

USING SPEND ANALYTICS TO IMPACT THE BOTTOM LINE

You wouldn't think about flying a plane through a storm system without instrumentation, yet operating a purchasing organization without spend analytics is just as risky. Unfortunately, as recently as just a few years ago, the cost and complexity of a spend analysis system was high and too many implementations never delivered on their promise. Many a CPO questioned the benefit-to-value ratio. Today, however, the equation has completely changed, and those same CPO's are re-instituting spend analytics as the cornerstone of their strategy to boost the bottom line.

How is this possible? First and foremost, more functionality -- today's tools offer the ability to manipulate millions of line items in seconds, build reports on the fly, and run the whole system on a powerful laptop without involving IT specialists.

Second, greater flexibility -- there are many more options in the market today. You can keep the entire process within the procurement department or you can use a mix of services to handle some of the heavy lifting, freeing your team to focus on the analysis and on extracting value from the system.

Third, the costs are dramatically lower -- dataset development, a one-year license and an opportunity assessment for a company with \$500 million in spending can easily be less than \$150,000 -- a far cry from the days of million-dollar investments. Quarterly data refreshes are often less than \$10,000, thereby eliminating the need to hire and retain dedicated professionals on your payroll.

As a former CPO, the single most impactful strategy I pursued was to implement a spend analytics capability within the purchasing function. The path to bottom line savings was clearly visible and stakeholders quickly came to realize that having timely information about their spending was key to improving profitability. The results were dramatic:

- demand was reduced
- volume was consolidated with key vendors and maverick spending was reduced
- new rates were negotiated with key vendors
- stakeholders realized that by working with each other and buying similar products and services from the same vendors their costs could be cut dramatically.

Information-based companies such as Google are proving that nothing is more critical than the delivery of timely information. Spend analytics is the source of timely information for your purchasing group and that information provides your team with the ability to impact the bottom line. Purchasing groups must become "kings of information" and make spend analytics their number one priority for 2008. Stakeholders are clamoring for timely spending information and this is the right time for purchasing groups to rise to the challenge of providing it. The next time you're able to drive effortlessly to an unfamiliar location using your in-car navigation system, think about how you can make a similar difference in your company by giving stakeholders Magellan or Garmin units to navigate through spend.

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