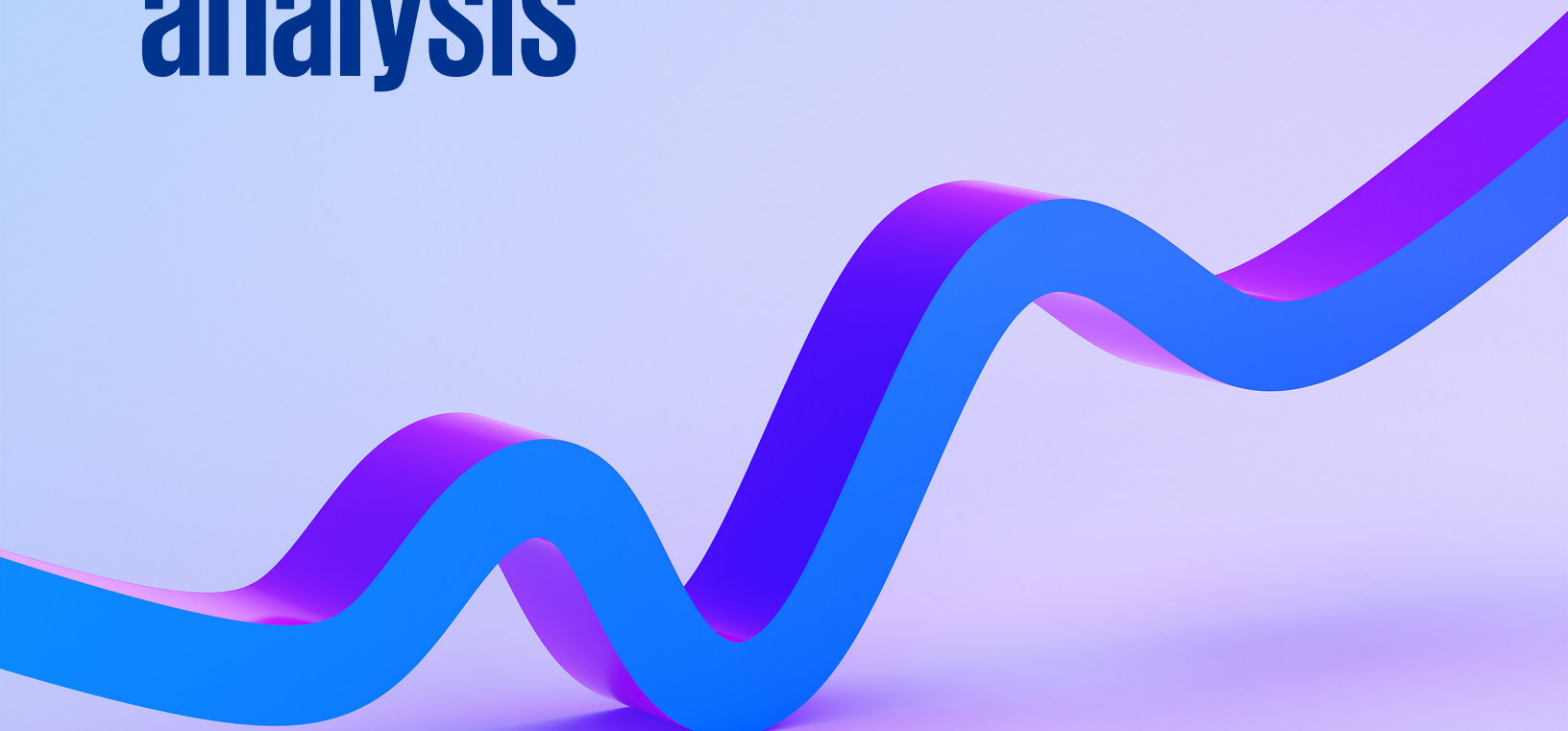




# Transforming government spend using data-driven analysis



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# What budget and spend challenges governments face today in driving toward spend visibility

State and local government employees are called upon to deliver “private sector quality services” efficiently and effectively, allocate and increase resources, and comply with increasing regulatory, administrative, and legislative requirements—even as their budgets remain the same or decline. With continuing pressure to do more with less, innovative methods such as strategic sourcing, total cost analysis, should-cost modeling, and category and contract management are being sought and envisioned by government entities facing economic factors such as:

- Pressure to keep up with current established budgets and leveraging existing multiyear contracts with stagnant/set pricing in an increasing inflationary environment
- The need to track and report on expenses and spend at different granularity levels for numerous federal funding sources
- Reduction in tax revenues resulting in budget cuts
- New organizational leadership teams looking to drive cost efficiency.

With these, and more challenges, governments are dealing with disparate transaction systems across departments to gain visibility into spend. As they seek to identify spend areas, obtain category based spend, analyze spend use cases and contracts, identify and execute opportunities to streamline spend, and perform ongoing spend analysis, these challenges can not only impact day-to-day operations, but also long-term planning and investment prioritization.





# Why optimize, integrate, and invest in spend visibility now

A key driver of operational agility for state and local governments is procurement. Leading organizations prioritize spend analytics and harness spend monitoring and reporting capabilities to find operational efficiencies, forecast and plan more effectively, generate cost savings, and deliver value. To get there, public sector executives should first:

- **Optimize** business processes: Transform their procurement operations.
- **Integrate** technologies: Centralize and maximize their use of modern e-procurement systems.
- **Invest** in spend visibility: Leverage reporting and analytics tools to maximize spend visibility and employ data-driven, operational insights and decision-making.

With the acceleration of government procurement modernization, leading government back-office associations today such as the National Association of State Procurement Officers (NASPO) and National Association for State Chief Administrators (NASCA) are forecasting spend analytics and data-driven decision-making as their top priorities for governments in the coming years.

- NASPO identified *analytics for data-driven decision-making* as priority number No. 2 in 2023, up from No. 7 in 2022, and believes procurement data analysis strategies are set to grow exponentially by 2030.
- NASCA sees *enterprise-wide data management and analytics* a top priority this year for “increased agility and effectiveness” for for state chief procurement officers.

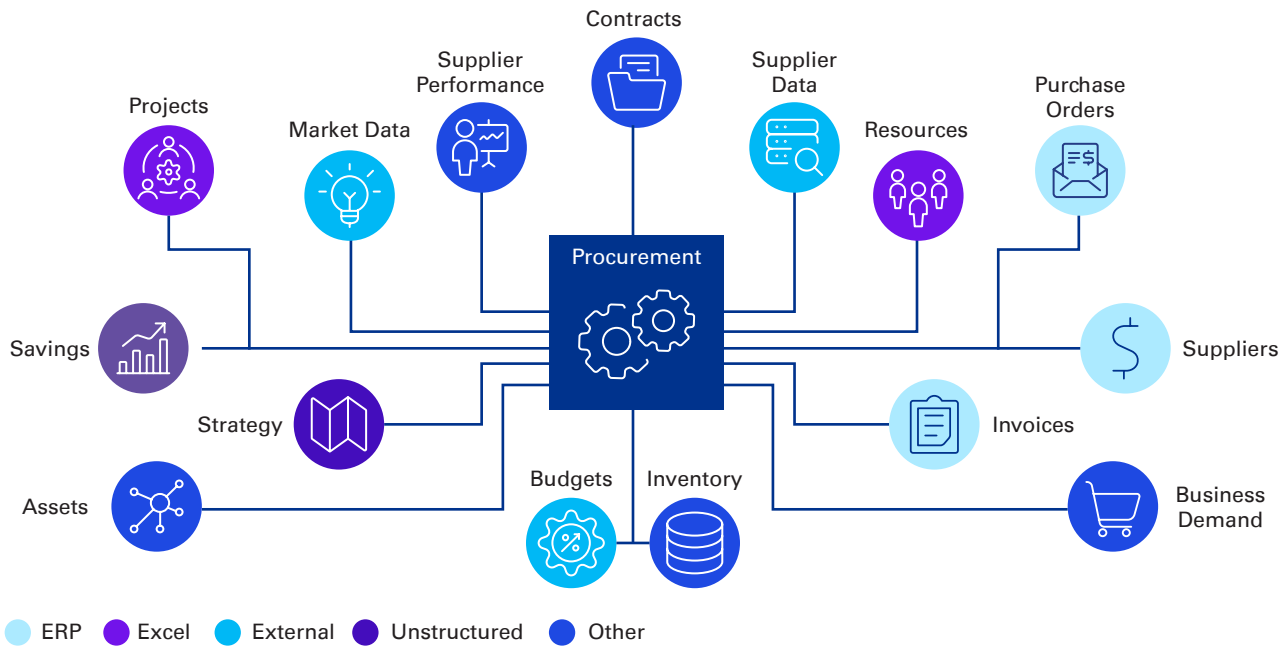
By optimizing current business processes, integrating modern technologies, and investing in spend visibility tactics, governments can manage an ever-changing operational landscape.





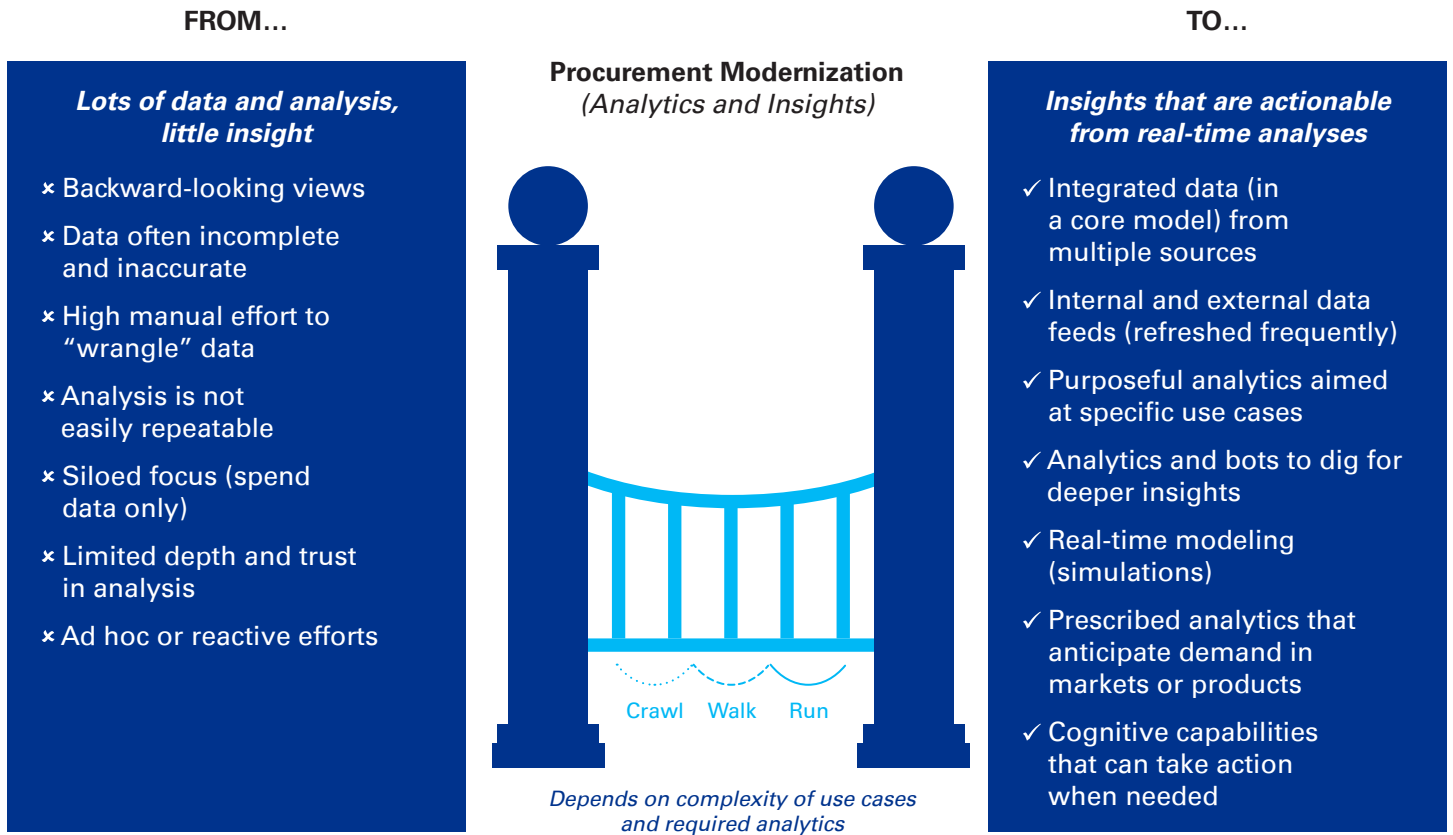
# Being proactive rather than reactive in the current technological environment

With the growth and adoption of e-procurement in the public sector, there has been a rise in the strategic applications of procurement data, leading to advanced use of spend data analytics. Procurement teams are leveraging big data and analytics to shift from “reactive” to “proactive” capabilities—allowing procurement departments to identify actions and adjust strategies, plans, and forecasts.



Today, per the graphic above, most organizations have an abundance of data, but most data are poorly organized and not well integrated, which leads to overly manual reporting and more time spent wrangling data rather than actually using it.

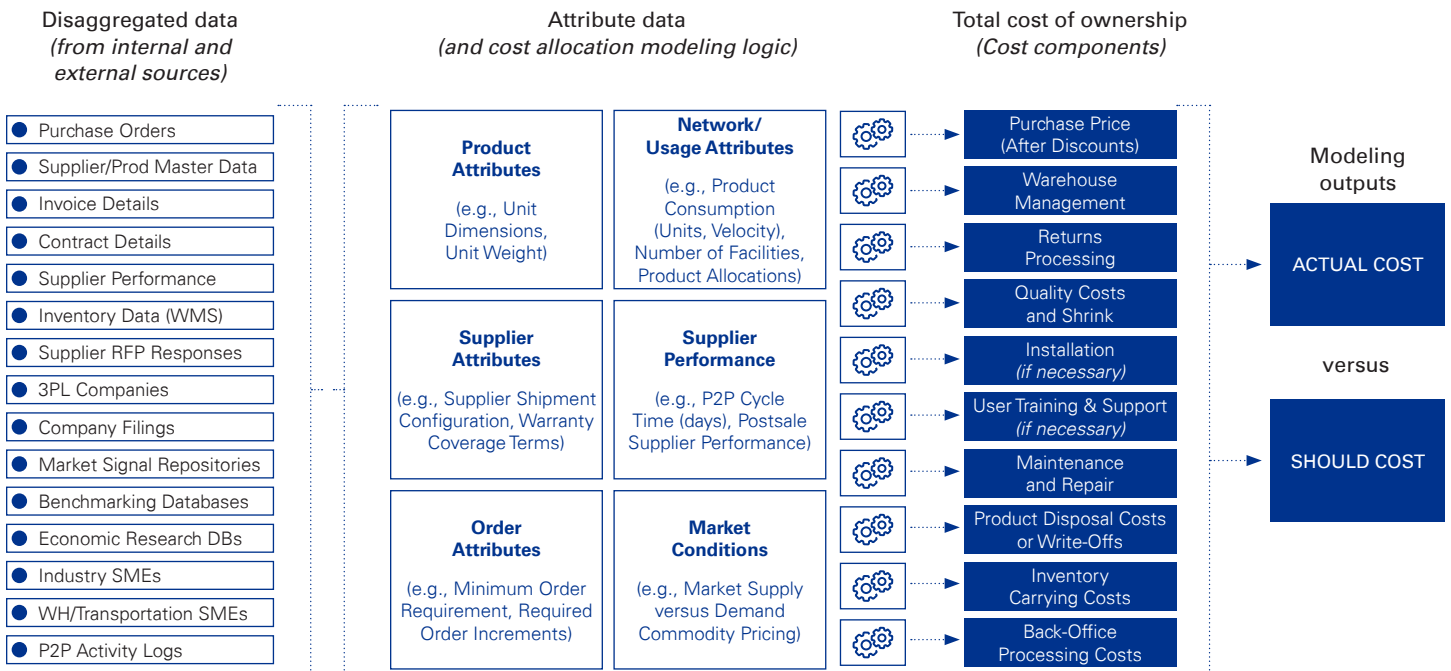
Leveraging industry-leading processes, use cases, tools, and technologies for spend data and analytics, governments can shift to **insights that are actionable from real-time analyses and in turn, manage the abundance of government data securely and efficiently.** Furthermore, with enhanced data capture and visualization capabilities, governments can benefit from improved insights and decision-making, efficiency, cost savings, category management, contract spend management, environmental, social, and governance (ESG) initiatives, overall better and more predictable user and supplier management and more, as highlighted in the figure below.



# IV How do I begin?

Key to achieving spend visibility are data and tools identification, categorization, organization, use case definition, data integration, execution, and continuous improvement. As highlighted in the figure below, categorizing, integrating, and organizing disparate data can help procurement organizations gain a more comprehensive view of spend and identify opportunities to drive savings and efficiencies. Today, there are several tools that can help categorize, integrate, organize, and run artificial intelligence and analytical algorithms for data analysis, transformation, and more importantly spend, insights.

Models can be built to work with a myriad of systems to provide better visibility into spend and cost. The diagram below shows one approach to understanding 'total cost of ownership' and 'should cost'.



## 01 Define your goals as an organization

The key to answering "Where do I begin?" is asking "What are my short-, mid-, and long-term goals?" Some of the key goals that government procurement organizations strive toward today include the following:

Enhanced efficiency	Cost savings	Predictive insights	Policy compliance and modernization
<ul style="list-style-type: none"> <li>Process automation</li> <li>Reduction in transaction cycle times</li> <li>Continuous modernization</li> <li>Increased supplier engagement</li> </ul>	<ul style="list-style-type: none"> <li>Category spend optimization</li> <li>Streamlining contracts and renegotiations</li> <li>Strategic sourcing</li> <li>Measuring and Reducing Total Cost of Ownership</li> </ul>	<ul style="list-style-type: none"> <li>"What if" analysis to understand patterns</li> <li>Predicting market conditions</li> <li>Supply chain management for upcoming spend</li> </ul>	<ul style="list-style-type: none"> <li>Minority business engagement</li> <li>ESG focused investments</li> <li>Sustainability</li> <li>Better supplier engagement</li> <li>Spend transparency</li> </ul>

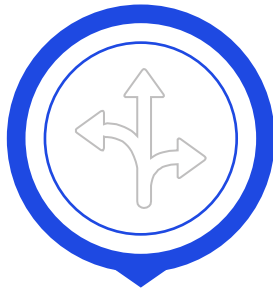
## Key KPIs

Enhanced efficiency	Cost savings	Predictive insights	Policy compliance and modernization
<ul style="list-style-type: none"> <li>Average number of days in requisition approval process <b>improved by over 10 days*</b></li> </ul>	<ul style="list-style-type: none"> <li>Average number of <b>catalog-backed purchase orders improved by 70 percent</b>, providing <b>enhanced view of item-level detail for future negotiations*</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Average annual spend of \$3 billion</b> processed through the e-procurement system, increasing access to data for predictive insights*</li> </ul>	<ul style="list-style-type: none"> <li><b>Average increased solicitation response of 50 percent</b> promoting open and fairness for suppliers including minority businesses*</li> </ul>

\* KPIs are sample figures based on KPMG project experience and not meant to be representative for all organizations

## 02 Explore modeling techniques

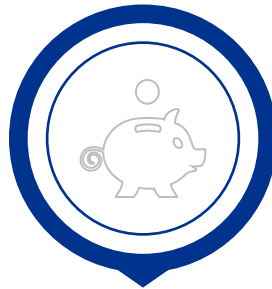
In addition, using techniques like process mining can better define process bottlenecks, sources of avoidable process complexity, quality related issues, and what specific process changes can be made to reduce the cost and cycle times of operations.



**Advanced process mining**

*“What actual pathways are taken to process every unique request received—from the time each request was received to order completion?”*

*“How long did it take to complete each request/order, and how much overall ‘process variability’ exists for types of purchases (and overall)?”*



**Economic modeling (requests, sourcing, contracts, orders, invoicing, payments)**

*“How much (in terms of back-office support resources) did each type of purchase cost, and how should support costs be allocated?”*

*“What is the adjusted cost profile for types of purchases or by agencies, and which profiles are most efficient?”*



**Root-cause analysis and scenario modeling**

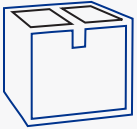
*“Which process steps taken appear to be unnecessary and have the greatest impact on timing and cost?”*

*“What levers could be implemented to reduce process variability, and what would be the impact on lead time, efficiency, and cost?”*



### 03 Assess where you are today and how to address challenges for the future

State and local government procurement leaders understand that modernization is the future but there are many challenges that inhibit organizations from beginning this journey. To meet their short-, mid-, and long-term goals, many government organizations need to plan to address common challenges such as:



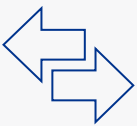
#### **Diverse portfolio of products and suppliers**

Most organizations carry a highly diverse catalog of products that offer a lot more variety than what is required in practice (specifically within noncore product categories), which drives unnecessary operational complexity.



#### **Fragmented buying**

Many organizations operate with individual and disconnected points of buying (in many cases, for the same products, from the same suppliers). This creates unnecessary inefficiencies, even across different parts of the organization.



#### **Not leveraging suppliers to their full potential**

Organizations still own and manage many responsibilities that are not core to their operations (and operate under suboptimal service level agreements (SLAs)) rather than relying more on suppliers who have the resources, expertise, and capacity to absorb many of these activities (and costs).



#### **Inaccurate planning of future demand and supply**

Most demand and supply plans are developed in a highly fragmented manner (not system wide) and are based on outdated techniques that do not account for real signals of product consumption, causing emergency buying in some areas, while having too much inventory in others.



#### **Historical focus (not forward-looking)**

Most data reporting and analysis are focused on describing what happened (i.e., what did I buy, how much did I spend, and who did I buy it from). As a result, decision makers lack insight into why the results happened, what can be done to improve, and what will happen if certain actions are taken.



#### **Reactive to what's needed now, not proactive for the future**

Because of today's challenging conditions, most procurement organizations fall into the trap of executing what the business needs today instead of leveraging data and analytics to become a proactive business partner to the rest of the organization.

## 04 Map and shape your transformation with a future target operating model

As organizations assess their procurement landscape and uncover issues such as these, it can be difficult to know where to turn to next. The natural next step is to create a vision for change by focusing on a future target operating model (TOM). A future target operating model focused on six key areas, below, can help procurement organizations successfully map and shape their transformation efforts.

	Service delivery model	Analyzing service owners' ability to meet current and future business needs
	People	Focusing on the roles and responsibilities by department and procurement function
	Functional process	Understanding your current processes, gaps, and future-state vision and goals
	Supporting technology	Implementing and streamlining use of technology and tools for spend visibility
	Data and reporting	Utilizing data identification, categorization, organization, use case definition, data integration, execution, and continuous improvement
	Governance/controls	Improving policy, governance, management, and overall insight-based decision-making

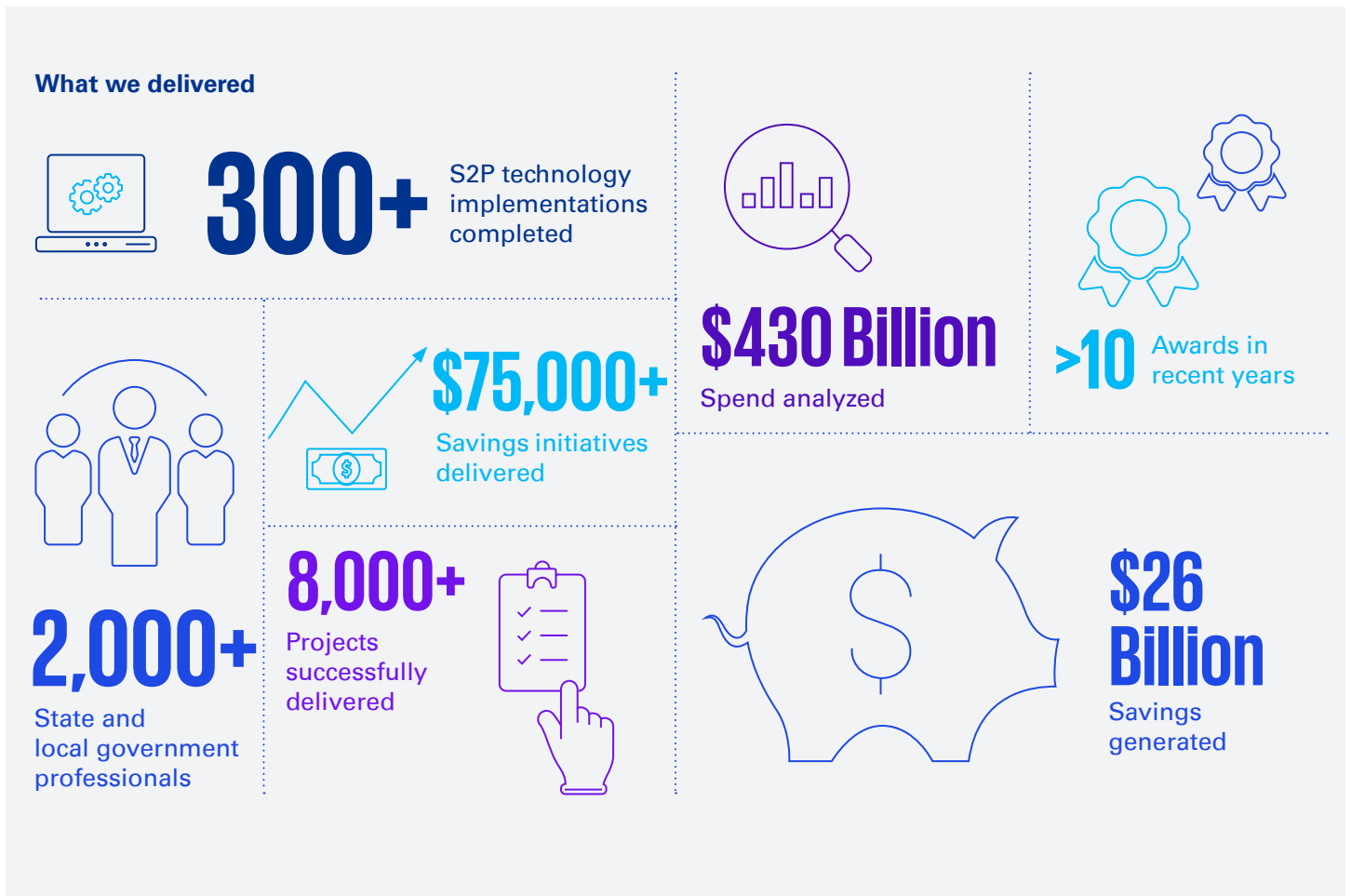
Reviewing each of these aspects across an organization's procurement department will provide a holistic picture of where the organization is and where it needs to be. Focusing on the TOM will also help shape the organization's roadmap with key next steps such as technology selection, change readiness by agency, deployment strategy, and continuous improvement. Designing a future TOM upfront increases the likelihood of a successful procurement transformation and provides the foundation for a successful data reporting and analytics solution that fully leverages the spend data generated in the solution.



# How can KPMG help?

The KPMG state and local government practice provides services to more of the nation's billion-dollar government entities than any other firm nationwide. With 2,000 partners and professionals dedicated to serving state and local governments, KPMG provides advisory, audit, and accounting services tailored to the unique needs of the public sector. Combining in-depth industry and functional knowledge, we have amassed considerable experience and knowledge bases in a variety of essential state and local programs. Our extensive experience and deep industry knowledge in procurement enable our professionals to design and implement strategic sourcing strategies and improve overall procurement efficiency for many agencies. The graphics below are illustrative of our leading position across many industries within the procurement landscape.

## The relevant experience you require



KPMG is helping leading state and local government procurement organizations develop their agendas to implement and manage their procurement transformation in the following key areas.





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