

Can Purchasing and Spend Management Influence Revenue?



Spend management, a crucial facet of modern business strategy, holds the potential to significantly influence a company's revenue. It is the process of wisely allocating resources to enhance product or service development, encompassing essential components like procurement, outsourcing, and supply chain management.

By understanding the intricacies of spend management, its distinctions from mere cost-cutting, and the imperative collaboration between procurement and finance departments, businesses can harness this strategic tool to achieve financial health and competitive advantage.

Can Spend Management Influence Revenue?

The short answer is, yes! Spend management is the process of choosing how to spend money to build your products or services.

It considers procurement/e-procurement, outsourcing, and supply chain management processes, seeking to make them all as efficient as possible.

It involves strategic sourcing, supplier management, contract management, and expense management, all in the name of earning more revenue for the company.

Essentially, it's spending money in the best interest of the company. Do it right, and the company will see growth for years to come. Do it wrong, and you could be scrambling to save the company.

Spend Vs. Revenue

Spend refers to any amount of money you're paying to operate your business.

This could be money you're spending on any business process such as materials and supplies, marketing and advertising, employee payroll and benefits, and so on.

Revenue refers to the amount of money you're bringing into the company - regardless of whether it brings you profit.

Spending money can bring in revenue if you make wise investments. For instance, investing in an ERP system or software solution to automate your invoice processing, or to enhance your procurement will inflate your spend, at least temporarily.

But when that investment pays off in the form of increased productivity and fewer errors, the cost savings become evident and ultimately increase your revenue.

All too often, companies focus on their output - the results they generate, and the revenue they earn.

While this is a good thing, of course, most companies have little to no control over that output - only the input they produce.

That's why spend management matters so much - it's an input you have complete control over. That's the mindset Jeff Bezos, founder of Amazon, used to grow his company.

With this approach, he grew Amazon from a tiny online bookstore, into the world's third most valuable company in less than 25 years.

It's behind only Apple and Alphabet (Google), and now even more valuable than

Microsoft – a company that's been around a while longer.

Constantly focusing on revenue means you're viewing your company with tunnel vision. It takes attention away from areas within your control – the primary one being spend.

When companies announce layoffs or other blank cost-cutting measures, few people seem to look at that as an issue of losing control of spending, which is often the case.

Instead, the masses look at those measures as a strategy to appease investors and restore balance to company finances. Spend management experts, however, see it for what it is, because they understand the core problem.

Difference Between Spend Management and Cost Cutting

In the standard business model, high-level spending decisions and concerns are left to finance.

Even larger companies with dedicated purchasing or procurement managers dealing with the cash flowing out of the business generally continue to operate under the finance and accounting departments, with their terminology.

That's why cost-cutting is becoming synonymous with spend management – but the two are not one in the same. Cutting costs isn't a strategy for success.

It's an attempt to salvage control of the finance department. When you neglect spend management, cost-cutting measures begin in an attempt to limp a company back to financial health.

Spend management, on the other hand, prevents the need for cost-cutting, because all costs are carefully monitored against revenue, and costs that increase revenue are more easily justified.

Why Procurement and Finance Must Work

Together for Optimal Spend Management

The finance department has an enterprise-wide view of company spending and how it can affect your company's bottom line. But they don't necessarily have the insight to know what spending can contribute the most possible company growth.

They're crunching numbers, paying the bills, and ensuring cash flow.

Procurement, on the other hand, has better insight into what's necessary to build and maintain quality products and services.

Procurement can help finance see why certain investments are necessary for the betterment of the company, and finance can help procurement see the best time to make the investments.

Ideally, the two departments should work in concert to continuously keep an eye on business impact and identify savings opportunities.

Finance departments should always keep an eye on the money but spend and revenue need to play a role in every department. Collaboration between departments is the best way to build an effective spend management strategy.

Getting Started with Spend Management

It can be a difficult undertaking, especially if you don't already have some kind of management platform in place but shifting away from that tunnel vision focus on revenue is essential if you want to maintain your competitive advantage.

Start by digitalizing all of your business processes, from sourcing, contracting, and purchasing, to supplier management, invoices, and payments.

Consolidating everything into a single ERP makes it easier to run and gives you more accurate spend visibility across your entire organization.

By integrating and automating all spend activities from the sourcing through payment, you build a more efficient system, reducing the potential for error, and freeing up more time and resources for other critical business activities.

You'll also build more effective collaboration between departments and your

trading partners. It's possible you'll find savings and reduce risk since you'll know exactly how much you're buying, whom you're buying from, and for how much.

From there, your spend analysis is easily generated in real-time, or close to real time, to help you turn the insights to in actions that improve your business.

For instance, you can guide employees to purchase from your preferred suppliers at negotiated prices, facilitate better collaboration between suppliers, and ensure compliance with purchase orders and contracts.

Taking action to better manage payments improves working capital and allows you to take advantage of early-payment discounts, thus creating a solid spend management strategy.

How to Determine Your Spend Management is Influencing Revenue

Take a look at the spend data and conduct a spend analysis.

Where are you spending the most money? Where is the majority of your revenue coming from? Do you have a positive cash flow?

Look at the current procure-to-pay or P2P process - the process of requisitioning, purchasing, receiving, and paying for the goods and services your business uses.

Is everything running smoothly? Is there room for improvement?

If the majority of your spending focuses on areas of your business that generate revenue, then it's safe to say your spend management is directly influencing your revenue.

If that's not the case, your practices could still be influencing your revenue - just in a negative manner.

Spend management solutions can make this process easier for both procurement and finance.

There are a number of spend management software products available on the market today that give you access to real-time data analytics to make monitoring

spend vs. revenue simpler and more cost effective.

What's your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our "Solutions" page to see the areas of your business we can help improve to see if we're a good fit for each other.
- Learn about us, and our long history of helping companies just like yours.

[Book a Live Demo](#)

2. Download our guide "Indirect Spend Guide"

Download a free copy of our guide to better manage and make savings on your indirect spend. You'll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

[download a free copy of our guide](#)

3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

Related Posts