

EXPRO National Manual of Assets and Facilities Management Volume 8, Chapter 5

Category Management

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Category Management

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1.0 PURPOSE

The purpose of this document is to provide guidelines to the Entity on Category Management of Asset and Facilities Management (A&FM) services for its property portfolio. A significant amount of budget is spent by Entities on Operations and Maintenance (O&M) services for A&FM, and subsequently a major part of this budget is spent on procurement of Maintenance and Repair (M&R) supplies either directly or indirectly.

If Category Management is applied effectively throughout the A&FM domain, the Entity will achieve:

- Sustainability
- Cost reduction
- Expected quality benchmarks
- Supply consistency

2.0 SCOPE

These guidelines provide the Entities with an overview of Category Management and details on the topics illustrated in Figure 1.



Figure 1: Category Management Topics



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The principles and guidance provided herein, which are based on best practice are to be adopted by the management working in government Entities. In case of any misunderstanding, KSA Tendering and Procurement Law shall take precedence.



3.0 DEFINITIONS

Term	Definitions
Benchmarking	An evaluation that identifies quantified performance levels from precedents and appropriate levels of performance with specific, quantitative insight, and best practices for a project
Best Value	The most advantageous combination of the whole-life cost, quality, and sustainability available to meet requirements
Bundle	A combination of products, services, or pieces of equipment that are supplied together as a group. (e.g., bundling cleaning and pest control services together in one Request for Proposal/contract)
Category Tree	Official taxonomy of services and materials provided by contractors/in-house within the A&FM category
Company	A contractor, consultant, engineer, service provider, or supplier who expresses interest in prequalifying for a specific package of works or services and upon award becomes the Entity contractor to perform such works or services
Division List	Document which formalizes the responsibility for procurement of different sub-category services within the Entity procurement team and defines which specific managers are responsible for procurement of sub-category services
Entity	Government Entity, Authority or Ministry responsible for A&FM
Key Performance Indicators	KPIs are quantifiable measurements, agreed by stakeholders, which reflect the Critical Success Factors of assets, or the operations/services to be delivered (IFMA definition)
Maintenance and Repair Supplies	The required supplies to conduct Maintenance and Repairs e.g., spare parts, testing equipment, heavy equipment, safety equipment, repair tools, repair workshop material, consumables, janitorial supplies, loading vehicles, uniforms, office supplies, batteries, oils and lubricant
Operations and Maintenance	Operations and Maintenance of facilities and assets. The Entity may be required to enter into single or multiple agreements with second parties to perform O&M works or services
Performance Based Contracting	A results-oriented contracting method that focuses on the outputs, quality, or outcomes that may tie at least a portion of a contractor's payment, contract extensions, or contract renewals to the achievement of specific, measurable performance standards and requirements. These contracts may include both monetary and non-monetary incentives and disincentives, definition by National Institute of Government Purchasing (NIGP)
Service Level Agreement	An agreement between the provider of a service and its users, which quantifies the minimum quality of service which meets business needs, (definition by CIPS)
Sub-Category Procurement Plans	Sub-category procurement plans contain the needs for facilities management services across specific sub-categories (e.g., cleaning, O&M, security, spare parts, consumables)
Success Criteria	Success Criteria is the result of the organization's achievements to be considered successful and satisfying its objectives
Acronyms	
A&FM	Assets and Facilities Management
AMS	Asset Management Software
CIPS	Chartered Institute of Procurement and Supply Chain
FM	Facility Maintenance
GTPL	Government Tenders and Procurement Law
HVAC	Heating Ventilation and Air Conditioning



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Term	Definitions
IFMA	International Facility Management Association
ISO	International Organization for Standardization
KPI	Key Performance Indicators
KSA	Kingdom of Saudi Arabia
M&R	Maintenance and Repair
MEP	Mechanical Electrical Plumbing
NIGP	National Institute of Government Purchasing
NMA & FM	National Manual of Assets and Facilities Management
O&M	Operations and Maintenance
PM	Planned Maintenance
SLA	Service Level Agreement
SRM	Supplier Relationship Management
UK	United Kingdom

Figure 1: Definitions

4.0 REFERENCES

- British Institute of Facilities Management (BIFM) – Sourcing Strategies
- Chartered Institute of Procurement and Supply Chain (CIPS) Contract Management Guide
- International Facilities Management Association (IFMA) – Procurement
- International Organization for Standardization (ISO 31000) – Risk Management Guidelines
- Kingdom of Saudi Arabia (KSA) – Government Tendering and Procurement Law
- Klynveld Peat Marwick Goerdeler (KPMG) LLP, UK – The Future of Procurement, 2019
- Expro Projects White Book
- National Manual of Assets and Facilities Management, Volume 15 – Performance Monitoring
- National Manual of Assets and Facilities Management, Volume 8 – Chapter 6 - Supplier Relationship Management
- National Manual of Assets and Facilities Management, Volume 9 – Contract Management
- Royal Institute for Chartered Surveyors (RICS) Professional Statement, UK – Procurement of Facility Management, July 2018
- Royal Institute for Chartered Surveyors (RICS), UK – Ethical Procurement Principles

5.0 RESPONSIBILITIES

The Entity shall endeavor to have the right systems, smart processes, and qualified people in place to realize the full benefits of Category Management. The Entity management shall:

- Reduce costs, minimize risks, ensure supply consistency by:
 - o Identifying supply base opportunities to leverage volumes
 - o Optimize goods requirements
 - o Effective inventory management
 - o Supplier relationship management
- Guide and train sourcing team in building strategies to achieve best value in purchasing goods
- Ensure accountability by:
 - o Compliance of category management strategies
 - o Cost optimization
 - o Inventory control
- Effectively use technology to achieve all Category Management goals using:
 - o Competitor analysis
 - o Performance dashboards
 - o Critical triggers on e.g., cost, inventory



6.0 PROCESS

6.1 Category Management

Category Management is a strategic process-based approach that "focuses on the vast majority of an organization's spend on goods and services with third-party suppliers" (O'Brien, 2009:2).

According to the Chartered Institute of Procurement and Supply Chain (CIPS), "Category Management is a strategic approach which organizes procurement resources to focus on specific areas of spends. This enables category managers to focus their time and conduct in-depth market analysis to fully leverage their procurement decisions on behalf of the whole organization."

The objectives of applying category management to A&FM are summarized in Figure 2.



Figure 2: Objectives of Category Management

6.1.1 Understanding Asset and Facility Maintenance requirements

The maintenance of Asset and Facility Management requires procurement of O&M contracts and M&R supplies. In many instances where the M&R supplies are not procured directly by the Entity, they are included in the O&M contracts to be provided by the contractors.

M&R supplies include e.g., spare parts, testing equipment, heavy equipment, safety equipment, repair tools, repair workshop material, consumables, janitorial supplies, loading vehicles, uniforms, office supplies, batteries, oils and lubricant. M&R supplies are also referred to as indirect spend category which includes everything from nuts and bolts to specialized engineering equipment.

In cases where the contractor is providing the M&R supplies, as best practice the Entity should also observe the third party spend. The Entity shall monitor potential supplier risks in real-time through the aggregation and visualization of third-party data.

One of the key focuses of M&R supplies is the need to manage inventory, especially in cases of purchasing of spare parts or materials. Making use of computer systems to track, manage, and control



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inventory helps understanding A&FM requirements for M&R supplies; and gives visibility to past and current spending. As best practice, the Entity should use Asset Management Software (AMS) to capture expenditure.

6.1.2 Category Profiling

It is advisable to separate items into like groups having general similar attributes. Segregation of categories may be carried out on factors of cost, quality and delivery, however, other parameters can be considered such as criticality of spare parts, availability, maintenance impact, engineering functions, supply market dynamics, etc. The high level profiling of FM services may be segregated into Hard and Soft Services. The categories can be formed based on complexity of services and materials, for example category of specialized services namely, water treatment, HVAC, firefighting systems, lifts and escalators and generators operations. The categories can also be formed on the basis of maintenance or supply of parts requirements direct from the manufacturer e.g., elevators, chillers.

There can be a hierarchy of a category into subcategories, therefore the Entity should map a detailed category tree. The categories should be aligned with the Entity's Operations and Maintenance service delivery model.

An example of category profiling is illustrated in Figure 3.

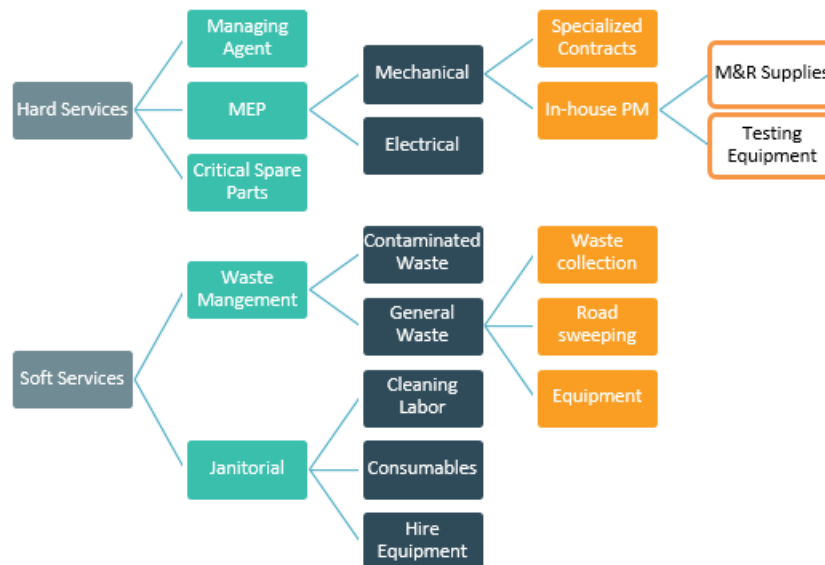


Figure 3: Category Profiling

6.2 Category Planning Guidelines

Category Planning should aim at maximizing the value of the spend and reducing risks by effectively managing the M&R supplies and inventory. The Entity shall continually review its current O&M needs against purchasing opportunities.

The Entity should build up its item master list which includes all items categories. The item master should be free of duplication or missing information. New items can be added to the item master after making sure it is not categorized already. It is strongly recommended to upload the item master and its



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categories into the Entity's AMS. In the AMS each item should have a unique code/serial number associated with its category.

The Entity shall promote automation of data and analytics in order to benefit from the full value of category planning. This shall enable Entity to plan accurately based on the following factors:

Demand Analysis of Maintenance and Repair Supplies

- The Entity shall be able to predict demand

Supply Market Intelligence

- The Entity shall be able to identify potential sources of supply in the spirit of continuous improvements pertaining to quality and spend

Cost and Quality Benchmarks

- The Entity shall manage spend with respect to varying quality benchmarks

Performance Indicators

- The Entity shall be able to react quickly by making required changes to achieve expected performance levels

6.3 Sourcing

The sourcing process selects various procurement methods for purchasing and contracting of categories which can be bundled together. The aim is to achieve the spend efficiency and better value for money.

The Entity shall assess category requirements; and create division list(s) and Sub-Category Procurement Plans. It shall source materials, spare parts, consumables, tools and equipment by consolidating volumes to maximize leverage in negotiations with the suppliers. The supply base shall be aligned with the spend categories identified by the Entity.

6.4 Contract Management

Contracting methods and types are influenced by the category management strategies adopted by Entities. The inputs from category plans should be reflected both in prequalification of suppliers and development of Requests for Proposal (RFP). The Entity shall aim to reduce purchase costs by competitive bidding and negotiations. It shall also leverage the size and scale of spending, to benefit from e.g., monetary discounts, time optimization, concentration of efforts.

Contract performance management helps the Entity to track compliance, identify spending irregularities, and take corrective actions. Contract compliance tracking helps to identify potential supply issues that need to be addressed by the supplier.

For details on contract management refer to NMA&FM, Volume 9 – Contract Management.

6.4.1 Contracting Methods

According to KSA Government Tendering and Procurement Law, the contracting methods can be classified as below:

- General competition (through public tender)
- Limited competition (through limited tender)
- Competition in two stages (through tender with two stage RFP)
- Direct purchase
- Framework convention (through blanket agreement)
- Electronic reverse auction



6.4.2 Types of Contracts

6.4.2.1 Input-Based Contract:

Contracts with specifications requiring exact number of service's items/positions to be supplied by the contractor against a fixed remuneration

6.4.2.2 Performance-Based Contract

Contracts with specifications requiring supply of service according to signed Service Level Agreement (SLA) against a variable amount of remuneration dependent on performance level.

6.4.2.3 Output-Based Contract

Contracts with specifications requiring supply of service according to signed SLA against a fixed amount of remuneration.

6.5 Supplier Relationship Management (SRM)

SRM is the overall strategic management of supply base throughout the lifecycle of each supplier. The Entity is accountable for preservation of assets and provision of Facilities Management therefore it shall manage the risks associated with the suppliers who deliver the outsourced contracts.

A collaborative and cohesive category management requires management of supplier relationship and performance. The purpose is to align A&FM requirements of the Entity with the capabilities of suppliers; and to obtain the best value from the suppliers. The Entity shall assess supplier capability and may classify them as being strategic, critical, preferred, etc.

According to KPMG research paper - The Future of Procurement, published in 2019, It is not just about how a supplier is doing against its contracted SLAs, but also making sure a company's best suppliers have the ability to bring innovations to the account, resulting in better and more fruitful relationships.

The Entity management shall strive to develop a SRM approach aiming for integration of views and systems to collaboratively achieve category innovation, cost optimization, and contract compliance.

Please refer to NMA & FM Volume 8, Chapter 6 – Supplier Relationship Management, for further details.

6.6 Spend Management

Spend management is the way in which the Entity controls its expenditure. The Entity shall do periodic spend analyses in order to create an understanding of the Entity's demand structure of various categories of M&R supplies. It will enable decision and actions to be based on facts and credible data.

The Entity shall strive to control and reduce costs related to procurement. The cost optimization activities are dependent on spend transparency. The Entity shall explore cost reduction opportunities for purchases done by the third parties. It may decide to control and manage third party spend in instances where it considers that spending amounts are high. Effective management of third party spend has a direct impact on the bottom-line costs. The Entity shall use benchmark data per category while negotiating with key suppliers, in order to negotiate for achieving best value.

The Entity shall know the details of spending as per the categories and suppliers. Spend analysis is used to gather information about quantity, frequency, and purchasing volumes of items in categories.



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The overall spend volume per supplier should be identified across all property portfolio of the Entity. The information about overall spend volume and value helps strengthening the position of Entity in contract negotiations and cost reduction opportunities.