GEP® INTELLIGENCE DRIVES INNOVATION

CONQUERING TAIL SPEND IN 2025

New AI-Powered Tools and Strategies for Success

Everest Group®

February 2025

From Chaos to Control: Digitally Optimized Tail Spend Management

Contents

Introduction

Procurement has evolved from being viewed purely as a cost center to becoming a strategic function that drives significant value. While organizations have traditionally focused on managing spend with strategic suppliers, they often overlook tail spend – typically low-value, high-volume transactions made by employees without procurement expertise. Effectively managing tail spend, however, presents an untapped opportunity for businesses to optimize costs and enhance operational efficiency.

Historically, procurement teams concentrated on strategic spend, which represents a major share of overall purchases but accounts for only a fraction of transactions. In today's challenging business environment, marked by supply chain disruptions, inflation, and sustained economic uncertainty, cost optimization has become a top priority. Organizations are rethinking their approach to tail spend management, realizing that managing this fragmented spend better can unlock substantial savings, mitigate risks, and improve compliance.

In this report, we explore the persistent challenges in managing tail spend and identify innovative strategies and technology interventions that help organizations unlock untapped value. By addressing current gaps and leveraging emerging solutions, organizations can drive cost savings, enhance compliance, and increase operational efficiencies.

The report will answer key questions around tail spend management, including:

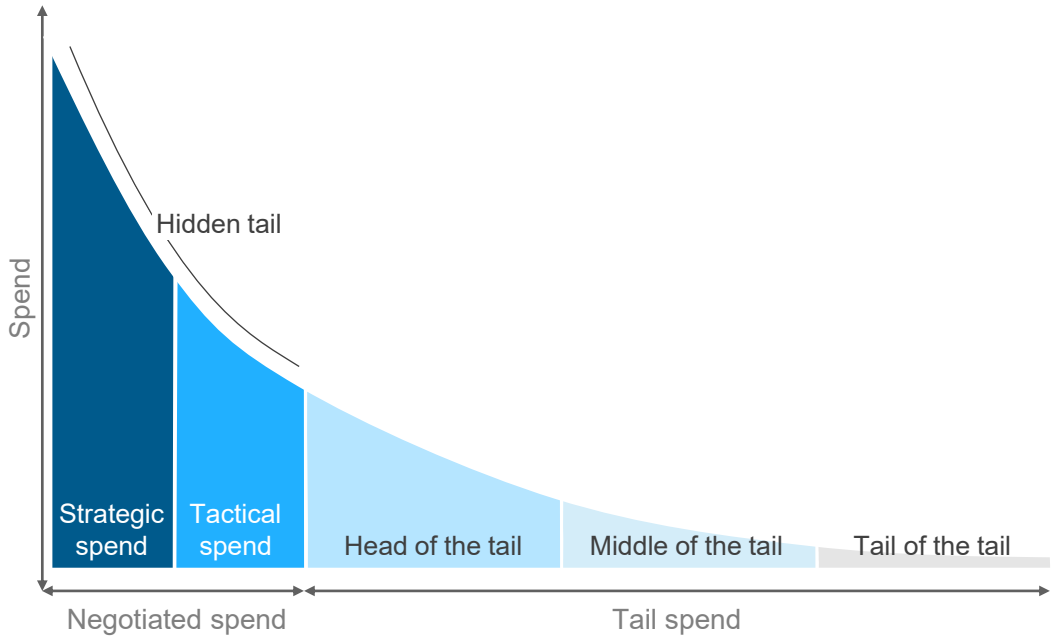
- What are the current gaps or challenges in tail spend management?
- How can reimagining organizational structures and processes optimize tail spend management?
- How can next-generation digital solutions leveraging advanced AI and analytics transform tail spend management?
- What key success factors can help drive value through tail spend management?

Tail spend management's importance

Although tail spend management is frequently discussed within procurement, it is rarely optimized due to the ad hoc nature of purchases, high transaction volumes, and limited visibility. Tail spend, which can account for up to 80% of total transaction volume, primarily consists of low-value, one-off, or infrequent purchases spread across a wide range of suppliers. What qualifies as tail spend can vary by organization. Exhibit 1 illustrates a typical segmentation of procurement spend.

Exhibit 1: Understanding procurement spend

Source: Everest Group (2025)



Tail spend can be broken down into four segments: hidden tail, head of the tail, middle of the tail, and tail of the tail. Hidden tail spend comes from purchases made from existing suppliers outside of negotiated contracts. Often, employees unknowingly make these off-contract purchases, unaware of pre-established pricing. The head of the tail refers to the higher-value portion of tail spend, encompassing purchases that, while still classified as tail spend, represent relatively higher value. The middle of the tail involves numerous spot buys, often resulting in thousands of transactions annually and leading to significant unnecessary costs. The tail of the tail includes low-value, highly transactional purchases with minimal or no negotiation.

Since tail purchases fall outside the procurement function's scope and are scattered across business units, geographies, and departments, they are often unplanned, manually executed, and driven by immediate business needs. Additionally, non-preferred suppliers frequently handle these purchases, creating several organizational challenges, including:

- **Noncompliance:** Organizations often lack clear policies for procuring tail items due to its ad hoc nature. Even when policies exist, they are often stored in shared drives, with an expectation that users will consult them before purchasing. Consequently, users often bypass procedures and engage with non-preferred suppliers, leading to widespread noncompliance
- **Value erosion:** Siloed purchasing practices result in multiple suppliers being used for similar product categories, fragmenting demand. This prevents organizations from securing volume discounts with preferred suppliers. Unfavorable terms with non-preferred suppliers, such as higher prices, further erode value and waste resources
- **Poor data quality and visibility:** Tail spend procurement happens through various manual and digital mediums across multiple systems. Integrating Enterprise Resource Planning (ERP) platforms, Source-to-Pay (S2P) systems, and other procurement tools creates data silos, limiting visibility into tail spend and resulting in inaccurate categorization
- **Low internal stakeholder satisfaction:** Limited technology support for guiding users through purchasing, coupled with complex policies and compliance procedures, lowers stakeholder satisfaction. Users spend excessive time on non-strategic activities, negatively affecting productivity

In addition to these challenges, managing direct tail spend adds further complexities. Direct tail purchases must meet the same strict criteria as direct strategic purchases, requiring collaboration among manufacturing, inventory, and quality assurance teams. Suppliers must undergo rigorous qualification processes, including quality certifications and policy adherence, and orders must match suppliers' production capacity.

Once selected, suppliers must be integrated into the ERP system, requiring the setup of item master and purchasing records for long-tail items. These additional complexities cause direct tail spend to be managed similarly to direct strategic spend, which leads employees in manufacturing locations to spend significant time on procurement, pulling them away from core operational responsibilities.

Exhibit 2 summarizes the challenges of managing tail spend, including additional direct tail spend complexities.

Exhibit 2: Tail spend management challenges

Source: Everest Group (2025)

Challenges in managing tail spend

Noncompliance

Lack of proper knowledge management

No compliance embedded in workflows

Value erosion

Siloed purchasing

Limited price negotiations

Poor data quality and visibility

Disparate purchasing systems

System integration challenges

Data silos

Low internal stakeholder satisfaction

Cumbersome compliance process

Reliance on shared drives to access policies

Additional complexities in direct tail spend

Stringent criteria

Direct strategic purchases criteria

Complicated order allocation

Order allocation based on supplier's production capacity

Rigorous qualification

Suppliers must meet quality certifications

Rigorous qualification process

Complexities will be even greater in organizations with a higher proportion of imports within the tail due to taxes, customs, and duties.

While tail spend management is complex and challenging, organizations that effectively manage it can realize substantial benefits, such as:

- **Cost savings:** By consolidating demand across the organization and negotiating with preferred suppliers, companies can secure better discounts
- **Increased working capital:** Negotiations that result in standardized and extended payment terms help free up working capital
- **Improved productivity:**
  - **Reduced cycle times:** Standardized policies, faster approvals, and simplified payments reduce transaction times
  - **Increased productivity per full-time equivalent:** Using the right buy channels and technologies allows employees to focus on strategic tasks
- **Improved data quality and reporting:** Implementing the right channels and technologies enhances visibility and control over spending
- **Risk reduction:** Consolidating the supplier base and eliminating noncompliant suppliers mitigates financial, reputational, and legal risks

Modern procurement design principles for effective tail spend management

Many organizations have launched initiatives to address tail spend challenges, such as establishing clear policies, offering various buy channels such as purchasing cards and catalogs, and creating buy desks to give users multiple options. While these efforts provide a solid foundation for effective tail spend management, they often fall short. Business users often forget or bypass policies due to the inconvenience of consulting them before every purchase, resulting in noncompliant purchases. In many cases, the situation's urgency and lack of clarity on the right buy channels cause buyers to use inappropriate channels, further compromising data visibility.

To address these gaps, leading organizations are adopting modern tail spend management strategies that build on traditional methods and leverage innovative design principles to streamline processes, enhance compliance, and drive cost efficiencies. Some common modern interventions include:

- **Embedding compliance into workflows:** Organizations embed policies and integrate compliance into each step of the workflow, redesigning processes where needed. For instance, they establish approval workflows for purchases exceeding a set threshold and maintain a preferred list of compliant suppliers for various categories. By leveraging generative AI and Intelligent Virtual Assistants (IVAs), businesses can guide users to make compliant purchasing decisions

- **Profiling spend:** Organizations emphasize robust data management to consolidate, clean, and prepare spend data for analysis. This enables them to apply analytics to profile spend based on factors such as frequency, purchase complexity, and business criticality
- **Using appropriate buy channels:** Tailored buy channels ensure that users make purchases through the right routes. For example, spot buys and P-cards are well-suited for consumables such as office supplies, snacks, food, and IT peripherals. Catalogs work well for Maintenance, Repair, and Operations (MRO) items, cleaning supplies, and office equipment, while buy desks are ideal to acquire professional services such as consulting, legal, and compliance services

In addition to traditional channels, organizations are increasingly adopting modern buying channels that are easier to use, improve spend visibility, and enhance user experience. Two of the most commonly adopted modern buy channels are B2B marketplaces and spend aggregator models, which offer more flexibility and control over tail spend.

B2B marketplaces

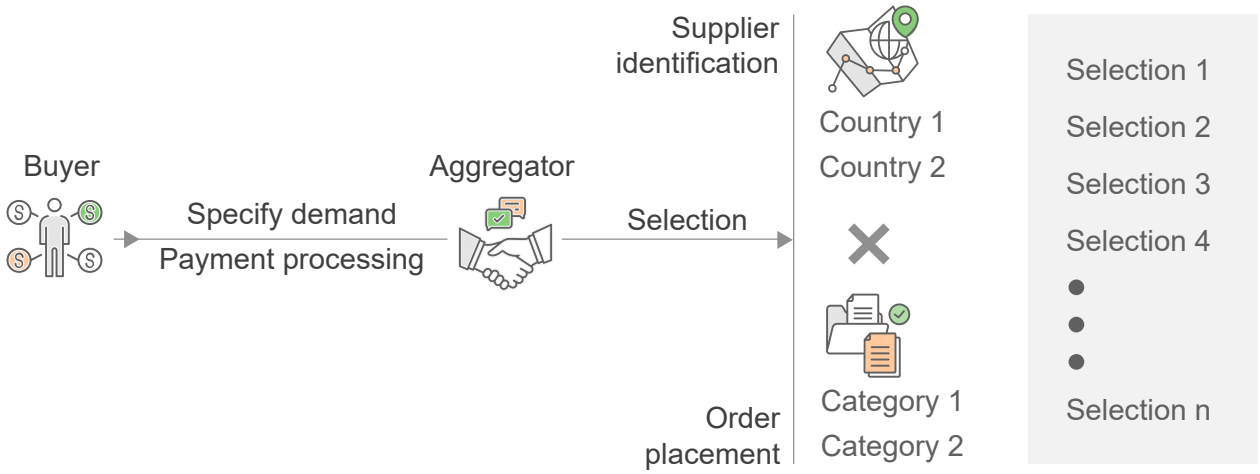
B2B marketplaces are e-commerce platforms designed to streamline procurement by providing an Amazon-like experience for business users. These platforms connect buyers with multiple suppliers, offering a wide range of products and supplier options. They provide detailed supplier information, including compliance data and user ratings, to help users make informed decisions. With intuitive search, selection, and ordering capabilities, users can easily navigate the platforms. B2B marketplaces manage the entire purchasing process, ensuring transparency and visibility into purchase details. They also seamlessly integrate with existing procurement software, facilitating payment management and enabling data transfer. Additionally, they ensure compliance by executing orders through pre-established contracts.

Spend aggregator model

A spend aggregator consolidates purchasing under a single supplier, known as the aggregator, that manages the entire purchasing process across multiple suppliers and acts as the single point of contact for enterprise buyers, as shown in Exhibit 3.

Exhibit 3: Spend aggregator model

Source: Everest Group (2025)



By adopting this model, businesses can offload managing a vast supplier base and transaction processing to the aggregator, allowing users to focus on core operations. Organizations also benefit from cost savings, as the aggregator negotiates more favorable terms with suppliers by leveraging economies of scale and aggregating demand across multiple enterprises.

Unlocking value through technology in tail spend management

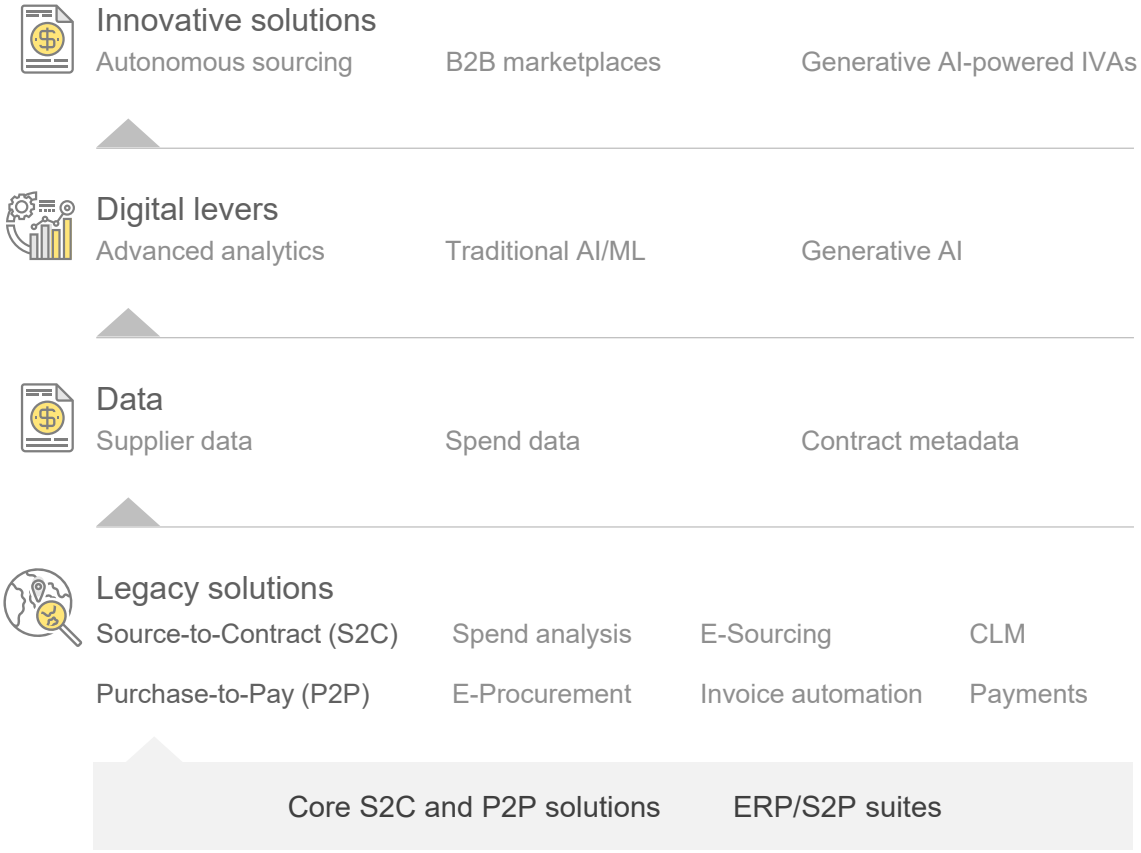
While modern organizational interventions can improve tail spend management, they cannot fully address its challenges. Technology plays a vital role in streamlining procurement operations, enhancing data visibility, and delivering value. ERP and S2P platforms form the foundation of an enterprise's procurement technology stack, designed to handle end-to-end procurement for high-value, strategic categories. However, these systems are designed for comprehensive processes and complex workflows to ensure compliance, which can become cumbersome when applied to tail spend. Tail spend requires efficiency and minimal administrative overhead, rather than the detailed compliance checks typical of larger spend categories.

Due to these limitations, business users often resort to offline methods or alternative software solutions to procure tail items. Managing thousands of these transactions across multiple business units, regions, and suppliers becomes time-consuming and labor-intensive, involving multiple human touchpoints. This reduces efficiency and leads to a poor user experience.

Recognizing ERP/S2P platforms' limitations in handling tail spend transactions, leading organizations are increasingly adopting advanced solutions. As outlined in Exhibit 4, these interventions focus on improving data management, streamlining workflows, and leveraging technologies and emerging solutions to better handle tail spend.

Exhibit 4: Technology interventions for effective tail spend management

Source: Everest Group (2025)



These innovations complement the existing enterprise procurement digital ecosystem and address specific gaps, enabling enterprises to manage tail spend more effectively.

Data management

One of the biggest challenges in tail spend management is the lack of visibility, as these purchases often occur across various departments and systems, complicating data consolidation. Implementing a robust data management system and strategy is essential for effective tail spend management. Digitalizing manual purchases and using appropriate buy channels ensures accurate capture of purchase data. By effectively integrating systems, organizations can consolidate all purchase information from various platforms, including ERPs and S2P/P2P systems.

Harmonizing data and implementing robust governance ensures high-quality data, addresses root causes of inconsistencies, and improves usability. Well-maintained, high-quality data allows organizations to leverage emerging technologies such as advanced analytics, AI, and ML, providing deeper insights and driving optimization across the enterprise.

Advanced analytics

Advanced analytics can significantly enhance tail spend management by analyzing extensive tail spend data and providing insights into various components such as suppliers, categories, nature of spend, business units contributing to the spend, and compliance violations. This analysis allows organizations to categorize and manage fragmented suppliers, improving supplier management and visibility into procurement activities.

By facilitating seamless data flow across systems, organizations can gain deeper insights into spend patterns and trends. This helps uncover opportunities to consolidate and optimize costs through price comparisons, negotiations, and supplier consolidation. Additionally, analyzing spend can reveal potential purchasing risks, such as noncompliant suppliers, fraudulent transactions, and other discrepancies, empowering the procurement function to mitigate risks more effectively. Leveraging these analytical capabilities drives data-driven decision-making, resulting in cost savings and greater operational efficiencies.

Traditional AI/ML

Traditional AI/ML technologies bring further value to tail spend management by providing deeper insights into spend patterns, enhancing decision-making, and improving forecasts. AI/ML models analyze historical spend data to predict future budget requirements, enabling decision-makers to prioritize key spend items rather than distributing resources thinly across all expenditures.

Additionally, supplier recommendation engines use historical data and contract information to suggest optimal suppliers based on predefined criteria such as quality, delivery timelines, payment terms, and financial benefits. This streamlines the supplier selection process while mitigating risk. ML algorithms can also identify bottlenecks in procurement workflows, providing targeted insights for improvement. Multimodal AI can

analyze procurement transactions, contracts, and requests to detect anomalies such as abnormal spikes in spend or contractual discrepancies.

By leveraging these technologies, organizations can enhance planning, optimize supplier management, streamline workflows, and mitigate risks, ultimately improving tail spend management.

Generative AI

Generative AI offers new opportunities to enhance tail spend management through various use cases, including automated document creation, virtual assistance, and decision support. It can generate spend reports, customized dashboards, and performance updates for different stakeholders, reporting on key metrics. Additionally, generative AI assists business users in communicating with suppliers by generating content for emails and messages to place orders, negotiate terms and pricing, request status updates, and more, ensuring timely and consistent supplier engagement.

It also creates customized training materials and instruction manuals, improving stakeholders' understanding and productivity in managing tail spend. Additionally, generative AI can analyze patterns and trends to suggest strategy changes, identify alternative suppliers, and recommend cost-saving measures, empowering procurement teams to make more informed decisions and drive greater business value.

Exhibit 5 demonstrates how leveraging emerging technologies for tail spend management can drive outcomes such as cost reduction, improved compliance, and enhanced process efficiency.

Generative AI empowers business users to enhance supplier communication, develop tailored training materials and instruction manuals, and identify compliant suppliers, driving significant improvements in tail spend management.

Exhibit 5: Leveraging digital levers to drive outcomes

Source: Everest Group (2025)

[NOT EXHAUSTIVE]

Technologies leveraged: Advanced analytics Traditional AI/ML Generative AI

Outcomes	Technology use cases to drive outcomes		
Cost reduction	Uncover hidden opportunities to save costs by analyzing spend data	Optimize supplier selection and help negotiate better T&Cs	Prevent leaks by detecting patterns indicative of fraudulent activities such as duplicate invoices
Compliance and risk management	Monitor tail purchases to adhere to organizational policies and procedures	Rationalize the supply base by identifying and ensuring engagement with compliant suppliers	Use generative AI to help monitor internal and external events and identify potential risk
Process efficiency	Streamline purchase operations by digitalizing processes and reducing manual errors	Optimize workflows by identifying bottlenecks and suggesting process improvements	Use generative AI-based guided buying solutions to assist users through the purchasing process
Enhanced user experience	Use AI to analyze user behavior and personalize purchase recommendations	Leverage generative AI-based interactive solutions to make users aware of purchase policies	Help users by creating supplier communication content such as order placing and negotiation

Additionally, best-in-class organizations are adopting innovative solutions such as generative AI-powered IVAs and autonomous sourcing tools. These solutions complement existing procurement technologies by automating processes and assisting users throughout the purchasing journey.

Generative AI-powered IVAs

IVAs powered by generative AI offer conversational capabilities that simplify and support the complexities of the purchasing process. They keep users informed about updated policies and procedures, eliminating the need to search shared drives. With an intuitive interface, IVAs guide users to preferred suppliers and existing contracts, thereby minimizing off-contract spend.

Additionally, IVAs streamline supplier communications by managing conversations around order confirmations, delivery updates, and payments. They also collect feedback from users on supplier performance, aiding procurement teams in rationalizing and consolidating the supplier base. The analytical capabilities of IVAs alert purchase managers and users to anomalies or noncompliant purchases, enabling quick corrective actions such as redirecting to the correct buy channels or engaging preferred suppliers.

Moreover, IVAs assist in cost budgeting and control by providing real-time spend updates and flagging any budget deviations, ensuring more effective financial management.

Autonomous sourcing

Business users often lack the necessary sourcing expertise and time to identify and select the best suppliers for large volumes of tail spend transactions, increasing the risk of engaging with suboptimal suppliers. This can lead to compliance issues, overpayments, and wasted organizational resources. AI-driven sourcing solutions offer a transformative approach by helping organizations consistently engage with best-fit suppliers.

Best-in-class sourcing solutions act as comprehensive tools that empower organizations to source efficiently. With highly customizable features, these solutions expedite the sourcing process, enabling business users to focus on strategic tasks, thus improving productivity. Exhibit 6 illustrates how leveraging autonomous sourcing tools can contribute to enhanced tail spend management.

Exhibit 6: Autonomous sourcing tools' role in tail spend management

Source: Everest Group (2025)

Demand grouping

Identify and bundle similar kinds of requests

Supplier recommendation

Recommend potential suppliers based on data analysis and algorithms

Seamless transition

After finalizing the purchase, allow users to smoothly transition to P2P/CLM tools

Supplier communication

Establish proper communication channels

Provide an intuitive dashboard on the supplier portal

Supplier activity monitoring

Facilitate multiple bidding rounds

Provide valuable insights into supplier behavior

Autonomous negotiation

Completely automate both bot-to-bot and bot-to-human negotiations

"According to an Everest Group survey, 61% of respondents are looking to automate sourcing for tail spend."[1]

Key factors for successful tail spend programs

An abundance of options to enhance tail spend management via organizational changes and technologies can create a paradox of choice for organizations. With many options, organizations must invest significant effort to identify the best-fit solutions, considering broader business objectives and crafting a thoughtful adoption plan. This process requires input and alignment with stakeholders across relevant functions. Any missteps in planning or implementing chosen solutions can increase the risk of the tail spend program failing to deliver the desired benefits.

Clearly defining the scope, establishing well-defined roles and responsibilities across teams such as procurement, legal, and IT, streamlining processes, and shortening approval workflows are vital to the success of tail spend programs. Aligning and collaborating with adjacent functions such as finance and IT facilitate the smooth implementation and integration of procurement-specific tools. Additionally, implementing targeted change management and user engagement strategies fosters strong user adoption, helping organizations realize the program's full potential and sustain its benefits.

Exhibit 7 illustrates the measures leading organizations take to ensure tail spend management's success.

1 Optimizing Sourcing Operations Through Autonomous Sourcing Tools

Exhibit 7: Implementing a successful tail spend management program

Source: Everest Group (2025)

Spend classification

Clearly define spend categories and purchases falling within and outside of tail spend's purview

Policy and process compliance

Regularly review tail spend policies and simplify processes, such as obtaining exceptions for low-risk and low-spend categories, reducing Request for Proposal (RFPs) to Request for Quotations (RFQs), and replacing lengthy negotiations with three-bid and buy or e-auctions

Embed policies as part of processes and workflows to drive compliance

Buy channel strategies

Adopt multiple buy channels such as marketplaces and spend aggregator models

Use different buy channels optimally, depending on the spend's nature

Digital maturity

Adopt emerging technologies and solutions to ensure fully digitalized purchasing processes, helping in data management and visibility

Collaboration

Design and implement the tail spend management strategy involving IT, legal, finance, and other relevant stakeholders

Collaborate and communicate regularly with stakeholders for day-to-day operations

Conclusion

Tail spend management continues to challenge organizations due to its fragmented nature and decentralized decision-making, where business users with competing priorities often drive suboptimal outcomes. Despite ongoing efforts to optimize tail spend, immediate business needs for these products and services often outweigh long-term optimization goals.

However, modern organizational strategies and emerging technologies present significant opportunities to transform tail spend management, offering benefits beyond cost savings such as process improvements, improved compliance, and enhanced user

experience. Rapid advances in procurement technologies, including P2P software and best-of-breed solutions such as CLM, SRM, sourcing, and spend analytics, along with innovative solutions such as autonomous sourcing and procurement orchestration, address many tail spend challenges and enhance operational efficiencies.

These solutions provide a range of options to enhance and complement existing procurement systems. As technology continues to evolve, organizations will have access to even more advanced tools to effectively manage their tail spend. To fully capitalize on these innovations, organizations must thoughtfully select and integrate solutions based on their maturity levels and operational readiness. By adopting the right combination of technologies tailored to their specific needs, organizations can maximize their tail spend management efforts' value and achieve desired outcomes.

Everest Group®
With you on the journey

Everest Group is a leading research firm helping business leaders make confident decisions. We guide clients through today's market challenges and strengthen their strategies by applying contextualized problem-solving to their unique situations. This drives maximized operational and financial performance and transformative experiences. Our deep expertise and tenacious research focused on technology, business processes, and engineering through the lenses of talent, sustainability, and sourcing delivers precise and action-oriented guidance. Find further details and in-depth content at www.everestgrp.com.

This study was funded, in part, by GEP

For more information about Everest Group, please contact:

+1-214-451-3000

info@everestgrp.com

For more information about this topic please contact the author(s):

Shirley Hung, Partner
shirley.hung@everestgrp.com

Amir Khan, Practice Director
amir.khan@everestgrp.com

Prateek Singh, Practice Director
prateek.singh@everestgrp.com

Manan Singhal, Senior Analyst
manan.singhal@everestgrp.com

Anirudh N Kopparam, Analyst
anirudh.kopparam@everestgrp.com

Notice and Disclaimers