

Goods spend analysis



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Individual Assignment Goods Spend Analysis Prepared by: Anjela Li Date:

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1. Introduction Spend analysis is the process of collecting, cleansing, classifying and analyzing expenditure data with the purpose of reducing procurement costs, improving efficiency and monitoring compliance. It can also be leveraged in other areas of business such as inventory management, budgeting and planning, and product development.

There are three core areas of spend analysis - visibility, analysis and process.

By leveraging all three, companies can generate answers to the crucial questions affecting their spending, including: ? What am I really spending? ?

With whom am I spending it? ? Am I getting what's been promised for that spend? Spend analysis is often viewed as part of a larger domain known as spend management which incorporates spend analysis, commodity management and strategic sourcing.

Companies perform spend analysis for several reasons. The core business driver for most organizations is profitability. In addition to improving compliance and reducing cycle times, performing detailed spend analysis helps companies find new areas of savings that previously went untapped, and hold onto past areas of savings that they have already negotiated.

Benefits of Spend Data Management: [pic]
 2. Goods Spend Analysis: How is it conducted?
 3 major components of a spend analysis: Component | Activity | Typical deliverable |
 |(a) Opportunity assessment | Collect and validate category spend data/diagnose | High level spend analysis | | company spend | Savings opportunity ranges | | Analyze industry/market trends |

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Sourcing project plan | | | Prioritize and sequence opportunities | Sourcing maturity assessment | |(b)Creation of category profile | Define category spend by supplier, spend, | Detailed baseline spend analysis | | (c)Marketplace assessment | region/customer | Preferred parts list | | | Determine category requirements, specifications, | Industry and supply market analyses | | | forecast | Total cost components | | | Determine total cost components | Potential switching/change out costs (ex: replacement cost) | | | Conduct detailed supply market and value chain analysis | of propane tanks when switching suppliers should be | | | Determine supplier universe and identify potential | considered when creating a sourcing strategy and in the | | | suppliers | analysis for potential savings) | | | Collect feedback from stakeholders regarding supplier | | | performance | | 3. Key Triggers ? Spend by type of goods: provides visibility of what the money is spent for and enables further analysis to apply 80/20 rule to define the top 20% of goods that represent 80% of spend. A proper spend analysis by type of goods typically requires splitting main product categories into subcategories to provide visibility of “ hidden” costs ? Spend by a Business Unit: provides visibility of spend by end customer, i. e. who spends the money, compliance rate to the possible existing preferred supplier agreements and whether or not the spend is fragmented within the organization ? Spend by Supplier (enterprise view): allows understanding of who the money is spent with, how fragmented spend is within the supplier base and whether an opportunity exists for volume concentration ? Spend by Supplier (by Business Unit): allows visibility of the breakdown of spend among suppliers within a specific Business Unit. This helps to define whether there are common suppliers that are being used across all Business Units and whether

an opportunity exists to gain a better price leverage by consolidating the volume for specific products across all Business Units.

This type of analysis also prompts sourcing specialists to engage with stakeholders to understand whether there were any supplier performance concerns that might potentially impact distribution of spend and therefore, should be addressed and considered at the stage of building new strategic sourcing strategies.

4. How spend analysis fits the procurement strategy

A proper spend analysis allows to build effective sourcing strategies, which can be leverage oriented, relationship oriented or a combination of both (see Figure 1 below). The sourcing strategy for the category will depend on three factors: a) How competitive is the supplier marketplace? b) How aligned are your organization's users on the need versus opportunity to test incumbent relationships? c) What alternatives to a competitive assessment exist for your organization in this or connected categories? Typically, if there are categories with High/Low Business impact and Low Market complexity the left side of the Sourcing Gemstone will be used: Volume Concentration, Best Price Evaluation or Global sourcing. If more complex markets are confronted (Ex: sole source supplier situation, single source supplier due to complexities in the product specifications and/or industry regulations, lack of substitute suppliers or products, other suppliers vs. the incumbent had critical performance issues in the past, long term industry shortage due to the economic downturn in the global market, etc. we may want to consider Product Specification Improvements, Joint Process Improvements or Relationship Restructuring strategies. It is also important to acknowledge that commonly, the higher the maturity of a specific category, the lower is

the opportunity to capture high net dollar savings through a competitive event effort and the more is the need to focus on strengthening the relationship with your preferred supplier and reap the benefits of a joint effort in areas related to the right hand side of the Gemstone (Ex: product standardization, electronic invoicing, product innovation, etc.) Figure 1 [pic]

Supply Market Complexity (High) ----- High Business Impact