

**PROCUREMENT  
LEADERS**

Global intelligence network



STRATEGY REPORT:

# **CATEGORY MANAGEMENT – PART THREE**

## **RELATIONSHIPS BETWEEN CATEGORY MANAGEMENT & SRM**

[www.procurementleaders.com](http://www.procurementleaders.com)

## CONTENTS

INTRODUCTION .....	3
BACKGROUND TO THE RESEARCH.....	4
KEY FINDINGS & INSIGHTS .....	5
FOCUS FOR REPORT THREE .....	6
DEFINITIONS .....	7
SEGMENTING THE SUPPLY BASE.....	8
SRM GOVERNANCE.....	9
SRM CLASSIFICATIONS.....	10
SRM BENEFITS DELIVERY .....	11
THE LANDSCAPE .....	12
ALIGNMENT .....	13
PLANNING FOR SRM .....	14
SRM SKILL SETS .....	15
CONCLUSION .....	16
ABOUT THE AUTHOR.....	17

## INTRODUCTION

Procurement Leaders has undertaken in-depth analysis based on a category management survey conducted in 2015, along with continuous research over four years. Our analysis was supplemented by interviews with the procurement community.

We investigated the progress of category management which is widely acknowledged as the process of choice for procurement professionals. Indeed 91% of survey respondents believe they could not achieve their goals without it.

### **“we could not achieve our goals without it”**

We have provided our analysis and insight into the following reports:

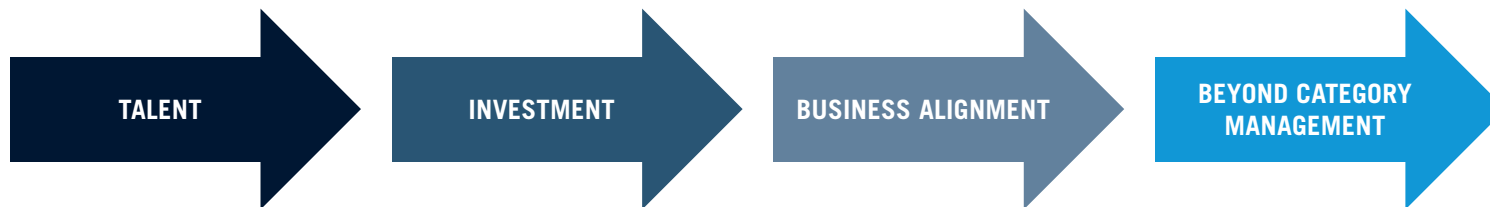
<b>PART ONE</b>	Progress of Category Management
<b>PART TWO</b>	Structure, Process & Benefits
<b>PART THREE</b>	Category Management & SRM
<b>PART FOUR</b>	Best Practice Templates & Category Plans

## BACKGROUND TO THE RESEARCH

In **Part One** we concluded that category management is important to procurement, but there is little support for the process outside of the function due to a lack of alignment with business strategy, stemming from:

- Poor engagement with stakeholders
- Focus on cost savings rather than value
- The need to invest in procurement talent, including from an emotional intelligence perspective
- A distinct lack of collaboration between category management and supplier relationship management (SRM)

**Part Two** dealt with the perceived hurdles to the profession taking category management to an “advanced” level. We recommended a re-invigoration remedy in each of the following four areas:



In this, **Part Three**, we look in more depth at the relationship between category management & SRM

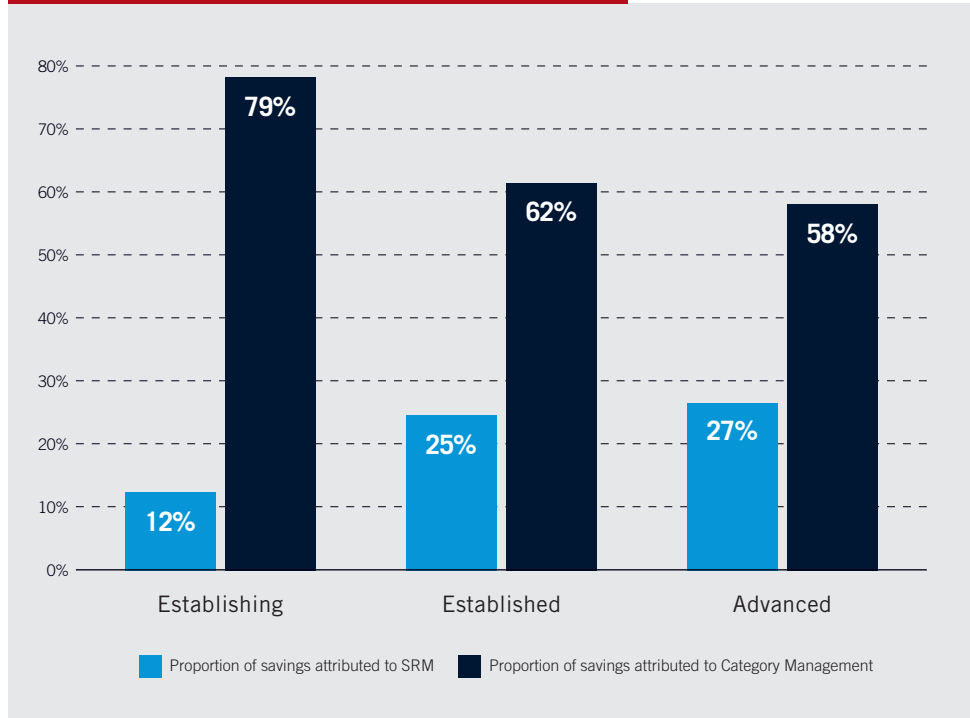
Looking ahead, **Part Four** will provide a selection of tools and templates for category strategies and plans.

## KEY FINDINGS & INSIGHTS

	KEY FINDINGS & INSIGHTS	RE-INVIGORATION REMEDIES
<b>REPORT ONE – THE HISTORICAL &amp; CURRENT LANDSCAPE</b>	<p>Our long term observations identified four main areas that need to be addressed to improve the progress of category management:</p> <ul style="list-style-type: none"> <li>• Talent</li> <li>• Investment</li> <li>• Business Alignment</li> <li>• Beyond Category Management</li> </ul>	<ul style="list-style-type: none"> <li>• Category strategies need to be aligned with the wider business strategy.</li> <li>• Procurement teams need to invest in emotional intelligence if they are to influence key stakeholders</li> <li>• Whilst cost savings will always be important, procurement needs to demonstrate other value adding activities</li> </ul>
<b>REPORT TWO – STRUCTURE, PROCESS &amp; BENEFITS</b>	<p>Category Management is perceived as important but only 12% of respondents are operating at an “Advanced” level.</p> <p>There are a number of hurdles to successful implementation of category management, the biggest one being stakeholder engagement</p>	<ul style="list-style-type: none"> <li>• There must be investment in the capacity and capability of the team</li> <li>• Procurement needs to involve stakeholders in the development of category strategies</li> <li>• Procurement needs to manage suppliers’ relationship with product teams in order to move from “maverick innovation” to “managed innovation”</li> </ul>

## FOCUS FOR REPORT THREE: SRM

### SAVINGS THROUGH CATEGORY MANAGEMENT AND SRM



So far we have concentrated on the progress of category management, and in Part One we shared the fact that category management and SRM savings are calculated separately, and often dealt with by separate teams.

If we divide procurement functions by category management maturity levels, titled establishing, established and advanced, we see that savings attributable to category management fall as progress is made. However, savings attributed to SRM grow, compensating for some of the decline.

Whilst procurement do need to move towards delivering value such as revenue generation, there will always be the push for savings, and savings achieved through SRM are on the increase.

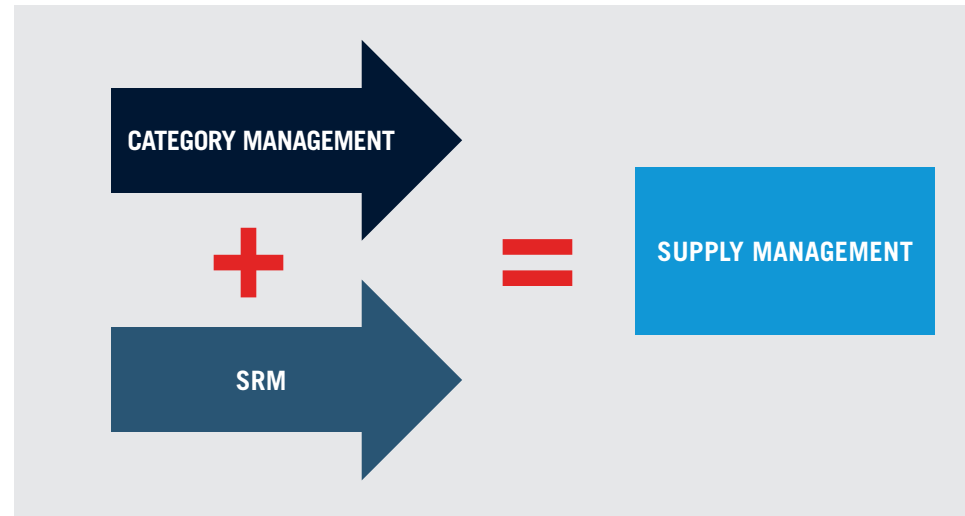
**To get better engagement with stakeholders procurement must demonstrate delivering value through the whole procurement value chain as savings through category management are declining**

## DEFINITIONS

**First, let us be clear about what we mean by category management and SRM:**

Category management is a process and methodology implemented to fulfil the procurement of the products and services required by the business.

Products and services are grouped together into relevant categories, overall a complex process which requires deep analytical skills, market and technical knowledge, and significant stakeholder engagement.



**Procurement must be joined up through the whole life cycle of the category strategy, including the operationalisation of the category and the performance measurement and development of suppliers**

SRM is an enterprise-wide approach to working with suppliers to maximise value delivery.

It is a key way of involving suppliers at the early stages of product development, and developing competitive advantage.

There are many sub-processes including managing risk, negotiation, stakeholder management, supplier development and capturing innovation.

Without SRM, the full benefits of supplier relationships is unlikely to be achieved.

## SEGMENTING THE SUPPLY BASE

SRM is not a single approach to managing suppliers, it is about fostering the right sort of relationship with the business' suppliers. A small percentage of suppliers will be considered strategic enough to require a formal SRM governance process. This process should facilitate regular two-way dialogue to ensure continuous improvement throughout the entire supply chain, measuring supplier performance and development, and maintaining overall alignment to the shared goals of the relationship.

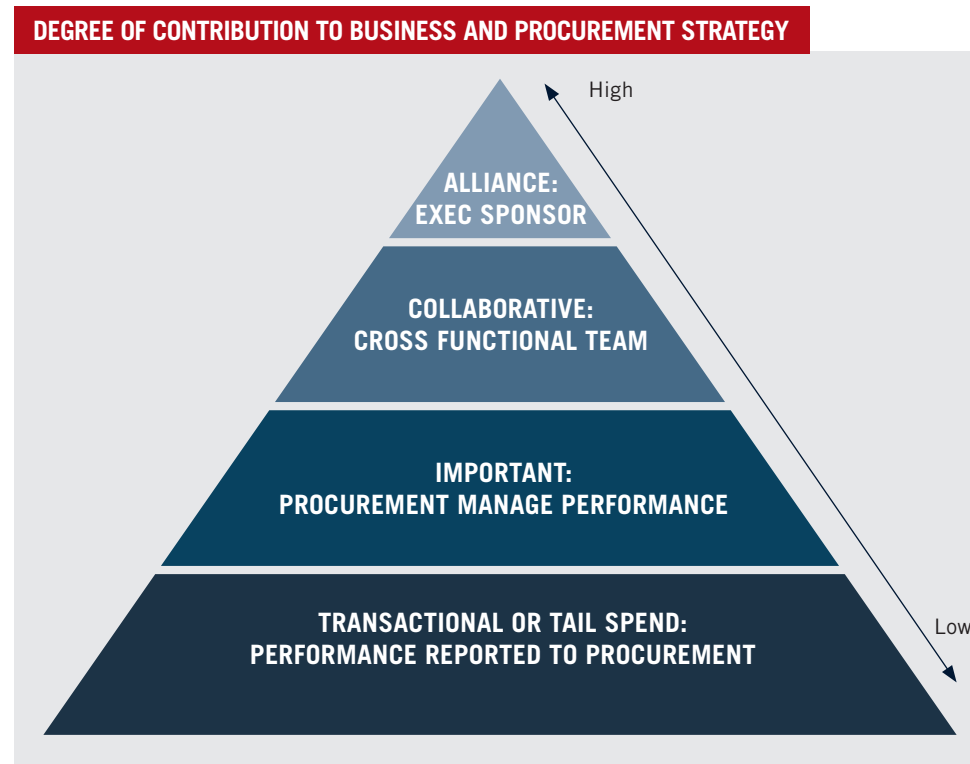
The groups set out in the adjacent table are the most commonly applied segmentations. Part of the analysis must identify the suppliers who you will invest the minimum time with.

<b>ALLIANCE</b>	This group represents the truly strategic suppliers that have been identified as critical to the business. There can be only a limited number of these suppliers, as the effort required to manage them is significant. Suppliers at this level will usually have an executive sponsor from the business, but procurement should still facilitate and own the governance of the relationship
<b>COLLABORATIVE</b>	These suppliers should be on your Preferred Supplier List. These suppliers are important, but are unlikely to be a major source of competitive advantage, for example. Suppliers in these classifications can still be developed to capture new product developments and innovation.
<b>IMPORTANT</b>	
<b>TRANSACTIONAL OR TAIL SPEND</b>	Operational or commodity suppliers requiring minimal management. These suppliers should be moved to eProcurement processes wherever possible



## SRM GOVERNANCE

Procurement needs to step up to the responsibility of managing suppliers according to their importance to the business, and facilitate the governance of the relationships to avoid being out of the loop in new product development and innovation.



**Not all suppliers need to be managed in the same way, so it is important to begin by segmenting them according to their importance to meeting both business and procurement strategy, against a list of criteria relevant to your business requirement**

## SRM CLASSIFICATIONS

The reality is that best practice SRM requires businesses to segment their supply base according to the importance to the business of its various suppliers – this does not automatically mean by largest spend.

	SUGGESTED BUSINESS CRITERIA	MARKET DRIVERS	CATEGORY MANAGEMENT CLASSIFICATION	SUPPLIER ATTRIBUTES	REQUIREMENTS OF RELATIONSHIP
ALLIANCE	Mutual sharing of plans & strategies	One or two key players only	Strategic	High experience with business or industry	Long term, open and transparent
	Requirement has a significant impact on the business/end customer	High profit but low cost volatility		Market leader in a highly complex product	Close relationship cross functionally within the business
	Risk sharing approach			They own technology essential to delivery of product/service	
COLLABORATIVE	Key product or service to business that would be hard to switch to a competitor	Relatively few suppliers available	Leverage/Strategic	Experience with business/industry	Can offer capacity or resource
		Medium price volatility		Medium to long term	Joined up approach as could be hard to switch suppliers to manage closely
IMPORTANT	More short to medium term	Lots of competition	Leverage/Bottleneck/ Non Critical	Has some relevant experience	Short to medium term
	Only non-strategic information shared	Medium to high price volatility		No need for resource or capacity support	Ad hoc exchanges when required
	Little risk sharing			Supplier's technology is not important	
TRANSACTIONAL OR TAIL SPEND	Not business or procurement strategic	Lots of competition available	Non-critical	Limited experience with business or industry	Short term/ad hoc requirements
	No risk sharing	Margins market led		Low complexity	Can switch suppliers easily
	Minimal interaction required	High price volatility			Very little sharing of information

## SRM BENEFITS DELIVERY

Our research shows there are many benefits to implementing SRM, and as savings achievable from category management are declining, procurement must look to SRM to continue to add new value to the business.

We can see from the chart that cost-related factors remain high on procurement's expectations of what SRM will deliver, and although innovation seems to be recognised as a potential benefit, there is little credence given to revenue generation.

It is unlikely that there will be successful engagement with the wider business community if procurement talks only about cost reduction, therefore the focus needs to be on overall value delivery, using the language of the business.

### It's not just about savings

“It was identified that we needed more focus on SRM. It is a great tool if used the right way. The thing that I've been disappointed with is that I don't see the innovation or the value coming from just the SRM programme itself. I do see the value in stronger relationships, better levels of service, identification of other areas of opportunity, but sometimes innovation is trailing behind.”

Grant Russian

Global Category Lead FM, AstraZeneca

### PERCEIVED BENEFITS OF IMPLEMENTING SRM



Source: Procurement Leaders SRM Research 2014

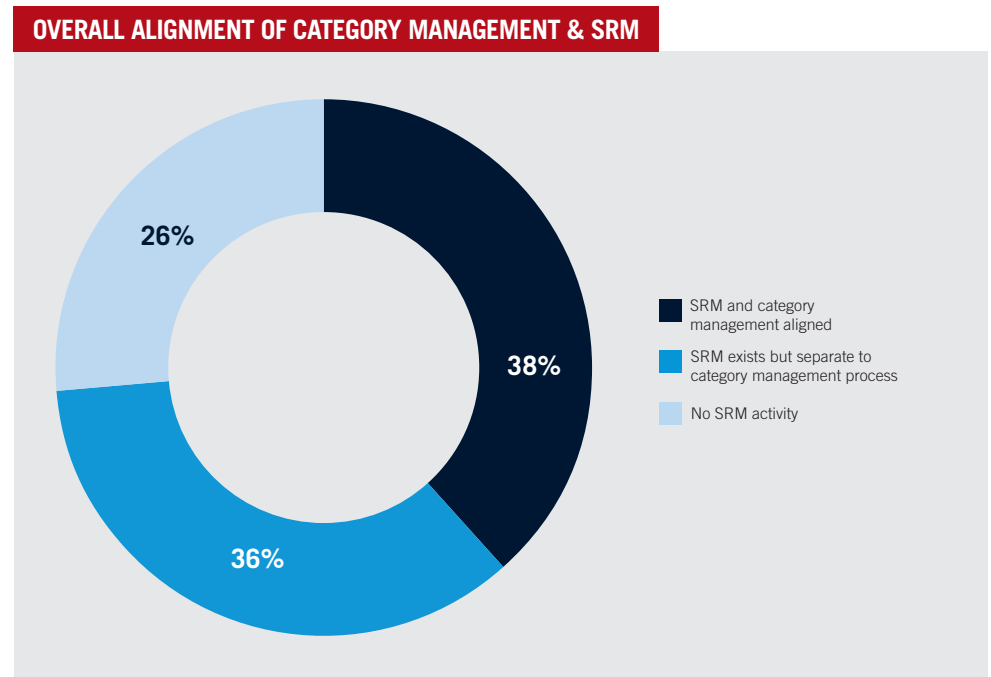
## THE LANDSCAPE

We looked at the maturity level of category management and asked the community how integrated SRM was into the category management process. At first glance, the landscape looks reasonably promising, in that at almost all levels of category management maturity procurement are saying that category management does incorporate some degree of SRM.

However, we can see that less than 40% of procurement organisations align their category management and SRM activities. Of the remaining 60%, where SRM exists it is separate to the category management process and often carried out by completely separate teams.

It remains to be seen whether these organisations that have chosen to separate these two important activities miss out in terms of benefits.

**In the worst case scenario of no SRM process at all, how are the most critical suppliers being managed?**



Source: Category Management Survey 2015

## ALIGNMENT – ANALYSIS BY MATURITY LEVEL OF CATEGORY MANAGEMENT

By drilling down into the degree of category management alignment with SRM against the three stages of category management maturity, we see that only 17% of established and advanced practitioners have no SRM activity compared to double that at the establishing stage.

The relationship is clear though, the more advanced category management teams choose to integrate SRM activities more than the less established groups.

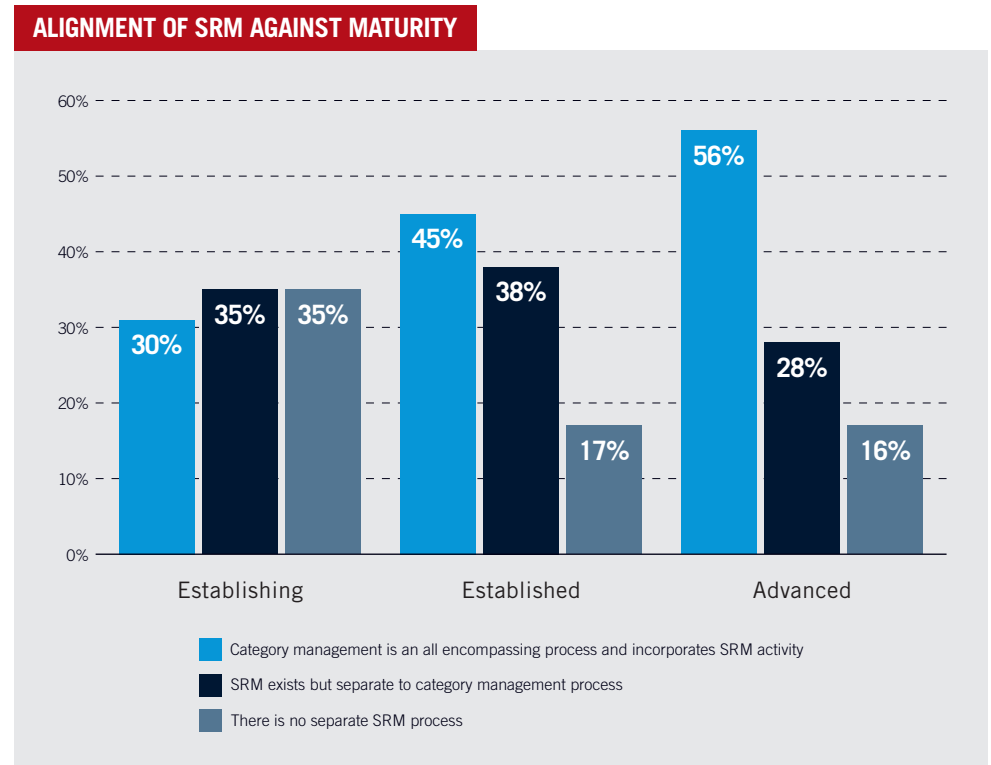
**When we looked at the perceived benefits delivery of SRM, only 7% of respondents believed there were no perceived benefits to implementing SRM – so why wait?**

“Actually this is for us a very hard subject at the moment, we implanted cat man several years ago and we think at the moment we’re quite mature at rolling out our category management approach but what is still missing is structural execution of supply management. But first of all SRM must be a part of category strategy in the same way as the sourcing and risk strategy is. And if you are concentrated only on category management without also paying attention to supplier management you will do only half of your job.”

“We would like to take the steering wheel of the SRM and not be just the passenger.”

Danijel Banek

Executive Director of Central Purchasing, Atlantic Groupa



Source: Category Management Survey 2015

## PLANNING FOR SRM

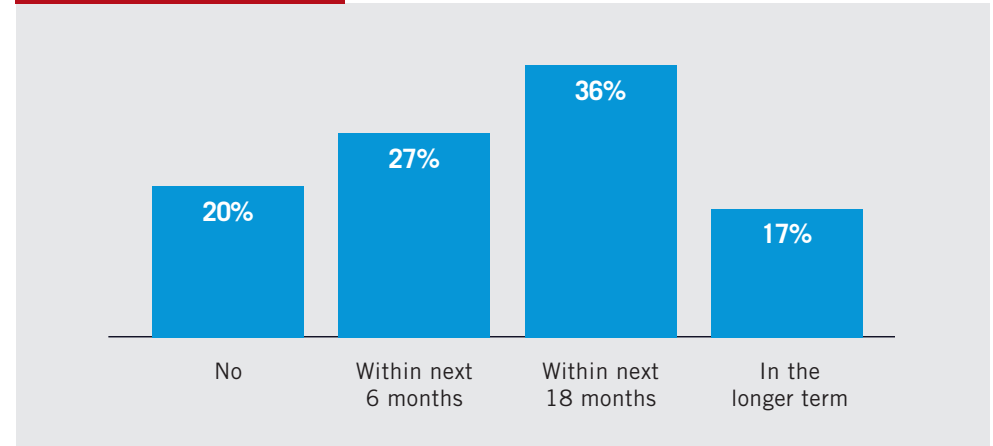
More than a quarter of our survey sample stated that there was no separate SRM activity undertaken.

Our insight into this is that SRM is still considered to be a relatively advanced procurement activity, and given that category management is seen as needing continued development most procurement organisations are not looking enough at the management of suppliers.

**From previous research, we ascertained that most organisations are planning to implement SRM at some stage in the future, with 20% admitting it is not on their current agenda.**

**Procurement must manage suppliers, and not let suppliers manage the business stakeholders**

### PLANS TO IMPLEMENT SRM



Source: Procurement Leaders SRM Research 2014

“For us as a team, we wanted to take on the supplier relationship piece. When we had this opportunity to structure the team we wanted to take SRM because we felt it was an enabler that procurement team wanted to do. I think we possibly had a high expectation of what we can achieve from a leverage point of view and only time will tell on that, but, again, looking at what we in BAT are doing about reducing our suppliers and giving our key suppliers more work and seeking out the additional value through supplier relationship management will be key to our success otherwise there is no control.”

Cliff Lane  
Global Category Manager  
Agrega

## SRM SKILL SETS

When looking to implement SRM, procurement needs to be cognisant of the fact that SRM requires the sophisticated use of interpersonal “soft” skills. In other research, we have already identified that there is a talent gap with such skills currently.

It is acknowledged that there are a whole host of technical skills required to be a buyer or category manager, but those most successful in their roles, and who have the greatest potential to develop into more senior positions, will also have keenly honed ‘soft skills’.

It is these that govern effective human interaction and can give team members an edge over others that will help them to be noticed, appreciated and remembered.



TYPICAL TECHNICAL PROCUREMENT SKILLS	INTERPERSONAL SKILLS
Spend management, category management, sourcing, negotiation, supplier and market analysis, project management	Communication, influencing, leadership & coaching, change management, team building, mediation, facilitation, engaging

## CONCLUSION

Both category management and SRM are in their own right complex programmes to implement, deliver and maintain.

Generally, businesses are not well practiced in SRM, which means there is an opportunity for procurement to facilitate a joined-up approach across the business, influence stakeholders and position procurement as much more than a cost-reduction vehicle.



Both category management and SRM are part of the procurement value chain and people carrying out these roles need to communicate to ensure that procurement are not acting disparately.

We see yet again that the matter of emotional intelligence has cropped up, and in Part Four, Procurement Leaders will share a capability matrix that looks at these soft skills as well as the procurement technical skills.



## ABOUT THE RESEARCH

In 2015 we conducted our second major research project on the subject of category management. We collected data from the procurement community and combined this data with data from related studies to deliver this four part series.



## ABOUT THE AUTHOR

**CARA WIGGINS**  
**Research Development Director**

Cara Wiggins is the Research Development Director at Procurement Leaders with over 30 years procurement experience in both the public and private sectors globally, and is a Black Belt in Six Sigma. Experience includes managing transformation programmes, developing and implementing Procurement and Category Strategies, and Cara has specific experience and interest in Indirect Categories, with a particular focus in Professional Services.

## CONTACT THE AUTHOR AND FEEDBACK

If you have enjoyed this report, would like some more information or you feel it hasn't met your expectations, please don't hesitate to send us an email on: [feedback@procurementleaders.com](mailto:feedback@procurementleaders.com)