A vision for total spend management: creating value through intelligent integration

EY

Building a better working world

Effectively addressing cost in uncertain times

In spite of significant cost reduction efforts in recent years, most organizations find non-interest expenses still represent a significant figure compared to their bottom lines. Blanket cost reduction mandates have delivered suboptimal results largely because they fail to address underlying technology, data and process problems and are not sustainable for the long term. The issues are exacerbated due to inconsistent policies and subpar organizational models.

The COVID-19 pandemic has only made matters worse even as it has increased the need for organizational resilience and agility. Organizations have limited time to make meaningful cost reductions and adapt to the new, leaner normal while simultaneously facing necessary investments to enhance their digital capabilities. In many cases, hectic replanning exercises and spend initiatives have fallen short or focused on the wrong priorities.

The fundamental problem is one of fragmentation—siloed processes, incomplete spend data and incompatible systems. As a result, it is impossible for CFOs and other finance leaders to understand the organization's total spend and identify key cost drivers across spend categories. Without such visibility, it is extremely difficult to make intelligent or strategic spend management decisions. The lack of integration and visibility also increases the cost and inefficiency of the spend management process itself as well as preventing CFOs from exerting proper oversight and control.

> A holistic approach to spend management enables both tactical cost analysis and strategic insights.

Rather than making arbitrary quantitative assumptions and setting general cost-reduction targets, finance teams should seek to establish a holistic framework that links all costs — including both fixed and variable expenses — to the operational needs and strategic priorities of the business. This vision for total spend management promotes more effective monitoring, enforcement and compliance with procurement policies.

Such an approach also reflects the changes to cost structures caused by the pandemic. How finance delivers services is undergoing considerable change; therefore, certain spend categories, such as real estate, technology, professional services and market data, will need to be managed more closely going forward. A future-ready approach incorporates both a clear strategy and strong tactical capabilities. Even as it seeks immediate-term cost reductions across the business, finance must lay a foundation for the future designed to support transparent, sustainable and strategically aligned spending and investment.

Integrated technology and processes are key enablers of total spend management. CFOs need high-quality data from integrated systems — particularly finance and procurement systems — to get full visibility across all organizational spend categories. Through our research and client experience, we have found that many organizations struggle to assemble the comprehensive views of spend data that are necessary to gain insights for better decision-making and to establish predictable and sustainable cost structures.

Our market experience also tells us that the SAP platform is capable of delivering such a complete and integrated view of spend. Specifically, SAP's advanced analytics capabilities and the native integration of its solutions — including SAP Ariba, SAP Concur, SAP Fieldglass and SAP S/4 — enable intelligent and rigorous spend management. By linking finance and procurement via S/4HANA, CFOs gain access to more advanced analytics, embedded artificial intelligence (AI) and stronger visualization capabilities.

This paper will highlight how finance and procurement teams can realize this vision of total spend management in such a way that meets today's pressing needs and provides visibility, efficiency and control for tomorrow. It will also feature findings from EY research and experience into the business case for strategic spend management, as well as insights about the unique capabilities of the SAP platform.

Managing spend in an uncertain environment: uncertain times call for innovation and accuracy

Historically, spend management has been addressed through arbitrary blanket savings goals that may reduce expenses in the near term but also present significant long-term risks. Those risks include promoting inefficient spend behavior that limits growth (e.g., by reducing investment in new capabilities) and an impact on team morale. Spend reduction opportunities may be overlooked and business-critical initiatives may be underfunded. In the absence of a strategic approach, business leaders will not have a clear line of sight on what is driving spend and will have limited tools to optimize their sourcing by commodity and enforce spend accountability within the organization.

Based on EY research and direct client experience, we estimate organizations can achieve cost savings of at least 10%–15% from their current spend baseline by addressing tactical opportunities while building toward an integrated spend management approach. Based on our experience, we see significant opportunities through the following activities:

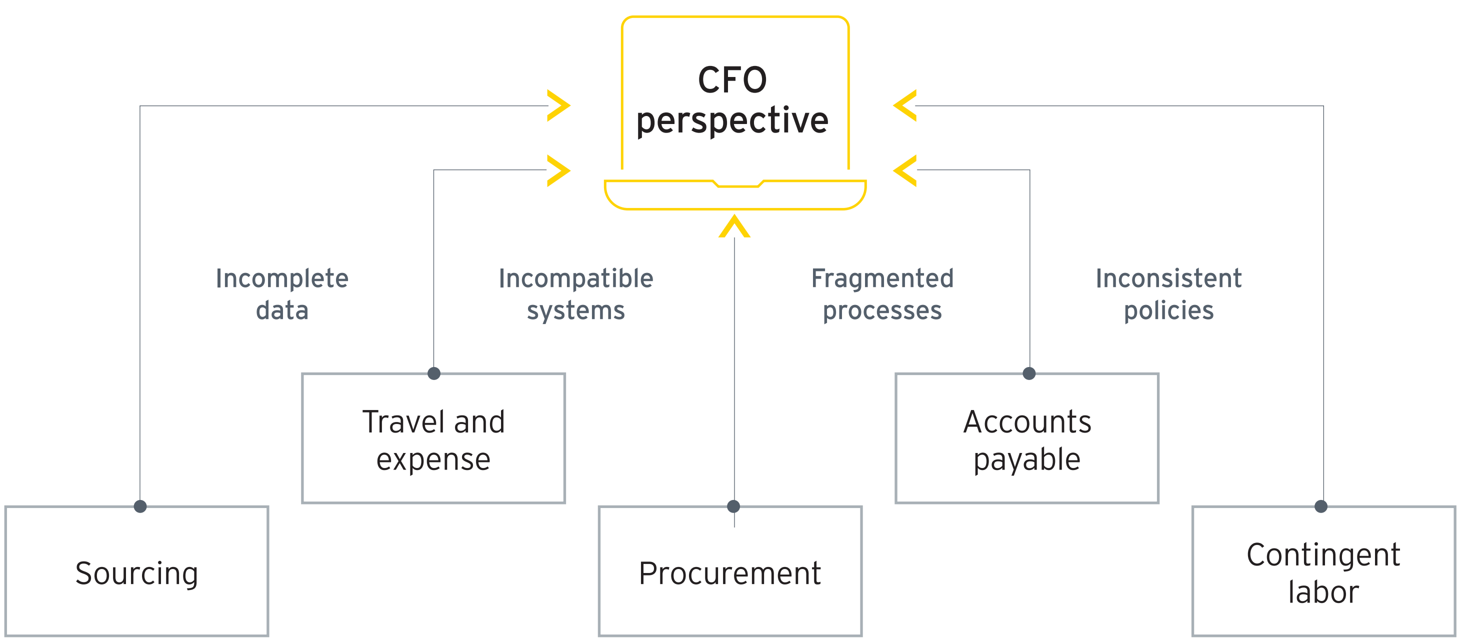
- In-house vs. outsourced process delivery review
- Supplier rationalization
- Consumption volume optimization
- Contract compliance reviews
- Dynamic contract terms negotiation

Focusing spend management efforts on the categories with the highest impact is a leading practice to obtain higher, sustainable savings. Technology, real estate and contingent labor present some of the best opportunities in the current market. A significant barrier to this effort is often the lack of integration between disparate systems needed for finance leaders to understand what specific policies, categories and departments will be essential in attaining the organization's savings goal.

Some companies are able to overcome this fragmentation thanks to the native integration of contract, spend and compliance data provided by SAP's ecosystem, which includes Ariba (vendor onboarding/risk, contracts, sourcing and procurement), Concur (travel, expense and invoice data) and Fieldglass (external workforce and contract labor). Finance leaders also benefit from the spend taxonomy and business content included in the platform, elements which accelerate the inception of a comprehensive spend platform and rationalize the effort required to implement it.

The integrated data set included in the SAP platform enables truly strategic sourcing based on clearer and more robust insights into supplier cost and performance, commodity pricing, department demand and contract compliance. These insights make it easier to identify when procurement and sourcing should be involved in negotiation, supplier consolidation or policy enforcement. They also help prevent cost reduction programs from undermining the strategic priorities of the business.

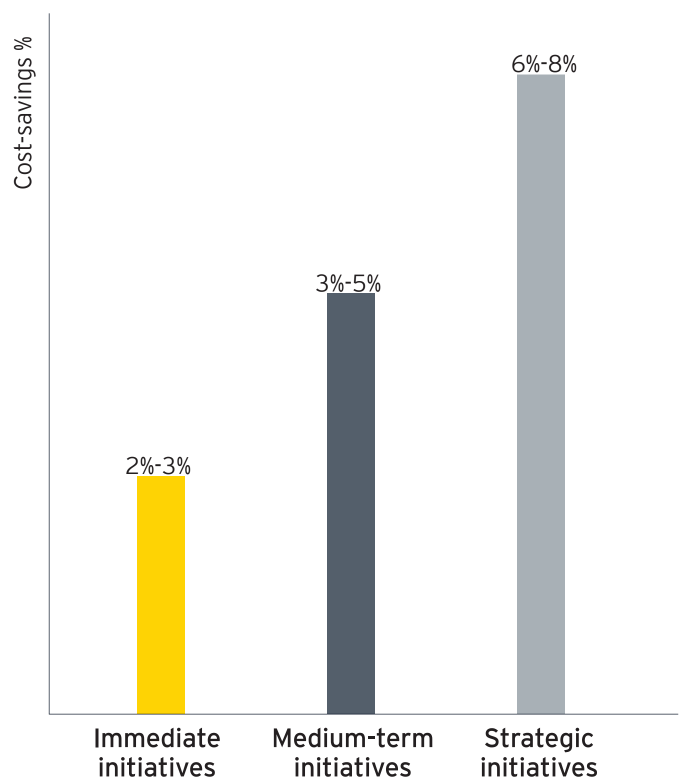
Figure 1: **Traditional, siloed spend management architecture**



Mapping the road ahead: from immediate-term savings to long-term capabilities

Given the current funding constraints, finance leaders are encouraged to define a road map that delivers tactical governance and spend analysis in the short term while working toward comprehensive spend visibility and more strategic capabilities in the longer term. To be clear, strong technology and an integrated environment are essential to total spend management, but they are not the only components. Finance leaders must also adopt a more holistic approach that clarifies policies and optimizes organizational and sourcing models.

Figure 2: **Cost-saving opportunities following a formal spend management program**



Immediate initiatives (within three months):

- Tactical spend review
- Contract and policy review
- Working capital opportunities and payment types consolidation

Medium-term initiatives (three to nine months):

- Strategic sourcing optimization
- Supplier engagement

Strategic initiatives (nine months):

- Integrate digital spend management and advance analytics
- Value-driven finance operations workforce model

Immediate initiatives

Tactical spend, contract and policy review

Given the amount of disconnected procurement information flowing through the enterprise, it can be time-consuming to assess and prioritize the full range of cost reduction opportunities across all initiatives, functions and vendors. An accelerated data analysis that prioritizes categories and leverages analytics tools to find material but non-essential items is an important first step. For example, software licenses and subscriptions are often underutilized or redundant. A thorough spend analysis initiative will engage category managers to identify which licenses and subscriptions can be safely cut.

As priority opportunities are identified, sourcing teams will need to work closely with the business to optimize supplier communication and avoid abrupt and poorly planned spend reductions that end up disrupting the business. Such disruptions often lead to net higher costs in the long run and strain relationships with key business stakeholders.

Many organizations find short-term cost reduction opportunities primarily in contingent labor and market data. In the case of the former, redundancies stemming from operating model gaps and poor process integration can usually be eliminated with little impact to the business. Savings on market data subscriptions can be achieved via credits and contract renegotiations given the frequent overlaps in services and availability of alternative, comparable options at lower price points.

Reviewing contract data to get a full picture of commitments and supplier compliance can provide an opportunity for service-level adjustments, pricing negotiations and the elimination of nonessential services. Complementing that, a policy review will provide immediate input on unclear or impractical rules that result in workarounds and exceptions and can also consume management's time and attention eroding the effectiveness of the controls.

Working capital opportunities and payment type consolidation

A thorough spend data analysis also supports the optimization of working capital through alternative payment strategies that extend the cash cycle and expand the use of incentives and performance-based contracts. A combined analysis of payables, cost of capital, liquidity projection and commitment data will help the organization strike the balance between long payment cycles and early pay discounts.

Organizations can also lower payment processing costs and gain more treasury visibility through a consolidation of payment types and vendor records. The use of purchasing cards (p-cards) and travel cards provides more control over small spend amounts, provided the data is captured within integrated environments. Maximizing ACH payments will shorten the source-to-pay (S2P) processing cycle and reduce treasury costs.

Cost reduction focus areas

Organizations across industries can attain significant savings through immediate-term, medium-term and long-term strategic initiatives in the following key spend categories:

Figure 3:

Key expense categories for consideration	**Potential savings***
Workforce management (e.g., contingent labor, outsourcing)	6%–10%
Information technology (including telecommunication)	5%–10%
Real estate and capital projects	6%–10%
Professional services	8%–14%
Corporate services (e.g., waste management, custodial)	8%–20%
Travel and expenses	14%–17%
Print and marketing	8%–10%
Market data services	10%–20%
Other general and administrative expenses	5%–25%

*Note: Potential savings are estimated based on benchmarks and project experience for a reference industry; savings estimates presented are aggregate results of immediate, medium and strategic initiatives.

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Analyzing underutilized spend data can provide insights and identify cost optimization opportunities.

Strategic sourcing levers:

- In-house vs. outsourced
- Supplier rationalization and volume consolidation
- Streamline source-to-pay process
- Demand rationalization
- Contract terms negotiation
- Strategic negotiations via robust cost models
- Low-cost location workforce strategy

Additional cost reduction levers:

- Internal price benchmarking
- Price, channel and policy compliance (e.g., p-cards, catalog, preferred suppliers)
- Contract and invoice audits (e.g., pricing, discount capture, adjustment mechanisms)
- Better payment terms
- Spend deferrals (e.g., replenishment policies)

Key considerations for managing cost

There are several leading practices to enhance the effectiveness of the spend management function, covering process, technology, supplier communication and the future of procurement.

Invest to develop strategic category managers and differentiated sourcing

- Reorganize and revise the sourcing function to category-centric management
- Develop a deep understanding of the categories to drive business benefit and realize opportunities

Transform S2P activities

- Analyze buying channels
- Reduce cycle times
- Integrate platforms (e.g., sourcing, contracts, procure-to-pay)
- Improve end user experience
- Implement cloud technology

Develop procurement analytics beyond spend

- Expand analytics across S2P processes
- Use advanced prescriptive and predictive data models to understand demand and spending trends
- Develop ability to tie budgeted spend at a vendor level to actual spend

Create strategic alliances with suppliers and business partners

- Form strong partnerships with key suppliers
- Drive supplier enablement and integration with periodic review of the volume and spend
- Develop a 360-degree view of your supplier relationship

Redefine procurement operating model and third-party risk management

- Define a standardized process taxonomy
- Focus internal talent on strategic activities
- Quantify cost of risks and risk exposure
- Proactively monitor supplier and non-supplier risk

Leverage automation for procurement process execution

- Enable efficiencies through new and upgraded technology
- Expand the usage of robotic process automation (RPA) and other digital technologies to streamline procure-to-pay activities

Medium-term initiatives

Strategic sourcing optimization

Sourcing optimization is an approach that drives value from supplier relationships based on a structured category management approach and a quantitative analysis of detailed supplier, contract and transactional data.

Organizations can attain significant sustainable savings and generate more value when category managers are equipped and encouraged to take a more strategic approach to supplier evaluation, selection and collaboration in high-priority categories. Experienced category managers know the pricing, supplier landscape and leading practices for a given family of commodities.

In the case of technology sourcing, migration to cloud, license management and platform consolidation present significant cost reduction opportunities. However, they can also create additional technology challenges due to fourth-party risk. Engaging in productive negotiation with technology vendors requires a good understanding of the key performance indicators, service-level agreements and total cost of ownership items that are sometimes overlooked.

A category management framework is fundamental to optimizing the sourcing process. Here again, an industrialized analysis of supplier, transaction and contract data is the first step to obtain insights and guide appropriate supplier selection and consolidation decisions. Thanks to extensive integration, SAP finance and procurement platform can provide those insights. It is safe to say the better the data, and the more intuitive and powerful the technology platform, the more effective category managers can be in doing their jobs. Truly optimized strategic sourcing requires such a powerful combination of human judgement, strong technology and quality data.

A transparent and accessible view of supplier information on pricing, portfolio, location, legal clauses, terms, risk profile and commitment to sustainable initiatives will provide a clear picture of relative supplier value and available buying channels. With strong category management and quantitative strategic sourcing, organizations can collaborate constructively to enhance savings, while creating value for buyers and sellers.

Supplier engagement

The current market challenges have reinforced the strong mandate to reduce costs. A strategic approach aligned to the needs of the business requires a closer collaboration between organizations and their suppliers. In our experience, typically 20% of the suppliers contribute about 80% of the overall third-party spend, regardless of industry, business model, or company size. Therefore, it is critical for chief procurement officers to work directly with primary suppliers on increasing the value of every dollar spent. Achieving that goal will likely include actions that increase operational efficiency, foster innovation and reduce risks.

To start, procurement must deepen its understanding of challenges and opportunities in supplier relationships, including the capabilities the business is looking for. Such understanding reinforces the focus on value creation. For example, intuitive self-service capabilities for onboarding, invoicing and checking status can be a win-win for both parties. Similarly, mutually beneficial payment arrangements (e.g., early payment discounts, extended payment terms, dynamic discounting) can lead to better and more effective working capital management for both parties. Finally, a strong and formal commitment toward improving tier-two diversity spend, while managing the costs and risks, is a shared goal that requires continuous dialogue and engagement among procurement, the business and suppliers.

Strategic, long-term initiatives

Integrated digital spend management and advanced analytics

With SAP finance and ERP systems architected and configured for optimal performance, companies can push forward with the most ambitious, highest value and most strategic spend management initiatives. The end goal should be to establish integrated digital spend management capabilities based on sophisticated data sharing and advanced analytics running in a cloud-based environment, but our recent research suggests many firms struggle to assemble all of the pieces together in the optimal way.

We recently performed a market survey of US-based organizations with varying spend management operating models, geographic footprints, size and scale. The survey revealed that major gaps remain in the onboarding and integration of suppliers. Weak process alignment is another common shortcoming. The net result is that organizations are spending a lot on technology but not necessarily getting their money's worth. They also lack the capabilities to measure and track their return on investment in key suppliers. Tech spend can be rationalized by addressing redundancies, remediating contract compliance issues and retiring expensive in-house solutions and underutilized vendor platforms. Such consolidation is conducive to a more integrated process landscape.

Spend data analytics and the end-to-end integrity of spend data continue to be major blind spots. Procurement, contingent labor and travel and expense spend have traditionally been addressed as separate solutions amplifying silos in the organization and increasing overhead costs without providing clear or actionable insights for the business. As a result, finance lacks visibility into transactions, the close process is delayed and high-risk manual processing and reconciliations are still the norm.

A tangible example of this inefficiency is the disconnect between procurement and finance in fixed assets and accounts payable. The lack of integration between these applications forces significant manual effort in asset creation, adjustments and accruals. Many companies address these gaps by devising multiyear road maps to guide data design and process integration. Such road maps are essential to rationalizing the ongoing tech spend and to setting a course for successful transformation.

A frequent mistake made in technology transformations is the perpetuation of design inefficiencies stemming from legacy applications or lack of integration. The end goal of integrated spend processing and analysis is to enable full transparency on pricing, commitments, historic patterns, demand and accountability under the governance of a category manager. Ultimately, that leads to a harmonization on policy, approvals, vendor integration and internal processes between different categories of spend, including marketing, travel and expense, contingent labor, legal, market data and other non-managed expenses that traditionally fly under the radar of the sourcing and procurement teams.

A fully integrated platform links process and data for supply chain and finance into a single unified source that incorporates transaction data and provides access to analytical toolsets. That integration extends to third parties so everyone works from the same set of information at all times. For the purposes of spend management, organizations can go from reactive cost-containment to a strategic, data-driven and analytics-enabled approach. SAP is an ideal platform on which to realize the vision of total spend management as the integration is built into the applications via common data models.

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A strong technology platform is critical to success but getting the most out of your investment in SAP and commitment to strategic sourcing requires management commitment and strong execution governance.

Further, SAP offers advanced capabilities, such as intelligent process automation and machine learning, that enable organizations to derive even more value from the consolidated universe of finance and procurement data and processes. Not only does this approach enable smarter spend management that saves the business money, it makes the spend management processes more efficient, lower cost and higher value. By rationalizing redundant technology, finance and procurement can set an example for the rest of the business.

The need for automation of inefficient manual processes has only become more prevalent as a result of the current market challenges. The most advanced spend solutions combine the power of machine learning and analytics to facilitate a logically unified data set that can provide granular, timely insights into the business. Ultimately, that enables timely decision-making based on multiple variables such as evolution of the business climate, operating models, clients' digital expectations and the evolution of the remote workforce.

An additional benefit of intelligent automation is a more intuitive user experience through intelligent assistants, shortening the learning curve and minimizing nonproductive interaction time for employees and suppliers. Invoice processing time is a good candidate for optimization based on available technology and toolsets.

Cloud computing is a key driver in modernizing spend management thanks to its advantages in terms of cost and flexibility. The ability to translate fixed costs into variable costs and add functionality and capacity as dictated by the operational needs of the business can provide significant relief. Indeed, migrating to the cloud benefits the business in the form of lower IT costs from network, hardware and utilities to infrastructure and application development skills.

Value-driven finance operations workforce model

As a result of the COVID-19 pandemic, the ongoing shift toward a flexible and extended workforce is likely to accelerate. That workforce must be accountable based on actual deliverables and outcomes. Remote working means it is harder to physically monitor resources. Therefore, organizations should focus not only on securing vendor compliance but also on getting more value through clearer service-level agreements and stronger performance-based clauses.

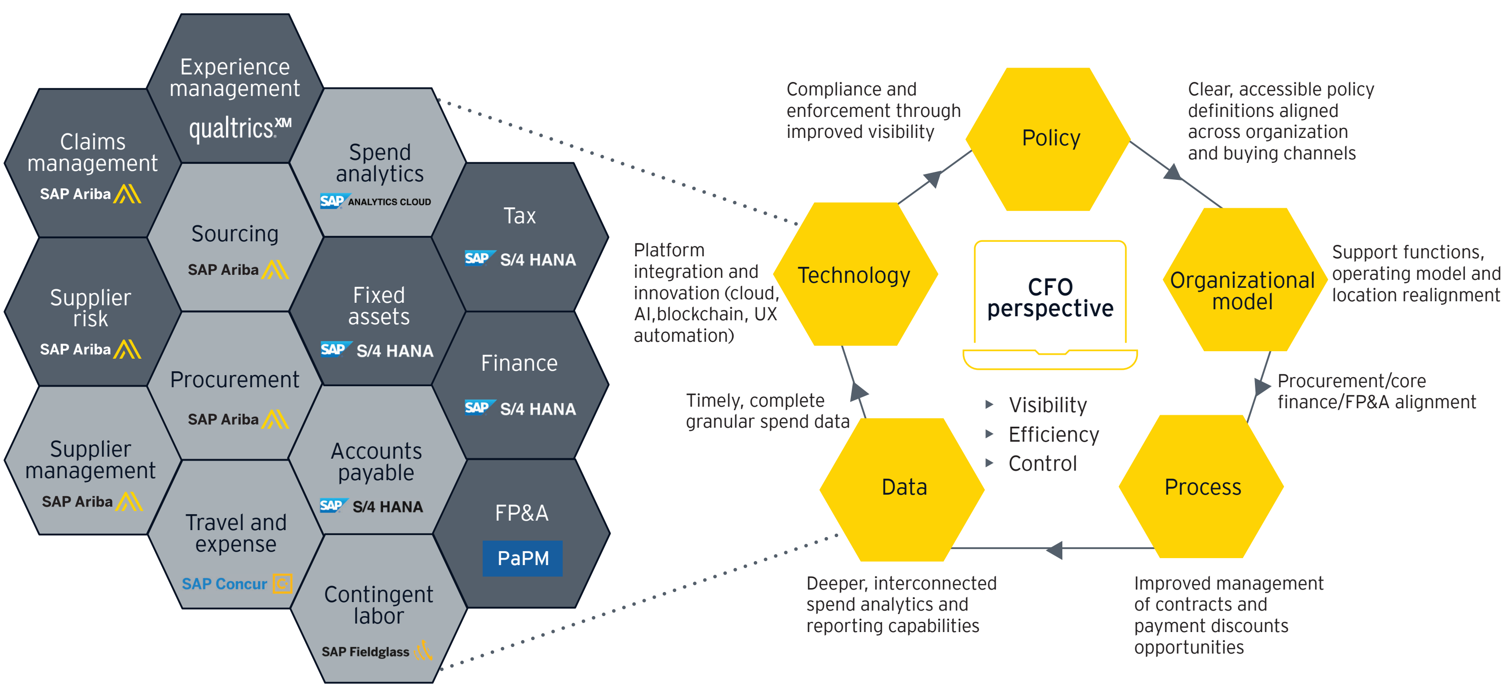
While companies can access skills and talent working virtually anywhere, they must be sure to maintain accountability and process integrity. This principle will apply to both internal and third-party resources. Investing in tools that enhance collaboration, improve the user experience and streamline processes will be essential to obtaining increased returns in a new workforce distributed model. Organizations with mature processes and technology will be able to take advantage of the "work-from-anywhere" world. Companies that are not prepared will have a hard time bringing costs down, eliminating inefficiencies and enriching team experiences.

An integrated architecture for total spend management

The integrated SAP technology platform and a holistic approach to total spend management can deliver significant efficiency and cost synergies across the entire source-to-pay process — enabling improved visibility and higher-value insights as well as increased efficiency and reduced risk. Executing on this vision entails:

- Alignment of vendor, contract and spend data from multiple applications
- Advanced analytics to understand cost drivers and support strategic cost reduction and supplier risk processes
- Increased transparency on how vendors, commodities and purchase patterns can provide spend opportunities through consolidation and accountability
- Reduced finance burden related to manual entries and reconciliations in accounts payable, fixed assets and tax
- Streamlined vendor end-to-end processes, including third-party risk

Figure 4: **An integrated architecture for total spend management**
The SAP ecosystem provides the platform, within the context of a holistic framework



The bottom line: strategic spend management is key at any point of the business cycle

An effective strategy for total spend management helps organizations become nimbler and attain more granular visibility into their cost function. This is fundamental to rationalizing the footprint during a downturn while minimizing the impact to operations. Robust and comprehensive spend category and vendor insights will also provide an excellent tool for profitable growth as organizations pivot during the COVID-19 crisis and prepare for a demand upswing in a more digital, competitive and fast-paced market.

The EY-SAP advantage

EY takes a comprehensive, business-first view to address strategy, processes, technology and operational impacts in tandem. The EY Alliance with SAP creates and delivers innovative intelligence-based solutions to help clients transform their enterprise and fuel business performance. Underpinned by new and emerging digital technologies, EY solutions help to make all areas of a business more intelligent, resilient and agile — from finance, supply chain, transformation, tax and risk to people and customer. EY industry and business acumen, deep client relationships and business transformation capabilities combined with SAP's advanced technology solutions can help organizations gain the intelligence, resilience and agility needed to thrive in this era of extraordinary change.

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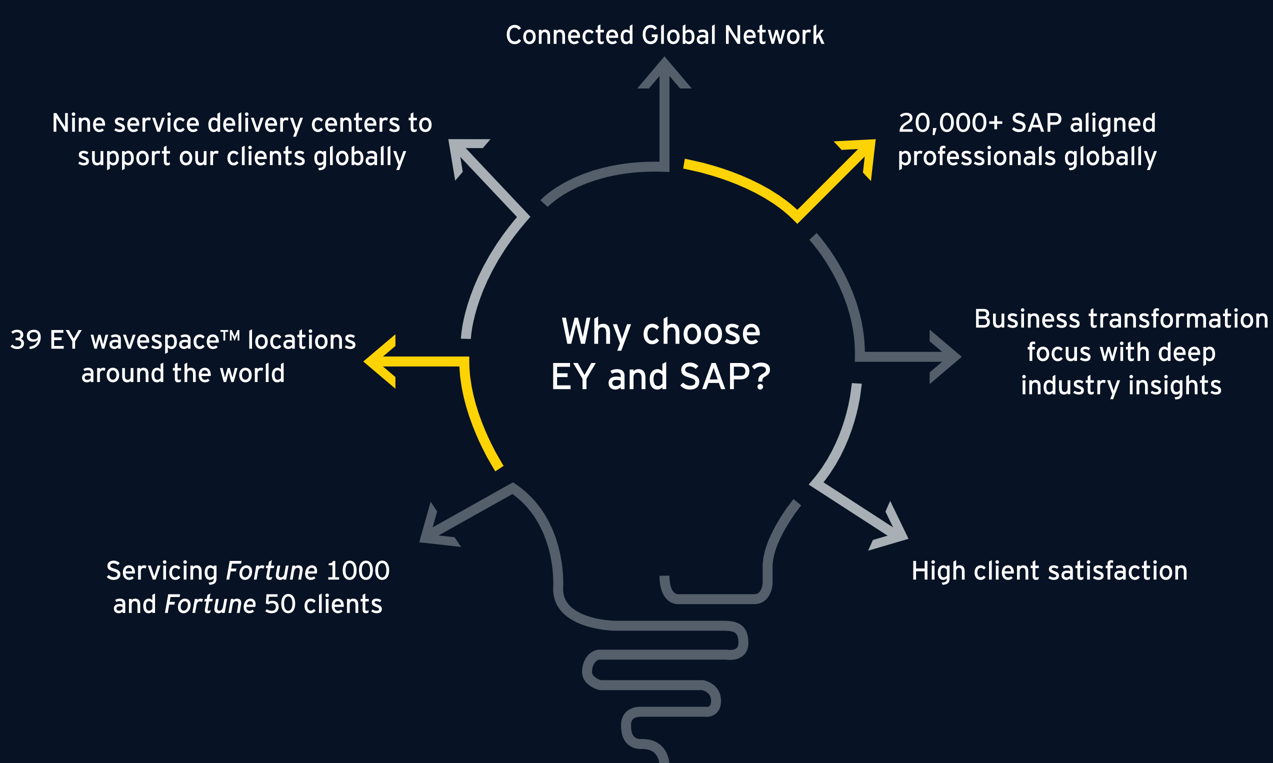
EY and SAP: a business first view to transforming your enterprise

The combination of EY and SAP industry acumen and business transformation capabilities and SAP's innovative technology solutions helps organizations gain the intelligence, resilience and agility to transform their enterprise and fuel business performance.

Industry awards

Leading analysts have recognized EY for its leadership in developing and delivering SAP solutions.

- IDC MarketScape Leader in Worldwide SAP NextGeneration Implementation Services, 2020
- IDC MarketScape Leader in Worldwide SAP Implementation Services, 2020
- Leader in Gartner Magic Quadrant for SAP S/4HANA Application Services Worldwide, 2020



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Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EYG no. 007936-20Gbl
ED None.

2010-3617858

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