THE POWER OF TWO

Developing true customer-supplier relationships

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Lean manufacturing has always been a good idea, but nowadays there are larger payoffs to be found in lean supply chains. Partnering with a small number of selected customers and suppliers can result in better, faster and cheaper end-customer value propositions.

Yet beware. There is a great deal of industrial hype about “partnerships”. Too often, this is indeed just hype – or worse – since, in reality, the partnership label is often only another negotiation trick.

The power of two

A true partnership is not a one-way street. Both customers and suppliers need to make critical choices. It is joint changes in the ways of doing business that truly payoff – not just improvements in one firm. And like a successful marriage, the power of two requires a long-term commitment, based on trust and mutual respect.

The investment in time and resources to constantly nurture and improve each partnership should not be under-estimated, however. Realistically, true partnerships are only possible with about 10 key customers and about 10 key suppliers. We call these partnerships “Pairs of Aces.”

The procurement evolution

Our research shows that procurement is changing significantly. The average ratio of purchasing costs to revenues has grown from some 40% to 60% or more. The key to new partnerships is increasing value/cost ratios for the whole supply chain.

The potential is significant – especially if you are willing to play the new game early, before your competitors. First though, remember that procurement by a customer is selling by a supplier. Smart suppliers segment, determining whether they will want to help you move to advanced practices.

Second, there’s the concept of “attraction.” The most attractive customer receives a greater proportion of its key suppliers’ brainpower. Similarly, attractive suppliers have flawless execution, are easier to deal with, and generally regarded as “smart.” Never choose stupid partners because you only partner with a few!
Typecasting

There are three types of Pair of Aces relationships:

1. A major customer takes on a small to medium-sized supplier – one with the right attitude and commitment. Together they build a relationship with a set of joint working conditions based on best practices and maximized capacity utilization.

2. Two major firms (customer and supplier) decide, at the senior executive level, that collaboration would be much better than confrontation – a marriage of equals with a joint improvement agenda.

3. A large customer, with several suppliers of a similar type of product, may decide to work extensively with one supplier. This can result in a many-fold increase in volumes, joint design, coordinated supply chain, an enhanced bundle of goods and services, and perhaps joint selling to end customers.

Where’s the beef? – How to double the value/cost ratio

The first source of payoff is unit cost reduction. A Pair of Aces can perform an intensive investigation to establish lowest possible costs. More importantly, a pair can reduce non-recurring costs, the number of procurement and sales people, and risks. Finally, super collaborative customer-supplier relationships engage in constant benchmarking - implementing the best of the best.

The customer usually needs to lead this dance

A win-win attitude is essential if you want to make this real. As a customer, you need to become committed to the success of your supplier partners. Additionally, smart customers help supplier partners to increase and smooth their capacity utilization levels.
Smarter buying and selling – implementation issues

Repositioning your company with its few key customers and suppliers requires new thinking, bold actions, and unlearning traditional zero-sum behavior. Getting things right with each unique partner is critical. You need to break out of classic approaches and thinking in both procurement and sales.

There are great opportunities to sell much more to existing customers. But you need to determine the customers for which this makes sense. Once again, it comes down to the choice of strategic partners.

Major progress does not happen by itself

Yet paradigms do not shift by themselves. Approaching a major supplier or customer with a new proposal is fraught with risk. In fact, what is needed is a joint transformation – a combined commitment to striking out in a new direction and abandoning the current ways of working.

A related issue is to take a hard look at the people involved in each of the potential Pairs of Aces. Have you assigned the best ones? And, perhaps most importantly, are your people capable of truly adopting a win-win mentality?

So what?

Processes, progress and learning points need to be continually compared. Sales needs to understand the new game in procurement – procurement needs to understand the new game in sales – and they need to learn from one another. Senior managers need to prioritize customer-supplier pairs, develop key contacts, select and motivate the right people internally, drive the change agenda, assess progress and continually improve the focus. None of this is easy – but it is the best game in town! And the stakes? A genuine competitive advantage.
Professor Carlos Cordon teaches on the Managing the Extended Supply Chain (MESC) program, the Program for Executive Development (PED) and the Breakthrough Program for Senior Executives (BPSE).

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