

# Guide to Procurement Categorisation

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## What is a procurement category?

Procurement categories are groupings of similar goods or services with common supply and demand drivers and suppliers. For example, a blood collection tube would be a good in the pathology consumables procurement category.

A procurement category can be defined at any level above a single procurement. Categories will vary according to the size and type of organisation and the supply market. Note: Some health services refer to procurement activities which may encompass the term procurement category but for ease of understanding the term procurement category is intended to cover as noted above 'any level above a single procurement'.

## Why use procurement categories?

Procurement categories can improve procurement processes and increase productivity. Procurement categories allow you to:

- Develop targeted strategies for the best way to procure similar goods or services.
- Get a better picture of procurement spend across your organisation.
- Generate significant discounts.
- Establish aggregated supply arrangements to cover a category of multiple transactions.

For example, rather than approaching different suppliers for different items, work out exactly how much your organisation spends on all Pathology Consumable items and what those items are. You can then develop an agreement with one or a limited number of suppliers to meet your requirements. This approach can generate significant discounts and greater procurement efficiency.

## Procurement categories and sub-categories

Procurement categories should be broad enough to take advantage of market competition. Around ten (10) overarching categories should be sufficient to cover a significant amount of your organisations spend. A category of goods or services may have sub-categories where there is a need for greater differentiation, as follows:

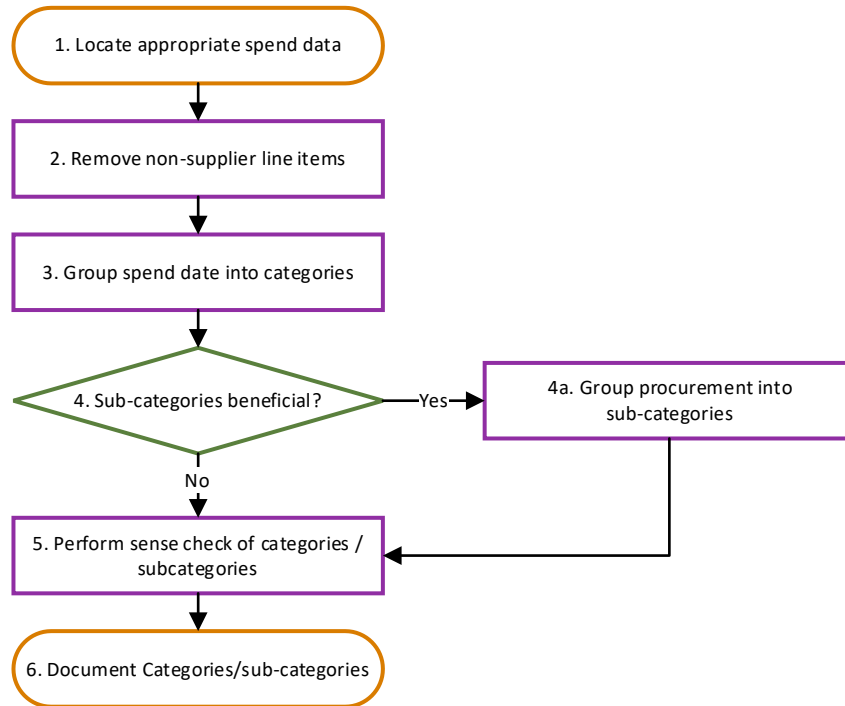
- Category: a group of goods/services with common supply and demand drivers and suppliers.
- Sub-category: a logical subgrouping within a category with similar goods/services/market characteristics.

### Similar definitions of categories may have different sub-categories

For example, a smaller organisation may have a category for professional services, while a larger organisation may need to differentiate between professional services probity auditors and professional services - legal.

*Figure 1* (below) shows how an organisation might assign categories and sub-categories.

**Figure 1:** The main steps in defining categories



## How to define procurement categories

The process for identifying categories involves mapping an organisation/business unit's spend data. Spend mapping and identifying procurement categories should be done by personnel with sufficient knowledge and insight of the spend and procurement activities of the organisation.

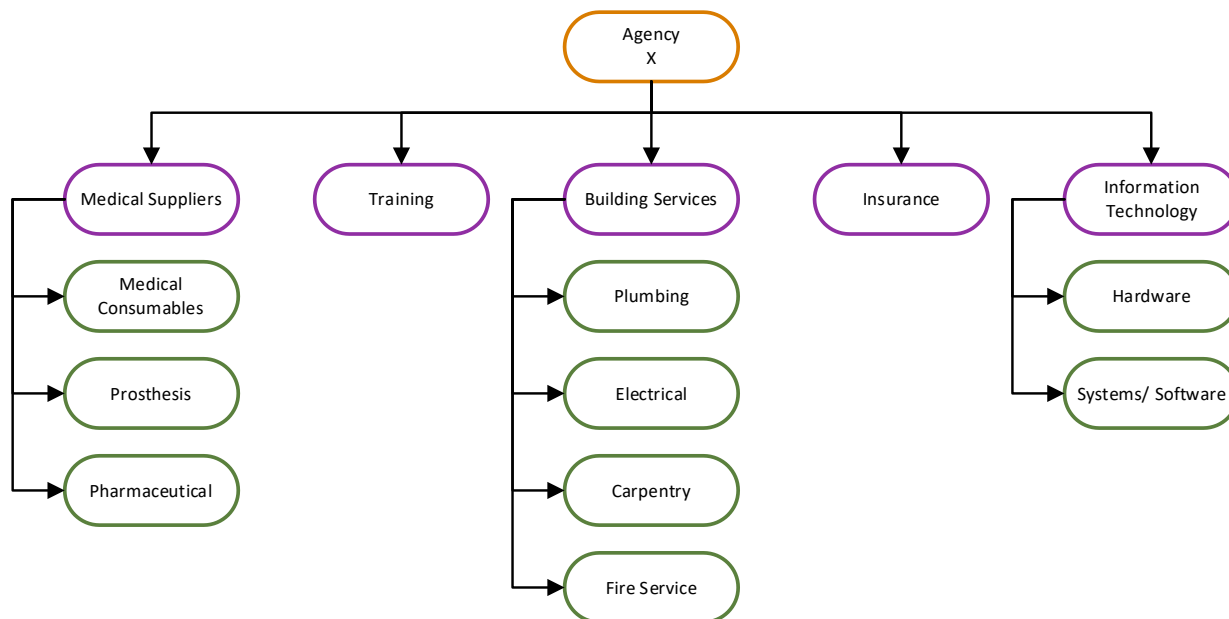
### Procurement categories can change over time

For example, a category may change due to a changing supplier market. In today's market, IT consumables such as memory sticks and compact discs would most likely be categorised under stationary as they are currently supplied at a competitive price by general stationers. Previously they were only procured from IT specialist suppliers.

The categorisation process occurs in conjunction with the organisation's procurement strategy and procurement activity plan.

Figure 2 (below) provides example of defining procurement categories.

Figure 2: Category and sub-category example



## Steps to defining categories

### Step 1: Locate appropriate spend data

Spend data should be sufficiently detailed to identify individual procurement activities. A full year's accounts payable data is an obvious source of information to cover different patterns of spend (seasonal or otherwise) that may occur at particular times of the year. Other sources of data include information from a contracts register, business unit inputs, budgetary processes or suppliers who are managing a contract for a category of goods or services.

Given the complexity of the task, data sourcing and analysis should be carried out by people with the relevant skills and expertise.

#### Transactions are often not described in financial data

You may need to investigate further to categorise appropriately (e.g., using the supplier name or referring to the business owner).

### Step 2: Remove non supplier line items

Delete any non-supplier items from accounts payable data such as wages, balance transfers and any spend that is not covered by the organisation's procurement policy.

### Step 3: Group spend data into categories

Analyse your data at the individual transactional level and start grouping items together on the basis of like spend. You might consider similarity of use, suppliers, and characteristics. Note, one-off transactions of a unique nature may not be easily grouped and may be best suited to their own category.

## Step 4: Are sub-categories beneficial?

Sub-categories enable you to further group similar goods and services so that you can develop targeted strategies that apply across the category group, as opposed to developing a strategy for each individual procurement activity.

## Step 5: Group procurements in categories into sub-categories if beneficial

When creating sub-categories, base your groupings on the criteria listed in *Table 1*.

**Table 1:** Category groupings

Intent of level		Criteria to consider
Category Level	The similarity of goods/services as suggested by their characteristics and use in the organisation.	<ul style="list-style-type: none"><li>• Similar suppliers</li><li>• Similar use</li><li>• Similar characteristics/purpose</li><li>• Similar form (small transactional goods, services, construction, large single item procurements)</li></ul>
Sub-category Level	An additional level that allows organisations to enhance value for money and efficiency of procurement outcomes by considering key supply-market dynamics	<ul style="list-style-type: none"><li>• Similar supply-market dynamics</li><li>• Similar impact of demand aggregation</li><li>• Similar indirect impacts</li><li>• Similar level of sustainability with other goods/services</li><li>• Similar criticality to core business</li><li>• Similar level of customisation</li></ul>

## Step 6: Perform a sense check of categories and sub-categories

Ensure categories and sub-categories are the optimal size and composition by answering these questions:

- Is there an overarching statement which describes the purpose/composition of each category and subcategory?
- Are categories and sub-categories sufficiently different in their purpose and composition?
- Are the majority of procurement activities easily located into a category and sub-category (as required), with the possible exception of unique one off procurement events?
- Are the procurements aggregated into the largest categories possible that are still meaningful and manageable?
- Are the categories understandable to stakeholders?
- If any answers to these questions are 'No' then that suggests further work is needed to refine and improve categorisations. Continue to work on your categories to ensure they are useful and meaningful to your organisation.

## Step 7: Document procurement categories and sub-categories

For completeness, include your categories into your organisation's procurement activity plan.

## More information

Related documents and templates are available on the HSV website.

## Disclaimer

The information presented in this document is general in nature and based on HealthShare Victoria's interpretation of the *Health Services Act 1988 (Vic)* and any ancillary legislation and regulations in effect at the time, and should not be relied upon as legal advice. Please consider seeking professional and independent advice from your legal representative as to the applicability and suitability of this information and the legislation to your own business needs or circumstances.