

PROCUREMENT AND SOURCING FOCUS

Many supply management and procurement professionals, especially those in Western Europe, are familiar with the Kraljic Matrix for strategically positioning suppliers.

The matrix was developed by Peter Kraljic and first published as part of a Harvard Business Review article in 1983. The core of the model, as shown in the graphic below, is to rank suppliers based on two dimensions (high or low):

1. The amount of company spend with the supplier
2. How vulnerable a company is to a supplier's failure or disappearance

The result is a traditional 2 x 2 matrix that creates quadrants that position a supplier and define a company's strategic approach to that supplier (Kraljic later made enhancements to the model, including a 3 x 3 version,



Another New Take on Supplier Positioning

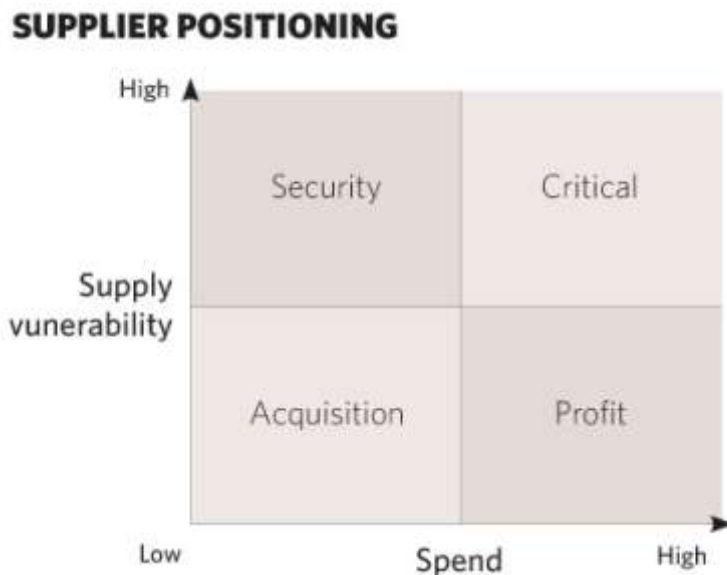
SCDigest Editorial Staff

and there have been many refinements of this by others over the years):

The four types of relationships are:

- Acquisition: Many suppliers, buyers dominate. Focus on supply chain optimization, efficient procurement processes, and receiving bids from many suppliers
- Profit: Lots of suppliers, but big impact on company if supply is disrupted; so, consider target pricing strategies and umbrella contracts with preferred suppliers.
- Security: Few suppliers, but not a lot of financial risk from supplier failure; so, consider volume insurance contracts, maintaining buffer stock, and always be on look out for alternative suppliers.
- Critical: The company depends on the suppliers. Gen-

Original Kraljic Model



erally, the company will look for performance-based partnerships, with market and technology leaders, owning specific know-how. The balance of power between buyers and suppliers can be vary quite bit. Consider strategic alliances, building close relationships, even vertical integration.

There have been a number of criticisms of the Kraljic model over the years, including a recent one by Andy Williams of CPM Training.

He sees two important issues:

1. This model it does not take into **account the supplier's perception** of the buyer, clearly an issue of some importance. The buyer's view of how important the relationship is, based on the buyer's view of spend alone, often would be seen differently through the supplier's eyes.

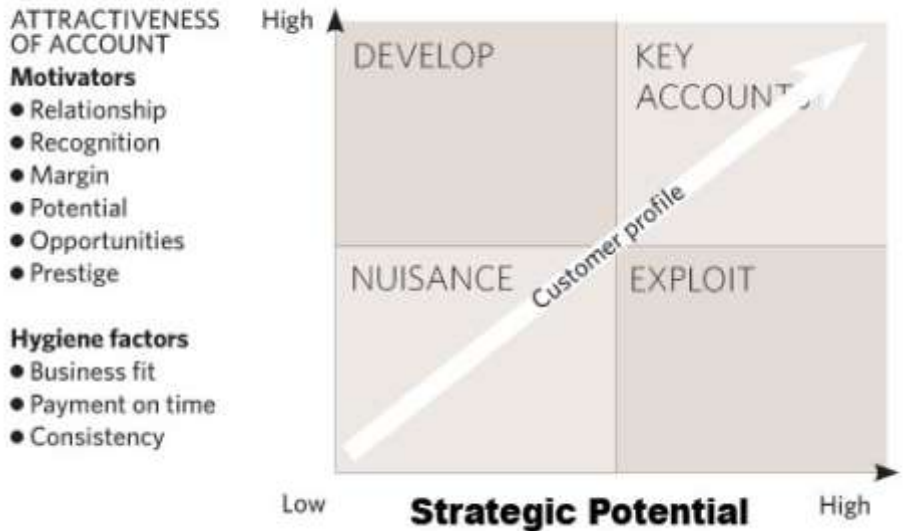
2. Thinking only in terms of supply risk is too limiting. The better question, says Williams, is: Could this supplier contribute to a real improvement in the way the buying organization works and competes? He terms this "supplier strategic potential."

That leads to a new framework that changes the axes to: (1) how strategic the relationship could become, on one side, and (2) the supplier's perception of the buyer, on the other. Why does this matter? Because it is no use trying to get strategic or collaborate with a supplier that isn't interested in doing so.

The resulting matrix is shown above:

Williams then translates this into four supplier category types, as shown on page 3.

CUSTOMER POSITIONING



Source: CPM Training

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These categories are briefly described as follows:

Control: Low profile with suppliers with which little strategic potential is seen. While the items or services purchased from that supplier may be important, there is little point in developing a deeper relationship. Buyers should simply ensure they get the best available deal and that deliverables are met using classic purchasing techniques.

Leverage: This area combines a low supplier strategic potential with a high customer profile, which could mean a buyer is able

to have a one-sided relationship; the buyer matters to the supplier but the buyer does not see advantages in developing strategic potential with them. The question becomes: Is the buyer maximizing its leverage? (similar to **Kraljic's Profit quadrant**). But take note of risk - for example, is the buyer taking an unduly high proportion of the supplier's business?

Rethink: The buyer has a low profile with the supplier with whom it thinks there could be strategic potential. This is a tricky area, says Williams, for which there are three main options: 1. Raise the buyers profile by increasing spend with that supplier; 2. Change to a supplier with whom the buyer would have a higher profile (assuming the strategic potential would be there too); 3. "Market" the company to the supplier more actively through other means.

Strategic: Buyer and seller matter a lot to each other. This one again is similar to the Kraljic quadrant of "Critical," but Williams says buyers must craft a structured, managed relationship which is truly integrated into both organizations. "If you are serious about a supplier relationship program, this is the area demanding attention first, and where your resources and effort should be targeted," he adds.

How to get started with this model?

"Try using this device; try positioning three or four suppliers in each quadrant and see if it helps thinking through the relationships," Williams says, adding, "Remember, tools like this are useful not so much in the questions they answer, but in the questions they raise."

Does this new framework bring anything new to the table, do you think? Are you using a similar supplier management model already? Let us know your thoughts at the Feedback button below.

SEND FEEDBACK

SUPPLIER RELATIONSHIP MATRIX



Source: CPM Training