



Your guide to category management

Introduction

With the constant fluctuation in global supply markets and rapidly changing business requirements, procurement has become incredibly complex. Organisations need a better way to proactively manage their supply base and optimise their purchasing spend. This is where category management shines and why it's become a critical best practice for so many organisations today.

Category management in procurement is a strategic approach that can bring sustained value across the value chain while reducing supply risk. When implemented well, it establishes a common language and clear strategy that reach beyond the procurement organisation.

What is category management?

Category management is a strategic approach to procurement where organisations group together similar areas of external spend to identify opportunities for consolidation and to create added value. This process makes it easier to understand and control the total cost of ownership for each category and to maximise savings and value for each purchase.

A procurement category is a logical group of products or services with similar characteristics, supply and demand drivers, and suppliers.

The categorisation depends on the industry, the procurement's own organisational structure, spend profiles, and the external marketplace.

The general principle is to group goods and services that have similar characteristics either using a global standard such as [UN Standard Products and Services Code \(UNSPSC\)](#) or an internal classification method, also called a spend taxonomy.

There is no single way to categorise spend, as it needs to consider the industry, the organisation's objectives and end-user requirements.

What are the principles of category management?

Category management allows procurement professionals to create opportunities that will drive value for the organisation, such as reduced prices and costs, mitigation of supply chain risks, lead times, quality, sustainability and compliance.

The key principles of category management are:

Categorisation

Classifying organisational requirements and segmenting into categories creates expertise, and market knowledge to deliver innovation.

Aggregation

Collating the total organisation's requirements can achieve a reduction in purchase prices and overall costs by increasing volumes and reducing the number of transactions and agreements.

Standardisation

Setting a standard set of policies and procedures for individual users and cross-functional teams for consistency and tracking benefits.

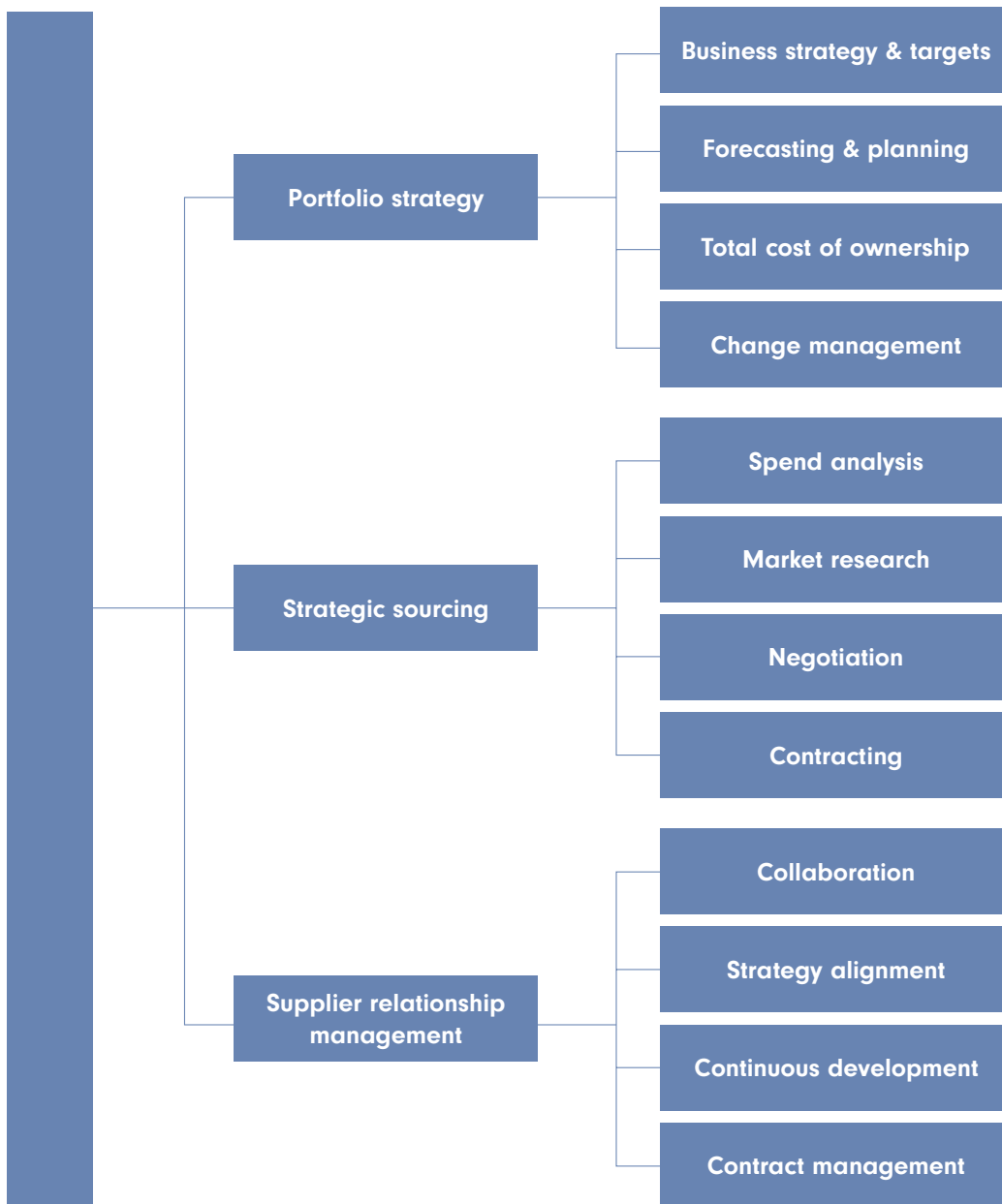
Relationship management

Enabling a clear and consistent exchange of knowledge and information with suppliers and key stakeholders to build relationships and add value.

Category management vs strategic sourcing

The term “category management” is often used interchangeably with strategic sourcing, although they are not the same. While strategic sourcing focuses on selecting the right suppliers and negotiating the best prices to meet short-term organisational goals, category management segments purchases into categories to help procurement teams identify opportunities to save money and improve quality, supplier performance, and efficiency.

Strategic sourcing is a key activity within the category management framework as outlined in the diagram below:



Source of diagram: Sievo.com, Introduction to category management

Benefits of category management



Improved relationships with suppliers: Being able to source, evaluate and onboard new suppliers. Ability to identify the underperforming suppliers and replace or expand their role. Identify key products and services that are vital to your organisation, so you'll be able to work more collaboratively with key suppliers and build trust.



Increased savings, contract terms and quality: Through the use of accurate data and category intelligence and consolidation you can engage in negotiations and focus on getting the lowest price possible at the highest quality, with the best terms. This is achieved by aggregating spend and working with fewer suppliers for a product or service.



Better decision making: Allows you to categorise your spending into groups of similar or related products and services. By doing so, you can focus on the categories that align with your organisation's goals and provide the most value.



Reduced risk exposure: A proactive approach to supplier management and category expertise enables you to get an in-depth look at each supplier and the risks associated with them.



End-user satisfaction: The category manager becomes the supply market expert and enables credibility and expertise within the end-user community.



Better adherence to ESG and SR commitments: Easier adherence to environmental and social responsibility commitments.



Improved insights: Greater insight into costs, supplier performance, potential supply chain issues and supply chain innovation.



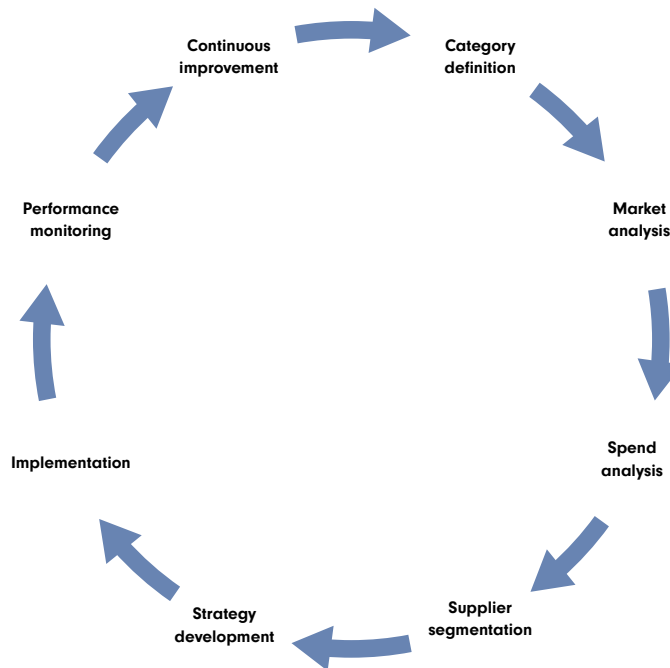
Greater procurement efficiency: Through digitalised and automated processes.

How does category management work in practice?

Category management covers the entire procurement cycle from sourcing to managing the supplier relationships. The main objective is to manage each category and sub-category of spend holistically, through their entire procurement lifecycle.

Large categories of spend and those that are strategic to the organisation require dedicated time and a high level of specialisation. The process used remains the same regardless of the category.

An effective process could look like this:



- Category definition:** Identify and define the categories of goods or services to be managed. This involves grouping similar items together based on their characteristics and usage.
- Market analysis:** Conduct a thorough analysis of the market for each category. This includes understanding market trends, supplier capabilities, regulatory changes, innovation and potential risks.
- Spend analysis:** Analyse historical spend data to identify patterns, opportunities for savings, and areas for improvement.
- Supplier segmentation:** Segment suppliers based on their importance, performance, and strategic value. This helps in prioritising supplier relationships and managing risks.
- Strategy development:** Develop a category strategy that outlines the approach to managing the category, including sourcing strategies, negotiation tactics, and risk management plans.
- Implementation:** Execute the category strategy by engaging with suppliers, negotiating contracts, and implementing sourcing plans.
- Performance monitoring:** Continuously monitor the performance of the category management process, including supplier performance, cost savings, and compliance with contracts.
- Continuous improvement:** Regularly review and refine the category strategy to adapt to changing market conditions and organisational needs.

Example: Summary plan, construction materials

Category definition

- **Category name:** Construction materials
- **Scope:** Includes concrete, steel, timber, aggregates, and other essential building materials.

Market analysis

- **Market trends:** Increasing demand for sustainable materials, fluctuating raw material prices.
- **Supplier landscape:** Major suppliers include ConcreteMe, ConcreteYou, and ConcreteUS.
- **Risks:** Supply chain disruptions, price volatility, regulatory changes.

Spend analysis

- **Historical spend:** £10 million annually.
- **Spend breakdown:** 50% on concrete, 30% on steel, 10% on timber, 10% on other materials.
- **Savings opportunities:** Bulk purchasing, long-term contracts, supplier consolidation.

Supplier segmentation

- **Strategic suppliers:** ConcreteMe (primary supplier for concrete).
- **Tactical suppliers:** ConcreteYou (secondary supplier for concrete and aggregates).
- **Transactional suppliers:** Local suppliers (for urgent, small orders).

Strategy development

- **Sourcing strategy:** Focus on long-term contracts with strategic suppliers, explore sustainable material options.
- **Negotiation tactics:** Leverage bulk purchasing for discounts, negotiate better payment terms.
- **Risk management:** Diversify supplier base to mitigate supply chain risks.

Implementation

- **Action plan:**
 - Finalise contracts with ConcreteMe and ConcreteYou.
 - Implement bulk purchasing agreements.
 - Introduce sustainable material options.
- **Timeline:** 6 months for full implementation.

Performance monitoring

- **KPIs:** Cost savings, supplier performance, compliance with sustainability targets.
- **Review frequency:** Quarterly reviews.

Continuous improvement

- **Feedback loop:** Regularly gather feedback from project managers and site supervisors.
- **Adjustments:** Update strategy based on market changes and performance data.

Top tips

Your category management strategy will evolve, so it's important to keep in mind that it may require some maintenance from time to time.

These top tips will help you make your category management strategy a success.

- 1 **Establish a dedicated category manager and team:** Knowledgeable stakeholders from relevant departments.
- 2 **Create a consistent taxonomy across the organisation:** Better insights and visibility into spend.
- 3 **Use automated solutions to centralise spend data:** Easier to find and report important insights.
- 4 **Harness category management technology:** Spot patterns, categorise spend, organise suppliers, set benchmarks, make recommendations, automate tasks.
- 5 **Keep stakeholders engaged and in the loop:** Communicate wins and opportunities.
- 6 **Build dynamic supplier relationships:** Focus on overall value and collaborate openly.
- 7 **Incorporate third-party data:** Use relevant external datapoints to complement your strategy.
- 8 **Continually hone the category lifecycle process:** Improve internal and external data analysis.
- 9 **Align the category plan with your organisation's strategy:** If the organisation's direction changes then your category plan will need to address this so the two remain aligned.





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