



IDENTIFYING COST REDUCTION OPPORTUNITIES USING SPEND ANALYSIS

Abstract

A majority of high-performing procurement teams are formally measured on their ability to achieve cost savings (more so than any other KPI). Today's procurement professionals and finance leaders are under immense pressure to control rising costs, identify promising business development opportunities, and ways to minimise risks. Hence, the need for businesses to have a robust and pre-emptive cost reduction strategy in place is indispensable.



Critical focus areas for procurement teams to reduce cost

The supply chain is riddled with various overlapping or isolated processes, activities, events, and stakeholders that contribute to the overall costs. The lack of visibility into the supply chain is a huge challenge that makes it extremely difficult for businesses to manage and control costs, resulting in lost opportunities to save money and generate more revenue. The primary areas that need to be looked at from a cost reduction strategy point of view include:

- **What are you buying?**

The first step to understand where your money is going is to assess and understand precisely what you are buying. Unless you don't understand where your money is being spent, it is almost impossible to stay in control of the costs. Define what your top commodities are and which ones you need to prioritise or deprioritise in order to save costs.

- **Who are you sourcing from?**

Who are your suppliers? While supplier diversification is an excellent strategy for modern businesses, it is equally crucial for them to establish which suppliers are most valuable to the organisation from a supply-versus-cost point of view. Dive into your third-party

contracts to understand who your most valuable suppliers are.

- **How much are you spending?**

From a budgeting perspective, it is critical that you have complete visibility into the spend. If you don't know how much you are spending on procurement (from different channels and suppliers), you will find it challenging to control or optimise this spend.

- **Which vendors can you renegotiate contracts with, and who can you let go of?**

Once you have answered the aforementioned questions, you can make a list of vendors you feel are overcharging and those who can offer you a better deal. You can then

renegotiate your existing contracts from a cost saving point of view. If any contract holds little value or seems exorbitant, you can end them and look for better alternatives. When looking at your existing contracts, try to identify spend leakages and contract violations that might be increasing your operational costs.

- **Supplier consolidation and procurement centralisation**

Using a visualisation tool, you can easily observe organisational spend trends and patterns. This will enable you to better understand spend processes and identify opportunities for bulk buying and supplier consolidation. The key to saving costs is having a centralised procurement process.

Using spend analytics to identify cost reduction opportunities

Spending is a critical activity that is vital for smart financial planning in the short and the long terms. As mentioned above, from supplier rationalisation to data visualisation, every single aspect related to spending must be looked at in order to optimise spend.

Spend analytics tools enable you to gain a higher degree of visibility into your corporate spending, providing procurement team with accurate data and actionable insights. This, in turn, can help you conduct a thorough analysis of all critical focus areas mentioned above, identify cost reduction opportunities, and make better decisions with regard to cutting unnecessary costs.



Four effective cost reduction strategies

Having a robust spend management solution greatly improves efficiency and saves resources and manhours along with identifying sustainable saving opportunities. Spend analytics provides categorised, reliable, and real-time data that offer optimal insight into your organisational spend.* Here's looking at some effective cost reduction strategies that procurement leaders must consider:

1 Modifying sourcing

In terms of long-term cost savings, it is essential that you look at improving your sourcing process. This may involve switching suppliers, opting for more affordable product alternatives, or even engaging with local suppliers for most of your procurement needs. While this is a time-consuming and tedious process, it can result in substantial gains in the long run.

4 Sustainability and innovation

These two words are relevant for every walk of life today as we look to create a better world together. From a business spend perspective, sustainable cost savings aim at long-term and permanent savings through lean methods and targeted initiatives. Embracing sustainability and innovation in terms of ingredients, product packaging, local sourcing, etc., can help bring down the total cost of ownership as well as contribute to the betterment of the world we live in.

2 Category management

By categorising your repeat expenses (marketing, sourcing, office supplies, travel, legal spend, etc.), you can get a better idea of where your money is being spent. Instead of taking a one-size-fits-all approach to procurement, implementing a category management solution makes it possible to use category-specific spend analytics, supplier consolidation, and other effective techniques. These can help you make informed decisions over your organisational spend, and drive cost reduction in the short and the long terms.

3 Addressing maverick spend

Unauthorised spending outside the predefined contracts is a major cause of spend leakage. To control or eliminate maverick spend, it is vital for procurement leaders to centralise their purchase-to-pay processes, ensure that all purchases are compliant with the existing supplier contracts, and pre-approve the prices before any money is spent. Spend analysis can quickly underline areas where unsupervised or maverick spending occurs, thus allowing you to eliminate any potential leakage.

Whether you are a CPO, a CFO, or a procurement manager, spend analysis is an integral solution that can help transform your unstructured data into insights that help you save money. Making procurement spend analysis a part of your strategy will not only help optimise the supply chain but also enable you to make smarter, data-backed decisions, which will eventually result in cost reduction and better returns on your spend.



Conclusion

Spend analysis can help CPOs gain better visibility into their data because it filters the data, organises it, and presents it visually in an easy-to-understand format. With a blend of descriptive, diagnostic, predictive, and prescriptive data analytics, procurement and sourcing leaders can:

- Understand what has and hasn't worked in the past from a cost saving point of view
- Analyse spend patterns to help create strategic sourcing plans
- Mitigate any associated risks
- Predict outcomes by using artificial intelligence (AI) and machine learning (ML) algorithms

*For organisations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed on organisational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like a living organism, will be imperative for business excellence going forward. A comprehensive, yet modular suite of services is doing exactly that. Equipping organisations with intuitive decision-making automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, Live Enterprise is building connected organisations that are innovating collaboratively for the future.

Sources

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As the use of spend analysis continues to grow steadily, a majority of business leaders and procurement officers believe that this type of analytics is invaluable. AI-powered spend analytics solutions collect relevant data and analyse it for procurement teams to understand exactly where the organisation is spending its money, where its competitors are spending their money, who the most valuable and least valuable suppliers are, what the market dynamics are at any given point in time, and what kind of cost-saving opportunities exist that can be leveraged.



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