



CATEGORY STRATEGY PLAYBOOK

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Section 1

OVERVIEW, DEFINITIONS AND ORIENTATION

What is Category Management?

Category management is the process **COMPANY** uses to leverage the joint purchasing influence of all of **COMPANY'S** operating units. It can also be applied to specific **COMPANY** division-specific commodities that have little to no potential aggregation with other **COMPANY** divisions.

It requires cross-functional participation, is team-oriented, and will substantially reduce the total cost of purchases. The category management goals of the organization are documented in a written category strategy which articulates the plan for aggregating, sourcing, implementing, and measuring the acquisition of families of goods and services obtained from external suppliers.

The category management goals are derived from an assessment of the business requirements, which take advantage of core competencies and address the need for goods and services.

COMPANY Team Leaders and Divisional Category Managers achieve this goal through the deployment of initiatives such as:

- Rationalizing the supplier base
- Deploying a Strategic Sourcing Process
- Using technology effectively
- Using e-auctions capabilities
- Lowering lead times
- Using value engineering/analysis
- Providing accurate project data
- Participating in make vs. buy or lease/buy decisions
- Ensuring team training
- Decreasing total costs
- Developing partnerships and long-term agreements
- Assessing suppliers ability to meet performance requirements

Section 2

EXPECTED RESULTS

Expected Results from Category Management

COMPANY expects to achieve world-class performance as a result of category management initiatives. This means we will achieve higher level performance than peer organizations, both at the corporate and divisional level, as follows:

- A clear strategic direction for anyone involved in supply management
- The selection of the best suppliers
- The definition and implementation of the most appropriate relationships with suppliers
- Fewer suppliers which can integrate the contribution of other, less capable suppliers
- Substantially improved total cost including:
 - Lower purchase price due to increased leverage
 - Lower administrative burden
 - Improved quality, delivery and lead time (using quality tools)
 - Involvement of selected suppliers in product design and value engineering
 - Optimal transportation and payment terms
 - More standardized parts and services
 - Use of common production equipment, materials and processes

Section 3

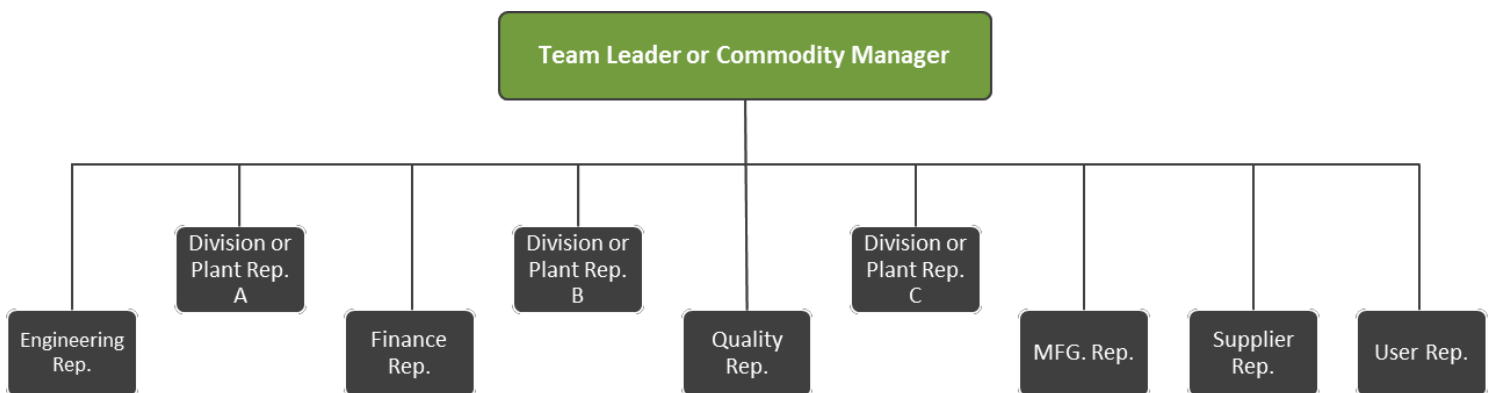
CATEGORY MANAGEMENT PROCESS

An Outline of the Category Management Process

A Team Leader (or Category Manager) is appointed to manage the category on behalf of **COMPANY** or a division.

The Team Leader establishes and leads a Category Management Team. The team includes:

- A Supply Management representative from each of the **COMPANY** or divisional entities (e.g. plants) that use the category
- Representatives from other functions to formulate and track the implementation of the category strategy. (e.g., Finance to assist in make vs. buy decisions; Engineering to guide standardization, value engineering, and other technology-based selections; manufacturing for process and lead time considerations; Quality to help define specifications requirements and expected quality standards).
- Supplier representatives and outside parties, when appropriate. See below for a representative view of team composition.



The Category Team Establishes the Category Strategy. This is performed according to the "Category Plan Outline" in Section 4. The Category Strategy defines:

- Current and future business requirements
- Market analysis
- Overall goals for the category
- Supplier strategy
- Sub-tier supplier analysis
- Key constraints and enablers
- Supplier production or service system
- Sourcing strategy
- Implementation plan

The key tasks of the Team Leader are to identify resources and sponsor(s), develop roles and responsibilities, and ensure team commitment and accountability to the category plan. The following chart can be used to identify resources and sponsor(s).

Identify Key Resources & Sponsor

Resources Required				
Type of Resource	Business Group	% of Time Committed	Start	End
SPONSOR				

The Team Leader and the team members agree on the required commitment of time for necessary resources. A R.A.C.I. chart can be utilized to promote guidance on key team activities, and to assign roles and responsibilities. The chart below provides the structure of the R.A.C.I. chart.

Category Plan R.A.C.I.
<p>R.A.C.I. Definitions:</p> <p>Responsible (Doer): Person performing the activity.</p> <p>Accountable (Owner): Person holding overall accountability for the results of the activity.</p> <p>Consulted (In the Loop): Person consulted about the activity.</p> <p>Informed (In the Picture): Person informed about the activity after it has been performed.</p>

Activity/Task	Role #1	Role #2	Role #3
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			
11.			
12.			
13.			
14.			

The development of this chart is a team based activity, and may include subject matter experts.

Implementation of the Category Strategy

The Team Leader, through the Category Management Team, is responsible for the development and implementation of the category strategy and communication of the status of the plan to Management.

The representative roles and responsibilities are as follows:

Team Leader

- Assembles a category team with key stakeholders from various functions
- Establishes and implements category strategy along with Category team
- Determines the specific characteristics of supplier relationships
- Ensures that the **COMPANY** Strategic Sourcing Process is used
- Directs periodic progress reviews regarding the implementation of the category plan
- Convenes the Category Team on a periodic basis, to track marketplace trends, technology, category-wide performance, project implementation and new product or service requirements

- Provides assurance that implementation of negotiated agreements are properly achieved
- Arranges for necessary team training
- Ensures use of **COMPANY** wide resources in sourcing such as e-auctions
- Inputs savings estimates and achievements into the performance management system

Divisional or Plant Representatives

- Are members of category team that establishes category strategy
- Represent and make commitments for their division/plant regarding strategy and selection decisions
- Release own orders to suppliers using terms and conditions negotiated by the team, under long-term agreements
- Own the implementation of agreements, once signed and negotiated
- Manage day-to-day supplier performance, participate in supplier performance reviews and periodic category management meetings
- Carry out and are responsible for specific actions called for by the Category Plan within their own division or plant.

Functional Team Members

- The representatives from Finance, Engineering, Manufacturing, Quality, Legal and Logistics who represent their functional interests.
- Provide input to category strategy and sourcing decisions, particularly in areas requiring their functional expertise
- Take specific functional action items to implement the category strategy
- Ensure that functional requirements are in place to implement strategy and negotiated agreements

The following matrix is provided to describe the typical contributions of team members from various functions:

Team Composition — Roles and Responsibilities		
<i>Function</i>	<i>Timing</i>	<i>Assistance Provided: Representative Only</i>
Engineering	<ul style="list-style-type: none"> • Strategy • Sourcing • Implementation 	<ul style="list-style-type: none"> • Value Engineering/Analysis • Standardization • New Product/Service/Early Involvement of Suppliers • Independent Cost Estimate • Supplier Design or Service Capability Assessment • Qualification of New Part/Service
Manufacturing/ End-User Department	<ul style="list-style-type: none"> • Strategy • Sourcing • Implementation 	<ul style="list-style-type: none"> • Supplier Lean Capability • Quality Assessments • Cost Analysis • Tool Movement or Service Transition • Qualification of New Processes

Finance	<ul style="list-style-type: none"> • Strategy • Sourcing • Implementation 	<ul style="list-style-type: none"> • Performance Improvement Estimating and Achievement • Price and Cost Analysis • Total Cost Analysis • Make/Buy; Buy/Lease Analysis
Quality	<ul style="list-style-type: none"> • Strategy • Sourcing • Implementation 	<ul style="list-style-type: none"> • Quality System Assessment • Total Cost Analysis • Product/Process Qualification
Legal	<ul style="list-style-type: none"> • Sourcing 	<ul style="list-style-type: none"> • Contract Terms and Conditions • Non-Disclosure Agreements

Category Strategy

- Category strategies will be reviewed by the **COMPANY** or Divisional Supply Management Team (information copies should be distributed to key divisions, plants and/or impacted business leaders)
- Strategies will be approved by Senior Management prior to any significant sourcing initiatives being undertaken
- Strategies must be reviewed at least every six months. In addition, the category strategy must be consistently applied throughout the company. Changes can be proposed and considered by the category teams in the following circumstances:
 1. Sudden change in technology
 2. Sudden shift in customer and business needs
 3. Significant shifts in **COMPANY** Divisional and product demand
 4. Inadequate supplier performance
 5. Radical changes in raw material or subsystem costs

All changes must be endorsed by the category team and supply management, and the changed document should be revision controlled.

Section 4

DEVELOPING THE CATEGORY STRATEGY

Scope of Plan

In the scope of the plan, it is necessary to identify the sub-categories that will be included in the plan as well as the groups or divisions of the company that are either users or that are impacted by the category business. The intent of the scope of the category strategy plan is to provide the initial direction of the overall strategy execution for each of the team members and stakeholders.

The scope provides justification and direction of the project to the key members of the **COMPANY**.

Drafting the scope of the plan can be summarized into six steps:

1. Meet with Key Stakeholders to Define Category Objectives
2. Gather Analyze Available Data
3. Compare to Industry Data
4. Create High-Level Scope
5. Attain Buy-In from Stakeholders & Management
6. Finalize Scope

Creating the Scope of Work Requires the Completion of the following Activities:

- Detail the category and sub-categories that are covered by this strategy
- The groups/divisions use the category and sub-categories
- The applications are in the **COMPANY** businesses
- The geographic coverage of the strategy (global, regional, local)
- Cost/benefit Analysis of pursuing the strategy should be delineated

Typical issues to be addressed include:

- Category and sub-category definition and primary uses within the organization.
- Names of personnel in business units that are key stakeholders in the category.
- The requisition to pay process for the category to identify non-value activities
- Name(s) of incumbent supplier(s), length of time relationship(s) has / have been in place, and spend per supplier.
- Previous sourcing strategies (successes and or set backs) employed.
- Existing RFI/RFP/RFQ available for use for this category
- Expiration date of any existing contract
- Terms of the existing agreements/contracts (i.e. Escape clauses)
- State of drawings, material specifications, descriptions for the products or services.

DELIVERABLE: 1st draft of Scope ready for stakeholder review (request approval)

Business Needs & Requirements

In this step, we are defining the key needs and expectations of the business. Addressing the specific needs of each category/sub-category and how it impacts the business with regards to quality, cost, delivery, customer service, and more. In order to be successful, it is essential that each category requirement is assessed in this phase, in order to ensure that optimal results are concluded. If key business requirements are not met, then there is opportunity for failure (e.g. not evaluating the required delivery to a specific remote plant operation that impacts production and customer delivery).

This phase is critical to the design of the overall plan, without evaluating the business needs and customer requirements, the category plan will not be able to address the expectations of the scope.

This is the most important activity in the development of the category plan. The strategy should include the following elements:

- Indicate all **COMPANY** or Business Unit customers.
- Describe the needs and expectations of each customer in detail
- Indicate how the category strategy will satisfy these needs.
- Define key constraints and enablers that must be pursuing this category

Use Table 1.1 (on the next page) to manage the information for category and sub-category segmentation and grouping.

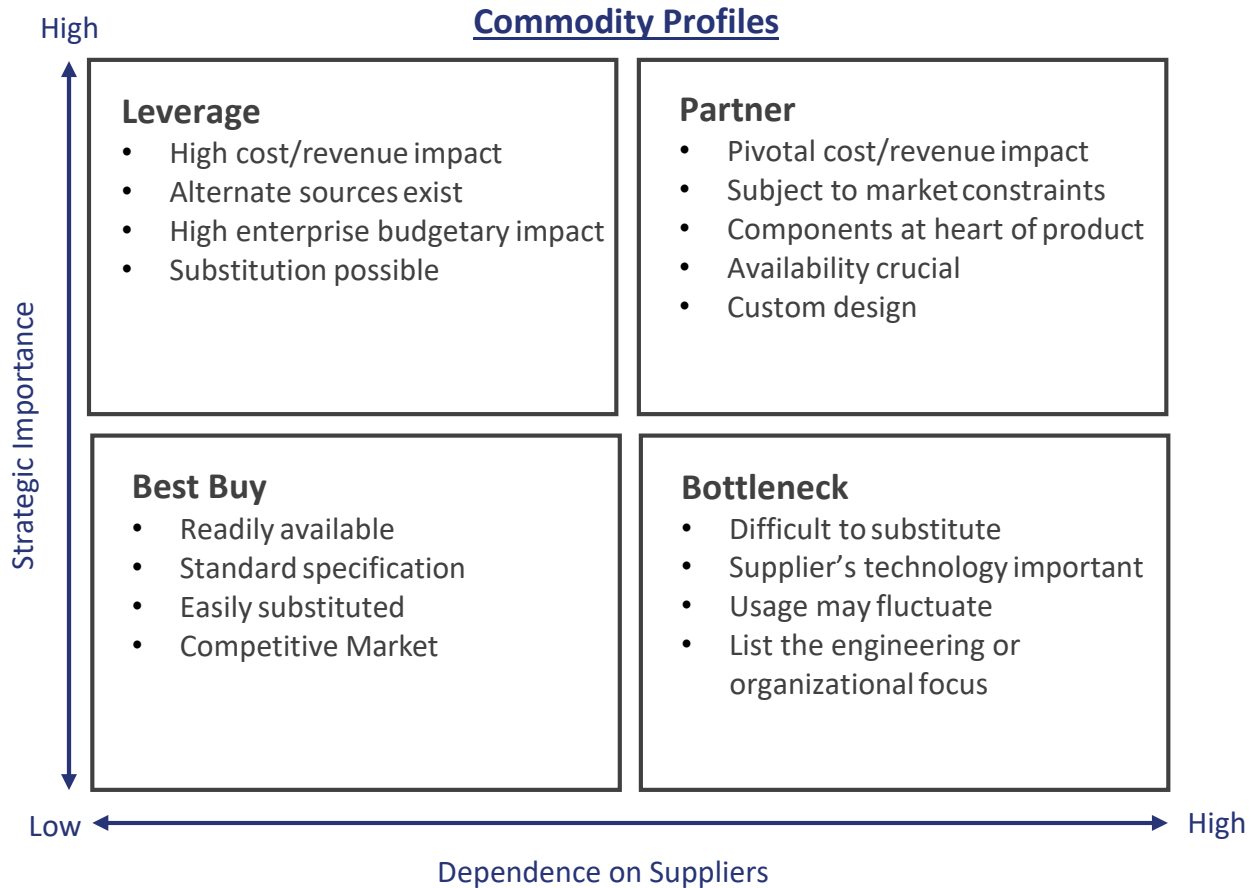
- Review current and projected usage of the category (next 3 years) in current and future products
- Segment the spend in sourcing groups, creating natural product/service families or groupings of products.
- Estimate what percentage of the market **COMPANY** or divisional volumes represent
- Determine what substitutes are available for consideration
- Review what new products/new commodities influence your category in current applications
- Evaluate role of sub-tiers in category costs, lead times, and quality
- Flow chart or map the supply chain to identify waste that can be eliminated.

TABLE 1.1

Using this table will allow the Team Leader to summarize the category segmentation and sizing in terms of business group impact and total spend.

Category Sizing and Evaluation		
For each category/segment, describe:		
1. Current and Projected Usage:		
Aggregated part or service specific	Current Year	Future Year
2. Category Segmentation:		
Sub-Category	Volume	
a.		
b.		
c.		
Scope		
1. Category(ies) and Segments covered by this plan		
a.		
b.		
c.		
2. Define users of commodities/segments		
Category/Segment	Business Units	Locations
a.	a.	a.
b.	b.	b.
3. Term of Plan	# of Years From:	To:

Once the segmentation of the categories has been defined above, we can use this information to assist in the strategy development. Each segment in the four-quadrant analysis represents a difference in behaviors (see the 2x2 matrix and examples below).



Buyers and Suppliers exhibit different behaviors when pursuing sourcing projects in each of the quadrants of the matrix. See below for additional detail on these behaviors.

LEVERAGE	
BUYER	SUPPLIER
<ul style="list-style-type: none"> • Volume aggregator / standardizer and cost reduction opportunity seeker • Supplier qualifier and monitor • Consistent and predictable order placer • Negotiator of customized services (e.g., specialized lots, tailored logistics) 	<ul style="list-style-type: none"> • Order / contract generator • Customer specification certifier • Volume commitment seeker • Value-added service provider
BEST BUY	
BUYER	SUPPLIER
<ul style="list-style-type: none"> • Lowest price supplier identifier, qualifier and negotiator • Transaction cost eliminator • Volume allocator 	<ul style="list-style-type: none"> • Scale and share seeker • Simplified and low cost order taker • Large commodity volume seeker • Limited to no frills service provider

<ul style="list-style-type: none"> Basic service seeker (e.g., consolidated billing, customized bills, better terms and conditions) 	
BOTTLENECK	
BUYER	SUPPLIER
<ul style="list-style-type: none"> Supplier base expansion seeker Order status / completion monitor Contract negotiator and supplier viability assessor Basic service seeker (e.g., unbundling of suppliers' pricing for product and services) 	<ul style="list-style-type: none"> Customer leverager Order taker Margin increase seeker Customized service capable
PARTNER	
BUYER	SUPPLIER
<ul style="list-style-type: none"> Supplier supply chain integrator Solution seeker Growth and margin increase seeker High customized services seeker (e.g., joint engineering, direct to customer shipping, implementation of cost improvement programs) 	<ul style="list-style-type: none"> Buyer supply chain integrator Solution seeker Growth and margin increase seeker Specialized and / or expertise service provider

Using Table 1.2 (below), complete the outline of the identified business needs and expectations of the users/key stakeholders.

- A. Number of Sub-categories Shared by Users Groups
- B. Distribution of Volumes by User Groups
- C. Standard vs. Unique Business Requirement by User Group
- D. Number of Shared Suppliers by Business Unit/User Group
- E. Locations of Suppliers as related to Geography of **COMPANY**

TABLE 1.2

Once completed, the table below allows the category team to review the key customer needs that the category strategy must address and set priorities for each.

Business Needs & Expectations			
Category/Segment	Users	Needs and Expectations	Priority (High, Medium, Low)
a.	a.	a.	a.
b.	b.	b.	b.
c.	c.	c.	c.

Source Selection Factors

The selection criteria for suppliers will vary greatly upon the product/services, business goals, and strategy but will be based on business needs and input from stakeholders. Here are a few key categories of supplier selection criteria that can be used:

- | | |
|----------------------------------|----------------------------|
| a. Meeting Business Requirements | e. Use of Technology |
| b. Customer Expectations | f. Capacity & Availability |
| c. On-Time Performance | g. eCommerce Capabilities |
| d. Types of Products & Services | h. Lean Management |

***DELIVERABLE:** complete list of all key business needs and requirements with identification of users groups and business division with relative category statistics (size, segments, usage)*

Market & Industry Analysis

In this phase of the plan, the objective is to establish the impacts of the market and industry on the category. Assessing different elements of the market, such as economic factors, key service and cost drivers, the supplier base, and supply trends are all part of this phase.

***EVALUATE THE INDUSTRY:** The industry analysis requires that we identify and evaluate all the markets within the applicable industry, and classify their structure. Understand the competition, profitability & rates of return (example below), recent performance, and outlook for the future of the industry (economy impact, technology)*

As part of the industry analysis, we can assess the profitability and rates of return. At the high-level, the evaluation can be against a ratio of measurement of earnings to the measurement of investment. Common methods include return on assets, return on investment, and return on equity

This financial assessment of the industry will help the Category Team assess the overall impact their **COMPANY'S** business volumes will/can have on the supply base; and whether or not they will have any leverage or negotiating power.

***EVALUATE THE MARKET:** In understanding market impact, look at the general economic conditions and establish which market segment our category belongs (example below). Other areas that will need to be reviewed include supply/demand drivers, market size, prevailing market trends, market growth and importance of price.*

Evaluating the Industry & Market Requires the Completion of the following Activities:

- Determine long-term profitability of the industry
- Determine competitiveness of a market
- Factors influencing the supply chain = Porters Five-Forces
- Assess Profitability of Industry
- Market Structure, Size, Trends, and Segmentation
- Use of Suppliers

Identify & Classify Industry

Focus on the status of the applicable industry or an industrial sector and assess competitiveness and profitability. By doing this, the stakeholders will understand the potential growth and importance the category will have to the **COMPANY'S** business and within the overall supply chain.

Assessing the Industry Impacts

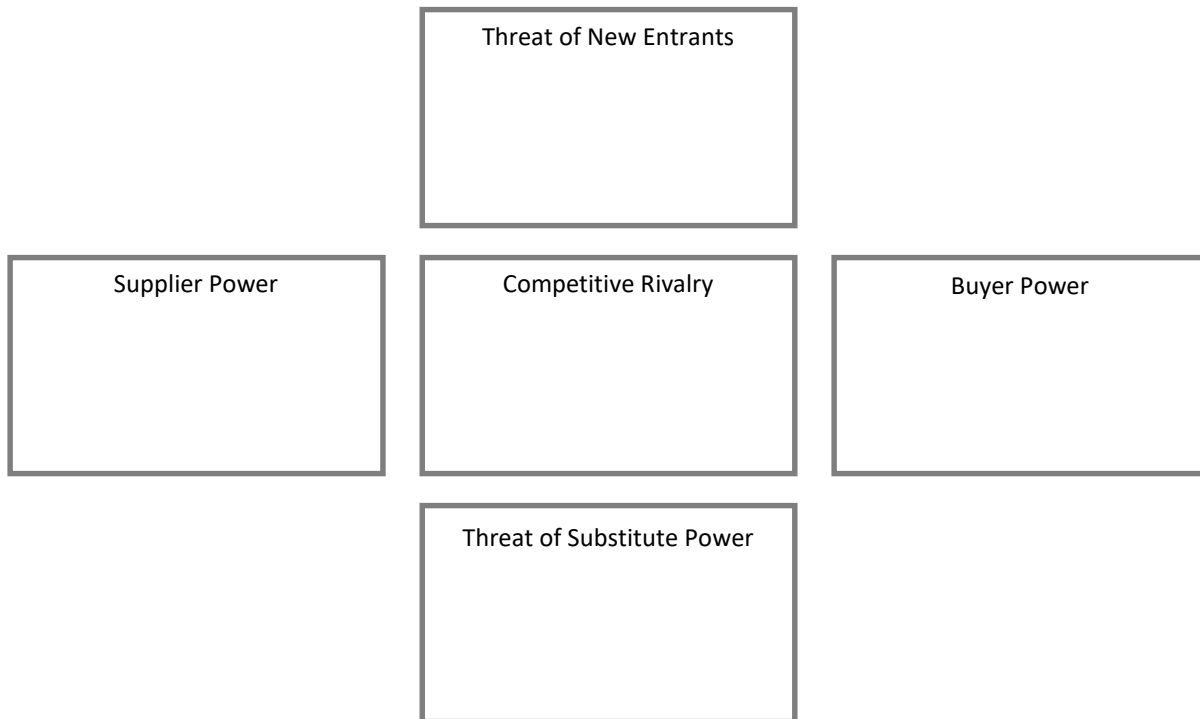
There are several factors which influence the strategic importance by commodities in achieving business goals:

- Minimizing operating costs and expenses
 - Lowering inventory costs
 - Decreasing the total cost of ownership
- Maximizing quality of products and services
- Achieving / maintaining technological advantage
- Improving market responsiveness
 - Developing long-term arrangements with suppliers and customers
 - Improving time-based competitiveness

Using Porters Five Forces use Table 1.3 to complete

The Porter's Five Forces methodology can provide important information about the competitiveness and profitability about a specific market or industry. Buyers can use this information to find areas of risks and advantages shared by industry participants. The methodology can only be used to assess a specific supplier's position in the market.

TABLE 1.3



Using the tool:

The Five Forces Analysis assumes that there are five important forces that determine industry competition.

Supplier Power: Assess the power of the supplier base. This is driven by the number of suppliers of each key input, the uniqueness of products or services, and market strength. The fewer the supplier choices, and the higher the need for suppliers' help, the more powerful suppliers are.

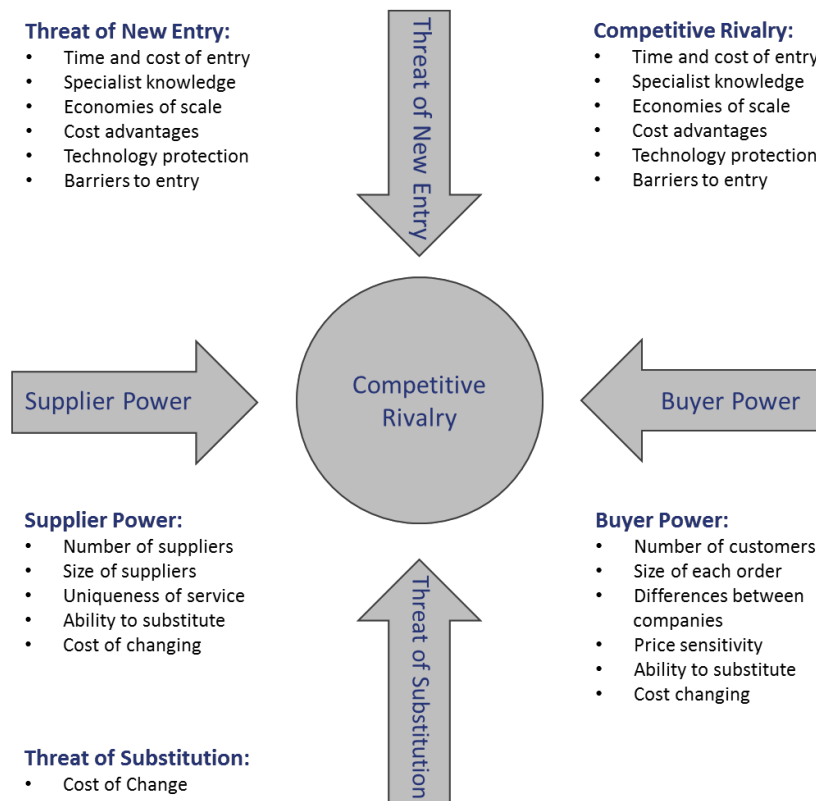
Buyer Power: Assess how easy it is for buyers to drive prices down or control supplier responses. Again, this is driven by the number of buyers, the importance of each individual commodity to the business and the cost to switching suppliers. This is an assessment of how much power your company and other companies have as buyers in the market.

Competitive Rivalry: The number and capability of competitors – if many competitors and they offer equally attractive products and services, then they will have little power as individual companies in the market.

Threat of Substitution: This is affected by the ability of competitors to find a different way of meeting market requirements. If substitution is easy and substitution is viable, then this weakens industry power.

Threat of New Entry: Power is also affected by the ability of new competitors to enter a market. If it costs little in time or money to enter the market and compete effectively, or if there are few economies of scale required, then new competitors can quickly enter the market and weaken the market's competitive process. If strong and durable barriers to entry exist, then competitors can maintain a favorable position and take fair advantage of it.

These forces can be neatly brought together in a diagram like the one below:



The results of this analysis will be used, along with the four-quadrant segmentation model, to evaluate and plan the relevant opportunities for contract negotiations with the supply base.

Market Structure

As we move from left to right in the competitiveness model, market concentration increases. As market concentration increases, the market power of companies (the ability to affect price) increases. As market power increases, profit margins “typically” increase.

PERFECT COMPETITION → MONOPOLISTIC → OLIGOPOLY → MONOPOLY

- In monopolistic competition, the multitude of companies makes it unlikely that they explicitly take into account rival companies’ responses to their decisions.
- In oligopoly, with fewer competitors, each one explicitly engages in strategic decision making – taking explicit account for a rival’s response.

Use table 1.4 to complete the competitive analysis.

TABLE 1.4

Use a version of the table below to assess and plot the type and level of competition represented in your category and sub-categories.

Criteria	Extent of Competition		
	Perfect Competition	Oligopoly	Monopoly
# Sellers	Many	Few	One
Service Characteristics	Homogenous	Homogeneous (Pure) Differentiated (Impure)	Unique
Barriers to Entry	None	High	Very High
Competitive Strategy	Price Taker	Mutual Interdependence	Price Maker
COMPANY Category			

In order to evaluate where your supply category is represented, we need to assess the following:

1. Number of Suppliers & Buyers
 - A small number of suppliers with relatively large market shares may have market power
 - Market power may be offset if the number of buyers are small compared to the number of suppliers
 - The greater the number of suppliers, the more likely the market is competitive
2. Who are the Suppliers?
 - Organizations offering the same products or services
 - Organizations offering similar products or services
 - Organizations that could offer the same products or services in the future
 - Organizations that could offer products/services that will eliminate the need for a product/service (Model T, personal computer, Palm Pilot)

3. Product Characteristics

- Homogenous
- Every firm sells exactly the same product
- Differentiated
- When a firm can increase price without losing all of its sales – perceived value
- Price, product, promotion, place
- Degree of substitutability
- Unique
- No close substitutes

Another segment of the market analysis will be the collection and evaluation of key market data. In order to understand how the business can be negotiated and managed via contracts, we need to assess the markets ability to support the business requirements and opportunities we have previously defined.

Use Table 1.5 to complete the market analysis

TABLE 1.5

This table will assist in the collection and evaluation of key market data.

Industry / Segment:	
Estimated Size of Industry / Segment: \$	
Key Suppliers	
Estimated Share	
Current and Forecast Level of Microsoft Demand	
Profitability of Suppliers:	
Barriers to Entry:	
Available Substitutes:	
Key Cost Drivers:	
Economic/Financial Sensitivity:	
Regulatory/Legal Constraints:	
Trends to watch:	
Geographical Dispersion of Potential Suppliers:	
Business Units / Locations Requiring Services:	

***DELIVERABLE:** complete narrative summarizing the industry factors, 1st draft of Ports-Five-Forces, indication/review of market structure using templates, and narrative on the level of competition (type).*

As a team leader or team member, there are many areas of discovery; here are a few suggested areas to asses as part of evaluating the industry and market:

- What is the size of the total market and relative size of each supplier (market share by revenue and/or profits)?
- What is the level of market concentration? (Do a few large firms make up the bulk sales?)
- Have there been any mergers and/or acquisitions in this industry recently, or are any predicted?
- What is the level of product differentiation between firms?
- Do any of the suppliers tend towards horizontal or vertical integration?
- What is the economic climate of the market (growth / depression)

Category Cost Drivers

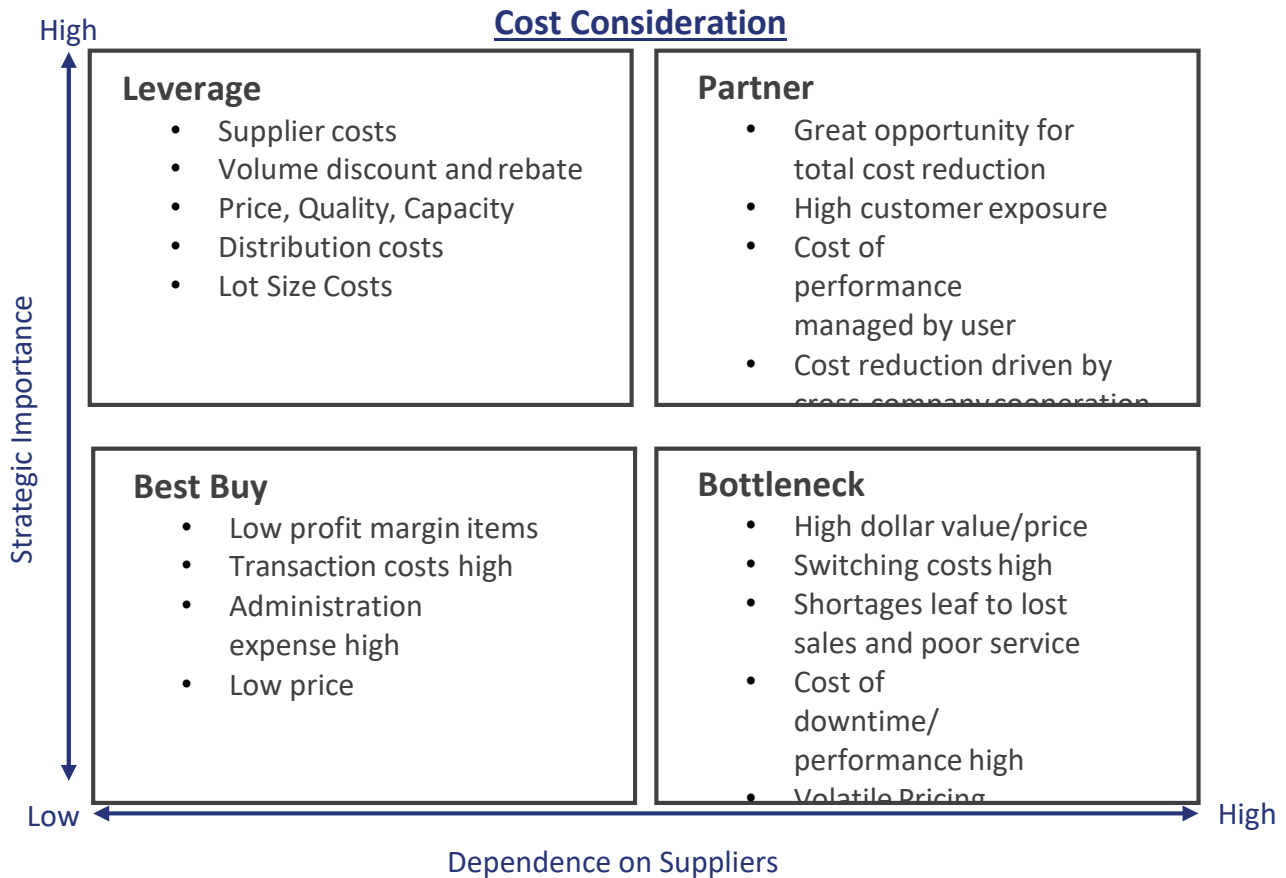
Last 12 Months and Projections for Next 12 Months

The purpose of this section is to identify the cost drivers for this category, and the short and long term trends. This will help **COMPANY** understand potential impact to product cost when this category is designed into the product. It will also provide information to assist in sourcing decisions.

The Category Team should review the cost drivers for the category, categorized as follows:

- Inherent:** Raw Material, Market-based
- Structural:** Scale, Supply Chain Configuration
- Execuational:** Costs of Quality, Workforce, Safety and Production Process related

Use the following matrix for assistance in this analysis:



Review trends in the following cost areas, material, labor, overhead, currency changes, profitability of suppliers, logistics and distribution developments, and total costs.

DELIVERABLE: *outline of key cost drivers and impact to category for both current and future state (based on short and long term requirements).*

Risk Identification and Mitigation

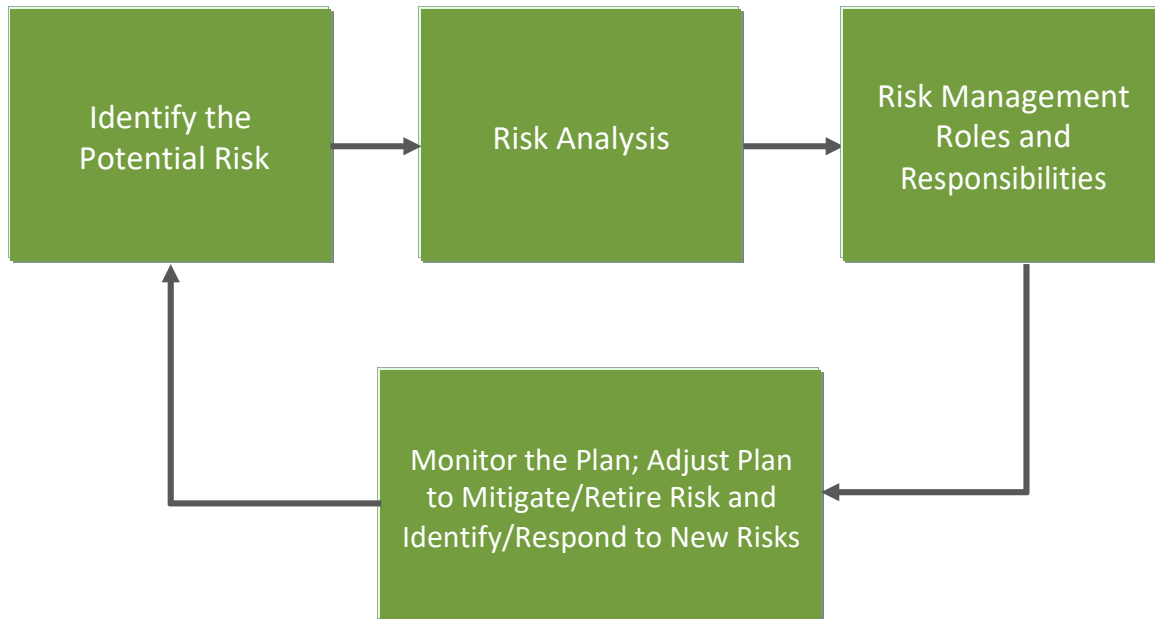
The purpose of this section is to identify potential risk that could impact availability of goods and services, and provide alternate solutions and plans for risk mitigation. The identified potential risks should be collaborated with key stakeholders and internal Risk Management authorities depending on potential loss exposure.

Additionally, the identification of potential risk to the continuation of supply, cost fluctuation, and market, business, and supplier changes are important. It is important in this phase to establish the description of plans to mitigate and eliminate category risks. Utilize quality tools as primary method to reduce risks.

The risk assessment process should include three basic steps (*use Table 1.6 to complete*):

1. Identify Potential Areas of Risk
2. Analyze Potential Occurrence and Impact of Risk
3. Define Plans to Mitigate Risk (Assign Teams)

Category Risk Management Process



DELIVERABLE: *complete and approved risk mitigation plan.*

TABLE 1.6

Use the table below to determine risk & establish mitigation efforts.

Category Strategy Risk Identification & Mitigation		
Category/Segment	Risk(s)	Mitigation Tasks
a.		
b.		
c.		

Supplier Capabilities

In this section, the objective is to compile the global supplier list including all their applicable capabilities. This process will provide a framework for mapping the key suppliers in the marketplace and establish the scheme for evaluating and selecting suppliers through the sourcing process. The outline of supplier strengths and weaknesses will be essential to understanding how the supply base will be able to perform against the objectives of the strategy.

In order to properly assess the supplier capabilities, the **COMPANY** should review some/all of the concepts below:

- Identify the worldwide, regional and local capabilities of the supply base for this category.
- Perform comparisons along the following dimensions: cost, delivery, and quality performance; continuous improvement; design capability; and investment in new technologies. Identify industry leaders
- Indicate current aggregate delivery and quality performance
- Indicate which suppliers have the ability to manage sub-tier suppliers and can be integrators
- 3-year sales volume history; profitability
- Relevant new product releases, products known to be under development
- Financial analysis, credit rating
- Plans for ISO registration
- **COMPANY** current relationship with the supplier, including certification plans
- Manufacturing and distribution locations
- Service facilities

- Comparisons with best-in-class benchmarks
- Supply base limitations, and areas where capable suppliers must be found

Examining the supplier base (*use Table 1.7 to complete*):

- How many suppliers do you have?
- What are their strengths and weaknesses?
- How many organizations offer similar services? Or could in the future?
- What are the key buying criteria?
- Where are the suppliers located?

When we assess the supplier(s) capabilities, it is important to review all aspects of the suppliers business and any information that may assist in determining the overall supplier evaluation criteria during the sourcing process. Here are a few questions we can ask when reviewing suppliers’ capabilities. The responses to these questions should be added to Table 1.7 as needed.

- How are the suppliers geographically distributed?
- Which suppliers are the market leaders and which are market followers?
- Do suppliers compete on quality, service, price, or other factors?
- Is there any obvious competitive advantage held by a supplier?
- Which companies appear to lead in research and development and innovation?

DELIVERABLE: *matrix of supplier capabilities segmented by business, sub-category, and key supplier capability (geography, cost, quality, delivery)*

TABLE 1.7

Collect and evaluate the supplier information using the table below.

Supplier Capabilities			
For each major current or potential supplier in a category segment:			
	Supplier		
	A	B	C
1. Current Quality and Delivery Performance			
2. Financial Stability			
3. % of Total Sales with Supplier			
4. Technical Capabilities			
5. Capacity Availability			
6. Comparison with Benchmarks			
7. Manufacturing / Service Locations			

Category Sourcing

The category plans addresses the requirements and long term goals for the category. The sourcing phase is the implementation of the category plan through sourcing and execution of specific category segments or sourcing groups. **COMPANY** team leaders and divisional category leaders develop category strategies for the entire corporation/division, where sourcing projects should support the commodity plan by the team members or divisional groups.

This is the core of the category plan. It specifies the results of sourcing subgroups or families of products within the category. It may rationalize the current and projected supplier base for the category based on:

- Using the **COMPANY** Strategic Process
- Using the e-auctions online bidding process
- Supplier total cost competitiveness
- Ability of the supplier to contribute to lowering the cost of design and manufacture, and contribute to value engineering or analysis efforts

8-STEP STRATEGIC SOURCING PROCESS

Each of the eight steps focus on a key element of the sourcing strategy, from profiling the sourcing plan to implementing the new contracts. The process, if followed correctly, provides a solid framework for identifying the key areas for supplier evaluation, meeting key business requirements, and developing effective contracts with the most qualified suppliers.

1. Profile Sourcing Category	5. Evaluate Supplier Proposals
<ul style="list-style-type: none"> ☐ Form the strategic sourcing team ☐ Get project sponsorship ☐ Determine user needs ☐ Develop initial savings targets 	<ul style="list-style-type: none"> ● Use evaluation criteria ● Ensure cost and technical evaluation ● Develop targets for negotiation ● Conduct supplier quality assessment
2. Develop Sourcing Strategy	6. Select Competitive Suppliers
<ul style="list-style-type: none"> ● Draft specifications ● Collect data and develop lotting strategy ● Determine sourcing method and type of relationship ● Develop sourcing savings and goals 	<ul style="list-style-type: none"> ● Use quality and business systems ● Development improvement plans ● Assess ability of supplier to reach certification ● Validate supplier selection
3. Generate Supplier Portfolio	7. Negotiate with Suppliers
<ul style="list-style-type: none"> ● Supplier analysis ● Use of request for information ● Use of draft Request for Proposal (RFP) ● Address world-wide, regional, and local requirements 	<ul style="list-style-type: none"> ● Determine the best type of finalized contract ● Ensure terms and conditions can be supported ● Use a process to negotiate with suppliers ● Establish negotiation strategies
4. Develop Solicitation and Visit Suppliers	8. Manage Transition Plan
<ul style="list-style-type: none"> ● Conduct supplier conference ● Finalize Statement of Work or Specification ● Develop solicitation ● Define evaluation criteria and team 	<ul style="list-style-type: none"> ● Develop partnership alliance ● Develop implementation plan ● Establish supplier development plan

DELIVERABLE: complete project plan identifying each phase of the sourcing process for each sub-category to be sourced; include timeline. Ensure that all category spend is accounted for in your sourcing plans.

Category Make/Buy Criteria

In this section, document any current or future plans that will have an impact on the category strategy. Specific shifts from make to buy, and vice-versa, should be included with an explanation of the benefits obtained. This requires rigorous business unit and team member involvement and communication.

Outsourcing is often referred to as a ‘make versus buy’ decision on the part of the organization. The question is, “Is it in the organization’s best interests to continue to (or start to) perform the activity itself using its own people, process expertise, and technology or to ‘buy’ the activity from the service provider marketplace?”

There are a number of factors to review when assessing make/buy opportunity:

- Relative Economics
- In-House Capacity & Current Availability
- Need for Control or Privacy
- Advantages of Supplier Knowledge/Skill
- Relative Risks Involved
- Capital Investment versus Expense

***DELIVERABLE:** matrix of any make/buy comparisons*

Category Benchmarking

This section should contain benchmark information for the category. The information should compare the "Best-in-Class" for each element benchmarked and the gaps that exist. It should also include the plans for closing the gaps.

Some of the elements that should be included in the benchmark analysis are:

- | | |
|--------------------------|----------------------------------|
| • Total costs | • Lead time |
| • Quality | • Inventory turns |
| • Flexibility | • Ordering or delivery processes |
| • Continuous improvement | |

***DELIVERABLE:** comparison of key benchmark criteria, sources and assumptions*

Introducing New Manufacturing or Service Technology

The economics of a new technology may first appear to be highly favorable based on forecasted unit price. But other cost factors such as potential field defects, lack of integration with other products, lower potential leverage of **COMPANY** or divisional purchases, and administrative burdens such as added planning and sequencing time must be addressed as well.

The category team should indicate how future decisions on new technology will be evaluated, taking into consideration:

- | | |
|---|---|
| 1. Re-qualification Costs | 6. Phase In/Phase Out Process |
| 2. Tooling Expense | 7. Inventory Write Downs And Obsolescence |
| 3. Customer Approval Requirements | 8. Total Supply Chain Costs |
| 4. Lead Time And Flexibility Implications | 9. New Technology Supply Chain Responsiveness |
| 5. Uniqueness vs. Standardization | |

***DELIVERABLE:** Potential Use of technology including a cost/benefit analysis*

Conduct Spend Analysis

The spend analysis is a process of gathering all applicable data related to payments made to suppliers within the category. Access to accounts payable, receipts history, and supplier accounts is key. Gathering this data from each source within the organization is critical. The completeness of the data is very important; having partial data or incomplete data will provide an inconclusive analysis for the project and may cause misdirection for sourcing activity.

Establish the means for gathering the data by determining which sources are available (A/P, MRP, ERP etc.) for raw data. Assess the level-of-effort to complete the data cleansing process and analysis. Before conducting the data enrichment process, please validate the category terminology and taxonomy used by each group/division within the **COMPANY**.

Important Criteria:

Addressable Spend: all spending on products or services that can be sourced without interruption of a binding contract, limited negotiating opportunity, or any applicable regulatory requirements.

Non-Addressable Spend: all spending on products or services that cannot be sourced due to a binding contract, limited opportunity for negotiation, or stated regulatory requirements.

Total Cost: evaluates costs of doing business with a given supplier and can compare one supplier against others with the ability to translate supplier performance into purchaser/buyer costs.

The process of evaluating the spend accurately is to first gather the data and then effectively enrich the data by managing it into groupings:

- A. Total Spend by:
 - i. category
 - ii. business unit
 - iii. region
- B. Savings Estimates* by Category
- C. Recommended Prioritization for Sourcing

*savings estimates are established through benchmarking via the market and supplier analysis previously completed in the category plan.

Using a pre-defined structure, via a spreadsheet, define and assess the total spend by the criteria below using Tables 1.8 - 1.10 as templates.

- Number of items by category
- Number of suppliers by item
- Price variance of an item across locations / business groups
- Top suppliers by spend
- Analysis overall and by location / business unit
- Supplier overlap/sharing
- Top categories by spend
- Spend by supplier ratio by category
- Supplier overlap by category
- Spend and number of suppliers by category
- Spend and number of suppliers by location / business unit
- Spend to sales ratio by location / business unit

DELIVERABLE: complete pivot tables, including support data, that identifies the key spend groups by location, category, sub-category, and spend (see templates).

TABLE 1.8

Complete the table below to assist in structuring the spend analysis.

Today's Date	mm/dd/yyyy
Date Category Last Competitively Bid	mm/dd/yyyy
Total Category Spend	\$ -
Category Products and/or Services and Spend	
Prod/Svs 1	\$ -
Prod/Svs 2	\$ -
Prod/Svs 3	\$ -
Prod/Svs 4	\$ -
Business Unit/ Site and Spend	
BU/ Site 1	\$ -
BU/ Site 2	\$ -
BU/ Site 3	\$ -
BU/ Site 4	\$ -
Total Number of Suppliers	0
Suppliers Accounting for 80% of Total Spend	
<i>Number</i>	
<i>Percent of Total</i>	%
Top Ten Suppliers (based on 12-month spend)	
Supplier 1	Supplier 6
Supplier 2	Supplier 7
Supplier 3	Supplier 8
Supplier 4	Supplier 9
Supplier 5	Supplier 10
Percent of Spend Under Contract	%

Top 5 Contracts, Supplier, Annual Spend, Expiration Date			
Contract 1			
Contract 2			
Contract 3			
Category Product/Service Pricing			
Prod/Svs1			
Prod/Svs2			
Prod/Svs3			
Additional Costs			
Prod/Svs1			
Prod/Svs2			
Prod/Svs3			
Estimated Total Cost			
Prod/Svs1			
Prod/Svs2			
Prod/Svs3			

TABLE 1.9

Use the table below to estimate potential savings by category.

Category	Combined Addressable Spend (\$MM)	Savings Estimate		Opportunity Drivers
		%	\$MM	

TABLE 1.10

Use the table below in establishing the prioritization for conducting sourcing projects.

Category Sourcing Project								
Initial set of category segments for sourcing								
		Sourcing Scope			Sourcing Method			
Projects	Dollars	Local	Regional	Global	eRFx	Quotation	Alliance	Timing

Establish Goals

In this section, we take the previously established data and information to define the goals for the category. This section is a compilation of the business requirements aligned with the spend analysis to determine what the key opportunities and expectations will be for the category.

We will set specific business targets, such as cost savings, supply base reduction, supplier management, delivery, lead time, quality, use of technology, inventory turns, and total cost reduction. Provide breakout by division, using benchmark data and integrating results from industry analysis.

Category management goals are derived from an assessment of the business requirements, resulting in goals such as, but not limited to:

- A. Rationalizing the supplier base
- B. Deploying the Strategic Sourcing Process
- C. Using technology effectively
- D. Lowering lead times
- E. Using value engineering/analysis
- F. Providing accurate project data
- G. Decreasing total costs
- H. Developing partnerships and long-term agreements

Generate List of Goals

Category/Segment	Quantitative Goals
a.	1.
	2.
b.	1.
	2.
c.	1.
	2.

DELIVERABLE: narrative and table summarizing each goal, impact to business, implementation plan, and desired outcomes.

Implementation Outline

A time line indicating key strategy execution tasks should be developed. This timeline will include adequate task descriptions, person(s) responsible for each task, and start/end dates.

Contingencies should be delineated with mitigation plans noted for future action. Please consider the various conflicting objectives indicated below as contingency plans are developed:

Develop your plan using these standard implementation steps:

- | | |
|-----------------------------|---|
| 1. Define Category Plan | 4. Select Suppliers |
| 2. Secure Resources | 5. Implement Results of Sourcing Activities |
| 3. Devise Sourcing Strategy | 6. Develop Suppliers |

The timetable should also include the frequency of team and management review of progress in achieving the category strategy.

Sourcing Projects & Savings Tracking

The sourcing project plan and savings tracking are the final steps in the category plan process. The sourcing project plan will indicate the sub-category sourcing projects with specified timelines, including role and responsibilities for the project.

Sourcing Project Plan should include the following criteria:

- Category Group (Name)
- Category Sub-Groups
- Total Addressable and Non-Addressable Spend
- Savings Estimates by Sub-Group (% , \$)
- Strategy Summary (Number of Sources, Use of eSourcing, Low Cost Country)
- Priority
- Completion Date

See a template example of the sourcing project plan in Table 1.11 on the next page.

TABLE 1.11

Sourcing Project Template

Sourcing Project	Sub-Category	Total Spend	Addressable Spend	Savings		Strategy Summary	Priority	Complete Date
				%	\$			

The savings tracking will be a mechanism for tracking the progress and realization of potential and achieved savings resulting from the sourcing projects.

Sourcing Project Plan should include the following criteria:

- Category Group (Name)
- Category Sub-Groups
- Total Addressable Spend
- Savings Estimates by Sub-Group (% , \$), by Year and/or Month
- Status (what step in the sourcing process)
- Roadblocks (potential barriers to savings goals)

See the template example of the savings tracking in Table 1.12 on the next page.

TABLE 1.12

Savings Tracking Template

		Savings			
<u>Category</u>	<u>Year</u>	<u>Month</u>	<u>Savings (US\$)</u>	<u>Status</u> (Red, Yellow, Green)	<u>Encountered</u>
Grand Total				\$0	