PROCUREMENT SPEND ANALYTICS: THE PATH TO SMARTER SAVINGS

Abstract

Revenue is not the whole story. In a cutthroat market, savvy cost optimisation is vital for a company's financial well-being. This paper dives into the procurement team's role in managing expenses, the challenges they face and the strategies they can employ to optimise spending. It also explores how procurement spend analytics emerges as a key tool in unlocking significant cost-savings and driving overall financial success.

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Understanding procurement costs beyond the price tag

"Beware of little expenses. A small leak will sink a great ship." ~ Benjamin Franklin

Think you are getting the best deal on your purchases? There is more to procurement costs than meets the eye. Efficient procurement is the lifeblood of any business. It ensures you get the right goods and services at the right price, while keeping your operations running smoothly and more importantly, costs under control. But what exactly makes up these costs?

Procurement encompasses all expenses involved in acquiring the goods, services and raw materials that fuel your operations. They include:

- Direct expenses such as the base cost of goods, transportation fees, etc.

- Indirect (overhead) costs that keep the process running smoothly. This includes salaries of procurement staff, infrastructure costs, marketing and advertising costs, etc.

But then, the price tag that comes with every business purchase is just a part of the whole story. Beyond the categories above, there are hidden costs, including:

- Maverick spending: Purchases outside approved channels, leading to higher prices.

- Inefficient negotiation: Leads to unfavourable pricing terms, missed discounts such as early-bird discount, volume discount, etc., or limited flexibility in the contract.

- Inventory mis-management: Such a situation either ties up capital in case of overstocking, or raises operational costs in case of understocking, due to quick replenishment measures.

- Penalties: Non-compliance with regulations can lead to costly fines and penalties.

Out-of-control spending drains your bottom line. This is where procurement spend analytics emerges as a powerful tool. It gives the insights needed to manage costs and keep finances healthy.

What is procurement spend analytics?

Procurement spend analytics is a financial tool that transforms your organisation's purchase orders and invoices from paper trails into a goldmine of insights about spending habits and hidden cost drivers. These insights empower you to make informed decisions that help slash unnecessary expenses and optimise your procurement process.

The power of procurement spend analytics

As Taiichi Ohno, the father of the Toyota Production System, famously said, "Costs do not exist to be calculated. Costs exist to be reduced."

Procurement spend analytics is a built-in financial compass, helping businesses save costs in several ways. Here are a few:

- **Identifying hidden costs:** We have already discussed this—a whole world of hidden expenses lurks beneath the surface, inflating your bottom line and hindering budget goals. Procurement spend analytics addresses this by meticulously categorising expenses and analysing spending habits, helping you identify inefficiencies and missed opportunities that drain resources

- **Negotiating leverage:** Spend analytics can analyse supplier data and historical spending patterns to identify areas of better buying power. This allows you to negotiate from a stronger position, potentially securing discounts or more favourable contract terms.

For instance, spend analysis might show that your volume of packaging material purchases from a supplier is just below their bulk discount threshold. This insight allows you to negotiate a lower price, potentially saving your company significantly on future purchases.

- **Managing tail spend:** Analysing spend data might reveal that you are buying similar items from multiple suppliers. Consolidation allows you to leverage your buying power and potentially negotiate volume discounts. This is especially beneficial for managing tail spend, which are the numerous low-value purchases that cumulatively impact your budget.

- **Uncovering price arbitrage:** Similarly, spend analytics can uncover price variations for the same item across different departments or geographically-concentrated locations, a phenomenon known as price arbitrage. This insight presents a negotiation opportunity, allowing you

to consolidate purchases and secure a better rate with a single vendor.

- **Eliminating maverick spending:** Spend analysis can identify unauthorised or out-of-contract purchases, often called maverick spending. This allows you to implement stricter controls and potentially save money.

For instance, your marketing team, in urgent need of a specific type of high-quality marker, places an order with a local office supply store, bypassing the company's approved vendor with whom you have negotiated a bulk discount. Spend analytics identifies this, helping you improve internal communication and streamline approval processes.

- **Optimising inventory management:** By understanding usage patterns through spend analysis, you can optimise inventory levels and avoid overstocking or stockouts to avoid wasting resources, optimising capital and operational costs.

Beyond cost savings, procurement spend analytics offers additional benefits:

- **Risk management:** Spend analysis can identify suppliers with risky credit ratings. This helps you diversify your supplier base and mitigate disruptions or potential bankruptcies. A survey revealed that over half (57 per cent) of procurement professionals reported significant improvements in managing risk thanks to technology like automation, advanced analytics and AI.

- **Benchmarking:** Spend analysis helps identify areas of improvement by analysing your spending habits against industry leaders. This sets clear, measurable goals that motivate the procurement team to optimise performance and achieve industry-best

practices.

- **Category management:** The sheer volume of suppliers, products, services and ever-changing market dynamics can overwhelm procurement teams. Spend analysis simplifies data by categorising purchases (IT, security, HR, etc.) and enables focused cost-saving opportunities within each category.

For example, analysing office supplies might reveal opportunities to standardise on certain items, leading to bulk discounts and streamlined purchasing processes

- **Improved supplier relationships:** Spend data empowers you to identify your most valuable suppliers – those

consistently reliable and cost-effective partners. This knowledge enables you to tailor your interactions to nurture these relationships.

For example, negotiating a slightly higher order volume with your top office supply vendor in exchange for an even steeper discount. This not only solidifies your partnership but also unlocks potential cost savings in the long run.

- **Sustainability impact:** As environmental concerns rise, sustainable sourcing becomes crucial. Spend analysis sheds light on your suppliers' environmental practices and your own spending footprint,

empowering you to make eco-conscious purchasing decisions.

While cost savings are a primary driver of procurement spend analytics, these seemingly non-financial advantages often have a ripple effect, ultimately contributing to smarter spending decisions.

The transformational power of procurement spend analytics is clear. It is no wonder that 75 per cent of companies are embracing this powerful tool with data analytics and reporting initiatives planned for 2024. This surge reflects the growing recognition of their impact on improving procurement performance.

Spend less with spend analytics

Procurement cost-efficiency is not optional - it is the cornerstone of a healthy bottom line. But achieving it requires a keen eye for hidden expenses and strategic decision-making. Procurement spend analytics unlocks this potential. By illuminating hidden costs, empowering smarter

negotiations, and fostering stronger supplier relationships, spend analytics transforms your procurement function from a cost centre to a strategic driver of success.

Remember the wise words of Confucious, "He who will not economise will agonise."

Embrace procurement spend analytics today and watch your procurement function become a powerful engine for cost savings and overall business growth.

How can Infosys BPM help?

Procurement is the backbone of any business, but limited visibility into spending patterns creates a major obstacle: hidden cost inefficiencies. These inefficiencies can significantly impact your

financial health. Infosys BPM's procurement spend analytics provides the clarity you need. With this powerful tool, you can uncover hidden costs, optimise your procurement processes and negotiate

better deals. The result? Significant cost savings and a transformed procurement function. Do not miss this opportunity to make a real difference to your bottom line.

For more information, contact infosysbpm@infosys.com

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