



TAIL SPEND MANAGEMENT



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Introduction

Tail spend management has become a key strategic focus for procurement groups across all industries. While this is a key challenge across categories, it is particularly prominent in categories with numerous SKUs, fragmented supply base, frequent low value and one time purchases, and frequent non-standard requirements resulting in reduced spend visibility, increased administrative cost and complexity.

Business models like integrators, managed service providers and e-marketplaces have developed an array of technology and service capabilities that align with strategic initiatives of procurement groups for tail spend management. This article explores tail spend management trends in categories where tail spend is a persistent challenge.



GLOBAL MRO TRENDS¹

Global MRO trends

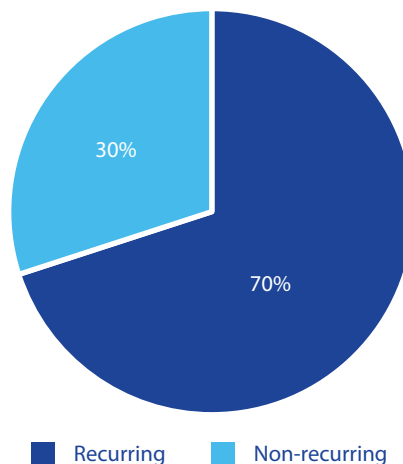
The MRO industry is expected to grow at a CAGR of 4.6% till 2021 owing to the growth in the global manufacturing sector. Major trends include, proliferation of catalogue pricing, implementation of AI for inventory management, demand forecasting and increasing services among suppliers focusing on total cost management.

Industry-wide key tail spend challenges

Large companies typically procure MRO products and supplies from hundreds of vendors resulting in a long tail. Most of this is usually small MRO items required for immediate and/or unplanned needs. Long tail challenge is further aggravated when companies prefer local procurement

from small scale suppliers owing to their closer proximity to the plant or to avoid the effort to evaluate, negotiate and onboard preferred suppliers. This results in fragmented purchases leading to higher transaction volumes and increased complexity.²

Global MRO Spend

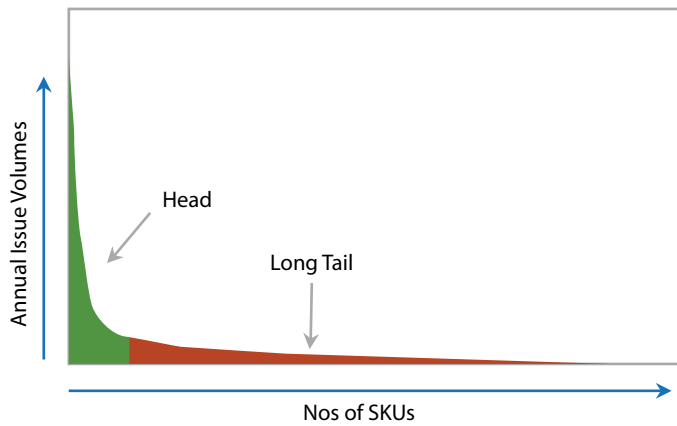


On a global scale it is observed that 30% of the MRO purchases are non-recurring in nature, however this accounts for 85% of the SKUs. Hence, streamlining the sourcing channels, standardizing the MRO supply requirements, and effective inventory management are vital for MRO optimization.

Lower spend value to volume ratio with higher number of SKUs leads to a longer tail leading to increased time and effort requirement towards the procurement process.

1. <https://www.technavio.com/pressrelease/mro-equipment-and-supplies-market-forecast-and-trend-analysis-until-2021>

2. <http://spendmatters.com/uk/tail-spend-management-how-does-it-work/>



Less than 15% of the parts fall in head: it is easy to develop the stocking policies for these parts

More than 85% of the parts fall in tail: the demand pattern for these parts is lumpy: the lumpy demand poses difficulty in identifying the correct stocking model

Trends in tail spend management for MRO

Key Trend	Description	Impact
Growing use of integrators	Integrators manage end-to-end procurement related operations, offer inventory-optimization and assist in achieving lower cost of ownership	Use of integrators in MRO help drive significant savings through SKU optimization, supplier reduction, and better pricing through volume aggregation. Consolidating spend with integrators could reduce cost by 2-10%
Increasing use of marketplaces	Large organizations are increasingly relying on e-marketplaces	Use of marketplaces helps in reducing maverick spend significantly, improve adoption of approved suppliers, bring spend under management, provide competitive choices and reduce price
Supply chain collaboration	Advancement in Computerized Maintenance Management System (CMMS) is allowing service providers to locate critical components and services globally	CMMS brings improved efficiency, reduces lead time and drives savings ³

3. <https://www.bcg.com/en-in/publications/2016/lean-manufacturing-sourcing-procurement-more-spare-change-capturing-mro-advantage.aspx>



GLOBAL MARKETING TRENDS⁴

Digital marketing is the biggest trend for the category. Relying on analytics and customer profiles in marketplaces like Alibaba, Amazon and social-media sites like LinkedIn and Facebook, the scope of marketing has increased both in target accuracy and returns on investment.

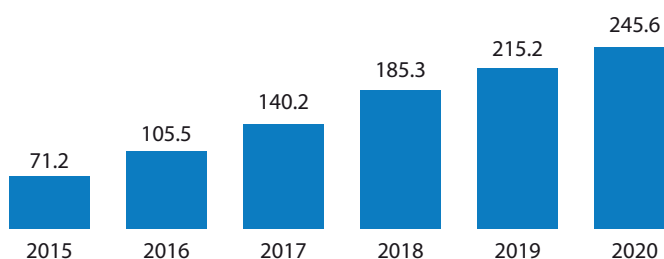
Industry wide key tail spend challenges

Tail spend in the marketing category is a challenge for companies with a large product portfolio and many sub-brands. The key challenge is to include regional specific marketing strategies. The Consumer Packaged Goods (CPG) industry, for instance, has average spends on marketing that are in excess of 14%.



Globally mobile advertisement spend is expected to reach USD185 billion in 2018. This is expected to enable higher efficiency in target marketing, improving the overall ROMI (Return on Marketing Investment)

Global mobile internet advertising spends: 2015 to 2020



Trends in tail spend management for Marketing

Key Trend	Description	Impact
Critical audit of all marketing spends	Audits are conducted to understand the spend levels and Return On Marketing Investment (ROMI)	Buyers are looking to reduce their marketing tail from 20% to ~10%
Early involvement of procurement organizations in marketing planning and design	Ensuring all marketing purchase requirements are routed through procurement organizations by involving them in the design stage	Opportunity to consolidate requirements with existing contracted and centrally managed suppliers, increasing both efficiency and volume discounts
Online supplier marketplace	Proliferation of service providers with targeted capabilities (SEO, digital campaigns) have made the supply base for digital marketing services fragmented. Relying on supplier marketplace enables companies to quickly assess the capabilities of various suppliers and identify and engage with suitable partners	Pricing transparency and benchmarking. Shorter P2P turn-around time.
Sourcing helpdesk	A full-time sourcing helpdesk provided in-house or by a third party can perform as the one-stop-shop for all sourcing and procurement queries	Increased proliferation of catalogue managed spending

4. <https://www.statista.com/stats/digital%20marketing>

Best Practices in Managing Marketing Tail Spend

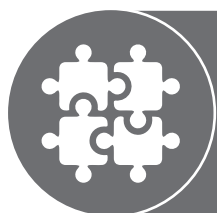
Sub-category	Presence of Tail Spend	Presence of Aggregators/ end-to-end global vendors	Aggregator Maturity in Emerging Markets	Feasibility of Establishment and use of Local vendor contracts	Presence of Marketplaces	Use of Spot-buy	Others Strategies for Reducing/ Managing Tail
Activations and Promotions	High	✓	Medium	High	✓	✓	E-auctions
Point of Sale Materials (POSM)	High	✓	Low	High	✓	✓	Local POSM contracts - directly or through associate printers
Printed Material	High	✓	Low	High	✓	✓	Local printer contracts -directly or through associate printers
Ad-hoc Research	Medium	✗	Low	High	✓	Yes	In-house, online
Creative Services	Medium	✓	Medium	High	✓	✓ (for freelance creative services)	
Broadcast Advertising Placement	Low – Medium	✓	Low	High	✓ (Programmatic could be considered as a marketplace for spot prices)	✓	
Advertising Agency	Low – Medium	✓	Medium	High	NA	✓	
Interactive (Digital)	Low – Medium	✓	Medium	High	NA	✓	
Public Relations (Marketing)	Low – Medium	✓	Low – Medium	High	NA		Establish local contracts for regulatory and crisis management
Brand Design	Low	✓	Low	High	NA	✓	



GLOBAL FACILITY MANAGEMENT (FM) TRENDS



Proliferation of apps, Artificial Intelligence (AI) and IoT in facility management is enhancing efficiency and reducing operational expenses. Efficient energy utilization and environmental compliance is expected to further drive the proliferation of technology in FM.



Industry-wide key tail spend Challenges:

Typically, all industries experience a long tail in FM. The tail is primarily driven by non-contracted services and lack of visibility on costs.

Trends in tail spend management for MRO

Key Trend	Description	Impact
Workflow Management Solutions	<p>One of the basic factors that lead to long tail spend is lack of complete visibility into spend data, and absence of an integrated platform that offers all the data in one place without having to check for redundancy and mismatches</p> <p>Workflow management solutions offered by companies enables the processes of sourcing, risk compliance, work-order management, tracking maintenance activities, invoice management and data management; making it less complex and increasing visibility</p>	This increased visibility helps in understanding the potential opportunities to consolidate supply base
Integrated Facilities Services	<p>Integrated Facilities Management (IFM) services have been increasingly adopted in the past 15 years, and many of the large multinational companies are moving towards establishing a long term relationship with one or two selected strategic suppliers for all the FM services across sites/regions</p> <p>The top FM providers have the capability to offer IFM services covering most of the services across the globe</p> <p>They self-deliver most services, and they can also subcontract the niche services that are currently not offered by them</p>	This helps in consolidating a major part of the tail spend that arises due to non-compliance, and using many suppliers for the same type of services
Real Time Data and Analytics	<p>The financial, operational and strategic visualization dashboards created with real time data helps in managing multi-site locations effectively</p> <p>This helps understand the compliance issues in procurement e.g. purchasing from a non-preferred vendor, supply chain issues with the chosen vendors e.g. longer lead times, and other relevant issues with respect to finance and operations</p>	This enables efficient management of the tail spend that cannot be consolidated further



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