What is Spend Analysis ABC?

Supplier ABC Analysis

Image 1. Supplier ABC Analysis Diagram – Spend Analysis

Supplier ABC Analysis, provides management with a process that segments suppliers into Three Spend Categories (ABC), relevant for a given time period and based upon the total procurement spend. The benefits of spend analysis using supplier ABC include, reduced costs, lower inventory levels, improved supplier management and allocates resources to strategic projects.

How to Create Supplier ABC Analysis: Spend Analysis Methodology

Supplier ABC Methodology creates Supplier spend profiles, by sorting Spend Value in descending order, dividing it by the Total Spend, expressed as Percentage. A Percentage cumulative calculation is then applied to each supplier allocated a letter A, B or C depending upon the cumulative value shown in Image.2 Spend Analysis ABC – Excel Output.
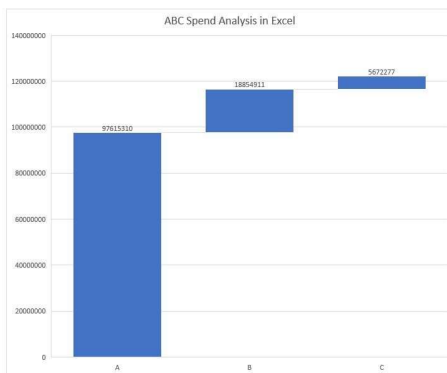
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Image 2. Spend Analysis ABC – Excel output

The following table below shows the Percentage Score for ABC analysis

- A=0% to 80% Supplier Spend Value

- B=80% to 95% Supplier Spend Value

- C=95% to 100% Supplier Spend Value

The attached video, shows how to create a Supplier ABC Analysis, using tried and test Spend Analysis techniques.

You Tube Video Spend Analysis ABC in Excel (1.2Mins)

Video: ABC Spend Analysis Video Using Excel Data (1.2Mins)

A Sample Spend Analysis dataset in excel was used to create the following video and is a how to guide on how to create ABC spend analysis in excel. ABC Spend Analysis gives procurement the data foundation, to make faster, better, informed decisions, that are aligned with the company & procurement objectives.

The following Spend Analysis Diagram, ABC & Tail Spend, gives an insight on the first stages of using Spend Analysis Analytics.

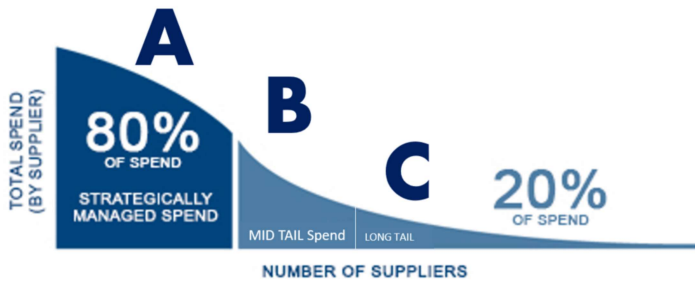## What is Tail Spend Analysis?

Image3. Spend Analysis ABC & Tail Spend

Tail Spend Analysis is derived from ABC Analysis, Class A high value suppliers, Tail Spend is formed from class B & C suppliers, equates to 20% of the total spend, B is Mid Tail and C is Long tail. Effective Spend Analysis and tail spend management, ensures that procurement can focus on creating an optimum and efficient sourcing strategy.

Procurement Spend Analysis

Procurement organisations effectively identify and manage suppliers using a sourcing strategy. Tail suppliers normally have low strategic value and makes the category management, very difficult . Spend Analysis and Category Management are very closely aligned, Spend Analysis including ABC, provides the category manager, with spend visibility.

Spend Analysis and procurement metrics are used to create category plans, build supplier relationships, to maintain service levels and deliver the best possible price and aquality for goods and services bought. The acquisition of Spend data and subsequent Spend Analysis, provides Category Managers access to a well-structured procurement process,

A typical procurement process includes:

- Researching markets and products
- Identifying relevant suppliers
- Negotiating supplier T's & C's

- Maintaining supplier relationships

- Procurement Reports

- KPIs and Metrics

In most organisation, Tail Spend when aggregated can deliver significant cost savings and reduce the amount of transactions. Tail spend tends to be unclassified, and therefore 'invisible', because the purchases are too small, or too infrequent to go through an organisation's procurement system.

FAQ's Spend Analysis ABC & Tail Spend

Spend Analysis

Spend Analysis ABC & Tail Spend

Q1.Can Supplier ABC Analysis help Identify Opportunities?

ABC Spend Analysis can help Category Managers Identify Opportunities, by the formation of category spend profiles. ABC analysis, used in conjunction with Spend Classification provides spend analysis at multiple levels, creating a spend matrix and sourcing tool to provide the company with the best sourced goods and services.

Q2.What is Spend Analysis ABC methodology?

The Methodology for ABC Spend Analysis, involves calculating the spend by supplier, dividing this by the Overall spend, sorted by supplier Total, aggerated into a cumulative spend profile. This profile uses percentage values to assign each supplier by A, B or C, these values provide procurement with a spend lens of highest ranking spend suppliers to lowest ranked.

Q3.Why is Multiple Levels of Spend Analysis Important?

Procurement need with multiple levels of spend analysis, using a hierarchy derived from the taxonomy, procurement are able to slice and dice the data to create Spend Analysis Dashboards. This multiple level analysis, provides executive summaries to very detailed deep dive category and suppliers reviews, this approach is important, providing at scale and flexible Spend Analysis Business Intelligence.

Q4. Do Spend Analysis Strategies Work?

Spend Analysis applications, shape and inform sourcing strategies, aimed at improving sourcing awareness, business performance, cost management & Cost Savings. This work is the foundation or cornerstone in the development of an effective business and sourcing strategy, providing insights and actions that deliver a powerful and competitive strategy.

Q5. What is Spend Analysis Automation?

Some Companies, creating spend analysis can be very time consuming and unproductive, spend analysis automation, aims to provide a fast, accurate, repeatable process, with robust and comprehensive management information. Automated Analysis, is when spend data is extracted, transformed and shared, it should be the trusted, fostering a data driven culture.

organises quickly it into a Spend Analytics Dashboard. Agile process design

which requires minimal input from Procurement, designed to take Data to Dashboard in Minutes*.

A budget friendly spend analytics software and solution, that combines data science, business intelligence with procurement subject matter expertise. Built with purpose, to provide a future proofed, robust, Spend Analytics Software Solution.

Spend Analytics Data to Dashboard – Video You Tube

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Spend Analytics Software known as Accelerated Insight developed by Seaforth Analytical Services Limited

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Spend Analytics Dashboard?

PROCUREMENT, DIRECT PROCUREMENT, SUPPLY CHAIN

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