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Enhance Your Business Model Through Supplier Partnerships

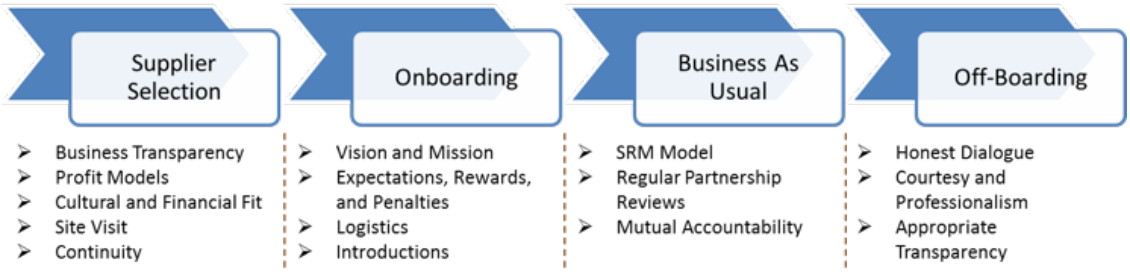
SLALOM CONSULTING

Strategic Sourcing resources are regularly challenged to squeeze pennies out of external spend. Traditional vendor management would suggest that the most effective way to achieve real savings is to drive reductions in purchase prices for everything from strategy consulting to pencils and paper. This often takes the form of broadly issued RFPs, over-subscribed reverse auctions, or letters threatening loss of business if the vendors don't immediately reduce prices by 10 percent, 15 percent, or more. These strategies can lead to strained relationships between sourcing managers and their business counterparts when key suppliers no longer engage in the value-creation layer of the business model.

In the end, those value-creation elements of the supplier relationship were often worth multiples of the cost savings obtained by the sourcing action that led to their demise. The truth of the matter is that suppliers will bring more value to their customers if they are engaged in a partnership than they will when only engaged in a transaction. This is not to say that all suppliers should be treated with the same level of support and interaction. A paper clip is a paper clip and has very little opportunity to either forward or damage a company's value proposition. However, a majority of supplier relationships will result in improved margin delivery and strategic alignment if the supplier is a partner and not just a vendor.

The process of establishing and maintaining a partnership model is most effective when embedded in every phase of supplier relationship management. This model starts with the identification of suppliers for a particular need and continues on through vendor off-boarding.

Key touch points



Establishing and capturing value from a true partnership starts at the beginning

The way that companies create, issue, and manage the competitive bidding process is the foundation of the partnership. There are five key principles during the bidding process that establish a partnership:

1. Maximize the transparency of your business model during the bid process. The more information you share with potential partners, the better they can create a customized solution that meets your needs in a non-commoditized fashion. Take the case of a leading independent ATM sales and service company. In a recent effort to reduce their real estate spend by moving to third-party field parts management, they invited six leading strategic parts management firms to provide solutions. The cost estimate came down more than 30 percent from the initial budgetary pricing to the final award. The price reduction had very little to do with traditional "bake off" negotiating strategies but instead resulted from a controlled but open sharing of operational data surrounding the existing business model operations.

2. Learn the supplier's business model. By investing time on the front end of the bidding process, companies learn about the key levers that a supplier can pull to reduce costs and deliver differentiated performance to their customers. If a supplier carries a highly fixed cost structure and the customer knows they will need both upward and downward volume accommodation, the result could be poor alignment of the long-term goals and objectives of the supplier and the customer. This assessment should also include a clear understanding of the profit model that the supplier will be utilizing and how that either aligns with or is in conflict with the company's internal capabilities. In one recent supplier selection exercise, a leading global telecommunications company was assessing potential partners to manage their outsourced contact center operations.
The company had extensive transformational change capabilities and was looking for a partner to complement this core competency with process improvement in the call center space. One of the vendors proposed a model with a fixed annual cost takedown that was attractive but lacked any visibility into how the reductions were generated. While this model could have generated savings equal to or greater than what could be generated with the other suppliers, the lack of visibility to the profit model wasn't acceptable to the company.

3. Assess the cultural fit and the financial fit at a level appropriate to the item being purchased. If a supplier will need to be tightly integrated into a company's operational delivery model, it is critical to determine early on if the operating styles are compatible, complementary, or at odds with each other. The closer the bid document

(RFI, RFP, etc.) matches the actual operational relationship that is desired, the more likely both the supplier and the company can identify areas of misalignment before entering an unhealthy business relationship. In addition, identifying complementary cultural elements can factor into multiple aspects of the company's planning process including staffing and capital investment. A consistent rule of thumb is that if a supplier and a company can't partner during the bid process, they will not effectively partner at any time thereafter.

4. Conduct a site visit to where the work will actually be done. The suppliers should, for processes with any level of localized complexity, press the company for an opportunity to visit the operations in whatever form they currently exist. Likewise, the company should make it a priority to visit the facility where the work will be done before awarding the contract. Not only will this allow the company experts to assess the technical and/or process capabilities of the potential suppliers, but it will also afford an opportunity for both operating teams to understand the complexities that exist within the combined model of the future. While confidentiality issues sometimes prevent competitor facility visits, the best path forward is a concerted effort to make that visit a possibility. Consider the case of a global telecommunications equipment provider selecting a partner for reverse logistics and repair services. Four highly qualified global providers had made their way to the final selection process based on the review of submitted documents. Upon visits to all four facilities, there was a significant differentiator between the top three vendors and the fourth, which led to the elimination of the last (and lowest-cost) vendor based entirely on the site visit. Not only did this prevent the company from making a potentially costly mistake in selecting the vendor, but it also allowed the company to focus their selection efforts on the remaining three vendors with demonstrated industry-leading capabilities.

5. Create continuity through the selection process. The RFP process should be viewed as one step in the overall supplier relationship management process. It allows a company to set the tone for how they intend to interact with the winning supplier(s) during the negotiation and after the deal is signed. The overall supplier relationship model will draw significantly from the sourcing motion and the interaction norms established during the sourcing process. Key rules to follow during the sourcing motion include:

> **a. Clearly identify to the supplier what role they will play in the business model.** If the supplier will be providing a highly commoditized and price-sensitive solution, the sourcing motion should be significantly focused on the price negotiation and future pricing reductions/controls should be contemplated during the negotiations. If the supplier will be highly integrated with the company's product development process, the focus during the sourcing motion should lean toward innovation models, process flexibility, and clarity of combined vision.
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> **b. Create interactions between the ongoing owners of the relationships.** It is highly ineffective to negotiate a relationship between a supplier and a strategic sourcing organization only to discover that, upon transition of the relationship to the business owner, there is a total and complete misalignment of the operating model. The best way to avoid this post-signature risk is to involve the right people from both the supplier and the company during the selection process.
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> **c. Have uncomfortable discussions during the vendor selection process.** The sourcing motion should replicate the operational relationship. As such, both parties should interact with each other in a frank and direct way. This direct discussion will enable the company and the supplier to assess how the other performs under stress.

Onboard suppliers like employees

The act of onboarding employees is more than just setting them up in the payroll system, isn't it? Likewise, the act of onboarding suppliers is more than simply setting them up in the purchase order and accounts payable system. Suppliers need all of the basics that you would provide to an employee. They need access to information; messaging on the company vision and mission; clarity on how they will be measured, rewarded, and penalized/fired; accurate descriptions of how and when payment is issued, who can help them if they are experiencing challenges with the process, and what it means to be part of the "family."

Deliver continuous consistency

Recognize and honor the need for consistent interaction with your suppliers. It is disabling when a supplier doesn't know how his or her customer will react to a given situation. While the expectation can be set during negotiations and through the contracting process, the real behavior from a customer is significantly more impactful than anything on paper. Avoid playing "good cop/bad cop" with your suppliers. While customers often think this increases their leverage, it more frequently erodes trust. The result of excellence in consistency is an increase in transparency, more information sharing and an open and timely response to inquiries.

Be accountable to drive accountability

Suppliers will mirror the accountability model that they see from their customers. In addition to establishing and enforcing accountability from the supplier, the customer should demonstrate the same level of accountability back to the supplier. As an example, continually changing order quantities beyond the agreed-to order modification terms, and then holding the vendor accountable for on-time delivery for those non-compliant orders, creates a disparity of demands verses commitment. Such behavior significantly impacts the commercial and operational integrity of the relationship. Establish the standard during the contracting process for how both parties will interact and what level of performance they can and will deliver. Openly and actively review how each party is doing (monthly and quarterly business reviews are critical) and adjust the model up or down based on needs and capabilities.

The end matters as much as the beginning

Some companies make the mistake of treating suppliers poorly on the way out. This is bad business for a number of reasons. Most significant is the fact that suppliers engage with customers based in great part on the customer's reputation. There are countless examples of companies that have lost access to the best suppliers in the market because of their reputations for "beating up" their suppliers. Nowhere is this more relevant than during the final days of a relationship. Resist the temptation to demonize the supplier and realize that both the company and the supplier are running businesses with the ultimate goal of maximizing profits. If it isn't working anymore, that's a reality of where the two companies are. By exiting the supplier with grace and patience, the company is building goodwill and reputation in the market such that other suppliers will gladly take the chance to provide goods and

services to them. Additionally, this positive treatment of suppliers during their last few transactions is often a signal to customers and employees that they will be treated with a level of professional respect and courtesy when the time comes for them to move on from their respective relationships with the company.

Closing

Early on in my career I learned a lesson the hard way: exactly what the difference was between a vendor and a partner. After a failed transition to a brand-new third party logistics vendor, we pulled the plug on day four and returned to our prior incumbent. When we took a hard look at how we missed a striking amount of evidence prior to the transition date, it came down to one simple concept. We had ignored the depth of partnership we had with the incumbent and placed an inappropriate amount of value on price points that were promised by the new vendor. In the coming weeks, we had a chance to strengthen our relationship with the incumbent through most of the strategies above. The result was a cost model that delivered incremental savings, even when compared with the lower-cost bid; a more trusting partnership forged through transparency, collaboration, and honest discussions; and a relationship that has lasted through more than 13 years and across four different companies.

Brian Lucyk
Practice Area Lead
brian.lucyk@slalom.com

Slalom Consulting
1999 Broadway, Suite 2250
Denver, CO 80202
denver@slalom.com