

Eradicate “Use it or Lose it” Budgeting - 17 Ways Finance can Help Procurement: No. 13

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Date : June 5, 2015

In this fifth part of a 17-part series on the collaboration between procurement and finance, we continue our countdown (from least important to most important) of the top ways procurement wants finance’s help improving spend/supply management. The rankings come from a [joint research study](#) conducted by Spend Matters and the Institute for Supply Management that is still open to practitioners (participants can win an Apple Watch or one of 10 Spend Matters PRO premium memberships).

Coming in at No. 13 is procurement’s desire to fix the “Use it or Lose It” budgeting process. This process is the de facto “big spend management” process (i.e., all spend – not just supplier spending) that most corporations use as part of their FP&A process – [within which indirect spend planning resides](#). This process basically says to a budget holder “make sure to spend all the money in your budget so that you do not get your budget reduced next period.”

So, what happens? There is a race to spend all the money at the end of the fiscal period. This “hockey stick” level of activity is exacerbated by contract renewals and new contracts that are set up near the fiscal year end of the supplier in order to extract additional price concessions from companies desperate to make their numbers. This, in turn, leads to a flurry of procurement activity to help budget owners with such contracting – stemming primarily back to the “use it or lose it” process.

Here’s the big kicker though: In our research, we actually put a number to this problem by having procurement professionals estimate the percentage of supplier spending that is caused by this end-of-period wastefulness. The number is well over 10% of total supplier spending! (Spend Matters PRO members can contact us for a copy of the full study results.)

Personally, I find it shocking that so many FP&A research, conferences, etc., focus only on FP&A efficiency (i.e., getting off spreadsheets) and narrow views of effectiveness (i.e., make the process more frequently rolling and less of a death march), rather than attacking the problem of how to invest the money more effectively to drive enterprise value. In fairness, the purist alternative of zero-based budgeting is not an easy process, and the use it or lose it approach is easier to execute by ERP systems setup around period-end financial accounting processes. Still, progressive procurement organizations can use a simpler variation of zero-based budgeting using spend analysis tools beyond forensic spent analysis and for [spend planning](#) purposes. It lets them have a conversation with the budget owners to help them [get more value out of their planning and budgeting processes](#) that put an emphasis on business planning and business outcomes rather than just playing games with the total dollars doled every period.

After analyzing best practices and benchmarks for over a decade, I can tell you that early involvement in planning and budgeting is the single most impactful best practice that procurement can implement within indirect spend management. And when you get there, tell

Spend Matters: Chief Procurement Officer

<http://spendmatters.com/cpo/eradicate-use-it-or-lose-it-budgeting-17-ways-finance-can-help-procurement-no-13/>

finance to stop tacitly encouraging people to spend money (which might shock finance).

Actually, tell them now, and tell them that I sent you (or rather that hundreds of their peers sent you)!

In the next edition of this series, we'll focus on how finance can help procurement to actually reach this level of not just spend visibility, but also contract visibility and savings visibility. This will help not just procurement, but finance, and the spend owners themselves.