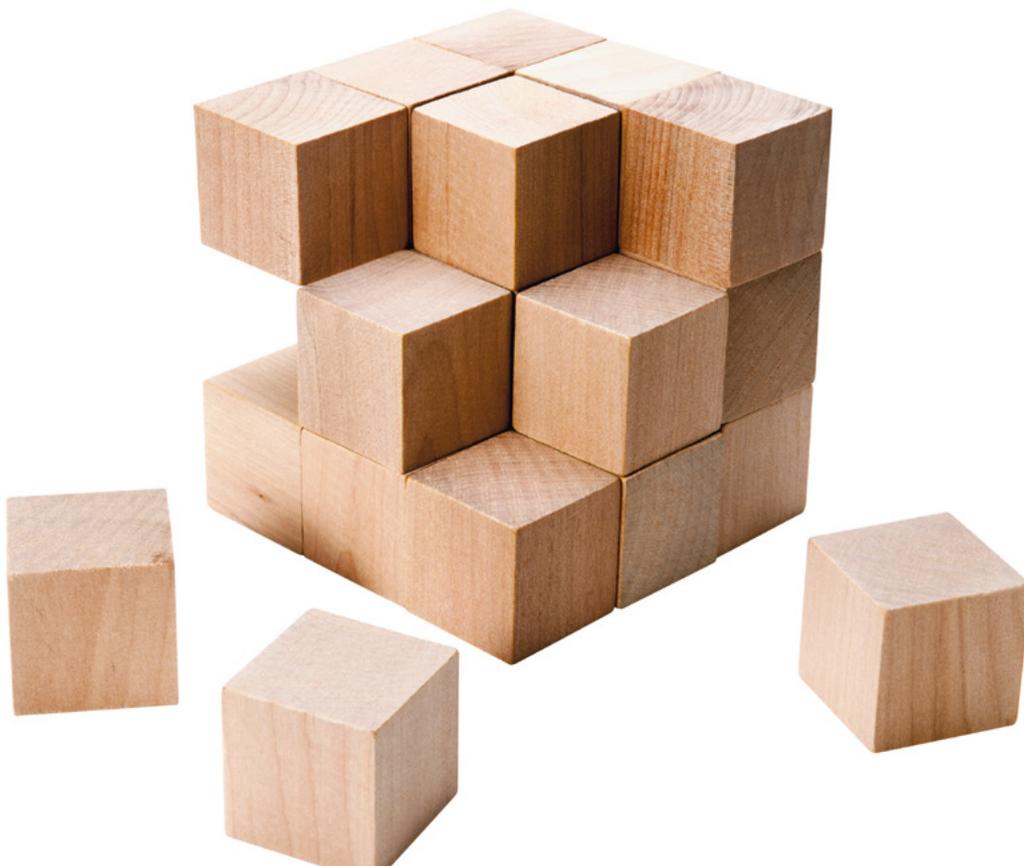


Operations Practice

# The role of spend analytics in the next normal

The COVID-19 pandemic has proven that procurement functions can deliver at speed. But how can they also ensure that they're spending wisely?

*by Jörg Dittrich, Raman Julka, Björn-Uwe Mercker, and Pieter Riedstra*



**The vital role played by procurement** functions has come to the fore in recent weeks through the highly visible need to quickly source personal protective equipment (PPE) and other critical supplies. What's been less visible is procurement's role in activities from ramping up (and down) complicated global supply chains, to determining how to help suppliers in financial stress and responding to urgent needs to review and prioritize spending. Across wide a range of organizations, procurement functions have delivered substantial results—and within just a few weeks.

In reflecting on the extraordinary efforts procurement teams have undertaken, there is an opportunity to consider how spend transparency, analytics, decision rules, alerts, and warning systems could help them respond to these challenges even faster. Now that organizations are looking to restart their operations in a transition to the next normal, where are the most promising opportunities to improve their efficiency? What sources of leverage can organizations use to build resilient supply chains and supplier footprints for the future?

The pandemic has already tested the structure and effectiveness of existing procurement organizations in ways rarely seen before. A global healthcare organization, for example, found that its decentralized purchasing organization left it with too little leverage as it sought to secure a supply of vital PPE amid rising demand. Likewise, a consumer-packaged-goods (CPG) company struggled to mitigate risk in its supply base because of a lack of visibility into its supplier profiles, and the impact of the pandemic on suppliers' ability to produce and ship vital raw materials.

Beyond speed of supply, we see six significant market effects that are currently challenging procurement organizations (Exhibit).

The responses that procurement organizations are crafting center on several common themes, which translate into a series of questions for the organizations to address.

**Monitor and improve cash and cost.** Do we have visibility into where purchasing dollars are being spent? Do we have the analytics capabilities we need to identify risks and opportunities as a result of crises? Can our digital infrastructure establish and track initiatives so that risks are mitigated and benefits hit the bottom line? Are we able to drive rapid value from procurement during the restart phase and beyond?

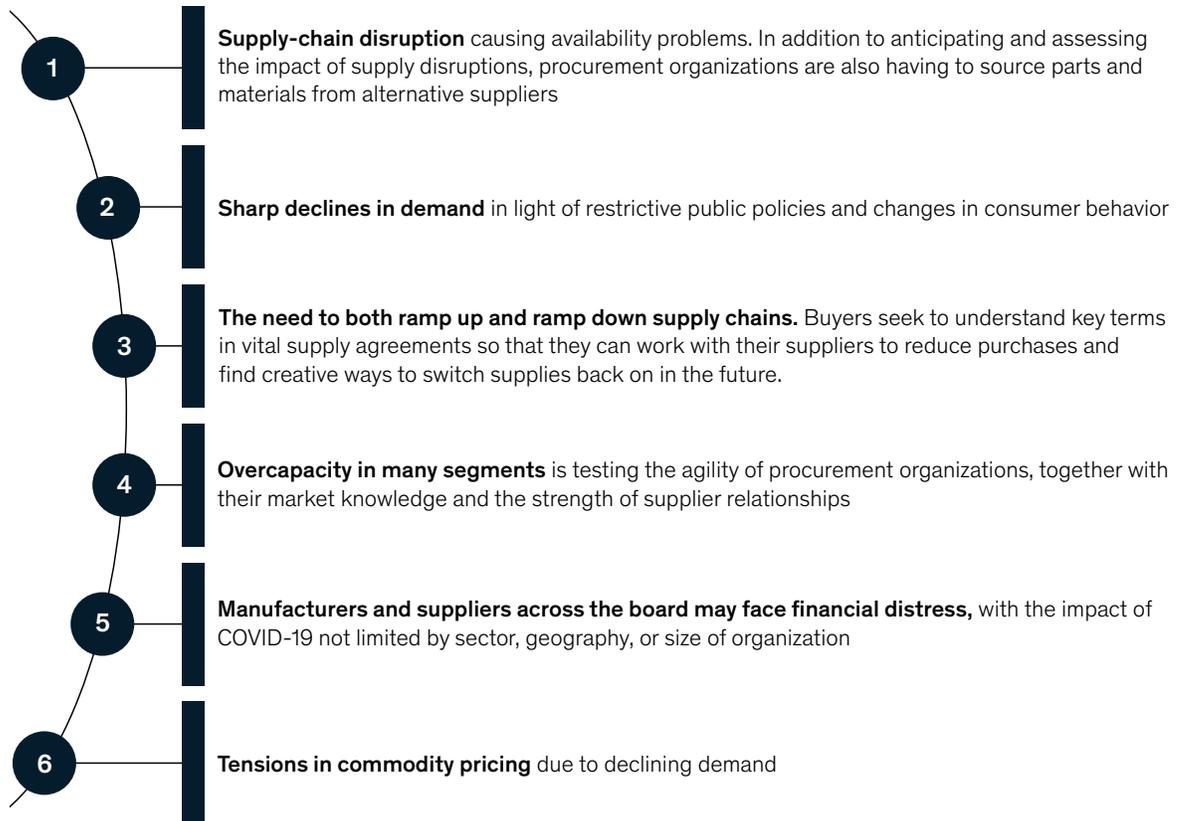
**Build a resilient supply chain.** Do we have transparency in procurement metrics beyond spend and cost? How well can we understand our supply-market exposure and the associated risks? Can we track risk in our supply chain, and create strategies to mitigate that risk in a repeatable way?

**Improve and transform structures.** Are we agile enough so that in a crisis, we can refocus resources to address our most important supply markets? How visible is our global supply chain, and is it set up to provide us with flexibility? Do our people have the capabilities needed to plan and act independently? Is our digital procurement-process infrastructure mature enough to support remote working, allow for rapid redeployment of resources, and provide easy information access to support decisions?

The common thread among these questions is the organization's ability to analyze its spending. As societies continue to move through the response phase of the pandemic, and businesses take steps to secure their supply chain—a crucial element in building resilience against future shocks—the procurement function could thus serve as an engine for countering some of the most serious financial effects of the crisis. Spend analytics will have a critical role not only in helping leaders monitor and improve cash and cost, but also in transforming and improving existing practices to create a more resilient future.

Exhibit

## Procurement organizations are facing a range of challenges.



### Challenges for CPOs

**Procurement in the spotlight:** deliver more value, much faster

**Balance between generating savings** (and cash) versus supporting **supply-chain sustainability**

**All categories are fair game**—including ones that traditionally are highly stable (eg, rents)

Implementation of value **levers customized** to specific category, company, and sector context

Greater need to **work in groups and focus on impact**, even if **remotely**

### Monitoring cash and cost—and improving them

The most immediate task for spend analytics is to provide transparency and insight into where cash is spent. After all, a procurement organization's primary objective is usually to optimize external spend with suppliers—commonly 40 to 80 percent of a company's total cost—and realize a source of

competitive advantage in terms of cost, quality, availability, and (increasingly) sustainability. This begins with achieving visibility into external spend, making it easier for the organization to identify opportunities to reduce spending across supply markets (even across multiple categories and subcategories), suppliers, and locations, as well as volumes and prices.

Data integrity is a central element in achieving this transparency. Ideally, spend information is linked directly to critical source systems, such as enterprise resource-planning (ERP) systems and point solutions—creating a single source of truth for both the procurement and finance functions to track. Integrating purchase-order, invoice, accounts payable, and general-ledger accounts data creates a multidimensional view of external spend.

### **Strengthening supply chains**

In similar fashion, spend transparency can help provide a consistent fact base for informing supplier discussions. Curated dashboards that provide relevant data related to supplier relationships and spend patterns support deeper conversations about how to maintain supply-chain resilience and find avenues to improve the organization's cash position (see sidebar, "Spend transparency's crisis impact"). These sorts of early successes build confidence in the solution—and morale, a further consideration as organizations restart operations.

Of course, understanding and analyzing current spend—patterns, variances, and the application of demand and commercial levers—has long helped procurement organizations unlock value. But the ability to design and deploy strategies to manage cash during a crisis is dramatically enhanced by the

use of digital tools that can track contractual cash terms, provide real-time visibility, and calculate the impact from possible scenarios.

An important longer-term impact of greater transparency is to increase negotiation efficiency and effectiveness. Having easily accessible supplier-related spend information, such as historical trends, sources of value leakage, price-development patterns, and prior agreements, can transform a negotiation into more of a fact-based conversation. This change in tone makes rapid repricing and renegotiation of agreements—a likely short-term focus for procurement as the economy restarts—significantly easier than in a typical zero-sum, win-lose negotiating environment.

### **Building long-term capabilities**

Finally, tracking all spend-monitoring efforts in a single place enables teams to benchmark different parts of the organization against one another—and, where data are available, against other organizations as well. That process can reveal significant improvement opportunities. Indeed, throughout the COVID-19 pandemic, many organizations have set up spend control towers or crisis nerve centers that centralize data for managing spend in indirect categories. The challenge, in many cases, is to bolster these organizational structures with robust processes and tools for tracking results.

## **Spend transparency's crisis impact**

A North American industrial company created spend transparency through a digital spend-analytics solution that helped uncover sources and uses of cash. The resulting insights helped company leaders model the liquidity and P&L effects of a range of recovery scenarios, revealing areas of focus for achieving the highest possible impact. This fact base made it easier to develop and implement quick-win strategies in areas such as working-capital management, including accounts receivable, accounts payable, and inventory. A structural cash-management plan incorporated a spend-control tower for operating expenses, along with a review of capital projects based on strict criteria for factors such as specification reduction and the amount of automation to build in. Finally, by identifying risky suppliers, developing more-detailed supplier intelligence, and uncovering additional supply sources, spend analytics secured difficult-to-source materials for production, thus improving supply-chain resilience.

Spend transparency and analytics can provide critical support: generating high-impact insights from purchase-order data (cleanly categorized and tagged with relevant information), building dashboards that can drive decision meetings, and then automating the entire process from end to end. Once digital capabilities are fully institutionalized, a separate crisis nerve center may be less important because its activities will already be embedded into regular ways of working. For example, a global manufacturer's spend-analytics platform can now track all of the main drivers of spend variance (such as order volumes, prices, and foreign-exchange rates), across every supplier and subcategory. That's enabled the company to achieve new levels of expense visibility and control, improving its cash position, reducing cost, and mitigating supply risks—whether during a crisis or under business-as-usual.

### **Enhancing supply resilience**

Spend analytics creates transparency that goes beyond spend and cost. It can highlight supply-market exposure and associated risks, such as reliance on a single source or region rather than a more optimal supplier mix (see sidebar, "Using analytics to quantify supply risks").

To create a holistic view of the supply chain, spend and cost information can be combined with external data, such as geographical assessments, risk analyses, alternative supply sources, and financial statistics. This type of 360-degree view enables companies to make better decisions that increase the resiliency of their supply chain—a critical responsibility of the procurement function.

### **Ensuring short- and long-term impact**

There is no need to wait until everyone is able to return to their workplaces to start generating results: many spend-analytics solutions can be implemented remotely, without requiring the more resource-intensive type of digital-transformation program. Instead, spend analytics can serve as

the data-integration layer on top of existing end-to-end and point solutions.

Yet for companies looking to generate even more impact, spend analytics can be the starting point for a digital transformation of the entire procurement function, as people see the power of digital and analytics to drive spend visibility and savings. Gaps and challenges related to digital procurement have become even more evident with remote working, as has the central role played by procurement during the COVID-19 pandemic. Accordingly, many organizations are already reconsidering their digital strategies in procurement.

In the most effective transformations, however, procurement works closely with other areas of the organization to break down silos. One method of doing so is the spend control tower or never center mentioned previously, which brings together leaders from across the organization and give them the best chance of getting ahead of events, rather than merely responding to them.

Once the transformation takes hold, spend analytics often allows organizations to reach beyond transparency, revealing new improvement opportunities and supporting deeper negotiations with suppliers. The impact can extend far beyond the four walls of the procurement organization to include the external structures governing the global supply-chain setup, informing conversations about how resilient the supply-chain network is, and how well the internal organization can respond to changes.

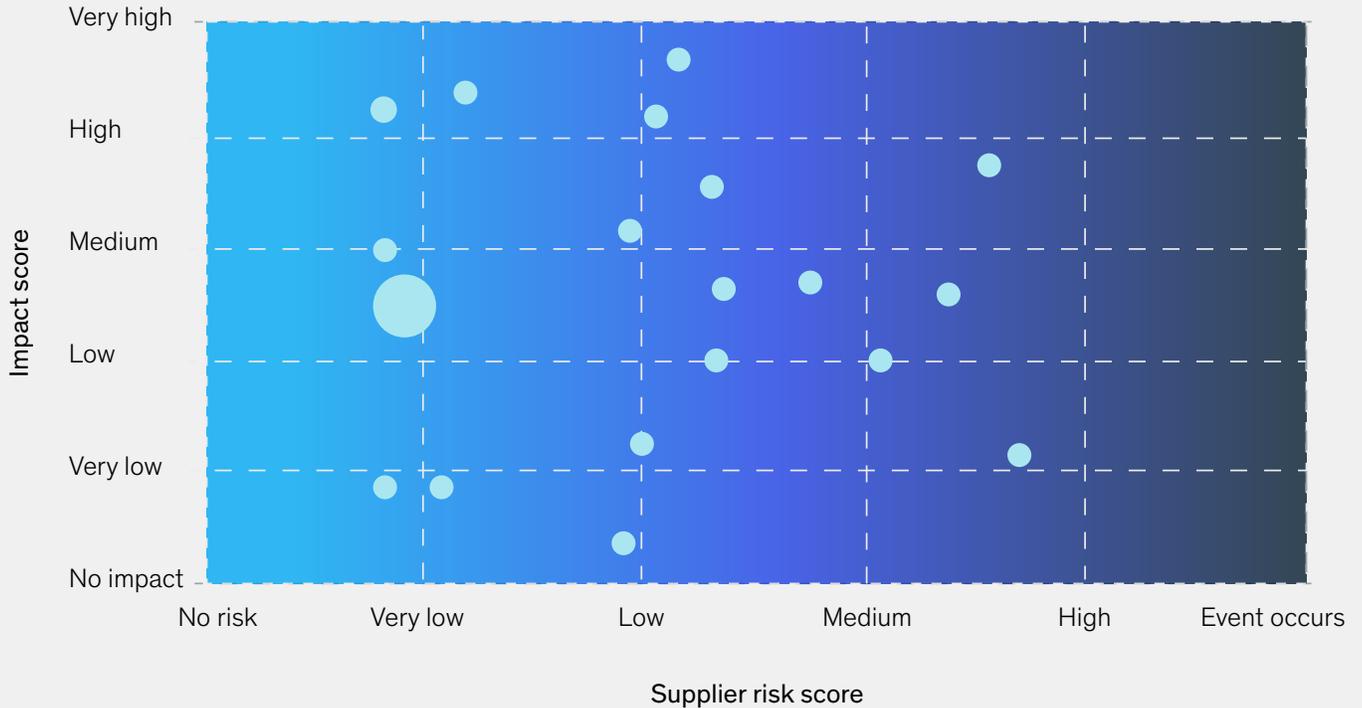
It can extend to tracking supply-chain risk not just with the Tier-1 supply base, but to their suppliers to every tier. It allows leaders to shape the procurement organization of the future, enabled through centralized data pools and remote working using digital solutions. And it has a role to play in product development, helping designers and R&D teams understand which components will provide the best value in

## Using analytics to quantify supply risks

A European industrial company sought to understand more than just spend and cost information in developing more visibility into its global supply-chain risk. A spend-analytics platform, integrated with a stand-alone third-party supplier risk module, combined supplier spend data with risk information for tier 1 and 2 suppliers. Easy-to-understand dashboards then highlighted supplier risks and hotspots according to the size of the risk and its potential impact (Exhibit).

Exhibit

### Spend-analytics dashboards can size risk and impact for top suppliers.



With this analysis in hand, company leaders prioritized a series of actions to improve supply-chain resiliency, such as developing alternative supply sources and reassessing the global footprint of the company's supply base based on risk scoring. And to make this risk assessment sustainable over time, the company now uses the spend-analytics platform to automate updates to its supply-risk assessment.

future or remodeled products. It can provide fast modeling as consumer demands change, allowing organizations to reduce product-development cycle times significantly.



The importance of a resilient supply chain, and procurement's ability to secure it, has

become increasingly apparent throughout the current crisis. Applying spend analytics to the procurement function can help an organization find a better balance between cost and speed, and use the resulting understanding to make better decisions throughout the crisis and beyond.

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