

Maverick Spend: What It Is and How To Avoid It



IN THIS ARTICLE

- What Is Maverick Spending?
- What Is an Example of Maverick Spend?
- Why Does Maverick Buying Happen?
- What Are the Risks of Maverick Buying?
- How Does Maverick Spend Impact a Company?
- How Can You Avoid Maverick Spend? 7 Ways

Maverick spend can drain company resources and create significant negative impacts that, if unnoticed, add up over time. Understanding maverick spend is the first step to identifying and eliminating it.

With the right tools, you can rein in unauthorized spending and improve your company's bottom line.

What Is Maverick Spending?

Maverick spending is spending that occurs outside of established procurement

processes or authorized purchasing channels. In other words, it's when someone spends company funds without approval.

Maverick spend is difficult to track and account for, and in many cases does not line up with an organization's priorities and goals. It often happens for smaller purchases or where there is a time crunch to procure goods and services.

Because it happens outside of normal protocols, it can easily lead to waste, inefficiency, and making purchases outside of preferred vendors.

Maverick spending can be intentional, such as when individuals simply refuse to follow the procurement policy. It can also be accidental, due to miscommunication in your supply chain, poorly structured workflow, or a lack of an effective procure-to-pay (p2p) program.

Whatever the reason, maverick spend can harm your business by creating unauthorized expenditures, causing logjams in your workflow, and draining resources.

What Is an Example of Maverick Spend?

Maverick spend often happens when someone is unaware of company protocols, frustrated with them, or feels that they need to procure something faster than protocols would allow.

For example, if a middle manager's laptop gets damaged during a trip to a convention and no longer works, they will likely want to buy a new one. Let's imagine that they have an important presentation later that week, and don't feel that they have the time to follow company protocols in procuring a new laptop.

Instead of following normal protocols, they take their company credit card, which has a \$5,000 limit, to Best Buy and purchase a \$2,000 Mac Book Pro. In their mind, they have the authority to make this call without approval as they know it will be approved later anyway.

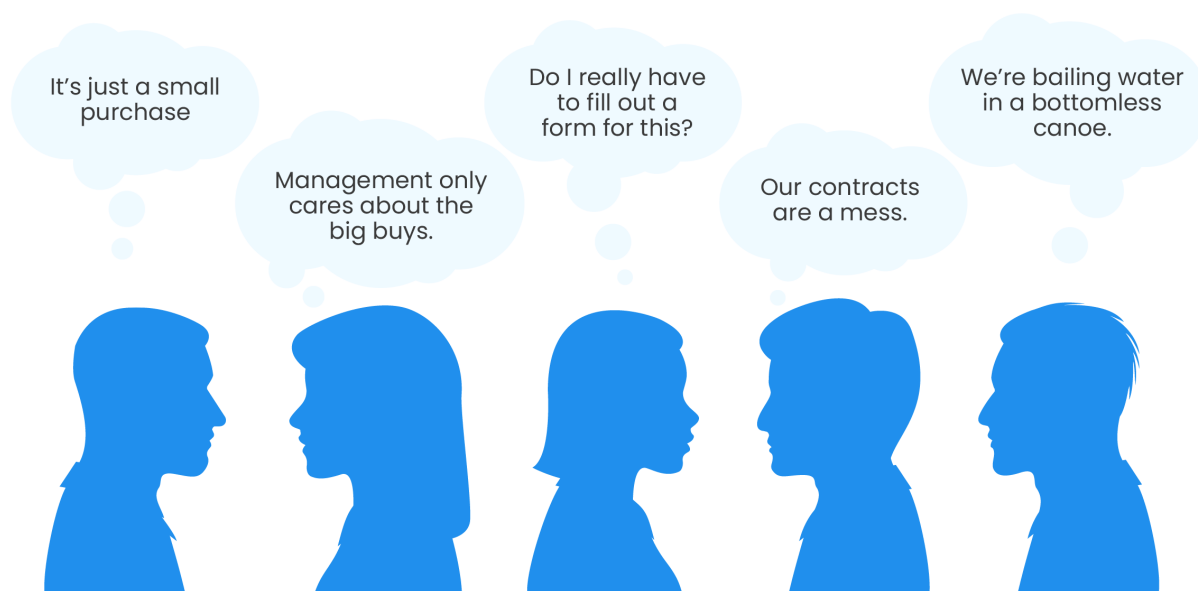
However, that \$2,000 is unaccounted for in their team's budget, and it will have to be taken away from funds reserved for other important expenses later on. Because the middle manager acted as a maverick buyer, his team was unable to properly budget and account for his new laptop's expense.

If everyone on his team were to purchase laptops and other items in this manner, it would create a logjam of budgeting issues and start to negatively impact the company's profits.

Why Does Maverick Buying Happen?

Maverick buying can happen for a variety of reasons that employees and managers may use as an excuse, none of which make it acceptable (except in perhaps a dire emergency). According to a report from Basware, many companies are missing their savings targets by 10-20% due to maverick spending.

Common Excuses For Maverick Spending



Some of those excuses include:

- **“It’s just a small purchase”**

Without effective communication of best practices and proper supplier management, your employees might dismiss modest or everyday purchases as too miniscule to have any serious effect on the bottom line. So instead of following procedure, they engage in maverick buying.

- **“Management only cares about the big**

buys.”

If management is focusing most of their attention on purchases above a certain threshold, employees might think purchases under that line don't need approval. This is especially true if corporate policy permits a percentage of spend to remain unmanaged.

• “Do I really have to fill out a form for this?”

It's easy for employees to skip formal protocols when a company doesn't have a process in place for smaller transactions. Alternatively, overly complicated and time-consuming approval processes will compel employees to go rouge. Having an easy formal process (ideally an automated one) for small purchases helps solve this problem.

• “Our contracts are a mess.”

Having overlapping or redundant contracts can cause confusion and deter people from going through official procurement processes. Using a centralized procurement system to manage contracts can help 'clean up the mess'.

• “We're bailing water in a bottomless canoe.”

If rogue spending is a common practice, you might have so many challenges that management sees the cure (fixing the problem) as more costly than the disease. This has the unintended effect of letting the problem grow even worse over time. The only solution is to get your ducks in a row, which purchasing software can help with.

Despite the excuses maverick buyers make, maverick spending causes many companies to miss their savings targets by 10-20%.

What Are the Risks of Maverick Buying?

Maverick buying produces several risks that could easily be avoided by providing

employees with a simple e-procurement solution for both routine and variable purchases. These risks include:

- **Waste and Inefficiency**

Maverick purchases often don't align with a company's greater goals and don't go through the standard vetting process. This can lead to critical funds being used to purchase unnecessary or low-quality goods and services and cause the company to be less efficient.

- **Lack of Monitoring and Control**

When maverick spending becomes embedded in the employee culture, it gets increasingly difficult to track purchases and monitor spending. This can spiral out of control quickly, leaving management with little say in how resources are being used, along with limited insights into their spending behavior.

If a company in this situation needs to make budget cuts, they may not know where to begin.

- **Higher Prices and Missed Discount Opportunities**

Purchasing outside of the standard channels (and without proper scrutiny) can cause employees to purchase at higher prices than they otherwise would. It can also lead to missed discount opportunities, such as early payment discounts or bulk pricing. The end result is higher costs and a negatively impacted bottom line.

- **Legal and Compliance Issues**

Because maverick buying doesn't get properly vetted, it's easy for buyers to ignore pre-existing contracts and relevant regulations. It can lead to purchases that violate the terms of a contract with another vendor or purchases made from vendors that don't comply with legal requirements.

On top of that, there is little spend data to work with when an audit comes up.

Risks of Maverick Buying



Waste and Inefficiency



Lack of Monitoring and Control



Higher Prices and Missed Discount Opportunities



Legal and Compliance Issues

PLANERGY™

How Does Maverick Spend Impact a Company?

Maverick spending creates multiple negative impacts. Without total spend visibility, companies can't perform effective spend analysis. Money is wasted, data management is compromised, and the risk of non-compliance issues balloons.

Some of the impacts maverick spending creates include:

- **Excess Vendors.** Too many vendors create costly redundancies and contract issues.
- **Inferior Goods.** Maverick buyers are more likely to use new suppliers, and as a result, they likely won't match the preferred suppliers' timeliness, quality, price, efficiency, or customer support.
- **Contract Crises.** Unmanaged spending makes it easy to create conflicts with negotiated contracts, exposing your organization to vendor compliance risks.
- **Excess Processing Fees.** Maverick spending can create a high volume of unnecessary transactions and generate additional processing fees.
- **Wasted Work Hours.** When procurement teams are chasing down

maverick transactions or unapproved suppliers, they're not planning or building value for the company.

- **Damaged Relationships.** Maverick spending can create conflict. Supplier relationships and cross-team collaboration can both get damaged as companies don't follow their own pre-set strategies, contracts, and rules.

Negative Impact of Maverick Buying



Too Many Suppliers



Inferior Goods



Contract Crises



Excess Processing Fees



Wasted Work Hours



Damaged Supplier Relationships

PLANERGY™

What Is the Difference Between Maverick Spend and Tail Spend?

Maverick spend and tail spend can both be hard to track and manage, but they are not the same. Maverick spend is the act of making any purchase outside of the established protocols. Tail spend is small, low-value purchases such as office supplies or Uber rides to the airport.

Oftentimes, tail spend can become maverick spend. Without an easy way for employees to make tail spend purchases through established channels (like an e-procurement platform), many will try to skirt the system and make these purchases on their own.

The best way to stop tail spend from becoming maverick spend is to make purchasing easy (more on that below).

How Can You Avoid Maverick Spend? 7 Ways

With the proper policy, planning, and procurement process in place, maverick spending can be avoided. Of course, it can be avoided much easier with the help of procurement software that helps put those policies and processes in place, and enforces them.

Regardless of what system you use to manage your purchasing process, these are seven reliable ways your organization can avoid maverick spend.

1. Perform a Spend Analysis

Without a clear picture of both direct and indirect spend at all price levels, you won't be able to identify the scope of the problem.

Performing a thorough spend analysis can uncover how much maverick spend is really going on, and where you most need to address the problem to create the most cost savings.

2. Get Everyone on Board

Without full support from internal stakeholders, any effort to curtail maverick spend can easily fail. Everyone needs to be on board, starting with executive leadership, or it will continue to eat away at the bottom line.

Take the time to identify the stakeholders at all levels. Engage them and explain how both they and the company will benefit from more effective procurement. Communicate expectations, address concerns, and provide frequent updates—then you'll be on your way to a smooth transition.

Use E-Procurement Software and Automation

Everything from strategic sourcing to supplier management is easier with a centralized solution for procurement. The best procurement software integrates with your enterprise resource planning (ERP) system for a comprehensive solution without roadblocks, redundancies, and errors.

Purchasing systems can create easy-to-use portals for everything, including small tail spend purchases, which reduces the temptation to go outside of the established purchasing protocols while automating much of the tedious tasks.

Guided buying directs purchasers to buy your preferred suppliers where you have the most preferential agreed terms and can define an approved supplier list that stops orders happening from non-approved suppliers.

4. Centralize Your Contract Management

Granting your procurement department full access to contracts is essential to spend management. With all contract management under their supervision, they can easily find and eliminate conflicting or obsolete terms. Managing your contracts through e-procurement software makes this process much easier.

5. Define a Policy for Small Purchases

Allowing individuals to self-approve low value purchases in certain circumstances will ensure operations can proceed unhindered while maintaining control for more significant purchases. This should be defined in a purchasing policy.

Some companies will find using purchasing cards (p-cards) for purchases under a certain threshold can save time but these will still need to be monitored to ensure compliant behavior.

You can provide company credit cards to employees who frequently make purchases and use the data from your spend analysis to set a threshold.

Any purchase for less than that threshold must be made on the card.

In addition to simplifying tracking, p-cards also eliminate the need for purchase orders and expense reports on items below the threshold. You'll save on labor, and your procurement professionals can focus on larger priorities.

Some cards can even set limits for what spend categories they can be used for, and how much can be spent per transaction, day, or month.

6. **Create an E-Catalog for Preferred Suppliers**

Place your common low-cost tail spend purchases into an e-catalog for your staff to use, limiting selections to preferred suppliers. As more people use the system, you'll be able to account for both routine and one-off buys—ensuring they become part of your managed spend, rather than maverick spend.

7. **Limit Who Can Make Purchases**

One of the most powerful and effective ways to control maverick spending is by limiting the number of people who can make purchases. Fewer employees authorized to make purchases means fewer headaches at every step of the P2P process.

7 Ways To Avoid Maverick Spend



Perform Spend Analysis



Get Everyone on Board



Use E-Procurement Software and Automation



Centralize Your Contract Management



Define a Policy for Small Purchases



Create an E-Catalog for Preferred Suppliers



Limit Who Can Make Purchases

PLANERGY™

It's Time to Gain Control Over Maverick Spending

Maverick spend is very much like the 'death by a thousand cuts' analogy. It can bleed a company dry over time as it quietly impacts the bottom line.

Investing in cutting maverick spending will reduce costs, improve accountability, and help keep your business riding high. Investing in a procurement software solution not only goes hand-in-hand with eliminating maverick spend, but also streamlining your entire operation.

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 Procurement Solutions page to see how PLANERGY can digitize and automate your procurement processes saving you time and money.
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

2. Download our “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