Introduction and Overview

UNSPSC

United Nations Standard Products and Services Code
Agenda

- What is UNSPSC?
- Value of Implementing the UNSPSC
- Success Stories
- How to Implement the UNSPSC
- Realizing the Benefits
- How to Get Started
- Membership
- Conclusions
Can you answer these questions?

• How much do we spend?
• On which products?
• From which suppliers?

...inadequate spending analysis capabilities are costing businesses $260 billion in missed savings opportunities annually.

What is the UNSPSC?

• An open standard
• A taxonomy of products and services
• A practical business tool
Define: Open Standard

• Publicly available specifications for solving a certain problem
• Not proprietary
  – Available to all to read and implement
  – No royalty or license fees for usage
  – No restrictions on sharing codes with trading partners
  – No lock-in to one commercial solution
• Do not discriminate or favor; level, neutral playing field
• Participation in development is open and transparent
• Decisions are made on a consensus basis
• Not to be confused with “open source” software
Define: Taxonomy

• A system of classification, in this case, of products and services bought and sold
• A hierarchical tree structure, which enables “drill down” and “roll up” analysis
• A practical tool, responsive to user needs
• Use in Enterprise Resource Planning, e-Commerce, Business Intelligence systems
Example: Biology

Purpose: to enable collaborative science

“root” = All Living Things (typically, the root is implied)

Kingdom (Animals, Plants, Fungi, Bacteria…)

Phylum (Vertebrates, Mollusks, Arthropods…)

Class (Mammals, Fish, Reptiles, Birds…)

Order (Carnivores, Primates, Ungulates…)

Family (Cats, Dogs, Bears, Seals…)

Genus (Felis, Lynx, Panthers…)

Species (Felis silvestris catus)
Example: UNSPSC

**Purpose:** to enable collaborative commerce

"root" = All Products and Services (implied)

- **Segment** 44 Office Equipment and Accessories and Supplies
  - **Family** 10 Office machines and their supplies and accessories
  - **Class** 15 Duplicating machines
    - **Commodity** 01 Photocopiers
  - **Class** 31 Printer and facsimile and photocopier supplies
    - **Commodity** 03 Toner

44101501 Photocopiers  44103103 Toner
Advantages of UNSPSC

• The UNSPSC is available in 10 languages:
  – Chinese, Dutch, English, French, German, Italian, Japanese, Korean, Portuguese and Spanish
  – Standard codes eliminate ambiguity

• Segments exist for:
  – raw materials
  – industrial equipment
  – components and supplies
  – end-use products
  – services

• Comprehensive: over 20,000 categories

• Responsive to the marketplace
Avoid Expense of Developing Your Own Classification System

- Typical home-grown coding systems take a year or more to develop – you can download the complete UNSPSC today
- Avoid duplicated effort, where every trading partner codes differently
UNSPSC Design

• Hierarchical 4-level tree structure: Segment, Family, Class and Commodity
  - Note: “Commodity” is not defined as bulk materials but in the broader sense as any article of commerce including capital equipment, high-value products, and professional services.
• Category titles are unambiguous and mutually exclusive
• Products appear in only one category; categories each have only have one parent
• Products are grouped according to dominate usage in world market
UNSPSC Components

- **UNSPSC Code**: 8 digits, e.g. 44103103
- **Title**: natural language text up to 120 characters long, e.g. “Toner”
- **Definition**: free form text gives concise explanation
- **Business Function**: 2-digit codes for Rental or Lease, Maintenance or Repair, Manufacturer, Wholesale, Retail, Recycle, Installation (optional to use)
UNSPSC Code Structure

Segment 44000000 Office Equipment and Accessories and Supplies
  Family 44100000 Office machines and their supplies and accessories
  Class 44103100 Printer and facsimile and photocopier supplies
  Commodity 44103103 Toner

44103103 = Toner
The 55 Segments are arraigned in a logical sequence that reflects how value is progressively added to products.

Family, Class and Commodity codes are arbitrary, and reflect no logical sequence.
Value of Implementing the UNSPSC

- Automate the gathering and analyzing of spend data
- Provide a uniform, enterprise-wide view of spend
- “Roll up” analysis identifies contractible groups, opportunities for strategic vendor relationships
- Centralize procurement function, leverage volume for better pricing
- Collaborate with Customers or Suppliers through use of a common classification system
- Control maverick spend: reduce off-contract spend at higher prices
- Reduce inventory through product standardization
The Chief Reasons Organizations Implement Spend Analysis

1. Strategic sourcing: 76%
2. Purchase volume leverage: 71%
3. Supplier performance tracking: 59%
4. Budgeting, planning: 59%
5. Contract compliance: 46%
6. Inventory management: 43%
7. e-Procurement: 42%

1 The Spending Analysis Benchmark Report, Aberdeen Group, January 2003
Value for Suppliers

- Facilitate sales function, particularly through Internet exchanges
- Qualify as preferred supplier to customers with e-procurement initiatives
- Speed new product introductions using Web services, XML, etc.
- Facilitate globalization of your business
- Collect consistent sales data across channels, regions
- Collaborate with customers to improve contract compliance, increasing the supplier’s market share – a win-win
UNSPSC Success Stories

• After benchmarking other companies, Microsoft selected the UNSPSC as its standard commodity classification system. The procurement team was looking for a coding system that it could use not only to classify spend, but also to communicate with its trading partners. Developing an internal system, said Don Jones, general manager, corporate procurement, “would hamper our ability to communicate through our e-procurement system with our supply base.” The company's hardware suppliers all use the same version of the UNSPSC code.

• Use of MS Spend has cut weeks, if not months, out of the spend analysis process.

• Using data to cut spend by $1.4 billion in FY05

Super spend analysis, Purchasing honors seven companies in 2004 for their leading-edge practices in spend analysis, Purchasing, March 18, 2004
UNSPSC Success Stories

• PPG Industries captured more than 95% of its spend (more than $5 billion) from 23 data sources in a centralized staging database before driving it to a spend analysis tool.
• Indirect materials are classified with UNSPSC codes
• More than 10% savings and 90% supplier reduction

Super spend analysis, Purchasing honors seven companies in 2004 for their leading-edge practices in spend analysis, Purchasing, March 18, 2004
UNSPSC Success Stories

• Consumer products company reported slashing bids by as much as 90% after consolidating and analyzing over $30 billion worth of purchases from 50 different A/P systems.¹

• Manufacturer of cutting tools saved over $1 million on $800 million in “quick hit” negotiations by applying the lessons learned after merging Accounts Payable, Purchase Order and Purchasing Card data. ¹

1. Adopting UNSPSC, Zycus Inc.
UNSPSC Success Stories

• Cabinetry manufacturer lowered the costs of purchased materials, with a projected year-over-year savings of 2% to 4%, by consolidating spend data across five divisions. ¹

• A hospital negotiated a 14% discount on coronary stents worth $600,000 annually after analyzing spend and standardizing on one supplier. ²

¹. Adopting UNSPSC, Zycus Inc.
². A UNSPSC® Success Story, 2005, Coalition for Healthcare eStandards, Inc. (CHeS)
How to Implement UNSPSC

• Classify products: enter the appropriate 8-digit UNSPSC Code against each item in your system
• Store the UNSPSC Titles in a look-up table
• If a code for your product does not exist, temporarily use the parent category and submit a request for a new code
Add UNSPSC Code to Each Item

<table>
<thead>
<tr>
<th>Item#</th>
<th>Brand</th>
<th>Name</th>
<th>Unit</th>
<th>UNSPSC</th>
</tr>
</thead>
<tbody>
<tr>
<td>12345</td>
<td>Brand®</td>
<td>Copy paper, 8 1/2” X 11”, White, 20lb, 10 Reams</td>
<td>CS</td>
<td></td>
</tr>
<tr>
<td>23456</td>
<td>Brand®</td>
<td>Retractable Ballpoint Pens, 1.0 mm, Medium Point, Black Barrel, Black Ink, Box Of 12</td>
<td>BX</td>
<td></td>
</tr>
<tr>
<td>34567</td>
<td>Brand®</td>
<td>Color LaserJet Black Toner Cartridge</td>
<td>EA</td>
<td></td>
</tr>
<tr>
<td>45678</td>
<td>Brand®</td>
<td>15' Extension Cord, 3 Conductors, 3 Outlets, Gray</td>
<td>EA</td>
<td></td>
</tr>
</tbody>
</table>
Add UNSPSC Code to Each Item

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<td>14111507</td>
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<td>EA</td>
<td>26121536</td>
</tr>
</tbody>
</table>
New Category Step 1

50000000 Food Beverage and Tobacco Products
  50100000 Fruits and vegetables and nuts and seeds
    50101800 Fresh citrus fruits
      50101804 Lemon fruit
      50101809 Orange fruit
      50101805 Key lime
      501018?? Persian lime fruit ??

Temporarily classify the items under the missing category’s logical parent. Then submit proposal to add a new category.
New Category Step 2

CREATE / EDIT A REQUEST TO ADD A NEW COMMODITY

<table>
<thead>
<tr>
<th>Select Class</th>
<th>50101800-Fresh citrus fruits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title:</td>
<td>Persian lime fruit</td>
</tr>
<tr>
<td>Definition:</td>
<td>Persian Lime (Citrus latifolia), also known as Tahiti lime or Bearss lime, is about 6 cm in diameter, is usually sold quite green.</td>
</tr>
<tr>
<td>Business Case:</td>
<td>Persian Lime is the primary citrus fruit grown commercially in the U.S. and sold simply as a &quot;lime&quot;.</td>
</tr>
</tbody>
</table>

Save
Resources Needed

• Familiarity with products
  – Recognize product despite extreme abbreviations
    – *Electrical lead* or *Pencil lead*?
• Familiarity with the taxonomy
• Basic understanding of principles of classification
• Allocated staff or outsource
Options for Classifying Items

• Have requisitioners select category up front in e-Procurement system

• Manual in-house
  – Pros: low initial cost; immediate results for small volumes; use existing office software; maximize ‘ownership’ and detailed knowledge of data
  – Cons: not scalable; less consistent; requires personnel commitment

• Classification software
  – Pros: semi-automates the process; improves quality, consistency and productivity over manual; flexible, customizable; maximum insight
  – Cons: requires personnel commitment; longer to implement; slower ROI
Options for Classifying Items

• **Outsource**
  – Pros: service providers have software and experienced specialists, scalable at lower total cost
  – Cons: security, less ‘ownership’ of data, lock in to solution, less flexible

• **Hybrid or Phased**
  – Outsource initial high-cost pass through data, learn, transition to in-house maintenance
  – Avoid locking in some of the disadvantages
Recommendations

• Plan for larger initial investment followed by smaller ongoing maintenance costs
• If core competency: investigate automation software and building in-house expertise
• Combine with other data enhancements
• Poor product descriptions are the #1 challenge to accurate and efficient classification
Realizing the Benefits

• **Drill down** to focus your attention on the categories that represent the most spend
• **Roll up** to identify ‘contractible groups’, reduce the number of vendors
• Use with decision support tools
  – Regular periodic reports, to monitor and alert
  – Ad hoc, to identify new savings opportunities
Roll Up

**Classes**

- Computers: $120,000
- Displays: $0
- Accessories: $0

**Commodities**

- Notebooks: $40,000
- Servers: $30,000
- Desktops: $20,000
- PDAs: $10,000
Analyze Spend Over Time

Year over Year Increase

2003 2004 2005
### Extending to Product Attributes

<table>
<thead>
<tr>
<th>UNSPSC Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>43000000</td>
<td>Information Technology Broadcasting and Telecommunications</td>
</tr>
<tr>
<td>43200000</td>
<td>Components for information technology or broadcasting or telecommunications</td>
</tr>
<tr>
<td>43201800</td>
<td>Media storage devices</td>
</tr>
<tr>
<td>43201803</td>
<td>Hard disk drives</td>
</tr>
</tbody>
</table>

#### Industry- or company-specific extension beyond the UNSPSC standard

<table>
<thead>
<tr>
<th>Product Name</th>
<th>Access Time</th>
<th>Bit Rate</th>
<th>Rotational Speed</th>
<th>Seek Time</th>
<th>Capacity</th>
<th>Height</th>
<th>Width</th>
<th>Depth</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>HARD DISK DRIVE</td>
<td>300 MB/s</td>
<td>64.8 MB/s</td>
<td>7200 RPM</td>
<td>8.5 ms</td>
<td>500 GB</td>
<td>25.4 mm</td>
<td>101.6 mm</td>
<td>146 mm</td>
<td>700 g</td>
</tr>
</tbody>
</table>
How to Get Started

• Go to www.unspsc.org and click DOWNLOADS for current version
• Evaluate, build internal support, budget
  – Use case studies to help predict ROI
• Form Business-Unit/IT team, plan project
• Capture data, classify items
• Analyze spend, identify savings opportunities, capture savings, repeat
Membership in UNSPSC

UNSPSC is a member-funded initiative. As a member, your company can actively improve the code to meet your business needs. Benefits of membership include:

- Submit change requests to the code
- Vote on change requests
- Participate in industry revision projects
- Download past versions of the code in multiple languages
- Download past audit files in multiple languages
- Receive unlimited helpdesk support via phone and email.
- Preferred member rates at conferences
- Receive newsletter on codeset activities
- Choose membership level to meet your needs
Versions, votes, etc.

• There are Change Request and Voting periods each year
• 2 codeset versions are published per year
• Format: Excel spreadsheet inside a compressed Zip file
Conclusion

• Manage spend to improve the financial health of your organization
  – Rationalize vendors
  – Standardize products
  – Leverage volume to negotiate better pricing
  – Improve operational efficiency of purchasing function
• Start now to maximize benefits
• Join and participate to meet your business needs
Further Reading

The below content has been designed to help you understand and its uses.

Spend Visibility: A Guide to Effective Program Design

Hospital Supply Chain Savings

Why Coding and Classifying Products is Critical to Success in Electronic Commerce (White Paper October 2001)

Better Supply Management with UNSPSC

Strategic Sourcing and e-Procurement -- Which One, or Both?