It All Starts with Your Procurement Data

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The beginning of any journey in indirect procurement is capitalizing on your procurement data to understand organizational performance as well as to shape both goals and opportunities. Historically, indirect purchasing has been responsible for the procurement of non-production materials (NPM) and services. Unlike direct purchases that have a relatively constrained supplier base and a controlled or planned use of parts, indirect procurement has almost an infinite variety in parts and supplies that can be bought from tens of thousands, if not hundreds of thousands of suppliers. With so many supplier options out there, how does an organization stay on top of their indirect procurement? **The answer: data.**

WITH DATA   WITHOUT DATA

Just like a house needs to have a sturdy foundation, data should be the foundation of your business. If you don't use your procurement data to know what is really going on, your business decisions are more likely to crumble. However, if you start with the data, the entire source-to-settle process gets boosted up.

Why is Data Important?

In order to improve indirect procurement, you have to start with the data. You can make guesses and assumptions about what is happening but you won't know if it actually is without your procurement data.

Procurement data can come from a variety of different places. A research note from **Gartner** titled "Start Preparing Now for the Impact of AI on Procurement" discusses how data can be categorized into four main groups: supplier data, internal data, subscription data, and public data. Each grouping serves as a different source from which your organization may receive data. Let's quickly define them:

SUPPLIER DATA

Gathered by enabling a supplier to self-submit information that can be shared on a permissions basis with multiple buyers to avoid repetitive data entry and enable supplier scalability.

INTERNAL DATA

Comes from internal systems that provide insights and classification. This may include ERP systems, CRM systems, and supply chain management systems.

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SUBSCRIPTION DATA

Pulled from credible data aggregators and can usually be pulled from a supply base management solution via a procurement system. It can be verified and validated by the content provider and used to complement the data submitted by the suppliers.

PUBLIC DATA

External public data that can be pulled from many different sites ranging from a government database to an anonymous blog and vary in levels of reliability and data structure.

Your organization probably has at least one data source in each of these categories. Being aware of all necessary internal and external data sources will help you stay organized and make it easier for you to get the data into the appropriate tools and systems.

The Challenges with Data

There are many issues and problems with not having good procurement data that a typical organization may run into. Below, we review some of the most common:

1. Too many cooks in the kitchen

Many people and functions often have control of spending. Because of that, an organization's buyers and their buying systems aren't necessarily involved in sourcing decisions. Consequently, spend data isn't always captured and it becomes challenging to drive effective reporting.

2. Data is not structured correctly

Content management has to structure, classify, re-classify, and personalize data in order to enable sourcing, purchasing, and operating decisions, which creates repetitive and unnecessary work.

3. Finding answers is a challenge

There is often a struggle to find detailed answers due to different sources, potential errors from manual inputs, or simply, indifference. This is why procurement analytics' role tries to shine a light on areas of spending that are often dreary at best.

4. Irregularity in purchasing

It is not unusual for a large company to have hundreds of thousands of maintenance and operating supply parts that they manage and buy on an irregular basis as well as a broad range of services from equipment maintenance to prototype parts to cleaning services. Understanding trends and getting insights from that level of data is difficult. It's also a moving target as new parts and items could be added on a daily basis.

5. No standards in descriptions

Coding and classification create the tendency to describe the same thing in multiple ways, depending on who or where the data comes from. For example, as **data-informed.com** describes, "to an analytics tool 'bolt, steel, 8mm diameter' is not intuitively the same as 'steel bolt, 8mm dia' or 'bolt, 8mm dia, steel.' Likewise, the same item may be represented by several product codes, depending

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on where it is used." This type of discrepancy allows for the collection of bad data that prevents a consistent view into spend and accurate insights.

6. Low-quality data

Data is often poor, ill-formed, incomplete, or conflicting. You'll find the same descriptions actually meaning different parts along with different descriptions really meaning the same part. For instance, a 3/8" hex drive could be just about anything or in another case, one operation might consider a pneumatic torque wrench an assembly tool, another a power tool, and another a hand tool. This lack of definition can have a major effect on data quality.

7. Tough to introduce competition

Not having data works for incumbent suppliers because while you may not know what you are buying, they do. The problem is in trying to introduce competition. You can't aggregate spend for leverage and supplier consolidation if you don't know what the spend is. You also can't get suppliers to competitively bid on items or services that you can't accurately describe.

8. Service data isn't detailed

Service data is often just summary data. If there is a challenge in part data, that problem explodes when talk about services starts. When it comes to service data, you might have a general idea of what services you bought from what supplier. But with that, you have no concept from the data regarding the elements, usages, or costs of the services provided. In order to address this, organizations are forced into extensive post analysis RFIs to fill in their understanding.

9. Too many platforms and approaches

Data tends to live across multiple systems. Acquisitions and mergers intensify this problem with additional data platforms and new approaches to managing and capturing indirect spend data. The more platforms and methods you have, the more complicated it becomes to keep track of and standardize.

If your organization suffers from any of these data issues, you most likely aren't getting the full picture of what is happening with your spend. Resolve this by taking control of your procurement data.

3 Key Steps to Start with Your Procurement Data

1) Access   2) Understanding   3) Management

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Getting Started with Your Procurement Data

We know that there are tons of numbers and information at your disposal. Sometimes this amount of data can feel overwhelming. So what do you need to get started? There are **three steps** that are key to being able to start with your procurement data – access, understanding, and management.

Step 1: Access

Make sure you know what systems are being used and where the data is stored. More importantly, make sure you have the proper permissions to access the data. Knowing where it is but not being able to access it won't get you very far. Remember the four data groupings – there may be internal and external data sources that you will need access to. A procurement tool that can easily integrate with your all of your systems is helpful here.

Step 2: Understanding

A vital step to being able to use this data is to have an understanding of it. In their research note, **Gartner** discusses how not having "access to the right analytical and data science skills" can cause organizations to "struggle to get value from AI in procurement as a result of not understanding the opportunities and limitations." Understanding your indirect procurement data can allow you to identify trends, improve performance, develop new policies, and make more informed decisions.

Step 3: Management

Check that you are managing the data appropriately. The "Holy Grail" in indirect has always been data management – high-quality catalogs and enriched data descriptions that enable sourcing processes. Without proper data management, you may be missing a significant piece of what's going on in your organization. According to **Spend Matters**, "Recent studies have found that indirect spend can account for up to 50% of a company's purchases, and manufacturers specifically can spend 20% or more of their total revenue on indirect expenditures." With indirect procurement making up such a large portion of your spend, you will want to ensure that you are accessing all the necessary areas of your data so that you can make sure you're not missing something important.

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>
> *– Spend Matters, "New Ways to Achieve Unprecedented Savings on Indirect Spend*

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The Impact of Technology & Analytics From the Experts

Now that we know some of the challenges that come from not having all of your procurement data as well as what we need to get started, let's discuss how technology and analytics can make a positive impact on your indirect procurement.

The **2017 CPO survey by Deloitte** highlighted analytics as the area of technology that will have the greatest impact in the next two years. In the survey, they discussed how data quality and the lack of data integration are the greatest obstacles. "Improvement to the quality of data will be key in order to deliver this ambition, with 56% of CPOs citing quality of data as the main barrier to effective application of digital technology." The survey results go on to show that "75% of CPOs surveyed believe that procurement's role in delivering digital strategy will increase in the future" and technology will have a major influence on procurement processes. Deloitte accurately summarizes the technology and analytics change in procurement by saying "Source to contract is becoming predictive, purchase to pay is becoming automated, supplier management is becoming proactive, and these are all empowered by analytics and strong organizational management." That explains why 65% of procurement leaders surveyed believe that analytics will be so impactful on procurement in the coming years.

According to a guide from **data-informed.com**,

analytics tools are essential for organizations to concentrate their spend effectively. Having the ability to clearly see what money is being spent on, what prices are paid, and what suppliers are being used, there is undisputable value. The guide describes three opportunities created by using analytics tools in procurement:

- "Reduce costs by consolidating expenditures on fewer providers, thereby exerting greater leverage in purchasing negotiations.
- Avoid wasteful expenditure through over-specification – where materials are ordered to a higher standard or specification than is actually required – and the use of 'off-list' non-preferred suppliers.
- Improve buying efficiencies by enforcing compliance with pre-agreed pricing, discounts, and volume-based price break structures."

That benefit of gaining insight into spend data is further supported in a **Spend Matters** article that explains how the rise of AI and machine learning has been helping procurement overcome past spend analytics shortcomings. The article states that rather than relying on statistical classification or pattern matching, "machine learning uses algorithms to learn from the data, allowing platforms to continuously improve themselves," making it more reliable than the old way. Not only that, but solutions based on machine learning save

time because they are faster and more accurate at classifying data. They are also are able to learn and adapt for self-improvement, which frees resources to focus on more valuable projects. The article goes on to explain how "machine learning algorithms can be applied in real time to various procurement scenarios, offering predictive insights about purchasing decisions before money is spent." And since most solutions are cloud-based, more than just your basic data can be included and compared, which opens up the ability to see how well your organization is spending and being able to compare it with other companies.

From this, it's clear how important analytics, technology, AI, and machine learning are for your procurement data. By actually utilizing this technology, you will be able to start positively influencing your decision-making.

Forget Big Data, Start with the Right Data

Something to keep in mind though: you can have the most beautiful looking dashboards, but at the end of the day, the look of your dashboards doesn't matter without the right data. Along the same line, if you're looking at old data, it doesn't matter. You can't just start with any data you might have. It's essential that you start with the right data. In order to get the right data, you really need technology to do this.

This is where a procurement tool like Xeeva is extremely beneficial. Our patented, **full suite solution** is powered by Xeebot, our artificial intelligence technology mixed with embedded domain expertise, working in harmony for faster and better results. This underlying technology of our Virtual Data Manager, combined with strong visuals drives our **visibility**
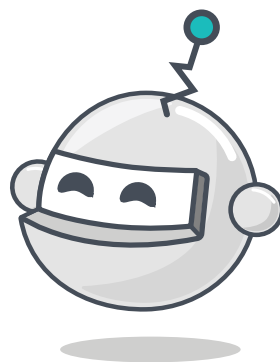
results solution and keeps everyone on the same page. By cleansing, organizing, and categorizing your spend data, you can easily stay on top of your metrics as key insights are revealed, identifying new savings opportunities and ways to optimize. Our **sourcing results** assists you in managing the sourcing lifecycle, empowering collaboration. With the help of our Virtual Sourcing Manager, you will be able to streamline projects and monitor progress. Our unique, embedded AI technology continues to work hard, uncovering savings and increasing compliance and alignment in our **procurement results** solution. And last but not least, Marketplace acts as a one-stop-shop for suppliers in our **supplier results** solution. Here you can effectively oversee the supplier relationship, implement accountability, and communicate more effectively to ensure suppliers are meeting their performance goals.

With the help of an advanced, AI-based technology procurement and sourcing tool, below are five things that your organization should strive for in order to make the best business decisions from your data.

1. Ability to serve clean data

Since not all spend data is good data, proactive management is required for successful consolidation and enrichment of the data. Getting good data is a combination of good process and technology. From a process perspective, the most important thing to ensure clean data is that before you import it, you need to check for missing information and validate it before you load it in. AI can play a very foundational role here in analyzing and enriching the data. The great thing about AI is that your insights improve as you

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add more high-quality data into your systems. The only way that happens, however, is by embedding strong foundational data to start with and by constantly exercising your AI tools.

Another tip from a process perspective is to not only be hands-on about clean data entry but to also be disciplined in updating the information in your database as it happens. Nothing clogs up a database worse than bad, old data. If you are proactive in capturing data on a timely basis, then issues with the data can be resolved while the context is still fresh.

56%

of CPOs believe quality of data is the main barrier to the effective application of digital technology

2.   Rapid analysis
Analytic tools become much more powerful if they are informed by context. Just like facial recognition software, which struggled until it learned context, the classification and enrichment of data by AI will only happen successfully after it understands the context.

Historically, spend analysis was a time consuming and costly process that was supported by armies of offshore resources to help classify and enrich data. But with today's advancements in technology and the application of AI, it can now be completed in a manner of hours or days.

3.   Best practices
With high-quality data, there is a long list of things you can begin to explore to unleash value in your organization. At the simplest level, this is understanding that your organization's relative

spend leverage with different supplier communities will drive sourcing efforts or doing a competitive price benchmarking across your organization for remediation negotiations with suppliers. With the help of technology, a standard spend analysis report now can produce demand breakdowns, common cost component analyses, market analyses, and supplier analyses before a sourcing event even begins.

Quality spend analysis opens up informed explorations of process efficiencies, buyer performance, risk, and lost opportunities through overpayment or maverick spend. With this insight, your organization can begin to compare its performance to industry best practices and start to quantify the value of change.

4.   Actionable insights & opportunity identification
Actionable insights are not just general statistics, but rather they are specific opportunities that are capable of being put to use. For example, from the analytics, the system could inform you of the following:

- Where you are not leveraging key contracts
- Where you have bought something multiple times and should migrate to a contract
- Where there might be standardization opportunities
- Where you are taking price increases from certain vendors in certain geographies

Today, procurement technology vendors are creating cognitive procurement advisors (CPAs) to leverage data insight and recommend buyer or organizational actions. These cognitive insights are

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heavily dependent on the quality of the underlying data and the AI technology learning. It still all begins with the data because the tool needs good, complete data to provide the right suggestions.

5. Measurable results

Ultimately, buy-in to the overall performance and contribution of the procurement organization lies in the alignment of indirect spend objectives with core financial metrics by business unit (BU) or business function.

Quality and consistency in the spend data are necessary to report on true price to price performance or reduced consumption performance to parts in order to see the value being created. Moreover, an organization should have a closed loop process to connect source-to-pay projects to a financial commitment to the budget holders. With clean data that is well-classified and provides true before and after performance results, it becomes easier to prove to the organization that results have been gained.

It is clear that technology and analytics are changing procurement. Without good and well-informed data, your analytics will be powerless. In order for effective spend to happen, analytics tools are essential. However, change in indirect procurement can only happen by using **advanced, AI-based technology** and **starting with the right data.** The benefit of gaining awareness into your procurement data is that as you add more high-quality data and your AI learns more about the context, you will receive improved insights and better results.

If you want to start using your procurement data, let us help. Learn more about how **Xeebot** uses his innovative AI technology to work for you and make a positive impact on your bottom line **at xeeva.com.**

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