

# Procurement Master Data – The Bedrock of Success



People matter, results count.



**World class procurement is built upon the availability of information to drive visibility, control and effectiveness. Information provides the ability to optimize leverage, pursue informed buying decisions and ensure alignment of internal behaviors to procurement strategy. Despite how crucial this clearly is, information and visibility relating to third party expenditure remains an on-going problem for many organizations.**

Information is built upon data. The quality of master data ultimately dictates the integrity of output information and reporting. In our experience, organizations are continually hampered with optimizing the performance of their procurement activities through the paucity of information and availability of reliable data. In effect, too many procurement activities are executed when ‘driving blind’ or made on the basis of ‘gut feel’ or ‘best guesstimates’.

Poor Master Data Management (MDM) leads to a cycle of detrimental events. It starts with often laborious practices to gather data from various systems and employ some degree of manual cleansing to create an acceptable level of consistency. With this, a

‘snap-shot’ analysis becomes possible, although this represents merely a moment in time rather than real time.

Consequently the disparate nature of underlying data as well as the inherent data gaps which frequently exist provides the formulae for sub-optimal and/or misleading analysis. Take a moment and consider the following questions:

- Is detailed, granular understanding of expenditure available across all major areas of direct and indirect spend categories?
- Can I compare consistently spend information at supplier, commodity and line item level across sites, divisions, locations and geographies?
- Do I know definitively what I spend, with whom and on what in real time without the need for resorting to spreadsheets and manual intervention?
- Can I track savings consistently?
- Do I have clear visibility of the compliance levels within my organization against preferred contracts and suppliers?

If the answer to one or more of these questions is anything other than a resounding ‘yes’, then you almost certainly suffer a problem with supply-centric master data.

Despite the age-old nature of this problem, improvements to MDM have been slow in coming. Capgemini has identified a number of reasons behind the lack of progress in rectifying this fundamental issue for procurement success.

## The ten drivers of poor master data

Whilst no two organizations are identical, the issues with Procurement Master Data typically come down to a combination of one or more of the following factors:

- **Poor data entry:** lack of data entry discipline is a common issue. This can take a number of forms. Regular problems include: assignment of “other” as a major expenditure category, use of incorrect categorizations, incomplete application of part numbering/ supplier description details in master records, duplication of entries and mis-coding.
- **Legacy systems & classification structures:** many organizations have grown through mergers and acquisitions or have segmented their business units (BUs) to recognize distinctive product offerings or markets. Through this process, data structures have often been siloed with no overarching direction or approach. Hence a “hard hat” at one location becomes a “yellow hat” at another and a “safety hat” at a third

– the organization now has three products when in reality there is one. Whilst data structures may be consistent within individual BUs, harmonized enterprise-wide information is frustrated.

- **Data structures & schemas:** it is not uncommon to find a lack of a consistent schema (or its application) within an organization defining material and service group hierarchies. Multiple classification approaches are not uncommon mingling ‘home grown’ with industry standard structures. These tend to undermine consistency. In simple terms, when two things which happen to be the same are called something different they become two different items as far as reporting is concerned. Although use of schemas such as EClass and UNSPSC has become more commonplace, consistent application and coverage remains problematic. Without a common data structure to drive uniformity in data entry, inconsistencies rapidly arise and persist.

- **Governance and accountability:** responsibility for data management is fragmented with unclear lines of accountability. Common governance determining roles, responsibilities and accountabilities for data entry, management and integrity are also a major contributing factor. Rigor and clarity provides uniformity and consistency. Its absence conversely leads to multiple approaches within the enterprise providing opportunity for conflicting data standards and ambiguity.
- **Over-reliance on IT:** despite significant improvements in the available IT solutions to help resolve master data problems they are not a panacea. However good the technology platform, it relies on process discipline and application. Perceiving them as a ‘silver bullet’ negating the need for non technology activity simply contributes to the problem and holds progress back.



- **Scale of the issue:** the scale of data issues for some can be daunting, leading to paralysis of action.
- **Visibility:** poor spend data is regularly ignored as a significant issue within organizations. Its relative importance is frequently not understood or is underestimated by executives. The issue of poor data is disguised by a willingness to manage with what is available on the part of line management. The focus is too often on what can be done and not on what is ideally needed.
- **Quantifying the benefits:** the benefits from rectifying master data do not reside with master data itself but from what is done with the resulting improvement in information. When master data is seen as an “IT” issue the link to enabling business benefit is seldom made, destroying the economic case for investment.
- **Perception:** MDM is not seen as the most glamorous or strategic of topics for many. This can give rise to a ‘Cinderella’ attitude towards it, relegating its relative importance down the pecking order for investment.
- **Cost & effort:** whilst benefits have regularly been difficult to attribute, costs have not. Investment in tools, technology, expertise and man hour effort at the enterprise level has often acted as a barrier to act. Delay in tackling MDM over a prolonged period of time allows the issue to become exacerbated, reinforcing inertia through the scale of investment needed.

Issues with Procurement Master Data arise through a combination of the factors referred to above. They can be summarized, however, through a combination of outcomes. Complacency, lack of ownership, poor rigor and an inability to clearly see and quantify the impact for high procurement performance and ultimately the balance sheet are but to name a few.



### **MDM is business-centric, not data-centric**

MDM is not a single problem for an enterprise. It splits into various business areas but these can be categorized in three groups:

- Customer Centric – focused on the external management and interaction with customers
- Enterprise Centric – focused on the internal operation of the company
- Supply Centric – focused on the external management of the supply chain.

Procurement Master Data is the major part of Supply Centric MDM and focused on the specific challenge of buying goods and services. Supply Centric MDM also covers the challenge of distribution networks, global data synchronization and supplier/enterprise event types. A key measure of success in addressing the problem is recognizing the business-centric nature of procurement challenges and addressing the MDM challenge from that perspective.

### Quantifying the nature of poor Procurement Master Data

One of the reasons why poor master data is so widespread within procurement is an inability to either highlight or quantify its nature and impact. Making the connection between what is often regarded as a mundane problem and top line performance has escaped many, despite how seemingly obvious this is when a moment is taken to consider.

Organizations thrive or struggle based on the decisions they make. Decisions should be based on fact and be informed, which in the normal course of events, requires analysis to draw conclusion. This 'chain' of activity lies behind all rational decisions and its bedrock is accurate, reliable master data. If the data upon which analysis is conducted is inaccurate, misleading and/or unreliable, then by definition the whole of the decision making hierarchy becomes contaminated.

In organizations where master data is poor, problems compound problems; poor data results in inaccurate analysis which in turn is used to make decisions which can be fundamentally flawed. Ultimately, this drives up risk of failure, sub-optimal performance and uncertainty.

Issues with master data, in a procurement context, normally circulate around four primary areas:

- The consistent recording of supplier data relating to vendor description. It is not uncommon to have the same supplier represented as multiple 'suppliers' as a result of inconsistent data entry. To illustrate, 'Capgemini' becomes 'Capgemini', 'Capgemini', 'capgem', 'CG UK Ltd', 'Capgemini Consulting', 'Sogeti', 'Cap-gemini plc' and so on.

- Part or SKU data. Here a range of problems are evidenced covering descriptions, taxonomies and part numbering consistency. A single manufacturer part which in location A is classified as a '123', is 'XYZ' at site B and 'ABC' at location C. De facto, we now have three separate parts when we analyze!
- Equally, MDM issues affect descriptions. This is particularly prevalent with non stocked items where bill of materials rigor is absent. Actual description lines can be poor or nonexistent ranging from incomplete description strings (e.g. 'stainless steel bearing') to ones which are inconsistent across business units (e.g. "bearing, stainless steel, 3cm diameter" versus 30mm bearing, steel bearing)
- The third common issue relates to categorization. These normally split into two distinct aspects. Firstly those which have their roots in inconsistent data hierarchies and the second in non classification. All areas of expenditure, whether physical goods or intangible services, belong to category families (e.g. Facilities), which can in turn be broken into commodity groups (e.g. Cleaning) which can again be driven down to sub-commodity groupings (e.g. Cleaning Consumables). When these are not applied consistently it undermines the ability to create robust spend hierarchies. A printer cartridge in one location is categorized as 'Office Supplies' whilst a sister site has categorized it as 'IT Consumables'. These problems are most pervasive when one considers indirect expenditure areas and thwart visibility of spend. More worryingly however is where





spend is not categorized at all. This normally goes by a number of names; 'other', 'non classified', 'miscellaneous' to name but a few. Often these classifications arose to deal with low value 'one-off' spend requirements but over time they have been abused because of either ease or lack of rigor over data standards and have become catch-alls. In one example organization around 20% of total spend was categorized as "other".

- Finally, MDM issues also affect procurement performance data. Suppliers are monitored regularly with respect to delivery. However, the recording of suppliers' 'promised' dates by the buying organization are often confused with the 'required' date fields. If the buying organization is ordering late and out of lead time it is often common to insert the required date into the promised field. Consequently suppliers

are seen as 'late' before they have even started to fulfill the order affecting accurate rating and monitoring of suppliers.

So, what does all this amount to? After all, companies have long operated with these problems. In short it comes down to effectiveness and efficiency and how this translates into opportunity. The problems with master data described above manifest themselves into a number of frustrations which thwart this opportunity, undermine the effectiveness of a procurement function and erode performance.

The impact of poor MDM determines the difference between top quartile buying performance and average performance. When one considers the consequences of each of the above areas in turn and extrapolates the impact, this becomes abundantly clear.



### **Defining the opportunities from MDM**

Despite the challenge that poor MDM can pose, the prize for procurement is significant and demands action. These opportunities depend upon accurate, consistent and reliable master data. The benefit does not come from improved MDM, but what is done with the resulting information and what it makes possible. This link is crucial to justifying investment.

Here are the main advantages of perfecting Procurement Master Data:

1. **Supplier leverage:** consolidation of supplier records and consistent descriptions provides the ability to better exploit purchase volumes. Moving from a perception of spending €5m with twenty suppliers to spending it with one makes for a completely different discussion with that vendor during commercial negotiations.
2. **Supplier rebates and discounts:** utilizing the same improved data as '1' above, regularly provides opportunities for 'quick wins' once master data is 'cleansed'. Better understanding of total spend by vendor can increase the spend upon which rebates are applied. Equally, the same information can help exploit existing pricing models by 'tripping' the buying organization into greater discount bands in recognition through formerly fragmented volumes. These savings can be significant, quick and helpful for covering the investment cost in rectifying MDM issues.
3. **Line item leverage:** homogenizing part descriptions and numbering provides the ability to exploit differentiated pricing across the organization. Once parts are established as being the same item or service, pricing can be

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- compared across different business units, locations and functions. Once pricing is understood, harmonization to the lowest paid rate becomes a simple and often lucrative exercise.
4. **Standardization:** similarly, improved line item detail and standardized information opens up the opportunity to standardize requirements to lower cost, but fit for-purpose specifications. The opportunity to standardize relies on consistent, transparent data to allow comparison and understanding. Standardization typically represents significant savings costs of anything between 10 and 30% but is only possible if MDM is consistent, reliable and robust.
  5. **Cost of capital:** utilizing the data to drive standardization also provides the ability to improve stock management and the associated cost of capital. Removing inconsistent categorization and part numbering provides the ability to better leverage stock. In an example from a Capgemini project, a client saved over €400,000 by avoiding the purchase of packaging at one site through leveraging stock surpluses at another. The former regime would have perceived these as disparate parts leading to the continuation of unwanted stock at one site incurring a capital cost and significant capital expenditure at another.
  6. **Productivity:** better visibility of stocked items through consistent part descriptions and line item classifications also improves productivity. Improved data consistency provides part availability for maintenance activities through harmonized records across the stores network. Availability is improved by exploiting duplicate stock holdings in differing stores by removing inconsistent part numbering. Better availability of maintenance items leads to improved up time for plants and thus improved productivity.

We would estimate that these opportunities collectively represent one of the most significant financial opportunities for an organization. The scale of benefit may fluctuate from organization to organization, but the scale for large business is likely to run into tens of millions of pounds, Euros and/or dollars. When translated to the balance sheet the impact is material, improving gross and net profit, earnings per share and potentially the company's overall rating as measured from a price to earnings perspective.

Exploitation of these opportunities, however, is based on the ability to link master data improvement to a procurement program. The data provided by the former affords the latter the ability to drive commercial benefit and gain. As a consequence they represent a symbiotic relationship which if broken thwarts opportunity and progress. Once this link is established though, the case for change becomes both compelling and tangible.

## **Resolving the master data problem**

Addressing Procurement Master Data requires a 'look back – look forward' approach. Looking back recognizes the legacy of corrupt/inconsistent data which needs to be addressed. Parallel to this is the need to create a sustainable environment for future master data collection. This forward-looking focus is required to rectify the root cause issues of poor master data. These twin areas of focus require a range of integrated activities representing a holistic solution to this endemic problem.

The check list of critical activities includes:

- Build a business case which clearly links the tangible opportunities from improved procurement data and information to the cost of rectifying the MDM problem.
- Have a clear strategy and implementation plan which recognizes the interdependencies across activities, sequences tasks appropriately and sets the right priorities.
- Determine the most appropriate data cleansing approach for the situation in balancing the use of software accelerators with the need for human intervention.
- Clarify how corrupt/inconsistent legacy data will be quarantined from new records until it has been cleansed.
- Set priorities and scope to maximize cost to benefit, whilst determining an optimal approach to dealing with the legacy low spend but high volume tail of SKU's and suppliers which is unlikely to form part of the cleansing scope.

- Determine the key management information requirements for procurement and the associated prioritization.
- Design and implement an operating model and associated governance required to bring consistency, ownership and accountability for managing master data records.
- Review, define and execute system and technology requirements needed to support management of standardized and effective procurement master data.
- Execute an effective change management program to support consistent primary data inputs by stakeholders and help colleagues understand the link between data entries and business performance.
- Develop and implement a compliance approach to revised data capture and entry standards devised as part of the program of change.
- Finally, define and embed the consistent data structures, hierarchies and protocols to optimize management information and exploitation of business benefit.

Dealing with the legacy problem can be a daunting challenge to change, but a well considered, pragmatic and integrated approach can break the problem down into manageable components and drive momentum.



### Summary

The focus on controlling costs and reducing expenditures is a perpetual challenge to organizations of all nature; public, private, large and small. Speak to any procurement professional and they will always pinpoint information as one of the key determinants of success. If progress is to be made in this area then the starting point must be the tangible demonstration of fiscal and performance improvement which change represents.

This will require the integration of traditional technology-centric strategies with the opportunity which exploitation of resultant management information provides. In such a context the case for addressing

master data becomes powerful. Without the link it remains at best a low priority mundane topic likely to be shunned by senior management and evade their attention.

Whilst resolution of master data issues can be daunting due to scale and complexity, the size of the prize in most instances demands action. If a pragmatic, well thought through, comprehensive approach is taken, with the end requirement always at the fore, the 'elephant', to use a well known analogy, can be eaten in bite-size chunks.



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