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Leveraging Closed-Loop Enterprise Spend Management Application Delivery Strategies

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Organizations must develop a closed-loop life-cycle process to enterprise spend management, and integrate disparate purchasing sourcing, execution, and analytical/benchmarking processes internally.

Current economic conditions have created a renewed focus on managing corporate assets to improve the bottom line. Organizations are attempting to cut costs at greater rates to offset flat revenues, but many stumble to intelligently manage business expenses because they lack an enterprise spending strategy (and tools). Many firms do not have an understanding of enterprise spending and, consequently, do not leverage a consolidated spend with key suppliers — nor can they compare their spending behavior to industry benchmarks. These firms often suffer from the following:

- **Poor spending visibility:** No spend classification, multiple purchasing solutions, lack of spending control
- **Little or no sourcing leverage:** Supplier and spend fragmentation, lack of sourcing coverage, no contract visibility
- **Poor compliance:** Rogue spending, minimal user adoption

For many firms, spend management historically has not been a concern, and it has been left to chance. This can also be evidenced by the numerous firms that do not use a formal purchasing solution, either standalone or ERP-based.

CFOs are concerned about consistently managing spending across the enterprise, which includes visibility across diverse ERP and best-of-breed solutions as well as all spending categories (e.g., travel; commodity goods and services; projects; maintenance, repair, and operations [MRO]; direct materials). Although many organizations have implemented an e-procurement solution from best-of-breed vendors (e.g., Ariba, Commerce One, Clarus) as well as ERP vendors (e.g., SAP, Oracle, PeopleSoft) for indirect spending and have increased implementations of supplier relationship management (SRM) solutions, many continue to rely on legacy processes loosely linked to accounts payable and contract management (often manual), with minimal visibility (see ADS Deltas 959 and 1089). As a result, many firms do not have an understanding of what they are spending for goods and services, and with whom. Although SRM solutions have traditionally been linked to indirect material purchasing, many of these solutions are increasingly being expanded to include direct commodity goods and services (see EBS Deltas 1201 and 1202). However, many firms that have not pursued SRM still require solutions to help better leverage and consistently manage spending across a diverse global organization.

Spend management focuses on effectively managing corporate assets and cash-flow processes, and often falls under the auspices of the chief purchasing officer (CPO) and CFO (see EBS Delta 1220). For an organization to effectively manage spending, it must know what its internal and external demand-side requirements are for general administrative expenses, direct materials, and MRO, and it must effectively match these to supply-side management processes (e.g., purchasing). This often requires a multifaceted solution, consisting of an in-depth analysis of historical spending practices through a management consulting service (e.g., AT Kearny) or internally through purchasing analytics (e.g., Cognos, Ariba, Analytics, Emagia), as well as re-engineered business processes (and often accompanying personnel adjustments to ensure the appropriate skills are in place).

In 2002, economic conditions will force organizations to cut spending in most categories, and many firms will not have the

META Trend: During 2002/03, ERP vendors will increase their application footprint by delivering major extensions (e.g., supply chain planning, CRM), while differentiable component applications (e.g., business planning) continue to add value. Through 2003/04, smaller organizations and divisions of large companies will complete wholesale ERP replacements, with few best-in-class extensions. By 2005/06, ERP vendors will move beyond inbound SOAP calls and embedded links to third-party services by offering commercial Web services.

appropriate processes in place to intelligently make critical purchasing decisions concerning spend type and suppliers. By 2003/04, 25% of firms will implement spend management solutions from SRM and spend management vendors to understand spending, but will fail to incorporate these solutions into a continuous analytical/management process. Through 2005/06, firms that have implemented global spend management solutions will achieve competitive advantage. ERP vendors will make spending analytics critical elements of their solutions.

An effective spend management strategy enables a closed-loop continuous life-cycle process that focuses on three key areas — gaining an insight into spending, improving supplier leverage, and ensuring compliance:

- **Improving insight through procurement analytics:** Global enterprises typically do not have a sufficient grasp of enterprise spending due to decentralized purchasing organizations, disparate ERP solutions, irreconcilable data, and disconnects between sourcing and procurement activities. Many organizations can achieve value by deploying procurement analytical applications that can enable understanding of spending across multiple solutions and provide dynamic trending that is vital for cost reduction. Costs can then be benchmarked and targets can be developed. Leading vendor solutions (e.g., Ariba, Extensity) are enabling this process by collecting spend data from the operational systems of their numerous customers (e.g., procurement, travel expense management) and providing dynamic trending/scorecarding that is vital for cost reduction. To effectively measure enterprise spending, these solutions must span core purchasing as well as administrative applications. Once a firm understands spending, it can manage performance to industry benchmarks and negotiate better contracts with suppliers. During 2002/03, Global 2000 firms will embrace procurement analytical tools that target enterprise spending (e.g., Ariba, Zeborg, Analytics), solutions embedded in point and financial employee relationship management offerings (e.g., Extensity), generic analytical solutions (e.g., Business Objects), and SRM offerings. By 2004/05, these solutions will become integral to enterprise business performance management processes (see ADS Delta 1153).
- **Improving leverage:** Once firms get a grasp on spending, they must establish saving opportunities and prioritize projects to focus purchasing (and affected organizations), mainly consisting of supply-side solutions (e.g., sourcing, SRM.) Many will focus on developing supplier sourcing strategies, redesigning processes to take advantage of consistent sourcing practices, and renegotiating supplier contracts to reflect this new insight.
- **Ensuring compliance in execution:** To execute this new strategy, a firm will need to re-engineer procurement processes (including adopting purchasing and front-end e-procurement processes) and manage resulting change, enable suppliers to participate in automated processes, and integrate contract information into ERP processes to ensure compliance. Firms should benchmark process costs as well as the discount levels they are achieving from suppliers.

Spend management initiatives also need to be enabled in enterprise service management (ESM) areas where project management and control (through project accounting) are coupled with service procurement solutions (e.g., PeopleSoft ESA). Each project managed through an ESM approach must manage internal and external expenses through the insight/leverage/compliance life cycle.

Clearly, firms must develop an integrated approach to spend management strategy and will need to make a decision if they are to leverage an integrated suite approach (e.g., SRM, ERP, ESM) or piece together and maintain the application (and business) integration for a set of point solutions. By 2005, we believe most ERP vendors will provide an integrated approach to spend management and will have the components to manage the spend life cycle across all major categories of spending. However, this is not soon enough for firms that need to address the immediate need for improved spend management.

Bottom Line

Enterprises must develop a closed-loop process for spend management, including understanding spending (via purchasing analytics), improving sourcing (via improved contract management and supplier selection/enabement processes), and ensuring compliance (via improved execution and integrated contract assurance.)

Business Impact: Ineffective spend management processes will cause an organization to stumble as it attempts to contain enterprise costs. An integrated approach to spending must include gathering information from all spending processes to effectively leverage and manage the spend.