Spend Analysis vs. ERP

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Aberdeen Group recently issued an updated report entitled: **Spend Analysis: Pulling Back the Covers on Savings** (October 2008). Consistent with their August 2007 report, the opportunity for those employing 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. We posed this argument to industry expert, Brian Daniels, Partner at Spend Radar, a consulting company that provides a service to cleanse and classify large amounts of complex and disparate data. He offered the following helpful explanation:

> *ERP systems are very good at processing transactions, which is what they were designed to do. When it comes to spend analysis they provide some basic tools that can be used to build your own spend analysis application. What's interesting is that the tools are primarily for report authoring and data storage. The assumption is that the data inside the ERP system is in good shape and can simply be loaded into the data warehouse! And as we've all seen, the quality of the data degrades significantly over time.*
>
> *One of the most common objections is that the prospect is using SAP/Oracle*

material codes. Simply ask them: "What percentage of spend is currently classified as 'Miscellaneous' or incorrectly classified altogether?" This is where the argument unravels. Sure, SAP allows the requisitioner to assign a material group code (or any other category code for that matter). What happens is that this person does not either: a) fully understand the coding structure, b) have time to manually search for the right code, or c) doesn't care and picks the wrong code or the infamous 9999 "Miscellaneous" category. In my experience I've seen upwards of 70% of spend classified as 9999 "Miscellaneous"! The bottom line is that the coding can rarely be trusted, which leads to the next point:

So the coding in the system can't be trusted, now what? ERP systems do not provide any data standardization and categorization tools.So the prospect has two options; a) hire a consulting firm to perform a one-time data cleanse or, b) try to do this with internal resources. While the first option is certainly viable, it is not repeatable economically. And the second option, well, is generally not really an option at all. Many companies lack the internal expertise and resources to do this themselves.

We haven't even touched on the supplier data yet. I worked on a project data pulled from one system where a particular supplier occurred over 80 times with each occurrence spelled or abbreviated differently. And that was just the most interesting example. There were many other cases where the same supplier repeated 10, 15, 20 or more times. There's just not an effective way to correct this in the ERP

This argument favoring ERP systems 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. To summarize:

1. **Completeness** *An ERP system may not contain all of your spend data.*
2. **Cleansing** *ERP systems contain poor quality data which is difficult to correct and maintain.*
3. **Enrichment** *ERP systems do not enrich the data.*
4. **Classification** *ERP data is either unclassified, misclassified or classified in a way that is not useful for sourcing.*
5. **Usability** *ERP systems are not user-friendly.*
6. **Access** *ERP systems are controlled by IT and often require IT support which diminishes access and flexibility.*

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.

Still not convinced that spend analysis is superior to your ERP system? Why not engage a "proof of concept" utilizing 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.

For a more detailed analysis on this topic and for information on spend analysis as-a-service click here to read Paladin Associates' newsletter article on this topic. We also encourage you to consult the E-Sourcing Forum article: **Data, data, everywhere** and following write-up on the e-Sourcing Wiki: **ERP Inadequacies**.

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