



White Paper: Spend Analysis for Complex Categories

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1 Introduction

For most organisations complex indirect spend categories pose an opportunity for significant savings and efficiencies but are often seen as too challenging to address. Professional Services, Travel and Expense; Print and Marketing Procurement can represent substantial spends but require specialist expertise and technology platforms to achieve savings and efficiencies.

However, with cost pressure on most organisations, complex categories need to be considered a higher priority – especially as savings of 17-40% can be achieved.

This White Paper focuses on one of the largest of these complex categories and is intended to demystify the approach to achieve savings and efficiencies. This is the first of a series of White Papers from Claritum addressing Print and Marketing Services Procurement.

Claritum is a leading provider of spend management software-as-a-service for complex categories such as print and related marketing services. The solution streamlines the processes of sourcing, procurement and invoicing to deliver significant, measurable and sustainable cost savings and process efficiencies to leading enterprise and public sector clients.

2 A Significant Spend

Print and marketing services are surprisingly large spends for most organisations. Dependent on sector, this category can represent between 0.5% and 3% of revenues [1]. According to research, expenditure on printed materials in the US totals US\$167billion per annum and Euro243billion in Europe [2,3].

Yet much of this spend falls outside the visibility and control of a formal procurement program. According to Aberdeen, 80% of print is manually sourced using phone, fax and email; leading to higher than necessary costs, inefficiencies and errors [4].

Why? Print is typically difficult to capture and control as requirements are dispersed across the organisation and usually bought by whoever has the need. Marketing may have established long term relationships with suppliers or rely on their agencies to purchase print on their behalf – often at inflated margins. Most businesses and departments use printed materials and responsibility for buying it is often delegated to junior staff with little or no experience or understanding of what they are ordering.

Print can be a complex area of spend where minor variances in specification, date of order, production process or supplier selection having significant impacts on cost.

¹ “Outsourced Printing – A Waste of Paper?” Centre for Economic & Business Research (CEBR), 2007

² Printing Industries of America (<http://www.printing.org/page/4309>)

³ Publishing and Printing Activities in the EU (www.europa.eu.int/comm/eurostat/)

⁴ “Marketing Materials and Services Spend” Aberdeen Group, 2007

3 The Invisible Cost

Few organisations have a good understanding of their print spend. There are a number of reasons for this.

Often, print is mis-categorized under a multitude of cost centres and e-procurement and ERP systems don't allow for granularity of specification. There are numerous examples of print being allocated to cost centres such as creative services, advertising, brand management, agency fees, logistics, PR, communications, consulting fees, exhibition stands, miscellaneous expenses and a multitude of other designations. It's true that some of these items may well include some element of printed materials but this is often more guess work than fact.

Most ERP systems do not handle this category of spend to the level required to analyse effectively. Data from most ERP systems will allow broad categorisation but will be of little help identifying the opportunities for savings and efficiencies.

Your suppliers should be able to help, but often you'll only have a small subset of the overall supplier base. Most print suppliers will be using an estimating and a production system, and therefore should be able to extract the exact details of every specification quoted and ordered with them. However, there is some evidence that this level of collaboration is generally restricted and so organisations miss the opportunity.

Good print buyers are relatively few and far between, often over-stretched managing day-to-day buying and typically use manual processes to communicate with suppliers. This means it's virtually impossible to identify the true specification and price for items purchased, without wading through emails, faxes and ad hoc notes. Not only that, buyers may use different terminology, providing additional complexity when trying to capture consistent view of spend.

Client Insight:

The print buying team for one of the UK's largest retailers managed just over £70m per year. However, a review of data from Accounts Payable quickly revealed £150m of print invoices were paid annually. So where was the other £80m?

Most departments in an organisation consume print in some form or another. It is true that often marketing will typically generate the largest single spend, but finance, HR, operations, manufacturing all have a requirement for 'operational' printed materials such as stationery, forms, documents and general communications literature.

We have also seen business units within the same organisation have completely different levels of print procurement maturity, different supplier bases and little or no consolidation across the organisation. For some, the spend is too small to warrant consideration and so falls to the office junior, for others the designer is left to buy from their own suppliers or the "problem" is outsourced to print management. Print Management companies vary considerably in their willingness and capability of sharing this type of data. In fact, it's usually true that the larger the organisation – the larger the savings potential.

4 So Where to Start?

A good place to start is to initiate a spend analysis program. Executed correctly, this should not only reveal your true spend but also provide a clear roadmap to achieve savings and efficiencies.

Sure, many organisations offer Spend Analysis. It's essential that you select an organisation that has category expertise and is supplier independent. You should also ensure you have clear objectives for any analysis program – identifying what you spend and who you spend it with will only reveal a limited amount of information. The ideal program will give you a granular insight into who buys it, who consumes it, why you bought it, what you buy, when you buy it, what you did with it and where it was delivered or used.

Additionally, the outcome data from any spend analysis program degrades over time. So a major one off project should enable your organisation to gain a deep knowledge of your spend, but in order to achieve real insight, the spend should be monitored over time using print procurement category specific tools. Not only will this approach ensure you enforce best practice, it will maintain visibility and provide the levels of control needed by procurement to achieve and lock in savings.

Many cost consultants view print as 'just another category' and will use the traditional (and easy) route of benchmarking a basket of marketing specifications before extrapolating this across the organisation. Not only is this inaccurate, it is potentially hugely damaging: if the head of procurement has been told there is no savings potential, they could be missing out on real savings. If the consultant picks the specifications with the biggest savings potential, they could be setting unrealistic objectives for tactical buyers to achieve.

Likewise, using the many 'free audit' companies from consultants working on contingent savings, hides the true opportunity. In some countries such as the UK, several print management companies have traditionally offered free audits as a way of capturing the client's data prior to implementing a full outsourced service.

As a vendor neutral, category specific provider there a number of key benefits of performing a well planned program of spend analysis.

Client Insight:

In most organisations there will be those that doubt that savings can be achieved. "Our spend is unique", "no other company has a spend as complex as ours", "our brand is too important to save money", "we are too busy to save money" are frequently quoted objections to change. To date, we have demonstrated that whilst each spend is different they exhibit common profiles and specific sectors demonstrate similar attributes. For example most retailers have significant spends on point of sale and therefore distribution costs. For most brand owners, communications consistency is a key deliverable of any analysis program, additionally the improved costs enables more marketing collaterals to be produced. Overloaded print buyers will often complain about being too busy to really address savings. Typically the manual nature of buying prohibits the time to advise on spends, select appropriate sourcing techniques and fully review supplier selection and monitor performance.

5 Leveraging scale and spend analysis

It is a well-established economic principle that the more a business procures of a particular product then the lower the unit cost will be. This is due to the value derived from economies of scale and from the leverage that can be extracted through competitive traction.

Scale on its own, however, is a somewhat crude tool as it is not possible to extract full commercial advantage without a detailed analysis of the constituent components which represent the whole. It is key that organisations have clear visibility of what they are buying, when, with whom and by whom.

Client Insight:

One of Claritum's clients, a global pharmaceuticals company, was under pressure to reduce costs. It was evident that print and marketing services provided a daunting challenge but one that could not be ignored. The scale and complexity of the organisation meant that identifying the current spend was a significant problem.

Some parts of the organisation had already outsourced to managed services, several used expensive marketing agencies, others had internal but overstretched buying resource and several business units had no management of the category in place.

Claritum's Spend Analysis team were introduced to initially gain visibility of the largest of the business unit's spend. This meant challenging an incumbent international print management company's claimed savings and revealed significant potential further savings. Whilst the recommendation was to retain the print manager, systems were put in place to ensure the potential benefits were achieved.

With the current spend identified, the solution the team proposed involved a process and supplier review followed by a blend of category specific e-procurement technology and a highly flexible resource team which combined the incumbent print manager, agency production teams and internal resources, where applicable.

Dependent on the starting point, savings ranged from 10% to 40% whilst maintaining a high level of satisfaction across the entire user community.

Claritum enabled the client to understand the depth and breadth of the opportunities for savings through reducing maverick and erratic buying, commoditising the spend without compromising the creative requirements and to begin the process of being able to leverage their buying. Claritum's sourcing platform was deployed on a company by company basis to ensure compliance to best practice and capture the spend to an even higher level of granularity than previously achieved.

6 The Process

The process is similar to most spend analysis programs and includes:

6.1 Data Discovery

At its best this entails a client providing a comprehensive data file of their entire spend for a long enough period to enable a representative analysis. Typically a minimum of 12 to 24 months is sufficient. However, for most organisations this data is simply not available, resulting in an often manual process of finding suitable data. Sources range from ERP/e-procurement data output, accounts payable and supplier quotes and invoices. Occasionally companies can only provide a filing cabinet of printed 'file copies' (examples of print ordered), which require 'backward-engineering' to assess the likely specification.

6.2 Normalisation

With multiple sources of data and often inconsistent in its quality and quantity, a process of normalizing the data attempts to provide some consistency prior to any analysis. This process can include applying standard terminology and common formats. Often where manual processes and multiple buyers have supplied data, there will be a range of terms and formats used for the same item.

Client Insight:

One recent project for a major healthcare company revealed 13 different terms and formats of 'standard A4'. The implications of this can be significant. The spend on A4 could be spread across multiple suppliers, each providing a different price and end product with resultant impact on brand communications. The same client had attempted to standardize their paper buying but had failed to implement the tools to ensure compliance. This led to over 25 different variants of paper being ordered from 3 main suppliers. The same paper can be sourced from different merchants with different names, paper weights and finishes varied considerably for the same item, resulting in less opportunity to leverage volume discounts.

6.3 Analysis

The process of analyzing the data requires a combination of skills. The expertise required combines print, production and logistics background with procurement knowledge and strong data analysis know-how.

6.3.1 Spend by Type

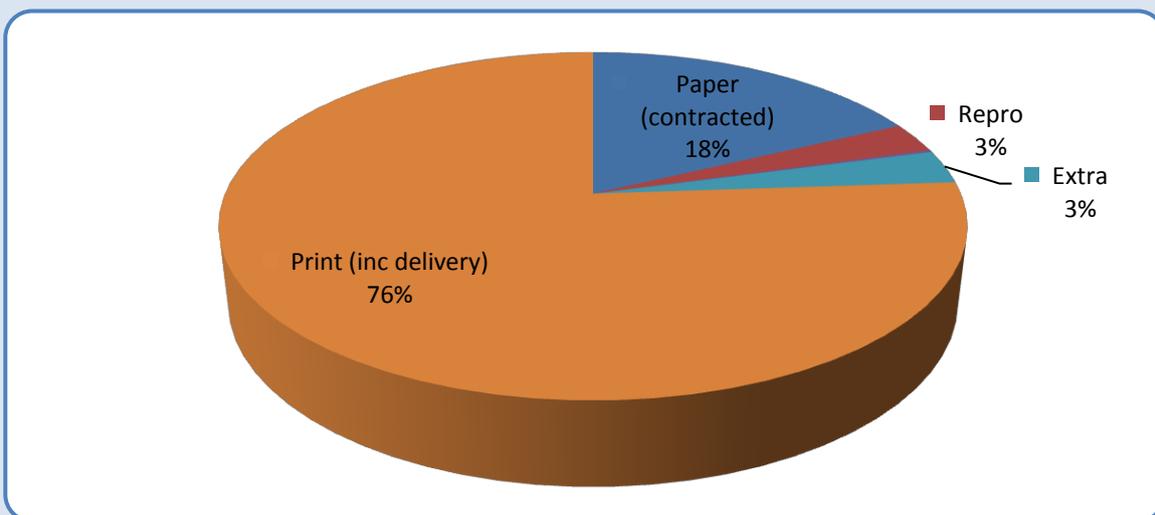
Typically and dependent on the quality of the data available, the analysis expert will investigate what was bought, not just in terms of broad categories of spend but ideally to component item detail.

Client Insight:

Dependent on the sector and profile of usage, print forms typically the majority of the spend, with paper the second largest element of cost. For longer runs, often associated with consumer marketing print, paper will represent a much larger element of cost. Where more granular data is available, it is possible to identify spends on pre-press activity, finishing delivery, design and 'extras' (unforeseen costs incurred after initial order).

In the example below, paper and print represent almost 94% of the total spend, however print includes delivery. This may hide significant costs saving potential. 3.1% of the spend are 'extras', which may provide an opportunity through improved specifying to eliminate unforeseen costs and additional administration.

Figure 1: Typical Spend by Component



Components are items such as paper, print, repro, delivery and allow analysts to identify what was ordered in fine detail. Especially where organisations have been using manual processes, analysts usually find that a wide range of specifications are used, often for the same or similar items. Even where central purchasing contracts have been established, buyers refer to the same item in different ways and suppliers match the requirement with what's an available close fit, resulting in subtle but important variances.

6.3.2 Spend by Category

Categorising into types of spend typically reveals further insights. In the example below, the largest single category of spend was 'other', i.e. unknown. This major Healthcare company was utilizing a system provided by their outsourced partner which allowed for vague categorization – making it difficult to understand what was purchased.

Job Type	No of transactions	Total Buying Cost	% of spend	Cumulative Spend
Other	216	£369,357	25.62%	25.62%
Self Covering	174	£208,100	14.44%	40.06%
Single Sheet	319	£205,203	14.24%	54.30%
Folded sheet	150	£143,646	9.97%	64.26%
NCR Pad	36	£133,301	9.25%	73.51%
Roll Fold sheet	58	£117,468	8.15%	81.66%
Cover and Text	42	£72,332	5.02%	86.68%
Standard Folder (Single Pocket)	29	£45,325	3.14%	89.82%
Wallet Envelope	39	£42,776	2.97%	92.79%
Gatefold Folder (Single Pocket)	13	£23,997	1.66%	94.45%
Concertina sheet	22	£22,546	1.56%	96.02%
Gate Fold sheet	11	£20,266	1.41%	97.42%
Other Folded sheet	9	£13,612	0.94%	98.37%
Standard Folder (Double Pocket)	5	£7,582	0.53%	98.90%
Presentation	3	£6,736	0.47%	99.36%
Design	4	£4,863	0.34%	99.70%
Pocket Envelope	3	£3,628	0.25%	99.95%
Business Card	5	£697	0.05%	100.00%
Grand Total	1,138	£1,441,434	100.00%	

A further exercise from categorization is to identify which could be 'productised', i.e. standardized into common sizes and formats. This process ensures that, whilst the creative content may change, the format remains consistent, leading to opportunities to increase volumes ordered and negotiate better rates.

6.3.3 Spend by Supplier

Understanding which suppliers have been used, for what and how they have performed is a critical area of analysis. In many organisations, suppliers are given orders because they “were convenient”, “were cheapest” or “wanted the order”. These may well be legitimate reasons, but only with real information can suppliers be assessed on an ongoing basis.

The data below is an extract from a study into supplier performance for a global media company. There were 10 approved suppliers on the panel, but interestingly over 30 received orders (un approved suppliers could not be analysed). As expected the majority of the spend was concentrated with 3 suppliers, which was acceptable to the procurement team. The data highlighted some interesting points that required further investigation.

The average order values and the number of orders placed with key suppliers (Suppliers B, C & E) meant that the cost of sourcing and placing orders was disproportionately high. The team wanted to keep the suppliers on board, so plans could be put in place to reduce the cost of estimating and processing orders for both buyer and supplier.

Suppliers E and G, converted over 90% of their quotes into orders – raising suspicion there was not enough competitive bidding for some categories of spend, or that they were being preferred over more competitive bids. Conversely Supplier I bid frequently but was only winning 1 in 20 bids, so the team could evaluate whether this supplier was consistently quoting too high, was too late with their bids or some other factors.

Supplier	Spend	Jobs Won	Ave Order Value	Total Quotes	Total Lost	Win / Loss %	% variance from winning price	Quotes < Win	% of total Jobs	Rank by quotes	Rank by orders	£ Rev / Quote
A	£25,957	59	£439.95	100	41	59.0	5.1	17	5.2%	11	7	£259.57
B	£157,825	111	£1,421.85	401	290	27.7	1.2	8	9.8%	2	2	£393.58
C	£170,270	150	£1,135.14	438	288	34.2	0.7	40	13.2%	1	1	£388.75
D	£37,189	44	£845.20	220	176	20.0	1.6	32	3.9%	5	10	£169.04
E	£132,607	36	£3,683.54	37	1	97.3	N/A	0	3.2%	15	11	£3,583.98
F	£34,330	108	£317.87	161	53	67.1	6.2	10	9.5%	8	3	£213.23
G	£12,948	25	£517.93	27	2	92.6	N/A	0	2.2%	19	15	£479.56
H	£15,512	18	£861.82	35	17	51.4	N/A	2	1.6%	16	16	£443.22
I	£23,208	9	£2,578.67	172	163	5.2	1.6	14	0.8%	7	20	£134.93
J	£73,546	103	£714.04	290	187	35.5			9.1%	3	4	£253.61

The analysts also assessed the variances between lowest price quoted and the price ordered. In this example, the buyers were allowed to select the 'most appropriate' supplier based on a combination of price, quality and delivery, which sometimes resulted in a 'premium' being paid for quality or delivery. In the above table, Supplier C bid lowest but was unsuccessful in 13.2% of their bids. Fortunately the system being used by the buyers (Claritum eProcurement), enabled the analysts to assess the reasons for this and advise the team accordingly.

6.3.4 Drill downs - Spend by Buyer, Supplier & Date

Often by drilling further down into the data, interesting opportunities arise.

As print pricing is largely capacity based, an understanding of when an order was placed can reveal variances in price – due to utilisation of supplier resources. Prices drop when suppliers are eager for business.

Likewise, different buyers have different strengths and weaknesses. So tracking prices agreed by each buyer can reveal who are the better negotiators and who have the close relationships needed to ensure smooth day to day operations.

There is often a reason that buyers are so busy – they do not have the tools to reduce administration and minimize errors. Where possible, analysts will map product categories to buying processes.

Client Insight:

One recent client believed adamantly that his buyers were buying consistently well. They were a highly experienced team and knew the market well. Having analysed the prices paid across their multi-million pound spend it became evident that this assumption was only partially correct. As the graph below shows, the price paid for the same item varied considerably based on who the buyer was, who the supplier was, the quantity ordered and the date of the order. In this case, the buyers were using Request-for-Quotes to gain prices, but didn't have the tools to make them aware of previous pricing for the same items.



6.4 Spend Optimisation

From such categorization, a vital step is to map the user types to the sourcing processes.

In most organisations the vast majority of originators or consumers of print will be ‘novice’ or ‘non experts’ such as department managers, administration staff, branch team members and other’s not familiar with print buying. In any analysis, it is clearly vital to understand their requirements and map their consumption patterns in order to identify likely demand in future. It is also crucial to gain an understanding of the tools they require to procure their printed materials and ensure that the tools provided match their level of expertise.

Client Insight:

Speaking to the originators or consumers for print is probably the single most important phase of any analysis program. For a large financial services organisation the procurement team believed that only senior managers placed orders. However the reality was that this process was delegated to junior staff, who were given the responsibility of specifying the item and making the supplier selection decision, with little or no training or knowledge of the right process to use, the optimum specification or what the price was to pay. They relied on suppliers to provide advice. This resulted in significantly higher than necessary costs, poor quality and large numbers of suppliers receiving many small orders – with resultant higher order costs.

Sourcing processes are the methods used to requisition a price from a supplier, the most common being Request for Quote and Contract Pricing. Contract Prices are usually populated following a tender of some sort and are fixed for a period of time.

Standard / Commodity	Catalogue Replenishment (RFx + Contract Price)	Catalogue Ordering (Contract Price)
	Bespoke / Ad Hoc	RFx (Request-for-Quote, Request-for-Proposal)
Knowledgeable or Expert Buyer		Novice or Non-Expert Buyer

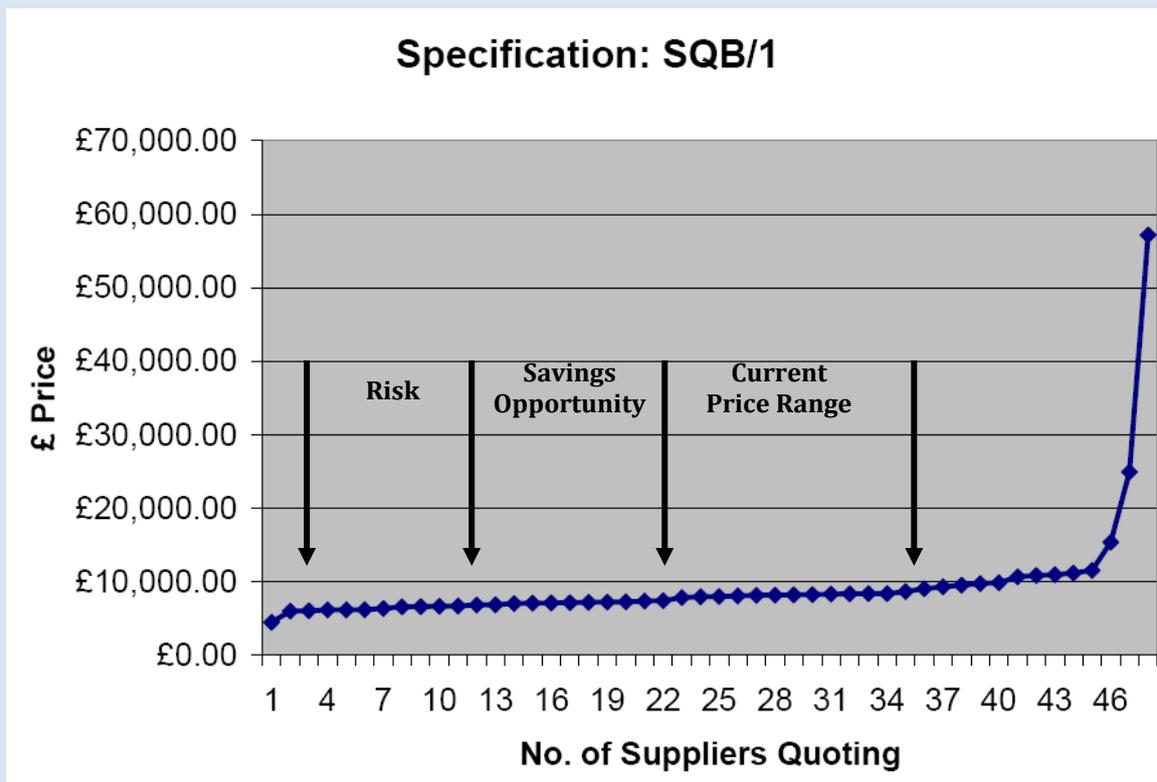
6.5 Benchmarking

With the majority of Spend Analysis programs, clients need to know how they are performing relative to the market sector, their competitors and other peers.

One of the most commonly used benchmarking exercises is to review market prices against price paid. This is not a straightforward task as price paid will be dependent on many factors including date/time of order, specification, turnaround time, and many other factors. However it should be viewed as an indication as to whether the organisation is buying competitively or not, and allow the procurement team to evaluate savings potential with risk.

Client Insight:

In this recent example from a benchmarking exercise, over 1,000 specifications were assessed from over 50 suppliers, including the clients incumbent 10 suppliers. The analysis revealed that they were buying at significantly higher (double) than they could have been. This was due to a number of reasons including, long periods without re-negotiation or supplier reviews, many orders being placed without competitive bidding and some orders being placed via design agencies, with resultant multiple mark-ups.



7 Actionable Recommendations

As with any spend analysis program, the conclusions and recommendations are where the real value is.

In our experience of spend analysis projects for complex categories, especially marketing services and print, the key recommendations are:

1. Do something! (Don't assume this category is too complex)
2. Gain senior procurement and marketing buy-in early (you may need a champion to push through change)
3. Engage independent category experts (not generalists or those eager to win your printing contract)
4. Implement the best practice processes and tools to streamline sourcing and procurement processes
5. Deploy the right strategy for the type of spend – buy commodities direct from manufacturers through automated catalogue tools, more complex spends can be managed internally by expert buyers or outsourced (if large enough)
6. If you outsource, find a way of independently monitoring performance (eg provide your own sourcing and procurement technology)
7. Ensure you monitor and provide objective feedback to your suppliers – collaborative delivers benefits to both buyers and suppliers
8. Good luck!

8 About the Authors

James Samuels, CEO, Claritum

James has 20 years EMEA marketing experience in the automotive and technology sectors for enterprises such as VAG, Peugeot, Intel and HP. His experience in managing major international spends highlighted the need for marketing automation tools to address the needs of both procurement and marketing functions. This was the catalyst for founding Claritum.

Whilst with Claritum, James has worked with many of the worlds leading brand owners to deliver cost savings and process efficiencies from their marketing services and print spends.

Neil Smith, Spend Analysis Consultant, Claritum

Neil is recognised internationally as one of the foremost Spend Analysts for Print and Marketing Services. His experience includes senior management roles with leading print service providers and specialist consulting organisations in Europe and US. Neil has delivered significant savings to global brand owners across financial services, major retailers, mobile phone operators, leading media companies and some of the world's largest advertising groups.

9 Claritum

Claritum is a market leading provider of on-demand spend management solutions for complex categories such as print and related services. Our software-as-a-service application delivers significant, measurable and sustainable cost savings and process efficiencies to leading enterprise and public sector clients.

Claritum's Spend Analysis experience includes working with many of the world's leading brand owners and major buyers of print and related marketing services. Our experience includes:

- Global Category Analysis for a worldwide mobile phone provider
- Spend Audit for one of the UK's leading retailers
- Review of spend for international advertising and communications agency
- Assessment and recommendations for global media company
- Benchmarking and contract management of major international print management contracts.

Claritum's data driven spend analysis program enables our Client's to gain granular insight into their spend, or monitor performance of a current outsourcing arrangement, in order to achieve significant, measurable and sustainable savings and efficiencies.

Our solution combines a world-class consulting team with powerful data analysis tools.

Spend Analysis clients include global pharmaceuticals, healthcare and telecoms businesses, major financial services organisations and media companies. Take a look at some of the spend analysis case studies.

The Claritum's spend analysis process enables our Client's to get a real insight into their spend and opportunities for improvement. Our spend analysis team have the depth and breadth of domain expertise to re-engineer specifications, optimise business processes and review suppliers in order to realise significant opportunities for cost reduction and efficiencies.

Spend Analysis can be provided as a stand alone engagement, but when combined with Claritum's sourcing and supplier management tools, client's realise significant, measurable and sustainable savings, without compromising quality or performance.

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