He who every morning plans the transactions of the day and follows out that plan carries a thread that will guide him through the maze of the most busy life. But where no plan is laid, where the disposal of time is surrendered merely to the chance of incidence, chaos will soon reign.

– Victor Hugo
The first Portfolio matrix was described by Fisher in 1970 and later refined by Kraljic in 1983 and applied to procurement. Portfolio Analysis is used to identify optimal strategies for category sourcing, based on an assessment of two of the most critical factors affecting a supply market:

- sourcing complexity or risk
- spend impact relative to the buying organisation’s total spend

Plotting these two elements in a four-box matrix enables overall strategy to be determined and action plans developed for each spend category. This ensures that category management is proactive rather than reactive.
An essential tool to inform strategy

- Categorises all spend, indicating
  - the best approach to negotiation
  - where risk management plans need to be established
  - the best use of internal resource to deliver results
    - matching of buyer skills to each quadrant
    - distribution of workload across the team
    - phased strategic plan
  - those categories where supplier relationships need
    - developing
    - changing
    - removing
  - the necessity for business-wide adoption of sourcing strategy
Do you adopt the same approach to everything you buy?
For example: same approach...?
Portfolio Analysis acts as a filter

Sourcing Strategy

- Low spend
- High spend
- Complexity
The tool is driven by key dynamics

- **Sourcing Complexity**
  - How difficult is it to buy the product/service?
  - Have we internally restricted our options?

- **Relative Spend**
  - of the product/service compared with the total spend
Two dynamics make it more difficult for you

- People
- Culture
- Process
- Values
How do you think these EXTERNAL factors make it more difficult for you to buy?
## Sourcing complexity/risk: external

### Supply chain

- Do exclusive channels to market exist?
- Who owns the tooling?
- Are there Intellectual Property issues?
- What are the switching costs?
- Is make/buy an option?
- What is the capacity across the chain?
- Are there inherent risks: too many steps?
- How many suppliers do we need to ensure continuity of supply?

### Industry Curve

- How competitive is the market?
- Can we create competition?
- Who are the potential new entrants?
- Are ‘substitutes’ available, now and future?
- Should we make an acquisition/integrate?
- Are there dominant suppliers: monopoly?
- Supply v demand – local v global
- What investment is made: are we reaching obsolescence?

### Market influences: Porters and PESTLE

- Political: does the government intervene? Tariffs...
- Economic: how do exchange rates impact LCCS?
- Social: what are the ethical issues around buying from third world?
- Technological: who has the competitive edge, is this a constant?
- Legislative: what new regulations will impact suppliers?
- Environmental: what is the carbon footprint?
- Is there supplier dominance: collusion?
- Can we lessen the difficulty through aggregation?
But let’s assume everything is OK

✓ Availability
✓ Capacity
✓ Free market
✓ Competing players

Easy – right?
Not necessarily...

How might your business make sourcing difficult for you?
### Sourcing complexity/risk: internal

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Specifications</th>
<th>Contracting options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do people understand what is to be purchased?</td>
<td>Have we designed the product/service around a supplier’s solution?</td>
<td>Are there termination rights within the contract?</td>
</tr>
<tr>
<td>Are there undue preference and prejudice towards a supplier?</td>
<td>Are suppliers using our test facility to launch new products?</td>
<td>Do framework agreements prevent use of alternative suppliers?</td>
</tr>
<tr>
<td>Is there ‘tunnel’ vision clouding the bigger picture?</td>
<td>Who owns the intellectual property?</td>
<td>Are internal costs of manufacture understood?</td>
</tr>
<tr>
<td>Have you switched supplier before a few years ago and it failed?</td>
<td>Do we have design capability internally?</td>
<td>Is there a tendency to buy domestic products?</td>
</tr>
<tr>
<td>Are ‘egos’ an issue that needs to be overcome?</td>
<td>What propensity is there to assume ‘risk’ for the design?</td>
<td>Do prequalification requirements preclude some suppliers?</td>
</tr>
<tr>
<td>Perhaps the total cost of ownership is not clear</td>
<td>How can you remove references to ‘brands’ and trademarks?</td>
<td>Are there caps on the term of the contract that can be offered?</td>
</tr>
<tr>
<td>Are Business Needs v Business Wants being clouded?</td>
<td>Is the standard being used widely known?</td>
<td>Will certain clauses (payment terms) deter some suppliers?</td>
</tr>
<tr>
<td>Do we have suppliers that we refuse to do business with?</td>
<td>What customer/industry requirements apply?</td>
<td>Are you regarded as an ‘attractive’ client?</td>
</tr>
</tbody>
</table>
Now let’s consider our spend

• Intuitively we know whether we are spending a lot of money on a category – or do we?
• Using directional spend relative to total spend is fine as an indicator – pareto can help
OK, so let’s start to look at the tool

**High Spend impact (£)**

- **Leverage**
  - Save money
  - **Relationship Focus**
  - Aggregate
  - **Routine**
  - Standardise and aggregate
  - **Bottleneck**
  - Manage risk

- **Strategic**
  - Gain competitive advantage
  - **Total product mix**

**Low**

- **Easy**
- **Sourcing complexity/risk**
- **Difficult**
How would you categorise these now?
A category might be split and fit into more than one quadrant

Leverage
- Air
- Hotels
- Car rental

Strategic
- Agency

Routine
- Taxis
- Meals
- Sea

Bottleneck
- Rail

Supply market
- Aggregation
- Consolidation
- Relationship

Sourcing strategy will be driven by some key factors
It is so important to get this right...

- Check – was the journey to strategic planned?
- Check – can we get strategic/competitive advantage?
- Check – is it sustainable?
- Check – is the business aligned?
- Check – is the supplier on board?
What sourcing actions should you take?

Bottleneck
How do you think you can manage/minimise the two areas of difficulty to develop strategy?

Internal sourcing difficulties

External sourcing difficulties
Some ideas

- Client influence
- Options generation
- Stakeholder awareness sessions
- Internal champions
- Specification challenge
- Restructure supply chain
- New entrants
- Support entrants through contracts
- Research & analysis
- Source globally
Routine: make things simple

Aims
- Effort minimisation, efficiency maximisation
- Decrease in number of suppliers
- Simplification of requisition process
- Clustering – into Leverage

Approach
- Task orientation, simplification
- Limitation of buyer–supplier relationships to no more than Approved
- Minimisation of contractual commitments
- Provision of management information by suppliers

Actions
- Use of e-sourcing tools
- Product standardisation
- Inter-divisional volume aggregation and data sharing
- Simplification of procurement process
- Outsourcing of spend: e.g. FM
- Use of catalogues
Leverage: optimise your strength

Aims
• Effective use of buying power
• Maximisation of specifications and performance
• Minimisation of unit price
• Avoidance of inadvertent move into the Strategic quadrant
• 1–2-year aggregation opportunities

Approach
• Absence of long-term contracts
• Blanket orders
• Development of new approaches
• Avoidance of long-term relationships
• Maintenance of simplicity
• Maximisation of discounts

Actions
• Use of extensive Conditioning
• Tough negotiation
• Numerous techniques
• Unpredictable behaviour
• Frequent changes
• Rotation of categories
• Rejection of price increases
• Market monitoring
Bottleneck: manage the risk

**Aims**
- Guarantees of product/plant availability
- Consideration of make-or-buy options and alternative sourcing solutions
- Removal of criticality
- Substitution
- Forecasting to assess dependencies

**Approach**
- Use of detailed financial skills
- Influencing of Business Needs
- Creative options generation
- Establishment of closer buyer–supplier relationships
- Sophisticated stakeholder engagement models

**Actions**
- Application of Risk and Vulnerability Analysis
- Extensive sourcing activity
- Extension of notice periods
- Knowledge of substitutes
- Long-term agreements
- Monitoring of the market and suppliers
- Use of front-end package pricing, contracting options
- Application of Specification Challenge
- Reassessment of customer needs
- Consolidation with Leverage items to improve leverage
- Inventory generation
- Testing of alternatives
Strategic: get what you deserve

**Aims**
- Achievement of competitive advantage
- Decrease in total cost of ownership, continuous innovation
- Consideration of joint ventures
- Commitment to relationships
- Obtain competitor intelligence

**Approach**
- Participation in joint ventures, partnerships, mutual exclusivity arrangements
- Establishment of long-term, detailed agreements
- Shared vision

**Actions**
- Long-term relationships framed by appropriate termination clauses
- Sharing of resources (money, people, technology)
- Clear understanding of supply chain and opportunities
- Absence of threatening behaviour
- Application of cost modelling, open-book costing
- Performance measurement
- Use of principled price clauses and negotiations
- Development of suppliers to expand the market; approval of alternative sources
What quadrants do you think these negotiation styles are suitable for?

<table>
<thead>
<tr>
<th>Leverage</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tactical</td>
<td>Anger</td>
</tr>
<tr>
<td>Creative</td>
<td>Principled</td>
</tr>
<tr>
<td>Threat and coercion</td>
<td>Analytical</td>
</tr>
<tr>
<td>Emotion</td>
<td>Salami slicing</td>
</tr>
<tr>
<td>Reciprocal</td>
<td>Guilt</td>
</tr>
<tr>
<td>Carrot and stick</td>
<td>Hit and run</td>
</tr>
<tr>
<td>Routine</td>
<td>Bottleneck</td>
</tr>
</tbody>
</table>
So...

- Plan your sourcing and functional strategy to
  - consider the market place
  - recognise constraints
  - avoid suboptimal relationships
  - capture team strengths
  - negotiate appropriately

- Which will
  - reduce risk
  - save money
  - raise profile
  - generate focus
Supplier’s Perception Matrix: factoring in the supplier’s view of your account
Executive summary

• Marketing models are used to inform how customers view client accounts
• It would be arrogant not to consider the supplier’s view of you
• If you know how suppliers view you it will help to:
  – position negotiations
  – plan relationships in order to
    • develop some
    • exit others
  – understand supply chain risks
Do you think suppliers charge all clients the same amount?

What influences how much you pay?

The Normal Distribution Curve

2.2% 13.5% 68.4% 13.5% 2.2%
Do you think how much you spend with them is important?

Turnover is vanity... profit is sanity... cash is reality!

We often forget PROFIT
What drives margins?

### Cost Drivers

- Raw material prices
- Labour costs
- Overheads
- Fixed costs
- Profit

Volumes; Price Increases; Cross-Selling all have a direct impact
Why, then, do suppliers love you?
Many things influence their view of you

- Business model: 
  - volume
  - value
- Industry cycle
- Penetration into your sector
- Other divisions/products
- Referrals
- Cost to replace your business
- Margin achieved
- Who they deal with
- Broken promises
- Negotiation/tender process
- Your success

So you must condition them from the outset and let them know how attractive you are!
Supplier’s Perception Matrix

- **Opportunity**
  - Realise the account’s potential
  - Get embedded
  - Grow volume

- **Core**
  - Protect your interests
  - Nurture position

- **Exploitable**
  - Maximise current income

- **Nuisance**
  - Low attention unless ambitious for growth

- **Future value (a/c attractiveness)**
  - Low

- **Account profitability**
  - Low

  - High
An approach...

In principle, there is nothing wrong with this... but where do you think it goes wrong with suppliers?
Nuisance: show them the opportunity

Features
- Already have market dominance
- Fail to see value
- Have been pushed into position
- Low service levels
- Despondent OR
- Entry level point

Buyer Actions
- Grow the account
- Broaden product mix
- Find a new supplier
- Recognise own dominance
- Consider increasing PBIT to supplier
- Reinvigorate
Opportunity: seek to maintain interest

Features

• Importance of account is recognised
• Potentially bid at low margin to win the business
• Absolutely dedicated to supporting the account
• Flexible to demands
• Innovative
• Still uncertain about the longevity of the relationship

Buyer Actions

• Determine whether supplier can maintain position in short–longer term
• Assertively push for improvements in the account
• Seek to grow the account
• Look at principled pricing mechanisms
• Encourage supplier to broaden account base
Core: ensure you are getting 5-star service

Features
- Margin is recovered through price or service
- Supplier will protect position
- Elite team in place servicing the account
- Continuously striving to get closer to remove competitive threat
- Selling on features, closing down the specification

Buyer Actions
- Determine whether additional profit being made is worth it: i.e. there is a payback in terms of competitive advantage
- Drive hard to ensure service is at the highest level
- Recognise strength of own position
Exploitable: make or break

Features
- Minimum level of service is being provided
- Supplier is maximising the margin potential
- Relationship may be strained
- Power appears to rest with the supplier
- Complacent

Buyer Actions
- Determine whether the drift in service is a deliberate act
- Challenge the supplier to be more responsive
- Potentially plan an exit strategy if it is clear that the relationship cannot be recovered
What are the signs that they no longer love you?

- Failure to return calls
- Everything becomes an issue
- Changes to the account management team
- Price increases
- Becoming vague around commercials
- Special treatment becomes diluted
- Service levels start to deteriorate
- Can’t access senior management
- Excuses
- Flippant/arrogant
- Request for dignified exit

Opportunity

Nuisance

Exploitable

Core
### Why does their view change?

- **Opportunity**
  - New CEO/CFO with fresh agenda
  - Exiting/entering the market/sector
  - Investing resources into other products/technologies
  - Becomes busy, so can choose to service only those clients on a high margin
  - Financial necessity: need to gain either volume or margin growth
  - Switch from growing the top line (turnover) to the bottom line (profit)
  - The client: behavioural shifts over a period of time
  - Merger/acquisition with new values
  - New buyer with fresh demands/expectations
  - Failure to fulfil original promises in RFQ; perhaps never any real intent
  - Positive client support and endorsement throughout with time allocated and effective contract implementation
  - Sees emerging markets and new opportunities

- **Core**
  - Opportunity
  - Core
  - Nuisance
  - Exploitable

---

*SpringTide Consulting Ltd 2010*
How quickly can you react?

• Supplier’s walking away from accounts is very real – should you care?
  – Routine and Leverage
  – Strategic and Bottleneck
    • If market driven you have a BIG problem!!!
## Team exercise: Mapping respective views

<table>
<thead>
<tr>
<th>Relative Spend</th>
<th>Leverage</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Routine</td>
<td></td>
<td>Bottleneck</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Attractiveness</th>
<th>Opportunity</th>
<th>Core</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nuisance</td>
<td>Exploitable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sourcing Difficulty</th>
<th>Account Profitability</th>
</tr>
</thead>
</table>

**Step 1** – Choose 2 categories of spend  
**Step 3** – Identify the Portfolio Position  
**Step 4** – Identify the Supplier Perception Position  
**Step 5** – What are your observations?
Creating a ‘match’ requires a relationship

<table>
<thead>
<tr>
<th>Dependence on customer</th>
<th>Routine</th>
<th>Leverage</th>
<th>Bottleneck</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Buyer power</td>
<td>Buyer power</td>
<td>Mutual opportunity</td>
<td>Good match</td>
</tr>
<tr>
<td>Low</td>
<td>Joint Power</td>
<td>Joint Power</td>
<td>Supplier Power</td>
<td>Supplier Power</td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
<td>Dependence on supplier</td>
<td>High</td>
<td></td>
</tr>
</tbody>
</table>
The minimum relationship is the ideal

- Time
- Effort
- Capability
- Mutual desire
- True advantage

Being good enough is not good enough – give customers a reason to be faithful
– Graham Roberts-Phelps
You should not hesitate to:

- Remove poorly performing suppliers
- Demand more from current suppliers
- Challenge all dimensions of the offering
- Destabilise using price and cost analysis
- Question the necessity for relationships
- Seek for changes to specifications
- Apply market intelligence
- Remove dependency where ‘competitive advantage’ is not being achieved
- Use multiple negotiation styles
To close our session

- Always consider both dimensions – buyer and seller
- Realise that views change
- Use conditioning effectively
- Don’t force relationships
- Plan the sourcing strategy: 1–3–5 years