

# Maverick Spend Report

## *Stakeholders often unaware of negative impacts of rogue buying as well as approved methods and tools*

By Jimmy LeFever and Amy Fong

### **Executive Summary**

Maverick spend continues to be a problem for many organizations. It occurs for a variety of reasons, from a lack of education and tools to culture challenges. The impact can be quite substantial: Some organizations report up to 16% losses of negotiated savings. Process efficiency and product quality may also fall. Organizations that wish to reduce maverick spend should consider rewarding positive behavior, implementing education programs and intuitive tools, and improving compliance monitoring. Above all, efforts to control maverick spend should focus on stakeholder empowerment and enablement.

### **About this report**

All metrics and analysis in this report are based on The Hackett Group's 2019 User Experience and Maverick Spend Study.

### **Introduction**

Maverick spend is a problem for nearly all procurement organizations. Even those with substantial organizational influence still struggle to achieve 100% compliance on contract spend. In many ways, it may seem that procurement is helpless to control maverick spend. However, there are proven methods that are utilized by world-class organizations – methods that improve the education, experience and enablement of buyers, and effectively increase an organization's bottom line.

### **What Is Maverick Spend, Why Does It Occur and Why Does It Matter?**

Some people, when they think of maverick spend, may picture nefarious employees having a heyday with a newly issued corporate credit card. Although it does happen, and certainly qualifies as an example of the problem, the topic is more broadly defined as the buying of goods or services outside of a preferred buying channel, supplier or price when one has already been established.

Maverick spend often occurs because an end user is unaware of approved methods for making purchases. In other instances, it's traceable to a problem with procurement's culture or influence: Shoppers feel they know their needs better than procurement does and deliberately choose to go outside preferred buying channels. In still other cases, maverick spend is the result of something systemic to the organization, such as a lack of well-defined policies, procedures, or intuitive technology that allows requisitioners to efficiently obtain the goods or services they need.

For the majority of organizations, the problem lies in technology or culture (Fig. 1). Seventy-five percent of procurement professionals cite a lack of self-service or guided buying tools as one of the biggest causes of maverick purchases. Rounding out the top three spots are two issues related to culture: a non-compliance mentality and unwillingness by users to change their behavior despite clearly stated policies and procedures.

**FIG. 1 Top reported causes of maverick spend**

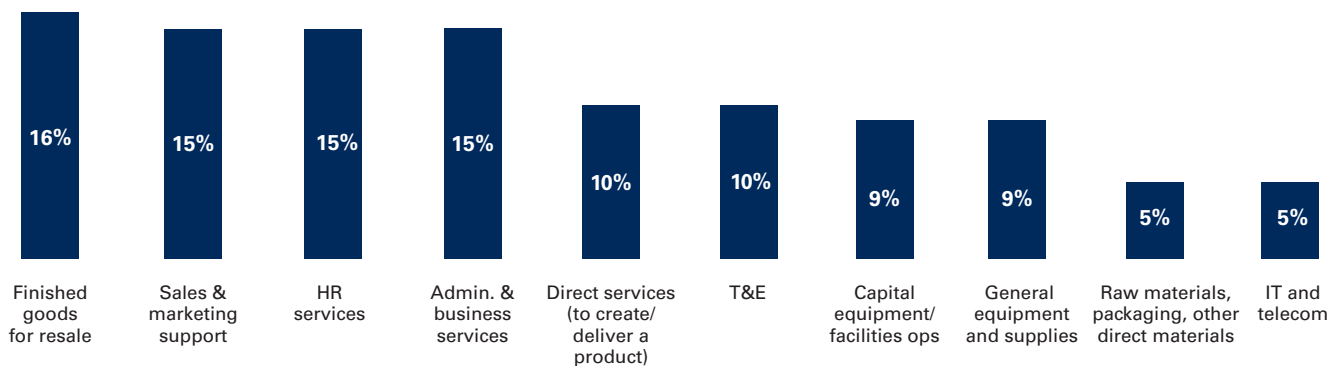


Source: User Experience and Maverick Spend Study, The Hackett Group, 2019

**Estimating the impact**

Perhaps the most meaningful consequence of maverick spend is lost savings. Procurement organizations devote significant time negotiating contracts with suppliers, working to take advantage of large-scale or longitudinal purchasing to ensure their organization gets the best possible price. This effort is completely in vain when stakeholders choose other vendors. Study respondents believe that as much as 16% of negotiated savings are lost when this occurs, with the largest amounts being lost on finished goods for resale, sales and marketing support, HR services, and administration and business services (Fig. 2).

**FIG. 2 Percentage of targeted/negotiated cost reductions lost due to maverick buying**



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

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## The problems caused by maverick spending go beyond lost savings.

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The problems go beyond lost savings (Fig. 3). When negotiating on price, procurement also likely negotiated the quality of the good or service itself. When stakeholders go outside preferred vendors, there are no controls to ensure that the item or service delivered is of the right quality or fit for purpose. This has the potential to decrease customer satisfaction or introduce unnecessary risk to the organization, for example if mechanic-grade latex gloves are purchased by a medical professional instead of gloves that are created, tested and sterilized for medical use.

**FIG. 3 The biggest consequences of maverick buying**



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

When rogue spending occurs, process costs rise for nearly everyone involved. Often, the end-user will spend more time shopping for and purchasing a good or service outside a preferred buying channel. Procurement will then have more involvement, taking time away from more pressing matters and increasing overall FTE requirements.

### How Can Maverick Spend Be Curbed?

#### Getting started

The way a procurement organization should approach reducing maverick spend will depend largely on the unique characteristics of its buyers, stakeholders, vendor pool and technology stack. Its own culture may be a contributing factor, as well. Once identified, there are proven best practices to minimize these factors. The following will deliver quick wins and create a foundation for deeper, more extensive improvements:

- Implementing policies that reward proper behavior and sanction non-compliant behavior; increasing procurement's involvement in the purchasing process and/or decreasing the ability to make purchases without procurement's approval.
- Rationalizing the supply base to ensure all needs are met by the current supplier pool; sourcing new suppliers where necessary; and/or renegotiating with existing supply base.
- Increasing compliance monitoring (broadly); conducting deeper spend analysis with real-time visibility to identify maverick spend.
- Conducting change management and training of non-procurement staff on the effects of noncompliant spend.

Organizations that have implemented these basic practices are ready for a deeper approach, as described beginning below.

#### Diving Deep

For organizations intent on reducing maverick spend, the most successful strategies focus on educating and meeting the needs of stakeholders (including shoppers and budget owners). The methods discussed above are a great way to get started and are good for generating discussion, but none will be as effective as improving the buyer's knowledge and purchasing experience.

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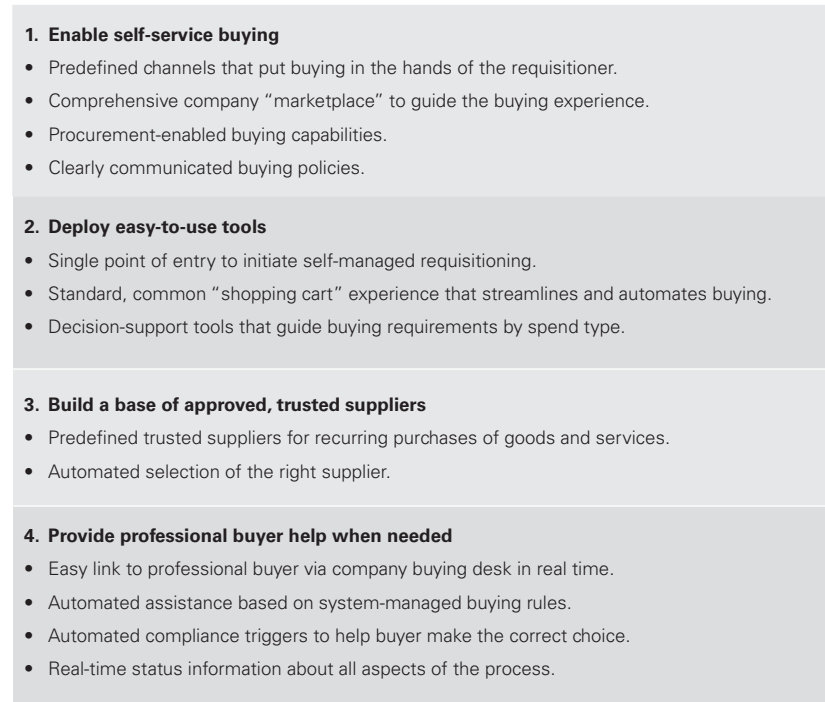
Guided buying leverages the capabilities of the procurement organization while helping requisitioners manage their own buying experience.

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Procurement must start by educating stakeholders about its strategic initiatives, including cost-cutting, quality control and process-improvement plans. It must create a top-down initiative to communicate not just the negative consequences of non-compliant buying (cost, quality, risk, etc.) but also the positive results that come from adhering to purchasing policy. Special care should be taken to make this communication personal and customized by department or role.

Beyond education, the single most effective method for thwarting maverick spend is by creating an omnichannel guided-buying process for requisitioners that allows them to buy and pay for goods and services from any location on the device of their choice, while providing appropriate controls. In short, guided buying leverages the capabilities of the professional procurement organization while enabling requisitioners to manage their own buying experience. To enable guided buying, The Hackett Group recommend developing the capabilities outlined in **Fig. 4**. In addition, the process should allow users to suggest alternative suppliers. If approved, those suppliers should be onboarded automatically for future purchases.

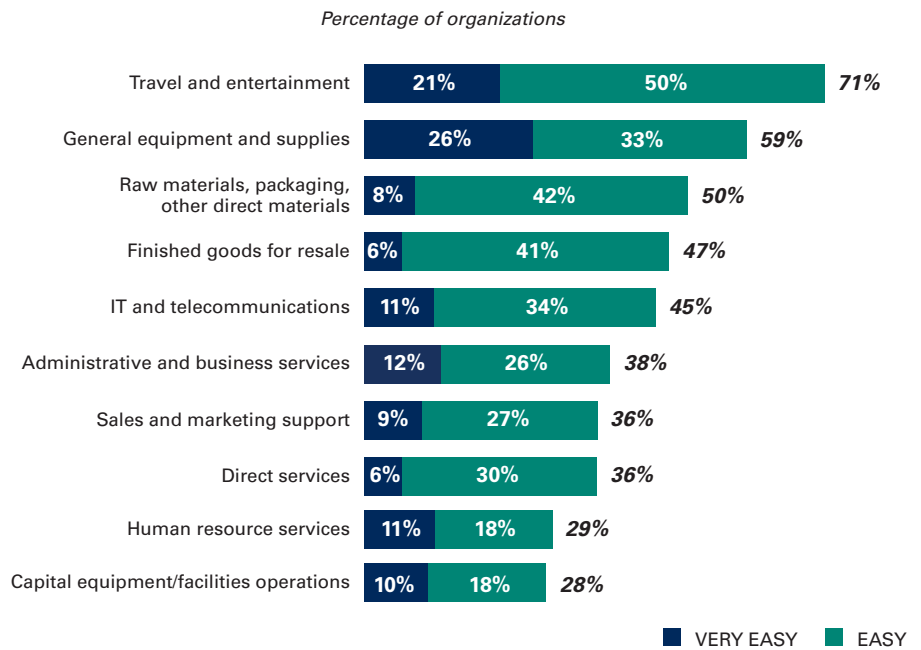
**FIG. 4 Capabilities required for guided buying**



Source: The Hackett Group

By facilitating a guided buying environment, organizations are addressing the number-one challenge faced by stakeholders – not knowing what to buy from whom. Guided buying generally is a good fit for nearly all purchasing categories. However, some will be more challenging due to the need for multi-department collaboration; important but unwritten “tribal” knowledge; or the complexity of the category. Direct services, HR services and capital equipment/facilities operations purchases are the most difficult categories to address in a guided-buying environment (**Fig. 5**).

**FIG. 5 Ease of implementing guided buying, by category**



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

**91%**

Purchasing-strategy compliance rate among study leaders.

**The Hallmarks of Leaders in Maverick-Spend Reduction**

Some study respondents stood out in the areas of user experience and compliance. These organizations prioritize maverick-spend reduction, experience lower amounts of lost savings, demonstrate high rates of purchasing-strategy compliance, and report higher stakeholder ratings. For example, on average, study leaders achieve 91% compliance (on-contract spend) – 23% higher than more typical participants (deemed the “peer group,” or “peers”) (Fig. 6).

**FIG. 6 Compliance to sourcing and purchasing strategy (percentage of spend)**

		Peer group	Study leaders
<b>DIRECT SPEND</b>	Finished goods for resale	68%	93%
	Raw materials, packaging, other direct materials	92%	97%
	Direct services (to create or deliver a product)	77%	88%
<b>INDIRECT SPEND</b>	Capital equipment/facilities operations	72%	87%
	IT and telecommunications	83%	95%
	Sales and marketing support	64%	86%
	General equipment and supplies	73%	91%
	Travel and entertainment	81%	92%
	Human resource services	66%	82%
	Administrative and business services	66%	91%
<b>Overall average</b>		<b>74%</b>	<b>91%</b>

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

Study leaders differentiate themselves in a variety of ways (Fig. 7). First, they focus more than the peer group on supporting the user through online and in-person training. In fact, 100% of study leaders provide stakeholders with online training about the company's buying processes and policies.

**FIG. 7 Training and user support provided**

	Peer group	Study leaders
In-person training on organizational buying processes and policies	63%	78%
Online training on organizational buying processes and policies	33%	100%
Designated person in procurement (by phone/email) to help end-users	50%	67%
Access to a list of pre-approved suppliers for all goods and services	26%	56%
Access to information (online/email) about item availability before making a purchase	13%	56%
Availability of tools (e.g., chat/virtual assistants) to help buyers purchase items or services	8%	11%

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

**100%**

Study leaders that provide online training on buying processes and policies, vs. 33% of the peer group.

Two-thirds of leaders in the study have already implemented e-procurement tools, contract management software, and similar purchase-to-pay tools to automate the end-to-end process. Better technology, along with training, was a common trait among organizations with lower rates of maverick spend. Therefore it is not surprising that study leaders rated themselves as providing a better user experience (Fig. 8).

**FIG. 8 The stakeholder purchasing experience**

*Percentage of organizations*

	Peer group	Study leaders
5 (Very good)	0%	0%
4	18%	44%
3	33%	56%
2	46%	0%
1 (Poor)	3%	0%
<b>Average Score</b>	<b>2.67</b>	<b>3.44</b>

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

### Conclusion and Recommendations

Not only does maverick spending reduce the effectiveness of the procurement organization's efforts to negotiate savings, it also brings unnecessary risk and potentially reduces customer satisfaction. Procurement organizations that wish to address this problem should focus on educating stakeholders on its negative impacts as well as the approved methods and tools. In particular, once past the easy fixes, organizations should implement a guided buying program, along with proper training and user-support capabilities.

## About the Advisors

### Jimmy LeFever

Senior Research Director, Procurement Advisory



In addition to conducting research on topical subjects, Mr. LeFever advises clients as they work to optimize their processes, organization and technology (both on-premises and cloud-based). His subject matter expertise includes sourcing, contract management, procure-to-pay, order-to-cash, payments, and travel and expense management. Before joining The Hackett Group, he was director of research and consulting at PayStream Advisors.

### Amy Fong

Associate Principal, Procurement Advisory Program



Ms. Fong has 20 years of experience in industry and consulting with a focus on procurement, supply chain and organizational effectiveness. She helps business leaders improve source-to-pay processes, manage complex supply chain partnerships and mature their organization's service delivery model. She also performs primary research in source-to-pay and operations and is the author of a number of publications on these and other topics.

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[www.thehackettgroup.com](http://www.thehackettgroup.com)

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London +44 20 7398 9100  
Sydney +61 2 9299 8830

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