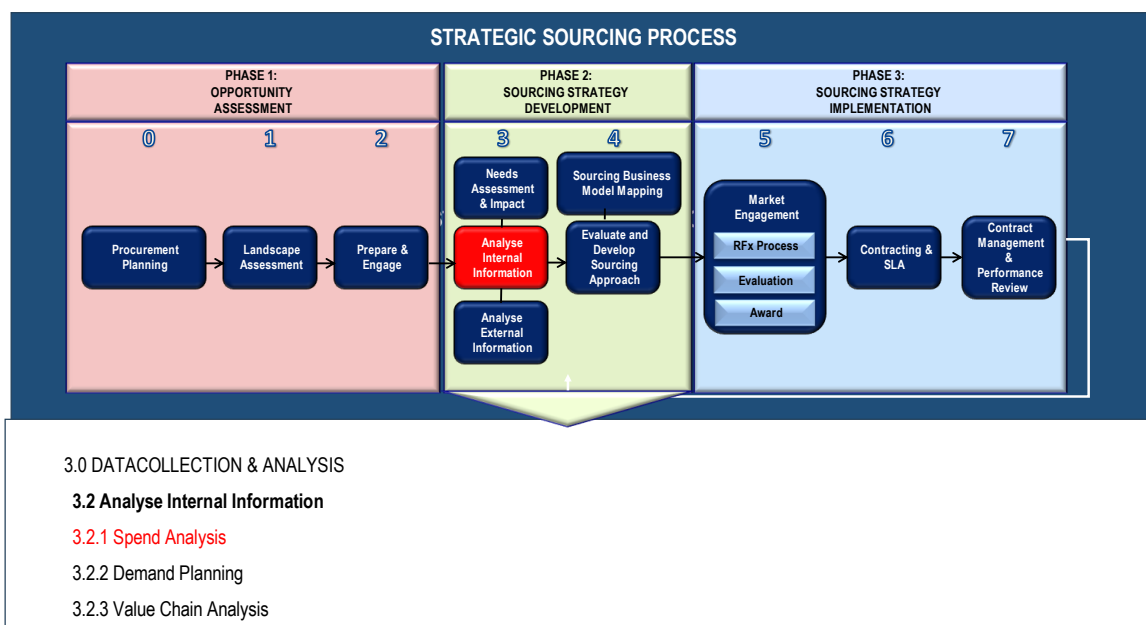


Using this guide

This guide accompanies the National Treasury's Strategic Procurement Framework (SPF) for Strategic Sourcing in the Public Sector. For more information, visit the National Treasury website at <http://ocpo.treasury.gov.za/>. The SPF can be found here: http://ocpo.treasury.gov.za/Resource_Centre/Documents/1A.%20Strategic%20Procurement%20Framework.pdf

SPEND ANALYSIS



1.0 Introduction

- i. Spend analysis involves the process of validating and understanding the spending patterns and trends for a particular commodity.
- ii. The following good practice guides and templates are applicable when conducting a spending analysis:
 - a. Current contracts
 - b. Spend analysis process
 - c. 12 Uses of spend analysis data
 - d. Spend analysis (template)

1.1 The objective

- i. To obtain a clear understanding of your organisation's spending trends for this commodity in terms of Rand value, quantities, by whom, with whom and how often.

1.2 Output

- i. A complete spend profile of the commodity

2.0 Good practice guides

2.1 Current contracts

- i. Identify all current contracts about the commodity. Typically the following information needs to be collected and documented.
 - a. Procuring institution (if institution-specific)
 - b. Supplier name
 - c. Contract Number (if on contract)
 - d. Contract Start and End Date
 - e. Material/Service list and description
 - f. Internal Material/Service number (code)
 - g. Unit of measure
 - h. Contract value (if applicable)
 - i. Discount terms (if applicable)
 - j. Annual price increase terms and conditions

2.2 Spend analysis process

2.2.1 Collect data

- i. Extract transaction data from the ERP (Electronic Resource Planning), Purchase Order and/or Payment System(s).
- ii. Do a spend analysis over at least a three to five-year historical period, e.g. the last three financial years, as this allows for spending trends to be analysed.
- iii. The report should as a minimum show the following:
 - a. Financial year

- b. Date of payment
 - c. Ordering institution
 - d. Vendor name
 - e. Vendor number (Code)
 - f. Item description
 - g. Item number (Code)
 - h. Unit of measure
 - i. Volume/Qty
 - j. Item/unit price
 - k. End-user
- iv. Although purchasing data is preferred for a spend analysis, order duplications, cancellations and adjustments could significantly affect the spend analysis if this cannot successfully be extracted and omitted.
- v. In these instances it might be more beneficial to extract data from the invoice payment side.
- vi. If the information is obtained from more than one ERP system, consolidate it into a structured and manageable database.

2.2.2 Cleaning the data

- i. It is almost always necessary to clean up existing spending data. Do the following:
 - a. Suppliers:
 - i. Identify and consolidate supplier duplications.
 - ii. Standardise supplier names and codes.
 - b. Products and Services:
 - i. Identify the same product codes with different item descriptions and consolidate.
 - ii. Identify the same item descriptions and different product codes and consolidate.
 - iii. When dealing with multiple units of measure for a specific product this needs to be converted to single units.
 - iv. Involve the operational department in the cleaning process.
 - c. Standardisation of currency:

- i. Convert all spending into a single currency (Rand)
- ii. If the actual Rate of Exchange is unknown, use the average rate of exchange per quarter.

2.2.3 Analysis

- i. To get a clear picture of current and historical spending patterns the following minimum analysis is required:
 - a. Spend:
 - i. Total spend on commodity
 - ii. Spend by sub-commodity
 - iii. Spend by institution/region
 - iv. Spend by supplier
 - v. Contracted and non-contracted spend
 - b. Volumes:
 - i. Total volumes of the commodity
 - ii. Volumes by sub commodity
 - iii. Volumes by institution/region
 - iv. Volumes by supplier
 - c. Price:
 - i. Item price by supplier
 - ii. Average item price
 - iii. Item price by specification (if applicable)

2.2.4 Deliverables

- i. Conduct spend analysis to identify:
 - a. High-spend commodities
 - b. High spending volumes
 - c. High spend Department/Region
 - d. Spend fragmentation per supplier
 - e. "Maverick" spend (e.g. spend outside of the preferred system or process)
 - f. Item price discrepancies between suppliers and specifications (If applicable)

2.2.5 Validate data

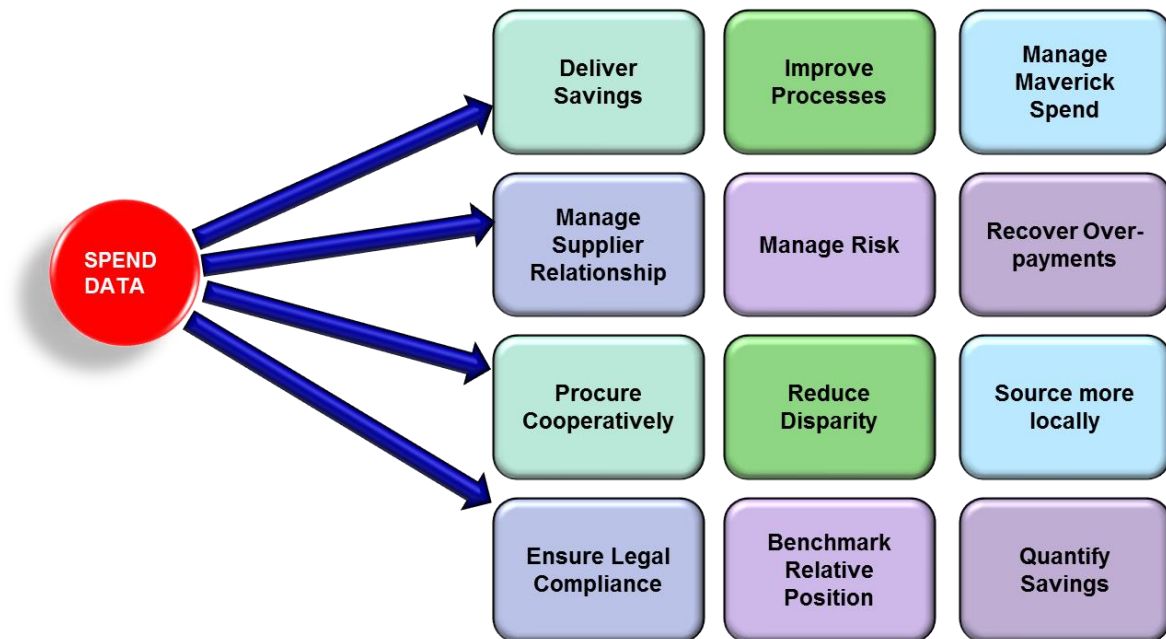
- i. All spend analysis needs to be verified by the relevant departments/business organisations.

2.2.6 Challenges

- i. Typical challenges when dealing with spend analysis include:
 - a. Lack of data availability/quantity (i.e. inconsistency).
 - b. Inconsistent data format (i.e. hardcopy data vs. electronic).
 - c. The allocated time to collect the data versus the robustness dilemma.
 - d. Cleaning the data (i.e. inconsistent coding).
 - e. Lack of resources.
 - f. Reluctance of the business to share information.

2.3 12 Use of Spend Analysis Data

- i. Once a full spend analysis exercise that brings together your accounts payable and purchase order data has been conducted, the next step is to consider what can be done with all the information.
- ii. Some of these points can be achieved with a basic spend analysis, others require additional time and effort, especially in the areas of classification and enrichment of spend data.



<http://www.spikescavell.com/data-transformation/12-things-you-can-do-with-spend-analysis-data/>

Figure 1: Spend analysis

2.3.1 Deliver savings

- i. Everyone is being asked to do more with less.
- ii. The procurement function must reduce cost or deliver savings while still providing their end-users with the same goods and services without compromising quality.
- iii. Spend analysis provides great insight into the spending data and can help identify opportunities that may have previously been overlooked.

2.3.2 Improve processes

- i. Spend analysis data allows for informed decision-making on how processes within the organisation could be improved.
- ii. Spend analysis data helps to identify the opportunities such as the implementation of an eProcurement System, or consolidating invoices with individual suppliers.
- iii. The results of a spend analysis can act as a guide when setting up a new system. It helps decide how to set up the system and identify which departments and people should use the new system first to generate savings as quickly as possible.

2.3.3 Managing Maverick Spend

- i. Everyone puts contracts in place, but after signature, they tend to get stored in a filing cabinet or electronic record system and are only looked at when there's an issue or when they're about to expire.
- ii. Greater spend analysis data allows for better tracking of these and to identify:
 - a. Suppliers where spending without a contract doesn't meet legal or internal procurement standards;
 - b. Spend with suppliers without a contract, even though a contract exists for those categories or items;
 - c. The categories of spend where there may be too many suppliers and no contract in place; and
 - d. Other forms of maverick (uncontrolled) spending within the organisation.

2.3.4 Managing supplier relationship

- i. Suppliers often know more about how much the organisation spend with them and on what than the organisation does.
- ii. Spend analysis can help to correct that imbalance and in some ways, tip it in the organisation's favour.
- iii. When it comes time to renew a contract, a comprehensive spend analysis, will provide more information about the spend with specific suppliers. It can also provide insight into how much is being spent on the current suppliers' competitors. This is information suppliers will not necessarily have.

2.3.5 Manage risk

- i. It is easy when an organisation has worked with a particular supplier over several years, for the organisation's spend to steadily increase above and beyond what was originally contracted or intended.
- ii. Over time, the supplier may steadily become overly reliant on the organisation for their annual revenue. Too much spending with one supplier can create risk in two ways:

- a. Firstly, if that supplier depends a lot on the organisation's spend and the decision is made to switch to another supplier, the first one might go out of business. This could cause a public relations issue, even if the procurement decision in isolation was the correct one. There will be individuals within the organisation who should be made aware of this in preparation for any negative feedback or publicity.
- b. Secondly if the organisation is too dependent on one particular supplier and that supplier goes out of business for other reasons, the organisation could be left without critical goods or services that it requires. Enriching spending data with information on the supplier's annual revenue and credit scores will allow for better access to the organisation's overall supply chain failure risk.

2.3.6 Recover over-payments

- i. On average in public sector organisations, 95% of all transactions are for the correct amount, to the correct supplier, and only happen once.
- ii. However, the remaining 5% of errors can mean a lot of money.
- iii. Combining accounts payable (AP) and purchase order (PO) in a spend analysis can help identify incorrect transactions and begin to recover possible over-payments.

2.3.7 Procure co-operatively

- i. Many departments are now being asked to work more collaboratively with other departments in their local area.
- ii. If all the spend data is in one place, and in a format that is common and consistent to other departments, it becomes much easier to consolidate the data.
- iii. This generally has the effect of making collaborative efforts more strategic, rather than reactive and ad-hoc.
- iv. Being able to quickly identify those common suppliers, common categories, and opportunities to collaborate can lead to large savings opportunities.

2.3.8 Reduce disparity (increase spending with businesses through socio-economic goals)

- i. Apart from saving money and becoming more efficient, it may be necessary to report on spend with socio-economic goals and try to increase spending with these companies.
- ii. To report accurately, mark each vendor in your data by type and keep this information up-to-date.
- iii. If the goal or directive is to increase spending with these businesses, first know where you stand and then determine what that goal should be, and measure progress towards it.

2.3.9 Source more locally

- i. 'Local Preference' has historically been a sensitive topic. Accurate data can help make these discussions less emotional.
- ii. Spending data with geographic information helps an organisation to understand how much it spends on local goods and services. The organisation can then take steps accordingly.
- iii. When public procurement teams are criticised for not spending enough locally, this data is useful as it shows accurate numbers.
- iv. Whatever the position on preferences, having the right data can be instrumental in establishing a credible position.

2.3.10 Ensure legal compliance

- i. Public organisations operate under many legal requirements, whether it is state procurement legislation or only internal rules and regulations.
- ii. One example is the government's thresholds requiring competitive bidding, or at least getting three quotes.
- iii. Punitive legal consequences for failure to comply with and break those rules are not always the fault of the procurement or finance team.
 - a. Imagine a situation in which an organisation has very decentralised procurement and a R500,000 competitive bidding threshold.

- b. Now imagine 10 out of 100 budget holders decide that a particular piece of software is exactly what they need to be more efficient and software licenses cost R30,000 annually.
 - c. As the individual budget holder is only spending R30,000, it falls into the small purchase area. The spending can add up and break this rule without the procurement team noticing.
 - d. Suddenly, without warning, the organisation has unknowingly broken their own procurement rules, and potentially the procurement law.
- iv. Good spend analysis data helps track such situations and ensures compliance.

2.3.11 Benchmark relative position

- i. The opportunity to benchmark and compare the organisation to other local organisations or organisations of a similar type across the country can be very useful.
- ii. Where multiple organisations collect and organise spending data together in one place, meaningful comparisons with peer organisations are possible.
- iii. This process helps to answer a range of questions that cannot be answered using one's financial management systems. For example:
 - a. The average number of suppliers or spending by category;
 - b. Understanding which suppliers are generating the highest aggregate revenues from other public bodies;
 - c. Setting targets for improvement that are realistic and achievable relative to the average or "best in class" for other public bodies of a similar type and size.

2.3.12 Quantify your savings

- i. Having the pool of cleansed, classified and enriched spending data will help identify savings and efficiencies. It also sets the baseline from which savings that have been delivered back to the organisation can be calculated.
- ii. This information shows in clear numbers (Rands and cents) how much value the procurement team adds to the organisation, which is important for Chief Financial Officers (CFOs) and Accounting Officers (AOs), to whom the majority of public procurement practitioners report.

3.0 Templates

3.1 Sourcing and Price History

Example of Sourcing and Price History										
Category						Date				
Item No.	Description	Annual Qty	Unit of measure.	Last price paid	Current Supplier	How long with the current Supplier?	Payment Terms	Price increase over the past 12 months	Date of last price increase	Projected next 12 months' volumes
1										
2										
3										
4										
5										
6										
7										
Notes: If possible, provide sourcing and price history over last 3 years.										

Table 1: Sourcing and Price History