

Changing with the times: category management at a crossroads

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Acknowledgements

This report is the culmination of surveying 430 C-level executives on the changing trends in procurement during January and February 2022 and the accompanying research and interview programme of practitioners and subject-matter experts conducted by the Economist Impact research team. This report sheds light on the road ahead for category management as a function of procurement.

This report was written by Siddharth Poddar and edited by Pooja Chaudhary and Harsheen Sethi, with support from Amanda Simms on sub-editing.

Economist Impact wishes to thank the following experts for their participation in the interview programme:

- *Alan Day*, chairman and founder, State of Flux
- *Pardeep Gill*, chief procurement officer (CPO) and vice president of supply chain, Ameren
- *Phil Ideson*, founder and managing director, Art of Procurement
- *Lisa Martin*, senior vice president, global procurement, and CPO, GSK
- *Jonathan O'Brien*, chief executive officer (CEO), Positive Purchasing
- *Mark Webb*, managing director, Future Purchasing

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A renewed focus on category management

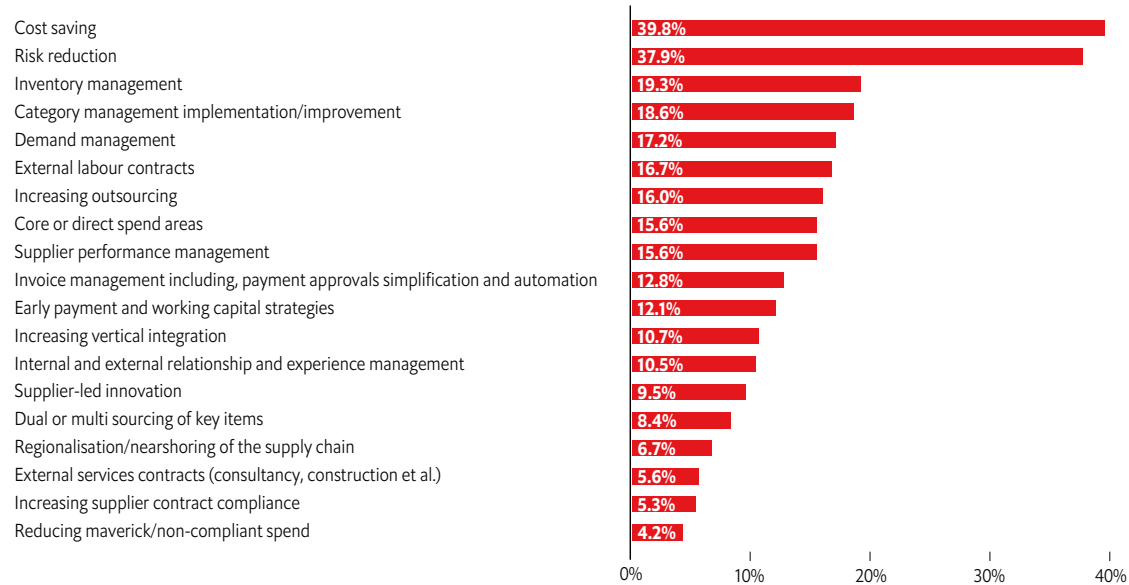
Category management, broadly understood as the strategic approach for segmenting organisational spend and resources, is undergoing significant change. In the past two years alone, procurement teams have dealt with a cascade of crises, ranging from geopolitical conflict to derailed supply chains. These successive disruptions have pushed procurement leaders towards a risk-focused approach to prepare their organisations for an uncertain future, open up new channels of supply and adopt differing strategies. This has driven an evolution in category management that could have wide implications for the practice.

Effective category management is associated with strong business fundamentals. When done well, its integration with the business is seamless, with procurement working with all its stakeholders, who know their role in the process and look beyond the next contract. Firms that fully optimise category management could potentially achieve as much as US\$114m in savings and more than a 500% return on investment, in addition to reducing risks.¹

Numbers like these illustrate the potential value of category management, yet some businesses may underrate its benefit. A global survey of 430 C-suite executives

Exhibit 1: Globally, category management ranks fourth area for value delivery in procurement

What are the top areas you will focus on to deliver increased value in procurement? Please select up to three.



Source: Economist Impact

conducted by Economist Impact finds that respondents consider category management implementation and improvement to be the fourth most important area

(18.6%) of focus for value delivery in procurement. Among organisations in Asia-Pacific (APAC), however, category management shoots to second position.

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¹ Future Purchasing, "Procurement category management experts", [https://futurepurchasing.com/procurement-category-management-consultants/category-management/] Accessed August 24, 2022.

The survey results suggest that organisations see category management as less important than other factors such as cost savings, risk reduction and inventory management, but could indicate that it is viewed more as a functional tool to deliver risk and cost reduction. Alan Day, chairman and founder of State of Flux, a procurement and supply-chain consultancy, puts it succinctly. “I think it [category management] is a traditional priority. It’s like hygiene. It’s something we just have to do,” he says.

But Mr Day questions how strategic it currently is, “because if I talk to a business about my category, it doesn’t always align with the business goals, targets and needs, because the business doesn’t look at it from a category management point of view. They look at it from an operational point of view.”

Crises like the covid-19 pandemic and the Ukraine-Russia war would naturally require companies to prioritise cost savings and supply-chain security. However, these are ultimately short-term actions.

Mark Webb, managing director at Future Purchasing, a procurement consultancy, is not surprised that category management is ranked only fourth when it comes to

driving value in procurement. He believes that other areas are prioritised over category management given their higher short-term relevance, while category management strategy and implementation have a longer-term approach and therefore often get overlooked.

“Category management is an organisation-wide philosophy—it’s about functions working together to identify the right sourcing strategy,” Mr Webb says. “If well implemented, it’s probably the single most powerful way of securing value from a supply base.”

But this needs to shift. “If you look at the external factors and think about the pace of change in the world, you have to have a more agile approach to category strategy,” says Lisa Martin, senior vice president, global procurement, and CPO at GSK.

In Mr Webb’s view, the quality of category management strategy needs a lot more attention than it currently

receives. To address this, he says, a strategic approach is needed. In his view, every other risk—such as the skills gap in procurement—links back to the lack of a strategic focus.

Category management has assumed a broader organisational role

Until recently, category management was largely a way to segment resources and spend into similar areas, and then execute a predetermined go-to-market process with minimal involvement from other parts of the business.

However, Jonathan O’Brien, the CEO of Positive Purchasing, argues that this approach reduces category management to a form of contract tendering, where procurement practitioners are encouraged to focus narrowly on commodity prices and give little thought as to how procurement can contribute to overall company performance.

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This means aligning with the strategies and outcomes of the business, an approach partially reflected by the survey's findings that procurement teams are increasingly reporting to chief operating officers (COOs). Pardeep Gill, CPO and vice president for supply chains at Ameren, notes that category managers' remits have expanded to include metrics like suppliers' greenhouse gas emissions and workforce diversity. They may also measure areas such as resilience, risk reduction, and environmental, social and governance (ESG) issues.

Having a wide set of criteria in choosing suppliers helps diversify the supplier pool, as companies are meeting with and considering more suppliers before making their purchases. This increases competition among suppliers, which in turn can result in new products and solutions.

Clearly, category managers can no longer function within a procurement silo as just segment experts. Instead, they must engage deeply with functions and stakeholders across the organisation to better communicate their

contributions. They also need to cultivate relationships with suppliers who can effectively meet their needs during crises and help them achieve specific goals.

For example, Nestlé, the world's largest food and beverage company, is focused on cultivating vendor relationships that "green" and shorten its supply chains, while cosmetics giant L'Oréal's open dialogues with its suppliers enable better product development and innovation.



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Catalysing digital transformation in procurement

Technology is increasingly the choice for category managers

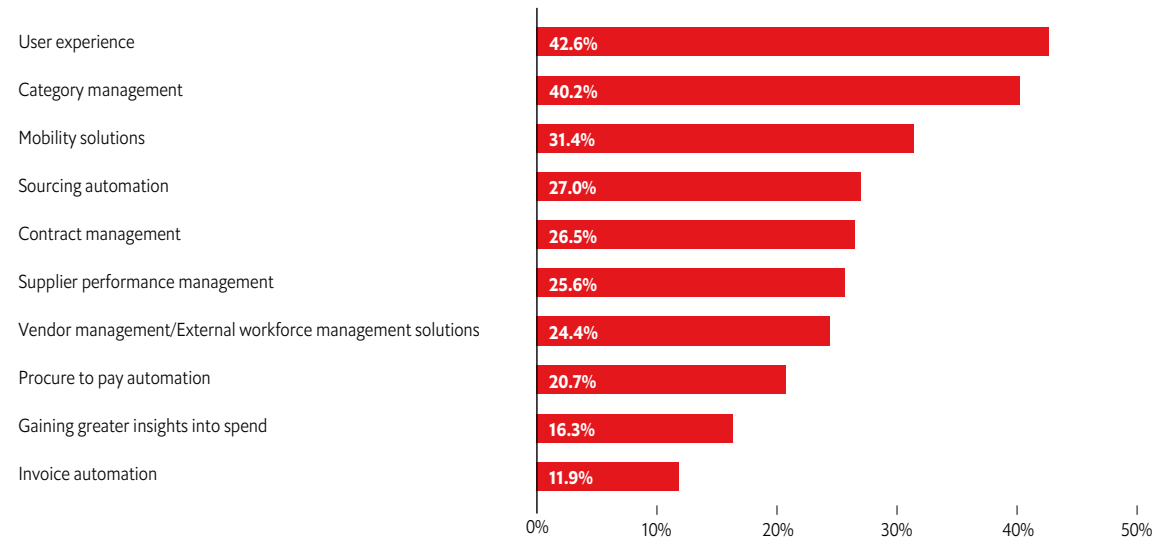
The heavy demands of a changing environment are a key reason why category managers are increasingly turning to digital technologies, as survey results indicate. Globally, 40.2% of respondents selected category management as one of the three top drivers of digital transformation in procurement, just after user experience (selected by 42.6%). However, the survey indicates regional differences in how category management is practised and its role in digitalisation initiatives.

According to Phil Ideson, founder and managing director at Art of Procurement, a procurement-focused media and advisory business, digitalisation can create significant value by enabling enhanced supplier collaboration, cost reduction through improved data access, better prices resulting from supplier consolidation, and similar benefits.

It is therefore not surprising that category management is considered one of the top three drivers of digitalisation by a high share of COOs (42.2%), CPOs (42.2%) and chief

Exhibit 2a: Category management is a key driver of digital transformation

What are the main drivers for digital transformation in procurement in your organisation? (Rank 1 + Rank 2 + Rank 3)



Source: Economist Impact

supply-chain officers (CSCOs) (46%). However, a much lower share of chief financial officers (31.9%) think that category management is a top-three driver, likely reflecting

their tendency to see it as an administrative function. As Mr Day points out, this is "a bigger risk than everything else, because as soon as the business sees it as an administrative

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function, that’s how they’re going to treat it.” When this occurs, category management will struggle for budget, for good people and “to get its voice heard”.

Particularly in APAC, digital transformation is fuelled by category management: nearly 20.7% of surveyed APAC companies consider category management the top driver of digital transformation.

Historically, APAC has lagged other regions in maximising value creation through category management. Past studies point to Asia’s slow adoption of global procurement best practices² coupled with the perception of procurement as a back-office function³—an approach that has denied category management its due attention in the region and propelled it in the direction of technological advancements more than other aspects, such as user experience or vendor management.

Mr O’Brien deconstructs the regional dynamic: “Despite the pressures of a well-established category management function in APAC, it is practised to a lesser degree than in the US or Europe with a push

to go digital. On the flip side, in Europe and the US, digital is the ambition but nobody’s there yet.”

Why is digitalisation important?

Nevertheless, most signs point to greater momentum for digital transformation through category management since it ranks as the second most important driver for the digitalisation of procurement in EMEA (15.3%) and the Americas (15.4%).

Across geographies, digital technologies help procurement managers tease out key insights on how to optimise their supply networks. This could be in the form of integrations with databases, intelligence platforms, or even smart contracting systems that leverage sophisticated indices for accumulating knowledge and identifying risks and opportunities.

Mr Gill notes that a demand for more planning and forecasting is a particular driver of digitalisation in category management, as it helps procurement professionals mitigate supply-chain risks by better understanding both backward usage and forward-looking

resource needs and costs. “I used to be able to get distribution transformers in six to eight weeks... Today, I’m running a 60-70 week lead time,” he says. The serious impact of challenges like this underscores the importance of effective category management in ensuring businesses run smoothly.

Mr O’Brien says that digital technologies can bring “real power” to category management by introducing a degree of data analytics to suppliers’ performance and streamlining internal collaboration, suggesting that CPOs need to have their own digital strategies.

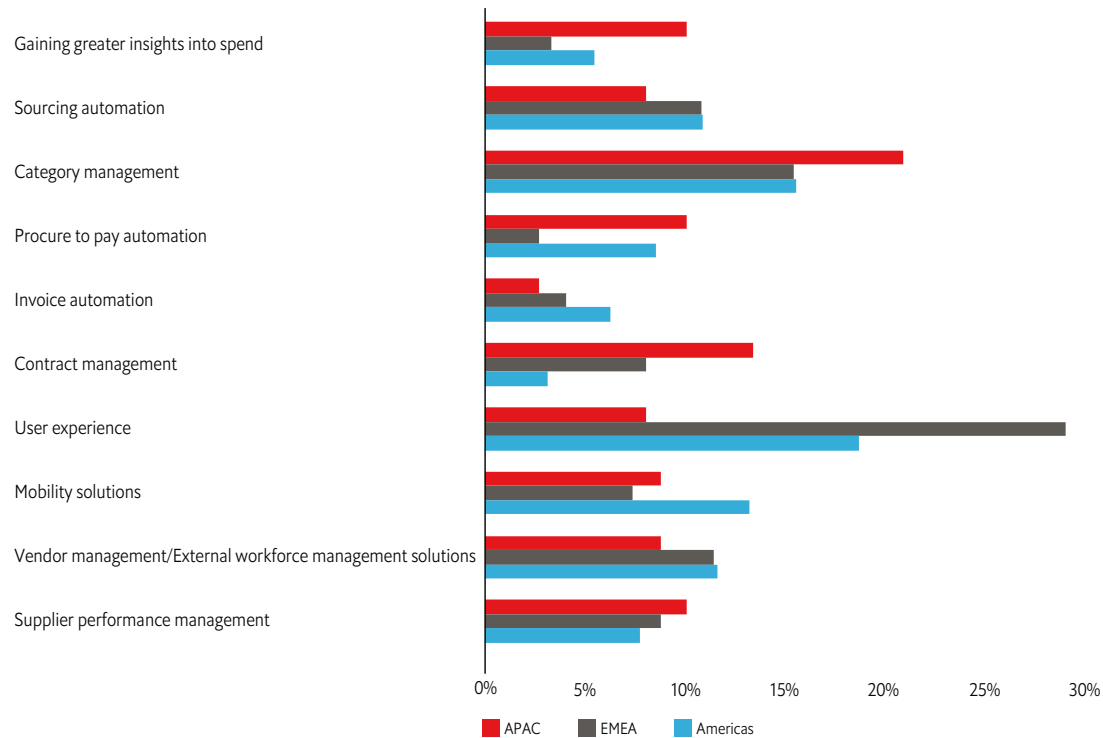
While the survey reveals that category management was more important to CSCOs (23%) than any other function (at an average of 17.2%), the benefits of leveraging technology for category management are not limited to CPOs and CSCOs. Mr O’Brien suggests this could simply be an issue of not communicating its relevance. “Unless they really understand procurement, it’s quite common that other C-suite officers will think of it as a procurement process rather than something that has organisation-wide enablement.”

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² Bain and Company, December 11, 2013. “Winning with Procurement in Asia”. [https://www.bain.com/contentassets/d2625a324d04440a71fa4dec377f40e/bain_brief_winning_with_procurement_in_asia.pdf] Accessed August 28, 2022.
³ Supply Chain Asia, July 1, 2015. “Asia Pacific Firms Lag Behind Global Peers in Procurement”. [https://supplychainasia.org/asia-pacific-firms-lag-behind-global-peers-in-procurement/] July 1, 2015. Accessed August 28, 2022.

Exhibit 2b: Category management is a top driver of digital transformation of procurement in APAC
 What are the main drivers for digital transformation in procurement in your organisation? (Ranked 1, by region)



Source: Economist Impact

More than one in five (21.4%) respondents say category management can be improved if procurement contributes to business planning, and 14.9% say category management can be improved if it is owned by the business rather than the procurement function alone. This survey finding reinforces the need for greater collaboration between different organisational functions when it comes to category management and procurement more broadly.

The future of category management is digital

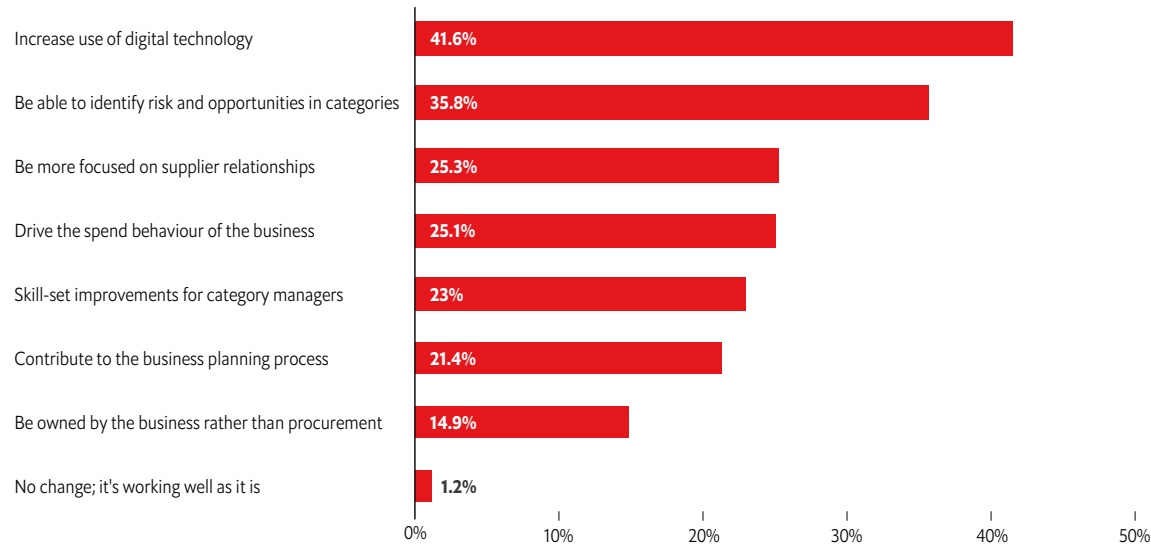
A considerable share of surveyed respondents (41.6%) say they would like to see more digital technologies incorporated into category management. As category managers' responsibilities expand with the evolution of procurement, technology is increasingly perceived to bridge the gap by making collaboration easier and integrating more data insights and monitoring capabilities.

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Exhibit 3: The growing responsibilities of category managers

What is needed to improve category management? Please select up to two.



Source: Economist Impact

For example, global beverage leader The Coca-Cola Company has started using artificial intelligence (AI) and machine learning tools to enhance sourcing efforts. According to Brett Fultz, the company’s director of global analytics, global procurement and supply chain, using AI has driven improvements in procurement across more than 50 categories and improved supplier communication and governance.⁴

According to Mr O'Brien, one piece of digital technology that has yet to be developed is an integrated platform that brings together various market intelligence sources, data analytics capabilities and workflows into a single space. The gaps between these systems mean that most companies have resorted to investing in “lots of little islands of technology” that result in rather blunted impacts.

However, once more integrated solutions come into the market, category managers could reap the rewards of a data analytics system that continually offers actionable information.

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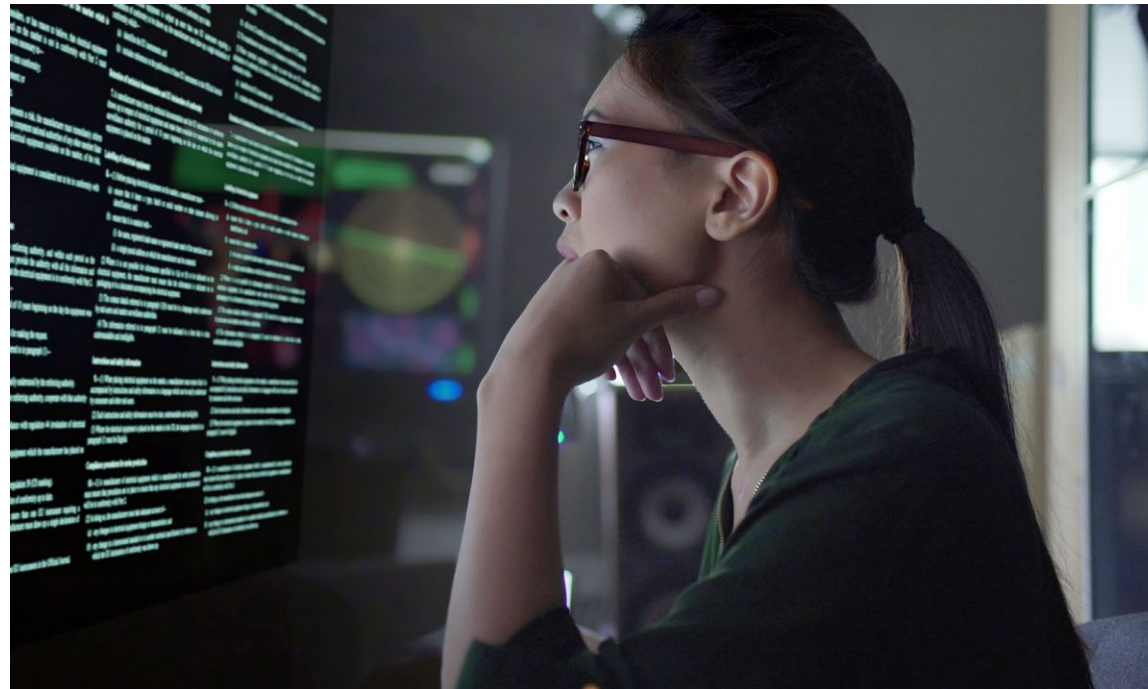
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⁴ Venture Beat, June 6, 2022. “How AI helps Coca-Cola boost supply chain procurement”. [https://venturebeat.com/business/how-ai-helps-coca-cola-boost-supply-chain-procurement/] Accessed August 28, 2022.

Nevertheless, simply investing in digital technologies is not enough; firms must also properly implement their digitalisation process alongside the right governance structure to drive category projects and communicate their results to the rest of the organisation.

“If all [technology] is doing is working through a series of process steps, then it’s just a digital version of what everybody’s been doing in a non-digital way,” Mr O’Brien says. “But if it starts with intelligence and data connectivity, then you can have category strategies that can really drive out more value.”

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Broader category management praxis

While 93.3% of surveyed companies are satisfied with the results achieved through category management, executives are still looking to make improvements in many areas. This is unsurprising given the speed and scale of changes in the global economy and the recognition among business leaders that procurement has a bigger role to play in company operations and achieving company objectives going forward.

Category management can help identify risks and opportunities

More than a third of respondents (35.8%) highlight the need for managers to have a stronger ability to identify risks and opportunities in categories, a perspective that tallies with the growing number of risks that have come under the purview of procurement teams. These risks have significant price tags attached, from environmental issues threatening to cost firms as much as US\$120bn over the next five years⁵ to wheat shortages stemming from Russia's invasion of Ukraine to national export bans pushing up prices globally.

Previously, procurement professionals tended to take a more reactive approach to supply-chain risks, but category managers are increasingly responsible for

helping companies make informed decisions in line with the business' risk tolerance and actual risks that are specific to different categories.

“A holistic category strategy will touch [on] how you manage and mitigate your risks, for example, how you strategise to drive down or build up inventory,” says Ms Martin. “One thing we found was that because covid-19 was creating an inflationary market, instead of reducing inventory, we ended up buying more goods because prices were going up.”

“A holistic category strategy will touch [on] how you manage and mitigate your risks, for example, how you strategise to drive down or build up inventory,” says Ms Martin. “One thing we found was that because covid-19 was creating an inflationary market, instead of reducing inventory, we ended up buying more goods because prices were going up.”

She adds that generated data and insights on the external marketplace can be used to fuel a continuous feedback loop of information that supports overall category management strategies, which is where digital technologies play a key facilitative role.

Supplier relationships are more important than ever

For Mr O'Brien, the changed business landscape is not necessarily leading category managers to struggle with identifying risks and opportunities—instead, the true challenge lies in driving change and action for the entire company rather than just one function.

“Once you've done a risk assessment, you have to drill down the mitigation and contingency actions. You have to identify the opportunities as a team and work together for a breakthrough, not negotiate a small improvement,” he says. This requires deeper engagement between CPOs, CSCOs and senior executives across other functions to better understand procurement needs in the context of overall business strategy and objectives.

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For organisations, the value of managing supplier relationships as an avenue for partnership and collaboration has been a key learning from the covid-19 pandemic.

“If you think about the partnerships that were developed for the vaccines, you can see how partnering can unlock innovation and speed,” says Ms Martin.

Her comments dovetail with the survey’s finding that a quarter of organisations (25.3%) are beginning to focus more on the importance of supplier relationships. Cultivating strong supplier relationships could help companies secure their supply chains despite ongoing global disruption.

According to Mr Day, understanding suppliers and knowing the supplier market are critical for improving category management, and managers have to move beyond just negotiating and running a request for proposal (RFP). “We used to focus on how to get something cheap and quick; now it needs to be those things, but more importantly, also about sustainability, factoring in risk, and also how to get it first. We know from a supplier management point of view that if you’re good at supply management, you’re five times as likely to get something faster to market.”

Besides, supplier management can help mitigate risk too. Mr Day says it is important for procurement to not only know its suppliers well, but also the suppliers’ suppliers. How are any developments impacting them? “We need to take a lead as procurement and category managers to paint that picture of not just looking at risk from our perspective, but looking at it for the whole supply chain.”

In the past couple of years there’s been a shift in power towards the supplier, so getting closer and managing relations is more critical than before. In this context, Mr O’Brien says that “supplier management is key because once you develop your categories, you need an approach to managing the suppliers who are important to you.”

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Mr O’Brien says that “supplier management is key because once you develop your categories, you need an approach to managing the suppliers who are important to you.”

In an inflationary environment such as the one we’re in, companies can grudgingly accept the cost increase and then see if it can be passed through to the consumer. But sometimes consumers decide that enough is enough. Supplier management will become more interesting as we get to that point, says Mr Ideson. Here, the role of procurement changes to one where the buyer says to the supplier: “Right, how can I help you mitigate the costs so that we can both benefit and it is a bit collaborative?”

Reimagining the skills required

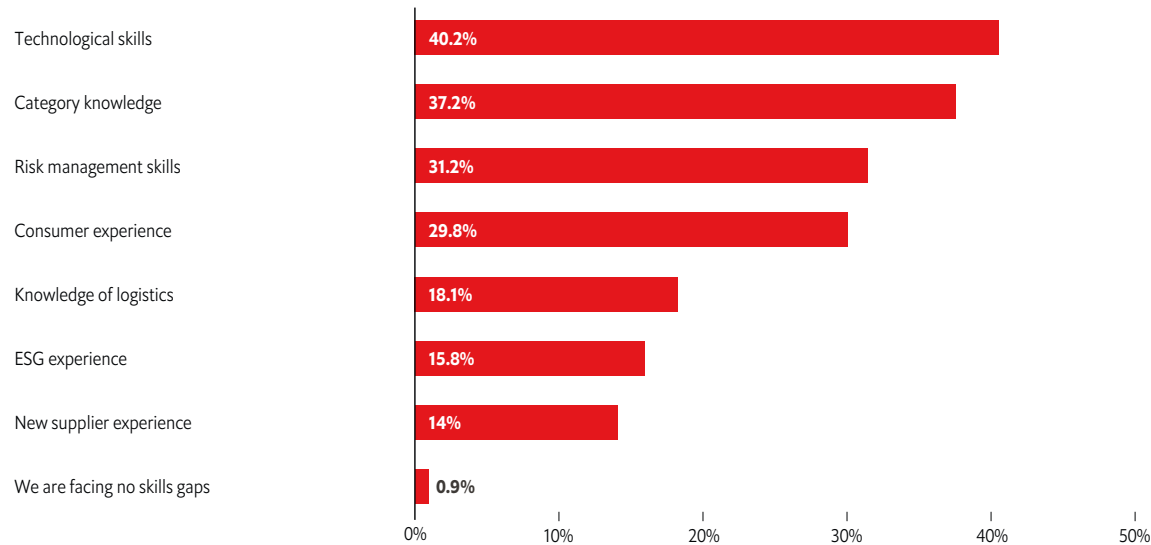
The need for better supplier management is accompanied by macroeconomic changes that are prompting a shift in the kind of talent needed by procurement teams, a trend reflected in the survey. Approximately one in four (23%) respondents—and especially those in CPO positions (31.4%)—want to see improvements in category managers’ skill sets. Mr O’Brien says that these skills could include the ability to understand sustainability, drive change throughout a supply chain and manage supplier relationships.

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Exhibit 4: Organisations seek workers with diverse backgrounds

What are the main skills gaps that you are facing in recruitment of procurement staff? Please select up to two.



Source: Economist Impact

In Mr Day’s view, it is a challenge to marry the right behavioural and skill sets with digitalisation. By this, he means that category managers previously tended to focus more on the administrative tasks of running an RFP or negotiating, “but not so much on the behavioural pieces around understanding the needs of the supplier and almost being an account manager for the supplier.”

For 37.2% of companies, a lack of category knowledge was one of two primary skills gaps when it came to recruiting procurement professionals, alongside technological (40.2%) and risk management (31.2%) skills. This is in line with the view that organisations are currently on the hunt for employees with backgrounds in engineering and law, especially as procurement teams work to develop and enhance their category management and complex sourcing capabilities.

Mr Gill says his team is taking a more proactive and larger role in discussions, especially as the team doubles down on specific experiences such as legal, engineering and data analytics, “which in turn mitigates operational and contractual risk for our company.” He adds that having co-workers with legal knowledge can better equip procurement teams to make informed and educated decisions as to the business’s risk tolerance specific to each category of spend.

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According to Mr Webb, skills development is the biggest challenge in category management. “The quality of category management strategies needs to improve as the focus on designing a strategy for category management is almost nascent; being able to do that requires skilled category managers,” he adds. The lack of skilled workers in category management links back to a limited focus on category management compared with other short-term priorities in procurement. This trend is reflected in recruitment decisions as well, he says.

It is also the biggest area of improvement, Mr Webb says. “It is a mix of limited focus on training people to be category managers, as well as more focus on other areas of procurement.”

Ms Martin explains that there is a need for more workers who can pick up skills in sustainability and social responsibility aspects to seed these qualities within the organisation itself. This is because sustainability and supplier or business diversity have to be better incorporated into category management, she says.

“It was highlighted for all of us in the US a few years ago with the increased focus on racial inequality,

and many companies including GSK have made public commitments about what we’re going to do in that space, and we continue to work on embedding those things institutionally.”

According to Mr Webb, skills development is the biggest challenge in category management. “The quality of category management strategies needs to improve as the focus on designing a strategy for category management is almost nascent; being able to do that requires skilled category managers,” he adds. The lack of skilled workers in category management links back to a limited focus on category management compared with other short-term priorities in procurement. This trend is reflected in recruitment decisions as well, he says.



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A different future

As procurement professionals look ahead, category management will only become more important on the other side of the pandemic, owing to fundamentally different business and macroeconomic realities. Although a large swathe of survey respondents prioritise cost savings (39.8%) and risk reduction (37.9%) as the top areas for value delivery, improving category management (18.6%) is a key way to meet these goals.

Procurement professionals must continue to reckon with a number of risks and challenges as their roles evolve to align with not just the external environment, but also the overarching strategies of their businesses.

For Ms Martin, one of the biggest challenges category managers face is the delicate balance between the forces of globalisation and localisation. She provides the example of needing to commercialise GSK's products globally, and at the same time localising the marketing content to address cultural variances, which requires more than simple translation.

"We've gotten smarter at rethinking the model—to think and create globally, but also allow flexibility to reach out at a local level," she says. "I think it's a whole level of accelerated change that we saw in the last two years that we didn't see in the last ten."

When asked about his views on the risks category management faces in the next three to five years, Mr O'Brien returns to his earlier point about using technology in the right manner: "If we digitalise a process rather than create an intelligent, integrated way to do category management, we risk diluting it to a box-ticking exercise that takes out the need for people to think."

The right kinds of investments in digitalisation and the right governance structures are imperative to achieve the best outcomes.

Mr O'Brien also points out that other changes such as the remote work revolution and geopolitical volatility have completely rewritten the rulebook for firms.

"The world of logistics has changed, so markets we once thought were good and reliable aren't any longer—globalisation isn't quite the option we had before," he says. He adds that these major external changes are causing dramatic shifts in the old ways of doing things, especially as the realities of inflation, resource shortages and climate change become undeniable.

In this context, says Mr Day, a strategic approach to category management is required to help address every

other risk. And now that CPOs are getting more time with CEOs and other C-level executives, "we need to use that to get investment for digitalisation, get investment for risk and get investment for people. Now is the right time for procurement to change and for us to invest more in it, because we've had this massive disruption which has created a business case."

Traditional procurement approaches are being left behind and with good reason, since there's a need for procurement—and in particular category management—to drive business transformation at organisations.



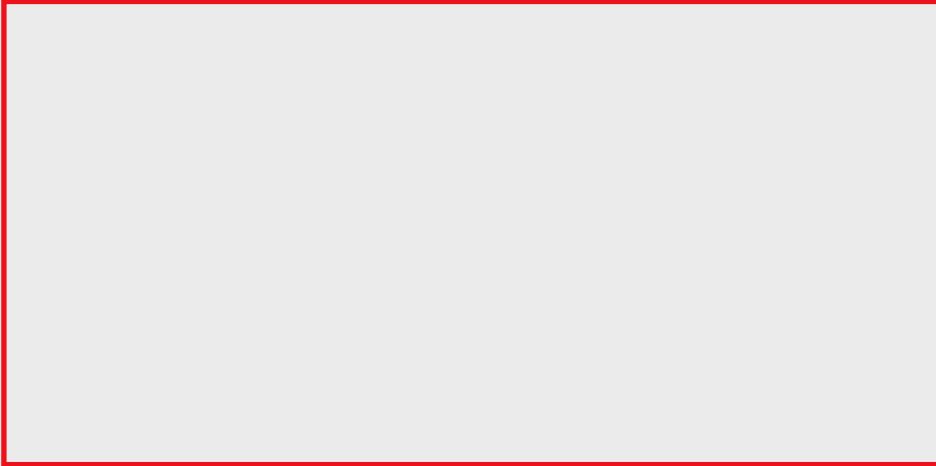
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