INTRODUCTION TO CATEGORY MANAGEMENT

Category Management is a strategic approach to procurement where businesses segment their spend into areas that contain similar or related products enabling focus opportunities for consolidation and efficiency.

WHAT IS CATEGORY MANAGEMENT?

When we think of a company and its several departments, we must understand that one of the most important departments in any company is the Procurement department that dives into and handles organizational spend from start to end. This can touch on procurement for business continuity such as inventory purchasing, or procuring for business support such as IT.

If a business is not able to plan a strategic approach within its department or quite clearly does not have a transparent procurement process then the act of spending can get out of control and also have a detrimental effect on the company, therefore, ensuring that small businesses and big businesses must resource practically and also pay heed to actual costs and keep all standard costs at a low – keeping on top of accounting is also key.

CATEGORY MANAGEMENT INVOLVES:

- The splitting of direct and indirect products and inventory or services
- May relate to the dissecting of products and inventories or services by value, vendor, type, or volume.
- Associated theories that can be used to help the dissecting of products or services are Pareto (80/20 rule) and ABC Analysis.
- From these models, it is possible to see where high levels of cost are being accrued and where the focus should be placed.

WHY IS CATEGORY MANAGEMENT IMPORTANT IN PROCUREMENT?

To learn more about Category Management, we interviewed Shannon Wegner, Customer Success Manager and procurement professional with 10 years of experience in international supply chain management, category management, and sourcing.

“Category management is a critical component because it goes beyond just the buying of goods and guides the strategy of the team to build and develop supplier relationships to allow for deeper negotiations and program development.”

We also wanted to know what Shannon felt was the most effective balance between clients and vendors in category management. “The most effective balance between clients and vendors in category management is reliant upon open communication and honest negotiations. I always say - the only thing a supplier can say is ‘no’. I am always open to asking for more, but I am also always open to receiving pushback when my request is not received with a resoundingly positive response. Typically, the supplier and I can work through my request and come to a compromise and we both achieve a positive resolution.”

WHAT IS CATEGORY MANAGEMENT?

Category Management is the strategy of cost management and strategic supplier relationship management within an organization.
BENEFITS OF CATEGORY MANAGEMENT

Improved performance of vendors: An operative and effective category management plan can aid your big or small business to work with vendors in a more effective style and can secure the time between the start and end of the process. Category management, if done tactically, can aid a new vendor or contract with layers of modifications.

Better client satisfaction: Category management is the single responsibility of a category manager who looks after all the elements related to a given contract or service like sourcing requirements, collecting bids, and negotiating contracts with diverse suppliers. This provides plenty of time for business people to focus on their work and deliver diversity and value-based services to satisfy the client’s desires.

Improved relationships with diverse suppliers: Management of category offers an opportunity to create contacts within the structure of the organization which is important for both big and small businesses. This should be your strategy and therefore enables the organization at the highest level and therefore, the designation of specific tasks takes place at the functional level. So, creating and organizing effective communication in such a way is a strategy that usually aids in improving relationships between all and diverse vendors.

Better insights into spending and negotiating product price so resources are met – accurate accounting: Usually when a category is not maintained by anyone, there is hardly anyone who can provide vital insights into the accuracy of price, cost, and spending because no one is familiar with the contracts that are on the way. The full list of vendors is unidentified, and hence, the complete extent of expenditure is unknown too. It can facilitate a better understanding of expenditure of standard cost and actual cost on the existing as well as upcoming contracts.

WHAT IS THE CATEGORY MANAGEMENT PROCESS?

As Shannon worked in a Category role as a Category Manager, we were eager to find out how the process of category management has evolved over the years: “The process of category management has evolved in many ways but above all, it has become more strategic at its core. There are more strategic discussions, negotiations, and overall planning sessions between those in Category roles and suppliers. In the past, there were just buyers buying but now there are deep relationships based on common knowledge and respect and they rely on each other to make program decisions and drive the category to growth and success. The Category Manager needs their vendor to be successful, keep on top of accounting, cost, and vice versa.”
Shannon explained what the biggest misperception is when it comes to Category Management: “The biggest misperception is that Category Managers are just cutting purchase orders. Category Managers are having deep strategic discussions. They are building multi-year growth plans for their categories; they are doing in-depth category reviews and they are taking their category growth to the next level. They are not just cutting purchase orders or buying more products. They are growing and managing the category to achieve double-digit growth and they are leveraging their vendors to achieve these goals.”

Finally, we were eager to find out what product Shannon Wegner suggests to her clients when it comes to Category Management: Simfoni Spend Analytics. I wasn’t lucky enough to have access to a tool like this when I was a Category Manager but it would have saved me a lot of time and countless Vlookups and pivot tables. It does so much of the analytical work that I needed to get to the data that I needed to get my job done. It would have been a Godsend.

HOW TO DO CATEGORY MANAGEMENT
We also found the CIPS Category Management cycle to be especially useful as it is a model with a 4-phase process with six key activity steps to successfully procure significant categories of cost. You can apply elements of the model when you do not need to follow the full process. Category Management should not be confused with expenditure segmentation. It is a structured framework of activities designed to deliver superior outcomes. The cycle can help you to define a category management process and keep control of all standard costs through accurate accounting within the business and always keep the price in mind.

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