



Procurement Toolbox #1

“Category Management”

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Lesson 01 - Spend Analysis

Right. So I mentioned in the introduction that there are three essentials that we have to have if we're going to be able to manage our category to deliver value for the business. And those three things are spend analysis, the relationship, and lastly, business requirements. And what we're going to do in this first lesson is just quickly look at spend analysis. Do you know what it comes down to? It's a question of what matters and what doesn't. If we work in finance, of course, we've got to be accurate. Business PNLs are legal documents. We have to get it right. But in procurement, we don't. Of course we'd like it to be accurate, but we don't need it to be, as long as we can get the understanding that we need. Think about it. It's actually about seeing the bigger picture. It's not about the focus on the detail that we need when perhaps we're negotiating with a supplier where if we didn't have the detail, we might not look credible. It's about, can we sit back? Can we understand what the spend data is telling us about our category so that we can then manage it in the right way? There are two things that you need to ask yourself. The first question is, is it the right order of magnitude? What do I mean by that? Well, let's suppose that the business that you work for has a total spend of a billion dollars. And let's say you've had a download from your spend data, and it says your spend is \$25 million. Okay. What if your spend data said it was 50 million? What if it said it was 5 million? Would that be a problem? Well, in finance, yes, it would. The difference between 5, 25 and 50 million is pretty material. But actually, if we come at it from asking ourselves what proportion of our company's total spend is in my category, I can tell you now that 5 million, 25 million, and 50 million are still zero point something percent of our total company spend. Where it would matter is if the spend was roughly 25 million. But actually, the spend data said it was 250,000,000. It's completely the wrong order of magnitude. So when we look in our spend data, the first thing to ask ourselves is, is this the right proportion of our total company's spend? The second question is, do I recognize the picture? And what do I mean by the picture? If you think about your spend data, you can see spend by supplier. You could see spend by subcategory, spend by location, spend by business unit. We've all spent time producing pivot tables and Excel charts to do it. But actually, if we look at it in the same way as we asked ourselves about the order of magnitude, what we're really asking ourselves is, if I look at each of those different cuts of my data, do I recognize it? Now, you can see here that we've got four different splits of spend by supplier. Four pie charts, all of them are slightly different, they all show the same suppliers and a tail spend. But if you look at those four, one, two and three, sure, they've got different numbers, but they actually tell the same story. I've got three suppliers that together represent about half of my spend. I've got some other mid range suppliers, and I've got a tail that's quite big. But if we look at picture four, actually, it's completely wrong. It's telling us that we've got one supplier that accounts for 60 70% of spend, and then there's the rest. As a category manager, if your spend data is showing you one, two or three, so what? It's the right kind of picture. You recognize it. If your spend data is showing you picture four and you know that's wrong, then you need to go back and just clean up the data a bit before you start work. But ultimately, if you can say yes to those two questions, it's the right order of magnitude, and I

recognize the picture, you're good to go. So that's the first of our three essentials done. In the next lesson, we're going to take a look at the category relationship and see how that affects what we do.

