

Spend Analysis: Transparency over Procurement Volume as the Basis for Savings

Spend analysis refers to the systematic capture, cleansing and evaluation of all of a company's expenditure on goods and services. It creates the data-driven foundation for procurement optimisation, supplier strategies and negotiation targets. Without reliable spend transparency, savings potential often remains undiscovered and steering decisions are made on gut instinct.

Key facts

- Spend analysis is the structured evaluation of all procurement expenditure by categories, suppliers and organisational units.
- Typical steps are data extraction, classification, cleansing and subsequent analysis along KPIs.
- In practice, consistent spend analysis frequently identifies savings in the low single-digit percentage range of the analysed volume.
- Key data sources are order data from the ERP, invoice data and catalogue purchases (catalog buying).
- Classification according to a uniform scheme, such as UNSPSC or eCl@ss, is a prerequisite for robust evaluations.
- Spend analysis is a single step in progress and the foundation for competitive analyses in the procurement market and for supplier consolidation.

Definition: Spend Analysis

Spend analysis encompasses the systematic preparation and interpretation of all expenditure on purchased goods and services. The aim is to make cost drivers, supplier concentrations and savings potential visible.

Distinction from Spend Management

Spend analysis is the analytical part of spend management: it provides insights that are subsequently implemented in strategy, negotiation and operational steering. While the analysis works retrospectively and data-driven, spend management also encompasses proactive measures such as sourcing events, framework agreements and demand bundling. Only the interplay of both levels turns data measurement into sustainable procurement optimisation.

Direct Spend and Indirect Spend

Direct spend covers materials and components that go directly into the product, such as raw parts, bought-in parts and freight. Indirect spend refers to indirect services such as IT, facility services, MRO materials or travel expenses. Both areas follow different logics: direct spend is typically strongly specification- and supplier-dependent, while indirect spend is often fragmented and characterised by maverick buying. A complete spend analysis fundamentally covers both areas, with different levels of analytical depth.

Why buyers need spend analysis

Buyers make decisions about sourcing strategies, negotiation targets and supplier portfolios. Without consolidated expenditure data, the objective basis is missing: it remains unclear which categories possess which levers and where bundling is realistic. Spend analysis also makes levers such as demand reduction, specification changes or competitive analysis in the procurement market quantifiable and prioritisable.

Methods and approach of a spend analysis

A robust spend analysis follows a clearly structured process from data acquisition to result interpretation. The quality of the analysis stands and falls with data cleansing and classification.

Data sources and data basis

The core source is order data from ERP and procurement systems, supplemented by invoice data, spend categories from catalogue solutions and expenditure without a purchase order reference. With catalog buying via cXML or comparable standards, structured data is available; classic or free-text orders require significantly more rework. Freight and customs costs, such as transport costs or document-related expenses for the EUR.1 preferential origin certificate, should also be included, as they often distort the true cost position as hidden cost blocks.

Classification and cleansing

Raw data must be brought onto a uniform material and supplier hierarchy. This includes assignment to categories via a standard classification system or an internal material numbering system, deduplication of supplier master records and cleansing of free-text items. In practice, this step frequently accounts for the largest share of the effort. Typical pitfalls are duplicate supplier entries, outdated categories and duplicates resulting from cross-functional purchasing organisations.

Analytical evaluation

On the cleansed basis, evaluations follow the Pareto principle: which categories and suppliers typically account for 80 per cent of the volume? In addition, spend cubes are used, which slice expenditure by category, supplier and organisational unit. Cost developments over several periods show inflation effects, while sourcing leakage analyses reveal orders outside existing framework agreements. Reconciliation with cost estimates provides realistic savings potential.

Key KPIs and evaluation dimensions

KPIs make spend analysis measurable and usable. They serve the prioritisation and success monitoring of sourcing measures.

Volume and concentration metrics

Central KPIs are total procurement volume, spend per category and supplier, supplier concentration (for example, share of the top 10 suppliers in total volume) and the share of volume under framework agreements. A high proportion of approved orders outside contracts indicates maverick buying and unused price advantages. The number of active suppliers per category also shows consolidation potential.

Process and compliance metrics

Process-related KPIs complement the volume view: share of catalogue-based orders, share of automated order approvals including mobile approval (P2P), share of double-bin or off-contract procurement, and compliance with approval thresholds. A high expedite rate on delivered items can indicate capacity or scheduling issues in the supplier network and should be interpreted in the context of delivery reminders and procurement logistics.

Price and market price metrics

Indices for average purchase prices per material group, price variance across locations and deviation from the reference price show whether uniform terms are taking effect. Comparison with market-standard reference values – for example via competitive analysis in the procurement market or electronic tendering – quantifies negotiation leeway. Metrics on payment terms and the use of supplier financial risk complete the picture.

Risks and controls

Spend analysis carries methodological risks: misinterpretation leads to wrong sourcing decisions. Clear control mechanisms are therefore essential.

Data quality as the main risk

Incomplete data, outdated master records and inconsistent classification systematically distort results. An order volume that does not separate freight costs, for example, overestimates material prices. Controls include sample checks of classification, the four-eyes principle for category definitions and regular updating of supplier master data. Without traceability of data provenance, analysis results remain difficult to retrace.

Compliance and governance

Insights from spend analysis can contain sensitive information, such as the price levels of individual suppliers. Access should be regulated on a role basis. When passing on benchmark findings in negotiations, legal frameworks must be observed; contract clauses such as a most-favoured-customer clause require individual examination in each case. Data protection requirements for personal data in evaluations must also be taken into account.

Avoiding missteering

A pure volume focus can lead to wrong decisions: supplier consolidation lowers prices but increases dependencies and must therefore be reconciled with supply risk management. Inventory effects must also be considered: obsolescence management and material planning play a role in spare parts, where historical spend data barely reflects future demand. Analyses should therefore always be combined with operational risk and availability data.

Current developments and outlook

Spend analysis is moving from periodic reports towards continuous, data-driven steering. Technology and supplier transparency are significantly changing practice.

Automation and AI

Modern solutions classify free-text items automatically, detect duplicates and scale evaluations across

subsidiaries. AI-supported approaches support category annotation, anomaly detection and price benchmarking. Nevertheless, expert validation remains necessary: automated classifications are frequently not error-free in practice and require sample checks.

Tier-n transparency and sustainability

The view expands from the direct supplier to the sub-tier: tier-n transparency is increasingly a prerequisite for supply chain compliance and sustainability reporting. Spend analysis provides the volume basis here to prioritise the review of high-risk suppliers. Linking with traceability data and certificates makes expenditure assessable along the value chain as well – including customs and preference aspects such as the proof of preferential origin.

Integration into steering processes

Increasingly, spend analysis is being integrated into recurring governance instruments, such as the quarterly business review (QBR) with strategic suppliers or into classic containment programmes in response to cost increases. Self-administered dashboards and self-service analytics make analyses directly usable for category owners, rather than binding them to periodic reporting cycles.

Spend analysis in implementation: from insight to action

The value of a spend analysis only materialises through consistent implementation of the insights gained. A structured transition from analysis to action distinguishes successful from purely reporting organisations.

Prioritisation of levers

Results should be prioritised by savings potential, implementation period and implementation risk. Categories with high volume and many suppliers are typically suited to bundling and electronic tendering; fragmented indirect categories to cataloguing. In practice, a portfolio of quick wins (fast levers such as demand reduction) and structural levers (framework agreements, specification changes) has proven effective.

Anchoring in processes

Analysis results must flow into operational processes: into sourcing roadmaps, negotiation mandates, order approval thresholds and operational material planning. Without anchoring, insights fizzle out. Regular updating – often quarterly or monthly – keeps the data basis decision-relevant.

Organisation and competence building

Spend analysis requires data competence and category know-how. A combination of central data management and decentralised specialist evaluation has proven successful. Training on evaluation methods and uniform category definitions prevent decentralised teams from drawing contradictory conclusions from identical data.

Typical metrics

Contract Coverage: > 85%

Share of volume under framework agreements; typical benchmark for well-managed categories.

Top-10 Supplier Concentration: 60–80%

Usual share of the top 10 suppliers in direct procurement; extreme values indicate risk or consolidation potential.

Catalogue-Based Orders: > 50%

Share of structured catalogue purchases in indirect spend; depends on the maturity of P2P processes.

Identified Savings Potential: 2–5% of spend

Typical benchmark for realisable potential in the first analysis round; depends on the category.

Classification Rate: > 95%

Share of spend items with an unambiguous category assignment; a prerequisite for robust evaluations.

Practical example

A mid-sized mechanical engineering company with an annual procurement volume of around EUR 60 million carried out a spend analysis covering 24 months of history. The analysis revealed that over 200 parts suppliers accounted for only a low volume, that standard catalogue components were predominantly ordered as free-text items and that transport costs were incompletely separated. From this, the company derived concrete measures:

- Consolidation of around 40 per cent of suppliers in the top categories based on the Pareto evaluation.
- Migration of frequently ordered standard parts to catalog buying with fixed prices and automated order approval.
- Establishment of a separate freight cost category and negotiation of Incoterm adjustments, for example from CIF positions towards clearly separated transport costs.
- Derivation of negotiation targets for the QBR with strategic suppliers and launch of an electronic tendering pilot in two categories.

Conclusion

Spend analysis is the foundation of every fact-based procurement steering. It transforms scattered, often inconsistent expenditure data into decision-relevant insights about categories, suppliers and levers. The effort involved in data cleansing and classification is not trivial, but pays off through measurable savings and robust negotiating positions. What matters is the consistent coupling to implementation processes – from sourcing through order approval to supplier management. Anyone who treats spend analysis as a one-off project wastes potential; as a continuous process, it becomes a lasting lever for procurement optimisation.

Frequently asked questions

What is spend analysis in simple terms?

Spend analysis means systematically capturing, cleansing and evaluating all of a company's procurement expenditure. It then shows which categories and suppliers account for how much volume and where cost potential lies. It is the data foundation for sourcing strategies and negotiations.

How do you carry out a spend analysis step by step?

Typically, the process follows extraction of data from ERP and accounting systems, cleansing of supplier and material master data, classification according to a category system, followed by analysis by volume, supplier and organisation. Levers are then prioritised and measures derived. In practice, the greatest

effort usually lies in data cleansing and classification.

Which KPIs belong to a spend analysis?

Core KPIs are total spend, spend per category and supplier, supplier concentration and the share of contract-compliant purchasing. In addition, process KPIs such as the share of catalogue-based orders or the share of automated approvals are used. Price indices and benchmark deviations quantify negotiation leeway.

Which tools are used for spend analysis?

Companies often start with ERP reports and spreadsheets, but switch to specialised spend analytics solutions or business intelligence platforms as volumes grow. More important than the tool are uniform category systems, cleansed master data and a well-maintained process. Integration into the existing system landscape should be reviewed in advance.

What data do I need for a spend analysis?

The basis is order data, invoice data, supplier master data and material master data, ideally via a uniform material numbering system. Freight and customs costs, framework agreement data and catalogue transactions are also useful additions. The more complete the data basis, the more robust the analysis.

How often should a spend analysis be carried out?

For strategic decisions, an annual or semi-annual in-depth analysis is sufficient in many companies. For operational steering, quarterly or monthly updates have become established. What matters is that the data basis is maintained continuously rather than built up once.