

How can Taxonomy help you and your business?

SpringTide's Tony Moldo explains Taxonomy and how using it effectively can benefit your business.

What is Taxonomy?

Taxonomy is defined as a branch of science concerned with the classification of something. Within a best-in-class organization, it's a hierarchical classification of entities of interest to an enterprise.

The value of these structures is not lost on companies that use enterprise-wide taxonomies to organize data, documents and systems, with the goal of enabling workers to find information and complete mission-critical tasks in an efficient and standardized manner. However, this seemingly simple approach can often become very complex, especially within large corporations with hundreds or even thousands of users in disparate locations with varying requirements.

Today, many organizations struggle to determine exactly how enterprise taxonomies should be structured. If categories are too few or too broad, workers may be left guessing where to find or store critical information. Conversely, multi-layered hierarchies with too many choices and not enough training may leave the enterprise vulnerable to individual's interpretations.



Best-In-Class

So, what are the best practices that help companies achieve optimal efficiency through taxonomy? Consideration must be given, of course, to the nature of the information to be processed, individual user requirements and the needs of those who are ultimately responsible for categorization choices.

Application usability impacts each of these factors differently:

- Users must be able to seek and access systems and information in the most efficient and productive manner possible
- Users must be able to get past how categories are (or should be, in their opinion) structured, so they can focus on leveraging systems and information to achieve enterprise objectives
- Management must be able to maintain effective control of data flow and integrity
- The structure must be durable but also flexible enough for revisions over time. While each organization is unique, as a general principle, the more detailed the taxonomy, the better. Within an annual budget, for example, more detail can help employees and management alike gain a better understanding of every level of spend. Whether a manager prefers a micro-level detail or simply a high-level overview, a structure with more layers of information can accommodate both styles.

Findings and Observations

End-users will often enter data into what they consider the easiest spot, not necessarily the appropriate category. This is especially true in companies that have multiple departments or business units with a great deal of crossover. For example, several divisions may utilize external consultants for training, but what is the training for? IT systems? Negotiation? Communication? Most managers would agree that the ability to break out each category of training helps improve clarity and effective budgeting.

A Simple Taxonomy

Level 1	Maintenance, Repair & Operations							
Level 2	Safety Equipment							
Level 3								
Level 4								

A More-Robust Taxonomy

Level 1	Indirect Manufacturing														
Level 2	46 - Defense and Law Enforcement and Security and Safety Equipment and Supplies														
Level 3	18 - Personal safety and protection						19 - Fire protection			17 - Security surveillance and detection		15 - Law enforcement		16 - Public safety and control	
Level 4	15 - Safety apparel	24 - Decontamination aids and safety cleaning equipment	18 - Vision protection and accessories	19 - Hearing protectors	23 - Fall protection and rescue equipment	17 - Face and head protection	20 - Respiratory protection	16 - Safety footwear	15 - Fire prevention	16 - Fire fighting equipment	16 - Surveillance and detection equipment	15 - Locks and security hardware and accessories	18 - Explosives control equipment and accessories and supplies	15 - Crowd control equipment	15 - Traffic control
Level 5	04 - Protective gloves	01 - Decontamination shower	04 - Goggles	01 - Ear plugs	06 - Safety harnesses or belts	01 - Hard hats	02 - Respirators	05 - Safety shoes	05 - Fire alarm systems	02 - Fire sprinkler systems	22 - Closed circuit television CCTV system	01 - Padlocks		01 - Barricades	06 - Snow or ice melter
			02 - Safety glasses	02 - Ear muffs	01 - Lifelines or lifeline equipment	07 - Facial shields parts or accessories	04 - Respiration air supplying self contained breathing apparatus or accessories			01 - Fire extinguishers	10 - Security cameras	20 - Electric lock			08 - Traffic cones or delineators
	03 - Protective coveralls		10 - Eyewashers or eye wash stations	04 - Ear plug dispenser	02 - Fall protection lanyard	02 - Facial shields					13 - Gas detectors	11 - Lockout devices			
	32 - Lab coats		03 - Eye shields			01 - Hard hats				04 - Fire blankets	20 - Safety light curtains				
	08 - Fire retardant apparel				05 - Self retracting lanyard	07 - Facial shields parts or accessories				10 - Fire sprinkler heads	09 - Convex security mirrors				
	51 - Protective mesh jacket					02 - Facial shields					04 - Alarm systems				
	43 - Waterproof jacket or raincoat										21 - Surveillance video or audio recorders				
	26 - Protective shirts														
	33 - Protective coats														

Note: Not all categories will be broken down into a five-level taxonomy; however, all categories should drive to gain line item detail for goods or services procured. This will add the fifth level of detail.

At the user level, most people want to be able to find the appropriate category without spending a lot of time searching. When time is at a premium, users will often opt for shortcuts when they cannot find what they are looking for promptly. In other words, they will typically find a category that they think is best – not necessarily because they believe it is the right one, but because it happens to be the easiest. This type of usage, however, can cause negative ripple effects enterprise-wide.

Then there is the question of how much time to invest. While many executives hope to execute a project like this in a hurry, taking the time, up front, to ensure effective requirements gathering and planning is paramount to minimizing the need for costly revisions after the fact.

Depending upon the complexity, most companies should expect to allocate at least three months for a taxonomy project. Many variables will impact the timeline, including current business processes, history and, perhaps most important, stakeholder buy-in.

Typical milestones include:

- Engagement of stakeholders

- Review of current taxonomy with end-users
- Development of a in-depth taxonomy structure — approximately 1 month
- Map to updated coding (UNSPC, GL or material codes) — approximately 1 month

While creating an enterprise-appropriate taxonomy is never an overnight endeavor, the process can be much more timely and efficient with the right management. For example, having all decision-makers partner from the outset is definitely preferable to piecing individual components together ad hoc. A well-thought-out, well-built taxonomy can yield valuable benefits to users and managers alike. For optimal reporting, budgeting and enterprise efficiency, a more robust four-to five-level taxonomy is preferable to high-level coding, especially within developed organizations with multiple business units and budget categories.

A more detailed taxonomy minimizes frustration, enhances productivity, improves reporting and facilitates more precise budgeting. At the same time, effective taxonomy development is not a process to be rushed. All too often, organizations develop a taxonomy based on what they think they need, and must undertake costly revisions soon after implementation. As with any enterprise system, decision makers must ask the question: “Do we want it done right now, or do we want it done right?” At the end of a taxonomy project, an organization should be positioned to accomplish its objectives, and team members should be excited to move forward.

Summary

In summary, building-out the taxonomy beyond Level 3:

- Enables the next phase of evolution in category management, i.e. deeper transparency, which also facilitates easier engagement with internal stakeholders as the discussions become more meaningful about their exacting needs and requirements moving forward
- Provides more detailed category analysis, meaning sourcing decisions are more robust
- Improved sourcing outcomes because the RFX activity can be targeted into supply chains that have best-in-class capability perhaps at Level 5. If the taxonomy is confined to Level 3, then these providers may never be found as the sourcing activity will have excluded them from the RFX.
- Enable larger savings opportunities through increased transparency into line item detail, meaning greater ability to aggregate and harmonize prices across business units and geographies
- Facilitates Contract compliance because it becomes easier to identify exceptions and maverick behavior from across the organization

Recommendations

- Expand existing taxonomy structures from a Level 3 to Level 5 structure.
- Review the original basis that the coding was developed from, with a view of either building upon this, or indeed starting again with the move to a Level 5 structure.
- Act quickly. The data within the existing hierarchy will already be building category intelligence. Also, end-users will be familiarizing themselves with the Levels. It would be advantageous to change this before behaviors become embedded.

To find out how SpringTide can help your business,
call us now on +44 (0) 1543 466835
email enquiries@springtideprocurement.com
or visit our website <http://www.SpringTideProcurement.com>