



The Definitive Guide to Modern Spend Analytics





Table of contents.

Foreword	2
01 What is spend analytics?	4
02 What is spend under management?	5
03 Spend analytics and business efficiency	6
04 Key components of spend analytics	7
05 Benefits of spend analytics	11
06 Choosing between a point solution or an integrated one	15
07 From reactive to proactive procurement	16
Appendix	17



Foreword

All organizations spend money, and the ones that are good at it have the tools to ensure three essential objectives are met:



The process
is efficient



Risks are
controlled



Spending serves the
strategic objectives
of the business

To accomplish all of the above, finance teams need a powerful spend analytics tool.

As with any analytical tool, spend analytics can only be as effective as the data it relies on. Modern P2P software serves as a consistent and comprehensive source for all spending data, and ensures excellent data collection for spend analytics. Once data has been collected, good spend analytics focuses on metrics that matter for your organization. Ultimately, spend analytics provides insights to support good decision-making.

Pay less for things.

The central precept of procurement is to save company money. These opportunities come from eliminating maverick spend, reducing duplicate spend, finding lower-cost alternatives, or renegotiating terms with vendors. Spend analytics is about surfacing these areas so that actions can be taken to lower costs.



Types of spend analytics tools.

There are stand alone spend analytics tools that can be used as a point solution. This software requires data transfer from your transaction software, like your AP automation system, or from your ERP.

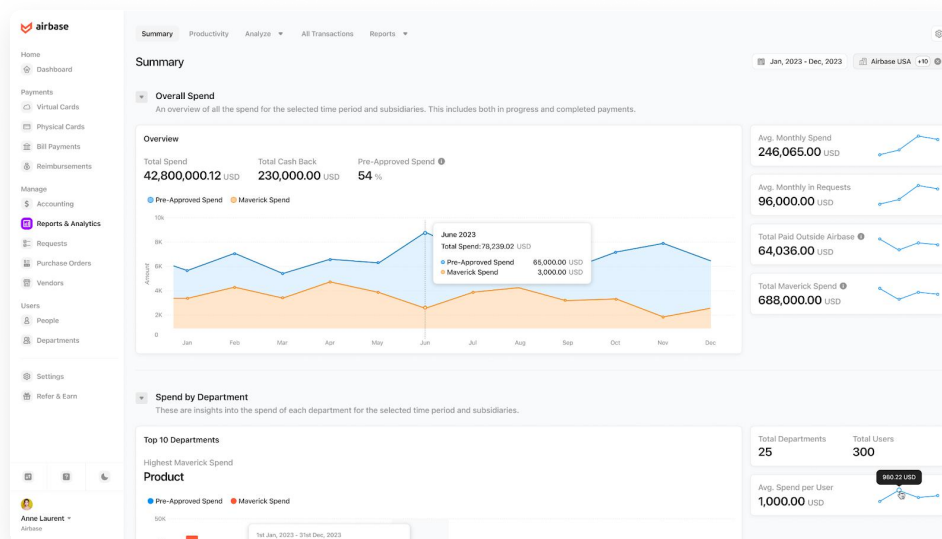
In other cases, spend analytics is a built-in feature of procure-to-pay software so that data collection, categorization, and cleansing is not necessary.

As a comprehensive spend management platform for all non-payroll spend, Airbase has clean full cycle data for producing and conducting comprehensive spend analytics.

Drive savings via efficiencies.

Importantly, savings opportunities also come from improving procurement or spend processes themselves. Tracking and analyzing productivity measures provides the insights to optimize for this too. You can see a series of productivity measures in appendix A. These metrics can be used to benchmark and track spending operations to remove bottlenecks and streamline processes.

Spend analytics surface opportunities to reduce spend, improve vendor relations, and drive operational efficiency.





01

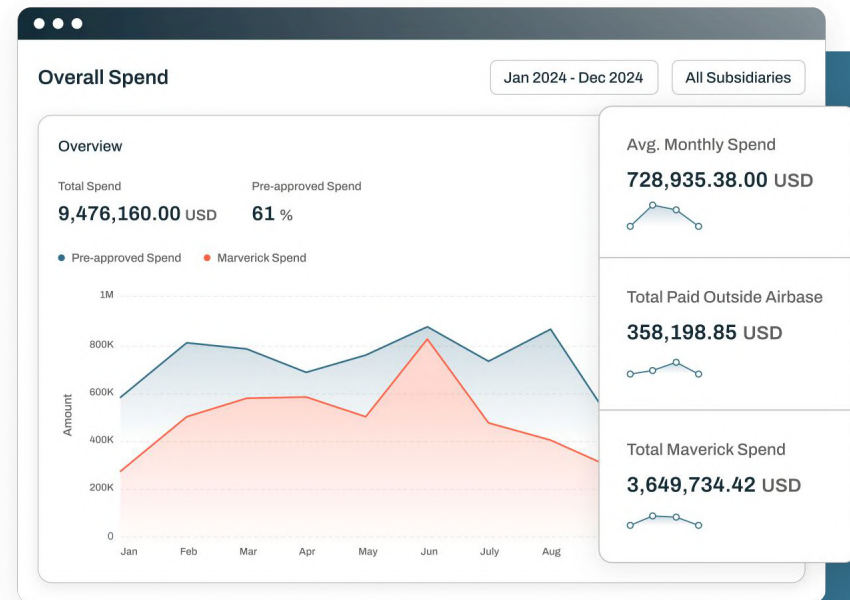
What is spend analytics?



Spend analytics leverages a range of data relating to the spending process to create actionable insights. These insights inform decision-making and influence behaviors to reduce costs and improve processes.

Increasingly, technologies like artificial intelligence (AI), machine learning, and predictive modeling are being incorporated to improve analysis and reveal critical insights.

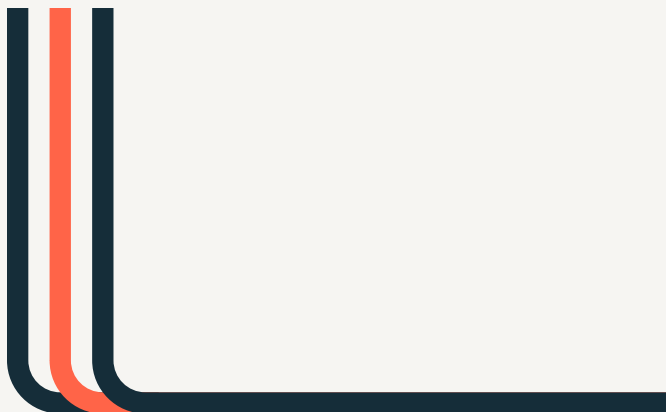
Spend analytics evaluates supplier risks, tracks spending trends, and surfaces insights that can inform strategic procurement choices and make productivity improvements.





02

What is spend under management?



A central measure of procurement excellence is how much of an organization's spending is subjected to the rigor of its approved purchasing process. This is known as spend under management (SUM).

Direct spend.

Historically, organizations focused on direct spend when it came to SUM. Direct spend includes all expenditures for the things that go into a company's cost of goods sold (COGS).

Indirect spend.

However, indirect spend, which includes items like T&E, software subscriptions, and marketing spend are often subjected to a different, more ad hoc, decentralized purchasing process for vendor selection, approvals, and contract negotiations. In short, this spend is not considered “managed”.

Modern tools like Airbase's procure-to-pay software automate the process for all spending so that both direct and indirect spend — even small one-off purchases — can be subject to internal vetting and approval processes without adding friction and slowing down employees.

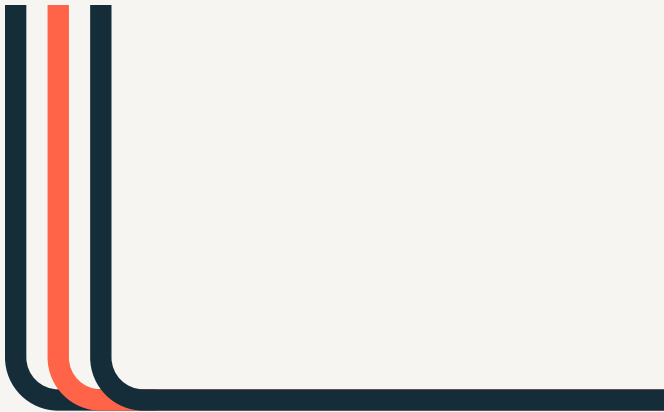
Maverick spend.

Spend under management is controlled spend. Spend not subjected to approved procurement processes is called maverick or rogue spend. Reducing maverick spend is essential to optimize the costs of running and growing a business. This is why continually tracking how much of your spend is managed is critical and forms the core of how analytics like Airbase approach reporting.



03

Spend analytics and business efficiency.



A focus on profit margins.

With a shift in focus from growth to profitability, today's businesses must run efficiently to remain competitive. Spend analytics provides the visibility needed to improve efficiency. Spend analytics that is integrated with a modern spend management system that centralizes all procurement activities in one place improves the efficiency of spend analysis itself.

Spend analysis helps reduce the cost of acquiring products and services by obtaining information about the company's suppliers and payment terms and revealing ways that an organization can change processes to enhance productivity in the spending process.

It assists businesses in monitoring important spending indicators and offers a starting point for evaluating the results of fresh approaches and cost-cutting initiatives. Through the process of comparing spending metrics to industry norms, businesses can identify opportunities to reduce expenses and increase profitability.





04

Key components of spend analytics.



The power of spend analytics depends on a well-maintained system with multiple essential components. Here, we examine the fundamental components of a strong spend analytics process:

Data collection.

In most organizations, spending data can come from several sources. That's because different point solutions are often used in the spending process. (For example, separate tools are used for expense management, travel management, AP, and card spend.) As a result, analytical models must pull data from various sources or wait until month-end when data is aggregated in the ERP.

One of the key advantages of the comprehensive modernized procure-to-pay systems like Airbase, is that they serve as a one-stop shop for all spend and, therefore, the data is aggregated in real time.





When using a modern P2P platform, data collection is not a step but an ongoing process.

Effective data collection requires:

- **Identification of all relevant data sources:**
Collaboration across departments like procurement, finance, and operations is crucial to identify all pertinent data streams.
- **Standardization of data collection processes:**
Ensuring consistent data formats and collection methods across all sources minimizes errors and facilitates analysis.
- **Automation of data collection whenever possible:**
Utilizing electronic invoicing and data integration tools streamlines the process and reduces manual data entry errors.

The information that spend analytics relies on includes:

- **Purchase orders:** Granular details regarding procured goods or services, including vendors, pricing, and terms.
- **Invoices:** Comprehensive information on received items, facilitating reconciliation with purchase orders.
- **Accounts Payable (AP) Data:** Information pertaining to payments made to suppliers.
- **Inventory data:** Detailed records on stock levels and historical usage patterns.
- **Contract data:** Defined terms and conditions negotiated with vendors.
- **Reimbursable expenses:** Like travel and entertainment.
- **Cycle times:** For invoice processing, approvals, contracting, and renewals.
- **Evidence of compliance:** Whether these are legal contracts, SOC reports, or internal approvals, gathering this data is important and can be difficult when disparate systems are used.

In the absence of a comprehensive procure-to-pay system, there are additional steps in the process — collection, cleansing, and categorization.



Data cleansing.

Raw data aggregated from multiple sources is typically characterized by inconsistencies, errors, and missing information. Data cleansing is the critical process of verifying, correcting, and standardizing your data to guarantee its accuracy and reliability for analysis.

■ Data cleansing activities encompass:

- **Identification and correction of data errors:** This process involves meticulously checking for typos, duplicate entries, and missing values.
- **Standardization of data formats:** Ensuring consistency in units of measurement, currency, and date formats across the entire dataset.
- **Data enrichment:** Supplementing existing data with additional insights from external sources, such as market rates or supplier performance data.

In well-designed P2P platforms, accounting automation and approval workflows ensure transaction data is clean before it is booked. This means that this step can be omitted for spend analytics that come from a comprehensive, fully integrated spend management system.

Data categorization.

Once your data is cleansed, it's time to organize it into meaningful categories that facilitate analysis. This process, called data categorization, involves grouping similar items based on predefined criteria.

■ Common categorization methods in spend analytics include:

- **Spend category:** Grouping purchases by product or service type (e.g., office supplies, IT equipment, transportation).
- **Supplier category:** Classifying suppliers based on industry, size, or location.
- **Location:** Categorizing spending by department, branch, or geographic location.

This is another step that can be replaced by with a well functioning spend management system. In a platform like Airbase, machine learning and artificial intelligence can code transactions correctly based on past behavior.



Data analysis.

Once the data is in usable format, a diverse array of techniques are employed to extract actionable insights from it.

■ Common data analysis techniques in spend analytics include:

- **Spend cube analysis:** This multi-dimensional analysis allows you to view spending data from various perspectives (e.g., category, supplier, location).
- **Trend analysis:** Identifying patterns in spending patterns over time, such as seasonal fluctuations or changes in supplier pricing.
- **Benchmarking:** Comparing your spending patterns with industry averages or competitor data to identify areas for improvement.
- **Variance analysis:** Investigating discrepancies between budgeted and actual spending to identify cost overruns or areas for optimization.

Reporting and visualization.

The insights derived from data analysis are powerful, but their effectiveness hinges on clear communication. Reporting and visualization are crucial steps in ensuring your findings are easily understood and actionable.

■ Effective reporting and visualization in spend analytics involve:

- **Creating clear, concise reports:** Reports should present key findings visually with concise summaries and actionable recommendations.
- **Utilizing data visualization tools:** Charts, graphs, and dashboards help communicate complex data in a readily understandable format.
- **Tailoring reports to specific audiences:** Reports should be designed with the needs and decision-making level of the intended audience.

Another advantage of embedded spend analytics is that all stakeholders have access to the system and can do their own reporting at any time.



05

Benefits of spend analytics.

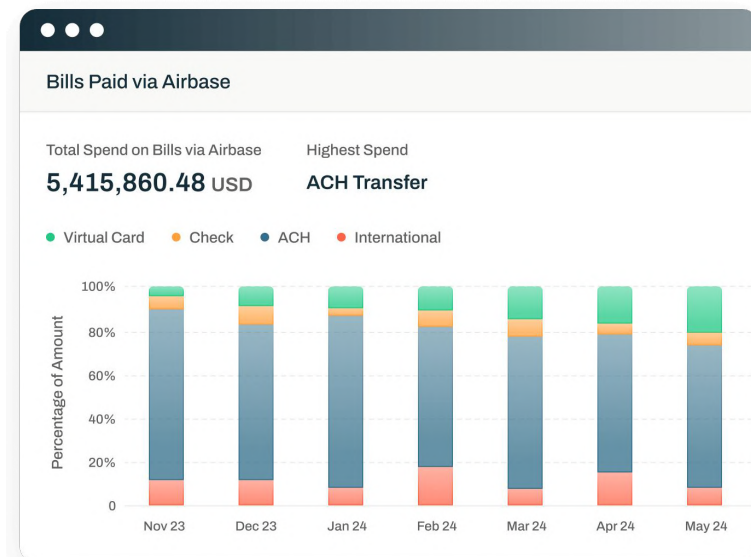


Spend analytics can shift the procurement process from a tactical, cost-saving one to a proactive strategic undertaking. Insights into maverick spend, vendor performance, and duplicate spend arm finance teams with the data they need to shift vendors, consolidate expenditures, or change processes in order to drive costs down.

Driving cost reduction.

Spend analytics identifies opportunities for cost savings by revealing duplicate, unnecessary, or zombie spend. It surfaces areas where bulk discounts might be available or lower cost alternatives can be pursued.

By providing insights into historical spending patterns and forecasting future demand, businesses can optimize inventory levels and improve overall cash flow management.





Improved supplier management.

Spend analytics gives procurement and finance teams important information about supplier performance parameters, such as quality, delivery timeframes, and pricing, so they may choose and negotiate with the best vendors.

By fostering transparency and open communication, spend analytics helps build stronger relationships with key vendors, leading to improved collaboration and mutual benefit. Tracking of vendors and their performance helps businesses mitigate risks associated with unreliable suppliers.

Spend analytics empowers businesses to move beyond reactive cost-cutting toward proactive strategic sourcing.

Enhanced contract compliance.

Spend analytics plays a crucial role in ensuring contract compliance, which is essential for safeguarding your bottom line. It simplifies the process of monitoring adherence to established terms and conditions.

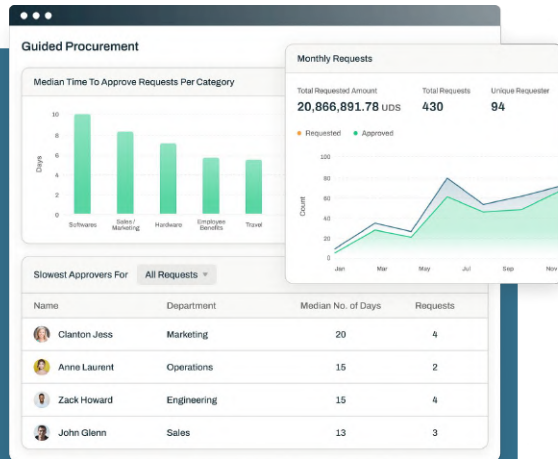
It can also identify potential discrepancies between contracted terms and actual spending patterns early on. This allows for timely intervention and corrective action, preventing financial losses and legal ramifications associated with non-compliance.

Better decision-making.

Analyzing historical spending data and market trends allows for the identification of new vendors, improved lead times, and a more resilient supply chain that can adapt to market fluctuations.

Data-driven insights from spend analytics also help businesses to develop more accurate budgets for future procurement activities. This ensures efficient resource allocation and minimizes the risk of budget overruns.

Finally, spend analytics enables more focused analysis within specific categories, leading to improved category management strategies and long-term cost optimization.



After identifying patterns and trends, the focus shifts to uncovering potential savings opportunities. This involves analyzing identified areas of inefficiency and exploring solutions like supplier consolidation, negotiation of better terms, or process optimization.

■ Identifying and capitalizing on savings opportunities:

Opportunity analysis involves leveraging the insights gleaned from pattern and trend identification to pinpoint areas where cost savings can be realized.

This might involve identifying opportunities for:

- **Supplier consolidation:** By consolidating purchases from multiple vendors into a smaller group of high-volume suppliers, businesses can leverage economies of scale and negotiate more favorable pricing.
- **Improved negotiation strategies:** Spend analytics provides valuable insights into historical spending patterns and industry benchmarks, empowering procurement teams to negotiate more effectively with existing vendors.
- **Process optimization:** By identifying inefficiencies in procurement processes, such as slow approval times or slow invoice processing times, businesses can streamline workflows and reduce administrative costs.
- **Eliminating duplicate or unnecessary spend:** By breaking spend out between pre-approved and maverick spend, opportunities to bring more spend under management can help reduce spending.
- **Payment optimization:** When it comes to spending company money, how it is done can run the gamut from costing up to \$15 per payment as is estimated in the cost of checks to earning 1.5% on every payment. Spend analytics can reveal how efficient AP teams are in their choice of payment type.

With Airbase, businesses can identify cost-saving opportunities, eliminate wasted spending, and make data-backed decisions about future spending.



Implementation and monitoring.

The final step is transforming your insights into action. This involves developing a plan to implement identified cost-saving opportunities and monitor progress over time. Tracking key metrics helps assess the effectiveness of your strategies and identify areas for further improvement.

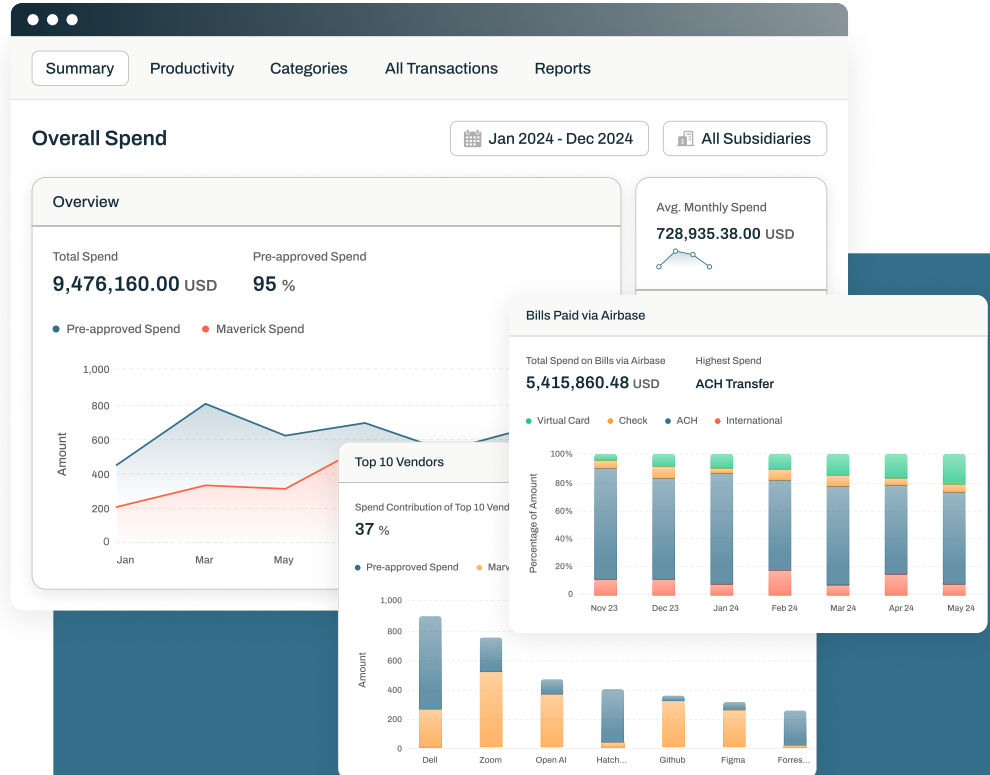
Strategies for implementation and monitoring:

After identifying potential savings opportunities, it's crucial to develop a clear action plan for implementation.

This plan should outline specific actions, timelines, and responsibilities for each initiative.

Additionally, key performance indicators (KPIs) should be established to monitor progress and measure the effectiveness of implemented strategies. Common KPIs used in spend analytics include:

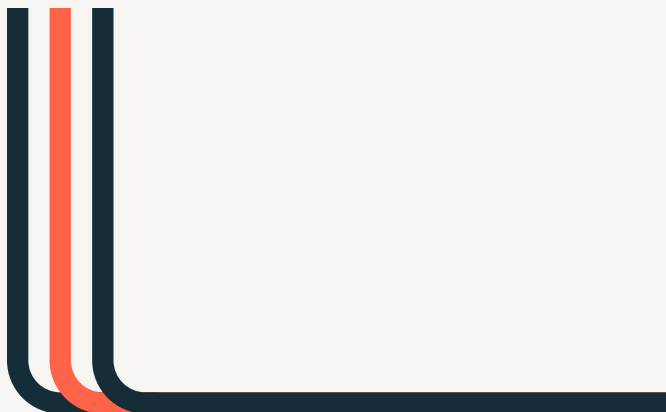
- Cost savings achieved.
- Reduction in the supplier base.
- Improvement in contract compliance.
- Procurement cycle time reduction.
- Spend under management.





06

Choosing between a point solution or an integrated one.



“I was planning to build these reports and workflows separately — glad to know I won’t have to now and can view it directly on Airbase”

HARNESS

There are data-management vendors that specialize in spend analytics. There are also AP automation and procure-to-pay solutions that provide spend analytics as part of their platforms.

Embedding spend analytics into a comprehensive procure-to-pay system overcomes the challenges to a strong analytics program.

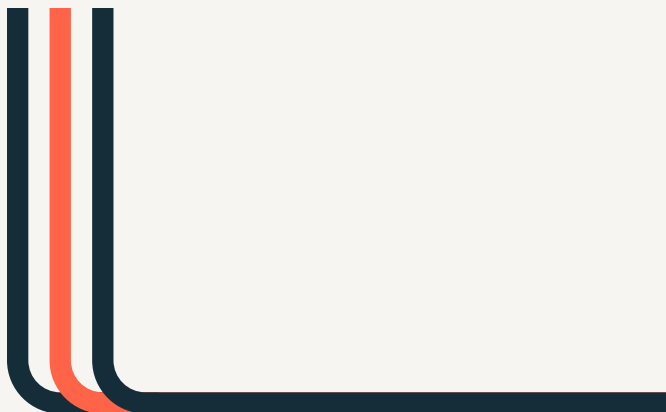
These challenges are:

- 1. Data inconsistencies, missing information, and disparate data sources.**
 - a. A single source of truth for all spend that is fully reconciled to your ERP provides clean, consistent, comprehensive spend data in real time.
- 2. Incompatible data formats, siloed systems, and technical complexities.**
 - a. A comprehensive spend management system keeps data formats consistent and eliminates the need to pull data from multiple sources.
- 3. Resistance to change, lack of awareness of the program's benefits, and inadequate training.**
 - a. A comprehensive spend management system is used by every employee and so offers easy access by all stakeholders interested in tracking and analyzing spend. System familiarity makes extending its use to include spend analytics an easy add-on without requiring additional training.

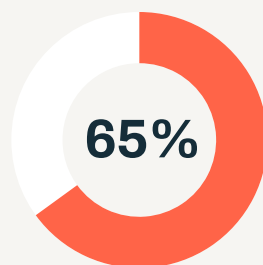


07

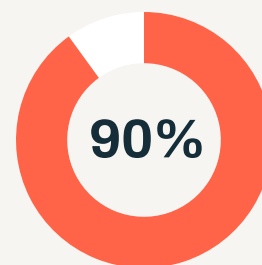
From reactive to proactive procurement.



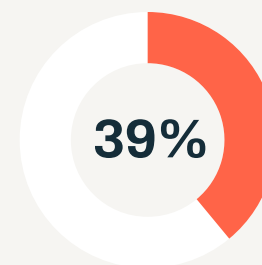
A 2022 Spendlightenment Survey of Finance Professionals revealed that there was an increase in demand for tools to gain visibility and control over company spend. 65% believed that their current lack of control over spend will negatively impact their growth, over 90% wished for more visibility, control, and automation around how their company spends money, and 39% said they are controlling less than 50% of their risks.



65% believed that current lack of control over spend will negatively impact growth



Over 90% wished for more visibility, control, and automation around how company spends money



39% said they are controlling less than 50% of their risks

“In an era where data-driven insights are crucial, Airbase offers a competitive edge by enabling real-time visibility and strategic planning,” said Patrick Reymann, Research Director, IDC. “This platform helps businesses navigate procurement complexities with ease and precision.”

Airbase spend analytics feature lets you monitor requests, POs, and invoices in real time in one place, see spend by vendor, department, and category, track pre-approved vs maverick spend, identify cost-saving opportunities, eliminate wasted spend, make data-backed decisions on future spend.





Appendix

Spend analytics can help drive meaningful process improvements. The tables below show some of the metrics available with its product that can help drive enhanced efficiency and productivity.

PROCUREMENT				
Metric	Goal	Definition	Significance	Benchmark Example
Intake or Guided Procurement Cycle Time	Lower is better.	Number of days from procurement request creation to final approval.	Streamline procurement processes and minimize rogue or duplicative spend without increasing responsiveness to business needs.	5.0 calendar days
Guided Procurement Managed Spend Rate	Higher is better.	Percentage of virtual card and bill payment spend that originated as an approved request.	Unify employee experience and expectations for requesting spend approval while providing finance teams with advanced insight into future expenses.	95%



Appendix

ACCOUNTS PAYABLE AUTOMATION				
Metric	Goal	Definition	Significance	Benchmark Example
Pre-Approved Bill Payment Spend	Higher is better.	Percentage of bill payment spend that is linked to a purchase order.	Increase visibility of spend before it occurs, leading to better-negotiated rates and minimizing unplanned expenses, simultaneously reducing fraud risk.	95%
Invoice Approval Cycle Time	Lower is better.	Number of days from invoice submission to bill creation to final approval.	Avoid late payments, maintain strong relationships with vendors, and minimize back-and-forth between spend owners and spend approvers.	5.0 calendar days
No-Touch Invoice Processing Rate	Higher is better.	Percentage of bills created that did not require any manual input or adjustment.	Reduce the manual effort by accounting teams, spend owners, and spend approvers by automating data entry.	90%



Appendix

EXPENSE REPORTING				
Metric	Goal	Definition	Significance	Benchmark Example
Expense Report Approval Cycle Time	Lower is better.	Number of days from expense report creation to approval.	Maintain strong level of employee happiness by minimizing the time between submitting an expense report and being paid for those expenses.	3.0 calendar days
No-Touch Expense Report Creation Rate	Higher is better.	Percentage of expense line items created that did not require any manual input from employee.	Delight employees by minimizing the manual effort needed to submit expense reports while increasing expense policy adherence.	3.0 calendar days



Appendix

CORPORATE CARDS				
Metric	Goal	Definition	Significance	Benchmark Example
Cashback-to-Subscription Fee Ratio	Higher is better.	Ratio of cash back earned by Airbase-issued card spend to annual Airbase subscription fees.	Clear value provided by Airbase by displaying the hard dollar return on Airbase-issued card spend.	5.3
Cashback-Eligible Total Spend	Higher is better.	Percentage of total spend that earned cash back.	Highlight and motivate customers to increase virtual card adoption in order to maximize hard dollar returns	78%
Pre-Approved Card Spend	Higher is better.	Percentage of card spend that was pre-approved.	Increase visibility of spend before it occurs, leading to better-negotiated rates and minimizing unplanned expenses, simultaneously reducing fraud risk.	78%



Appendix

CORPORATE CARDS				
Metric	Goal	Definition	Significance	Benchmark Example
General Ledger First-Time Sync Rate	Higher is better.	Percentage of ledger entries that synced to general ledger system on first attempt.	Establish trust in Airbase's general ledger sync procedure, while enabling accounting team to ensure all required data is present in the general ledger.	97%
No-Touch General Ledger Sync Rate	Higher is better.	Percentage of ledger entries that synced to general ledger system without manual updates.	Minimize manual effort required of accounting teams by reducing data entry or data adjustment tasks.	89%
Period-End Reconciliation Cycle Time	Lower is better.	Number of days to reconcile Airbase with general ledger system.	Reduce accounting team's time-to-close by automating tasks in Airbase and executing a rolling close via Airbase's general ledger sync.	4.0 calendar days