

Purchasing Tool: Quadrant Analysis

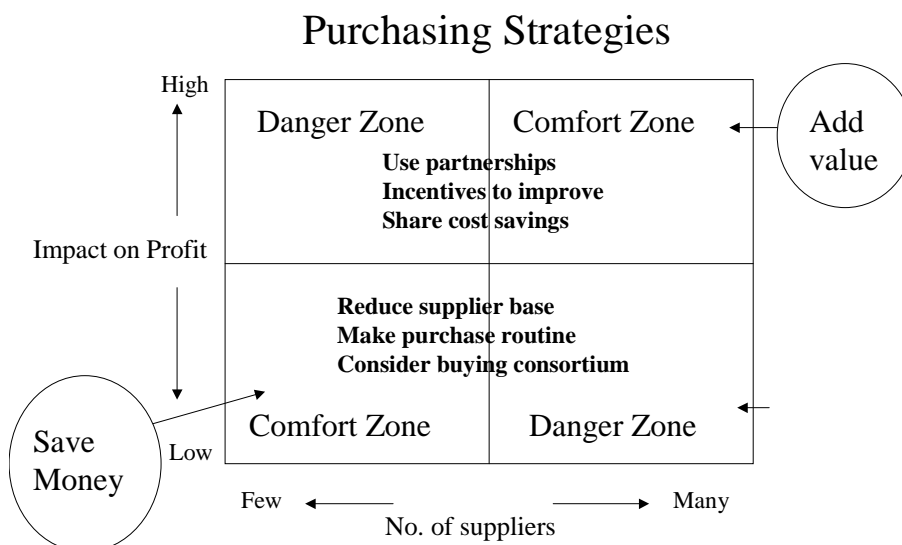
In this article written specially for the Buying Support Agency, **David Molian** of **Cranfield University** suggests a basic framework of analysis that will help you focus on what matters in your buying decision-making.

David Molian is Co-Director of Cranfield's Credo centre, which runs Britain's biggest and most successful programmes for owner-managers

Quadrant analysis: a simple but powerful analytical tool

Over the years I've found many businesses have benefited from quadrant analysis. This simple approach enables you to zero in on the key issues right across the organisation, and to communicate to staff what needs to be done as a result.

The chart below shows how this approach can be applied to your purchasing activity.



On the horizontal axis are **the number of suppliers your business contracts with**, running from few on the left to many on the right. Absolute numbers are less important than the relative numbers, as we shall see.

On the vertical axis is **the impact these suppliers have on your business's ability to make profits**. Low impact is at the bottom, high impact at the top.

It's now up to you to plot where you think your suppliers are located on this grid. Suppliers of critical raw materials or semi-finished goods – whether physical materials, intellectual property or even people! – are in the top half. Suppliers of routine re-buys or non-critical items (such as janitorial supplies or office stationery) are in the bottom half. If a group of suppliers providing a similar category are relatively few in number, they are located on the left, and vice versa. Approximation is fine, providing you capture the general trend.

As you can see, I've divided the grid into four quadrants. Compare the distribution of your suppliers against the commentary below:

Bottom left “Comfort Zone”: if you have suppliers concentrated in this box, congratulations! You are not wasting precious management and accounting resources on an excessively large supplier base for commodity purchasing. Perhaps you have already joined a buying consortium to streamline the process and cut procurement costs.

Bottom right “Danger Zone”: if you are straying into this territory, beware!! Almost certainly you are devoting too much precious time and effort to managing too many suppliers, and it's costing you into the bargain. This issue is not just a problem for the independent business. Not so long ago WH Smith featured in the business press when they announced they were cutting their suppliers of routine stationery items by over 75%! Consider the following courses of action:

- Reducing the number of suppliers
- Instituting routine re-buys from preferred suppliers, with over-riding discount in return for higher volumes
- Joining a buying consortium, to reduce staff time and save money

Top left “Danger Zone”: the red lights should be flashing and the alarm bells ringing. If your business is dependent on too small a number of critical suppliers, you are vulnerable. If you are let down, do you have a credible fall-back position? This is one area where ad hoc buying is best replaced by longer-term partnerships which assure you of continuity of supply. And if you can build in incentives to improve and share costs savings, so much the better.

Top right “Comfort Zone”: if you have multiple relationships with strategic suppliers, you are certainly on the right track. You should be assured of security of supply and better able to sleep at night! Your over-riding goal should be to work with suppliers who can add value to your own customer proposition. Cost savings are a nice extra, but the big pay-off for you will derive from a superior offering to your customers.

In conclusion

All the evidence points to too many smaller firms getting a poor deal on their procurement activities. By investing some time in analysis of the supplier base, managers can *both* cut costs *and* build superior value for their customers.

For more information on how the Buying Support Agency can reduce your business costs and improve supply efficiencies, simply telephone 0845 555 3344 or email info@buyingsupport.co.uk