



**PROCUREMENT
LEADERS**

Global intelligence network

STRATEGY REPORT:

CATEGORY MANAGEMENT: PART ONE THE HISTORICAL & CURRENT LANDSCAPE

www.procurementleaders.com

INTRODUCTION

Category management has been promoted as *the* principle process for procurement professionals for many years, but a decade after it's widespread adoption, is it really delivering what both procurement and the business need? Procurement Leaders has undertaken a research and benchmarking project based on data from a broad range of companies, backed up with interviews with the procurement professionals responsible for the implementation and development of category management.

We have also been in a position to compare our findings with the results of previous research in 2011 and 2013 giving us a long-term view. Key reports as follows:

PART ONE	Progress of Category Management
PART TWO	Structure, Process & Benefits
PART THREE	Category Management & SRM
PART FOUR	Best Practice Templates & Category Plans

When taking a long-term view, what stands out that category management is not something that you introduce, apply and expect to thrive without continuous development. You have to continue to invest in your team and every aspect of category management for the long term. While the category management process and concept has proven itself and stood the test of time, many other aspects of category management are in need of reinvigoration.



Our latest data confirms that everyone recognises category management is important, and most managers felt that their jobs could not be done without it, yet very few organisations consider themselves to be 'advanced', reinforcing the point that category management needs to be continually developed in order to be successful.

Procurement can't function without category management, and most organisations realise they are nowhere near fully maximising the power of this proactive way of managing spending

HOW IMPORTANT IS CATEGORY MANAGEMENT TO THE WORK OF PROCUREMENT IN YOUR ORGANISATION?

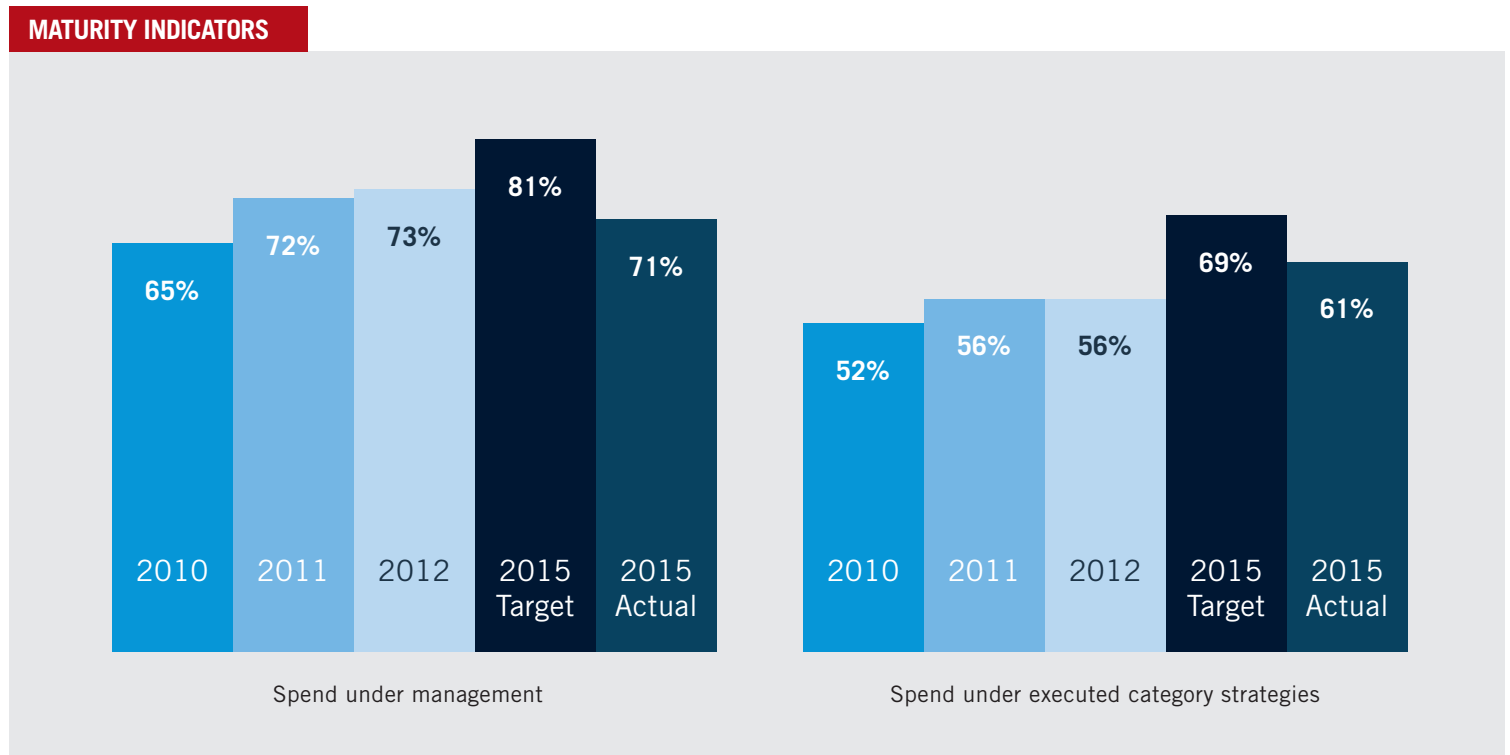


PL RESEARCH – THEN & NOW

What we can see from our aggregated data is that procurement seems to gain control of additional spending far more readily than it can execute category plans.

We also see that there has been slow progress and procurement has not even managed to reach the conservative targets set back in 2011. Furthermore, spend under management has actually regressed, and is now slightly lower than it was back in 2011.

This pattern is due to several factors, and we will concentrate our commentary on those that Procurement Leaders believe have held category management back.



It will take a decade to complete what we have started. Progress is much slower than might be expected, given the importance procurement place on category management

LONG-TERM OBSERVATIONS

Analysis of our latest data and our continued research over the four years since our first category management survey identifies the practices and challenges that procurement continues to wrestle with in implementing category management. This report, part one, describes four recurring themes:

- 1 TALENT
- 2 INVESTMENT
- 3 BUSINESS ALIGNMENT
- 4 BEYOND CATEGORY MANAGEMENT

These four areas have continued to appear in our research and discussions, often highlighted as being the most important to address if category management is to be re-invigorated when diagnosed as underperforming. These topics are unavoidable when looking to ensure category management is delivering results that are recognised by both procurement and the business as a whole.

In each section, we will look at the progress made in each area, and:

- Report on what we've learnt.
- Share the progress made by Procurement Leaders' members.
- Detail what we will tackle in future parts.

VERY FEW ORGANISATIONS HAVE MOVED TO THE 'ADVANCED' STAGE

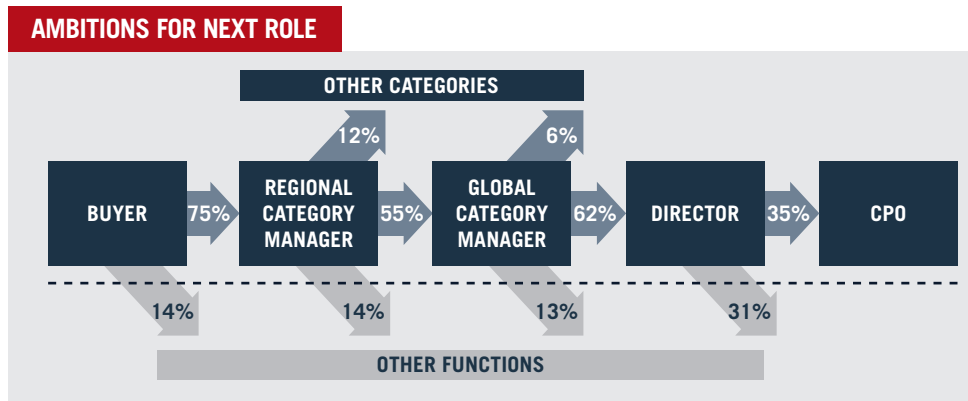


Four topics stand out, and this first report will bring you up to date with developments in each of these areas over the last four years

1 TALENT

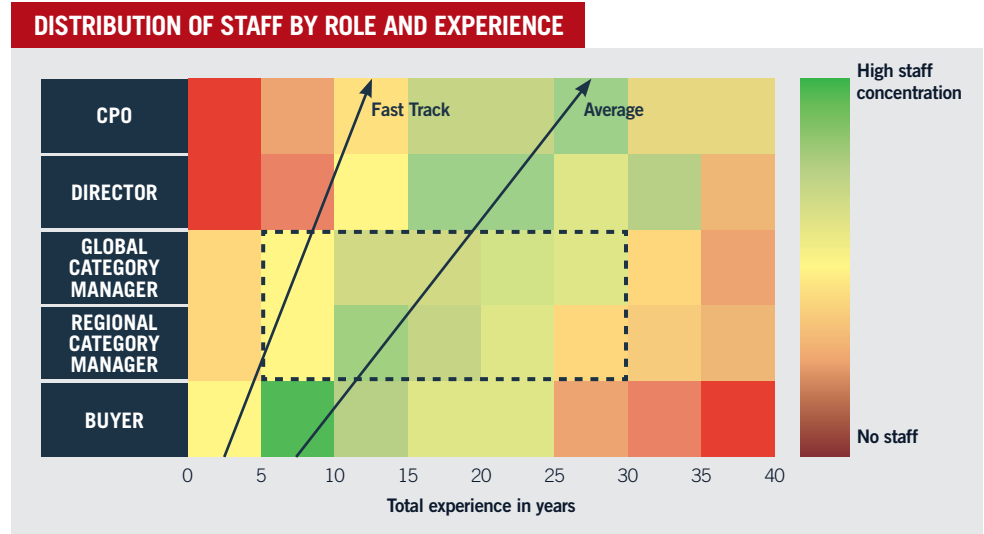
Talent was identified as the biggest limiter of category management four years ago, but things have improved; it's not the challenge it once was. We have seen that there has been significant upskilling of category managers. The picture is much better, although there is still more to do, especially on the soft skills that are needed when engaging with senior stakeholders around the business.

In additional research undertaken in 2014, Procurement Leaders found that, generally, category managers tend to prefer to stay within their chosen category area and would prefer to be promoted rather than move to a new category or move outside of procurement into another function. The function has developed a capable pool of category managers and these days the challenge is retaining ambitious individuals.



However, this means that category managers are more likely to move to a different company in order to progress in their chosen category rather than wait, potentially years, to progress through their current company. When we look at the distribution of staff within the function by role and experience we can see that many will be in category management roles for ten or 15 years. Not everyone can be the CPO.

Ambitions change quite dramatically at director level, where individuals are almost equally as likely to want to move to another function as to progress to a CPO position.



The focus has shifted from attraction and development of talent, to retention. We will identify ways of retaining critical category managers

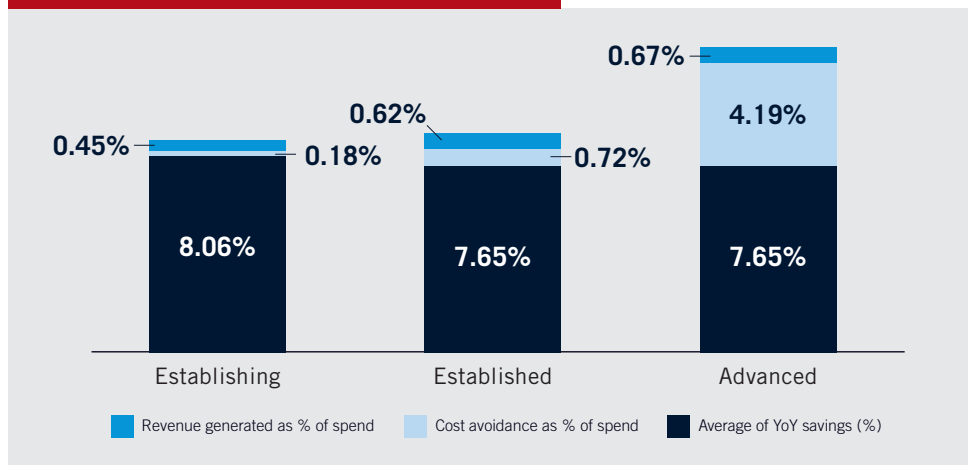
2 INVESTMENT

If we divide the procurement community in to three groups by category management maturity, we see that those we class as advanced have over 30% more resource than in the establishing group in the early stages of category management.

What We've Learnt: Investment in People

At the heart of the need for investment is the fact that savings tend to diminish with time, and the most advanced group struggle to maintain the savings achieved by those just starting out. There needs to be continuous investment in a talented team if we are to make the shift from cost avoidance and year-on-year (YoY) savings through to more business-focused objectives, such as speed to market and revenue generation.

SAVINGS & CATEGORY MANAGEMENT MATURITY



The PL Community: Investment in Technology

Danijel Banek, executive director of central purchasing within Atlantic Grupa believes that investment in technology is one of the enablers that allows him to standardise the category approach across the business, regardless of the category itself. His bespoke cloud-based application has won an award on the basis of the application's ability to manage and minimise risk in the buying of commodities.

"A key enabler for us has been to invest in technology through a bespoke application to manage category strategies and mitigate risk in our buying of commodities"

Danijel Banek – Atlantic Grupa

Our second report will look at levels of investment in category management, and the return this delivers along with the way category management is structured

3 BUSINESS ALIGNMENT

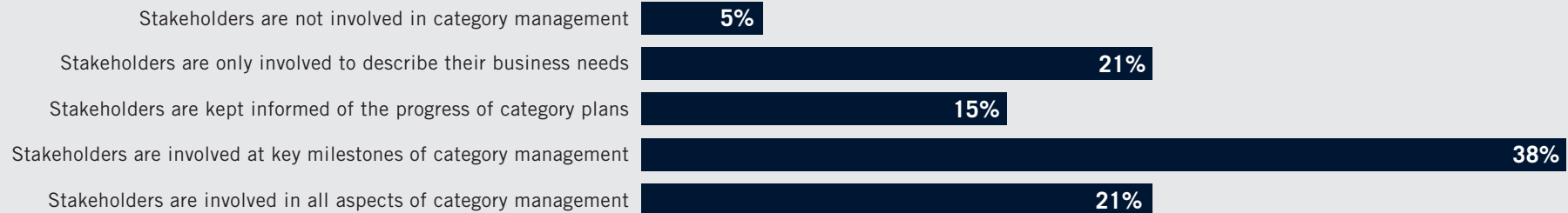
One of the most important factors with regard to the success of category management is related to how the rest of the business perceives it.

What We've Learnt:

It was interesting to see that there is still overall only moderate support from the procurement community itself and far less than that from the stakeholder community in the business, regardless of the level of sophistication of category management.

Furthermore, category management is still not as cross-functional as it should be, as can be seen from the snapshot of the data below:

THE INVOLVEMENT OF STAKEHOLDERS IN CATEGORY MANAGEMENT



3 BUSINESS ALIGNMENT

One of the most important issues with regard to the success of category management is how the rest of the business perceives it.

The PL Community: Lack of ‘Buy-In’ by the Business:

A global category manager in the energy and utilities sector indicated that procurement is not perceived well in the business and that won't change until it can first demonstrate its technical knowledge of the products, markets and suppliers.

“Procurement need to have more respect, but it is up to the category managers to gain that respect”

**Global category manager
– energy and utilities sector**

“Category management is not only a procurement matter but a business matter”

Pierre Cruchet – Itron

As Pierre Cruchet, purchasing processes and tools programme manager of Itron, pointed out, category management should be viewed as a business tool and therefore procurement staff need to be far more aligned with the business. He believes it is this aspect that will allow the business to move from ‘Established’ to ‘Advanced’ by delivering through value generation rather than cost savings.

Category management is still very often seen as a language and process used by procurement, rather than something that is anyway aligned to the business strategy. We will identify actions that will change this

4 BEYOND CATEGORY MANAGEMENT

To take the organisation beyond conventional category management, buyers need a wide range of skills, including soft skills.

BUSINESS UNIT	BUSINESS UNIT	BUSINESS UNIT
SALES	SALES	SALES
MARKETING	MARKETING	MARKETING
PRODUCTION	PRODUCTION	PRODUCTION
PROCUREMENT	PROCUREMENT	PROCUREMENT
SUPPLIER	SUPPLIER	SUPPLIER
TIER X	TIER X	TIER X

Category management can align with the corporate value chain

Category Management Structure

Category management will need to continue to evolve if it is to continue to deliver benefit. Our leadership focus needs to be directed towards the delivery of innovation from the supply chain, and we believe this will necessitate category management and SRM working in tandem. There will also be a shift in focus from working across business units, to a deeper involvement in corporate value chains. This is part of the shift from savings to supporting other business needs. Working across business units brings scale, and savings. Working closely with a particular business unit and associated tiers of the value chain is more likely to deliver the particular needs to that unit.

Training

Training does not necessarily have to involve expensive external courses as existing talented staff can be used to coach others. More innovative ways of training staff can also be seen in the gamification approach that David Lyon, head of procurement at Cancer Research UK, employs, whereby each month he sets a challenge to develop particular skills e.g. for every day of a particular month each member of procurement will have to suggest or deliver something creative, or suggest how to reward success, or how best to engage with a group of stakeholders.

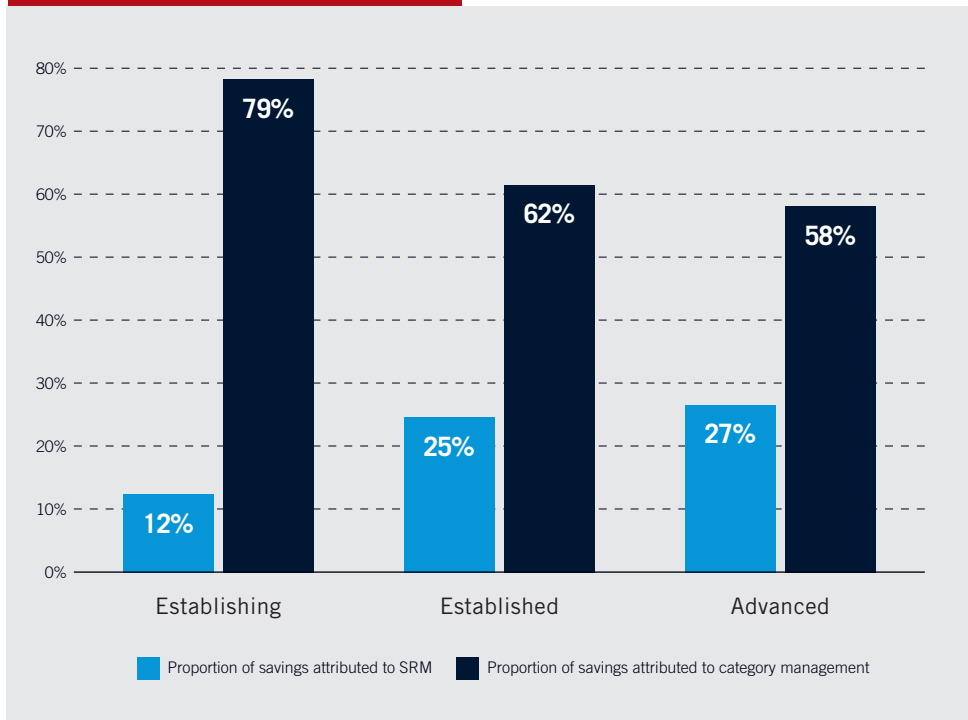
“Training can be made to be fun”

David Lyon
– Cancer Research UK

4 BEYOND CATEGORY MANAGEMENT

SRM and category management are complementary

SOURCES OF SAVINGS AND MATURITY



SRM

Category management and SRM need to continue to compliment one another. We are seeing evidence that SRM is being treated as a separate function, sometimes even dealt with by a different team of people. There is a risk these two processes will become detached.

How, though, can a category strategy be deemed complete if it doesn't address the whole life cycle of the category?

Part Three of this series will concentrate specifically on the complementary aspects of category management and SRM and look at how operating these two processes in tandem can deliver better results

CONCLUSION

It appears that the single biggest obstacle in the way of successful category management is a lack of real alignment with the overall business strategy, and therefore a lack of support outside of the procurement function. Procurement teams are going to have to work hard on their softer skill sets, such as influencing the key business stakeholders, if they are to ensure that category strategies and plans deliver more than just cost savings.

Cost savings will long remain a key priority for the majority of procurement teams, but until they can be recognised for generating other value-adding deliverables, they will remain isolated from the rest of the business.

Combining the powers of category management and SRM, along with investment in people and technology, will all be required to keep this critical area of procurement healthy.

PART TWO

- Organisational structure
- Spend and Benefits
- Process

PART THREE

- SRM
- Buy-in
- Issues and Solutions

PART FOUR

- Category Strategy Templates
- Category Plan Templates