# **Identifying procurement categories – Goods and services procurement guide**

## What is a procurement category?

Procurement categories are groupings of similar goods or services with common supply and demand drivers and suppliers. Example**:** A pen is a good whereas stationery could be the 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**:** Procurement categories feature in all five of the VGPBs procurement policies as they underpin good procurement practice.

## 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/services;
* get a better picture of procurement spend across your organisation;
* generate significant discounts; and
* establish aggregated supply arrangements to cover a category of multiple transactions.

Example**:** Rather than approaching different suppliers for different items, work out exactly how much your organisation spends on all stationery 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 subcategories

Procurement categories should be broad enough to take advantage of market competition. Around ten overarching categories should be sufficient to cover a significant amount of your organisation’s 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.

Note**:** 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.

Example of categories and sub-categories in an organisation



The diagram in the example shows a branching tree structure. There are three levels to the tree structure.

Top level - Agency X.

Middle level – there are 5 procurement categories:

* Administrative support
* Travel
* Professional services
* Insurance
* Information technology

Middle and lowest levels - The administrative support category has 3 sub-categories:

* Stationary
* Printing
* Mail

The travel category does not have any sub-categories.

The professional services category has 4 sub-categories:

* Legal
* Engineering
* Technical consulting
* Other professional services

The insurance category does not have any sub-categories.

The information technology category has 2 sub-categories:

* Hardware
* Systems / software packages and support

## 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.

Note: 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 compacts discs would most likely be categorised under stationery 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.

The main steps for defining procurement categories are:



The diagram uses seven steps to identify procurement categories. The diagram is explained in the following step – action table.

Follow the 7 steps in the table below to define procurement categories:

|  |  |
| --- | --- |
| Step | Action |
| 1 | Locate appropriate data spend |
| 2 | Remove non-supplier line items |
| 3 | Group spend data into categories |
| 4 | Are sub-categories beneficial?  If sub-categories are beneficial, go to step 5.  If sub-categories are not beneficial, go to step 6. |
| 5 | Where beneficial, group procurements within category and sub-category.  Go to step 6. |
| 6 | Perform sense check of categories and sub-categories. |
| 7 | Document procurement categories and sub-categories. |

### Steps to defining procurement 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 specific skills and expertise.

Note**:** Transactions are often not described in financial data. You may need to investigate further to categorise appropriately (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 group, as opposed to developing a strategy for each individual procurement activity.

#### Step 5: Group procurements into sub-categories where beneficial

When creating sub-categories, base your groupings on the criteria listed in the table Criteria to consider when grouping procurements.

Criteria to consider when grouping procurements

|  |  |  |
| --- | --- | --- |
|  | Intent of level | Criteria to consider |
| **Category level** | The similarity of goods/services as suggested by their characteristics and use in the organisation. | Similar suppliers  Similar use  Similar characteristics/purpose  Similar form (small transactional goods, services, construction, large single item procurements) |
| **Sub-category level** | An additional level that allows organisations to enhance value-for-money and efficiency of procurement outcomes. | Similar supply‑market dynamics  Similar impact of demand aggregation  Similar indirect impacts  Similar level of substitutability with  other goods/services  Similar criticality to core business (similar level takeover of customisation) |

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

Ensure categories and sub-categories are the optimal size and composition:

* + Is there an overarching statement which describes the purpose/composition of each category and sub-category?
  + Are categories and sub-categories sufficiently different in their purpose and composition?
  + Are a majority of procurement activities easily located into a category and (as required) sub-category, with the possible exception of unique one off procurement events?
  + Is there any scope to further aggregate procurements into larger categories that are still meaningful and manageable?
  + Are the categories understandable to stakeholders?

Where these questions suggest 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

Include the categories in your organisation’s procurement activity plan.

### ICT as a significant category of procurement

Information and Communication Technology (ICT) procurement should be defined at the overarching category level with possible sub-categories recognising the high value of ICT procurement.

ICT procurement must also align with the Whole of Victorian Government ICT Strategy. For more information, refer to the Chief Information Officers website at [www.dtf.vic.gov.au/CIO](http://www.dtf.vic.gov.au/CIO).

## Using this guide

This guide accompanies the goods and services supply policies. There are 5 supply policies:

* Governance policy
* Complexity and capability assessment policy
* Market analysis and review policy
* Market approach policy
* Contract management and disclosure policy

This guide supports the [Governance policy](https://buyingfor.vic.gov.au/governance-goods-and-services-policy-and-guides).

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