

No General Ledger For The Spend Data Warehouse - 17 Ways Finance Can Help Procurement: No. 14

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In this fourth part of a 17-part series on the collaboration between procurement and finance, we continue our countdown (from least important to most important) of the top ways procurement wants finance's help improving spend/supply management. The rankings come from a [joint research study](#) conducted by Spend Matters and the Institute for Supply Management that is still open to practitioners (participants can win an Apple Watch or one of 10 Spend Matters PRO premium memberships).

Coming in at No. 14 is procurement's request for finance to *not* use the general ledger as a spend data warehouse. Procurement and finance both agree that being able to view your spending is a good thing. However, they don't always agree on what data is pulled from where at what level of detail. Procurement wants to see line-item detail by spend category – not just supplier and cost center. Finance, however, often views spend categorization through the lens of the financial statements. The spend "taxonomy" for finance professionals is oriented around SG&A, COGS and CapEx, not supply markets. And they have a way to categorize that taxonomy through the General Ledger and related sub-ledger codes. Herein lies the problem.

A company that has absolutely no spend visibility may indeed gain some value by looking at cost centers, G/L codes and sub-ledger codes (if they exist) – and maybe even a default commodity code associated at the supplier level. But, the general ledger hierarchy is meant to help close the books and report financials to regulators – not as a way to model [multi-dimensional supply markets](#). For example, you can choose to capitalize many different types of expenditures in IT, MRO, facilities, R&D, etc., depending on various factors – so using CapEx as a way to categorize spending isn't terribly useful by itself. Another example: IT spend might be fairly distributed, so looking at the IT cost center won't be very useful to gauge IT spending. Finally, the way in which end-users assign their spending to G/L codes can be, how to put this delicately, "highly variable." And when the accounting department fixes those miscodes in the G/L, it won't likely show up in the A/P or purchasing spending files that you'll be analyzing in your spend data warehouse.

So, procurement and finance need to work together to build a spend data warehouse that can certainly accommodate finance's needs to understand spend in their language of financial accounting, budgeting, managerial accounting, treasury (e.g., cash planning) and so on, but also allowing procurement to view external spending by commodity/category, item/service code, contract, time period and, of course, supplier and cost-center. It's important to note that you can also use modern spend analysis tools to use G/L data as input into classifying spend data, but only as one input given its inherent inaccuracy due to some of the issues we cited above.

Building such spend analytics takes time, especially as you transition from forensic "spent analysis" to forward-looking [strategic supply analytics](#). This journey is the focus of our ["50](#)

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[Shades of Pay](#)" series. We hope that Plus members are enjoying the "shades" deep-dive series, and that you are enjoying this 17-part series. Stay tuned for part 5 when we dive into the massive value destruction inherent in the "use-it-or-lose-it" budgeting process.

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