

The 7 keys to spend control success



The 7 keys to Spend Control Success

Introduction

Taking control of spend

This guide focuses on the key issues that should be considered when planning a Spend Control project for the first time. The objective of the guide is to properly scope the project to include key areas that are often overlooked.

Setting project objectives:

The 7 keys to spend control success

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1. Insist on a measurable return on investment

There are many definitions of “Spend Control” often depending on which supplier you talk to. So to set the scene, our definition of Spend Control is as follows:

“The automation of the purchasing process that enables an organisation to improve the visibility, accuracy and timeliness of the purchasing and financial function of the business, combined with the ability to achieve quantifiable and sustainable savings by paying less for what is already purchased.”

The key point is that whilst automation of the purchasing function has considerable benefits, it often does not (in itself) deliver savings. It is very important to consider what will be required in terms of resources, expertise and cost to maximise the savings potential, particularly if the business does not employ dedicated buyers.

Often, the cost of recruiting expertise in all areas of sourcing is prohibitive. But alternative approaches are available to achieve the available savings, such as:

- a. the Spend Control Vendor providing access to negotiated, leveraged prices; and
- b. slowing down / redirecting / stopping spend as necessary through proactive budget control.

To set a realistic and achievable expectation, every Spend Control project should have the ambition of 100% cash ROI of less than 12 months. If this is not the case, then rename the project from “Spend Control” to “Purchasing Automation”.

Gartner: reaching sourcing excellence part 5:

“Leveraging vendor volume, uncovering savings opportunities, delivering cost reductions, and negotiating discounts, rebates, and the final contract have long been considered sourcing organization magic. But these results won’t come simply by waving a magic wand. They’re attributes of highly successful sourcing organizations, ones that are exceptionally skilled, aligned to meet the needs of the business, and utilize sourcing technologies. In fact, in the absence of skilled employees and a strategic direction, it’s these technologies that provide a foundation from which sourcing savings can be derived. But when they’re coupled with advanced sourcing employees and aligned with the business strategy, sourcing technologies bring margin improvements and expense reductions that can sustain a business even in the worst economic times.”¹

2. Prioritise ease of use in solution selection

A common mistake in most Spend Control projects is to significantly under-estimate the number of staff in the organisation that are currently involved in the purchasing process. The reality is that a Spend Control solution will probably have the largest number of users (footprint) of any single integrated application within a business.

In order to maximise the potential productivity gains, the goal must be to capture a purchasing request (requisition) at creation. By default, this demands that everyone that currently raises a requisition requires access to the software as a "user".

Then there are the staff and management in the purchase order approval process, those that deal with deliveries and the invoice approval process. Often, none of these staff have had any experience of using a sophisticated workflow based software application.

Obviously the accounting staff have a role to play, but they are already experts in the use of the accounting software, which is often the most sophisticated application in the business.

You should also consider the implication of staff churn, as many new employees will have to be trained in the use of a Spend Control solution. In order to achieve 100% user adoption, the primary challenge is to ensure that the users outside the accounting department will be able to use the software successfully, with the minimum amount of training.

Don't make the mistake of using the accounting staff to benchmark "ease of use". In effect, you are using a software application expert to determine whether

inexperienced staff will be able to use the application. The result is that the finance users invariably prefer something that looks like an accounting software package and that will make simple and fast general user adoption almost impossible. It will be too complex and too hard to use without extensive and costly training. You need to involve "general" users in the evaluation process.

The advantages of involving some general users in the selection process go beyond evaluating ease of use. Spend Control requires a cultural change and it makes complete sense to start the "buy in" process during the selection process and avoid the problem of "no one asked us" later on.

The goal should be to ensure that the training requirement (and cost) is minimised because the software application is intuitive and extremely easy to use.

More often than not, the final proposal will highlight what the supplier believes is required to train your staff and you should keep in mind that this is a potential long-term cost, whether you train internally, or use the suppliers for new staff training.

3. Put someone in charge of your spend control projects

Ask yourself a simple question – who in your organisation is responsible for corporate spend?

In most businesses, there is no one individual with responsibility. Corporate spend is governed by the multiple budget holders and then accounted for by the finance department.

This approach endorses a strategy that fragments

organisational spend down department lines and usually leads to an ever-growing number of suppliers selling you identical goods and services.

More often than not, the finance director can confirm that the company is wasting money on a wide range of products and services, either through the lack of skills in negotiating better prices, but often because spend is fragmented across multiple suppliers of similar products and services. Consolidation of those suppliers would deliver better purchasing power and therefore better prices. However, under the current business practice, this is not usually within the remit or authority of the finance director to do anything about it.

A Spend Control solution must provide the ability to easily take control over the spending habits of every user, whilst allowing for justifiable exceptions. It requires an individual taking ownership and being given authority to change the spending habits of the business.

The ideal candidate is the finance director.

There are obviously political implications to such a fundamental change in spending habits and therefore any solution must deliver benefits to both the business and the budget holders.

Most budget holders are proficient at larger purchases; they have the domain expertise and will proactively look to achieve the best value for money. In most cases, this area of spend should remain within their discretion.

The same cannot be said for a very broad range of boring "general overhead spend" and low value items. This purchasing is usually delegated to

general administration staff within each of the departments and their decisions will be based on habit (the company has always used this supplier) or personal preference. It is very rarely based on getting best value. As a result, each department acts as an independent company, pays more than it needs to and then the finance department deals with the logistical nightmare of dozens if not hundreds of unnecessary suppliers.

A Spend Control strategy has to provide the authority, responsibility and tools that enable the organisation to rationalise its suppliers and enforce those decisions, supported by the relevant budget holders.

Gartner: reaching sourcing excellence, part 2: Going from good to excellent

"Reactive sourcing organizations are unconsciously incompetent because they don't know how to do anything to solve the sourcing excellence requirements other than react to a given demand."¹

4. Configure your solution for maximum straight-through processing

A manual purchasing process is paper intensive, slow and nobody knows the exact status of any transaction without endless emails and phone calls.

Manual purchase orders are slow to complete, even without taking into consideration the discovery process of exactly what to buy. The approval process can be extremely slow, as it may have to wait on internal mail and then the availability of each individual to review, approve and pass it on to the next approver.

Many organisations forego the process of matching purchase orders to delivery notes as being simply too labour intensive. Instead, they rely on the memory of the approvers as to whether the goods / services were received and of merchantable quality.

The process of sending out purchase invoices for approval is often the catalyst of a Spend Control project, simply because it is so painful. Then there is the process of coding and posting the approved purchase invoice to the ledgers whilst managing the endless supplier calls chasing overdue accounts.

Spend Control should automate the entire process, providing a single electronic document that reflects the life cycle of every requisition through to final approval and automatic posting to the ledgers. Information should be instantly available to everyone who needs to know the current status, whether waiting for purchasing approval or requiring a credit note prior to final purchase invoice approval.

General ledger coding should take place at requisition creation and wherever possible, be fully automated and invisible from the user. If user

intervention is required, then the process should be extremely simple and obvious.

The workflow processes for approvals should be automated and avoid user intervention. It should automatically take into consideration departmental authorities, over budget spend, cap-ex versus overhead spend and order value at each stage of the process. The same level of automation also applies to purchase invoice approvals workflow.

This approach ensures that the corporate policy is controlled centrally, is always adhered to whilst reducing the individual's role to their specific task. The system does the rest.

However, it is common to overlook the other benefits that are achieved by this approach and miss the significant corporate and productivity value they represent.

Commitment accounting is the process that captures a purchasing commitment at the moment a purchase order is raised. It enables the finance department to have visibility of the cash requirements of the business as far into the future as they exist. It replaces the current practice of month end accrual estimates of spend, irrespective of whether or not the purchase invoice has been processed before running the month-end accounts and cashflow reports.

Automated and real-time budget control ensures every purchase request is within budget and automatically escalates over-spend requests to higher authority prior to final approval.

Automation will achieve considerable productivity gains across the entire organisation, as well as improve the accuracy and timeliness of both the purchasing process and the financial function.

5. Taking financial and spend control

The introduction of a fully automated purchasing process opens the door to being able to take financial and spend control.

Much of the financial control is provided by the introduction of formal and rigorous ordering, delivery and invoice approval practises combined with full commitment accounting that delivers more accurate and timely management accounts and cashflow forecasts at month-end.

Automating the budget control process offer the ability for the finance director and board to turn an inaccurate manual process into a real-time and powerful business tool. Every spend control solution considered should enable the available budgets to be changed centrally within the accounting system and instantly impact the ability of the company to raise further purchase orders.

This is achieved by utilising the accounting software budget as the primary data source, then taking expensed items, plus commitments and accruals in the relevant period into consideration to calculate the budget headroom for each transaction. If the budget is changed, then spend can be turned up, turned down or simply turned off on demand, at a very granular level.

Taking control of spend is more complex. Whilst the spend control application must provide the ability to control the purchasing habits of individuals, it assumes that the company has the resources and expertise to take advantage of it. Unless the business already employs purchasing expert resources, it is unlikely to take place and much of the benefit will be lost.

It is a subject that few Spend Control vendors want to discuss, as most do not see it as part of their responsibility.

There are however a few vendors that believe that enabling their clients to make real and quantifiable savings is a critical component of a real Spend Control solution.

Consider the problem. In order to make a saving, it will require a detailed review of what is currently being purchased, who supplied it and what is currently being paid. Having accumulated this information, the process involves obtaining competitive quotes, evaluating the options and determining the best value proposition and then selecting the most appropriate supplier.

Keep in mind that the prices you achieved will reflect the spending power of the business, domain knowledge and negotiating skills to get the best price.

The next step is to ensure that users can only use that supplier and preferably only buy the nominated products and services required.

Having completed the exercise, it needs to be repeated regularly in order to maintain the best price.

The good news is that there are alternative ways to address this.

One option is to work with a Spend Control vendor that does this process for you. By combining purchase automation software with the spending power of a buyers group, the business can purchase the same goods and services at a lower price than they could achieve irrespective of their buying prowess.

The Spend Control vendor should provide a service to undertake a detailed review of the spending profile of the company. The vendor should also quantify the savings potential on a 'supplier by supplier' and 'item by item' basis and then prioritise and enable the change of supplier when applicable.

If all those products and services are delivered through automatically updated electronic catalogues that are made available to the user, then it removes the requirement to continually review suppliers and makes the user-experience considerably easier.

If the electronic catalogues can also be limited to just to those products and services that are relevant (or stipulated) then the organisation has the ability to really control spend.

An equally important factor is the availability of 'buying expertise' on demand. Many organisations cannot justify the cost of a full-time buying role, as the cost of doing so would absorb much of the benefit gained. However, almost all organisations would benefit from having immediate access to a professional buyer with the specific domain purchasing knowledge, if and when the level of spend warrants it.

Unless there is a very clear strategy that addresses the ability of the business to rationalise its spending in a long-term cost-effective manner, the opportunity to obtain significant reductions in spending may be squandered.

Gartner: Reaching sourcing excellence, part 1: How to keep 30 cents of every dollar spent

"Harnessing the sourcing opportunity has been difficult for many organizations, with a majority seeing sourcing as a bottleneck to ideas and quick wins. To make matters worse, many sourcing employees don't even have the necessary negotiation and analytical skills, the formal procurement or financial training and education, nor the alignment, guidance, or motivation for business excellence."¹

6. Deliver quantified and sustainable savings plus the real ROI

A Spend Control project will have to deliver a credible and commercial proposition to the board to secure funding, whilst competing with the other valid uses of the available capital.

There is a healthy scepticism regarding most return on investment calculations, especially when the ROI process requires a degree in economics and a considerable amount of time and guesswork.

The Spend Control project should include a definitive process to identify potential savings, together with a clear plan on the process of execution to achieve them.

As important, the project needs to include a quantified methodology that subsequently captures the saving achieved and compares them to the expectation.

It will become clear very early in any engagement with a Spend Control vendor whether their proposition addresses the full spectrum of Spend Control or delivers an automation tool. If it is the latter, then the project should include the potential costs of recruiting the resources and expertise necessary to turn the saving opportunity into hard cash.

One approach that is gaining momentum is to investigate and quantify the ROI potential at the outset of the Spend Control project. This can be achieved in as little as 120 minutes and deliver a very clear indication of the probable turnkey costs of automation against a realistic (and even warranted) level of savings.

A process to quantify costs and ROI requires a simple pricing structure, an easy to deploy solution (where the consulting resource requirements can be easily estimated) and quantifiable metrics of the savings potential for similar organisations (using leveraged pricing from a buyers group).

The level of the vendor's confidence in the savings potential can be determined by whether or not they are prepared to warrant some, or all of the savings potential estimated.

The decision of whether to invest any more time to evaluate a Spend Control project is then based on fact.

However, to achieve the savings, there is no alternative than to undertake a very detailed review of the current spending of a business at a very detailed level and compare the current pricing to alternative suppliers to calculate the savings.

Gartner: reaching sourcing excellence, part 5

"Many organizations hear about how great sourcing technologies are and deploy them based on the ROI and quick time to value. However, when not mapped to the sourcing process, the adoption rate and slow time to value can be significant."¹

7. Reduce risk with a pilot

- Use a pilot to initiate the project and build advocates.
- KEEP IT SIMPLE.
- Avoid taking a Big Brother Approach, just because you can.
- Corral the horses, before you start to "break" them.

The purpose of this guide is to ensure that the other key factors required to deliver a successful Spend Control project are also addressed during the selection process.

Spend control project objectives summary

This section provides a summary of the points discussed in each of the 7 Key steps as a convenient point of reference.

The 7 keys to spend control success:

1. **Insist on a measurable return on investment.**
2. **Prioritise ease of use in solution selection.**
3. **Put someone in charge of your spend control project.**
4. **Configure your solution for maximum straight-through processing.**
5. **Take financial and spend control.**
6. **Deliver quantified and sustainable savings plus the real ROI.**

1. Insist on a measurable return on investment

- Many Spend Control solutions only address the automation process, not how the anticipated savings will be achieved.
- Making the available savings requires expertise and resources, are these available?

- A credible ROI of less than 12 months should be the goal.

2. Prioritise ease of use in solution selection

- Quantification of the real number of users.
- Involve non accounting staff users in the selection process.
- Evaluate the ease and speed of user training.
- Identify the cost of training initially and for new staff.

3. Put someone in charge of your spend control project

- Who is responsible for corporate spend?
- What is the role of the Finance Director?
- Ensure that the spending habits of every user can be centrally controlled.
- Empower centralised supplier selection for "general overhead spend".
- Ensure the buy in and support of the budget holders.

4. Configure your solution for maximum straightthrough processing

- A Single electronic record of every purchasing transaction from creation to completion, accessible to all that need to know on demand.
- The automation of general ledger coding at requisition stage to deliver full commitment accounting and budget control.

- Centrally controlled and fully automated workflows that address corporate approval processes and over budget spend requests.
- Delivery of commitment accounting.
- Delivery of fully automated budget control.

5. Take financial and spend control

- Assess the ability to using budget control as a powerful financial tool.
- Quantify the vendor's proposal that ensures that savings are made.
- Quantify the internal resource and expertise required to consolidate suppliers and negotiate the best prices – and maintain it over time.
- Consider purchase to pay combined with the automated and leveraged spend of a buyers group.
- Does the vendor undertake the detailed survey of current spending and quantify the savings potential?
- Does the vendor provide fully automated and updated catalogues with the application so that changing a supplier not only guarantees the savings, but makes the user experience easier?
- Do the vendor provide fully automated and updated catalogues with the application so that changing a supplier not only guarantees the savings, but makes the user experience easier?
- Does the vendor take ownership in the short, medium and long-term to generate and quantify savings?

6. Deliver quantified and sustainable savings plus the real ROI

The production of a quantified and credible process to calculate the ROI.

A quantified and credible process to capture the savings to validate the ROI achieved.

Early quantification of the responsibility and contribution of the vendor to deliver the savings.

Early quantification of probable ROI to validate the viability of the project with minimum effort to avoid wasted effort.

Clear plan to undertake a very detailed review of suppliers and spend which is required in order to achieve the savings potential available.

7. Reduce risk with a pilot

- Use a pilot to initiate the project and build advocates.
- KEEP IT SIMPLE.
- Avoid taking a Big Brother Approach, just because you can.
- Corral the horses, before you start to "break" them.

About Compleat Software

Compleat Spend Control is a unique offering, as it combines the benefits of powerful purchasing automation software with the buying power, skills and resources of a buyers group.

The result is our clients take control of corporate spending and enjoy substantial and sustained savings across a wide range of goods and services, simply by paying less for what they already buy.

But don't take our word for it.....

John Moulson, Head of Finance at the Rugby Football Union comments,

“Compleat Buyers Group will pay for itself through the savings made on stationery alone and anything else is a bonus. The Compleat Detailed Review has identified potential savings of £100,000 which we will achieve quickly, plus potentially a further £200,000 savings in the coming year. Choosing to engage with the Compleat Buyers Group was a very simple decision!”¹

¹ Reference: Reaching Sourcing Excellence, Part 5: Sourcing Technology Is a Commodity With Short Time to Value and Immediate ROI. Mickey North Rizza, Research Director. Gartner Inc., 26 February 2010

COMPLEAT

Compleat Software is a leading provider of powerful spend management solutions for SMEs that eliminates paper and unites finance, procurement and budget holders, providing an accurate, real-time picture of company finances. Offering the next generation of purchasing and budget management automation at an affordable cost, its P2P software comprises solutions for e-invoicing, purchase invoice approval, purchase order and receipting, employee expenses, contract management, and report generation. For further information about our capabilities please visit and to learn how we empower results for clients, please visit our website.

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