

REINVIGORATING STRATEGIES TO INCREASE BENEFITS IN CONSUMABLES CATEGORIES



Abstract

Cost reduction and supplier rationalisation benefits delivered by strategic sourcing initiatives are often large and highly visible. Though, without an ongoing category management, it is widely accepted that the headline cost reductions are unlikely to be fully realised over time. However, it can be hard to justify category management resource allocation unless the organisation can see high return on investment (ROI) year on year.

This paper classifies different levels of category management in terms of the relative maturity of the procurement processes being employed, and identifies the typical levers that can be deployed to maximise the value to the organisation at each stage.



Development stages and value generating processes for category management

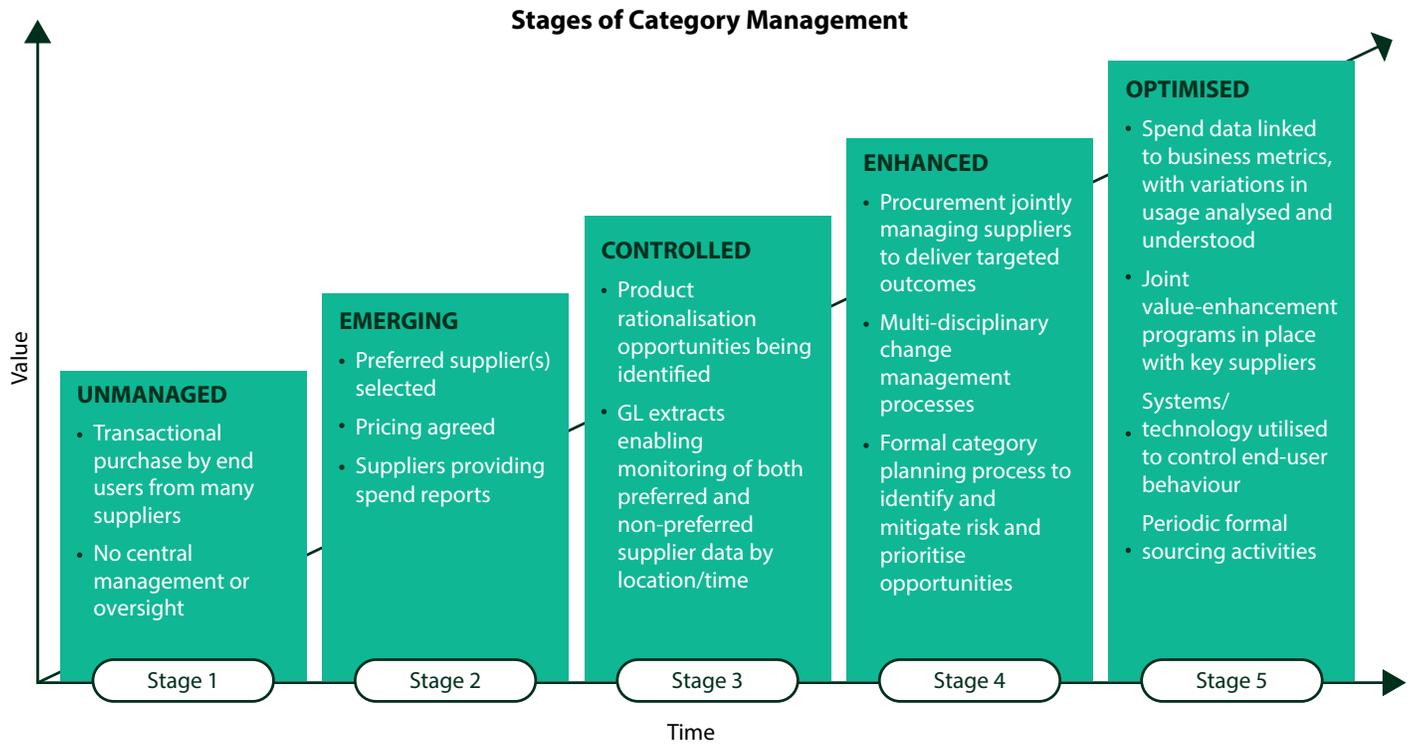
The consumables category can involve complex consumables such as medical consumables, where buyers (doctors, nurses) have strong preferences for particular products and invest time and resources into change management to gain consensus and build support for change. Other consumables

categories, such as office supplies or MRO (maintenance, repair, operations) have a directive approach where staff are directed on which pen to use.

The steps involved in progressing through the maturity curve are broadly the same, however the transition rate towards an optimised state of category

management can be accelerated. Where it takes an organisation 4-5 years to achieve an optimised state for specialised consumables, transition of a generic commoditised category could be delivered much more rapidly.

Figure 1 shows the 5 stages of category management development.





A deep dive into the various stages of category management

Stage 1 – Unmanaged category

Maturity stage	Characteristics	Activities to maximise value
 <p>Unmanaged</p>	<ul style="list-style-type: none"> • End users purchase from multiple suppliers • No central management for price • No oversight of purchasing patterns 	<p>Strategic Sourcing</p> <ul style="list-style-type: none"> • Aggregation of demand and selection of preferred suppliers • Basket of goods defined and leveraged

When wresting control of a consumables category start with strategic sourcing. Identifying key suppliers and releasing a request for information (RFI) to identify the quantity purchased and current cost of each item is critical. This is a baseline to measure benefits derived from the sourcing exercise as well as to get

competitive quotes and select preferred suppliers.

Process complexity is driven by thousands of distinct products typically required. Rationalising the products purchased by the organisation and agree the standard 'basket of goods' is key. Medical

consumables products are mostly subject to clinical preference and the price difference between brands. Therefore, end-user trials are normally required before product substitutions can be recommended which is likely to lead to either a multi-supplier supply model or the use of a comprehensive distributor.

Stage 2 – Emerging category management

Maturity stage	Characteristics	Activities to maximise value
 Emerging	<ul style="list-style-type: none"> • Preferred supplier(s) selected • Pricing agreed • Suppliers providing spend reports 	<p>Implementation</p> <ul style="list-style-type: none"> • Supplier set up • Communicate new processes to relevant staff • Purchasing control of basket of goods <p>Supplier Performance Management</p> <ul style="list-style-type: none"> • Adherence to agreed terms • Simple product selection/substitution opportunities

During the implementation of a preferred supplier arrangement, developing a mindset of continuous improvement is important. This needs ongoing support from key suppliers to manage the category over time, driving a mutually beneficial change. The category manager should initiate and drive key behaviours

that underpin an ongoing collaborative partnership.

A balanced scorecard supplier assessment framework with elements focusses on whether the supplier is delivering on-time and invoicing correctly and product rationalisation, substitution proposals, and risk mitigation strategies. If end-users

are used to having local autonomy over selecting consumables, communicating procurement's expectations under the new supply model is imperative. It is also important to set up a feedback mechanism for staff to advise the procurement team of any concerns that arise during mobilisation.

Stage 3 – Controlled category management

Maturity stage	Characteristics	Activities to maximise value
 Controlled	<ul style="list-style-type: none"> • Procurement working with preferred suppliers to identify rationalisation opportunities • General ledger (GL) extracts enabling monitoring of both preferred and non-preferred supplier data by location/time 	<ul style="list-style-type: none"> • Manage compliance to preferred suppliers • Identify rationalisation opportunities and manage compliance to preferred products • Utilise supplier reporting to ensure rich data on end-user purchasing behaviour • Manage purchases through the use of catalogues

Procurement professionals are unlikely to have technical knowledge about the products being supplied. For instance, the effectiveness of a product, its efficacy compared to alternatives, and compatibility with existing equipment. There are also softer constraints such as whether medical staff have been trained to use specific consumable items. Partnering with the business ensures procurement can effectively:

- evaluate alternatives
- undertake clinical trials
- provide credibility to the recommendation
- operate as a conduit for feedback from any clinician who has concerns about the proposed changes

Having access to good spend data and being able to act on it is key. Medical consumables have a high level of tail spend from non-preferred suppliers, and the associated incremental costs are not just embedded in the unit price difference, but also relate to the logistics/supply chain costs of maintaining a multi-supplier model.

Monthly data-downloads from the accounts payable system enables the review of non-compliant spend by GL category, location and supplier, with the objective of reducing cost by maximising spend with the preferred suppliers. Depending on the size and scale of supply, category managers can get details of specific products being supplied from invoices or by raising a data request.

Talking with staff who use non-preferred suppliers can assist category managers to understand their rationale, and address the roadblocks to transition between preferred suppliers. Staff and various sites may require flexibility to meet specific needs, but this should only occur when no cost effective option with preferred suppliers exists.

Introducing catalogues depends on the sophistication of the organisation's purchasing/ERP system. This can limit end-user choices prior to purchasing commitments being made.

Stage 4 – Enhanced category management

Maturity stage	Characteristics	Activities to maximise value
 Enhanced	<ul style="list-style-type: none"> Procurement jointly managing supplier relationships with functional managers to deliver targeted outcomes Changes are approached in a multi-disciplinary fashion and communicated through both business and SME channels Formal category planning process identifying and mitigating potential supply risks and prioritising opportunities 	<ul style="list-style-type: none"> Enhanced supplier performance management focussed on delivering continuous improvement Targeted cost-down/ process improvement initiatives (including proactive supplier development) Complex multi-disciplinary product selection/ rationalisation process Periodical market testing of pricing with alternative suppliers

Supplier performance management processes focus on targeted product development and more complex product rationalisation. Both parties should focus on developing and maintaining a pipeline of opportunities, identifying the potential benefits associated with proposed changes

and prioritising activity based on the estimated cost or benefit of the initiative. Opportunities arise from proactive supplier development, and directly driven by procurement, key stakeholders, or preferred suppliers. Each case focuses on creating alternatives to high-volume

products with perceived high-margins, or to develop products where current needs are not met by existing products. The possibility of alternatives can be used to introduce competitive tension for existing products, leading to cost reduction or needing to transition products.

Stage 5 – Optimised category management

Maturity stage	Characteristics	Activities to maximise value
 Optimised	<ul style="list-style-type: none"> Spend data linked to business metrics, with variations in usage analysed and understood Joint value-enhancement program in place with key suppliers Systems/technology utilised to control end-user behaviour Periodic formal sourcing activities 	<ul style="list-style-type: none"> Usage analysis underpins demand management initiatives Work with SMEs to agree optimal policy settings Catalogue implemented with strict purchasing controls Conduct competitive sourcing event every 3-4 years

This stage focuses beyond the selection of lowest cost product to meet pre-defined needs, and identifies lowest total cost procedures to deliver a desired clinical outcome. The team should identify centres of excellence that deliver the same outcomes as other sites at lower costs, or identify business units who consume far more of a particular item than other clinics. The key is to identify variations in usage and investigate what is behind them.

For example, variations in the use of gloves. A business unit performing 10% of the client's surgical procedures were consuming 25% of their sterile gloves. The category manager highlighted the anomaly to their operations manager and worked together to identify activities other teams were performing with lower-cost, non-sterile gloves. This resulted in a change to procedures directly leading to a reduction in the use of sterile gloves.

Once the policies are developed, the control of end-user behaviour can be further aligned by tightening controls embedded in the organisation's P2P system, directing purchases to preferred products, and preventing non-compliance. Vending machines with swipe cards or some regularly used items could manage the issue of consumables and drive down purchase volumes through a reduction in wastage.

Conclusion

This paper has presented a staged progression from initial sourcing of medical consumables category through various levels of category management and outlined the value levers available at each level.

It is important to refresh supplier relationships through formal competitive sourcing activities. The use of a multi-stage negotiation process is recommended to ensure that maximum value is extracted. This process also delivers valuable market intelligence from suppliers about opportunities in reducing costs and improving outcomes. This is an ideal opportunity to contractually commit suppliers to aligning their resources to meet your future business needs and set up the relationship for additional 'soft benefits' throughout the contract.



About the Author



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Chris has more than 20 years of experience in procurement services. He has delivered multi-million-dollar cost savings and simplified processes while delivering on product and service quality objectives. Chris has also led managed service and consultancy engagements across multiple clients to deliver procurement sourcing, category management, and process improvement outcomes.

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