



Six-Sigma in Spend Management

Secrets of Success



Summary

L eading organizations have started to move beyond tactical use of spend management, embracing initiatives that consider spend management as a key strategy to approach corporate objectives. Latest being the adoption of Six Sigma principles to Spend Management. Organizations are now striving to institute a spend management process that has defined objectives and measurable process parameters. All they desire is, continuous process improvement: the principle Six Sigma objective.

While, the Six Sigma initiatives are in full swing at many enterprises today, they are constantly hitting roadblocks due to inability of tracking and measuring process parameters. We explore here the root causes of what makes or breaks the adoption of Six Sigma and how leading enterprises leveraged Zycus Spend Data Management software to achieve Six Sigma process excellence in Spend Management.



Six-Sigma-Spend Management Drivers:

Institutionalized, standardized, enterprise-wide process excellence to achieve consistent and predictable results is the ultimate vision of Six-Sigma. Six-Sigma tools and disciplines as applied to Spend Management aim to identify the process inefficiencies (like contract leakage, maverick spending etc) and fix them with the ultimate goal of being predictive and eliminate costs like maverick purchases that are associated with uncertainty.

Six-Sigma-Spend Management Drivers:

- Savings yield from Spend Management Process
 - Maverick Spending as a % of total Spend
 - Consistent & Predictable results by Spend Category
 - Office Supplies
 - IT services
 - MRO
 - Office Equipment
 - % off the Enterprise Spend under management
-

Six-Sigma principles when applied to Spend Management yield substantial results but, it is important to take note the fact that while some organizations have been hugely successful in the Six Sigma initiatives, many more have experienced disappointing results. Organizations need to ask themselves, “Are we sufficiently prepared for Six-Sigma adoption in spend management?” “Do we have necessary infrastructure in place to guarantee efficient tracking, monitoring and measuring of enterprise Spend? If not, then you need to do a reality check before embarking on six-sigma initiative.

The Weak link: Tracking, Measuring & Monitoring

One of the several factors behind organizations failure to implement six-sigma in Spend Management is the lack of insight while strategizing goals and lack of ability to measure the results against the goals. Detailed process maps are made, SLAs or KPIs are formed but due to lack of spending information, tracking and monitoring is precluded and consequently the Six Sigma initiatives go down the drain. *In absence of efficient mechanism for tracking and monitoring capabilities, analysis of the results are far from accurate jeopardizing the subsequent stages of Improve and Control and thus defeating the entire purpose of Six Sigma-Process Quality Improvement*

What prevents effective monitoring and tracking?

Lack of Spend visibility:

Enterprises implementing Six Sigma to achieve Spend Management Process excellence need to ask themselves hard questions. Shall we go ahead with a quality improvement project with inadequate visibility into spend? Shall we embark on a Six Sigma initiative with limited visibility of supplier and user/role/organization level spending information? Shall we base our decisions on unreliable and outdated information? It is a proven fact that majority of the enterprises are unable to cover even half of their enterprise spend. Worse even is the fact that not even half of the spend covered is available at detailed level. As a result enterprises miss on crucial spending information which is the key to defining appropriate goals and significant measures.

“Accurate, detailed spending data is not available on demand, hindering performance measurement and improvement. Spending analysis quickly exposes master data (e.g., supplier, commodity, part, contract) quality problems, and over one-third of firms can’t see more than half of their spend by commodity. Worse, 43% can’t see more than 20% by contract”

--Pierre Mitchell, AMR Research

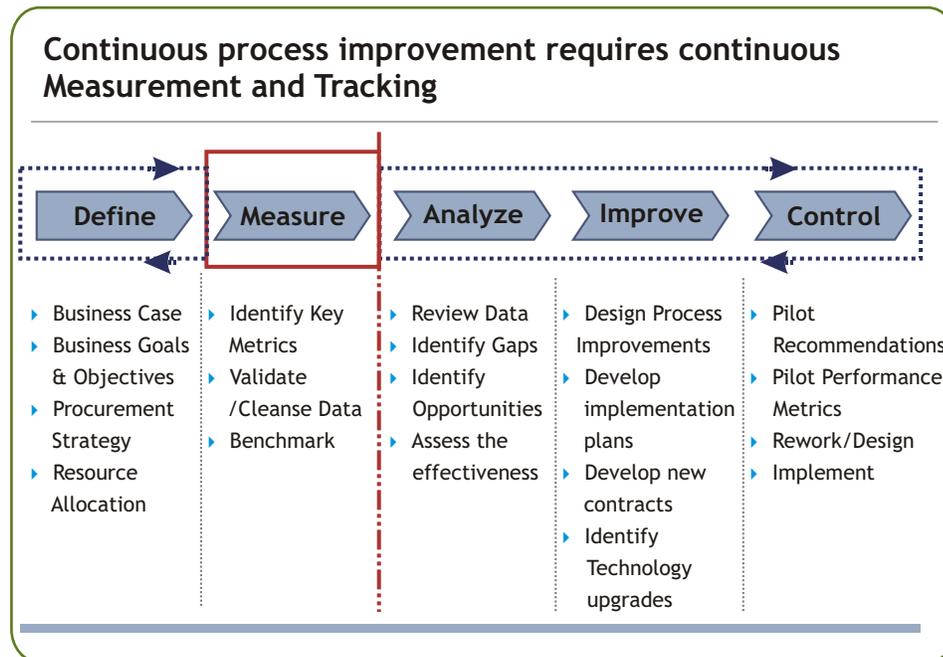
It is imperative for Six Sigma organizations to improve on the spend visibility, the absence of which might derail the initiative. A Visibility that spans across diverse ERP and best-of-breed solutions and all spending categories (e.g., travel; commodity goods and services; projects; maintenance, repair, and operations [MRO]; etc is a must for successful implementation of Six Sigma.

 Spend Visibility	 Hinders management	 Jeopardizes Six Sigma
<ul style="list-style-type: none"> ■ Partial Spend coverage ■ Top level Spending information ■ Inaccurate Spend Information 	<ul style="list-style-type: none"> ■ Limits scope of Six Sigma ■ Superficial measurement ■ Faulty measurement 	<ul style="list-style-type: none"> ■ Inaccurate Analysis ■ Faulty Design ■ Poor control measure

Lack of Repeatable Spend Analysis processes:

Six Sigma calls for a continuous process improvement which further requires organizations to measure and analyze their spend Management process on a repeatable basis.

In a recent Aberdeen study, supply management executives reported increases in energy and transportation prices, increases in supply prices, longer supply lead times, and new supply constraints. This necessitates enterprises to constantly review their supply base and enter or revise their agreements. Responding to these challenges requires access to an accurate and updated view of Supply chain. To achieve this, organizations require to refresh their spend data more frequently, ensuring business managers and internal sourcing teams are always fed with current spend positions. This would further enable accurate and updated measurement, analysis, improvement and control of business goals. A one-time or even an intermittent effort would at best show a low yield but would fail to deliver for a continuous process improvement.





Get hold of it NOW:

Get Control of your Spend Data:

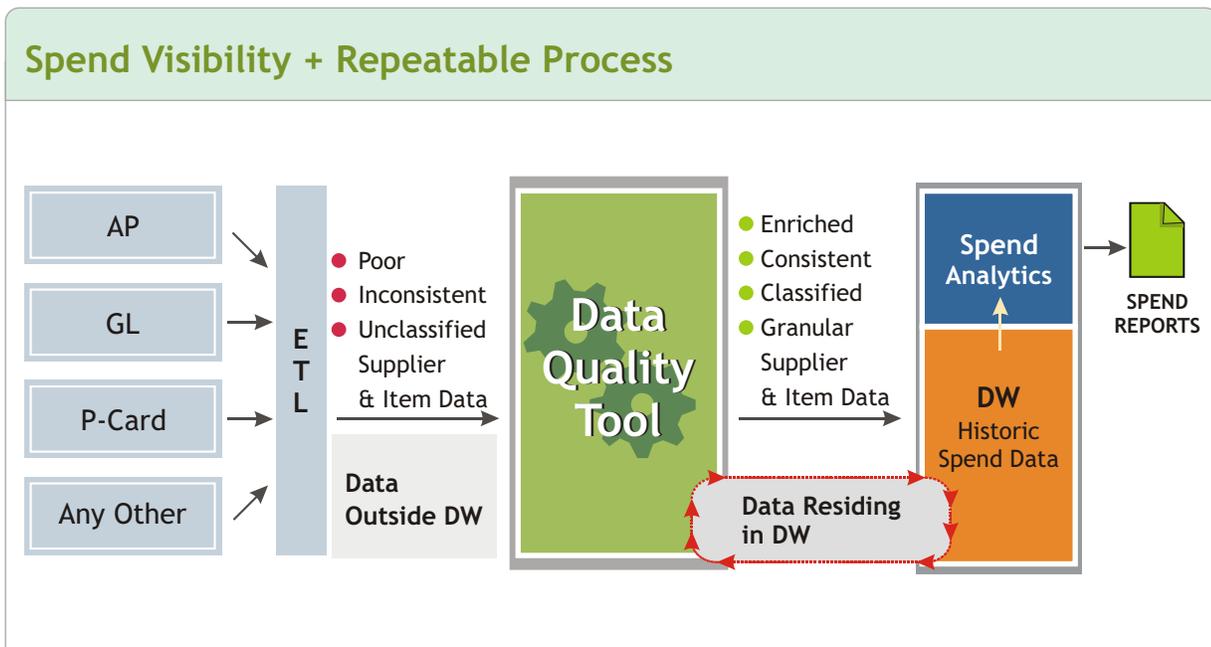
So how do you guarantee Spend visibility across the organization? The key to spend visibility is a sound foundation of Spend data across the enterprise. A sound Spend data foundation entails aggregation of enterprise-wide spending information across all the source systems, irrespective of language, code and currencies and classification of the same to a common granular code structure. A consistent, accurate and granular Spend data up to the commodity level ensures an in-depth visibility into the spending data that enables your enterprise to have category specific information. Information that can help you measure parameters such as: The fraction of IT spend that goes towards buying IT services and also the kind of different IT services are brought at what price and from whom. Now your sourcing consultants need not be limited to analysis that relies entirely on manipulating data primarily by supplier names, business units and geographies. An in-depth view of the spending data allows for comparison of price. You can now base your goals and measures on more detailed and accurate information.

Institute Repeatable process using software:

You have done most of the things right by automating your spend management process. You have an ETL tool to extract the spend data, a Data Warehouse to store the data, a BI tool to analyze the spend data, but does your present infrastructure allow you to conduct a Spend Analysis at your will? It has been a common observation across leading enterprises that despite making huge investments in automating the Spend Management process, Repeatable Spend Analysis is still a wishful thinking for many organizations. The very thought of aggregating and classifying the spend data accurately and consistently to a common coding structure appears to be too daunting for organizations. The high volumes combined with complexities of spend data rule out the possibility of labor intensive manual approach. Consultant led approach provides a temporary solution and requires enterprises to continually re-engage with them to keep their spending information updated. Over a period of time TCO in these cases runs down to millions of dollars, often threatening to gulp the savings.

Yes, I do understand the importance of sound spend data foundation and the need for a Repeatable Spend Analysis, but is there any cost effective way of achieving all this?

➔ Get it done The Best Way



Yes, it is possible to achieve both.

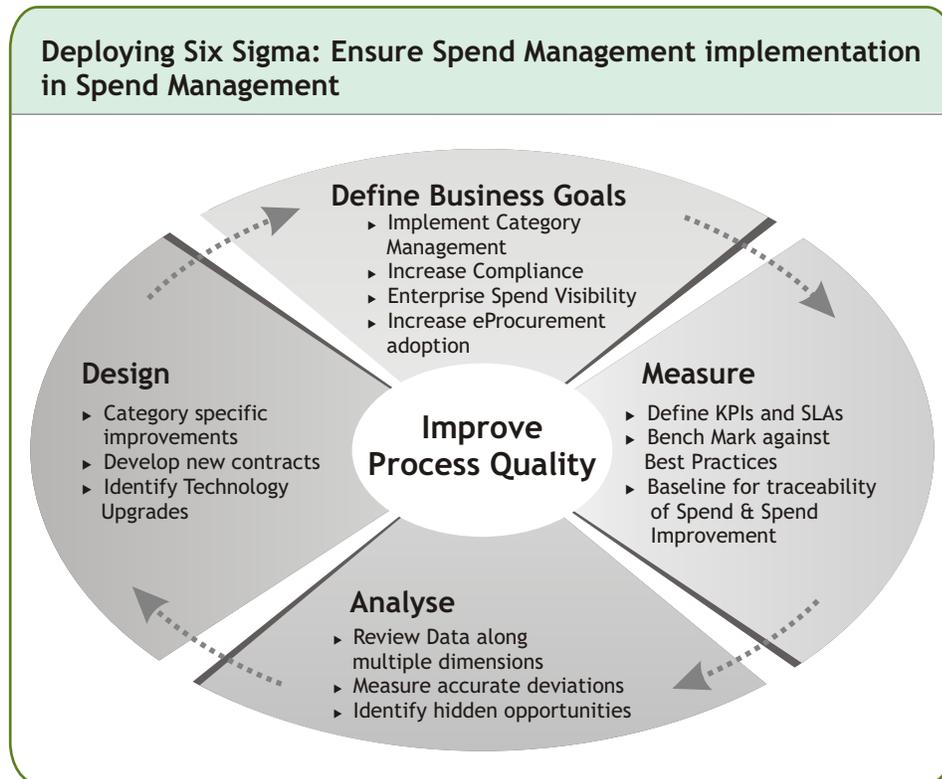
What you are definitely missing is “Spend data Quality” tool—a crucial piece in your infrastructure. This critical Data quality tool would seamlessly plug-in with your existing infrastructure and deliver cleansed, classified, enriched and granular spend data. Your million dollar investments in sophisticated DataWarehouse and BI tools can now be assured of sound **Spend Data at a minimum possible cost**. This automated spend data quality tool would streamline the existing procedures and make spend analysis a repeatable process.

➔ So how does it help in Six Sigma?

Once you have implemented the critical Data Quality tool in your spend management infrastructure you can now be assured of

- Accurate Baseline
- Efficient Measurement
- Insightful strategies

All leading to a resounding success of Six Sigma implementation in Spend Management



Efficient Tracking & Monitoring-> Accurate Measurement- Consistent Results

Commodity	Savings (Planned) US\$ million	Savings (Actual) US\$ million	Identity Group corrective measures	Savings (Planned) US\$ million	Savings (Actual) US\$ million	Identity Group corrective measures
Security Services	0.2-0.5	0.30		0.4-0.6	0.40	
Catering Services	0.1-0.25	0.20		0.25-0.30	0.20	
Linen & Clothing Services	0.3-0.5	0.60		0.6-0.7	0.80	
Ocean Freight	0.5-0.7	0.50		0.6-0.7	0.70	
Trucking	7.0-8.0	8.50		8.5-9.0	8.50	

You need to know what you spend to control what you spend. - Yankee Group - 2003

Zycus Spend Data Management™(SDM): Enabling Six Sigma Implementations

Zycus, a leader in Spend Data Management software has helped leading Fortune 500 organizations in their Six Sigma efforts. Artificial Intelligence (AI) based “Spend data Classification” software, AutoClass classifies huge volumes of historic spend data to one global commodity code eliminating perception differences and inconsistencies due to manual approaches. Easy to implement and rapidly deployable AutoClass runs completely hands free in the customer environment freeing enterprises from scripting cumbersome rules for classification or opt for inconsistent and time consuming manual methods of classification. Integrating Zycus AutoClass within your infrastructure would enable you to achieve a clean, consistent accurately classified spend data: the essence of sound Spend data foundation. With AutoClass organizations can run accurate Spend Analysis at their will at “ZERO” cost facilitating efficient tracking and monitoring of Spend.



General Electric leverages Zycus Spend Data Management software:

One of the earliest adopters of six-sigma that tried and deployed Zycus AutoClass behind the firewall was General Electric. They put several competing technologies through the grind, throwing identical cryptic data sets in high volume, to be processed in a hands-free automated setting. The Artificial Intelligence based technology won hands down, returning the highest percentage of accuracy of granular classification in the shortest time-span. The performance was also impressive considering the fact that it demanded minimal footprint and could run on a shared Oracle stack with other mission critical applications.

This performance test enabled 'spend data classification' technology to migrate behind the firewall and bolt on to GE's Global Sourcing Data Warehouse. There it has been in operation in a hands-free mode with minimal maintenance, for the past year and half, since going live. It has crunched millions of lines of transactions every month, and provided automated granular UNSPSC classification for all the data that resides within.

Now General Electric is able to conduct repeatable spend analysis to measure the process parameters and deviations. With a sound spend data management in place GE is riding high on its spend management reaping continuous benefits through process excellence.



Fortune 100 ranking Chemical giant leverages Zycus Spend Data Management

Our customer is like one amongst you who was adopting Six Sigma in Spend Management. With a corporate mandate to reduce fixed costs by US\$700 million in 2005, with US\$375 million of that coming from external Spending in areas such as contract services, supplies procurement, telecommunications and information technology expenses, this company embarked on enterprise wide Six Sigma adoption. Faced with a huge challenge of aggregating and accurately classifying the spend data amounting over 25million line items our customer had no choice but to opt for automated Spend Data Classification software. What turned the tide on Zycus favor is the ease of deployment of the tool and the ability to run without any resource investment in the customer environment. Needless to mention the amazing speed of 150K to 200k line items/hr at which AutoClass classifies Spend data. A distant second option was to opt for hosted solution but the huge TCO over a period of time and need to script rules ran them out of favor. With a sound spend data foundation at place our customer is now assured of delivering the stringent corporate mandates.