

Spend Analytics:

THE PERFECT COMPLEMENT TO YOUR RECOVERY AUDIT PROGRAM



SPEND ANALYTICS: THE PERFECT COMPLEMENT TO YOUR RECOVERY AUDIT PROGRAM



OVERVIEW

Aggregating, cleaning and classifying spend data from multiple decentralized systems can be challenging without the right resources. However, once you've gone through the rigorous process of creating a single source of truth for your spend, you can begin to utilize the patterns and anomalies that will help you identify your spend leakage.

*In this white paper, **Spend Analytics: The Perfect Complement to Your Recovery Audit Program**, we outline how companies can utilize the combination of recovery audit data and advanced analytics to gain improved visibility into their spend. We will explore:*

- ◆ The What and Why: benefits of utilizing recovery audit data for spend visibility; and
- ◆ Data and Technology: the shift to a single source of spend data

THE WHAT AND WHY:

BENEFITS OF UTILIZING RECOVERY AUDIT DATA FOR SPEND ANALYTICS

Recovery audit in a nutshell

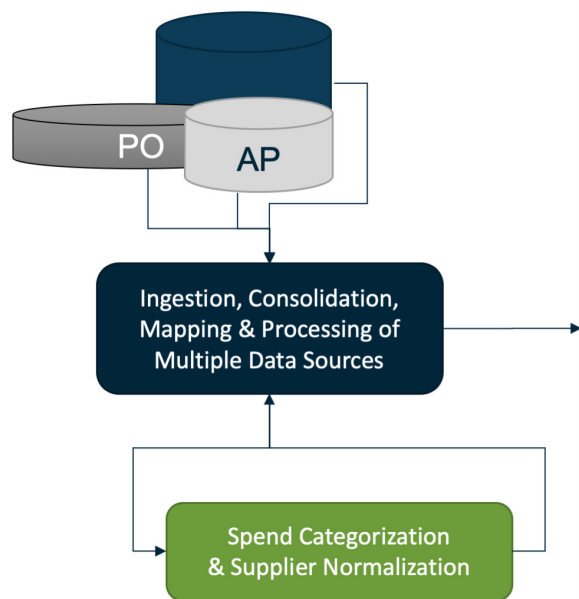
Effective management of the source-to-pay (S2P) cycle is vital to keeping costs in check. It starts with finding suitable suppliers of goods and services, then contracts are hammered out. In the past, the cycle would have concluded when invoices were paid, services performed or goods delivered. But to optimize S2P effectiveness, businesses need to add follow-up steps.

Recovery audits have become an essential part of the process and the value is undeniable. Having a successful recovery audit program in place has uncovered billions of dollars in overpayments, duplicate payments, billing errors and more – profit leakage that is almost inevitable in large companies with a high volume of payment transactions using multiple systems.

The effort requires an extreme level of attention to detail by auditors, whether in-house or third party, as they dig through and assess information in both manual and automated methods. The result is finding discrepancies in terms, working with vendors to address the gaps, recouping funds and putting a preventative approach in place to reduce future errors.

Spend analytics

Traditional spend analytics pull together accounts payable information based on purchase orders, invoices and payments. The information is then mapped, categorizing the spend, normalizing the supplier and creating a parent-child hierarchy. This can be done internally or utilizing a third-party partner and gives you access to all of your payments and invoices throughout time with the ability to look at any combination of suppliers, categories, regions and companies. The goal is to highlight some of the key trends and risks including uncovering single-use payments, round value payments, invoice spikes, authority limits, or purchases that should have been on P-cards. Also, you can isolate the ‘managed’ vendors that were negotiated within the last few years with a contract in place versus surfacing ‘unmanaged’ vendors with rogue spend or missing contracts.



Well designed interactive dashboard:

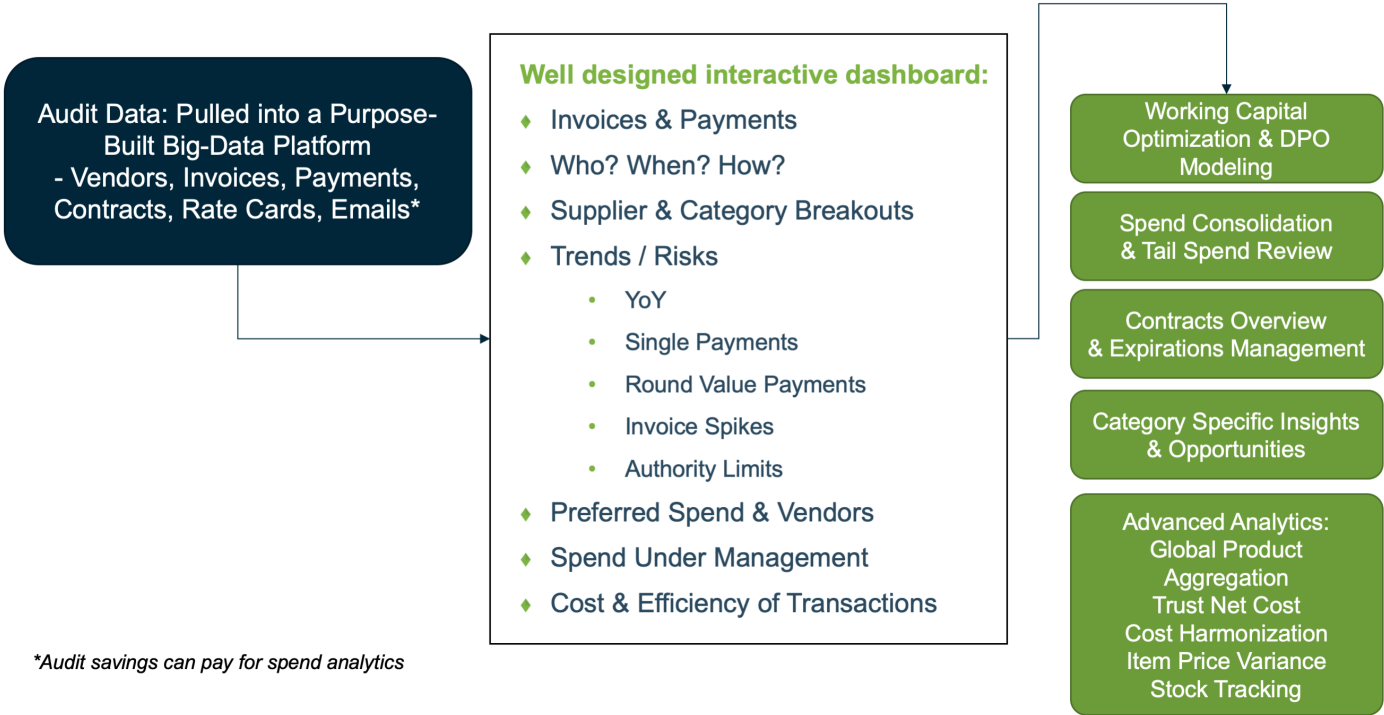
- ◆ Invoices & Payments
- ◆ Who? When? How?
- ◆ Supplier & Category Breakouts
- ◆ Trends / Risks
 - YoY
 - Single Payments
 - Round Value Payments
 - Invoice Spikes
 - Authority Limits
- ◆ Preferred Spend & Vendors
- ◆ Spend Under Management
- ◆ Cost & Efficiency of Transactions

Audit enabled spend analytics: a complementary path

Spend analytics as a complement to the recovery audit process is all about leveraging the deep and detailed spend data as the comprehensive single source of truth for both activities. A recovery audit provides an opportunity to gain even more value as it can help self-fund the spend analytics and additional advanced analytics solutions for your company.

With an over-abundance of data in the company, how do you find answers and solutions regarding your spend? For example, if a discrepancy is suspected between a set of invoices and the contract, where do you turn to for the necessary data points? Ask yourself the following questions:

- ◆ Do you know where to look?
- ◆ Do you maintain the necessary technology and expertise allowing you to pinpoint the transactions and terms?
- ◆ Are you able to see the entire picture or just a piece of the puzzle? How long would it take?
- ◆ Most importantly, was this discrepancy uncovered in an automated and recurring way as part of a comprehensive review?



Partnering with a recovery audit provider that has the capability to ingest massive amounts of disparate data sets and join them together quickly has the distinct advantage of access to a deep, large and diverse pool of spend, vendor and contract data joined in a meaningful way to create the right data model. This model will accelerate uncovering insights, gaps, and opportunity so that you can focus on using the data to run your business effectively, rather than data query and research.



Below are examples of key data models that accelerate insights:

- ◆ Audit data – This is where it all starts. Overpayments, duplicates, and other discrepancies from term and prices are identified. This process requires AP, pricing, vendor, invoice and other critical spend data. The data is subsequently fed into the spend model.
- ◆ Spend model – Spend is categorized and joined by vendor, category, region, business units and functions. A payment can be easily traced back through invoice, purchase orders and requisitions by amount and time.
- ◆ Consolidation targets and tail spend – By classifying rogue or one-time spend and unmanaged vendor spend, consolidation targets are identified and tail spend managed.
- ◆ Contract overview – When contract data is available, you can additionally explore vendor level claims, how much spend is associated with them, how many contracts are in place, when the contracts are expiring and review the key terms that may be of interest.
- ◆ Category specific insights – Additional category-specific data can be added in data-rich categories like temp labor, travel and logistics. Being able to compare, contrast and benchmark rates, hours, roles, lanes, and utilization becomes a powerful facilitator in increasing effectiveness and data-driven negotiations in key categories.
- ◆ Product harmonization – Advanced analytics take “like for like” product groupings to compare true margins and price variances. Product harmonization is possible across a wider range with greater fidelity to select the right product at the right price for your portfolio.
- ◆ Stock tracking – In retail, knowing what was ordered, shipped, received, decanted, stocked, distributed and then what was invoiced can have harrowing discrepancies and anomalies. A linked stock tracker that matches the values to the final invoices are another valuable piece in the spend analytics journey.

Managing your vendor payments using payment performance analytics:

Let's say you have a vendor with \$200 million in annual spend and are paying them at 30 days. However, based on your contract and vendor master terms, you should be paying closer to 45 days. Essentially, you're giving your vendor an interest free loan. In this case, it's \$200 million for 15 days. Consider what you could do with \$200 million for 15 days. That's the kind of quantifiable gap in working capital and days-to-pay that is present in company data. Spend analytics can help companies highlight and capture this information and create a picture of what the value opportunity looks like. In this case, that equates to \$8.3 million in annualized working capital dollars and \$500,000 in potential cost of capital that could be saved. That's a significant amount of working capital and cash flow that could be leveraged just by closing the gap between performance and terms.



DATA AND TECHNOLOGY: THE SHIFT TO A SINGLE SOURCE OF SPEND DATA

Data: just a piece of the puzzle

Recent trends in digitization, automation and S2P and ERP platform solutions have dramatically improved quality of data, ease of process and error rates for many companies. However, some common problems still remain:

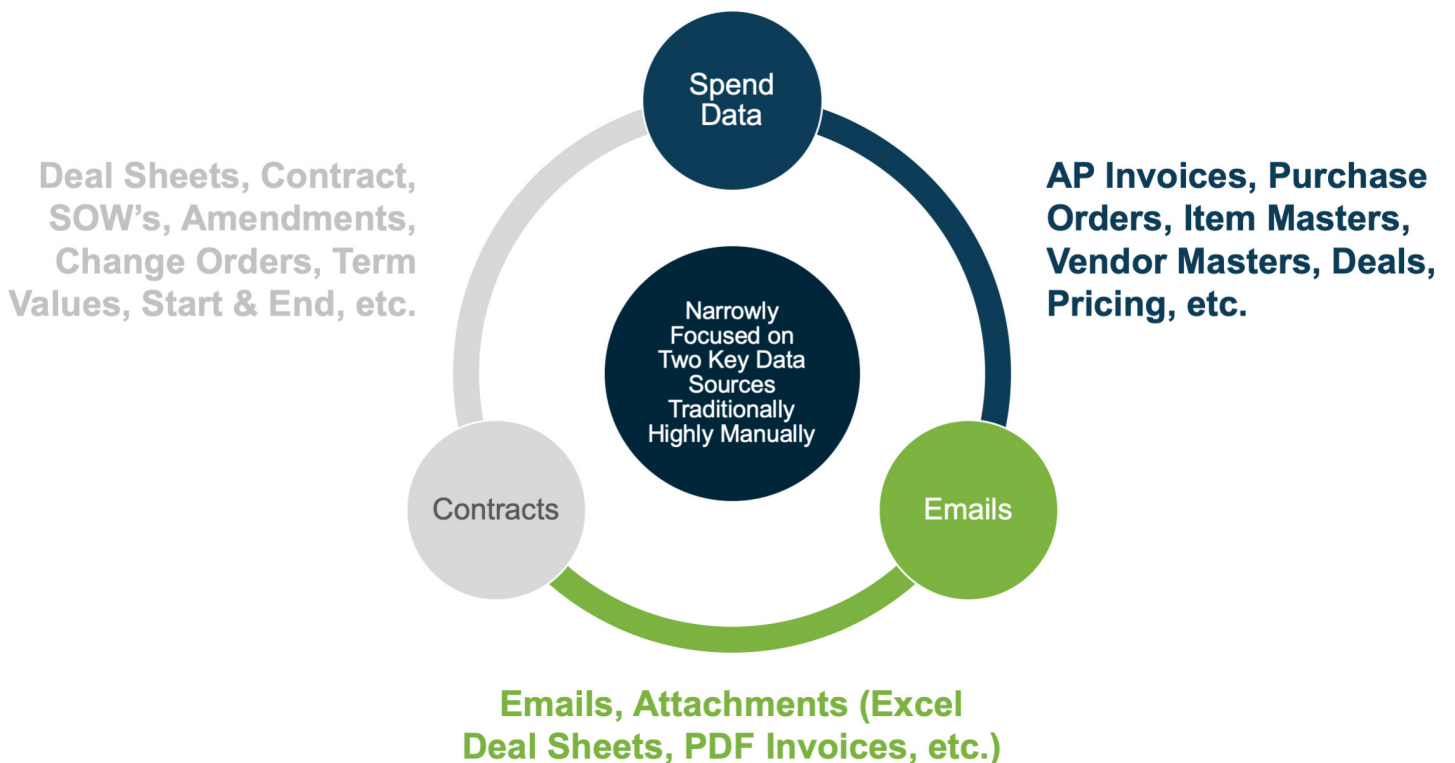
- ◆ Disparate systems across the organization, countries and business units, as well as new systems and data gained during mergers and acquisitions
- ◆ Data flow across systems along with process flow have gaps or don't handle one-offs and changes very well, leading to exceptions and manual edits
- ◆ Inconsistent and disjointed processes create a large amount of exceptions and not enough resources or time
- ◆ Change, too fast and too soon such as new systems and tools, changing people and parts and siloed knowledge
- ◆ Too much data and exponential growth
- ◆ Data lake projects what are the direct result of collecting a wide set of data that's not cleaned, normalized or modeled in a useful way

Technology is making a difference in bringing together an abundance of data. But while systems are running faster together, the overwhelming amount of exponentially growing data poses a challenge especially when it's not correctly cleaned and modeled in a useful and insightful way.

Technology: benefits of artificial intelligence in recovery audit

As the buzz around artificial intelligence (AI) is toned down into a more functional and pragmatic solution discussion, companies are realizing that AI should not be applied as a one-size-fits-all solution. However, if approached in a deliberate and targeted way, AI can be highly effective in solving very specific challenges that are too numerous and manual for humans. In an audit, AI can be narrowly focused on two extremely valuable data sets - contracts and email.

Unlike accounts payable and ERP systems where data is more normalized, contracts and emails are incredibly challenging to use because of the lack of a formatted and consistent structure. Terms, price changes, promotional acceptance, rebate questions and date changes all have different formats, wording, context and semantics that make it nearly impossible to use as a reliable single source of truth. By leveraging AI, we can take great leaps into triangulating target content and locating key terms. What used to take hours and days can now take minutes. The function of the AI is kept very narrow – to find and surface the likely candidates – allowing the user to make the decisions. We can even automatically highlight key alerts and findings for users to review.



SUMMARY

FROM RECOVERY TO PREVENTION

There is tremendous value and advantage in joining spend analytics with recovery audits on a shared complementary path. PRGX is leading the shift to the digital compliance age, effectively helping our clients move from recovery to prevention, by implementing more sophisticated audit techniques and technologies. By layering our advanced analytics capabilities and applying our expertise in source-to-pay with applied data science, we accelerate not only company time to value but we increase the overall business value delivered. Consider your options for getting the professional guidance needed to help you achieve your goals. PRGX is on the cutting edge of development with many of these emerging trends, and we are ready to partner with companies to help realize the power of technology, audit and analytics.