Kraljic Purchasing Matrix

The Kraljic matrix is a tool that sorts what a company buys into four groups, so that each group gets its own sourcing strategy. Peter Kraljic, who worked at McKinsey, introduced it in a 1983 Harvard Business Review article called "Purchasing Must Become Supply Management". The idea is that buying everything in the same way wastes effort on small items and takes too many risks with important ones. We follow Karim, a procurement manager at an office furniture maker.

1. Two Questions

The matrix starts with two questions about every item we buy. The first is how much the item affects profit, through its share of total spending and its effect on our product. The second is how much supply risk it carries: how scarce it is, how many suppliers exist and how hard it would be to switch. We rate each item high or low on both questions.

Example: Before a family buys a washing machine, it asks the two questions: it is a big cost for the budget, so the profit impact is high, but many shops sell similar models, so the supply risk is low. The answers already suggest that comparing offers is worth the time.

At work: Karim asks the two questions about the wood, the electric motors, a special hinge and the office pens. He scores each one high or low for profit impact and for supply risk. Now the list is ready to be sorted.

2. Four Boxes

The two scores place every item in one of four boxes. Routine items have low profit impact and low supply risk, such as stationery. Leverage items have high profit impact and low supply risk, because there are many suppliers and a lot of money is at stake. Bottleneck items have low profit impact but high supply risk, and strategic items score high on both. Kraljic himself called the first box non-critical items.

Example: A family sorts its shopping: soap is routine, weekly groceries are leverage, a rare medicine sold by one pharmacy is a bottleneck, and school fees are strategic. Four boxes call for four different ways of buying.

At work: Karim places the pens in routine, the wood planks in leverage, the special hinge in bottleneck and the electric motors in strategic. Every item now has a box.

3. A Strategy for Each Box

Each box calls for its own approach. For routine items, the aim is to save effort by standardising, bundling orders and using simple ordering systems. For leverage items, we use our buying

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power by comparing suppliers, running competitive bids and switching when a better offer appears. For bottleneck items, we focus on securing supply with safety stock, a second source and backup plans, even at a slightly higher price. For strategic items, we build close, long-term partnerships and share plans with a few key suppliers.

Example: A family uses the leverage strategy for its groceries: it compares the prices of three supermarkets and shops where the basket is cheapest. The bill falls without any change in what the family eats.

At work: Karim applies the leverage strategy to the wood planks: he invites four suppliers to bid and chooses the best offer. For the electric motors, he applies the strategic approach and signs a long-term contract with joint planning. The pens are simply ordered from an online catalogue.

4. Review and Move

The matrix is a snapshot, not a permanent label. Items move between boxes when markets, prices or technology change, so the sorting should be reviewed regularly. A bottleneck item becomes routine when a second supplier is found, and a leverage item can become a bottleneck when a market gets tight. The matrix is also a simplification, so it works best together with the judgement of the buyers and the knowledge of the business.

Example: A rare medicine is a bottleneck item while only one pharmacy stocks it. When two more pharmacies begin to stock it, the family reviews the box and treats it as a routine purchase.

At work: Karim reviews the matrix every year and qualifies a second supplier for the special hinge. The hinge moves from bottleneck to routine, and the team can spend its time on the electric motors.

Conclusion

In summary, the Kraljic matrix sorts purchases by profit impact and supply risk into routine, leverage, bottleneck and strategic items. Four steps put it to work: ask the two questions, place items in the four boxes, choose a strategy for each box, and review and move. Used with judgement, it lets a company spend its effort where the money and the risk are.

Sources

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