

Supplier relationship management

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The purpose of this study is to justify the rationale of the additive product by using the Kraljic's portfolio matrix method. It also has the aim to illustrate the supply chain of the additives business and show its relationships to the users by showing it through the process cycle diagram and in the end, evaluate the commercial risks for the supply chain by making an assessment. Since the start of the plant, Borouge is getting the additives in a long term contract for one year from only one supplier except for some minor amount for special type of additive that came from other suppliers.

As the plant product rises from 450, 000 to 600, 000 tons per year, the demand of additives also increased. Additives is one of the most expensive items bought by the purchasing department for the company but they also save a lot for a good negotiation for their supplier before the contract has been agreed for a year of supply of the additives from them. The body By referring to the paragraph above, it shows Borouge's last year's situation and practice of additives business.

In addition to that, using Kraljic's portfolio matrix method diagram below which give us the idea on which criteria can be used in order to raise the profit impact of the company and reduce its market difficulty. Additives business is coming in a critical zone due to the profit impact (high saving value) and market difficulty due to the following reasons: 1. Several polyethylene plants are starts up with high consumptions of additives to secure our demand volume become difficult. 2.

There are limited certified suppliers for the additives which make the item expensive making companies have a default time to have a supplier that

they can trust. 3. This type of product is needed to be developed by having an invasion in continuous duration to fit partly with a new type of polyethylene product. As the purchasing department role is to buy and supply all the items needed by the company, there are five factors that the purchasing department has to reach which are price, time, place, quality and quantity for the additives business.

In order to reach to those targets the following steps are used:

- Consult with an end user to reach for the required product and know the future plan for this product such if there is any increase in capacity or producing a new product.
- Study economies and market situation to be updated with market prices changes.
- Keep a technical team to keep the innovation to keep and improve the quality.
- Get a good forecast of production needs for three years ahead to acquire the demand quantity at the right time and place.

These strategies are the general basic tools to identify the useful plan and target to be used by the procurement and it is not easy to reach all goals by the same percentage. However, the writer got a tool to start to set the strategy. As the additives business is in a critical zone because of the different factors that was stated earlier, a single supplier would result for the following:

- Loss of competitive pressure.
- The risk level of the service of one supplier is very high in which if any problem happened to any reason; it will lead into a big loss for operation.
- High dependency of the supplier.

Using the Kravitz matrix will help define the company's requirements for raising the profit impact and reducing the market difficulty by reaching the competition market and transfer the leverage zone when good strategy and

planning is done. As additives business is actually in a critical zone at the moment, the following actions are to be started:

- Have a closer relationship to the supplier and have a level of partnership to them.
- Supply the expansion which will be done by the company to give the feeling to the supplier of how our company is growing as Borouge-2 will come on stream by 2010 with triple the acting plant capacity.

- Exchange the development information for product such as the new standardization, health and environment regulation that is essential for additives so by sharing in innovation center to develop the product quality.
- Start to search in the market for other supplier for the additives to have multiple sources which will result in competition in the price and services.
- As Borealis partnership with Borouge is well recognized in the global market, the procurement division should set a uniform strategy for an additives business for companies to buy from market as one buyer that will result in stronger position in the market.

- Encourage the suppliers to build their plant in the Middle East to secure product delivery. By applying the above actions, the company will need time to define the goals and actions to know the tools needed to shift their leverage zone, applying it will help Borouge since the company is growing fast and will be having several expansion plants in the near future. Doing the actions above might help the company increase their profit more, deal with more than one supplier and make them to build a plant in an area where they can easily market their products and deliver it on time.

The Krajić Matrix is a useful tool when studying the different points of purchasing different products or services for the organization. This model can guide various companies to categorize purchasing within frames. • Strategic products: These are high volume products, only one source of supply is available. This type of product is very expensive that results to some complex communication between the supplier and customer. This however may result to a bad customer relationship in the end. • Leverage Products: These products can be bought from different suppliers that still has the same quality the company require.

These products represent a relatively large share of the end product's cost price but a change in price will bring a strong effect on the cost price of the product. The advantage that the company has in these products is that the company will have the freedom to choose from different suppliers making it have the advantage to have a price of the material that they want to buy. • Bottleneck Products: These are items that has a limited value in terms of money but are very important in regard to the company's supply.

These products can come from one supplier. In this situation, the supplier is powerful in the relationship with the company, which may result in high prices of the item, long delivery time and bad service. • Routine Products: these products have a small value per item and many alternative suppliers are available. Most of the time, items fall into this category. Time and energy of purchasing is used for these products making it a valid reason of why purchasing is often seen as an administrative job.