

**TellTail Signs that your organization  
is sending millions of dollars**

**DOWN THE DRAIN**



## **The Essential Tail Spend Checklist**

*There are hidden dollars that are not strategically managed  
...and finding them can mean \$millions to your organization!*



Solving *it* forward.

**Currently**, there are millions of dollars of annual waste **hidden** in the Procurement function of your organization...

Drilling down into the specific areas of this waste can be so time-consuming and requires buy-in and collaboration from so many different departments, that it can leave you feeling **helpless**...

But, simply taking a passive approach is not an option, because that means **just** letting your company's money go **down the drain!**

This Checklist will provide you with the **essential** first steps in the form of key questions that will allow you to *understand, identify* and *eliminate* this hidden waste. And some of it may be more accessible than you realize.

## **Step #1:**

**Is your organization's procurement following a set of best practices and to what extent?**

Most Procurement Departments follow a set of best practices, in part, guided by the principles of **strategic sourcing**. This process uses analysis, evaluation and feedback to optimize an organization's spend.

Three of the main guidelines are:

1. Effective negotiation by leveraging the buying power of the whole organization
2. Bring purchases under existing contracts to standardize terms and reduce non-compliance issues
3. Evaluate purchases by using the total cost of ownership (TCO) model (looks at the value of the full life-cycle of a product or service).

## Step #2:

### What the areas of spend that are NOT strategically managed?

Departments within an organization have discretionary budgets that often times fall outside Procurement's managed buying process, causing problems to arise--

- 1- **Too many** vendors to effectively manage
- 2- **The risk** from contracts that fall outside the negotiated terms and costs
- 3- **Low-value** purchases, that in the long term, add up to create a huge loss of savings

A company following standard **best practices** may have as much 80% of their spend fairly effectively managed, which **still leaves 20%** of the organization's spend subject to more waste than necessary... this lagging end is referred to as "**The Tail**".

### What exactly is Tail Spend comprised of?

**Tail Spend** is the term given to the spend that is typically outside the purview of the Procurement Department and all of the savings and efficiencies that have been developed and implemented as part of a corporation's managed buying process.

In part, these types of purchases may be either too small, considered discretionary spending or are specialty items that are infrequent and not included in catalog systems. Typically, they can range from operations painting an office to engineering ordering a one-of-a-kind test device.

### Step #3:

#### **What are the risks from non-managed spend?**

Besides the accumulation of overpayment of the non-managed purchases, the next big problem belongs to purchases that fall outside existing negotiated contracts. As in the case of software, this can cause a company to *fall* out of compliance, face legal issues, fines and fees, as well as damage to their brand.

Additionally, **who** in the company will be managing these separate contracts? And will they actively monitor compliance?

### Step #4:

#### **What are the potential savings in the Tail end of the spend?**

If a company has 80% of its total spend concentrated among 20% of its suppliers, that's considered a good standing. However, it still means that the other 20% of spend is spread out over the other 80% of vendors. And there is SIGNIFICANT WASTE in that 20%.

Conservatively, 15-25% of that 20% will be waste.

So if a company has a \$300 million annual budget, as much as  
**\$15 million may be going down the drain!**

Of course, companies are at different levels of managed spend, so the percentage subject to waste will vary, but as a matter of historical course, there are big bucks to recover.

## **Step #5:**

### **So, what are some of the signs of Tail Spend waste to look for?**

If you do a quick review of all the suppliers used by your company, do you see a pattern, illustrated by these factors:

1. Close to 70% of your suppliers provide a very small fraction of your spend (around 5%)
2. More than 30% of orders are NOT negotiated by Procurement
3. Less than 50% of transactions take advantage of the efficiency of automation (by going through the catalog system)
4. Adding a new vendor every quarter for every 10 you already have
5. Half or less of the transactions are with preferred suppliers

## **Step #6:**

### **What are the reasons why more concrete actions are not taken if so much money is at stake?**

1. Procurement professionals are already overburdened responding to the needs of the business. They don't have the time to analyze the data or implement more effective processes.
2. Procurement departments lack the necessary headcount to liaise with all business units to get the necessary data (benchmarks) and make changes in the current supply chain.
3. Stakeholders would be unwilling to give up buying power.

## Conclusion:

**Given the complex threading of all these factors, where does an organization begin to recover the money that is currently wasted?**

Reviews of best practices and the implementation of existing technologies are available to drilling down into the complexities of the suspect areas of spend. Identifying and getting to the low-hanging fruit can yield some quick ROI's.

The best approach is to find experts in Tail Spend Management who can ***fast-track*** the fact-finding and discovery processes that will be your first steps in recovering those lost dollars that may eventually add up to **\$millions**.



Solving **it** forward.

[info@tcgionline.com](mailto:info@tcgionline.com)

(732) 659 6035 x11

<https://www.technologyconcepts.com>