BEST PRACTICES TO IMPROVE SPEND VISIBILITY

Abstract

It is a confirmed fact that company longevity is decreasing. According to the Harvard Business review, "Companies that listed before 1970 had a 92 per cent chance of surviving the next five years, whereas companies that listed from 2000 to 2009 had only a 63 per cent chance…"

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Businesses these days often do not survive past their fifth year due to lack of financial planning and management. One of the critical aspects of ensuring a company survives in the long term is constantly tracking spends. Spend visibility is a term used to identify where a company is spending its capital or money for its business operations.

Why spend visibility?

Tracking a company's spend is crucial to constantly check the health of the company. It is a way to arrest unnecessary spends and improve the profitability of the business. It gives a holistic view of how money is moving through the company. It provides answers to questions such as, 'Where is the money being spent? Why are the spends necessary? How can the company's bottom line be improved by tracking spends?' It must be noted that for any spend visibility program to be successful, a complete organisation buy-in is needed.

Spend analysis puts a stop to business process and procurement inefficiencies, and thus improves the supply chain. Not only does spend visibility enable improved supplier negotiations, but it also reduces maverick spending—transactions made outside of a company's predefined spending rules—and increases the financial transparency of a company.

Transactional procurement leads to ungoverned purchases and value leakage. Uncontrolled spending is the bane for many a procurement leader. Tracking spends using basic spreadsheets or a complex tool could just increase the difficulty of tracing the spends in an efficient manner.

Best practices for effective and efficient tracking of spends.

Lack of clarity about the customers

To track spends effectively, most organisations follow certain best practices. What are some of these best practices that companies of any size could adopt?

Let us examine some of them:

1. Identify financial data sources and consolidate the spend data

One of the first steps towards higher spend visibility would be to identify the sources from where you could gather the necessary financial data. Consider the spend data from myriad sources including procurement, enterprise resource planning (ERP) tools and purchase orders among others and consolidate it all to get a comprehensive view of the expenditures. Similarly accounts payable (AP) systems give a plethora of information on spend data. Consolidation can be done by using integrated procurement systems that capture and track all purchasing activities. Once the right data is sourced and gathered, clean and organise the data by removing duplicates and correcting errors. Inaccurate data will lead to wrong results while carrying out your spend analysis.

2. Use simple tools

It is a myth that complex systems and tools are needed to start tracking spend visibility. A simple-to-use but powerful tool is the first step towards meeting this need. Such tools often offer significant insights to help you move towards transparent and efficient spending and they have the ability to consolidate and aggregate spend data from various sources. Such tools also categorise the spends—whether for travel, procurement, marketing or office supplies. They can even visualise spending patterns to quickly identify trends and outliers.

3. Track your KPIs

Which are the spend analysis key performance indicators (KPIs) that matter the most for your organisation? Finalise the KPIs that you wish to track and track them meticulously over a period of time to check improvements or slippages over time. Some of the commonly tracked KPIs are requisition-to-order time, realised savings or pre-approved spend.

Requisition-to-order time indicates the time period between the submission of a requisition and the issuance of purchase orders (PO). A longer requisition-to-order time indicates a period of unproductivity that companies would wish to avoid.

Pre-approved spend, another key metric, refers to spending that has already been approved by the concerned department. This indicates that employees are buying from contracted vendors, getting previously negotiated savings and complying with internal controls. Such spending is approved without any delays, since it matches with an existing PO.

4. Optimise internal processes

Streamlining and optimising internal processes helps with better tracking and an improvement in the company's profits. For example, if a company is sourcing the same raw material from various suppliers, it is inefficient. Instead, the company could negotiate better terms and prices with fewer suppliers. These kinds of inefficiencies can be caught and nipped at the bud through streamlined processes. It is vital for any company to establish standardised procedures for procurement and expense management. This can be done through uniform approval workflows, consistent categorization of expenses and standardised forms. This kind of planning and streamlining minimises any kind of confusion and ensures that all spending is tracked and reported in a consistent manner.

5. Plan and implement a strategic spend visibility initiative

After starting the process of spend analysis, it is easy for organisations to get carried away by the 'low hanging fruit'. Almost every product where spend visibility had not been tracked earlier will find ways to get savings. However, after this initial burst of success, it is critical for organisations to identify areas where strategic spend visibility initiatives can be implemented to derive sustainable savings over a long period of time.

Following the best practices for spend visibility helps with freeing and optimising working capital for genuine business needs. Supply chain disturbances can also be minimised by identifying the right suppliers for critical items. These best practices could pave the way for better spend visibility, in turn helping with making informed financial decisions and improving cost control and efficiency.

How can Infosys BPM help?

The Infosys BPM Spend Intelligence offering is designed to improve an enterprise's procurement ecosystem with AI-enabled data management, spend classification and opportunity identification, as well as various leading domain services, to overcome business challenges. IBPM's solution helps you gain actionable insights and identify opportunities for savings.

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