

CHAPTER 3

Strategic Sourcing and Category Management

3.1 Strategic Sourcing

Strategic sourcing is a procurement approach to drive excellent customer service and efficient use of taxpayers' money. Unlike a transactional-based purchasing approach that responds to a need by initiating a solicitation and executing a contract, a strategic sourcing approach proactively understands the goals and needs of the organization. In the broadest sense, strategic sourcing encompasses supplier management, category management, and operational management and achieves all of the following:

- improves supplier performance and relationships
- reduces total cost of ownership
- drives scale utilization through buy consolidation, specifications standardization, supply base optimization
- promotes data driven decision making
- develops commodity expertise
- enables operational efficiency
- facilitates continuous improvement, and
- generates new solutions and opportunities.

3.2 Category Management

Category Management is a critical part of Strategic Sourcing. It is the process of analyzing the total spend of the State and segmenting the goods and services purchased into discrete groups (categories) of similar or related products. This framework enables an enterprise approach in working collaboratively to optimize the inherent scale of the State in creating greater value for the State of Michigan.

Categories are reviewed and assigned a score based on various criteria such as (1) the annual spend, (2) business process impact, (3) pace of technological change of the goods or services within that category, (4) public safety concern, (5) multi-agency or single agency use of the goods or series, (6) supplier market risk, (7) leveragability, and (8) sensitivity (high profile, prone to compliance issues, etc.) The categories are then segmented into different levels based on the score. The State has identified four category groups with level 4 being the most strategic and level 1 being the least strategic.

3.3 Category Plans

A "Category Plan" is the sourcing plan that details how a good or service will be procured within a category. The Category Plan describes the State's business strategy, supply base strategy, sourcing strategy, sourcing team member responsibilities, and category-specific terms. The Category Plan may have category-specific procurement requirements, exception criteria, and user guides for the goods or services covered under the plan.

The level of the category will drive the complexity and specificity of the Category Plan and the frequency the plans are reviewed and updated. The Central Procurement Office is responsible for identifying the categories that have a Category Plan, the order they will be developed, how often a Category Team will meet, and when the plans will be refreshed.

3.4 Category Teams

A “Category Team” is a cross-agency team of department and agency stakeholders responsible for developing and updating Category Plans, reviewing purchases within the category, and assessing the performance of suppliers within the category.

A Category Team is led by a purchasing professional and one or more business leads, and includes Subject Matter Experts. The roles and responsibilities of the team members are identified as shown below in Table 3.4.:

Table 3.4. Category Team	
Team Member	Role and Responsibilities
Category Sponsor	Owner of the category, provides support and resources to Category Team, and is responsible for updating management and Procurement Leadership Team on progress of the team.
Category Team Leader	A purchasing professional assigned to chair the Category Team. The Category Team Leader is responsible for developing the Category Plan, project plans, and ensuring the Category Team members complete assigned tasks. The Category Team Leader is responsible for completing assigned tasks as well as chairing the Category Team. The Category Team Leader may also serve as Category Sponsor.
Business Lead	The Business Lead is an individual from a department or agency that co-leads the Category Team and provides technical leadership from a business perspective to the Category Team. The Business Lead is responsible for assisting in the development of the Category Plan, represents the need of all departments and agencies, leads development of the Category Plan’s business strategy and communicates the team’s plan to other departments and agencies.
Subject Mater Experts	A Subject Matter Expert is an individual with expertise in the content, or a portion of the content, of the category and participating in Category Team meetings, and completing assigned tasks.