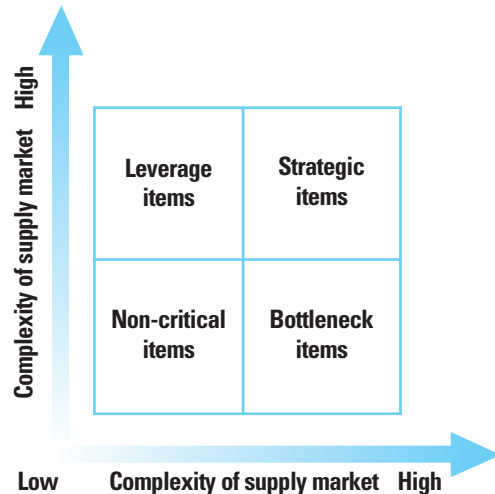


The importance of selecting a suitable relationship and strategy for different suppliers

Historically, and currently to some extent, purchasing professionals often have a reputation for beating up all suppliers for the best price. Although an adversarial approach may sometimes be appropriate, Purchasing and Supply Management (P&SM) professionals should select the most suitable relationships for different goods, services, suppliers and market influences. Risks such as raw material scarcity, political turbulence and increased competition can seriously disrupt supply; it is therefore important to safeguard against these risks by working closer with some of our suppliers.

Peter Kraljic developed a supplier positioning tool so P&SM professionals can classify their suppliers or supply categories into a 4 box matrix and then implement the most suitable strategy for dealing with that supplier.



Leverage items - have a high profit impact but a low supply risk. Suppliers are usually in abundance and there are often many substitute products available. Buyers are in a dominant position and it is best to maximise cost and obtain short term deals. A more adversarial approach is often used with these suppliers as the risk is low; a smaller amount of time is spent with these suppliers and eAuctions are a great way of negotiating the best price.

Strategic items - this is often the largest spend area for many organisations. Small price fluctuations can have a massive effect on an organisations profit levels. It is therefore advisable to create long term, mutual committed relationships with these suppliers. Often organisations create joint ventures or partnership arrangements with these suppliers; the danger occurs where there is an imbalance of power between buyer and supplier.

Bottleneck items - are often low value but high risk items. They could include MRO items that are bespoke or over-specified and therefore alternative options are limited. Items in this quadrant are supplier dominated. Buyers should look to seek alternatives and standardise products. Where this is not possible long term contracts should be sought.

Non-critical items - are generic goods that are available from many suppliers. Items such as stationery and office equipment would fall into this category. These are low value items, generally less than 20% of overall spend, but have a high administrative cost. Buyers should look to reduce the number of suppliers where possible and use either e-procurement systems or procurement cards to reduce the administrative burden.

Summary

Buyers generally try to move items in a clockwork pattern from bottleneck to non-critical, to leverage, to strategic. The higher risk bottom two quadrants should be as empty as possible, and the top two quadrants should take up most of a buyer's attention. This is a useful tool to categorise spend within an organisation, identify risks and take the most appropriate action. Depending on which quadrant your supplier falls into will help determine the most appropriate relationship and the level of power and influence you can have on them.

If you wish to take this process one step further, more astute buyers will carry out the reverse process and think about which box your suppliers would put you as a buying organisation in. This is a valuable process as you may view a particular supplier as strategic however they may feel that your spend level is relatively low with them and you are a nuisance customer for them. It is important to ensure that you are aligned with your supplier as much as possible in terms of size, power, interest and/or influence.