



Category Management in Procurement and Supply Management

Category Management ... where the entire category is managed as a unit ... is one of the ways collaboration is used in supply chains today (Dunne et al. 2010).



This knowledge paper is supportive of Procurement professionals operating at operational level of the CIPS Global Standard



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Introduction

The concept of category management originates from marketing, where managers had to decide whether to organise their sales team by product, geographically or by value/risk (CIPS: Category management). As a business process category management was first developed in the USA for supermarket retailers. In 1994 around 20% of major countries' retailers implemented the approach and a further 62% were in the development stages (McLaughlin and Hawkes, 1994). With time the concept was applied to other types of trade (Nielsen et al., 2005). Today the approach incorporates elements of business improvement processes and change management. It generally requires active participation of stakeholders, functions and individuals across the company (O'Brien, 2009).

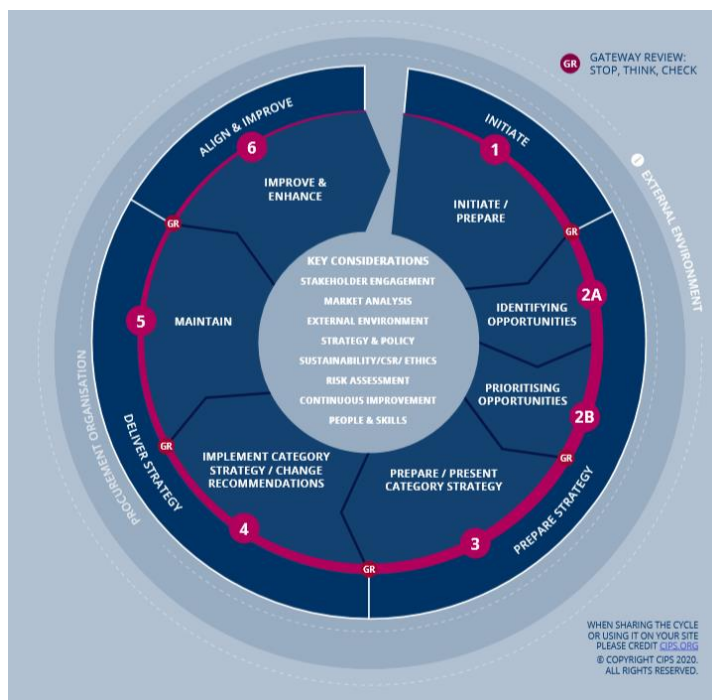
Category management process involves segmenting the main areas of organisational spend into discrete groups of products and services according to their function. Category segmentation requires organisations to work cross-functionally on individual categories and examine the entire category spend, the marketplaces and individual suppliers (O'Brien, 2009).

Category management has been mostly successful in large product categories. Smaller traders usually do not have the structure and resources to implement it (Varley, 2006).

Definition

Category management is a strategic process-based approach that "focuses on the vast majority of an organisation's spend on goods and services with third-party suppliers" (O'Brien, 2009:2). In application to procurement and supply management (P&SM;), category management refers to organising the resources of the procurement team to focus on the organisation's supply market (as opposed to internal customers or departmental functions) in order to fully leverage purchasing decisions (CIPS: Category management).

CIPS Category Management Cycle



Successful Application

Category management is only one of the several basic alternatives available to managers. Therefore, a comprehensive analysis on how best to deploy the limited resources available to P&SM; department should always be carried out (for more details see CIPS: Category management). Implementation of category management requires the completion of many activities: some of them are discrete and sequential and others run through the entire process (O'Brien, 2009).

Steps to Successful Application

- For each category or segment develop an understanding of third party spend and forecast demand. This can be done internally, or via commissioning market research agencies.
- Segment spend into market sectors by deciding what the category should include.
- Develop market sector sourcing strategies.
- Select and segment suppliers that best fit with the business and that are able to deliver strategically.
- Manage supplier performance and consider strategic partnering.

CIPS: Category Management

Hints and Tips

- Category management should demonstrate agility to meet the demands of a dynamic supply market (CIPS: Category management).
- To achieve maximum effectiveness, category management should be a continuous and embedded process (CIPS: Category management).
- Grouping products into categories requires as many levels as possible. For example, envelopes can be categorised as: office supplies/stationary/envelopes/white/pre-printed (CIPS: Category management).
- Possibility of partnering with suppliers should be reviewed at least once a year (CIPS: Category management).

Potential Advantages

- Return on investment to deploy category management, such as time and commitment, is potentially very large (O'Brien, 2009).
- Category management enables retailers to keep in stock their best-selling items and avoid being overstocked on products with low turnover rates (Dunne et al., 2010).
- Effective application of category management can support organisational goals through responding to organisational drivers, sectors, macro-economic and other market conditions (O'Brien, 2009).

Potential Disadvantages

- Category management requires considerable investment in time and commitment, as it relies on active participation of many functions and individuals across the company (O'Brien, 2009).
- Retailers may not share data with their suppliers. An effort to have 'efficient' selections can therefore result in the lack of product variety (Varley, 2001).
- Category management is sometimes confused with expenditure segmentation (a structured framework of activities designed to deliver superior procurement outcomes) (CIPS: Category management).

Case Studies

- In 1993, efficiency savings from the adoption of category management and efficient customer response in the USA were estimated at around US\$30bln (Wood, 1993). In the 2000s in the dry grocery sector savings were estimated at 10.8% of the consumer price (Dupre and Gruen, 2004).
- Driven by the assumption that customers are product-driven (not brand-driven) Pantaloon, a garment department store, employed category management in its merchandising function. Subsequent analysis of this decision showed that the management of a category was more effective than managing individual brands (Bhatia, 2008).
- Sagit, a leading frozen food supplier in Italy, had a low market penetration due to the wide availability of fresh substitutes. The company decided to implement category management to improve performance and grouped its products according to their primary ingredient. This decision resulted in a 33% sale increase (Varley, 2006).

Further Reading/References

CIPS Source Downloads

- CIPS: Category management
- CIPS: The state of the art of category management
- CIPS: Category Management Model
- CIPS: Collaboration Between Organisations

Books

- Category Management in Purchasing, O'Brien, ISBN 978-0749452575
- Retail Category Management, Fowler & Goh, ISBN 978-0135152089
- Category Management, Nielsen, ISBN 978-0844234892
- Category Management, Rachid, ISBN 978-3639292992

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- Varley, R. (2006) *Retail Product Management: Buying and Merchandising*. 2nd ed. Routledge.

Video

Category management: National Urban League's retail management career seminar. A free session
https://www.youtube.com/watch?feature=player_embedded&v=xtGTFbm51zs

