Does Your ERP System Give You Enough Information to Achieve Sourcing Objectives?

Key Finding

Any initiative to achieve sourcing or procurement improvements begins with data. Information such as top suppliers, top locations, total landed costing, and even more levels of detail provides the visibility for organizations and individuals to develop appropriate strategies and execute tactics, including contract negotiation and cost reduction goals. Over the last 10 years, many organizations have implemented ERP systems to maintain and manage such information. In a recent Aberdeen study on spend intelligence, we pose the following question: Is this information enough, appropriate, and sufficiently accurate to achieve such objectives as cost savings, supplier development, and supplier quality?

Research Results and Recommendations

### Are Today's Environments Sufficient to Meet These Challenges?

In June 2006, Aberdeen surveyed more than 130 enterprises, focusing specifically on spend analysis and spend intelligence. We asked respondents to grade their own capabilities in different areas of spend intelligence, such as ***data extraction, data cleansing, data classification, supplier content, analysis, reporting,*** and ***turnaround time*** (For a more detailed definition of these areas, please see *[Spend Intelligence Perspective: The Next Generation of Spend Analysis](#)*). Other survey questions include how important these above areas are and which primary ERP system enterprises use. The possible grades range from **1** (very poor) to **5** (very good). Table 1 lists the ranking of importance by all respondents:

Table 1: Ranking of Importance – Areas of Spend Intelligence

Rank	Area	Score
1	Data classification	4.47
2	Data cleansing	4.41
3	Analysis (slice/dice, power-user capabilities)	4.35
4	Data extraction	4.29
5	Reporting (preformatted reports overall)	3.88
6	Turnaround time	3.76
7	Supplier content	3.63
8	Reporting – dashboard	3.53

Announcement

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Not surprisingly, most respondents use SAP (54%) or Oracle (32%) as their primary ERP system, and thus, the basis of their spend data. Aberdeen then divided the respondents into three sub-groups: Best in Class performers, SAP ERP users, and Oracle ERP users. Best in Class performers are defined as those organizations who are able to perform data classification in a completely automated manner on 81% of more of their spend data. Figure 1 shows the capabilities and how respondents in each group ranked their capabilities.

Figure 1: Ranking of Current Capabilities by Best in Class and ERP Provider
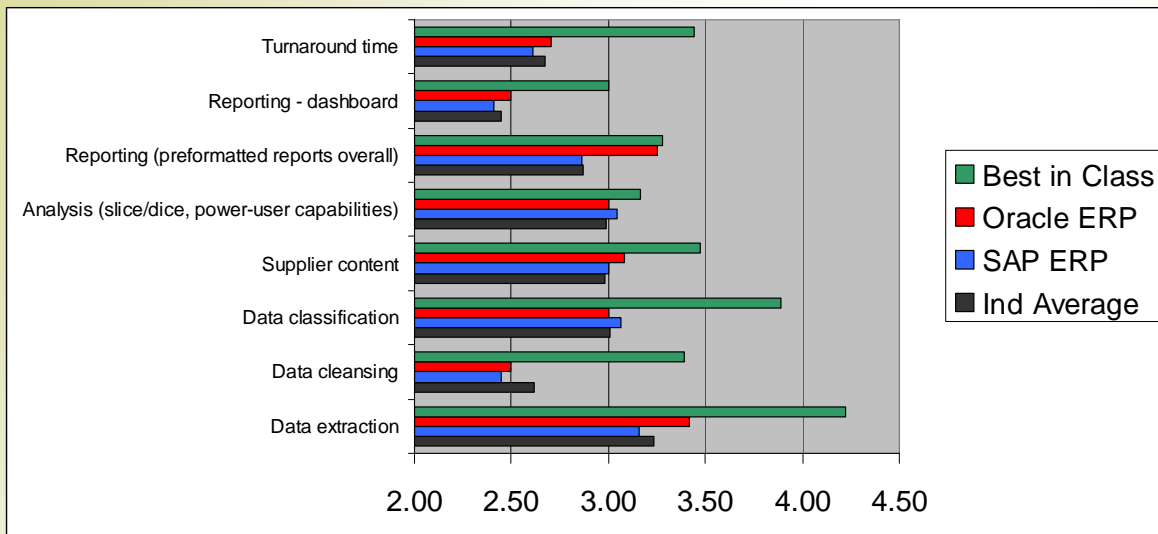
Source: Aberdeen*Group*, June 2006

We can see from the above data that while some SAP and Oracle users have Best in Class capabilities; many do not.

The Challenges of Spend Intelligence Efforts

Today's ERP systems scratch the surface of the information needs that sourcing and supply management organizations require. These organizations need:

- **Data on all transactions.** When aggregating or summarizing transaction data into a spend data warehouse, many ERP systems do not include transactions that fall below a specific price threshold, or may not include information from all supplier sites. Also, some spend data may exist outside the ERP system, such as data from credit cards. The ERP system may record a payment to the card provider, but not the items purchased, the price per item and what suppliers.

- **Proper categorization of costs and other sourcing data.** Is the information stored in a manner that can be reviewed by commodity, vendor, and location? Is this information available all the way down to the specific SKU level? Some transaction information that resides in the ERP system is simply not required by sourcing or supply managers, and should be identified as "non-source-able." Examples include rebates, co-marketing dollars, and payments to customers. Since these are payments, they appear in AP systems, but are not usually the responsibility of the supply/sourcing team; they're usually owned by the marketing or sales team. These costs need to be stripped out before doing sourcing analysis.

- **Enrichment of sourcing data.** Additional information, such as supplier credit scores, diversity of a supplier (minority- or woman-owned business) and other ratings usually do not reside within the ERP system, nor is it updated. Sourcing and supply decision makers use such information to make critical choices (e.g., "Shall I do business with a supplier with risky credit?"). Another aspect of enrichment is the concept of "parent-child" relationships. While a transaction record in the data warehouse or ERP identifies a certain company, does it roll up to a larger parent entity? This information is valuable for a sourcing and procurement team since it has a full picture of spend to the larger corporate entity.

Aberdeen Conclusions

The bane of many functional executives (such as sourcing and procurement) is the CIO stating "Our standard is <XYZ ERP system>. If it is not <XYZ> we will not, or cannot utilize it." Your CIO may be correct from a resource, cost-of-integration, and total cost of ownership solution point of view. However, does this exclusivity handicap sourcing objectives? If you would score yourself poorly in the areas of spend intelligence described in Table 1, then re-visit your favorite ERP vendor and make them work – engage them in solving your problem. If needed, some ERP vendors partner well with best-of-breed vendors who can and will help with sourcing objectives. If your ERP vendor is unable (do to a rollout or other priorities with your enterprise) or un-willing to engage in solving your problem in the best manner possible, bring in a best-of-breed vendor who can work in a non-invasive (affecting your ERP data) manner to quickly address the spend-intelligence issues and provide the information need for sourcing and supply-chain objectives.

Such vendors include:

- *Ariba*

- *CGI*

- *Emptoris*

- *Global eProcure*

- *Ketera*

- *Perfect Commerce*

- *Procuri*

- *TrueSource*

- *VerticalNet*

- *Zycus*

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Related Research

The Spend Intelligence Benchmark Report;
June 2006

Spend Intelligence: The Next Generation of Spend Analysis; May 2006

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