What is the Kraljic Matrix?

A major part of supply chain management is segmenting your vendor base. Once that’s done, your organization can develop supplier relationship management strategies against your map of suppliers. The Kraljic Matrix, also known as the Kraljic Model, is considered one of the most effective ways for accurate supplier segmentation – which is critical for any procurement organization since supplier relationship management plays such a big role in profit contribution.

What is the Kraljic Matrix?

The Kraljic Matrix is named after the man who created it, Peter Kraljic. He developed the method in 1983, as a way to segment the supplier by mapping them against risk and profitability, according to an article in the Harvard Business Review.

Purchasing departments use this approach to identify sourcing strategies for the various product categories where they will be making purchases. It helps them decide which long-term contracts are of the most strategic importance to the business and helps them see what kind of purchasing power they have and where. This ensures adequate supply management.

https://www.purchasecontrol.com/blog/kraljic-matrix/
What is Risk?

Risk refers to the likelihood of something unexpected happening in the supply chains that disrupt operations. If you’re a furniture business, an important area of spend is lumber suppliers. If a disruption happens with one of them, your company could be against serious issues.

Risks depend on various factors, including geographic location, supply chain length, and business model. Vendors based in developed counties, logistical delays and political uncertainty are unlikely to cause issues that will affect operations. But, if your vendor’s facilities are based in a developing country, the risk of legislative changes, political unrest, and even transportation routes are factors that affect you as a buyer.

What is Profitability?

Profitability, on the other hand, refers to the affect a supply item has on the company’s bottom line. Certain areas of spend, such as business cards and letterhead, have a negligible effect on profit. However, in other categories, a single source of supply has the potential to make or break your business. For instance, tech giant Apple, places a large portion of their profits on whether or not Foxconn can manufacture the scale of products to their specification.

“Putting risk with profitability gives you a 2×2 matrix to better segment your suppliers based on how they impact your business.”

Building the Matrix
On the horizontal axis, you’ll have your supply risk running from low to high. On the vertical axis, you’ll have your profit impact, running from low to high.

On the bottom, where there is a low supply risk and low profit impact, you’ll have your non-critical items. Next to that, where there is a high supply risk, but low profit impact, you’ll have your bottleneck items.

On the top, where there is high profit impact, but supply risk is low, you’ll have your leverage items. Next to that, where both profit impact and supply risk is high, you’ll have your strategic items.

**Non-Critical Items**

These items are anything related to product standardization, process efficiency, and anything you already have an abundant supply of. Think: paper, pens, tape, and other basic office supplies. The challenge for most organizations is the fees associated with shipping, transporting, and receiving them is often more than the cost of the items themselves.

As such, using a competitive bidding strategy on these items won’t really help you. Instead, you should build a strategy that involves using less of these office supplies, such as going to as many electronic records as possible. And, then you should work on finding a way to get the items the business does need to your office without the added expense. For instance, using a supplier that offers free shipping such as Amazon Prime, or Office Depot, can greatly reduce the costs associated with those items. And in the case of other non-essential items, you may be able to work out a group buying organization, where you’re sharing with others to get the best possible deal for everyone.


**Bottleneck Items**

These are things where you have low control over the suppliers or lack the ability to substitute and replace products. Anything that has production-based scarcity falls into this category. The risk to the supply is greater likely because you only have one or two vendors to choose from. Because of the reduced financial impact of the items in this quadrant, it’s typically safer to explore other options for vendors in this area. You can continue to nurture the relationships you have with existing vendors while you solidify other resources.

**Leverage Items**

The leverage items are those that have a high financial risk, but a low supply risk. Though the financial impact on the business is high, you can use different considerations and strategies for these items because you have a greater number of options available to procure them. Because of this, a competitive bidding strategy often works to help you get the best possible deal and fits into your overall competitive bidding strategy.

**Strategic Items**

These are the products and services you need that are critical to your business, because these products may be difficult to find, expensive, difficult to deliver, or directly affect the company’s profit. Though all four of the quadrants come together to give you a look at the entire picture, this one has the greatest impact on cash flow and profits, so it’s the one that you need to spend time going in-depth on first.

With the Kraljic Matrix, your business can get a better idea of how much profit you’re gaining (or losing) as a result of weaknesses and vulnerabilities in your supply chain. Awareness of the four quadrants ensures purchasing managers will be able to make their procurement processes more streamlined, focusing on using the right purchasing strategies for each item based on where it falls in the matrix. Not only this, but also, they can make better decisions, and focus more of their efforts on the relationships that are paramount to the business’s financial success. They may also be able to identify opportunities for alternative sourcing or outsourcing that save the company money.

PurchaseControl can help with supplier inventory management, making it easier to manage your supplier relationships and negotiate better long-term contracts with the strategic partnerships that matter most to your business.

*Find Out How*

https://www.purchasecontrol.com/blog/kraljic-matrix/
About PurchaseControl

PurchaseControl is cloud based procurement software for business spend management. We empower businesses by providing greater transparency and oversight into the purchasing process. With PurchaseControl, you have the flexibility to manage how spend actually happens instead of how you wish it would happen.

The entire PurchaseControl team has experience within a range of businesses, and as such, we bring a practical, holistic approach to purchasing. We understand what it takes to run a business and apply that knowledge to make PurchaseControl as effective as possible for all users.

Learn more at www.purchasecontrol.com

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