

REDEFINING TAIL SPEND TO REACH HIGHER LEVELS OF PROCUREMENT

Abstract

For organizations implementing new procurement systems, tools, and processes to support their long term mission, tail spend becomes an important category which cannot be overlooked. But what if an organization lacks a systematic method to look after this category? This case study talks about how Infosys BPM defined the client's tail spend management (TSM) strategy which helped the client identify potential benefits of \$62Mn.



Client landscape

The client is one of the leading global pharmaceutical companies based out of Japan. The client was in the process of implementing new systems and processes to streamline its sourcing and procurement processes in order to have a better control over its \$8Bn spend.

The tale of undefined tail spend

One of the areas which the client was unable to address was the tail spend, which became the roadblock to complement its new way of working. Infosys BPM entered into a 6 months long project to define the client's tail spend strategy, which included the re-classification of spend data and identification of savings opportunities inclusive of quick-win initiatives.

By the end of 2018, the client's procurement processes had matured, and had also started putting the required systems, tools, and an operating structure in place to support active TSM. The client needed to improve its agility in order to make it easier for the business users to buy the required goods and services. The client identified an untapped potential in structuring and systemizing the tail spend processes to gain transactional efficiencies. The client was using more than 60,000

suppliers, which provided opportunities for further consolidation and optimization in the tail segment with more spend, potentially channeled through preferred suppliers. In addition, client's spend data was inaccurate and misclassified, and hence the client needed to get it in the best shape to keep the classification as accurate as possible.

Streamlining TSM with Infosys BPM

Infosys BPM proposed a TSM strategy solution which defined and recommended ways of transforming TSM along with underpinning business case as a 7 months long project. The Infosys BPM team wanted to deliver substantial value to the client through optimizing buying channels and the processes related to tail spend by:

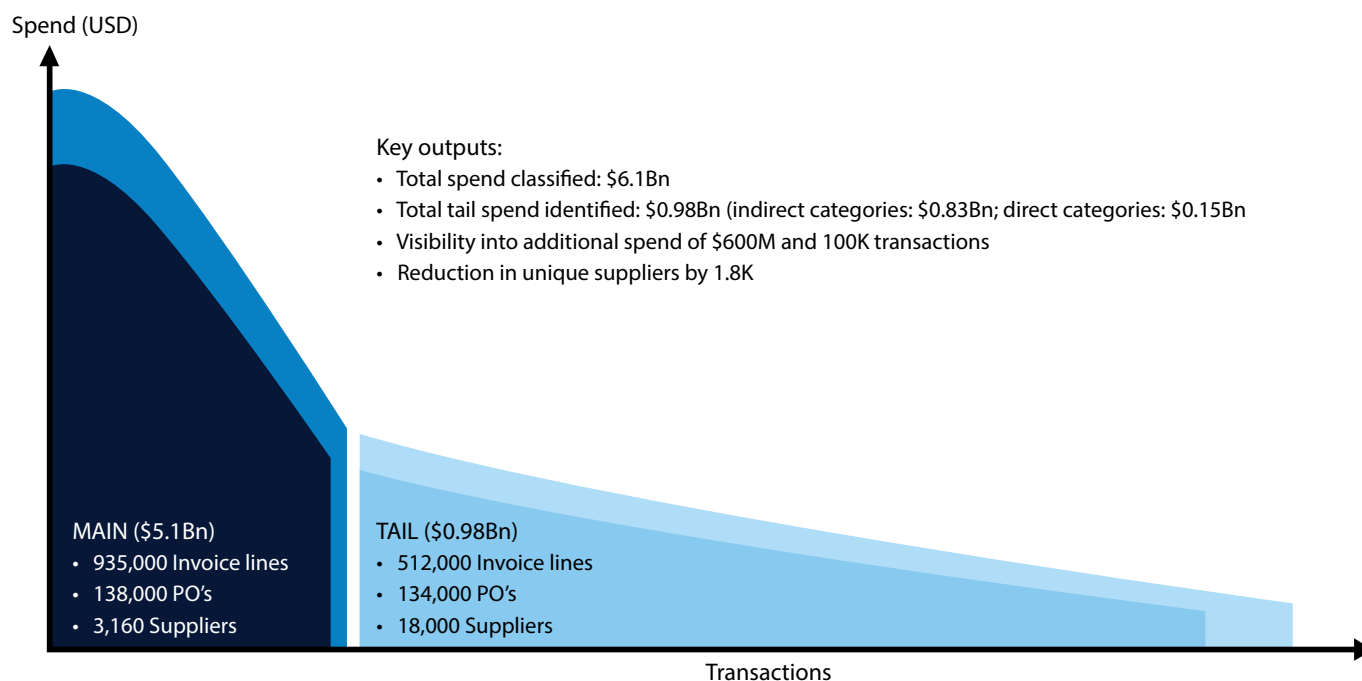
- Ensuring efficient management of all addressable direct and indirect spend segments, and increasing the share of actively managed spend within the organization
- Enhancing 'self-procurement' ability for business stakeholders in order to improve agility by optimizing buying channels and invoice processing

- Consolidating the total number of suppliers and increasing compliance with increased usage of preferred suppliers to drive further cost savings
- Improving data classification accuracy, enabling category managers to make better decisions

To deliver the solution, the team utilized artificial intelligence (AI) led spend analysis tools and several best practice tool kits such as opportunities identification and prioritization framework, buy-pay channel design framework including automated excel tool for commodity segmentation and buy channels assignment.

The key deliverable was a comprehensive end-to-end strategy for global TSM, comprising of the following components:

- Classifying / re-classifying spend of \$8Bn (or 1.5 million transactions)
- Identifying tail spend scope and opportunities lying at different spend, transactional, and efficiency (agility) levels
- Designing buy-pay channel and TSM to-be processes
- Implementing the plan



Note: Total spend re-classified - \$8Bn; for Feb 17 - Jan 18

- The solution helped the client decide on implementation plans to transform TSM over the next one year and with a complete alignment with the procurement and business operations leadership.
- The team also proposed implementing B2B e-marketplaces as an innovative and effective TSM solution, and ran a proof of concept (POC) within pilot countries for marketing services tail spend.



Benefits of an efficient strategy

The TSM strategy solution provided various benefits to the client including optimized buying channels, streamlined processes, and enhanced controls which helped it define the tail spend effectively and re-classify a spend of over \$8Bn. It also provided further benefits such as:

- brought visibility into additional \$600Mn spend (0.1M transactions), which were earlier not classified

- assessed scope and identified the tail as \$0.98Bn from the total spend
- improved user experience with performance enhancement and a self-service mechanism

With the various advantages, Infosys BPM enabled the client to discover multiple opportunities which had the potential savings opportunities of \$62Mn - along with enhanced agility with clear implementation

plans, buy-pay channels design and benchmarking to take the procurement performance to world class levels. As a result, the client was also able to see tangible return on investment becoming possible post-implementation, thereby generating surplus cash flow.

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