

Spend Analysis Delivers Big Benefits

APQC's research shows that organizations with spend analysis programs have more efficient procurement processes that cost less

With the recent focus on cost reduction, many organizations are devoting more time to spend management, or the process by which they analyze their spending patterns to identify opportunities for long-term savings. One aspect of spend management that can have a profound effect on the supply chain is spend analysis, the process of assessing the who, what, when, where, why, and how of an organization's expenditures. For its supply chain function, an organization should ask three questions as part of spend analysis:

- ▶ How much are we spending?
- ▶ With which suppliers?
- ▶ Are we getting what has been promised?

A spend analysis program can provide valuable visibility into an organization's procurement spending, which in turn allows the organization to consolidate both its suppliers and its spending.

Many organizations have taken advantage of the improvements that spend analysis can prompt in their supply chain operations. [APQC's Open Standards Benchmarking in procurement](#) indicates that nearly 70 percent of responding organizations have initiated spend analysis programs. APQC also sought to determine how organizations that engage in spend analysis compare to other organizations in key areas. APQC's research indicates that organizations with spend analysis programs have more efficient procurement operations and more robust supplier relationships. The benefits obtained by organizations with spend analysis can be seen in the areas of cost effectiveness, cycle time, process efficiency, and staff productivity.

Lower Overall Cost

For organizations that have initiated spend analysis programs, the overall cost to procure materials and services is much lower (Figure 1). At the median, an organization with a spend analysis program and \$5 billion in revenue would spend \$8,500,000 on procurement activities, whereas a similarly-sized organization without a spend analysis program might spend \$19,500,000 on the same activities. This represents an additional \$11 million in procurement cost for organizations that do not engage in spend analysis.

Total Cost of the Procurement Cycle as a Percentage of Revenue

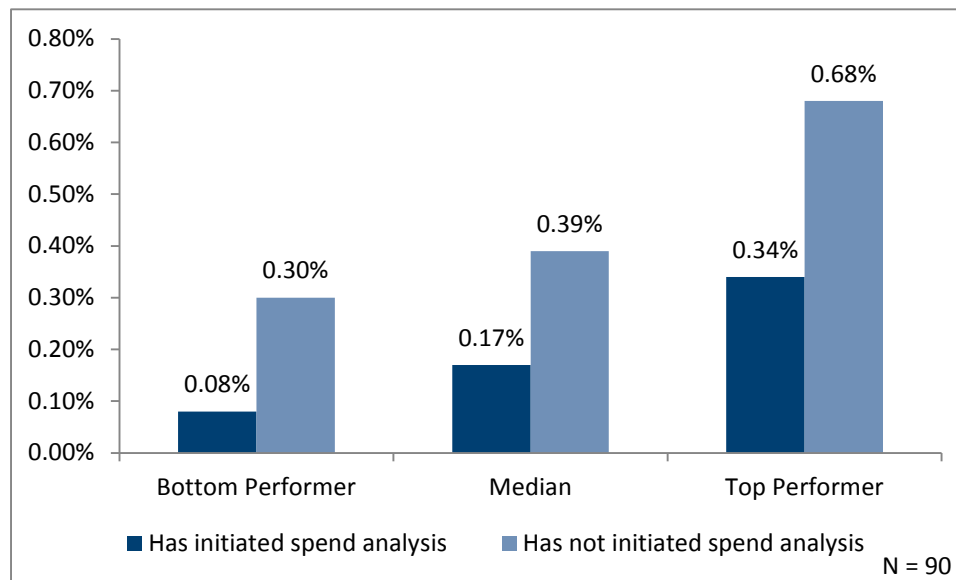


Figure 1

The lower cost among organizations using spend analysis could be related to leaner procurement functions resulting from spend analysis programs. Because spend analysis provides visibility into an organization’s procurement activities and expenditures, it allows the organization to identify areas for cost reduction and process improvement. This, in turn, could result in a lower overall cost to procure goods and services.

Faster Response from Suppliers

In addition to lower procurement costs, organizations with spend analysis have suppliers that provide more efficient order processing. This is most apparent in supplier lead times. At the median, organizations that conduct spend analysis have supplier lead times of six hours, whereas organizations without spend analysis programs have supplier lead times of 20 hours. This represents a difference of nearly two business days in the time it takes an organization to receive purchased goods after an order is submitted.

The difference in supplier lead time could be related to the closer supplier relationships possessed by organizations with spend analysis programs. Organizations can use the visibility provided by spend analysis to weed out extraneous or underperforming suppliers. This would leave an organization with fewer suppliers that it can work with to establish more efficient procurement processes.

Streamlined Procurement Process

Organizations engaging in spend analysis also have more streamlined procurement functions. These organizations need significantly fewer full-time equivalent (FTE) employees for their procurement processes per \$1 billion in purchases than organizations that do not engage in spend analysis. At the median, organizations with spend analysis programs need 72 FTEs for the procurement process. Organizations without such programs need 159.4 FTEs for the same activities. This represents a 121 percent difference in the number of FTEs an organization needs to conduct its procurement activities.

Organizations that have initiated spend analysis also have fewer vendors in their master files per \$1 million in purchases (Figure 2). At the median, these organizations have 2.45 fewer vendors per \$1 million in purchases than organizations without spend analysis programs. The difference is even more apparent among bottom-performing organizations. In this group, organizations without spend analysis programs have nearly seven more suppliers per \$1 million in purchases than organizations that have initiated these programs.

Total Number of Active Vendors in the Master File per \$1 Million Purchases

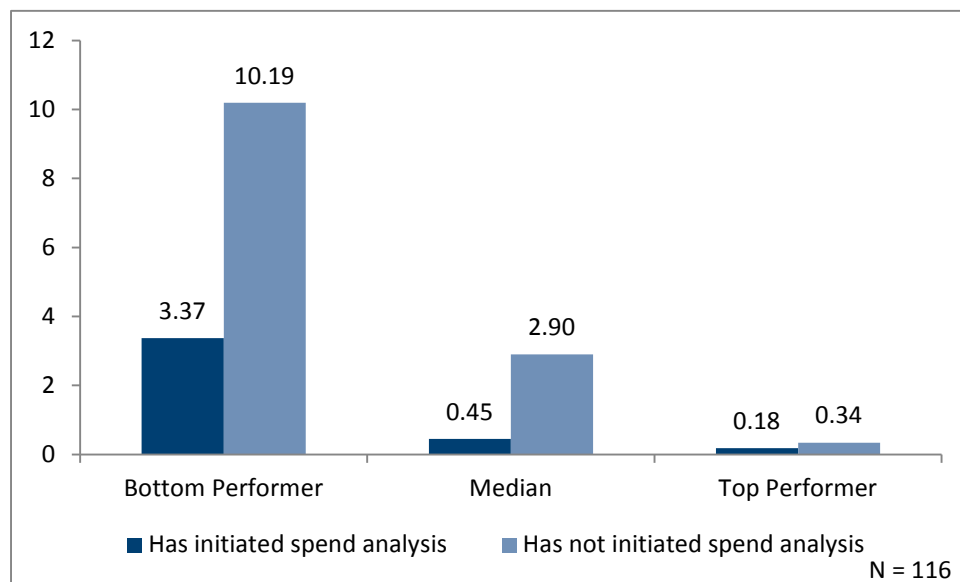


Figure 2

Although a specific cause for the difference in procurement function efficiency cannot be determined from the data, it could be another outcome of the cost and supplier consolidation resulting from spend analysis programs. The more streamlined procurement functions of organizations conducting spend analysis may have built deeper relationships with fewer key suppliers and need fewer employees to source and purchase materials.

Efficient Procurement Staff

The FTEs of organizations conducting spend analysis tend to be more productive than those at organizations without spend analysis programs. This is most evident when looking at the total number of purchase orders processed per procurement FTE (Figure 3). At the median, organizations conducting spend analysis process a staggering 1,559 more purchase orders per procurement FTE annually.

Total Number of Purchase Orders Processed per Procurement FTE Annually

Organization Type	Bottom Performer	Median	Top Performer
Has initiated spend analysis	595	1,705	5,938
Has not initiated spend analysis	53	146	914

Figure 3

N = 81

The stark difference in efficiency between the two groups of organizations again highlights the main benefit of spend analysis programs: visibility into procurement processes and expenditures. Awareness of what is being spent with which vendors not only allows an organization to consolidate its spending and supplier base, but also provides it with the ability to conduct purchasing at a faster rate.

Other Benefits

APQC's research found that organizations engaging in spend analysis also perform better on several other metrics than organizations without spend analysis:

- ▶ total cost of the procurement cycle per purchase order;
- ▶ systems cost of the process "order materials/services" per \$100,000 in purchases; and
- ▶ percentage of purchase orders approved electronically.

Organizations that have initiated spend analysis programs also tend to adopt more mature procurement practices. On average, organizations conducting spend analysis make slightly more than 17 percent of their purchases from suppliers that participate in vendor-managed inventory programs, whereas organizations without spend analysis programs make about 9 percent of their purchases from this type of supplier. The increased use of suppliers with vendor-managed inventory programs could be indicative of the enhanced supplier relationships enabled by spend analysis programs. Once an organization determines which suppliers offer the best value, it can

work with suppliers to establish more evolved procurement processes (such as vendor-managed inventory programs) that benefit both the organization and its suppliers.

Building on Spend Analysis Programs

APQC's research indicates numerous areas in which organizations engaging in spend analysis perform better than organizations without spend analysis programs. The data from [APQC's Open Standards Benchmarking in procurement](#) indicates that organizations with these programs perform better in the key areas of cost effectiveness, cycle time, process efficiency, and staff productivity. While the survey results do not provide direct causes for the performance differences, they give valuable insight into the more mature procurement processes and robust supplier relationships possessed by organizations that use spend analysis.

The key contribution that spend analysis can provide to an organization is information. Spend analysis offers an organization greater visibility into the amount of money it spends purchasing materials and services, the suppliers with which it spends the most money, and whether the value provided by its suppliers meets expectations. This information can then be used to modify procurement processes and supplier lists in order to maximize the money the organization spends procuring materials and services. Once an organization has acted on the information gained from spend analysis, it can adopt other mature procurement practices such as supplier relationship management and supplier category management. This can provide organizations with greater mutual value from their suppliers and allow them to establish leaner, more efficient procurement functions.

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