SPEND ANALYTICS AS KEY ENABLER TO ACHIEVE SUSTAINABLE PROCUREMENT VALUE THROUGH CLOSED-LOOP SPEND MANAGEMENT (CLSM)

Abstract

The rising tide of environmental awareness has rendered purely cost-driven procurement strategies untenable. Companies must shift gears towards a value-based approach, where ecological impact is given significant weightage in purchasing decisions. This paper delves into how Closed-Loop Spend Management (CLSM), armed with data-driven insights from spend analytics, empowers this transformation.

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The shift towards sustainable practices

For decades, a laser focus on cost efficiency dominated the marketplace. The goal: delivering the most affordable products, even if it meant razor-thin margins that became a mark of competitiveness. This translated to buying decisions being purely cost-driven, often at the expense of everything else, like product quality or ethical labour practices. However, the tide is turning. Climate change, stricter environmental regulations, and a growing consumer appetite for sustainable practices are forcing a fundamental shift in how businesses operate. Today, embracing a sustainable supply chain is no longer a fringe concept, but a strategic imperative.

The business case for going green: It's not just about saving the planet

While environmental responsibility is a core driver of sustainable practices, there's a compelling financial argument to be made as well. A Stanford Business School survey conducted in early 2023 found that 51% of global businesses already have sustainable procurement policies and practices in place. This high adoption speaks volumes about the potential benefits. Here's a glimpse into the win-win scenario that sustainable procurement offers:

• **Cost savings:** By prioritising responsible and efficient suppliers, companies can optimise spend and reduce costs. McKinsey research reveals a double win for companies with strong ESG(Environmental, Social and Governance) credentials. They not only save **5-10% in costs** but also experience significantly higher **value growth (10-20%)** compared to competitors.

• **Enhanced brand image:** Consumers are increasingly drawn to brands that prioritise sustainability. According to Greenly Institute, companies implementing these practices can experience a **15-30% increase in brand value**, indicating a growing appreciation for sustainability among today's conscious consumers.

• **Reduced environmental impact:** Sustainable practices minimise waste and resource consumption, leading to a positive environmental footprint. This translates to a healthier planet and a more sustainable future for all.

Heta Ruikka, VP of Product at Sievo, aptly summarises the additional benefits of sustainable supply chains: "Sustainable supply chains are often simpler, and as suppliers are closer to you, it enables you to work with them better. As suppliers adhere to environmental regulatory systems, customer response monitoring systems, environmental uncertainty and so on, they not only become more sustainable, but also more aware of their surroundings and thus more resilient to the risks they pose."

Procurement is evolving. Sustainable practices, empowered by digital tools, are becoming a cornerstone of value creation in the new procurement model.

Optimising the green path: Closed-Loop Spend Management (CLSM)

Achieving true sustainable procurement requires a strategic approach. This is where Closed-Loop Spend Management (CLSM) comes in. Imagine CLSM as a comprehensive system for optimising your entire spending lifecycle but with a keen eye on sustainability. It utilises data analytics, collaboration, automation, and continuous improvement to achieve cost optimisation, efficiency, and transparency throughout the supply chain.

But how does CLSM go beyond just saving money and contributing to a greener future? Let's delve deeper:

- **Data-driven sustainability:** CLSM empowers companies to leverage real-time data to analyse supplier practices, the environmental impact of materials used, and waste generation across the entire supply chain. This transparency allows companies to identify areas for improvement and make informed sourcing decisions that minimise environmental impact.

- **Streamlined efficiency:** Automating repetitive tasks like data entry and invoice processing reduces waste and streamlines operations, minimising your environmental footprint. Consider the environmental impact of paper production and transportation associated with traditional manual processes. CLSM eliminates this unnecessary waste.

- **Strategic sustainable sourcing:** With CLSM, companies can identify and partner with suppliers who share their sustainability values. This could involve sourcing recycled materials, prioritising local suppliers to reduce transportation emissions, partnering with those actively reducing their environmental impact, or collaborating with suppliers who share your commitment to using renewable energy sources or minimising water usage in production processes.

The powerhouse: Spend analytics as the enabler

While CLSM provides a robust framework, its effectiveness hinges on robust data analysis. This is where spend analytics plays a crucial role. Spend analytics is a tool for optimising procurement through smarter and more economic sourcing. It involves collecting, analysing, and interpreting spending data that provide insights that inform strategic decision-making. Think of it as the fuel that powers the engine of sustainable procurement within CLSM.

Here's how spend analytics empowers sustainable procurement:

- **Strategic supplier collaboration:** Spend analytics goes beyond surface-level data, going deeper into a supplier's environmental practices to identify sustainability champions. This could involve analysing their energy consumption, water usage, waste management processes, and recycling initiatives. It can also assess their commitment to social responsibility, including labour practices and fair treatment of workers. This enables companies to prioritise responsible suppliers and initiate collaborative dialogues.

- **Cost-effective sustainability:** Traditional procurement often focuses on the upfront cost of materials. Spend analytics goes beyond this by uncovering hidden cost drivers. It allows you to analyse factors like transportation costs, waste disposal fees, and potential disruptions due to resource scarcity. By analysing material costs and environmental impact side-by-side, companies can identify opportunities to source more sustainable materials without sacrificing profitability.

- **Proactive risk management:** Spend analytics helps identify potential risks in the supply chain, such as dependence on suppliers in environmentally vulnerable or politically unstable areas. This proactive approach allows companies to diversify their sourcing or partner with suppliers actively managing their environmental footprint. For example, spend analytics may flag a vendor in a region known for water shortages. This allows you to proactively engage with alternative suppliers or encourage your current vendor to implement water conservation practices.

- **Continuous improvement and sustainability goals:** Spend analytics empowers companies to track key performance indicators (KPIs) related to sustainability goals (e.g., recycled material usage, waste reduction). This data enables companies to monitor progress, identify areas for improvement, and ensure continuous improvement within CLSM's focus on optimising processes for long-term sustainability. Imagine setting a goal to increase the use of recycled materials in your products by 20%. Spend analytics allows you to track progress towards this goal, identify any roadblocks, and adjust your sourcing strategies accordingly.

The sustainability imperative: A call to action for businesses

The pressure is on. Consumers are increasingly demanding sustainable practices, with a recent survey revealing that 72% of millennials and 77% of GenZ are willing to pay a premium for eco-friendly products. Regulations are tightening as well, with carbon taxes and environmental reporting mandates becoming more commonplace. Companies face a critical juncture: prioritise short-term gains or embrace a future-proof approach that prioritises sustainability.

The time for incremental change is over. By embracing CLSM and leveraging spend analytics, companies can transform procurement from a cost centre into a strategic driver of sustainability. This win-win situation ensures a thriving business and a healthier planet for generations to come.

How can Infosys BPM help?

Procurement is the backbone of any business, and despite being strengthened with digital advancements, it faces significant challenges. Infosys BPM's TradeEdge revolutionises procurement and spend analytics using advanced AI for data management, classification, and opportunity identification. This solution paves the way for a comprehensive digital transformation, elevating your procurement function to new heights. Embrace the power of AI. Embrace TradeEdge.

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