

The background of the slide features a world map in shades of blue and purple. Overlaid on the map are several white dollar signs (\$). On the left side, there is a bar chart with three bars of increasing height, each filled with a diagonal hatching pattern. An upward-pointing arrow is positioned to the left of the bars, with the number '+489,656' written above it. In the center-right, a hand is shown pointing upwards with the index finger. At the bottom, there are several lines of binary code (0s and 1s) in a light gray font. The Zycus logo is located in the top right corner, consisting of the word 'ZYCUS' in a bold, yellow, sans-serif font, with a small trademark symbol (TM) to its upper right. The logo is set against a black rectangular background.

**ZYCUS™**

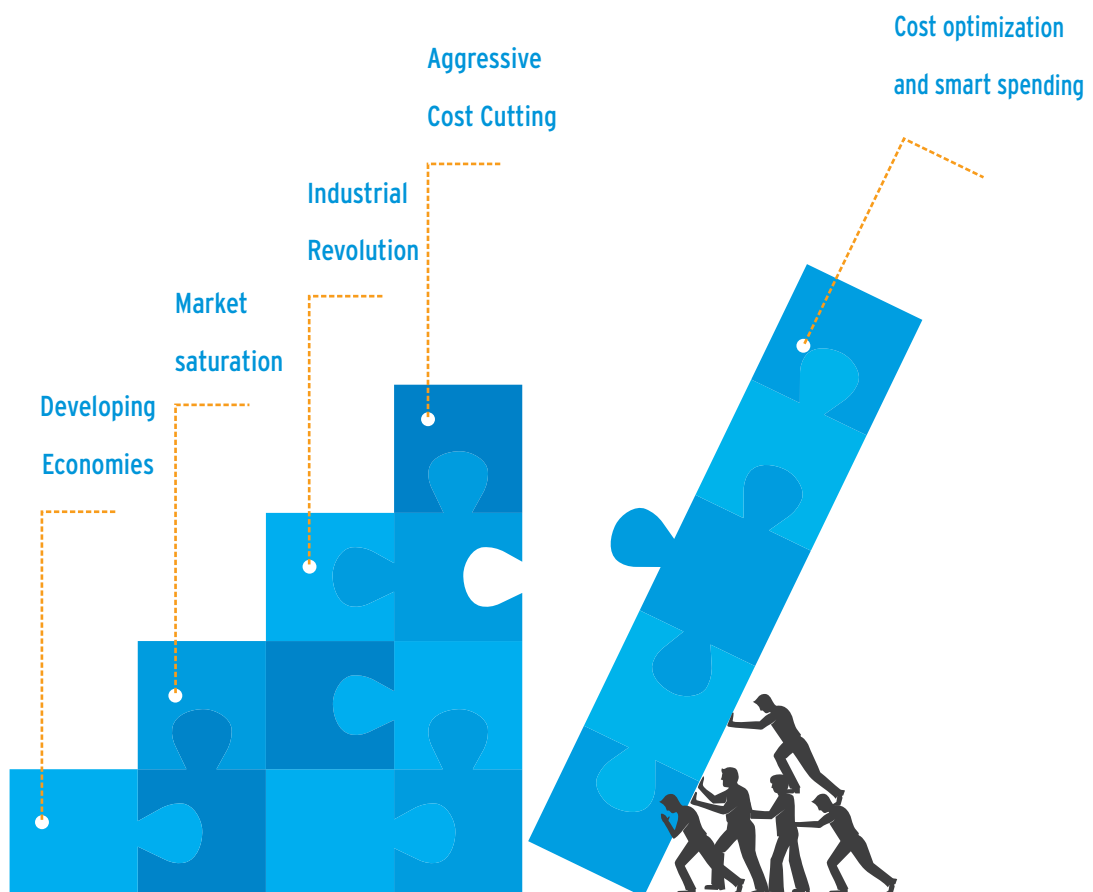
# **SMART SPEND ANALYSIS**

## A Bird's Eye View

## 1. Evolution of Procurement

The biggest myth surrounding spend analytics is the belief that such a strategic initiative requires an organization that has reached a certain level of stability and maturity. Almost every organization has visibility into its expenses, albeit to a limited extent. Every organization, in its own ways, attempts to keep its expenses in check. It is **how they achieve that objective that differentiates them.**

While smaller organizations may feel Microsoft Excel satisfies most of their requirements, mid-sized organizations might feel the need to build a tool specifically for this purpose. Then there are the big organizations which have globally operational teams employing varied ERP systems and require the same degree of visibility. Such organizations often go ahead with procuring a third-party spend analytics tool that helps to integrate their data.





### **a. Developing Economies**

Around 2 centuries ago, the world markets were considered to be in their infancy. During this era, any new product that was introduced to the market was fairly successful, and companies thrived on this success. They started realizing huge sales and growth, even beyond what they could have foreseen.

### **b. Market Saturation**

That era passed swiftly because of growing competition. With that competition came price cuts. Companies were forced to find new markets, reduce prices, and the growth curve stopped soaring the way it once did. This was the time of honing selling skills which would make all the difference. And for a while, it did.

### **c. Industrial Revolution**

Pretty soon, sales growth came close to flat lining. Companies came to terms with the bitter truth that there was a limit to how much their sales could still grow. Then the focus turned towards the manufacturing department, since almost all industries at the time were manufacturing - oriented.

Companies started investing in heavy machinery to reduce manual labor and its associated errors. This was the age when manufacturing excellence ensured that if not the top line, the bottom line grew satisfactorily. Having seen growth once again, companies began to get lavish with their executives and general overall expenses.

### **d. Aggressive Cost Cutting**

By this time, both sales and manufacturing were fairly optimized. However, this was true for companies across the board. As a result, the competitive edge gained from these activities only lasted for so long. Then came the economic downturn, and companies started realizing that their expenses had gotten a little out of hand. They began aggressive cost-cutting in the form of down-sizing, pink-slips, etc. All of this was merely an attempt to ensure survival.

### **e. Cost Optimization and Smart Spending**

Today's era is one of equilibrium. Today, companies recognize the wisdom of being frugal, but at the same time, being smart. It isn't about procuring less items, but about procuring the same number of items smartly

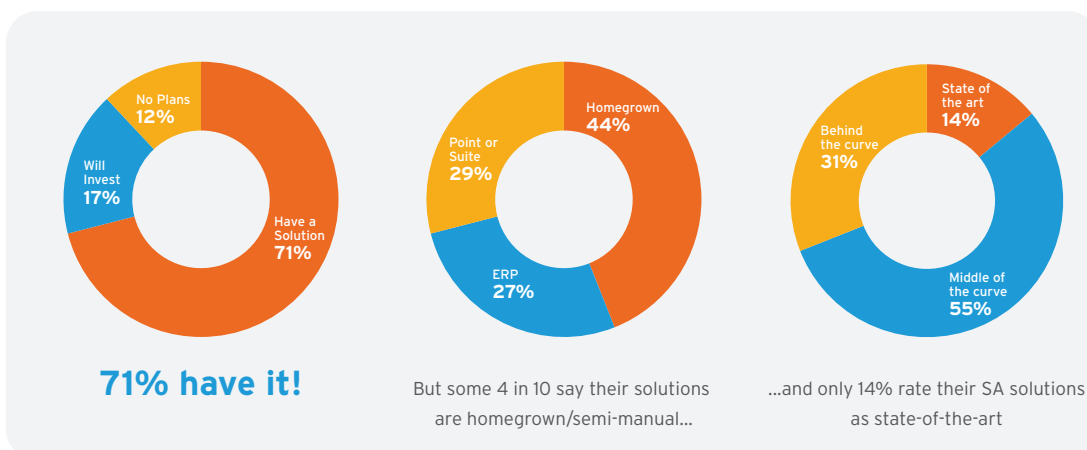
## 2. Introduction to Procurement Analysis

While talking about procurement analysis theoretically, one would assume it to be a retrospective activity with no other outcome except learning. This is far from the truth.

However, the path to spend optimization begins with spend visibility. An equation can be solved only once all the variables are identified. This involves gathering data from a variety of sources, reconciling the data so that it is stitched together seamlessly. This is usually followed by using a reporting tool on the data in order to derive valuable insights. There are also tools available that are advanced enough to be able to point out these savings opportunities themselves.

The information is consumed by a variety of users. Tactical buyers may refer to it to find out little bits of information, like the last price paid for an item, etc. Accounts payable can use the information to find out when the payment was released versus the negotiated payment term. The strategic sourcing group can use the information to carry out initiatives like rationalizing the supplier base, etc. The contracting group would typically monitor the contract utilization and carry out renewal-related activities accordingly. The various commodity managers would monitor the spend for their categories, while also keeping an eye on the supplier base. The idea is not only to ensure that the organization is not lavish with its expenses, nor is it about discouraging spend, but to manage the same purchases smartly. As a result, the requisitions are met diligently, and at the same time, the organization doesn't feel the pinch.

### Spend Analysis/Visibility



Source: Pulse of Procurement Report 2018



### 3. Elements of Spend Analysis

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#### 1. Descriptive

*Looking at historic transactions to derive insights*

Descriptive is the most commonly-used element of Spend Analysis. It is entirely descriptive or informative in nature. It tells the organization how much is being spent, by which Business Unit, in which region, over how many transactions, etc. It relies on the user to be insightful and seek the right data to transform it into information. In other words, any value derived from this type of analysis is credited to the intelligence of the individual.

**Challenges:** Descriptive style of analysis is generally retrospective or reactive. It usually focuses on the past and all future insights have to come from the individual performing the analysis. As a result of this extreme dependence on manual efforts, it does not always prove to be as effective as expected. This is mainly because the insights derived are typically initiatives that span across a fairly large time-frame. It is very likely that, over time, the desire to carry forward that initiative simply fails.

#### 2. Prescriptive

*Extrapolating past data to predict future outcomes and take action accordingly*

Prescriptive analysis involves identifying corrective action directly from the tool being used for analysis. In this style, the tool complements the intelligence of the individual to derive insights directly from the data being fed. The dependence on the individual's intellect is taken away by the tool. As a result, the initiatives that arise out of such an analysis are generally well-accepted.

**Challenges:** The challenge here lies in the intelligence itself. The functioning of companies varies across industries, across geographies, across business units, etc. In such an environment, it is almost impossible to recommend the same pill for all ailments. As a result, often the intelligence that comes from the tool being employed still requires being complemented by the individual's knowledge of the functioning of the company.

### 3. Predictive

#### *Out-of-the-box savings strategies applied on historic spend data*

Predictive style is the most advanced of methods used for analysis. It involves not only crunching historic data and trying to make sense out of it, but also extrapolating data into the future and taking necessary preventive actions. Therefore, the biggest challenge generally proves to be the accuracy of the extrapolation. Since the future cannot be predicted with 100% accuracy, this method requires reliance on accurate statistical skills of a high order.

Predictive style is most often desired but rarely used. If any company CPO were ever asked if he or she would like to employ this methodology, the answer would be a resounding yes.

**Challenges:** There are multiple factors responsible for the lack of it. Some of the primary reasons why very few organizations are able to perform a predictive analysis on their spend data are as follows:

**1. Unavailability of clean input data:** The outcome of such an analysis is only as good as the input data. For most organizations, data cleansing becomes a never-ending problem to solve, and as a result, they are never able to even experiment with predictive analysis.

**2. Insufficient Accuracy Level:** Statistics is not a new field. There is sufficient research done here. In other words, it is possible to figure out a way to predict spend data with decent levels of accuracy. However, the level of accuracy may not be sufficient for a procurement manager to make strategic decisions that involve a huge investment of time and money.

**3. Lack of Actionable Data:** In most of the cases, the outcome may not necessarily be actionable. For example, using predictive analysis, a commodity manager is able to find out that the spend for Plastic Injection molds for the following year is expected to be \$54,000. This information, even if it may be extremely accurate, does not necessarily prove useful or actionable.



## 4. Getting the Most Out of a Spend Analytics Tool

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Most organizations opt for a spend analytics tool only after homegrown tools have either failed, or have reached a stage of saturation. As a result, the expectations from a third party spend analytics tool are reasonably high. However, most organizations are not fully aware of the nuances of such tools and how to harness their full potential.

The onus of this activity typically lies on the team responsible for implementing the solution. For most of the well-known vendors, this implementation team is either another partner company or a completely unrelated entity. As a result, there is a huge loss in translation between what the product management team conceptualized and the way the solution is finally implemented. The simplest way to mitigate this risk is to opt for a vendor with a built-in implementation department. This ensures that 40% of the most common problems are solved before they even come up.

### 1. Excellent Data Quality

Analytics is entirely data-dependent. In other words, any conclusion arrived at is only as good as the data being analyzed. This is why most organizations emphasize the quality of data or classification. Further accuracy involves employees who understand the business requirements. That is where most organizations face challenges. They fail to realize that data cleansing is an ongoing activity.

This is not to be confused with freshness of data. Typically, most spend data is about a week to a month old, depending on a number of factors that vary from one organization to another. While every organization strives to ensure that the data is as fresh as possible, it must be noted that there isn't always a great benefit to be obtained from working on data that is a day old. For example, in mature organizations, the spend trends tend to be constant. There is rarely a case where the spend for a particular item spikes or drops steeply. In such scenarios, even 2 - month old data would be sufficient for most analytical purposes. The focus should always remain on classifying the data correctly.



## 2. Number of Users

Typically, the number of users using a spend analytics tool in most organizations is restricted to about 15-20 people. These are generally people who belong to the analytical team within the strategic sourcing group. A spend management tool, however, can be harnessed by many other users.

For example, a tactical buyer who converts a requisition into a PO can use a spend management application to access historic data and find out the last time this item was requisitioned. He or she instantly gets information, like the supplier chosen, the last price paid, the person who requisitioned the item, etc. The finance or accounts payable team can also have users accessing the application to find out details around the payment terms, and to ensure that they are negotiated favorably. A sourcing expert can also leverage the information contained within the spend management tool.

## 3. Organization Structure

Most organizations that are new to using a spend management tool are centralized in their operations. In such organizations, there is great synergy between the strategic sourcing team and the tactical buyers. As a result, the initiatives that the strategic team develops are relatively easy to implement, and savings are realized immediately. This is the most conducive environment for a company to see immediate value from any spend analytics tool.

The other set of organizations typically operate in an extremely decentralized manner. This means there are teams of buyers spread across the globe. In such cases, it may prove difficult to realize value from a spend analytics tool. What such organizations can do is structure themselves in a manner that all the procurement operations for a particular region are handled by one office. Forming such regional groups helps a decentralized organization strike the right balance between regional excellence, as well as maintain a common thought process.

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#### 4. Adoption

One of the biggest barriers to getting the most out of any spend analytics tool is the lack of adoption among users. According to a report by Ardent Partners

*“The vast majority of sourcing professionals know that having a clear and detailed view into a category of spend makes sourcing that category significantly easier and positively impacts results. Despite this, the current adoption rates of automated spend analysis solutions hover around 40% (38%), with another 42% of respondents indicating plans to deploy the solution in the next two years”*

Most organizations begin by granting access to a few hundred users, conducting training sessions, etc. But often it is observed that the hundreds of users tend to depend on a handful of users for all their reporting needs. This creates a whole producer-consumer usage model where one set of people produces reports from the tool, while the other set consumes it. In doing so, a lot of valuable information might be left out since the producer didn't consider it valuable.

Learning from this, most organizations assess the ease of use of any vendor's tool before making a decision. However, it is important to realize that, unless there is a need to use the tool, most people would rather avoid it, no matter how easy-to-use it might be. One way to tackle this is to ensure that all such reporting information is contained only in the spend analytics tool and is not available outside of it in Excel files on a SharePoint, etc.





## 5. Integrated Environment for Maximum Savings

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### Proactive Procurement

Today, most analysis in the procurement domain happens retrospectively. It generally involves analyzing data ranging from the last week to the last quarter, gaining some insights, and taking corrective action. While this helps, it has its limitations. For starters, one cannot go back in time and change the supplier on a PO to a preferred supplier. The deed is already done. Instead, true benefit lies in making sure the next PO raised is with a preferred supplier. That is the essence of proactive procurement. It is making sure the contract for laptops is renewed just before it expires, so that new POs do not end up under off-contract spend.

Needless to say, there are multiple barriers to achieving this today. Primarily, the systems involved in the procurement domain are many and the information is scattered. While ERP vendors do promise this benefit, the method of implementation is probably responsible for customers never really being able to harness these features.

Each ERP system has its own requisitioning, purchasing and invoicing solution. The fields within each system are completely different. Typically, a large organization would have multiple source systems deployed across the globe. Most of the times, since these organizations have grown inorganically, the companies that were merged with them have a different source system. This creates a systemic problem of having to map data arising out of so many varying systems for the purpose of spend analysis. Instead, it is certainly preferable to have the same vendor for procurement purposes, as for the spend analysis solution. This has myriad benefits, like getting real-time visibility into the spend, being able to pro-actively block a PO once the spend against a contract has reached the contracted value, and changes in the classification rules getting incorporated at the source, etc.

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## Compliant Contracting

Procurement analytics doesn't begin and end with pure spend analytics. With time, as this space grows, newer corners will start getting exposed. For example, the entire process of drafting a contract to finally signing it is something that has not been paid attention to. If one had the right data to derive an inference (like most contracts seem to take the longest time between when they are drafted to when the negotiations begin) it could prompt some action in that direction. Perhaps employing someone who can better author a contract or strengthening the clause library for example. In this way, by carefully analyzing trends within the contract life cycle, one could derive valuable insights.

While this may seem like something achievable even today, that's not all there is to contracts. Most procurement contracts have a fixed item table. For example, an organization entered into a contract with another to purchase 300 laptops at a particular price. Once the contract has come into effect, the spend analytics system should begin monitoring the spend against this contract. As and when the spend nears the total contracted amount, the system must alert the relevant users to renew the contract. This way, the system proactively helps the organization monitor its spend instead of the way it is done today, i.e. retrospectively. According to Zycus' report

**“72% of CPOs surveyed agreed that they have a much more robust contract compliance because of a state-of-the art spend analytics solution.”**

Source: Pulse of Procurement Report 2018

## Sensible Sourcing

During any sourcing event, it is always valuable to have a wealth of information related to historic spend data. For example, if a sourcing event is to be launched for keyboards, it would be useful to know the last price at which keyboards were purchased, the total number of keyboards requisitioned in the last year/month, the last supplier who was awarded an event related to keyboards, etc. This information currently lies within the spend data, but not in the required format.



## Nirvana

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Since most organizations today opt for distinct vendors for spend analytics and procurement, a wealth of benefits are seldom realized. However, an increasing number of organizations are beginning to recognize this and moving towards a world where information is accurately captured at the source. That's when every single PO raised has all fields accurately filled in to the minutest of details. As a result, every contract has the corresponding spend accurately reflecting its utilization. This, in turn, would lead to zero maverick spend since the contract would be renewed automatically before it expires. All the vendors doing business with the organization would then be only the preferred vendors, with the most optimized scorecards. Spend Analytics, in this scenario, would be real-time and instantaneous. As a result, adherence to budgets would hit a 100%. In this world, procurement professionals would be able to take time away from tactical everyday activities and focus on provisioning for the organization's strategic initiatives. Only in such a world would accurate predictive analytics be possible, and ironically, redundant.

## About us

Zycus is a leading global provider of complete Source-to-Pay suite of procurement performance solutions. Our comprehensive product portfolio includes applications for both the strategic and the operational aspects of procurement - eProcurement, eInvoicing, Spend Analysis, eSourcing, Contract Management, Supplier Management, Financial Savings Management, Project Management and Request Management. Our spirit of innovation and our passion to help procurement create greater business impact are reflected among the hundreds of procurement solution deployments that we have undertaken over the years. We are proud to have as our clients, some of the best-of-breed companies across verticals like Manufacturing, Automotives, Banking and Finance, Oil and Gas, Food Processing, Electronics, Telecommunications, Chemicals, Health and Pharma, Education and more.



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