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# Viewpoint <

## Tail Spend

The forgotten opportunity

**Most organisations know who their key suppliers are. They have thoroughly optimised their supply chains, negotiated secure contracts and ensure these are diligently managed. This is great news and surely means that Procurement can be satisfied that they have done a good job and need do no more, right?**

Wrong. Procurement executives cannot afford to step back once the largest areas of spend have been addressed as beyond the key suppliers and the highly controlled categories lies an area of “tail spend”. Tail spend is frequently ignored but often able to yield double digit cost savings and, more importantly, allows the spend transparency and compliance required for

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benefits in the “top priority areas” to really hit the bottom-line. In times when every penny counts, this forgotten opportunity could mean the difference between success and failure.

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### The low priority area

In every organisation procurement has limited resources and must set priorities. The obvious choice is to focus on what makes the most impact: the largest spend categories and the most business critical and, within those, the top contracted suppliers, products and services. This leaves whatever is very small, non-critical or non-contracted off the procurement radar screen.

The result of this is a “tail” of spend which typically represents around 10% of the total spend but actually accounts for 80% of the suppliers and the vast majority of transactions.

#### Tail spend has two root causes;

1. Lack of compliance and, therefore, spend visibility
2. Emergency purchases and/or goods or services not covered by current contracts

There is a widespread misconception that tail spend is mostly comprised of large numbers of trivial purchases. However, in reality, it is actually spread across a huge range of categories that normally cover the entire company's indirect spend spectrum and in most cases, some direct spend categories too.

## Why is it an opportunity?

In the past it has often been thought that the investment of time and resources needed to review and manage this tail spend could not justify the end savings.

However, as budgets become tighter, organisations are increasingly keen to unlock all savings potential. Savings opportunities are more easily accessible at this level as the expertise required to source such areas are normally much lower than those areas of very high spend.

Another key benefit is that the approach required to capture this opportunity also leads to improved overall spend transparency and compliance going forward.

## How to capture the opportunity and sustain the benefits

Tail spend management can be optimised by acting on three different areas:

1. **Supplier Base Optimisation**
2. **Process & Technology**
3. **Payables**

### Supplier Base Optimisation

If contracts exist for a specific area of spend, the tail is the result of non-compliance. Non contracted suppliers should be discontinued and where possible, the spend transferred to an existing supplier on pre-agreed terms.

However, they can also be used as an "internal benchmark" for current contract conditions and may be used to support a business case for going to market with the entire spend.

If suppliers are providing a product or service which is not, and cannot be, covered by existing contracts, a sourcing exercise must take place to select preferred suppliers which should be either tactical or strategic and determined by the size of spend and the criticality of the item purchased.

### Process & Technology

Streamlining processes to make it easier to purchase from existing contracts will help to support your supply base. Compliance and demand management can also be improved by addressing weaknesses and bottlenecks in the P2P process including ensuring early intervention for invalid requests in the requisitioning process and early visibility of new demand which will prevent new vendors being created outside of existing contracts.

The overall exercise will also result in increased visibility and therefore improved management information available for the future.

### Payables

The absence of contractual conditions will often result in sub-optimal payment terms. This can be easily addressed once the correct processes and information has become available.

## Can you afford not to?

For those companies who tackle their tail spend head on, the rewards are significant. Not only do they have increased savings to take to the bottom line but they also have complete visibility of the entire organisations' spend and much greater control.

However, once again, this is not an opportunity for procurement to sit back. An on going management process needs to be in place to ensure the tail spend remains optimised and more importantly, that the achieved spend transparency and compliance on the total spend base are sustained over time.

Companies who are successful at managing their spend will put themselves at an advantage over their competitors. There are few companies who can afford not to address such a critical area at this time and capturing a further significant percentage could make the difference between those who make it and those who don't.