



Understanding and Taming Tail Spend:

A comprehensive guide designed to tame tail spend in a way that leads to reduced risk and increased cost savings.

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Introduction to Tail Spend

Welcome! This comprehensive guide will go over tail spend in procurement and provide resources for how to implement an effective tail spend management strategy. You'll hear from industry experts who have been there, done that, and can share best practices for managing tail spend.

This guide also covers three key reasons why it's worth getting your tail spend under control, and show you five ways to effectively manage your tail spend.

But first...

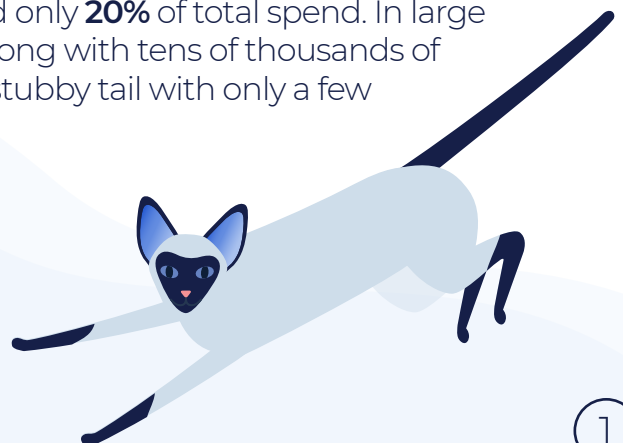
For the sake of simplicity, and to maybe bring a little humor to the topic of tail spend, we'll start by comparing it to a house cat. Cat's aren't your thing? (We don't blame you.) Instead, try to imagine something bigger like a tiger or a lion.

This shape represents your procurement spend. It's lean, it's hard to get under control, and can sometimes be a little scary.

The figure's head represents the top 1% of strategic suppliers to your organization. This is where strategic sourcing professionals spend most of their time, communicating directly with their top suppliers through an SRM program, and using cutting-edge procurement software to analyze spend and track risk.

Further down the spine, the torso represents the next 19% of an organization's strategic suppliers. While it isn't as critically important as looking after the head, the torso accounts for the bulk of your total spend and therefore needs plenty of time and attention to ensure it's kept in excellent condition.

Next is the tail. Anatomically it may seem like an afterthought, but this end of the beast contains **80%** of your suppliers and only **20%** of total spend. In large organizations, the tail could be enormously long with tens of thousands of suppliers, while smaller entities may have a stubby tail with only a few hundred suppliers.



What is tail spend?

There are dozens of definitions of tail spend in circulation, but here are the main features you need to know:

- ✓ **Tail spend is not actively managed by the procurement team.**
- ✓ **It's decentralized to buyers in the business (not procurement people).**
- ✓ **Tail spend consists of high-volume (80% of suppliers) but low-value transactions (20% of total spend).**
- ✓ **The transactions are under the spend threshold (see below).**
- ✓ **Tail spend transactions are almost always indirect procurement.**
- ✓ **Visibility of tail spend is often a challenge.**

Procurement processes and systems are built to focus on the top 20% (the head and torso), while the thousands of transactions taking place in the spend tail are regarded as too low-value and too difficult to manage.

The usual approach is to automate wherever possible, and to use a set-and-forget solution to managing decentralized spend.

But doing so means your organization misses out on enormous potential value in that tail, including cost savings, lowered risk, and supplier innovation.

Before we discuss this lost value, let's look at the Pareto Principle and spend thresholds to understand how they're relevant to the spend tail.



The Pareto Principle

19th-century economist Vilfredo Pareto observed that 80% of the wealth in Italy belonged to 20% of the population. This “Pareto Principle”, otherwise known as the 80/20 rule, has today become a golden rule in procurement. It’s particularly useful for spend segmentation and helping sourcing professionals determine where to focus their attention.

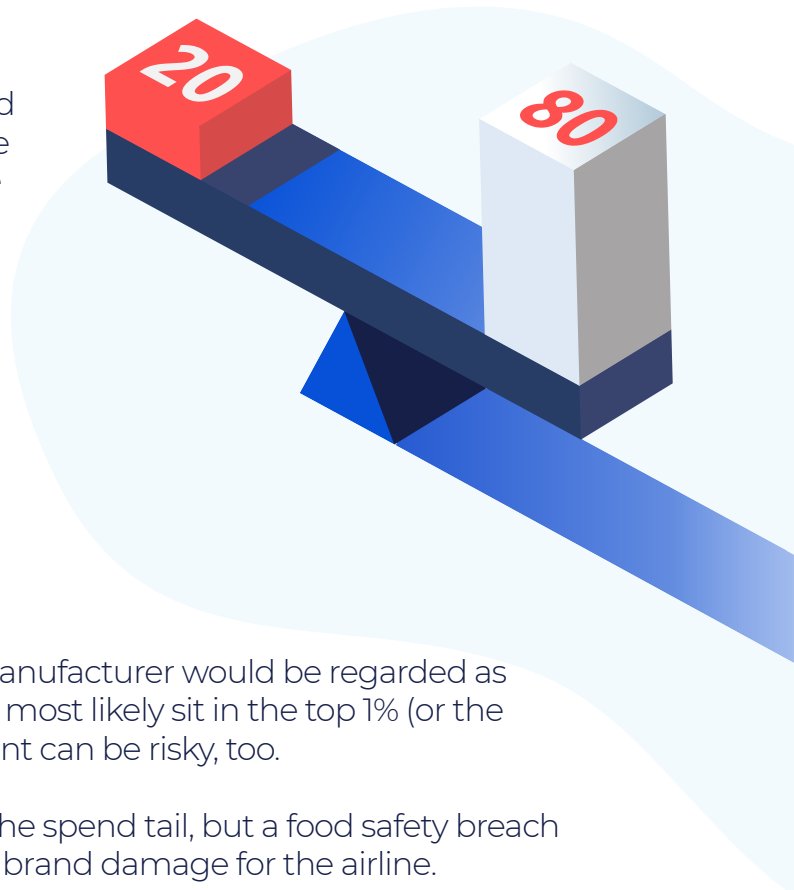
Put simply, procurement teams can’t do everything. Even the largest organizations with 100-plus sourcing professionals can’t actively manage or oversee the tens of thousands of suppliers in their tail spend. The same situation applies in smaller organizations and especially in one-person procurement functions where it’s even more important to direct your limited resources where it matters most.

But the flaw with the Pareto Principle is that it segments (ranks) suppliers based solely on spend. Looking beyond cost, the strategic importance of a supplier can be determined by:

- ✓ Risk to the organization
- ✓ Quality concerns
- ✓ Environmental impacts
- ✓ Social factors
- ✓ Supplier diversity

In aerospace, for example, a jet engine manufacturer would be regarded as a high-cost, high-risk supplier and would most likely sit in the top 1% (or the head of the cat). But low-cost procurement can be risky, too.

An airline meal caterer might belong to the spend tail, but a food safety breach could cause food poisoning and massive brand damage for the airline.



Tail spend and subthreshold spend

Chief Procurement Officers (CPOs) have to draw the line somewhere to determine how much the procurement team will manage centrally and how much will be decentralized to the business.

This is called a spend threshold and can vary significantly depending on the size of the company. A small organization might have a spend threshold of \$10,000, while the procurement team in a major organization such as a bank may only focus on transactions over \$1 million.

In practice, this would mean that employees are authorized to make sub-threshold purchases such as booking a hotel, but if they need to make an above-threshold purchase such as a \$10,000 photocopier, the task will be handed over to procurement.

That isn't to say that sub-threshold purchases are completely uncontrolled. Procurement teams create policies and procedures for decentralized buyers to follow, such as requiring them to source three quotes for goods or services before choosing a supplier or directing buyers to purchase certain categories only from an approved catalog.

Procurement software is increasingly effective at blocking maverick spend, or buyers who don't follow the rules set by procurement.

Every transaction taking place within an organization's tail spend will be under the spend threshold, which means spend tail management and sub-threshold spend management are essentially the same concept.



Why it's worth getting your tail spend under control

Let's take a closer look at the tail of your imaginary cat. Is it sleek, neat, and well-groomed? Or is it a matted, tangled mess?

Even with the help of procurement tech, it takes time and resources to bring an unruly spend tail under control. Is it worth it?



Yes, says Karthik Rama, a procurement practitioner with over 16 years of experience. "If left unchecked, that tail spend will push its way into the critical spend spotlight soon enough, potentially catching procurement off-guard."

Rama advises that organizations must first identify what constitutes as tail spend and develop a strong business process for handling that spend. After that, bring in other tools like spend management software to help.

Sarah Scudder, President of Real Sourcing Network, agrees.



"One ERP or procure-to-pay system does work for all categories and for all business needs," she says. "Putting a strategic, easy to use solution in place can free up resources, automate manual processes, and save money."

Rama and Scudder raise some valid points, but only scratch the surface of the many questions and concerns your leadership team will present. Are you prepared to state your case? Let's dig in a bit deeper to uncover exactly how your organization can benefit from well-behaved tail spend, and what other procurement professionals are saying about the impact of an unruly tail.

Benefits of managing tail spend

Actively managing tail spend would allow your organization to:

Improve visibility of your total spend beyond the top 20%

Procurement teams generally have great visibility of exactly how much money is spent and who it is spent with – but only for the top 20% of suppliers.

Subthreshold spend is a very different story, as so many transactions take place off the radar. Employees may contact suppliers by phone, email, or even by text to arrange purchase of goods or services, meaning this data is never captured in your system. Some buyers may track their purchases in spreadsheets, or in disparate procurement systems that don't talk with each other.

Getting visibility of tail spend is therefore the first step necessary before any value can be extracted.

Unlock hidden savings

There's gold in that tail. It's common to see procurement teams pouring months of effort and resources into winning a 1% to 2% reduction in costs for a strategic purchase, while 20% of total spend goes out the door unheeded. Research from BCG found that digitizing tail spend can take 5% to 10% off a company's bottom line – this can be significant for large organizations with costs in the billions of dollars.



Una CEO Anthony Clervi believes organizations disregard tail spend because it's considered non-strategic, but stresses it's still worth a look. "Unplanned spend can add up. Through proper supplier consolidation, efficiencies will be discovered which should lead to realized savings and increased productivity across the organization," Clervi says.



While procurement won't be able to personally intervene with every transaction, the team can establish policies, processes, and software to help take costs out of the spend tail. A big part of this is identifying and dealing with maverick spend.

Identify and reduce risk



Phil Ideson, founder and managing partner of Art of Procurement, says risk mitigation is one of the more compelling reasons to put a focus on tail spend management. Risk management in the spend tail is made possible by analyzing trends and understanding buyer behavior. Software can be used to set up flags that prompt procurement to get involved if a purchasing decision has a high risk profile, or if there are unusual costs such as a supplier being much more (or less) expensive than others.

For example, an employee trying to arrange a business trip might – with the best of intentions – book a cheap hotel. The system recognizes that the cost is much lower than might be expected for a hotel booking in that city, and flags the purchase to the procurement team. On investigation, it turns out the hotel is located in a dangerous part of town, which presents an unacceptable risk to the employee and subsequently to the business. The procurement team rejects the purchase and provides the employee with advice on choosing more appropriate accommodation.

In addition to spend analytics software, Ideson recommends having a combination of resources available to help manage tail spend, including guided buying, a low-dollar sourcing desk, and outsourcing tail spend to a group purchasing organization.

Benefit from supplier innovation

Fact one: Most small- to medium-sized suppliers exist in the spend tail, with large suppliers clustered into the top 20%.

Fact two: Small suppliers are more responsive, nimbler, and more innovative than large, slow-moving organizations.

In other words, there's potential for game-changing innovation located within the spend tail, but it won't be unlocked if the relationship is purely transactional. Identify innovative small suppliers and enter into a dialogue with them to discover what they can bring to the table.



How to tame tail spend

Convinced that the spend tail is worth taming? Here are five ways you can get it under control.

1

Gain visibility.

Visibility is an essential prerequisite for taming the spend tail because you can't save what you can't see. In most circumstances, this would involve implementing a purchasing system and requiring every buyer in the business to purchase through this unified system, rather than making "invisible" purchases via spreadsheets, emails or phone calls.

2

Tame your mavericks.

Spend mavericks add unnecessary costs to your bottom line, damage supplier relationships, expose the organization to additional risks, and leave gaps in your spend data. Identify where you mavericks are in your business, make the effort to understand why it's happening (are your processes too complex?), then solve the problem with technology that locks out maverick spend, additional training, or more of a big-stick approach. It will not be possible to bring the spend tail under control if it is rife with maverick spending.



3

Analyze your tail spend.

Data visibility enables spend analytics. Before you can analyze spend, however, you must have your data in order according to Scudder. Automation and software will be able to help you determine quickly what information is useful and what isn't. Deciding which KPIs to include is an important step, too, she says, which allows procurement teams to align data collection with the KPIs that matter.

Once the good data is there, the best thing about procurement spend analytics software is that it can cope equally well with analyzing 10,000 suppliers as it would with analyzing 100. And the software is getting smarter, with AI and machine learning able to segment and sort suppliers by costs, risk, category, and other factors to enable different types of analysis.

4

Explore technology solutions.

Tap into the transformative power of procurement AI, machine learning, big data, advanced analytics, and process automation. While procurement software can be costly, it will inevitably save time, reduce risk, and increase visibility.

5

Outsource tail spend.

If you simply don't have the time or resources to tackle tail spend, why not outsource it? Nick Gunn, Founder & CEO of The NiVACK Group, says one option is to utilize consultants who have experience integrating tail spend management into the overarching category strategies. Amanda Prochaska, an experienced procurement practitioner, author and speaker, has outsourced tail spend management to a group purchasing organization as a way to make the transition seamless for end users.

Here at Una, we use our spend analytics tool to identify issues within our clients' tail spend and find categories that could benefit from access to Una's impressive bulk-purchasing-driven contracts. This will generate immediate savings in the spend tail. Outsourcing some of the categories within your spend tail is one of several ways to bring this issue under control, and should be used in conjunction

Get in touch

In the end, tail spend is an important part of a company's make-up, and leaving it unmanaged welcomes unnecessary risk and leaves cost savings on the table.

With all of the technology and data available to procurement professionals, it's time to acknowledge the value to be found in this category.

Take the cat (or tiger or lion!) by the tail.

Schedule a consultation with Una today to learn how to unlock cost savings and other benefits from high-volume and low-value purchasing.

Visit www.una.com/signup to get started.

