



Four ways to get your tail spend under control

It may seem like a daunting challenge, but bringing your tail spend under control can generate cost and time savings, reduce risk, and improve visibility.

In this article, we'll explain the concept of tail spend, show you the benefits of managing it efficiently and share four ways to get it under control.

What is tail spend?

Tail spend is made up of the many high-volume but low-value transactions that are constantly taking place across your organisation. Generally, this spend is decentralised to buyers across the business (that is, anyone with a company credit card) and is not under a procurement team's direct control.

Of course, many organisations don't have procurement teams at all, meaning that essentially 100% of spend is decentralised.

People find it useful to apply the Pareto Principle to explain tail spend. This means it involves 80% of your suppliers, but only 20% of your total spend. In procurement teams, the 20% of suppliers that make up 80% of your total spend are referred to as "strategic suppliers".

Tail spend transactions are usually under the spend threshold. This threshold varies depending on the size of your organisation. For example, in a small organisation with a low spend threshold of \$5,000, a decentralised buyer could purchase a \$4,999 laptop computer themselves. But if they want to buy, say, a new coffee machine for \$5000+, this sourcing activity would be handed over to whoever is in charge of major purchase decisions.

Tail spend usually involves indirect procurement. This means the purchases that are necessary to keep the business running (office stationery, IT, travel costs, etc) but do not go into the creation of your organisation's products or services.

Tools to help manage tail spend

Don't be fooled by some of the terminology used such as "low-value transactions" and "non-strategic" into thinking that this chunk of your spend can be ignored.

You won't be able to manually intervene in every transaction that takes place across the organisation.

Three benefits of managing tail spend:

1. **Cost savings:** the sheer volume of transactions means that bringing tail spend under control can lead to considerable cost savings; cutting between 5% to 10% of your annual expenditure.
2. **Risk reduction:** just because a transaction is sub-threshold doesn't mean it carries little or no risk. Without visibility and control, you simply have no idea what sort of suppliers your team are dealing with.
3. **Supplier innovation:** the next game-changing idea from your organisation could come from anywhere, including from suppliers. It's therefore crucial to know who these suppliers are, and give them every opportunity to innovate by moving the relationship beyond the purely transactional.



But by establishing policies and processes, dealing with maverick spend, and improving visibility with software, you'll reap returns that far outweigh the investment.

Here are four ways to get spend under control:

1. Create purchasing policies and processes

Most organisations provide guidance to their team members with spending power with policies and processes for sub-threshold purchasing. For example, you might have a policy where all buyers have to source three quotes before making a purchase, or have a series of rules about hotel and flight purchases.

The trouble is that people won't always abide by these policies and processes – not because they're deliberately trying to sabotage your efforts, but because they're too busy to source three quotes (for example), or believe they can get a better deal. This is known as maverick spend.

2. Address maverick spend

Mavericks drive up the cost of your spend tail, expose the organisation to risk, and can damage supplier relationships. You may choose to deal with mavericks by taking on the role of "spend police", but this can be extremely time-consuming. Instead, use technology to force compliance with your policies and processes. For example, you could make an online travel booking system the only way to purchase flights and hotels from a pre-approved list.

Rather than seeing mavericks as a headache, consider them as an opportunity. Why is maverick spend consistently taking place, and in which categories? Understanding why it occurs will help you make changes: for example, perhaps your processes are too complex, or you haven't provided the training necessary to use the purchasing system.

3. Gain visibility

You can't save what you can't see. Tail spend transactions are often hidden and scattered across multiple sources such as emails, voicemail, or saved on desktop spreadsheets. Requiring all decentralised buyers to purchase through a unified system will provide a single source of truth for spend data.

With improved visibility (and good-quality data), you'll be able to analyse your tail spend to identify cost savings opportunities such as supplier consolidation.

4. Invest in procurement technology

As recently as a decade ago, managing tail spend was seen as too difficult a challenge across many organisations. But the rapid growth in sourcing technology and spend analysis solutions has meant that organisations of every size now have the potential to reap the benefits of doing so.

Sourcing technology has the potential to provide a rapid ROI by helping you increase visibility, discover and maximise on cost savings with advanced analytics, save time through process automation, and reduce risk.

The exciting aspect of this is that this kind of technology is getting smarter every year through the power of AI and machine learning.

Contact **VendorPanel** to learn how we can help you access cost savings and other benefits of managing tail spend through increased visibility and a unified purchasing system.

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