

Building Supply Chain Partnerships

For effective supply chain management, the management of relationships is critical. The "hard" quantitative measures need to be complemented by an even greater focus on the "soft" relationship ones. Relationships are the glue that holds the supply chain together.

We all know that our performance as a supplier is highly dependent on our customer's actions.

This dichotomy says much about the traditional relationship between customers and their suppliers. Suppliers are given a specification by their customers, they are given order turnaround times, they are presented with quality standards, sometimes they are even given the price at which they must supply.

In the event that the supplier fails to meet any of these exacting requirements, it is taken to task by the customer that threatens to take their business elsewhere. There is never a thought on the customer's part that, perhaps, it must bear some responsibility for the supplier's apparent failure. This is 'supply chain confrontation' - not 'supply chain collaboration'.

In our customer feedback surveys, we frequently ask customers how important is it that they deal with suppliers who they feel really want to do business with them. It is probably the most subjective of all the supplier attributes that we measure but it always rates very highly. It merely confirms that in this day and age of fierce competition, IT and constantly rising customer expectations, it is still the relationships between people that determine the quality of the relationship between companies.

Relationships between supplier and customer may take three forms:

1. **Win/Lose or Lose/Win:** Defensiveness and protectiveness characterised by contracts that attempt to absolve the customer from any responsibility for the supplier's performance. Legalistic atmosphere created that provides further reason to defend and protect.
2. **Compromise:** Presence of mutual respect - confrontation avoidance - acceptance of the status quo by both parties.
3. **Win/Win:** High levels of trust between parties brought about by C3 behaviour - co-operation, co-ordination and collaboration - creates synergy where both parties win from the relationship. Joint problem solving, joint objective setting the norm - both formal and informal communication between the parties flourishes.

For Win/Win relationships to evolve, Customer and Supplier must work on two key dimensions:

1. **C3 behaviour - Co-operation, co-ordination and collaboration** - These three attributes represent a continuum. For example, Co-operation may involve the customer giving the supplier rolling four monthly estimates of its demand. Co-ordination requires longer commitments and greater interaction between the two parties and finally, this evolves into collaboration where both parties may jointly plan and define operations and strategy.

When co-ordination develops into collaboration, transparency between customer and supplier increases. The customer no longer asks for delivery in five days - just in case - when ten days is the real deadline. The customer no longer orders 1200 widgets, just to make sure that it gets the 1000 it really needs. With collaboration and transparency comes trust - the second of the key dimensions.

2. **Trust enables collaborative behaviour** - Trust promotes improved relationships, reduces destructive conflict and results in effective response in a crisis.

No one is suggesting that Win/Win relationships are easy to achieve but few would deny the value of highly collaborative relationships where key suppliers and customers are involved.

You cannot manage what you cannot measure is a well-known business axiom and one reason why customers favour supplier KPIs based on quantitative measures is simply because they are capable of measurement.

Measuring such variables as C3 behaviour, trust and commitment are more difficult but there is ample evidence to show that it is these variables that underpin the supplier/customer relationship. A further difficulty in measuring such subjective and qualitative attributes is that it is no use asking a company to rate themselves!

Dr Andrew Humphries, SCCI, studied the relationships between the UK Department of Defence and fifty of their key suppliers.

One result from SCCI's scientific approach to measuring the "soft" elements of business relationships is a list of the five most common Failure Factors:

1. **Poor management of the relationship** - One party doesn't listen to the other, and there are no clear lines of communication.
2. **Lack of commitment** - Exemplified by inadequate joint planning, staffing and management structures.
3. **Adversarial practices** - Either party viewing sharing as their own company having the lion's share and what's left going to the other.
4. **Inadequate joint performance measurement** - One party may well know their own targets, but those of the other party are not transparent.
5. **Fear of interdependency** - In a collaborative business relationship, each party's freedom of action is reduced and this reduction may breed feelings of uncertainty and risk at the prospect of becoming more dependent on one another.

SCCI have also identified the six factors that characterise successful collaborative relationships:

1. Agreeing on *joint* objectives
2. Highly visible (to all parties) performance measures
3. Open communication
4. A no-blame culture and trust

5. Joint planning
6. High level commitment

Here is one quote from a customer that illustrates the value of collaborative relationships with a key supplier. "With some trepidation we asked our parts supplier to help us design the new product. We have been amazed. The product is now cheaper, more reliable and contains more features and is loved by our customers. Our relationship has blossomed as a result".

Suppliers complain about how difficult their customers are to do business with - especially when they are dependent on a very small number of them. Instead of thinking "that's how business is done in this industry", realise that it doesn't *have* to be that way!

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