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Spend Analysis:
Working Too Hard for the Money

August 2007

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Executive Summary

While enterprises are clearly able to recognize and communicate the benefits of utilizing spend analysis technology, they have not yet bridged the gap to action. **Sixty percent** of organizations currently rely on manual tools to collect and analyze spend data, resulting in limited spend visibility and the inability to improve cost savings.

Best-in-Class Performance

Aberdeen evaluated over 700 enterprises in July and August of 2007 and distinguished Best-in-Class enterprises by the percentage of enterprise spend under management. Best in Class enterprises in this study are notable for their superior performance and credit spend analysis solutions for delivering the following benefits:

- **12.7% savings** due to sourcing efforts based on spend analysis data

- **9.1% reduction** in manual correction of spend cleansed and classified

- **73% rate of compliance** to contractual agreements

Competitive Maturity Assessment

Best-in-Class performers shared many common characteristics with respect to their spend analysis strategies. Best-in-Class companies are:

- **40% - 94% more likely** to establish executive support for spend analysis initiatives

- **40% more likely** to utilize spend analysis reports that provide details at the transaction level

- **30% more likely** to have enterprise-level visibility into spend

Required Actions

- Establish executive support by demonstrating the ROI of a spend analysis investment

- Know what you can and can't do – establish a baseline for spend analysis capability

- Move beyond sourcing cost savings – contract compliance will also positively effect the bottom line

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Spend Under Management

The classic measure of procurement's impact upon an enterprise is the percentage of non-payroll-related spend that falls under management of this group, what is commonly referred to as *spend under management*. Aberdeen research has shown that enterprises have been able to achieve a 5% to 20% cost savings for each new dollar of spend brought under management.

"If you take away spend analysis capability from a company, you might as well turn the lights out on the procurement department. Then all they've become is a transactional processing group that doesn't add much value to the organization."

- Vice President, Large Property and Casualty Insurance Enterprise

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Chapter One:
Benchmarking the Best-in-Class

Spend analysis (and the visibility it enables) provides the necessary foundation for procurement organizations seeking to make better, more informed sourcing decisions. Savings are typically achieved by (1) identifying opportunities to aggregate spend and negotiate superior contracts, (2) identifying and reducing non-compliant or "maverick" spend, and (3) improving procurement operations and supplier performance. Despite these clear benefits, **one-third of enterprises** do not have a formal program in place to manage spend analysis for the enterprise. While many still work to manage their spend data and gain some modicum of visibility into and understanding of their expense base, they lack the basic framework that formalizes the various activities involved in review and management of spend data. It is therefore not surprising that the primary means of analysis are manual – **60% of enterprises** utilize manual tools and services to collect and analyze spend data, limiting visibility and ultimately leaving money on the table.

Although procurement departments have been tasked with the primary oversight of spend analysis programs, the awareness and importance of these initiatives is also bubbling upstream as executive leaders leverage spend analysis data to make key organizational decisions (Figure 1).

Figure 1: Users of Spend Analysis Data
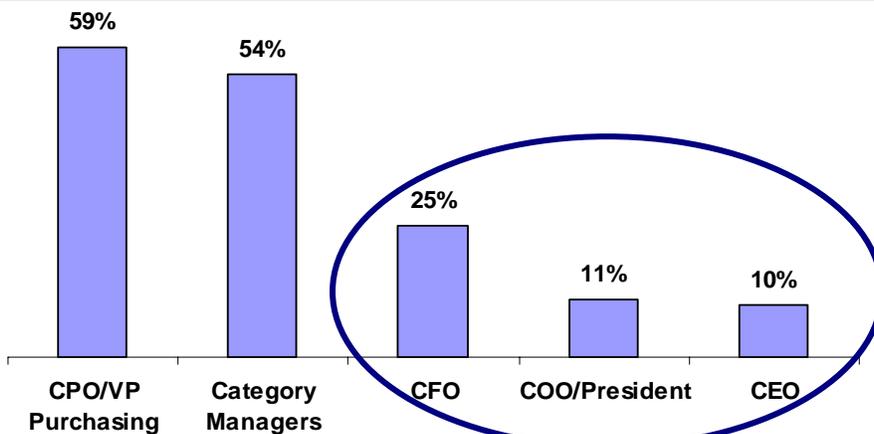
Source: Aberdeen*Group*, August 2007

One of the key reasons executives in the C-suite feel the need to swim deeper in the spend data is the notion of leakage, as addressed in Aberdeen's January 2007 "*Advanced Sourcing and Negotiation*" benchmark report. While procurement departments and sourcing teams have proven adept at identifying savings opportunities and implementing cost reduction measures, a gap often arises between identified and realized savings. Awareness of this gap at all levels (including enterprise leadership) then provides a springboard for corrective action to capture the 14%-24% of savings that is currently unrealized.

Top Drivers for Action

The fact that more corporate executives are utilizing data from spend analysis initiatives underscores the significant market pressures to drive

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Fast Facts

√ **60%** of enterprises utilize manual tools for collection and analysis of spend data

√ The top challenge to an effective spend analysis program is data quality – identified by **42%** of organizations

√ **38%** of enterprises indicated that leveraging technology for spend analysis is a top strategy

"Although we are still in the pilot phase for our spend analysis program, it was monumental getting executive support. Without it, we would have been wasting our time."

- Director of Projects – Procurement, International Consumer Packaged Good Enterprise

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more profits from the business. Faced with this ever-present challenge, CEOs and CFOs are seeking out as many avenues as possible to positively impact the bottom line, and are looking to their procurement departments to contribute more to this end. The profile of procurement has therefore been elevated and the function is valued as significantly more strategic – they are being called upon to deliver results through cost savings on the enterprise spend managed (Figure 2).

Figure 2: Top Pressures Driving Focus on Spend Analysis

Source: Aberdeen*Group*, August 2007
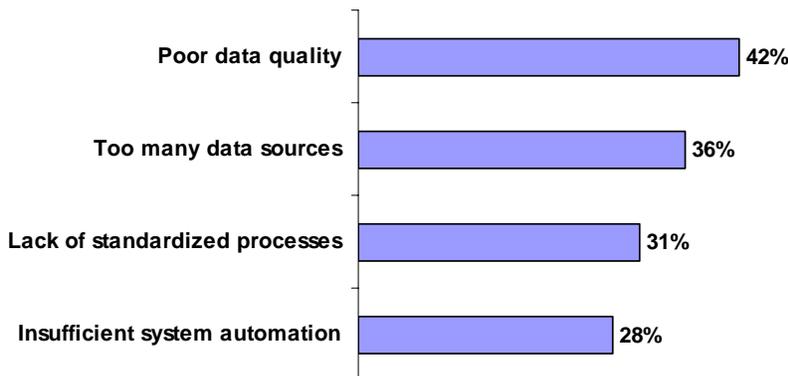
"If I can take the data from my spend analysis tool and understand where it comes from and tie it to performance, then I can easily address the opportunities to drive savings and reduce spend."

-CPO, Large North American Insurance Company
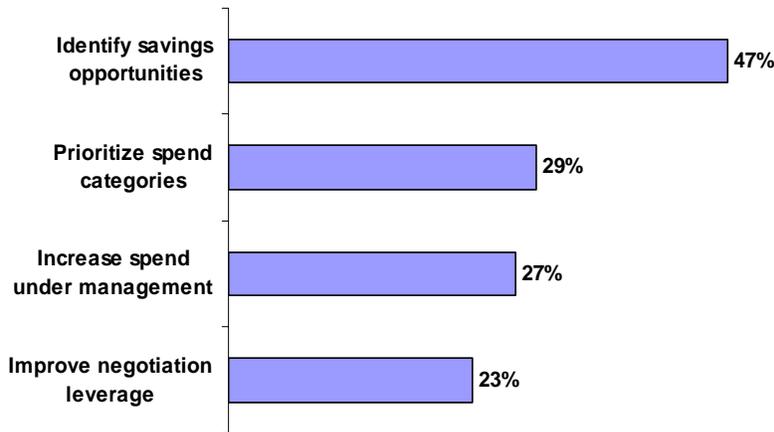
Compounding the hurdles faced by organizations to fully leverage spend analysis activities and deliver results are the internal challenges faced. While procurement departments are working feverishly to generate cost savings, identify key categories of spend, and manage more of the enterprise's purchasing dollars, they are also hamstrung by the resources at their disposal. What is making their jobs most difficult is the poor quality data on which they are crafting integral sourcing and purchasing decisions (Figure 3).

Figure 3: Top Challenges for Spend Analysis

Source: Aberdeen*Group*, August 2007

"Our challenge is with the quality our data. We use two primary ERP sources and were hoping we could manage at least 80% of our spend through them. Although we have a defined set of spend categories, it's been difficult to track spend because of our manual process for cleansing data – the consistency is not there and the data often comes out muddy."

- Strategic Sourcing Specialist, Large North American Oil / Gas Enterprise

While poor data quality is a treacherous challenge that must be overcome in order to produce effective analyses of spend data, the problem is closely linked to the number of data sources that house the spend information. Primarily a product of company size, multiple sources of spend data is an issue that cannot be avoided because the greatest visibility will be gained if the data is made

available from every source possible. It is an especially difficult hurdle for large organizations to overcome – 46% indicate that they draw from at least six sources of data for spend analysis activities (Figure 4).

Figure 4: Percent Breakdown of Data Sources by Enterprise Size
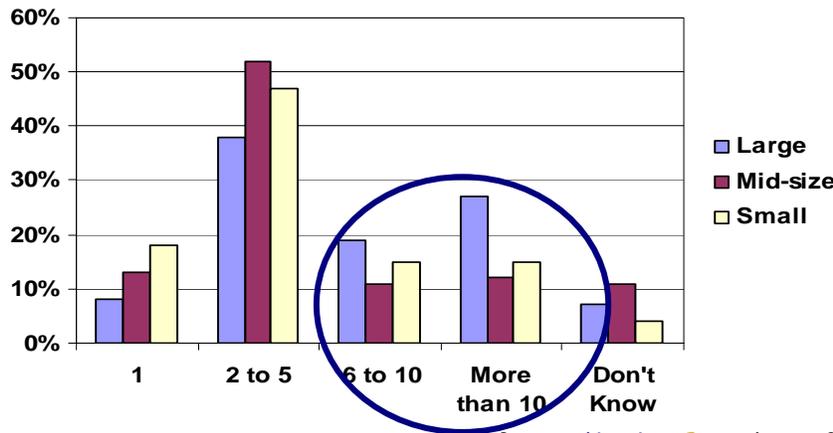
Source: Aberdeen*Group*, August 2007

In response to the pressures faced and the challenges that must be overcome, many organizations are actively looking at technology to provide key data on enterprise spend. At the same time, these organizations are also working to develop standardized processes for spend analysis and repeatable methodologies to directly leverage this output into strategic sourcing efforts (Figure 5).

Figure 5: Top Actions for Spend Analysis
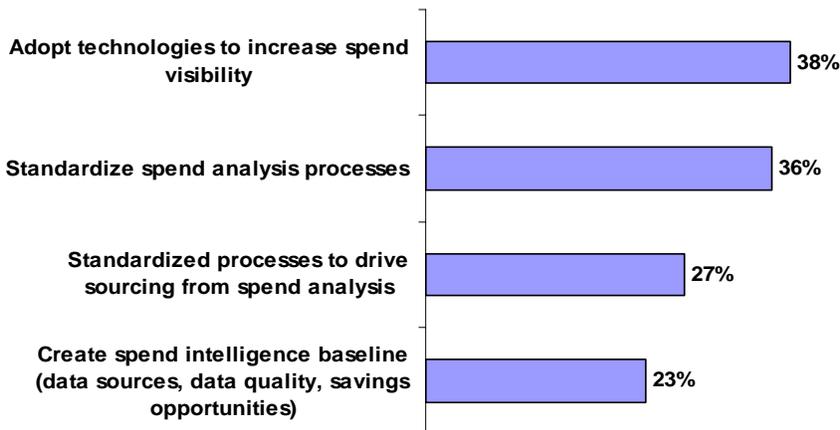
Source: Aberdeen*Group*, August 2007

While organizations recognize the advantages that can be gained from technology deployment for spend analysis, they have still not bridged the gap between theory and practice. Across the primary steps in the spend analysis process, enterprises are generally unable to fully leverage their spend analysis solutions and fail to achieve competencies equivalent to the importance they place on key process areas. (see Figure 6 which portrays respondent self-ratings on a scale of 1-lowest to 5-highest).

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Figure 6: Spend Analysis Processes – Importance vs. Ability
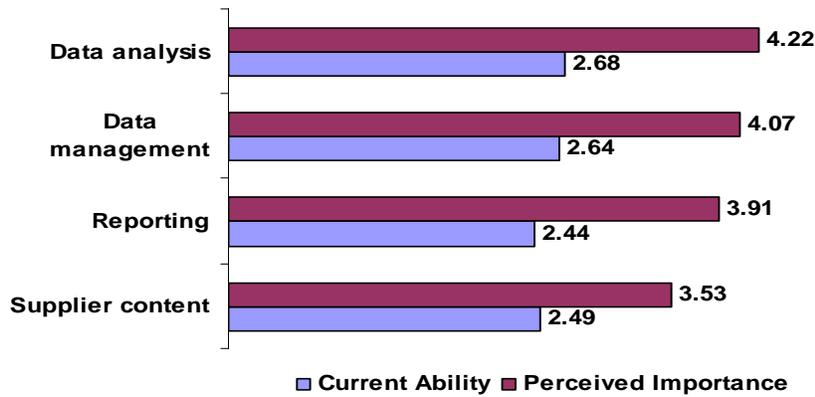
Source: Aberdeen*Group*, August 2007

Maturity Class Framework

Top-performing enterprises effectively administer a spend analysis program by employing technologies that automate multiple facets of the spend analysis process, and enable organizations to more effectively leverage their procurement teams to manage more enterprise spend. Aberdeen distinguished Best-in-Class enterprises by a common key procurement measure: percentage of enterprise spend under the management of the procurement organization. Table 1 summarizes the average performance of enterprises within the different maturity classes for this study.

Table 1: Spend Analysis Benchmark Performance

Maturity Class	Average Performance
Best in Class: **Top 20%** of aggregate performers	• **More than 90%** of enterprise spend is under management
Industry Average: **Middle 50%** of aggregate performers	• **51 to 90%** of enterprise spend is under management
Laggard: **Bottom 30%** of aggregate performers	• **Less than 50%** of enterprise spend is under management

Source: Aberdeen*Group*, August 2007

Best-in-Class enterprises demonstrate that spend analysis can be leveraged to greatly improve business performance when the right technologies are matched with efficient processes. The degree of technology utilization and automation play significant roles in the advantages that Best-in-Class organizations enjoy. While all enterprises exhibit a mix of automated and manual tools for spend analysis, the Best-in-Class are **40% less likely** to engage in fully manual processes and are **twice as likely** to deploy an enterprise-wide, fully automated solution than all other companies (Figure 7).

Figure 7: Spend Analysis Automation
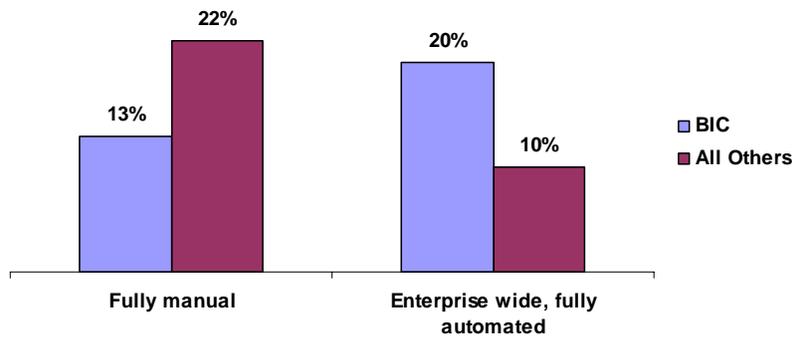
Source: AberdeenGroup, August 2007

Higher levels of spend analysis automation help drive the superior levels of spend under management achieved by Best-in-Class enterprises. This enables these industry leaders to realize greater cost savings across different areas of enterprise spend (Figure 8).

Figure 8: % Savings from Sourcing Efforts After Spend Analysis
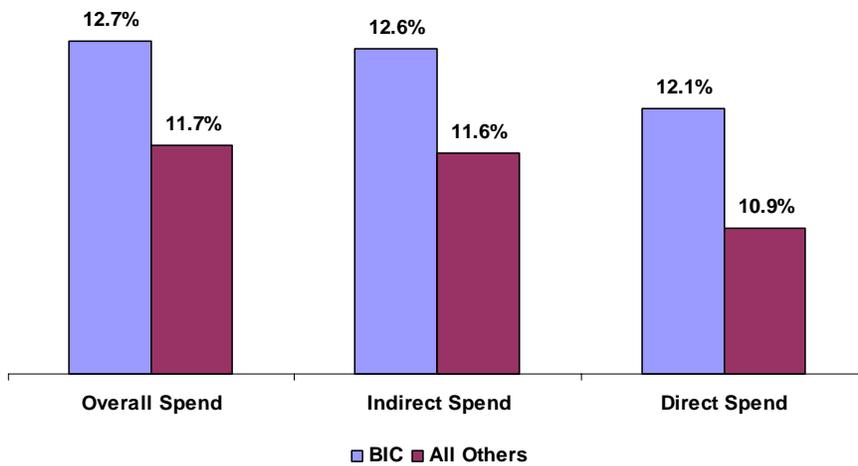
Source: AberdeenGroup, August 2007

Best-in-Class PACE Model

Aberdeen has shown that there is a clear relationship between the pressures companies identify and the actions they take, and their subsequent competitive performance. All participants should examine their prioritized PACE selections and determine whether there are valuable perspectives to be gleaned by comparison with the PACE priorities of Best-in-Class companies (Table 2).

Table 2: The Best in Class PACE Framework

Pressures	Actions	Capabilities	Enablers
• Need to identify savings opportunities	• Adopt technologies to improve spend visibility through spend analysis • Standardize processes for spend analysis • Develop standard methodology for initiating sourcing activities based on spend analysis	• Reporting at supplier, category, and transaction level • Executive support for spend analysis initiatives • Visibility across enterprise into spend on commodities and services • Automated data collection from multiple sources • Category management expertise of procurement team • Ability to identify sourcing opportunities based on spend analysis	• Standardized online reporting on enterprise spend transactions systems • Automated collection of spend data from multiple sources • Configurable reporting and analysis tools • System that performs automated cleansing and classification of data • Sourcing / procurement outsourcing services

Source: Aberdeen*Group*, August 2007

Aberdeen Insights: Spend Analysis - Keeping the Focus

As procurement leaders blaze down the spend analysis trail, it is important for them to maintain focus on the key issues that need to be addressed:

1) Spend visibility – Do I have it?

2) Savings generation – Can I deliver?

3) Savings maintenance – Can I maintain results?

If the answer is "No" to any one of these questions, then spend analysis can be pursued to provide the answer. If the answer is "No" to all three, then it is imperative that spend analysis be implemented as a key corporate strategy. The value of spend analysis, though, lies only partially in the data management. Information is useful but is wasted without the proper plan of action. Once the key to the locked closet (spend visibility) is attained, it is incumbent upon the procurement team to develop an effective plan of action to prioritize and then source the categories that will provide the greatest savings impact to the organization (savings generation). The responsibility does not end after a sourcing event has resulted in a finalized contract as spend analysis tools provide the ability to track compliance to negotiated agreements. Procurement organizations should then actively monitor purchasing activity to ensure that contractual savings are being realized (savings maintenance).

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Chapter Two:
Benchmarking Requirements for Success

The difficulties faced by an organization when effectively performing spend analysis and then leveraging the information to deliver savings are often eased by technology utilization. Best-in-Class spend analysis consists of strong technology use and centralization of processes and policies to enable heightened spend visibility. The quality of data used for sourcing efforts is of utmost importance and begins with proper cleansing and classification of enterprise-wide spend information (Figure 9).

Figure 9: Auto Classification and Cleansing of Spend Data
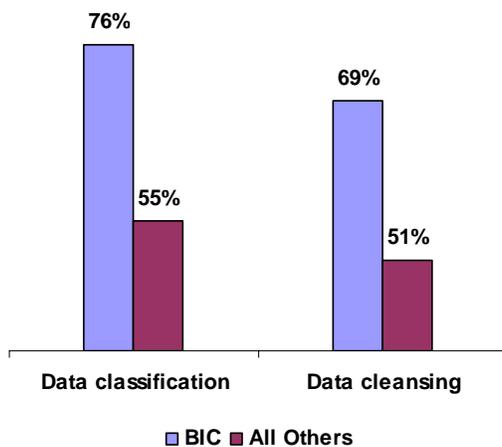
Source: Aberdeen*Group*, August 2007

These first steps in the spend analysis process are critical and set the stage for true spend visibility. Gaining visibility into enterprise spend allows procurement organizations to identify the best savings opportunities available and design an action plan to drive greater savings rates and ultimately place more spend under the management of procurement, which is the second-most common criteria for success of a spend analysis program (Figure 10).

Figure 10: Top Criteria for Success of a Spend Analysis Program
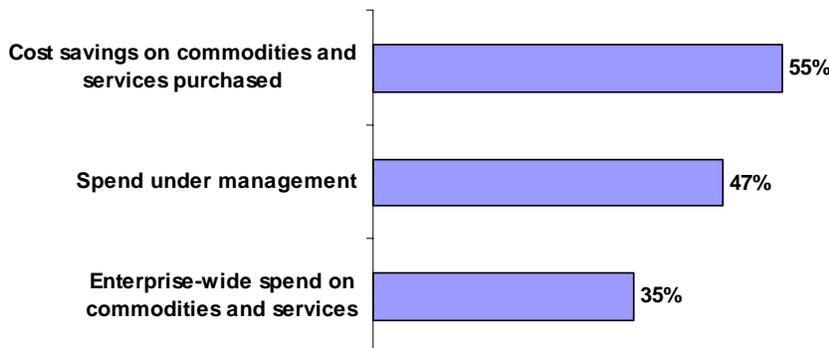
Source: Aberdeen*Group*, August 2007

While spend analysis provides procurement departments with the initial ammunition to get ahead in the cost savings battle by driving sourcing decisions (i.e. which categories to address based on newly realized spend visibility), it also

Fast Facts

√ Best-in-Class enterprises are at least **37% more likely** to engage in automated classification and cleansing of spend data as a first step in the spend analysis process

√ Contract compliance is **30% higher** for Best-in-Class organizations than for All Others **after** spend analysis initiatives

√ Best-in-Class companies are **31% more likely** to have enterprise-level visibility into enterprise-wide spend

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provides a foundation for sustaining these savings by providing an avenue to actively monitor compliance and reduce maverick spending (Figure 11).

Figure 11: Contract Compliance After Spend Analysis Initiatives
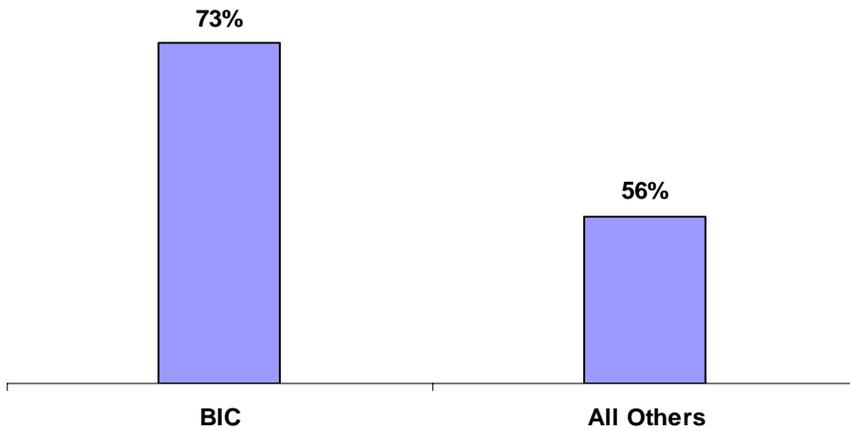
Source: Aberdeen*Group*, August 2007

"We've been using tools to normalize and aggregate our spend data. Although the program is in its early stages, we've been able to successfully tie most of our contracts to our spend; our people are good about not buying off-contract. This type of infrastructure and foundation will be instrumental in the future."

- Purchasing Systems Director, Large North American Manufacturer

Competitive Assessment

Survey respondents fell into one of three categories: Best-in-Class, Industry Average, or Laggard.

Companies were characterized in five major areas: (1) **process** – the level of standardization and scope the sourcing group has defined for their current processes; (2) **organization** – the structure, skills, and capabilities of the organization as well as its general alignment with the strategic direction of the enterprise; (3) **knowledge** – the accessibility and visibility of spend data and information, and the ability to leverage it across the enterprise; (4) **technology** – level of automation and how well technology is leveraged to enhance spend analysis processes; and (5) **performance** – the ability to identify, track and then improve upon key performance indicators such as spend under management, sourcing cycle times, cost savings from sourcing efforts, etc.

Table 3 shows some of the processes, capabilities, technologies, and strategies employed by Best-in-Class, Average, and Laggard companies within the competitive framework.

Table 3: Competitive Framework

	Best-in-Class	Average	Laggard
Process	Establish executive support for spend analysis initiatives		
	70%	57%	36%
Organization	Enterprise-wide ability to perform spend analysis (self-rated)		
	• 3.0 (out of 5) rating of current spend analysis capabilities	• 2.8 (out of 5) rating of current spend analysis capabilities	• 2.5 (out of 5) rating of current spend analysis capabilities
Knowledge	Provides spend analysis reporting at the supplier, category and transaction level		
	67%	55%	38%
Technology	Functionalities of spend analysis solutions in use		
	• 58% use standardized reporting • 48% perform automated data collection from multiple sources • 44% use configurable reporting tools for data analysis • 35% perform automated data classification and cleansing • 26% integrate spend analysis and e-sourcing systems • 23% integrate spend analysis and contract mgmt systems to track compliance	• 43% use standardized reporting • 36% perform automated data collection from multiple sources • 38% use configurable reporting tools for data analysis • 34% perform automated data classification and cleansing • 25% integrate spend analysis and e-sourcing systems • 14% integrate spend analysis and contract mgmt systems to track compliance	• 27% use standardized reporting • 22% perform automated data collection from multiple sources • 18% use configurable reporting tools for data analysis • 16% perform automated data classification and cleansing • 14% integrate spend analysis and e-sourcing systems • 12% integrate spend analysis and contract mgmt systems to track compliance
Performance	Have visibility into enterprise-wide spend across all spend types		
	63%	56%	36%

Source: AberdeenGroup, August 2007

Organizational Capabilities and Technology Enablers

Aberdeen's global supply management research has shown time and again that the deployment of process automation tools enables procurement organizations to place more spend under management. As shown in this report,

and earlier Aberdeen research efforts, companies that place more spend under management typically experience a host of other advantages as they relates to cost savings, process efficiency, and the ability of procurement departments to deliver greater strategic value across the enterprise. Some of those advantages include:

- Best-in-Class enterprises are **46% more likely** to have their spend analysis initiatives supported at the executive level, which subsequently increases the likelihood of effective utilization of the results to deliver the cost savings sought from procurement by this same leadership group.

- Best-in-Class enterprises are **40% more likely** to provide reporting down to the transaction level, resulting in savings rates that are **9% higher** than all other enterprises.

- Best-in-Class enterprises are **60% more likely** to use solutions to capture spend data from multiple sources, thus enhancing spend visibility and resulting in **80% more spend** placed under the management of procurement than in other enterprises.

- Best-in-Class enterprises are nearly **24% more likely** than all others to use integrated spend analysis and e-sourcing solutions. This enables sourcing decisions to be made more efficiently and results in Best-in-Class **sourcing cycle times that are 33% shorter** than their peers.

- Best in Class companies are **nearly twice as likely** to integrate spend analysis tools with contract compliance tools, thus leading to levels of **contract compliance that are 30% higher** than all other enterprises (which also facilitates the ability to sustain savings).

Building the Spend Analysis Business Case

While it is no secret among procurement professionals that the benefits of investing in a spend analysis initiative and building out a formal spend analysis program outweigh inaction, many of the benefits have been traditionally viewed as qualitative or 'soft.' This Aberdeen benchmark shows that, quite to the contrary, the benefits of a spend analysis initiative are both quantifiable and significant in the primary areas that procurement organizations measure their performance, most notably cost savings or reductions. While the absolute value of a spend analysis initiative is apparent in the rates of cost savings, the truer measure is one of improvement. The question commonly asked is "has anything really changed?" Is there a return on the investment in spend analysis?

To quantify the benefits of a spend analysis initiative, the *incremental* changes in performance must be reviewed. The nearly 800 enterprises surveyed report that "spend under management" for all enterprises, a key performance metric for procurement, on average, **improved 34%** (or from 46% to 62%) as result of spend analysis activity.

By improving the amount of spend under management, enterprises are able to leverage the expertise of these departments and ultimately deliver an incremental increase in cost savings.

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> **Spend Analysis Impact – Spend Under Management**:
> For example, an average procurement organization with $500 million of spend under management would see an improvement of 34% or an additional $170 million brought under management. Aberdeen research has shown that enterprises have been able to achieve a 5% to 20% cost savings for each new dollar of spend brought under management.
> **Business Case: $500MM under management**
> - **34% increase in spend under management - $170MM**
> - **5% (low) savings estimate applied to new spend - $8.5MM**
>
> <center>**$8.5MM incremental benefit**</center>

The ability to identify, prioritize and execute strategic sourcing efforts is built upon the foundation of spend visibility. In this benchmark, the average **incremental increase** in savings from strategic sourcing efforts credited to spend analysis initiatives was **75%** (or from 6.7% to 11.7%).

> **Spend Analysis Impact – Strategic Sourcing**
> For example, an average procurement organization with $500 million of spend under management would see savings rates from its strategic sourcing efforts improve by 75%.
> **Business Case: $500MM under management**
> - **30% addressable spend in any year - $150MM**
> - **40% of spend is strategically sourced - $60MM**
> - **6.7% savings before Spend Analysis - $4.02MM**
> - **75% incremental savings with Spend Analysis - $3MM**
>
> <center>**$3MM incremental savings**</center>

Spend analysis deployment has also proven to be an effective means of improving contract compliance, as the improvement in spend visibility enables category managers to gain insight into the on- and off-contract transactions taking place. Although not specifically a contract management or compliance tool, spend analysis solutions can establish a means of auditing buyer behavior to detect "maverick" (non-compliant, off-contract) spend.

Spend analysis reporting can be leveraged by procurement professionals to identify purchases made with those suppliers not contracted, leading to corrective action and subsequent modification of behavior. Contract compliance is important because these agreements are negotiated to provide more favorable discounts to enterprise buyers based on agreed upon volume levels and even contract exclusivity, resulting in absolute or higher incremental savings over purchases made off-contract. The average *incremental increase* in contract compliance was **34%** (or from 44% to 59%)**.**

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Spend Analysis Impact – Contract Compliance:

For example, an average procurement organization with $500 million of spend under management would see contract compliance rates improve by an average of 33%.

Business Case: $500MM under management
- **Compliant spend <u>before</u> Spend Analysis – $220MM**
- **Compliant spend <u>after</u> Spend Analysis – $295MM**
- **33% of additional spend brought into compliance – $75MM**
- **10% benefit from contract compliance – $7.5MM**
    $7.5MM incremental benefit

In addition to the "hard dollar" savings that result from improved sourcing efforts, there are other financial and efficiency improvements that can be realized. One such area is sourcing cycle times – enterprises experienced a **22% improvement** in this area. By shortening the sourcing cycle, procurement professionals are free to perform other strategic activities within the group to benefit the organization.

Table 4: Incremental Performance Improvements Driven by Spend Analysis – All Enterprises

Performance Metric	Incremental Change
Percent increase in spend under management	34%
Percent increase in savings from sourcing efforts based on spend analysis	75%
Percent improvement in compliance with negotiated agreements	33%
Reduction in sourcing cycle times	22%

Source: Aberdeen*Group*, August 2007

Aberdeen Business Case Conclusion

Aberdeen's Impact Examples above leverage this and earlier research efforts and present an estimate of potential returns. Use the Impact Examples above or the values in Table 4 to calculate your own case for investment in Spend Analysis solutions. If deployed and managed effectively, the results from your investment will be significant to the department and to the enterprise as every dollar of savings generated by procurement drops directly to the bottom line. We believe that these estimates should be shared with your executive leaders, whose pressures to deliver increasing profitability are exactly aligned with the benefits of these programs.

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Aberdeen Insights: To Tech or Not to Tech?

Spend analysis drives results. Period. No matter the methods or processes in place, there is no denying the benefits derived from gaining greater visibility into enterprise spend. But can the effects of technology be quantified? Are there any additional benefits to automating spend analysis? Absolutely!

Enterprises that utilize manual tools for spend analysis show an incremental increase in cost savings from sourcing efforts of **3.2%** after a formal spend analysis program has been launched. Incrementally improving technology utilization also incrementally improves savings. However, the pinnacle is reached by those companies that truly embrace technology for spend analysis as they demonstrate an incremental increase in cost savings from sourcing of **7.4%**.

	Manual	Partial Automation	Full Automation
Incremental savings improvements	3.2%	5.3%	**7.4%**

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Chapter Three:
Required Actions

As enterprises continue to rigorously pursue bottom-line results in a highly competitive business environment, they are forced to seek out alternative avenues for bolstering corporate performance. Many have turned to procurement to close the gap between these expected and subsequently realized fiscal results. As a result, Best-in-Class organizations have armed their procurement departments with spend analysis solutions. These solutions enable this group to drive the identification of critical savings opportunities and empower them to deliver on these cost savings targets through key sourcing decisions and the enhanced ability to monitor compliance based on increased visibility into enterprise spend. Based on our research results, Aberdeen recommends the following strategies for improved results:

Laggard Steps to Success

- **Gain support from executive team – it's about the ROI.**

  Executive support of a spend analysis program will facilitate end user adoption and also open the door to the corporate wallet necessary for investment in spend analysis tools. Laggard enterprises are over four-times more likely to be challenged by a lack of executive support. It is therefore critical to demonstrate the potential savings and ROI for spend analysis.

- **Establish standardized processes for spend analysis across the enterprise.**

  Deploying process automation tools for spend analysis activities can enable a broader transformation. But, in order to optimize program performance, enterprises must develop processes that are repeatable and sustainable. Consistency of spend analysis procedures will allow enterprises to measure and benchmark their effectiveness; Best-in-Class organizations are **16% more likely** to standardize spend analysis activities across the entire organization than all other companies.

- **Develop commodity expertise within the procurement group.**

  Spend analysis is ineffective if those reviewing the data are not competent in the utilization of this information. Key sourcing decisions must be made to capitalize on the savings opportunities identified through spend analysis. The responsible party within procurement must have at least a modicum of expertise and training in guiding the sourcing for a particular category. Procurement personnel are **35% less likely** in Laggard companies than in Average or Best-in-Class companies to possess commodity expertise.

Industry Average Steps to Success

- **Establish an organizational baseline for spend analysis.**

  To fully leverage a spend analysis initiative it is vitally important to determine the status of your organization's capabilities. This includes a review of the quality of data, an inventory of the different data sources to be used, an assessment of the current level of spend analysis automation, and establishing goals for the spend analysis program. Best-in-Class

Fast Facts

√ Establish executive support by demonstrating the ROI of a spend analysis investment

√ Know what you can and can't do – establish a baseline for spend analysis capability

√ Move beyond sourcing cost savings – contract compliance will also positively effect the bottom line

enterprises are **20% more likely** than the Industry Average to have determined a baseline competency for spend analysis.

- **Enhance reporting capabilities.**

  Enterprises well equipped for spend analysis should be able to supply a variety of reports from a variety of perspectives. The most common spend reports are at the supplier (least detailed), category, and transaction level (most detailed). Best-in-Class companies have a **32% higher rate of spend visibility** at the transaction level than Industry Average companies.

Best in Class Steps to Success

- **Leverage spend analysis to improve contract compliance.**

  While hard dollar savings can be drawn directly from sourcing efforts based on spend analysis activities, additional financial gains can be realized by improving contract compliance. Improving visibility into enterprise spend enables procurement to better determine on- and off-contract activity, allowing for proactive measures to be taken to improve compliance and capitalize on previously negotiated savings.

- **Integrate spend analysis tools with sourcing solutions.**

  Effective sourcing decisions can only be made if the appropriate level of visibility is attained and the "spend story" is known, as told through spend analysis. Closely coupling spend analysis and sourcing activities will ensure that key savings decisions are being made for the right categories during the sourcing process, and that those decisions are being made with confidence based on the data provided.

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Appendix A:
Research Methodology

I n July and August 2007, Aberdeen Group examined the use of utilization of technology for spend analysis, the experiences, and intentions of more than 700 enterprises in a diverse set of industries.

Responding procurement and finance executives completed an online survey that included questions designed to determine the following:

- The strategies around spend analysis and how their business operations can be impacted.
- The structure and effectiveness of existing spend analysis processes, organization, and technologies.
- Performance metrics for the effectiveness of sourcing and procurement activities resulting from spend analysis.

Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on spend analysis strategies, experiences, and results.

The study aimed to identify emerging best practices for spend analysis and provide a framework by which readers could assess their own management capabilities.

Responding enterprises included the following:

- *Job title:* The majority of the research sample included respondents with the following job titles: C-level executive (11%), vice presidents (7%), director (23%), manager (35%), consultants and other (23%).
- *Job function:* Procurement (59%), logistics / supply chain (11%), business process management (7%), information technology (6%), finance (5%), other (12%).
- *Industry:* High technology (13%), financial services (12%), industrial equipment manufacturing (10%), and a distribution across 29 other industries.
- *Geography:* 59% of the research respondents were from North America, 29% were from Europe, Middle East and Africa, and 12% were from Asia-Pacific.
- *Company size:* 56% of respondents were from large enterprises (annual revenues above US $1 billion); 27% were from midsize enterprises (annual revenues between $50 million and $1 billion); and 17% of respondents were from small businesses (annual revenues of $50 million or less).

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of this benchmark report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Table 5: PACE Framework Key

Overview

Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:

Pressures — external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)

Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)

Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)

Enablers — the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: Aberdeen*Group*, August 2007

Table 6: Competitive Framework Key

Overview

The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance

Best-in-Class (20%) — Practices that are the best currently being employed and significantly superior to the Industry Average, and result in the top industry performance.

Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.

Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance

In the following categories:

Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?

Organization — How is your company currently organized to manage and optimize this particular process?

Knowledge — What visibility do you have into key data and intelligence required to manage this process?

Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?

Performance — What do you measure? How frequently? What's your actual performance?

Source: Aberdeen*Group*, August 2007

Table 7: Relationship Between PACE and Competitive Framework

PACE and Competitive Framework How They Interact

Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute.

Source: Aberdeen*Group*, August 2007

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Appendix B:
Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report include:

- *The Advanced Sourcing and Negotiation Benchmark Report: The Art and Science of the Deal*, January 2007
- *The CPO's Strategic Agenda: Managing People, Managing Spend*, November 2006
- *Direct Materials Sourcing: Living in a Material World*, May 2007
- *The E-Procurement Benchmark Report*, August 2006
- *The Spend Intelligence Benchmark Report*, June 2006

Information on these and any other Aberdeen publications can be found at
http://www.aberdeen.com/channel/procs.asp.

Aberdeen's 2007 Global Supply Management Research Agenda is also available.

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Authors: Andrew Bartolini, Research Director, Global Supply Management (andrew.bartolini@aberdeen.com)
William Browning III, Research Analyst, Global Supply Management (william.browning@aberdeen.com)

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Telephone: 617 723 7890
Fax: 617 723 7897