

# Are You Aligning Procurement Spend with Finance Budget? (If not! Start today & here's Why?)

A sudden surge in energy prices can inflate the cost of goods, directly impacting your final product's price or limiting operational maintenance budgets. Are you aligning procurement spend with your finance budget to effectively address such disruptions? If not, start today – here's why.



**Karima**

Procurement Value for Growth

Let's Begin >

# What is Budget vs. Spend ?

**In Procurement, it refers to tracking & managing spend against allocated budget & includes:**

## **1. Financial Budget**

Is the amount of money allocated by finance for procurement to spend within a set period. & is based on company goals, revenue, & cost projections.

## **2. Procurement Forecast**

Is the estimated spending based on market trends, contracts, demand & market trends.

## **3. Actual Spend**

Is the real money spent after purchases are made.

## **4. Variance**

Is the difference between the budgeted amount & the actual spend. A negative variance means overspending, a positive variance =underspending.

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# Proactive Variance Management

## Example:

Finance allocates \$1,000,000 for procurement to buy raw materials.

Procurement forecasts \$950,000 based on supplier quotes.

Actual spend ends up at \$1,050,000 due to price increases.

Variance = - \$50,000 (overspend)

→ Requires action to balance the budget.

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# Proactive Variance Management Cheat Sheet - Example

Step	Action	Description
1	<b>Conduct Root Cause Analysis</b>	Investigate the reasons behind the 5% or greater variance. This may involve examining market conditions, supplier performance, internal processes...
2	<b>Develop Action Plan</b>	Create a detailed plan rapidly to address the identified root causes. This plan should include specific actions, timelines, and responsible parties.
3	<b>Communicate Plan</b>	Share the action plan with all relevant stakeholders, including finance, business units, and suppliers. Ensure everyone understands their role in addressing the variance.
4	<b>Monitor and Adjust</b>	Continuously track the effectiveness of the action plan. Make necessary adjustments as needed to ensure the variance is resolved & future occurrences are prevented.

# Why it Matters to Us?

Every business sets a budget to control costs & plan its financial future. Procurement is responsible for spending that budget wisely → but in reality, prices change, demand fluctuates, & unexpected costs arise.

If we don't track budget vs. actual spend, it can lead to:

1. **Overspending** → Finance cuts budgets or blocks purchases.
2. **Underspending** → Departments lose funding, or budgets are reallocated.
3. **Poor financial planning** → Misalignment btw procurement, finance, & business strategy.

Procurement's impact can be determined by how effectively we manage budget vs. spend to support the business.

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## So What's OUR challenge ?

Finance sets a budget, but US, we deal with the real world spending & constant changes...

If procurement doesn't track forecasted vs. actual spend against the budget, the business risks financial instability and resource mismanagement.

Therefore, **alignment** is crucial.

Often, this step is overlooked until it is too late. Finance may not fully realize the importance of procurement inputs, and Procurement may not fully realize its impact on the company's numbers.

Sometimes, a simple reminder to align is all it takes.

# Improving Finance & Procurement Synergy.

1. Convert procurement numbers & efficiency gains into **financial impact**.
2. Provide evidence backed **forecasts**, showing trends & risk factors.
3. **Standardize budget tracking** reports with finance for consistency.
4. Create a **monthly reconciliation** process – & Ensure procurement & finance review budgets together regularly (include stakeholders too).

Keep finance & business units informed to avoid last minute surprises!

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# How to Track Budget vs. Spend?

Example -->

Step	What?	How?
<b>1. Get the Approved Budget</b>	Obtain the official budget from finance.	Request a breakdown per category or project.
<b>2. Review Past Spend Data</b>	Analyze previous spending to find trends.	Check procurement records and compare invoices.
<b>3. Forecast Future Spend</b>	Estimate costs based on contracts, pricing, and expected demand.	Use supplier quotes, market analysis, and internal needs.
<b>4. Compare Forecast vs. Budget</b>	Check if estimated spend aligns with the budget.	Identify risks of overspending or cost gaps.
<b>5. Monitor Actual Spend</b>	Track spending in real time.	Use dashboards, reports, or software tools.
<b>6. Work with Finance Regularly</b>	Align procurement forecasts with finance projections.	Hold monthly or quarterly budget meetings.
<b>7. Take Action on Variances</b>	Adjust procurement plans if spending exceeds or falls below budget.	Renegotiate contracts, delay purchases, or reallocate funds.



## 4. Benefits of Budget vs. Spend Control

1. **Better cost control.**

2. **Stronger alignment with business's strategy.**

3. **Proactivity**, in being prepared for unexpected changes in the market, demand, or costs. It also involves taking steps to prevent overspending, underspending, or misallocating funds.

Shift the focus from basic alignment to **strategic alignment**.

Emphasize how procurement's actions directly support the company's overall strategic objectives.

Finally, demonstrating spend control & budget accuracy **builds trust** with stakeholders!

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## **Conclusion: Keep It Simple & Proactive !**

Budget vs. Spend tracking is not just finance's job!

it's a partnership between procurement & finance.

The goal is not just staying within budget but optimizing spend to maximise profitability.

**Next step ?**

**Start tracking & align with finance on a monthly basis!**

**Are you within your budget?**

# Example: Budget vs. Spend Tracking Sheet

Always remember -> Procurement monitors & controls spend for budget alignment.

Category	Approved Budget (\$)	Forecasted Spend (\$)	Actual Spend (\$)	Variance (\$)	Action Required?
IT Equipment	500,000	480,000	490,000	-10,000	No action
Logistics	700,000	720,000	750,000	50,000	Review & adjust
Office Supplies	200,000	190,000	180,000	-20,000	Reallocate funds
Raw Materials	1,500,000	1,550,000	1,600,000	100,000	Renegotiate supplier terms

Elevate Procurement's Role !

# From Tracker to Strategic Driver!

Take control today ! Schedule a consultation to implement effective tracking & drive financial growth.

Let me know if this was helpful ?



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