Conquer tail spend for supply chain optimisation

Areas of consideration to address tail spend

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What is tail spend?

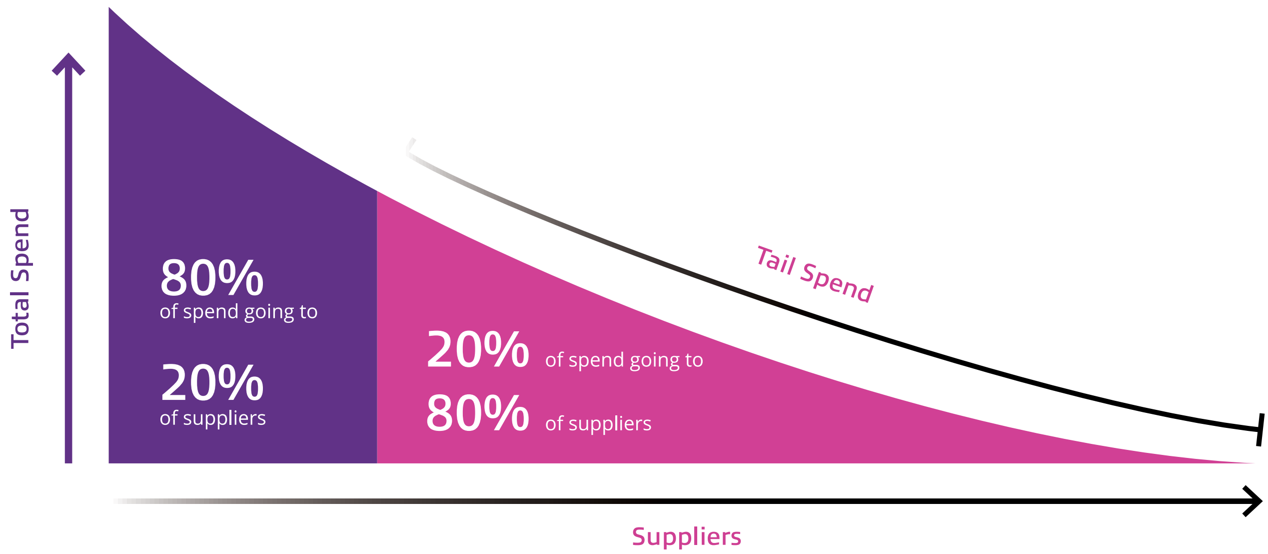
Companies are increasingly focusing on savings from better management of non-strategic spend, or tail spend. As well as cost savings, there are significant implications and risks from that seemingly inconsequential, unmanaged tail spend…

Tail spend basics

Simply put, tail spend is the buying activity outside of your strategic purchases. It's the small, tactical purchases which, left unchecked, quickly add up to large sums.

It is often spread across hundreds of providers, driven by both central purchasing and, increasingly, individual business units. For an organisation running software from 500 publishers, for example, tail spend might account for purchases from 400 or more of those companies.

The Pareto principle usually applies in an amplified way here, with more than 80 percent of a company's spend often going to fewer than 20 percent of the suppliers. These key areas of spend are strategic, and as such, closely managed.



Non-core purchases might amount to 'just' 20 percent of spend, but it's spend where only a minority of the suppliers are subject to meaningful governance. Why is that an issue? Read on…

How does tail spend happen?

With the digital era in full flow, businesses – and their users – want more technology to get work done.

Every day we're bombarded with information about new, 'cool' technology, which brings a desire for rapid adoption to achieve competitive advantage. Suddenly a new piece of software gets added to your line-up.

Many companies have clear procedures for purchasing, but in an agile world the desire for rapid improvement often beats this. Common reasons include:

- Limited internal purchasing resource
- A one size fits all approach that causes disproportionate administration

The result is tail spend, which comes in many forms, including:

- Maverick spend, which falls outside of your company's formal procurement policy
- Purchasing technology with similar functionality to solutions which already exist within your business
- Unclassified/misclassified spend which has been incorrectly coded in your system
- Fragmented spend that should be consolidated into existing supply contracts
- Low value spend, which can be purchased regularly, or infrequently, often on expense or credit cards.
- One-off spends that slip in for a range of reasons

Chasing the tail: The implications and risk of tail spend

Much of the talk around tail spend is focused on cost savings. While the individual dollar amounts of tail spend are small, when added together it can amount to millions of dollars.

Optimising tail spend can bring major savings. Everest Group's Betting on Tail Spend to Save Coin report says organisations can drive incremental savings of up to 15-17% on the addressable cost base with tail spend management. So there are potentially big savings to be had by optimising it.

But cost savings aren't the only benefit.

Tail spend through the wrong channels creates cost and risk. However, tail spend through the right channels increases the strain on both capital and human resources.

1. ***The biggest reported pain point is in the operational management overhead.*** Those 400 smaller software purchases are a significant drain on a procurement organisation.

   The more suppliers you engage with, the more contracts there are to review and the more due diligence that needs to be done.

   Driving better employee behaviour by getting them to use procurement for corporate purchases can be challenging. Strained procurement departments are often required to focus on the 20 percent of strategic spend to the expense of the remaining 80 percent.

   This can often be unsatisfactory for their customers, the employee users, who do not have time to wait four or more weeks for the completion of a formal procurement vendor onboarding process – especially when these employees can simply sign-up in just a few clicks to a subscription online with their corporate credit card.

   This can lead to a perception that it's difficult to work with procurement for reasons such as lack of tools, resources available to support sourcing initiatives, and subsequent delays in time to value.

2. ***One of the biggest areas of corporate risk with tail spend is around information security.*** Data risks are a very real concern in this day and age, with the potential to compromise a company financially through loss of business and/or compensation claims.

   But when software is bought in the tail, it's often not controlled effectively because there aren't the resources to review user agreements for the multitude of small software purchases being made.

   That means your company may be agreeing to put sensitive corporate information into a cloud space managed by a company you know little about. For regulated industries, that's a no-no. For any industry, it should give pause for thought and be a serious consideration – and a very real reason to get a handle on the tail spend.

3. ***There are also issues of economies of scale.*** All those small purchases are made at a premium. You might have five different brands of a particular type of software. Consolidating purchases and buying through a single supplier enables you to negotiate better deals because of the volume.

   Something else to bear in mind is the risk that you're not buying best of breed, with software being bought by those who don't have market knowledge and are potentially choosing a product that has been highly promoted or is from a personal connection or company they have a historical connection with.

4. ***On top of all that is the additional workload for on IT operations,*** who then need to support yet another software offering, keeping on top of the managing and patching of it. While these functions are often outsourced, that amounts to further complexity – and more spend going to third parties.

5. ***Another area to consider is Environment, Social and Governance risk.***

   Procurement departments need to be mindful of the risks present in their third party supply chain.

   Many companies now want to know a company's ethical posture and ensure they align with their own corporate social responsibility principles before they onboard suppliers. It's not unusual to want to know what provisions a company has around Modern Slavery legislation, for example, and Labour practices. Do they outsource software development to a business paying employees a non-living wage?

6. ***Compliance can also be an issue,*** though when you're buying small amounts of licenses from small companies the audit risk for software compliance is relatively low. It is still there, however.

   Some spend in the tail is very low because it is tied to trial, non-production licenses. Bear in mind that adoption of these products can then trigger a need to move to a different licensing model. For example, some software offers the first "X" downloads for free, with any further downloads needing to be purchased. It's an area to be aware of as it can make costs for a tail spend publisher multiply.

Managing your company's tail spend

So why is tail spend so hard to manage? The reality is that it is operationally intensive to drive savings. Procurement departments are targeted to save money, construct good deals and set up solid, long-term purchasing relationships with suppliers. They're incentivised to focus on large, multi-year contracts which bring the big savings. Lower value and small areas of spend are not an efficient use of a procurement resources and are likely to reduce job satisfaction for qualified professionals.

Most organisations will have a rough idea of how much spend they are putting through non-strategic suppliers.

The question then is how important is it to you to save say 10 percent of this cost and tackle the issues mentioned above?

A balance needs to be reached between the work required and the benefits, which include:

- Improved employee experience with no more lengthy delays for new software, potentially leading to less shadow IT spend
- Cost savings: values and quantities purchased
- Reduced volume of purchasing events
- Less vendor management
- Reduced information security risk
- Lower operational overhead
- Reduced reputational risk
- Improved compliance
- Increased purchasing control
- Opportunity cost benefits of allowing procurement to focus on higher value tasks

Equally, governed spend brings with it many benefits, providing greater visibility and allowing for:

- The ability for IT to better support the business
- Finance understanding the cost base better
- Better budgeting
- Planning by enterprise architects and end-user compute
- Greater clarity on risks
- Opportunities to standardise
- Vendor due diligence, as previously discussed

While tail spend might be difficult to conquer, there are a number of things a company can do to address the issue and it starts with your procurement processes.

A robust procurement process ensures that when employees request new software, checks and validations can quickly be carried out to see whether that request is eligible and management approved and whether there is a real business case for it.

It could even include a check to see whether there is an alternative that can be bought that better aligns with company strategy, such as only buying certain types of software or solutions through a particular supplier.

A company should be addressing the following areas and have these capabilities:

A robust initial **user request process** when your employee first requests software. This includes having rulesets and the checks and validations to ensure the business case is right and the request is eligible – and even whether there's an alternative already approved that could be used instead – are crucial.

When it comes to the **fulfilment process**, including order management and purchasing of the software, it's important to have robust administration to record the purchase and to track renewals. Different systems can be used to track when all the different software is due for renewal.

The **contract review process** also needs to be carefully considered, providing pre-vetting around contracts and ensuring your company's standards including ESG issues like Modern Slavery, or commercial requirements such as payment terms, are supported.

Once you have established a solid procurement process and a better understanding of all the software in place and all the software required, you can look to **portfolio rationalisation support** should you wish to reduce supplier numbers.

You might also want to consider **demand management** – quantifying your software requirements on an annual or twice annual basis, as required – to support budgeting and renewals.

People – Processes – Technology

Insight offers out-tasking of the different elements of the procurement process, enabling you to outsource this complexity and operational precision to the Insight experts. This allows you to spend more time focused on other areas of your procurement process while also proactively identifying and delivering opportunities such as consolidating spend, reducing the need to buy and spend profiling.

As a reselling organisation our solution integrates the people, processes and technology – Insight's technology and expertise delivers efficient processes and operations.

We have an e-commerce portal that can link with your own e-commerce platform, providing a bespoke software catalogue for your purchasing requirements. Our renewal and warranty manager tool can also track any upcoming renewals for software purchased through Insight, providing automatic notification to ensure you have active maintenance on your software giving you access to patches – a critical factor in information security.

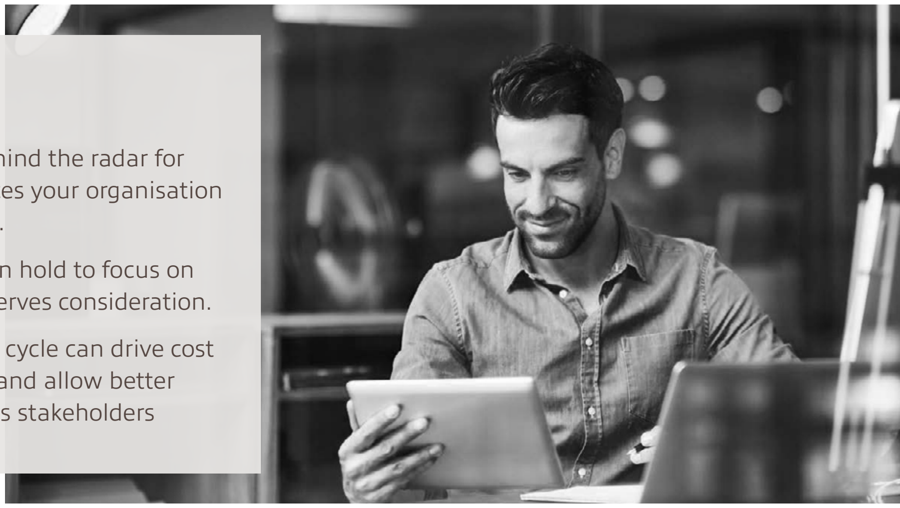
We've seen big wins for customers who have managed to tame the tail spend, including significant reductions in operational overhead, improved reporting ability, improved software delivery, reduced third-party risk and licensing control and demonstrable spend control after out-tasking procurement elements to Insight.

Conclusion

Governing tail spend should be top of mind the radar for any organisation. Left unchecked it places your organisation at risk and adds cost to your operations.

Putting strategic spend management on hold to focus on the tail isn't realistic, but tail spend deserves consideration.

Out-tasking elements of the purchasing cycle can drive cost and time out of operations, reduce risk and allow better procurement engagement with business stakeholders



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