

Case Study: Supplier relationships and the purchasing portfolio of Kelly's Kitchens

Kelly's Kitchens is a Northern Ireland-based manufacturer and installer of kitchen furniture with customers across the UK and Ireland. Kelly's have partnered with some of the largest multinational companies across the UK and Europe. It manufactures and supplies standard and customised cabinets to these customers, and also supplies high-end customised kitchens to customers across the UK and Ireland. It has a network of suppliers and distributors across the UK, Ireland and Europe.

As part of its Brexit planning it wanted to understand how Brexit would impact on its supply base, and how its supplier relationship management strategies could deal with the impact of Brexit. Senior management felt exposed to Brexit as they had a lot of suppliers in the Republic of Ireland, and at the same time had to supply customers across both the UK and Europe.

Let's now see how Kelly's did their analysis.

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Step 1. Purchased item importance at Kelly's

The key factors considered by Kelly's included:

- Percentage cost of item of total purchasing spend
- Percentage of the total cost of the purchased item in the end-product.

The results of this analysis for a number of purchased items are shown in Table 1.

Table 1. Purchased item importance at Kelly's

Purchased item	% cost of item of total purchasing spend	% of total cost of the purchased item in end-product.	Overall importance rating
Standard timber (i.e. MDF)	23%	Medium	High
Project specific work	17%	High	High
Granite worktops	15%	High	High
Customised doors	9%	Medium	Low
Handles	5%	Low	Low
Hinges	2%	Low	Low
Paint	2%	Low	Low
Screws	1%	Low	Low
Nails	1%	Low	Low

As Table 1 shows, the purchases of standard timber, project specific work and granite worktops are the most important purchased items, whilst the remaining items are of low importance.

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Step 2. How to assess the level of supply market risk

The key factors considered by Kelly's included:

- Location of the supplier i.e. Northern Ireland, Republic of Ireland, EU or UK
- Number of alternative suppliers available for the purchase
- Costs of switching to another supplier
- Level of product customisation required by Kelly's
- Current product accreditation standard.

The results of the supply market risk are shown in Table 2.

Table 2. Supply market risk at Kelly's

Purchased item	Supplier location	Alternative suppliers	Switching costs	Level of customisation	Accreditation	Overall supply risk
Standard timber (i.e. MDF)	Belfast	Yes	Medium	Low	ISO	Low
Project specific work	Ireland and UK	Few	High	High	-	High
Granite worktops	Italy	Few	Medium	Medium/Low	CE	High
Customised doors	Tipperary	Few	High	High	ISO	High
Handles	Germany	Few	Low	Low	CE	Low
Hinges	Leicester	High	Low	Low	ISO	Low
Paint	Galway	High	Low	Low	REACH	High
Screws	Manchester	High	Low	Low	ISO	Low
Nails	Dublin	High	Low	Low	ISO	Low

As Table 2 shows, project specific work, granite worktops and customised doors have a high level of supply market risk due primarily to the lack of alternative suppliers available.

An interesting purchased item is paint that was rated as high risk, primarily due its current supplier being accredited by the REACH European standard. Kelly's fear was that this accreditation standard would not be legal if the UK chose to adopt its own standard post Brexit.

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Step 3. Supplier relationship management strategies at Kelly's Kitchens

Figure 1 shows each of Kelly's purchased items plotted on the purchasing portfolio based on purchased item importance and supply market risk.

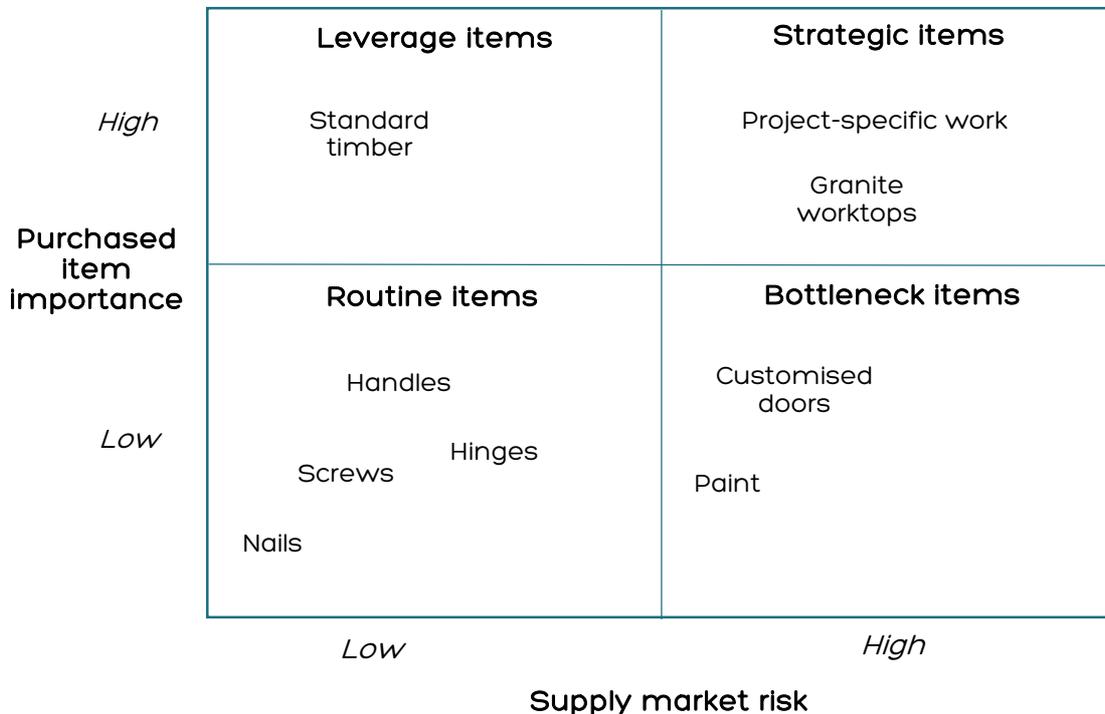


Figure 1. Kelly's purchasing portfolio in a Brexit context

Here are some of the supplier relationship management issues that Kelly's considered for each item on the matrix.

Routine items at Kelly's

These items had a small financial value and could be easily sourced from a number of alternative suppliers. These items were considered to be low risk in a Brexit context. However, Kelly's decided to keep some of these items under review as changes in the Euro-Sterling exchange rate could make switching to a local supplier feasible.

Strategic items at Kelly's

These items were of high importance due to their considerable value in the end product price and the high level of customisation involved in the product. Kelly's paid careful attention to these items in a Brexit context. In particular, it allocated additional project-specific work to one of its key contractors in order to build greater loyalty and trust in the relationship.

Leverage items at Kelly's

Standard timber was the only item defined as leverage for Kelly's. Although these items were of high importance in terms of overall purchasing spend, the level of Brexit-related risk in the supply market was low.

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There were a number of suppliers available for timber and Kelly's could easily switch to any of these suppliers to ensure continuity of supply. Therefore, Brexit did not have a significant impact on these items.

Bottleneck items at Kelly's

Kelly's gave most attention to these items for Brexit planning. Although these bottleneck items were not of high importance, there were factors in the supply market that created vulnerability in supply.

Kelly's pursued the following strategies for the following bottleneck items:

- In the case of the paint supplier in Galway, it decided to seek out alternative suppliers in the UK it could turn to in the event of a no-deal Brexit.
- In relation to customised doors, it tasked its design team with exploring ideas on how it could reduce the variation in the manufacture of doors. This would potentially increase the number of suppliers available in Northern Ireland and reduce dependency on the current supplier in Tipperary.