

CATEGORY MANAGEMENT IS DEAD

WHAT COMES NEXT?



Dr. Elouise Epstein explains, akirolabs is on a trajectory to eliminate much of the category management function as we know it today

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Executive Summary

Traditional category management has reached a pivotal juncture in an era marked by rapid technological advancements, shifting business priorities, and increasingly complex global supply chains. "Category Management is DEAD: What Comes Next?" is a crucial guide for procurement professionals and leaders navigating the transformation from outdated practices to innovative, strategic approaches aligning with broader business goals.

This eBook opens with a compelling argument for why traditional category management is no longer adequate. The increased complexity of supply chains, coupled with the heightened emphasis on sustainability, innovation, and risk management, has rendered old models such as Kraljic Matrix and power game-based approaches insufficient. The procurement landscape has evolved, demanding a more holistic and integrated approach.

Central to this transformation is the introduction of Strategic Business Scenario Modelling (SBSM). This forward-looking methodology allows procurement teams to anticipate future market conditions and align their strategies with overarching business objectives. By considering multiple dimensions such as cost, sustainability, resilience and many more, SBSM provides a comprehensive framework for decision-making that goes beyond mere cost savings.

Digital transformation plays a pivotal role in this new era of procurement. The eBook explores how augmentation achieved through artificial intelligence, machine learning, and advanced analytics revolutionize procurement processes. These technologies enable data-driven decision-making, enhance efficiency, and foster innovation. The rationale behind why AI automation can not be the driving force behind strategic procurement and category management is also explained in detail while exploring why combining AI / Machine Intelligence with human intelligence a.k.a Augmentation is the key to driving transformation in this particular area of procurement.

Cross-functional collaboration also emerges as a critical theme. The eBook advocates for early and active engagement with stakeholders across various departments. This collaborative approach ensures that procurement decisions are aligned with the strategic goals of the entire organization, breaking down silos and fostering a unified strategy.

Looking ahead, "Category Management is DEAD: What Comes Next?" envisions a future where procurement functions as a strategic partner, fully integrated with business objectives and capable of driving significant value. By adopting digital tools and innovative methodologies, procurement professionals can ensure their practices remain relevant and pivotal to their organization's success.

In conclusion, this eBook is an indispensable resource for those seeking to modernize their procurement practices. It challenges the status quo, encourages innovation, and provides practical strategies for navigating the future of procurement. Embrace this transformation, and equip yourself with the knowledge and tools to drive your organization toward success in the new era of procurement.

Introduction

The Purpose of This eBook

This eBook aims to guide procurement professionals through the transformation of category management. We will explore why the traditional model is no longer sufficient and introduce innovative approaches that align procurement with broader business objectives. This eBook provides practical strategies and tools for modernizing category management by leveraging insights from leading experts and real-world case studies.

We aim to equip you with the knowledge and resources needed to drive value beyond cost savings, enhance supplier relationships, and contribute to your organization's overall success. Whether you are just beginning your procurement journey or looking to elevate your existing practices, this eBook offers valuable insights for navigating the future of procurement.

We will delve into the decline of traditional category management, examine the challenges facing modern procurement, and introduce new methodologies such as Strategic Business Scenario Modelling (SBSM). Additionally, we will explore the role of digital transformation, the importance of aligning procurement with business strategy, and future trends that will shape the industry. Moreover, we will discuss artificial intelligence's (AI) pivotal role in transforming procurement and category management.

As you read this E-book, we invite you to challenge the status quo, embrace innovation, and reimagine what category management can achieve. The time for change is now, and this eBook is your roadmap to success in the new era of procurement.

Why Category Management is at a Crossroads

In the ever-evolving procurement landscape, category management stands at a critical juncture. Once hailed as a revolutionary approach to streamline procurement processes and maximize value, category management is now facing significant challenges. The rapid pace of technological advancements, the increasing complexity of global supply chains, and shifting business priorities have rendered traditional category management practices less effective. The need for a transformation is more urgent than ever.

Strategic Procurement has traditionally focused on segmenting spend into categories and managing them to achieve cost savings and efficiency. However, this approach, often seen as administrative, is no longer sufficient to meet the demands of modern procurement. Organizations must now navigate a landscape marked by volatility, uncertainty, and complexity, where risk management, sustainability, and innovation are paramount. As procurement professionals grapple with these challenges, it becomes clear that a new approach is needed—one that transcends the limitations of traditional category management and embraces a more strategic, integrated, and forward-looking perspective.



The need for transformation in Category Management is more urgent than ever

The Rise and Fall of Category Management

An Analogy Through Global Technological Milestones

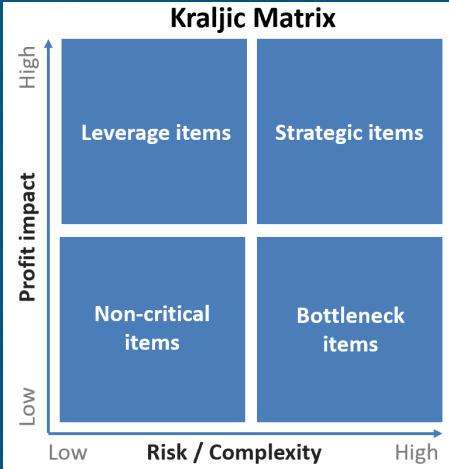
In the transformative year of 1983, the technological and strategic landscapes witnessed pivotal shifts. The Motorola DynaTAC 8000X, the first commercial mobile phone, was approved by the Federal Communications Commission (FCC), marking a significant milestone in communication technology. Despite its hefty price of nearly \$4000, substantial weight, and limited functionality, the DynaTAC found its place in the market, symbolizing a step towards mobile connectivity.

Parallely, the music industry basked in the zenith of vinyl record sales, only to later be eclipsed by CDs, signalling the relentless march of technological progression. This year also saw the introduction of the Kraljic / Supply Power Matrix, conceptualized by Peter Kraljic and later spotlighted in the Harvard Business Review. This matrix, which categorizes spend based on supply market complexity and purchasing importance, became a foundational framework in strategic purchasing and commodity group management, maintaining its relevance even four decades later.

Fast forward to 1985, the concept of time travel was popularized in pop culture by Doc Brown and his iconic modified DeLorean in the cinematic universe. His adventures through various epochs alongside Marty McFly captivated audiences and subtly mirrored the rapid evolution and reinvention witnessed in the telecommunications and music industries over the subsequent decades. The eventual convergence of these industries, through platforms like iOS and Android smartphones and streaming services like Spotify, epitomizes the transformative power of technological innovation.

Celebrating 40 Years of Legacy

As we now reflect on the 40th anniversary of these milestones in 2024, a critical examination emerges regarding the sustained relevance and application of the Kraljic Matrix and its derivative, the Procurement Chessboard, in contemporary strategic procurement. In a world that has witnessed dramatic revolutions in global markets, economies, and companies, the question arises: Why do these concepts from 1983 still significantly influence strategic purchasing today?



Kraljic's Matrix

Understanding Category Management

Category management is a strategic approach to procurement where products and services are segmented into discrete categories. Each category is treated as a mini-business with its own set of strategies and objectives. The primary aim is to optimize spending and manage supplier relationships effectively to deliver the highest value to the organization.

Category management emerged during the early 1980s as a response to the need for more structured and strategic procurement practices. It provided organizations with a systematic way to segment their spend into categories and manage each to maximize value. The initial success of category management was driven by its ability to streamline procurement processes, achieve cost savings, and enhance supplier relationships. However, as the business environment evolved, the limitations of traditional category management became increasingly apparent.

What Threatens the Very Existence of Traditional Category Management as We Know Today

As the business environment is evolving continuously, several key factors are contributing to the decline of traditional category management, and pushing for a reinvented and future-ready approach to category management.

Increased Complexity of Supply Chains:

Globalization has expanded supply chains, making them more complex and interconnected. Traditional category management, with its focus on individual categories, often fails to address the broader, systemic issues that arise in global supply networks. This complexity demands a more holistic and integrated approach.

Shifting Business Priorities: Modern businesses prioritize more than just cost savings. Issues such as sustainability, innovation, risk management, and supplier diversity have become critical. Traditional category management's narrow focus on cost efficiency does not align well with these broader business goals, limiting its strategic value.

Technological Advancements: The digital revolution has reshaped business operations, introducing technologies like artificial intelligence (AI), machine learning, and advanced analytics for more efficient procurement management. Traditional category management remains outdated, relying on manual strategies and presentations, missing the benefits of digital transformation.

Changing Regulatory Landscape: Increasingly stringent regulations around sustainability, labor practices, and supply chain transparency require more comprehensive oversight. Traditional category management processes are not equipped to handle the complexity and dynamism of modern regulatory requirements.

Outdated Frameworks: The Kraljic Matrix and Procurement Chessboard: The Kraljic Matrix has long been a staple in strategic purchasing, offering a structured way to classify and manage procurement activities. The matrix categorizes purchases into four quadrants based on supply risk and profit impact. However, these frameworks provide only a horizontal view across vertical business units, restricting procurement within its ivory tower.



Traditional category management is threatened by the increasing complexity of supply chains, shifting business priorities, technological advancements, changing regulatory landscapes, and outdated frameworks like the Kraljic Matrix.

Diving Deeper into the Old-School Methods

The Kraljic Matrix

The Kraljic Matrix has long been a staple in strategic purchasing, offering a structured way to classify and manage procurement activities. The matrix categorizes purchases into four quadrants based on supply risk and profit impact:

Non-core (Non-critical) Components: These are elements that exert a minimal impact on the business and are readily available in low-risk markets. Typically, the management of these components is delegated due to their lower strategic importance.

Leverage Components: These are vital for the company and are situated in low-risk markets with abundant availability. The company usually leverages its bargaining power and capitalizes on the plentiful supply through frequent negotiations to ensure optimal management of these purchasing categories.

Bottleneck Components: These have a marginal economic impact but pose a risk in terms of supply continuity. The strategy here leans towards establishing medium-term relationships between the supplier and customer to assure supply, often with a lesser focus on cost management.

Strategic Components: These are crucial for the company in both economic impact and delivery conditions, especially when sourced from complex or high-risk markets.

Strategies for these components encompass a medium to long-term horizon, continuous market analysis, technical development tracking, "make or buy" evaluations, alternative creation, and fostering stable, cooperative relationships with suppliers.

Analyzing the Practicality and Limitations of the Kraljic Matrix

While the Kraljic Matrix has ostensibly maintained a stronghold on strategic purchasing for four decades, a critical examination of its concepts raises pivotal questions about its sustained relevance in the modern procurement landscape. The matrix, with its focus squarely on the relative market power of buying and selling companies, offers a somewhat myopic purchasing perspective.

The segmentation into four quadrants, while determining the commodity group strategy, inadvertently decouples purchasing from the varied objectives of different business units (BUs). This narrow "power-play" approach and the horizontal orientation of the product groups force procurement to look across vertical business units in a manner that focuses predominantly on economies of scale and commercial savings.

This perspective decouples procurement from the actual business strategy,

leading to frustration among stakeholders who believe procurement is not delivering what they expect. It also frustrates procurement professionals who aspire to have a seat at the board table and contribute more strategically to the organization.

Not only does this approach undermine the long-standing ambition of purchasing to secure a seat at the "board table," but it also, crucially, does not directly contribute to, and in some instances even overlooks, the strategic corporate and BU goals.

Reflecting on Ruskin's Economic Law

In juxtaposition with the Kraljic Matrix, the 19th-century philosopher and social reformer John Ruskin's Law of Economics offers a timeless perspective on value and cost. Ruskin astutely observed: "There is hardly anything in this world that someone could not make a little worse and sell a little cheaper."

He cautioned against the perils of price-driven decisions, highlighting that paying too little could risk losing everything if the purchased item fails to perform its intended function. Ruskin's law underscores the impossibility of obtaining substantial value for minimal money, suggesting that if you opt for the lowest offer, you must account for the risk and potentially, have enough to pay for something better.

The Procurement Chessboard

The Procurement Chessboard, developed based on the Kraljic Matrix, employs 16 suitable value levers per Kraljic Quadrant, intended to implement the commodity group strategy. However, upon closer examination, especially considering the previously discussed example, it becomes apparent that the chessboard, much like the Kraljic Matrix, also adopts a rather narrow market power perspective.

Although the chessboard does provide a value lever for "innovation", it is positioned in the bottleneck segment. Consequently, innovation is utilized merely as a tool to circumvent commercial dependence on a supplier, especially one with relatively high market power in comparison to the purchasing company.

This approach results in innovation being decoupled from the overarching BU strategy. Ideally, purchasing should contribute to the innovation, sustainability, and/or agility line of the BU with all suitable commodity groups, irrespective of the Kraljic segment in which a commodity group is categorized for market power considerations.

Identifying Misalignments with Business Goals

Why is "supply market intelligence" and "RFP & RFI" limited only to leveraged commodity groups?

Why are "Compliance Management", "Contract Management", and "Spend Transparency" restricted only to routine product groups?

Why are "Sustainability" and "Supplier Development" confined only to strategic product groups?

A few examples illustrate the misalignment of the chessboard levers with overarching business goals: The resounding answer to these queries is that traditional approaches CANNOT adequately explain these limitations

Hence, these limitations underscore a critical need for reevaluation and revolutionization of the procurement process.



The decline of traditional category management is evident in several real-world scenarios where companies clung to outdated practices, resulting in missed opportunities and strategic failures.

Real-World Examples of Failures : Retail

A major global retailer relied heavily on traditional category management to drive down costs. However, when a natural disaster struck a key supplier region, the company faced severe supply chain disruptions. The rigid category-focused approach failed to provide the flexibility needed to quickly adapt and source from alternative suppliers, leading to significant financial losses and operational delays.

Real-World Examples of Failures : Electronics Manufacturing

An electronics manufacturer focused primarily on cost savings through traditional category management. Over time, this approach stifled innovation as the procurement team prioritized low-cost suppliers over those offering innovative solutions. The lack of collaboration with suppliers resulted in a stagnant product line and a loss of competitive edge in the market.



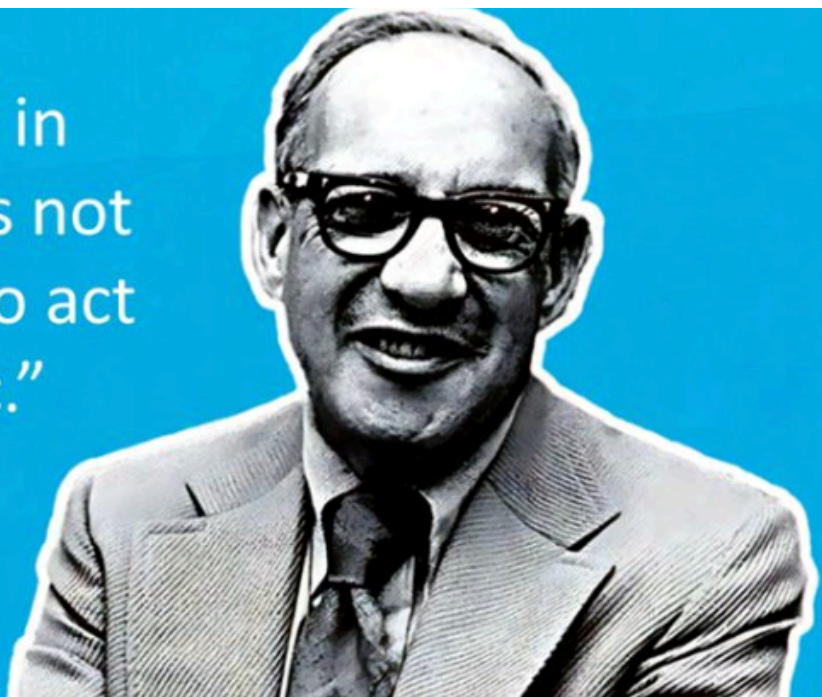
Conclusion: DON'T Act with Yesterday's logic

Peter Drucker wisely observed, **“The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday's logic.”** This quote captures the essence of the current challenges facing category management. The collapse of traditional category management highlights the urgent need for a more integrated, strategic, and technology-enabled approach. While old-school methods like the Kraljic Matrix and the Procurement Chessboard have served well in the past, their limitations are becoming increasingly apparent in today's complex and dynamic business environment.

Traditional frameworks, though still valuable, no longer suffice alone. There is ample room for improvement, and it is now crucial to embrace new methodologies and technologies to stay competitive. It's not time to panic, but it is time to act with urgency and foresight. Global CPOs are acutely aware of these challenges and are actively seeking ways to transform their category management practices. Many are already making significant strides in this direction. As we move forward in this eBook, we will explore how these modern procurement challenges, including technological advancements and shifting business priorities, necessitate a new approach.

“The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday's logic.”

Peter F. Drucker
(1909 – 2005)





[Click Here to Watch akirolabs' CEO Explain Why Kraljic Matrix is Outdated](#)



Modern Procurement Challenges

The Impact of Global Events

Global events have profoundly impacted procurement strategies and operations, underscoring the need for more resilient and adaptive procurement practices. The COVID-19 pandemic, for instance, revealed significant vulnerabilities in global supply chains, resulting in increased lead times, supply shortages, and higher costs. Organizations were forced to diversify their supply sources, increase inventory levels, and strengthen supplier relationships to mitigate these disruptions.

Geopolitical tensions, such as trade wars and regulatory changes, have also posed significant challenges to procurement. Trade restrictions and tariffs have necessitated adjustments in sourcing strategies, prompting companies to explore alternative markets and relocate production facilities. Additionally, geopolitical uncertainties have heightened the importance of enhancing compliance efforts to ensure adherence to evolving regulations.

Climate change and sustainability concerns have further shaped procurement priorities. With growing regulatory pressures and changing consumer preferences, organizations are increasingly incorporating sustainability into their procurement decisions. This shift involves investing in green technologies, collaborating with sustainable suppliers, and adopting practices that minimize environmental impact. Integrating sustainability into procurement not only meets regulatory requirements but also aligns with broader corporate social responsibility goals.

Evolving Business Priorities: Sustainability, Risk Management, and Innovation

As business priorities evolve, procurement must adapt to address new challenges and opportunities. Sustainability has emerged as a critical focus, driven by regulatory requirements, consumer demand, and the need to mitigate environmental risks. Modern procurement strategies now prioritize sustainable sourcing, reducing carbon footprints, and promoting ethical practices throughout the supply chain. This evolution reflects a shift from traditional cost-centric approaches to a more holistic view that balances economic, environmental, and social considerations.



In the face of global disruptions, strategic procurement practices are essential for building resilience and mitigating vulnerabilities in supply chains

Risk management has also become paramount. The complex and interconnected nature of global supply chains exposes organizations to various risks, including supplier insolvencies, geopolitical disruptions, and natural disasters. Effective risk management involves identifying potential risks, assessing their impact, and implementing strategies to mitigate them. This proactive approach enhances supply chain resilience and ensures business continuity in the face of unforeseen events.

Innovation is another key priority driving modern procurement practices. Organizations increasingly recognize the value of leveraging innovative technologies to gain a competitive edge. Artificial intelligence (AI), machine learning, blockchain, and advanced analytics are revolutionizing procurement processes, enabling data-driven decision-making, improving efficiency, and enhancing transparency. Embracing digital transformation allows procurement to optimize operations, drive cost savings, and unlock new opportunities for value creation.

Understanding Different Procurement Maturity Levels

Procurement maturity levels vary across organizations, reflecting their strategic focus and operational capabilities. Understanding these maturity levels is essential for identifying strengths, addressing weaknesses, and charting a path for improvement. The maturity levels can be categorized based on the nature of the processes and their strategic alignment with organizational goals.

Support Function Focus (Operational P2P)

At the Operational level, procurement focuses on the fundamental aspects of the purchase-to-pay cycle. This includes transactional activities such as requisitioning, ordering, receiving, and payment processing. The primary goal is to ensure that the right materials are available at the right time and at the lowest possible cost. Procurement at this stage is largely reactive and administrative, emphasizing maintaining smooth operations and cost control.

Procurement acts as a support function to the business, handling administrative tasks without being actively involved in shaping or driving the business forward. The role of procurement is limited to ensuring compliance, managing supplier performance, and processing transactions efficiently, but it does not play a significant role in strategic business planning.

Cost Cutter Focus (Tactical S2C)

At the Tactical level, procurement starts to incorporate more structured planning and strategic sourcing initiatives. The focus shifts from purely transactional tasks to cost-cutting measures and better supplier management. Procurement activities become more structured with the introduction of planning and strategic sourcing, emphasizing negotiation and procurement of materials.

Despite this structured approach, the emphasis remains on short-term cost savings rather than aligning procurement with broader business objectives. The tactical level often involves the aggressive pursuit of cost reductions through competitive bidding, contract management, and basic risk assessment, but it tends to remain isolated from other business functions, limiting its strategic impact.

Strategic Sourcing: Siloed Power Game & Category Management Focus

At the Strategic level, procurement activities aim to align more closely with business strategies. The focus is on managing categories to optimize savings and support long-term organizational goals.

However, traditional category management begins to evolve but often remains within a siloed framework. While procurement efforts are intended to align with business strategies, they tend to focus primarily on cost efficiency and leverage, reflecting a more tactical than strategic approach.

Procurement at this stage tends to operate within its own "ivory tower," applying a horizontal view to each business vertical. This perspective fails to account for the unique needs and objectives of different business units, resulting in a disconnection between procurement activities and broader business goals. Although the intention is to support strategic objectives, the actual implementation remains isolated and narrowly focused on internal procurement efficiencies.

True strategic procurement should involve aligning procurement activities with overarching business goals and contributing significantly to the organization's competitive strategy. However, despite these strategic intentions, procurement often remains disconnected from other business units, limiting its overall impact. This disconnect is largely due to traditional procurement methods, which are based on power dynamics and frameworks like the Kraljic Matrix, which inherently promote a tactical rather than a truly strategic approach.

Even the so-called reinvented frameworks like RAQSCI, which are touted as advanced versions and proven methodologies, do little more than keep procurement in a delusion of being strategic. These frameworks, while offering a veneer of sophistication, often perpetuate the same old power games and siloed thinking. They create an illusion of progress, allowing procurement to believe it's being strategic while still dancing to the same old tactical and kraljic tune.

NextGen Strategic Procurement (Truly Strategic)

At the NextGen Strategic Procurement level, procurement transcends its traditional roles to become a true business partner, fully aligned with overarching business objectives.

Unlike earlier stages, where procurement might think horizontally and remain siloed, NextGen Strategic Procurement integrates deeply into the organization's strategic framework, driving vertical procurement strategies that support broad business goals.

A key innovation at this maturity level is scenario modeling, a transformative approach that provides a holistic view of procurement. Unlike traditional project matrices, scenario modeling incorporates various business requirements, allowing procurement teams to align their strategies with the overall business strategy. This method helps look beyond the narrow category view and focus on relevant dimensions that add substantial value, such as resilience, sustainability, innovation, agility, and more.

In this advanced stage, procurement is not just about cost savings and efficiency; it is about creating value across multiple dimensions. For example, scenario modeling enables procurement teams to assess the trade-offs between cost and other critical factors like sustainability and resilience. This helps ensure that procurement activities contribute to long-term business goals rather than just short-term savings.

True NextGen Strategic Procurement is highly collaborative, involving all relevant stakeholders in the process. This includes early engagement with various departments such as finance, operations, marketing, and IT to ensure that procurement strategies are aligned with their needs and objectives. This collaborative approach breaks down silos and fosters a unified strategy that supports the entire organization.

Digital transformation is crucial at this maturity level. By digitizing procurement processes, organizations can streamline operations, enhance data accuracy, and improve decision-making. Digital tools provide skills to the system, enabling category managers to leverage advanced technologies for better outcomes.

AI and machine learning, for instance, can augment decision-making by providing insights derived from vast amounts of data, helping to create intelligent and executable category strategies.

The integration of AI and digital systems helps procurement teams become more agile and responsive to changing market conditions. These technologies enhance the ability to foresee potential disruptions and develop strategies to mitigate risks, ensuring a more resilient supply chain. Moreover, digital transformation enables procurement to drive innovation by identifying new opportunities and implementing best practices across the organization.

The impact of NextGen Strategic Procurement is significant, **with benchmarks indicating a potential value generation of up to 4.4 times more** than traditional approaches. This value creation is not just limited to cost savings but extends beyond. By adopting this advanced maturity level, organizations can ensure that their procurement function is not just a support role but a pivotal contributor to the overall success of business.

The Future of Procurement

Navigating modern procurement challenges requires a nuanced understanding of the evolving business landscape and a commitment to continuous improvement.

By addressing the impact of global events, aligning with evolving business priorities, and recognizing different procurement maturity levels, organizations can develop resilient, strategic, and innovative procurement practices that drive long-term success.

Assessing the maturity level of your procurement organization is the first step. The key is to continuously work upwards and move along the maturity curve. Regardless of where your procurement organization currently stands, it is always possible to progress to the NextGen Strategic Procurement level and be ready for the future.

This journey involves transitioning from basic operational activities to becoming a true business partner fully integrated with overarching business objectives.

NextGen Strategic Procurement is marked by advanced methodologies like AI augmented scenario modeling, which allows procurement teams to consider various business dimensions such as resilience, sustainability, innovation, and agility. This approach moves beyond traditional cost-saving measures, emphasizing a holistic view of value creation.

In the next sections, we will delve deeper into how digital transformation and AI are reshaping the strategic procurement and category management landscape.

We will explore how these technologies are being seamlessly integrated into procurement processes and discuss innovative approaches that are setting the stage for the future of procurement. By leveraging these advancements, organizations can ensure that their procurement functions are not just supportive roles but key drivers of business success and innovation.



Procurement's future lies in scenario modeling, where strategic alignment with business objectives transforms challenges into opportunities for growth and resilience

Journey Towards NextGen CatMan

Strategic Scenario Modelling: A Forward-Looking Approach to align procurement with business Objectives

As procurement evolves, traditional frameworks like the Kraljic Matrix are increasingly seen as inadequate for addressing modern complexities. The primary focus on cost savings and negotiation power does not fully capture the broader objectives now essential in procurement, such as sustainability, resilience, and innovation. This necessitates a shift towards more comprehensive and dynamic approaches.

Strategic Scenario Modelling is a comprehensive methodology that aligns procurement strategies with overarching business objectives by simulating various future scenarios. This approach involves anticipating future market conditions, supply chain disruptions, and evolving business needs to develop robust and flexible strategies. It allows organizations to visualize the impacts of different procurement strategies on overall business goals, making it an invaluable tool in today's complex procurement landscape.

The Need for Scenario Modelling

Modern procurement faces numerous challenges that traditional approaches struggle to address. The complexity of category management, for instance, extends beyond simple cost considerations to include factors like sustainability and innovation. These additional dimensions are often overlooked by traditional models, leading to suboptimal decisions. Moreover, dynamic market conditions, as highlighted by global events like the COVID-19 pandemic, require a flexible and adaptive approach that static models cannot provide. Additionally, procurement strategies must now align more closely with broader business goals to support competitive advantage and business resilience.

How Scenario Modelling Works

Scenario Modelling enables procurement teams to compare different strategies against key business dimensions such as cost savings, sustainability, resilience, and innovation. By simulating these scenarios, teams can understand the trade-offs and impacts of each strategy, ensuring that decisions support broader business objectives.

For example, in software procurement, multiple stakeholders with distinct preferences are involved. IT operations might prefer suites from large providers like SAP, Microsoft, or Oracle to ensure efficiency and security, while end users might favour best-of-breed solutions that meet specific business needs. Organizations often adopt a hybrid approach, using suites for back-office processes and best-of-breed solutions for competitive differentiators. Scenario modelling helps decide whether to opt for a suite or a best-of-breed solution based on strategic goals like efficiency or customer service.

Another illustrative example is sourcing strategies. Best-cost country sourcing might achieve significant cost savings but could result in higher carbon emissions and lower sustainability scores. In Contrast, a local-for-local procurement strategy might incur higher costs but score better in terms of sustainability, resilience, and innovation. Scenario modelling helps visualize these trade-offs, enabling informed decisions that align with business priorities.

On the other hand, the traditional Kraljic approach, with its primary focus on cost savings and negotiation power, fails to deliver these nuanced insights and strategic alignment and hence does not support any of the stakeholder's objectives. It often results in procurement strategies that do not support the objectives of various stakeholders. Scenario modelling overcomes these limitations by providing a holistic, flexible, and collaborative approach, ensuring that procurement decisions align with broader business goals and adapt to dynamic market conditions. This makes scenario modelling an essential innovation for procurement, allowing it to move beyond mere cost considerations to drive real value and strategic impact.

Benefits of Strategic Scenario Modelling

Strategic Scenario Modelling offers several advantages. It integrates various business objectives, ensuring that procurement decisions support overall business strategies. The approach enhances flexibility, allowing organizations to adapt to changing market conditions and providing dynamic and robust procurement strategies. Additionally, it promotes improved collaboration by ensuring that procurement activities are coordinated with other business units, fostering a unified approach to achieving business goals.

In conclusion, Strategic Scenario Modelling provides a forward-looking approach to procurement, addressing the limitations of traditional frameworks. By integrating multiple business objectives and simulating potential outcomes, scenario modelling empowers procurement teams to develop strategies that are aligned with broader business goals. This approach enhances decision-making and ensures that procurement contributes strategically to the organization's success.

The Importance of Cross-Functional Collaboration

Effective procurement is no longer just about cost savings and efficiency; it's about aligning procurement activities with the broader strategic goals of the organization. This alignment requires robust cross-functional collaboration, ensuring that procurement decisions support and enhance the objectives of various departments such as finance, operations, marketing, and IT.



Strategic Scenario Modelling transforms procurement by aligning it with broader business goals, enabling flexible, sustainable, and resilient strategies that drive real value and competitive advantage



Engaging stakeholders early and fostering collaboration throughout the procurement process leads to more relevant, accurate, and supported decisions that benefit the entire business

Cross-functional collaboration involves engaging stakeholders from different parts of the organization early in the procurement process. This engagement ensures that all relevant perspectives are considered, leading to more holistic and well-rounded decisions. For instance, involving IT and end-users in software procurement can help balance the need for robust, secure systems with the demand for user-friendly, innovative solutions. Similarly, collaborating with the sustainability team can ensure that procurement decisions align with the organization's environmental goals.

The benefits of cross-functional collaboration are manifold. It leads to greater buy-in and support for procurement initiatives, improves the accuracy and relevance of procurement decisions, and fosters a culture of shared goals and mutual accountability. By breaking down silos and encouraging open communication, organizations can ensure that procurement is a strategic partner in achieving business success.

Digitization of Strategic Procurement and Category Management

Navigating the intricacies of digitizing a strategy, development, and implementation process requires a meticulous understanding of each step. Strategy development encompasses a sequence of analysis steps, each demanding cross-functional and potentially cross-country alignment due to the varied implications information can have across different functions and geographies. Furthermore, each subsequent analysis is contingent upon the results of its predecessor, creating a complex, interdependent chain of processes.

Digitization facilitates this by providing tools that streamline data collection, analysis, and dissemination. Advanced analytics and AI-driven platforms can process vast amounts of data, identify patterns, and generate insights that inform strategic decisions. However, the complexity of strategic procurement means that digitization must be approached with care to avoid potential pitfalls. The introduction of digital tools into the procurement process enhances collaboration and ensures early buy-in from stakeholders.

Digital platforms enable real-time data sharing and communication, which leads to faster completion times and more efficient processes.

This collaborative approach not only increases the efficiency of procurement activities but also enhances the skills of procurement professionals by integrating their expertise with advanced digital tools.

By involving stakeholders early in the digital category management process, organizations can ensure that all relevant perspectives are considered, leading to more holistic and well-rounded decisions. This early engagement helps align procurement strategies with business objectives from the outset, reducing the likelihood of misalignment and ensuring that procurement activities contribute to overall business success.



By leveraging advanced digital tools in strategic procurement, organizations can enhance efficiency, foster early stakeholder engagement, and ensure alignment with broader business objectives

Automation vs. Augmentation of Strategic Procurement and Category Management processes

Given the complexity of strategic procurement and category management, complete automation of the process seems an unattainable, if not risky, endeavor. The inherent probability of error at each step, stemming from varied interpretations and internal company policies, could exponentially amplify if the process was automated end-to-end.

The resultant value lever, thus, *risks being "precisely wrong" or "approximately correct"* – both of which are undesirable and potentially detrimental. The ensuing black-box effect would render the final result nearly impossible to validate post-factum.

In contrast, a synergistic approach that leverages both artificial intelligence (AI) and collaborative human intelligence emerges as a promising alternative. In this approach, AI components alternately enhance the process's stability, ensuring immediate validation of small-scale inputs and transparent traceability of the end result from validated individual steps. This integration maintains cross-functional coordination while enhancing the overall process.

AI-supported market intelligence crawlers can scan global markets for relevant data, trends, and insights, providing procurement teams with up-to-date information critical for decision-making.

Decision support engines aligned with business and BU objectives can analyze data and suggest strategic options that align with organizational goals.

Procurement-specific large language models (LLMs) can process and understand procurement-related documents, contracts, and communications, offering insights and recommendations based on historical data and current trends.

The overarching machine learning layer acts as a digital glue, integrating various AI components, ensuring seamless data flow and consistency across the procurement process, and enabling continuous learning and improvement.

This synergistic approach, where digital tools augment human expertise, leads to better outcomes. It allows procurement professionals to focus on strategic decision-making while AI handles routine and data-intensive tasks. This not only improves efficiency but also enhances the skills of procurement teams by integrating their expertise with advanced digital tools.

Hence, the digitization of strategic procurement and category management, when done thoughtfully, can significantly enhance the efficiency and effectiveness of procurement processes. By combining AI with human intelligence, organizations can navigate the complexities of modern procurement, ensuring decisions are well-informed, aligned with business goals, and resilient in the face of changing market conditions. This approach fosters collaboration, improves decision-making, and ultimately drives better business outcomes.



AI making decisions and suggesting value levers can be 'precisely wrong' or 'approximately correct,' both risky and undesirable. Such systems acts like a black box, making results hard to validate and leaving users in the dark about the process

Procurement Technologies For CatMan

The rapid advancement of technology is transforming procurement, offering new tools and capabilities that significantly enhance category management and look beyond the tactical and operational procurement processes. Emerging technologies such as artificial intelligence (AI), machine learning, and advanced analytics are revolutionizing procurement activities. In this wave of digitalization, which primarily focuses on operational and tactical procurement, solutions like akirolabs stands out with its innovative approach, proven world-class strategic procurement, and category management methodology.

akirolabs: A Novel Approach to Category Management

akirolabs presents a cutting-edge approach to category management, enabling the weighing and balancing of various target dimensions such as total cost, sustainability, resilience, and innovation, amongst many others. Through its Strategic Scenario Modelling (SSM), akirolabs integrates artificial intelligence with collaborative human intelligence, thereby enhancing the strategy process. This advanced scenario modelling and optimization framework provides procurement teams with a clear view of how different strategies impact overall business goals, moving beyond traditional power games to achieve balanced, strategic alignment with business needs.

akirolabs leverages AI, machine learning, and advanced analytics to enhance decision-making and streamline procurement processes. Its AI-supported market intelligence crawler scans global markets for relevant data, trends, and insights, while its decision support engine aligns data with business objectives. The integration of procurement-specific large language models (LLMs) and a machine learning layer ensures seamless data flow and consistency across the procurement process.

With akirolabs, procurement is elevated from a functional necessity to a strategic, value-adding partner within the organizational ecosystem. This approach offers a glimpse into a future where procurement drives sustainability, enhances resilience, and fosters innovation, aligning closely with overarching business goals. By leveraging tools like akirolabs and embracing innovative methodologies, organizations can improve their category management processes and ensure that procurement contributes strategically to overall business success.

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What akirolabs has created is significant... there is no doubt in my mind that this is a breakthrough innovation... akirolabs represents a new generation of intelligence generating solutions that augment category and supply market capabilities ...akirolabs is on a trajectory to eliminate much of the category management function as we know it today.”

Dr. Elouise Epstein

Kearney Partner



Leading analysts and thought leaders consider akirolabs to be a breakthrough innovation. Dr. Elouise Epstein, a Kearney partner and best-selling author on digital procurement, has said, “What akirolabs has created is significant... there is no doubt in my mind that this is a breakthrough innovation... akirolabs is on a trajectory to eliminate much of the category management function as we know it today.

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Very few software companies understand the challenges of a global procurement organisation that supports different businesses across many countries... akirolabs is a true Thought leader in this space. Very excited to see the impact they're making for the procurement function"

Richard Crane

Chief Procurement Officer



Guest Article: Bernard Gracia's Perspective on the Future of Procurement



Bernard Gracia is the Founder of the European Institute for Purchasing & Management (EIPM). He has played a pivotal role in advancing procurement education and practices globally. In 1976, Bernard collaborated in launching one of the first post-graduate programs in Purchasing in the world (MAI – Master Industrial Purchasing for the Bordeaux Business School). In 1990, associated with leading companies and the European Union, he founded EIPM. As Director of EIPM, he launched the first MBA specialized in Purchasing in Europe and the first European Roundtable for Chief Procurement Officers.

I recall the early days when I frequently discussed and exchanged ideas with Peter Kraljic. After founding the EIPM, I had the privilege of collaborating with Peter to establish the EIPM Peter Kraljic Awards in 2010. These awards were designed to encourage companies to develop best practices through improvement action plans. Over the years, I conducted several interviews with Peter, some of which can be found on YouTube under "discussion with Bernard." Since 1990, EIPM has been one of the first institutes to utilize the Peter Kraljic Matrix for defining Category Management.

Peter Kraljic was the first to propose a methodology to identify different potential strategies for the procurement portfolio. Initially, Peter did not speak about category strategies but rather focused on the strategy for the portfolio. In an interview, he mentioned that the objective of his work was not to set category strategies, although the matrix could be extended to such strategies.

The Kraljic Matrix was designed to set a strategy for the portfolio, but it did not explain why this strategy was needed. Understanding the "why" is crucial for aligning procurement with corporate objectives. The methodology used by Peter was based on stable and fixed data, which were valid for a certain period. These strategies were fixed for months or even years. However, in today's fast-paced environment, this static approach is no longer viable. We have moved from fixed to agile data and from fixed to agile strategies, necessitating simulations and scenarios to define various solutions.

The Kraljic Matrix was designed to help the Chief Procurement Officers define priorities to enhance efficiency and effectiveness. Today, procurement is not just about individual roles but about helping businesses grow. It is not solely about savings or risk management; it is about finding the right solutions on the market to serve the business.



The future is to become even more involved not only in supply chain management but in the whole value chain management

When asked about adapting the Kraljic Matrix, Kraljic responded, 'I leave that to you,' reflecting an openness to evolving methodologies

Peter Kraljic

Modern CPOs should lead not only their department but an entire ecosystem, including internal and external business partners. The Kraljic Matrix does not fully support this role anymore. Today, a variety of scenarios are needed to understand and simulate the changing corporate goals.

This is why I believe akirolabs represents the future of procurement. akirolabs builds on the foundation laid by Peter Kraljic, moving procurement from its 1984 roots to the next generation. With akirolabs, procurement is elevated from a mere support function to a strategic, value-adding partner within the organization.

The platform fosters collaboration across departments, ensuring procurement activities are aligned with overall business goals. The integration of digital tools and AI augments decision-making, enabling procurement professionals to focus on strategic initiatives

rather than routine task. The scenario modeling capabilities of akirolabs enable procurement professionals to visualize the trade-offs and impacts of various strategies, ensuring decisions support broader business objectives. This approach goes beyond the limitations of traditional models like the Kraljic Matrix, which are often static and fail to adapt to rapidly changing market conditions.

akirolabs is paving the way for the next generation of procurement practices. This transition from traditional approaches to a more dynamic and strategic framework is essential for modern businesses to thrive in an ever-evolving landscape.



Modern CPOs should lead not only their department but an entire ecosystem, including internal and external business partners The Kraljic Matrix does not fully support this role anymore

akirolabs 

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Recognized by the industry

