

The Risks Of Rogue Spending

A Primer On The Importance Of Tail Spend Management



By Jeff Charles



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Introduction

If you're reading this Ebook, you are probably an IT procurement professional who is responsible for keeping your IT organization efficient and compliant. Your job is to make sure that all aspects of your organization's spending are monitored.

Every day you try to keep up with your software assets, manage your hardware usage, and optimize your overall IT spend. It's part of your normal routine. You already understand that your function is critical to your company's efforts to maintain efficiency and reduce wasteful spending.

What if you found out that your organization had been wasting large sums of money as a result of spending that you were not aware of? What would happen if you discovered that dollars were being spent on purchases being made by other professionals acting on their own? How would this impact your organization?

Unfortunately, it's very likely that this is exactly what is happening in your company. It's a situation that many companies are dealing with today. It's called rogue spending, and it's causing major problems for many businesses.

This Ebook will discuss the risks of rogue spending and how it can cause your organization to spend money needlessly and make it harder for you to manage your tail spend management program (if you have one). Reducing rogue spending and managing your tail spend is crucial to ensuring that your organization is using its resources wisely.

Chapter 1: The Problem of Rogue Spending and Tail Spend Management



“Without oversight, rogue spending could cause your company to burn through large sums of money unnecessarily.”

What Is Rogue Spending?

Rogue spending can be classified as spending that occurs outside of the purview of the Procurement Department. For various reasons, non-procurement professionals will decide that it's easier to obtain software or hardware on their own, without consulting Procurement.

Here's a hypothetical example:

Let's say you are in charge of running the customer service department in your company. Your team is having a hard time servicing their customers because the customer management software is outdated.

Since you are already aware of the newest CRM software programs that are available and how they can improve your team's performance, you decide to purchase the software on your own. The Procurement Department does not become aware of the purchase until after you have already made the deal with the vendor.

On the surface, this seems harmless. As the manager of the customer care department, you know more about the needs of your team than Procurement, right?

Here's the reality: there are many other factors that must be considered outside of the needs of your team. The new software may help to increase performance, but there are several other factors to consider.

What does the End User License Agreement (EULA) say? How many licenses are you allowed to use? How does the vendor want you to use those licenses? Is there a plan in place to manage them? If software licenses are mismanaged, it could result in hefty fines and/or lawsuits against your company.

When rogue spending occurs, the company can be put at great risk. That is why it's such a serious issue.

Rogue spending is a particularly difficult issue, especially in a larger organization. Larger organizations with multiple offices find it harder to keep track of the spending patterns of each separate office.

This difficulty is one of the major contributors to rogue spending in a large company. When you can't keep up with your company's spending, it can easily spiral out of control.

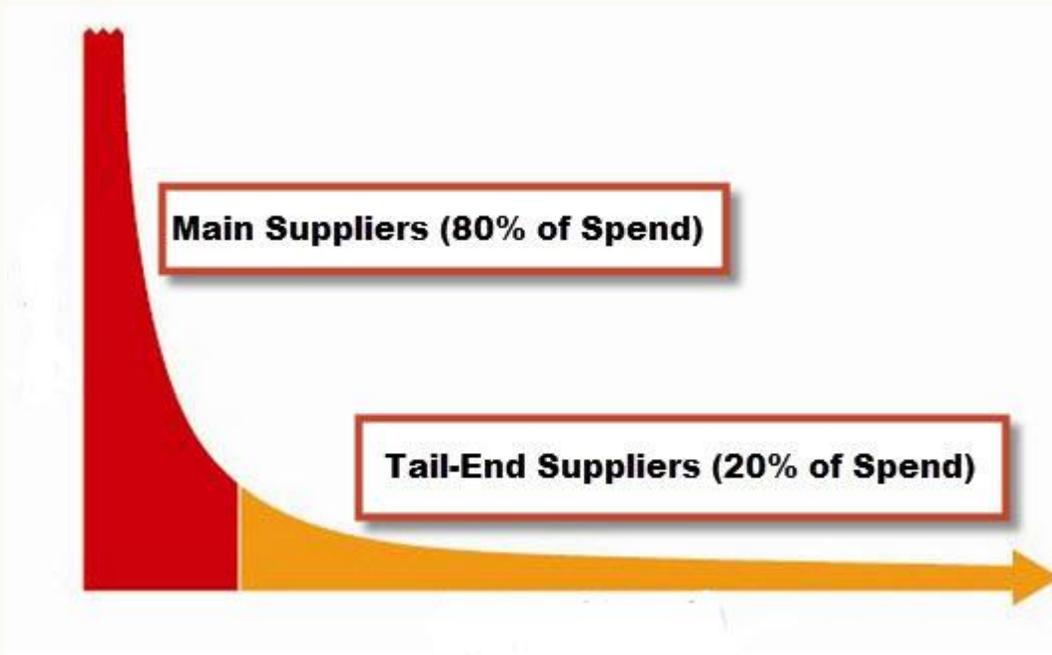
When rogue spending occurs, the organization as a whole ends up spending money unnecessarily. Without oversight, rogue spending could cause your company to burn through large sums of money.

Additionally, there are serious compliance issues that could come up if certain professionals are using their own software for business purposes. Since it can't be monitored, the IT organization has no idea whether or not they are using software in a way that the manufacturer would approve of.

What is Tail Spend?

So what exactly is tail spend? One of the clearest ways to describe tail spend is by using the Pareto Principle, which is also known as the [80/20 rule](#). When applied to the world of procurement, the Pareto Principle indicates that 80% of a company's total spend is accounted for by 20% of its suppliers.

Of course, this ratio isn't always 100% exact, but it's a good guiding principle to use when attempting to understand tail spend. The reason it's called "tail spend" is because when this principle is indicated on a graph, the 20% of an organization's spend looks like a long tail.



In a large company, much of this 20% is done by local offices. This spend typically is not followed closely by Procurement. In some cases this spend doesn't result in as much of a loss. However, in most other situations, it leads to large sums of money being wasted.

Rogue Spending is a Result of Poor Tail Spend Management

If your organization is having a problem with rogue spending, your tail spend management program (or lack thereof) might be the culprit. Many procurement organizations focus almost exclusively on the 20% of suppliers that they make 80% of their purchases with. The reasons for this will be discussed later in this ebook.

While the relationships with these suppliers is obviously important, you need to keep a close watch on the spend that occurs with the other vendors as well. Engaging in a comprehensive tail spend management program will help you manage the spending that is occurring at this level.

Why Do Companies Ignore their Tail Spend?

Many organizations don't do tail spend management well. As a matter of fact, some don't do it at all. It's a crucial practice that is largely ignored by IT Procurement organizations.

There are several reasons for this:

- Tail spend management can be difficult and time consuming.
- Many IT procurement managers don't see the value of tail spend management.
- There are many challenges that make tail spend management difficult to accomplish. As a result, procurement organizations tend to think that the ROI isn't worth the investment of resources.

In chapter 4, we will go deeper into the reasons non-procurement professionals decide to bypass Procurement when buying software and hardware.

Does your Organization Have a Tail Spend Management Problem?

Does your company have an issue with managing your tail spend? Chances are, the answer to this question is “yes.” If this is the case, your company isn’t the only one. Many companies fall into two categories:

- Companies that are managing their tail spend badly.
- Companies that fail to manage their tail spend at all.

There are several signs that could indicate that your company needs to manage its tail spend more efficiently. If you’re not sure if your company needs to evaluate its tail spend, see if any of the following signs apply to your organization.

Sign 1: You Have Too Many Suppliers

How many different vendor relationships is your Procurement organization managing? If you deal with a large number of different vendors, it’s very possible that your spend is being spread across these vendors. This decreases your buying power, which means you end up paying more money for similar software and hardware products.

If you notice that your company is handling relationships with a large number of different vendors, you may need to find a way to consolidate your orders. Focusing on a smaller number of vendors means you can save money and simplify your procurement process.

Sign 2: Too Many Orders Are Being Handled Outside of Procurement

How many purchases are being made without the involvement or knowledge of your Procurement organization? In all organizations, there are always orders placed by professionals in various silos without the input of Procurement.

To some extent, this might be okay. However, if this is happening frequently, it's a problem. Rogue spending can be particularly risky because it is being done by people who don't have the expertise and knowledge necessary to make the best purchasing decisions for the organization.

This is why it is important for all organization to have systems in place that prevent this from happening. A professional who makes a purchase may inadvertently cost their organization more money, or worse, put the organization at risk of [noncompliance](#).

Sign 3: You Have No Idea

Of course, it's very possible that you have no idea whether or not these signs apply to your organization. That's not abnormal. You may not be aware of the number of suppliers with whom your organization does business.

Also, you may not know how much rogue spending is going on in your organization currently. The reason it's called rogue spending is because the spending is happening without the knowledge of the appropriate departments.

If any of these signs apply to you in some way, it's probably time to start developing a coherent strategy for managing your company's tail spend. Yes, it will require some effort and resources at first, but the amount of money your organization will save will be well worth it.

The Impact of Faulty Tail Spend Management

So what happens when tail spend isn't managed properly? Depending on the size of your company, it could result in millions of dollars being wasted.

Tail spend typically accounts for 10% of a company's indirect spend. Tail spend waste typically accounts for about 15% - 20% of the tail spend.

Here's how this could impact an organization:

If a company spends \$2 billion annually on indirect procurement, this means their tail spend accounts for \$200 million of that amount. If this company does not manage their tail spend, they are wasting about \$30 million annually.

Would saving \$30 million annually be worth the effort of managing your tail spend? Of course it would. Failing to rein in rogue spending could also have other consequences.

Since rogue spend is usually done by people who don't understand software asset management (SAM), they could be causing your company to become noncompliant with software vendors, which could mean more money wasted on penalty fees.

Chapter 2: The Causes of Rogue Spending



“There are two main reasons that rogue spending exists: the complexity of existing procurement processes, and the ineffectiveness of current software programs.”

Why does Rogue Spending Occur?

Understanding the causes of rogue spending will help you prevent the problem from arising in the first place. A proactive approach will make it easier to solve this problem.

There are two main reasons why non-procurement professionals will engage in rogue spending:

- The complexity of existing procurement processes.
- The ineffectiveness of current software programs.

Fortunately, both of these issues can be addressed by a tail spend management program that encourages accountability and collaboration. It could mean that your company needs to bridge the gap between Procurement and the other silos in your organization.

Overly Complicated Procurement Processes

One of the reasons rogue spending becomes an issue is because the procurement system your company has in place may be too difficult and complex for the more remote, local offices to follow. This is especially true if communication between the central procurement organization and local offices is lacking or nonexistent.

Here's an example:

Your organization has several different departments. You have a centralized system for obtaining IT assets.

However, this system is complicated and involves unnecessary layers of red tape and bureaucracy. Instead of jumping through hoops to obtain much-needed technology, the other departments decide to purchase on their own.

Their attempts to circumvent the well-intentioned policies that Procurement has enacted may help them achieve their goals, but it could also be hurting the organization as well. While having one central location for procurement is optimal, you must also ensure that each department is able to obtain the tools it needs to function properly.

Of course, even if your procurement processes are centralized, rogue spending can still occur. If your procurement policies are too cumbersome, then non-procurement professionals will still be tempted to purchase resources on their own. If your firm wants to mitigate this issue, it needs to make it easier for non-procurement professionals to obtain the tools they need to function properly.

Software Incompatibility

One of the major reasons rogue spending could occur is because the software your company currently uses does not meet the everyday needs of other departments. If this is the case, it's probably because there wasn't a collaboration between the Procurement Department and the rest of the company.

Here's a variation on the example given earlier:

The Sales Department decides to invest in the hottest new CRM software. It's been advertised as one of the best in the industry. They do this without taking the time to truly understand how software procurement works.

Since they purchased the software without a full understanding of software procurement, they make mistakes that can cost your company more money. For example, if your company's sales department purchased the software without understanding their End User License Agreement (EULA), they may begin installing the software on more machines than they the agreement allows.

If this happens, your company would be violating the license agreement, which means it will be subject to penalty fees and possible litigation. Additionally, the installation of this software could negatively impact other departments in the organization. If Procurement had been consulted, then they could have worked with all departments in the organization to ensure that the new CRM software was the best choice.

Communication is one of the best ways to prevent rogue spending. When different departments work together, it becomes much easier to determine what software should be purchased.

Reigning in Spending

In order to minimize the risks associated with rogue spending, companies need a practical and comprehensive strategy aimed at eliminating rogue spending. If you suspect that rogue spending is an issue in your company, you need to immediately figure out how to gain control over it.

Reducing rogue spending means figuring out ways to prevent it from happening in the first place, and regaining control of the spending if it does happen. There is software that can help you do this. Also, it may be beneficial to consult with a company that understands this issue. It's probably the best way to combat this problem.

One of the reasons rogue spending occurs is because the system doesn't make it easier for buyers to procure the equipment or software needed. This is a problem that can be solved by creating a system that makes it easier for professionals to obtain the products they need.

This can be done by having a list of approved vendors to choose from. If someone needs a particular type of software, they know exactly which vendors they can choose. If you make it easier for people to go through the right channels, they are less likely to make purchasing decisions on their own.

Chapter 3: The Impact of Rogue Spending



“Companies need to have firm guidelines in place that prevent professionals outside of the procurement organization from making important IT procurement decisions.”

How does Rogue Spending Impact the Organization?

Rogue spending carries risk for any organization, even beyond wasted money. If your Procurement organization is not able to control its spending, the consequences can be severe. This chapter will discuss the potential consequences your company could face if it does not manage its spending properly.

Security and Privacy Concerns

Security issues can result from rogue spending. When software is purchased without the knowledge of IT procurement, there are no security measures that can be implemented in order to prevent security and privacy breaches.

Many professionals who engage in rogue spending are not IT professionals. They have no knowledge or expertise of the IT procurement process.

If a professional installs a cloud-based software program without consulting the IT Procurement Department, employees could be unwittingly uploading and sharing sensitive company data. If these services are somehow compromised, sensitive company information could become exposed.

Wasted Money

Since most rogue spending is done by professionals that don't have a background in IT procurement, it's very likely that these professionals are paying too much money for the software they are purchasing.

These professionals tend to make purchases without having the information they need to ensure that they are making wise purchasing decisions. They have no idea whether or not the software or hardware they purchase is priced correctly.

IT procurement professionals understand how to ensure they are obtaining the right products for the right price. They are far more likely to make the right purchasing decisions for the organization. Companies need to have firm guidelines in place that prevent professionals outside of the Procurement organization from making important IT procurement decisions.

Noncompliance

Maintaining compliance with your software vendors is extremely important. It's one of the main functions of the IT Procurement organization.

When software is being purchased and used by professionals who don't understand the nuances of software license management, they could be putting your company in a precarious situation without even knowing it. This is yet another reason why your IT organization needs to have a strict policy in place regarding IT purchasing.

One of the risks of rogue spending occurs when non-procurement professionals purchase software. Software asset management (SAM) can be difficult even for trained IT procurement professionals.

If non-procurement employees are making software purchases without consulting with Procurement, they could be putting the organization at great risk. One of the most important components of software asset management is managing software licenses.

Software license management is important because it keeps your organization in compliance with the rules and regulations that software vendors place on their clients. If your organization installs more licenses than it has purchased, or uses those licenses in a way that violates the end user license agreement (EULA), it could have serious consequences for your company.

If your organization is subject to a software license audit and you are found to be noncompliant, it could result in huge fees being paid to the vendor. In recent years, software license audits have [increased dramatically](#), so this is a very real situation that your company could face.

Audits are a serious matter because of the seriousness of the potential consequences. In some cases, if the employees in your organization have seriously violated the end user license agreement, it could result in jail time. It's one of the main reasons your Procurement organization needs to keep a close watch on the purchases that are being made.

Chapter 4: Managing your IT Tail Spend



“By managing your tail spend more effectively, you can greatly reduce rogue spending, ensure compliance, and save money.”

Managing and Reducing Tail Spend

As stated previously, managing and reducing your tail spend won't be an easy undertaking. It takes time, effort, and resources. However, when it's done correctly, the rewards are significant. By managing your tail spend more effectively, you can greatly reduce rogue spending, ensure compliance, and save money.

What it Takes to Manage Tail Spend

Gaining full control of your tail spend is a non-negotiable factor in creating an efficient IT procurement management program. It requires Procurement to work with the other departments in the organization to make sure that the right purchases are being made from the right vendors.

It's also important to note that tail spend management isn't a one-off solution. It has to be done on an ongoing basis. After you get your tail spend under control, you will need to implement policies that help your organization maintain an efficient tail spend management system.

If you're ready to take your IT spend more seriously, you need to be ready to face the challenges that will arise. This chapter will discuss five areas that you need to consider.

Analyzing your Spend

Can you be absolutely certain that you know exactly what purchases your company is making? How familiar are you with the vendors your company is using?

If your company is like others, it's very likely that there are significant amounts of purchases that are being made "under the radar." Effective tail spend management means making a comprehensive assessment of the purchases being made. You will need to do an IT spend analysis on a regular basis.

IT spend analysis means keeping a close eye on the IT purchases your company is making. It means that you will need to develop a comprehensive system for monitoring your company's spending.

The purpose of monitoring your spending is ensuring that each purchase is accounted for. The objective is to eliminate or significantly reduce rogue spending. This can only be done when your IT Procurement organization knows exactly what is being spent, and with whom it is being spent.

Not only will this help you prevent unnecessary spending, it also helps your organization maintain compliance. IT spend analysis is an integral part of IT Asset Management (ITAM).

Centralized Procurement Operations

Many organizations' Procurement operations are scattered across various silos. There isn't one primary office that oversees the overall procurement practices of the company. In a larger organization, this can be quite problematic. One solution to this problem is a centralized procurement hub.

While a centralized Procurement Department may not be the solution for smaller companies, it tends to work very effectively in [larger companies](#) whose offices aren't too widely spread out geographically. Every purchase that is made should go through this Procurement organization.

There should be a "one stop shop" for all procurement operations. The more you simplify and centralize the procurement practices of your organization, the easier it will be to reduce waste.

This minimizes the amount of damage that could be caused by rogue spending. When each department is completely accountable for the money it spends, and there is total transparency, less money will be wasted.

Additionally, having a centralized procurement hub in your organization will encourage greater collaboration. If a particular department has a need to fill, they can work with Procurement to figure out the most effective way to fill that need.

Vendor Relationship Optimization & Consolidation

Does your company really need each vendor relationship that it has now?
Probably not.

What if you looked at your tail spend and figured out a way to move most, if not all of those purchases to the suppliers that you already deal with? Much of the spend that occurs in the tail is done with smaller, local suppliers.

The more remote offices tend to engage in this type of spend. While it may seem easier, it's much more cost-effective and efficient to have these purchases managed by your Procurement Department. Chances are, your main suppliers could provide your company with these items, and the extra spending power you will have could end up saving your organization more money.

It may seem unwieldy and difficult at first, but reallocating purchases from your tail suppliers to your primary suppliers will save you more money in the long run. Additionally, you will be supporting vendors that your organization knows and trusts.

There are several advantages to this. Consolidating orders means reducing the amount of suppliers you are dealing with. Greater spending with your primary vendors means lower prices. This makes the procurement process simpler and saves your organization more money. Reducing your tail spend is a great way to make your IT organization more efficient.

Streamlined Procurement Processes

Reducing the amount of vendors your company is using can make your procurement process much easier and simpler. The lower the amount of suppliers you deal with, the easier your job gets.

Procurement processes that are optimized in this way will make it easier for you to reduce wasteful spending and maintain compliance. Since you have fewer suppliers, you can reduce wasteful spending, increase your company's buying power, and maintain compliance.

Additionally, this will save your employees time, resources, and money. Instead of having them focus on tons of different vendors, you could have them use their efforts elsewhere. Your staff can concentrate their time on more important tasks.

Outsourcing

Of course, many organizations don't have the time or bandwidth to do this on their own. Perhaps you work for a smaller organization whose professionals have to devote their time to more pressing tasks. It makes sense. The procurement organization can't be expected to do *everything*, right? Of course not.

This is why it may make more sense for your company to hire help from outside the company to help manage its tail spend. There are several organizations that could assist you with this.

Outsourcing your tail spend means that you don't have to worry about launching a massive project that could easily fail. By consulting with the experts, you will have the guidance and help that you need to get your company's spending under control.

The choice is yours.

Do you want to overextend your company's resources by trying to rectify your IT problems on your own? Or would it be easier to pay an outside firm to handle this for you?

Many smaller organizations probably feel as if they don't need to spend the money. Some believe they cannot afford it. Other firms understand the truth: they can't afford *not* to make sure their tail spend is being managed effectively.

They're right.

When you bring in a company that truly understands how to manage tail spend and reduce rogue spending, your organization will benefit greatly. Managing IT spend requires expertise, knowledge, and resources. A consulting firm can provide you with the necessary tools your company needs.

Outsourcing your tail spend management can help you in the following ways:

- Ensuring compliance.
- Increased spend visibility.
- Greater control over spend.
- Better pricing from suppliers.

The ultimate benefit of outsourcing your tail spend is that your team will be able to focus on the other aspects of running your IT procurement operation while your tail spend is already being taken care of. You can use the added bandwidth on other projects.

Conclusion

Every point made in this Ebook can be boiled down to one key question: *how well is your IT organization controlling its spending?* It's abundantly clear that every organization needs to keep a close eye on the money it spends on IT procurement.

A comprehensive IT asset management program is the only way to ensure that your IT organization has full control over its spending. Otherwise, rogue spending will continue to swallow up resources that could be used to help the rest of your company run smoothly.

As an IT procurement professional, it's your job to make sure this doesn't happen. Fortunately, it's not impossible. If your company is willing to invest the time and resources, you can prevent wasteful spending and issues resulting from noncompliance.

Technology Concepts Group International

Technology Concepts Group International is your premier IT procurement resource. Since 1996, TCGi has provided comprehensive IT procurement solutions to both public and private institutions.

Watch the replay of our [Tail Spend Webinar](#) to learn more about how to better manage your tail spend.

We have helped many organizations save money and become more efficient by optimizing their IT asset management programs. If your organization needs an IT resource that can help it function more efficiently, [contact us](#) today!