

Spend Control: How To Reduce Costs For Enterprise



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As more and more businesses embrace digital transformation as part of their long-term business development planning, the procurement and finance functions are taking a more central and strategic role in guiding organizational decision-making.

Spend control (also called spend management or expense management) is one of the most important ways in which procurement and finance teams can secure cost savings and build value for their businesses.

Generating an optimal return on every dollar spent doesn't have to be complicated or even difficult.

With the right spend policies and spend management solution, cutting costs and taking control of company spend is within your reach.

Effective cost reduction and value increase in business spend management are directly linked to how well an enterprise can control its spending.

When it comes to purchasing and procurement, internal controls are crucial.

But what is spend control? How do you take control over spending? And what's the difference between spend control and budgeting?

What is Spend Control?

Spend control is a strategic approach to managing and optimizing company spend.

It involves establishing policies and procedures to regulate expenditures and ensure that all purchasing decisions align with the company's financial objectives.

What Are Spend Controls?

Spend controls are the mechanisms, processes, and tools used to manage and monitor corporate spending.

They encompass everything from approval workflows for purchases to regular audits of expenditures.

These controls help companies avoid unnecessary costs, mitigate risks, and improve efficiency.

Why Old Methods Won't Work for Cost Control

Like many other business processes, the effectiveness of spend management has traditionally been limited by reliance on paper documents and manual workflows.

This arrangement creates several challenges for companies competing in a fast-paced, digital economy, including:

■ Why Old Methods Won't Work for Cost Control



High Complexity,
Low Integration



Lack of Real-Time
Data Visibility



Inaccurate Financial
Planning



Lost Value and
Higher Costs

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■ High Complexity, Low Integration

With spend data drawn from diverse sources in multiple formats without guaranteeing ready compatibility or accessibility, traditional spend management requires lots of manual review and protracted data conversions (including error-prone manual data entry).

Different departments and business units have their own documents and processes in a decentralized environment.

This makes integration and analysis a multi-stage affair (and a major headache for accounts payable and finance) that still might fail to include essential information if a given department or business unit doesn't have policies in place to limit rogue spend.

This data is often siloed as well, so finding ways to share the data to convert and analyze it adds another bottleneck.

Lack of Real-Time Data Visibility

With siloed data, lack of automation, and no way to readily verify compliance with spend management protocols, procurement, and finance teams often can't get a clear and accurate view of company spending at all, let alone in real-time.

This can result in wasted time, resources, and money through redundant purchases, rogue spending, late payments on invoices (which creates further problems by damaging supplier relationships) and even increase the company's risk exposure by permitting invoice fraud and theft.

▪ Inaccurate Financial Planning

If you can't see what's being spent, can't be confident that the data you do have is complete, and don't have effective tools for collaborating or communicating about the company's finances, it's incredibly difficult to create accurate financial reports, budgets, and forecasts.

Without accurate budgets, spend gets further out of hand. Growth may slow or disappear altogether.

Waste and inefficiency run rampant and costs skyrocket as you struggle to manage not just your spend, but inventory levels and supplier relationships.

And without effective spend controls or clear budgets, business units and departments can quickly spend themselves into a corner from which they may not be able to be extricated.

▪ Lost Value and Higher Costs

Human error and slow manual workflows, combined with high resource costs for purchasing, using, and storing paper documents, can quickly erode whatever savings are achieved through economies of scale or off-contract *"bargains."*

- And with no reliable way to monitor and streamline procurement processes (including purchase order and invoice processing), companies

lose out on the increased value of incremental process optimization.

Further value is lost through missed opportunities. Without real-time visibility and access to data, it's hard to guard against supply chain disruptions, partner with vendors on shared initiatives and product innovations, or monitor cash flow to make strategic investments that promote growth without risking liquidity or business continuity.

For modern enterprises, this approach won't cut the proverbial mustard.

Taking Control Over Spending

Controlling company spending starts with gaining visibility into your expenses. You need to understand where your money is going, why it's being spent, and whether it's delivering value.

This requires robust data collection and analysis, which can be facilitated by spend management software.

To get your spending under control, you also need to establish clear purchasing policies.

These should outline who has the authority to make purchases, what they can buy, and how much they can spend.

Regular monitoring and enforcement of these policies is crucial to maintaining control.

Steps to Control Spending and Reign in Company Expenses

The primary purpose of spend controls is to ensure that company spending aligns with strategic goals.

By regulating expenditures, companies can avoid wasteful spending, identify opportunities for savings, and ensure resources are being used effectively.

To optimize your process, try this:

1. **Implement a Spend Management Tool**

Implementing a robust spend management system is critical in achieving effective expenditure control within an organization.

This system acts as a centralized hub for all purchasing activities, providing real-time spend visibility into company expenditures and making it easier to enforce spend controls.

For instance, a spend management system could include features like digital purchase orders, automated approval workflows, and real-time budget tracking and expense management.

With digital purchase orders, employees can quickly and easily submit requests for goods or services.

These requests can then be automatically routed to the appropriate person for approval, streamlining the purchasing process and reducing the chance of errors or overspending.

Real-time budget tracking allows managers to see exactly how much is being spent and where the money is going at any given time.

If a department approaches its budget limit, the system could send out alerts to prevent overspending.

This feature can also be helpful in identifying trends or patterns in spending that might otherwise go unnoticed in manual processes.

A good spend management system, such as PLANERGY, can integrate with other business systems such as accounting or ERP software, providing a holistic view of the company's financial health and facilitating better decision-making.

2. **Establish Clear Purchasing Policies**

These policies should outline who has the authority to make purchases, what they can buy, and how much they can spend.

For instance, only department managers might be authorized to approve

expenditures over a certain amount.

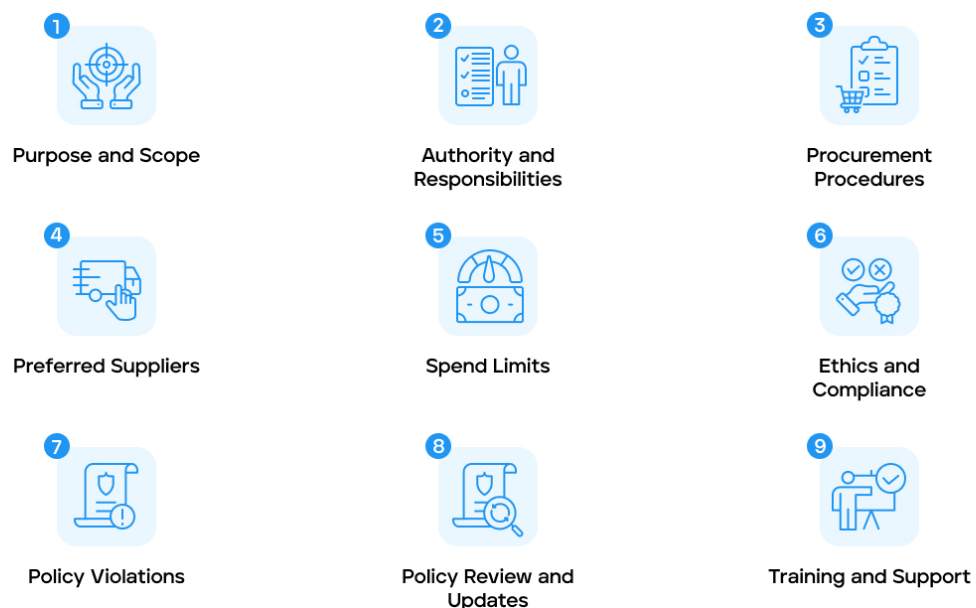
The policy could also specify preferred vendors for certain types of purchases, helping to ensure the company gets the best value for its money.

Purchasing policies should be regularly updated to reflect changes in the company's strategic goals, market conditions, or regulatory environment.

They should also be easily accessible to all employees, such as posted on the company intranet or in employee handbooks.

Things your purchasing policies should cover include:

Purchasing Policies Should Include



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1. **Purpose and Scope:** The spend policy should start with a clear statement of its purpose and the scope of its applicability within the organization.
2. **Authority and Responsibilities:** Clearly define who has the authority to make purchases and approve purchases and their respective responsibilities. This could be based on job roles or

spending limits. Will purchase will be made with corporate cards? Credit cards? Virtual cards? What is the process for employee expense reimbursement? Are expense reports required?

3. **Procurement Procedures:** Outline the business processes must follow when making a purchase. This could include selecting suppliers, requesting quotes, placing orders, and receiving goods or services.
4. **Preferred Suppliers:** The policy should clearly state this if the organization has preferred suppliers or has negotiated contracts with certain vendors. This is also crucial for proper supplier management.
5. **Spend Limits:** Define the spend thresholds at which different levels of approval are required. For example, purchases above a certain amount might require approval from a department head or executive.
6. **Ethics and Compliance:** The policy should emphasize the importance of ethical behavior in purchasing activities and compliance with relevant laws and regulations. This could include guidelines for dealing with conflicts of interest or accepting gifts from suppliers.
7. **Policy Violations:** Specify the consequences for violating the purchasing policy. This could range from verbal or written warnings to termination of employment in severe cases.
8. **Policy Review and Updates:** The policy should be regularly reviewed to reflect changes in the company's needs, market conditions, or regulatory environment.
9. **Training and Support:** Indicate the training available to employees regarding the purchasing policy and where they can go if they have questions or need help with the procurement process.

3. **Regular Audits**

Regular audits are essential to maintaining spend control. They help identify areas of overspending, instances of non-compliance with purchasing policies, and potential fraudulent activities.

For example, an audit might reveal that a particular department is consistently exceeding its budget or that purchases are being made from non-preferred vendors.

Spend analysis can also provide valuable insights for improving spend control measures. For instance, if the audits frequently identify the same types of issues, it might indicate that the current spend controls are inadequate or that employees need additional training on the purchasing policies.

4. **Training**

All employees, especially those with purchasing authority, should understand the importance of spend control and how to follow the company's purchasing policies.

Training sessions could cover topics like how to use the spend management system, the process for getting purchases approved, and the consequences of non-compliance with the policies.

Regular refresher courses can also be beneficial to ensure that employees' knowledge stays current, particularly when there are changes to the policies or spend management system.

For example, a company could host monthly training workshops where new employees are educated about the purchasing policies and existing employees are reminded of the guidelines.

This ongoing education can help ensure that everyone in the organization understands their role in maintaining spend control.

Benefits of Spending Controls

Spend controls offer several benefits:

■ Benefits of Spending Controls



Cost Savings



Risk Mitigation



Improved
Efficiency

PLANERGY™

▪ Cost Savings

Spend control measures can lead to considerable cost savings.

For example, a company might identify that they are spending excessively on office supplies due to lack of oversight or unregulated purchasing.

With effective spend controls in place, such as approval workflows and supplier consolidation, the company can significantly reduce these costs.

▪ Risk Mitigation

Spend controls play a crucial role in risk mitigation by preventing fraudulent activities and ensuring compliance with laws and regulations.

For instance, businesses could risk non-compliance fines if they do not appropriately track and report expenses.

A strong spend control system can provide real-time visibility into all transactions, helping to prevent such issues and ensure full legal compliance.

▪ **Improved Efficiency**

Improved efficiency is another significant benefit of spend controls. By streamlining purchasing processes and using resources better, companies can save time and increase productivity.

For example, implementing a digital spend management system can automate and expedite approval workflows, reducing employees' time on administrative tasks. This allows them to focus more on strategic initiatives, driving overall business efficiency.

Spend Control vs. Budgeting

While both are important for managing finances, spend control and budgeting serve different purposes.

Budgeting involves planning how money will be spent in the future, while spend control focuses on managing and regulating ongoing expenditures to ensure they align with the company's strategic goals.

Start Investing in Spend Control Today

Spend control is a vital aspect of business spend management.

Implementing effective spend controls can help your enterprise reduce costs, increase value, and achieve its financial objectives.

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 [Spend Analysis Software](#) page to see how PLANERGY can empower you to get more value from your spend.
- 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.

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