IAN GORDON ARTICLE

Relationships with Suppliers

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The end-customer relationship depends on a chain of other relationships and is only as strong as the weakest link in that chain. In prior articles, we have discussed relationships with employees, distribution channel intermediaries and investors and owners. In this issue, we discuss relationships with suppliers.

The supplier relationship is important not only because it has impact on the customer relationship, but because it can affect the very competitiveness of a business. Ten years ago I assessed the quality of relationships a US computer manufacturer had with its global chip and other suppliers. This company realized that a good relationship with chip suppliers would help it compete "in time" if it received early access to the suppliers' plans and latest products, which the company considered more important even than chip prices. This company went on to formulate relationship management plans for its key suppliers. Clearly, the era of grinding suppliers for lower and lower prices is over. What is needed is collaboration in the best interests of the end-customer. It may involve working together to reduce prices. It may involve much more, too. How is a company to do this? Some suggestions:

1. Just as you have a database on your customers and their interactions with your business, have one on your suppliers and their performance;

2. Discriminate amongst your suppliers for the strategic and financial value they represent now and in the future. Which are the most important suppliers? How do the important suppliers compare with one another? Benchmark as per item 1 above.

3. Determine how these suppliers are presently bonded with you. What bonding do you want to achieve with them? Is the bonding to be achieved throughout the value chain or only in certain areas, such as design and development? Are suppliers amenable to the bonding you want? Ask them. Do they want the relationship with you as much as you do with them? As in a more personal way, you cannot force relationships upon people or companies that do not want them. If this is the case, move on to another company that values the relationship more.

4. Describe the opportunity available to both you and your important suppliers if you both achieve the bonding level mentioned. How will you both benefit from a more collaborative association and possibly tighter integration?

5. Establish a plan to which you and your important suppliers commit so that you can

work together in the planning, implementation, management, measurement and sharing of new value you will both create.

6. Determine how the relationship is to be governed.

Deeper bonding will probably require many changes to the way you and your suppliers now do business. For example, do they really need a sales team to focus on your account? Do you need purchasing agents to place orders with them? Or would you both be better off to have an account team, with sales, purchasing and other members from their company and yours, working together in the end-customers' interests?

For any changes to really take root, senior management in both companies will obviously need to commit to the vision. They will need to trust one another and one another's companies and processes, sufficiently so the boundaries of their companies can be blurred. If they can tell, at the end of the day, where one company ends and the other begins, the relationship is not yet total.

One way of deciding how best to go forward together is to have a relationship management forum to explore the relationship and plan to improve it for mutual benefit. Invite senior management from your company and the supplier to attend, as well as selected, informed customers to provide context and a touchstone for any discussion. Consider using an external facilitator.

If this forum works as planned, it should yield, for example:

- Management commitment;
- A process for mutual learning and information sharing such as business strategies, market and end-customer data and product development plans; and
- A mechanism for mutual planning, working together to formulate customer-centric relationship-driven plans. After these plans are in place, it can be decided which company will do what.

These forums can generate the usual statement of good intent. To get beyond this, management has to overcome the fear that the company might become too dependent on too few suppliers. This is the acid test of a relationship. Mutual dependency, uncomfortable though it may be at the outset, is essential if meaningful end-customer relationships are to be developed for both your company and suppliers.

Increasingly, the era of the supply chain is drawing to an end, replaced by the demand chain. A supply chain sees the processes that satisfy customers from the perspective of suppliers. In the era of Customer Relationship Management - CRM, supply is only initiated once the end-customer initiates the purchase. This demand chain requires suppliers to bring their people, processes and technologies together in a seamless way in the interests of the individual end-customer. One way of making this work is to only do what you alone can do best, to have others make or do for you where they can do it better, and to cement progress by taking financial positions in those companies whose relationships with you have gelled.

Companies forging relationships quickly with the best suppliers have the potential to belong to more powerful demand chains than their competitors, and possibly even exclude them from the chains. Increasingly, competition will be between chains of relationships rather than among individual companies. The winners will be those companies that opened up to integrate their capabilities with the best suppliers and did so before their competitors. In the next issue, we discuss how technology has changed everything for the consumer.

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