Guide to Intelligent Spend Management

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As organizations strive to maintain a competitive edge, they often turn to new software and cloud-based technologies to increase productivity and drive innovation in the current digital economy. However, the rapid rate of tech investment and adoption is far outpacing finance and procurement teams' abilities to manage and control that spend.

This is where spend management comes into play. According to Gartner, spend management comprises a set of practices that ensure procurement and sourcing decisions benefit the bottom line and company efficiency.

We believe, however, it's time to advance this category with an intelligent approach to spend management to drive further innovation and help organizations accelerate efficient and sustainable growth.

Intelligent Spend Management is the modern evolution of traditional spend management, incorporating unbiased supplier data, market intelligence, and AI-driven processes to optimize procurement and sourcing decisions both individually and holistically. This advanced approach provides a comprehensive view of spending, enabling organizations to maximize value, enhance efficiency, and improve the bottom line. By utilizing real-time data and AI, Intelligent Spend Management ensures cost reduction, financial risk mitigation, and stronger supplier relationships, ultimately driving better outcomes for the organization.

Spend Management Maturity Model

Companies that fail to manage their spend operate in a "wild west" scenario. They often lack the visibility into where their contracts are and how money is being spent, plus the control to govern spend as employees make purchases with little to no oversight. Not to mention, increasing leverage for supplier negotiations is an afterthought.

Realizing that the "wild west" is unsustainable, companies embark on a spend management journey through **four stages of spend management maturity:**

STAGE 1 Establishing Foundations	STAGE 2 Reactive Management	STAGE 3 Proactive Management	STAGE 4 Strategic Spending
1. Visibility: • Stand up basic/consistent contract storage • Basic spend data tracked in spreadsheets	**1. Visibility:** • Awareness of rogue spend • Contracts stored in shared drive or lightweight CLM, updated manually	**1. Visibility:** • Spend reviews begin, rogue spend easily tracked • Proactive alerts initiate renewal process	**1. Visibility:** • 90+% of contracts are easily searchable, automatically categorized, and integrated with real-time spend data
2. Control: • Establish spend policies (low adoption) • Implement guardrails via spend request processes	**2. Control:** • Enforce spend policies (mixed adoption) • Begin collaborative controls (Finance, InfoSec, and Legal)	**2. Control:** • Centrally-enforced intake process (strong adoption) • Automated, cross-functional approval workflows	**2. Control:** • 90%+ process adoption • Workflow consolidation & integrations to further improve efficiencies
3. Leverage: • Rely on colleagues and internet for advice • Negotiations happen ad-hoc, often by CFO/CEO	**3. Leverage:** • Consistent approach for advice (G2, Capterra, Reddit, LinkedIn, private forums) • Department heads begin leading negotiations	**3. Leverage:** • Investing in negotiation data for top suppliers (Gartner) • Key negotiations are managed by experienced teams	**3. Leverage:** • Financial savings goals are set and tracked • Category experts deliver highest impact negotiation strategy

Organizations mature by strengthening practices for enhanced visibility, control, and leverage over spend and suppliers.

In this eBook, we break down each stage of maturity to help you identify where your company stands, along with providing best practices to efficiently mature your program and match your company's growth goals.

Note: Many companies do not progress through these stages in a linear fashion. It's possible to be at stage 2 in Visibility, but stage 1 in Control. Therefore, as you read through this eBook, jump from one stage to the next as necessary.

Stage 1: Establishing Foundations

STAGE 1
Establishing Foundations

1. Visibility:
- Stand up basic/consistent contract storage
- Basic spend data tracked in spreadsheets

2. Control:
- Establish spend policies, low adoption
- Implement guardrails via spend request processes

3. Leverage:
- Rely on colleagues and internet for advice
- Negotiations happen ad-hoc, often by CFO/CEO

Typical company profile:

Organizations in stage 1 may be small (and young) companies with fewer than 200 employees. They usually do not have a formal procurement team and spend management processes are managed by a small finance team who is balancing a wide variety of strategic priorities.

Due to the size and stage of these organizations, their spend management program typically does not require the same level of maturity as one managing several hundred suppliers or several million in spend.

Stage 1 Visibility

At this stage, companies lack a central contract repository, resulting in limited spend visibility until after a contract is signed and a supplier submits an invoice. Contracts are scattered across various locations, such as basic spreadsheets, employee emails, or local hard drives. This leads to budget and forecasting challenges, missed auto-renewals, and shadow spend.

> During implementation, 80% of Tropic customers discover a contract that auto-renewed without their knowledge in the preceding 90 days.

Boosting visibility in this stage requires:

1. **Determining where money is being spent:** Download spend data from your ERP system for a high-level overview.
   - *Note: If vendor spend isn't tracked in your expense journals or bill entries, consider using your payment system. Conduct a basic assessment to determine how vendor spend is tracked and identify which system has the most comprehensive vendor master data.*
2. **Tracking down contracts:** Locate contracts by reaching out to stakeholders or searching emails and hard drives.
3. **Scraping contract end-dates:** Track contract end-dates in a basic spreadsheet to stay on top of renewals and avoid unintended expenses.

Takeaway

Gathering a complete list of your suppliers (with associated spend amounts), understanding where all related contracts are located, and tracking contract end-dates make purchasing much easier to monitor, especially as volume increases.

These basic steps provide a foundational starting point. As organizations scale, it may become more difficult to track contracts for upcoming renewals across various systems and basic spreadsheets. Once teams reach this point, they usually begin to boost visibility even further.

Stage 1 Control

Unexpected invoices or charges can result from the absence of a spend approval process. Even with basic approvals, purchasing can spiral out of control without a firm budget process.

> Spend approval and budgeting protocols are critical for effectively managing revenues, cash reserves, and expenses.

After establishing an initial level of visibility, begin implementing basic approval and budgeting processes:

1. **High-level spend policy:** Introduce a spend policy to guide employees, laying the foundation for an approval hierarchy that is typically executed via email or messaging systems like Slack.
2. **Build guard rails:** Issue corporate or purchase cards with amount and category limits to control purchase types and amounts.
3. **Establish initial departmental budgets:** Work with department heads to create basic budget tracking worksheets and record spending plans. Regular follow-up will help instill effective budgeting habits.

Takeaway

Although initial compliance may be low, establishing basic spend policy and control measures tailored to your organization's needs will lay the foundation for more robust processes and set the stage for improved financial oversight and give your organization some early wins.

As companies scale, internal policy compliance becomes critical to reduce risk. In this case, improving control with actions within the next stage becomes very important.

Stage 1 Leverage

Rubber-stamping spend requests can quickly become problematic, as overpaying for software negatively impacts the bottom line. In a market where budgets are tight, overpaying is unacceptable. But without market data, it's challenging to gain leverage in negotiations and determine a fair price.

> Tropic found that the average company overpays for software by 21%.

At this stage, leverage can simply come from:

- **Willingness to negotiate and ask for a discount:** Many individual contributors don't think to do this because they don't own their budget, but simply asking up front often can yield a positive result.
- **Reaching out to your network:** Talking to peers and colleagues in order to gather informal insights and benchmarks about a given supplier doesn't hurt (i.e. how much did they pay for this tool?).
- **Getting the CFO involved:** Given their position and network, it's common for the CFO or another business leader to get involved in the final steps of a negotiation to squeeze some extra dollars or add-ons to the contract.

Takeaway

Initially anchoring your negotiations with suppliers by asking for discounts, gathering insights from your network, and involving senior leaders like the CFO in final negotiations will begin to help you avoid overpaying for software.

As supplier requests increase, teams reserve the CFO for larger deals, incorporate data sources like G2 and Gartner for pricing benchmarks, and empower employees to take a more active role in negotiations in the next stage.

Stage 2: Reactive Management

STAGE 2
Reactive Management

1. **Visibility**:
   - Awareness of rogue spend
   - Contracts stored in shared drive or lightweight CLM, updated manually
2. **Control:**
   - Enforce spend policies (mixed adoption)
   - Begin collaborative controls (Finance, InfoSec, and Legal)
3. **Leverage:**
   - Consistent approach for advice (G2, Capterra, Reddit, LinkedIn, private forums)
   - Department heads begin leading negotiations

Typical company profile:

Organizations in stage 2 may be small or medium-size businesses with 200-700 employees. They may not have a formal full-time employee handling procurement. If they do, there is likely a team of one or two reporting to the CFO, COO or even the CIO. Spend management in these organizations is typically managed by the finance team in collaboration with procurement.

These organizations may be in a scale stage of growth. As a result, their spend management program requires an increasing level of maturity to ensure they are scaling efficiently.

Stage 2 Visibility

At this stage, organizations need more detailed and accessible information stored in contracts, making it essential to enhance their processes and improve how they manage their contracts and the associated metadata.

At a minimum, teams centralize contract storage for easy access, using organized folders and naming conventions. Some companies begin digitizing this process by investing in tools that allow teams to easily extract contract metadata for analysis and planning.

Determine the specific data to be tracked according to business needs. Key fields may include:

- **Supplier name**
- **Contract start-date**
- **Contract end-date**
- **Opt-out deadline**
- **Contract value**
- **Average annual value**
- **Term length**
- **Department**
- **Primary owner**

Takeaway

Enhancing your contract management system by centralizing storage and digitizing processes ensures easier access and detailed insights for the entire team. Additional metadata beyond contract end-dates are beneficial for budget planning and forecasting.

While companies in this stage are making efforts to mature their contract management processes and lessen financial consequences, teams recognize they could achieve greater financial results by becoming more proactive in the next stage.

Stage 2 Control

Organizations struggle with low adoption and adherence to spend policy in the previous stage. By now, companies are focused on increasing policy compliance and minimizing risk as they look to govern spend, particularly for unauthorized or untracked purchases (shadow spend).

Improving control involves:

1. **Formalizing spend controls:** Use tools like Jira, Slack, or project management software to establish a spend approval matrix. Finance leverages contracts and signed work orders to approve invoices.
2. **Partnering with key stakeholders:** Collaborate with departments like Legal to review non-commercial terms and Information Security to assess data risks.
3. **Confirming budgets:** Regularly check for existing budgets and adjust accordingly, focusing on reallocating funds rather than outright denial.

At this stage, finance teams have broader involvement than the prior stage, although they still lack a strategic role to make proactive recommendations. While non-compliant spending has significantly decreased, it still exists. Enforced approval processes and partnerships with Legal and Information Security help enhance control.

Takeaway

Reinforcing control involves establishing spend approvals, partnering with Legal and Information Security teams, and checking budgets often starts to enhance policy compliance and reduce risk, even if Finance's role remains reactive.

As companies continue to scale, it’s necessary for finance teams to become more proactive with the next stage of the spend management process as they look to increase further adoption, mitigate greater risk, and reduce valuable time spent on some of the manual tasks.

Stage 2 Leverage

Companies have reached the point where they realize that very few deals should be brought to the CEO or CFO due to their schedule and strategic responsibilities. Many teams are hiring senior and experienced department heads who can lend a hand to efficiently provide additional leverage.

Enhancing leverage at this stage includes steps like:

1. **Formalizing escalation paths for negotiation:** Have front line employees lead negotiations and bring in a manager or department head to offer extra muscle (sometimes acting as the "bad cop"). This person will often have experience with the tool (or similar tool) from a previous role.
2. **Accessing additional resources:** Have employees look to expand the data points available to them by using even more online resources such as Capterra, Reddit, LinkedIn, and private forums. If your company has investments from VCs, leverage other companies in the same investor family or ask questions through private forums on LinkedIn or Reddit.

Takeaway

Building strong escalation paths and utilizing external resources like online review sites, discussions, and professional networks enhances negotiation leverage. This approach empowers frontline employees and leverages the expertise of senior staff effectively.

As spend volume increases and the need for efficiency grows, companies look to find more advantages characterized in the next stage as they feel the pain of lacking strong and specific benchmarks and insights for purchases. Additionally, robust buying processes and lengthy negotiations distract and consume valuable time for employees not specialized in this area.

Stage 3: Proactive Management

STAGE 3
Proactive Management

1. **Visibility:**
   - Spend reviews begin, rogue spend easily tracked
   - Proactive alerts initiate renewal process
2. **Control:**
   - Centrally-enforced intake process (strong adoption)
   - Automated, cross-functional approval workflows
3. **Leverage:**
   - Investing in negotiation data for top suppliers (Gartner)
   - Key negotiations are managed by experienced teams

Typical company profile:

Organizations in stage 3 may be medium-size or enterprise businesses with 500-2,500 employees. Given their size and stage, they likely have a full-time procurement hire or function in place. Spend management in these organizations is typically managed by the finance team but in collaboration with procurement (either in-house or outsourced).

These organizations are actively focused on efficient growth looking to clearly tie spend back to ROI.

Stage 3 Visibility

Organizations at this stage are now taking proactive leaps to boost their visibility to the point where they're allowed more significant control over spend. This level of visibility enables companies to identify cost-saving opportunities within their contracts proactively, rather than discovering them at the last minute when it's usually too late to generate meaningful impact.

> Tropic discovered that, on average, new customers typically have at least two sets of highly overlapping suppliers and around 10 opportunities for consolidation.

Successful characteristics of greater oversight include:

1. **Conducting regular spend reviews:** Schedule a monthly (or quarterly) assessment with key stakeholders to identify actions needed to unlock bottlenecks, arm decision makers with information (so they can approve or reject), kick off new requests for upcoming renewals, and decide if there are any changes to undertake to improve metrics or user experience. This involves reviewing:
   - Open spend requests
   - Upcoming expiring spend (3-9 months ahead)
   - Utilization of SaaS and other contracts
   - Process
2. **Ensuring a completeness of data:** Track and export a thorough set of spend data. Without accurate, up-to-date information, it's impossible to lead effective spend reviews. How is "data completeness" achieved?
   - Centrally enforced intake process
   - Strong contract management habits (and less manual processes)
   - Contract data integrated with ERP data (so you have a complete picture of contracted versus actuals)
3. **Implementing a renewal calendar with alerts:** Implement an automated renewal reminder system that proactively alerts stakeholders about upcoming renewals and/or budgeted spend items through emails or Slack alerts. The spend review described in the first step will be made more effective by such a tool.

Takeaway

Conducting spend reviews, ensuring data completeness, and engaging early in the process keeps you in the spend management driver's seat. This proactive approach significantly improves company efficiency, giving you and your stakeholders a holistic understanding of where spend is going and when it's coming down your pipeline.

Given the significant benefits of enhanced visibility, many companies remain in this stage for an extended period. However, strict market conditions are driving a need for value that is found in the next stage.

Stage 3 Control

While stronger measures have been made in the previous stage, finance leaders may still find it difficult to scale as non-compliance continues to stifle efficiency and progress. As such, organizations look for ways to increase adoption, automate manual tasks, and dramatically decrease risk.

By reinforcing control over the spend management process, teams are able to proactively engage stakeholders well ahead of upcoming renewals and generate meaningful outcomes.

> Tropic found that organizations that kick off the process at least six months before the renewal date realize a 39% savings improvement on average. The savings gradually diminish the closer you get to the renewal date, averaging 22% at 60 days and 14% at 30 days.

The comprehensive steps taken at this stage yield efficient results. Successful actions include:

1. **Automating intake and workflows:** Use a robust tool that provides a user-friendly intake system (which dramatically improves adoption rate) to capture all requests. Strong intake consists of easy-to-answer questions based on what the stakeholder needs and allows the request to flow seamlessly through a multi-departmental approval chain.
2. **Driving efficiencies post-approvals:** Streamline processes post-signature by using a supplier portal to ingest invoices and facilitate the two-way match. This helps eliminate the manual burden on stakeholders while improving your accounting and AP flow. Additionally, having a portal that integrates directly with your ERP system will remove the element of human error while alleviating the burden on the accounting team.
3. **Increasing accountability:** Given the larger volume of spend and requests, assign a resource to oversee the process. This could be someone within the finance team who is held accountable, or it could be a project manager or dedicated procurement person.

Takeaway

Reducing the time spent of manual, administrative tasks with an automated intake and workflow system along with a supplier portal greatly improves efficiency. Having an individual own the process can also maximize the use of these controls and ensure constant oversight into spend and suppliers.

As your organization grows, specialized solutions used by different departments can create challenges so teams will often look to improve their measures with controls found in the next stage. Despite strong control here, disparate tools may lead to bottlenecks, delays, and reduced process compliance.

Stage 3 Leverage

Pricing and packaging tend to become more complex as software investments increase, reducing transparency. In this stage, companies aim to increase leverage with supplier intelligence.

Successful steps look like:

1. **Investing in specialized data and benchmarks:** Find a provider with specialized experience offering both self-service and expert assistance. Determining a fair price improves results, budget forecasting, and adherence.
2. **Leveraging specialized procurement resources:** Use resources to improve efficiency and cost-savings. When internal stakeholders are left to execute the manual procurement tasks on their own, they either achieve strong results at the expense of their core responsibilities or rush through the process, resulting in suboptimal outcomes.
3. **Outsourcing procurement:** If you cannot justify a full-time resource or need to supplement a small team, outsource procurement to a buying partner. Ensure alignment with a trusted provider to maintain high service levels and stakeholder trust.

Takeaway

Investing in specialized data, leveraging resources, and outsourcing procurement improves pricing transparency, cost-savings outcomes, and company efficiency. Companies are maximizing their resources to give them the highest advantage possible over their software investments.

Success in this stage means confidently securing good deals and using specialized resources effectively. However, growing tech stacks and tailored benchmarks may still expose transparency frustrations and inefficiencies, leading companies to mature to the next stage.

Stage 4: Strategic Spending

STAGE 4
Strategic Spending

1. **Visibility:**
   - 90+% of contracts are easily searchable, automatically categorized, and integrated with real-time spend data
2. **Control:**
   - 90%+ process adoption
   - Workflow consolidation & integrations to further improve efficiencies
3. **Leverage:**
   - Financial savings goals are set and tracked
   - Category experts deliver highest impact negotiation strategy

Typical company profile:

Organizations in stage 4 may be medium-size or enterprise businesses with over 1,000 employees. Given their size and stage, they likely have a procurement function in place. Spend management in these organizations is typically managed by the finance team in collaboration with procurement.

Not only are these organizations focused on efficient growth, but finance and procurement teams are actively involved in ensuring all company investments are aligned to strategic priorities and sharing the ROI with employees and the board.

Stage 4 Visibility

Robust visibility in this stage allows an organization to be highly efficient. Organizations should now leverage insights and data analysis across dashboards to reduce costs by increasing utilization rates, rationalizing the supply base, ensuring valid suppliers match accurate invoices, and adjusting sourcing strategies based on supplier criticality.

Companies who've reached full maturity here take advantage of:

1. **Utilizing advanced analytics:** Either employ analysts to analyze data or use software solutions to categorize and search contract data. A spend management platform integrates all data sources for a comprehensive view of suppliers, tracking spend against budgets and flagging overages by comparing contractual amounts and forecasts to actual spend data.
2. **Mitigating financial risk:** Ensure all insights related to both suppliers and their associated spend are flagged, such as fraudulent or incorrect invoices, unused licenses, and budget variances.

Visibility at this final stage not only maximizes control, but also allows you to provide insights back to leadership on which programs and investments positively or negatively impact strategic priorities.

Takeaway

Enhancing visibility with spend data and analytics enables organizations to reduce further costs and mitigate financial risks. With greater insight into the impact of spend and supplier investments on the business, leadership can make more informed decisions.

Stage 4 Control

Automation continues to work effectively, streamlining processes and making non-compliance the exception now, not the rule. As companies grow, breaking down silos and ensuring systems communicate becomes crucial.

Steps to achieving strategic control in this stage look like:

1. **Prioritizing integrations and platform solutions:** Re-evaluate spend management solutions to ensure connectivity and integration. Moving to a single platform streamlines communication and improves efficiency and familiarity while reducing maintenance costs. When a single tool isn't feasible, procurement orchestration is vital.
2. **Improving budget forecasting and compliance:** Ensure that budgets are more accurate and stringent by making stakeholders find existing budget trade-offs rather than requesting additional funds. Policy compliance should exceed 90 percent, with tools that manage tail and rogue spend.
3. **SaaS strategic planning and transformation:** Driven by IT and supported by procurement, conduct a full tech stack analysis to identify opportunities for rationalization and consolidation. Tools are standardized and access is centrally granted, with compliance measured by role and usage.

> Strong control is demonstrated by high spend under management, over 90 percent process compliance, and low budget variance—essential for public companies or those aiming for IPO or acquisition.

Takeaway

Implementing automations and system integrations enhances compliance and efficiency. Full solutions, stricter budgets, and strategic SaaS spend management are key steps to achieving robust control, which helps you govern spend in a comprehensive, yet efficient, way.

Stage 4 Leverage

At this stage, companies explore new alternatives beyond using them as competitive threats to current suppliers. They seek the best partners to drive business forward, evaluating metrics beyond financial impact such as tool satisfaction and CSAT.

Success in this stage combines access to additional information, tailored spend analysis, and effective execution to enhance your options on the market.

This looks like:

1. **Increasing strategic know-how:** Access insights on supplier price changes and acquisitions, and learn how to unlock the best deals efficiently. Category experts, whether in-house or outsourced, provide impactful negotiation strategies and comprehensive tech stack analysis with recommendations.
2. **Boosting optionality through sourcing:** Sourcing strategy becomes a key focus. Use increased visibility and RFPs to consider competitors to current suppliers who can perform better, deliver savings, or rationalize the supplier base. Early engagement in new and expiring spend requests creates true optionality.

Takeaway

Evaluating the market beyond financial metrics enhances supplier and sourcing strategies. By leaning on increased visibility and expert insights to optimize deals and supplier relationships, companies can source and strategically partner with the right vendors for their needs.

An Intelligent Approach to Spend Management

Regardless of your stage, continued vigilance and maintenance are essential as your tech stack and supplier ecosystem grow. Without ongoing upkeep, you risk losing visibility, control, and leverage as your spend management program becomes cluttered with outdated contracts, overdue requests, and process bottlenecks.

Remember, spend management success is not only measured by savings, but by its ability to enable economic and strategic growth. It requires equipping your team and organization with the insights needed to make informed strategic decisions, support company priorities, and achieve business goals as efficiently as possible using the best available tools and resources.

Request a demo to see how Tropic can help.