



Category Management: Overcoming Barriers to Sources of Value and Innovation in your Supply Base

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in Collaboration with JAGGAER



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Introduction: Why Category Management?

By defining and operationalizing category management, organizations can draw many additional benefits from their suppliers. These include shorter supplier lead times, faster purchase order processing, reduced risk, efficiencies and, not least, significant savings. Yet, while the concept of category management dates back to the 1980s, most procurement organizations have not yet fully embraced category management best practices. Some teams in large organizations may even be unsure what it is.

The thinking behind category management is simple: segmentation of the various categories of goods and services that an organization sources, with a view to organizing procurement resources and standardizing activities based on that segmentation. The segmentation must be aligned with the

big-picture objectives of the organization. Category management recognizes that there is often interaction between strategic sourcing-level projects that must be owned and addressed by one person or team with the appropriate expertise. With category management strategies and technology, procurement can ensure that spend and supplier relationships are managed consistently – and with full accountability – before sourcing begins and long after it ends.

To operationalize category management requires some up-front investment. If procurement organizations are not clear about the benefits that will deliver a return on that investment, they will find it difficult to ‘sell’ category management at the leadership or execution level. Closing the gap between current and best practice will be a high priority for procurement teams going forward,

as reported by ProcureCon's third annual CPO study. This research found that 67% of respondents ranked category management as the most important managed service, more than any other service procurement provides to the enterprise.

Internal ownership will be critically important in closing this disconnect. Some of the largest global companies have dedicated category leads, but the CPO, category managers, and internal stakeholders also have roles to play in the category management process:



Chief Procurement Officer

Assures that category strategies and results align with the 'big picture' objectives of the enterprise, even as those objectives shift in response to market conditions



Global Category Lead

Responsible for category strategy development that maximizes the value delivered through the category and mitigates the associated risks.



Category Managers

Execute the strategy developed and approved by the Category Lead by leveraging technology and building collaborative partnerships with the most innovative service and supply partners.



Internal Stakeholders

Buy according to the contractual agreements that turn category strategies into top and bottom-line impact while voicing alternate wants and needs associated with the supplier and/or category in question.

In this white paper, we identify and describe three of the most common barriers to defined, operationalized category management: expectations, strategy, and visibility.

02 |

Setting Expectations Through Detailed Analysis

When setting expectations for category management, procurement teams must have an overarching strategic vision that they can connect to supporting details. If one half of this equation is missing, or there is no clear line between them, procurement teams will be unable to demonstrate how their vision will be realized and what the value will be to the enterprise.

- *What parts of category management are to be handled by process versus technology?*
- *How will the ROI of category management be measured?*
- *What new types of value will category management allow procurement to deliver?*

The most basic explanatory step includes establishing an initial list of spend categories for consideration. Ideally each category will have a similar scope and level of strategic importance to the enterprise.

Procurement will then need to profile each category based upon an examination of current spend and supplier contracts or relationships, looking to see where these divisions and internal ownership structures align with overarching business objectives. Other critical internal analytical inputs include forecast demand and directional input from stakeholders.





From an external perspective, category analysis should incorporate intelligence in the form of market insights and an examination of the full competitive landscape, including incumbent suppliers and mature players as well as start-ups and emerging providers. Having an expansive understanding of the qualified options is critical if procurement is to accurately capture and project the potential opportunity associated with taking a big-picture approach to managing spend.

On a category by category basis, procurement can then dig deeper to characterize the opportunity through macro analysis, trend analysis, market analysis, cost structure analysis, category positioning, and SWOT analysis. In fact, these approaches may even be more effective on a category level than they would be on a sourcing project level. When the management of spend matches an entire vertical rather than a

subset of it, the connections between the suppliers and relevant external forces are clearer and more direct. This will be critical later in the process as procurement starts thinking about the available strategy 'levers' for achieving the objectives set for that category of spend.

Once a category has been defined and analyzed both internally and externally, procurement can outline next steps based on a full understanding of in-place contracts and projected demand. If the approach to handling the category is to be altered significantly, a broader change management effort may be required. Procurement will need to determine which stakeholders and/or suppliers are likely to be affected and proactively include them in the effort, both to minimize the operational impact and to gather their input. This also presents an opportunity to 'sell' them on the value opportunity for the enterprise associated with taking a category-level approach.

03 |

Combining Category Strategies with Optimal Levers

Once the practice of category management has been defined, and the individual categories have been profiled and analyzed, procurement must make clear how they are going to execute the agreed upon strategies.

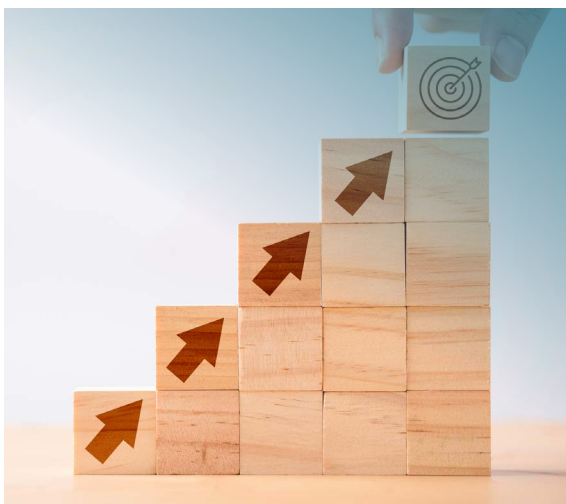
- *How will procurement implement category management strategies?*
- *What kinds of internal change management will be required?*
- *Who will hold procurement and the rest of the organization accountable?*

All the background work procurement has done for each category makes it possible to move immediately to the action

phase of the effort, including evaluating current action levers and selecting and prioritizing new levers. This work should incorporate three dimensions:

- Creating a to-be supplier portfolio for tracking, evaluating and comparing potential suppliers,
- Defining the key performance indicators for managing and tracking supplier success, and
- Evaluating the relevant risks in the supply chain for each category.

Fortunately, working to combine category strategy with action levers plays to procurement's project management



“67% of leaders have connected their category management process with supplier management activities versus 25% of followers.”

Future Purchasing, 2019-20
Global Category Management
Leadership Report



“59% of leaders have joint accountability for delivering category targets with stakeholders versus 18% of followers.”

Future Purchasing, 2019-20
Global Category Management
Leadership Report



strengths. This includes familiar activities such as outlining procurement activities, defining the category team, evaluating resource capacity and project timelines, and documenting the strategy as well as roles, responsibilities, and key milestones.

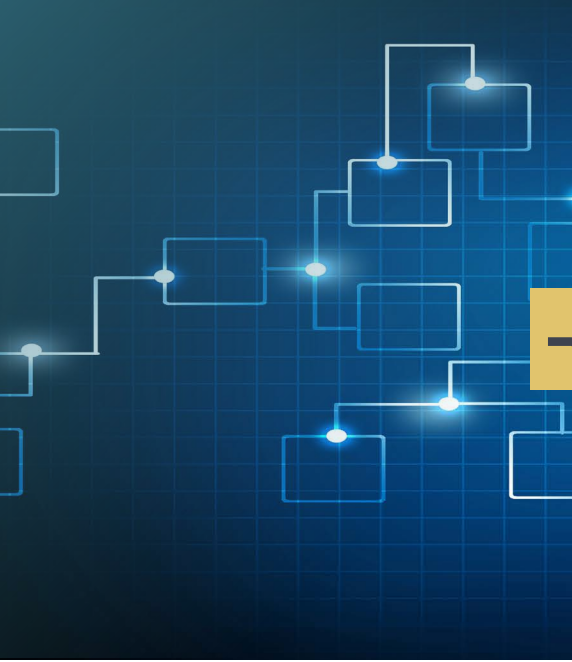
Each category will have its own strategy and objectives, in part because of the analytical work done up front. This understanding will inform the approach to bringing the category under management. For instance, if the total spend value of the category does not justify the current level of supplier fragmentation, procurement may lead an effort to consolidate the spend with fewer suppliers. If the current contracts do not reflect best practices for pricing, delivery, or service levels, the priority

may be renegotiating existing contracts as opposed to strategic sourcing.

As a final example, if the level of risk associated with the category is found to be unsustainable, procurement can lead an effort to sign secondary agreements, pre-qualify alternate sources, or put risk mitigation plans in place. Each of these action levers reflects an understanding of the role that spend plays in the operation, the company's negotiating position, and the value to improve the category's value contribution.

Once the strategy has been defined for the category, procurement will have to identify and understand what additional data is needed and how trustworthy the current (or historical) data is. This lays a detailed foundation for short-term action and establishes a baseline that will be needed to track performance against category specific KPIs.

Procurement organizations deliver far more than savings, and there is a broad range of action levers that can be brought to bear on each category. The category strategy, and therefore the selected levers, should align with enterprise-level priorities and how they are affected by the category of spend in question.



**“Vision without execution
is just hallucination.”**

— Georg Rösch, Vice President
Product Management

04 |

Harnessing the Power of Actionable Visibility

The information available to procurement about each category is critical to their ability to (a.) leverage the full knowledge capital of the enterprise and (b.) continue to select the optimal levers for each category.

- *Will the execution be guided/empowered by embedded intelligence?*
- *How can procurement be certain that they are working with centralized rather than side-lined or siloed spend, supplier, and demand information?*
- *When and where should procurement leverage automation for the sake of increasing visibility and tracking results?*

An autonomous procurement strategy not only increases category management efficiency, it also allows information to be simultaneously centralized and distributed. Facilitating visibility via a category dashboard brings the status of suppliers, contracts, spend transactions, performance, and savings together. This view, more than anything else, ensures that procurement is able to establish and maintain a big picture view without losing track of the underlying data, metrics, and analytics. JAGGAER Category Management provides a strategic approach to

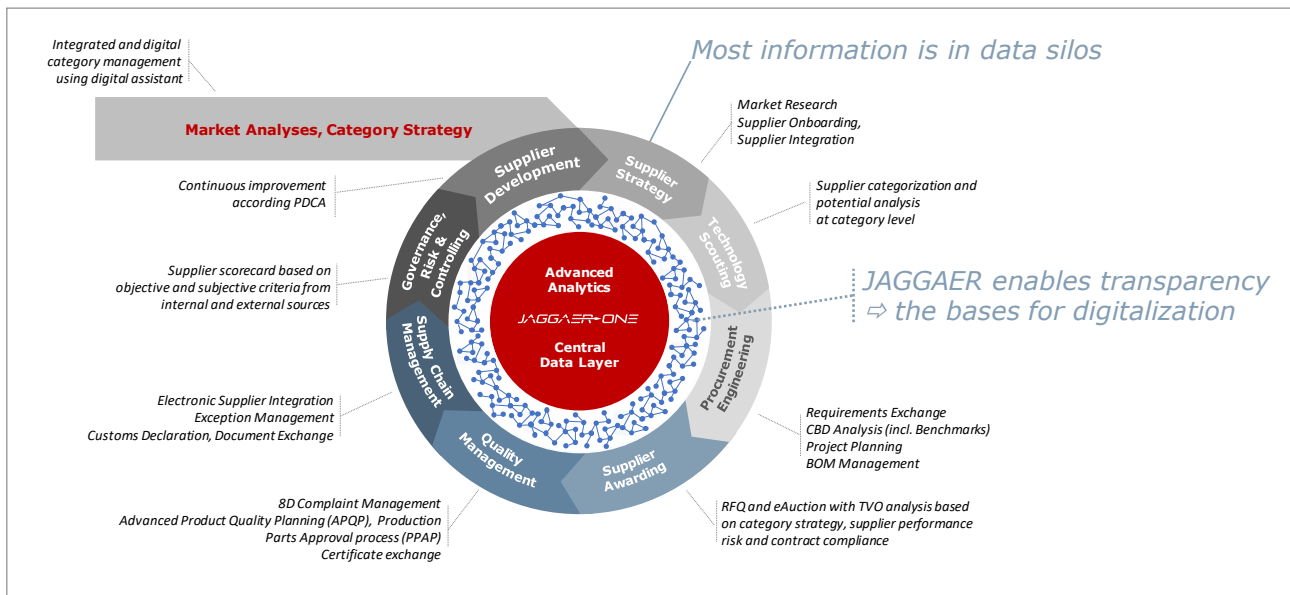


Figure 1

organizing procurement resources and standardizing activities to focus on specific areas of spend:

- A central location for managing category strategies,
- Setting the stage for standardized processes, workflows, and reporting,
- All of which improve collaboration with cross-functional teams and suppliers.

As seen in Figure 1, category management is a cyclical process that involves many budgets, decision makers, business units, and suppliers. Ensuring that no one part of a category becomes isolated once again is a critical ongoing effort, which is enabled by the software platform.

Most dedicated category management solutions are in the very early stages of innovation; only a few vendors currently offer an application specifically designed to provide a central dashboard for category managers. Existing spend analysis tools offer some category

management capabilities, but since these only report on spend after the fact, they do not allow procurement to actively manage the overarching sourcing strategy in real time.

JAGGAER Category Management was designed to deliver against a three-part value proposition:

1. All-in-one solution that brings together spend, suppliers, strategy, and execution into one central location, facilitating improved visibility and results tracking.
2. Standardized process and improved collaboration that unite the multiple stakeholder groups, business units, and regions into one cohesive (and efficient) repository of actionable insight.
3. The ability to identify and better quantify opportunities by selecting the precise strategy and partner for each category, recognizing value levers, risk, and compliance concerns.

Conclusion

We have now discussed three of the top barriers to well-defined, operationalized category management adoption, but there is still one more: talent.


While technology is absolutely essential to the delivery of a category management program at scale, a great degree of input and insight is still (and always will be) required from a human perspective. Perhaps the most important human contributions to category management are execution and contextualization.

- *Does procurement have the right team to execute or implement the intended strategy?*
- *Are there critical categories for which no internal owner or expert exists?*
- *How will absent knowledge and skills be addressed?*

The whole point of elevating procurement's management of spend, suppliers, and contracts from the sourcing project level to the category level is to achieve a big picture point of view. This big picture should be closely aligned with the priorities, objectives, and competitive landscape being addressed by the executive team.

For procurement organizations that have struggled to reach the C-suite with their requirements and results, category management may be the key to securing an audience and building lasting influence. By demonstrating a broad, mature understanding of market forces, risks, and strategic supplier relationships, procurement can prove that they are not only worthy of executive level attention, but also that they cannot be eliminated from critical discussions and decisions.

What are the next steps in the execution of your Category Management strategy? Find out in the sequel to this paper, [Driving Enterprise-Wide Savings with Mature Category Management](#), by the same authors.



"It appears that too many CatMan initiatives fail to deliver because they are seen as purely procurement-based, rather than business-based programmes."

— Malcolm Harrison (FCIPS), Group Chief Executive Officer Chartered Institute of Procurement and Supply (CIPS) (Source: Future Purchasing, 2019-20 Global Category Management Leadership Report)

About the Authors



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Procurement & Supply Chain Writer and Influencer

Kelly Barner has held numerous roles in procurement since 2003. She is the Owner and Managing Director of Buyers Meeting Point and MyPurchasingCenter. Starting in 2009, she has covered procurement news, events, publications, solutions, trends, and relevant economics. Kelly is also the General Manager at Art of Procurement and Business Survey Chair for the ISM-New York Report on Business. Kelly has her MBA from Babson College as well as an MS in Library and Information Science from Simmons College and she has co-authored three books: 'Supply Market Intelligence for Procurement Professionals', 'Procurement at a Crossroads', and 'Finance Unleashed'.



Amenallah Reghimi

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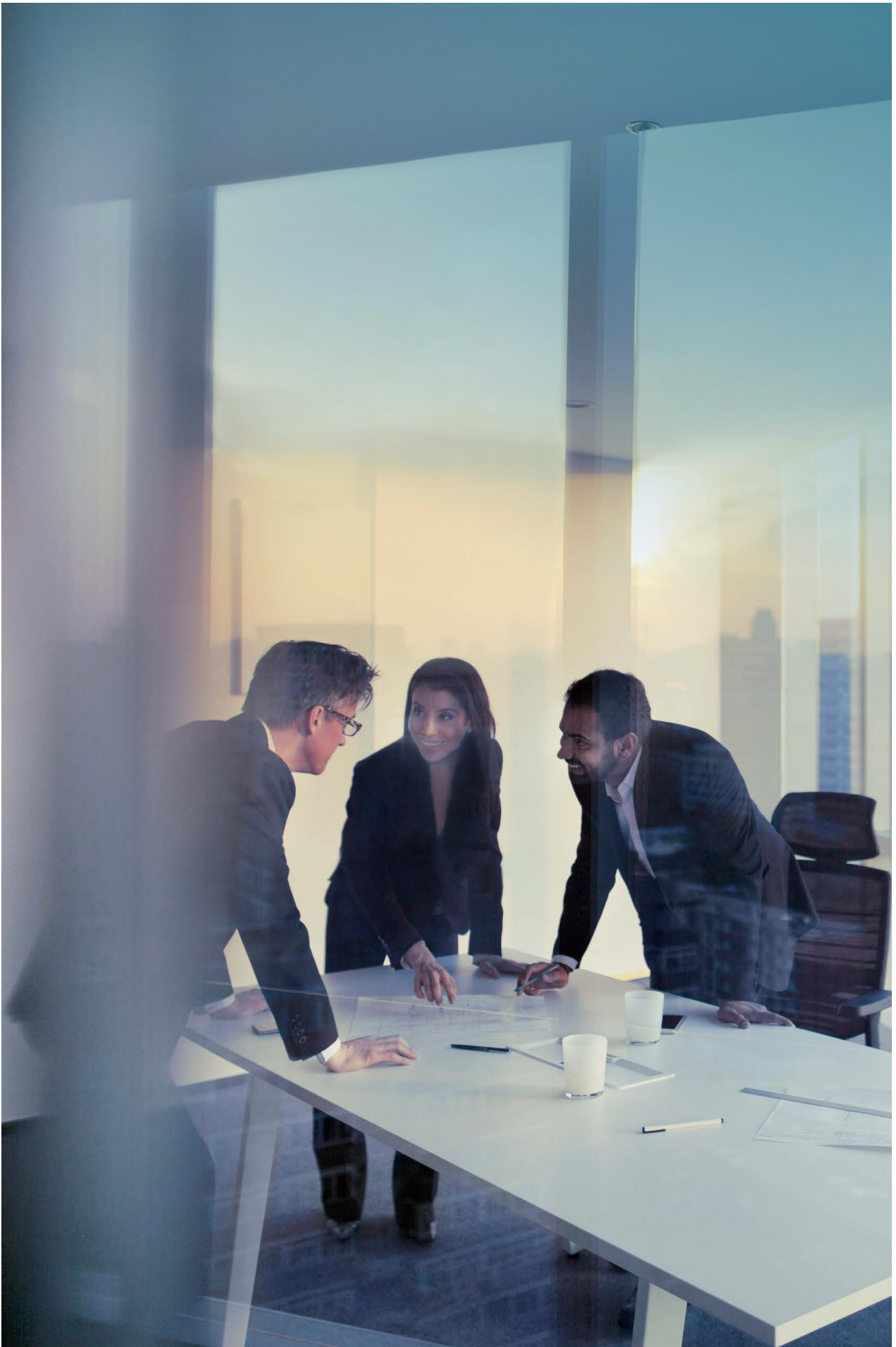
During his first years at JAGGAER, Amenallah implemented more than 60 international projects on four continents in four different languages. He now uses that experience to build effective products that help solve market problems and provide value to JAGGAER customers, increasing their profit margins and improving their process efficiency in spend management. He is ranked in the Top 5 Global Thought Leaders and Influencers on Procurement. Amen gained an MSc at the Sorbonne University's Polytech engineering school, Paris.



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Georg Rösch has worked for JAGGAER and its predecessor, POOL4TOOL, for nearly 20 years. At POOL4TOOL Georg led requirements management, the interface between the customer and project management and software development. Before taking up his current role with JAGGAER, Georg was Vice President Direct Procurement Product Management. He studied Media Informatics at the Technical University of Vienna.





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