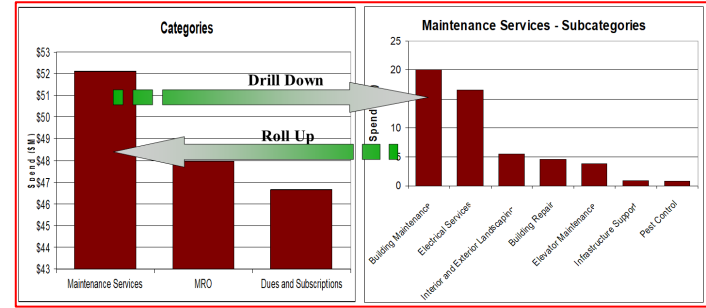# SWICH HPP Spend Analysis Service

- **SWICH High Performance Procurement Spend Analysis** is focused on identification of opportunities for cost savings by drilling down into key details of your supply contracts, filtering data using various criteria, to provide insight into what your money is spent on.

- A **SWICH** consultant works with your team to build an opportunity roadmap and prioritization for executing strategic sourcing and/or strategic contract negotiation to optimize your organization's vendor spend.

HPP Spend Analysis Service - Overview

- Spend Analysis is a **9-Step Process,** executed in **2 Phases,** focused on identification of opportunities for cost savings by drilling down to analyze key details in your supply contracts then rolling-up data to provide further insight into what your money is spent on.

- Spend Analysis provides a comprehensive view of external costs by filtering data using various criteria to build an opportunity roadmap and prioritization for executing strategic sourcing to optimize your spend.
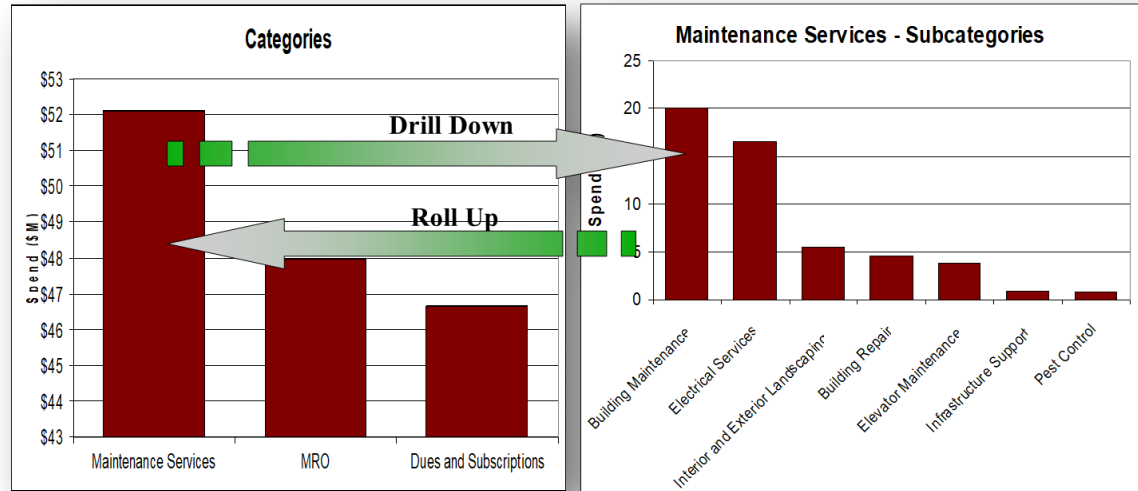
HPP Spend Analysis – 9 Steps in 2 Phases

PHASE 1

Spend and Vendor Analysis

1	Extract, validate, aggregate 12-36 month expenditure data
2	Normalize vendor names and aggregate duplicate entries
3	Classify transactions into unique commodity categories based on combination of GL codes and vendor names
4	Segregate purchased and non-purchased expenses
5	Create spend analysis reports to support procurement efforts

PHASE 2

Opportunity Assessment

6	Classify purchased expense categories into "high potential," "potentially addressable," and "unaddressable" spend categories
7	Estimate savings potential for high potential expense categorize based on historic savings experience and market conditions
8	Prioritize savings opportunities based on savings potential and ease of capturing savings
9	Propose a short-list of spending categories for inclusion in a strategic sourcing pilot

Spend Analysis Phase 1: Data Gathering

- Data is collected from various sources including GL files, invoices, and contracts.

- Data cleansing and normalization is often needed to make sense and create consistency in the data for accurate reporting and decision making.

- Data is then mapped to the proper procurement category for further analysis.

APLineID	supplierID	supplierName	transactionDate	netAmt	GL Code	Category
810037	0000100333	Dell Computer Corp.	01-Jan-05	1,042.54	0000537000	Computer Hardware
865568	0000100333	Dell Computer Corp.	01-Jan-05	26.90	0000821110	Computer Hardware
865448	0000100333	Dell Computer Corp.	01-Jan-05	(0.01)	0000821110	Computer Hardware
1045165	0000106537	General Printers	01-Jan-05	3,756.61	0000837200	Commercial Print
1045164	0000106537	General Printers	01-Jan-05	1,017.06	0000837200	Commercial Print
1045166	0000106537	General Printers	01-Jan-05	3,756.60	0000837200	Commercial Print
953874	100259	Canon Canada Inc.(Direct Sales)	01-Jan-05	0.01	0000825800	Office Supplies
808585	0000100259	Canon Canada Inc.(Direct Sales)	01-Jan-05	201.20	0000537000	Copiers
808582	0000100259	Canon Canada Inc.(Direct Sales)	01-Jan-05	1,341.37	0000537000	Copiers
808581	0000100259	Canon Canada Inc.(Direct Sales)	01-Jan-05	1,341.37	0000537000	Copiers
961098	0000103690	Canon Canada Inc.	01-Jan-05	37.53	0000825810	Office Equipment
797845	0000100807	Fisher Scientific Ltd.	01-Jan-05	58.95	0000537000	Testing Equipment
797773	0000100807	Fisher Scientific Ltd.	01-Jan-05	80.99	0000537000	Testing Equipment
802497	0000100848	Sigma-Aldrich Canada Ltd.	01-Jan-05	79.86	0000537000	Testing Equipment
802452	0000100848	Sigma-Aldrich Canada Ltd.	01-Jan-05	51.52	0000537000	Testing Equipment
802492	0000100848	Sigma-Aldrich Canada Ltd.	01-Jan-05	238.93	0000537000	Testing Equipment
802439	0000100848	Sigma-Aldrich Canada Ltd.	01-Jan-05	49.41	0000537000	Testing Equipment
802498	0000100848	Sigma-Aldrich Canada Ltd.	01-Jan-05	39.27	0000537000	Testing Equipment
814843	0000100817	Grand & Toy	01-Jan-05	18.36	0000537000	Office Supplies
814895	0000100817	Grand & Toy	01-Jan-05	3.97	0000537000	Office Supplies
814739	0000100817	Grand & Toy	01-Jan-05	8.23	0000537000	Office Supplies

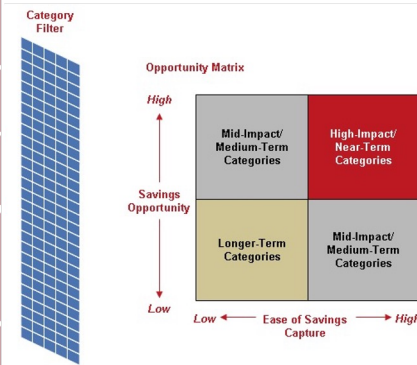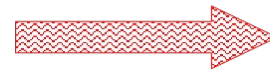Categories provide a procurement-centric view of company spend

The Categorization process may leverage supplier reports, GL codes, and other spend data depending on what's available.

Spend Analysis Phase 1: Data Gathering

- High potential categories are identified and potential savings quantified.
  - Anticipated $ savings for the *high potential categories* can be estimated based on historical experience in sourcing the categories and relevant industry benchmarks.
- Analyzing the supply base that accounts for the spend in categories can help identify savings and/or quality improvement opportunities.

High degree of "fragmentation" indicated by large number of vendors across category.

Baseline Spending and Savings Estimates

Category	Total Spend ($)	Projected Savings Range (%)		Projected Savings Range ($)	
		Low (%)	High (%)	Low ($)	High ($)
Lab Equipment & Supplies	$91,715,000	6%	11%	$5,503,000	$10,089,000
Computer Hardware	82,414,000	9%	19%	7,417,000	15,659,000
Furniture and Furnishings	46,835,000	15%	20%	6,833,000	9,175,000
MRO	41,246,000	5%	10%	2,062,000	4,125,000
Telecom	31,640,000	10%	15%	3,164,000	4,746,000
Direct Mail/Commercial Print	28,356,000	20%	25%	5,671,000	7,089,000
Office Supplies	19,391,000	19%	24%	3,684,000	4,654,000
Copiers	18,152,000	13%	18%	2,360,000	3,267,000
Other Office Equipment	15,327,000	7%	12%	1,073,000	1,839,000
Custodial/Janitorial Supplies	9,285,000	8%	13%	743,000	1,207,000
Uniforms/Accessories/Other Instruments	5,068,000	14%	19%	710,000	963,000
PC Peripherals	3,131,000	16%	21%	501,000	658,000
TOTAL	**$392,560,000**	**10%**	**16%**	**$39,721,000**	**$63,467,000**

Category	Total Spend ($)	Total Num of Vendo	Total Number of Vendors within 80% of Spend
Travel	52	5,800	375
Publishers	61	2,500	31
Lab Equipment & Supplies	92	1,700	120
Facilities – Maintenance Services	48	1000	100
Dues and Subscriptions	47	950	50
Computer Software – Distributed	21	760	98
Computer Hardware	82	750	10
Direct Mail/Commercial Print	29	610	85
Business Consulting	41	600	105
Telecomm Equipment	4	580	6
Other Marketing	10	550	45
Advertising Agency	10	500	40

- HPP categorizes suppliers into four groups: the aim typically is to deepen relationships with a limited number of strategic suppliers to create added-value for both parties.

Sourcing Category Positioning Matrix

	Low Buyer Power	High Buyer Power
High Category Criticality	High Criticality Low Buyer Power **Bottleneck**	High Criticality High Buyer Power **Strategic**
Low	Low Criticality Low Buyer Power **Routine**	Low Criticality High Buyer Power **Leverage**

Low ← Buyer Power → High

Bottleneck

- Objectives
  - Ensure continuity of supply
  - Reduce risk
- Actions
  - Remove entry barriers
  - Decrease dependency on suppliers
  - Develop new suppliers
  - Consolidate for leverage
  - Consider in-sourcing / make in-house
  - Consortium buying
- Approach
  - Contract to cover risk
  - Market, technical and supplier risk
  - Contingency planning
  - Analytical
  - Innovation
  - Cross-functional teams

Strategic / Critical

- Objectives
  - Optimize contribution
  - Minimize risk
- Actions
  - Consolidate spend
- Stay Critical
  - Partnership / long term relationships
  - Joint ventures
- Move to Leverage
  - Develop new suppliers
  - Remove entry barriers
  - Standardize demand / alternative specs
- Approach
  - Market, technical and supplier analysis
  - Direct negotiations with selected suppliers
  - Supplier performance and relationship management
  - Risk analysis
  - Contingency planning
  - Creative / options generation
  - Relationship cultivation
  - Strategic negotiations
  - Teamwork

Routine / Non-critical

- Objectives
  - Maximize efficiency
  - Minimize transactions
  - Control costs
- Actions
  - Simplify processes
  - Automate (EDI, P-card)
  - Rationalize suppliers
  - Consolidate and standardize
  - Move to Leverage
- Approach
  - Re-engineer transactional processes
  - Prescriptive procedures and controls
  - Highly systematized
  - Delegated processing
  - Stockless buying
  - Well organized
  - Focus on process
  - Attention to detail

Leverage

- Objectives
  - Optimize contribution
- Actions
  - Leverage market competition
  - Short term relationships
  - Consolidate and rationalize
  - Relationship cultivation in return for continuous improvement
- Approach
  - Market analysis
  - Market price testing
  - Competitive tendering
  - Hard negotiation
  - Supplier development for continuous improvement
  - Low / zero inventory / safety stock

Risk: High / Low

Low — **Value** — High

Spend Analysis Phase 2: Opportunities

- An Opportunity Roadmap is developed that features a roll-out of pilot projects focused on maximizing savings and ease of implementation.
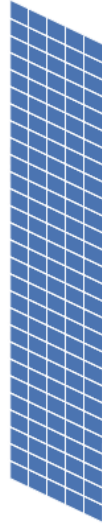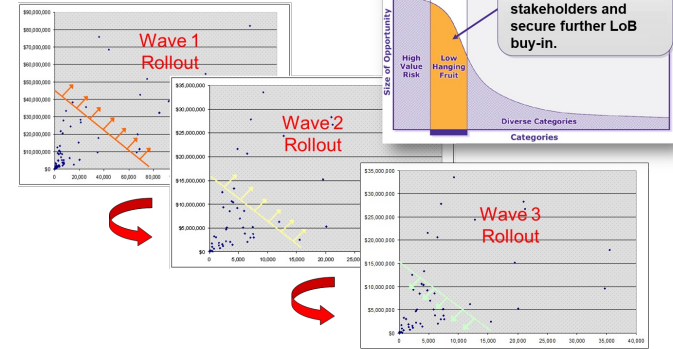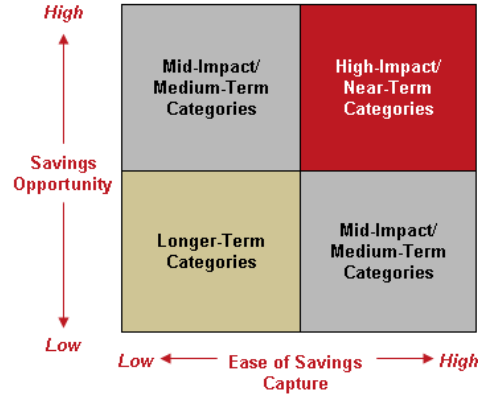
Spend Analysis Phase 2: Opportunities

- A financial analysis model is built comparing projected current state to future state with the proposed / possible efficiencies.
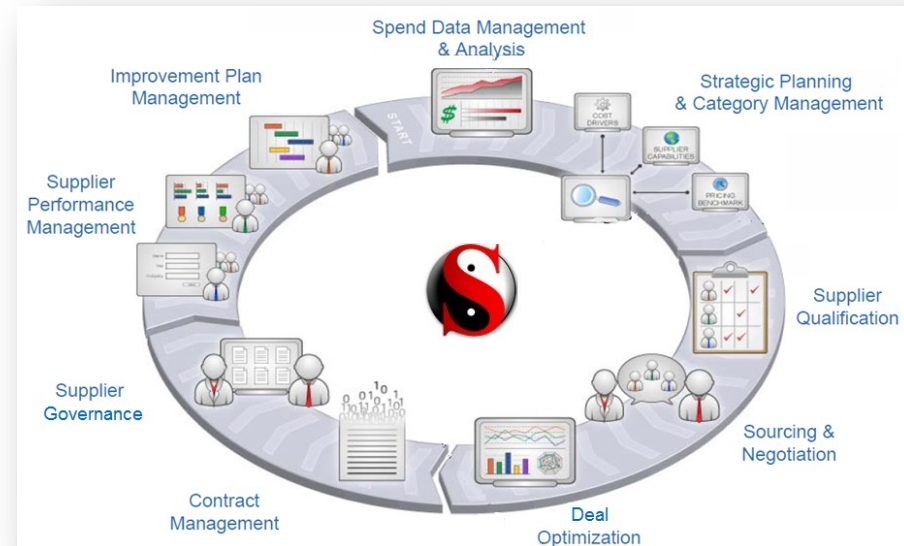
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		Low (%)	High (%)	Low ($)	High ($)
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TOTAL	**$392,560,000**	**10%**	**16%**	**$39,721,000**	**$63,467,000**

High Performance Procurement Service Example

High Performance Procurement Engagement

- **Leveraging HPP will drive the following benefits:**
    - Optimize spend through analysis and strategic sourcing to deliver maximum value;
    - Risk mitigation by applying effective insight during due diligence.
    - Visibility of spend and quality performance (benchmarking).
    - Alignment with business priorities and best practices.
    - Improved service delivery.
    - Cost control.

- **HPP pays for itself.**
    i. Start with an initial 2-3 month Spend Analysis project to identify targets.
    ii. Confirm strategy and prioritization.
    iii. Execute! (with all improvements measured and reported).

Spend Analysis Example: Ph 1 – Raw Data

- Raw data pull (12 mths.) reveals:
  - Total funds outflow to "vendors" = **$94.7M**
  - Total Invoices = **30,425**
  - Total vendors = **2,795**

- Initial filtering produced 3 main buckets indicating the likelihood and/or effort required to address spend ("yes/no/tbd").

Spend Analysis Example: Ph 1 - Filtering

INV's	VENDORS	CATEGORY 1	CATEGORY 2	SPEND	Y/N/M
126	29	Marketing	Advertising - Signs	$ 213,319	Y
968	72	Facilities	Cleaning	$ 526,000	Y
78	23	Services	Consulting/Services - HR	$ 255,700	Y
86	24	Services	Consulting/Services - IT	$ 501,537	Y
90	14	Services	Consulting/Services - Media	$ 265,881	Y
41	16	Services	Consulting/Services - Mgmt.	$ 520,128	Y
164	20	Services	Consulting/Services - MISC	$ 541,868	Y
65	15	Services	Consulting/Services - MISC	$ 89,623	Y
185	23	Services	Consulting/Services - Mktg.	$ 607,510	Y
19	10	Services	Consulting/Services - RE	$ 22,959	Y
2,969	40	Facilities	Courier	$ 454,846	Y
2,358	120	Facilities	F&B	$ 817,587	Y
737	13	Services	IT Services / Prods	$ 2,457,640	Y
434	63	Services	Legal Services	$ 2,882,010	Y
138	24	HR	Moving & Storage	$ 179,578	Y
413	114	Facilities	Office Maintenance	$ 1,304,455	Y
55	10	Facilities	Office Products - AV	$ 302,572	Y
357	39	Facilities	Office Products - Furn.	$ 1,130,256	Y
83	9	IT	Office Products - IT	$ 606,112	Y
698	23	Facilities	Office Products - Post & Prin.	$ 1,166,641	Y
3,693	56	Facilities	Office Supplies	$ 858,236	Y
467	54	Facilities	Printing Services	$ 295,428	Y
179	27	Marketing	Promotional Products	$ 251,877	Y
743	15	Facilities	Records Management	$ 548,080	Y
129	14	Facilities	Sanitation	$ 48,465	Y
215	50	Facilities	Security	$ 60,626	Y
346	25	IT	Software - Acctg.	$ 1,875,241	Y
152	27	IT	Software - IT	$ 785,721	Y
128	25	IT	Software - Various	$ 1,281,226	Y
705	24	HR	Staffing Services	$ 1,850,776	Y
2,240	24	IT	Telco & Wireless	$ 4,077,737	Y
34	5	HR	Temp Space	$ 36,985	Y
12	4	HR	Training	$ 163,088	Y
310	33	HR	Travel - Hotels	$ 525,688	Y
308	38	HR	Travel - Various	$ 246,344	Y
19,725	**1122**			**$ 27,751,740**	**Y**

INV's	VENDORS	CATEGORY 1	CATEGORY 2	SPEND	Y/N/M
1,611	107	Facilities	Rent	$ 19,886,744	M
126	6	HR	Benefits	$ 5,616,463	M
490	76	Services	Consulting - Acctg.	$ 2,761,226	M
495	131	Corporate	Activities	$ 2,240,805	M
1,169	54	Marketing	Advertising - Media	$ 2,068,142	M
41	6	Corporate	Insurance	$ 1,091,233	M
221	27	Services	Subscriptions	$ 772,585	M
113	33	HR	Health	$ 526,079	M
316	2	Marketing	Publications	$ 339,412	M
428	84	TBD	Unidentifieds	$ 241,460	M
489	22	Facilities	Utilities	$ 216,195	M
22	16	Marketing	Media	$ 151,886	M
43	4	HR	Parking	$ 143,528	M
196	69	HR	Meals	$ 84,742	M
84	36	Facilities	Photography	$ 67,845	M
91	7	HR	Travel	$ 27,403	M
89	18	Facilities	Flowers	$ 19,802	M
7	5	Corporate	Gifts	$ 7,500	M
48	1	Corporate	P-Card	$ 6,108	M
6,079	**704**			**$ 36,269,156**	**M**

INV's	VENDORS	CATEGORY 1	CATEGORY 2	SPEND	Y/N/M
840	47	Corporate	Cross-charges	$ 14,030,430	N
1,780	143	HR	Contractors - GT	$ 5,480,584	N
57	9	Finance	Banking	$ 3,753,821	N
373	51	Corporate	Taxes/Fees	$ 3,566,622	N
624	276	Corporate	Memberships	$ 1,513,737	N
114	2	Corporate	Client Refunds	$ 550,874	N
164	104	Corporate	Sports Activities	$ 499,210	N
429	297	Corporate	Donations	$ 384,038	N
55	2	Corporate	Client	$ 306,833	N
67	8	Corporate	Internal	$ 291,323	N
59	5	Corporate	Government Fees	$ 167,384	N
59	25	HR	Tuition	$ 132,832	N
4,621	**969**			**$ 30,677,688**	**N**

Spend Analysis Example: Ph 2 - Opportunities

INV's	VENDORS	CATEGORY 1	CATEGORY 2	SPEND	Y/N/M
968	72	Facilities	Cleaning	$ 526,000	Y
19	10	Services	Consulting/Services - RE	$ 22,959	Y
2,969	40	Facilities	Courier	$ 454,846	Y
2,358	120	Facilities	F&B	$ 817,587	Y
413	114	Facilities	Office Maintenance	$ 1,304,455	Y
55	10	Facilities	Office Products - AV	$ 302,572	Y
357	39	Facilities	Office Products - Furn.	$ 1,130,256	Y
698	23	Facilities	Office Products - Post & Prin.	$ 1,166,641	Y
3,693	56	Facilities	Office Supplies	$ 858,236	Y
467	54	Facilities	Printing Services	$ 295,428	Y
743	15	Facilities	Records Management	$ 548,080	Y
129	14	Facilities	Sanitation	$ 48,465	Y
215	50	Facilities	Security	$ 60,626	Y
346	25	IT	Software - Acctg.	$ 1,875,241	Y
152	27	IT	Software - IT	$ 785,721	Y
128	25	IT	Software - Various	$ 1,281,226	Y
2,240	24	IT	Telco & Wireless	$ 4,077,737	Y
86	24	IT	Consulting/Services - IT	$ 501,537	Y
737	13	IT	IT Services / Prods	$ 2,457,640	Y
83	9	IT	Office Products - IT	$ 606,112	Y
15,950	**718**			**$ 15,556,076**	**Y**
1,611	107	Facilities	Rent	$ 19,886,744	M
489	22	Facilities	Utilities	$ 216,195	M
84	36	Facilities	Photography	$ 67,845	M
89	18	Facilities	Flowers	$ 19,802	M
2,273	**183**			**$ 20,190,586**	**M**

- Strategic Procurement Initiatives priority list:

  1. **Network and wireless**
  2. **National Office Supplies RFP**
  3. **Managed Print Services RFP**

- Next steps would include:

  i. deep dive into existing contracts.
  ii. feedback sessions with key stakeholders.
  iii. Build the "business case" to support the proposal.

Spend Analysis Example: Ph 2 - Strategy

- Lack of a contract/vendor management strategy leads to inefficient buying (no consolidated power, contract visibility) and an increase in non-value add activities (e.g. invoice processing).

- Benefits of a Consolidation Strategy = Leveraging Brand Power, Best Practices, and **Economies of Scale.**

  ➢ When the overall spend is relatively low, opportunities must be identified by aggregating the myriad small dollar transactions.

- Confirm 1-3 "strategic partners" in categories with high spend or importance to the business, actively manage them through robust contracts, and funnel a majority of the spend/projects to them while "developing" secondary vendors as a risk mitigation.

Execution! Spend Analysis to Strategic Sourcing to $aving$: Network Example

- The due diligence into the "Telco & Wireless" costs from the HPP Spend Analysis led to a business case that drove a complex "Next Generation Network" RFP that secured over $1MM / year savings vs current state.

FACTOR	Vendor2	Vendor1	Vendor3
Overall Scope	40.0%	70.0%	60.0%
Footprint	40.0%	60.0%	80.0%
Migration Plan	40.0%	70.0%	80.0%
Security Requirements	40.0%	60.0%	40.0%
SLA Requirements	40.0%	60.0%	60.0%
Proof of Concept / Pilot	40.0%	60.0%	60.0%
Financials	80.0%	100.0%	60.0%
TOTAL SCORE	64.0%	96.0%	88.0%

Scoring Results - Key Requirements

Summary		Base Line	Year 1	Year 2	Year 3	Year 4	Year 5	Year 3 TCO	Year 5 TCO
Current State		2,801,000	2,857,000	2,914,000	2,972,000	3,031,000	3,092,000	8,743,000	14,866,000
Vendor1		-	2,427,000	1,692,000	1,726,000	1,760,000	1,795,000	5,845,000	9,400,000

SDWAN TCO Analysis (in $000s)
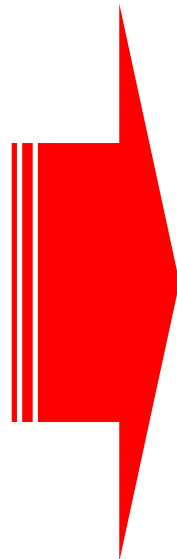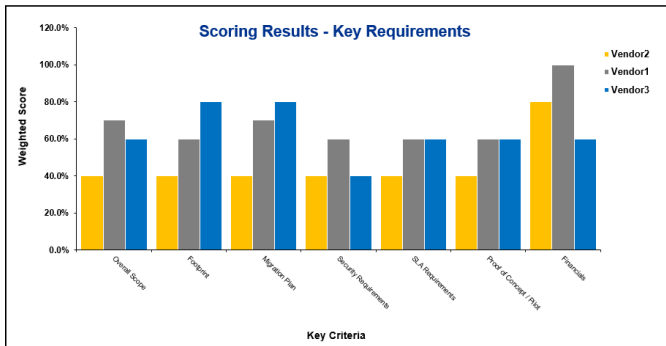
What Does High Performance Procurement Achieve?

Deploying advanced procurement and vendor management processes supported by effective people, tools, and training will ensure contract savings, quality, and risk mitigation are sustained.

- Effective and consistent application of HPP throughout the contract lifecycle, including the vendor/contract management stage, will drive the following benefits:

  - Optimization of sourcing, contracts and supplier relationships to deliver maximum value;

  - Risk mitigation by applying effective standards, oversight and due diligence;

  - Transparency into vendor performance and benchmarking against best practices;

  - Efficient allocation and use of time and resources;

  - Alignment with business priorities;

  - Improved service delivery;

  - Continuous improvement; and

  - Cost control.

High Performance Vendor Management

1. High Performance Procurement

2. HPP Tools & Templates

4. HPVM Quality Management

3. HPVM Governance Model