



Improving Spend Control

In most organisations corporate spending is decentralised. Individual departments are responsible for managing budgets, and invariably it falls to the administrative staff within these departments to make purchases. The result is a fragmented purchasing process, managed reactively, with no control, no visibility, and no accountability.

The recession has brought a renewed focus on the need to reduce costs, and a key component of this is the ability to control the spend of a business. However, existing procurement practices are often fragmented making it very difficult to assess where the key problems lie and where the solutions can begin.

Difficult though it may be, it is a challenge that companies large and small are increasingly starting to undertake. The need to ensure accessible cash flow is providing the impetus to take on the task.

Further, directives such as Sarbanes Oxley (SOX) require companies to control and justify expenditure. Businesses are finding themselves under ever-growing scrutiny.

However the Chartered Institute of Purchasing and Supply has found that around 60% of corporate spend is uncontrolled. So there is definite room for improvement.

Companies really do need to start taking the issue of spend control seriously. But where do you start?

The importance of spend control

First and foremost, let's look at the importance of control as an element in its own right.

A decentralised process and reactive management of spend enables maverick spending, and means ad-hoc purchases are made every day that are not necessarily essential, and not necessarily at the best price.

For many organisations spend happens in a certain way by certain individuals because this is the way it has always been. The majority of spend has rarely been questioned so long as it is within budget. However you can often find that much of this spend is non-essential.

One way to tackle non-essential, habitual spending is to reduce the budgets and spend limits allowed. The difficulty can be though the increased level of administration and policing that this can produce. Employees, used to spending in a certain way, are unlikely to readily accept these new restrictions. So the role of enforcement can become time consuming and resource heavy.



To overcome this issue of policing you could consider a purchasing system where automatic controls can be placed on individuals. With systems such as Invapay, you can limit spend amounts, but also restrict types of spend, the suppliers you will allow spend with, and so forth. Essentially, a purchasing system can enable control to be brought back centrally without the need to find extra resource to enforce new procedures.

The issue of control and adding discipline to the area of spend cannot be understated, however there are many wider related issues that you should also consider.

Cost savings

One of the key related elements of implementing discipline to the area of purchasing is the cost savings that can be brought to a business.

As we have discussed, spend is often habitual, purchasing from certain vendors because that is how it has always been. However cheaper alternatives may well be available, and there may also be scope for further price reductions if you can guarantee a supplier a certain amount of business by pooling the purchasing habits of your business.

By restricting where employees can purchase from will enable you to make these savings. However you can only successfully do this if you have good visibility of your current spend - what is being spent, with which suppliers, and by which business unit.

Visibility

In a decentralised purchasing system, data is fragmented. For most companies, only when an approved purchase invoice is posted to the system does the company gain visibility of its liabilities.

Without visibility a company cannot have control of expenditure, and will have no real idea about their commitments to enable proper cash flow management. Today's economic climate has brought cash flow firmly to the forefront, it is essential to the survival of a business, and never more so than in a climate of ever increasing payment cycles, restricted borrowing, and overall reduced demand.

By centralising the control of procurement, information about spend can become more accessible. But the way you choose to implement spend control will impact upon the accessibility of key information.

If your processes remain paper-based and control is enforced by manual checks, the key information about purchases will also need to be compiled manually. The information itself should be more streamlined as employees are restricted in terms of what they buy and how much they spend, but the level of administration to collate the information and input to the ERP system to enable visibility of commitments and cash flow remains.



A purchasing system can enable this information to be collected and integrated to the ERP system automatically. Invapay for example delivers information in a format to integrate with any ERP system. So not only do you save on the resource to enforce restrictions, you save on the resource required to collate and input data, simplifying the accounts payable process.

With a system such as Invapay, transactional data becomes management information with minimal resource from the finance department. Key information is immediately accessible, enabling business decisions to be made with confidence.

Resource

Trying to maintain an element of control over a decentralised procurement process can take a lot of resource when it comes to authorising invoices, performing matching etc. And we have also seen that implementing spend control measures can result in additional administration and policing time to ensure compliance.

Using a purchasing system where spend controls can be automatically enforced, and data about transactions automatically supplied, will free up staff time.

In some instances this can provide the opportunity to reduce head count, but more importantly staff will be able to spend more time on added-value activity.

It is not a good use of skills for example for finance staff to spend hours on data entry and approvals, or for procurement staff to spend time chasing paper work around the business.

A procurement system will enable staff the time to get on with the tasks that make better use of their skills. Procurement staff are able to review spending data and establish better terms and prices with suppliers, review contracts, and also identify areas where efficiencies and cost savings could be made. Finance staff can produce accurate forecasts and bring actionable meaning to the numbers. Management won't have to spend time investigating and signing off ad-hoc purchases.

Productivity gains will be felt across the whole business. Those making the purchases will also benefit from a streamlined purchasing process. Having only one way to make purchases means no time needs to be wasted finding out who the relevant suppliers are, or what needs to be pre-authorised. Any restrictions are in place on the system so an employee can quickly and easily make a purchase in the confidence that it is compliant to the business rules.

For employees there is also scope that a purchasing system can actually give them more freedom to deal with a wider range of suppliers. Invapay, for example, enables buyers to deal with suppliers who do not accept P-Cards or credit card payments. There is scope therefore to actually diversify the suppliers you deal with, without the additional administration this would have caused in the past.



Compliance

We have touched upon compliance in the other sections, however it is important to pay full consideration towards this element.

Spend control measures will only work if you have the buy-in of staff. Even with buy-in there can still be a significant element of policing involved, especially in the early days, as habitual buying practices are difficult to change.

As we have seen, a procurement system can reduce the element of policing significantly. However, further than just policing, if staff actually benefit from the new system, for example by making purchasing easier and take up less of their time, you significantly increase your chances of success. You have the stick, but the carrot can make all the difference.

Accountability

A key outcome of spend control measures is the accountability that these controls bring. When spend is decentralised and maverick spend the norm, there is little accountability among staff making purchases.

Implementing spend controls can develop a culture of accountability. The visibility that a procurement system can bring, means it is immediately clear to management where there are any problems, be it compliance, or ad-hoc spend that makes no sense to the business. It is no longer possible to hide behind the fragmented data and ineffective paper trail.

Accountability in itself will bring cost savings to the business. Suddenly maverick spend is easy to pick up on and staff begin to think more about what they are buying and why.

In addition, accountability can be brought to the finance and procurement departments. No longer is there the argument of having to waste time on manual processes and administration. Time is freed up to carry out the added-value activities for which they were employed, and it becomes clear for all to see exactly where value comes from within each job function.

Competitiveness

When we consider the economic climate that businesses are operating in today, the need to stay ahead of the competition has never been clearer.

Implementing spend controls through a procurement system such as Invapay, that brings with it the ability to review spending patterns and reduce associated costs, provides a distinct competitive advantage.

Further, enabling staff to spend time on the added-value activities such as we have considered in previous sections increases your competitiveness further. You will be making best use of resource, lowering your costs, and making business decisions based on accurate data.



Environment

Last but not least, we should turn our thoughts to the environment. Moving your processes from manual, paper based procurement to an automatic purchasing system can enable paperless procurement.

Think about the paper trail associated with your current procurement processes. Not only are staff spending significant amounts of their time chasing the paper trail, the environmental impact of all that paper, and the inevitable re-printing of lost documents, is immense. And of course that environmental impact also brings with it a cost to your business. Imagine no more printing, no more paper, no more duplicate documents. You save your costs, you save the time to your staff, and you save some trees in the process.

Summary

The benefits of implementing spend control measures are clear. Businesses are operating in a competitive market place with a pressure to ensure good cash flow management.

Spend control initiated through a purchasing system like Invapay provides a way of implementing controls without requiring additional resource, and the associated ongoing cost to the business.

Successful implementation of a procurement system enables businesses to control spend, limiting unnecessary spending and reducing costs of purchasing in the process. Whilst also gaining early visibility of your commitments, allowing accurate forecasting to take place.

Staff will no longer need to spend time searching for relevant paper work or ensuring spend is properly signed off around the business, and purchasing is quicker and easier for those making the purchases.

With benefits to all levels of the business, is spend control really something you can afford to ignore?