

Portfolio analysis in procurement: strategically classifying suppliers and materials

Portfolio analysis in procurement is a strategic method for systematically evaluating purchased items and suppliers by their impact on business success and by procurement risk. It is frequently based on the Kraljic model and divides procurement volume into categories, each with appropriate action strategies. It thereby helps buyers to concentrate resources specifically where leverage and risks are greatest.

Key facts

- Portfolio analysis in procurement typically classifies purchased items along two dimensions: market power or risk potential and revenue relevance or procurement volume.
- The classic Kraljic portfolio yields four strategic categories: strategic items, leverage items, non-critical items and bottleneck items.
- Each quadrant requires its own strategy – from intensive supplier partnership to simple standardisation and automation.
- The analysis provides the basis for decisions on the supplier base, make-or-buy, contract design and resource allocation in procurement.
- In practice it is usually updated annually or in response to major market developments and fed with data from production control and procurement controlling.
- The quality of the results depends heavily on the underlying data, in particular on data quality KPIs in the master data and spend areas.

Definition: portfolio analysis in procurement

Portfolio analysis in procurement is a tool of strategic procurement management with which materials, categories of goods and suppliers are classified according to uniform criteria. The aim is to divide the entire procurement spectrum into manageable segments and assign each segment an appropriate purchasing strategy.

Origin and basic model

The best-known model goes back to Peter Kraljic, who in 1983 introduced the two-axis portfolio with the dimensions supplier market power and profit impact on the buyer. In practice, numerous variants have emerged from it, for example with the axes supplier risk and procurement volume or with multi-stage scoring models. All share the basic idea: not every purchased item deserves the same level of attention, and the individual risk-return position must determine the purchasing style.

Distinction from ABC analysis

ABC analysis considers exclusively the procurement volume and ranks line items by their share of

value. Portfolio analysis goes beyond this because it incorporates a second dimension: availability, substitution options, number of qualified suppliers and market concentration. An item with low volume can therefore still be classified as critical if only a single supplier exists and the production lead time depends significantly on it.

Results of the analysis

The outcome is typically a four-quadrant portfolio, supplemented by priority lists and strategy recommendations per category of goods. Important outputs are a consolidated supplier base, defined escalation routes for bottleneck items and clear responsibilities in supplier relationship management. The analysis also forms the basis for downstream instruments such as supplier selection, requests for quotations and framework agreements.

Methods and procedure of the portfolio analysis

A rigorous process is decisive in ensuring that the results do not remain purely theoretical but are translated into concrete measures.

Data basis and category structure

At the outset, all relevant procurement line items must be captured and consolidated into meaningful categories of goods. The basis is master data, order histories and metrics such as total cost of ownership, logistics costs and average inventory. Data quality is often the difficult part: duplicate article numbers, inconsistent descriptions or missing supplier assignments distort the picture. Data quality KPIs should therefore be reviewed and assessed before the analysis.

Assessing the two dimensions

Classification is usually carried out in workshops involving procurement, engineering and quality. Commonly used assessment criteria are volume in the period under review, share of total demand, number of available suppliers, lead times, uniqueness of the material and possible effects on total cost accounting and production control. Each criterion typically receives a score, which determines the position in the portfolio. Transparent documentation is important so that repeat analyses remain comparable.

Strategy derivation per quadrant

In the classic model, the following rough assignments apply: strategic items require long-term partnerships and joint development, leverage items call for active tendering and market pressure, non-critical items are standardised and processed automatically via suggested orders, and for bottleneck items supply security and inventory strategies take priority. The derived measures are documented in writing per category of goods and assigned owners and deadlines.

Key KPIs for steering the portfolio

The portfolio analysis is not a one-off document but a steering approach. Metrics show whether the derived strategies are taking effect.

KPIs per quadrant

Different metrics are leading depending on the quadrant. For strategic items, delivery performance, joint cost reduction projects and quality metrics count. For leverage items, it is achieved price savings,

benchmark prices and the share of tendered volume. For non-critical items, the focus is on process costs, number of order transactions and degree of automation.

Cross-cutting metrics

Across all quadrants, metrics such as supplier loyalty, risk positions per category of goods, proportion of single sources, contract coverage and average lead time from demand notification to order have proven effective. CO2e figures per category of goods are also gaining importance, particularly where sustainability requirements are to be included in the assessment.

Frequency of review

In practice, an annual full review has proven effective, supplemented by quarterly reviews for strategic and bottleneck items. In the event of significant market events such as supply failures, raw material price changes or new regulations, a short-term update of the affected line items is recommended.

Risks and controls in managing the portfolio

A portfolio analysis is only as good as its implementation. Without clear control mechanisms, there is a risk of strategy papers with no operational impact.

Typical implementation risks

Common mistakes include overly coarse grouping of categories, failure to involve the specialist departments and neglect of risk dimensions such as supply chain or compliance risks. An overly static understanding is also problematic: products can change position, for example through new technologies, market tightening or changed legislation. Without regular updating, the strategies quickly become outdated.

Control mechanisms and governance

Clear governance structures with defined owners per category of goods, regular reviews and binding escalation routes in the event of deviations have proven effective. Especially for bottleneck and strategic items, concrete contingency plans should exist, such as qualified second suppliers, increased safety stocks or framework agreements with reliable terms and conditions. Legal matters such as warranty claims and clearly agreed Incoterms DPU or comparable delivery terms should also be examined with varying intensity depending on the quadrant.

Risks along the supply chain

Alongside commercial risks, compliance and sustainability aspects are increasingly coming into focus. Topics such as child labour risk assessment and requirements arising from the Corporate Sustainability Due Diligence Directive (CSDDD) affect supplier selection and supplier relationship management. Traceability of materials is also becoming ever more important, especially for critical and strategic line items, and should be incorporated into the risk analysis.

Current developments: sustainability, risk management and digitalisation

The portfolio analysis is evolving from a purely cost-focused instrument into an integrated risk and sustainability instrument.

Sustainability as a third dimension

More and more companies are extending the classic two-axis portfolio with a sustainability or risk dimension. Criteria include CO2e emissions from procurement, human rights risks along the supply chain, the circular economy and local sourcing. The analysis thereby combines classic cost efficiency with regulatory requirements, for example from the Corporate Sustainability Due Diligence Directive (CSDDD) or comparable supply chain laws.

Digitalisation and automated assessment

Modern ERP and e-procurement systems enable continuous rather than annual updating of the portfolio analysis. Spend cubes, supplier evaluations and risk data are linked automatically, making data quality KPIs a critical success factor. Some companies work with dashboards that make deviations from the target degree of functionalisation visible. The degree of automation increases especially in the quadrant of non-critical items, for example through suggested orders and automated replenishment via the delivery schedule.

Link to supply chain strategy

The portfolio analysis is increasingly understood as the link between procurement strategy and operational supply chain management. Results feed into scenario planning, resilience strategies and network decisions. Particularly for strategic and bottleneck items, concepts such as dual sourcing, nearshoring and contract manufacturing are gaining importance in order to reduce dependence on individual suppliers or regions.

Deriving concrete procurement strategies per quadrant

The real benefit of the portfolio analysis only arises through the derivation of differentiated action strategies. Each quadrant requires its own approach to contract design, number of suppliers and process design.

Strategic and leverage items

Strategic items are embedded in long-term supplier relationship management programmes with joint development projects, top-management interaction and regular supplier meeting dates. Leverage items require the opposite: active competition, regular requests for quotations, consistent benchmarking and flexible contracts. For both categories, the contract strategy should contain clear provisions on governing law, Incoterms and warranty claims.

Non-critical and bottleneck items

For non-critical items, the focus is on efficiency and standardisation: framework agreements, catalogue solutions, suggested orders and largely automated processing significantly reduce process costs. Bottleneck items, by contrast, call for safety stocks, early demand notifications to production control and alternative suppliers. The selection of suitable container types and logistics solutions can also make a material contribution to supply security here, as can an AEO status of the supplier where required for smooth customs procedures.

Typical metrics

Proportion of single-sourced items in the portfolio: typically < 10 %

A low share indicates a broader supplier base and lower supply risk.

Contract coverage of strategic items: > 90 %

A high framework agreement share secures availability and plannability.

Proportion of automated orders for non-critical items: typically > 80 %

Shows the level of efficiency in the quadrant of low-value line items.

Delivery performance for strategic items: > 95 %

Key metric for partnership quality and production control.

Practical example

A medium-sized mechanical engineering company with around 12,000 procurement line items introduced a portfolio analysis in order to manage its entirely uniformly treated supplier base more efficiently. After consolidation into approximately 180 categories of goods, it became apparent that the majority of volume consisted of leverage and non-critical items, while several electronics components were clearly identified as bottleneck items. Specific measures were then implemented per quadrant:

- For leverage items, framework tenders and regular supplier meeting cycles were established.
- For bottleneck items, second suppliers were qualified and safety stocks managed via the delivery schedule.
- For non-critical items, processing via catalogue solutions and suggested orders was automated.
- For strategic items, a joint cost reduction and development programme was launched with key suppliers.

Conclusion

Portfolio analysis in procurement is a proven instrument for systematically structuring the entire procurement spectrum and making priorities visible. It prevents resources in procurement from being unevenly distributed or risks from being overlooked. Its effectiveness depends decisively on data quality, the involvement of relevant stakeholders and regular updating. Supplemented by sustainability and risk dimensions, it remains a central steering instrument even under changed regulatory conditions. Companies that implement it consistently typically achieve better cost outcomes and a significantly more stable supply chain.

Frequently asked questions

What is portfolio analysis in procurement?

Portfolio analysis in procurement is a method for systematically classifying purchased items and suppliers by risk and commercial impact. It typically follows the Kraljic model with four quadrants. The outcome is differentiated strategies per category of goods rather than a uniform procurement policy.

Which quadrants does the Kraljic portfolio contain?

The classic Kraljic portfolio distinguishes strategic items, leverage items, non-critical items and bottleneck items. Each category requires a different approach, from long-term partnership to automation. Depending on the model approach, the axes may vary slightly.

How often should a portfolio analysis be carried out?

In practice, an annual full review has proven effective. Strategic and bottleneck items should additionally be reviewed quarterly. In the event of significant market developments or regulatory changes, a

short-term update of the affected categories of goods is recommended.

What is the difference between ABC analysis and portfolio analysis in procurement?

ABC analysis considers only procurement volume and ranks line items by their share of value. Portfolio analysis adds a second dimension, typically risk or supplier market power. This allows low-volume items to be identified as critical, which ABC analysis alone cannot achieve.

What data is needed for a portfolio analysis in procurement?

Key requirements include order histories, master data, supplier information and metrics such as logistics costs, total cost of ownership and inventory levels. Risk and sustainability data are increasingly included as well. The quality of this data, measurable via data quality KPIs, largely determines the validity of the analysis.

How do you derive concrete actions from the portfolio analysis?

Typical strategies are defined per quadrant: partnerships for strategic items, active competition for leverage items, standardisation for non-critical items and supply assurance measures for bottleneck items. These strategies are documented in writing per category of goods, assigned owners and deadlines, and monitored in regular reviews.