



## Interview with The Hanover Insurance Group

*Why would an experienced consumer of spend analytics invest in a little-known tool? Find out in this conversation between Debbie Wilson and The Hanover Vice President and Chief Procurement Officer, Mike Smith.*

Debbie Wilson, January 2006

Debbie: Tell me about the circumstances that led The Hanover to invest in the BIQ spend analysis tool.

Mike: Over the last two years, we've been working hard to build a world class procurement organization that helps our company achieve its business objectives. A spend analytic tool is an essential capability.

Debbie: What are the important characteristics of a world-class procurement organization, in your opinion?

Mike: Procurement needs three things to be successful: people, technology, and process. Without people who can execute and define a strategy, you can have all the technology in the world, and you still won't be able to do what your company needs.

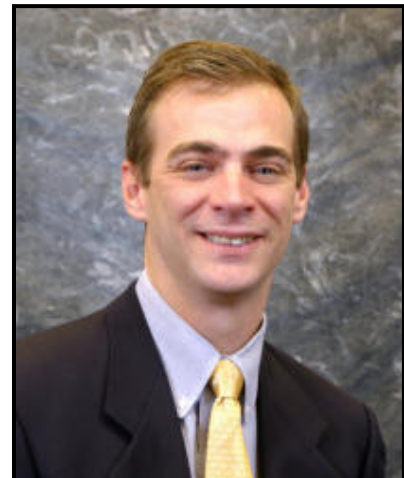
Debbie: I agree.

Mike: Likewise, a strong team without technology is a problem because it makes procurement too people-centric. When key people leave, the team has to start over and relearn. Bringing in appropriate technologies allows a company to build a learning environment.

Debbie: And what about process?

Mike: The third key to world-class procurement is defining and using robust processes. To me, that means developing competent sourcing processes that incorporate internal and external collaboration.

Debbie: How did you initially tackle this job?



Mike: When I came first here, I struggled with the task of understanding our addressable spend. Luckily, accounts payable reported to me, so I had no trouble accessing those records. But even with invoice data at my disposal, it wasn't clear to me what we were sourcing where.

After spending about six months pouring through data, I finally began to feel like I was getting my arms around our spend. Part of the reason it took me so long was that I wanted to look at our direct spend, which consists of the outlays we make when our customers file claims. In other words, when a homeowner customer's house burns down, the costs we incur to rebuild and replace the contents could be considered as addressable spend.

Debbie: You've been looking at the replacement of lost or damaged items as an opportunity for strategic sourcing?

Mike: Sure. Our auto insurance business spends significant dollars each year with body shops. Our homeowner insurance group spends large sums with contractors and remediation service providers. If we have to replace lost jewelry, we'd like to be able to leverage a relationship with a jeweler to minimize our outlay and ensure the quality of replacement products and services. As a world class provider of insurance products, it's vital that we provide our insured customers with a timely, high quality claims experience that makes them whole after a loss.

Debbie: That's fascinating! I never thought of insurance claims as fodder for procurement leverage.

Mike: We're bringing a sourcing discipline to explore our indemnity costs for leverage opportunities, and striving to improve the quality of those replacement products and services. Our goal is to make it easier for the customer to do business with The Hanover, and at the same time, manage our loss costs. This is our big opportunity for 2006.

Debbie: Are your claim outlays much larger than your indirect spend?

Mike: They're both significant, with claims being more so. In either case, it didn't take me long here to realize that I needed a good spend analysis tool to point my team in the right direction.

Debbie: Had you used a spend analysis solution before?

Mike: Yes. My previous employer installed an enterprise sourcing solution. I spent several years using that tool, which was very user-friendly.

Debbie: You must have talked to that solutions provider first about The Hanover's spend analysis requirements.

Mike: I sure did. I brought them in fairly quickly and ran a pilot with them to get a sense of where we were. I had every intention of sticking with them, but given the costs involved, we wanted to evaluate other products in the marketplace to ensure that we were getting the best value for our investment dollars.

Debbie: How did you come across BIQ?

Mike: We were sourcing an eProcurement solution, and one of the companies we considered offered BIQ as their spend analytic product. As a result, I became acquainted with BIQ and its CEO, Eric Strovink, this past August.

Debbie: So you're fairly new with the tool.

Mike: That's right. But it didn't take long to close the deal, and we've already recovered our initial investment. I'm very happy with BIQ, so far.

Debbie: I understand that the tool requires you to create your own business rules, categories, and maps. (For more detailed information on the BIQ solution, see this month's companion article, "The World According to BIQ.") How long did that take you to do?

Mike: It took me about three weeks to get our indirect spend data 97% mapped. That included creating categories that matched our commodity team assignments.

Debbie: Why didn't you hire someone to do this for you?

Mike: We know our business much better than any consultant, and that knowledge allows us to write much more granular rules. Here's an example: everybody knows what IBM does. But does everybody understand how I use IBM?

Debbie: How did you develop the classification map?

Mike: We used clues from accounts payable data to create the rules that make up the map. Those clues come from the vendor name, the general ledger account, the requisitioner, and the business unit. Going back to IBM, if we see purchases with them under a particular general ledger code, we will classify that spend as mainframe technology. I don't want my spend placed in generic buckets.

Debbie: Was that a one-time task?

Mike: No! As we pour through our spend data, we constantly refine our maps. Our intent is to continually granularize our data, segmenting it a little bit further each time, so we can look at our spend by category very easily, and within a category, view all the suppliers we're using. The BIQ tool is really good at that.

Debbie: What about your direct spend? Have you begun tackling that?

Mike: Yes. We're about 94% mapped with 72,000 suppliers.

Debbie: Does The Hanover use other business intelligence tools?

Mike: Yes. We're a pretty big Hyperion shop, and we have SAS in some of our units.

Debbie: Why didn't you just stick with those tools?

Mike: They require us to use an intermediary to create reports. That process usually involves a long period of iterations between our business people and their technical people.

Debbie: So you like having the ability to create reports yourself.

Mike: I'd actually prefer not to, but with BIQ, we can get what we need done quickly and at a reasonable cost. The application gives the users the data when and how they need it.

Debbie: Are you classifying spend just to the category level?

Mike: For now, yes, and we can segment our spend in a fairly detailed way. In addition to category level, we can break out purchases by general ledger account, supplier, business unit, time period, vendor type, vendor location, and the purchase process used (i.e., PCard versus purchase order). We can also break down spend by employee.

Debbie: Have you seen other solutions with similar functionality?

Mike: Yes, there are several. But most of BIQ's competitors tend to require much more structured data to start the process. It's easy for spend analysis solutions to create consumption reports when they require part numbers in each transaction. If we don't have a part number, and quite often we don't, those tools won't work.

Debbie: Will you attempt to analyze your spend to the part number level in the future?

Mike: We're in the midst of implementing eProcurement now, and when it's in place, I'll be able to capture and report on item-level data within that system pretty easily. I plan to import those transactions into BIQ anyway, to keep that single point of view for my spend analyses. I'll have a purchase order number within the accounts payable and the eProcurement systems, and I'll be able to join those two tables. I expect to fully utilize BIQ, even as my capabilities get more granular.

Debbie: Are you happy with BIQ?

Mike: I'm pretty happy with it so far. I tend to be one of their bug finders, because I've pushed the system. With 2-1/2 million claims data records and 300,000 suppliers, we're a good beta site for them.

Debbie: Why do you have so many suppliers?

Mike: Technically, every individual and company that submits a claim is a potential supplier. They experience a loss; we make a payment. The problem is, how do you figure out which payees are customers, and which are suppliers? We've had to develop some really elaborate

rules to map out this data correctly. For example, we've discovered that most single-payment suppliers are actually our insured. We group the insured together and exclude them from our spend analyses, because direct reimbursements aren't addressable spend.

Debbie: Who in your organization uses the tool?

Mike: My sourcing teams are the primary users. I've got BIQ running on several laptops, which the teams share. They repopulate those PCs with the latest data from our fileserver, and they bring the laptops to their meetings. Lately, they've been arguing over the PC's, each claiming higher priority.

Debbie: That's a good sign that the tool is useful.

Mike: Yes, but it also proves that I really need the client/server version. I began running BIQ's beta version of the client/server application on my machine about a month ago, and I'm working with my internal IT group now to get it on a server. I want to start expanding it deeper within the enterprise.

I wasn't really crazy about serving as a beta site for BIQ, but I wanted to make sure that the new software was working properly before I rolled it out to my organization.

Debbie: Do you have some sort of automatic file download, so users can just pick up the newest information?

Mike: We manually download transaction files onto our fileserver. We extract payables from our ERP monthly, we download employee expenses from our ERP and expense systems biweekly, and we occasionally update our employee tables from HR. As I learn more about The Hanover and where useful data might be, I'll continue pulling in additional extracts. For example, I discovered that we had tables of employee data several months after I first set up BIQ. I was able to enrich my database later with that additional information without any problem.

Debbie: Is BIQ saving your organization time?

Mike: Yes. We don't run around spending days getting data to people anymore. That's become a 30-second exercise, and that data availability is a benefit that has our financial community really excited.

Debbie: Why?

Mike: Our executives are using our spend analyses in their annual planning process, reviewing what they're buying from whom and considering whether to make changes. Now that we have BIQ, our organization has better information to effectively trim expenses.

Debbie: How has your implementation of spend analysis gone at The Hanover, in comparison to your previous employer?

Mike: Where I worked before, it took us six months to get our data 80% mapped. We could have moved forward much faster there if we had the daily ability to write our business rules ourselves.

Debbie: You don't have to write your ideas down somewhere and remember to give them to your solutions provider later.

Mike: Exactly. And that did happen at my previous employer. Over the course of the month, you forget.

Debbie: How would you improve BIQ?

Mike: I'd make it a web based tool.

Debbie: Is it a techie tool?

Mike: Yes, it can be, but most users will never have to learn BIQ's more technical aspects. It really has two distinct user populations. One is the consumer of the data, who doesn't have to worry about maps and rules. The other user, the publisher, will have to tackle some of the more challenging features of the tool.

Debbie: Is your team happy with BIQ?

Mike: Overall, yes. When we were looking at our options, BIQ wasn't the glitziest one. But now that we're using it, everyone's happy.