

Tail Spend: What It Is and How To Manage It



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When sourcing and procurement teams face mounting pressure from events like volatile commodity prices or supply chain risks, they often look to larger purchases as an area to cut costs.

While this is often effective, it ignores a significant part of company spend.

Smaller value purchases, referred to as tail spend, happen at a high volume that adds up to a surprisingly large amount.

Organizations have a harder time controlling this spend because of sheer volume and low dollar amounts that fly under the radar. Many don't even know that it

exists.

Yet, a lot of money could be saved by managing tail spend—and automation can help.

In this article, we'll dive into what tail spend is and how you can find cost savings by tackling this often unmanaged spend category.

What Is Tail Spend?

Tail spend refers to small business purchases, such as software, office supplies, or professional services, that fall outside of the typical purchases a company makes.

Often referred to as 'spot buying', these purchases often don't go through the procurement process because they are small, infrequent or one-time, and don't get included in the cataloged systems.

The types of items that often fall under tail spend purchases include:

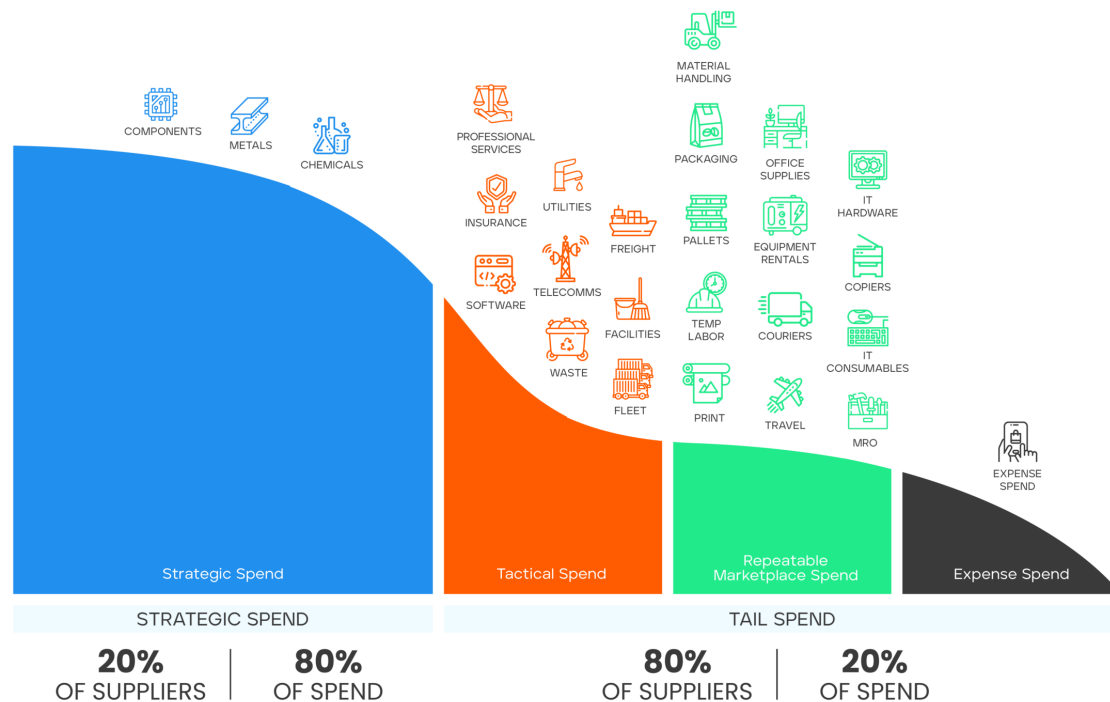
- Marketing materials such as trade show displays
- Packaging supplies
- Food and beverages for office events
- Non-routine maintenance
- Advisory or legal fees
- Temporary labor for a short-term project
- Employee expenses on business trips

To procurement professionals, tail spend is often referred to with the Pareto principle, also known as the 80/20 rule.

This is because 80% of company spend is made with just 20% of vendors.

The remaining 20% of spend (much of which is considered tail spend) is made with 80% of the vendors.

What Is Tail Spend?



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The tail spend portion of the above chart represents a high volume of small purchases with many different vendors.

That's why tail spend can be difficult to manage and track—as opposed to regular, higher-amount purchases from preferred vendors.

What Is Tail Spend Management?

Tail spend management is the act of tracking and managing these smaller infrequent purchases.

It can help reduce costs and create more efficiency and transparency for company spend.

The first part of tail spend management includes identifying tail spend purchases, which can be achieved by doing a thorough spend analysis that uncovers where, when, and how tail spend purchases are happening.

Tail spend analysis can be hard for companies that don't use a standard procurement software system.

Without a centralized system spend visibility on these purchases can be quite poor.

The next part is finding a way to manage and control them.

This could mean using purchasing controls, setting spending limits for certain employees, or implementing a guided buying system that includes smaller purchases and has the flexibility to add new items.

Using an automated purchasing software system is the most efficient way to optimize tail spend management.

It enables teams to set controls, track every transaction, stay within pre-set budgets, and gain total visibility over company spend.

When dealing with a high volume of small transactions, manual systems cannot compete with automation.

What Are the Benefits of Managing Tail Spend?

There are many benefits to implementing tail spend management, all of which contribute positively to the bottom line.

▪ Savings From More Strategic Spend

Moving tail spend from uncontrolled outlets to strategically managed e-procurement systems can generate significant savings.

When tail spend moves into a controlled system, data and insights can reveal the complete picture of where excess spend is happening, and employees can be nudged to use preferred vendors with better prices and higher quality.

Spend analytics allow the procurement department to continually improve purchasing habits and figure out which business units to focus their attention on.

According to Boston Consulting Group, when digital procurement

solutions are used by a company they can cut their annual expenditure on average by 5% to 10%.

▪ **Increased Efficiency and Productivity**

Efficiency increases with supplier base consolidation. This not only reduces the number of stakeholders procurement teams have to work with, but it also allows procurement staff to focus on the larger vendors that add more value to the business.

Adding more catalog coverage and self-service procurement functions allows the procurement team to spend more of their time on value-adding tasks like continuous improvement, strategic sourcing, and contract negotiations.

▪ **Increased Compliance and Reduced Risk**

Removing unreliable suppliers also reduces risk while providing a more transparent procurement process to prevent and detect fraud.

Tail spend management programs are meant to control, monitor, and track transactions as they occur, meaning exceptions can be found as they happen—and addressed before being sent to the supplier.

These programs are highly effective at preventing rogue spending and providing the organization with detailed insights into spend behavior and risk analysis.

▪ **Better Internal User Satisfaction**

Internally, procurement system end users are often more satisfied because the systems are easier to use, provide clarity on who is responsible for what, and clearly show who the contact person is for various issues.

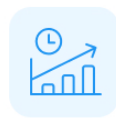
It also helps to reduce process cycle times, and up skills procurement resources.

Employees typically prefer to use a straightforward system, rather than a complex or disjointed one where they aren't sure if they're properly following the rules.

■ Benefits of Managing Tail Spend?



Savings From More Strategic Spend



Increased Efficiency and Productivity



Better Internal User Satisfaction



Increased Compliance and Reduced Risk

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What Are the Challenges of Tail Spend Management?

Tail spend is the hardest spend category to manage because it is made up of many low-value transactions. This is particularly true for the long tail, or tail of the tail.

Among the many challenges procurement teams face when managing tail spend, here are the most common:

• Lack of Data Visibility

Lack of spend transparency resulting in missing information is often the hardest part of managing tail spend.

This can happen when purchasing data is spread out across multiple paper forms, spreadsheets, or siloed software systems—making it next to impossible to track, understand, and report on.

Lack of Spend Control

Without defined processes and policies for making smaller or irregular purchases, tail spend purchases are often made outside of typical procurement processes.

The practice of making purchases without proper approval is known as maverick spend, and is a common practice within tail spend.

When employees believe they can make tail spend purchases without approval, a company loses some of its ability to control spend, stick to a budget, and even stay profitable.

▪ Fragmented Processes

Because smaller purchases are often overlooked, they often don't play by the same set of rules within different departments.

Some teams might go through the procurement team for small purchases while others buck the system. Without a single, unified software system to manage spend, these fragmented processes can get out of control fast.

▪ No Negotiating Ability

Using many different vendors limits a company's bandwidth to negotiate.

If many tail-spend purchases can be consolidated into a single preferred vendor, it gives businesses a leg to stand on.

But it simply isn't feasible to negotiate effectively with when purchasing from many different suppliers.

▪ No Performance Metrics

It's hard to measure the ROI of a purchase when (like many tail spend purchases) it isn't tracked through a formal system.

- When long-tail purchases aren't tracked with the same supplier performance metrics and internal procurement KPIs as larger purchases,

companies may continually make purchases from vendors who offer poor-quality goods and services.

Challenges of Managing Tail Spend



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When employees believe they can make tail spend purchases without approval, a company loses some of its ability to control spend, stick to a budget, and even stay profitable.

What Are the Best Ways To Manage My Tail Spend?

The best way to manage tail is to follow a series of steps to identify, streamline, and analyze your tail spend purchases.

From there, you can take the necessary actions to minimize wasteful spending and gain back control over all company purchases.

1. Identify Your Tail Spend

Tail spend can include anything from misclassified purchases to maverick spend.

That's why it's important to reach a consensus on how your organization defines tail spend (this will vary depending on the organization) and determine where it is happening within the company.

Most commonly, organizations define tail spend by calculating the ratio of spend to suppliers—classifying tail spend as “all purchasing with vendors other than the 20% with whom they have the highest spend.”

To find it, you’ll need to consolidate your spend data from all sources into one unified data source (which is easier with dedicated procurement management software).

From there, you’ll define tail spend as it relates to your company and create a filter for those transactions.

This could be based on dollar amounts, infrequent vendor usage, or other parameters. Then you can identify and calculate your tail spend.

Once you’ve sorted out which expenditures are having the largest effect on tail spend, you can start to look for savings opportunities.

Look for ways to achieve cost reduction by putting limits on transactions and total spend for areas that are creating the most tail spend costs.

Generally (and depending on the size of your company), you’ll find that tail spend expenditures fit within one of the following categories:

- **Hidden Tail**

This is where the biggest suppliers are. These are generally part of strategically managed spend, with contract management in place.

However, some of this spend isn’t covered by contracts because those contracts don’t include the specific materials or services being purchased—or because purchases are non-compliant.

- **Head of the Tail**

These are larger but irregular or infrequent purchases that don’t fit into normal procurement initiatives.

In this segment, you’ll find the spend that isn’t strategically managed, though spend with these suppliers could be anywhere

from \$50,000 to \$1 million per year (depending on the size of your organization).

- **Middle of the Tail**

These are purchases that include a large number of suppliers for the same types of purchases.

These may be in the \$2,000 to \$200,000 range per supplier.

The middle of the tail isn't strategically managed because the spend per supplier is too small, but consolidating to fewer vendors with negotiated contracts could help.

- **Tail of the Tail**

This is suppliers with less than \$2,000 in spend.

This area includes many one-off purchases with a large number of suppliers.

This is the hardest part of tail spend to manage but can add up to a significant amount.

Using software for all purchases is the best way to get this under control.

2. **Work to Streamline Internal Processes**

Streamlining internal workflows gives you better data visibility, reduces the number of overall suppliers, and helps keep a closer eye on spending.

The ideal way to achieve this is with an e-procurement system that requires employees to fill out formal purchase requisitions for approval before converting them to purchase orders.

The system should have a list of approved vendors and products to choose from within a guided buying environment. Integrating with supplier PunchOut catalogs can help here.

This will curb tail spending outside strategically managed contracts by making it easy for employees to make purchases within the established system.

You can then implement a six-month “streamlining” program for all segments of the tail.

This involves moving uncontrolled tail spend into strategically managed channels, such as guided buying catalogs or other automated buying channels via the e-procurement system.

As more tail spend is moved to these channels, you gain more control.

3. Make Your Data Work for You

After you’ve streamlined your processes by deploying a procurement solution like PLANERGY in your organization, it’s time to work on sourcing and contracting.

This will ensure the majority of your company purchases are handled strategically—and don’t become uncontrolled tail spend.

Using the data provided by your procurement system, you can analyze your many tail-spend vendors.

You can see which ones are used more than others, and which are in similar categories that can be consolidated into just one vendor, rather than several.

From there, you can initiate contract negotiations with the most useful vendors, bring them into your procurement system, and add them to your catalog and guided buying process.

This will make it easier for staff to select from a smaller number of pre-approved vendors, rather than a vast number of various vendors without a contract in place.

After you’ve implemented the procurement system and got more vendors under contract, it’s time to put your data to work.

You'll want to measure improvement in your tail spend performance with various metrics such as cost reduction and cost avoidance, transaction costs, and improved spend visibility.

The Best Way to Manage Tail Spend



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Free Your Procurement Team From Tail Spend Drag

With e-procurement software readily available, procurement teams no longer need to let tail spend fatigue cause them to fall behind.

Getting a handle on tail spend will boost your bottom line and improve your organization's strategic purchasing capability along with supplier relationships.

Tail spend management presents a viable path towards getting more of your spending under control.

Automating purchasing channels for all sections of the tail will help you save a significant amount of money and create space for procurement to come up with new and unexpected ways to add value to your business.

What's your goal today?

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