Ariba Spend Visibility Best Practice Guide:
Identifying Sourcing Opportunities

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Table of Contents

3 Introduction
3 Overview
3 Purpose
3 Spend Visibility Solution Overview
8 Evolving Opportunities into Plans
8 Developing the Approach
18 Conclusion
18 Appendix A: Pre-Packaged Reports
19 Appendix B: Sourcing Criteria

Ariba Spend Visibility Best Practice Guide: Identifying Sourcing Opportunities

Task: Leveraging Ariba Spend Visibility to drive annual planning through the identification and qualification of sourcing opportunities.

Required Solution(s): Ariba Spend Visibility

Other Relevant Solutions: Ariba Contract Management, Ariba Sourcing

Audience: The intended audience is anyone who is searching for sourcing opportunities across a range of categories. Examples include the Director/VP of Sourcing looking to build a comprehensive roadmap across all managed spend categories, or a commodity manager looking to forecast how much can be saved in the coming year in each category he/she manages.

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Introduction

Overview: For most companies, the largest savings driver from spend analysis initiatives is improved sourcing. Ariba Spend Visibility empowers users with the tools and information required to create an ongoing sourcing plan. We recommend that our customers begin their planning in three major steps:

- Step 1 – Understanding Your Top Spend
- Step 2 – Detailed Part and Supplier Review
- Step 3 – Comparing Spend to Market Trends

By using this funnel method to prioritize spend, you will find opportunities and prioritize them. Some may be new opportunities, but you may also update the scope of known opportunities. You will also be able to prioritize the opportunities and find "quick-hit" savings. This will help procurement gain credibility, which drives support and buy-in for more-complicated projects. The target condition is to create a long-term, sustainable, measurable program.

This should become the "new normal" way of sourcing goods and services at your organization and not a moment in time, one-off initiative.

Purpose: The purpose of this guide is to provide a framework of the information and tools existing within Ariba Spend Visibility to identify, quantify and prioritize sourcing opportunities and suggest ways to best leverage them.

Ariba Spend Visibility Solution Overview

Here are a few key points to understand about Ariba Spend Visibility data and reporting that will help with your opportunity identification. Ariba Spend Visibility allows you to report on the data that has been provided by your company and Ariba. Ariba-provided information is called "enriched" data. In most cases, you will find three types of information: internal (Your company's Contract/PO/Invoice Data), supplier (Ariba/Your Company Provided) and market* (Ariba-provided).

Type	Key Information	Helps You Determine:
Internal	Commodity Codes (UNSPSC or Custom)	• How much you are spending • How your spend has trended • The breakdown of your spend (by country, cost center, etc.)
Supplier	Enriched Parent	• Have you leveraged your total spend with a supplier? • Can you increase leverage by rationalizing your supply base?
	Enriched Supplier	
Market*	Ariba Avg. Sourcing Savings by Category	• If prices have declined since you sourced a category
	Commodity CPIs/PPIs	• Whether your prices have moved negatively relative to the market

** Only available to Ariba Spend Visibility Professional customers*

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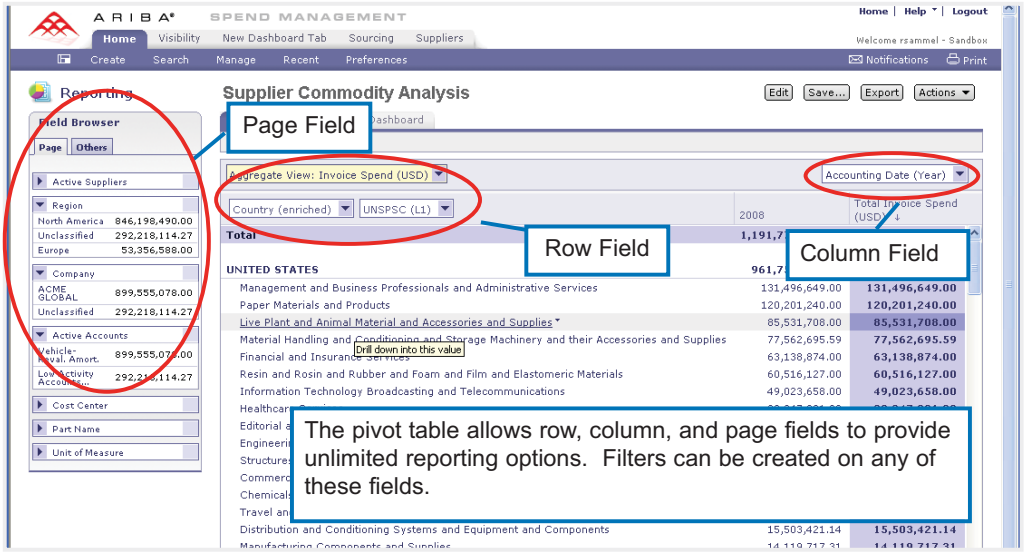
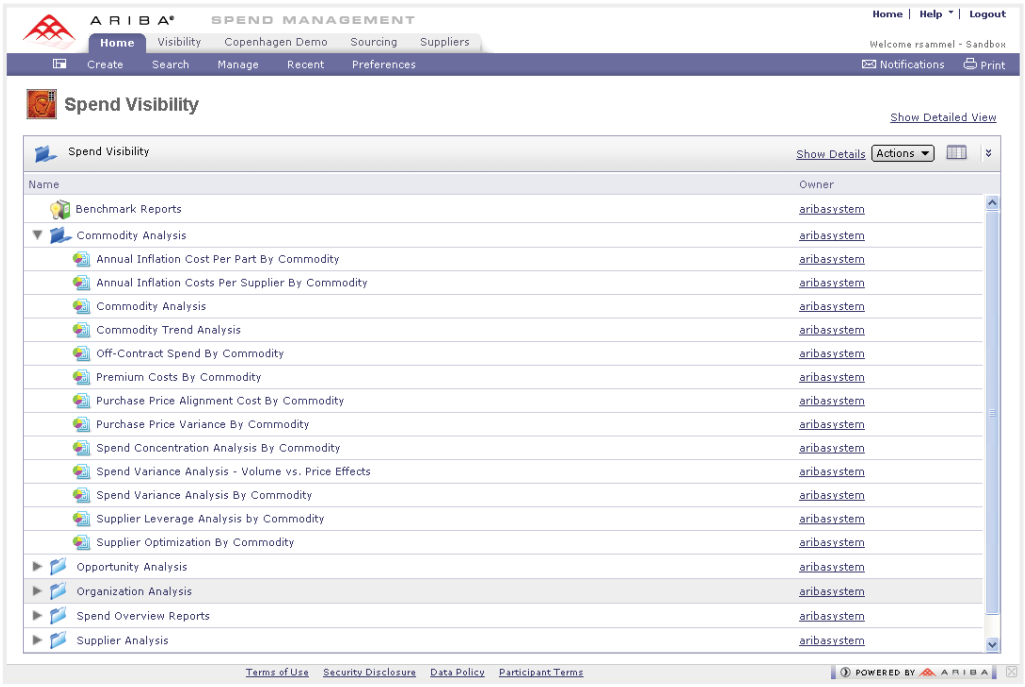
Ariba Spend Visibility Reporting has three major tools in the user interface to assist you. These include:

1) Analytical Reports (Pivot Tables): This is the basic interface for reviewing data, creating, and filtering reports in Ariba Spend Visibility. Example:



2) Pre-Packaged Analytical Reports: Ariba Spend Visibility includes dozens of pre-packaged reports, which are a great starting point. Below is a screen shot displaying a sample of the pre-packaged reports in Ariba Spend Visibility.



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The reports use the United Nations Standard Products and Services Codes (UNSPSC) as the selected commodity field. However, you can easily switch to your custom taxonomy or the Ariba classification taxonomy. The Ariba classification is based on UNSPSC, but includes Ariba added codes based on customer experience. To change the pre-populated commodity code, find your preferred taxonomy field in the field browser and remove the UNSPSC field.

3) Opportunity Search: Ariba Spend Visibility opportunity searches are targeted searches for savings and other opportunities in your spend data. Unlike an analytical report, which starts with a wide set of data and allows you to drill down into sections, an opportunity search looks at only the data that falls within specific ranges that are designed to highlight opportunities for savings, improved efficiency, supplier diversity, and other company goals.

Based on our category and sourcing experience, Ariba has included our recommended search criteria:

- Price variation—is there a large amount of variability in the price paid for the same commodities? Which suppliers are charging the most variable prices? An opportunity search based on these questions can help you identify areas for savings through a more-effective choice of suppliers.
- Supplier fragmentation—Are there a large number of suppliers for a commodity? Is the average spend for each supplier relatively small? Do many different parts of the company purchase the commodity? An opportunity search based on these questions can help you identify areas for savings through supplier consolidation.
- Order fragmentation—is the company receiving a high volume of invoices for the same commodity? Is the spend for each invoice relatively small? An opportunity search based on these questions can help you identify inefficient purchasing in your company.
- Supplier monopoly—Are there very few suppliers for a commodity with a large amount of spend? An opportunity search based on this question can help you identify areas for savings through seeking out new suppliers and encouraging more competition among existing suppliers.
- Non-compliant sourcing—Are there a large number of suppliers for a commodity? Do many different parts of the company purchase the commodity, and are the number of purchasing business units and the number of suppliers related? An opportunity search based on these questions can help you identify business units that are not sourcing from preferred suppliers.
- Opportunities for sourcing—Do certain commodities comprise a significant portion of your company's spend, and are the prices on those commodities changing? Are the numbers of parts for the commodity small, indicating that a few part numbers account for significant spend? An opportunity search based on these questions can help you identify commodities for which a large sourcing event might achieve savings.

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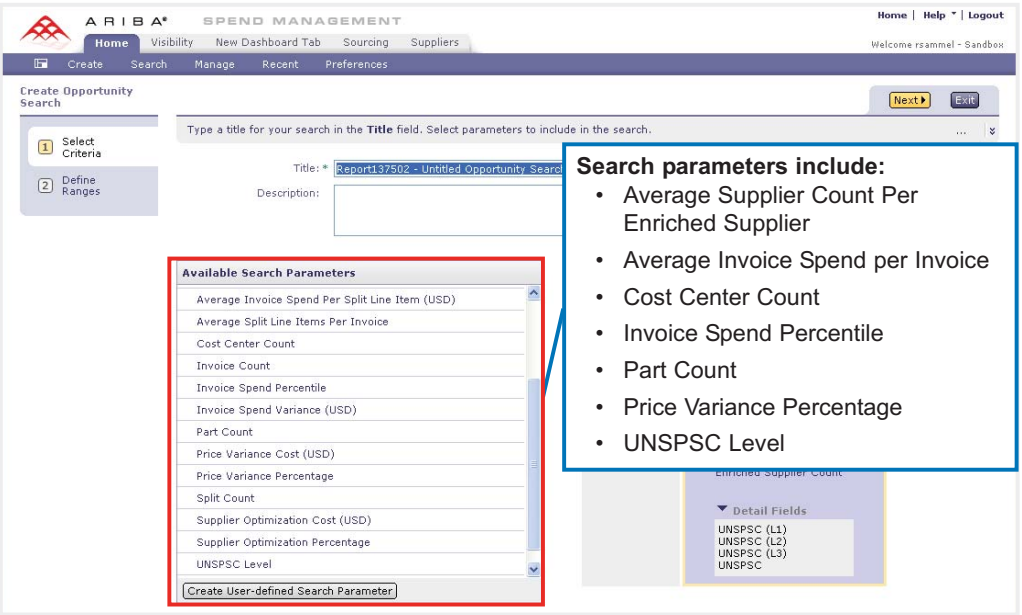
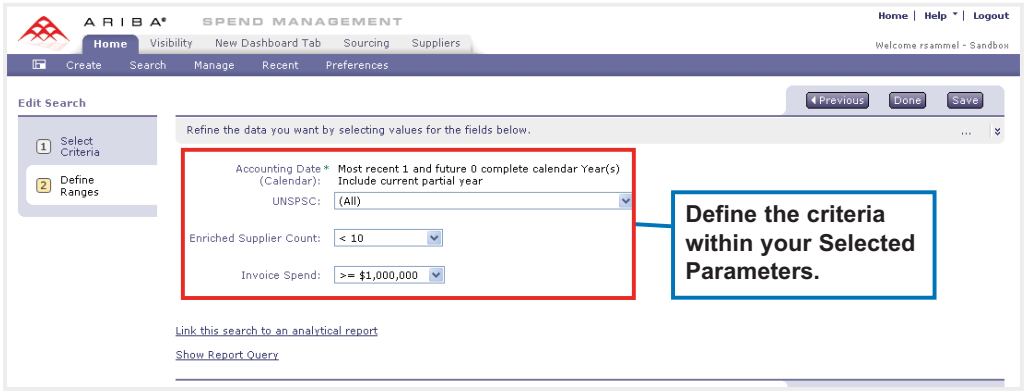
The screen shots below illustrate the process to identify possible opportunities leveraging the Opportunity Search wizard.

Step 1 – Select Parameters: You are able to select search parameters. Here we have chosen invoice spend and enriched supplier count to identify our top spend suppliers.



Step 2 – Specify Criteria: You are able to set specific criteria for each parameter selected (i.e.: limiting the category, number of suppliers, and percentage of spend). You may choose to not apply any criteria at first to get a better sense of your company's spend.

In the example, we have selected the criteria: All UNSPSC codes (i.e.: all commodity categories) where the spend is over $1M and there are less than 10 suppliers (the example uses enriched suppliers, which will eliminate duplicate suppliers within the supplier master).



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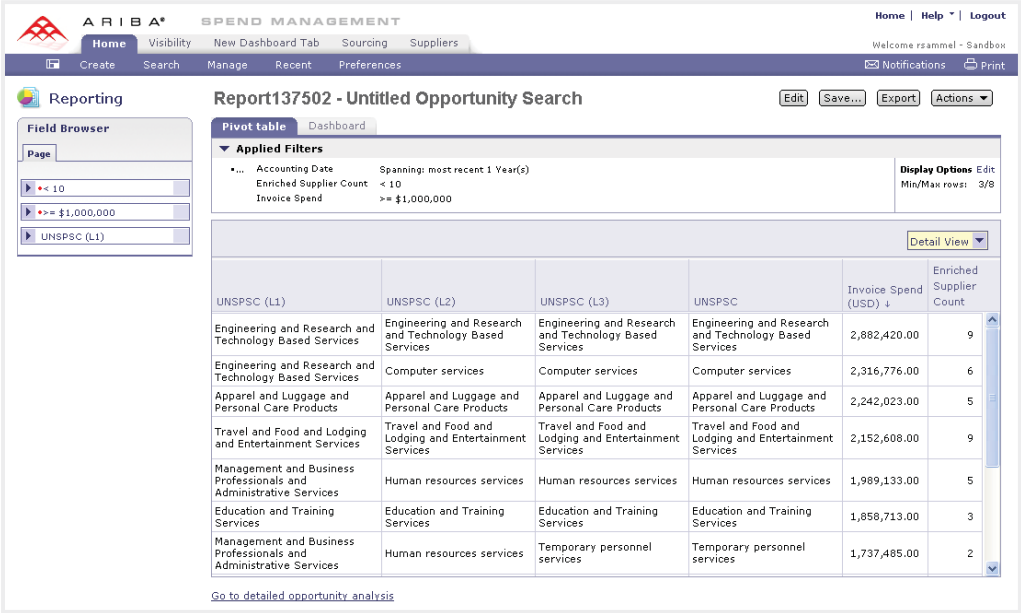
Step 3 – Review Results: Below you can see the report showing top spend categories where there are less than 10 suppliers. This example shows potential categories where the procurement team feels that the supplier base is too limited, which may increase a risk in that category.



Step 4 – Refine Results: Your initial results may be too broad (far too many categories meeting your criteria) or too narrow (none or very few categories meeting your criteria). If that is the case, go back and adjust your criteria until you have a reasonable shortlist to further investigate.

Note that with all reports, the content is driven by data provided by your company. If data elements are not provided, you may see “unclassified” or zero values.

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Evolving Opportunities into Plans

Developing the Approach

While there are many ways to go about identifying sourcing opportunities, the ultimate objective is to analyze your spend categories to find those that meet key criteria. The process steps that should be taken are:

1. Define your goals for the planning period. Examples of goals might include:
   a. Driving bottom-line cost savings in a specific category or across all categories
   b. Reducing the number of suppliers in a category or across all categories
   c. Consolidate spend across category, supplier, region, organization, etc.
   d. Reduce supply risk (potentially expanding your supply base)
   e. Align with the industry trends
2. Identify your key criteria for prioritizing opportunities. Examples of criteria for prioritization might include (See Appendix B for more criteria):
   a. Availability of spend – Who currently manages/negotiates/owns the supplier relationship? Are they willing and interested in working with you to reach the desired goals?
   b. Contractual availability – When was the last time the spend was contracted? Is now a good time to address the spend?
   c. Competitiveness/market conditions – Can competition be made for the items/services?
   d. High savings potential/commercially attractive – Is the spend interesting for vendors?
   e. Clearly defined requirements – Is there adequate data to support the items/services? Can suppliers understand with the requirements are?
3. Develop opportunity list by using Ariba Spend Visibility reports or opportunity search. To do this, you will need to align your search/filter criteria with the desired goals/criteria. While there are many ways to develop an opportunity list, we are going to explore the two most-simple approaches:

Detailed Internal Filtering

a) Create an opportunity search based on several of your most-important sourcing criteria.
b) Tweak the criteria ranges (widening the range when too few categories and tightening it when too many) until a reasonable list is developed.
c) Leverage analytical reports to include other criteria and investigate each category. Reviewing details such as individual suppliers, location of spend (business unit or geography) will help you better understand the spend.

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Use of Market Data

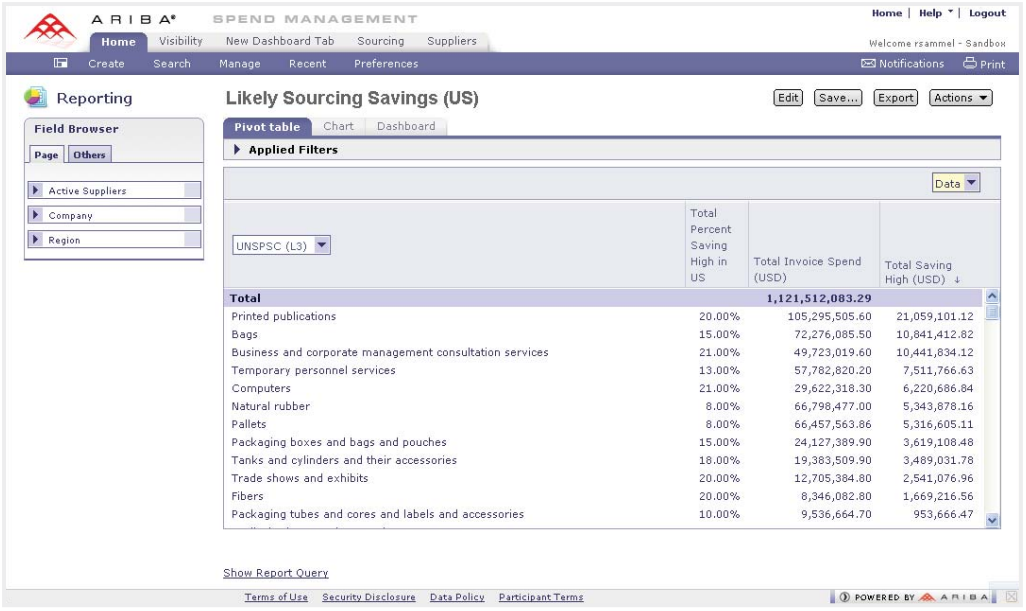
a. Open the “Likely Sourcing Savings” prepackaged report. This is located in the Ariba Spend Visibility – Benchmark Reports folder. This report links customer spend with the Ariba category experience data, and calculates an estimated savings amount.

b. If you are only evaluating a subset of categories, filter the categories appropriately.

c. Sort descending by savings.

d. Filter out categories with less than your minimum acceptable savings.

e. Investigate remaining criteria one by one to narrow the list down to those categories where you have the most opportunity. Keep in mind that these savings percentages do not take into account any leverage already managed by the company.



Note that it can be beneficial to apply both approaches and then investigate any commodities that only appear on one list to create your final list.

4. Create a list of potential opportunities including how it weighs against your criteria. You might consider the following as an approach to prioritize the projects:

   Wave 1: Highly attractive categories for sourcing with significant Ariba experience and several criteria showing high savings potential

   Wave 2: Mid-term opportunities comprising of more-complex, but still-attractive categories or those with moderate savings potential

   Wave 3: Long-term opportunities (➞ cost avoidance and/or strategic partnership categories)

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5. Create an action plan against the final list of opportunities – This is your source plan

An example source plan might look like this:

Client Name	ABC Company
Currency	USD

OPPORTUNITY SUMMARY

#	Detailed Category	Priority NA	Total Spend	Savings NA Low	Savings NA High	Savings NA Average
1	Data Center / Hosting	2	354,999,216	28,399,937	63,899,859	46,149,898
2	Media Advertising	3	306,241,306	12,249,652	30,624,131	21,436,891
3	Equipment and Building Lease	2	147,954,348	7,397,717	17,754,522	12,576,120
4	Benefits Administration	2	177,939,978	7,117,599	16,014,598	11,566,099
5	Business Consulting	1	60,283,572	8,439,700	12,659,550	10,549,625
6	General Legal	1	33,043,612	6,278,286	9,582,647	7,930,467
7	PCs / Workstation / Server	1	31,603,152	5,056,504	7,900,788	6,478,646
8	Promotional Print	1	24,165,463	3,624,819	4,833,093	4,228,956
9	Fixed Telephony	2	21,708,722	1,736,698	3,256,308	2,496,503
10	Office Furniture	1	15,268,412	1,679,525	3,053,682	2,366,604
11	Temporary Labor	1	29,045,167	1,161,807	3,485,420	2,323,613
12	Custom Software	3	18,944,742	940,017	2,820,051	1,880,034
13	Office Supplies	1	8,627,536	603,928	1,466,681	1,035,304
14	Courier Services	2	8,783,059	526,984	1,405,289	966,137
15	Training	2	9,596,949	479,847	1,151,634	815,741
16	Telecom Equipment	2	4,189,717	544,663	837,943	691,303
17	IT Consulting	1	5,393,165	323,590	862,906	593,248
18	Advertising Agency Services	2	6,516,151	325,808	781,938	553,873
19	Mobile Telephony	1	2,873,229	430,984	632,110	531,547
20	Auditing Services	2	2,626,027	367,644	630,246	498,945
	Grand Total		**1,269,803,522**	**87,685,710**	**183,653,399**	**135,669,554**
	In % of Total Spend		**131%**			

In summary, the process is flexible and may need adjustment based on your company's needs. The most-important take-away here is that strategic sourcing is based on two major activities: creating and executing a plan.

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Examples of Identifying Opportunities in Spend Visibility

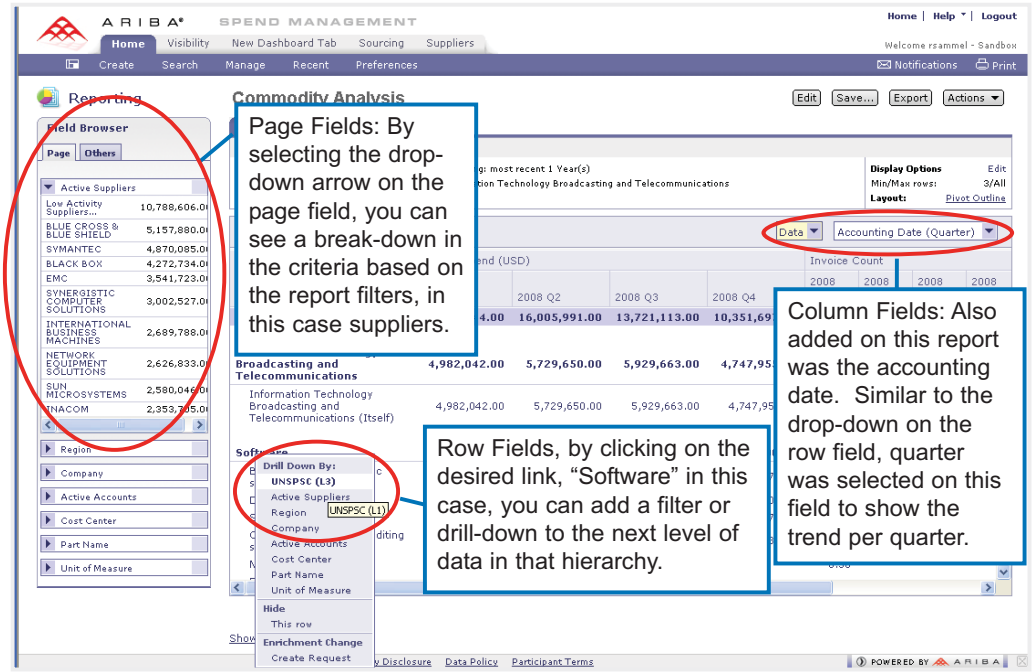
Example 1: An IT manager would want to filter by category to only include IT categories in his analysis. This can be done either by creating a new report using the wizard or, more simply, either by manipulating an existing report on the dashboard or by pulling a pre-packaged commodity report. Below are two pre-packaged reports that can be found in the following Ariba Spend Visibility section:

Prepackaged Report Folder: Commodity Analysis
Report Name: Commodity Analysis
(to see spend totals)

Prepackaged Report Folder: Commodity Analysis
Report Name: Commodity Trend Analysis
(to see trends in spend levels)

…and the results may look like this.

The commodity manager will then filter to view IT categories and see more detail. The highlights below explain the steps taken to reach the desired result from the previous report.



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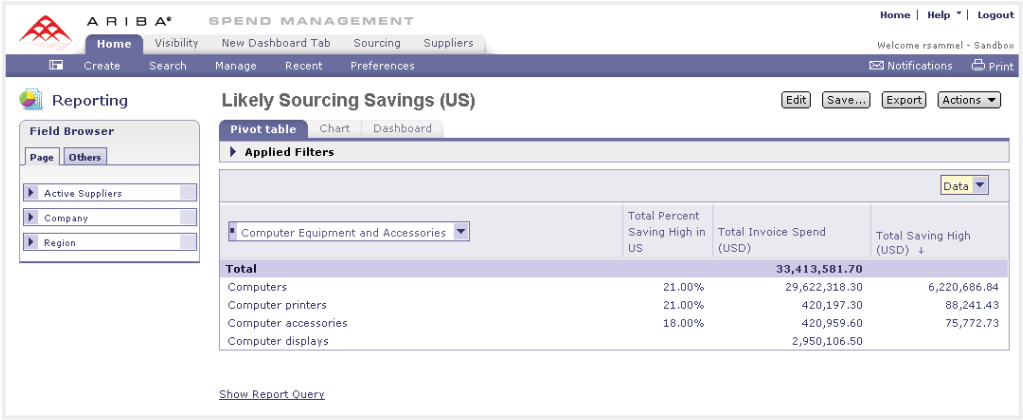
Let's dig deeper using the Market Filter Approach by pulling in sourcing savings results in the IT categories.



The IT Commodity Analysis report is now filtered to focus on computer equipment and accessories, which has a significant spend level and high savings based on recent Ariba events.

Now, let's investigate other criteria on the top-ranked categories. You might go deeper on the category or add suppliers fields. Keeping with the same report, you can add active suppliers, resulting in the following report. Active suppliers displays the parent supplier for the top 75 percent of spend/invoice count, and buckets the rest as "Low Activity Suppliers".

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Let's apply the Wave approach to the IT Category, as you recall the Waves are:

Wave 1: Highly attractive categories for sourcing with significant Ariba experience and several criteria showing high savings potential.

Wave 2: Mid-term opportunities comprising of more-complex but still attractive categories or those with moderate savings potential.

Wave 3: Long-term opportunities (➔ cost avoidance and/or strategic partnership categories).

By taking the commodity analysis information and combining it with the benchmarking data, an organization is now in a position to create a list of Wave 1, 2, and 3 projects with a high probability of expected savings. This is often referred to as an Opportunity Summary or Opportunity Assessment and will serve as the foundation for designing both a short and long-term, sustainable program. The results may look like this:

Client Name	ABC Company
Currency	USD

OPPORTUNITY SUMMARY

#	Detailed Category	Priority NA	Total Spend	Savings NA Low	Savings NA High	Savings NA Average
1	Data Center / Hosting	2	354,999,216	28,399,937	63,899,859	46,149,898
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5	Business Consulting	1	60,283,572	8,439,700	12,659,550	10,549,625
6	General Legal	1	33,043,612	6,278,286	9,582,647	7,930,467
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8	Promotional Print	1	24,165,463	3,624,819	4,833,093	4,228,956
9	Fixed Telephony	2	21,708,722	1,736,698	3,256,308	2,496,503
10	Office Furniture	1	15,268,412	1,679,525	3,053,682	2,366,604
11	Temporary Labor	1	29,045,167	1,161,807	3,485,420	2,323,613
12	Custom Software	3	18,944,742	940,017	2,820,051	1,880,034
13	Office Supplies	1	8,627,536	603,928	1,466,681	1,035,304
14	Courier Services	2	8,783,059	526,984	1,405,289	966,137
15	Training	2	9,596,949	479,847	1,151,634	815,741
16	Telecom Equipment	2	4,189,717	544,663	837,943	691,303
17	IT Consulting	1	5,393,165	323,590	862,906	593,248
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	Grand Total		**1,269,803,522**	**87,685,710**	**183,653,399**	**135,669,554**
	In % of Total Spend		**131%**			

Now that you have an opportunity assessment identified, a critical next step is to evaluate how many suppliers are associated with each of these categories. This analysis may lead to several different conclusions. If you determine that you only work with one supplier in your business consulting category, you may decide that your organization is under a significant amount of risk and that spreading the business across multiple suppliers may mitigate this risk.

Or, if you're dealing with a niche, highly specialized category such as advertising, and have four suppliers across the same division and a small amount of spend; you may draw the conclusion that sourcing this category in an effort to consolidate your supply base would yield the most-efficient results. It's up to you to delve deeper into how the spend is broken up across your supply base. Ariba Spend Visibility can help you collect this data and conclude what makes the most sense for your organization's unique needs and requirements.

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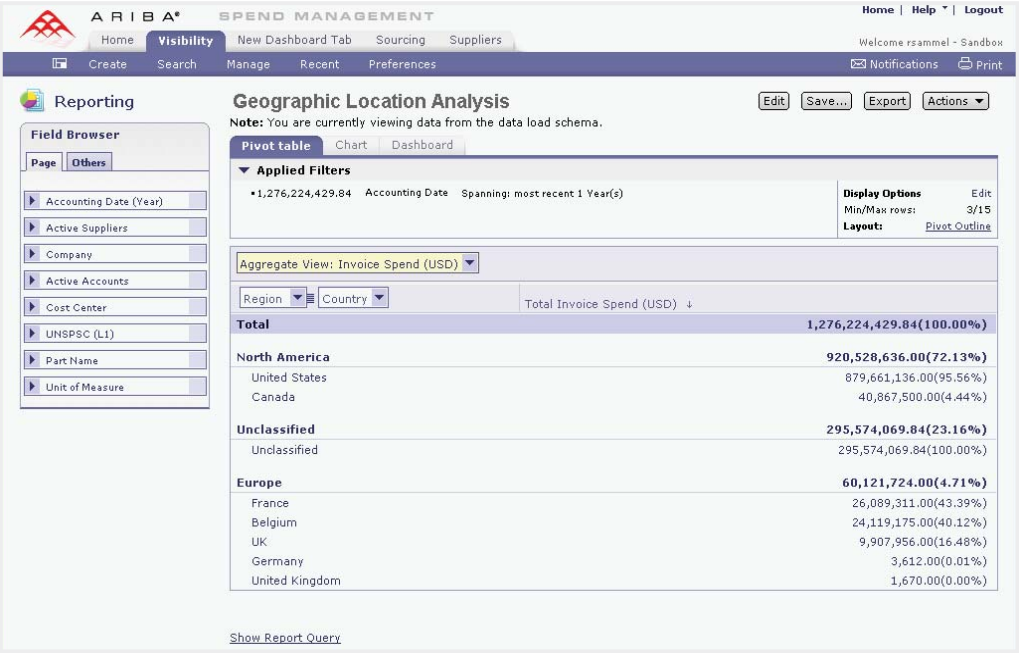
Example 2: A CPO or Director of Global Sourcing managing all spend categories of a multinational corporation is targeted with aggressive savings and is looking for the greatest sourcing opportunities. The corporation primarily sources regional contracts and often further at the divisional level. A good place to start in this case is with a geographical analysis, which will determine which region has the greatest concentration of spend and should be targeted first. Appropriate pre-packaged reports can be found in the following folders:

Prepackaged Report Folder: Organization Analysis

Report Name: Geographic Location Analysis

…and the results may look like this.



The overwhelming majority of spend being in North America, it is clear that the bulk of the projects will impact North America. In this highly decentralized organization, we should look at how the spend breaks out across various divisions. Many companies use this analysis to determine which division(s) (i.e.: business units) on which to focus their initial efforts. At this point, let's apply a filter to North America and look at divisional spend in the region.

You can do this by clicking on "North America" in the report and then selecting "Company" from the pull down. If the Company field is not on the report, you can add it by clicking on "Other" in the Field browser, scrolling until you find "Company" and dragging it onto the "Page" fields tab. You can then click on "North America" again and selecting "Company."

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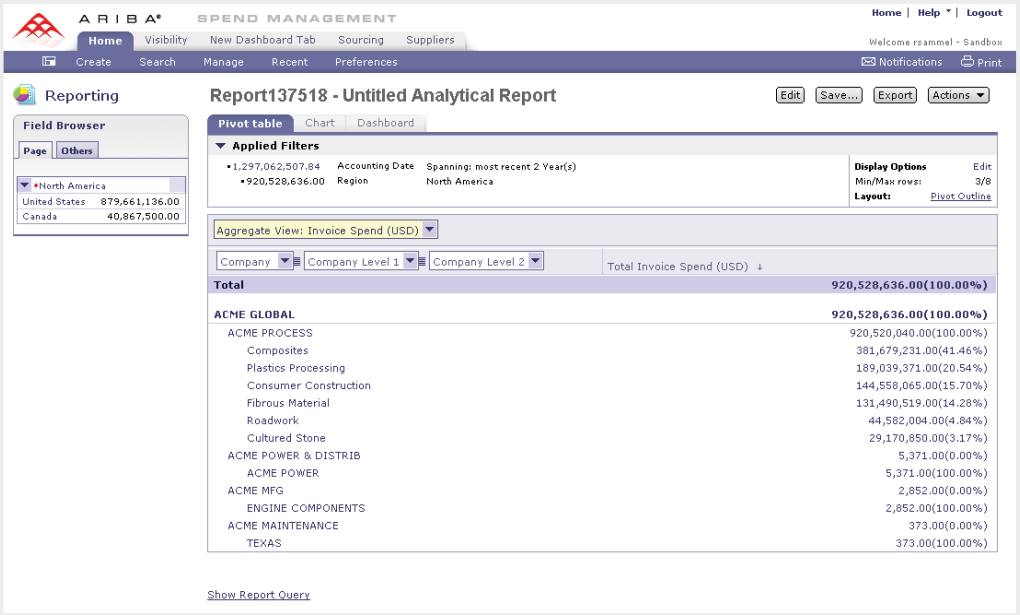
…and the results may look like this.



From this data, the CPO sees that 41 percent of spend comes from the Composites division. At this point, you have determined that the Composites division in North America would be a good place to start your investigation and pipeline building.

By digging deeper into your spend by geographic location, then division, then commodity, you can now begin your efforts to hone in on specific projects. This same process (starting with a pre-packaged, dashboard or new report and filtering down to the appropriate level) should be repeated until the right subset of spend is being analyzed. Then you could start estimating potential savings from categories in the subset of spend, moving to the next phase.

Example 3 - Developing and Refining the Shortlist

Your company may have recently sourced a shortlist category several months ago and is locked into a three-year deal with no out clause. This is data that is not in your Ariba Spend Visibility solution but must be checked before finalizing your list. Going through this level of contract analysis is an absolute must in order to know that your pipeline is completely accurate and 100 percent validated. A common mistake is to assume that all of your spend is readily available to source. So, before you finalize your wave plan, a recommended best practice would be to work with your buyers or your legal team to determine which contracts are open to source and which are not.

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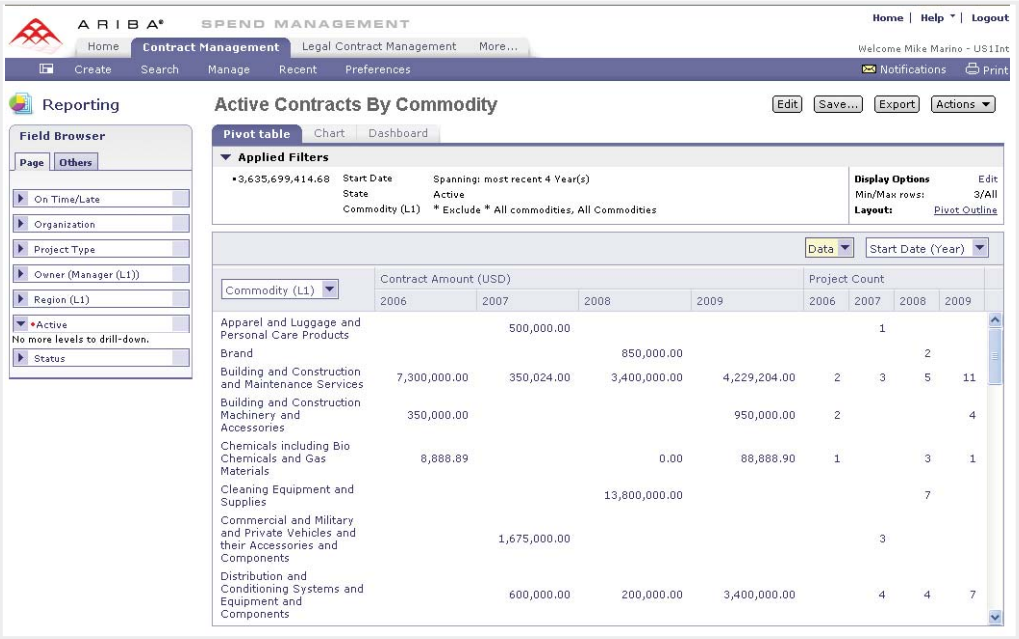
Other “non-sourcing” areas that you should investigate outside Ariba Spend Visibility include:

- Balance of Trade: Is the primary supplier(s) also a large customer, meaning it will be politically difficult to switch suppliers and limit your leverage?
- Unmanaged Categories: If no sourcing team is covering categories or spend is all managed locally, there is not much you can do.
- Contract Status: Are contracts in place for the category? When do they expire? Customers of Ariba Contracts can leverage their contract information through the dashboard.



This report shows contracts by commodity and contracted amount by start date. This was an adhoc report created based on the Procurement Contract Workspace fact table. Measures included are contract amount (USD) and project count. Commodity information was added to the row field, and the Project Start Date added as a column field. Additional page fields were included to provide filter and drill-down options (such as “Active” status projects as seen above).

Additional details are typically available in a contract utility, including expiration date and supplier. This will allow you to understand existing contracts and when a commodity could be due for a project. In addition, you may determine that the contract amount is much less than what is needed from corporate (as found in Ariba Spend Visibility), and could attempt to amend the supplier contract.

- Sourcing activity: Is a sourcing event already underway for a specific category? Customers of Ariba Sourcing can check the sourcing activity through the dashboard.

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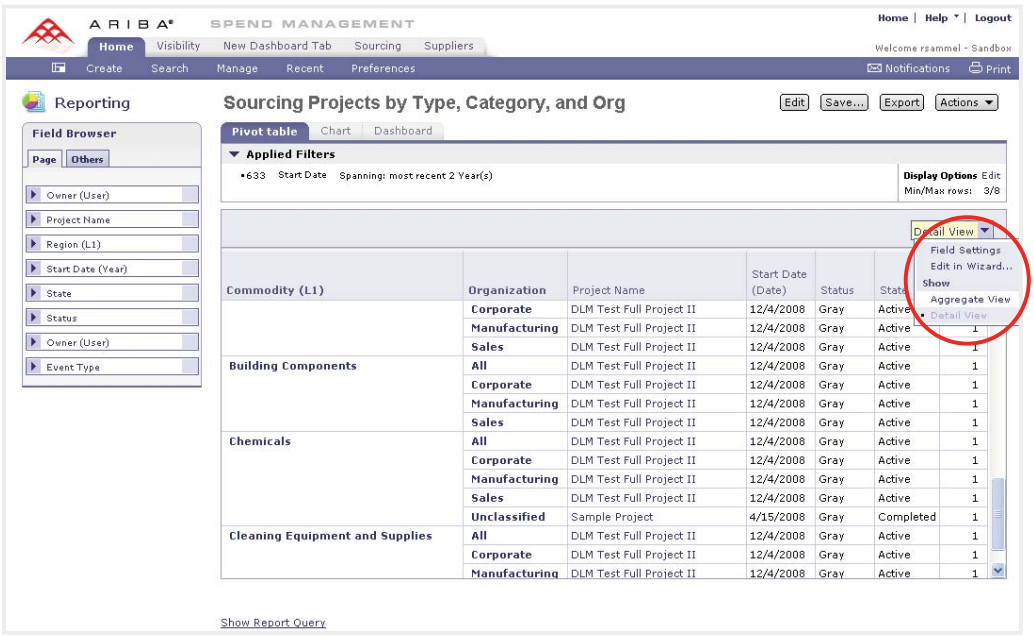

This report is available in the pre-package section of Sourcing reports on the Ariba platform (if you have the Ariba Sourcing module). After opening the report, it was modified from the aggregate view to a detailed view, which can easily be done by clicking the highlighted area.

From here you could obtain details such as whether the project was awarded, what the savings were, and the scope of the project. You may find that the project scope was limited as it was done prior to Ariba Spend Visibility being deployed.

After you have removed all categories that cannot be sourced or are unlikely to yield significant savings due to external factors, you have your final pipeline and forecasted sourcing savings.

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Conclusion

Ariba Spend Visibility can greatly improve your ability to identify, quantify and prioritize sourcing opportunities that drive planned savings. However, the overall impact (.i.e.: value of the savings) is creating an actionable source plan based on truly understanding your spend patterns (categories, suppliers and organizations). Hopefully this guide has helped to provide a useful framework and some ideas to get you started.

As you find new criteria or ways to leverage Ariba Spend Visibility, we welcome your feedback so that we can continue to improve this guide for our customers. Please contact your Ariba Spend Visibility project manager or the Ariba Spend Visibility solutions management team with recommendations or questions.

If you find that you need more hands-on support, either with finding or executing sourcing opportunities, Ariba's sourcing organization can help you. Ariba's Sourcing Services group runs hundreds of millions of dollars worth of projects on behalf of our customers each year. These projects range from electronics to transportation, indirect services to plastics, metals to capital equipment, and many more. Ariba has dedicated commodity managers assigned to each of these categories, with the sole purpose of conducting ongoing research and analysis into the hot and cold sourcing markets. Please contact your Ariba account manager to learn how we can help you become best in class in your sourcing efforts and drive more savings faster.

Appendix A: Pre-Packaged Reports

The following are useful pre-packaged reports for sourcing analysis. They can be accessed via the "Explore Pre-Packaged Reports" link.

Sub-Folder	Report	Description
Benchmark Reports	• Ariba Sourcing Savings • Price index reports (various) • Price Movements Relative to Price Index • Likely Sourcing Savings	• Shows the average percent savings realized by Ariba recently per category • Show the price index movements per category • Calculate the difference between price index and your unit price movement per category • Multiplies Ariba's average savings by your spend per category
Opportunity Analysis	• Big Impact Sourcing Projects • Supplier Fragmentation	• Shows which commodities in your supply base account for a relatively large percentage of invoice spend with varying prices across multiple suppliers • Shows commodities with excessive number of suppliers
Commodity Analysis	• Spend Variance Analysis • Spend Concentration Analysis by Commodity	• Shows annual changes in spend per commodity • Part counts and average price, showing concentration of spend

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Appendix B: Sourcing Criteria

The following are each criteria that suggest a potential sourcing opportunity, along with how to leverage Ariba Spend Visibility to check the criteria.

Criteria	Indicates Opportunity if:	How to Leverage Ariba Spend Visibility
Volume of Spend	Large Volume	Sort categories descending by spend. Use most commodity analysis folder reports or create one.
Spend Variance	Spend has increased significantly since last sourced	Look at spend over time, either via pre-packaged or custom reports. Open "Spend Variance Analysis" report and sort descending.
Supplier Fragmentation	A large number of suppliers in the category (note that large depends on category as local sourced commodities will naturally have more spend), with significant ability to consolidate spend among top suppliers.	Look for categories with large enriched supplier counts and then check for those with meaningful volume (20%+) outside of the top few suppliers. Open "Supplier Fragmentation" report and sort ERP Supplier Count descending. Also check for categories where parent companies in same industry have multiple suppliers under them as you can leverage the total volume in negotiations. This last point is especially useful in commodities such as energy, telephones, etc.
Part Concentration*	Spend concentrated in a small number of parts, enabling greater leverage with a few suppliers.	Calculate average price peer part and pull in parts to see if spend is highly concentrated. Open "Spend Concentration Analysis by Commodity" report.
Competitive Market	Market dynamics are yielding particularly competitive bids	Look at Ariba's sourcing savings via the "Ariba Sourcing Savings" or create a custom report, sort descending.
Market Price Declines	Price indices have fallen significantly since last sourced	Open one of the price index reports and sort for the commodities that have shown greatest declines.
Relative Market Price Declines*	Prices have fallen more or risen less than your prices	Open the "Price Movements Relative to Price Index" report and find categories with the greatest delta in price movements.

* Can only analyze effectively in Ariba Spend Visibility if part-level information loaded

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