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It is already mid-year and the economic horizon is still cloudy. In this environment the critical balance between driving down costs while positioning for the eventual sales upturn is even more important. Today inaction is not an option. As we have mentioned in prior issues, correctly managing cost reduction is a matter of survival.

Our first article in this issue, "Consultants Can Make You Look Good" is especially relevant in these times. It discusses the merits of using professionals to get cost reduction done right and avoid the all too typical downward spiral that could result.

The second article discusses an issue that we see frequently: "Spend Analysis vs. ERP". Companies often decide not to use an independent spend analysis tool, believing they can get the information from their ERP system. This article discusses why this may not be the right approach.

If you have a comment or question, please let us know. We love to hear from you.

Sincerely,

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Consultants Can Make You Look Good

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Cost-Reduction is Critical

In this economy, cost-reduction is a survival requirement, plain and simple. Every company needs to pursue costs aggressively or they may not be around for the recovery: every employee needs to think the same way, or they might not be around either.

External Consultants Can Help

Independent cost-reduction consultants who do this for a living can help save significant time and money through specific knowledge and expertise, contacts, methodology, tools, and objectivity. Despite a desire to "do this internally", many of today's corporate managers do not have cost-reduction experience.

Mismanaged cost-reduction programs have the potential to create great harm, perhaps even precipitating a corporate “death-spiral”.

Not Everyone Embraces Cost Reduction or Consultants

Yet not everyone in the corporation wants or supports cost-reduction. Many have a different personal or political agenda, or are threatened by change. And many feel even more threatened by external consultants. They fear they may be blamed for, or hurt by what consultants find. So they miss out on significant savings. Maybe even critical savings.

Consultants Can Actually Make You Look Good

But in reality, few if any companies effectively manage cost-reduction. They generally don't have the experience, bandwidth, or resources. They need help. And management can position external consultants not only to help save time and money, but to make existing management and employees look good in the process. There is no reason why hiring an external consultant shouldn't make a hero out of somebody... in fact everybody.

Positioning For Success

Smart managers realize several things: First, no company is without flaws or problems... and very few, if any, managers can possibly be aware of all the issues (or opportunities), let alone address them all. Truthfully, it is far more common to have many, many problems, issues, and opportunities go unrecognized by even the best of executives, than for any executive to have a handle on everything for which they are somehow theoretically responsible. This is a virtually universal truth, and top management should face simple reality in this area! Thus, rather than fearing the discovery of unaddressed issues, most managers would be much better served being proactive and taking steps to identify these issues and fixing them, by whatever method. And position themselves to take credit for the initiative, hiring the consultants, and, by extension, their subsequent results. They should strive to be seen as an executive who took the initiative to identify and fix real issues and save real money. These types of people are generally not laid off in a recession. On the contrary!

A “culture of blame” can make innovation risky. Top managers should insure that people are encouraged and motivated to seek cost-reduction opportunities, being careful not to blame those who have not identified or addressed them earlier. The company should focus on the time and money being saved and the benefits to the company, not on who caused or overlooked the problem in the past. Employees are an excellent source of cost-reduction ideas if they are properly encouraged... or they can stone-wall management pretty much back into the stone-age!

Setting up a win-win scenario between consultant and company employees is important. Employees should get credit for uncovering, revealing, cooperating on and implementing cost-reduction ideas. The consultant is a catalyst or facilitator, but should not be positioned as the source of ideas. This can breed resentment or internal competition. A smart consultant will suggest that client companies figure out how to reward employees even for improvements that the consultant may actually discover!

Smart companies don't let politics, blame, personal agendas, or lack of resources get in the way of serious cost-reduction. And smart companies, and the leaders who face reality, may still be around when the smoke of this latest recession finally clears! ■

Spend Analysis vs. ERP

Barbara Ardell, Vice President, Paladin Associates Inc.

Aberdeen Group recently published an updated report entitled: [“Spend Analysis: Pulling Back the Covers on Savings” \(October 2008\)](#). Consistent with their August 2007 report, the opportunity for those using spend analysis is impressive! Specifically, enterprises implementing spend analysis have been able to:

- Drive 25% more spend under management;
- Achieve a 5% to 20% cost savings for each new dollar of spend brought under management;
- Realize 67% higher savings on their spend;
- Achieve 11% higher contract compliance.

With results like these, it's puzzling why organizations resist implementing spend analysis. One of the most common reasons offered is: “We don't need a separate spend analysis solution. We already have an ERP system for spend analysis.” This argument typically comes from those who either haven't tried to use their ERP system for spend analysis, or for those who are just unaware of the inefficiencies and ineffectiveness of this approach. They don't know what they don't know!

There are numerous benefits to a stand-alone, best-in-breed spend analysis solution.

1. Completeness – An ERP system may not contain all of your spend data. Often a company has multiple ERP systems which makes it difficult to consolidate spend data. Even when there is a single ERP system, it may not contain all spend (e.g. Corporate Travel Card, P-card, Contract Manufacturers, etc.). Or, a company may spend years getting to a single ERP system only to make an acquisition and find themselves with spend outside their visibility. Best-of-breed spend analysis solutions allow for the easy consolidation of data from disparate systems and conveniently accommodate changes in the business. This coherent view of all spend drives impressive savings!

2. Cleansing – ERP systems contain poor quality data which is difficult to correct and maintain. Brian Daniels, Partner at [SpendRadar](#), highlights a common fallacy. “The common misconception is that ERP data can simply be loaded into the data warehouse. Within the world of business intelligence “spend” data is unique in that it must be normalized and classified in order to make sense.” And, unfortunately, altering historical ERP data is sometimes forbidden because of accounting system connections. Even if allowed, it is difficult and time-consuming to correct Master Data and, once done, it will need to be re-done periodically. Conversely, a spend analysis solution provides an easy mechanism to correct data including things like misclassification, multiple supplier name variations and redundant items. These corrections are conveniently maintained as rules so that the same errors are corrected automatically with data refreshes.

3. Enrichment – ERP systems do not enrich the data. Enrichment provides information such as supplier ratings, contract performance, financial risk assessment, corporate parent/child relationships, supplier diversity status, etc. for compliance analysis and to aid in sourcing decisions. This information and its application to spend data cannot be done by within your ERP system. Spend Analysis solutions facilitate the grouping of suppliers into parent/child relationships, and the mapping feature automatically

maintains corrections and groupings as data is refreshed. Aberdeen's 2008 Spend Analysis report determined that Best-in-Class companies are 1.6 times more likely to utilize fully automated data enrichment processes allowing them to achieve process efficiencies and superior savings from fact-based decisions.

4. Classification – ERP data is either unclassified, misclassified or classified at a level that is not useful for sourcing. Classification, if done at all, is at a high level and does not provide the granularity necessary for sourcing. ERP systems are slaves to the accounting process, with spends typically classified by General Ledger (GL) account, not in logical sourcing groups. GLs tell you "who" in the organization made the purchase, or who will consume it. As sourcing professionals, we don't care that Temp Labor was used for a Marketing event. We want all the Temp Labor spend in one bucket for sourcing leverage. Net, G/L codes rarely work for sourcing purposes. [Duncan Jones, Sr. Analyst at Forrester Research puts it well](#), "It's about taking a mass of unstructured data and making sense of it, not like business intelligence, which is generally adding up numbers." As Rod True points out in his excellent article, ["Sourcing Groups – What Are They, Why Are They So Valuable, and How Do You Create Them"](#): "Creating these detailed item sourcing groups provides the foundation for the optimal leverage being sought through Spend Analysis and Strategic Sourcing."

ERP data comes from disparate systems and/or is entered by diverse individuals and locations potentially using a variety of classification schemata. Those entering the data are typically not sourcing experts, which nets a high level of misclassifications. Spend Radar's Brian Daniels posits: "What percentage of spend is currently classified as 'Miscellaneous' or incorrectly classified altogether?". He suggests that an ERP system requisitioner may not:

- a) fully understand the coding structure,
- b) have time to manually search for the right code, or
- c) care about accuracy so designates the wrong code or the infamous "9999 – Miscellaneous" category.

Brian has seen upwards of 70% of spend classified as 9999 – Miscellaneous! The bottom line is that the ERP coding can rarely be trusted!

On the other hand, spend analysis solutions allow you to correct and transform data, making changes to groupings and hierarchies, and to create rules that automatically map data to a specified standard or custom category structure. This allows the data to flex as the organization and its needs change. Importantly, this capability is repeatable thus automating classification for all future data refreshes. According to [Aberdeen's report](#), Best-in-Class companies are 25% more likely to auto-classify their spend thereby realizing significant efficiencies.

5. Usability – ERP systems are not user-friendly. Because ERP systems are designed for a wide range of purposes and a wide variety of users, they tend to be complex, cumbersome and not very user-friendly. They contain a lot of data, but getting it out in a usable form is a monumental task! Spend analysis solutions are designed for a very specific purpose and for a targeted audience. These solutions are "best in breed" and do what they do easily and well without any integration required. Product

enhancements don't need to compete across a broad application as with ERP, so product enhancements and new functionality are added more frequently.

6. Access – ERP systems are controlled by IT and often require IT support which diminishes access and flexibility. IT serves multiple internal customers with conflicting priorities and, like many organizations today, has suffered staffing reductions. Unfortunately, in order to access ERP data you must often “get in the queue” and wait until a resource becomes available. Or perhaps you only want to run a simple report, but can't because the magnitude of data crunching slows or risks bringing down the system! Most Purchasing organizations want to be as self-sufficient as possible. Spend Analysis solutions manipulate the data off-line. They also contain their own standard and custom reporting capabilities. This facilitates a clear understanding of the organization's spend, a critical input for strategic sourcing activities. The ability to “slice and dice” spend data in a great variety of ways and drill down to the transaction level, combined with virtually unlimited reporting capability frees users from the tyranny of IT schedules and canned reports.

Spend analysis takes “dumb” data and transforms it into actionable spend intelligence. Effective spend analysis is imperative for strategic sourcing, and strategic sourcing is increasingly important to business survival. This reality has elevated the strategic role of the procurement organization. According to the [Aberdeen's 2007 Spend Analysis study](#): “Top-performing enterprises effectively administer a spend analysis program by employing technologies that automate multiple facets of the spend analysis process, and enable organizations to more effectively leverage their procurement teams to manage more enterprise spend.” To be a top company in today's economic climate we must equip our sourcing professionals with the best tool available allowing them to do their jobs most efficiently and effectively.

Still not convinced that spend analysis is superior to your ERP system? Why not do a “proof of concept” utilizing Paladin's spend analysis as-a-service? This will allow you to test the value of the solution and the process for a nominal fee and with little disruption to your organization. Paladin Associates even offers spend analysis “free” when done in conjunction with a sourcing initiative performed on a gain sharing basis.

For additional information on this topic, we encourage you to consult the E-Sourcing Forum article: [“Data, data, everywhere”](#), and the following write-up on the e-Sourcing Wiki: [“ERP Inadequacies”](#). ■

Do you believe that your organization has a telecom savings opportunity? If so, don't hesitate to contact us. In less than a few weeks, Paladin can provide a comprehensive assessment of the types of telecom savings opportunities that your company might be missing out on. Since we are willing to work on either a contingency or gain-share basis, there is no cost or risk to your organization. Contact us today:

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About Paladin Associates, Inc.

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