

# What Is Spend Management? And Is Agile Spend Management the Future?



A variety of factors contribute to the financial health, competitive strength, and overall long-term success of your business.

One of the most important is how you choose to manage the process of transforming the money flowing in from sales, investors, and other funding into not just goods and services to sell, but value.

Traditionally, the concept of *spend management* was restricted to slashing costs wherever possible, with every business unit or department having its own approach to achieving that goal.

The burgeoning impact of digital transformation has changed those priorities—and the way many companies, big and small, view their procurement teams.

The spend management process has grown in importance as more companies seek to reorient procurement for proactive value generation, risk reduction, and strategic support, rather than simple cost savings.

And as more procurement teams search for ways to transform spend management and their departments' role within their organizations, they are relying on emerging technologies to ensure this new approach to spend management is not simply more cost effective, but truly agile.

## Modern Spend Management Defined

In days gone by, the concept of spend management boiled down to shaving pennies on unit costs and multiple cost managers scattered across each organization finding their own paths to minimizing the expense of doing business.

In fact, cost savings continue to play a very prominent role in the procurement function. A 2023 survey of chief procurement officers (CPOs) by financial services and research firm Deloitte found it remains the number four priority (71%) for the CPOs surveyed.

But those same CPOs also cited driving operational efficiency (74%), enhancing ESG/CSR (72%), and digital transformation (72%) as more critical priorities for their organizations.

With these priorities driving policy and Big Data providing a veritable cornucopia of useful information just waiting to be turned into insights, spend management's evolution seems both natural and necessary.

Modern spend management is contextual *and* centralized, not scattered and siloed; collaborative, not competitive; and strategic, not tactical.

It includes supplier management, category management, and contract management not just for individual areas, but for the entire organization.

This approach—sometimes referred to as *360° spend management* or *closed-loop spend management*—is designed to help procurement generate value by:

- Providing valuable insights via centralized, transparent data management and real-time data analysis
- Cost savings and risk reduction through process optimization, integration of systems, and continuous improvement.
- A more agile competitive footing and protection of business continuity through implementation of spend management best practices.

To meet these goals, procurement teams make sure their spend management process includes:

- Risk mitigation through internal controls, supply chain optimization, and process automation.
- Robust supplier relationship management for consistent availability of essential materials and services.
- Effective cost savings through intelligent contract negotiations and management.
- Integration with finance and other departments to ensure accurate cash flow forecasts, financial reporting, budgeting, and strategic planning.
- Careful attention to intangible value sources like environmental and social responsibility, as well as reputational risks.

Sourcing and procurement team members walk a fine line to strike a balance between these interlocking factors and achieve the goals that help organizations thrive.

*Modern spend management is centralized, not scattered; collaborative, not competitive; and strategic, not tactical. It includes supplier management, category management, and contract management not just for individual areas, but for the entire organization.*

## **Essential Spend Management Concepts**

With visibility into and control over the ways in which a company names, organizes, and manages the countless goods, materials, and services that make up its direct and indirect spend, procurement departments don't have a single process called "spend management."

Instead, the term refers to the overall approach; the paradigm for meeting the goals that best support the organization's growth, profitability, and competitive advantage.

No two companies are exactly the same, but in general the spend management process will involve some or all of the following concepts:

## 1. **Source to Pay (S2P)**

The complete process of researching, selecting, and contracting a specific supplier to meet a specific need. Some of the tasks involved include:

- Strategic sourcing.
- Contract negotiation.
- Invoicing workflows.
- Approval workflows.
- Verification via three-way matching.
- Vendor payment.

## 2. **Source to Contract (S2C)**

The strategic component of identifying and choosing the right supplier for specific goods and services. Some of the tasks involved include:

- Spend analytics (e.g., historical spend patterns).
- Supplier compliance and performance evaluation—often through the use of vendor management key performance indicators (KPIs).
- Advanced strategic sourcing methodologies, based on intelligence gathered from various sources (e.g., industry trends, competitor activity, customer buying habits, ecological concerns, etc.).
- Requesting, receiving, and reviewing requests for proposal (RFPs), requests for quotations (RFQs), and Requests for Information (RFIs).
- Negotiations for both short- and long-term contractual engagements.

## 3. **Procure to Pay (P2P)**

The partnership between the procurement department and accounts payable finds full flower in procure to pay process, which covers every step of every purchase, from the initial purchase order to the final invoice payment. Overlaps with S2P, but is limited solely to the transaction and does not include sourcing.

## **Procure to Invoice (P2I)**

This is not a distinct process, but rather a practice used by some businesses that require employees to create a purchase requisition and have it approved in order to kickstart the P2P process with a purchase order.

### **5. Invoice to Pay (I2P)**

Like P2I, this is a sub-process of the larger P2P process. It covers the controls and workflows used between the receipt of a vendor invoice, its review, approval or rejection, and final payment.

## **The Impact of Digital Transformation on Spend Management**

Procurement is, by its very nature, cyclical. Your company spends money on materials, goods, and services in order to produce products and services of your own; money flowing in from sales and other sources is reinvested, and the cycle starts all over again.

This cycle is the “loop” that’s at the heart of modern closed-loop spend management, and optimizing it to achieve your organization’s goals takes more than just good intentions.

Powerful technologies driving digital transformation in many other areas of business—artificial intelligence (AI), advanced data analytics, and process automation—are also the foundation of digital transformation in procurement in general, and spend management in particular.

Whether companies seek a full S2P approach or like to mix things up with distinct (albeit integrated) solutions for S2C and P2P, competing effectively requires the right tech tools as well as effective strategies and internal controls.

When everything works together, the dream of transferring the benefits of agility and/or leanness to both procurement and the organization as a whole is suddenly much closer to reality.

# Agility in Spend Management

Achieving this synergy requires a nuanced approach that's beyond the capabilities of (for example) pen-and-paper document management or siloed applications that share a server but not information with one another.

It also requires a measure of education and training, along with transformation of corporate culture to embrace the concepts of maximum efficiency, data-driven strategies, and unending, iterative improvement.

Last-generation spend management solutions to this challenge moved the formerly fractured procurement teams into centralized, monolithic enterprise resource planning (ERP) and material requirements planning (MRP) suites.

This shift produced an immediate benefit in the form of cost savings created by greater negotiation strength (through economies of scale), as well as more strategic financial planning based on greater transparency into spend data.

Trading dozens of little "wheels" for one big one, however, was not necessarily an optimal solution in itself, particularly with regard to spend analysis and supply chain management.

The obvious benefits of organization-wide spend management aside, every department and business unit also has potential "tweaks" it can make to its own spend in order to achieve smaller, yet crucial, savings and value generation of their own.

Added up, these individual, contextual improvements accumulate into organizational value.

Rather than one big wheel or dozens of tiny ones, modern spend management consists of a massive centralized wheel whose gears mesh with all the smaller wheels inside it; as with a Swiss watch, each departmental "cog" supports both its own processes and the movement of the whole.

The finer and more accurately each wheel spins, the more accurate, and useful, the "clock" becomes.

The secret to building such a timepiece of commercial enterprise lies in

technologies that allow for both centralized data management and contextual modifications of countless iterative processes to provide localized savings and value.

Modern procurement software solutions like PLANERGY make agile spend management possible through:

- **Enhanced collaboration and communication**

Centralized data management and mobile-friendly, real-time multi-platform access means stakeholders can analyze, manipulate, and share information more effectively. The data they share is more complete and accurate, too, with full spend visibility supporting better forecasts, decision-making, and strategic planning.

- **Elimination of wasted time and money**

Process automation connects data sources, shortens cycle times, and eliminates the delays and human error that come with manual workflows. Staff spends more time on strategically valuable tasks instead of data entry, chasing exceptions, or other time-consuming, high-volume, low-value tasks.

Purchase orders are accurate, complete, and approved in a timely fashion. Invoices are processed faster; more discounts are captured; additional savings opportunities emerge through strong vendor relationships.

In addition, centralized contract management and a closed buying environment eliminate rogue spend and invoice fraud and let you leverage economies of scale while still making incremental adjustments to purchases for individual budgets, projects, departments, or business units.

- **Flexible, contextual, and efficient business strategies**

More accurate data makes for more accurate forecasts, more actionable insights, and more strategic sourcing, spending, and planning. Data analysis reveals new opportunities for investment and innovation, as well

as contingency development to help preserve business continuity when disruptions or disasters occur.

## ▪ **Making procurement a value center for your business**

Process optimization and implementation of continuous improvement, along with other agile practices, creates a shield against needless risk and a consistent source of value, even in uncertain times.

# **Leverage Agile Spend Management for Greater Competitive Strength**

Procurement is moving into the spotlight as companies battle for streamlined business processes, better competitive advantage, and a bigger bottom line.

With a well-developed spend management plan, and support from the right digital transformation tools, you can make sure your procurement team is ready for prime time, and a starring role in your company's bright future.

## **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 "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.

Book a Live Demo

## **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.

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**