Conditions for Deep Supplier Engagement

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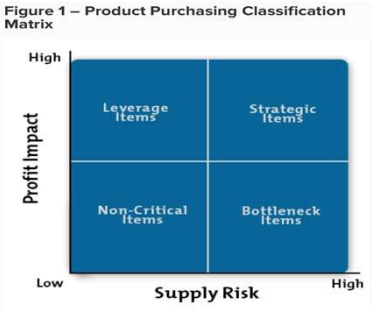
MIT GLOBAL SCALE NETWORK

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Motivation / Background

A majority of procurement functions have been dominated by Peter Kraljic's supplier strategy developed in 1983. Though a powerful tool, recent evidence suggests that a less exploitative and more collaborative relationship with suppliers creates a more valuable impact within the business.

Figure 1 – Product Purchasing Classification Matrix



Key Question / Hypothesis

What are the reasons and motivations as to why companies develop their suppliers, and how are suppliers developed in different business environments and contexts?

Relevant Literature

Kraljic, P. (1983, September 1). Purchasing Must Become Supply Management. *Harvard Business Review*, (September 1983). Retrieved from https://hbr.org/1983/09/purchasing-must-become-supply-management

Liker, J., & Choi, T. Y. (2004, December 1). Building Deep Supplier Relationships. *Harvard Business Review*, (December 2004). Retrieved from https://hbr.org/2004/12/building-deep-supplier-relationships

Pagell, M., Wu, Z., & Wasserman, M. (2010). Thinking Differently About Purchasing Portfolios: An Assessment of Sustainable Sourcing.



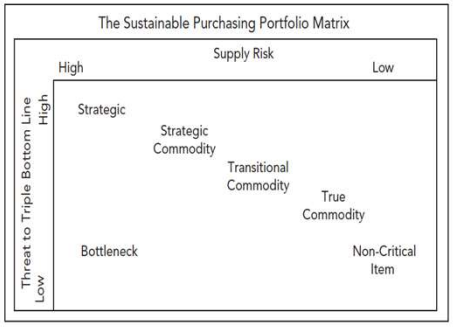
Prochaska, Amanda. "How Relating Is More Powerful than Competing." *Future of Sourcing*, 12 Dec. 2019, futureofsourcing.com/how-relating-is-more-powerful-than-competing.

Methodology

- **Analyze the various traditional supplier management strategies**
- **Conduct semi-structured interviews with four companies**
- **Use a cross-case comparison approach to identify similarities and differences among the companies**
- **Discover gaps in current supplier management strategies as compared to traditional sourcing strategies**

Pagell, Wu & Wasserman Strategy

The Sustainable Purchasing Portfolio Matrix

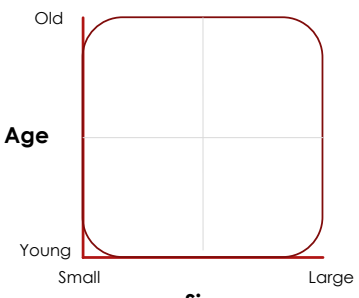


Strategy Comparison

- **Kraljic** looks at two main factors while establishing a supplier strategy: importance of purchasing and complexity of the supply market. Strategic, bottleneck, noncritical, and leveraged items exist.
- **Pagell, Wu & Wasserman** have a similar approach as Kraljic but break down leveraged items into three subcategories.
- **Liker & Choi** follow a very structured step-by-step supplier-partnering approach where they build extremely deep relationships.

Age & Size Matter

Basic: The sourcing function is mostly transactional focusing on obtaining the best price.
Intermediate: The sourcing strategy is focused on price in alignment with business goals. Strategic sourcing methods are used as needed.
Advanced: Strategic sourcing methods are strongly used in accordance with business goals. A structured process is followed in order to promote future growth.
Value-creating: The sourcing strategy is embedded within business units and seen as a value-creator throughout the company.



Contribution

An understanding of the various reasons why companies build close supplier relationships and that the strategy should be tailored to the current business needs and goals.

Results

It was found that many companies have similar goals when investing in supplier health, but that the sourcing approach might differ based on age and size of the business, along with the stage of growth the business is in.



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