Insight

WHY ONLY A STRATEGIC APPROACH CAN ENABLE CATEGORY MANAGEMENT

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Category Management

Just what is strategy? While there is plenty of debate about what 'strategy' is in a business setting, Johnson and Scholes (1993)[1] defined it as: 'the direction and scope of an organization over the long term, ideally which matches its resources to its changing environment, and in particular its markets, customers or clients so as to meet stakeholder expectations'.

There are two areas where strategy is required within purchasing. The first is an overall strategy for the purchasing function and how it determines and manages supply base interventions. This needs to be aligned with and respond to a higher-level corporate strategy. The second is individual sourcing strategies for discrete areas of spend.

Considering strategy in terms of purchasing, we can expand this into the following definitions that reflect the views of Johnson and Scholes:

- Strategy for the purchasing function
  The direction and scope over the long term, this should be informed by and inform overall corporate objectives and stakeholder needs and expectations. Ideally it should match the function's resources and capability to these objectives as well as the changing environment, external markets and best-practice sourcing approaches.

- Sourcing strategy
  Defining what and how the organization will buy over the medium term, it should also be aligned to overall strategy and objectives. It should deliver the immediate and future needs and wants of the organization and its end customers, matched against current and potential future marketplaces.

Category management provides the approach to determine, define and realize the individual sourcing strategies within the overall functional strategy. Be warned however, it's not as straightforward as it might appear.

MAKING SOURCING STRATEGIC

Sourcing strategically does not come from the traditional mindset that believes the role of purchasing is little more than to buy things. Neither does it come from working through a process, applying tools or shouting louder at suppliers.

Instead, purchasing needs to be seen as a key enabler of value to the organization. This must be reflected within the wider organizational structure and the degree of executive representation and support.

There is also a personal dimension – if we see ourselves as 'there to buy things' then that is what we will do. However, if we see ourselves as 'enabling our sourcing approaches to make a strategic contribution to the business' we will think and behave differently.

SOURCING, SATISFYING AND STRATEGY

Category management is at its most successful when it's embraced as an organization-wide philosophy. To have any significant impact it must, therefore, be an integral component in the way the organization connects its sourcing with how it satisfies its end customers, aligned with the overarching strategy of the firm (see Figure 1).

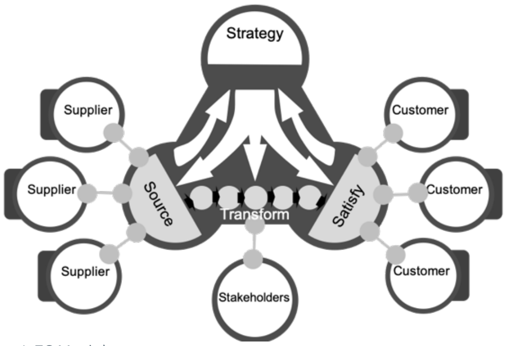

Figure 1: 5S Model

At one end, organizations need to source materials, goods, services or people in some way and purchasing's role is to source on behalf of the organization. At the opposite end is satisfying what customers need and might want. This is usually managed by sales and marketing teams, amongst others, who interact with customers in some way or are part of the process of fulfilment.

In between the two are all the other functions, departments and processes that transform what is sourced into something that satisfies the customer so they buy and keep buying. Ideally this transformation adds some level of value as described by Porter's 'value chain' concept (Porter, 1985)[2].

Most purchasing functions will have some sort of goal to improve aspects of sourcing effectiveness. While this is good and benefits the end customer, it is frequently inwardly focused. If purchasing can be driven more by how the entire business can better satisfy its end customers, this can change our entire view of the value we need from the supply base.

The value that satisfies the end customer is called the value proposition (Lanning, 1980)[3]. It is the way a supplier defines what it will do and offer and how it organizes itself to provide value to the customer experience. To be able to satisfy customers, companies need to be clear about the value proposition. This means they must get close to customers, develop a deep understanding of what they would value and create a differentiated offering.

To do this requires a corporate strategy, with the right value proposition, based around satisfying customers. To deliver competitive advantage, the whole organization needs to be structured, aligned and organized behind this. It also demands a means to capture the often untapped source of value and innovation available – that which lies in the supply base.

Linking end-customer value with sourced value, drives a change in mindset in the role of our supply base and the way we need to interact with it. If we view our suppliers as there only to fulfil orders, and assume they present no risk or opportunity then their role is purely tactical. However, organizations now need more from the supply base because customers want more from them.

The idea that the supply base is host to new and future sources of value is not a new concept. Indeed, organizations have been taking innovations from willing suppliers for years, although crucially this has tended to be at an individual level as opposed to a corporate approach. Purchasing rarely gets invited to be part of such discussions, and by the time they do, the supplier is mandated leaving little opportunity to influence commercial terms.

What is required is an approach that connects the value of category and supply chain possibilities with the value proposition that satisfies the customer. The outcome is the convergence of sourcing and satisfying with organizational strategy.

Corporate strategy, when implemented effectively, has to be translated so that each part of the business can play its part in following the overall direction. This strategic cascade is one directional; coming down from the top of the organization.

The problem with a 'top down only' strategic management approach is that there is no real need for purchasing to engage with marketing as both take their direction from the top. Cross-functional working can help but only if the organization is encouraging this from the top down.

So how does strategy connect to sourcing and satisfying? Johnson and Scholes (1993)[1] suggest that strategy must match its resources to its changing environment. The supply base represents an integral part of the firm's resources so for any corporate strategy to be effective it needs to consider the role of the supply base to support how the organization will achieve its goals.

Effective corporate strategies must therefore respond to and be determined by the external environment within both the supply and customer base. Strategies are therefore two way; they inform and are informed by end-customer wants and needs, both now and in the future, together with what might be possible in the supply base. This is the fundamental concept that underpins and creates a purpose for category management as well as Supplier Relationship Management (SRM) and any other strategic purchasing initiative.

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