

WHITE PAPER

MAKE YOUR SPEND VISIBLE

SPEND ANALYSIS AND
OPUSCAPITA INVOICES





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While the economy is scrambling to get back to its feet in the aftermath of the downturn, the finance leaders continue to feel the pressure to achieve cost savings, mitigate risks and liabilities and improve the efficiency of cash flows. Businesses are now focusing on aligning their finance and procurement functions for transparency and control of the key process connected with most functions in the organization, the P2P process from purchase to payment.

One of the critical challenges when developing the purchase-to-pay process is gaining true visibility and oversight on corporate-wide spending. On average, as much as 30 to 70 percent of a company's sales revenue gets paid as costs of direct

How much money are we really spending?

and indirect spending. When considering the self-evident impact spending has on the bottom line, the finance department should be able to – and is also expected to – answer the quintessential questions:

how much money are we really spending, who are we spending money with and are we getting our money's worth for that spend?

Gaining a comprehensive understanding and control over spending calls for cooperation of procurement, finance and accounts payables, true end-to-end approach to P2P process operations across functional borders and developing the business intelligence (BI) and advanced analytics relating to those processes.

THE DATA TREND

The big data and datafication trend of recent years has turned all eyes on the importance of data. The buzz is essentially about harnessing the data that is readily available and turning it into useful, meaningful information and analysis that can help to improve business performance.

The finance function is already used to gathering and consolidating massive amounts of data derived from business processes in the organization. One of the current topics in finance, too, is transforming these streams of information into insights that genuinely benefit business.

This is evident for example in the Hackett Group's Key Issues for Finance study¹. It concluded that the finance function's role managing the overwhelming proliferation of data should include analysis that provide valuable decision-making support for the enterprise. Improving decision-making effectiveness was also ranked by the CFOs in mid-sized and large companies as the highest-priority objective in the finance organization along with achieving and maintaining a competitive cost structure.

Corresponding Key Issues study for Procurement² revealed that traditional goals such as reducing purchasing costs and expanding the scope of procurement's spend influence stay among the major concerns of CPOs today. The top priorities in procurement are to elevate the role of procurement to a trusted advisor and improve its business agility, which requires for example building analytics capabilities to provide business insights in real-time.

When developing and managing the procurement process of a company, spend data analysis is fundamental. The importance of accurate spend data is equally big for financial

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management and controlling the costs from sourcing to accounts payables. Improving visibility to current and past spend is critical for pinpointing both new and missed savings possibilities and catching financial leaks. Understanding organization-wide spend structure helps both ends of the P2P

process to answer to the topical challenge of delivering more with less – to provide maximum value with minimum spending.

THE RECIPE OF THREE C'S

OpusCapita Spend Analysis is created with a recipe of three C's. Spend data is gathered and **consolidated** from invoices and accounts payables processes and other data sources relating to the purchase-to-pay process. Time-consuming and labour-intensive data collection is fully automated. The data is then **cleansed** for quality of false information such as duplicate entries. Finally, the collected data is **classified** and categorized into consistent format and put into a single database for assessment and analysis.

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OpusCapita uses QlikView platform to visualize the collected data and to transform it into easily understandable and actionable reports. The self-service BI dashboard is scalable and customisable, and produces number of best practise graphics and reports on demand per supplier, purchased item category, cost center or general ledger account, for example. Data in the reporting tool is updated regularly once a night, so the resulting reports to the users' queries are current and up-to-date. When spend data analysis is an ongoing activity, not a one-time exercise, it is possible to create long-term and sustainable savings.

As Spend analysis uses OpusCapita Invoices' readily structured invoice data, it reveals not only information and details about the spend itself, but it exposes also behaviour patterns of individuals or departments handling the invoices or uncovers other bottlenecks in the P2P processes. User can drill into detailed data about circulation times of certain purchase invoices or monitor the portion of the invoices that needed manual reconciliation, for example.

TAKING FULL ADVANTAGE OF SPEND DATA

Spend analysis is fundamental for business, finance and procurement. It can lead to considerable cost savings and provide further benefits as improved processes. Here are a few central areas where spend data analysis can be put to good use.

First step of cost cutting programs

Timely and accurate spend data intelligence serves as the first step of cost cutting programs. The analysis can reveal savings opportunities and corporate synergies in sourcing that have been overlooked due to poor visibility of the process. Based on the analysis it is also easy to see which actions to take first to gain rapid return on invest.

Indirect spending under control

The rule of thumb is that if a company's total spend is 70 percent of sales revenue, then around 40 percent gets spend on direct purchasing and about 30 percent on indirect purchasing, depending on the industry and company structure.

The direct spending, which refers to the purchase of goods and services that are directly incorporated to the end product, is usually pretty well-organized and in production or procurement department's control. On the other hand, capturing the indirect or non-core spend is a more cumbersome task. Indirect spend is often fragmented across the organization in multiple budgets and cost centers and it is predominantly managed outside the procurement. It includes diverse, often irregular or low-volume categories from maintenance and repair services and contract workforce to travel and office supplies, to name a few.

The big picture on how much money is actually spent and on which commodities gets buried in the fragmented process and the detailed transaction information on specifications and prices, for instance, is lost. Poor spend visibility and accuracy prevent effective sourcing of indirect spending categories, which can lead to significant financial losses. The results of European Indirect Spend Management Study³ by American Express and A.T.Kearney concluded that the 162 large and mid-sized organizations participating in the study could alone save up to 900 million euros by moving to more effective procurement practices, which typically yield up to 5 percent savings for the addressable spend.

Put the mavericks back in-line

Only two thirds of the total spend was known to be compliant with agreed procedures

Maverick spending, which means non-compliant or non-contractual purchasing outside the company's preferred arrangements, most often occurs in the areas of indirect spending. Compliance is a major challenge for companies. European Indirect Spend Management Study³ revealed that even though 95 percent of the participating

organizations had preferred supplier lists and contracted rates for at least one indirect spend category, on average only two thirds of the total spend was known to be compliant with these agreed procedures.

Maverick spend accumulates costs in two ways. Firstly, the cost of a purchase without taking advantage of the negotiated company discounts, for instance, is usually higher. What's more, the maverick spend has ramifications along the P2P process as the non-compliant purchase may require manual work in otherwise automated invoice handling process, which causes delays and leads to significantly higher processing cost per invoice.

Spend data provides valuable oversight on internal compliance. Analysis identifies spend that is not based on active contract or approved purchase order, and it can also point out irregularities inside the organization's spend behaviour revealing the departments or individuals that need internal guidance and training, for example.



Supplier management

Detailed information on current and past spend even on an item-level can strengthen organization's position in contract negotiations with suppliers and keep the procurement prices in check long-term. Insight on supplier performance contributes to managing the suppliers and their compliance with negotiated terms and prices and helps to identify the suppliers offering the best value.

Base your decisions on facts

Spend analysis offers intelligence to make highly informed business decisions, both operational and strategic, which leads to sustainable savings. It helps you to spend smarter and save more.

SOURCES:

1. The CFO Agenda: Key Issues for Finance in 2015. Finance Executive Insight. The Hackett Group Inc. January 2015.
2. The CPO Agenda: Key Issues for Procurement in 2015. Procurement Executive Insight. The Hackett Group Inc. January 2015.
3. European Indirect Spend Management Study 2011. American Express & A.T.Kearney. 2011.

OPUSCAPITA SETS THE NEW STANDARD FOR FINANCIAL PROCESSES. With 2,300 passionate professionals, we focus on Purchase-to-Pay and Order-to-Cash processes where we combine software, outsourcing and services with a delivery model that offers the best value for our customers. We have operations in nine countries and vast experience accumulated with over 11,000 customers, with end-users in more than 50 countries. In 2014, OpusCapita's net sales totaled EUR 260 million. OpusCapita is part of Posti Group Corporation and has its head office in Finland.

More information at
www.opuscapita.com