TATA CONSULTANCY SERVICES
Experience certainty.

TATA

White Paper

Achieving Cost Reduction by Addressing 'THE TAIL'

This paper focuses on low value spend, 'The Tail'. It articulates the benefits of low value spend and defines 'The Tail'. It finally presents a prioritised strategy for Chasing the Tail.

About the Author

Dr Gordon Murray

Dr Gordon Murray is a strategic procurement specialist within the Global Consultancy Practice of Tata Consultancy Services. He holds an MSc with Distinction in Purchasing & Supply Management, and a PhD in strategic procurement improvement, and is a Corporate Member of the Chartered Institute of Purchasing & Supply.

Table of Contents

Introduction

The current business environment necessitates exploring every possible avenue in the pursuit of cost reductions. Procurement provides one such opportunity and is now recognised as a key strategy for achieving cost reductions that are sustainable in the longer-term and do not need headcount reductions. Dominant approaches to reducing costs through procurement are the introduction of category management, greater use of collaborative purchasing and shared services, and the adoption of 'lean supply'. While we endorse and advocate these strategic approaches, our experience is that their dominance sometimes leads to other 'quick and easy win' solutions being missed. A strategic approach to sourcing needs to address the whole of an organisation's spending, and not just high value spending.

Scope for Cost Reductions at 'The Tail'

The Tail is sometimes referred to as Category C spend. Using a Pareto analysis, the Tail comprises the 70% of suppliers and purchases that account for only 10% of the total spend value. It has been argued that savings of 25% can be made from this 10% through transaction cost reductions and paying less. Transaction cost reduction entails reduction of process costs, freeing up staff time, but there needs to be clarity how that time can be more effectively deployed. Paying less relates to cashable savings.

To identify the Tail a complete spend analysis needs to be performed. TCS' analysis of one our client's spend data highlighted that the Tail comprised of 4,393 suppliers which gain £7M out of a total spend of £462M! Spend analysis not only helps in identifying the Tail, it is also fundamental in identifying the 'big prizes' to be pursued by Category Management. So the same spend analysis provides the basis for two strategic approaches.

Benefits of Chasing the Tail

There are clear business justifications why the Tail should not be neglected as a cost reduction approach; low value spend still consumes money. Applying received wisdom, merely as an example, if your total spend is £100M, the Tail represents £10M of spend, and the potential cost reductions are therefore £2.5M.

As the Tail is rarely viewed as precious to Procurement's internal clients. It can therefore be a useful area to focus on when trying to win internal clients' support and in demonstrating that Procurement can make a strategic contribution. So, chasing the Tail can be part of the change management of repositioning Procurement.

The Tail also offers 'low hanging fruit' with reduced risk from experimenting with innovative procurement techniques, or indeed, letting the tyro cut their teeth – it therefore is a comparatively safe area for staff development.

Chasing the Tail thus offers the following business benefits:

- Cashable savings and transaction cost reductions;
- Demonstration that procurement can make a valuable strategic contribution;
- Staff development;
- Low risk experimentation with creative and innovative procurement approaches;
- Quick cashable savings

Catching the Tail - Challenges and Recommendations

The benefits of chasing the Tail are clear, yet it appears to be a neglected area of procurement. Relegated, perhaps, would be a more appropriate term, with other 'big ticket' procurement priorities taking precedence and having a greater demand on organisations' scarce commercial expertise. Previous research also hints that the failure to realise expected rewards is due to a haphazard approach, focus on transaction cost information, and poor management of highly dependent relationships.

The good news is that, in chasing the Tail, Procurement can add value. Procurement will be viewed as an enabler as opposed to a mere 'administrator' and the organisation will have freed up scarce resources and expertise.

Chasing the Tail entails developing and implementing a procurement plan for addressing low value spend through the application of a range of tools and techniques, which are frequently different from those used elsewhere in strategic procurement.

Our recommendations are:

- **Complete a spend analysis:** This should go beyond procurement and draw on financial staff who may well have been architects of the process (and costs). This is much easier if you have adopted a standardised coding structure; if you haven't, that does not rule out chasing the Tail, but it also suggests there is a need for introducing a corporate common approach.

- **Complete a portfolio mapping exercise:** The idea is to classify each item of spend as routine, leverage, bottleneck, or strategic. Review the procurement positioning and complete an options appraisal of available procurement tactics for 'cost reduction' and 'pay less' options – the trick is being able to quickly appraise the options and adopt one, accepting that while there is a risk of using a sub-optimal tool it is still likely to deliver savings.
- **Standardise, harmonise, rationalise and consolidate specifications where possible:** Common 'off the shelf' specifications should be the aim. It will be difficult to expose proprietary items to competition .

Conclusion and Recommendations

Chasing the Tail provides an opportunity to achieve cashable savings and transaction cost reductions. It also provides an opportunity for staff development and the introduction of more innovative procurement approaches within a comparatively low risk environment. Savings can be quickly delivered. Nevertheless it is only one aspect of a strategic procurement approach, and should be part of an integrated whole; it may also be an enabler in gaining access to that whole.

This is one corporate approach which could be Procurement-led and help demonstrate its strategic contribution; therefore it could help reposition Procurement. However, for the benefits to be realised, there is a need for a Board-level champion, a strategy and adoption of a programme management approach.

TATA CONSULTANCY SERVICES
Experience certainty.

About TCS' Global Consulting Practice

TCS' Global Consulting Practice (GCP) is a key component in how TCS delivers additional value to clients. Using our collective industry insight, technology expertise, and consulting know-how, we partner with enterprises worldwide to deliver integrated end-to-end IT enabled business transformation services.

By tapping our worldwide pool of resources - onsite, offshore and nearshore, our high caliber consultants leverage solution accelerators and practice capabilities, balanced with our knowledge of local market demands, to enable enterprises to effectively meet their business goals.

GCP spearheads TCS' consulting capacity with consultants located in North America, UK, Europe, Asia Pacific, India, Ibero-America and Australia.

Contact

To know more, contact **global.consulting@tcs.com**

Subscribe to TCS White Papers

TCS.com RSS: http://www.tcs.com/rss_feeds/Pages/feed.aspx?f=w
Feedburner: http://feeds2.feedburner.com/tcswhitepapers

About Tata Consultancy Services (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at **www.tcs.com**

IT Services
Business Solutions
Outsourcing

TCS Design Services I M I 10 I 12