

TAIL-END SPEND MANAGEMENT



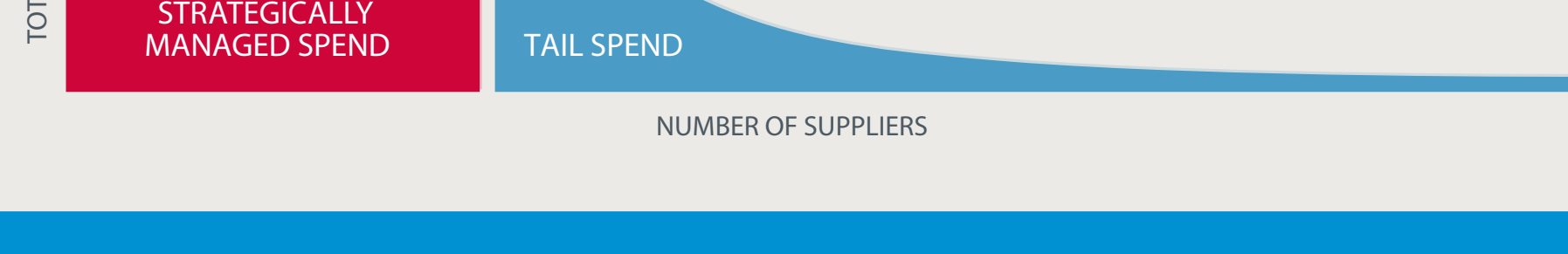
Tactical buying, spot buying and low-value spend. Regardless of what you call it, **TAIL-END SPEND MANAGEMENT** is finally becoming a **PROCUREMENT PRIORITY** and for good reason.

Traditionally, procurement organisations have been focused on trying to **MANAGE** their **STRATEGIC SPEND**, the 80% of **SPEND** that represents around 20% of their **SUPPLIERS**. While companies have been striving to manage those **STRATEGIC SUPPLIERS**, they've left the myriad of smaller suppliers – the **TAIL-END** of the spend – wholly unmanaged. Due to **PROFICIENT PROCUREMENT** and **UNNECESSARY RISKS**, that is now starting to change.

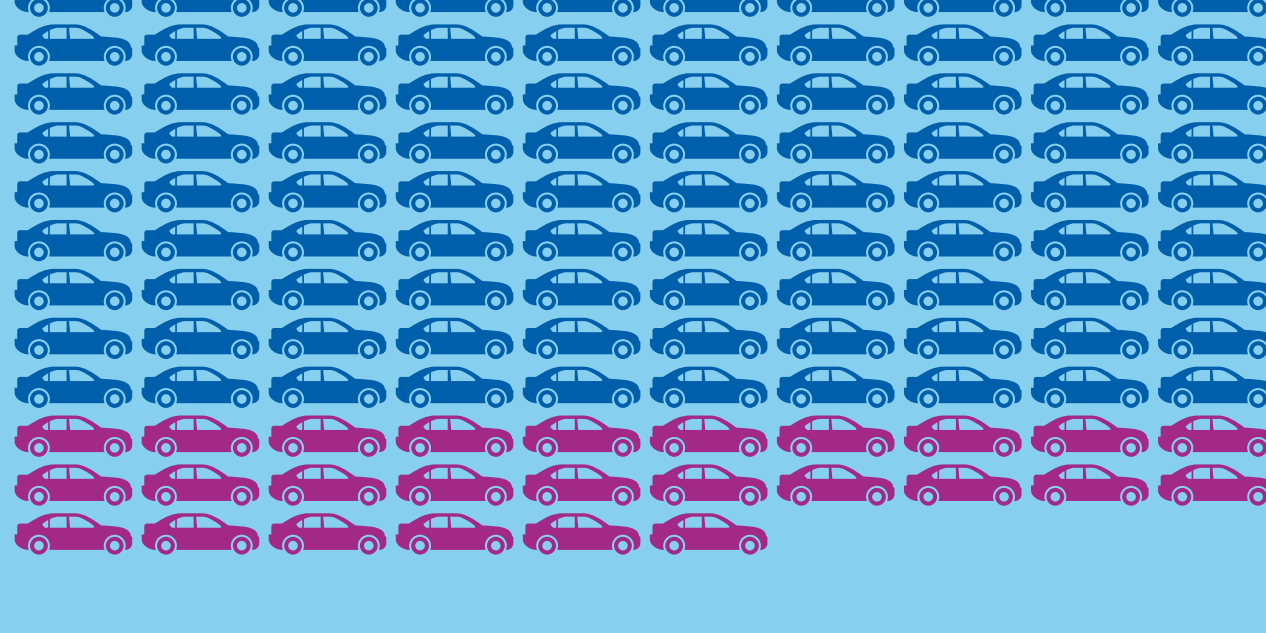
WHAT IS TAIL-END SPEND?

Tail-end spend is the 80% of suppliers that represent just 20% of an organisation's spend

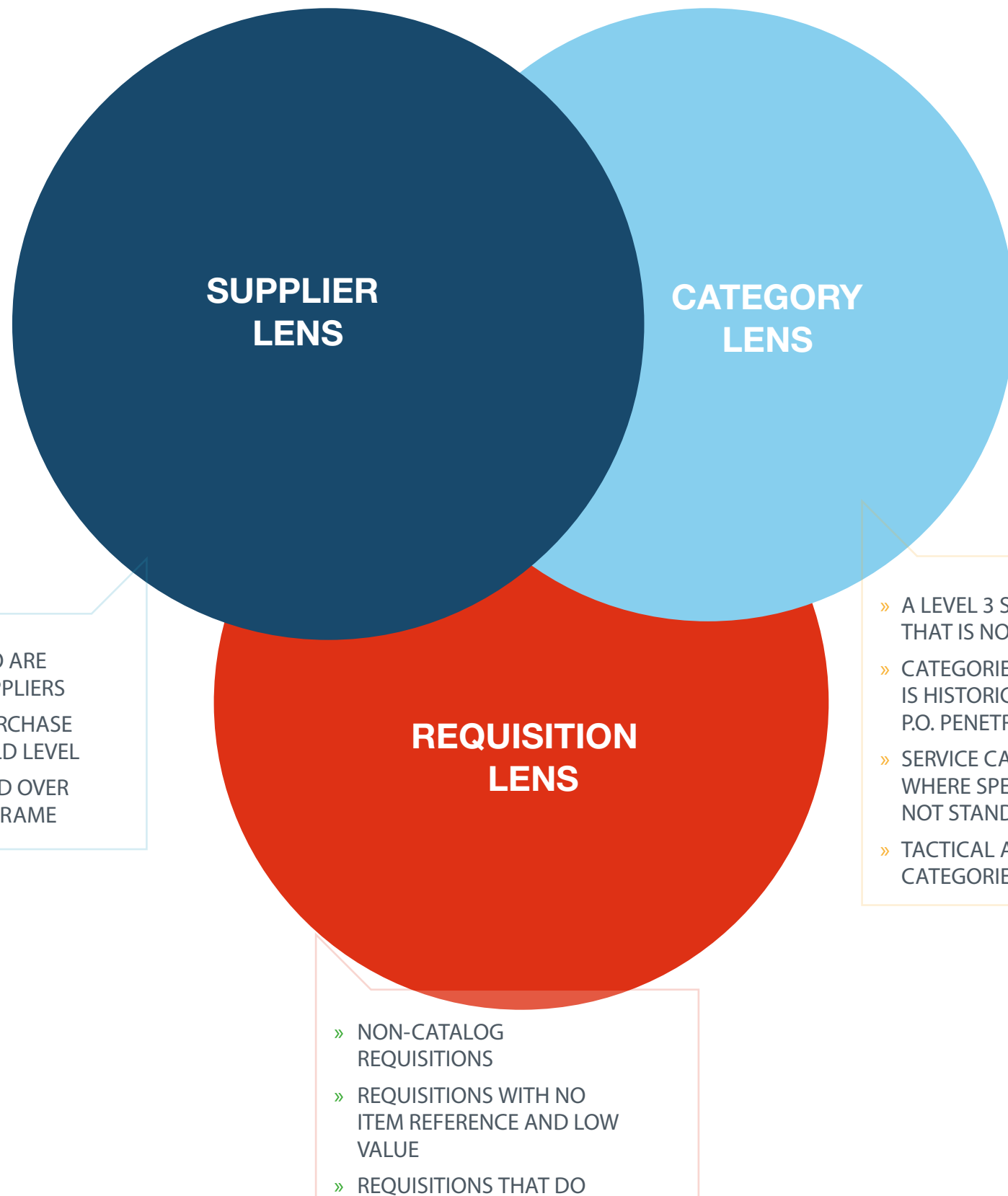
STRATEGICALLY MANAGED SPEND VS. TAIL SPEND



At the end of 2012 Ford had **1,260 suppliers** and purchased 80% of its parts from largest 100 suppliers that leaves **1,160 suppliers** in the tail-end



CONTRIBUTING FACTORS TO TAIL-END SPEND COMPLEXITY:

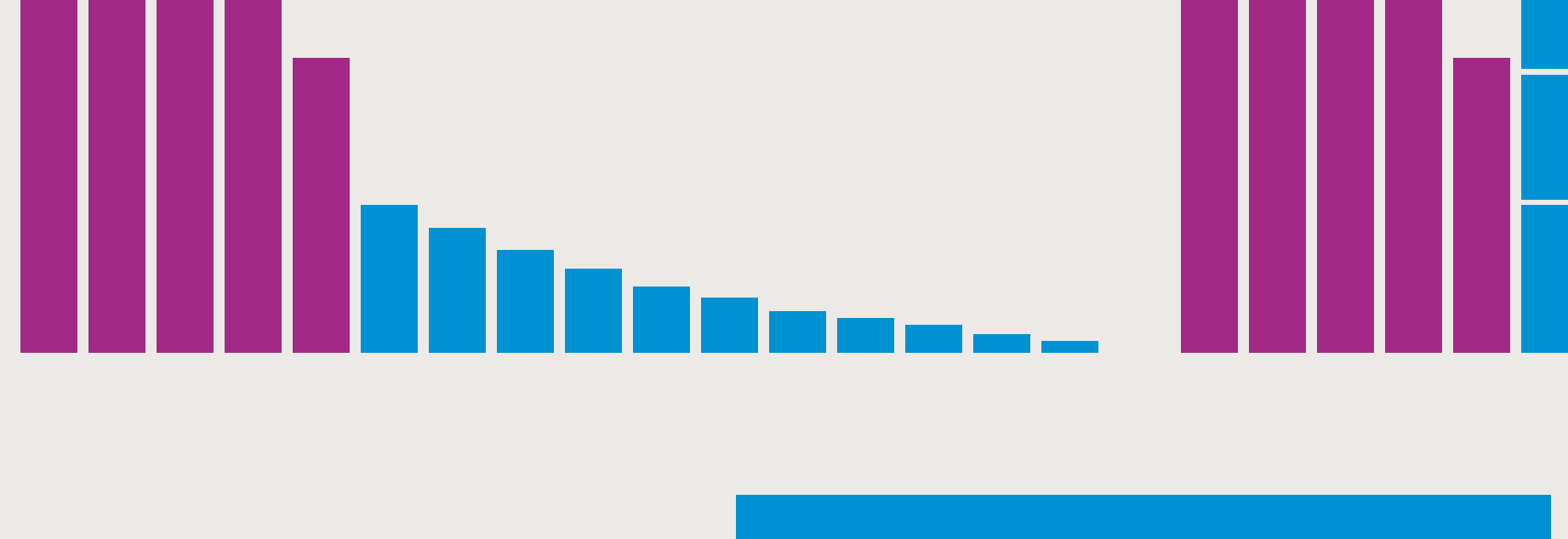


- » ALL SUPPLIERS WHO ARE NOT STRATEGIC SUPPLIERS
- » SUPPLIERS WHO PURCHASE BELOW A THRESHOLD LEVEL
- » SUPPLIERS NOT USED OVER A 6-9 MONTH TIMEFRAME

- » A LEVEL 3 SUB-CATEGORY THAT IS NOT 'STRATEGIC'
- » CATEGORIES WHERE THERE IS HISTORICALLY VERY LOW PO. PENETRATION
- » SERVICE CATEGORIES WHERE SPECIFICATIONS ARE NOT STANDARDISED
- » TACTICAL AND LEVERAGE CATEGORIES

- » NON-CATALOG REQUISITIONS
- » REQUISITIONS WITH NO ITEM REFERENCE AND LOW VALUE
- » REQUISITIONS THAT DO NOT HAVE A PREFERRED VENDOR OR REFERENCE TO A CONTACT

Tail-end spend management can generate savings between **15%** and **17%**, driving **50%** savings over and above the **5-10%** achieved by traditional spend management.



Inclusion of tail-end spend in procurement outsourcing increases savings potential by 1.5 times.

WHERE DO THESE SAVINGS COME FROM?

Spend reclassification and vendor consolidation

Compliance and demand management

Automated processes

Increases the number of competitive bidding cycles

Top 3 benefits of Tail-end spend management other than savings

1. Reduction of non-core procurement distractions
2. Reduce risk by bringing marginal and maverick spend under control
3. Compliance to procurement process that achieves nearly 100% spend under management by a procurement professional

Despite the clear benefits, organisations find it difficult to manage their tail-end spend because of

- Poor Data
- Stakeholder reticence to consider alternative suppliers or shake up the status quo
- Inadequate workflow and requisition controls
- Lack of dedicated team or expertise



75% OF COMPANIES SAY THEY HAVE LITTLE TO NO VISIBILITY OR INSIGHT INTO THEIR INDIRECT EXPENDITURE

SCC'S INGREDIENTS FOR SUCCESS

SOURCING HELPDESK

A ONE-STOP-SHOP FOR ALL SOURCING AND PROCUREMENT QUERIES.

SPEND ANALYTICS

IN-DEPTH ANALYSIS TO IDENTIFY 'MAVERICK' SPEND – NON-COMPLIANT TRANSACTIONS THAT SHOULD BE DIRECTED TO EXISTING AGREEMENTS.

TACTICAL BUYING CENTER

FOR TRUE ONE-OFF PURCHASES, QUICK TURNAROUND BENCHMARKING, TENDERING AND NEGOTIATION SERVICES THAT ENSURE ALL PURCHASES ARE TOUCHED BY PROCUREMENT.

CHANGE MANAGEMENT SUPPORT

ENSURING PROCUREMENT AND PROCESSES ARE FULLY CONNECTED.

Successfully managed **TAIL-END SPEND** should be **SYNCHRONISED** with every par of the **PROCUREMENT** estate; spend analytics, sourcing helpdesks online supplier marketplace and tactical buying centre.

By providing **TECHNOLOGY** enabled **SOLUTIONS** to Tail Spend Management, **SCC PROCUREMENT** unlocks hidden **SAVINGS**, reduces transaction **COSTS**, and **IMPROVES** procurement **PROCESSES** because to **SCC**, all corporate spend is important.



SOURCES:

- "Betting on tail spend to save coins" Everest Group 2014
- "HCMWorks Indirect Procurement Survey" 2012
- <http://www.genpact.com/insight/tail-end-spend-reaping-significant-savings-with-the-right-operating-model>
- <http://www.bloomberg.com/news/2013-10-21/ford-wants-to-pare-number-of-suppliers-by-40-executive-says.html>