

## THE RELEVANCE OF CATEGORY MANAGEMENT TODAY AND INTO THE FUTURE

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Category Management

Back in 1983, Kraljic<sup>1</sup> stated that 'no company can allow purchasing to lag behind other departments in acknowledging and adjusting to worldwide environmental and economic changes'. In essence, he was saying that as purchasing skills had been developed and established in an era of relative stability, purchasing had to change too as the pace of economic change was about to accelerate at a global level.

Since then, we have seen profound changes both within our world and to how we live our lives. We have lived through one of the greatest economic downturns since the 1930s Great Depression and witnessed a backlash against the established notion of globalization.

The role and expectations of the purchasing function have also changed considerably. When I began my career in purchasing our role was to 'buy things'. Decisions about what to purchase and from whom were most likely taken by other departments, usually in consultation with the supplier. We would be brought in towards the end of the process to 'do the deal', negotiate the finer details and try to secure a discount on the price.

In contrast, today's leading-edge businesses position purchasing as a strategic function. It has a clear remit to own and manage the commercial relationship with the supply base, working in collaboration with the technical functions to identify and implement the most effective sourcing approach.

Purchasing functions have opportunities to add significant value to organizations like never before with category management being one of the important enablers alongside Supplier Relationship Management (SRM).

To understand these opportunities, we need to look at how the changes in the next 30 years will point to the need for a new, modern and more strategic approach to purchasing.

### A GLOBAL MARKETPLACE SET TO BECOME VERY DIFFERENT FROM WHAT WE KNOW TODAY

Today, we have greater access to larger marketplaces, on a global scale, all of which make the world a smaller place. Our professional and personal lives are enabled and enriched by suppliers all over the world. Globalization, never a precise 'thing', has become a catch-all phrase used to explain how modern companies trade and operate. But things are changing.

The global marketplace and our future supply base continue to be redefined, and, in the next 30 years, will be very different from what we know today. How companies exist, are structured and operate will change dramatically and there will be greater polarization of size.

At one end of the scale is the 'network of talent and excellence' where people are based in one or more physical locations. Thanks to technology and changes in organizational thinking, the companies and suppliers of tomorrow will be more like connected agile global networks. They will be made up of individuals and groups, together with key nodes where physical goods get produced or services get performed, all working together as one.

This new model will mean companies can place each component or network contributor in the optimum physical location to secure the greatest value, talent and potential. The location of our future supply chain will also be less of an issue, making it easier to understand and manage.

There will also be fantastic opportunities for purchasing teams thanks to the network of global talent. We will, however, need to find new ways to manage how we interact, trade, protect risk and maintain relationships if these possibilities are to be realized.

At the opposite end of the scale, are the new, super-size corporates, many of which will become the essential suppliers. In 2018 Apple became the first trillion-dollar public company (Guardian, 2 August 2018<sup>1.1</sup>). It was closely followed by Amazon which beat other giants such as Google's parent company (Alphabet), Microsoft, Facebook and Alibaba. In the future, more giants will emerge, securing their power by controlling routes to and from marketplaces and by using data to great advantage.

In the coming years, we will see the growth of virtual marketplaces – solutions based around the Amazon model – which will completely transform how organizations buy. They offer the possibility of automating the purchasing of routine spend, such as generic, undifferentiated or non-complex goods and services, but only when fully integrated into a company's system.

Today, purchasing teams are heavily involved in areas of routine spend as well as managing more strategic spend and supplier relationships. In the future, the role of purchasing will become even more strategic and key to this will be setting the conditions and relationships with virtual marketplace providers for routine spend.

How category management works and is deployed will change too. Short-term virtual marketplaces are likely to comprise a proliferation of modestly sized organizations, focusing on specific sectors. In the next 30 years, however, these will have been replaced by a small number of supersized companies from whom we will have little option but to source. This means that we'll need to devise new purchasing approaches to enable us to manage this effectively.

## A CHANGING LANDSCAPE AND THE CERTAINTY OF CHANGE

One thing we can be certain of in an uncertain future is change and lots of it. The main issues of today – political uncertainty, volatility, climate change, migration of people – will continue. Added to that, resources are getting scarce (Hieber, 2002<sup>1.2</sup>) and this will continue. Where raw materials are not yet scarce they could well become volatile, perhaps switching the leverage and balance of power to those in the supply chain (Gradinger, 2009<sup>1.3</sup>).

Today, these sorts of changes are well understood at an organizational level, however, there is a human tendency to view change as an event, with an end point and a return to a steady state. In his work over 50 years ago, the German-American psychologist Kurt Lewin characterized change as something that follows a process of 'unfreezing' from the current state, changing then 're-freezing' to the new state (Lewin, 1958<sup>2</sup>).

While that theory still holds true today, it is easy to find ourselves waiting for the re-freezing. However, we have learned over the last 30 years that there is less

opportunity for this. Instead, the modern reality is one of ongoing global change, faster than ever (Brynjolfsson and McAfee, 2014<sup>2.1</sup>), with no shortage of articles and statistics reinforcing this message.

Whatever the future holds, one thing that will remain constant is that things will be ever-changing. Furthermore, if we find ourselves in a steady state situation then we have probably been left behind. Naturally, this has implications for the future role of purchasing.

## THE DIGITAL ENABLER

Many years ago we talked about how the internet, e-mail and e-commerce revolutionized business on a global scale.

Nowadays, it is hard to move without seeing or hearing references to artificial intelligence, robotics, big data, the internet of things, machine learning, and blockchain, all of which present great potential for organizations, purchasing and the supply chain to make great leaps. While early pioneers are taking their first baby steps to a new digital world, for most it's still a little unclear as to how these new technologies will become part of our daily professional lives.

It is very easy to fall for the hype as there is no shortage of purveyors of the latest digital platform telling us that if we are not 'on board' the new digital ship sailing off into a brighter future, we will be left behind. Yet today much of what is available are, in fact, 'islands of technology' – specific solutions for a single component of how organizations buy and operate. Inevitably, this will evolve, yet there is much organizations need to do to embrace and embed the future digital possibilities.

The vast potential digital offers will not just happen and any organization which sits waiting for something to emerge that they can plug into will be left behind. Instead, the leading organizations of the future will be those that figure out how to design and embed new digital solutions into how they operate day-to-day to bring competitive advantage.

The future is about how the emerging technologies of today will converge. More than anything, it is about data – access to big amounts of robust data derived from multiple sources and processed, combined, analysed in highly creative ways to create unique new insights that drive tailored purchasing interventions across the supply base – all in real time. One thing that is absolutely clear, is that digital is about to drive unprecedented change in the world of purchasing.

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