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P E R S P E C T I V E S

Where Spend Analysis Meets the Supply Chain: Putting Big Data in a Procurement Context

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Good performance management approaches have to rest on good data – data that is indisputably referenced by business units, corporate leadership, and suppliers alike. The spend analytics field has matured to the point where leading solutions (such as Spend Radar/SciQuest, Zycus, BravoSolution and others) can process complex data sets from a broad range of ERP solutions and provide consolidated dashboards and reports with drilldown to the lowest-detail levels within hours of designated close time. Near real-time spend analysis is of course possible, but rarely a business need.

By contrast, SPM (supplier performance management) often involves manual work such as entering information in balanced scorecards, which obviously makes timely reports difficult. Rolling out traditional SPM in a global organization across many business areas without creating “apples to oranges” comparisons because of the different definitions and data points used makes it an even greater challenge.

How do you uniformly define concepts like “quality” and “on-time delivery,” for example? The question is as much centered on process and definitions as focused on the ability to execute the measurement of these areas in a unified application. One approach is to shift the paradigm of spend analysis to supplier performance management. Said another way:

What if we applied a spend analysis solution and processes to supplier performance management?

This idea came to FMC Technologies’ (NYSE: FTI) German Torres, who is responsible for the analysis, process, and systems function for sourcing and procurement within his organization. As part of his duties, German was faced with a global SPM rollout challenge – no small feat for such a specialized manufacturing organization. For those who don’t know the firm, FMC Technologies is an oil and gas industry company with over 18,000 employees, \$6.5B in revenue, and a \$13B market cap. It is known for manufacturing the so-called “Christmas Trees” (control equipment assemblies that sit on top of oil and gas wells) as well as a long list of other energy industry related equipment.

When SPM and Spend Analysis are Life and Death Matters

FMC Technologies primarily works with subsea installations – some at depths as far as 3,000 meters (close to 10,000 feet) below the ocean surface. Supplier performance and quality are not just metrics

on which to measure vendors in this environment – they can be the difference between success and failure for the ultimate end customers who work on the installations to keep the global pipeline for energy flowing.

FMC Technologies has built its business around highly engineered (build-to-order) installations, where the performance of suppliers and their delivery per negotiated schedule is mission-critical. To facilitate successful project delivery – and ultimately top-line revenue – FMC Technologies needs dashboards with drilldown into the details around each supplier and project to understand relative and program specific performance.

It is important to note that in this environment, they have less need for traditional sourcing-centric spend analytics. Unlike many organizations that use spend analysis as a tool to drive supplier rationalization, FMC Technologies is not looking to reduce its supply base. Rather, their focus on building visibility into spending and supplier performance centers on standardizing and deepening relationships with their strategic suppliers worldwide.

Some of the data points they leverage in this hybrid spend and performance analysis include:

- Quality
- On-time delivery
- Open purchase orders (POs)
- Forecasts
- Supplier risk information (e.g., D&B data – so far the only third-party data point considered in FMC's deployment)

Evaluating the Market and Selecting a Solution

After FMC Technologies evaluated the spend analytics marketplace, they decided on SciQuest's Spend Radar solution. (At the time of evaluation, FMC Technologies selected the Spend Radar solution, and in October 2012, Spend Radar was acquired by SciQuest.) FMC Technologies opted for the SciQuest solution based on a combination of criteria, but a significant portion of the selection criteria emerged from their short timeline and overall related requirements. FMC Technologies deployment requirements and schedules required a working solution in three months from contract signing – that could support all of the related systems/data integration, features and capabilities to bridge the worlds of SPM and spend analysis.

SciQuest's Spend Radar product may ultimately prove to be the right solution for the task at hand, and this appears to be backed by feedback we have received. One advantage FMC Technologies and SciQuest had in this instance was starting out with fairly clean data at the ERP level – FMC Technologies was already using a single instance of SAP worldwide for their four regions (headquartered in Norway, Singapore, Houston, and Brazil). These regions had been merged into one global organization around the same time the SPM solution was rolled out.

In contrast to FMC Technologies, the majority of the Global 2000 manufacturers that Spend Matters interviews and works with typically do not have access to the same high level of quality data at the start of deployments. Specifically, ERP proliferation, data entry errors, and a lack of common terms and standards, especially on a global basis, can consume substantial amounts of deployment time to overcome. In other words, the exceedingly quick turnaround FMC Technologies realized is not something that any provider can (or should) promise to a prospect or customer unless they have a good understanding of the systems and data quality environment

at hand. A proven solution provider (like SciQuest) can help overcome data challenges in more “normal” organizations, but clients should be ready with additional budget and time allocations.

The FMC Technologies Total Cost of Ownership Equation: Safety, Quality, Delivery, and Price

FMC Technologies’ four business drivers are: safety, quality, delivery, and price. They use these to create a total cost of ownership model. With the deployment of SciQuest’s Spend Radar solution, FMC Technologies’ initial challenge was centered around definitions (i.e., how to ensure that the same report would generate results that were equally robust and well-defined regardless of area of operations). If FMC Technologies could not achieve this, it would be impossible to benchmark across areas, and have meaningful discussions with business owners and suppliers around why there were dips in performance in certain areas.

Cleverly, in order to avoid end-users creating a Babylonian babble of terms and definitions, FMC Technologies quickly decided to lock down the reporting and dashboard functionality. The 100+ users of the solution can freely choose among the many reports and dashboards available, but they can’t create further fragmentation. Such an approach was critical in order to not create a system where users would come up with different answers to the same questions.

Process extends past systems in this regard. Change requests have to go through German Torres’ group of “standards keepers.” And few users are now requesting unique reports – something that has been a direct bottom-line benefit with the solution. Earlier, Torres’ group had four analysts occupied with reactively pulling custom reports for business owners. At the current time with the deployment steaming ahead, the number is down to two analysts and they rarely get any requests for special reports.

Rather, the system meets their needs with existing reports and dashboards. This enables Torres’ team to focus on proactively leading the analysis effort and delivering far more value to FMC Technologies rather than simply pulling customized reports for business users. Moreover, getting all users to standardize not just on measurement but how they look at outputs has created a shared language among different groups – that often collaborate – on how they approach areas like continuous improvement, supplier development, and risk management in a common manner.

The system is also accessible for executives. German shared with Spend Matters that the solution interface is practically boardroom ready. He relies on the interface – not an exported chart or an Excel file – in executive meetings to pull reports on the fly, drill down into source data to settle debates, and answer questions from the application.

Speed, Speed, Speed: Increasing the Pace of Business Through “Closing the Supplier and Spend Books” Fast

FMC Technologies’ spend analysis and SPM process is now mature and fast enough that Torres has promised business users that they will have access to updated reports within five days of their monthly closes (this implies the solution is currently refreshing once per month). Yet FMC Technologies is exceeding its internal service level agreements in this area. At the moment, the process has become so streamlined that users get their data three days ahead of schedule – on “Day

2” after close!

As a backdrop, their previous approach could only deliver the reports by “Day 10” each month, a change representing an enormous process improvement. This rapid access and the far-superior reports and dashboards have combined to drive adoption – something that Torres monitors regularly, to see how end users have taken to the solution. To him, the only measure of solution success is adoption – he emphatically states: “people use it!”

Greater usage and adoption means that frontline operations, purchasing, materials and engineering team members are leveraging supplier performance and related data to drive better outcomes for projects and end-customers – in ways they could not have envisioned before that can truly impact the business. Based on his experience so far, if German could he would roll out the tool to every FMC Technologies user with any need to understand or otherwise participate in the vendor performance evaluation process: “if you simplify people’s lives, they will use the tool.”

In an ideal rollout, unconstrained by per-seat fees, he would segment the solution per user category and the sensitivity of the data – but fundamentally speaking, nearly all employees should have some degree of visibility into the SPM data, in his ideal world.

Even without the all-company adoption he would have had in an unconstrained environment (where user agreements limit the number of seats today), the current effort has helped Torres solidify his efforts among end users. It goes without saying that successful engineering firms tend to be unforgiving of errors and intolerant of missed deadlines.

The same is true with the suppliers. FMC Technologies buys licenses for key suppliers so they can see their data and SPM statistics. This helps cut down on unproductive discussions that result from different understandings of what data is at the heart of the issue. One of the features and dashboards that German uses with suppliers is a performance indicator with a summary of actions that have been taken. However, it is not yet a substitute for other systems. In a future release, Torres would like to be able to stream relevant content to key suppliers for internal dissemination. This is a supplier-led request that indicates clearly the solution is well received on both sides of the table.

Deployment Secrets and Tricks of the Trade

Torres sees another reason behind their successful rollout as FMC Technologies’ top down approach to the technology (i.e., locking down the structure), and the bottom up approach to the content – in other words, ensuring that each region’s reporting and tracking needs are addressed. Moreover, the highly configured and customized deployment approaches recognize the unique aspects of FMC Technologies’ business, including the difficulty of introducing new suppliers (i.e., they rarely switch suppliers).

Other deployment nuances – compared to different industries – include a lack of requirements needed for live information (as noted, FMC Technologies relies on monthly refreshes), and the need to tightly monitor their low volume and high-mix environment. Contributing to the success of the rollout is FMC Technologies’ incorporation of related MDM (master data management), initiatives including having insight into all specific parts numbers involved and access to already clean data.

Looking back, the implementation of the SciQuest Spend Radar solution has gone “exceedingly smoothly,” and Torres couldn’t think of anything he would have done differently. When pushed to point out hiccups, he said that there were a few minor errors in their data (incorrect mapping) but nothing that wasn’t attributable to issues within FMC Technologies. He had nothing but accolades for the SciQuest/Spend Radar team, and especially complimented their willingness to stay flexible

even within a larger organization – something he hopes the team will maintain as they grow. The growth direction at FMC Technologies is likely to continue to expand outside traditional spend analytics and SPM. Torres sees several areas where the SciQuest solution can deliver new value to them:

- Operations
- Value chain
- Engineering

These areas represent an exciting expansion for the charter of spend analysis, and the fact that Torres considers FMC Technologies' existing business reporting solutions inadequate shows that the ERP players need to step up their game or risk being displaced by tools like the SciQuest Spend Radar solution that are used to make sense of fairly unstructured sets of data. And in case you wondered, Torres is planning on eventually putting the SciQuest tool to use in the more typical sourcing and procurement areas – but his immediate focus lies on the operational side.

We can summarize FMC Technologies' key lessons learned in its current deployment with three bullets:

- Find the right solution partner who can move at the pace and flexibility required;
- Ensure you have enough budget to provide access to all who need the tool;
- Stay on top of what is needed versus what is merely curiosity, both from the user level (e.g., ask “who really has a need to know”) and a content level (i.e., what adds actionable value.) ■

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