

# What Is Category Management?



In any business, procurement is one of the main departments that manage organizational spend.

Whether it is procurement for business continuity such as inventory purchasing or procuring for business support if an organization lacks a strategic approach or a clear procurement process, spending can easily get out of control and damage the company.

According to APQC's Open Standards benchmarking about category management within procurement, studies show that companies that have started category management programs have a median supplier lead time of six days compared to 14 days for organizations that don't use category management programs.

In terms of purchase order processing, the companies that have initiated category management programs have a median turnaround time of eight hours versus 15 hours for organizations that don't use category management programs.

## What Is Category Management?

Category management is a strategic approach to procurement where the company segments its bidding on all goods and services.

The segmentation places goods and services in groups depending on the function they provide in the company.

Categories vary from one organization to the next, however, typically they include

- Human resources
- Professional services
- Office management
- Medical
- IT
- Security
- Travel and entertainment

## **A Category Manager's Role**

A category manager is a specialized procurement role. The person handles a specific category of goods or services.

This person is in charge of strategic sourcing, creating a plan for the category, and providing oversight for that category.

The category manager handles the supply chain relationships for their category roll. As such, they need to have a background in the category they are handling.

For example, an IT category manager needs to have a degree in computing so they can help make purchasing decisions by justifying the need for a purchase to stakeholders and to make sure they are getting the correct product assortments.

Some senior procurement executives believe that the category manager role could be split into a domain expert role and is a purchasing manager role.

The domain expert manages stakeholder relationships while the purchasing manager focuses on adding value procurement services.

## **The Category Management Process**

There are a variety of ways to develop a category strategy, but no matter what category management approach you choose to use, there are a few things to consider.

- **Definition:** What do the different categories and subcategories need to be?
- **Spend analysis:** How much spending will go to each category and its subcategories?
- **Market analysis:** What does the supply market look like for each category? Does it fit your needs as a customer?
- **Improvement:** At this stage, the market intelligence from the market analysis is applied. This may lead to a change in the scope of work, finding a new supply base, finding new vendors, or a change in the specifications.
- **Continuous application:** The knowledge is continuously applied through strategic sourcing and transactional purchasing.

It can be broken down into a seven-step process:

## 1. Initiate

Define the categories procurement will manage.

## 2. Prepare

Establish visions of each category so that the category manager can remain aligned with the company vision.

For instance, if it's part of the company's vision to support local business, then the category manager needs to focus on working with local suppliers as much as possible.

## 3. Prioritize

Set objectives as part of the process to reach the vision. This could be as simple as aiming to source at least half of the products from suppliers in your local area (city, state, region) within three years.

Keep the objectives SMART to make results easier to measure.

## 4. Define

Next, define the strategies to be set as the next part of the process. They should

reflect the objectives.

For instance, one could contact all suppliers within a 50-mile radius and invite them to bid for all indirect cost contracts.

## **5. Implement**

After the strategies have been agreed upon and approved, the category manager must work with stakeholders to get their support.

## **6. Maintain**

To ensure strategies are implemented and objectives are reached, the category manager should set KPIs or service level agreements (SLA) for monitoring to evaluate performance.

Aim to keep these SMART, as well, to make them easier to measure.

## **7. Improve**

At regular points, as best determined by your industry, evaluate the current categories.

Procurement constantly evolves, so a category that was relevant at the start of the quarter no longer remains such. It could be that it moves from direct to indirect, becomes non-critical, or becomes obsolete.

Taking time to review the categories ensures they are always relevant and in sync with the overall corporate vision.

*Bear in mind, the process is not set in stone, and not all category managers and organizations will find all of the stages relevant. It should be used as a starting point for building a solid category management process.*

For effective category management, you need:

- An analysis of your company's strategic goals; tying sourcing to those goals.
- Supplier performance data

- Updated pricing analysis for local and international markets as well as the current trends.
- A current analysis of organizational spend versus marketing data and benchmarking KPIs to identify areas where you can improve
- Analysis of any savings you gain through substitutions, compliance, and negotiations.
- Continuous engagement among all stakeholders to ensure that everyone is in agreement with the company's purchasing decisions.

## **Benefits of Category Management**

Here are the main benefits of category management:

### **Centralizing Spend Data**

Consolidating and centralizing your spend data makes it easier to track, log, and report. If you find that the spend analysis shows it would be cheaper, there are also opportunities to outsource.

### **Better Supply Chain Management and Supplier Relationships**

By helping to organize procurement team resources, it's easier to build stronger relationships and gain a better understanding of how each category contributes to risk management.

### **Better Vendor Risk Management**

Using category management, a company is better able to get an in-depth understanding of each of their vendors.

By understanding the operational risks associated with a supplier, they can benchmark things so that when they deal with other suppliers in the category and subcategory, they know what they are dealing with.

## **Opportunities for Cost Savings**

Cost management leverages expertise and experience to gain insight into a category and subcategories aiming to create value with each purchase.

## **Benefits From Holistic Spending**

Strategic sourcing brings in economies of scale. By making purchases for the long term in different product categories, the category manager can offer higher volumes or larger scopes of work to the suppliers.

In the end, this saves time by avoiding repetitive transactional purchases and also provides negotiation leverage for the company to secure better pricing.

## **Procure to (P2P) Process**

When dealing with one supplier in a certain category has been perfected, it can be replicated when dealing with other suppliers in the same category instead of coming up with a unique process for each supplier.

## **Streamlined Business Strategy**

When working on a strategic business plan, category management is helpful because it ties specific goals to strategic purposes.

If a company is planning to expand its operations within the next five years, for instance, category management in equipment and machinery provides a more streamlined strategy since the company will be able to identify suppliers and sources of capital ahead of time.

No matter the industry, any business can benefit greatly from adopting a category management strategy as part of its procurement thus practices.

Proper category management has the capacity to add value by reducing supply chain risk. Organizations are able to find opportunities to manage demands, and forest greater compliance of standards, and ultimately improve cash flow management.

# What's your goal today?

## 1. Use PLANERGY to manage purchasing and accounts payable

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our "Solutions" page to see the areas of your business we can help improve to see if we're a good fit for each other.
- Learn about us, and our long history of helping companies just like yours.

[Book a Live Demo](#)

## 2. Download our guide "Indirect Spend Guide"

Download a free copy of our guide to better manage and make savings on your indirect spend. You'll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

[download a free copy of our guide](#)

## 3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

## Related Posts