Unlocking the Hidden Value Within Your Tail Spend

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Abstract

This paper examines tail spend management, a sourcing strategy that is gaining in popularity among procurement organizations that are looking for new ways to control spending, drive compliance, gain transparency, and generate savings. It explains the concept of tail spend and the challenges around controlling it. In this paper, we explain why companies can achieve more sustainable results by outsourcing the management of this part of their spend to an experienced, thirdparty provider.

Introduction

As an executive leader, it doesn't matter where you sit within an organization; there is always one clear and consistent mandate to follow: deliver value, year over year. For procurement executives, this means continually searching for ways to negotiate better contracts, improve supplier performance, increase organizational agility, and do more with less. Yet hidden in plain view, is an area of untapped potential for delivering extraordinary value, an area that is too often overlooked because of its seemingly complex nature—the tail.

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What Is
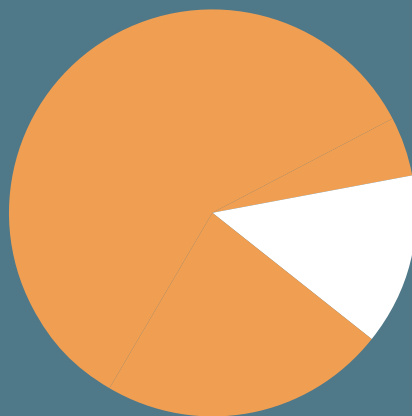# Tail Spend?

What is Tail Spend?

Tail spend, simply put, is the buying activity that takes place outside of the organization's base of core suppliers. It may involve hundreds of millions of dollars spread across hundreds, or even thousands of suppliers, but is often overlooked as a source of significant savings.

| Strategic | Head Of Tail | Middle Of Tail | End Of Tail |

COST

NUMBER OF SUPPLIERS
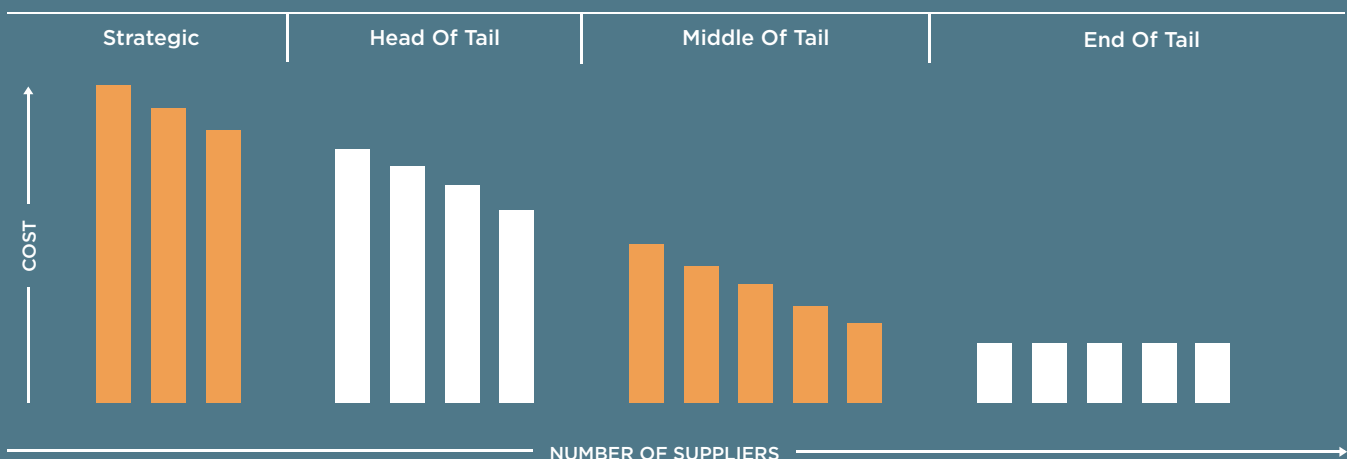
The logic of this paradox follows what is commonly known as the Pareto Principle, or the 80-20 rule. Applied here, the principle asserts that roughly 80 percent of a company's spend comes from 20 percent of its suppliers. Conversely, 20 percent of its spend comes from 80 percent of the suppliers, thusforming the tail end of the supply base.

When the goal is to reduce and control spending, it is a logical tendency for companies to focus their energies on this 20 percent which is comprised of their core, strategic suppliers. This group usually consists of high-profile suppliers that hold the largest contracts with the organization; therefore, targeting this group is usually the most efficient way to reach annual savings goals.

(For illustration purposes, cutting 10 percent from one $100 million contract to reach $10 million in savings is operationally easier than achieving the same $10 million savings across hundreds of suppliers.)

Total Spend

80% OF SPEND *(STRATEGIC SPEND)*
SMALLER GROUP (20%) OF CORE SUPPLIERS

20% OF SPEND *(TAIL SPEND)*
LARGER GROUP (80%) OF NON-CORE SUPPLIERS

Advocates for tail spend management would advise that, while expedient, this approach leavesfar too much money on the table. Estimates suggest that the amount of waste in the tail spend ranges somewhere between 15 and 20 percent. With increasing pressure to deliver value, this represents enormous potential for savings hidden within the tail end of the supply chain that procurement executives can no longer afford to ignore. However, putting the mechanisms in place to unlock these savings can be a daunting challenge. Tail spend management is not a quick fix, but given the appropriate focus, can deliver significant cost savings and value over time.

Tail Spend Examples

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"The purchasing of indirect goods and services in categories such as professional services, plant/facility services, utilities, MRO and travel is often managed at the department level, and finance executives rarely see the magnitude of overall spend that these categories represent.

When looked at individually, the dollar amount of indirect spending in each department seems insignificant when compared to raw materials. But, when added together, they can account for hundreds of millions of dollars."

Robert Brust
Indirect Procurement : From Back Office to Board Room
Business Finance Magazine, Feb 15 2012

When you dig deeper into tail spend to examine its many forms, you will discover that there are a wide range of buying activities taking place within this segment. Much of the activity occurs at the departmental level and impacts countless people and processes within the organization, making tail spend almost too complex, too nebulous to tackle. Hence, the term tail spend could also include "unmanaged spend."

Here are just a few examples that deserve closer scrutiny from procurement:

01 Maverick Spend

Spend that falls outside of the organization's formal purchasing guidelines. With indirect services, it commonly takes place when project managers or end-users engage suppliers who have not been vetted and approved by the company. Payment to the supplier is sometimes made through a project budget or purchasing cards (p-cards), disguising the real nature of the expense.

02 Misclassified Spend

Rampant in the tail segment, misclassified spend consists of goods and services that are incorrectly coded. Miscoding can happen as an unintentional oversight, or an intentional means of circumventing the supplier vetting process; in either case, it diminishes the company's complete understanding of how money is being spent.

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(continued)

03   Fragmented Spend

Items that are purchased individually that should be consolidated into existing supply contracts. Fragmented spend takes place in decentralized organizations where the same suppliers are engaged with no contractual agreements, volume discounts, standard rates, or service level agreements to ensure consistency and quality.

04   Unusual Spend

High-value items that are procured only once, or so rarely, that the organization's procurement staff lacks the experience to adequately manage this area. Often managed under a statement of work, this spend is vulnerable to gradual scope creep if it is not managed properly.

05   Low-Price, High-Frequency

Items that have low individual value but are purchased regularly. Over time, these purchases add up to a significant amount of spend, both within units and across the organization.

06   Low-Price, Low Volume

Items at the far end of the tail, which have very little perceived value when analyzing tail spend. Much like unusual spend, the danger with this category is that it is typically managed by a statement of work that can start out small, but balloon into much larger amounts over time.

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Why Is Tail Spend Hard For Companies To Manage?

There are a number of factors that make managing tail spend a daunting challenge. At the top of the list is the lack of good, comprehensive data on all products and services that are being purchased throughout the enterprise.

Lack of Category Expertise

Managing tail spend requires a deep understanding of the nuances within the many categories that exist within the tail. (For example, indirect services spend presents its own unique legal, financial and organizational risks, making it more challenging than the procurement of goods.)[2]

Ineffective Internal Controls

Companies lack the internal mechanisms to ensure all spending goes through the proper channels, is tracked, and is managed against corporate policies.

Lack of Bandwidth

Procurement departments simply do not have the internal resources to give adequate attention to this area of spend and create effective solutions

Lack of Executive Buy-In

Given the common perception that there is a low potential for savings, many executives pass over tail spend management in favor of strategies that offer more immediate rewards.

Take Control of Your Company Tail Spend.

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"Properly managing indirect procurement is a huge undertaking, requiring specialized skills and insights to unlock savings, but the benefits are worth the investment. CFOs have a choice to either build this capability internally or partner with companies who specialize in indirect procurement. Unfortunately in today's economy, few companies can afford to wait years to optimize indirect procurement."

Robert Brust
Indirect Procurement : From Back Office to Board Room
Business Finance Magazine, Feb 15 2012

Most companies looking to gain control over their tail spend realize very quickly that they lack the internal resources and expertise to execute an effective management strategy.

Instead, they turn to third-party providers like AgileOne with tail spend management experience and a broader market perspective.

People
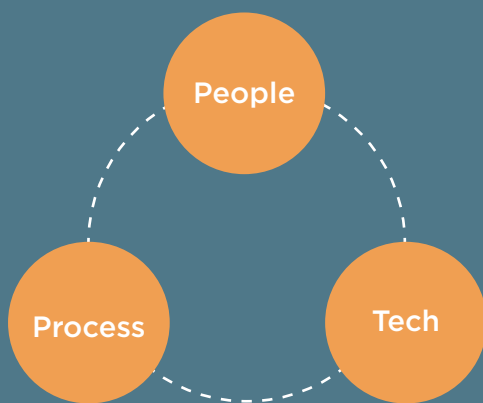
Process

Tech

As specialists in indirect services procurement, AgileOne establishes the processes and policies that guard against larger issues around statement of work projects.

Our proprietary technology, AccelerationVMS™ becomes the source-to-pay engine for all tail spend.

Built on decades of managing suppliers for our clients, AgileOne's Tail Spend Management solution combines people, process, and technology to unlock the hidden value in your tail spend.

People

AgileOne's dedicated team of procurement experts will work collaboratively with you to institute a tailored purchasing process to manage suppliers in the tail segment. With a client portfolio comprised of global companies across a wide range of industries, we have unique insights on how to create competitive sourcing strategies in any environment. We recognize and anticipate the challenges of addressing unmanaged spend and provide the change management strategies to ensure that all internal and external stakeholders are aligned from start to finish. For each client, this drives greater value than what they are able to achieve with an internally managed program.

Process

AgileOne will analyze your supplier population across all categories and geographies to identify gaps, special competencies, and opportunities for consolidation. We implement targeted sourcing strategies based on the type of spend and introduce competitive bidding and auction techniques to drive cost savings and decrease your cycle times. More importantly, unlike other solutions, we don't just qualify and optimize your suppliers; we hold the contracts with them to ensure compliance with contracted rates, timelines, and service level agreements. This means you are guaranteed the best pricing and quality from every supplier in the program. Additionally, our processes enable clients to meet their supplier diversity targets as all purchasing is tracked across diversity suppliers.

Technology

AccelerationVMS™, our proprietary technology tool, effectively addresses the number one reason for tail spend—lack of clean data. Spend data is tracked and categorized, providing you with unprecedented transparency into what you are spending (and how often) across the entire organization. The tool's intuitive interface makes it easy to use and lends itself to overall program adoption. AccelerationVMS™ provides toll gates to ensure that spend is flowing through the proper channels with the required approvals, further ensuring program compliance.

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"Third-party providers can provide the scale, automation and expertise that most companies couldn't—and arguably shouldn't—try to create by themselves. These providers can help ensure that all one-off purchases are channeled to a specialized and controlled tail spend management desk that efficiently applies the relevant policies, category instructions and sourcing tactics."

Elizabeth Edgar, Ralf Mägerle and Kyle Rosenthal
Accenture, 2013, Stop Chasing the Tail

AgileOne's 5 Step Process For Gaining Control:

01 Assessment and Analysis

Data Analysis And Cleansing
Segment The Spend And Supply Base

02 Strategy Alignment

Identify Appropriate Procurement Strategies
Stakeholder Analysis
Communications Planning /Change Management

03 Business Transformation

Institute Compliance And Control Measures
Implement Technology Enablement Solution

04 Monitor and Improve

Monitor Effectiveness And Results
Continuous Process Improvement Reviews

05 Consolidation and Value Creation

Push Tail Spend Into
"Core And Strategic" Suppliers

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Benefits of Managing the Tail

Tail Spend savings are achieved by reducing maverick spend, establishing the right process for each purchase, and introducing competitive bidding among suppliers.

Modest estimates of the potential hard-cost savings that can be achieved through a tail spend strategy range from 7 to 10 percent of the total spend. More aggressive estimates put the savings anywhere between 10 to 14 percent.

Modest Savings Estimate

7-10%

Aggressive Savings Estimate

10-14%

Other Benefits Of Managing Tail Spend Include:

Efficiency

Outsourcing your tail spend management strategy to AgileOne increases your operational efficiency by establishing a single point-of-contact to manage the program. We implement a standard, repeatable process for procuring services that will reduce cycle times and administrative burdens, giving your executives more time to focus on your core business.

Transparency

AgileOne's technology-enabled solution integrates with enterprise systems and tracks all spend data to give you greater visibility across your entire enterprise. Through robust reporting and data analysis, you will have a complete picture of the trends and demands that impact your business, allowing for better forecasting and long-term decision making.

Increased Compliance

The benefits of a tail spend solution include increased visibility to drive compliance on multiple fronts. Built-in controls ensure that all supplier staff working on the company premises undergoes standard on- and off-boarding procedures, thus enforcing all HR and security policies. Supplier payments are managed according to the contracted rates and service level agreements for every phase of the project, enforcing all rates, performance metrics and process approvals.

Benefits of Managing the Tail

Conclusion

Many companies are currently operating under the assumption that tail spend is too complex and requires too many internal resources to manage effectively. They also know that left unchecked, the waste within this area can equate to tens or even hundreds of millions of dollars each year. Outsourcing tail spend management processes to an experienced, third-party provider, has proven to be a more effective approach to managing tail spend and creating sustainable, competitive advantage.

As a market leader in managing indirect services spend, AgileOne's solution brings a higher level of expertise to your statement of work projects. We provide a customized purchasing strategy that not only achieves significant savings, but also increases efficiency, transparency and compliance. Let AgileOne's people, processes and technology act as the keys to unlock this hidden value within your tail spend.

One World. One Workforce.

Go beyond traditional workforce programs with a consultative partner able to manage your entire, end-to-end talent lifecycle. From cutting-edge technologies to award-winning services, AgileOne has the resources to provide true total talent management. Minority/woman-owned, with operations in nearly 20 countries around the globe. One World. One Workforce. One provider: AgileOne.

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Hong Kong	Canada	Ireland
Poland	Switzerland	