

## **Spend Analysis Overview**

The Spend Analysis Overview lesson defines spend analysis and identifies its key benefits for helping organizations identify valuable strategic sourcing opportunities.

It also introduces the process for performing a Spend Analysis and the key considerations for managing a successful Spend Analysis initiative.

After completing this lesson you should be able to:

- Define Spend Analysis.
- Identify the key benefits of a Spend Analysis.
- Identify the main steps in the Spend Analysis process and how Spend Analysis fits into the broader Strategic Sourcing process.
- Identify key considerations for managing a successful Spend Analysis initiative.



## Defining Spend Analysis

The concept of collecting data to understand how and where an organization is spending its money is not a new one. Documenting purchasing has always been a best practice for financial and acquisition management.

What is relatively new, however, is the more prominent and significant role Spend Analysis is assuming as more Federal agencies adopt Strategic Sourcing practices for improving how they source goods and services.

Using sophisticated data management and analysis techniques, a Spend Analysis can reveal valuable insights into potential opportunities for Strategic Sourcing.

It is critical to document each step and ensure the team continues to document their activities and periodically re-assess their actions against the plan.



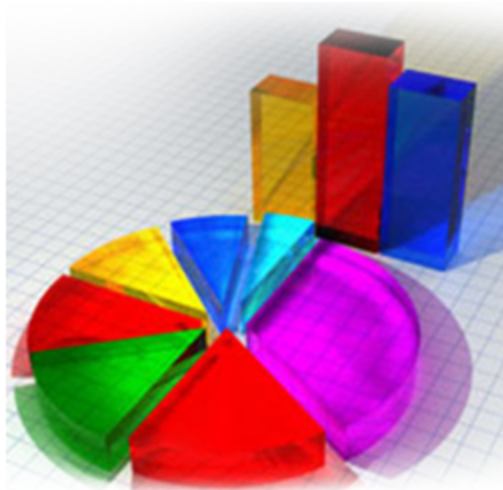
## Definition of Spend Analysis

Defined at its most basic level, a Spend Analysis is:

**An in-depth and fact-based analysis of an organization's procurement spend.**

The key objectives of a Spend Analysis are to:

- Develop an organization-wide view of spend that is comprehensive, detailed, and accurate.
- Identify opportunities for reducing total costs by coordinating purchasing across the organization.
- Establish a spend baseline against which to measure and compare future spend activity.
- Prioritize improvement opportunities for further analysis and implementation.



## What is Spend Analysis Framework?

The graphic below illustrates multiple questions and answers regarding the who, what, and how of the Spend Analysis Framework. [Click here to read more about the framework.](#)

### Spend Analysis Framework

#### Who Did the Buying?

(Contracting Agency/Office)

- Army
- Navy/Marine Corps
- Air Force
- DLA
- Other Defense Agencies

#### Who Did the Spending?

(Requesting Agency/Office)

- Army
- Navy/Marine Corps
- Air Force
- DLA
- Other Defense Agencies

#### Who Got the Work?

- Prime Contractor
  - Top 1, 10, 100 and quintile
- Business Size
- Socio-Economic Categories
- Set-Asides

#### How Much Was Spent?

- Managed Spend
- Funded Spend

#### What Was Purchased?

- Portfolio Groups/Categories
- Product or Service Codes

#### What Acquisition Method Used?

- Assisted Contracts
- Direct Contracts

#### What Was Purchase Size?

- Actions > \$78.5 M
- Actions < \$78.5 M
- Actions < \$11.5 M
- Actions < \$ 2.5 M
- Actions < \$700 K
- Actions < \$150 K
- No Cost
- De-obligations

#### What Award Type Used?

- BPA Call
- Delivery Order
- Purchase Order
- Definitive Contract

#### What Type of Pricing Used?

- Cost
- T&M
- Fixed Price
- Other

#### What Was Nature of Award?

- New Award
- Modification

#### What Type of Payment Structure Used?

- Performance
- Advanced
- Progress
- Other

#### What Was Extent of Competition Used?

- Competition
- Fair Opportunity Given
- Competed with 1 Bid



## Long Description

This graphic shows multiple questions and answers regarding the who, what, and how of the Spend Analysis Framework.

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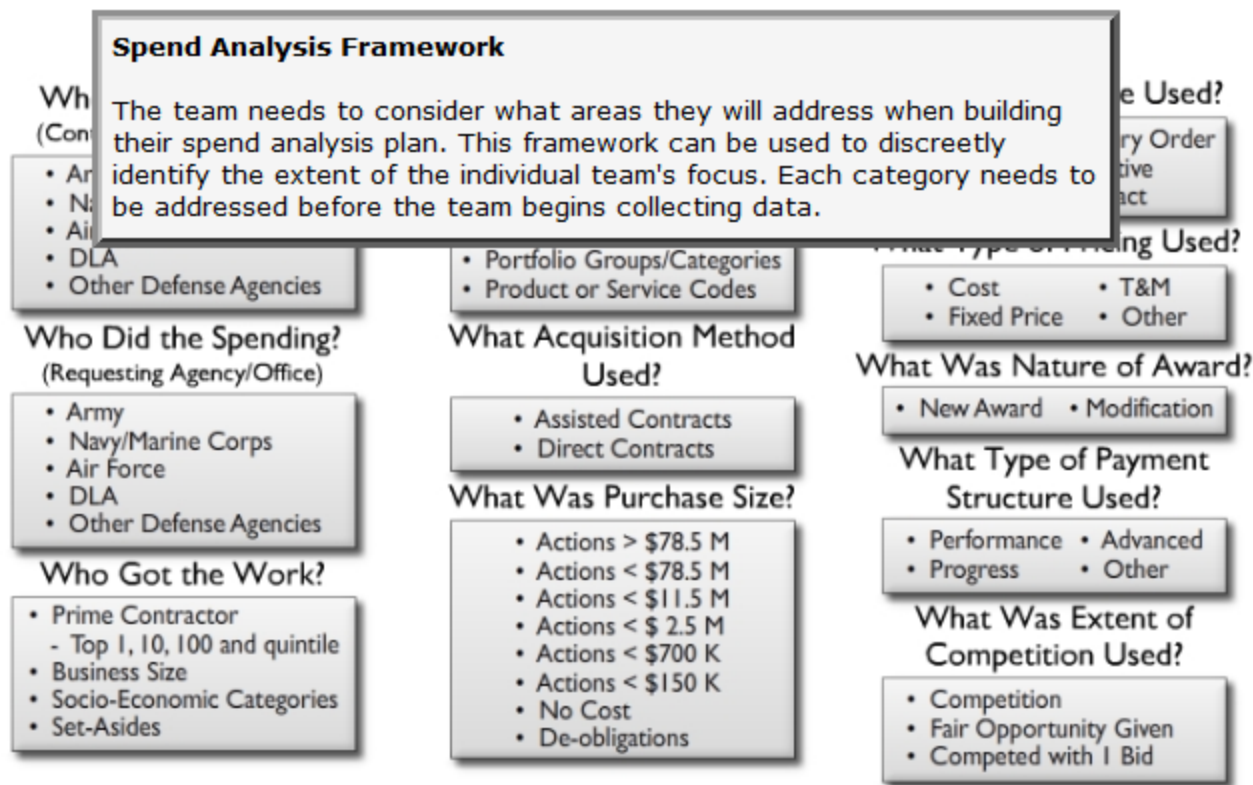
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## **Spend Analysis Benefits**

The benefits of a Spend Analysis fall into three main categories: Visibility, Opportunity Identification, and Spend Management. Select each tab below to learn more.

### **High-level Portfolio Spend Analysis Process**

**Visibility**

**Opportunity Identification**

**Spend Management**

#### **Visibility**

- A comprehensive view of total spend across different key dimensions (commodities, customers, suppliers, etc.)
- A macro-level view of buying patterns and trends

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### **High-level Portfolio Spend Analysis Process**

**Visibility**   **Opportunity Identification**   **Spend Management**

#### **Opportunity Identification**

- Identification of opportunities to improve purchasing efficiency and optimize spend
- Input for prioritizing identified sourcing improvement opportunities

## **Spend Analysis Benefits**

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### **High-level Portfolio Spend Analysis Process**

**Visibility**

**Opportunity Identification**

**Spend Management**

#### **Spend Management**

- Helps achieve a baseline against which to measure future spend performance
- Ongoing monitoring of spend performance and internal compliance with approved sourcing strategies



### **Common Misperceptions About Spend Analysis**

A number of misperceptions surround Spend Analysis. The following myths are among the most common that distort its real meaning and value. Select each myth below to learn more.

[Myth #1: Perfect data is needed to start or complete a spend analysis](#)

[Myth #2: Procurement databases are the only way to obtain spend data](#)

[Myth #3: Spend Analysis should only be done at the highest level of the organization](#)

[Myth #4: Spend Analysis will cost money, time, and resources to perform](#)

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### Myth #1: Perfect data is needed to start or complete a spend analysis

- "Perfect" data is seldom available. When data is incomplete, reliable spend estimates can be made through a variety of methods including stakeholder interviews, data extrapolation, and other statistical estimation methods.
- The quality and detail of data required depends on the objectives and scope of the Spend Analysis. For example, a High-Level Spend Analysis to identify Strategic Sourcing opportunities across an organization does not require the same level of data detail and quality as a Detailed Commodity Spend Analysis to understand the spend history and requirements for a specific commodity.

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### Myth #2: Procurement databases are the only way to obtain spend data

- Procurement databases are a useful starting point for gathering data but represent just one of many potential data sources. End users and suppliers can also provide useful data about what was purchased, when, and how.

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### Myth #3: Spend Analysis should only be done at the highest level of the organization

- A Spend Analysis can be performed at any level of an organization - from headquarters down to the local office level. In fact, organization-wide spend analyses may sometimes be unfeasible because of disparate data systems with differing data structures and taxonomies.
- Even when Spend Analyses are performed independently at the local office level, the output can be compared across organizations and used collectively to improve overall spend performance.

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### Myth #4: Spend Analysis will cost money, time, and resources to perform

- All spend analysis should begin with the Office of the Secretary of Defense (OSD), Defense Procurement Acquisition Policy (DPAP) annual Portfolio Spend Analysis. DPAP has produced a Portfolio Spend Analysis for Services and Supplies & Equipment for each fiscal year starting with FY07. These spend analyses are provided free upon request. For more information, please visit <http://www.acq.osd.mil/dpap/>.

## Knowledge Review

Which of the following reasons best explains why Spend Analysis is assuming a more prominent and significant role in the Federal government?

- ☐ New requirements related to competitive sourcing
- ☐ Pressures to source more goods and services domestically
- ☒ Government adoption of Strategic Sourcing best practices
- ☐ A push by the Federal Government to recruit more acquisition personnel

Check Answer

Spend Analysis is assuming a more prominent and significant role in the Federal government as a result of **Government adoption of Strategic Sourcing best practices** for improving how they source goods and services.



### Knowledge Review

Which of the following are considered primary benefits of Spend Analysis?

(Select all that apply)



Visibility



Spend Management



Fiscal Responsibility



Opportunity Identification

Check Answer

The primary benefits of Spend Analysis are **Visibility, Opportunity Identification, and Spend Management.**





## The Spend Analysis Process

Spend Analysis is an integral part of Strategic Sourcing. It is performed at two points in the Strategic Sourcing Process: at the Conduct Opportunity Assessment step where the High-Level Portfolio Spend Analysis is performed and at the Profile Commodity step where the Detail Commodity Spend Analysis is performed.

The following pages provide an overview of each type of Spend Analysis.

### Strategic Sourcing Process



Remember, throughout this module the word "commodity" is used to describe the spend category for a specific good or service

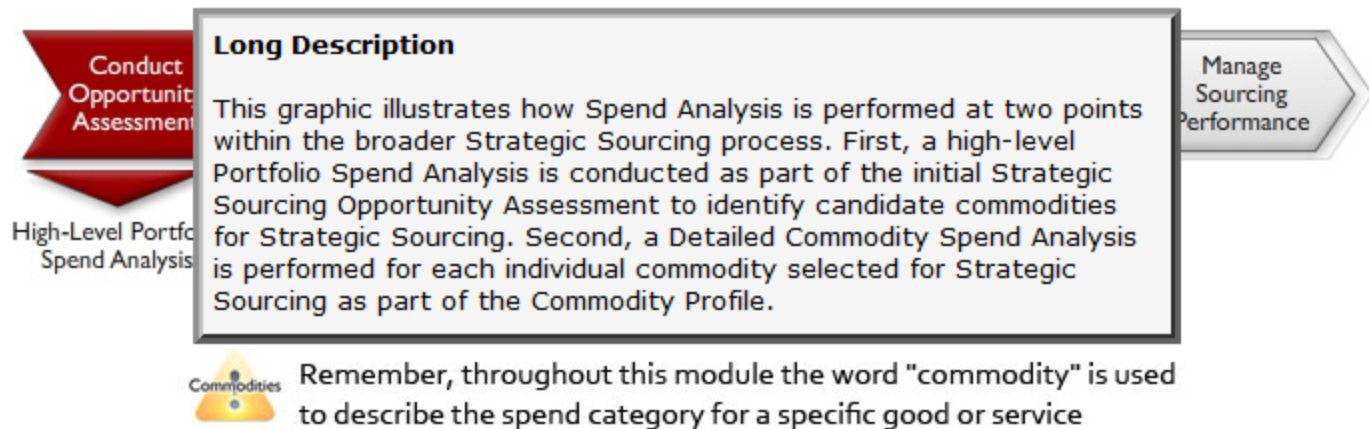
Source: Censeo Consulting Group

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### Strategic Sourcing Process



Source: Censeo Consulting Group

## High-Level Portfolio Spend Analysis

A High-Level Portfolio Spend Analysis covering all categories of spend is performed as part of an initial Opportunity Assessment to identify the best [commodities](#), or spend categories, on which to focus Strategic Sourcing efforts.

A High-Level Portfolio Spend Analysis is composed of the following:

- The uniform taxonomy developed by Under Secretary of Defense for Acquisition, Technology and Logistics USD(AT&L) shall be used to identify the best portfolios on which to focus Strategic Sourcing efforts.
- Fifteen portfolio groups ([eight services](#) and [seven supplies and equipment \(S&E\)](#)); their corresponding Product Service Codes (PSC) / Federal Supply Classes (FSC) are based on similarities of:
  - Nature and type of services, supplies and equipment
  - Manufacturing level (raw materials to a completed end-item)
  - Intended use or application (air, land, sea and space)
- A framework for leading and managing strategic sourcing efforts throughout the Defense Enterprise – from requirements generation to contract execution
  - Spend analyses/situational assessments
  - Opportunity/issue identification and assessments
  - Monitoring and measuring strategic sourcing implementation progress
  - Alignment of acquisition personnel/resources to accomplish strategic sourcing

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### Commodity

The spend category for a specific good or service. Examples of commodities include PC components, wireless services, office supplies, and medical services. Exact commodity definitions will vary by organization.

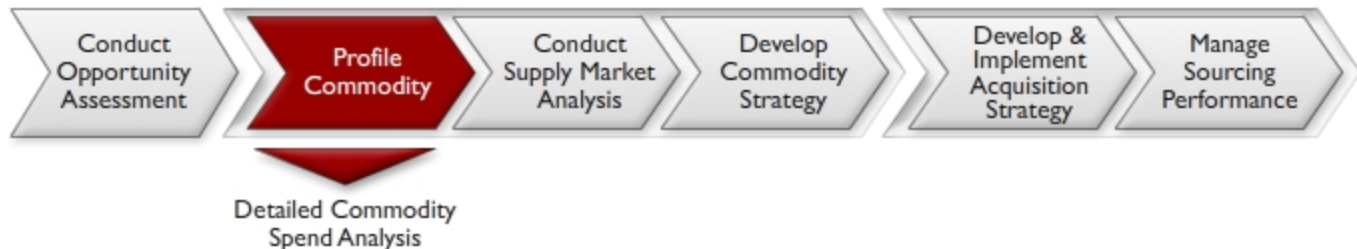
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## Detailed Commodity Spend Analysis

After a commodity is identified for Strategic Sourcing, a Detailed Commodity Spend Analysis is performed to understand the specific purchasing history and patterns for that commodity.

Detailed Commodity Spend Analysis is the primary focus of this learning module.

### Strategic Sourcing Process



## Detailed Commodity Spend Analysis

After a commodity is identified for Strategic Sourcing, a Detailed Commodity Spend Analysis is performed to understand the specific purchasing history and patterns for that commodity.

Detailed Commodity Spend Analysis is the primary focus of this learning module.

### Long Description

This graphic illustrates how Spend Analysis is performed within the broader Strategic Sourcing process. First, a high-level Portfolio Spend Analysis is conducted as part of the initial Strategic Sourcing Opportunity Assessment to identify candidate commodities for Strategic Sourcing. The second highlighted section, Profile Commodity is where a Detailed Commodity Spend Analysis is performed for each individual commodities selected for Strategic Sourcing.

Conduct  
Opportunity  
Assessment

Manage  
Sourcing  
Performance

Detailed Commodity  
Spend Analysis

## The Spend Analysis Process - Overview

Spend Analysis is a five-step process performed in two phases; **Preparing** for the Spend Analysis and **Performing** the Spend Analysis. In phase one, Preparing the Spend Analysis, the analytic scope is identified and the necessary data is collected and prepared.

With the cleansed data in hand, the second phase, Performing the Spend Analysis, is conducted. In this phase a Spend Profile is developed and opportunities for sourcing improvements are identified.

The next page details what takes place in each step.

### Spend Analysis Process





## The Spend Analysis Process - Overview

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The next page details what takes place in each step.

### Long Description

Graphic depicts the five steps of the Spend Analysis Process categorized into two phases. Phase 1 contains Steps 1 through 3. In Phase 1, Preparing for the Spend Analysis, the analysis scope is identified and the required data for it is collected and prepared.

Phase 2 contains Steps 4 and 5. In Phase 2, Performing the Spend Analysis, a Spend Profile can be developed and opportunities for sourcing improvements identified.

## The Five-Step Spend Analysis Process

Spend Analysis is a five-step process that can be broken down into two phases. Select the highlighted steps to learn more.



**First, the scope for the Spend Analysis must be defined and validated.**

- During this phase, the parameters that will guide the data collection and analysis are specified, including:
  - Portfolio (or Portfolios)
  - Organizational Scope
  - Timeframe
  - Type of Spend

Source: Censeo Consulting Group

[D](#)

## Long Description

This is an interactive graphic that illustrated the five steps and two phases of the Spend Analysis Process. When a step is selected, the following content is displayed:

### **Step 1: Define Scope (Phase 1)**

First, the scope for the Spend Analysis must be defined and validated.

- During this phase, the parameters that will guide the data collection and analysis are specified, including:
  - Portfolio (or Portfolios)
  - Organizational Scope
  - Timeframe
  - Type of Spend

### **Step 2: Collect Data and Step 3: Cleanse and Normalize (Phase 1)**

Once the scope has been identified, the data needed for the analysis must be collected and prepared.

- First, identify the data sources and methods of collection. A good starting point is FPDS-NG data and Defense Procurement Acquisition Policy (DPAP) / Professional Acquisition Support Services (PASS).
- Once the data has been collected, cleanse and normalize it to ensure the most accurate possible spend analysis. Although time intensive, this is a critical part of the process.
- Finally, organize the data into logical Portfolio Groups and portfolio categories in preparation for analysis.

### **Step 4: Develop Spend Profile and Step 5: Analyze Data and Determine Opportunities (Phase 2)**

With the cleansed data in hand, a Spend Profile can be developed and opportunities for sourcing improvements identified.

- First, create a Portfolio Spend Profile, which organizes and prioritizes the commodity categories and eliminates anything that falls outside of "addressable spend" (i.e., spend that is feasible or available for sourcing improvement efforts).
- A more detailed analysis must be performed for the top Portfolio categories (identified by volume or other pre-defined criteria), and the findings translated into implications and opportunities for sourcing

improvements.

### Knowledge Review

Which of the following types of analysis helps an organization identify candidate commodities for Strategic Sourcing?

- ☐ Customer Requirements Analysis
- ☒ High-Level Spend Analysis
- ☐ Detailed Commodity Spend Analysis
- ☐ Supply Market Analysis

Check Answer

A **High-Level Spend Analysis** covering all categories of spend is performed as part of an initial Opportunity Assessment to identify the best commodities, or spend categories, on which to focus Strategic Sourcing efforts.



## Knowledge Review

Which of the following steps must be completed before data can be collected for a Spend Analysis?

- ☒ Define the Spend Analysis Scope
- ☐ Develop a Spend Profile
- ☐ Determine Implications and Opportunities
- ☐ Cleanse and Normalize the Data

Check Answer

Before we can collect data for a Spend Analysis we must first **define the Spend Analysis scope**.



## **Spend Analysis Management Considerations**

There are two primary levels of Spend Analysis, High-Level Spend Analysis and Detailed Spend Analysis, each with different goals.

### **High-Level Spend Analysis**

A High-level Spend Analysis focuses on organization-wide spend and not on a particular commodity or group of commodities. It is generally used to identify broad improvement opportunities or to establish high-level baselines.

### **Detailed Spend Analysis**

A Detailed Commodity Spend Analysis is typically performed at the commodity level. It is normally initiated to research and develop acquisition strategies for a particular commodity or establish detailed measurements.





### Spend Analysis Management Considerations, Cont.

With either Spend Analysis model, it's important to identify a dedicated Spend Analysis Manager who can lead the effort. In addition to keeping the process moving, the manager ensures the Spend Analysis stays focused on its core objectives. The Spend Analysis Manager also coordinates stakeholder outreach and provides quality control oversight of all Spend Analysis output.

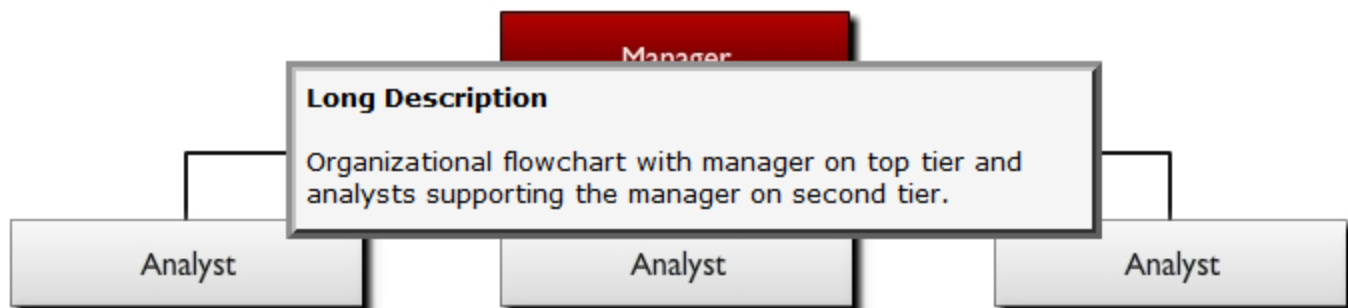
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## **Spend Analysis Stakeholders**

Gathering data to perform a Spend Analysis requires the participation and cooperation of many different stakeholders – both inside and outside the organization. Select each type of stakeholder below to learn more.



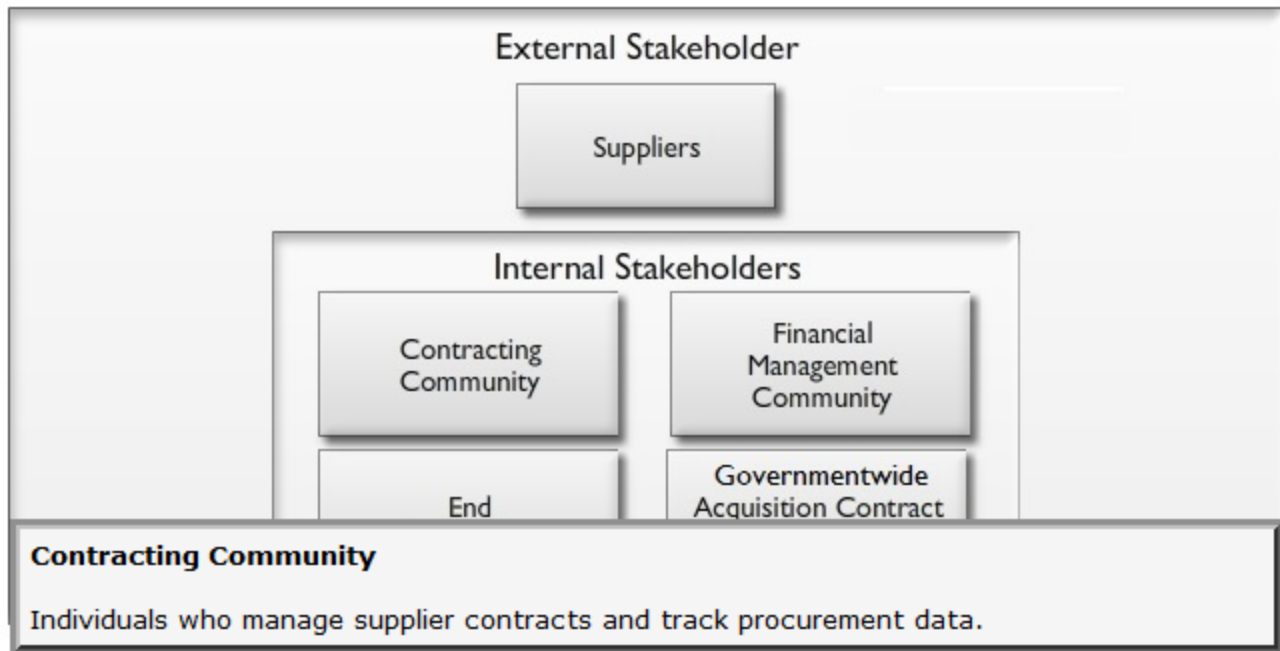
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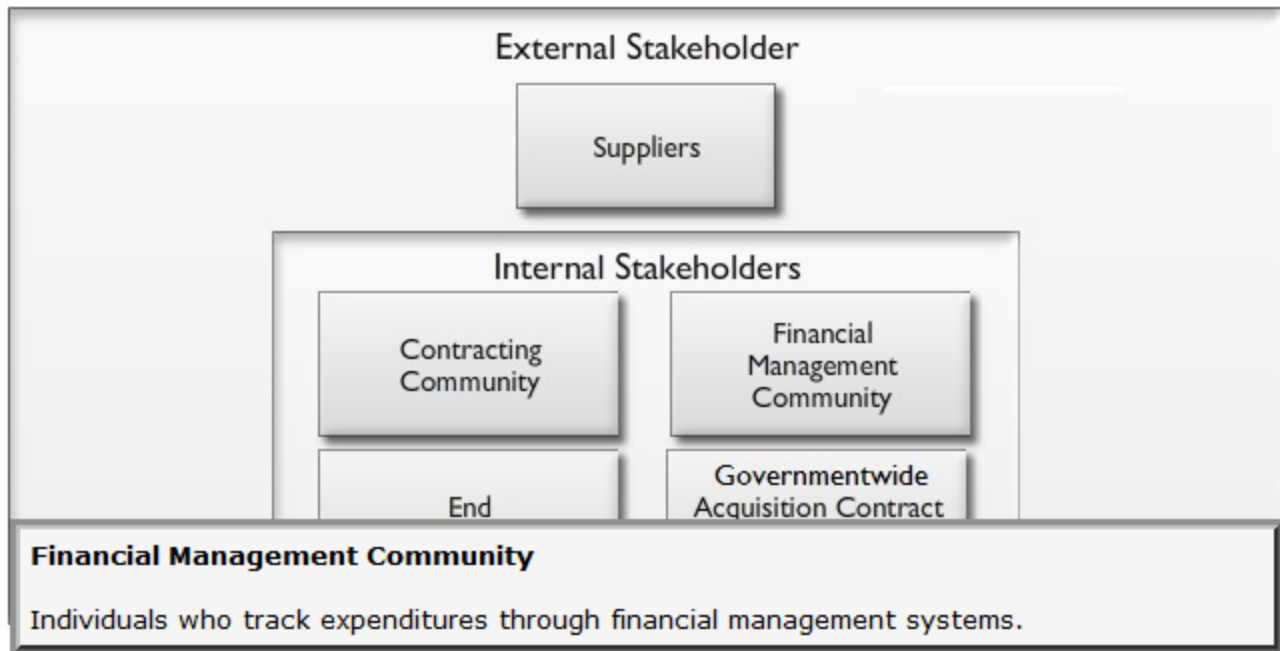
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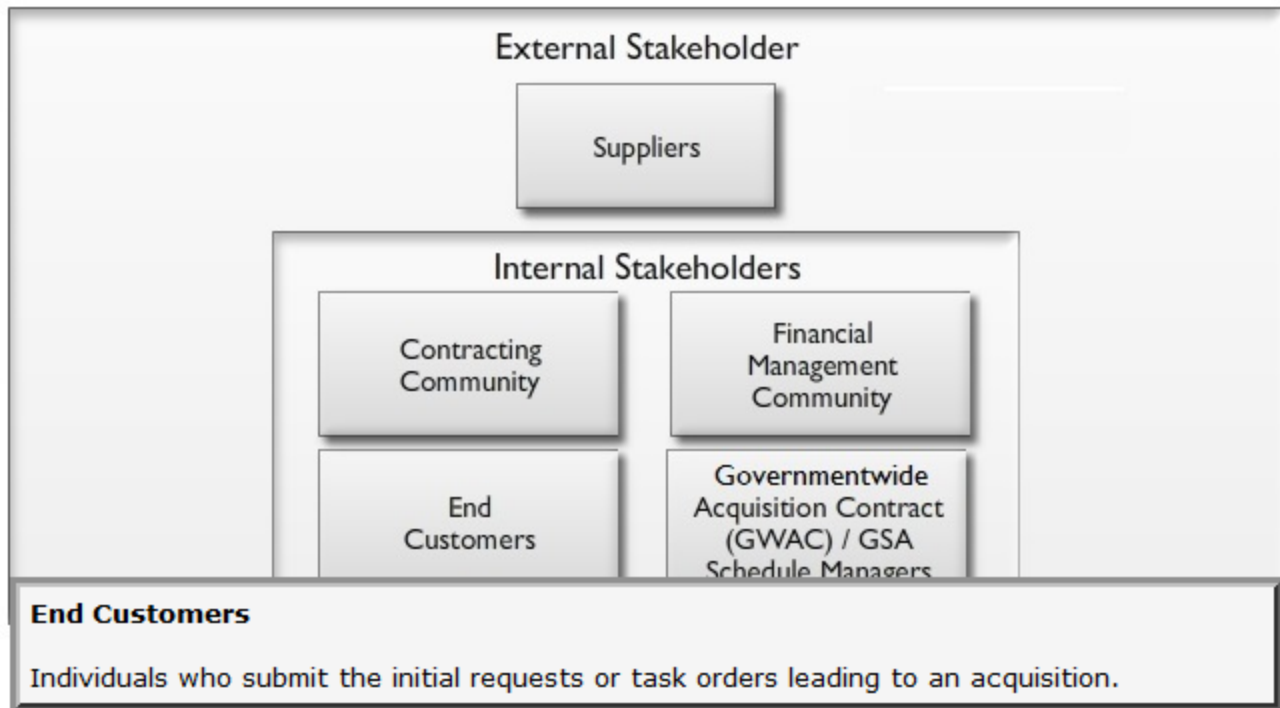
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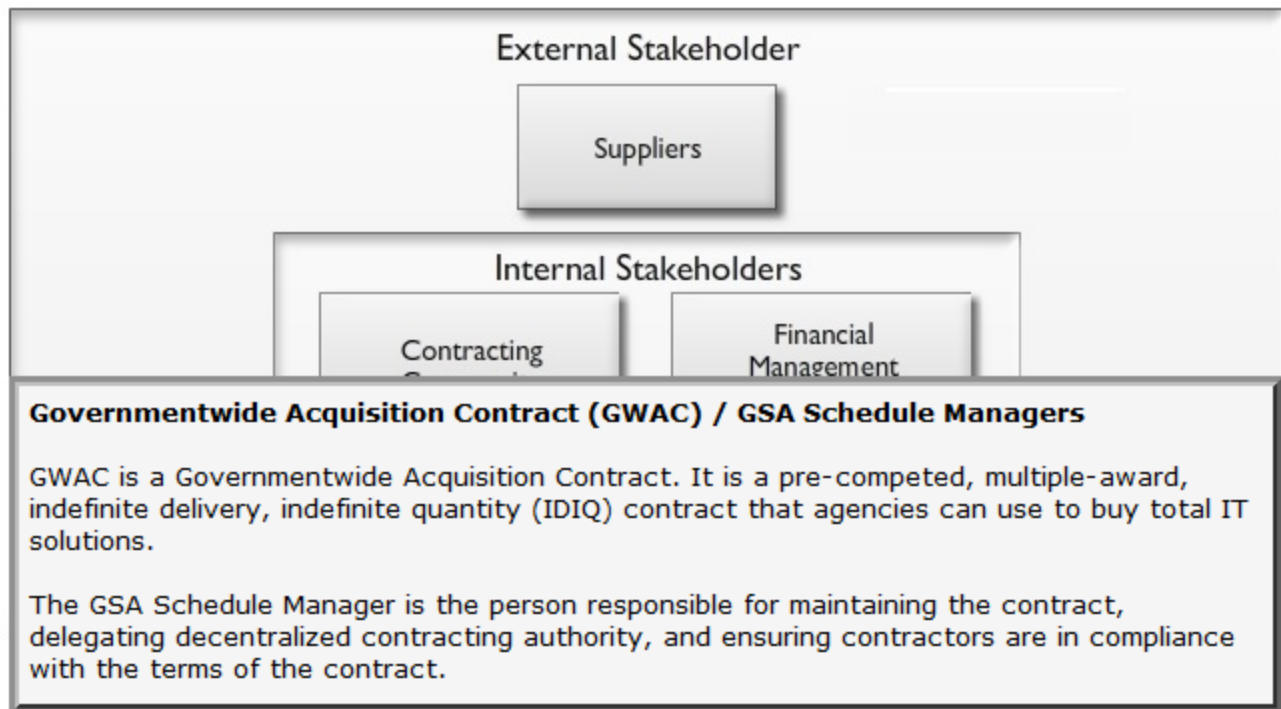
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## **Spend Analysis Outreach & Communications**

Well planned outreach and communication efforts are important for ensuring stakeholder participation and cooperation. Select each communication type for additional information.



**General Awareness Communications**



**Targeted Data Calls**



**Stakeholder Interviews**



**Data Validation/  
Verification Requests**

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### **General Awareness Communications**

Lets stakeholders know that a Spend Analysis effort is underway and why. These communications also help set expectations that stakeholder input and assistance may be requested at different points in the process.

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**General Awareness Communications**



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### **Targeted Data Calls**

Communicates specific data requests to stakeholders. Data calls should clearly define data requirements, including data parameters and submission format, and specify a response date.

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**General Awareness Communications**



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**Stakeholder Interviews**



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### **Stakeholder Interviews**

Clarifies data and helps fill in data gaps. These can also be useful for understanding some of the more qualitative aspects of the organization's purchasing needs and patterns.

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**General Awareness Communications**



**Targeted Data Calls**



**Stakeholder Interviews**



**Data Validation/  
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### **Data Validation/Verification Requests**

Gives stakeholders the opportunity to review compiled spend data and analyses and provides feedback.



## Spend Analysis Case Studies

There are many examples where Spend Analysis has been used by the military and the Federal Government. The following pages provide brief Spend Analysis case studies.



### **Case Example: U.S. Marine Corps IT Spend Analysis**

The U.S. Marine Corps (USMC) launched a Strategic Sourcing effort to improve its sourcing of Information Technology (IT) Equipment and Services.

The commodity team leading this initiative performed a Detailed Spend Analysis as part of developing a Commodity Profile to inform sourcing strategy development.

The USMC case example will be referred to throughout the remainder of this module to illustrate the different steps in the Spend Analysis process.



## Spend Analysis Case Studies

The Department of Commerce assessed contract and purchase card spend across the entire department to prioritize strategic sourcing opportunities. The table below illustrates sample target spending categories.

Sample Target Spend Categories

| # | Expense Category       | Annual Spend | Addressable Spend | Potential Savings (%) | Potential Annual Savings (\$) |
|---|------------------------|--------------|-------------------|-----------------------|-------------------------------|
| 1 | Software & Maintenance | \$137M       | \$69M             | 6 - 10%               | \$4.1 - 6.9M                  |
| 2 | PCs & Accessories      | \$50M        | \$26M             | 12 - 20%              | \$3.2 - 5.2M                  |
| 3 | Servers & Storage      | \$38M        | \$19M             | 12 - 20%              | \$2.3 - 3.8M                  |
| 4 | Cellular Services      | \$17M        | \$14.5M           | 10 - 20%              | \$1.5 - 2.9M                  |
| 5 | Office Supplies        | \$18M        | \$14M             | 6 - 15%               | \$1.0 - 2.2M                  |
| 6 | Printers               | \$18M        | \$10.5M           | 10 - 20%              | \$1.1 - 2.1M                  |
| 7 | Furniture              | \$11M        | \$10M             | 10 - 20%              | \$1.0 - 2.0M                  |

Assessing spend and acquisition practices enabled the estimation of potential savings and prioritization of target categories



## Spend Analysis Case Studies

The Department of Commerce assessed contract and purchase card spend across the entire department to

### Long Description

Graphic is a table representing Sample Target Spend Categories. It contains six columns and eight rows. The column titles (from left to right) are: Number, Expense Category, Annual Spend, Addressable Spend, Potential Savings (%), and Potential Annual Savings (\$).

The following content is addressed in this graphic:

| # | Expense Category       | Annual Spend | Addressable Spend | Potential Savings (%) | Potential Annual Savings (\$) |
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| 5 | Office Supplies        | \$18M        | \$14M             | 6-15%                 | \$1.0-2.2M                    |
| 6 | Printers               | \$18M        | \$10.5M           | 10-20%                | \$1.1-2.1M                    |
| 7 | Furniture              | \$11M        | \$10M             | 10-20%                | \$1.0-2.0M                    |

The following sentence is displayed below the table:

Assessing spend and acquisition practices enabled the estimation of potential savings and prioritization of target categories.

of potential savings and prioritization of target categories

**Spend Analysis Case Studies, Cont.**

A single Department of Navy command assessed its spend on Medical Equipment to identify acquisition strategies that could alleviate acquisition workforce strain as illustrated in the table below. Select the highlighted "Patient Monitoring" row in the table for additional information.

**Sample Medical Equipment Transactions and Spend**

| Equipment Type     | Transactions |               | Annual Spend (\$M) |
|--------------------|--------------|---------------|--------------------|
|                    | Stand-alone* | Task Orders** |                    |
| Digital Imaging    | 20           | 515           | \$42.1             |
| Patient Monitoring | 150          | 10            | \$8.0              |
| Endoscopy          | 30           | 20            | \$4.8              |
| Other              | 62           | 50            | \$14.6             |

\*Stand-alone contracts are estimated to require 120 days

\*\*Task Orders are estimate to require 15 days

**Spend Analysis Case Studies, Cont.**

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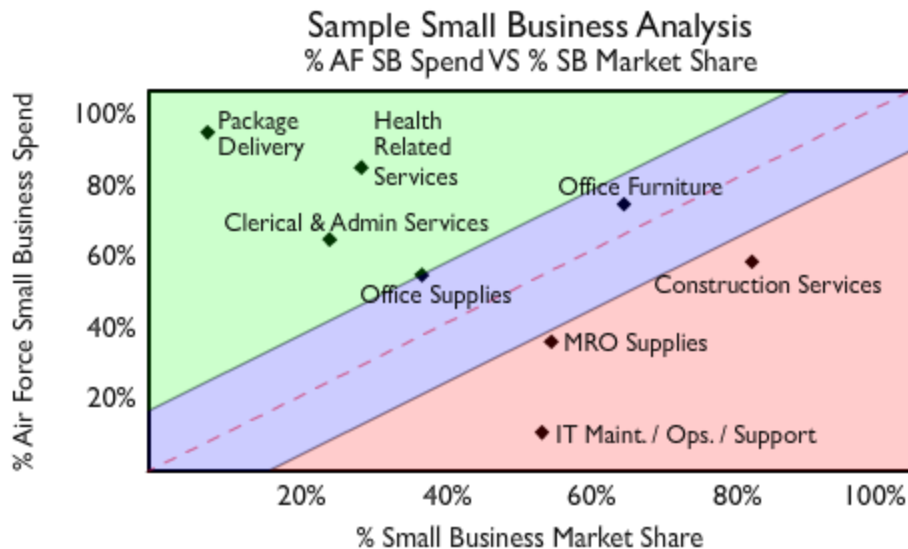
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Although not the highest spend total, Patient Monitoring Equipment causes the highest workforce strain because of the high number of standalone orders.

**Spend Analysis Case Studies, Cont.**

The U.S. Air Force identified commodity areas where businesses with socio-economic distinction were under-represented across the Federal Government as illustrated in the table below. Select each shaded area in the graphic below for additional information.



### Spend Analysis Case Studies, Cont.

The U.S. Air Force identified commodity areas where businesses with socio-economic distinction were under-represented across the Federal Government as illustrated in the table below. Select each shaded area in the graphic below for additional information.

#### Long Description

Graphic illustrates a Sample Small Business Analysis chart. It describes the percentage of Air Force (AF) Small Business Spend versus the percentage of Small Business Market Share. Specific commodity areas are illustrated to represent these spend areas. The x-axis represents the percentage of Air Force Small Business Spend. The y-axis represents the percentage of Small Business Market Share.

The chart is broken down into three sections.

The first section represents the commodity areas by which the AF uses more small businesses than industry. They include: package delivery (about 95%), health related services (about 83%), and clerical and administrative services (about 62%).

The second section represents commodity areas that are consistent with industry usage. They include: office supplies (about 50%) and office furniture (about 70%).

The third section represents the commodity areas by which the AF uses small businesses rather than industry. They include: construction services (about 45%), MRO supplies (about 37%), and IT Maintenance/Operations/Support (about 10%).

## Knowledge Review

Who typically initiates a Detailed Portfolio Spend Analysis?

- ☐ The Strategic Sourcing Program Management Office
- ☐ The Chief Procurement Executive
- ☐ The Contracting Office managing contracts related to that commodity
- ☒ The Commodity Team or Council

Check Answer

A Detailed Portfolio Spend Analysis is typically initiated by the **Commodity Team or Council** assigned to research and develop the sourcing strategies for a particular commodity.



### Knowledge Review

Which of the following stakeholders typically contribute to a Spend Analysis?

(Select all that apply)

- ☐ Department Heads
- ☒ Contracting Officers
- ☒ Suppliers
- ☒ Customers

Check Answer

Participation and cooperation is typically needed from the following stakeholder groups: **Contracting Officers, Suppliers, and End Customers.**



## Summary

This concludes the Spend Analysis Overview lesson. You should now be able to:

- Define Spend Analysis.
- Identify the key benefits of a Spend Analysis.
- Identify the main steps in the Spend Analysis process and how Spend Analysis fits into the broader Strategic Sourcing process.
- Identify key considerations for managing a successful Spend Analysis initiative.





## Lesson Completion

You have completed the content for this lesson.

To continue, select another lesson from the Table of Contents on the left.

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