

How to Effectively Manage Your Tail Spend

A play-by-play for understanding and taming tail spend in a way that leads to full spend visibility and increased cost savings.



What's Inside

Intro	3	Outsourcing Tail Spend	14
What is Tail Spend	4	• Consultants	14
Pareto Principle & Subthreshold Spend	5	• Implementing Technology	15
Is Tail Spend Worth Getting Under Control?	7	• Working with a GPO	16
• Improved visibility of total spend	8	Working with Una	17
• Cost Savings	9	• The Discovery Call	18
• Identify and Reduce Risk	10	• Cost Analysis	19
• Benefit from Supplier Innovation	10	• Finding & Connecting with Suppliers	20
How to Manage Tail Spend	11	More than a GPO	21
• Standardization	12	Conclusion	22
• Bundling	12		
• Catalogs	12		
• Purchase Cards	12		
• Tail spend Category Management	13		



Intro

Whether you're an experienced procurement practitioner or someone who's just getting started in the field, you've probably heard of the term tail spend.

Does it give you a warm and fuzzy feeling when you hear the phrase because your company has tail spend under control? Or does it induce discomfort, cause you to hesitate, or make you freeze altogether because you know tail spend is an untamed beast running rampant across the organization?

More often than not, it's the latter, right? But why?

Why is tail spend a topic that's generally avoided by procurement teams and stakeholders? Why does tail spend go unmanaged? More importantly, how does an organization get its tail spend under control once and for all?

Our friends at Art of Procurement have a few

thoughts on the topic. Although the concept of tail spend isn't new in the procurement field, they believe it continues to be one of the main challenges practitioners face due to its risky nature, the fact that it can be difficult to analyze, and (if handled incorrectly) expensive to tackle.

After the coronavirus pandemic sunk its teeth into every supply chain and sourcing function across the globe, organizations are shifting focus to change the way they do business, looking for ways to minimize risk, and taking a closer look at spend management to improve their bottom line. This includes investing more into a tail spend management program.

This playbook is designed to help you identify what constitutes as tail spend, the importance of managing tail spend, and practical, actionable steps you can take to implement effective tail spend management strategies.

What is Tail Spend?

Procurement professionals are responsible for managing spend across an organization. Most of their efforts are focused on the top 20% of their supplier relationships as this typically accounts for about 80% of their company's spend.

Many procurement practitioners tend to disregard the rest of the spend that falls outside of this threshold, mostly because it's deemed invaluable even though hundreds of transactions may be taking place with the majority of their suppliers.

These high-volume, seemingly low-value transactions make up tail spend.

Tail spend can occur in any category but is particularly common in office products, print, packaging, business travel, business services, professional services, marketing, facilities, and temporary staffing.

Tail spend is mostly tactical, almost always indirect spend, and is left uncategorized which means these transactions are not included in cost-savings initiatives or run through any type of procurement process for approval.



Pareto Principle & Subthreshold Spend

To help further identify tail spend, most procurement professionals use the Pareto Principle, or 80/20 rule we referenced above, as a common guide for understanding what spend is “worth” managing.

An organization’s top 20% of suppliers typically account for 80% of total spend. Spend with these suppliers is considered strategic and is carefully managed. The remaining 80% of suppliers combined only account for 20% of total spend, are considered tactical, and thus belong to the tail spend.

Most organizations also establish spend thresholds to determine which purchases are actively managed by the procurement team. These vary depending on company size.

For example, a small to medium-sized business might have a spend threshold of \$10,000, while very large companies may have a threshold of \$1 million or more.

Thresholds may be lowered in times of financial stress (such as the COVID-19 crisis) to reduce unmanaged spend. Subthreshold purchases take place without the involvement of procurement.



When trying to identify your organization's tail spend, ask yourself these questions:

1

Are there entire spend categories currently left completely unmanaged? Think about office supplies, business travel, or facilities maintenance.

2

Does your organization have spend thresholds established for categories managed (or unmanaged) outside of procurement?

3

What portion of your company's spend falls beneath the allowed threshold? Is it even trackable yet?

4

How are purchasers buying across the organization? Do they use third-party websites, email, or phone?

Is Tail Spend Worth Getting Under Control?

If you had asked this question 15 to 20 years ago, the answer may have been no because procurement simply could not manually track such a high volume of transactions. But thanks to a variety of procurement technology solutions in the marketplace and additional resources readily available, it is now possible to see all transactions taking place across the board.

There are several benefits to getting tail spend under control including improved visibility of total spend, uncovering hidden savings, identifying and reducing risks, and benefiting from supplier innovation.



Improved visibility of total spend

Data is king. No procurement team can claim to have total visibility if they can only see their organization's spend with the top 20% of suppliers. Likewise, you can't save what you can't see. Expanding visibility to include tail spend is the first step to unlocking additional savings and opportunities to identify risk.

Ultimately, your goal is to move all tail spend out of invisible channels (emails, phone calls, spreadsheets, and disparate procurement systems) and onto a centralized purchase-to-pay system. There is so much new technology at procurement's disposal which means there is no excuse for failing to keep track of all spend.

The digitization of procurement, which includes the adoption of advanced analytics, big data, artificial intelligence (AI), and automation, can provide visibility into hundreds of thousands of transactions. This enables procurement to tackle tail spend with greater ease and precision than ever before.



Cost Savings

There's more to procurement than cutting costs, but this is undeniably the number-one motivator for getting tail spend under control. Research shows that by digitizing tail spend and moving transactions onto a centralized system, organizations can cut costs by 5% to 10%. For larger organizations, these savings will add up quickly.

To help you identify substantial opportunities for cost savings, ask yourself these questions:

Does your organization have clear policies established for buyers to follow? For example, are all buyers required to source three quotes before making a purchasing decision? Are you reviewing purchasing requirements to reduce unnecessary spend and warehouse costs?

Are online catalogs available for categories like stationery or business travel?

Do you have a process for identifying and addressing maverick spend?

Does it make sense to consolidate suppliers and deliveries to increase buying power and negotiate better deals?

Can you schedule training and educate staff on effective purchasing to create a cost-conscious culture?

Identify and reduce risk

What sort of risky behavior is taking place in the spend tail? Even though a purchase may be below the spend threshold, it may still have a high risk profile. Without visibility, it's impossible to keep track of unusual costs, potential ethical breaches, or procurement fraud.

Benefit from supplier innovation

Small suppliers are more innovative than larger organizations. They can respond to requests quicker, pivot faster, and develop and implement new ideas quicker because they have less red tape to navigate. It's entirely possible that an SME buried deep within your organization's tail spend may be harboring a game-changing idea, but ideas will not be shared if the relationship is purely transactional. Tail spend also offers countless opportunities for socially-conscious procurement, like choosing a minority-owned supplier, for example.



How to Manage Tail Spend

Now that you have a clearer picture of what tail spend is and how to identify it, let's dive into how to actually get it under control. That is, after all, the main reason tail spend is running rampant - we know it exists but it seems too overwhelming to do anything about it.

Until now.

If you're used to using a "set-it-and-forget-it-approach," we know the risks include increased maverick spend, poor visibility, and losing out on cost savings and additional value.

Here are a few traditional ways to better tackle tail spend.

Procurement professionals like yourself are very capable of understanding and taming tail spend in a way that leads to full spend visibility and increased cost savings.

Standardization of products and services

Simplifying and standardizing products can lead to optimum supply chain performance and can be a driver of cost savings. Standardization can also help streamline purchasing and offer structure to a complicated area of spend.

Bundling

Bundling can be a successful way to simplify the procurement process. Standardized contract terms and consolidating spend with fewer suppliers can lead to improved organizational efficiencies, better service, and lower costs.

Catalogs

A procurement catalog outlines which products and services are offered by a particular supplier. Employees and buyers throughout the organization can access the catalog internally to see exactly what they can order and from what vendor. Catalogs can yield higher levels of control and visibility of spend, and promote autonomy since the procurement team is less likely to intervene.

Purchasing Cards

A purchasing card, or P-Card, allows buyers within an organization to make purchases on a charge card, similar to a consumer credit card. The business utilizing the P-Cards foots the bill, but can also customize how and where P-Cards can be used. This helps control where purchases are made, and how much can be spent at any given time.

Tail Spend Category Management

Category management is a strategic approach to procurement. Treating tail spend like its very own category is an effective way to get it under control. Best-practice category management methodologies that you most likely already apply to other categories can be applied here as well.

Continual analysis of trends, risks, and changes in demand within the tail spend will lead to better understanding of what your company is purchasing, when goods are being purchased, and from which suppliers. You'll also be taking a proactive approach to sourcing, form better relationships with your suppliers, and identify areas for improvement.

According to a 2016 study, 27% of companies that were actively managing tail spend saw annual savings between 5-10% while 30% of companies saving greater than 10%. When using the right tools and resources available to you, your organization could see similar results.



Outsourcing Tail Spend

If you're still finding yourself up against barriers when it comes to managing tail spend with the more traditional methods, outsourcing tail spend management may be the perfect solution.

There are just as many factors to consider as there are tail spend categories when deciding to get some help. We've put together a few ideas to consider that could be utilized each on their own or together -- you must discern which is the best path for your organization.

As always, we believe that procurement strategies should be comprehensive and customized to suit the objectives of each team and align with an organization's specific goals.

Outsource tail spend to a consultant

An effective way to manage tail spend is to enlist the help of an external consultant. These professionals can advise on how to integrate effective tail spend management processes into your organization's overarching category strategies.

There are a myriad of procurement specialties and skill sets, so you'll want to hire someone who can be a generalist with a wide lens to diagnose inefficiencies and identify new opportunities. The goals of any good consultant should be to drive profitability and create strategic value through your procurement function.

Implement Tail Spend Technology

Digitizing procurement processes with technology and automation has proven to be transformative for the industry, especially in the area of tail spend. This means it's now possible to achieve granular visibility of every transaction that takes place in real time.

Solution providers can automate clunky processes to bring more of your organization's tail spend under procurement management while requiring all buyers to purchase through a unified system. Software like this can be costly but depending on the size of your organization, tail spend may be worth hundreds of thousands, if not millions, of dollars. Shaving even 1% off the spend tail can make a significant impact on the bottom line.

The right technology will help your organization achieve cost savings, drive increased visibility, monitor and flag unusual or high-risk spend patterns, funnel spending to preferred suppliers, and monitor your progress towards tail spend management KPIs.



Outsource to a Group Purchasing Organization

Group Purchasing Organizations, or GPOs, leverage the collective buying power of their members to obtain volume discounts from suppliers. Once you join a GPO, you're able to take advantage of pre-negotiated contracts and receive discounted pricing on the goods and services needed to run your business, saving you money, time, and effort.

GPOs normally come in handy when working with indirect or nonstrategic spend. When it comes to tail spend management, the GPO would act as an extension of your procurement team, helping you sort through and analyze your tail spend data.

Procurement leaders often engage GPOs to outsource specific categories such as travel, office supplies and logistics. Tail spend is simply another category that can be outsourced in this way. Enabling the help of a GPO allows you to consolidate your supply base and establish which vendors are the best fit for your business.

This process includes identifying high-risk or high-cost areas within your tail spend supply base to establish which categories would most benefit from volume-driven initiatives and pre-negotiated supplier contracts.

With tail spend management fully accounted for, your team will have the capacity to focus on other areas of strategic spend.

What's it Like Working with Una?

By now, you have a firm grasp on tail spend, you've learned about the benefits of getting it under control and you're ready to take action. Perhaps you're still feeling a little overwhelmed.

It's a normal feeling considering the magnitude of a project like this, and it's one you don't have to tackle alone. After making an effort to get your spend data organized, and maybe even investing in new technology to make it happen, let's make sure you have all of the appropriate resources going to bat for you.

If you're not familiar with group purchasing organizations or understand how they can help with tail spend management, this section will show you exactly how Una operates and what you need to know to determine if it'd be a good fit for your business.

Our process is simple and if you choose to partner with us, here's what you can expect.



Discovery Call

After expressing your initial interest to learn more, the first step is to have a discovery call with one of our expert Sourcing Advisors to see how we can best address your needs together. Whether the conversation revolves strictly around tail spend or not, this call acts as a two-way interview so both parties can decide if there is potential for a good fit. Our Sourcing Advisor will ask a series of questions, including what your goals are and what problems need to be solved.

- **What does success look like to you?**
- **What do you think a GPO can do for you?**
- **Is it about savings or something else?**
- **Are you getting the most value out of your suppliers?**

The call sets the timeline and potential opportunities to explore.

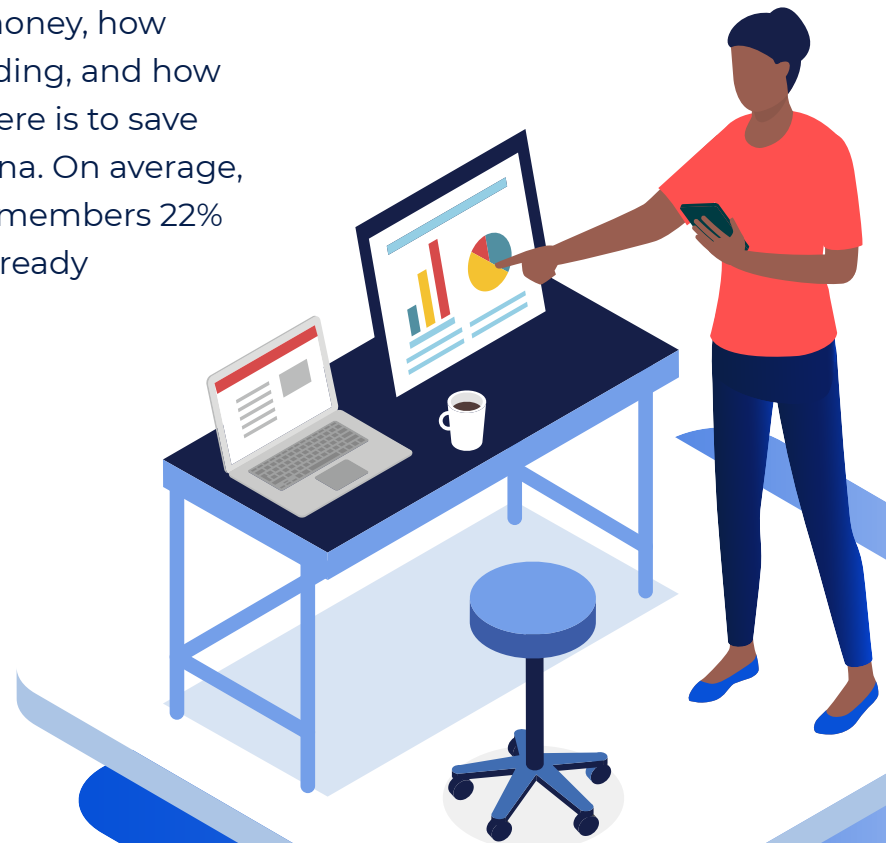


Cost Analysis

Just as you performed your own spend analysis at the start of your tail spend journey, our Sourcing Advisors work with you to conduct a cost analysis with the spend information you provide. This serves as a way to benchmark your current pricing and assess the value of your contract with a supplier.

Una will send your spend information directly to our supplier base to compare cost and identify potential savings opportunities. If the contract Una has in place would yield additional savings, we can get you connected to those contracts within days or weeks.

Our Sourcing Advisors can do a cost analysis for each category (tail spend and beyond) so you have a clear picture of where you're spending money, how much you're spending, and how much potential there is to save by working with Una. On average, we're able to save members 22% on items they're already purchasing.



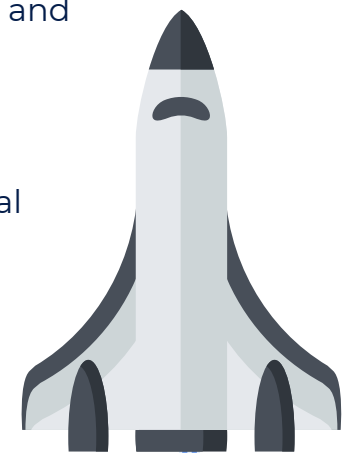
Finding and Connecting with Suppliers

The process of finding a reliable supplier and negotiating contracts can take months, if not longer. By partnering with Una, you're choosing us to become an extension of your procurement team, which comes in handy when trying to tackle a big project like tail spend management.

Una's catalog of pre-negotiated contracts are already in place, meaning we've done the heavy lifting in terms of vetting suppliers and negotiating the best-possible pricing for our members. The need to reach out to suppliers is eliminated. Based on the information gathered during your discovery call and cost analysis, our Sourcing Advisors will walk you through our catalog of suppliers and recommend those who will best meet your needs.

Our team will facilitate the relationship with each supplier by introducing you to the National Account Manager, if applicable, and assist with any questions you have about the contract.

We like to think of it as handing everything to you on a silver platter. Not only are your contracts ready to go, but you're given back your time, which we all know is valuable. All you have to do is pick your favorites and start saving.



Una acts as a true Sourcing Accelerator.

More than a GPO

Tackling tail spend has become an essential task for businesses that want to improve visibility of spend, uncover hidden savings, and reduce risk and Una's team is dedicated to helping you get the job done.

But our partnership doesn't end here - it's about more than savings. Una acts as a true Sourcing Accelerator. The way we work together is designed to offer you turn-key procurement solutions that empower you to achieve category quick wins, and then move onto the long-term strategies that make your business more profitable.

When you decide to work with Una, you're choosing a partner in procurement. Your Sourcing Advisor becomes an extension of your procurement team, which means you can give them tasks, seek guidance, and ask questions that will help you accomplish your goals. Throughout the entire process, you are in control, guiding each conversation based on your desired outcomes.

Una membership and the benefits that come along with it are always free. There are never any purchasing requirements and you're never locked into contracts. We provide an "in" so every organization can save big on the items they need, and follow up with the resources to accelerate your sourcing program in every category.

The immediate cost savings generated from our pre-negotiated contracts is a given, but working with Una means you'll see additional benefits that include visibility, consolidation of spend, and streamlining of purchasing. We help you move faster, save more, and look better doing it.

Ready to manage tail spend?

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

