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Business Process Outsourcing

Leveraging Category Management to Achieve High Performance

Podcast Transcript

Welcome to the Accenture Podcast entitled Leveraging Category Management to Achieve High Performance.

The economic slowdown of 2008 issued a nearly universal business challenge: to achieve high performance in this new environment, virtually every company in every industry needed to reduce their costs while staying on course with a long-term vision.

Procurement is frequently seen as a key part of the solution. High performance companies understand that procurement can align their spending with their top business priorities. And that's where category management comes in.

When a procurement function is built around an integrated approach to category management, it gains the ability to coordinate its activities with a company's business goals to deliver both near term and long term benefits and to do it all without disrupting business operations or supplier relationships.

Category management can help you manage your spend, develop your supplier portfolio, reduce your risk, tighten your control and most important of all, add strategic value to your business.

For anyone wishing to master category management, there are three key levers: First, understanding the business requirements. Second, optimizing your supplier relationships, and lastly, leveraging industry expertise. Let's take a closer look at these three levers.

With the lever of understanding the business requirements, we're talking about understanding the nature and need of any specific purchase—the impact of that purchase across the enterprise—and the channels that must be followed to complete the transaction. Category managers must have a clear understanding of those three things.

And by knowing the difference between, "nice to have", "got to have" and "got to have, right now" procurement organizations can apply the most appropriate sourcing strategy. If, for example, a category manager can see that—behind a particular purchase request—the need is dire and mission critical, they might override "process" in favor of faster delivery.

Now let's look at the second lever of optimizing supplier relationships. To get some perspective, let's consider a survey of chief procurement officers conducted by Accenture in November, 2008. A majority of respondents felt that economic conditions had affected their supplier relationships and that supplier risk had increased. Almost 20 percent of respondents said their suppliers had not been able to meet required levels or needs. Nearly 15 percent said their suppliers had been put out of business or forced to merge with other companies. And 50 percent of them said their suppliers had increased their prices—or tried to—because of the strain on their business.

So now, more than ever, optimizing supplier relationships is essential. You do it not only by defining business needs at the beginning of a supplier relationship but also by continuously refreshing those needs in the context of global markets and evolving industry conditions.

Outsourcing can make a big difference in optimizing a supplier relationship. Outsourced category managers have immediate insight into challenges that a broad supplier base is beginning to struggle with—plus an early view of emerging solutions that address the needs of both suppliers and purchasers—which puts the outsourced category manager in position to create a mutually beneficial foundation for long term relationships.

That's a great lead-in to our third lever, the decision of whether to optimize your supplier relationships in-house or leverage industry expertise.

Most leaders agree that even when cost management remains a top business priority, slashing costs will not, by itself, produce long-term success. You also have to be able to focus on critical growth strategies and investment and at the same time cultivate sustainable relationships with your vendors.

A mastery of procurement plays a strong role in long term success and in a survey of some 600 procurement executives, here's what Accenture has found:

Procurement masters achieve 39 percent higher savings than low performers with procurement operations that cost half as much to operate. And they, the procurement masters—more than others in the survey—have the tendency to outsource and make best use of third-party expertise.

Within that outsourcing relationship, they are specifically leveraging what the third-party category manager brings to the table:

- They bring the ability to focus on one or two categories instead of spreading their attention across a wide range of goods and services.
- They bring their expertise in buying trends, vendor portfolio management and pricing and quality standards.
- And they bring their proven processes and access to technology and infrastructure.

When you put all three levers together—understanding the business requirements, optimizing supplier relationships and leveraging industry expertise—you are building part of the foundation for success in the new economic environment.

You could be like a leading retailer that was faced, in this environment, with three procurement challenges: too many purchasing requests, too many vendors, and too much paperwork involved in processing each transaction.

By outsourcing their procurement function, they reduced their administrative costs by up to 35 percent among a core group of key vendors and built solid relationships with these strategic vendors, going on to realize new savings in subsequent projects.

Like other procurement masters, they recognize that these savings and efficiencies do not materialize without a smooth and fully formed category management function.

And they realize that managing the spend, developing the supplier portfolio, reducing risk, tightening control, and adding strategic value through category management are keys to achieving high performance in the new economic landscape.

To learn more, go to www.accenture.com/procurementbpo and download our paper on "Sourcing and Procurement's Untapped Potential: Leveraging Category Management to Achieve High Performance"—again, that's www.accenture.com/procurementbpo.

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