

Category Management Strategy: Evolve To Succeed



As your company's needs and goals change, so too should your workflows, practices, and business strategies.

The procurement function, situated at the heart of your organization and increasingly important to both value creation and strategic development, is one that merits special attention when you're "leveling up."

Procurement can be optimized in several ways, but developing and implementing a *category management strategy* is a reliable way to help center procurement as a value creation center and support long-term organizational goals.

Implementing category management in your procurement function can seem daunting, but it doesn't have to be difficult or needlessly complex.

With the right preparations, awareness of category management's capabilities, and the right best practices, you can upgrade your procurement to drive more value while supporting your organization's goals for profitability, performance, and growth.

Why Companies Implement Category Management Strategies

Category management can be considered a strategic enhancement to your existing procurement processes. It divides all the products and services in your supply chain into discrete groups.

These groups are broken into categories and subcategories. Category management uses detailed and complete spend data as well as market analysis conducted by subject matter experts called *category managers*.

As procurement professionals responsible for a specific category of goods or services in a company's supply chain, category managers segment spend based on

the function each good or service provides to their organization.

They also develop strategic sourcing plans for their assigned category and work with both suppliers and internal stakeholders to ensure needs are met with optimal efficiency, at the best possible price and terms.

These professionals often have a very well-developed background in, and detailed knowledge of, their particular category.

They regularly consume the latest market research and network extensively with industry professionals.

They may investigate related products outside their specific categories to provide context, uncover opportunities (e.g., alternative materials) and develop alternative sourcing strategies based on their findings.

Category managers combine data streams from a very diverse set of sources—for example, a category manager responsible for fruits and vegetables purchasing for a supermarket or restaurant chain might rely on agricultural and weather data in various areas to identify the best possible sources, negotiate better pricing and terms based on surplus yields, or create strategic redundancies by adding locally-based suppliers to supplement sourcing during periods of high demand.

They subscribe to industry publications and likely engage with other professionals on social media.

They also use insights gleaned from analyzing past spend to make smarter sourcing decisions in the present.

Category managers also develop deep relationships with suppliers and seek opportunities to collaborate with them on mutually beneficial endeavors.

These relationships can provide value to the organization through shared process improvements, strategic partnerships, and even the development of new products.

This proactive approach enables them to provide superior oversight and use analytics, metrics such as key performance indicators (KPIs), and market intelligence to streamline the supply chain (while still protecting business continuity) and align their category's spend with organizational goals and needs.

Companies who implement a strategic category management approach are better equipped to seize opportunities, mitigate supply chain risk, and secure significant cost savings and value through improvements to efficiency, greater spend visibility, and stronger, more strategic supplier relationships.

Regardless of timing, implementing a category management program is much easier—and more likely to be effective—if you follow a few best practices.

Category Management vs Strategic Sourcing

A powerful and strategic approach to procurement, category management is often conflated with strategic sourcing.

However, while they both focus on implementing strategic improvements and involve procurement processes at the category level, it's best to think of strategic sourcing as a stepping stone to, rather than a replacement for, category management.

Strategic Sourcing is a step up from what's known as *tactical purchasing*, which is price-driven and item-focused.

Strategic sourcing is centered on cutting costs in the long term through pricing and process optimization at the category level, as well as supply base consolidation, contract management, and supplier relationship development.

It seeks to create and improve organizational value by applying one or more optimization strategies to each category of spend.

When well-developed, strategic sourcing provides a firm foundation for effective category management and, by extension, more strategic procurement in general.

Category Management is centered on creating value in the long run.

Category management is iterative and built around continuous improvement.

It leverages strategic sourcing and the deep knowledge of category managers to optimize every product category and sub-category, and align this optimization

with the organization's needs and business strategy.

Category management uses best practices to support business goals while simultaneously achieving the best possible pricing and terms on all goods and services.

It engages the entire organization and provides organizational value by ensuring all team members see the connection between category management plans and the company's larger objectives for profits, performance, and growth.

Understanding the distinctions between strategic sourcing and category management is important, because choosing to implement a category management strategy in your procurement function requires significant changes to your supplier relationship management and other procurement processes.

Moving to Category Management

The best time to upgrade to a category management approach in procurement isn't set in stone.

Every company is different, but conventional wisdom says companies earning between \$200 million and \$1 billion in annual revenue are well-positioned to make the transition.

Regardless of timing, implementing a category management program is much easier—and more likely to be effective—if you follow a few best practices.

1. Take The Long View

Continuous improvement and long-term strategic development are core components of category management. It's dynamic and updated regularly based on changes in business conditions, market trends, and each category's supplier landscape.

Taking the long view is necessary because value creation will likely take a significant amount of time, over the course of many iterations, in most category strategies.

Reducing process lifecycles and developing effective demand and spend forecasts based on historical data will both become easier as you build up a larger, more integrated datasphere (especially if you continue to add relevant data streams to improve accuracy and provide better insights).

However, managing category strategies and adjusting benchmarks, goals, and methodologies to meet changing conditions will always require a proactive and sprightly approach, as well as strong internal and external relationships.

2. **Collaborate and Communicate With Stakeholders**

Category managers are, and should be, experts in their assigned categories. But it's important to remember that their primary purpose is to collaborate with stakeholders across business units to meet the latter's needs, not usurp their position within the purchasing function.

Ideally, category managers will connect with stakeholders to ensure the formers' category plans and strategies are tightly aligned with the actual goals and needs of their organizations.

By consulting with the stakeholders on key areas such as operational requirements, quality control, financial specifications, and forecasted demand, they can develop more effective financial strategies and demand forecasts based on spend analysis.

In addition, their sourcing plans will better meet the stakeholder's needs for quality, configuration, and price while still aligning with organizational priorities.

STAKEHOLDER NEED	QUESTIONS TO CONSIDER
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<p>Operational Requirements</p>	<ul style="list-style-type: none"> ● What features and functionality do we require? ● What are our requirements for suppliers, e.g. response times, availability, etc.? <ul style="list-style-type: none"> ● What technological requirements must suppliers meet to secure our business? ● Who is responsible for maintenance?
<p>Quality Control</p>	<ul style="list-style-type: none"> ● What are our current QC standards? ● How do we measure and evaluate quality? ● Can some or all inspection and QC work be effectively outsourced? <ul style="list-style-type: none"> ● What certifications must suppliers have, e.g. ISO-9000?
<p>Financial Strategies</p>	<ul style="list-style-type: none"> ● What are the current payment terms for our suppliers? ● Are we currently paying our suppliers on time? Early? What about discounts? ● Can we secure better payment terms?
<p>Forecasted Demand</p>	<ul style="list-style-type: none"> ● How does our current and historical spend compare to projected spend for a given period? <ul style="list-style-type: none"> ● What internal and external factors will affect demand most significantly? ● Can our existent supply chain meet future needs? If not, what changes are required to improve resilience and agility?

3. Invest in Data Management Tools

Enhancing your strategic capabilities with a category management program requires both complete and transparent information for analysis and the tools necessary to manage strategic sourcing, supplier relationship management, and strategic development.

Implementing a comprehensive, centralized, and cloud-based procurement solution such as PLANERGY gives category managers (and the rest of your procurement team) complete visibility into and control over spend data.

Custom category management tools make it simple to organize spend categories and subcategories, along with strategies for each based on demand, supplier relationships, and process optimization/continuous improvement goals.

It also provides:

- Automation capabilities that provide value through improvements to process efficiency, speed, and accuracy.
- Vendor management tools, including the ability to set and track vendor management KPIs. Working with stakeholders, category managers can carefully track supplier performance and compliance before adjusting their sourcing strategies accordingly.
- More effective collaboration and communication, supporting efficiency gains and opportunities to partner with key suppliers.
- The ability to integrate internal and external data sources—including emerging technologies such as digital twins, the Internet of Things (IoT), and machine learning—to collect and analyze real-time market intelligence that is both broad and deep.

A More Strategic Source of Procurement-Based Value

Taking the long view with a strategic mindset is one of the ways companies can secure significant competitive advantage in today's complex global economy.

By following best practices, your procurement team can leverage well-implemented category management processes to drive value and cost savings

through deeper market intelligence, improved process and supply chain optimization (including use of KPIs and benchmarking), and strategic collaboration with stakeholders across all business units to set and achieve organizational goals.

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