The state of the art of category management
# Contents

<table>
<thead>
<tr>
<th>Introduction</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>About the research</td>
<td>4</td>
</tr>
<tr>
<td>Research methodology</td>
<td>4</td>
</tr>
<tr>
<td>Top 10 research insights</td>
<td>5</td>
</tr>
<tr>
<td>Setting the scene for category management in Australasia</td>
<td>7</td>
</tr>
<tr>
<td>Profile of respondents</td>
<td>7</td>
</tr>
<tr>
<td>Procurement reporting line</td>
<td>8</td>
</tr>
<tr>
<td>Portrait of a category manager</td>
<td>9</td>
</tr>
<tr>
<td>Breadth of category management – categories of spend</td>
<td>11</td>
</tr>
<tr>
<td>Direct and indirect categories</td>
<td>11</td>
</tr>
<tr>
<td>Strategic vs. non-strategic spend</td>
<td>12</td>
</tr>
<tr>
<td>Depth of category management – practices and approaches</td>
<td>13</td>
</tr>
<tr>
<td>Limited capacity for strategic category management</td>
<td>13</td>
</tr>
<tr>
<td>Strategic sourcing</td>
<td>14</td>
</tr>
<tr>
<td>Influence within the organisation</td>
<td>14</td>
</tr>
<tr>
<td>Anatomy of a category strategy</td>
<td>15</td>
</tr>
<tr>
<td>Validating category strategies</td>
<td>17</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>18</td>
</tr>
<tr>
<td>Purpose – to what end is category management being applied</td>
<td>19</td>
</tr>
<tr>
<td>Category management objectives</td>
<td>19</td>
</tr>
<tr>
<td>Category management challenges</td>
<td>21</td>
</tr>
<tr>
<td>Category measurement</td>
<td>22</td>
</tr>
<tr>
<td>Moving from reactive to proactive category management</td>
<td>23</td>
</tr>
<tr>
<td>Category management performance</td>
<td>24</td>
</tr>
<tr>
<td>Conclusion and recommendations</td>
<td>25</td>
</tr>
<tr>
<td>For Category Managers</td>
<td>25</td>
</tr>
<tr>
<td>For CPOs</td>
<td>26</td>
</tr>
<tr>
<td>About the author</td>
<td>27</td>
</tr>
</tbody>
</table>
Introduction

In many ways, category management is a topic unto itself although in the past, students of procurement have often struggled to actually define ‘Category Management’. It is sometimes considered to be a matrix type subject – layered horizontally across the entire discipline of procurement. CIPS define category management as, “the entire science of the procurement subject applied to a single genre of expenditure”. As such, a category manager is the ‘CPO of their category’ and carries a weight of responsibility for their organisation’s application of the category – especially for direct categories that support strategic supply lines.

The key elements of category management include end-to-end management of the supply chain, acute market awareness, sound (if not expert) technical knowledge, good SRM and excellent stakeholder relationships. Also, an understanding of actual consumer needs – at the other end of the supply chain.

As category management grows in popularity as a way of organising expenditure, we have to understand it more and the benefits of its applications. One early worry is that category managers’ are overburdened with too many categories to manage – undermining the entire premise of this approach, which needs extra time and resources to allow proactive management of upstream and downstream activity for greater ultimate benefit.

This study by The Faculty was commissioned by CIPS for publication at the CIPSA Category Management Conference on 6th April 2011, and is the first major study of category management in the region. It seeks to give us a much better understanding of the current state of the art of category management as a discipline within Australian and New Zealand. It offers some real insight into where category management is at and, usefully, offers some real clues to how best to use the concept of category management for the greater good.

Jonathan Dutton FCIPS
Managing Director
CIPS Australasia

Melbourne, March 2011
About the research

The Faculty has often debated the following definition of category management, “… a rigorous, fact-based, end-to-end process for proactively collaborating with stakeholders to develop and implement strategies that deliver significant value from an organisation's external spend…” CIPS have also described category management as, “the entire art and science of supply chain management applied to a single category of expenditure.” However you define or redefine category management, one absolute certainty is that there is no universally accepted definition or ‘rule book’ for what is becoming an increasingly common part of the procurement vernacular.

The aim of this research, the first of its kind in the region, was to gain a better understanding of category management and the way in which it is being applied within Australia and New Zealand. The research sought to determine which spend categories are being managed and how they are being managed as well as how practices differ between categories, organisations and industries in both the public and private sectors. We also sought to understand what specifically, individuals are doing as part of their category management efforts and to gain insights into their key objectives and challenges.

While it is clear from the research that there is still much work to be done for individuals and organisations to fully master the ‘art’ of category management, we hope that the findings presented in this whitepaper will provide a baseline of sorts against which to measure future progress. We also hope this research will benefit the profession as a whole by providing a better understanding of category management while also assisting individuals and organisations in benchmarking and improving their own category management efforts.

Research methodology

The data presented in this research has been collected from 468 individuals who completed an online multiple choice survey in October 2010. While it was not possible to identify all the organisations represented in this sample due to the fact that many respondents took the opportunity to respond anonymously, we were able to identify at least 260 different organisations from those who provided details, ranging from local government departments through to large multinational companies. In addition to the quantitative survey data which forms the basis of many of the findings presented here, interviews were conducted with selected individuals to understand some of the more specific approaches to and experiences of category management within the region.

Given the scale and nature of this research, it must be acknowledged that many of the questions were highly subjective and therefore exposed to the value judgement and interpretation of the individual respondent. Readers are therefore encouraged to use their own judgement in interpreting the findings and comparing them to their own
individual circumstances. The sample size and diversity however, permits a reasonable level of confidence in the findings and an adequate baseline against which to measure future developments in category management.

While the research did not set out specifically to rate category management practices in terms of proficiency or maturity, in order to provide some guidance to readers seeking to improve their own category management efforts we have identified a number of practices and behaviours throughout the whitepaper which we believe differentiate ‘leaders’ in category management. To this end we would consider the following characteristics to be commonly associated with leaders in category management:

- Strategic focus
- Long term view of category strategy
- Clearly defined category portfolio with identifiable synergies between sub-categories
- Sufficient degree of focus and specialisation in terms of time and resources
- Well documented and clearly articulated category strategy
- Proactive influencing of stakeholder behaviours and internal demand
- Proactive pre-positioning of category to take advantage of supply market shifts

**Top 10 research insights**

1. Category managers and indeed procurement generally, now have the attention of senior executives within their organisations but do not appear to be using it effectively to influence behaviour within their organisation.
2. Category management still lacks a common definition across the procurement profession. The term is applied to a wide range of practices ranging from basic tactical purchasing through to sourcing through to more sophisticated strategies involving proactive influencing of buyer and supplier behaviour.
3. Category managers struggle to focus and specialise when their portfolio has too much breadth (they are managing multiple categories with few, if any, synergies) or too much depth (they are tasked with end-to-end procurement responsibility including strategic, tactical and operational requirements).
4. Category managers working for global companies tend to benefit from a higher level of focus on category management. Category management appears to be more widely embedded in global organisations leading to a greater proportion of ‘above target’ or ‘on target’ performance.
5. Category definitions are highly subjective as is the decision of whether or not spend is considered strategic for the organisation. This often leads to an inappropriate allocation of resources across category portfolios as well as the time spent within categories.
6. Category managers are still spending a significant portion of their time on tactical tasks focused on short term narrow objectives rather than long term strategic objectives.
7. Category managers can no longer rely on strategic sourcing alone to deliver value from their categories. The majority of categories have been sourced at least once and often multiple times.

8. Category management objectives are too financially focussed, often as a result of a reporting line to the Chief Financial Officer (CFO), which makes it hard to align category strategies with other measures of value that may be more relevant to their immediate business stakeholders.

9. The key attributes for effective category management are more about relationship management and strategy (e.g. influencing, communication, commercial acumen) than domain expertise (e.g. knowledge of supply markets and specifications).

10. Category strategy documents tend to be more focused on observation (presentation of data) rather than interpretation (analysis of relevant data to draw conclusions and inform recommendations).
Setting the scene for category management in Australasia

Unlike many of the previous research surveys conducted by CIPSA, the category management survey was targeted specifically at individuals, rather than organisations. Interestingly, in some cases individuals within the same organisation responded quite differently which reflects the challenges organisations face in achieving a standard approach to category management across their procurement portfolio.

Profile of respondents

While respondents came from a wide variety of industries, almost half came from the top three industries being Government at 17%, Mining, Oil, Gas and Resources at 15% and Manufacturing at 12%. This reflects the greater focus placed on procurement within these industries although in terms of category management maturity we did not find these industries to be significantly different relative to the rest of the sample which suggests procurement maturity is not necessarily an indicator of category management capability.
Although the survey was focused on individual responses, it is also sought to understand the broader procurement landscape within the region such as procurement team size and spend under influence. Small procurement teams (between 1 and 5 FTE) were the most commonly reported at 33% which is consistent with the finding that availability of resources remains an obstacle to category management in this region. This is further supported by the finding that individuals in very large procurement teams (30 plus FTE) were more likely to focus on ‘strategic’ activities (those with longer term, ‘big-picture’ objectives) than those in small procurement teams.

**Procurement reporting line**

The most common reporting line for procurement is still finance with 29% of respondents working within a procurement function that reports to the CFO. In many cases this results in a strong ‘finance bias’ in the way procurement and indeed category management efforts are measured and rewarded as evidenced by the continued focus on savings and other financial metrics as the primary objectives for category management. For some categories this can make it hard to achieve true alignment with business drivers which may not be so financially focused in nature. Marketing for example, is traditionally a category where procurement has struggled to establish credibility and this may be largely due to the disconnect between the financial language of procurement and the creative language of marketing. ‘Savings’ and ‘budget cuts’ are music to the ears of the CFO and hence procurement has been conditioned to communicate its value proposition along these lines. This terminology however, will strike fear into the heart of the Marketing Director who perceives them as eroding brand value and reducing the relevance of the Marketing Department.

One of the fundamental tenets of truly influential category management is the ability to really connect with the business strategy to the point that the business is ‘pulling’ the category strategy along business lines rather than the category manager ‘pushing’ a
procurement strategy into an unwelcoming business. When the broader procurement strategy is being driven along financial lines as is often the case when procurement reports to the CFO, it can be harder for the category manager to free themselves of the ‘savings shackles’ and truly align their category strategy with their stakeholders’ values. To this point, only 11% of respondents identified a true Chief Procurement Officer (CPO) in their organisation, being one that reports directly to the CEO and is therefore likely to have more freedom to align procurement to a wider variety of value measures within the business. In our view therefore, the pursuit of a true C-level appointment for the head of procurement is a valid cause for the betterment of category management within the organisation.

**Portrait of a category manager**

While it is clear that category managers come in all shapes and sizes, the survey results provide some interesting insights into the ‘typical’ category manager in the region.

In terms of job title the typical category manager is in fact not a ‘Category Manager’ at all, or not by name at least, with 40% of respondents being more generically known as ‘Procurement Managers’. Other common job titles are Contract Manager, Buyer and Sourcing Manager which highlights the huge disparity between role definitions across organisations. This of course presents challenges for candidates, hiring managers and recruiters in matching appropriate skills and experience with job requirements and is one of the key reasons why leading organisations will engage specialist recruiters with dedicated procurement expertise to assist with their recruitment needs. Specialists can look beyond the job title to understand the complexities of the role and the procurement organisation and match candidate experience accordingly leading to much more successful placements.

It is no surprise that the ‘average’ category manager from this survey is located in Australia although 26% of respondents work for a global organisation where the head office is located outside of Australia or New Zealand. Statistically, category managers within global organisations appeared to benefit from more established category management frameworks and practices although anecdotally many category managers and CPOs reported significant challenges adopting global category management practices in a local context due to vastly different internal and external constraints.

The ‘typical’ category manager is Generation X and has been in procurement for more than ten years. From an education perspective therefore, it is not surprising that while they are tertiary qualified it is in a non-procurement or supply chain related discipline. We expect this trend to continue in the immediate term as procurement and supply related tertiary options are a relatively recent development in Australian and New Zealand universities and category management is not seen as an entry-level role within procurement (indeed Generation Y made up only 5% of survey respondents).
In terms of the attributes required for a successful category manager, respondents were asked to rank in order of importance *relationship management* (influencing, communications, credibility with stakeholders and suppliers etc.), *domain expertise* (knowledge of specifications, supply markets, cost drivers, regulatory environment etc.) and *strategy* (commercial acumen, procurement expertise etc.). These scores were then weighted to provide an overall picture of the relative importance category managers placed on each of these areas. Contrary to the often-perceived view that successful category managers are experts in their field having spent many years honing their knowledge of a particular category, *domain expertise* ranked least important with *strategy* being considered the most important attribute followed by *relationship management*.

This finding has important implications for the way organisations approach category management and how resources are deployed to support it. From an organisational perspective, successful category management does not necessarily require the organisation to develop category experts over a long period of time or even to hire in experts with specific category knowledge. Investment may in fact be better directed towards developing comprehensive category management frameworks and category strategy documentation that can ensure domain expertise is accumulated within the organisation rather than within the individual. To this end leading organisations will often actively reallocate portfolios among their category management team to promote innovation and fresh ideas and stimulate employee engagement.
Breadth of category management – categories of spend

Direct and indirect categories

The wide range of categories reported in our survey presents another challenge in benchmarking category management approaches across different organisations and industries. Many category definitions were quite unique, certainly to the industry and in some cases even the organisation. In manufacturing industries (which accounted for 19% of our survey respondents including FMCG) these categories have traditionally been referred to as ‘direct’ categories; those that are directly incorporated in the products being manufactured, e.g. raw materials, subcontracted manufacturing services etc. Our survey did not specifically distinguish between direct and indirect categories since these classifications are applied quite differently across industries, particularly those outside manufacturing. However many respondents did refer to this distinction in their own definition of the categories they are managing, which presents some challenges in determining exactly how category management is being applied to these spends, where the specific category is unclear. Again, the high number of respondents reporting accountability for category management at this level reflects the resource constraint that in many cases prevents category managers from becoming more specialised.
As the results show, a significant proportion of category managers were unable to define their primary category of responsibility as a single discreet category or even a portfolio of related categories where synergies could reasonably be expected to exist between sub-categories. 15% of respondents reported primary categories which broadly included both direct and indirect spend while a further 5% reported multiple indirect categories with no apparent synergies between them. Similarly, 3% of respondents appeared to be managing multiple unrelated direct spend categories. We believe this needs to be an area of significant focus for category managers to improve the way spend is segmented so that categories can be clearly defined as discreet individual categories or portfolios of related sub-categories in order to allow for a truly bespoke category management approach where the strategy reflects the specific needs of the category. Interestingly, a number of survey respondents acknowledged that their category definitions were currently too broad and that work was underway to further refine and improve these definitions.

**Strategic vs. non-strategic spend**

Given the distinction of direct versus indirect spend may not be appropriate for all organisations and industries, our research also sought to understand whether or not respondents considered their category to be a 'strategic' spend for their organisation. While this is somewhat subjective, it did highlight one of the reasons why category management approaches can vary substantially between organisations for the same category; what is a non-strategic spend for one organisation may well be strategic for another. Category management does not appear to be exclusively reserved for strategic spends, although the majority of respondents (83%) viewed their category as strategic. We find this result surprising given the nature of many of the categories reported in the survey which suggests for some organisations, more work could be done to clearly define and articulate which spends are truly strategic for the organisation and why. Leading organisations make a clear and consistent distinction between strategic and non-strategic spend and often adopt very different category management approaches accordingly. In some cases, category management is reserved exclusively for strategic spends with non-strategic spends having a much more tactical procurement approach that may be decentralised to the business or even outsourced to a third party.
Depth of category management – practices and approaches

Despite the significant variations in the types of categories being managed and the level of understanding of category management across different organisations, it is encouraging to see that category management in some shape or form is a feature of most modern day procurement teams within the region. Only 8% of respondents reported that there were no plans to implement a specified approach to category management. Surprisingly, 24% of respondents indicated that a specified category management approach was applied to all spend within their organisation, which again, suggests an inconsistent definition of category management across organisations. One of the fundamental pillars of category management needs to be an appropriate spend segmentation to ensure that the resource effort required for true end-to-end category management is directed only to those categories that will benefit from this level of focus in terms of the value delivered. For 28% of respondents this was determined in their organisation according to objective criteria based on size of spend, risk, business impact or a combination of these factors. In our view, this is the only way to ensure an appropriate allocation of resources to category management, which again, must be supported by accurate spend segmentation.

Limited capacity for strategic category management

Given the increasing demands on procurement generally and the continuing expectation to ‘deliver more with less’, it is not surprising that category managers are also feeling this pressure. For this reason, only 20% of respondents could be considered ‘dedicated’ category managers, meaning that they spend more than 90% of their time on activities related directly to their primary category. We view this as one of the major barriers preventing organisations from really embracing category management in the true sense because good category management requires focus. A category manager cannot be truly
Effective at influencing the internal and external dynamics of their category unless they have the time available to do so. With 44% of respondents spending less than 60% of their time on their primary category (and an alarming one in five respondents spending less than 30% of their time on it) it is clear that many organisations have not yet been successful in making category management a real priority. From this it follows that category managers are either spending the remainder of their time on other categories (consistent with our view that many category managers are spread too thin across category portfolios) or on non-category related activities such as administration or project work. In terms of Return on Investment (ROI), leading organisations recognise that category management can deliver significant value if sufficient time is made available for it.

Another characteristic of best practice category management is that it should be strategic in nature, that is with typically longer term, ‘big picture’ objectives. Disappointingly, only 52% of respondents indicated that this is where the majority of their time spent on their category was focused. When combined with the finding that few category managers are dedicated to their primary category, this suggests that for any given category, the amount of time dedicated to strategy is relatively low. This is consistent with conversations we have had with category managers who report that creating the headspace to think strategically about their category remains a significant challenge when up against the day-to-day demands of stakeholder and supplier management.

**Strategic sourcing**

Despite the challenges facing category managers in making time for category management, there is little doubt that it needs to happen. Although strategic sourcing (being the use of a defined, multi-step process to formally evaluate sourcing options for a particular category of spend) has certainly delivered much of the value that has elevated procurement to the strategic level it now holds in most organisations, this opportunity is now substantially diminished with only 18% of respondents reporting that their category had never been strategically sourced. In fact, an indication of the level of maturity of most procurement organisations in the region today is that in the majority of cases (53%) categories were into their third generation or beyond having been strategically sourced multiple times. It is widely observed that the savings delivered from strategic sourcing initiatives diminish significantly after the first and second generations, which is why category management holds such appeal as an avenue to identifying further sources of value such as supplier relationship management (SRM) and demand management.

**Influence within the organisation**

Further supporting this increased level of influence, and indeed the improved alignment of category management to overall business imperatives, is the finding that in over 50% of cases category strategies are being signed off or otherwise endorsed by a C-level executive other than the CPO. In fact, more than a quarter of the time (28%) the CEO
was reported as being the most senior executive to have endorsed the category strategy. We find this result extremely encouraging in terms of the potential it offers for category managers to influence their organisations’ strategy at the highest level. However, in the context of the wider research and survey responses, it raises the question as to whether category managers are using this opportunity effectively to achieve their overall category management objectives. The same can be said of procurement generally where for many organisations, it is no longer valid to claim that procurement ‘does not have a seat at the table’. Clearly as a profession, we do have the ear of our CEO and what now differentiates ‘good from great’ procurement is the nature of the conversations we are having with our business.

Leading organisations empower category managers to engage directly with their business stakeholders at all levels of the organisation rather than rely on channelling communications through the head of procurement. This requires flexibility in the way category managers are managed and their performance measured to enable them to align category strategies with business objectives which may differ significantly from traditional procurement metrics such as savings or supplier consolidation.

**Anatomy of a category strategy**

Inextricably linked to the practice of category management is the category strategy document. The category strategy provides the high level recommendations and guiding principles as to how the category should be managed by the business. It also captures the research and analysis outcomes that are the key drivers for the category strategy and serves as an important knowledge management tool for retaining and transferring category knowledge within the business. For many category managers, the category strategy document is also an important communication tool, used to develop conversations with internal stakeholders, senior management and even suppliers.

Exactly what constitutes a category strategy document appears to vary significantly between organisations and categories. As we have already noted, only 6% of respondents reported that no formal category strategy document existed for their category from which it follows that the overwhelming majority of category managers have documented some form of strategy for their categories. It is worthwhile acknowledging, however, that the mere existence of a document does not in itself prove that the practice is being applied. Similarly, the absence of documentation does not preclude a specific practice from being applied. On balance our view is that a well documented category strategy should be fundamental to any well-disciplined category management organisation.
The appropriate structure and content of a category strategy document will depend on a number of factors. These include the scope of the category and its strategic importance or level of criticality to the business, which as we have already seen, are key determinants in the decision of whether or not to apply a category management approach to certain spend. It is therefore perhaps not surprising that what constitutes a category strategy varies among respondents from fairly basic analysis of the category fact-base, such as contract status and high level spend, through to significantly more in-depth documents involving a variety of sophisticated internal and external analyses, risk assessments and strategic planning tools.

The most common features of category strategy documents are identified in the chart above which highlights some interesting comparisons. For example, when considering the question of category definition or scope, while 67% of respondents appear to have attempted to define the scope of their category in some way, only 23% have applied a formal portfolio analysis technique such as a four-box analysis of relative business impact vs. supply market complexity for individual sub-categories. Portfolio analysis is a powerful tool for prioritising work effort and directing it towards those areas that will deliver the greatest return in terms of value. Just as procurement has long used ‘Kraljic’s Matrix’ to segment their organisations' total spend and prioritise procurement efforts accordingly, leading category managers apply this technique to their own spend portfolios.

Similarly, when it comes to stakeholder engagement 63% of category managers have taken steps to identify and document the key stakeholders for their category, but only 50% have gone as far as documenting a formal stakeholder communications strategy...
which takes into account the different communications and messaging requirements for various audiences. This additional effort to connect more deeply with stakeholders appears to be paying off with respondents who had a stakeholder communications plan in place being more successful at proactively influencing stakeholder preferences and less likely to consider stakeholder engagement as a key challenge to achieving their category management objectives.

External analysis also features heavily within category strategies and once again, going the extra mile appears to be paying dividends; category managers documenting more sophisticated supply market analyses such as market forces analysis (e.g. Porter’s Five Forces), supply market economics analysis and macro-environmental analysis (e.g. PESTEL) had a significantly greater ability to proactively position their category to take advantage of market shifts, as opposed to just responding to changes after the event.

 Validating category strategies

When it comes to category strategy, the category manager cannot rely solely on their own research and analysis. The importance of validating the strategy on an ongoing basis to ensure it is relevant and remains appropriate cannot be underestimated. Not only does it offer an excellent opportunity for developing stakeholder and supplier engagement but it also helps to refine the strategy, identify gaps and open up opportunities that may have been overlooked.

The survey showed that while it is certainly well understood that some form of validation is necessary for category strategies, this is currently a very internally focused exercise. The most common method of validation is through discussion with internal stakeholders, which may simply be a by-product of ongoing stakeholder engagement and communication, rather than a specific objective. Discussion with internal procurement peers or managers is also valuable to a point but invariably will fall short of delivering really game-changing insights by virtue of the fact that in most cases, by definition, the category manager will be the most knowledgeable member of the procurement team in terms of their specific category. Peers may be able to give generic advice based on their experience of the organisation or other procurement activity but for truly meaningful, category specific feedback, category managers must look to external sources of reference. For 53% of respondents this involves discussion with suppliers but for obvious reasons, over-reliance on suppliers for validation carries a high degree of risk.

Leading category managers tend to take a more external view, participating in formal category specific networking events or other benchmarking exercises with external organisations that can provide a more balanced perspective on the category. Networking with category managers and subject matter experts from other organisations offers the unique advantage of combining not only a procurement and commercial perspective but also specific knowledge of the category. Arguably both are available internally but from different parties (procurement and stakeholders) with vastly different agendas.
Outsourcing

Outsourcing within the context of category management appears to be relatively uncharted territory with 62% of respondents reporting that none of their category management activities were outsourced. In part this may be due to the fact that where category management has been outsourced, it has been done so in its entirety such that respondents no longer consider themselves responsible for the category and therefore did not report on these categories in the survey. However, even where overall accountability for the category remains in-house, there is still a considerable opportunity for more organisations to outsource elements of category management such as market intelligence and research, supplier benchmarking, even strategic sourcing and vendor management. The low uptake of such services may be a missed opportunity for capacity constrained category managers to free themselves of transactional or tactical category management activities and direct their attention to more strategic efforts.

Outsourced category management activities

- Market intelligence/research: 17%
- Supplier price benchmarking: 13%
- Spend analysis: 12%
- Vendor management: 9%
- Strategic sourcing: 9%
- Billing audit: 8%
- Contract management: 8%
- Supplier performance management: 7%
- Supplier performance benchmarking: 7%
- Operational procurement (e.g. Procure to Pay): 6%
- Category strategy development: 4%
- Other: 2%
- None of the above: 62%
Purpose – to what end is category management being applied

While our research sought to understand the varying approaches to category management across different industries and organisations and what is being done in terms of category management in this part of the world, simply asking ‘what’ does not in itself, offer a complete picture. In order to really understand why category management has become such a focus in recent times, we looked at the objectives category managers have for their categories as well as the perceived challenges preventing them from achieving these objectives.

Category management objectives

Despite the relative maturity of most categories from a sourcing perspective, purchase price savings still ranks highly among category management objectives with 44% of respondents nominating it within their top three priorities. This is an example we feel, of the missed opportunity for procurement to engage business stakeholders in a different conversation that focuses more on value than on price. From our discussions with category managers, it seems this may be self-perpetuating in that the business’ expectations of procurement based on past performance have become entrenched, and in an effort to continue to meet and exceed these expectations procurement has become
a victim of their own success. Category managers are optimistic about shifting this paradigm however, only 31% expect purchase price savings to be a top three objective in two year's time. As we have already discussed, this may be challenging to achieve while so many procurement teams are still measured primarily on financial or savings based metrics but we remain optimistic about the ‘new conversations’ CPOs are having at senior levels of their organisations.

Despite the continuing focus on price, it was encouraging to see objectives such as efficiency improvements and customer satisfaction ranking so highly both now and into the future as these measures open up enormous opportunities for greater alignment of category strategies with business objectives. In a similar vein, total cost of ownership (TCO) appears to be gaining momentum and although the concept is more widely understood by procurement than their stakeholders, it opens up a myriad of opportunities to engage stakeholders and suppliers in value based discussions beyond the restrictive boundaries of pricing to which procurement has previously been confined.

Like purchase price savings, supplier consolidation appears to be a diminishing focus for category management, which is another indication of the level of sourcing maturity for many categories where previous sourcing efforts have been successful in rationalising the organisation’s supply base. For some organisations, this trend is not only slowing but in fact is reversing as supplier diversity becomes an increasing objective for some categories and organisations where aggressive early sourcing initiatives may have reduced competition within the supply base to the point that it has become a risk to the category strategy. With many categories facing supply shortages, and the increased risk of supplier failure, particularly in the wake of the global financial crisis, supply continuity and the need to ensure a wide, stable supply base have become more of a priority. Corporate social responsibility drivers are also contributing to this shift for some organisations, particularly larger national and multinational organisations that may have an obligation to promote minority groups within their supply bases.

In addition to environmental and social sustainability, product innovation and revenue enhancement are two objectives anticipated to receive much greater attention over the coming years. Again, this is very encouraging from a business alignment perspective since category managers will be able to have much richer conversations with stakeholders when category strategy can be linked directly to such prominent business drivers.
Category management challenges

Four out of the top five challenges impacting respondents’ ability to achieve their category management objectives were internal which again, suggests category managers may be too internally focused. Even with the significant improvements in procurement systems and technology in recent years, availability of quality data still represents a significant challenge for category managers with 43% of respondents citing it as one of their top three issues, marginally ahead of stakeholder engagement. This is somewhat surprising given the maturity of many of these categories and suggests that category managers are not leveraging their suppliers’ reporting capability enough and instead are relying on internal systems which continue to provide less than adequate data for building a really high performance fact base for their category. Leading organisations overcome this challenge by reducing their reliance on internal data either through greater engagement with suppliers who can provide more comprehensive spend and performance data, or through category management techniques such as hypothesis based work planning which reduce the need for data in developing a category strategy. Hypothesis based work planning ‘starts with the end in mind’ by identifying a potential opportunity or threat within the category (the hypothesis) and then establishing specifically what data is required to prove or disprove it. Data collection then becomes much more focussed and strategic and reduces the risk of ‘analysis paralysis’ whereby the data is expected to lead to the strategy rather than the other way around. This is an important skill for category managers to develop in their quest to become more strategic, spending less time entrenched in data and more time working on strategies to create value within their category.
Stakeholder engagement continues to be a major challenge for category management with 42% of respondents citing it as a top three issue. Interestingly only 15% reported availability of stakeholder resources to be a top three challenge which suggests the issue is still more about getting stakeholder buy-in to the category strategy rather than getting their assistance in actually delivering it. This represents a two-fold opportunity for category managers to not only delegate some of their more tactical category management workload, freeing themselves up to focus on more strategic priorities, but in the process of doing so, to increase the level of stakeholder buy-in to the category by giving them more ‘skin in the game’. To this end, leading category managers will often ‘co-locate’ themselves with their stakeholders at least on a part time basis, in order to foster closer working relationships where it is easier to create shared objectives and access stakeholder resources.

External challenges such as supply market depth, supplier capability, market volatility and access to market intelligence were less widely reported as top three priorities but we expect these will become more pressing issues in the coming years as category managers shift their focus from internal to external influencing. As we have already noted, leading category managers are already seeing the benefits of taking a more outward-looking approach to their category management by participating in external market intelligence networks and benchmarking activities which help them to identify gaps in their strategy and fast-track value creation using tried-and-tested strategies relevant to their category.

**Category measurement**

One area where category management does appear to be more focused externally than internally is performance measurement (KPIs). While 9% of respondents reported no formal KPI measurement was in place for their category at all, for those that did measure KPIs, supplier performance measures such as customer satisfaction, quality and cost reduction were more prevalent than buyer measures such as adherence to lead-times and internal compliance to preferred suppliers. This is somewhat surprising given the growth of supplier relationship management (SRM) programs in recent years of which bi-lateral performance measurement is typically a feature. Leading category managers implement measurement frameworks that provide them with a 360 degree view of their category, allowing them to proactively influence buyer behaviour within their own organisation (e.g. demand management) as well as that of their suppliers.
Moving from reactive to proactive category management

One of the key attributes which distinguishes leading category managers is their ability to proactively take control of their category and its strategic direction. A well documented and clearly articulated category strategy is a useful tool in achieving this as it provides a ‘roadmap’ of sorts against which to test and validate future deviations from ‘the plan’. Without this strategic focus, many category managers still struggle to escape the reactive daily grind of responding to stakeholder and supplier demands, often referred to by many CPOs and category managers as ‘fire-fighting’.

The research suggests there is significant room for improvement in this regard, both for the way stakeholders are managed internally as well as the way category managers respond to external market shifts. Consistent with our other findings showing a bias for internal focus, respondents felt that they were more advanced at influencing stakeholder preferences with 55% considering themselves to be proactive in this regard. When it comes to the management of supply market dynamics only 42% considered themselves to be proactively positioning their category to take advantage of market shifts rather adjusting their strategy after the fact.
**Category management performance**

Although highly subjective given the nature of our survey, it is worthy of note that the majority of respondents (62%) felt that their category’s performance was on target in terms of meeting its objectives. 27% of respondents felt that their category performance was below target and only 11% reported above target category performance. What may also be of interest to readers is that category managers who reported above target performance typically shared a number of common characteristics as outlined in the table below.

<table>
<thead>
<tr>
<th>Common characteristics of ‘above target’ category management performance</th>
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<tbody>
<tr>
<td>Procurement structure more often aligned to categories rather than functional or business unit alignment</td>
</tr>
<tr>
<td>Category management more often determined by risk/business impact than by size of spend or other criteria</td>
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<tr>
<td>More likely to spend the majority of time on strategic activities as opposed to tactical</td>
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<tr>
<td>More likely to have been strategically sourced multiple times</td>
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<tr>
<td>Compliance to policy more often monitored and enforced</td>
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<tr>
<td>Greater level of participation in formal category specific external networking or benchmarking</td>
</tr>
<tr>
<td>More likely to outsource some elements of category management</td>
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<tr>
<td>More proactive in influencing internal demand behaviours and responding to external market shifts</td>
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</table>
Conclusion and recommendations

While overall procurement maturity and in particular, diminishing returns from strategic sourcing efforts have driven an increased focus on category management in recent years, it is still a relatively immature discipline within the procurement profession in the region. Many organisations appear to be taking positive steps towards creating the right environment for category management such as re-aligning procurement team structures and establishing common frameworks and standards for category management but most have yet to ‘institutionalise’ category management as a core procurement capability to the same extent that strategic sourcing now is in many organisations.

The application of category management is still highly inconsistent across the region and depends heavily on the skills and experience of the individual to be able to prioritise their efforts towards more strategic activities within their category portfolios. The overall level of resourcing available to procurement is also a factor here as investment in procurement resources has typically not kept pace with procurement’s drive to influence more and more spend within the organisation. In many organisations this has necessitated a re-focussing of procurement priorities with some procurement activity pushed back out to the business or outsourced to a third party. Despite these changes, however, procurement has yet to embed new operating models sufficiently to ensure consistent and comprehensive category management in all cases.

The following suggestions for category managers and CPOs seeking to improve their category management capability can be offered based on this research:

For Category Managers

- Develop skills in strategic planning techniques such as hypothesis based work planning which help to elevate your focus and reduce the amount of time spent on tactical details.
- Learn to say no - push back on stakeholder demands which will be a distraction from your strategy and delegate more of the tactical and operational day-to-day requirements of your category to the end-user community. This will be easier if you have a clearly documented and well-articulated category strategy that communicates your category’s value proposition to stakeholders.
- Ensure your category strategy includes a considered communications plan that not only identifies your key stakeholders but also captures their key motivators and resistance points so that the content, frequency and channel of your communications can be adapted for each stakeholder as appropriate.
Treat your category strategy as a living, breathing document that is proactively reviewed and adjusted according to the dynamic nature of the internal (stakeholder) and external (supplier) influences on your category. If there is no formal review process in place within your organisation, then establish your own reminders to ensure that you regularly ‘check-in’ within stakeholders and suppliers to validate that your category strategy continues to be appropriate.

Consider co-locating with stakeholders, at least on a part time basis, to allow you to tap into their ‘water-cooler conversations’ which will provide enormously beneficial insights to help you align your category strategy with their priorities. It will also make it easier for you to engage stakeholder resources where appropriate, to assist with non-strategic category management activities such as supplier management, specification writing and operational procurement activities.

For CPOs

Continue to create awareness at senior levels of the organisation of procurement’s ability to create value in all its forms for the organisation. Petition for procurement scorecards to include non-financial metrics aligned with other business drivers such as safety, employee satisfaction, sustainability, brand awareness, product innovation etc.

Build specific capability within the procurement team for communication and change management to assist category managers in tailoring their communications for the various stakeholder groups with whom they need to engage to proactively influence behaviour in respect of their category. This can be done by hiring individuals with specific change management and communications expertise (not necessarily from a procurement background) or by creating a focus for this within specific roles within the procurement team.

When seeking to hire category managers, engage the assistance of a specialist recruiter who can look beyond the job title to understand the unique organisational, procurement and category specific requirements of the role. Not all category managers are created equal and there is a huge disparity in the skills and experience of category managers even within a particular category of expertise.

Establish a clear and consistent definition of strategic and non-strategic spend within your organisation and ensure that using objective decision criteria, procurement approaches and resources are allocated accordingly, preferably criteria such as spend, risk and business impact to determine where and to what extent to deploy category management.

Invest in developing comprehensive category management frameworks and category strategy documentation to ensure that category domain expertise is accumulated within the organisation rather than residing solely with the individual category manager.
About the author

Matthew Perfect
Principal Consultant

Matthew is an experienced practitioner having held senior procurement roles at Toll Group and National Australia Bank where he was responsible for delivering cross-functional sourcing and category management projects across a number of direct and indirect spend categories. He was also previously a consultant with Ariba, a global leader in spend management solutions, where he led strategic sourcing projects for Australian and multi-national clients in FMCG, manufacturing and resources.

As a consultant with The Faculty, Matthew has worked on a variety of engagements including category strategy reviews, Supplier Relationship Management programs, procurement training and major change management and technology implementation projects. He was also responsible for the development of Category Councils, a unique, category based knowledge network and the launch of The Source, a specialist procurement recruitment provider. He has also authored and co-authored procurement research for both The Faculty and CIPS Australasia.

Matthew has an Honours degree in Economics from Cardiff University in the UK and has also completed a Graduate Certificate in Applied Finance and Investment at the Securities Institute of Australia.

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