

The Benefits of Closed-Loop Spend Management



As your business navigates the high seas of global commerce, is it well-sealed against waste and inefficiencies? Or does your procurement team spend more time bailing to keep the ship afloat than stoking the flames of value that will help it reach distant shores? Cost management has long the primary goal of traditional procurement, but those embarking on the treacherous waters of today's market know that simple spend management is insufficient to build and maintain growth, profitability, and competitive advantage. That's why *closed-loop spend management* is becoming an increasingly popular method for businesses focused on building value as well as reducing costs.

If you're still relying on traditional spend analysis and management, it's easier than you might think to gain greater efficiency and profitability while reducing waste and errors in your supply chain and decision making. Once you understand how closed-loop spend management works and bake it into your workflows, you can begin building value in procurement—and across all your business units—the same way world-class procurement teams around the world do.

What Is Closed-Loop Spend Management?

Like all methods of its type, closed-loop spend management is focused on reducing expenses and inefficiencies while bolstering performance, cost reductions, and the bottom line. It helps companies gain visibility into:

- Total spend (both direct and indirect spend).
- Supply chain structure.
- Spend category management.
- Risk and performance management for both internal processes and vendors.
- Opportunities to refine workflows and performance for greater savings.
- Contract management opportunities.

The “loop” in “closed-loop spend management” refers to the spend process itself. The entire procure-to-pay (P2P) process is a massive circle, where the money spent on procuring goods and services returns value and profits to the company—part of which is then redirected to purchasing more goods and services to keep the process churning along. Inside of this lifecycle loop are multiple opportunities for procurement teams to conduct spend analysis on the processes involved for efficiency and efficacy, and then apply the insights gained from that analysis to optimize sourcing activities.

It’s a systematic and holistic approach, designed to build a firm foundation of reduced risk, greater compliance, optimal performance, and higher profits. The greater the spend transparency, the more spend is considered to be “spend under management,” and the more easily procurement teams can apply the levers of process optimization and value preservation to improve individual processes and overall spend practices to support organizational goals.

Value Building Levers include:

- Achieving full spend transparency, with real-time access to data analytics for improved decision making and pursuing strategic sourcing opportunities.
- Real-time monitoring and adjustment of the supply chain based on vendor performance and compliance.
- Contract management to achieve optimal pricing and terms based on

demand and optimized processes (including just-in-time delivery)

Value Preservation Levers include:

- P2P optimization for the greatest possible efficiency, accuracy, and speed.
- Improved risk management and compliance through elimination of maverick spend and insurance fraud.
- Ongoing category management and supply chain revisions to reduce vendor bloat and ensure optimal terms, pricing, compliance, and performance for every good and service purchased.

One possible model for the loop is a repeating cycle of:

1. Achieve Total Spend Visibility
2. Optimize Category Management
3. Budget Review and Optimization
4. P2P Optimization
5. Performance and Compliance Management (Including Vendor Management)

With every iteration, you should have more available information, more refined and efficient processes, and a greater percentage of spend under management. Continuous improvement becomes standard operating procedure, and it becomes possible to make more intelligent and versatile spend and sourcing decisions based on complete and current data.

The ultimate goal of a holistic system like closed-loop spend management is to optimize value creation for not just procurement, but all your business units. That's hard to do when you only have part of the picture.

Overcoming Obstacles to Effective Closed-Loop Spend Management

Designed for the digital era, closed-loop spend management has the potential to produce incredible savings and efficiency improvements in organizations big and small. However, to achieve those benefits, companies need to be ready to close the loop through commitment to overcoming a few possible obstacles.

Incomplete Data

G.I. Joe wasn't kidding when he said "knowing is half the battle." The ultimate goal of a holistic system like closed-loop spend management is to optimize value creation for not just procurement, but all your business units. That's hard to do when you only have part of the picture. Ideally, you need full transparency into all your spend data, and the ability to connect it to marketing, vendor, and production data sets for advanced analysis.

Process Inefficiencies

If it's not systematic, complete, and consistent, even the most ambitious spend management program will fail to yield optimal results. Sporadic spend analysis can't keep rogue spend or invoice fraud in check, or provide timely context for crucial contract negotiations or strategic decision making. Success comes from continuous monitoring and analysis, and continuous improvement achieved by applying the insights so learned.

Underpowered Tech Tools

Spreadsheets and onsite databases simply won't cut the mustard in today's market. And if you're still relying on manual, paper-based procurement processes, you might turn around one day soon to find your ship isn't just sinking, but sunk. To obtain the best possible results and maximum value, you need to be able to corral, organize, and analyze all your data, as well as collaborate and communicate effectively. You also need firm and total control over all your purchasing and accounting processes, from purchase order creation to invoice payment to vendor onboarding.

You've probably noticed a common thread in these obstacles. Businesses sailing the high seas of commercial enterprise in the digital age need to do more than recognize big data; they need effective tools for taming and transforming it into value, profitability, and competitive power.

Whether you're a mom 'n' pop shop or a megacorp, choosing the right procure-to-pay solution is a good place to start. Best-in-class solutions like PLANERGY give procurement professionals everything they need to make closed-loop spend management part of their procedures.

Every transaction is captured. Every related document and communicate, too. Vendor performance and compliance data is easy to bake into the system for real-time monitoring and analysis.

Cloud-based, mobile-friendly data management means your whole team is able to access what they need to know, when they need it, and turn data into reports, forecasts, and actionable insights. Buyers are connected to the optimal vendor for every good and service, eliminating rogue spend and frustrating would-be fraudsters.

Document management, from purchase orders to invoices to vendor contracts, is streamlined and simplified. Contract negotiations become more favorable and strategic, focused on opportunities for building important vendor relationships, rather than merely obtaining the lowest possible price.

Artificial intelligence and process automation streamline workflows, eliminate errors, and free your team from repetitive, low-value drudgery to focus on strategic value-building while helping you slash costs, eliminate waste, and capture more incentives, discounts, and opportunities than ever before.

The result? A closed loop spend management system that creates a strong foundation of value for your business. Interdepartmental initiatives benefit from accurate financial forecasts. Business units have better budgets and therefore more money available to pursue opportunities for growth and innovation. As all the data inside your organization becomes connected to important data outside it (e.g., marketing trends, social media events, global politics), you gain stronger risk management and greater strategic and competitive advantage through real-time analysis and adjustment of your global supply chain.

The more spend transparency and control you have, the more assuredly your vessel will command the waves of big data, process optimization, and global supply chain management.

Close the Loop to Maximize Your Value and Savings

Closing the loop squeezes out delays, errors, and inefficiencies to make continuous improvement a way of life. Take control of your data and spend, and

ensure your business has the tools and tactics it needs to sail beyond the competition and toward new horizons of productivity, profitability, and value.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

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