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 Kraljcic. 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.

https://planergy.com/blog/kraljic-matrix/
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.

**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 less likely 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.

https://planergy.com/blog/kraljic-matrix/
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, including improving supplier relationship management with key suppliers. They may also be able to identify opportunities for alternative sourcing or outsourcing that can save the company money.
What’s your goal today?

1. Use PLANERGY to manage purchasing and accounts payable

We’ve helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our “Solutions” page to see the areas of your business we can help improve to see if we’re a good fit for each other.
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

2. Download our guide “Preparing Your AP Department For The Future”

Download a free copy of our guide to future proofing your accounts payable department. You’ll also be subscribed to our email newsletter and notified about new articles or if have something interesting to share.

download a free copy of our guide

3. Learn best practices for purchasing, finance, and more

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

https://planergy.com/blog/kraljic-matrix/
Related Posts