Spend Under Management: What Is It, How To Achieve It, and It’s Benefits



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Spend under management (SUM) is a crucial measure for any company aiming to optimize its procurement process.

In this post, we’ll delve into what SUM is, how it’s calculated, and the benefits it can bring to your business.

We’ll also highlight some potential challenges and offer best practices for

successful implementation.

What is Unmanaged Spend?

Unmanaged spend, also known as tail spend or rogue spend, refers to the spending that occurs outside of a company's established procurement processes.

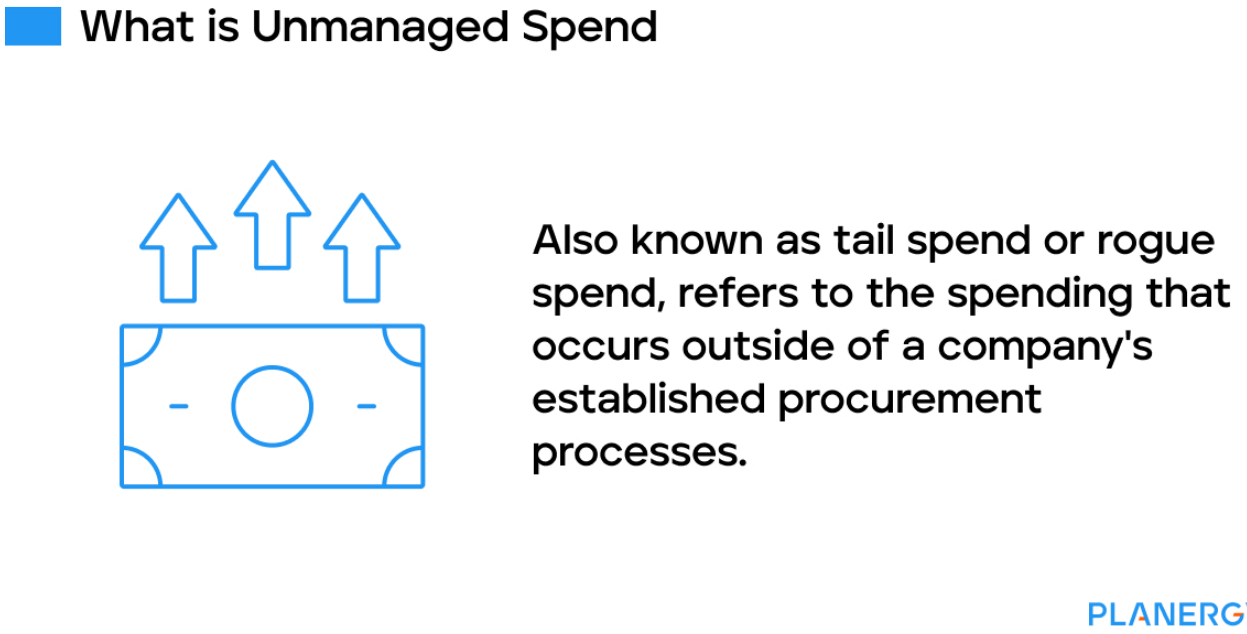
This can include purchases made from non-contracted suppliers, off-contract spending with contracted suppliers, and low-value transactions that are often overlooked due to their relatively small individual cost.

Typically, unmanaged spend isn't visible in a company's procurement system and is not subjected to the same level of scrutiny and control as managed spend.

However, despite its seemingly insignificant individual amounts, unmanaged business spend can add up to a significant total and lead to missed savings opportunities, increased risk, and reduced efficiency.

Therefore, bringing unmanaged spend under control is often a key focus for organizations looking to improve their overall spend management.

This can be achieved through various strategies, such as consolidating suppliers, implementing procurement software, and improving compliance with procurement policies.



What is Spend Under Management?

Addressable spend refers to the portion of a company’s purchasing that the procurement department can actively manage or influence.

It is the part of the company’s total spend that could be potentially reduced or optimized through strategic sourcing and procurement practices.

This includes expenditures on goods and services that are not tied to fixed costs, such as utilities or rents, and where there are multiple potential suppliers in the market, creating opportunities for cost negotiation and savings.

It’s important to note that not all company spend is addressable. Some costs are fixed or regulated and do not provide opportunities for savings or efficiencies through procurement strategies.

Identifying and understanding addressable spend is a crucial step in effective spend management.

In simple terms, SUM refers to the proportion of a company’s total spend that is actively managed according to procurement policies and practices.

This includes all direct and indirect spending across the organization. It’s a key

indicator of how effectively a company is managing its purchasing activities.

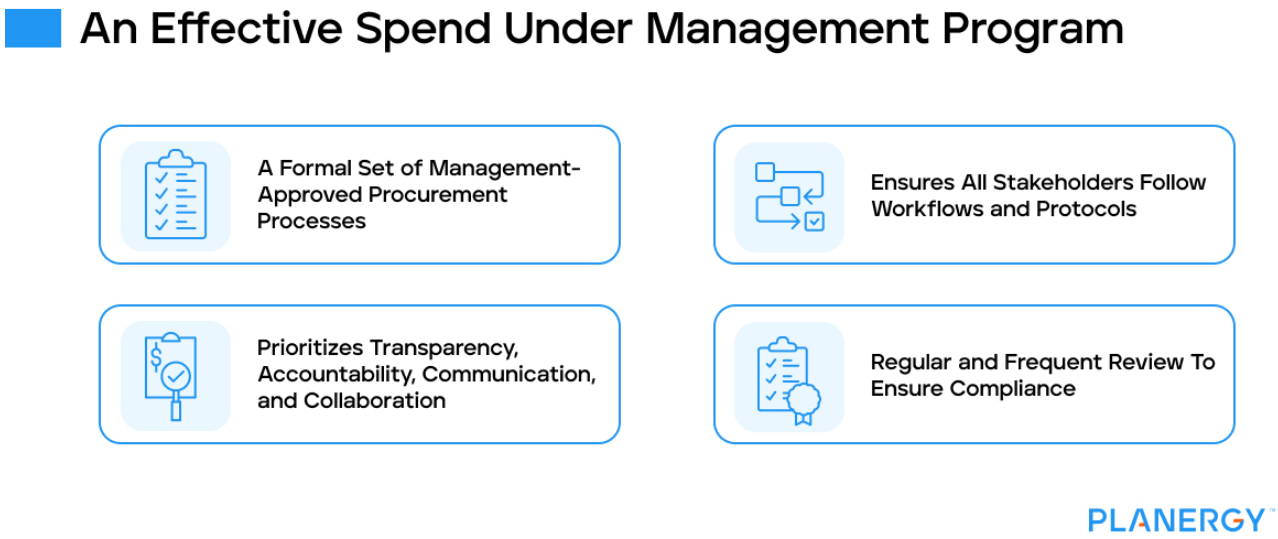
Businesses that can implement category management principles in monitoring and optimizing their indirect spend are more likely to have what the Hackett Group calls “World Class” procurement organizations, well-positioned to:

- 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 associated with inefficient procurement workflows and the 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 to ensure complete spend visibility and minimize risk exposure.
- Undergo regular and frequent review to ensure compliance and further refine the overall efficiency and efficacy of the program.



Calculating Spend Under Management

Calculating SUM is straightforward. It involves dividing the total spend under management by the total spend of the organization.

The result is then expressed as a percentage. It’s more than budgeting and supplier performance.

For example, if a company’s total spend is $1 million, and $800,000 is actively managed, the SUM is 80%. The remaining $200,000 is considered unmanaged.

The higher your percentage of SUM, the better overall for your organization.

How Does a Spend Under Management Contract Work?

A Spend Under Management contract is an agreement between a company and its preferred suppliers.

It outlines the company’s procurement strategy across the entire supply chain, including targets for SUM, and sets out the supplier’s obligations.

Such contracts are typically used in strategic sourcing initiatives and are designed to ensure transparency and compliance.

It’s usually part of the onboarding process when bringing on new suppliers.

> *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.*

Benefits of Spend Under Management Practices

There are several key benefits to increasing your SUM:

- ## Cost Savings

  One of the most significant benefits of SUM is the potential for cost savings.

  When a larger proportion of your organization’s spend is actively managed, you can identify opportunities for savings that may have previously been overlooked.

  This could include volume discounts, negotiating better contract terms with suppliers, or identifying lower-cost alternatives for certain purchases.

- ## Risk Management

  Spend Under Management also plays a crucial role in risk management.

  With increased visibility into spending patterns, you can identify potential risks before they become significant problems.

  For example, if a particular supplier consistently increases prices or fails to deliver on time, you can proactively find alternative suppliers or negotiate better terms.

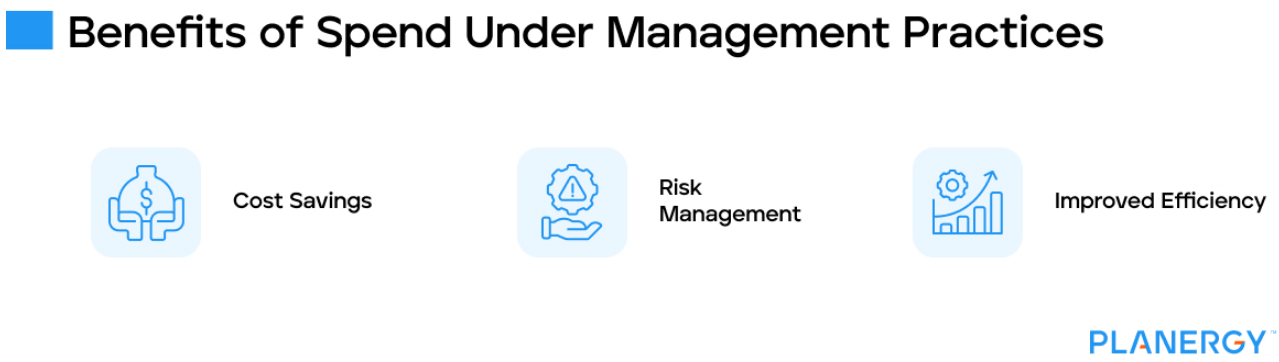
  Moreover, SUM can also help mitigate regulatory compliance risks and reputational damage.

Improved Efficiency

Finally, having more spend under management can improve your organization's efficiency.

When you streamline and standardize procurement processes, it reduces the time and effort your procurement must spend managing purchasing activities.

This leads to direct cost savings and allows your staff to focus on more strategic, value-adding activities.



Challenges of Spend Under Management

While the benefits are clear, implementing SUM is not without its challenges.

Resistance to Change

One of the most common challenges in implementing Spend Under Management is dealing with organizational resistance to change.

This resistance can come from various departments and levels, as employees may be comfortable with existing processes and wary of new procedures or technologies.

Overcoming this obstacle requires clear communication about the benefits of SUM, as well as training and ongoing support during the transition.

Lack of Data Visibility

Another significant challenge is the lack of visibility into spending data. It’s difficult to establish effective management strategies without a clear understanding of where and how money is being spent.

This issue is often due to disparate systems, decentralized purchasing, or inadequate reporting capabilities.

Organizations may need to invest in advanced procurement software or develop centralized purchasing processes to overcome this.

Significant Time and Resource Investment

Implementing SUM also requires a substantial investment of time and resources.

It involves analyzing current spending patterns, developing a strategic sourcing plan, negotiating contracts with suppliers, and monitoring compliance.

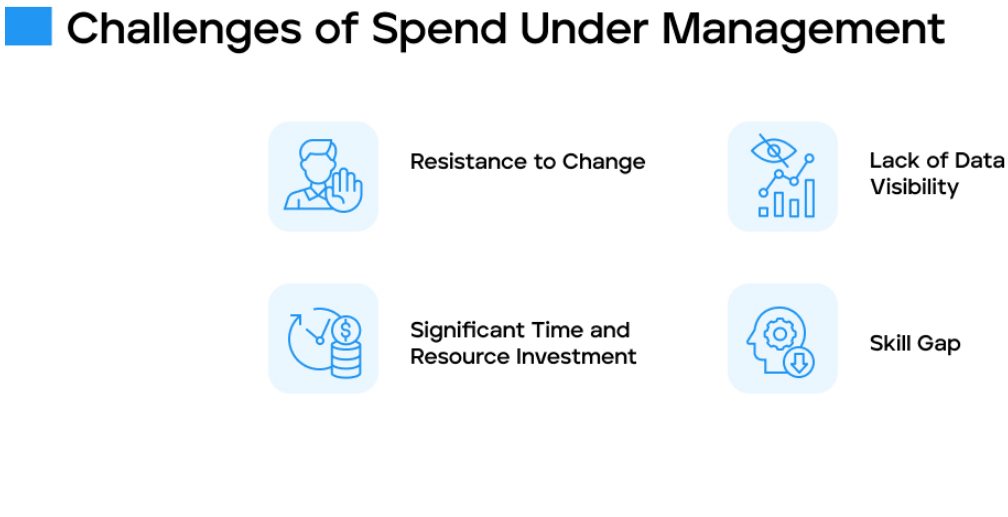
While these efforts can yield significant returns in the long run, they do require upfront investment and commitment.

Skill Gap

There may be a skill gap in the organization when it comes to procurement and spend management.

Not everyone has the expertise to analyze spending data, identify savings opportunities, and negotiate contracts effectively.

This challenge can be addressed by providing necessary training to the team or hiring procurement professionals with the required expertise.



Best Practices for Implementing Spend Under Management

Here are some best practices to consider when implementing SUM:

Establish Clear Goals and Metrics

Before you begin implementing Spend Under Management, it’s essential to establish clear goals and metrics. What exactly do you hope to achieve with SUM?

This could be reducing costs, mitigating risks, improving efficiency, or a combination of these.

Once you’ve defined your goals, determine how you will measure success.

This could involve tracking cost savings, compliance rates, or other key performance indicators (KPIs).

Having clear goals and metrics will provide a roadmap for your implementation and help you stay on track.

Centralize Procurement Processes

Another best practice for implementing SUM is to centralize your procurement processes.

When purchasing is decentralized, it can lead to inefficiencies, lack of visibility, and increased risk.

By centralizing procurement, you can have more control over spending, negotiate better terms with suppliers, and ensure compliance with procurement policies.

- ## Invest in Technology

Investing in the right technology can also significantly impact your SUM efforts.

Procurement software such as PLANERGY, can automate many tasks involved in managing spend, such as tracking purchases, analyzing spend data, and monitoring contract compliance.

Using automation, you can free up time for your team to focus on strategic activities and improve the accuracy and efficiency of your spend management efforts.

- ## Provide Training and Support

Implementing SUM often involves changes to existing processes and procedures, which can be challenging for staff.

Providing training and support can help ease this transition.

Ensure your team understands SUM’s benefits, how to use new tools or technologies, and what’s expected of them.

Ongoing support can also be beneficial, as it allows for continuous learning and improvement.

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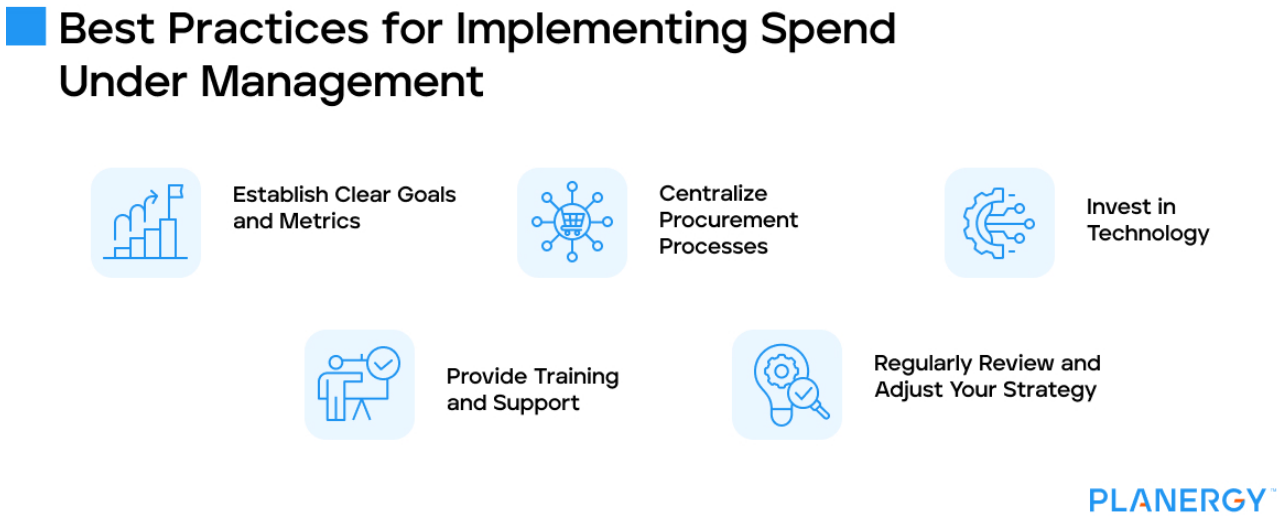
- **Regularly Review and Adjust Your Strategy**

  Finally, it’s important to review and adjust your SUM strategy regularly.

  Spend patterns can change over time, and what worked well initially might not be as effective later.

  Regular reviews via spend analysis allow you to identify any issues, assess the effectiveness of your strategy, and make necessary adjustments to your supplier management processes.

  This ensures that your SUM efforts continue to deliver value over the long term.



Why This is Crucial for Procurement Leaders

Understanding and effectively managing your company’s spending can lead to significant cost savings, improved efficiency, and reduced risk.

Whether it’s addressable spend, unmanaged spend, or implementing Spend Under Management, each aspect plays a crucial role in your overall procurement strategy.

By establishing clear goals, centralizing procurement processes, investing in

technology, providing training, and regularly reviewing your strategy, you can take control of your spend and drive your business towards greater financial success.

Remember, every dollar saved through effective spend management is a dollar added to your bottom line, which improves the ROI on your procurement function.

What's your goal today?

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