed information on spend by category gives you the data to determine priorities and allocate resources in order to deliver the highest return on investment for the level of effort required.

- Item Spend Analysis

    Item spend analysis refers to analyzing expenditure at an item/SKU level. It takes into account every individual purchase, classifying each one of them to identify what department it was for and what supplier was used.

- Payment Term Spend Analysis

    It utilizes the data and gives a comprehensive view that enables one to identify unrealized interest from early payments of invoices. It explores the opportunities of leveraging all possible discounts or interest from the invoice payment process. It also covers the review of payment patterns so a company could identify practices and activities that are not done properly.

- Contract Spend Analysis

    This spend analysis tells companies if they are complying with their existing negotiated contract terms

RESOURCES

https://www.ignite.no/blog/procurement-spend-analytics

https://www.spendesk.com/blog/spend-analysis/

https://chools.in/wp-content/uploads/2021/02/Spend-Analysis.pdf

Thank you,

Bianca Diana Șmalbelgher