

# The Supplier Relationship Matrix

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We are currently seeing a lot of interest in the Purchasing world on more carefully managed supplier relationships and their potential to generate value.

Why now? Well, it's likely that many organisations have fully exploited classic savings methods, and have seen the benefits of eProcurement, while offshoring to lower cost regions no longer appears as straightforward as it once was. Maybe we need to look for ways of working smarter with the suppliers we have. How can they work with us in ways that will generate real gains; that will make a difference to the performance of our organisation?

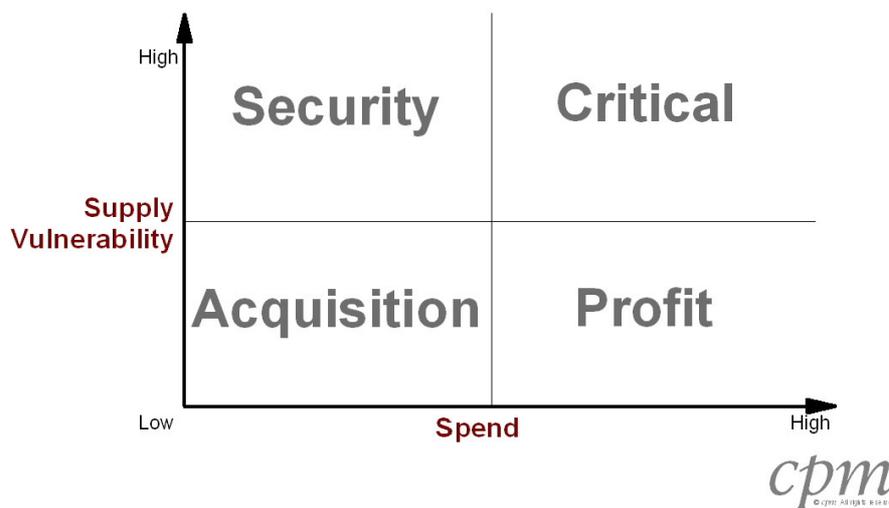
That though in turn begs questions:

- Which suppliers?
- Where should we focus effort?
- Are we going to attempt to cultivate similar relationships across the whole supply base?
- If not, how and why might they differ across the supply base?

This article provides a methodology for thinking about those questions which has proved very successful with our clients. Not surprisingly the output is a four-box matrix of the kind beloved by those in my profession.

Kraljic

## Supplier Positioning



Now when it comes to mapping suppliers, the King of models is undoubtedly Kraljic's Matrix, also known as Supplier Positioning.<sup>1</sup>

<sup>1</sup> Supplier Positioning uses the same Matrix for a slightly different purpose

# The Supplier Relationship Matrix

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For those of you not familiar with it, Kraljic (as I shall refer to it) has our spend with each supplier as one axis, and our vulnerability to their failure or disappearance as the other. The former has the great advantage of being objectively measurable, while the latter is a matter of judgment.

The model generates four categories of supplier

- Acquisition
- Security
- Profit
- Critical

Now I find this model very useful in all sorts of Purchasing issues. I think it particularly helpful in planned risk management, because after all one axis is specifically about risk. Not only that, but using the Matrix helps develop appropriately tailored bidding and negotiation processes.

However for our purposes, mapping out approach to Supplier Relationships, Kraljic has two main weaknesses

First, it does not take into account the supplier's perception of us, clearly a issue of some importance. It is assumed that our spend with a supplier is somehow a reflection of our standing in their eyes, but this obviously depends on how large the supplier is. £30,000 spent with your local taxi firm brings rather more influence than the same amount going to Microsoft.

Second, thinking of our suppliers in terms of how much harm they can do us may at times be useful, but it is somewhat passive, not to say negative. The more interesting question is 'could this supplier contribute to a real improvement in the way our organisation works and competes?' This we will call Supplier Strategic Potential (Supplier SP)

## Supplier Strategic Potential

Here are the areas we might look to develop working with suppliers

- Innovation in products, services or processes
- Helping us to differentiate our own products or services so as to reduce competitive pressure
- Helping to reduce the time it takes to deliver new products to market
- Improved service levels
- Improved quality levels
- Outsourcing / offshoring
- Reduced capital requirement
- Cost reduction
- Risk reduction / elimination
- Joint forecasting
- Joint design

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- Joint investment planning
- Sharing market intelligence

It's important to bear in mind that we don't necessarily know whether this potential exists. Don't be too quick to write suppliers off. One of the most interesting projects I've been involved in, leading to major productivity gains, was initiated by a supplier of a material we'd regarded as mundane. If you're not sure, talk to them. That is, after all, the point

### Customer Profile

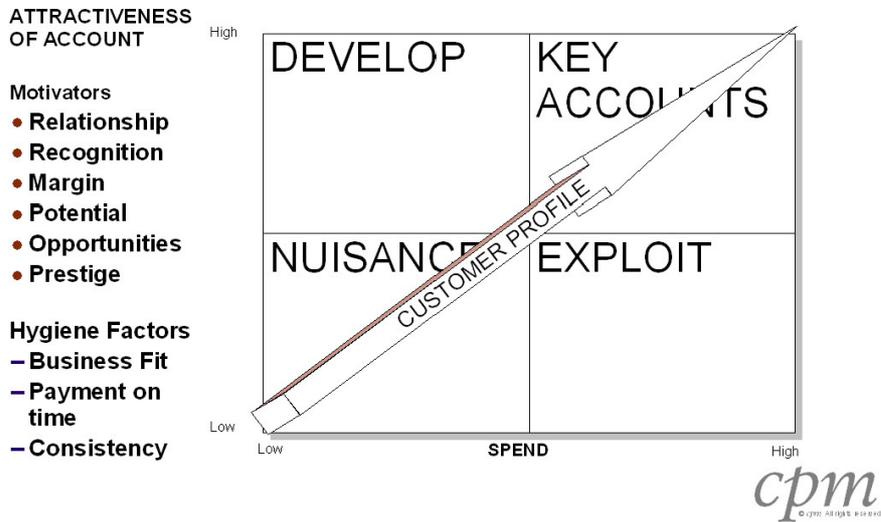
Returning the other issue, the supplier's perception of us, we clearly need to take this into our model. Clearly we should not invest significant effort trying to promote innovation with suppliers who are simply not interested, and whose attitude is unlikely to change. We will gain most talking to suppliers who regard us as important and spend as a proportion of their turnover is a key part of this. However that is not all that counts. Suppliers are also influenced by our behaviour, the benefits of having us as a client, and the future potential they believe we have as a customer. (When you talk to suppliers about this there are constant echoes of Herzberg's work on motivation, of hygiene factors versus motivational factors. For example, customers who talk about partnership but cannot get the bills paid on time receive an especially poor press.)

This is neatly summed up in another four box model called Customer Positioning, (or 'Supplier Preferencing'). All the non spend issues are bundled together under the heading of 'attractiveness of account'. I shall generalise the diagonal that runs from bottom left, low spend, difficult Nuisance customers, to top right, high spend Key Accounts who are good to work with, and call it Customer Profile.

The tricky part here is that while we may make educated guesses about how high our profile is with a particular supplier, it's hard to be sure. Suppliers aren't trained to answer a straight question about what they think of you, and in any case a supplier's organisation is made up of individuals who may have very different perceptions. Nevertheless we have to work at it

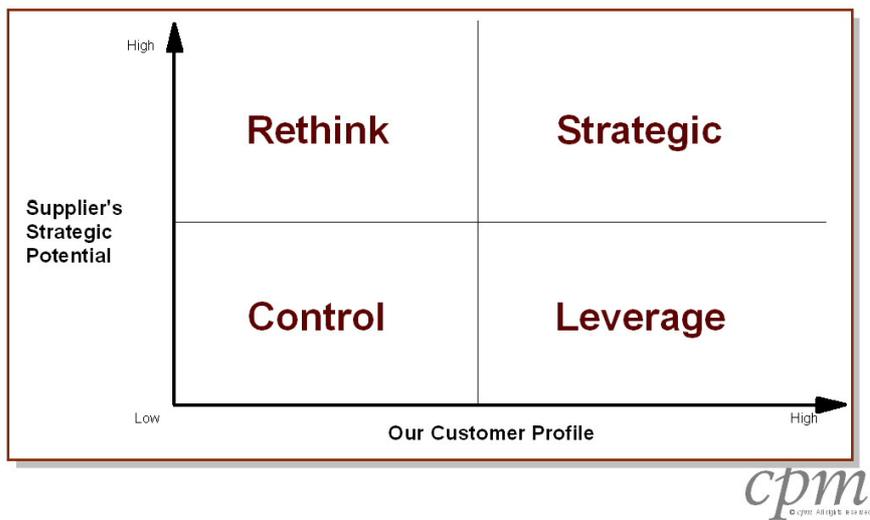
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# Customer Positioning



The Supplier Relationship Matrix  
 Now we have the dimensions of our model. Their Supplier SP, and our Customer Profile.

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This yields four combinations which I have called

## **Control**

Here we have a low profile with the supplier in whom we do not see strategic potential. Whilst the items or services we purchase from that supplier may be important, but it does mean there is little point in developing a deeper relationship with them. We have to ensure we obtain the best available deal and that deliverables are met using classic purchasing techniques. One group we worked with called this 'business as usual' which sums it up neatly

## **Leverage**

This area combines a low Supplier SP with a high Customer Profile, meaning that we have, potentially, a one-sided relationship; we matter to the supplier, but do not see advantages in developing strategic potential with them. The question here is not so much 'should we develop a deeper relationship?' as 'are we maximising our leverage here?'. In that respect it's a little like Kraljic's Profit box. There is a further issue here, which is the question of whether our high profile with some of these suppliers reflects a potentially risky vulnerability on their part. Does it arise, for example, because we are taking an unduly high proportion of their turnover and if so do we need a plan to reduce that risk?

## **Rethink**

Here we have a low profile with the supplier with whom we think there could be strategic potential. The problem is, we don't think we have their attention. This is a tricky area and essentially we have three options depending largely on why we've decided our profile is low with a particular supplier:

- Raise our profile by increasing our spend
- Market ourselves more actively to the supplier through other means. This might involve an audit to make certain that we're not causing problems through neglect of hygiene factors. It might mean changing old negotiating habits. It might mean changing our point of contact. It might mean doing something altogether more imaginative to change the supplier's perception of us as a customer, like offering to work with them on new ways of doing business or new market opportunities
- Change to a supplier with whom we would have a higher profile

## **Strategic**

This is clearly the area of greatest potential in that we have suppliers to whom we matter, and who we believe offer us the potential to do interesting things. Some of these may well be happening already, but we should now plan a structured, managed relationship which is truly integrated into both organisations. (How we go about that, and what the key tools are, will be the subject of a further article). If you are serious about a Supplier Relationship Programme, this is the area demanding attention first, and where your resources and effort should be targeted.

## **Conclusion**

Before you begin to use a tool like this there is a final question; which suppliers should we think about positioning on this matrix? The Kraljic Matrix is intended to cover the whole

## The Supplier Relationship Matrix

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supply base, and we could do the same with this, but there is clearly not going to be a return on the effort of considering our relationship with every supplier, even had we the time. Often it will be obvious which suppliers we should be thinking about, and it pays to exclude, for example, low spend, low risk suppliers, and those whose performance cannot have any impact on our own organisation's objectives.

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

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