

Performing the Spend Analysis

The Performing the Spend Analysis lesson addresses the steps involved developing a Spend Profile, interpreting and analyzing data and determining implications and opportunities for sourcing improvements.

After completing this lesson you should be able to:

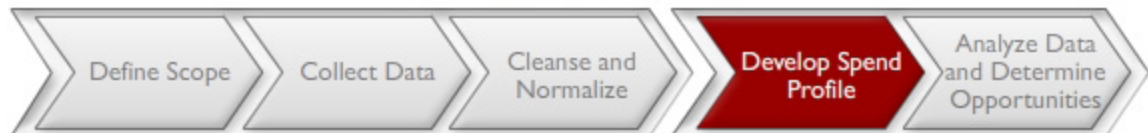
- Identify the key steps and considerations involved with developing a Spend Profile.
- Identify common spend data views and the sourcing insights they can provide.
- Identify key considerations involved with translating the Spend Analysis into actionable opportunities.



Developing the Spend Profile

The analytical process begins by establishing a detailed spend baseline, then using this to formulate summary-level spend profiles for each major commodity category in the analysis. This is a two-step process: Step 1 - Refine and Baseline Spend Data and Step 2 - Develop Spend Profile(s). The following pages describe each step in greater detail.

Spend Analysis Process



Step 1: Fine tune data to complete the total spend picture and establish a spend baseline.

Step 2: Roll up detailed spend data into summary-level profiles for each major portfolio group.



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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Developing the Spend Profile

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Spend Analysis Process

Long Description

Graphic illustrates the Spend Analysis process highlighting Step 4: Develop Spend Profile and its two substeps. The sub-steps are as follows:

- **Step 1 - Refine & Baseline Spend Data:** Fine tune data to complete the total spend picture and establish a spend baseline.
- **Step 2 - Develop Spend Profile(s):** Roll up detailed spend data into summary-level profiles for each major portfolio group.



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

Source: Censeo Consulting Group

Step 1: Refining & Baselineing Spend Data

At this point, all of the spend data that has been collected is compiled into a single dataset and organized into portfolio groups.

After this is completed, a high-level data scan is done to understand how spend is being allocated across:

- Main portfolio groups
- Customers
- Suppliers
- Contract vehicles and other purchasing methods

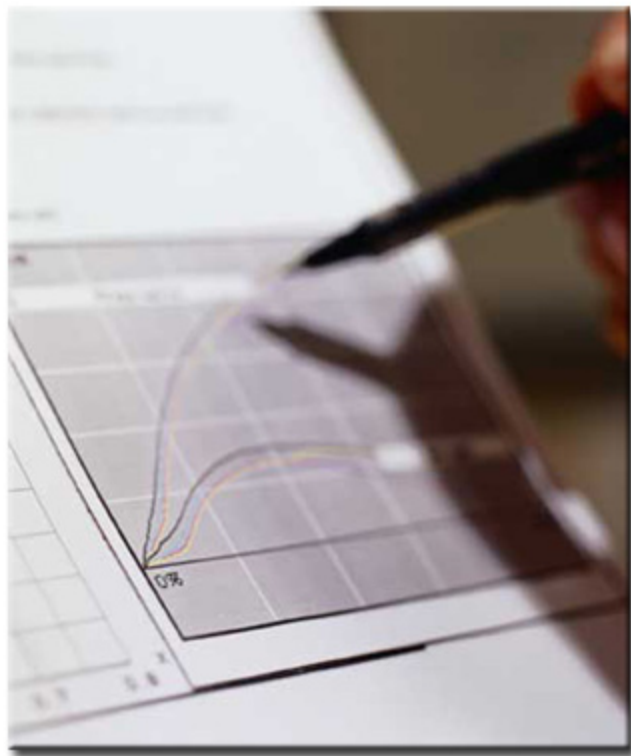


Step 1: Refining & Baselineing Spend Data, Cont.

The data scan allows the data to be viewed in aggregate, thereby permitting the analysis team to gain a greater understanding of relative spend across the various spend parameters.

The data scan is also important for identifying and correcting any remaining data gaps or redundancies that were missed earlier.

It enables the data to be viewed critically in order to assess spend as either "in scope" or "out of scope."



Step 1: Refining & Baselineing Spend Data, Cont.

When addressing critical data gaps, there are several options:

- Return to existing data sources to try to find missing data that may have been overlooked or inadvertently deleted.
- Seek out additional data sources that may aid in filling data gaps.
- Use data extrapolation and other statistical techniques to estimate missing data.

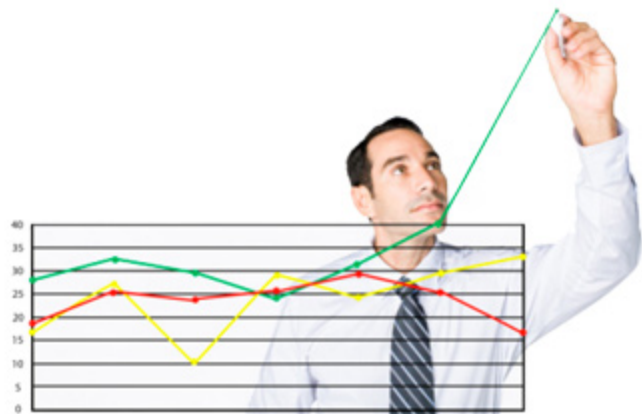


Step 1: Refining & Baselineing Spend Data, Cont.

Every time new data is added to the dataset, the data must be cleansed and normalized. This process can take several iterations before a high confidence level in the quality of data is achieved.

At some point, however, a decision must be made as to when the data is sufficient in order to proceed with the analysis. There will never be a complete 100 percent accurate picture available. Therefore, the value of additional data versus the time required to obtain it must be continually gauged.

This particular process can also be done during the "Cleanse and Normalize Data" step.



Step 1: Refining & Baselining Spend Data, Cont.

In the USMC case example during the baselining process, it was found that:

- A significant portion of spend data was missing for hardware purchases made through the Army.
- USMC made hardware purchases on behalf of other agencies.
- Two large contracts were determined to be "non-addressable," or not available for sourcing modifications.
- Telecom-related spend had a different supply base and market and was removed from the spend.



Step 1: Refining & Baselining Spend Data, Cont.

At this point, it may also be necessary to eliminate data that is redundant or is determined to be "out of scope."

The USMC Commodity Team, for example:

- Eliminated data that was considered non-USMC spend – such as hardware purchased by USMC on behalf of other agencies.
- Removed two large contracts that were determined to be "non-addressable," or not available for sourcing modifications (one was for a large enterprise-wide program and the other was a new contract and considered highly mission critical).
- Determined telecom-related spend had a different supply base and market, and therefore should not be considered part of IT spend.

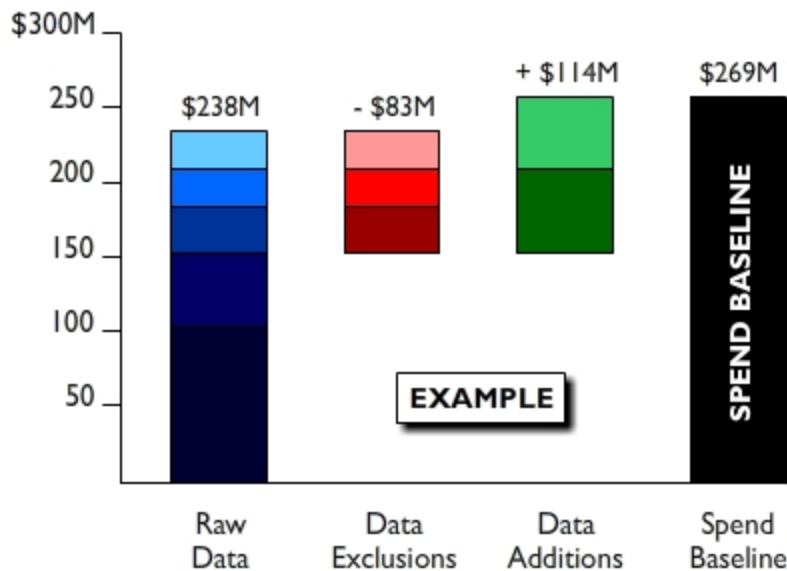


Step 1: Refining & Baselineing Spend Data, Cont.

The end result of this data refinement process is a comprehensive and validated Spend Baseline that becomes the foundation of the Spend Profile(s).

The bar graph below illustrates how spend data is refined through data exclusions and additions to create a Spend Baseline.

Spend Data Refinement (Example)

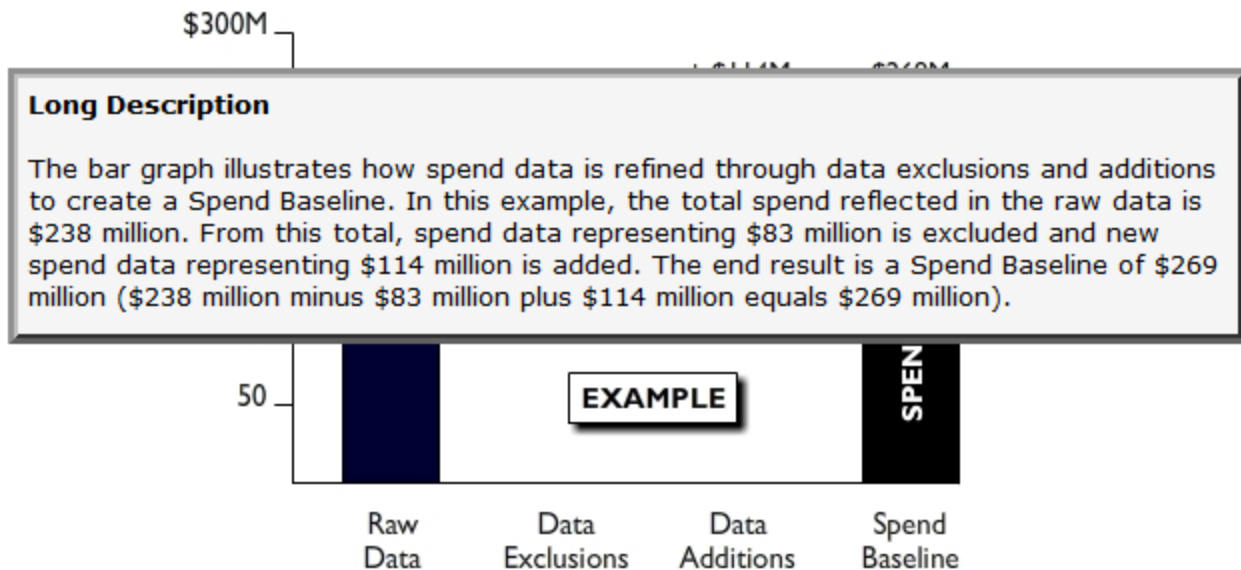


Step 1: Refining & Baselineing Spend Data, Cont.

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The bar graph below illustrates how spend data is refined through data exclusions and additions to create a Spend Baseline.

Spend Data Refinement (Example)



Step 2: Developing the Spend Profile(s)

From the Spend Baseline, portfolio groups or portfolio categories are identified and the data is rolled up into a high-level summary, or Spend Profile.

The purpose of the Spend Profile is to:

- Isolate key target portfolio categories within the larger portfolio spend.
- Provide a clear, summary-level snapshot of spend for each category that can be easily analyzed and compared.
- Reveal obvious trends and patterns in the data that can guide more detailed analysis.
- Provide the foundation for asking more probing questions about how and why spend is allocated.



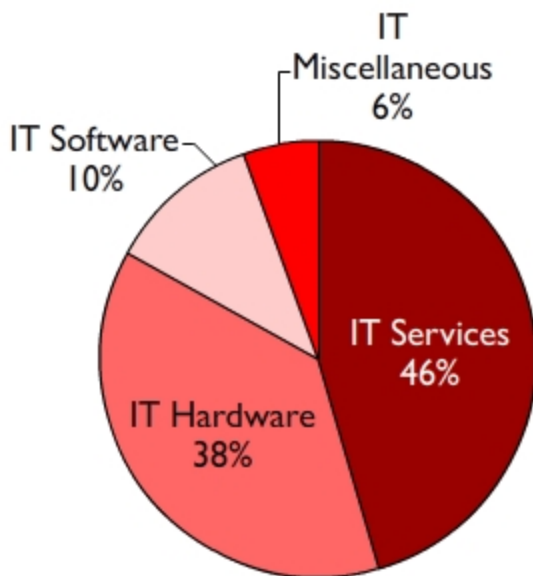
Step 2: Developing the Spend

In the USMC case example, the IT Spend Profile revealed that IT Services was the largest spend category, representing 46 percent of total IT spend. This was followed by IT Hardware at 38 percent, and IT Software at 10 percent.

Six percent of IT spend fell into a category labeled IT Miscellaneous. Further analysis revealed that the bulk of this miscellaneous spend could be reallocated to IT Hardware.

Additionally, it was discovered that some of the IT Services contracts were being used by contractors to also purchase IT Equipment directly for the government.

This new insight helped the Spend Analysis team determine that IT Hardware spend was actually being understated.



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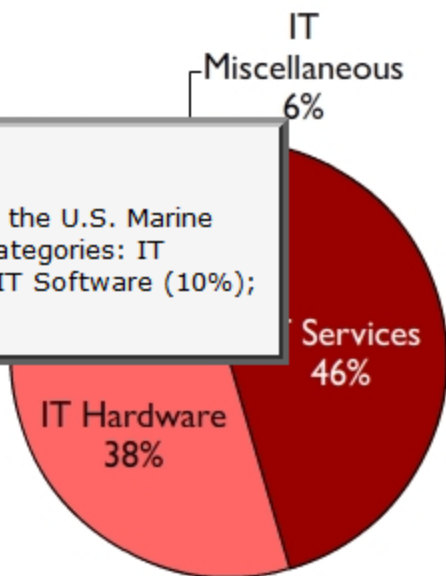
Six percent of IT spend fell into the category of IT Miscellaneous. Further analysis of this miscellaneous spend revealed that it was primarily for IT Hardware.

Additionally, it was discovered that USMC IT Services contracts were 100 percent of the total IT Services spend. USMC also purchase IT Equipment from the private sector and the government.

This new insight helped the Spend Analysis team determine that IT Hardware spend was actually being understated.

Long Description

A pie chart showing the breakdown of the U.S. Marine Corps' IT Spend into four major sub-categories: IT Services (46%); IT Hardware (38%); IT Software (10%); IT Miscellaneous (6%).



Step 2: Developing the Spend Profile(s), Cont.

Next, the highest impact spend areas on which to focus the Spend Analysis needs to be identified. This allows time and resources to be efficiently allocated to areas with the greatest potential for sourcing improvements.

The selection process begins by examining the unique Spend Profiles of the portfolio categories within the portfolio group structure and comparing their relative spend impact.

Spend volume is a common indicator of relative spend impact. For example, a decision could be made to only focus subsequent analyses on just those portfolio categories that represent 80 percent of the total spend.

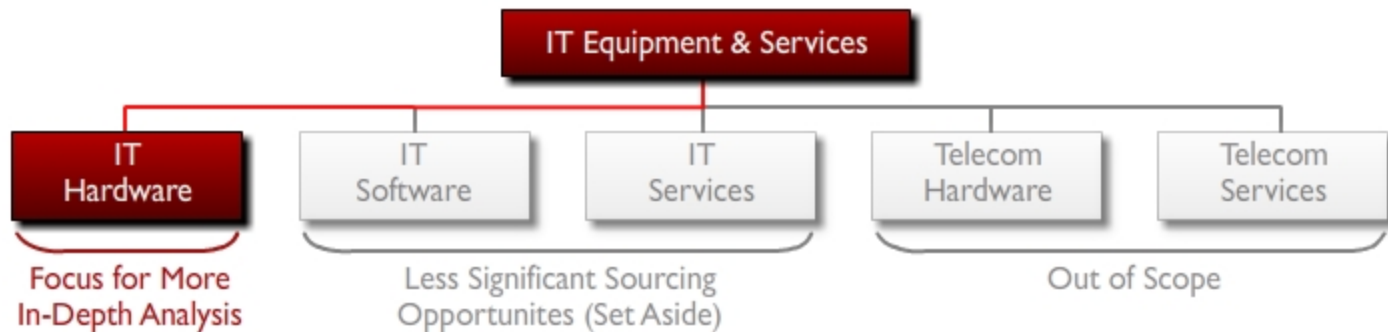
Other possible spend impact indicators include mission critical spend categories, significant off-contract spend, or areas showing significant supplier fragmentation or concentration.



Step 2: Developing the Spend Profile(s), Cont.

In the USMC case example, the Commodity Team selected IT Hardware as its primary focus for more detailed analysis. This decision was based on several factors:

- IT Hardware specifications and requirements are generally more straightforward to define than those for more complex services.
- Although IT Services is also a significant spend category at 46 percent, its more specialized offerings limit sourcing opportunities.



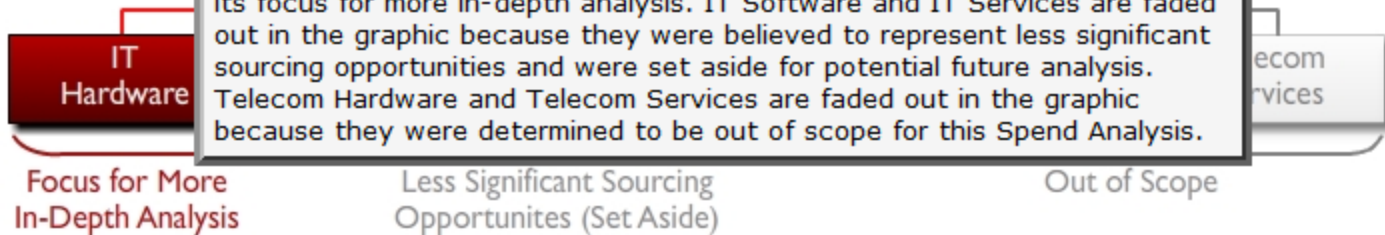
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Long Description

This graphic shows the five categories the U.S. Marine Corps (USMC) initially used to define the IT Equipment & Services commodity: IT Hardware; IT Software; IT Services; Telecom Hardware; and Telecom Services. IT Hardware is highlighted as the sub-category USMC selected as its focus for more in-depth analysis. IT Software and IT Services are faded out in the graphic because they were believed to represent less significant sourcing opportunities and were set aside for potential future analysis. Telecom Hardware and Telecom Services are faded out in the graphic because they were determined to be out of scope for this Spend Analysis.



Knowledge Review

Which of the following are reasons for conducting a high-level data scan of the compiled spend data?

(Select all that apply)

- ☒ To address any remaining data gaps and redundancies
- ☐ To evaluate the quality of data by data source
- ☒ To understand total spend across key spend parameters
- ☒ To assess which spend is 'in scope' or 'out of scope'

Check Answer

That is correct.

The reasons for conducting a high-level data scan of the compiled spend data are: **to address any remaining data gaps and redundancies; to understand total spend across key spend parameters; and to assess which spend is in scope or out of scope.**



Knowledge Review

Once the Spend Profile has been developed, the data can be rolled up into a high-level Spend Baseline.

☐ True

☒ False

Check Answer

That is correct.

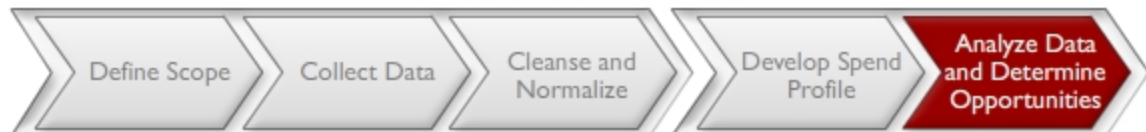
This is a **false** statement. We must develop and validate a comprehensive Spend Baseline before we can roll the data up into a high-level Spend Profile. The purpose of doing the Spend Baseline is to ensure all of the spend data used by our analysis is complete and accurate.



Analyze Data and Determine Opportunities

It is now time to perform a more in-depth analysis on the sub-commodities and spend areas that have been prioritized as representing the greatest potential impact.

Spend Analysis Process



Step 1: The final step in the Spend Analysis is to translate the analysis into concrete and actionable opportunities by using hypotheses, however, many more approaches exist.

Analyze Data and Determine Opportunities

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Spend Analysis Process

Long Description

Graphic illustrates the Spend Analysis process highlighting Step 5: Analyze Data and Determine Opportunities and its substep. The sub-step is as follows:

Step 1 - Interpret & Analyze Data: The final step in the Spend Analysis is to translate the analysis into concrete and actionable opportunities by using hypotheses, however, many more approaches exist.

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Focusing the Spend Analysis

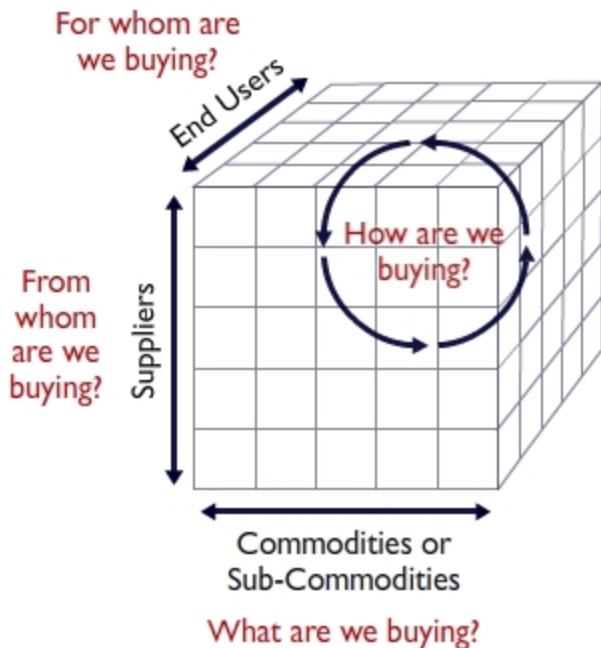
A Spend Analysis can be performed across many dimensions and at different levels of granularity to get a complete spend picture.

Although the analysis possibilities are infinite, time and resources most likely are not. Therefore, the focus of the analysis should only be on those dimensions providing the greatest insights for actionable improvement opportunities.

To do this, approach the Spend Analysis with a list of hypotheses – or tentative conclusions – about potential sourcing improvement areas based on knowledge of the data thus far. For example, one hypothesis might be:

- **Multiple contracts with the same supplier have different pricing terms.**

Then, the focus of the analysis should be on proving or disproving each hypothesis.



Focusing the Spend Analysis

A Spend Analysis can be performed across many dimensions and at different levels of granularity to get a complete spend picture.

Although the analysis possibilities are infinite, time and resources most likely are not. Therefore, the focus of the analysis should only be on those dimensions providing actionable improvement.

To do this, approach the analysis with a set of hypotheses – or to put it another way, potential sourcing improvements. The knowledge of the data and the hypothesis might be:

- **Multiple contracts may have different terms and conditions.**

Then, the focus of the analysis is on testing and disproving each hypothesis.

Long Description

Graphic is a three dimensional grid with each dimension representing one of four different spend angles addressed by Spend Analysis:

1. What is being purchased?
2. For whom is it being purchased?
3. From whom is it being purchased?
4. How is it being purchased?

For whom are we buying?

Users

How are we buying?

Commodities or Sub-Commodities

What are we buying?

Sample Data Spend Views

Every Spend Analysis is unique and the number of possible analytical approaches far exceeds what is able to be covered here.

In the remainder of this lesson, six-sample spend data views and the insights each offers for understanding spend will be described. For several of these data views, examples from the USMC case example are provided.

Six Sample Spend Data Views:

- Spend by organizational unit
- Spend to transaction ratios
- Spend by supplier
- Commodity purchase price by supplier
- Supplier management workload
- Historical spend compared to current year budget

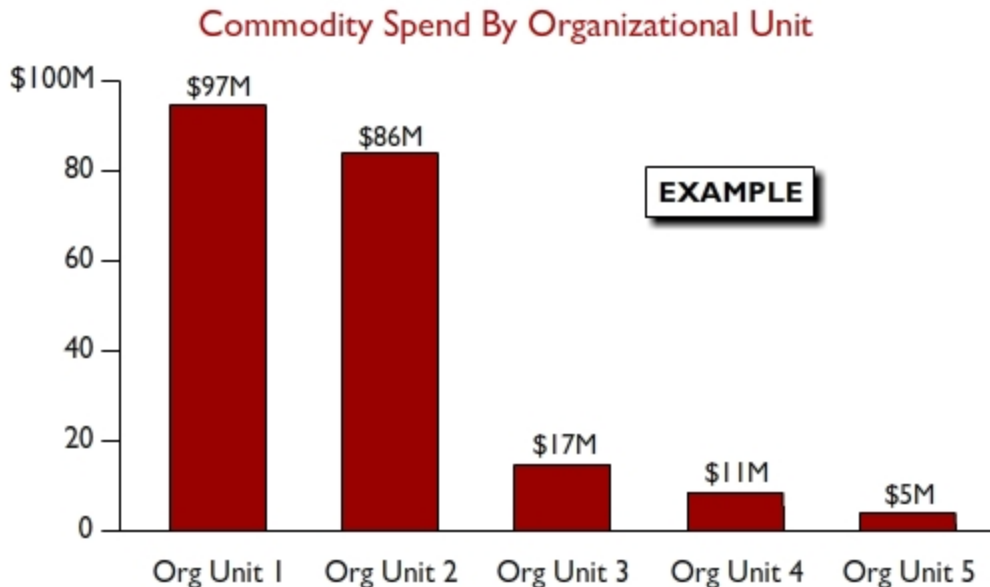
Sample Spend Data Views

1. *Organizational Unit*
2. *Transaction Ratio*
3. *Supplier*
4. *Supplier Purchase Price*
5. *Supplier Management Workload*
6. *Historical Spend vs. Current Year's Budget*

Sample Spend View #1: Commodity Spend by Organizational Unit

Understanding which parts of the organization are generating the greatest commodity spend is useful for prioritizing commodity requirements by organizational unit and identifying key stakeholders within the user community. Organizational views should consider contracting offices managing the procurements, as well as end users.

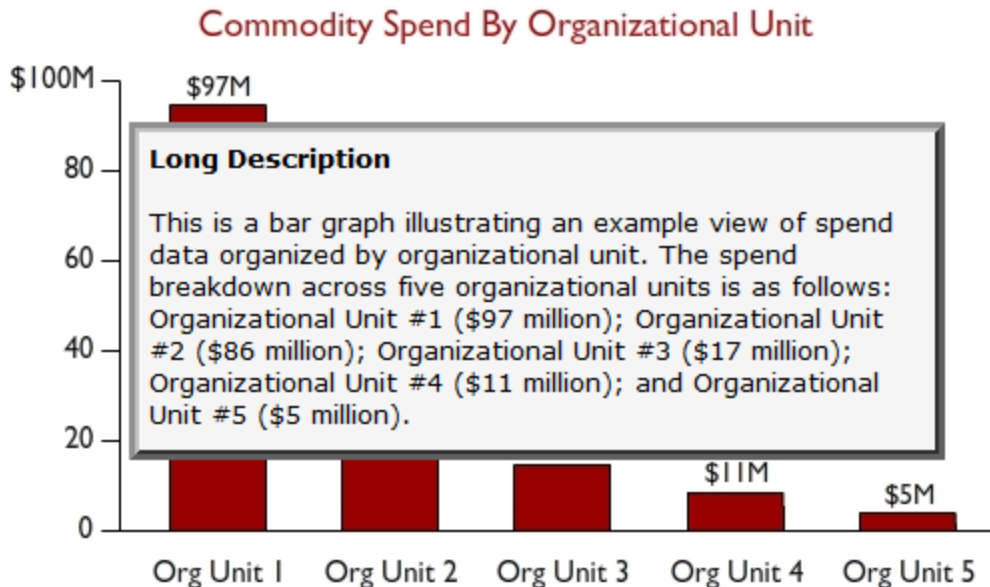
In this example, two organizational units represent 85 percent of the commodity spend. Stakeholders from these units should be involved in exploring different sourcing improvement opportunities.



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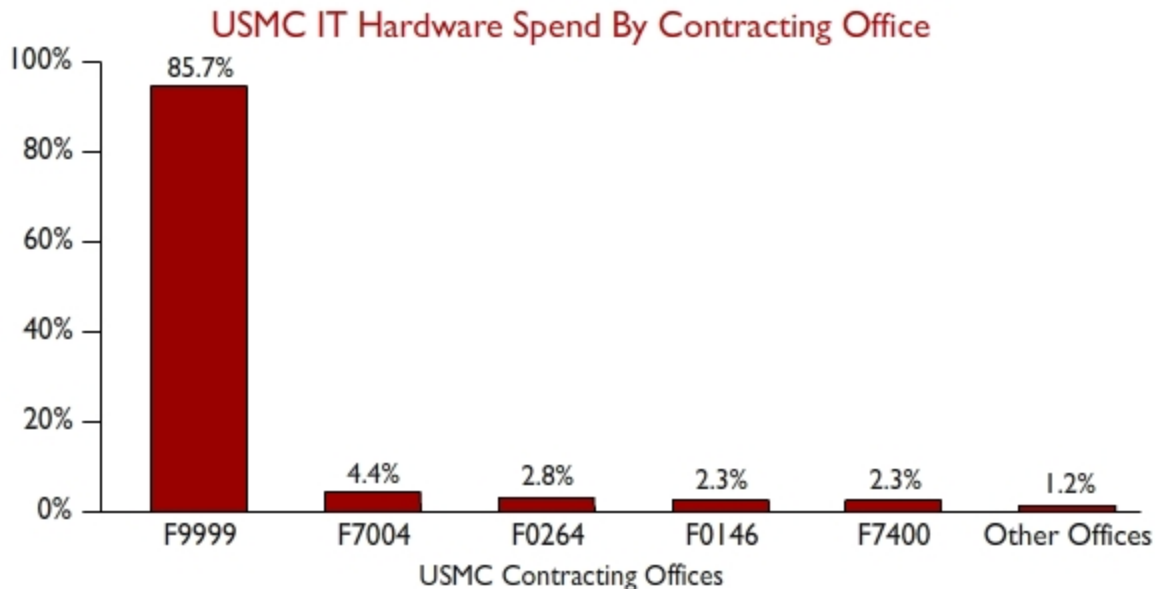
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Sample Spend View #1: Commodity Spend by Organizational Unit, Cont.

In the USMC case example, an initial view of DD-350 spend by organization unit showed that approximately 86 percent of IT Hardware spend came out of one contracting office (F9999).

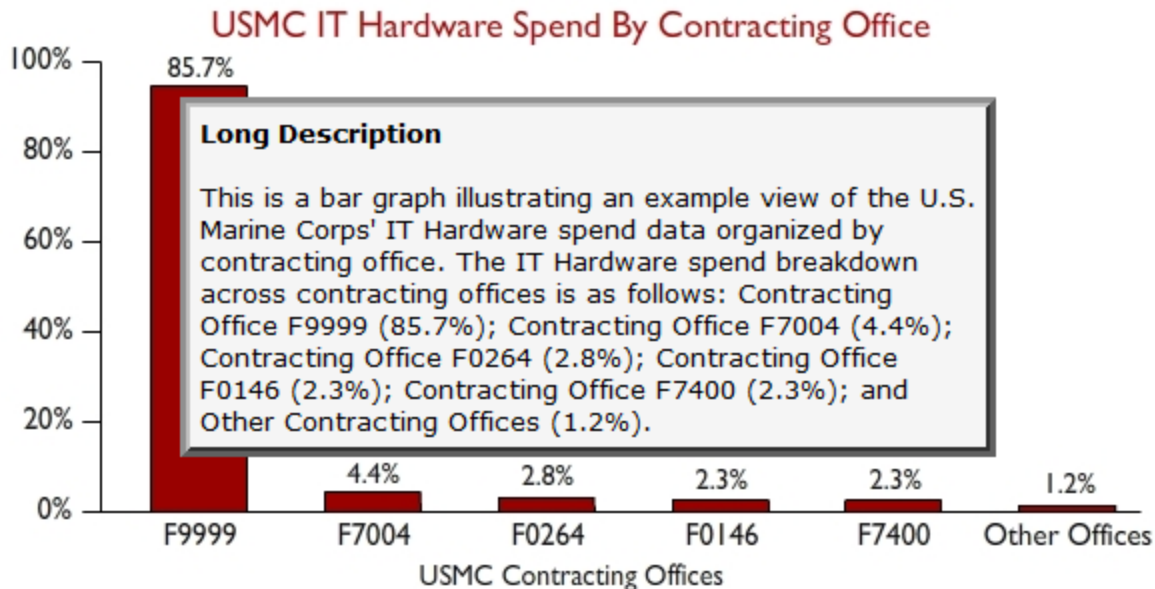
The Spend Analysis team subsequently focused its detailed data gathering efforts and understanding of user requirements on this contracting office, which was able to provide a very detailed extract of IT hardware spend.



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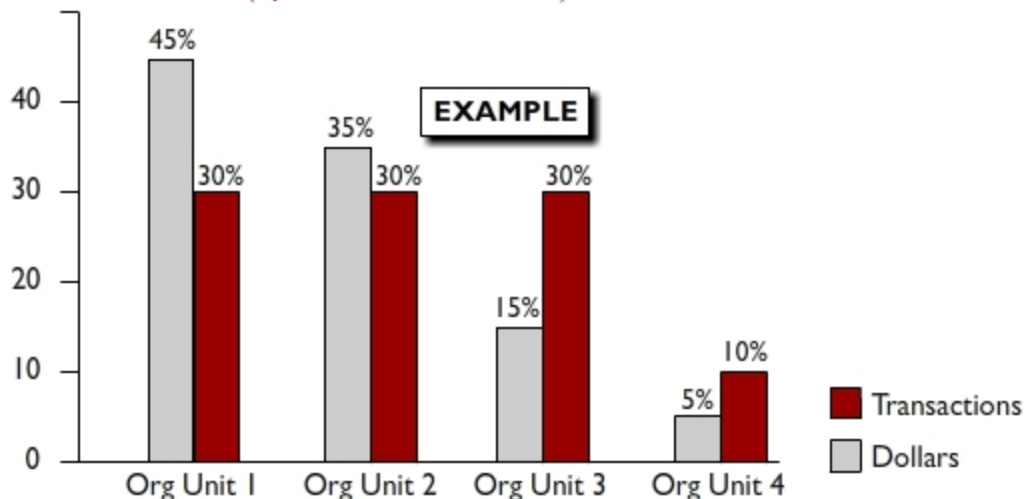


Sample Spend View #2: Spend to Transaction Ratios

Comparing the amount of spend to the number of supplier transactions is one indicator of acquisition efficiency.

When numerous transactions are being made for a relatively small amount of spend (as with Organizational Unit 3 in the example below), there may be opportunities for process automation, streamlining, or simply a reduction in the volume of transactions required to meet requirements.

**Annual Contract Actions By Organizational Unit
(Spend vs. Transaction)**



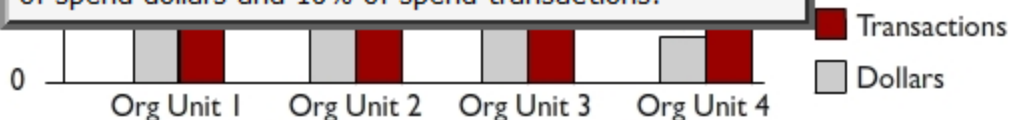
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**Annual Contract Actions By Organizational Unit
(Spend vs. Transaction)****Long Description**

This is a bar graph comparing the percentage of spend vs. percentage of transactions by organizational unit. The breakdown of spend vs. transaction across organizational units is as follows: Organizational Unit #1 accounts for 45% of spend dollars and 30% of spend transactions; Organizational Unit #2 accounts for 35% of spend dollars and 30% of spend transactions; Organizational Unit #3 accounts for 15% of spend dollars and 30% of spend transactions; and Organizational Unit #4 accounts for 5% of spend dollars and 10% of spend transactions.



Sample Spend View #3: Spend by Supplier

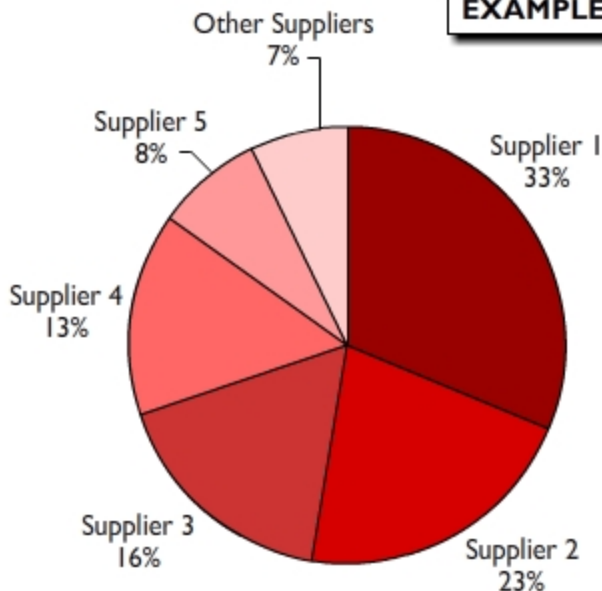
Examining spend by supplier reveals the degree of spend fragmentation, as well as potential opportunities for improving negotiating strength.

If spend is highly fragmented, a deeper look into understanding the reasons why may be required. For example, there may be many suppliers because of the abundance of small businesses.

If spend is concentrated with a relatively few number of suppliers, explore ways to reallocate spend or expand the supplier base to improve negotiating strength.

Commodity Spend by Supplier

EXAMPLE



Sample Spend View #3: Spend by Supplier

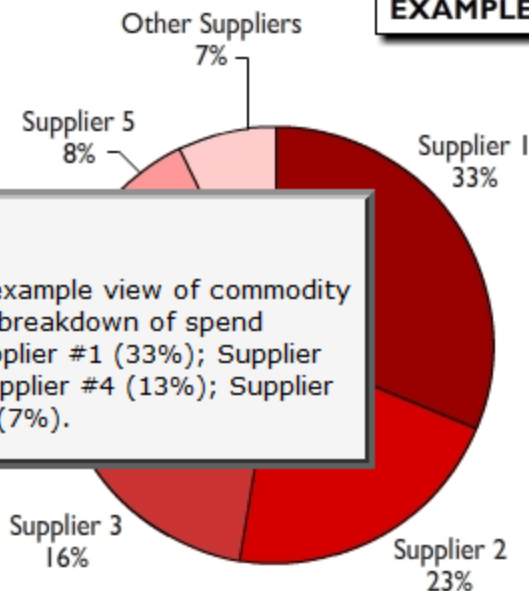
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If spend is concentrated with a small number of suppliers, explore the reasons why. If spend is concentrated with a small number of suppliers, explore spend or expand the supplier base to improve negotiating strength.

Commodity Spend by Supplier

EXAMPLE



Long Description

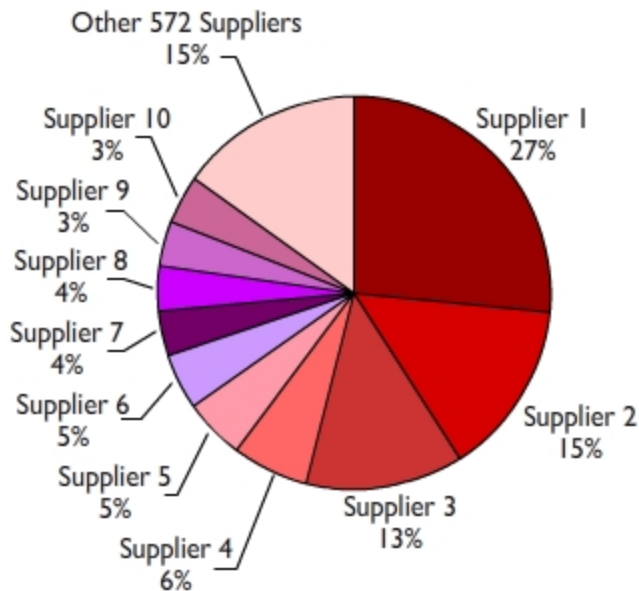
This is a pie chart illustrating an example view of commodity spend organized by supplier. The breakdown of spend across suppliers is as follows: Supplier #1 (33%); Supplier #2 (23%); Supplier #3 (16%); Supplier #4 (13%); Supplier #5 (8%); and All Other Suppliers (7%).

Sample Spend View #3: Spend by Supplier, Cont.

Examining the USMC spend by supplier revealed that the top supplier accounted for 27 percent of spend, while the top 10 suppliers accounted for 85 percent of spend. The remaining 572 suppliers accounted for only 15 percent of spend.

The key insight from this analysis was that USMC spend is relatively concentrated. To further understand Strategic Sourcing opportunities, the Spend Analysis team analyzed the number of contracts as well as the types of products and services being provided by these suppliers. Additionally, the team analyzed the small business portion of the total spend.

USMC IT Hardware Spend by Supplier



Sample Spend View #3: Spend by Supplier, Cont.

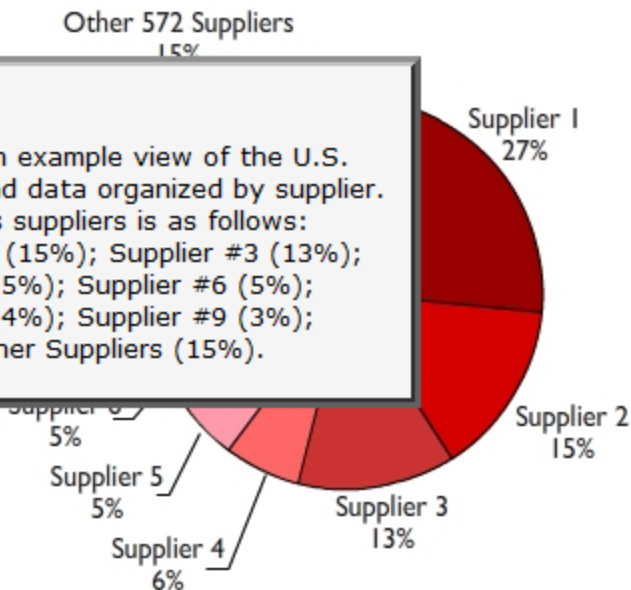
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The key insight from this spend is relatively concentrated. The USMC Spend Analysis team analyzed Strategic Source contracts as well as the services being provided by the top 10 suppliers. Additionally, the team analyzed the portion of the total spend

USMC IT Hardware Spend by Supplier

Long Description

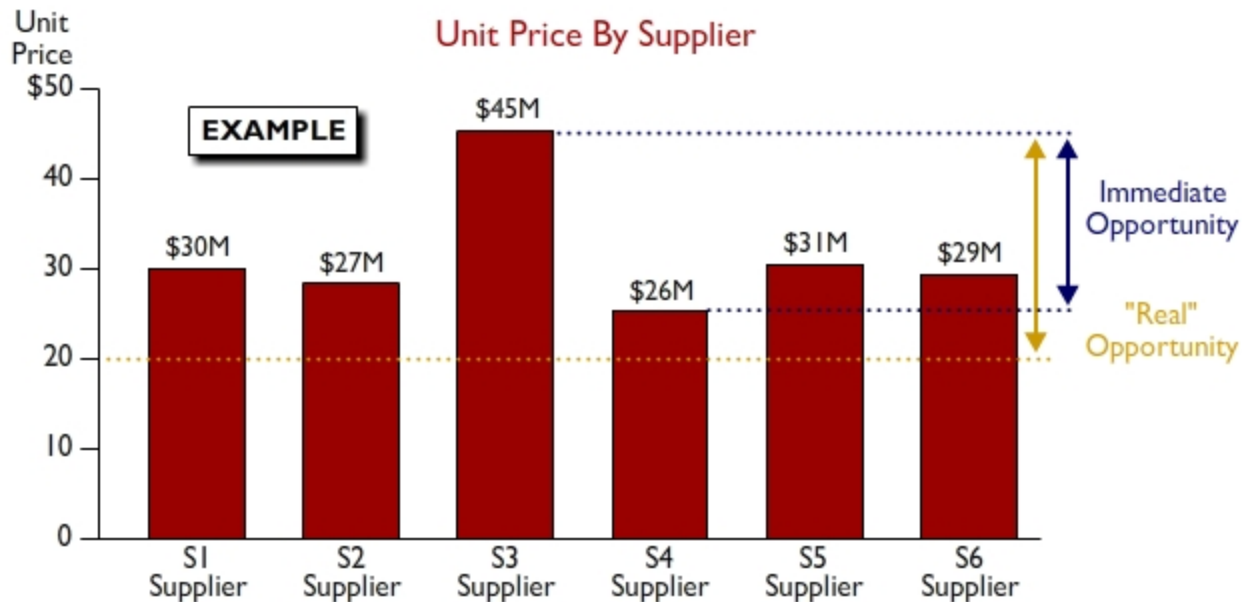
This is a pie chart illustrating an example view of the U.S. Marine Corps' IT Hardware spend data organized by supplier. The breakdown of spend across suppliers is as follows: Supplier #1 (27%); Supplier #2 (15%); Supplier #3 (13%); Supplier #4 (6%); Supplier #5 (5%); Supplier #6 (5%); Supplier #7 (4%); Supplier #8 (4%); Supplier #9 (3%); Supplier #10 (3%); and 572 Other Suppliers (15%).



Sample Spend View #4: Commodity Purchase Price by Supplier

Variations in purchase price across suppliers – and across multiple contracts with the same supplier – can reveal immediate opportunities for unit price reductions. However, the broader question to ask is "What should the real price be?" By looking more closely at supplier cost structures, acquisition processes, and other price drivers, there may be other opportunities found to reduce the purchase price even further.

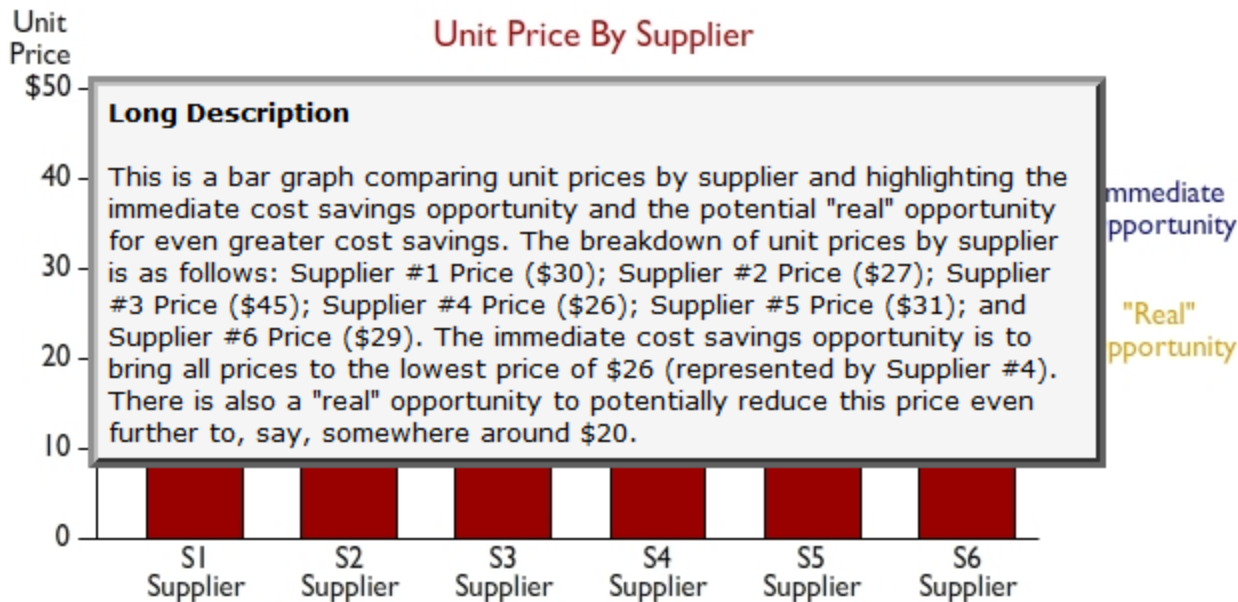
The bar graph below compares unit prices by a supplier, highlights immediate cost savings opportunities and identifies potential "real" opportunities for even greater cost savings.



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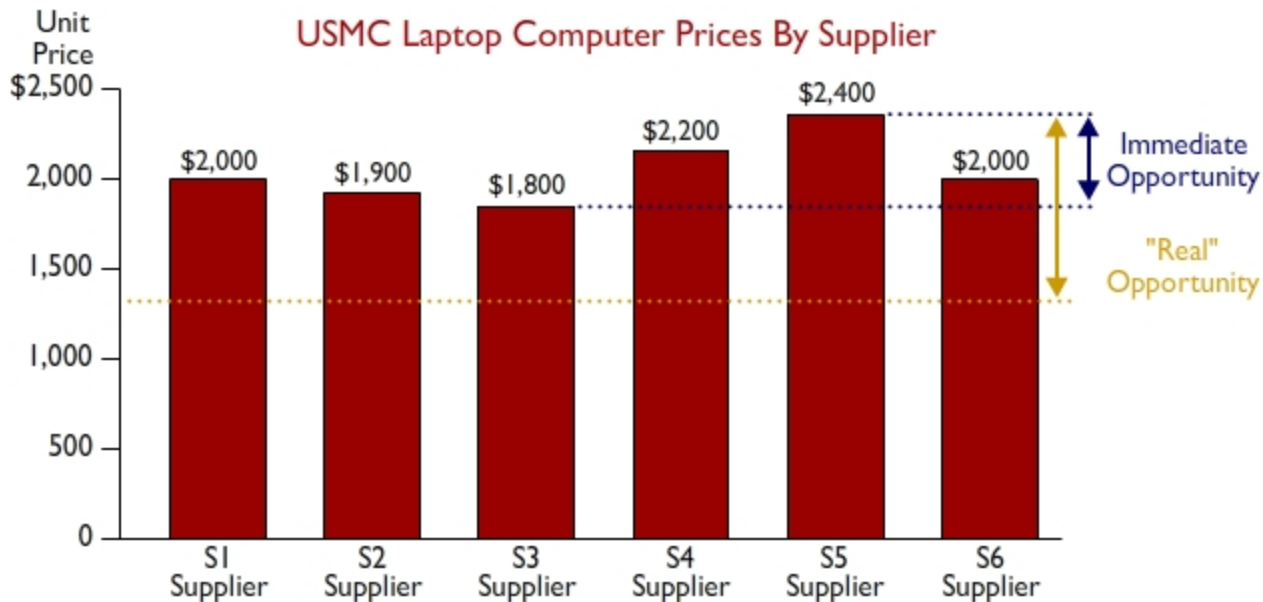
The bar graph below compares unit prices by a supplier, highlights immediate cost savings opportunities and identifies potential "real" opportunities for even greater cost savings.



Example of Spend View #4: Commodity Purchase Price by Supplier, Cont.

Analysis of the USMC purchase prices for IT Hardware revealed that USMC contract vehicles offered a selection of vendors for similar products. However, the prices paid for like products varied significantly from one supplier to another.

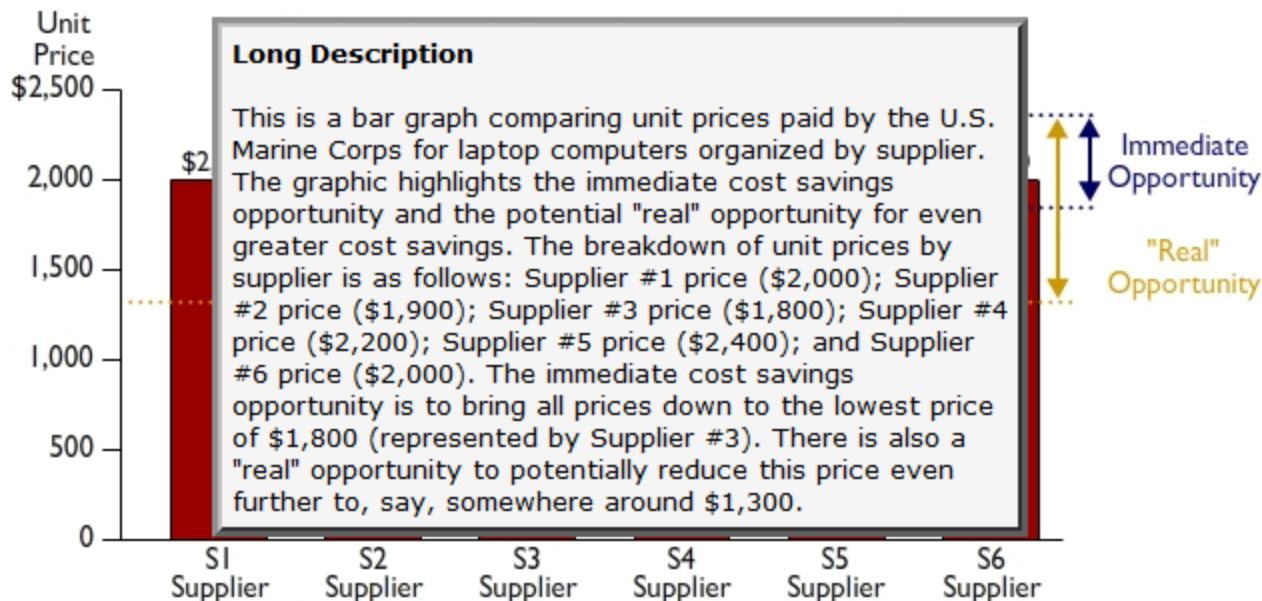
For example, the highest price paid for a laptop was approximately \$2,400, while the lowest price for the same laptop was \$1,800 – a \$600 price difference that revealed an immediate cost savings opportunity. There is also a "real opportunity" to further reduce this price through subsequent price renegotiation.



Example of Spend View #4: Commodity Purchase Price by Supplier, Cont.

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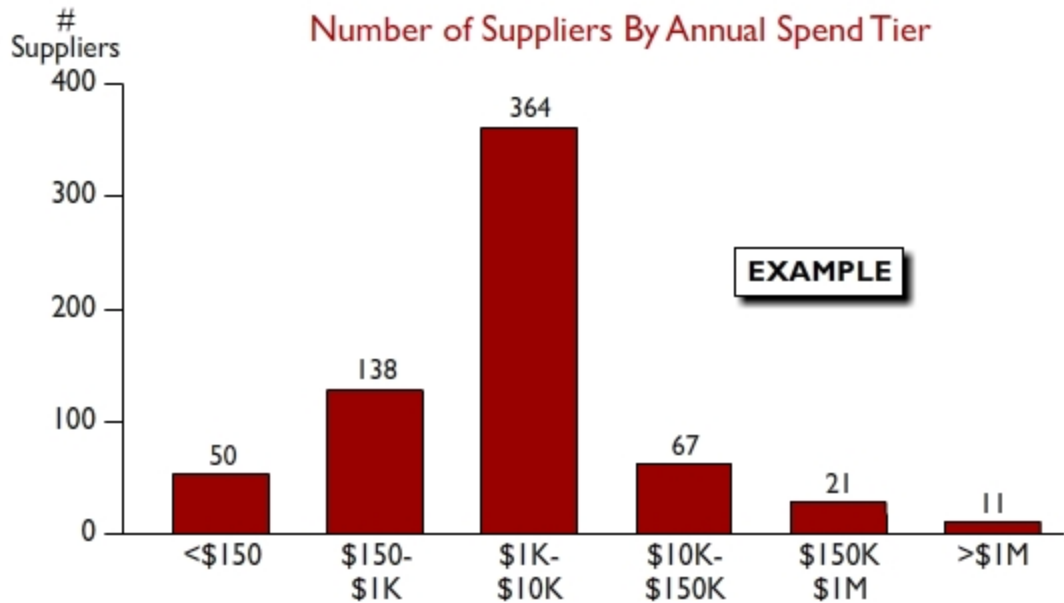
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Sample Spend View #5: Supplier Management Workload

Another view of spend fragmentation looks at the size of annual spend with suppliers and the implications for our acquisition workload. If findings show the annual spend with a large number of suppliers is very low, this could be driving up administrative costs.

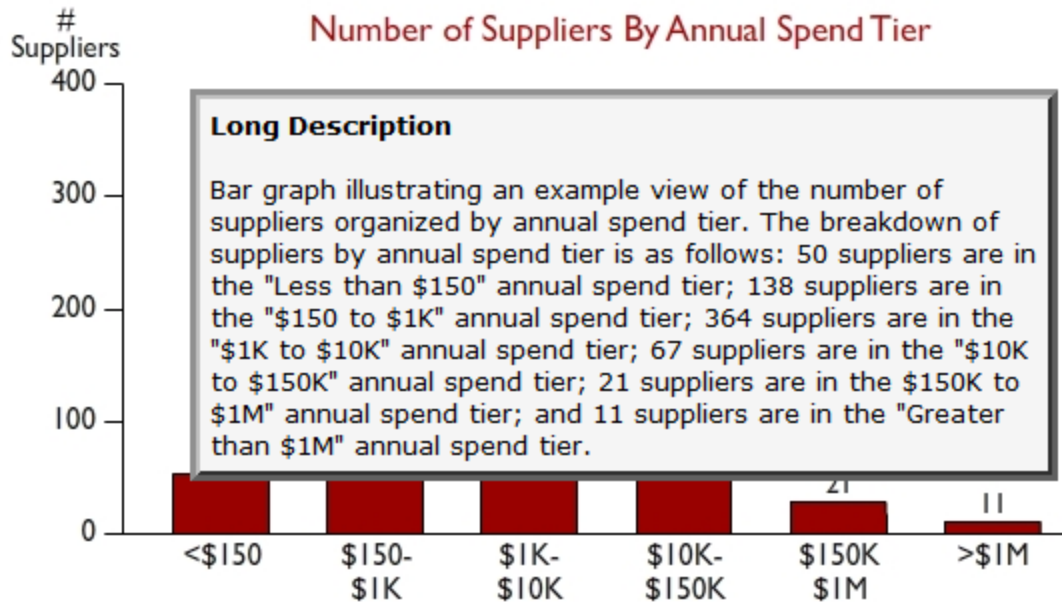
Therefore, re-allocating or consolidating spend might be a consideration. However, it is important to be conscious of the implications consolidation may have on small and disadvantaged business acquisition goals.



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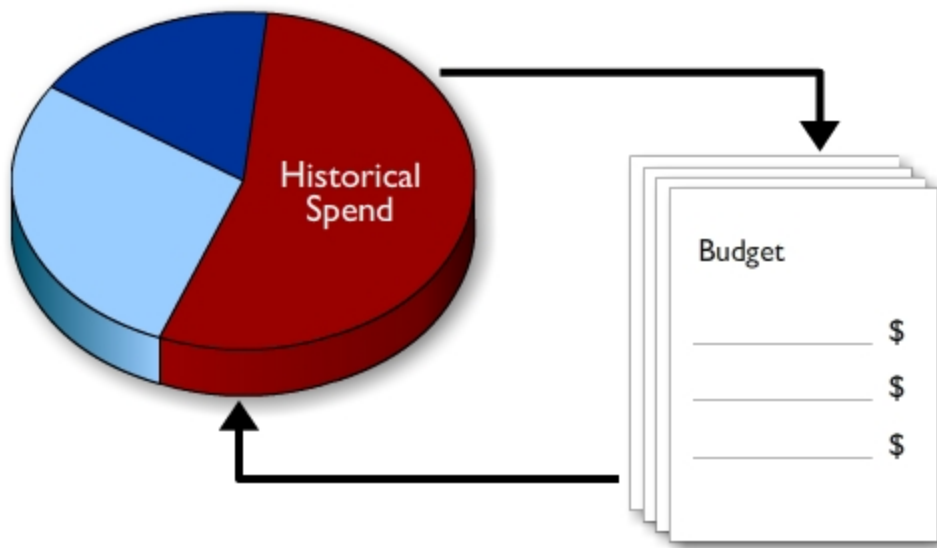
Therefore, re-allocating or consolidating spend might be a consideration. However, it is important to be conscious of the implications consolidation may have on small and disadvantaged business acquisition goals.



Sample Spend View #6: Historical Spend Compared to Current Budget

Comparing each organizational unit's historical spend to the current year budget is a good way to validate the integrity of our Spend Analysis. It can also help build credibility with customers regarding the accuracy of the spend data.

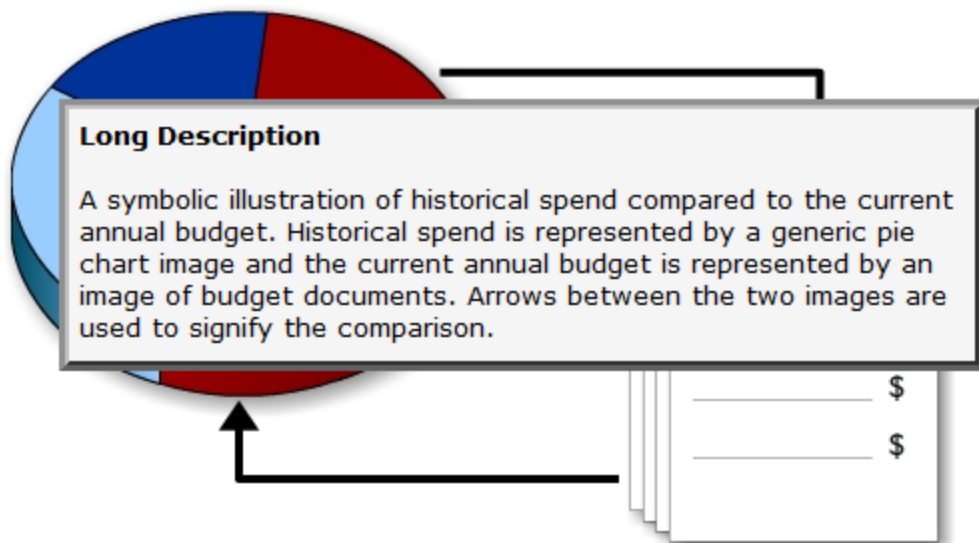
If significant, unexplainable discrepancies emerge, re-check the calculations and explore possible explanations.



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Comparing each organizational unit's historical spend to the current year budget is a good way to validate the integrity of our Spend Analysis. It can also help build credibility with customers regarding the accuracy of the spend data.

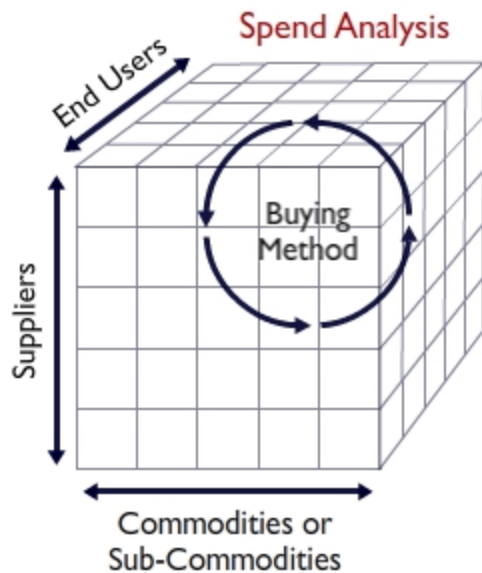
If significant, unexplainable discrepancies emerge, re-check the calculations and explore possible explanations.



Translating the Spend Analysis into Actionable Opportunities

Begin by compiling the key findings from the Spend Analysis. These include any observations, patterns, or trends revealed by the data.

With each finding, first define the implications. From these implications, then brainstorm opportunities for meeting organizational sourcing goals (e.g., reduce cost, improve product quality, etc.). Also, factor in any knowledge gained from other strategic sourcing analyses such as customer requirement reviews, acquisition process analysis, supply market analysis, etc.



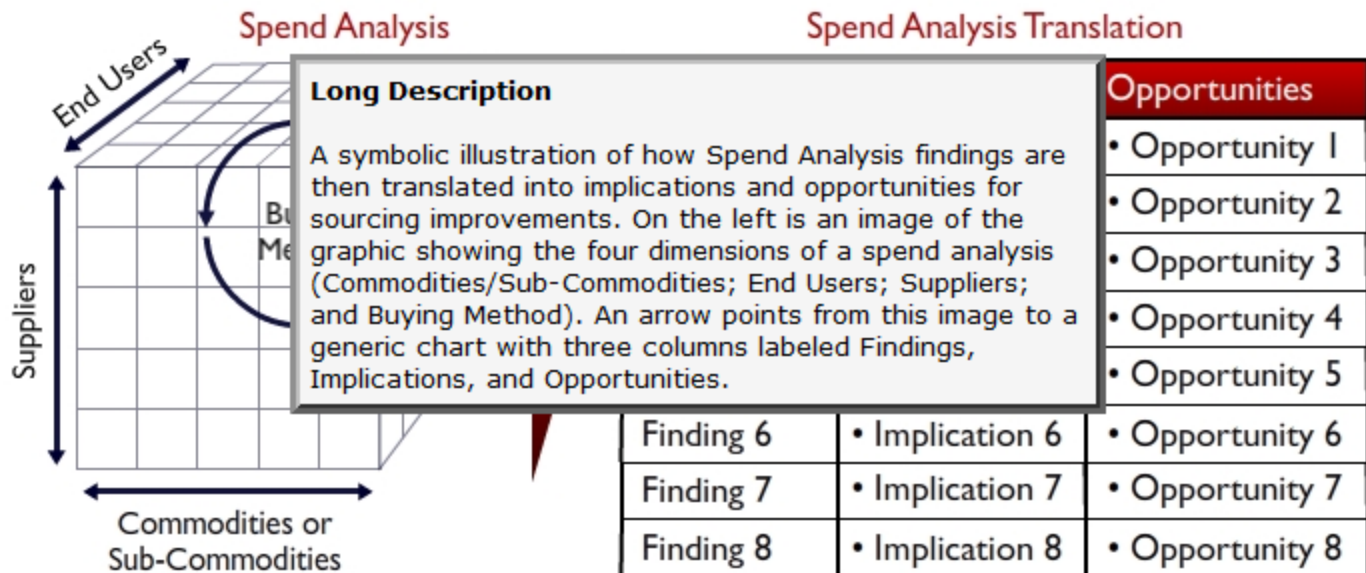
Spend Analysis Translation

Findings	Implications	Opportunities
Finding 1	• Implication 1	• Opportunity 1
Finding 2	• Implication 2	• Opportunity 2
Finding 3	• Implication 3	• Opportunity 3
Finding 4	• Implication 4	• Opportunity 4
Finding 5	• Implication 5	• Opportunity 5
Finding 6	• Implication 6	• Opportunity 6
Finding 7	• Implication 7	• Opportunity 7
Finding 8	• Implication 8	• Opportunity 8

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Guidelines for Spend Analysis Interpretation

In determining the implications of the Spend Analysis and the resulting opportunities, there are four general guidelines to follow:

1. [Findings should be measurable and quantifiable.](#)
2. [Findings should factor in qualitative insights.](#)
3. [Findings should consider other organizational factors.](#)
4. [Recommendations should be socialized to gain buy in and identify potential road blocks.](#)



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Findings Should Be Measurable and Quantifiable

Hard facts are always preferable to hunches. The recommendations coming out of the Spend Analysis should be clearly supported by the spend data.



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Findings Should Factor In Qualitative Insights

Beyond the data, we can also apply our understanding of some of the more qualitative aspects of sourcing such as user requirements, demand drivers, organizational constraints, etc.



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Findings Should Consider Other Organizational Factors

We should be aware of any special organizational sensitivities (e.g., structural constraints) or political factors (e.g., acquisition mandates) that affect how the commodity is sourced. We also consider the outcomes and lessons learned from any past sourcing improvement efforts.



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Recommendations Should Be Socialized To Gain Buy In and Identify Potential Road Blocks

Any conclusions or recommendations made should be presented and discussed with key stakeholders. Their feedback is a valuable gauge of the integrity of our analysis and viability of potential improvements.



USMC Case Example: Findings, Implications, Opportunities

The table below illustrates three sample findings, and the corresponding possible implications and potential opportunities from the USMC Spend Analysis.

Sample Findings	Possible Implications	Potential Opportunities
High volume of non-contract purchase card spend – with a significant percentage going to suppliers with existing contracts.	It's likely that purchase card spend is more expensive than spend at contract prices.	Negotiate with suppliers to bring purchase card spend under existing contracts – giving customers flexibility to still use purchase cards.
Many similar products (e.g., servers) are being sourced from multiple suppliers, through multiple contracts and/or purchasing methods.	The lack of purchasing coordination and standards is inefficient and costly.	Shift volume for like products to fewer suppliers. Implement policies to reinforce on-contract purchases.
IT Hardware spend is highly concentrated (75% of spend with 7 suppliers).	USMC is missing opportunities to leverage volume into more productive supplier relationships.	Collaborate more closely with key suppliers to reduce costs and improve performance and quality.

Knowledge Review

In analyzing the distribution of medical supplies spend across organizational units, the Spend Analysis Team identifies that Agency D accounts for 75 percent of spend. Agencies A, B and C together account for only 25 percent of spend. What insight is revealed by this finding?

- ☒ The team should include stakeholders from Agency D in identifying sourcing improvement opportunities.
- ☐ The team should explore ways to reduce Agency D's commodity spend as a cost saving measure.
- ☐ Commodity spend from all four agencies should be merged to achieve greater volume leverage.
- ☐ The budget for the coming fiscal year should reflect this spend allocation across agencies.

Check Answer

That is correct.

At this point, the commodity team does not know exactly what sourcing improvement strategies should be implemented. But the team does know that Agency D, due to its large commodity spend, is an important stakeholder who will be directly impacted by any changes. **The team should include stakeholders from Agency D in identifying sourcing improvement opportunities.**



Knowledge Review

Which of the following outputs should accompany Spend Analysis findings?

- ☐ Potential savings and estimated costs
- ☐ Sourcing limitations and risks
- ☒ Sourcing implications and opportunities
- ☐ Data references and appropriate disclaimers

Check Answer

That is correct.

Any findings from a Spend Analysis should be accompanied by related **sourcing implications and opportunities.**



Summary

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

- Identify the key steps and considerations involved with developing a Spend Profile.
- Identify common spend data views and the sourcing insights they can provide.
- Identify key considerations involved with translating the Spend Analysis into actionable opportunities.



Lesson Completion

You have completed the content for this lesson.

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