

Spend Under Management: 5 Steps To Increase SUM



In a perfect world, every dollar your business spends would generate an optimal return and help support your organizational goals for growth, innovation, and competitive strength. But here in the *real* world, companies often struggle to achieve total visibility into, and control over, their spend. *Spend Under Management* (SUM) is one of the most important metrics a company can use in evaluating its financial health and developing strategic sourcing and procurement processes.

Your organization's spend under management is easier to optimize than you might think. By implementing the right tools and following a simple five-step process, your chief procurement officer (CPO) and their procurement team can tame your indirect spend with an optimized procure-to-pay process that aligns procurement's goals with those of your organization and creates value through

greater efficiency, better decision-making, and a healthier bottom line.

What is Spend Under Management?

The basic definition of “spend under management” is “the percentage of an organization’s spend that is actively managed via category management as compared to all addressable spend (i.e., the company’s total spend as controlled by, and potentially manageable through, procurement activities)”. As most companies have traditionally prioritized category management for their direct spend versus indirect spend, “unmanaged spend” has generally fallen into the latter category.

However, times are rapidly changing. As Big Data becomes a major source of strategic value for companies who want to protect their competitive advantage (and business continuity), finding ways to capture, manage, and leverage every last scrap of spend data has become a top priority for forward-thinking procurement professionals.

Digital transformation technologies and an increased focus on comprehensive, strategic spend management have changed the game significantly. Optimizing Indirect spend management has become a primary goal, particularly for companies operating outside traditional manufacturing and other brick-and-mortar verticals, but also for any company who wants to achieve the benefits that come from sustainable digital transformation.

Businesses who can implement category management principles in monitoring and optimizing their indirect spend are more likely to have what the Hackett Group calls “World Class” procurement organizations, well-positioned to:

- Control an average of 93% of total company spend, as compared to an average of 64%;
- Capture more actionable insights;

- Connect spend directly to contracts and financial objectives;
- Directly influence organizational growth and financial health through optimization of procurement activities;
- Take advantage of opportunities for innovation and growth; and
- Eliminate the waste and expense that come with inefficient procurement workflows and risk exposure created by problems such as maverick spend and invoice fraud.

Toward this end, it is necessary to expand the definition of spend under management beyond a mere percentage and consider the key criteria that allow companies to achieve “management” as defined by their internal controls and processes. Every company will have its own specific criteria, but generally speaking, an effective spend under management program will:

- Provide a formal set of management-approved procurement processes that delineate buying practices (including guided buying, eProcurement systems, etc.), category management protocols, and the specific tools and software used to ensure all spend data is properly captured and categorized for analysis.
- Ensure all stakeholders are aware of, trained on, and compliant with workflows and protocols as established by the SUM policy.
- Prioritize transparency, accountability, communication, and collaboration in order to ensure complete spend visibility and minimize risk exposure.
- Undergo regular and frequent review in order to ensure compliance and further refine the overall efficiency and efficacy of the program.

In order to optimize your SUM, it's crucial to understand where you are today, what you're doing right, and what needs to be improved.

Five Steps to Improving Your Organization's Spend Under Management

The more visibility your procurement organization has into your supply chain and spend, the more effectively it can manage both. With time, a proactive approach, and the right tools, you can bring more of your spend under management in just five basic steps.

1. Start with the Right Tools

In order to optimize your SUM, it's crucial to understand where you are today, what you're doing right, and what needs to be improved. Your procurement team needs a reliable way to perform both needs and spend analysis, as well as tools for creating and enforcing the policies and controls that will bring more spend under management and align procurement processes with organizational goals. You also need a way to set up metrics and benchmarks for evaluating your success.

A cloud-based, purpose-built procure-to-pay solution like Planergy makes all of these things possible and more.

- Full integration with your existing software environment and centralized data management ensure clean and completely visible data for spend analysis, as well as more advanced analyses that support strategic sourcing, smarter forecasts, and better overall decision-making.
- Powerful automation tools help you eliminate the need for human intervention in high-volume, repetitive tasks (and boost accuracy, speed, and efficiency at the same time). Staff can spend their time on more strategic tasks, such as category management, enforcing contract compliance, strengthening relationships with preferred suppliers to secure new opportunities for cost savings and value, etc.

- Modular support for contract management, category management, inventory management, and full integration with accounts payable makes end-to-end procure-to-pay optimization possible, from the initial requisition through the final invoice.
- Support for supplier portals, punch-out catalogs, etc. makes it easier to implement and enforce policies for guided buying, electronic invoicing, and spend analytics.
- Scalable procurement technology makes it easy to optimize high-priority procurement processes first and then expand as you gain savings and value from your initial improvements.
- Training and support before, during, and after implementation helps the procurement department secure buy-in and ensure compliance with spend management policies.

2. Begin with Spend Assessment

The procurement team is responsible for monitoring and optimizing their company's spend with external suppliers. Given that this spend can account for anywhere between 40 and 80 percent of a company's total costs, it literally pays to get it under management as fully and quickly as possible.

Spend analytics can help you identify:

- What you spend, where you spend it, and how much of it is off-contract or otherwise invisible.
- The number of suppliers in your supply chain.
- Supplier risk management data you can use to segment and prioritize sourcing and risk exposure. For example, redundant suppliers who do or do not provide contextual utility in preserving business continuity (e.g., local contractors who can readily meet needs for goods and services in the event of a supply chain disruption), Tier 1, Tier 2, and Tier 3 suppliers based on strategic value and capabilities, or

- Areas where compliance with spend policies is lacking or absent altogether, increasing the risk of maverick spend and invoice fraud.
- Categories and subcategories for which management is lacking or absent, as well as refining general category management policy to better capture and control all spend.
- Internal workflows and procurement processes in need of refinement, replacement, or general optimization (e.g., manual invoice verification that could be replaced with robotic process automation, approval workflows without rerouting contingencies, etc.).

3. Formalize and Deploy SUM-Focused Procurement Policies

Spend analysis provides you with the insights you need to develop goals for procurement, ensure those goals align with your organization's, and then create policies and workflows that support both.

You can increase your chances for success by:

- Securing support from the C-Suite, who will provide guidance and enthusiasm necessary to bring your whole team on board with the new policies.
- Developing comprehensive spend policies that can be enforced and refined through the use of benchmarks, vendor management key performance indicators (KPIs) and other metrics.
- Providing comprehensive training for your procure-to-pay solution.
- Ensuring all stakeholders should understand their roles and responsibilities, the importance of compliance to organizational growth and competitive success, and the options they have should they require assistance (e.g. refreshers, additional training, direct support from your procurement system provider).

- Sourcing strategically in a competitive marketplace. Spend data, along with market and industry data, consumer behaviors, and other data sources, can be used to develop “category playbooks” for each category and subcategory and provide real-time insights into sourcing opportunities for greater savings, new materials, or economies-of-scale deals with preferred suppliers.

4. Take a Collaborative Approach

Healthy relationships with suppliers represent a key opportunity to bring more of your spend under management. Bringing all of your preferred suppliers (and your contingency suppliers) into your system, ensuring all contract information is uploaded, integrated, and readily accessible by buyers, and making concerted efforts to connect category managers in a collaborative partnership with their most important vendors are all important steps in helping your suppliers understand their importance to your SUM efforts and your commitment to shared success.

5. Remember, Not All Spend Management is Created Equal

A company with a tenacious and assertive procurement team could theoretically achieve 100% spend under management by establishing and rigorously enforcing a policy that says procurement is required for all contract negotiations. But *when* procurement gets involved is as important as their actual involvement.

Ideally, sourcing decisions will be made based on spend analysis, insights from and relationship building by the category manager, and careful contract negotiations. In addition, they require a provision for evaluating and onboarding suppliers based on internal controls.

Simply drafting a policy that says procurement must be involved without

providing detailed specifics on every stage of the process will create more work and waste, since buyers might otherwise bring procurement in at the last minute (not exactly advantageous to securing the ideal terms and conditions), fail to evaluate suppliers properly, or look for workarounds that meet the letter of the law but do not honor its spirit.

Unmanaged Spend is Costing You More Than You Think

Spend you can't see or control is creating waste and risk you simply can't afford. Invest in the procurement technology you need to see, analyze, and leverage your spend data, develop and enforce policies that help you capture cost savings and generate value, and make sure all your stakeholders are aware, engaged, and accountable. You'll not only lower your expenses and improve operational efficiency, but provide your company with a strong foundation for successful digital transformation and a better competitive footing in today's data-driven, value-focused economy.

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:

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- 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.

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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.

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