

**SUPPLY CHAIN DYNAMICS, AGILITY  
AND RELATIONSHIP MANAGEMENT:  
BSS 421**



**WEEK 10: SELECTING STRATEGIC BUYER -  
SUPPLIER RELATIONSHIP  
BY  
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# Recap of Last Week's Topic



We discussed on sources of supply chain complexities. These were;

1. Various types of technologies that support supply chain function.
2. Emerging technologies are revolutionizing supply chains.
3. They have been adopted by manufacturers from developed economies.

# Objectives of Week's Topic



Overall objective is to describe how buyers and suppliers can choose strategic relationships.

1. Describe how Kraljic matrix can be used to identify critical supplies.
2. Describe how Kraljic matrix can be used to identify critical suppliers and buyers.

# Classification of Supplies in an organization



## References

1. Nia Budi Puspitasari , N.B.,i Rosyada, Z.F., Susanty, F., & Murdiantoro, A. K., ( 2021).  
Integration of Kraljic's Portfolio Model and Purchasing Price Assessment-DEA in Improving Procurement Efficiency. Proceedings of the 3rd Asia Pacific International Conference on Industrial Engineering and Operations Management, Johor Bahru, Malaysia, September 13-15, 2022 PP-3754-3765
2. Glöckner H.-H., Pieters R.,& de Rooij W.(,2005) Importance of the Kraljic matrix as a strategic tool for modern purchasing.  
LogForum 1, 1, 3 URL: <http://www.logforum.net/vol1/issue1/no3>

The above are short articles that provide insights on how supplies in form of items or goods in an organization can be classified.

# Classification of Supplies in an Organization



Purchasing function needs to identify all the items/ goods supplied to the organization and classify them with the aim of identifying the extent of planning and execution for purchase.

Methods of classifying goods.

1. **Use of ABC criteria.** Here the most important supplies are considered to be A, those that follow B etc. The list continues with the order of importance up to about four categories.

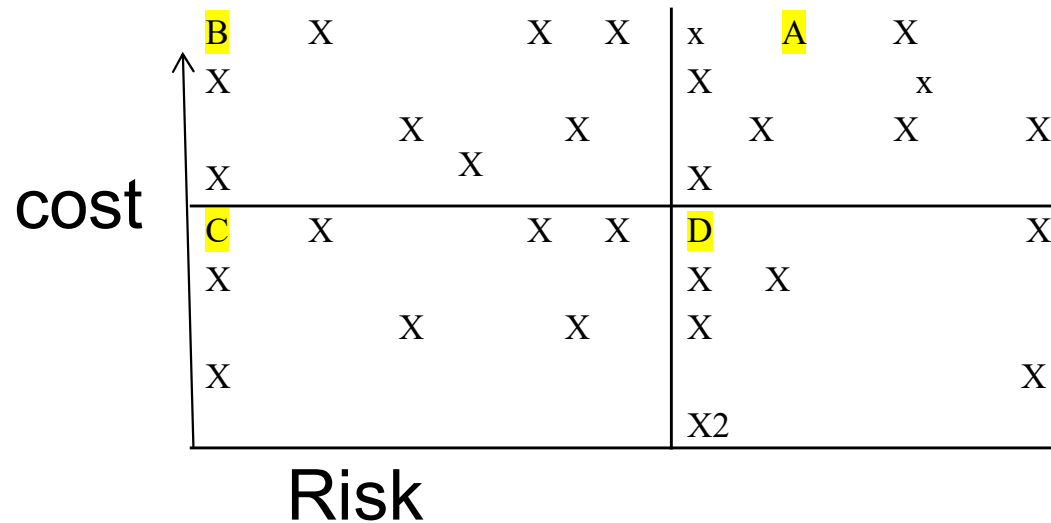
2. **Use of Pareto 20/80 rule.** The most critical supplies form 20 % of all the organizations supplies while the rest form 80%.

3. **Use of Kraljic Matrix.**

Glöckner H.-H., Pieters R., & de Rooij W. (2005) Importance of the Kraljic matrix as a strategic tool for modern purchasing.

LogForum 1, 1, 3 URL: <http://www.logforum.net/vol1/issue1/no3>

# Classification of Supplies by use of Kraljic matrix



# Classification of Supplies by use of Kraljic matrix



From the graph extract the items from sections A,B, C and D. By use of the Kraljic matrix classify the items as follows

Cost	strategic Security Supplies <b>B</b>	Strategic Critical Supplies <b>A</b>
	Tactical Profit Supplies <b>C</b>	Tactical Acquisition Supplies <b>D</b>

Risk purchasing Portfolio ( Kraljic, 1983)

# Classification of Supplies by use of Kraljic matrix



Characteristics of supplies :

## **Strategic critical goods**

- 1.High risk impact if they are not available at the right time
- 2.They are costly to acquire.
- 3.In total they are the smallest in volume but they take the highest organizational spend budget.
- 4.Limited supplies in the market.
- 5.They have long lead times.
- 6.They have technical complexity.

# Classification of Supplies by use of Kraljic matrix cont'd



## Strategic critical goods Cont'd

They are critical to the success of the organization

1. They pose the greatest challenge in terms of availability and the impact to the organization competitive edge, cost structure and profitability.
2. These goods deliver what the business exist to do. They are core to the operations of the organization, e.g. an aircraft to an airline. An airline cannot exist without an aircraft, a hospital without a medical expert, like a doctor, a manufacturing without equipment etc.

# Classification of Supplies by use of Kraljic matrix



Characteristics of supplies :

## **Strategic security goods.**

1. They are high cost but poses low risk to the organization.
2. Limited supply sources
3. Long lead times
4. Unique or have complex technical features

# Classification of Supplies by use of Kraljic matrix Cont'd



## **Strategic Security goods cont' d**

5. They offer limited or little opportunity for cost reduction or significant profit because it is costly for the manufacturer to produce them. If discount is given manufacturer goes at a loss,

6. The high cost of the item is insignificant compared to the potential cost of disruption to the business through the failure of supply. Therefore the buyer has no choice but to incur the high cost to acquire them. E.g. scanning equipment in the hospital.

# Classification of Supplies by use of Kraljic matrix Cont'd



## **Strategic Security goods cont' d**

Management of supply of these items should seek to minimize the constraints of availability. This is done through-

1. Developing alternative source of supply or if possible the buyer can manufacture instead of buying.
2. Establishing safety consignment stocks by ensuring that there is an alternative in the event of failure of such an expensive supply.
3. Developing closer supplier relationship to provide greater security of acquisition of such a supply.

# Classification of Supplies by use of Kraljic matrix



## **Tactical profit goods.**

The items in this quadrant are many.

They are low- risk, low-value items.

The items are many in number and if the organization be overwhelming in terms of storage.

Goods are available on a short notice because they have numerous sources in the market.

They have a standard design hence safety or specifications are not critical features of the item.

# Classification of Supplies by use of Kraljic matrix



## **Tactical profit goods (Routine goods)**

1. The items in this quadrant are many because they are used frequently.
2. They are low- risk, low-value items because there are many suppliers and buyers can buy them from the nearest outlets. They also have many quality substitutes in the market.
3. They have a standard design hence safety or specifications are not critical features of the item. E.g. packaging of milk or bread has standard quantities such as 1/2kg, 1kg etc .

# Classification of Supplies by use of Kraljic matrix



## **Tactical profit goods (Routine goods) cont'd**

- The management issue is to ensure that there is minimum effort in supply and management of low inventory levels. Inconveniences of the purchasing process and paper work should be eliminated by automation of procuring processes.
- Contractual long term agreements are not necessary for purchase of these supplies although any supply arrangement can be complemented with other methods of buying.
- There should be least cost for methods of acquisition.

# Classification of Supplies by use of Kraljic matrix



## Tactical profit goods ( Routine goods) cont'd

Why are these goods called tactical profit goods?

The following is example to show savings in purchase of these goods.

Example 10pack tissue paper.

Price ranges per brand is Ksh 200 to 600 in Kenya

If organization chooses to buy the Ksh 200 brand savings would be as follows.

- If organization uses 2 packets per day =  $2 \times 200 = 400$
- A week =  $2 \times 200 \times 5 = 4000$
- Month =  $2 \times 200 \times 5 \times 4 = 16000$

Total spend is Ksh16000

# Classification of Supplies by use of Kraljic matrix



## Tactical profit goods ( Routine goods) cont'd

If the organization chooses to use the Ksh600 pack brand the following would be the spend;

- A day  $2 \times 600 = 1200$
- Week  $2 \times 600 \times 5 = 6000$
- Month  $2 \times 600 \times 5 \times 4 = 24000$

Difference in choosing different brands ;

$$\text{Ksh}24000 - \text{Ksh}16000 = \text{Ksh} 8000$$

- **Please note: Monthly difference is 8000.**

# Classification of Supplies by use of Kraljic matrix



## **Tactical acquisition. They have the following characteristics**

1. Low cost but high risk to the organization.
  2. They are easily available .
  3. Standard specification.
  4. Lead times are critical.
  5. They have great potential of stopping work in the organization. E,g a syringe or an injection needle in a hospital.
- They should be purchased by both use of suppliers and spot purchase in the market to take advantage of the seasonal supplies.

# Supplier Preferencing Model



- It is applied Kraljic matrix to classify buyers and suppliers.
- Buyers and suppliers bring varying value to the business of one another. World Bank (2017) report on strategic procurement outlines the following as factors that can be considered when choosing a supplier.
- Market complexity and competitiveness;
- Delivery and supply security
- Suppliers and supplier relationships
- Borrower experience, capacity and capability
- Cost trends

# Supplier Preferencing Model Cont'd



- Technical innovation – the degree and rate of change;
- Sustainability (environmental, economic, social); and
- Business and operating environment.

World Bank ( 2017) Project Procurement Strategy for  
Development ; Short Form Guidance

# Supplier Preferencing Model Cont'd



Under the same view , the supplier also evaluates the buyer using the criteria of attractiveness and the value of the account in terms of goods or services that they purchase.

These can be ;

1.Having the latest technology

2.Benefits of association with the organization.

3.Ethical behaviour

4.Good publicity

5.High volumes of business

6.Paying on time etc.

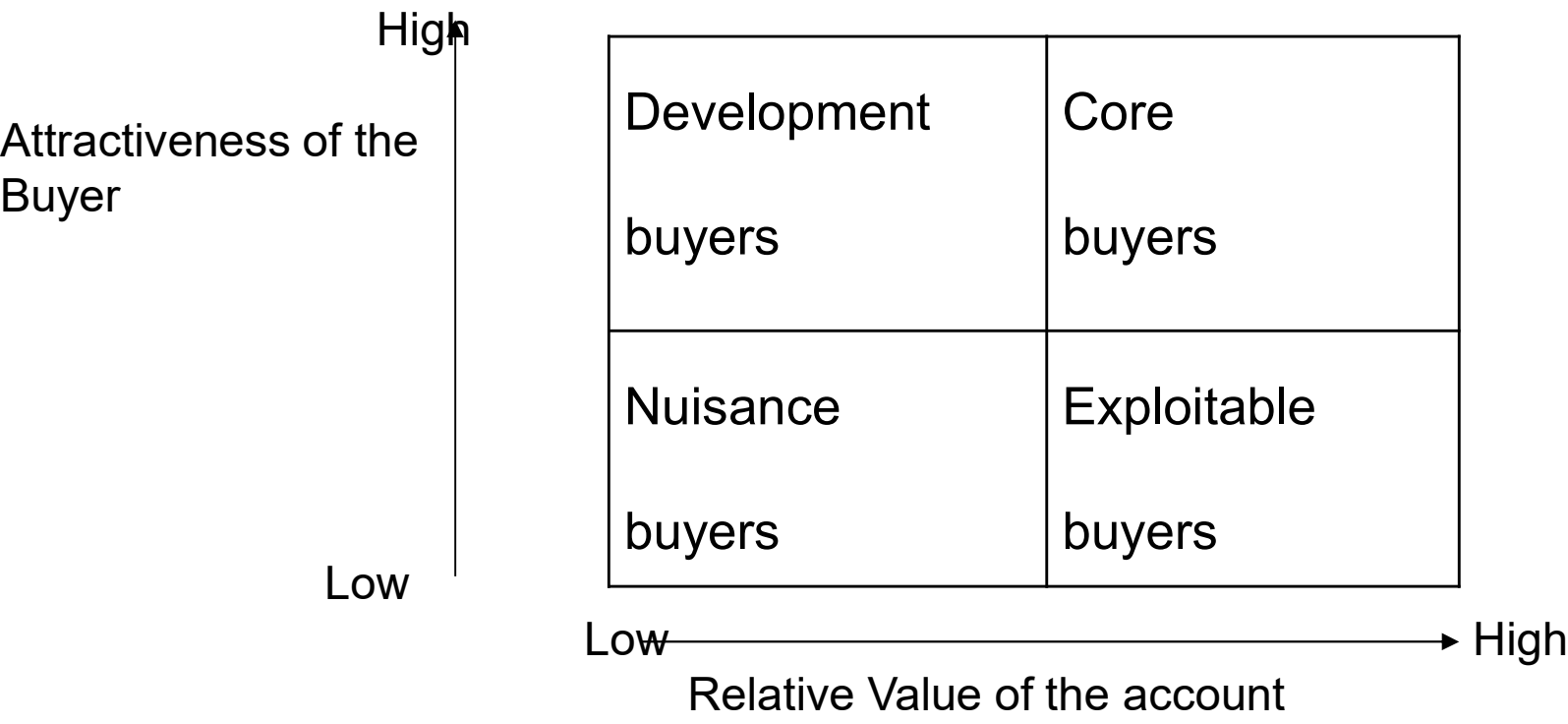
# Supplier Preferencing Model Cont'd



Examples of the unattractiveness of the buyer.

1. Being arrogant.
2. Being bureaucratic.
3. Being unreasonably demanding.
4. Decision making unclear.
5. Late payment etc

# Supplier Preferencing Model Cont'd



# Supplier Preferencing Model Cont'd



Analysis of the buyers

## **Core Buyers**

- 1.They are critical to the supplier.
- 2.Suppliers fight to keep the buyer in the event that there is threat.
- 3.They are the type of buyers that the supplier exists to supply.
- 4.The supplier seeks and maintains a very close relationship.
- 5.The supplier feels that the business is secure and does little to maintain the relationship but are keen in detecting and fighting any threat very early.

# Supplier Preferencing Model Cont'd



## Developmental buyers

- 1.They are the potential future buyers for the supplier.
- 2.The supplier's objective is to make the developmental buyers core buyers.
- 3.The supplier does not feel any demand from the buyer to be a burden.
- 4.Supplier accommodates changes in schedule without complaining .
5. Supplier informs the buyer of any changes in the market.

# Supplier Preferencing Model Cont'd



## Exploitable Buyers

1. The buyer has big volume of the business but is not attractive.
2. The supplier will not do anything for the buyer without charging for it.
3. The buyer and supplier in most cases disagree on the price lists and discounts.
4. However the supplier keeps the buyer because of the big business that generates supernormal profits and also the fact they always provide warning when they want to discontinue the business. Therefore their business is predictable.

# Supplier Preferencing Model Cont'd



## **Nuisance buyers.**

- The buyer is not attractive and the business value to supplier is low.
- The supplier keeps these buyers because of either the location or the higher costs of switching the business to another buyer.

## **Further reading on Supplier preferencing.**

Canieëls M. C. J. & Gelderman C. J (2005).  
Purchasing strategies in the Kraljic matrix—  
A power and dependence perspective.  
Journal of Purchasing & Supply Management ( 141–155)

# Choosing Strategic Relationships and Supply chain dynamics



1. They provide competitive advantages that are not visible to the competitors.
2. Relationships can be used to lock the business of the suppliers such that switching to the competitor is not easy.

# Summary of the Topic



The topic has covered -;

1. Methods of classifying goods found in an organization.
2. How to classify all goods in an organization in terms of cost and risk they pose to organization if lacking.
3. Classification of goods in an organization by use of Kraljic Matrix.
4. Description of characteristics of goods found in an organization.
5. Use of Kraljic matrix to classify buyers.
6. Characteristics of various types of buyers.

# Task for the Week



1. What is the role of ethical behaviour in buyer supplier relationship and supply chain dynamic?
2. How does Knowledge help an entrepreneur in appreciating the importance of being genuine in business relationship?

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*THANK YOU ALL  
WISHING YOU WELL  
HAVE A LOVELY WEEK*