# Category Strategy: Systematically Developing a Procurement Strategy per Commodity Group

A category strategy is a clearly delineated procurement strategy for a specific commodity group or material family. It defines how a company steers procurement volume, supplier structure, contract forms and processes for that group. In industrial procurement, it is the central link between the overarching procurement policy and operational day-to-day purchasing.

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### Key facts at a glance

01 The category strategy translates the overarching procurement strategy into concrete measures per material or commodity group.

02 Typically, it is created following a standardised process: analysis, portfolio classification, derivation of measures and implementation.

03 Supplier and portfolio methods such as the Kraljic matrix and supplier evaluation are the most common analytical tools.

04 In practice, a small team from category management and purchasing usually covers the strategically important commodity groups.

05 The strategy is typically reviewed annually or semi-annually and adjusted in response to market changes.

06 Category strategies typically reduce procurement costs, cut complexity and improve security of supply.

## Definition: category strategy

The category strategy defines in a binding manner how a clearly delineated commodity group is procured over a planning period of typically one to three years. It covers objectives, measures, supplier structure, contract and pricing arrangements, and the responsible roles within the procurement

organisation.

### Distinction from the overall procurement strategy

While the overall procurement strategy sets company-wide objectives such as cost ratio, compliance and sustainability, the category strategy operates at material-family level. It makes concrete decisions: How many suppliers? Call-off order or individual purchase order? Global sourcing or regional procurement? This concretisation makes it the most important steering instrument of category management.

### Typical commodity group structure

The structuring often follows a company-specific commodity group scheme or standard classifications. In production procurement, a distinction is typically made between direct materials (steel, castings, electronic components), indirect materials (MRO, IT, services) and trading goods. The higher the spend volume and the more critical the group is to production, the more detailed the strategy.

## Methods and approach for creating a category strategy

In practice, the creation follows a multi-stage cycle, usually semi-annual to annual. It is important that results are documented in writing and agreed with management – otherwise the strategy remains a document without impact.

### As-is analysis: market, spend and suppliers

The starting point is an analysis of the procurement market and the company's own spend volume: who buys what, from whom, at what prices? A market model describes supply structure, price drivers and power relationships. The supplier analysis assesses performance, quality, reliability and dependencies – often revealing that a high share of volume is concentrated among a few suppliers.

### Portfolio classification and target picture

Using the Kraljic matrix, commodity groups are classified by leverage and supply risk: leveraged items, strategic items, bottleneck items and non-critical items. From this, the target picture is derived – for example supplier consolidation, dual sourcing for bottleneck items, or standardisation as complexity reduction. For strategic groups, a sourcing wave plan is often established, planning award and tendering rounds over several years.

### Derivation of measures and implementation plan

The target picture gives rise to concrete measures with owners and deadlines: contract optimisation, tenders with a Best and Final Offer (BAFO), supplier development, procurement marketing to identify new suppliers, or process automation. Each measure receives a cost-benefit assessment so that priorities remain transparent.

## Procurement heuristics by commodity group type

The procurement leverage differs considerably by commodity group type. Strategically, it is important to define an appropriate mix of instruments for each type rather than treating all groups the same.

### Leveraged and strategic commodity groups

For leveraged items, price optimisation takes centre stage: market-based price band or price corridor arrangements, Europe-wide tenders and benchmark-based target prices. For strategic items with high dependency, partnership dominates: call-off orders with long terms, joint development projects, and guarantee agreements on capacities and delivery date commitments. Price negotiations have limits here due to power asymmetries.

### Bottleneck and non-critical commodity groups

Bottleneck items require risk management: several qualified sources, increased safety stocks via a safety stock calculation, contractual termination rights including termination for cause, and alternative material concepts. For non-critical items, efficiency is the focus: catalogue procurement, supplier consolidation, increased minimum order quantity (MOQ) in exchange for discounts, automation-supported processes up to Vendor Managed Inventory (VMI), which anchors the ordering process at the supplier.

### Integrating trading and logistics topics

Category strategies should also incorporate logistics concepts. Direct delivery from the supplier to the production line reduces handling; cross docking relieves the warehouse for fast-moving groups. For commodities or energy-intensive commodity groups, price hedging and CO2e considerations are increasingly part of the standard strategy.

## Key KPIs and steering

Without metrics, the category strategy goes unmonitored. Typically, a small, stable set of KPIs is defined per category and reviewed in regular reviews.

### Cost and supplier metrics

Key metrics are cost savings versus baseline, target price achievement, spend under contract (contract coverage) and the number of active suppliers per category. Supplier evaluations with quality and on-time-in-full delivery rates complete the picture. In practice, supplier delivery reliability and dunning frequency are also monitored, as they provide early indications of supply-relevant problems.

### Inventory and process metrics

For material groups with inventory relevance, the plan-vs-actual inventory comparison is suitable for continuously reconciling target stock levels and safety stocks. Deviations – for example excess stock due to changed demand – flow into a defined quantity deviation workflow. Process metrics such as lead

time from enquiry to purchase order show whether the chosen strategy also works operationally.

## Risks and controls

Category strategies carry typical sources of error: incomplete data basis, lack of implementation power and blind spots regarding dependencies. Controls must systematically address these risks.

### Supplier and market risks

One-sided dependencies, raw material price spikes or volume reductions can derail any strategy. Countermeasures: dual sourcing strategy, supplier audits, regular market monitoring as part of procurement marketing, and contractual safeguards. When tendering, attention must be paid to the correct choice of procedure; in public contexts this concerns, for example, the distinction from the non-open procedure, and in the private sector compliance with internal compliance rules.

### Implementation and governance risks

Often the strategy is created but not lived: decentralised buyers continue to order outside framework agreements. Controls are therefore spend analyses against contract suppliers, approval processes for new purchases, deviation workflows and clear roles within the procurement organisation. Creditor onboarding of new suppliers should also be fast and standardised so that strategic alternatives do not fail due to process hurdles.

### Legal and tax classification

Contract forms, termination rights, warranty and guarantee agreements, and compliance requirements (such as supply chain laws, export controls) should be reviewed legally. The statements in this article are of a general nature; in individual cases, a review by the legal or tax department is required.

## Current developments and digitalisation

Category strategies are changing due to market dynamics, sustainability requirements and digitalisation. Modern strategies are shorter-cycle and more data-driven than in the past.

### Sustainability and circular economy

CO2e emissions from procurement, recycled materials and circular economy concepts (repair, remanufacturing, take-back) are increasingly anchored as target variables in category strategies. Especially for steel, chemicals and packaging, this creates new supplier criteria and pricing logics that complement classical cost optimisation.

### Data-driven strategy work and volatile markets

Spend analytics tools, AI-supported market data and automated supplier evaluations make strategy work faster and more up to date. At the same time, volatile markets – semiconductor shortages, energy prices, geopolitical risks – force shorter review cycles. Resilience moves up alongside cost as an equal

objective; increased safety stocks and regional dual sourcing are typical consequences.

## Typical metrics

| Metric | Typical value |
|---|---|
| **Cost savings (vs. baseline)** | typically 3–8% p.a. in leveraged categories<br>*Define the baseline method in a binding manner* |
| **Contract coverage** | > 80% of category spend<br>*Share of volume under framework agreements* |
| **Target price achievement** | > 90%<br>*realised vs. planned target prices* |
| **Number of suppliers per category** | 1–3 for strategic categories<br>*Target varies depending on portfolio class* |
| **On-time-in-full delivery** | > 95%<br>*punctual, complete deliveries* |

## Practical example

A medium-sized mechanical engineering company with around EUR 40 million in direct material purchasing created category strategies for the first time for its ten most important groups. The analysis showed: 60% of spend related to steel and castings, spread across more than 30 suppliers without framework agreements. For steel, a sourcing wave plan with an annual tender and a price corridor arrangement was set up; for castings, consolidation onto four suppliers with call-off orders and defined delivery date commitments. For electronic components (bottleneck items), safety stocks were increased via a safety stock calculation and a second supplier was qualified. Within two years, the company reduced the number of suppliers by a third and typically achieved single-digit cost savings in the leveraged categories.

- Spend and supplier analysis as the data basis for all ten commodity groups
- Call-off order with price corridor for steel, consolidation for castings
- Dual sourcing and increased safety stocks for bottleneck components
- Quarterly reviews with plan-vs-actual inventory comparison and target price achievement

## Conclusion

The category strategy is the central steering instrument that turns a general procurement policy into concrete procurement decisions. It combines market analysis, portfolio classification and action planning into a robust plan per material family. Its value only materialises through consistent implementation, measurable KPIs and regular reviews. Companies that systematically work on

strategically relevant commodity groups typically improve cost position, security of supply and supplier quality simultaneously. The prerequisite is a clear procurement organisation that reliably brings strategy and operations together.

## Frequently asked questions

### ? What is a category strategy?

A category strategy is a clearly delineated procurement strategy for a specific material or commodity group. It defines supplier structure, contract forms, pricing and processes for a planning period. It is therefore the central tool of category management in industrial procurement.

### ? How do I create a category strategy?

Typically in four steps: analysis of spend, market and suppliers; portfolio classification, for example using the Kraljic matrix; derivation of measures and target picture; and written documentation with owners and deadlines. A review cycle of six to twelve months has proven effective in practice.

### ? Which methods belong to a category strategy?

Core methods include spend analysis, market modelling, the Kraljic portfolio, supplier evaluation and ABC analysis. Depending on the commodity group, these are supplemented by tendering tools, price corridor models, hedging for raw materials, and risk and resilience analyses.

### ? What is the difference between category management and a category strategy?

Category management is the organisational unit or role structure that takes holistic responsibility for commodity groups. The category strategy is the central output or working document of this work. In many companies, the two terms are used synonymously.

### ? How often should a category strategy be updated?

In practice, an annual full review supplemented by semi-annual partial updates has become established. In highly volatile markets – such as energy or semiconductors – quarterly adjustments may also be sensible. What matters is that changes are documented and agreed with management.

### ? Which KPIs belong in a category strategy?

Typical KPIs are cost savings versus baseline, contract coverage, target price achievement, number of suppliers, supplier evaluation and on-time-in-full delivery. For stock-holding groups, the plan-vs-actual inventory comparison complements the steering. A compact set of five to eight KPIs per group is sufficient.

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