Category management is not just a new name for strategic sourcing. Rather, strategic sourcing is one of the tools used by category teams to manage procurement expenditure to achieve mission value.

Unfortunately, much of the writing about strategic sourcing conflates it with category management, creating some misunderstanding about how the two are related. Detangling the definitions can help, though doing so simplifies processes that in practice are highly nuanced and often overlapping. It’s worth the risk, however, in order to clarify what is strategic about strategic sourcing and how category management strategies are successfully executed.

Category management and strategic sourcing differ in scope, processes, data requirements, tools, and outcomes.

Category Management

Category management is a continuous, market-facing, end-to-end process that encompasses all aspects of managing spend, from transactional efficiency through sourcing to life-cycle management. Its scope is the total procurement expenditure of an entire organization that seeks to manage that spending to best deliver the organization’s mission strategy. It organizes procurement spend into categories of goods and/or services available from the same or similar supplier base.

An organization’s enterprise-wide category strategy originates from its procurement strategy, which is a subset of the organizational mission or business strategy. Individual category team strategies determine how the entire life-cycle of goods and services is managed in each category.

Category management requires a total understanding of spend across the organization over time. The spend, along with supplier records and contracts, is mapped into market-facing categories and subcategories. Adding market analysis, supplier performance information, efficiency data, internal resources, cost and budget information, and organizational requirements provides a basis for establishing category and sub-category structures and developing category strategies.

This continuing, comprehensive analysis enables category management teams to identify new opportunities to derive value for their organization through procurement. They capitalize on market logistics, trends, and practices, and find efficiencies and savings within supply networks. The information gathering also enables teams to embed appropriate key performance indicators (KPIs) in contracts and use the resulting data to further improve supplier performance.

Sourcing is a tool category teams use to align organizational goals and internal customer requirements with category supply markets. It is the process for finding, engaging, and evaluating suppliers, usually through a contracting process of some sort — be it open competition, sole source, set-aside, task or delivery order, blanket purchase agreement, or one-off transactions using purchase cards.

Strategic sourcing is done in service of a defined and clear strategic category need.

Strategic Sourcing

Strategic sourcing is one of a number of category team tools, such as demand, supplier and contract management, and contract optimization. The team uses those tools to ensure the right goods and services are available in the most effective and efficient ways possible. And, the team factors the organizational strategy and individual units’ requirements within a category against the market’s capabilities.

Strategic sourcing begins with an organizational unit’s requirement for a product or service. The category team considers what the organization and the unit already have
on hand that could meet the requirement, and the gaps between what is available and what is needed.

The team applies a set of strategic sourcing tools and processes, including aggregation, disaggregation, increasing or decreasing levels of competition, bundling or unbundling of goods and services, managing demand, creating new contracts, and perhaps modifying existing contracts, and transactional contracting for low-cost/low-importance goods or services.

For example, a team might use demand management to challenge whether a unit’s new requirement is justified or whether the good or service sought is sufficient for the need. When requirements are deemed justified and thorough, the team works out which type of sourcing process best meets them.

In another example, the team might choose to direct the requirement onto a contract designed to aggregate demand for a product or service to a few suppliers within the category. Conversely, in a volatile market with many small suppliers, the team might determine that broad competition will drive the best results. In that case, it might optimize how it runs competitions, perhaps setting up a low-entry-barrier, multiple-award environment to entice many capable small businesses and enable requirements to be easily and efficiently competed among them in an online marketplace.

If the team’s strategy includes a goal for adoption of a standard configuration of a specific product or service across the organization, then it will direct that new requirements specify the standard model.
If the goal of the organizational strategy is to move to digital delivery of its services, then the information technology category strategy might include moving to cloud computing. In that case, the software subcategory team might set a goal of moving all the organization’s units to software-as-a-service (SaaS) applications within a particular timeline.

When a unit has a requirement for new or additional software, it would use the subcategory team’s strategically sourced contract with suppliers of the standard SaaS applications. If the unit had a pre-existing contract with a supplier of nonstandard software, the category team might help the unit change to a cloud-based version of that application pending expiration of the contract and a move to the strategic contract and standard application.

By itself, strategic sourcing is an optimized way of achieving a specific contracting goal. It can improve purchasing efficiency, boost effectiveness, reduce prices, and improve specific outcomes. But it won’t necessarily deliver greater value in support of broader procurement and organizational strategies.

What differentiates strategic sourcing as a tool of category management is that it becomes part of a holistic and strategic approach combining a broad range of tools, processes, and policies. Strategic sourcing thus becomes a critical operational component of a method for improv-
At a Glance

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