Spend analysis: application and strategies

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In spend analysis, skills to do with data analysis are extremely important. However, experts in related fields question the use of a software application to automatically generate the required data. In most cases, automated application does not necessarily give the accurate data as some processes require practical skills needed in the respective field. In everyday life, individuals come across a lot of information and data that is less likely important in decision making. This implies that an individual must possess data analysis skills to identify the information that is required and the less vital. In decision making, some major characteristics of vital information are; consistency, having a pattern and without errors.

“ Spend analysis is referred to as the systematic review of historical purchase data” (Pandit & Marmanis, 2008). One of the major reasons why spend analysis is carried out is to be able to identify savings opportunities. Despite the fact that there are several indicators used to identify such opportunities, an automated software application would be incapable of successfully identifying such opportunities depending on the order of accuracy and precision.

Some of the key indicators in spending analysis require analytical skills such as in price and applying best practice in various processes in an organization or household setting. If there is a consistent increment of prices of goods and services with time, it would be prudent for an individual or an organization to pay more attention to the purchases in specific categories and ensure that the factors leading to the rise in prices is well addressed. Such a process would require data analysis skills with specific attention to identifying a pattern of price increase.

The application of best practice has over the years not been fully adopted by businesses. This is because, this technique is considered as simplified and less likely to come up with a saving opportunity. However, there is always the likelihood that an organization or an individual is overpaying for goods and services. Best practice requires data analysis skills which are applied to areas that provide the best cost saving strategy. Other indicators in spending analysis, such as the purchase price variance (PPV) can use software application to identify patterns or any irregularities from the data collected.

According to Barone & Franco. (2012) the six sigma methadolo0gy is used to enhance organizational performance through the use of statistical process meant to reduce process variation that characterizes most organizations. Currently, the six sigma methodology is commonly used by many organizations to identify areas of wastage in addition to improving the overall productivity of the organization through the improvement of business processes.

The six sigma indicator shows the variation in parts, processes and products. However, of importance to note is that the six sigma method is not used independently in an organization. Most of the businesses that use six sigma also incorporate other lean methods. The six sigma methodology has over the years evolved to become a dynamic process that is used to improve performance and also maintain the process environment. What’s the strategy does is identify the major causes of performance gaps, then propose appropriate methods of addressing the performance gaps with an overall aim of increasing performance.

The six sigma uses a sequential method known as the DMAIC, which stands for define, measure, analyze, improve and control. This is the guide that is used to identify the performance gaps and propose remedies to the gaps.

Define : This step is expected to identify the performance gaps and develop alternatives that would lead to a higher sigma.

Measure : In the step of measuring, there’s the use of metrics to come up with the baseline data to be used to identify the major cause of the problem. In addition, information must be gathered first before any data is incorporated.

Analyze : In this step, statistical tools are used to confirm that the problem identified is admissible and that the factors found to cause the problem are the root causes of the problem.

Improve : This step seeks to offer alternative solutions aimed at addressing the problem. Some of the key questions that are frequently in this step include; which way is cheaper, which way is faster? There are many solutions that are commonly identified as the alternatives to performance gaps. The most common solutions under this step include; mistake proofing and cellular manufacturing.

Control : The control stage is also known as the institutionalization stage. This stage modifies parts, processes or products in accordance to the proposed solutions and also periodically monitor the changes that arise from such substitution.

When carried out effectively, spend analysis can be greatly beneficial to an organization. This is because in addition to maximizing productivity and efficiency of business processes, spend analysis also encourages insightful decision making that is backed by both facts and figures. In addition, spend analysis is responsible for viable, cost-saving techniques that assists businesses identify areas of wastage and address the issue for better performance. These roles on spend analysis are more inclined to the financial aspect of business.

Most of the problems that spend analysis aims to solve are issues to do with the expenditure and supply management. While most business processes seem intertwined and thus cannot occur individually, the financial aspect of business is the hub of all the performance gaps that spend analysis seeks to solve. By analyzing the concept of ‘ spend’ most businesses are able to compare the spending behaviour with the production output and identify areas that need to be improved so that the organization can achieve higher performance.

As stated by Ramsey and Silverman, (2002) research has established that businesses that use spend analysis are more likely to improve on performance with an approximated improvement rate of 24% in terms of general efficiency. With such statistics, there is no doubt that spend analysis has immense benefits to an organization in terms of driving performance and through the establishment of viable cost-saving techniques.

Considering that spend analysis is a process that is meant to improve on the efficiency of products, processes and parts, there are numerous challenges

that most organizations face during the implementation stage. Most organizations consider the spend analysis to be a dynamic process that is difficult to initiate and manage. More importantly, the processes involved in spend analysis require a high level of accuracy. For a business to develop a well leveraging spend analysis, integration of data from various different sources is required. However, a spend analysis is not only made possible by accurate data. There are various other factors that complement the methodology including finance, supply chain and IT. The prevailing economic times dictate that organization take advantage of any spending opportunity that comes across. The best technique to do this would therefore be through spend analysis.

References

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