The History of Spend Management



Right now, is the best time to be in corporate procurement. Over the last 30 years, procurement has moved from behind the scenes to the executive suite.

The focus has shifted from transactional purchases to strategic sourcing and proactive spend management.

In most organizations, the low-hanging fruit supply is extinct, so it means making an effort to get the most possible value from indirect spending.

As competitive pressures continue to rise, maximizing indirect spend value has become even more intense.

Fortunately for procurement professionals, the technology and tools available to manage spending has evolved alongside the increasing demands on the industry.

Today's climate is in the fourth part of an evolution of spend management history.

Procurement is now in the middle of a technology enabled, end-to-end, approach that allows increased transparency and efficiency for both the procurement staff and company stakeholders, while providing the most control over how spend is allocated.

The stage is set to take procurement to where it has always needed to be: making spend management more strategic and partner with company stakeholders in new ways to deliver higher value than ever before.

Let’s take a closer look at where spend management has been and where it’s headed.

Part One: The Beginning: Strategic Sourcing is on the Rise

In the early 1990s, companies just didn’t have an effective way to look at their purchase spend or analyze it well enough to get any kind of real valuable insight.

There weren’t any systems out there to address indirect spend, and the lack of transparency around spending amounts, the suppliers, and compliance to contract terms.

The lack of purchasing systems meant that companies didn’t have any hope at trying to manage spend ahead of time.

That said, it was still possible to work with companies to find cost savings opportunities, by looking at areas of spend that had previously been ignored, consolidating supply sources, and so on.

It just meant that spend analysis was a highly manual, and therefore time consuming, process.

Accounts payable provided a data dump of all payments to every supplier over the last 12 to 24 months.

Then, the data was cleaned, sorted, and analyzed. From there, a contract search began, to match terms and compliance.

If contracts existed in the first place, it meant having to chase down paper copies in any number of potential filing cabinets.

Only after the contract was located, was it possible to identify opportunities and begin the strategic sourcing process.

Part Two: Point Solutions to Spend Analytics

Since this kind of effort was done manually and took a lot of time and effort, the consultants and people who provided the service recognized it as an opportunity.

Some of them became quite skilled at taking the massive amounts of historical data, cleaning it up, categorizing the spend, and then conducting the analysis.

For a bit more money, the companies would take the data on some kind of recurring basis and then give you the same kind of reporting on where your money was spent.

Then, it was up to the procurement staff or consultants to take the data and do something with it. Many providers automated the process to create a spend analysis engine, and some of these solutions are still in existence today.

> *At the time, it was possible to go after big categories and do some sourcing and get new contracts in place to help organizations save money. There was, however, no way to encourage people to purchase from the new contracts or to measure compliance in using the preferred suppliers. Without the mechanism to direct employees to the right suppliers when they wanted to make a purchase, people were still purchasing things from wherever they wanted to.*

As a result of that maverick spend, collecting the historical data and conducting a spend analysis meant taking the time to identify the non-compliant spend and compare it to the data from the next reporting period to see how well companies were sticking to the new, better, sources.

Part Three: The Birth of Spend Management

And it’s because that approach was less than ideal, along with the fact that company stakeholders needed a way to proactively decide where to allocate their funds that procure-to-pay systems and spend management were born.

These P2P systems offered some automation to the requisition and authorization

workflow and provided a few supplier catalogs as channels.

This allowed organizations to encourage their staff to make purchases from preferred suppliers.

The problem with this was the technology took a long time to implement and it wasn't easy to configure or use. Catalogs weren't broad or flexible enough to address all possible buying channels or any of the more strategic categories.

And because the processes didn't mirror the way people in a company actually buy and getting the full supply base to also use the systems, it was difficult to implement.

As a result, users were slow to adopt, and many companies realized they'd invested thousands of dollars to automate purchasing basic office supplies along with other non-strategic categories.

Part Four: Working to Proactively Optimize Spend

And now, we come to today's flexible Software-as-a-Service (SaaS) e-procurement solutions that link the full P2P process from sourcing and contract management all the way through to vendor invoicing and payment.

These systems support multiple buying channels, make it easy for suppliers to register, and most importantly when it comes to the history of spend management, provide real-time spend data and spend visibility.

This brings us to proactive spend optimization, which will be around for quite some time. The procurement industry is only now starting to see and exploit the potential of the tools available on today's market.

The procurement transformation has made it easier to find cost reduction opportunities, streamline the procurement process, and improve overall supply chain management.

Looking back on the past, there is decent value at every stage of the history of spend management, but it's nothing like the value that's coming from this stage.

In this era, it’s about giving company stakeholders the tools they need so they can easily manage their own spend, and as a result, making their own decisions about where to spend their money and where they will be able to get the most value.

That in and of itself will be the main value driver, and it will allow businesses to get more value than ever before.

The reality is company stakeholders don’t want to waste money *or* time. They just need some help to understand what their staff is spending money on with whom.

They need procurement staff help to get the value-added deals together and encourage staff to use the preferred suppliers with the easiest possible process.

We are still in the beginning of this part of spend management history, and we’ll be here a while.

Now that we have the visibility and the buying channels, along with business users educated on how to use the systems to encourage the behaviors we want, we’re well on our way.

It’s true we’ll likely go through varying degrees of implementation, because it will take organizations a great deal of effort to work their way to 100% “no purchase order, no pay” across all purchases with all vendors.

Today’s technology means there’s no better time to be a chief procurement officer (CPO). There’s never been a stronger need for businesses to get value from their supply base.

Because of this, procurement is now at the front and center of making it possible for businesses to proactively manage their spend, where they used to be in the shadows.

There’s still a way to go on learning all the ways to use the new spend management tools to drive value for organizations, but that’s where the fun is.

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