



THE FUTURE OF SPEND ANALYTICS IN THE NEW NORMAL

Abstract

The science of spend analytics, involves collecting, categorising, and analysing expenditure data to identify cost-saving opportunities and improve procurement strategies. Spend analytics is a data-intensive activity that involves data crunching to gain insights and identify spending hotspots and forecast future spends. Spend data can be categorised into five types: direct spends, indirect spends, maverick spends, tail spends, and trade spends. In-depth analysis is important to prevent money leaks and to ensure effective procurement practices. Companies that have undergone digital transformation can access advanced and sophisticated spend analytics tools that revolutionise the way they manage their spends.



What it is. From the housewife on a budget to the largest corporations in the world, the science of collecting, categorising, and analysing expenditure data to gain insights into spending patterns, identify cost-saving opportunities, and improve procurement strategies is something that is a precursor for reduced costs and streamlined

expenses. Welcome to the science of spend analytics.

As one might expect, spend analytics can be a data-intensive affair. Crunching historical numbers to gain insights and identify hotspots of spends as well as forecasting future spends is based on drawing upon multiple dimensions of the

various transactions the entity has with its ecosystem.

The ramifications of this analysis and the insights derived are felt across the organisation in aspects such as supplier management, procurement, financial management and more.



How it is done. Predictably enough, the first step in any spend analysis effort is to collect the data available throughout the organisation - in purchases, payments and transactions with suppliers,

contractors and consultants. The data may exist in many different sources and data management systems. **Cleaning, classifying,** and readying the data for further analysis is a project in itself. The

next step involves employing tools and techniques, as well as human firepower, to make sense of the spend data and **analyse** where and how the money is flowing out.

Types of data. There are potentially five kinds of spend data -

a. Direct spends - hardware and software purchases, purchases of raw materials and components that are needed to create the finished goods and services that the company sells, contract manufacturing spends, salaries of manufacturing staff, spends for setting up a process, factory line or facility

b. Indirect spends - usually, spends for operating expenses such as rents, leasing fees, utilities, insurance payments, marketing spends, media spends, salaries of non-production and non-billable personnel, IT support spends, business travel expenses, transportation spends,

fleet management costs including maintenance and repair operations, backup/recovery and emergency preparedness spends, compliance and regulatory spends

c. Maverick spends - typically, one-off spends that happen at the direction of a business leader or CxO such as purchases from a non-preferred supplier, buying a new, experimental tool or unapproved service, non-contract purchases

d. Tail spends - such spends follow the Pareto Principle, i.e., they account for 20% of the spend volumes but occupy 80% of the procurement process transactions.

A large amount of money is spent on small transactions such as facilities upgrades, gifts and incentives, printing and packaging, office supplies procurement, labelling, uniforms and apparel and so on

e. Trade spends - coupons, volume pricing and discounts, incentives to affiliates, commissions, and free items in joint marketing campaigns are prime examples of trade spends. Such spends could occur on the sell side (merchants offering incentives to customers) or the buy side (brands trying to improve recognition).



Why analyse at depth? It's of course, Business 101 to understand how best to make the spending decisions. However, in-depth categorisation and analysis is called-for as the organisation grows in size, scale and complexity. If not planned and tracked, such spends can leak money in multiple ways and impact working capital. It can even land companies in the red. For example, tail spends often 'fly below the radar' - the amounts per transaction are small enough to be ignored but an analysis of yearly spends in this bucket may reveal glaring lacunae in procurement practices.

What has changed? In early 2020, the world of commerce came to a screeching halt as countries around the world locked down. Once the initial shock wore off, companies coped with the 'new normal' - the world of work moved willy-nilly to the digital hemisphere.

Part of this move was also necessitated due to pandemic-related challenges that impacted money outflows such as:

- Disruptions in the supply chains leading to stockouts and short supply
- Financial distress among suppliers and contractors, and
- Global declines in customer demand for some products and categories.

Digital transformation, a term that was bandied about in boardrooms and flirted with by strategy officers, suddenly became the de facto top priority for most CxOs.

Spend analytics efforts joined the rush to get on the digital transformation bandwagon. In many cases, companies were forced to take spend analytics seriously through the pandemic years - as business nosedived, it was imperative to watch both the top line and bottom line like hawks, ensuring the least amounts leaked out.

The new normal? As we gingerly step into what one hopes are the post-pandemic years, the unexpected new normal

the world was thrust into has become permanent now. Artificial intelligence (AI) has gone mainstream, led by generative text, image and video AI. The applications of AI/ML (Machine Learning) across all spheres of the digital economy are helping companies reap manifold benefits in productivity, efficiency and profitability. Big data and IoT technologies are underwriting this massive leap forward. Digital transformation is not the de novo anymore, it is de facto.

As one might expect, spend analytics has been 'touched' by this quantum leap as well. Companies that have undergone, or started, their digital transformation journeys have access to more advanced and sophisticated spend analytics tools. These have revolutionised the way they manage their spends.

Types of data. There are potentially five kinds of spend data -

Some of the advances in spend analytics in these enterprises include:

1. Real-time Data: Companies can access real-time data on their spending. This allows them to make informed decisions faster and with greater accuracy. Visualise scenarios of globally dispersed organisations that are able to view supply chain movements, procurement data and business unit spends on a single dashboard. The power of such real-time access cannot be understated

2. Predictive Analytics: Machine learning algorithms and predictive analytics assist companies in forecasting future spending patterns whilst identifying potential cost-saving opportunities. Budgetary plans can actually target specific saving numbers and

commit to achieving them with greater confidence

3. Integration with other systems: Spend analytics tools can now be integrated with other systems, such as ERP, CRM, and procurement systems. This provides leadership a comprehensive view of spending across the organisation

4. Artificial Intelligence: AI-powered spend analytics platforms can help companies analyse large amounts of data quickly and accurately, identify issues and patterns, and make recommendations for cost-saving opportunities

5. Visualisation and Reporting: Companies can now generate visual reports and dashboards that provide clear and actionable insights into their spending,

making it easier to identify trends, monitor key metrics, and track progress over time.

These are not hypothetical scenarios. Examples of companies that have leveraged advanced spend analytics tools abound. Consider FMCG giant Coca-Cola, which used predictive analytics to optimise its procurement processes and reduce costs. Another US-based multinational American Express used real-time spend analytics to improve its supplier negotiations and identify cost-saving opportunities.

End note. Spend analytics need not be restricted to large enterprises. Governments are some of the biggest procurers of goods and services. Such

procurement often determines the speed and quality of public services. Efficient procurement helps civil services officers serve more effectively, and rewards

businesses for solving the issues and problems confronting taxpayers.

* For organizations 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 organizational 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 **organizations 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 organizations that are innovating collaboratively for the future.

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