

Tail Spend Analysis: What Is It, How To Perform It, and the Benefits



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Tail spend analysis is an important tool for businesses looking to optimize spending and ensure their supply chain runs efficiently.

Tail spend analysis helps companies identify areas of spend that are falling through the cracks, allowing them to make more informed decisions and achieve greater savings.

In this blog post, we'll cover what tail spend analysis is, its benefits, how to develop a plan for it, how to analyze data and trends, and how to best leverage tail spend analysis to improve efficiency.

Introduction To Tail Spend Analysis

Tail spend analysis examines a company's spending patterns and identifies opportunities to reduce costs and improve efficiency.

It's an important part of any organization's financial management, as it helps identify wasteful spending and uncover potential savings.

Tail spend analysis helps companies identify areas of spend that are falling through the cracks and gain visibility into their overall spending.

By understanding where their money is going, companies can make more informed decisions, reduce waste, and save money.

The process of tail spend analysis involves analyzing data from various sources, including supplier invoices, purchase orders, contracts, and other financial documents.

Having the right information and insights is important to make the most of tail spend analysis.

Defining Tail Spend

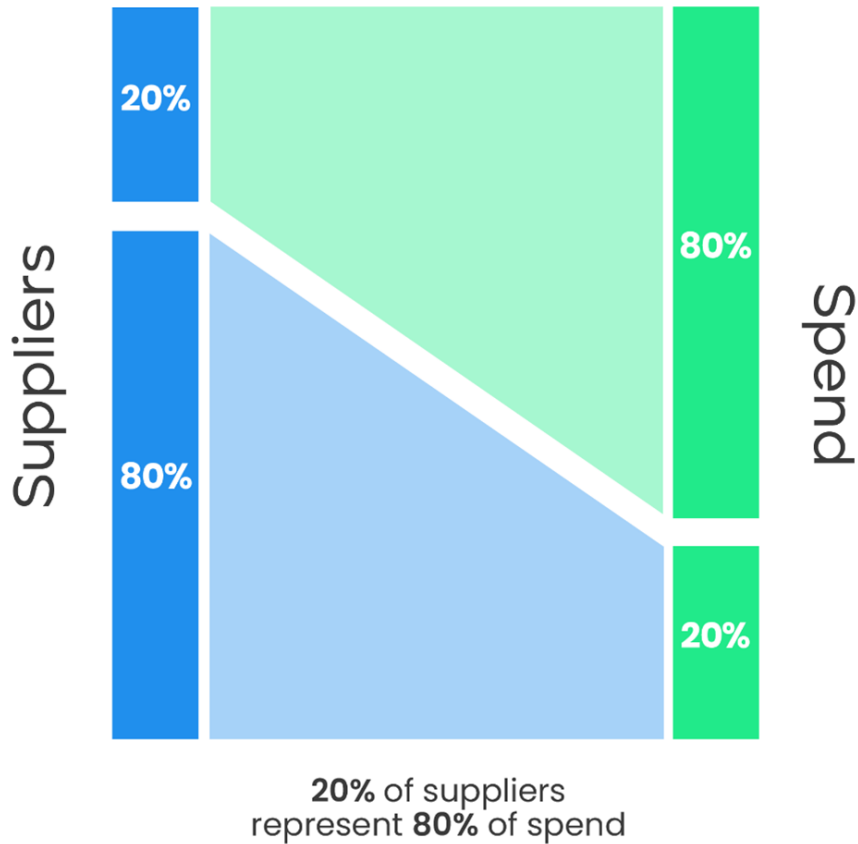
Tail spend is a term used to describe the small, often overlooked purchases made by an organization. It's typically low-value, high-volume purchases made in areas such as office supplies, shipping, and travel.

While these purchases may seem insignificant when taken individually, they can make up a sizable portion of a company's total spend.

Tail spend follows the Pareto principle - the idea that 80% of a company's spending can be connected to 20% of the supplier base.

The long-tail is where the majority of purchases occur.

■ Pareto Principle in Procurement



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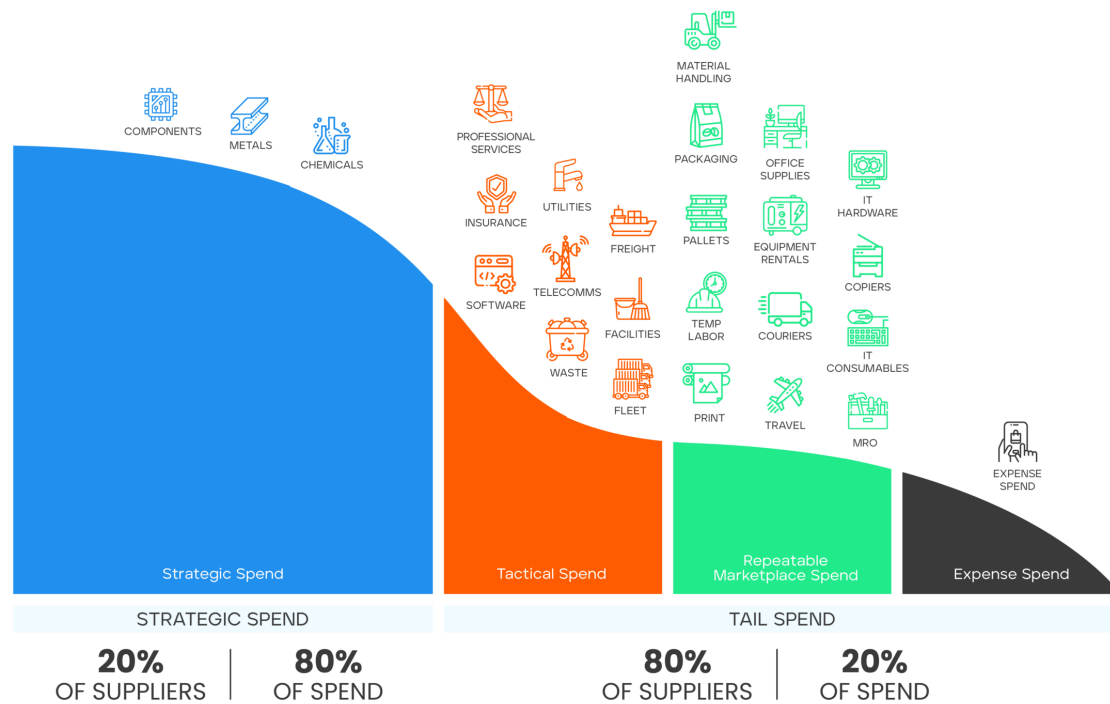
Tail spend should not be confused with maverick spending, which is non-strategic spending that occurs outside of an established internal process.

It's also not the same as spot buying, which is the unplanned, one-time emergency purchase of a small, inexpensive, infrequently used item.

Tail spend is often unmanaged spend because it's spread out across multiple departments and suppliers. This can make it difficult to track and manage.

However, this doesn't mean it needs to be ignored. Tail spend can be an important source of savings and efficiency gains.

What Is Tail Spend?



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Benefits of Tail Spend Analysis

Tail spend analysis offers several benefits for businesses.

By understanding their spending patterns, companies can gain visibility into their overall spending and ensure they get the best value for their money.

Tail spend analysis also helps procurement professionals identify areas of wasteful spending and uncover potential savings.

This can lead to cost reductions and increased efficiency, helping businesses reduce their operational costs and increase their profits, which is good for the bottom line.

Tail spend analysis can also help companies identify opportunities for consolidation and standardization. This can lead to improved relationships with suppliers and greater savings.

Finally, tail spend analysis can help companies better understand their purchasing patterns and identify areas where they can make more informed

decisions, leading to better supplier relationships and more efficient purchasing processes.

Tail Spend Analysis Best Practices

There are several best practices to keep in mind when conducting tail spend analysis. Companies should:

- Set clear goals and objectives for the initiative
- Define the scope of the analysis
- Analyze data from multiple sources
- Identify trends and opportunities for savings
- Establish metrics to track progress
- Leverage insights to improve efficiency in the procurement process.

Tail Spend Analysis Best Practices



Set clear goals and objectives for the initiative



Define the scope of the analysis



Analyze data from multiple sources



Identify trends and opportunities for savings



Establish metrics to track progress



Leverage insights to improve efficiency in the procurement process

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By following these best practices, companies can ensure they get the most out of their tail spend analysis.

When left unmanaged, tail spend can cost an organization millions of dollars. Managing tail spend is a worthy investment of time and resources.

Establishing Tail Spend Analysis Metrics

Companies should establish metrics to measure their progress to ensure they get the most out of their tail spend analysis.

This will help them track their efficiency and identify areas of improvement.

Common metrics for tail spend management include:

- Cost savings
- Number of suppliers used
- Number of contracts renegotiated (contract management)
- Number of items consolidated
- Number of items standardized

■ Tail Spend Metrics To Measure Success



Cost savings



Number of suppliers used



Number of contracts renegotiated



Number of items consolidated



Number of items standardized

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By tracking these metrics, procurement functions can get a clear picture of their progress and identify areas for improvement.

Developing a Tail Spend Analysis Plan

To make the most of tail spend analysis, it's important to develop a plan.

Companies should identify the goals and objectives of their analysis, the data sources they will use, and the metrics they will measure.

It's also important to define the scope of the analysis. Companies should decide which categories of spend they want to focus on, such as office supplies, travel, or shipping.

This will help them narrow down the data and focus their efforts.

Once a plan is in place, companies should develop a timeline to ensure they stay on track and meet their goals, to help them stay organized and continue making progress.

Analyzing Data and Identifying Trends

Spend analysis is the art of extracting useful information from your spending data. It can help your company make better business decisions and avoid unnecessary waste.

However, it is also very time-consuming. A proper plan should be implemented to make the process as efficient as possible.

Spend analytics involves classifying your spending data, identifying relevant trends, and implementing solutions that improve your purchasing power.

This can help you to understand your expenditures and budgets and identify cost reduction opportunities.

Spend analytics can be performed by hand or with the help of software. Using data visualization tools, you can explore spend data and discover hidden insights.

Tools often have an intuitive interface that allows non-technical users to build customized dashboards and explore data in real time.

Getting your spend data in order is a key first step in any spend analysis project. Clean spend data will enable you to analyze and improve your spending quickly.

Once a plan is in place, companies should begin analyzing their data. This involves looking at spending patterns and identifying areas of potential savings.

Companies should look for trends in spending, such as overspending on certain items or underutilizing certain suppliers.

Companies should also look for opportunities for consolidation and standardization. This can help them streamline their processes and reduce costs.

It's important to remember that tail spend analysis is an ongoing process. Companies should regularly review their data and update their plan as needed.

• **Identify Your Supplier Base**

When conducting a tail spend analysis, it's important to understand your supplier base. Tail spend is often overlooked as a source of significant savings.

But when properly managed, it can save an organization up to 15 percent of its total procurement spending.

It can also help improve the employee experience. If your employees aren't happy with the quality of products they receive from your suppliers, they're likely to be less productive.

You'll also be able to eliminate obstacles like delivery delays.

As many B2B businesses have learned, it pays to consolidate your supply base. Many suppliers are now working as aggregators. This means they're expanding their business offerings to fulfill customer demands.

The best way to identify your supplier base is to conduct a comprehensive spending analysis. To do this, you'll need to gather information on all spend data sources. Spend analysis includes grouping spending into standardized categories and cleaning data for errors.

After gathering all your data, you can categorize your expenditures and identify specific small purchases.

Categorizing your spending data by department or type of spend (direct vs. indirect spend) will help you achieve sustainable cost reduction with more strategic purchasing.

Segmenting “Major” Spend from “Tail Spend”

For most procurement teams, this can be a daunting task. However, it’s also an opportunity to create a competitive advantage. Companies often make a multitude of purchases, some of which may not be worth the time or cost.

While not a magic pill, many steps can be taken to improve the process and reduce costs.

Some key points to remember include the importance of data collection and establishing a process to follow. This can include a combination of technology and training.

A good way to start is by examining the various spend categories within your organization. This will give you an idea of where to focus your efforts.

Spend in areas such as direct purchasing and indirect purchasing can be especially beneficial.

▪ **Reducing the Number of Suppliers in the Tail-End**

Companies can reduce the number of suppliers in the tail-end of their supply chain through digital tools and a well-established procurement framework.

This can help them save time and money while maintaining quality and compliance with business policies.

For instance, one manufacturing company found hundreds of duplicates in its supplier list. The team used an algorithm to identify these duplicates and eliminated them from their RFQ.

They found that their costs could be reduced by about 30%. Another example involves a global chemicals company. By bundling materials with

- strategic suppliers, they can get better prices, less lead times, and

reduced quality issues, making stakeholders happy.

However, switching suppliers can be difficult. Suppliers often need approval from production, R&D, or quality control. When a new supplier is brought in, they must understand the product or service's value to the company.

Leveraging Tail Spend Analysis To Improve Efficiency

Once companies have identified areas of potential savings through tail spend analysis, they can leverage these insights to improve their efficiency.

This can involve renegotiating contracts with suppliers, consolidating suppliers, standardizing processes, and streamlining operations.

For example, a company may renegotiate contracts with suppliers to get better pricing. Or, they may consolidate suppliers to reduce the number of vendors they manage.

By taking these steps, companies can reduce their costs and improve their efficiency. This can lead to increased profits and a more streamlined supply chain.

How To Automate Tail Spend Analysis

Tail spend analysis can be a time-consuming and labor-intensive process. To make it easier, companies can leverage technology to automate the process of spend analysis.

Automation tools can help companies quickly and easily analyze their data and identify areas of potential savings. They can also help automate supplier contract negotiation and data analysis processes.

PLANERGY's procurement system helps you with tail spend analysis with our comprehensive spend management tools and spend analysis software. Our tools make it easy to track spending, analyze data, and identify opportunities for savings.

Our tool can be used to support strategic sourcing efforts and help the procurement department maximize budgets while reducing low-value transactions and one-off purchases.

Tail spend analysis is an important tool for businesses looking to optimize their spending and ensure their supply chain is running efficiently.

It can help companies identify areas of wasteful spending and uncover potential cost savings.

By developing a plan for tail spend analysis, analyzing data, and leveraging insights to improve efficiency, companies can reduce their costs and increase their profits.

Automation tools can also make the process easier and more efficient.

What's your goal today?

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