

Spend Analysis 101: How, Why, and What To Do With The Data



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If you're in procurement, you've probably been asked by company leadership about the return on investment (ROI) you're getting for each dollar spent.

Performing a regular and thorough spend analysis based on complete data can help you always have an answer to this question.

A spend analysis helps you understand where your money's going and reveals actionable insights to optimize your workflows for greater productivity and profits.

With the right software for the job, you'll always have this report ready to go—giving continuous opportunities to improve strategic sourcing, business process management, and organizational health.

Below, we'll explain what spend analysis is, why you should do it, processes and best practices for effective spend analysis, and why procurement software is the best tool for performing it.

What Is Spend Analysis?

Spend analysis is the process of collecting detailed information for all your company's purchase transactions, then analyzing that information through spend analytics data management tools.

This process gives you a complete picture of your company's overall spending and insights that can drive savings and value. This data might include a variety of sources.

Spend analysis is a form of big data analytics. When working with big data in procurement both Online analytical processing (OLAP) and online transaction processing (OLTP) are two important parts of this process.

Procurement spend analysis has a wide variety of applications.

Examples of spend analysis can improve internal processes across business units, take advantage of strategic savings opportunities, and engage in more strategic sourcing throughout the company's entire supply chain.

What Is a Spend Analysis Tool?

Procurement teams can use several different spend analysis software tools or spreadsheets, but the most common and useful tool is found in procurement-to-pay software itself.

That's because procurement systems contain all of your spend data and can be

integrated with other systems like your office suite, accounting software, and enterprise resource planning (ERP) applications.

Sophisticated procurement software systems contain spend analysis software within. All of the data collection is already centralized and integrated.

This helps address some of the key challenges when working with big data and saves significant time on data collection and cleansing.

These built-in tools can give you out-of-the-box reports (e.g. budget vs actual spend) or can be customized to provide specific business intelligence in real time.

The spend analysis tools within procurement software provide 100% spend visibility in real-time and will help you turn your data into actionable insights.

They give you the big picture and the “nitty-gritty” of both direct and indirect spend, all while helping you identify patterns and problems you can leverage or correct to help your business thrive.

Sophisticated procurement software, like PLANERGY, includes spend analysis tools that keep you 100% informed on company spend in real time. This helps you identify patterns and opportunities for savings and growth.

What Are The Types of Spend Analysis?

While you can analyze spend however you want, there are several common types of spend analysis that most companies face on.

These can help you get an understanding of areas where you can cut costs or become more efficient.

• Tail Spend Analysis

Tail spend is money spent on small but frequent purchases. These are things like office supplies, meals while traveling, shipping fees, and other miscellaneous categories that stay at a low-dollar amount.

Tail spend purchases are made with 80% of your company’s suppliers but

account for only 20% of your total spending.

Because tail spend is a low-dollar amount, many companies fail to analyze it, allowing a high volume of purchases to go unchecked. This can cause significant bleeding and make a negative impact on your bottom line.

The best way to analyze tail spend data is to get it all within one procurement system. This may mean integrating with your accounting system for credit card purchases or finding a way to get more spend under a guided buying system.

Once you get this data into the system, you can create reports and identify trends and savings opportunities.

▪ **Category Spend Analysis**

Analyzing spend by category is a common way that companies gain useful insights. After defining your most common spending categories, you can drill down into each one to identify trends where you're spending too much or less than expected.

Using this info, you can pivot your spending to generate the most savings and value.

▪ **Item Spend Analysis**

Item spend analysis looks at individual items that your team purchases. By analyzing all purchases for an individual item or SKU code, you can see which purchases came from what suppliers, how much was spent, and what department it was for.

This analysis identifies which vendors offer the best price, which you can then set as your preferred vendor for the item.

▪ **Supplier Spend Analysis**

This is an analysis of spend by supplier. It shows you which suppliers you depend on the most and can also show you which suppliers you spend the

most on for different categories and geographies.

A common example of supplier spend analysis is Pareto analysis in procurement.

You can use this data to negotiate better contracts or consolidate suppliers when you find that you have one offering better value than another.

• **Contract Spend Analysis**

This analysis shows you spend within your pre-negotiated contract terms. It can flag vendors that are non-compliant with their contracts so that you can stop overspending as soon as possible.

It can also help show you if your buyers are purchasing from preferred suppliers that have contracts with favorable terms.

• **Payment Terms Analysis**

This is an analysis of the various payment terms of your suppliers, and how long you've taken to pay your suppliers within those terms.

This can help you find areas where you are paying too slowly and losing out on early payment discounts, or paying too soon and letting go of capital that you may need for other areas too early.

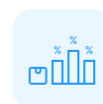
■ Types of Spend Analysis



Tail Spend Analysis



Category Spend Analysis



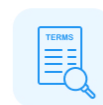
Item Spend Analysis



Supplier Spend Analysis



Contract Spend Analysis



Payment Terms Analysis

Other types of analysis relevant for a procurement analyst include should-cost modeling, spend forecasting, market intelligence, trend analysis.

Benefits of Spend Analysis

Your company's process and goals for spend analysis will likely be different than those used by your competitors. But using spend analysis can help your company become a data-driven organization.

For all companies, spend analysis has clear benefits (when done properly). These benefits include:

• Greater Spend Data Visibility

Because it requires clean and complete data, spend analysis helps procurement teams create an environment where data management and spend management are mutually supported.

Regular spend analysis through a system like PLANERGY helps ensure all spend data is captured, organized, and secured in the cloud.

Management gets real-time access to accurate data when creating spend and cash flow forecasts, setting budgets, refining spend categories, or building stronger supplier relationships.

Total visibility also helps banish maverick spend and protects your organization against invoice fraud.

• Increased Savings

Spend analysis is all about helping procurement teams reach their number one goal: saving money.

Keeping track of realized savings and other procurement KPIs will ensure you are achieving ROI from your investment in spend analysis.

It helps procurement teams identify savings opportunities in the following areas:

- Improving internal processes (e.g. lowering cycle times for purchase orders and invoices)
- Replacing or warning underperforming vendors
- Leveraging volume or other special discounts
- Identifying suppliers where you're in a position to negotiate better contracts with
- Consolidating vendors to those that offer better pricing and terms
- Enforcing contract compliance on non-compliant vendors

▪ Creating More Value

Spend analysis is about more than just savings. It also helps procurement professionals create value. It can reveal opportunities to refine your sourcing for quality, performance, and reliability.

You can use these insights to build a strategic sourcing strategy that builds value by lowering the total cost of ownership (TCO) across spend categories and down to the item level.

■ Benefits of Spend Analysis



Greater Spend
Data Visibility



Increased Savings



More Efficient
Internal Processes



Improved Enforcement
of Contract Compliance



Better Monitoring of
Supplier Performance



Identify Opportunities for
Supplier Consolidation

How Do You Perform a Spend Analysis? Seven Steps to Success

Companies of all sizes and types can achieve effective and accurate spend analysis by following a series of simple processes based on spend cube analysis.

How Do You Perform a Spend Analysis?



PLANERGY™

Use the seven steps below to get started on your spend analysis journey:

1. Identify Your Objective

Spend analysis is not a one-size fits all affair. It works best when you have a specific goal in mind.

For example, you could be looking for patterns within the data to support process improvement. Or, you could be looking to consolidate down to the suppliers who are giving you the best deals.

Some potential objectives could include:

- Identify spending patterns and find cost savings opportunities in specific categories, items, or departments.
- Find potential savings by eliminating maverick spend and invoice fraud.
- Reducing supply chain risk.
- Improving the accuracy and completeness of your spend forecasts.
- Cutting procurement costs through process improvements like optimizing invoice approval cycle times or eliminating bottlenecks in the purchase order creation process.
- Reduce your number of suppliers by removing ones that charge more for the same goods or services.

2. **Identify Spend Data Sources**

This includes all spend data sources from across all business units, departments, and teams.

Data sets will likely include:

- Accounts payable invoices
- Spend data from your eProcurement solution
- The general ledger
- Pcard and credit card transactions
- Enterprise Resource Planning (ERP) software
- Any Excel spreadsheets or other documents not incorporated into your eProcurement system

3. **Collect and Consolidate Data**

Data management and spend analysis itself will work much better if you use a procurement solution like PLANERGY with automated spend analysis. With an end goal of achieving predictive analytics in procurement.

Trying to glean insights from a jumble of spreadsheets and other data sources will be much more difficult.

If you don't already have a centralized, cloud-based procurement solution

in place, develop processes to either transfer all information into a common format or integrate all your data sources to avoid errors, inconsistencies, duplicates, and other potentially disastrous data errors.

If you do use a procurement solution, collecting and consolidating your spend data will have already happened automatically. You'll simply look back at your existing spend data to use for your spend analysis.

4. **Clean Your Data**

If you're just starting to use a procurement solution with a spend analysis tool, like PLANERGY, you will most likely be importing your data from other sources. So before you can use that data in your system, you may need to clean it.

After all, useful insights can only come from complete and accurate data sets. Once you've collected all your data, review it for transaction, category, and item-level errors, then correct them.

Standardize your clean data for easy analysis, viewing, and importing into your procurement software (if you need to).

5. **Link Suppliers and Categorize Spend**

This step is especially important if you're looking for insights related to supplier management. By implementing better category management practices you will help identify opportunities.

However, grouping suppliers together based on purchase data, payment terms, frequency of purchase, spend category, etc. is important for top-level spend analysis as well.

Use a standardized categorization system, such as the United Nations Standard Products and Services Code (UNSPSC), to organize and track all your direct and indirect spend.

These categories will become the foundation for the spend analysis you perform in the next step.

6. **Perform Your Spend Analysis**

With your data in place, you can use your procurement software to “slice and dice” for your objectives and metrics from step one.

For example, if your objective was to streamline your supply chain, you could look at how much of your spend is going to underperforming suppliers. Then, you could move some of that spend to preferred suppliers who offer better terms, greater reliability, or less risk.

If your goal was to improve contract management through process improvements and more efficient spend, you could review all contracts, identify those with pending renewals, and then:

- Identify redundancies that are incidental or accidental. It may be ok to keep some redundancies to provide support for business continuity during a crisis.
- Identify contracts with the potential for renegotiation based on vendor performance, compliance, or your projected investments for the coming financial period.
- Revise these contracts to remove dead weight from the supply chain, renegotiate from a data-driven perspective, or use your supplier relationship management skills to craft new contract terms for shared initiatives.

In a final example, if your analysis identifies excess risk created by single-source suppliers whose shipments have to travel overseas, you could find local vendors and pursue contingency contracts with them to protect your supply chain and business continuity.

7. **Rinse, Reassess, and Repeat.**

Because your spend is always happening, you need to treat spend analysis as a continuous improvement project. Use the insights revealed by spend analytics to pursue your goals, but repeat the process regularly as your data grows and you identify new objectives to pursue.

You may want to set regular intervals for performing a spend analysis or set up an ongoing spend analysis dashboard in your procurement solution

so you can always see what's happening at a glance. Better yet, do both.

What Is Spend Analytics?

Spend analytics is the process of collecting, cleansing, categorizing, and analyzing an organization's spending data to gain visibility into how money is being spent.

This includes understanding who is spending, what they are buying, how much they are spending, and with which suppliers.

By consolidating data from various sources—such as accounts payable, procurement, and ERP systems—spend analytics provides a unified view of company-wide spending. This visibility helps organizations:

- Identify cost-saving opportunities
- Improve supplier management
- Reduce maverick or off-contract spending
- Support strategic sourcing and budgeting decisions

Spend analytics is often supported by specialized software platforms that can handle large volumes of data and deliver insights through dashboards, reports, and automated alerts.

How Spend Analytics Relates to Spend Analysis

While **spend analytics** and **spend analysis** are closely connected, they're not exactly the same thing.

- **Spend analysis** refers to the actual process of examining and interpreting spend data to identify patterns, trends, and actionable insights.
- **Spend analytics** refers to the tools, methods, and technologies used to conduct that analysis efficiently and at scale.

In simpler terms, spend analysis is the task; spend analytics is the engine that

enables and enhances that task.

Without analytics tools, spend analysis is often manual, time-consuming, and limited in scope. With spend analytics, organizations can automate the heavy lifting and uncover deeper insights, faster and more accurately.

Together, they form a powerful approach to smarter, more strategic procurement and financial management.

How PLANERGY Helps with Spend Analysis

Tools like **PLANERGY** play a crucial role in making spend analysis faster, more accurate, and more actionable by capturing and organizing **real-time spend data** across an organization.

Unlike manual methods or disconnected systems, PLANERGY provides a centralized platform where purchasing, invoicing, budgeting, and supplier data all flow through a single source of truth. Here's how that benefits spend analysis:

Real-Time Visibility

PLANERGY captures spend data as it happens—from purchase requests to approvals to payment. This real-time insight allows organizations to monitor spend trends instantly, rather than waiting for monthly reports or retrospective analysis.

Automated Data Cleansing and Categorization

PLANERGY automatically classifies and cleanses spending data, reducing the time and effort required to prepare it for analysis. It ensures data accuracy, standardizes supplier names, and assigns spend to the correct categories.

Custom Dashboards and Reporting

With built-in analytics dashboards, users can quickly visualize spending by department, category, supplier, or location. This makes it easier to spot anomalies, track savings, and measure procurement performance over time.

Spend Control and Compliance

By enforcing purchasing policies and approval workflows, PLANERGY not only provides insights into past spending but also helps control future spending. This ensures compliance and minimizes off-contract or maverick spend.

Integration Across Systems

PLANERGY integrates with popular accounting and ERP platforms, pulling in data from various sources to provide a complete and accurate picture of organizational spend.

In short, PLANERGY empowers teams to move from reactive to **proactive spend management**, combining the power of spend analytics with real-time operational control.

That means better decisions, improved efficiency, and greater savings—all based on up-to-date, trustworthy data.

How to Choose the Best Spend Analysis Solution

When you're choosing a procurement solution that performs spend analysis, remember that it's only going to be as useful as the data set feeding it. Make sure you choose a solution that gives you:

- Complete, centralized, and cloud-based data storage and management that's accessible from both desktop and mobile platforms.

It should capture all your spend data and other related data (including supplier performance and compliance). This ensures that the best possible data goes in and the best possible results come out.

Using complete data will lead to better budgets and more accurate forecasts, reports, and audits. It will produce greater agility and control over cash flow. Ultimately, it will give you greater competitive strength, innovation, and profitability across all business units.

- Digital tools for process automation along with powerful spend analysis tools. Eliminating time-consuming manual processes improves accuracy and speed. It also supports real-time access to the latest data for analysis, forecasting, and decision-making.

Automation also frees your team to focus on strategic tasks like supplier relationship building, contract management, and crafting a sourcing strategy. Your team will have more time to create an agile and resilient supply chain.

Procurement process automation is essential to shifting procurement away from being a mere cost center and towards being a powerful value-creator for your business.

Your Spend Analysis Process Is Essential for Long-Term Value and Success

Where is your budget going? Are you building value or just cutting costs? Spend analysis through procurement solutions, like PLANERGY, makes it possible to know the answers to these questions in real time.

It enables you to make smarter, more informed spending decisions that will help your company perform and grow. It helps you build a data-driven culture in procurement.

If you invest in the right spend analysis tool and follow the seven steps outlined above, you'll be able to transform your spend data into actionable insights and a healthier bottom line.

Your work will help build an agile, resilient organization that makes the most of every dollar it spends.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our Spend Analysis Software page to see how PLANERGY can empower you to get more value from your spend.
- Learn about us, and our long history of helping companies just like yours.

[Book a Live Demo](#)

2. Download our “Indirect Spend Guide”

Download a free copy of our guide to better manage and make savings on your indirect spend. You'll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

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