



Distributors vs Integrators

Who's a Perfect Partner For Industrial Tail Spend Management?

Published Date : April 14th 2022

Published By: GIS International B.V

Website: <https://www.gisinternational.net>

Tail spend management has become a newly established strategic focus for Procurement groups across all industries globally. The top-level management, executives, and procurement heads have begun to focus on reducing the excess cost associated to manage tail spend. Lack of a dedicated tail spends management strategy reduces the spend visibility and significantly increases administrative cost and complexity in the procurement process.

Tail Spend Challenges Faced By Industries

Many organizations procure products and components from a large number of vendors that create a long tail of C components. The ad-hoc purchases from many suppliers, multiple low-value transactions and inefficient procurement systems in the organization can lead to a heavy blow to business in the long term.

The inefficient procurement process of Class C spend leads to mismanaged tail spend resulting in huge losses occurring from non-strategic processes. Any organization faces a few common challenges with tail spend management such as:

- Lost control over data record in the long tail spend
- Analyzing the market and finding the right suppliers
- The low power to negotiate with the large volume of vendors
- Complex purchase order and invoices approval system
- Time-consuming vendor on-boarding and AP process
- Lack of visibility in the tail spend management process
- Limited efforts on Supplier risk evaluation on tail spend
- Restrictions to discover vendors in the geographical limits
- Unpredictability in stock requirement

Another major issue faced by procurement teams is adhering to the standard payment terms of suppliers. The unbalanced payment terms lead to unmanaged books and lost accounts that create hurdles in the management. Hence to ensure a constant level of standards along with calculated savings measures against the vast supplier base is a major challenge for many organizations.

Business models like integrators and distributors have brought a new strategy to overcome these tail spend management challenges. These procurement partners' new technology and service capabilities work to design an effective strategic procurement process to drive tail spend consolidation.

Role Of Distributors In Tail Spend Management

A distributor is an important sourcing partner that acts as an intermediate between the manufacturers and the end-customer. They provide excellent second-and third-tier OEMs and electronics manufacturing services (EMS) to the businesses. Distributors often work by area zones that allow them to know a limited range of OEM's but with excellent product supply to the organization. They negotiate with the suppliers on behalf of the customer to get the best deal for the procurement optimization.

Distributors can provide the customers products with a plethora of design and supply chain services such as consignment stock that help companies reduce storage and logistics cost. For a narrow range of products offered by the distributors, customers can compete better in that specific product segment.

Role Of Integrators In Tail Spend Management

Integrators are responsible for the complete end-to-end procurement management process, including tail spend related operations. They not only offer the services performed by distributors but also work towards inventory optimization and process standardization like an extended in-house team working for end-to-end service with primary focus on Category Management and Strategic Sourcing expertise. Integrators manage the entire supply chain from a Procurement and Sourcing perspective. Being an extension of Client's Procurement Department.

Integrators achieve a lower cost of ownership for the customers by taking the risk and liabilities of purchasing products and supply to the customer every month. They have a larger scale of market integration that allows them to drive significant savings by seeking better pricing through volume aggregation and SKU optimization. They cover all ranges of products and components of the customer in strategic and non-strategic spending for providing a holistic service.

Integrator is a dedicated procurement partner that takes responsibility for every business aspect in the tail spend management without any exclusions.

Distributors Vs Integrators

Sr. No	Distributor	Integrator
1.	Distributors offer limited services for specific categories, including storage and distribution of these product/components	Integrators offer purchase, storage and distribution of the product/components along with complete system integration for procurement
2.	Specific, contracted brand association for limited categories	Multi brand network across all categories
3.	Does not include material handling	Includes material handling
4.	Consignment stock only on select brands	Inventory Forecasting, Stock Optimizing and Ensure On-Time Delivery in Full
5.	Offers excellent technical service for limited product segments	Offers process services for all types and categories and products
6.	Does not indulge in the micro management of the customer's procurement process	Micro-manage the customer's Tail-spend procurement process with digitization and e-procurement strategies

It is well established that both Distributors and Integrators have benefits that can bring value to the organisations in different sections. But which is a better option for tail spend management?

Which Partner Is Better For Optimizing Tail Spend Management?

All the organizations nowadays strive for integrated procurement outsourcing solution that satisfies the business needs for the value of the investment. This procurement business model of the partner needs to be flexible with newer tools and with the existing business system.

If you need a niche product for your supply chain at the best market price, reaching out to a distributor will be a better option. A distributor is a brand/product-specific partner specializing in the area to negotiate at par with all the market vendors for that product.

However, if you are looking for a partner to take over your tail spend management process completely for efficiency, cost optimization with category management expertise, then an Integrator must be your choice. An integrator provides an opportunity to the organization for innovation, system efficiency, and better control on the tail spend.

Hence, the choice of business models completely depends on your tail spend requirement. In the last 15 years, many companies worldwide have adopted the Integrated facilities management. They aim to establish a long-term relationship with a few selected strategic partnerships for a 360-degree model. This initiative helps consolidate the tail spend management that arises with the help of services performed collectively by distributors and integrators.

Instead of working with a specific type of partner, businesses can work with a hybrid procurement partner to get the best of both worlds. Businesses can target a partner with a hybrid model that offers both the Integrator and distributor services based on the categories and spend segmentation for providing a holistic tail spend

management. You can also seek an Integrator for the larger tail spend along with strong partner alliances with regional distributors for specific brands.

The Hybrid Approach To Tail Spend Management

Looking at the Kraljic-matrix, non-strategic spending was inefficient to manage until now, but with the hybrid model, this can be executed efficiently. The amalgamation of distributors and integrators enables category expertise, tailored processes, and tail specific technology to work with guaranteed precision and coverage.

A hybrid business model acts as an extended team of the client's procurement team to perform the end-to-end services. With this approach, customers don't have to worry about the supplier on-boarding and management of procurement strategy for the tail spend management. A hybrid procurement partner aims to extract maximum benefit from the supplier's relation, storage and logistic support along with the operational and risk mitigation benefits.

With a hybrid tail spend management partner, you get a more straightforward procurement process with a ONE vendor model who consolidates/standardize all categories from multiple customers. The use of advanced transactional- and payment-technologies enables an enhanced user experience. This e-procurement strategy allows businesses to get detailed spending data and supplier information using a simple system.

A new hybrid business model will help the businesses in better tail spend management without any compromise.

Benefits Of The Hybrid Model

Many to One Supplier:

The procurement partner aims to reduce the number of suppliers by consolidating the procurement vendors. They purchase all the strategic and non-strategic products on their account and provides a low-cost supply to the customers. This innovative way offers a single supplier model that reduces the invoice to one for cost savings accounting process across all IT infrastructure and associated services.

Integrated Procurement System:

A completely integrated e-Procurement system that reduces the redundant manual tasks to a minimum. The digital system offers a visual dashboard created with real-time data that depicts the financial, strategic and operational data for clear decision making and management. The digital system benefits the finance department in the procurement team for performing all the back office tasks smoothly.

There are many other benefits of a hybrid model, such as:

- Product access: Get product quickly every month without any storage cost
- Purchasing power: The procurement partner buys in bulk that indirectly increases your purchasing power
- Short cycles: Reduce the unnecessary purchasing time with increased order accuracy
- Smart communication: Electronic Data Interchange (EDI) processes for purchase orders and invoices.
- Efficient management: E-procurement technology for streamlined tail spend management
- Resources saving: Time and cost reduction
- Risk and liabilities: Reduced risk by avoiding direct 3rd party vendor engagement
- Standardized processes: Consolidated same category product purchases from pre-selected and approved vendors.

Conclusion

A tail spends management outsourcing partner needs to be hybrid to offer a customized procurement solution to businesses today. A well-established tail spends management strategy through a dedicated partner will bring down your procurement cost significantly. Take the approach that is easy to function, flexible and integrate with your business system for a promising future!

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