Top considerations for category management and sourcing

Category management and sourcing are arguably the most valuable contributions Procurement functions make to their organizations. COVID-19 has created opportunities for Procurement professionals to aggressively pursue category management and sourcing activities to help the organization survive and emerge stronger in the new reality. The following framework outlines high-priority actions for Procurement.

<table>
<thead>
<tr>
<th>Areas</th>
<th>Key questions</th>
<th>Actions</th>
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</thead>
<tbody>
<tr>
<td>Revenue assurance</td>
<td>1. What actions are needed to fulfill demand? Early payments, alternate suppliers, expediting, financial support for your suppliers, and reallocating supply across your business?</td>
<td>Triage of customer orders and demand. Resolution of immediate disruptions</td>
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<td>2. What stabilization in the supply chain and operations is needed to assure the business flows smoothly (e.g., supporting your employees through virtual operations, managing operational disruptions, providing real-time support to all parties)?</td>
<td>Development of alternate sources and stabilization of distressed suppliers</td>
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<tr>
<td>Rapid pricing and negotiation</td>
<td>1. Where can the organization gain immediate price relief on current supply agreements without disrupting supply and accelerating supplier liquidity challenges?</td>
<td>Execute rapid repricing of current supplier agreements across the spend base</td>
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<td>2. How can negotiation strategies be differentiated based on supplier segmentation? If needed, are you willing to support your key suppliers through improved flexibility (e.g., in payment terms)?</td>
<td>Work with strategic suppliers to stabilize their business and support their investments</td>
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<tr>
<td>Optimize supplier portfolio</td>
<td>1. Which suppliers are the most critical and highest risk for your organization? How does your supplier count compare with respect to leading organizations (benchmark: Suppliers per $1 billion in spend – 1,959 Leading and 5,806 Average)?</td>
<td>Assess and monitor the health of business-critical suppliers</td>
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<td>2. What new approaches are needed to better align the capabilities and offerings of your strategic supplier with your business needs?</td>
<td>Segment your supply base and seek consolidation opportunities</td>
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<td></td>
<td>3. What relationship management planning and collaboration will be required to help your strategic suppliers survive and thrive?</td>
<td>Establish secondary sources where necessary</td>
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<td>Strengthen the governance process for supplier selection &amp; management</td>
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<td>Develop and implement processes and technology for improved visibility into your supply base</td>
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<td>Collaborate with your strategic suppliers to shape their capabilities and offerings</td>
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## Topic Insights

**Insight-based sourcing**
1. What should the organization be paying for the material and services that it is procuring?
2. How can the organization take advantage of commodity price adjustments?
3. What changes (e.g., value engineering) can be made to align the cost and capabilities of suppliers to your organizational needs?

**Supply chain repositioning**
1. What regulatory changes may impact your sources of supply?
2. What supply repositioning may be needed to enhance resiliency?
3. As new market and demand patterns emerge, what are the best sources of supply to serve those?

**Demand management**
1. What projects and initiatives can be canceled or delayed?
2. Where can operational activities and demand drivers and specifications be lowered to reduced spend?
3. How can demand drivers be made more visible to the business to enable better decision-making?

### Actions

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<tr>
<th>First 100 days</th>
<th>3 to 12 months</th>
<th>12+ months</th>
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<tbody>
<tr>
<td>Identify commodities and products with a significant difference from target price</td>
<td>Work with suppliers to source based on “should” cost</td>
<td>Pursue value engineering initiatives with suppliers</td>
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<tr>
<td>Identify secondary sources of supply</td>
<td>Develop new category strategies considering new environment and alternate scenarios</td>
<td>Execute supplier selection and sourcing initiatives in support of your category strategy</td>
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<td>Challenge, pause, or cancel unneeded initiatives</td>
<td>Institute more stringent review processes (e.g., approvals for software purchases)</td>
<td>Develop improved collaboration with Finance for cost management</td>
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## What’s next

**KPMG can help you design an effective response strategy and emerge stronger in the new reality.**

### Effective response strategy

- **First 100 days**
  - COVID-19 “War Room”: triage customers and suppliers
  - Rapid contract review
  - Rapid repricing
  - Cash conservation drive

- **3 to 12 months**
  - Rapid cost reduction
  - Supplier risk management
  - Contract compliance management

- **12+ months**
  - Target operating model redesign
  - G&A cost optimization
  - Procurement technology refresh and automation
  - Category strategies and sourcing
  - Supplier portfolio optimization

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