

# WHY NOW IS THE RIGHT TIME TO FINALLY TACKLE MAVERICK SPEND



## Research suggests maverick spend loses businesses more than 5% of negotiated value on contracts. With a recession looming, this is the ideal time to finally address the issue

**I**n the current economic climate, every penny counts for businesses, and it's procurement's job to make sure the organisation is getting what it needs, at the right quality and at the right time, and at the best possible price. In direct categories that are central to the business's operations, and typically high-value spend, most procurement teams have this under control. Dedicated category managers will have good relationships with key suppliers, and spend and contracts are regularly reviewed.

In indirect categories, though, it's often a different story. Businesses will spend significant amounts on low-value items, spread across vast numbers of suppliers, meaning having direct relationships and regular reviews is often not an option. Instead, organisations rely on internal

customers going through established buying processes to purchase items at pre-agreed rates and often volume commitments.

Yet often this process does not work as well as it should, with internal customers ignoring pre-agreed arrangements and finding their own solutions, either using a company account or looking to claim items back on expenses. "Typically, it occurs because it's either unclear what an internal customer is supposed to do or because the official procurement process is harder, slower or delivers less value than doing it yourself," says Simon Geale, executive vice president, procurement, at supply chain consultancy Proxima. "A lot of maverick spend happens either in the tail, or where it seems to the customer that there is an unintelligible process to follow."

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The issue is being compounded by legacy technology systems, he adds. “It’s fair to say that while automation and self-service may look like the solution, as they are sensible and cost-effective on paper, a lot of legacy systems and indeed the policies, processes and options they automate haven’t always solved these pain points,” he adds. “The outcome? Customers do what they want, because it is faster, better and easier, and there are no consequences.”

Management consultancy Hackett Group has carried out research ([Maverick Spend Report 2019](#)) into the topic of so-called maverick or off-contract spend. “It highlighted many

common challenges linked to maverick spend,” says Vicky Kavan, director, procurement executive advisory. “These include a lack of self-service buying tools, end-users believing that procurement teams don’t fully understand their requirements or that they will be too difficult to work with, confusing or inconsistent purchasing policies, and a slower procurement process overall.”



**Fig 1. Top reported causes of maverick spend in organisations**



Source: *User Experience and Maverick Spend Study*, The Hackett Group 2019

# Serious business

While buying paper clips, stationery or even IT equipment from an unauthorised supplier may not appear to be a big deal for internal customers, the consequences of not having control over spend can be serious. Hackett's research finds the average company loses more than 5% of negotiated value due to maverick spending. "Compared to the average company, what we term 'world-class' organisations are much more effective at controlling spend and only lose half of this value, while influencing a larger proportion of the spend overall," says Kavan.

This value can be derived in ways other than headline price, even if in some cases buying through an unauthorised route may be ostensibly cheaper. "While a buyer may interpret price for cost, the total costs of going maverick may extend into other costs associated with managing exceptions, such as setting up and paying one-time vendors, or providing post-purchase support, negating any perceived price saving," points out Geale.

"Further, deviating from preferred vendors or acting in isolation may also impact an organisation's ability to best leverage buying power, so the organisation is wasting money." In some cases, the terms behind work contracts could involve data transfer or system access, he adds, potentially ceding key intellectual property rights and exposing the business to litigation.

There are other negative consequences, too. "Beyond financial loss, companies list negative outcomes as including dissatisfied internal customers, and quality and service issues as direct consequences of using unapproved suppliers," adds Kavan. "Risk and quality stand to have far bigger negative impacts, as well as reputational risks as a result of potential breaches in areas such as cybersecurity, GDPR or child labour."

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**Vicky Kavan, director, procurement executive advisory, The Hackett Group**



# Addressing the issue

Against this backdrop, it's no wonder then that Deloitte's 2021 *Global Chief Procurement Officer Survey* found 78% of organisations had made improving operational efficiency their main priority. From a maverick spend perspective, though, this will mean striking a balance between the desire to get as much spend as possible under management – and policed accordingly – and the resources it will take to design and enforce such arrangements.

“The reality is that teams need to prioritise where to focus their efforts and how and where they provide support,” says Geale. He identifies four pillars to getting more spend under management:

- 1 Conducting an analysis of the current situation, including purchasing needs, risks identification and customer experience
- 2 Solution design to create something that is appropriate to different customer groups
- 3 Communication and support around the “how” and “why”
- 4 Making sure the solution works and continues to be relevant.

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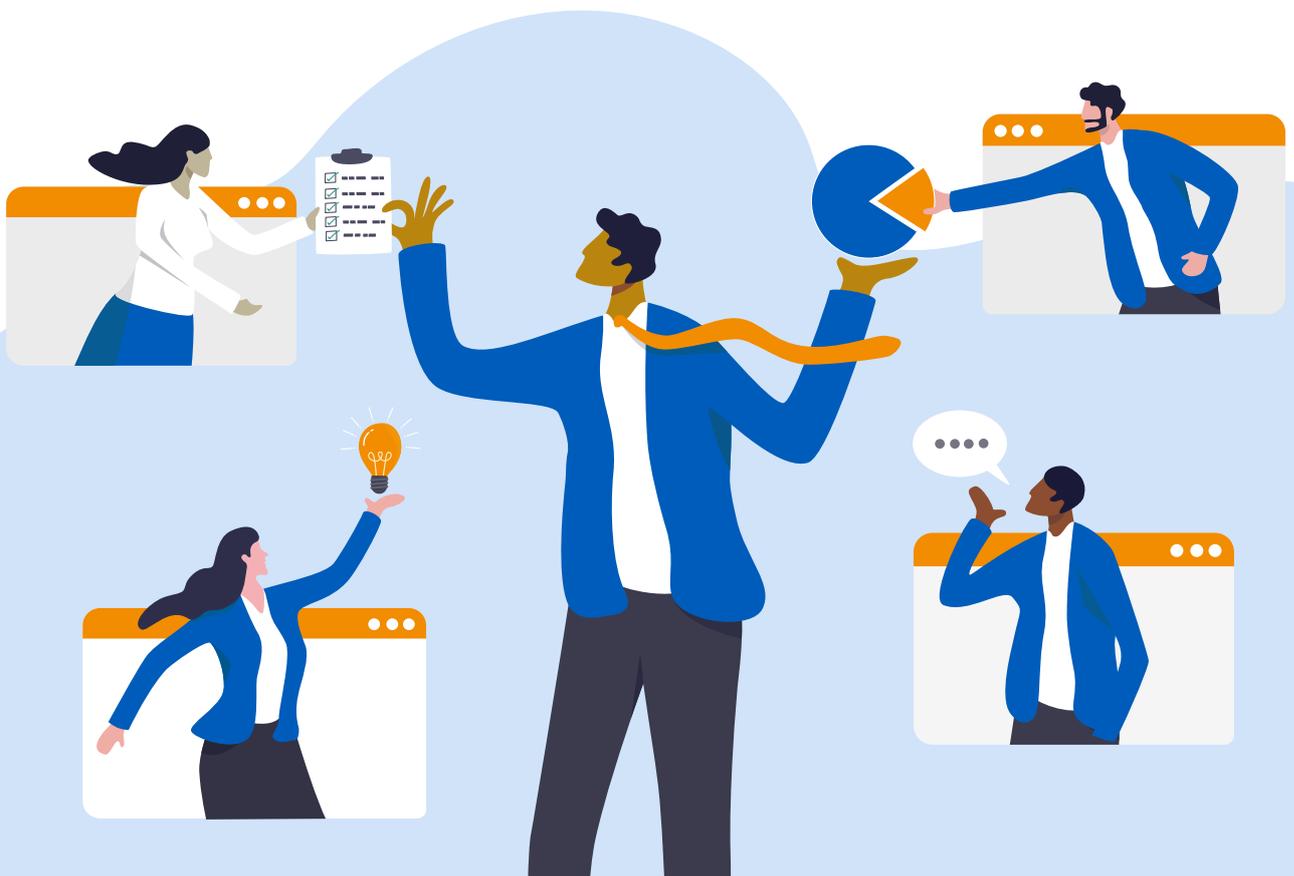
>> Central to any successful process is the need to make it as easy and collaborative as possible for internal customers to use the authorised channels. Here, Kavan suggests the following measures:

- Make the purchasing policy clear, educate users on an ongoing basis, and adopt a light onboarding process for low risk and one-time vendors
- Adopt the use of more user-friendly and easy-to-use buying technology tools
- For specific groups of occasional shoppers, consider a concierge-style help desk or master shopper type concept
- Develop the procurement team's skills in areas like stakeholder management and business partnering skills, as well as deeper market insights in relevant spend areas

If desired, this can be accompanied by taking a tougher stance to those who do not comply; the equivalent of the iron-fist-in-velvet-glove approach. Back in 2018, Swiss aviation services company **Swissport implemented a no-PO-no-pay policy**, where employees who did not have an authorised purchase order number would not be reimbursed for any items bought. The then chief procurement officer Reiner Orth described the procurement process at the firm before the policy was introduced as akin to the “Wild West”.

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**Simon Geale, executive vice president, procurement, Proxima**



# Technical support

Any attempt to bring maverick spend under control will require the effective use of technology, to overhaul outdated legacy systems or manual processes, and ensure going through authorised channels becomes a preferred option rather than a last resort.

Procurement software provider Workday uses its own Workday Strategic Sourcing system to help control indirect spend. The solution guides the internal customer through the procurement process to ensure each project is directed to the appropriate route, balancing ease of use with appropriate approvals.

“We have established Express Buy processes for low-dollar, low-risk deals where we leverage templates and PO terms,” says Jessica Sorenson, senior manager of global sourcing at Workday. “For high-dollar, high-risk and complex projects, we engage our sourcing manager subject matter experts to negotiate the terms to provide the best value and mitigate risk. Each deal has a purchasing path to optimise the cycle time and value generated from each deal.”

The software acts as a platform for all those involved in the process, including legal and security teams and the suppliers themselves. It also functions as the contract repository, meaning all contracts are stored in a central location.

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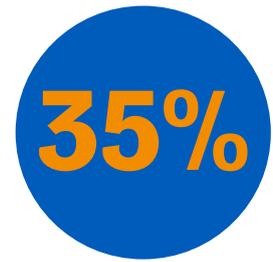
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>> Since introducing the software to its own users, the company has seen an increase in internal customer satisfaction while also reducing maverick spend by 2 percentage points. The length of time it takes for a purchase request to lead to a signed contract or PO has fallen by 35%, while its net promoter score for the procurement function has increased by 48 points.

Such platforms can also provide vital insight into company spend, helping to provide the data on which more informed decisions can be made around item or supplier selection, and even if a switch in strategy is required. Deloitte's CPO survey found 74.6% of CPOs believe the use of spend and savings performance analysis is valuable when trying to drive savings.

This kind of information can also go beyond savings data, points out Geale. "In today's world we can go further than cost savings and enrich spend data to help us better understand how we address other corporate priorities such as supply chain risks, diversity, decarbonisation and other sustainability goals," he points out. "It's really important to understand the data behind how you spend and thus how you could spend, particularly when moving into a recession where cutting third-party expenditure will likely be a focus area."



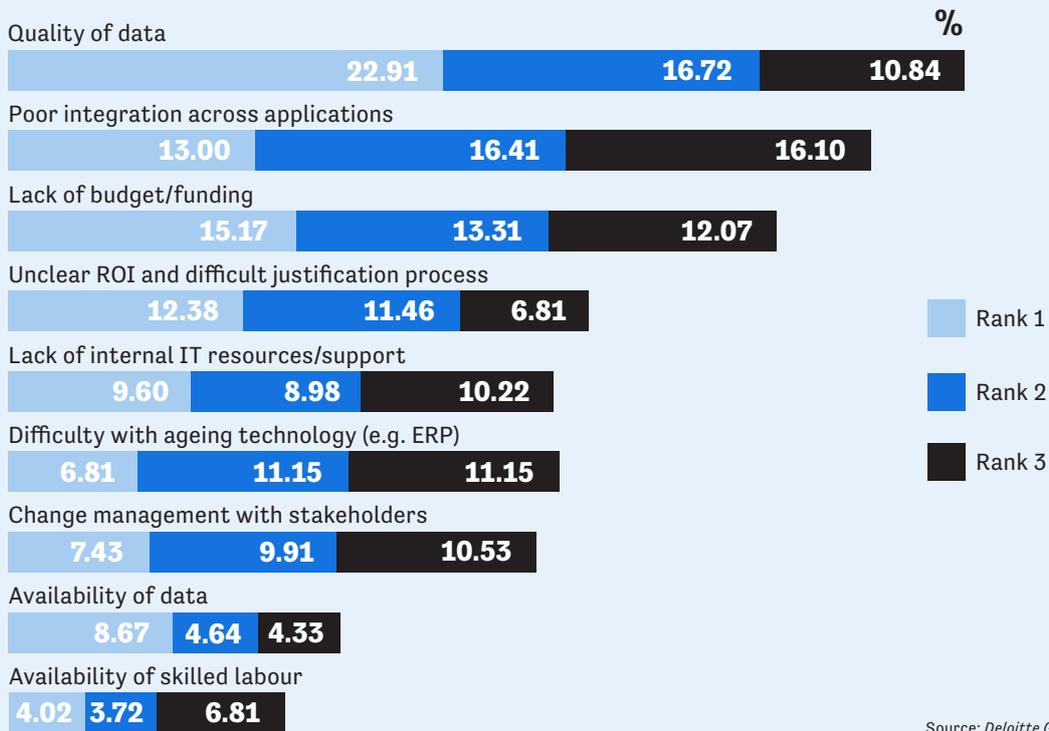
**the reduction in time taken for a purchase request to lead to a signed contract or PO since the Workday Strategic Sourcing system was introduced**

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## Poor data quality and lack of integration are still top challenges

What do you see as the main barriers to the effective application of digital technology in procurement? (Select and rank top three)



Source: Deloitte Global CPO Survey, 2021

>> Many organisations, though, do not have sufficient clarity around such matters. According to a Workday Strategic Sourcing survey, 46% of procurement leaders admit they need more visibility into their realised savings and 42% of procurement leaders think that mapping spend to business objectives is key.

There are still significant barriers in the adoption of such technology, though. Deloitte’s research finds the main reasons put forward are poor data quality, poor integration across applications and a lack of budget/funding.

The potential insight organisations can gain, though, is impressive. **Workday Strategic Sourcing**, for instance, allows procurement teams to track estimated spend and savings, final spend and savings, total contract value and savings realised by project. “You can configure the trackable and reportable savings data to be specific to your business needs and objectives,” says Sorenson. “All data fields within Workday Strategic Sourcing are reportable, so we can report on the number of transactions by transaction type, project completion times, savings by project and in aggregate across total contract value and realised savings.” In turn, this allows procurement teams to proactively address and identify additional savings opportunities.



# Added benefits

For those working in procurement, getting on top of maverick spend can bring further gains, in addition to doing the day job of delivering cost savings. “A recession is an opportunity for creativity, and to solve customer problems by helping them to achieve greater value for the time and money that they conventionally spend,” points out Geale. “This is undoubtedly going to mean cost savings, at a time when that’s what the business demands, but it can and should also mean going above and beyond, demonstrating how working closer with suppliers and procurement can create value that we didn’t know was possible.”

This can also lead to wider opportunities for the procurement function, which can put it in a stronger position once any recession ends. “If the goal of procurement is to be a modern, more strategic and business-enabling team, then it needs to free up time from supporting operational buying to better concentrate on strategic spend management topics,” says Kavan. “To achieve this, procurement teams need to adopt standardised, touchless, digital self-service methods more effectively to quickly enable business stakeholders to get the goods and services they need as part of their business roles.”

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# About Workday

**Workday provides a complete set of cloud spend management solutions that help you streamline operations and control indirect spend. Click [here](#) to find out more about how it could help you get maverick spend under control.**

