

An Oracle White Paper
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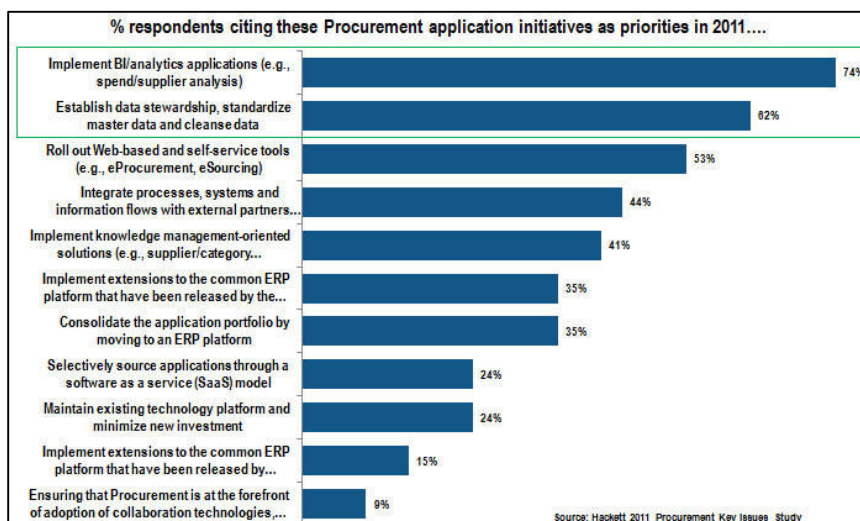
Spend Management Best Practices: A Call for Data Management Accelerators

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Overview

While companies often turn to spend analytics solutions to reduce purchasing spend, they quickly learn that *the success of analytics initiatives ultimately depend upon the underlying consistency and quality of supplier and product data across all relevant systems within the enterprise*. A recent study by the Hackett Group entitled “2011 Key Issues Study for Procurement” reinforces the importance and interrelationship of Analytics and Master Data Management (MDM), with these two applications emerging as the two most important priorities in 2011.



Analytics and Master Data Management are top IT initiatives

Given the high level of importance attached to spend management, many companies are re-examining their own practices, seeking world class spend management performance. This whitepaper focuses on the two critical pillars driving spend management best practices:

- Analytics best practices
- Master Data Management best practices

Analytics Best Practices

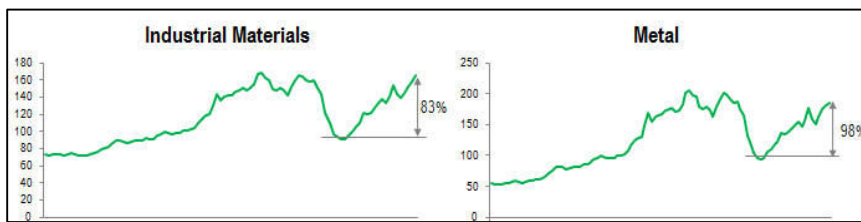
This section, describing Analytics best practices, is based on content outlined in a recent study by the Hackett Group entitled “2011 Key Issues Study for Procurement”.

The Importance of Spend Management Analytics

The old business adage “what gets measured gets fixed” is as relevant today as ever. Consistent with this adage, the Hackett Group routinely recommends the use of Business Intelligence Analytics to gain visibility into performance improvement opportunities. The Hackett Supply Analytics framework applies this approach to the Procurement function, proposing an analytics framework to maximize value from the Procurement function.

Spend Analytics: Why Now?

Today, price increases and volatility are the “new normal.” The implications of these forces for procurement are urgent, profound and far reaching.



Price Inflation is the “New Normal”

Extreme price inflation and volatility present the need for a far more sophisticated approach to procurement service delivery. Procurement executives, aware of these trends, face two key issues:

- Improving procurement’s analytical, modeling and forecasting capabilities in response to increasing complexity and volatility of the business environment
- Achieving and maintaining a competitive cost structure in a hypercompetitive global environment

The Need to Measure

Spend Visibility is a critical determinant of Procurement’s success within an organization. Every Chief Purchasing Officer knows that achieving World Class performance requires controlling and leveraging an organization’s existing spend. However, world class results can only be achieved if spend management performance can routinely be measured within the context of continuous improvement (e.g., DMAIC). With respect to measurement, Hackett routinely makes the following recommendations to clients:

- *Define* measurable goals for Procurement in assisting the broader organization in getting the most value from its external spending
- *Measure* both spend (historic and future) and spending behaviors
- *Analyze* the spend to find opportunities to spend more efficiently and/or less

- *Improve* the processes (e.g., strategic sourcing and P2P Channels)
- *Control* the processes to realize the gains (e.g., compliance management)

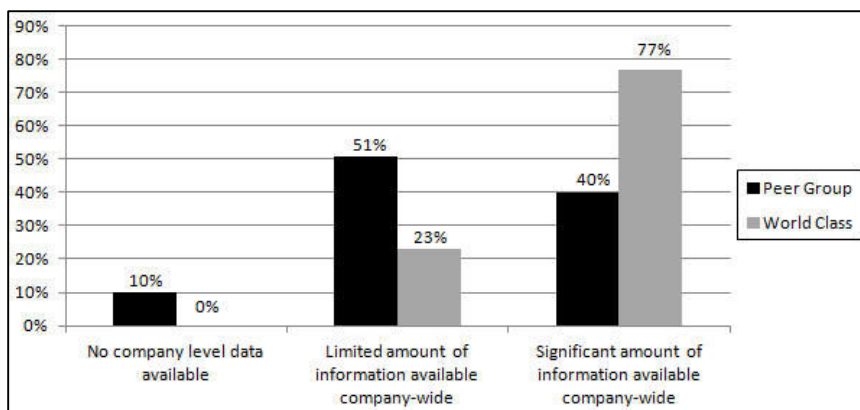
Since spend is constantly changing, your company needs to understand and act on this change.

The Importance of Enterprise Level Analytics

Hackett has strong evidence supporting the benefits of spend analytics at the enterprise-level. Key benefits include:

- Identification of individual business unit performance variations at corporate (enterprise) level, which then helps understand process variation
- Identification of business unit level trends, and the ability to alert businesses to threats and opportunities
- Visibility to cross-business unit comparisons to aid in continuous improvement efforts (i.e., sharing of best practices, process designs, methods, tools)
- Identification of specific opportunities for buying leverage
- Identification of specific opportunities for selling leverage

In addition, the Hackett *2011 Key Issues Study for Procurement* reports that while 77 percent of World Class companies provide a significant amount of spend information company-wide, only 40 percent of non-World Class companies do the same.



World Class companies view spend data on a global basis

In conclusion, spend management is an increasingly critical concern within World Class procurement organizations. Furthermore, effective spend management dictates the need to continuously measure spend management performance and provide visibility to spend data and performance at the enterprise level.

Master Data Management Best Practices

This section, describing Master Data Management best practices, is based on content outlined in a recent study by the Hackett Group entitled *“2011 Key Issues Study for Procurement”*.

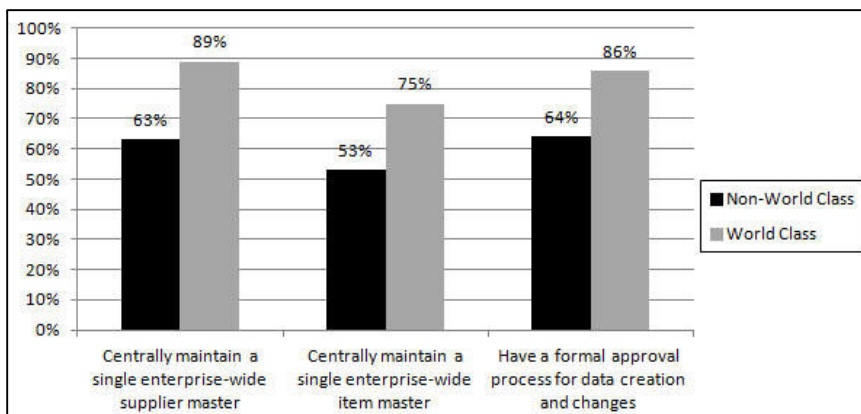
Master Data Management Importance to Spend Management

As previously described, the Hackett Group *2011 Key Issues Study for Procurement* reflects a high percentage of survey respondents implementing BI/Analytics initiatives, establishing data governance processes and undertaking master data management(MDM) initiatives. An extremely relevant study finding also suggests that “fixing” item and supplier master data as a means to improving enterprise spend visibility and analytics is the second-highest Procurement IT priority.

Hackett has also observed that companies often have problems convincing management to invest in correcting master data related to spend analytics problems. While it is difficult to build a convincing business case for cleansing master data, World Class organizations often site solving strategic sourcing problems (i.e. providing spend visibility) as a means to justifying funding of master data investments.

Enterprise MDM Standards Support World Class Analytics

An Enterprise MDM strategy is fundamental to world class analytics performance. Hackett has noted that organizations employing MDM best practices centralize spend management master data (item and supplier data), leading to superior spend management analytics.



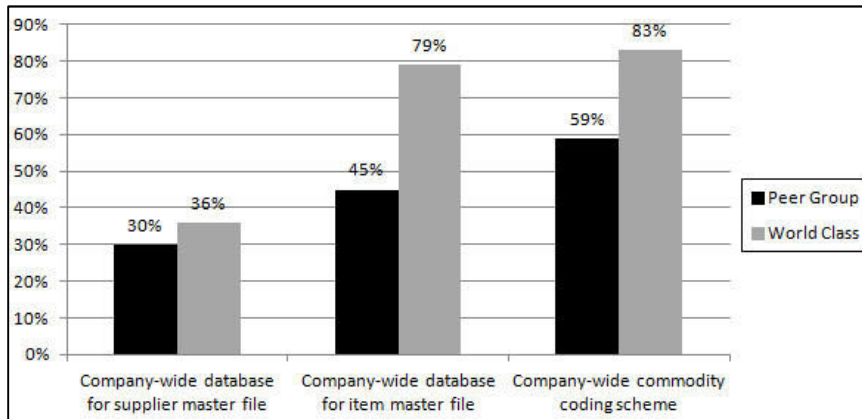
World Class companies centralize governance of master data

Key Hackett findings include:

- 89% of World Class organizations maintain a single enterprise-wide supplier master
- 75% of World Class organization maintain a single enterprise-wide item master
- 86% of World Class organizations have a formal approval process for data creation and changes

The survey also concludes that standardization of supplier and item classification information across the enterprise is correlated with World Class performance. Those companies leveraging a *enterprise-wide* supplier, item and commodity coding scheme tend to be closer to World Class performance than peer

companies not having an enterprise-wide scheme. In addition, among the World Class organizations using a company-wide commodity coding scheme, the type of scheme (i.e. UNSPSC, SIC/NAISC, other) does not appear to matter, as long as the scheme used is applied uniformly across the enterprise. This will provide a sufficient classification mechanism required for effective spend analytics.



World Class companies implement enterprise-wide data standardization initiatives

In Hackett's experience, World Class organizations having implemented standards-based MDM initiatives have a far better global view of spend data than their peers due to the extensive availability of supplier and category specific data available for analysis. This enhances processes such as Enterprise Performance Management (EPM), closed loop Sourcing, "what if" analyses and demand planning.

Implementation Guidelines

So what does it take to achieve MDM best practices supporting spend analytics? The following points, as recommended by Hackett, serve as practical guidelines:

- Apply a standard naming structure and commodity-coding scheme consistently throughout the enterprise and propagate it down through the supplier and item master files
- Consolidate multiple systems containing inconsistent supplier and product information into a centralized MDM repository containing unique, complete and accurate information required for effective spend management analytics
- Centrally govern the creation of new master data, resulting in unique, complete and accurate information required for effective spend management analytics
- Distribute this "single source of truth" for supplier and product master data to all operational and analytical applications across the enterprise

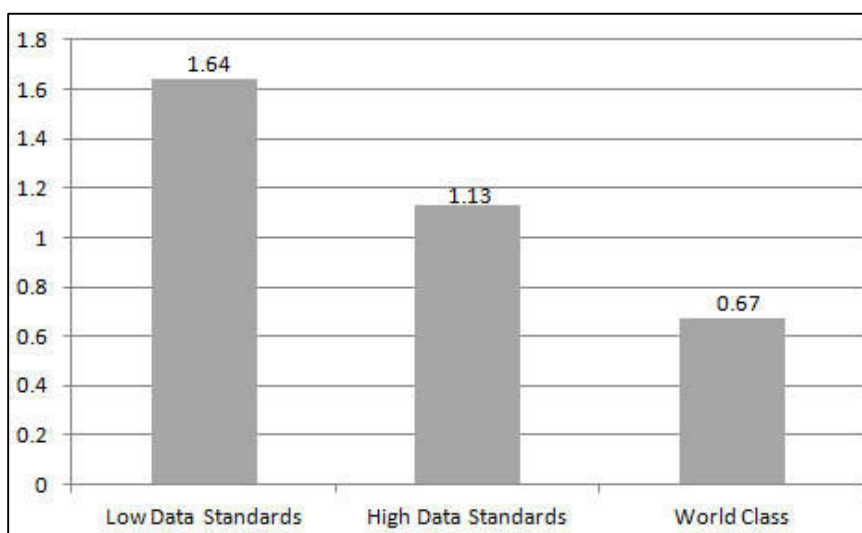
Data standards that are not unified at the enterprise level can lead to a proliferation of cross-referencing tables, manual adjustments and poor decisions over time. This should be avoided at all costs. In addition, as methods of spend analysis evolve, a data taxonomy and standards must be flexible and provide an enterprise-level reporting roll up. Process maturity will dictate the level of detail that an enterprise can support in providing basic visibility to advanced planning analysis.

Enterprise MDM Strategy Benefits

So why is it so important to standardize, consolidate and share enterprise data? Simply put, enterprise-level Master Data Management (MDM) saves companies significant money.

MDM Efficiency Benefits

The Hackett Group has a structured approach to assessing the savings achievable through defining and implementing a master data management strategy as part of an application consolidation effort. This is achieved by comparing the performance gap between companies having common applications with a low degree of data standards to companies having common applications with a high degree of data standards. The return associated with having implemented data standards can then be established.



Total non-value added finance-related process costs as a percentage of revenue

As illustrated above, common data definitions in a highly consolidated application environment reduced non-value added finance-related process costs by 0.51% of revenue (1.64% - 1.13%), representing a direct process cost savings of \$5.1 million per billion of revenue.

Furthermore, Hackett has noted that *World Class companies leveraging spend analytics and MDM best practices have reduced their purchasing costs by 7% to 15%.*

MDM Contribution to Analytics Success

Implementing global Master Data will increase the value generation you get from your information analytics projects. Newly created master data without sufficient data governance will eventually degrade over time. If you do not measure and monitor the quality of this data then you will not achieve or sustain data quality over time (a Deming principle). Master Data is the common denominator that ties business processes together. Without high-quality data, business processes will be compromised. Businesses should continually assess the quality of their data, and where errors do exist must understand the root causes of these errors.

Analytics Initiatives can Justify MDM Investments

Many of Hackett clients do not have a global MDM initiative underway, but many are assessing MDM in the context of a Global ERP implementation initiative or BI/Analytics project. This arises from the fact that upfront MDM investments in common infrastructure, base/shared platforms, and domain-specific functionality can provide companies with an earlier and greater payoff in business value, in addition to a broader and more sustainable Information Analytics implementation. By investing in Global Master Data, clients will be laying the groundwork needed to realize the full value of their Information Analytics in the shortest possible timeframe.

MDM Key Enablers of Success.....It's Not Just About Technology

Many companies are asking the question “What are the key enablers required to better leverage our Supplier and Item Master Data?” The Hackett Group urges clients to focus on four key areas:

- **Culture:** implement a global data stewardship program; identify owners for all master data items; promote consistent master data standards across all businesses, processes and systems; identify global versus local master data attributes and determine the impact on the business; eliminate unnecessary touch points within business processes
- **Data Governance:** eliminate redundant processes; develop common data definitions; establish consistent dimensional structures/hierarchies across all systems; review master data attributes and how they support the business; build business rules and validations into MDM processes to ensure conformity to predefined business rules and definitions
- **Technology:** establish an application to enable the Master Data Management process; determine the future state of workflow processes; govern data centrally, and automate the publication of supplier and item master data to all downstream systems.
- **Data Quality:** define and enforce data standards globally; cleanse existing master data; develop a program for ongoing master data quality governance; implement the concept of a “master product or supplier hierarchy”

Adherence to the guidelines above will insure that your Master Data Management initiative has a high probability of success in meeting your company's goals.

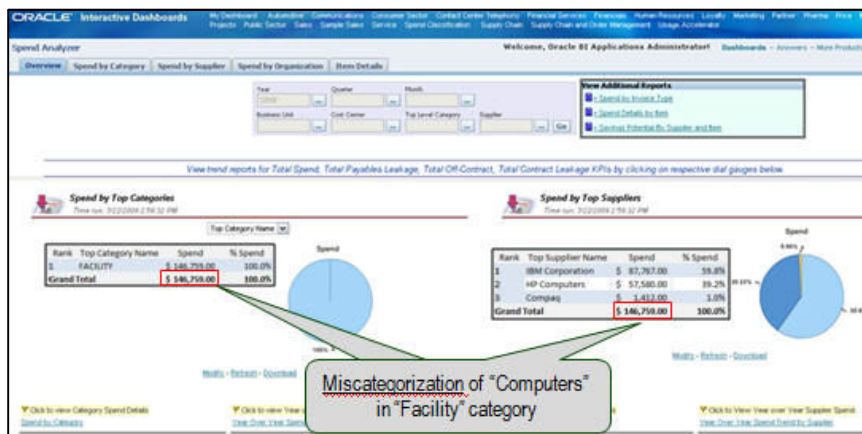
The Oracle Solution: Continuous Spend Management

The Hackett Group *2011 Key Issues Study for Procurement* clearly sites the relationship between high performance analytics and high quality master data. From a spend management perspective, high quality supplier and product data is required to answer two critical questions:

- *Who am I buying from?* (requires accurate supplier information)
- *What am I buying?* (requires accurate product and product classification information)

Poor Data Quality Compromises Analytics Results

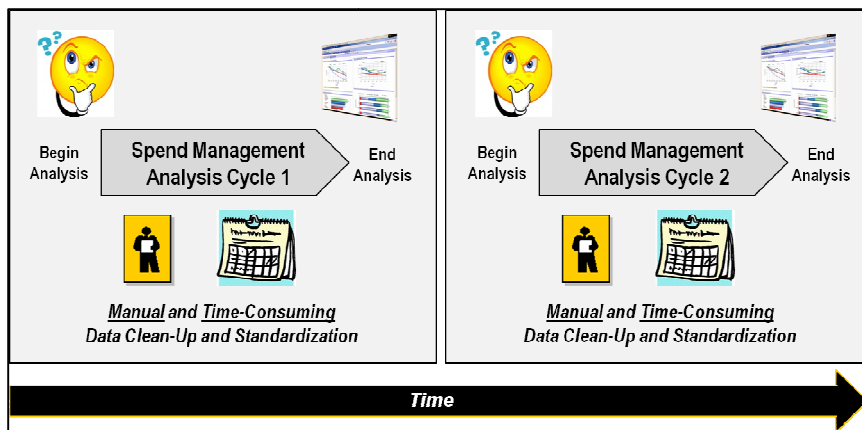
Without high quality supplier and product data, even the best analytics applications will return sub-optimal results. As illustrated in the analytics application below, misclassified item data (computers misclassified as assets) can lead to totally erroneous conclusions (severe underestimation of the actual spend on computers). Clearly, data integrity is a prerequisite for accurate spend analytics.



Poor quality data skews analytics results

Conventional Spend Management Analysis

While companies often turn to spend analytics solutions to reduce purchasing spend, they quickly learn that the success of spend analytics initiatives ultimately depend upon the consistency and quality of the underlying supplier and product data across all relevant systems within the enterprise. Simultaneously, it immediately becomes clear just how labor intensive and time consuming it is to "clean up" this data to make it useful from an analytics perspective. This huge cleanup effort inevitably drives companies to analyze spend on a periodic basis, resulting in spend analytics that are always "behind the times."



Conventional spend management is periodic due to time/effort required to clean up data

The Solution: Oracle Continuous Spend Management Solution

As previously mentioned, spend analysis has traditionally occurred on a periodic basis due to the huge effort required to first cleanup the underlying supplier and product classification data. This results in need for large data cleanup resource requirements (often outsourced at great cost) and outdated and non-timely analytics results.

So how can this be avoided? Oracle provides a solution that:

- Continuously manages supplier and product data across the enterprise
- Provides a continuous and accurate view of spend data

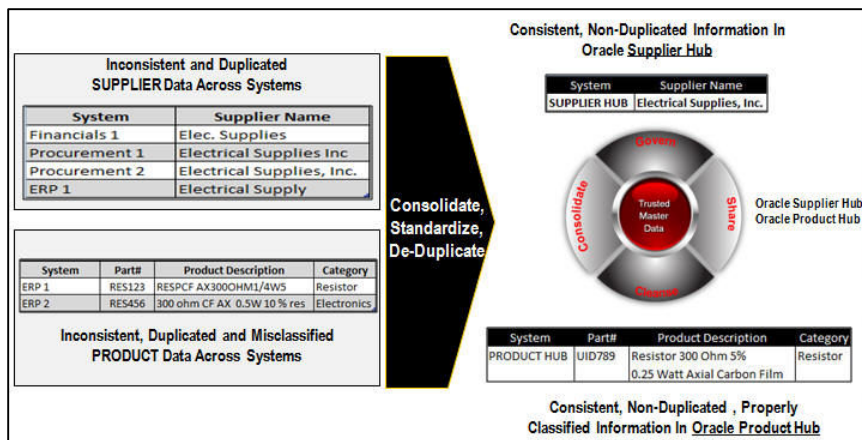
Steps to Success

The Oracle Continuous Spend Management solution results in superior spend analytics results *by focusing on the quality of the underlying supplier and product master data*. This is accomplished in two broad steps:

- Step 1: Clean up legacy data
- Step 2: Continuously keep the data clean

Step 1: Clean Up Legacy Data

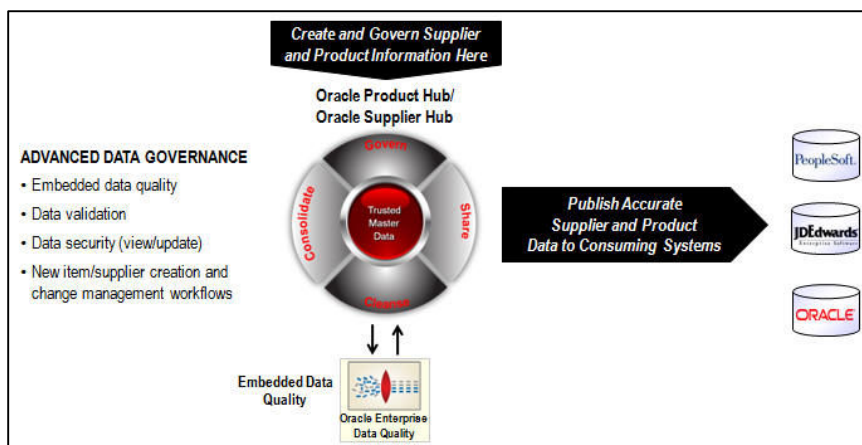
In this step, supplier and product data is extracted from legacy systems and automatically standardized (to enterprise standards), de-duplicated and enriched. For supplier information, duplicate suppliers with inconsistent supplier names across systems are eliminated. In addition, company parent/child subsidiary relationships are enforced, providing a fully rationalized Hub repository of global supplier master data. For product information, data cleanup involves proper classification of items, extraction of item attribute information and standardization of product descriptions to enterprise standards. Once product information is standardized, duplicate and “like” items across systems are easily identified. This results in a fully rationalized Hub repository of global product master data.



Step 1: Clean up legacy data

Step 2: Continuously Keep it Clean

At this point, all data from legacy systems has been cleaned up and placed into the master data management (MDM) Hub application repository. It is now the responsibility of the MDM solution to continuously keep the data clean. How is this achieved? The results primary from centralizing the new supplier and product definition processes within the master data management Hub application, where centralized governance rules can be enforced. Examples of governance rules applied within the MDM Hub application include data validation, embedded data standardization, approval workflows and data security (who can read and/or update data). These governance features can be enforced whether information is imported into the MDM Hub application or created within the MDM Hub application itself through user interface (UI) screens.

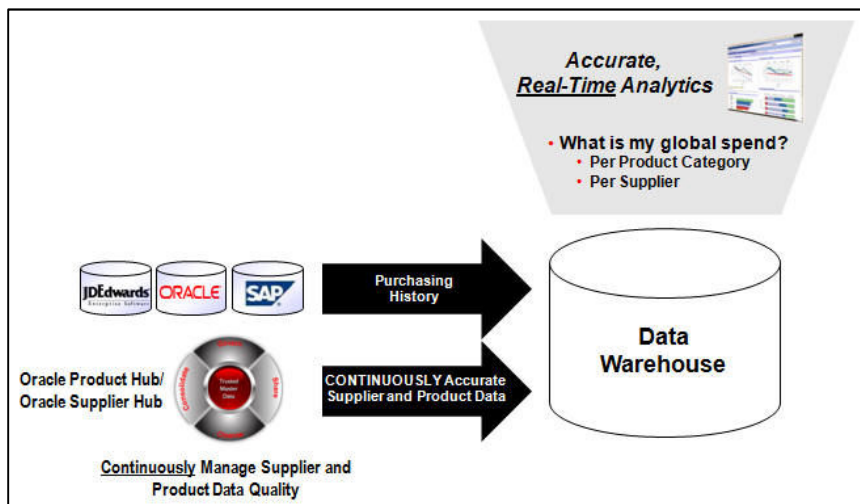


Step 2: Continuously keep data clean

Once accurate supplier and product information is defined and governed within the centralized MDM Hub application, it is then shared with all consuming systems across the enterprise. This results in consistent information across systems.

The Result: Consistent Supplier/Product Information, Accurate Analytics

Armed with a continuous flow of accurate supplier and product master data, analytics applications can extract information at any time and be assured of receiving high quality underlying data. As a result, the Oracle Continuous Spend Management Solution eliminates traditional periodic and “behind the times” analytics by delivering accurate and real-time delivery of supplier and product data to analytics applications.



The Result: Consistent Supplier/Product information, accurate analytics

Solution Benefits

The Oracle Continuous Spend Management Solution provides significant value within spend management initiatives. Benefits include:

- Continuous spend management dramatically improves the effectiveness of spend management programs
- Supports Real-Time Analytics
- Continuously manage supplier data quality, including the ability to identify duplicate and inaccurate supplier information and rationalize your supply base, increasing negotiating leverage
- Continuously and automatically manage product data quality, including the ability to accurately classify purchased parts and optimize spend per product category
- Dramatically reduce data cleanup resource requirements, including outsourcing of data cleanup activities
- Rapid solution time-to-market and lowest total cost of ownership. Since Oracle MDM solutions are purpose built solutions (and not toolkits) they can be deployed extremely quickly, insuring a rapid return on IT investment

Conclusion

While companies often turn to spend analytics solutions to reduce purchasing spend, they quickly learn that accurate spend analytics ultimately depend upon the consistency and quality of the underlying supplier and product data across all relevant systems within the enterprise. This whitepaper concludes that successful analytics initiatives must be based on a strong master data management foundation. Evidence, provided by the Hackett Group, points to the fact that *World Class companies leveraging MDM best practices as part of their spend analytics initiatives have reduced their purchasing costs by 7 to 15 percent.* In addition, this whitepaper describes complimentary Oracle capabilities that enable companies to achieve best practices in spend management.



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Hardware and Software, Engineered to Work Together