

10X Procurement Series: Part 2

Oversee 100% of External Spending



ZIP



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Few metrics have caused more trouble for procurement than “spend under management.”

What does spend under management mean? What level of hands-on procurement involvement is required to consider spend “managed?” Even if these questions could be answered conclusively, others would remain about whether this metric incentivizes the desired focus on procurement’s part, or whether it creates unnecessary friction with the business.

Anything that creates a delay between insight and action - performance metrics included - must be addressed for procurement to succeed in today’s fast-paced business environment.

Procurement’s efforts to maximize spend under management have often driven their focus in the wrong direction. Emphasizing spend under management has pushed away colleagues in other functions and watered down procurement’s impact. Procurement should be focused on depth rather than breadth, concentrating their efforts in areas with the largest, most strategic ROI.

Procurement can reframe their approach to spend under management in a way that accelerates value rather than creating friction and frustration.

As part of Art of Procurement’s mission to 10X the impact of procurement, we emphasize a focus on overseeing 100 percent of spending instead of striving for 100 percent spend under management. While spend under management requires direct procurement involvement, spending oversight creates an environment in which the business is able to act on their own with appropriate guidelines. This frees procurement to have a more strategic impact overall and build strong trust-based relationships with stakeholders.

In this paper, part of the 10X series, Art of Procurement partnered with the team at Zip to explore the importance of overseeing 100 percent of spending based on the benefits to procurement and the business as a whole. In the coming pages, we will:

- Explore the differences between spend management and spend oversight,
- Look at how an oversight-driven approach can improve the procurement experience, and
- Discuss how digital platforms can aid procurement in their quest to increase spend oversight without creating undue risk or loss of visibility.

The Six Principles of 10X Procurement



Drive business outcomes



Inspire and catalyze change



Facilitated differentiated decision making



Utilize a fit-for-purpose operating model



Possess an entrepreneurial mindset



Oversee 100% of external spending

For more information, visit artofprocurement.com/10X



Targeting the Difference Between Spend Management and Spend Oversight

Part of the journey from one driving metric to another parallels procurement's overall maturity curve. Procurement teams have already gone from arithmetic (two plus two equals four) to algebra (balancing the rate of ROI increase with increased risk). Now leading organizations are moving on to multivariable calculus, where they are simultaneously optimizing for multiple objectives, including risk, sustainability, cost, and more.

To be clear, this is an ongoing journey and there is no one 'right' answer. Procurement is not maturing in a vacuum. Complexity abounds, requiring companies to change how they distribute resources and establish budgets and procurement must adjust accordingly.

Rather than positioning procurement as 'hands off,' prioritizing oversight should increase their visibility, allowing them to segment spend so that each category receives the required degree and quality of influence needed to satisfy its unique objectives.

This is important work and it requires time - time that busy procurement teams will have to create for themselves. Procurement needs to clear their plate of reactive, transactional work such as the subjective 'checkmark' given when spend is considered under management.

If procurement wants to foster corporate growth in an uncertain world, they must allow the business to spend where they want rather than saving for savings sake.

The ultimate form of 100 percent spend oversight would start with procurement being able to help design business requirements. Whatever decisions the business makes after that conversation may or may not actively involve procurement.



As Nick Heinzmann, Head of Research at Zip, commented, “Focusing on spend under management can distract leaders from the real prize – shaping and influencing spend. Even with a 100% compliance rate, if you aren't getting closer to requirements definition and collaboratively defining the buy, you're missing out on 5% or more of your full savings potential.”

Successfully overseeing 100 percent of spend requires everyone in the company to participate in the same culture and mindset - they must all pull in the same direction. The money being spent is no more the stakeholders' than it is procurement's. All spend belongs to the business as a whole, and it must be invested in ways and with partners that advance company-wide objectives.

A Procurement Experience That Empowers Stakeholders

One of the concepts procurement will need to embrace to make the leap from management to oversight is that spending money does not reduce procurement's impact even if it reduces the size of the bottom line. Procurement should see empowering stakeholders to spend as a measure of business partnership and enablement.

This also does not mean procurement must remain 'hands off' for the entire sourcing process. Maybe procurement needs to enable buyers to run supplier discovery on their own before returning to procurement, or work with the business to shape demand and then assist them with contracts or spending later in the process.

Distributed buyers have specific requirements and understand the outcomes they are trying to achieve; procurement understands the buying process. The best possible outcome brings the two areas of expertise together, where business requirements and procurement processes unite.

This alignment can create collaborative opportunities by delivering small wins first and then building on them. Success stories can attract even the most hesitant stakeholders. When spend oversight is received as valued assistance, the business has an incentive to involve procurement earlier in the buying process and to solicit their input more broadly.

All too often, bringing spend under management requires a slow, governance-heavy approach. By focusing on oversight instead, procurement can influence behaviors by nudging people in the desired direction and making expected choices easier than any of the alternatives.

Better still (and staying with the idea of creating a positive experience) is when procurement establishes a governance model where people feel like they have a choice even if the process is ultimately designed to direct their choices a certain way.

Heinzmann has seen this play out in practice as well. "Governance can seem arduous, but when done right it unlocks the value of procurement processes. Integrating flexible governance into the ways procurement encourages stakeholder collaboration can solve for process adoption gaps and help employees feel they have more ownership of their purchase requests."

These process and governance observations must apply to all categories of spend - services included. Services represent a significant portion of spend that centralized processes/systems have to handle well. Procurement can't improve their reputation and relationships by maturing in some areas of spend oversight and not others. All spend must be managed with the same priorities and approach, even if procurement's direct role in the process varies.

"Governance can seem arduous, but when done right it unlocks the value of procurement processes"

- Nick Heinzmann, Head of Research, Zip

Design Philosophy: Architecting a Collaborative Spend Experience

The fact that we live and work in a digital world means that procurement can not create a collaborative experience - or achieve 100 percent spend oversight - without leveraging available technologies. There are business objectives achieved through each platform, but procurement must be aware of the overall user experience they create.

If procurement's focus on spend under management has taught us anything, it is that you can hit a specified target and still not succeed. Even if procurement checks every box from an objective standpoint, users may be left feeling frustrated - and associate that feeling with procurement.

Most systems today are a combination of elements - some of which users interact with directly and some of which work behind the scenes. Users should be able to experience them cohesively, with minimal training or instruction. Trouble often starts when a system is used for something other than what it was designed for or by an unintended user group. For instance, ERPs are the system of record for finance, especially in manufacturing firms, but they are often criticized by users with other intentions that find them hard to use.

Procurement technology has undergone a burst of useability improvements, but it is still typically intended for procurement professionals. If procurement wants to engage cross-functional users and create a good experience, they need to select platforms that appeal to those users by following their logic and matching their useability expectations.

Procurement wants to ensure spend oversight, while users want visibility. Oversight and visibility are close, but not quite the same. For a system to be collaborative, it must achieve the goals of each user group equally well. If it cannot, the result will be siloed systems and siloed data, such as a finance or legal contract management solution that operates in competition with procurement's contract management solution.



Conclusion

The worst part about the friction caused by the spend under management metric is that it isn't as meaningful as procurement once thought.

With an ever growing list of business objectives that is not matched by increases in procurement headcount, the time has come for procurement to step back and reconsider where their active time is best spent.

"Too much of procurement's time is wasted chasing compliance goals and applying bandages to processes that only work halfway," commented Heinzmann. "Thinking bigger about what spend under management actually aims to improve will help save time and apply procurement's focus in more strategic directions."

Procurement must know where spend is going, which channels are being used, and that the money is being spent in compliance with policies, processes, and procedures. In this new paradigm, oversight is critical, management less so.

When executed well, shifting from management to oversight should feel less like a retreat and more like an advance towards a strengthened relationship with the business, one that achieves empowerment and governance without sacrificing the quality of the procurement experience.

About Zip

Zip is the world's leading intake-to-procure solution.

Providing a single platform for any employee to initiate a purchase or vendor request, Zip helps businesses gain clear and timely visibility across all purchases, while dramatically improving the employee experience.

For more information, visit ziphq.com



About Art of Procurement

Art of Procurement was founded in 2015 to empower professionals at all levels to align procurement performance with corporate objectives.

For more information, visit www.artofprocurement.com, follow the AOP company page on [LinkedIn](#) or follow us on [Twitter](#).