A Journey to Procurement Success through Category Segmentation

PwC
Eric Gray, Manager – US Procurement
Katie Gatchell, Senior Manager – US Procurement
John Fafian, Director – US Procurement
Martin O’Connor, Director – US Procurement
Experience

John leads the Sourcing Strategy and Negotiation team at PwC. He is responsible for $4B in annual spend. He has extensive technology and non-technology sourcing experience including infrastructure, application development, and business process outsourcing on an onshore, near shore, and offshore basis.

Prior to joining PwC, John held a variety of executive sourcing positions in financial services and industry.

Additionally, John is a frequent lecturer on a broad range of areas related to sourcing and outsourcing.

Education and Credentials

• BS– Wharton School, University of Pennsylvania
**Martin O’Connor**  
**Director – US Procurement**

**Experience**

Martin O’Connor is a strategic global Procurement Leader at PricewaterhouseCoopers with extensive experience in financial planning & budgeting, real estate, and sourcing. He is currently the Director of Procurement, leading the Firm’s Real Estate & Office Services Sourcing & Negotiations team. Martin is directly responsible for the procurement services of over $1.2B annual with staff located throughout the globe.

Martin is noted for his ability to move businesses forward through collaborative thinking and relationship building with all levels of management and external suppliers. His customers seek out his versatile and forward thinking, which consistently results in process improvement and cost reduction.

Additionally, Martin is a recognized global leader in the industry and has been a speaker for The Conference Board, SIG, ISM, NSMDC, CoreNet, and BOMA.

**Education and Credentials**

- Sacred Heart University - BS Accounting
- MIT Sloan School of Management - Executive Certificate - Management & Leadership
Experience

Eric Gray is a member of the US Procurement team within the Business Services & Travel tower, which manages over $1.3B in spend annually. Eric’s primary focus is on managing the Global Corporate Card program and strategy along with leading third party data supplier strategies, reporting, savings, and analytics. Eric supports other strategic initiatives across all of procurement, including supplier relationship development and KPI reporting.

Prior to joining PwC, Eric worked in procurement, operations and finance in the Professional Services industry.

Education and Credentials

- Furman University - BA
- Certified Sourcing Professional
Katie Gatchell  
Senior Manager – US Procurement

**Experience**

Katie Gatchell is a passionate Procurement professional currently performing the role of Global Liaison. She is responsible for driving process optimization, system standardization and value synergies across the Americas territories. She is also accountable for any merger and acquisition activities from a Procurement prospective.

Prior to joining the Procurement team, Katie was a member of the Finance team, most recently responsible for Finance Strategy.

Katie also is involved in a wide array of community activities with a focus on youth education. She is a proud board member of the Junior Achievement Circle of Enterprising Women.

**Education and Credentials**

- University of Florida - BA Business Administration
- University of Tampa – Masters Business Administration
- Certified Sourcing Professional
About PwC

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**Procurement Roadmap**

Progression from project driven to process focused mindset via strategic category management

- Establish category segmentation
- Institute making procurement actionable process
- Develop supplier relationship management

- Established strategy and savings review
- Instituted 30 day cycle review meeting
- Evaluated category strategies

- Set shared savings targets
- Generated pipeline report
- Developed category strategies
- Implemented source to pay technology

- Created category structure
- Defined procurement lifecycle process
- Established “buddy system”
Procurement Organization Chart

Define hierarchy

US Procurement

Strategy & Sourcing
- Business Services & Travel
- Professional Services & Human Capital
- Marketing & Communications
- Property & Facilities Management
- IT & Telecom

Operations, Methods & Tools
- Business Systems
- Standard Practice & Scorecard
- Customer Solution & Integration
- Contracts Management
- Compliance & Reporting

Supplier Diversity & Sustainability
- Legal Contracts
- Diversity & Contracts
## Category Structure

**Establish framework**

<table>
<thead>
<tr>
<th>Category</th>
<th>Sub-Category</th>
<th>Tertiary Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Services &amp; Travel</td>
<td>Air</td>
<td>Airfare Individual Travel</td>
</tr>
<tr>
<td>Business Services &amp; Travel</td>
<td>Ground transport</td>
<td>Rental cars &amp; fuel</td>
</tr>
<tr>
<td>Business Services &amp; Travel</td>
<td>Lodging</td>
<td>Hotel travel</td>
</tr>
<tr>
<td>Business Services &amp; Travel</td>
<td>Meetings &amp; Events</td>
<td>Audio Visual</td>
</tr>
<tr>
<td>Business Services &amp; Travel</td>
<td>Travel agency fees</td>
<td>Travel agency services &amp; fees</td>
</tr>
<tr>
<td>IT &amp; Telecommunications</td>
<td>Data center operations</td>
<td>Data Center &amp; installation services</td>
</tr>
<tr>
<td>IT &amp; Telecommunications</td>
<td>Hardware</td>
<td>Laptops, tablets, computers</td>
</tr>
<tr>
<td>IT &amp; Telecommunications</td>
<td>Software</td>
<td>Purchased / leased software</td>
</tr>
<tr>
<td>IT &amp; Telecommunications</td>
<td>Software</td>
<td>Software usage fees</td>
</tr>
<tr>
<td>IT &amp; Telecommunications</td>
<td>Telecomm &amp; data &amp; land lines</td>
<td>Long Distance Calls</td>
</tr>
<tr>
<td>Marketing &amp; Communications</td>
<td>Advertising &amp; Media</td>
<td>Direct Media Buys</td>
</tr>
<tr>
<td>Marketing &amp; Communications</td>
<td>Branding</td>
<td>Agency fees (Visual)</td>
</tr>
<tr>
<td>Marketing &amp; Communications</td>
<td>Business Information</td>
<td>Subscriptions, publications, reference materials</td>
</tr>
<tr>
<td>Marketing &amp; Communications</td>
<td>Merchandise</td>
<td>Branded Merchandise, Staff Anniversary, Gifts</td>
</tr>
<tr>
<td>Marketing &amp; Communications</td>
<td>Sponsorships &amp; Entertainment</td>
<td>Sporting &amp; Cultural Events</td>
</tr>
<tr>
<td>Professional Services &amp; Human Capital</td>
<td>Benefits</td>
<td>Health, welfare, workers compensation</td>
</tr>
<tr>
<td>Professional Services &amp; Human Capital</td>
<td>Legal</td>
<td>Legal fees &amp; services</td>
</tr>
<tr>
<td>Professional Services &amp; Human Capital</td>
<td>Mobility - International &amp; Domestic</td>
<td>Relocation costs</td>
</tr>
<tr>
<td>Professional Services &amp; Human Capital</td>
<td>Recruitment</td>
<td>Agency Fees</td>
</tr>
<tr>
<td>Professional Services &amp; Human Capital</td>
<td>Training</td>
<td>External seminars &amp; conferences</td>
</tr>
<tr>
<td>Property &amp; Facilities Management</td>
<td>Catering / Cafeteria &amp; food services</td>
<td></td>
</tr>
<tr>
<td>Property &amp; Facilities Management</td>
<td>Mail machines</td>
<td></td>
</tr>
<tr>
<td>Property &amp; Facilities Management</td>
<td>Facilities Maintenance</td>
<td></td>
</tr>
<tr>
<td>Property &amp; Facilities Management</td>
<td>Mail machines</td>
<td></td>
</tr>
</tbody>
</table>
Category Segmentation Approach
Depict each class visually

- **Strategic**: High Business Impact, High Category Spend
- **Business Critical**: High Business Impact, Low to Medium Category Spend
- **Standard**: Low Business Impact, High to Low Category Spend
**Category Segmentation Approach**  
Classify tertiary categories using defined attributes

### Segmentation Attributes

#### Business Impact
- Goods and services critical to firm performance
- Uniqueness of goods or services creates differentiation to the firm
  - Opportunities for asset / cost-effectiveness, brand improvement, service improvement, marketing advantage and profit growth
- Difficulty of implementation of goods or services (level of effort)

#### Category Spend
- Amount of money directly spent in the Category
  - Includes the ability to offer ancillary costs / benefits (i.e. rewards programs)
- Cost of change
- Market landscape (monopoly to open market)

### Segmentation Class

#### Strategic
- Categories that are critical to long term success
- “Partnership” mindset – would allow to create succinct business value
- Significant spend

#### Business Critical
- Key group of Categories, difficult to replace
- Integrated involvement with process and activities
- Minimal / Moderate spend

#### Standard
- Standardized practice
- Goods and services that do not contribute to strategic differentiation
- Minimal / Moderate spend
Category Segmentation Approach
Manage expectations from each segmentation class

Segmentation Class
- Strategic

Class Definitions
- Categories that are critical to long term success
- "Partnership" mindset - would allow to create succinct business value
- Significant spend

Activities Definitions
- Comprehensive sourcing strategy in place
- High level of coordination with stakeholders and cross-functional teams
- Focus is on managing the firm operations with the supplier, not just managing the supplier
- Strategy & Sourcing Director approves suppliers to source
- Standard Supplier registration process
- Category with few approved suppliers
- Full visibility of spend and performance reporting
- Procurement Leadership, Tower Director, and Buyer are the negotiating and contracting voice to the supplier
- Monthly supplier performance reviews
Category Segmentation Approach

Manage expectations from each segmentation class

Segmentation Class

Business Critical

Class Definitions

• Key group of Categories, difficult to replace
• Integrated involvement with process and activities
• Minimal / Moderate spend

Activities Definitions

• Rudimentary sourcing strategy in place
• Collaboration with stakeholders to understand requirements
• Tower Director approves suppliers to source
• Standard supplier registration process
• Category with a handful of approved suppliers
• Visibility of spend and performance reporting
• Tower Director and team is the negotiating and contracting voice to the suppliers
• Quarterly supplier performance reviews
**Category Segmentation Approach**

Manage expectations from each segmentation class

### Segmentation Class
- **Standard**

### Class Definitions
- Standardized practice
- Goods and services that do not contribute to strategic differentiation
- Minimal / Moderate spend

### Activities Definitions
- No or limited strategy – tactical
- Transactional mindset "bid & buy"
- Little coordination with stakeholders
- Buyer approves suppliers to source
- Suppliers register with basic info / payment details
- Category with potentially multiple approved suppliers
- Basic spend analysis to target savings/avoidance opportunities through bidding
- Lead buyer is the negotiating and contracting voice to the supplier
- Yearly supplier performance reviews
Category Segmentation Model (example)

Derive a score for each tertiary category via a systematic method

<table>
<thead>
<tr>
<th>Example</th>
<th>Category</th>
<th>Sub-Category</th>
<th>Tertiary Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (BST)</td>
<td>Business Services &amp; Travel</td>
<td>Air</td>
<td>Individual Airfare Travel</td>
</tr>
<tr>
<td>2 (PFM)</td>
<td>Property &amp; Facilities Management</td>
<td>Facilities Maintenance</td>
<td>Janitorial Cleaning</td>
</tr>
<tr>
<td>3 (ITT)</td>
<td>IT &amp; Telecommunication</td>
<td>Data Center Operations</td>
<td>Data Center &amp; Installation Services</td>
</tr>
</tbody>
</table>

### Business Impact

<table>
<thead>
<tr>
<th>Example</th>
<th>KPI 1</th>
<th>KPI 2</th>
<th>KPI 3</th>
<th>Business Impact Total Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (BST)</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>2 (PFM)</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>3 (ITT)</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td>8</td>
</tr>
</tbody>
</table>

LEAST (1) – MOST (5)

### Category Spend

<table>
<thead>
<tr>
<th>Example</th>
<th>CY15 Spend</th>
<th>Spend Level</th>
<th>Cost of Change</th>
<th>Est. # of Viable Suppliers</th>
<th>Supplier Count Level</th>
<th>Category Spend Total Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (BST)</td>
<td>$200M</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>2 (PFM)</td>
<td>$1M</td>
<td>1</td>
<td>1</td>
<td>7</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>3 (ITT)</td>
<td>$3M</td>
<td>1</td>
<td>5</td>
<td>10</td>
<td>4</td>
<td>10</td>
</tr>
</tbody>
</table>

Spend Level rank automatically populated based on set spend parameters
Supplier Count Level rank automatically populated based on set supplier parameters

- Category segmentation analysis completed on a tertiary category level in determining the value the category provides the firm
- In combination with your category leaders, their team, and alongside operational partners, define and rank each tertiary category for business and spend impact
- Business Impact defined as effect on both business operations and firm employees
- Uses a subjective scale of 1-5 with 1 representing the least and 5 representing the most
- Category Spend includes both financial impact to the firm and supplier market
- Spend and Supplier Count level is a formula based on parameters established
Category Segmentation Model (example)
Plot tertiary categories using the derived scores

Highlights

- Excel bubble graph used to spot categories on segmentation matrix
- Business Impact is plotted along the Y-axis, while Category spend is plotted along the X-axis
- Where the two plots meet represents where the tertiary category falls on the matrix
- Determining where the Segmentation zones begin/end on the matrix is subjective

<table>
<thead>
<tr>
<th>Tertiary Segmentation Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note: Target Zone is Manually Drawn for Display Purposes Only</td>
</tr>
</tbody>
</table>

Air Travel Example: Business Impact Score: 12
Category Spend Score: 14

Strategic

Business Critical

Standard

Data Center & Installation Services

Janitorial Cleaning

Air Travel
**Initial Findings**

Adjust approach based on preliminary results

- Reclassify tertiary categories if necessary
- Correct categorization of supplier spend to avoid skewed results
- Define ratings to eliminate subjectivity
- Pilot with a few tertiary categories to test the model
- Obtain input from operational partners
- Amend tertiary spend and market landscape levels in the model depending on the output
- Adjust segmentation zones on output graph
**Segmentation Progression**

**In process**

- **Data Cleanup & Reclassification**
  - Existing tertiary top 10 suppliers & top 25% spend review
  - Spend reclassification

- **Tertiary Categories Redefined**
  - Finalize new tertiary category listing

- **System Enhancements**
  - Impacts most tools
  - Bundle changes due to cost and change mgmt
  - 3rd party dependencies

- **Segmentation**
  - Finalize KPI definitions and potential weighting
  - Complete segmentation process once redefined tertiary categories are operationalized

- **Completed**
- **Completed**
- **In process**
- **In process**
## Segmentation Progression

Adjust definitions, parameters, and weighting based on preliminary results

<table>
<thead>
<tr>
<th>KPI #</th>
<th>KPI Description</th>
<th>Test Parameters</th>
<th>Revised Parameters</th>
</tr>
</thead>
</table>
| KPI 1 | **Goods and Services critical to firm performance** | **Criticality:**  
Least critical = 1  
Medium critical = 3  
Most critical = 5 | 1 = No disruption to firm achieving objectives; various alternatives available  
2 = Minimal disruption to firm achieving objectives; various alternatives available  
3 = Moderate disruption to firm achieving objectives; minimal alternatives available  
4 = Significant disruption to firm achieving objectives; few alternatives available  
5 = Complete disruption to firm achieving objectives; no alternatives available (monopoly) |
| KPI 2 | Uniqueness of goods and services created a differentiation to the firm  
*Does this create a competitive advantage?** | **Uniqueness:**  
Least unique = 1  
Medium uniqueness = 3  
Most unique = 5 | 1 = No competitive advantage (off-the-shelf goods/services)  
2 = Minimal competitive advantage (modified off-the-shelf goods/services)  
3 = Moderate competitive advantage (alternative goods/services)  
4 = Significant competitive advantage (niche goods/services)  
5 = Complete competitive advantage (custom or monopoly goods/services) |
| KPI 3 | **Difficulty of implementation of goods or services**  
*Risk and effort** | **Implementation:**  
Least difficult = 1  
Medium difficulty = 3  
Most difficult = 5 | 1 = No change management effort required  
2 = Minimal change management effort required  
3 = Moderate change management effort required  
4 = Significant change management effort required  
5 = Extreme change management effort required |

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| KPI 1 | **Tertiary Spend per Internal System** | **Spend:**  
< $5M = 1  
$5.1M - $15M = 2  
$15.1M - $25M = 3  
$25.1M - $100M = 4  
+$100.1M = 5 | **TBD based upon review of internal system report** |
| KPI 2 | **Cost of Change**  
*Financially and time** | **Change:**  
Least change = 1  
Medium change = 3  
Most change = 5 | 1 = No financial impact to change suppliers or immediate implementation  
2 = Minimal financial impact to change suppliers or less than 6 months implementation  
3 = Moderate financial impact to change suppliers or 6-12 months implementation  
4 = Significant financial impact to change suppliers or 12-24 months implementation  
5 = Extreme financial impact to change suppliers or 24 months+ implementation |
| KPI 3 | **Market Landscape**  
*Estimated # of viable suppliers** | **Supplier Count:**  
25+ Suppliers = 1  
16 - 24 Suppliers = 2  
11 - 15 Suppliers = 3  
6 - 10 Suppliers = 4  
1 - 5 Suppliers = 5 | **TBD** - The pricing leverage we have with the supply base; the fewer the # of suppliers, the harder it is to drive competition |
# Category Segmentation Benefits

## Achieve value

<table>
<thead>
<tr>
<th>Category Segmentation facilitates:</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔ Understanding the value the category provides the firm both operationally and financially</td>
</tr>
<tr>
<td>✔ Prioritizing upcoming procurement activities based on category criticality to the firm</td>
</tr>
<tr>
<td>✔ Ensuring that proper strategies have been put in place for the different category segmentation levels</td>
</tr>
<tr>
<td>✔ Re-evaluating how categories are managed</td>
</tr>
<tr>
<td>✔ Providing insight into whom in the organization is able to approve a supplier to source</td>
</tr>
<tr>
<td>✔ Analyzing the overall tertiary categories by procurement tower</td>
</tr>
<tr>
<td>✔ Investigating opportunities for consolidation or reduction in management and spend</td>
</tr>
<tr>
<td>✔ Leverage segmentation model across Americas</td>
</tr>
</tbody>
</table>
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Thank you!

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3. Select **Day**
4. Select **Session**
5. Scroll to **Description**
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2. Select **Session (#21)**

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Session #21

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