Taming the long tail: Is the key to unlocking procurement value hiding in plain sight?

Can procurement teams add more value by taming their organisations' long-tail spend?

The opportunity

Procurement teams have historically focused on the risks associated with high-value activities. But advances in technology, increased commercial pressures, and procurement's emergence from a back-office function have expanded both the profession's scope and the expectations of internal stakeholders.

One of the greatest opportunities for procurement to have impact lies in long-tail spend, the large volume of lower-value sourcing that happens across an organisation. Lower-value sourcing is typically categorised as being below $500k in the private sector or below $150- $250k in the public sector. It is not uncommon for the long tail to account for 40-60% of total procurement spend, and for over 90% of the volume of sourcing events.

Addressing this large band of sourcing activity has the potential to add significant value to the business, to mitigate risk, and to elevate procurement's position within the organisation.

- A 2018 case study found that decentralised low-value sourcing could be harnessed to deliver an average of 9.74% worth of savings.

- Long-tail spend is often not subject to due diligence and thorough procurement processes, which means transparency, governance, or probity can be lacking. Repeated use of the same suppliers can drive prices up and reduce innovation.

- Procurement teams are striving for more visibility and influence within their organisations, but this cannot be achieved unless the function takes control of sub-threshold spend. In leveraging this spend, procurement can drive strategic value and address social initiatives such as local sourcing or sustainable procurement.

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The challenges

Long-tail spending is sometimes dismissed as being unimportant because it typically comprises low-value and low-risk activities. As a result, the responsibility for managing it falls to operational staff.

Is the solution to the challenges of managing long-tail spend simply to put a stop to decentralised procurement? Definitely not.

Decentralisation ensures that procurement workloads stay manageable and enables subject matter experts to do their own purchasing. What must be re-examined, however, is how decentralised buyers manage the sourcing process.

Challenges that arise with decentralised buying include:

- *Behaviour* – Buyers often take the path of least resistance and use manual processes, such as email and spreadsheets, to manage suppliers.
- *Scaling* – vast amounts of data are hidden in emails and spreadsheets, making it difficult and time-consuming to retrieve information or gain insights.
- *Process* – Manual discovery processes constitute a compliance risk.
- *Policy* – Buyers may not consider higher-level procurement principles such as seeking best value or CSR over lowest price.

Take control

Procurement should endeavour to make it easy for buyers to do the right thing when they make purchases.

User-friendly procurement software, specifically designed for decentralised sourcing, can play a part in giving procurement total visibility of decentralised sourcing. These solutions are most effective when integrated into enterprise P2P or ERP solutions to deliver appropriate controls, data management, and visibility - with the benefit of transparency and greater value in upstream low-value sourcing.

Procurement would continue to let the vast majority of transactions take place without intervention, but has the option to get involved and mitigate risk in real time should concerns arise. Red flags that would prompt procurement to get involved might include the risk profile of a purchasing decision or unusual costs, such as a supplier being three times more expensive (or less expensive) than others.

Want to learn more about getting control of your long-tail, decentralised procurement spend?

Get in touch today