

How to control uncontrolled tail spend

113.28	114.75	109.7
115.00	109.50	115.0
▲ 1.71	▼ -5.25	▲ 5.2
3.52	3.04	3.8
3.90	3.52	4.2
▲ 0.37	▲ 0.48	▲ 0.1
70.07	59.50	65
65.84	59.93	62
▼ -4.22	▲ 0.42	▼ -3
103.27	103.59	102
102.00	106.00	100
▼ -1.26	▲ 2.40	▼ -2
114.64	113.28	114
112.00	115.00	109
-2.64	▲ 1.71	▼ -1
3.06	3.52	
3.60	3.90	
0.54	▲ 0.37	▲



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The costs of uncontrolled tail expenditure.

Lack of control over tail end spending is a significant yet surprisingly unknown problem for many organisations whose internal structures have changed in recent years and have devolved procurement.

Tail expenditure is generally not 'actively managed'. A failure to get to grips with this has a direct impact on an organisation's financial performance.

The cost to your business? Contract risk / internal staff efficiencies / 3rd party efficiencies of 5% to 10%.

Through focus and improved management lower value spend can deliver significant value to your organisation.

In this document, Capita's procurement solutions business brings plain English to a complex organisational issue for companies and the public sector.

Why does this happen in business after business?

Internal structures and decision-making procedures change as any organisation grows and develops over time. This is because the distance between the boardroom and the shop-floor grows making communication difficult and stretches oversight procedures to the limit.

In any organisation, it's hard to keep up with the way that all types of decision are made – whether purchasing, strategic direction, HR management, and more.

No matter how experienced a management team or a leader, maintaining and growing an organisation is difficult and tail end spending is not an area which is given much focus.

What are the main pain points with lack of control over tail end spending?

Financially and operationally, significant and ongoing damage is caused by a failure to get to grips on an organisation-wide basis with tail end spending.

Money is lost as discounts agreed with established suppliers aren't taken advantage of because not enough people in the organisation know about any favourable pre-arranged supplier deals.

More suppliers equals higher transactional costs and **procurement team time is wasted** in issue resolution, leaving them less time to find efficiencies elsewhere.

There is **inconsistency with how suppliers are engaged and dealt with**. The number of suppliers contracted to work for a business over time can number into the hundreds or thousands. Contractual terms may conflict or overlap.

Different suppliers will often be measured by different and inconsistent sets of KPIs making tracking contractual performance per supplier difficult to gauge with respect to price achieved, quality offered, responsiveness to queries, timeliness of delivery or remediation, diversity, and more. How does anyone truly know who the best suppliers are for a particular product or service if they're not compared favourably using the same terms of reference?

There are also **compliance risks** when there is no centrally-organised and managed supplier database, internal, external, and legal compliance may be compromised.

What happens when tail end spending is brought under control?

Working with Capita, public and private sector clients have achieved:

- a reduction in costs of managing the tail and supply chain commercial enhancement
- Improved process efficiency
- reduced supply chain risk
- strategically managed spend increase from an average of around 80% to over 90%
- increased engagement and awareness from staff of better procurement processes and systems as well as delivering increased compliance
- enhanced procurement process visibility
- improvement of effectiveness in contract and supplier management

Our services are built and deployed for each organisation and its unique needs. Delivery of results is impressively quick and clients soon find that their organisations have much more time to focus on strategic development rather than retrospective activity management.

In the case of one of the leading financial insurance institutions, Capita's tail end spending management produced:

- A robust, dependable procurement process with a holistic view of spend
- Highlighted areas of education for stakeholders to help them understand their corporate responsibility in relation to spending



Why does tail end spending get out of control?

All the eyes are on the bigger prize

The Pareto principle suggests that 80% of sales comes from 20% of customers. The principle can also be applied to procurement where 80% of the savings to be found comes from 20% of orders placed, 20% of the suppliers you engage with, and so on.

There has, for years, been an increasing trend in procurement to focus on delivering the big, headline-grabbing savings. Your procurement team spend their time expertly and forensically doing everything they can to bring down the fixed and variable costs of your business or organisation. Given the tools they have at their disposal and the time they have to carry out this task, they are making the very best use of their time for the benefit of all stakeholders.

There is a flip side to this, however. The focus on these big, headline-grabbing numbers has often meant that individuals with little or no experience in purchasing are under little or no oversight and are left to manage low value spending themselves.

Which types of spending are most likely to fall into tail end spending?

Low value, convenience purchases and other low value sources of purchasing carrying higher risks, including purchases from limited supply market and purchases in connection with emotive issues. When added together, this type of spending may constitute up to 20% of an organisation's entire annual expenditure.

Why is this missed?

As we mentioned earlier, lack of control over tail end spending results from change and/or growth within the internal organisation of a business or public sector body. It is almost impossible to conceive of every potential eventuality in advance of such a change. Added to this are:

- the weight of work put onto those in charge or who oversees procurement and
- responsibility given to members of staff to make (especially) purchases where there is no current requirement to inform procurement in advance that a purchase needs to be made.



How do you know if you have a problem?

If you currently have a tail end spending management issue within your business or organisation, some of the following may be familiar to you:

- Paying higher prices than you need to...
...but it may only become clear once the procurement team has compared invoices from tail end spending with those from controlled spending.
- Spikes in the workload of your procurement team...
...when handling and paying invoices.
- “These are not our normal terms and conditions” ...
...when the T&Cs of agreements with tail end suppliers are examined against the T&Cs of agreements with suppliers under controlled spending.
- Your finance team and procurement team come up with different conclusions...
...because the understanding around tail end spending within your organisation is not as deep as it should be and a significant number of smaller invoices aren’t accounted for by procurement.
- Enterprise resource planning (your real-time core business process management system) doesn’t capture the purchase data from low value transactions...
...in the way it does for purchase data from your core suppliers.
- The scrollbar on your Excel spreadsheet of suppliers is tiny...
...meaning that there are hundreds or thousands of suppliers working with you.
- You have no central supplier database...
...and you have to sift through dozens of emails and spreadsheets to start the process of identifying who a purchase was made from.
- You have too much stock sitting around...
...meaning that your procurement issues have spread into your inventory management.
- There is no organisation-wide way of agreeing which companies are suitable suppliers...
...there may be forms to notify the procurement team but there is no organisation-wide way of deciding which companies are right for you and which ones aren’t.



What does managed tail end spend look like within an organisation?

Decide on your organisation's threshold spending through spend analysis

As Kieran Sullivan, our client service director, describes:

“The key to managing tail spend is to recognise that a ‘one size fits all’ approach will not deliver the best result.

The real value CPS can bring is from leveraging our spend analytics capability to stratify the tail into three: spend which should be strategically managed, the ‘true tail’ from which there is limited value to be released, and that spend for which a light touch, tactical approach can deliver significant value for limited investment.”

Your initial threshold spending will determine how a potential purchasing transaction is dealt with within your organisation. When we engage with a new client, we thoroughly interrogate all standard and tail end expenditure to examine the profiles of the suppliers you currently have (and how you use them), the value of purchases, and the frequency of purchases to recommend a threshold spending limit for your organisation.

Every part of your organisation's procurement practices are examined in order for Capita to understand it and for us to be able to demonstrate its recommendations and the value they will bring to a client.

Whatever the size of a purchase your organisation is seeking to make – whether it's under or over

your threshold – a central database of suppliers and a system of inviting potential suppliers to tender will ensure the delivery of value in these goods, services, or works under your standard terms of business.

New and existing supplier database and registration – a centralised way of doing things

The creation of a supplier database accessible to all with purchasing responsibilities and rules surrounding supplier sourcing and procurement from these suppliers rationalises the whole process across an organisation.

Building upon that, each supplier, following registration, is accredited and appraised by employees within your company and this results in the creation of a shared repository of information on each specific supplier, their range of products and services, and their ability to deliver those products and services to the desired standard.

Accessing the Capita Procurement Service for purchasing

Upon the adoption of the Capita system, each company which has supplied your organisation is registered onto the supplier database after qualification and approval.

Capita, in partnership with your procurement team, operates a sourcing help-desk to answer all procurement and sourcing enquiries. Our service is a cloud-based service bespoke to your organisation to help with sourcing, tactical buying, and tapping into the local supply market.

No matter whether an existing or new supplier, information on that company and its capabilities are stored for when they are needed by approved personnel to begin a competitive process for procurement.

The new purchasing procedures

One of our core strengths is understanding the capabilities of businesses in nearly all sectors by using the varied and extensive insights we possess about them – we then use this knowledge to accurately classify companies within your existing supplier database. This additional information will naturally result in more informed procurement decisions, with resultant cost savings and increases in efficiency.

Efficient purchasing, reducing tail end spending, greater visibility

Tail end spending management delivers measurable value in terms of both management of expenditure, better control of compliance risks, and the ability to deploy procurement staff on greater projects.

The following benefits have been achieved by clients working with us on managing their low end spend:

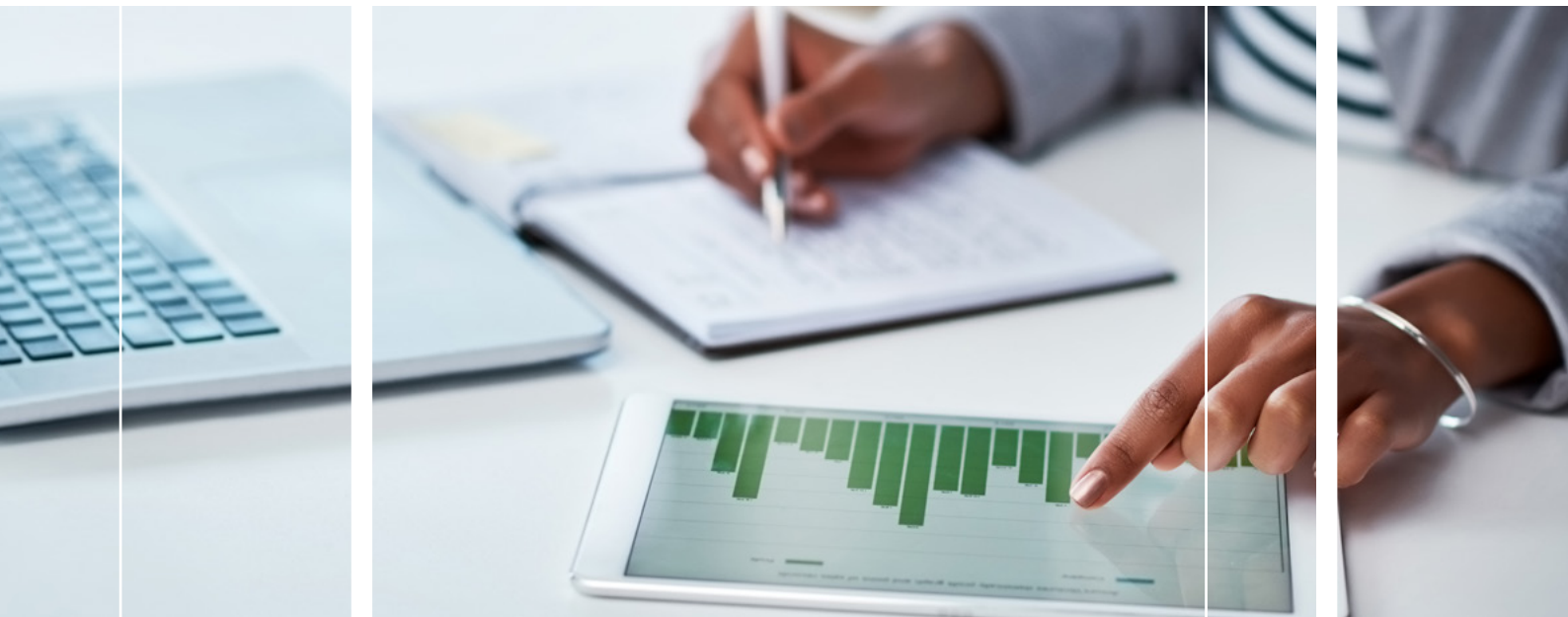
- reduced internal cost of management after identifying and implementing process and administrative efficiencies
- increased visibility of purchases both individually and collectively

- lower costs through leveraging spend
- the ability to challenge the demand on goods and/or services
- adherence to compliancy rules
- risk management and mitigation
- improved and effective contract and supplier management across the board.

Through the Capita system, we deliver:

- a window to identify the full scope of spending category requirements which helps you spot contract leakage and opportunities to spend less
- the information you need to leverage your existing contracts
- identification of gaps within spending
- standardisation of terms and conditions across all suppliers
- reduction in the number of suppliers which produces opportunities to reduce invoice values through the ability to negotiate discounts with higher volumes of transactions
- savings on non-recurring spending.

(source: Capita – Driving Benefit From Low Value Spend: Best Practice Guide).



Getting stakeholder buy-in

We have shown, in previous chapters, the benefits to your organisation as a whole. But for the people working within your business and those people who work for your suppliers, our procurement services offer a great deal of benefits.

Easier contract origination and conclusion

No matter what the level of complexity in procurement, the service starts by an analysis of the requirement for a new product or service with the overall goal of developing a sourcing strategy specific to those purchases. Source-to-contract also handles supplier requests for quotations, the negotiation of the contract, and the award to the best supplier.

More opportunities for suppliers

We will work with your procurement teams to begin the migration of existing suppliers onto the new procurement system using a flexible and firm approach backed by clear and helpful communication.

Easier for staff, particularly those not on the procurement team

For departmental managers, procurement professionals, and staff working on company or organisational finance, purchases are classified correctly against spend categories and those purchases are checked for relevance and against budget. Suppliers are much easier to onboard and there is a uniformity of terms and conditions across all purchases for greater compliance. Administrative effort is particularly reduced across procurement and finance teams and, as a result, there is greater time to examine tail end spend (and other types of spend) for efficiency opportunities.



Capita models of delivery

Our procurement system is as flexible as you need it to be. There are four funding models available to your organisation to access it, each of which is backed by pound for pound performance guarantees. We typically deliver a greater than 2:1 return on investment for tail programs and in excess of 4:1 return for non-tail programs.

You can engage with us in the following ways:

- **Time and materials**
Billed on a rate card basis with a standard day rate of eight hours. All cost and profit margin are covered by the day rate.
- **Margin deferral**
The base costs of the service we provide are covered by our clients in the form of a fixed fee but exclude a majority of profit margin. This shared-risk model works on a performance margin deferral.
- **Risk and reward**
All costs and the profit margin are funded through the share of savings delivered. The payment fees can be structured in a variety of different ways.
- **Fixed fee**
Each module of the programme has an agreed fixed fee for delivery and all costs and the profit margin are covered by the fixed fee. Payment is made based upon agreed outcomes.

