

Beyond Kraljic & Chessboard – Navigating the New Era of Procurement

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Traversing Through Technological and Strategic Milestones

1983: A Pivotal Year in Technology and Strategy

In the transformative year of 1983, the technological and strategic landscapes witnessed pivotal shifts. The Motorola DynaTAC 8000X, the first commercial mobile phone, was granted approval by the FCC, marking a significant milestone in communication technology. Despite its hefty price of nearly \$4000, substantial weight, and limited functionality, the DynaTAC found its place in the market, symbolizing a step towards mobile connectivity.

Parallely, the music industry basked in the zenith of vinyl record sales, only to later be eclipsed by CDs, signalling the relentless march of technological progression. This year also saw the introduction of the Kraljic Matrix, conceptualized by Peter Kraljic and later spotlighted in the Harvard Business Review. This matrix, which categorizes purchasing strategies based on supply market complexity and purchasing importance, became a foundational framework in strategic purchasing and commodity group management, maintaining its relevance even four decades later.



A Journey Through Time and Strategy

Fast forward to 1985, the concept of time travel was popularized in pop culture by Doc Brown and his iconic modified DeLorean in the cinematic universe. His adventures through various epochs alongside Marty McFly captivated audiences and subtly mirrored the rapid evolution and reinvention witnessed in the telecommunications and music industries over the subsequent decades. The eventual convergence of these industries, through platforms like iOS and Android smartphones and streaming services like Spotify, epitomizes the transformative power of technological innovation.

Celebrating 40 Years

As we commemorate the 40th anniversary of these milestones in 2023, a critical reflection emerges regarding the sustained relevance and application of the Kraljic Matrix and its derivative, the Purchasing Chessboard, in contemporary strategic procurement. In a world that has witnessed dramatic revolutions in global markets, economies, and companies, the question arises: Why do these concepts from 1983 still significantly influence strategic purchasing today?



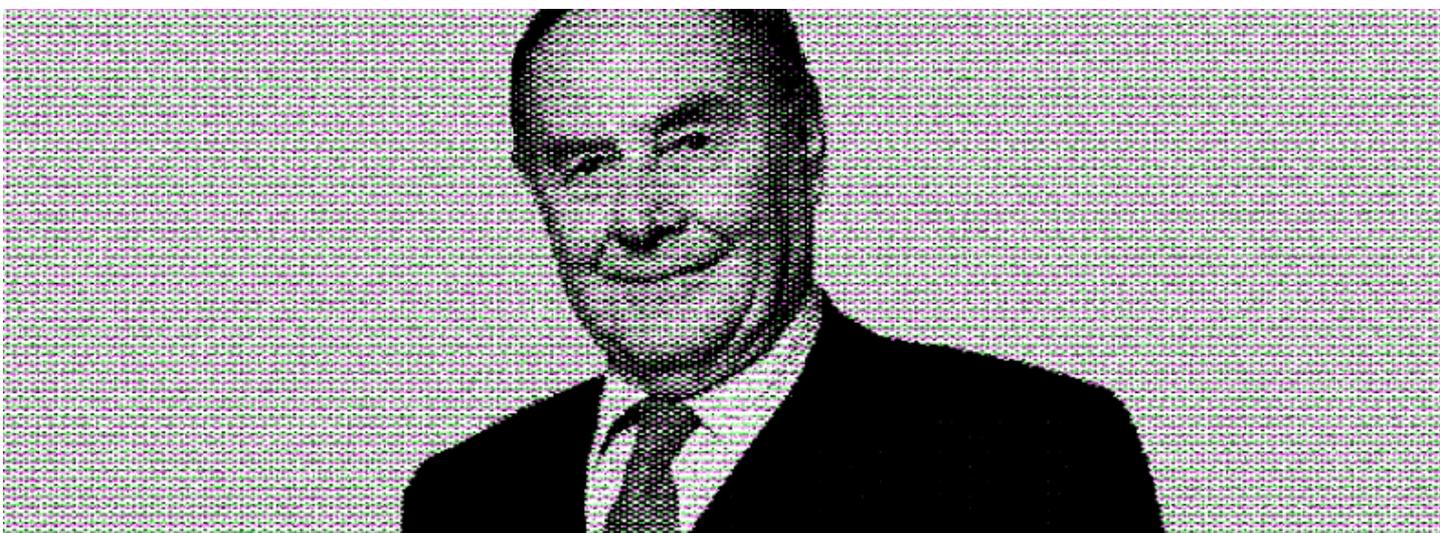
Diving Deep into the Kraljic Matrix

Understanding the Kraljic Matrix

While the Kraljic Matrix has ostensibly maintained a stronghold on strategic purchasing for four decades, a critical examination of its concepts raises pivotal questions about its sustained relevance in the modern procurement landscape. Conceived by Peter Kraljic and unveiled to the global business community through the Harvard Business Review in 1983, the Kraljic Matrix has historically been a foundational element in formulating purchasing strategies and managing commodity groups. However, its continued applicability and efficacy in today's dynamically evolving markets warrant a thorough and discerning analysis.

Classifying Purchases: A Four-Pronged Approach

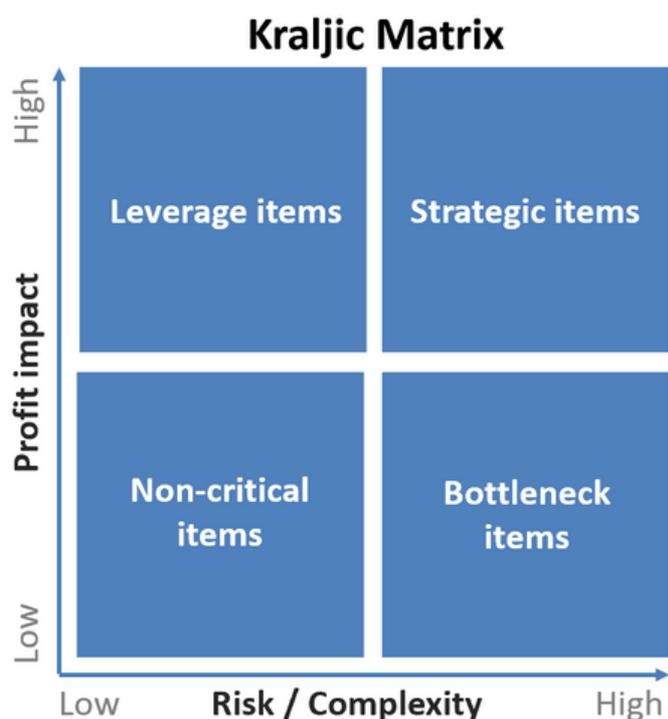
The Kraljic Matrix proposes a classification of an enterprise's purchases into four distinct quadrants, each determined by two pivotal factors: the complexity of the supply market (which may involve monopoly situations or barriers to entry) and the significance of the purchases (ascertained by the impact of a particular group of goods on the overall purchase turnover). This clustering facilitates companies in crafting purchasing strategies tailored to each identified commodity quadrant, aiming to optimize organizational outcomes.



Exploring the Four Elements of Kraljic's Matrix

- **Non-core (Non-critical) Components:** These are elements that exert a minimal impact on the business and are readily available in low-risk markets. Typically, the management of these components is delegated due to their lower strategic importance.
- **Leverage Components:** These are vital for the company and are situated in low-risk markets with abundant availability. The company usually leverages its bargaining power and capitalizes on the plentiful supply through frequent negotiations to ensure optimal management of these purchasing categories.
- **Bottleneck Components:** These have a marginal economic impact but pose a risk in terms of supply continuity. The strategy here leans towards establishing medium-term relationships between the supplier and customer to assure supply, often with a lesser focus on cost management.
- **Strategic Components:** These are crucial for the company in both economic impact and delivery conditions, especially when sourced from complex or high-risk markets. Strategies for these components encompass a medium to long-term horizon, continuous market analysis, technical development tracking, "make or buy" evaluations, alternative creation, and fostering stable, cooperative relationships with suppliers.

Source:



Analyzing the Practicality and Limitations of the Kraljic Matrix

Linking Conceptual Framework to Practical Application

Building upon the understanding of the Kraljic Matrix, let's delve into its practical implications in a typical procuring company, especially one with several Business Units (BUs) or diverse product/service lines. Imagine a scenario where different BUs have varied objectives: one aims to enhance operational efficiency, another is embroiled in innovation competition, while others are navigating through sustainability risks and new product launches. Despite their distinct goals, let's assume a common need across all BUs: steel and plastics.

The Kraljic Matrix in a Multi-BU Scenario

The product group, viewed horizontally across the vertical BUs, reveals a universal requirement for steel and plastic. Applying the Kraljic Matrix, it becomes evident that these materials are "leverage" products, implying that market and bargaining power are pivotal value levers. Consequently, demand bundling emerges as a strategy to attain economies of scale and secure price advantages in purchasing.

However, the Kraljic Matrix, with its focus squarely on the relative market power of buying and selling companies, offers a somewhat myopic purchasing perspective. The segmentation into four quadrants, while determining the commodity group strategy, inadvertently decouples purchasing from the varied objectives of the different BUs. This narrow "power-play" approach and the horizontal orientation of the product groups not only undermine the long-standing ambition of purchasing to secure a seat at the "board table" but also, crucially, do not directly contribute to, and in some instances even overlook, the strategic corporate and BU goals.

Reflecting on Ruskin's Economic Law

In juxtaposition with the Kraljic Matrix, the 19th-century philosopher and social reformer John Ruskin's Law of Economics offers a timeless perspective on value and cost. Ruskin astutely observed: "There is hardly anything in this world that someone could not make a little worse and sell a little cheaper." He cautioned against the perils of price-driven decisions, highlighting that paying too little could risk losing everything if the purchased item fails to perform its intended function. Ruskin's law underscores the impossibility of obtaining substantial value for minimal money, suggesting that if you opt for the lowest offer, you must account for the risk and potentially, have enough to pay for something better.

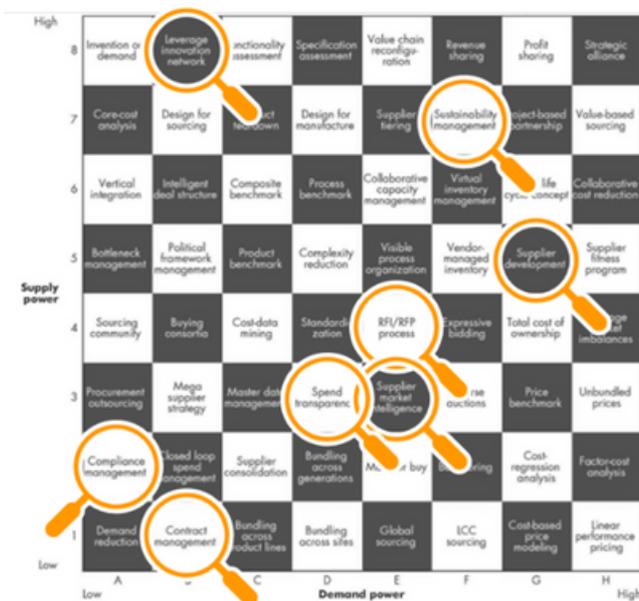
The Procurement Chessboard and Its Shortcomings

Let's delve deeper into another tool that has been utilized in strategic procurement: the Procurement Chessboard

Understanding the Procurement Chessboard

The Procurement Chessboard, developed based on the Kraljic Matrix, employs 16 suitable value levers per Kraljic Quadrant, intended to implement the commodity group strategy. However, upon closer examination, especially considering the previously discussed example, it becomes apparent that the chessboard, much like the Kraljic Matrix, also adopts a rather narrow market power perspective.

Although the chessboard does provide a value lever for "innovation", it is positioned in the bottleneck segment, "Bottleneck". Consequently, innovation is utilized merely as a tool to circumvent commercial dependence on a supplier, especially one with relatively high market power in comparison to the purchasing company. This approach results in innovation being decoupled from the overarching BU strategy. Ideally, purchasing should contribute to the innovation, sustainability, and/or agility line of the BU with all suitable commodity groups, irrespective of the Kraljic segment in which a commodity group is categorized for market power considerations.



Identifying Misalignments with Business Goals

A few examples illustrate the misalignment of the chessboard levers with overarching Business goals:

- Why is "supply market intelligence" and "RFP & RFI" limited only to leveraged commodity groups?
- Why are "Compliance Management", "Contract Management", and "Spend Transparency" restricted only to routine product groups?
- Why are "Sustainability" and "Supplier Development" confined only to strategic product groups?

The resounding answer to these queries is a clear: NO! These limitations underscore a critical need for reevaluation and revolutionization of the procurement process.

Envisioning the Future of Purchasing

Thus, the pivotal question emerges: How can purchasing revolutionize itself to be relevant and effective in 2023, akin to the evolution witnessed in the music and telecommunications industries? The subsequent pages will explore potential pathways and strategies to navigate through this transformation, ensuring that purchasing not only adapts to the contemporary business landscape but also becomes a strategic, value-adding entity within the organization.



Revolutionizing Procurement in the Digital Age

Embarking on a Journey Towards Revolutionary Purchasing

Let's now delve into the strategies and methodologies that could potentially catapult purchasing into the future, aligning it with the advancements observed in industries like music and telecommunications.

Strategic Business Scenario Modelling: A Forward-Looking Approach

In the quest to align purchasing strategies with overarching business objectives, Strategic Business Scenario Planning emerges as a pivotal approach. Moreover, the digitization of category management stands out as a significant accelerator, propelling procurement into its future.

Digitization of Strategic Purchasing: Navigating Through Complexities

But how does one navigate through the intricacies of digitizing a strategy, development, and implementation process? To answer this, a meticulous understanding of the process is imperative. Strategy development encompasses a sequence of analysis steps, each demanding cross-functional and potentially cross-country alignment due to the varied implications information can have across different functions and geographies. Furthermore, each subsequent analysis is contingent upon the results of its predecessor, creating a complex, interdependent chain of processes.

Automation vs. Augmentation: Weighing the Pros and Cons

Given this complexity, complete automation of the strategic procurement process seems an unattainable, if not risky, endeavor. The inherent probability of error at each step, stemming from varied interpretations and internal company policies, could exponentially amplify if the process were automated end-to-end. The resultant value lever, thus, risks being "precisely wrong" or "roughly correct" – both of which are undesirable and potentially detrimental. The ensuing black-box effect would render the final result nearly impossible to validate post-factum.

In contrast, a synergistic approach that leverages both artificial intelligence (AI) and collaborative human intelligence emerges as a promising alternative. Here, various AI components alternately enhance the process's stability, ensuring immediate validation of small-scale inputs and transparent traceability of the end result from validated individual steps, all while maintaining cross-functional coordination. Potential AI components might include an AI-supported market intelligence crawler, a "decision support engine" aligned with business and BU objectives, procurement-specific "Large Language Models," and an overarching "Machine Learning Layer" that acts as a digital adhesive along the process.

akirolabs: A Novel Approach to Category Management

akirolabs presents an innovative approach to category management, facilitating the weighing and balancing of various target dimensions, such as total cost, sustainability, resilience, and innovation, within the framework of scenario planning and optimization. "akirolabs strategic scenario planning" (SSP) melds artificial intelligence with collaborative human intelligence, thereby augmenting the strategy process.

With akirolabs, the journey back in time to the future of procurement can commence, offering a glimpse into a future where purchasing is not merely a functional necessity but a strategic, value-adding partner in the organizational ecosystem.

"...what you have created is significant... there is no doubt in my mind that this is a breakthrough innovation...akirolabs is on a trajectory to eliminate much of the category management function as we know it today."



Dr. Elouise Epstein
KEARNEY Partner

KEARNEY



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Concluding Thoughts: Augmented Strategic Business Scenario Modeling as the Future of Procurement

In the final analysis of the "BEYOND Kraljic and Chessboard" exploration, a stark contrast emerges between the traditional, power-play-oriented procurement strategies and the innovative, future-forward approaches that leverage augmented strategic business scenario modelling. The latter not only aligns with the evolving demands and complexities of modern procurement but also propels the function into a strategic, value-adding entity within organizations.

The inherent limitations and risks associated with automating traditional procurement strategies, such as the Kraljic Matrix and the Procurement Chessboard, are notably evident. Complete automation, while seemingly efficient, risks amplifying errors, misaligning with dynamic market realities, and potentially leading to strategies that are either "precisely wrong" or "roughly correct." This approach, rooted in power dynamics and often decoupled from overarching business and BU objectives, is not only misaligned with the contemporary, interconnected global market but also jeopardizes the strategic potential of procurement.

In stark contrast, augmented strategic business scenario modelling emerges as a beacon for the future of procurement, especially in the context of akirolabs' innovative approach. By synergistically combining artificial intelligence (AI) and collaborative human intelligence, this approach not only ensures the stability and validity of the procurement process but also aligns it closely with the strategic objectives of businesses and BUs. It enables procurement to navigate through the complexities of modern supply chains, address ESG-related challenges, and contribute to organizational resilience and value creation beyond mere cost savings.

In essence, while automating outdated, power-play-oriented procurement strategies is a pathway that risks obsolescence and failure, embracing augmented strategic business scenario modelling propels procurement into a future where it is not merely a tactical function but a strategic partner, orchestrating value chains and contributing meaningfully to organizational success and sustainability. This is the future where procurement not only ensures value beyond savings but also becomes an integral player in steering organizations towards sustainable, resilient, and value-driven futures.

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