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# COMPANY

Why do some supply chain relationships work and some fail? Authors of the recently published *Strategic Alliances and Marketing Partnerships*, **Dr Andrew Humphries** and **Dr Richard Gibbs** characterise partnerships and how to manage them

**I**N RECENT years, globalisation and the increased sophistication of products and markets have rendered the old style of adversarial relationships between customers and suppliers redundant.

Increasingly, effective partnering is seen as a key capability of the organisation and the most effective strategy for long-term, competitive success.

Through collaboration, business can improve operational processes and reduce costs and time to market. Strategic alliances can be used to bring new skill sets and capabilities into the organisation and

enable objectives to be accomplished that would not be possible if acting alone.

Most importantly, partnerships can be a long-term source of competitive advantage resulting in higher returns on investment, better gross margins and above-average levels of growth.

Yet, despite the proven benefits of partnering, many alliances fail to live up to expectations. Some 40 percent are dissolved in their first year.

Part of the reason for this poor success rate has been the lack of management tools that can



measure the state of the relationship rather than historical and specific process outcomes.

The latter are lagging indicators of what has happened; they reflect the business needs of one side of the partnership only and interpret the results in the context of the single firm.

If the objective measures of performance — quality, delivery, cost, etc. — are below target, the supplier is held to account and conflict ensues that further damages the relationship. The downward spiral begins.

Another key reason for failure to successfully collaborate is that many of us are not trained to collaborate outside our own organisations. It runs contrary to our natural competitive instincts.

The problem is compounded by many business schools that continue to teach supplier relationship management and key account management that

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FIGURE 1

### Traditional Management Tools

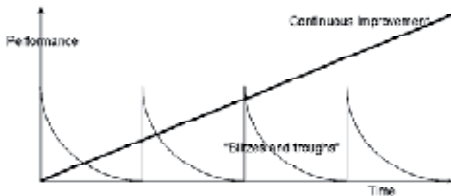
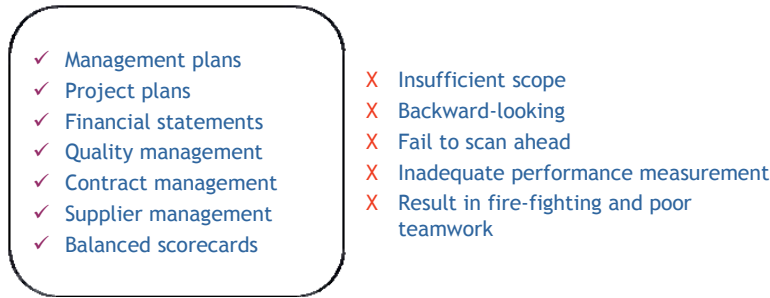


FIGURE 2

### How Partnerships Go Wrong

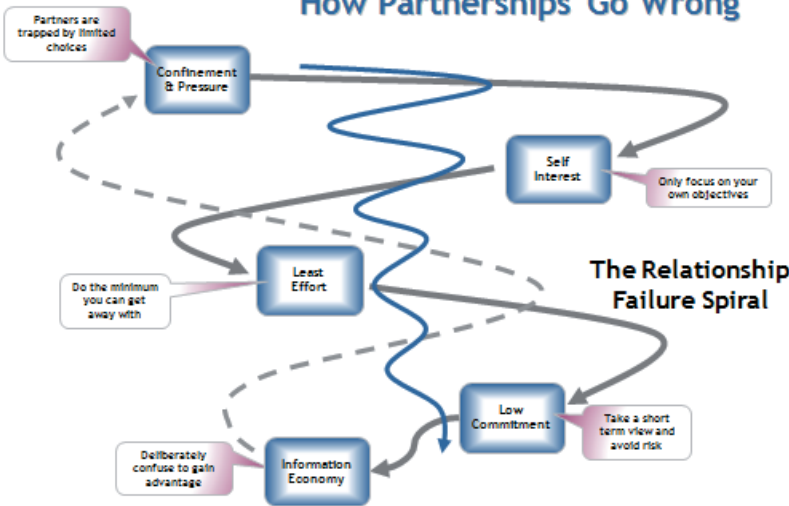
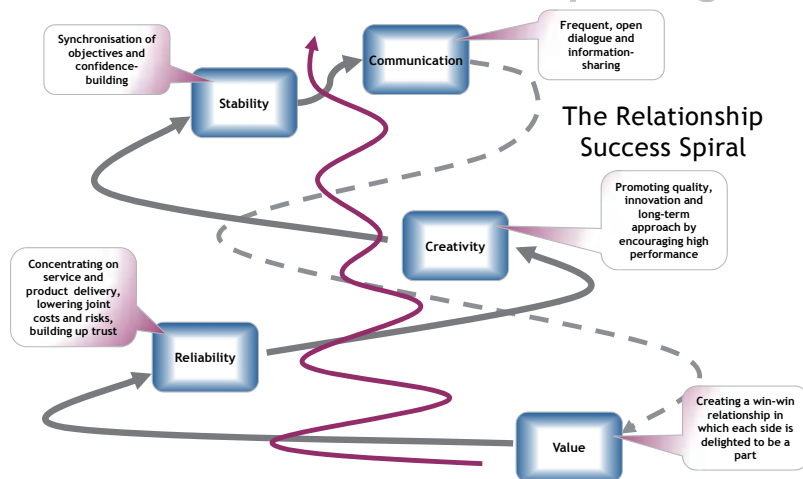


FIGURE 3

### How Partnerships Go Right



promotes a self-centred approach rather than alliance management that focuses on collaboration. The former focus on outcomes rather than the relationships that influence them.

What has been needed are better management tools, better ways of understanding and discovering the root causes of the partnership challenge and a way of highlighting those actions that will allow the partners to achieve their aims and objectives as efficiently as possible.

So what are the important drivers of relationship performance? And how do you develop the diagnostic tools for their management?

The diagram (see Figure 1) summarises the traditional management tools for assessing supplier performance and tables their deficiencies. All too often when these traditional methods of supplier management are employed, a downward spiral is set in motion with relationship value — to both parties — being the main casualty (see Figure 2).

Problems can begin with the partners feeling trapped and under pressure. The feeling of entrapment grows and leads each party to take a very self-interested view of the relationship, leading to adversarial negotiations where ‘I win, you lose’ replaces the notion of ‘you win, I win’.

Both companies start to take a short-term view, sacrificing the long-term profitability and benefits of the partnership for short-term gains. The final step in the spiral downwards is withholding or manipulating information to gain advantage.

As each party becomes increasingly aware of this, their feeling of entrapment grows further and the spiral begins again.

Take, for example, the failure of the major supplier of specialist fasteners to the Australian automotive industry. The customers were caught by surprise because their supplier measurement system (focused on cost savings and quality failures) failed to alert them to the impending problem.

Popping up the supplier cost them significantly more than having a better understanding of the relationship and the problems that they (the customers) were causing.

### REPAIRING RELATIONSHIPS

Partnerships do not have to end like this. There are many examples where suppliers and customers have supported each other through difficult times based on relationships and understanding.

Again from the automotive industry, stories abound about Toyota turning up to help a supplier overcome a problem that the supplier cannot solve alone. The approach being that once you are in the Toyota supplier family then you will be supported.

It is possible to postulate the reverse of the spiral of failure where a positive feedback loop causes partnership value to rise continuously (see Figure 3).

The starting point for these successful partnerships is a willingness to create value for the partnership and to recognise that a ‘win-win’ relationship will enable the individual businesses to achieve their goals and ambitions.

Focusing on the needs of the end customer generates an in-depth understanding of how partners can become more effective, more efficient and offer higher quality through the combination of their joint resources. The partners are willing and able to adapt and innovate in the face of an uncertain and changing market.

Underpinning all elements of the spiral of success is communication — its quality, its timeliness and, above all, its openness. The partners recognise the cost of communication but realise that it's an essential investment that invariably characterises a successful alliance.

Extensive research involving hundreds of substantial relationships has identified the drivers, operational elements and behaviours that influence partnership outcomes. From an extremely large set of data, three 'super factors' emerged as the salient drivers of partnership success. They are:

- Collaborative innovation: The conditions that describe the effectiveness of the relationship and enable the partnership to be innovative and to respond to opportunities. In essence the 'spark' in the relationship. This is comprised of adaption, innovation, communication and cooperation

- Partnership quality: The overriding quality of the relationship exchange including synchronising joint objectives and the willingness to invest in joint assets such as people, know-how, training, IT and infrastructure which directly influence the quality and longevity of the relationship. This includes the elements of commitment and trust

- Value creation: The efficiency of the partnership to create and capture the potential value that the partnership offers. This often involves a focus on the end customer and the sharing of the benefits of cost reductions and new business opportunities. It's comprised of conflict management, synergy, value creation and process efficiency.

Behind each of these 'super factors' is a raft of questions that probe matters such as the partner's willingness to change and innovate, whether they have joint goals and participate in joint planning, the reliability of the other party, the usefulness of communications, dispute resolution procedures, attitudes to each other and partnering and operations management.

When viewing relationships using these 'super factors' eight partnering types emerged. Each type had a clear, individual character that led to an appreciation of the performance and management challenges that faced the partners. They are:

- Evangelists — appear as a marriage made in heaven and are usually good collaborators but may be prone to rest on their laurels
- Stable pragmatists — tend to be in a tough business but recognise that they are in the same boat and soldier-on doggedly, sometimes for many years
- Rebellious teenagers — almost your worst nightmare; a great partnership but

challenging, annoying and very heated discussions

- Evolving pessimists — continually focus on what is not working rather than what is working well; good intentions but effective service delivery is some way away
- Captive sharks — partnership hostages who work together because they have to; usually proactively aggressive
- Cherry pickers — are just in it for the money and the short term, despite appearing at times to be committed
- No-can-dos — these businesses are simply pulling in opposite directions with no common ground; a history of bad behaviours and outcomes has 'poisoned' the atmosphere
- Deserters — this stage typically precedes dissolution of the partnership or litigation.

What sort of partner are you? What sort of partners are you working with? The book *Strategic Alliances* and *Marketing Partnerships* includes worksheets to identify types and advice on managing each relationship more successfully to achieve competitive objectives.

As psychological theorist Isobel Briggs Myers says: "Whatever the circumstances of your life, the understanding of type can make your perceptions clearer, your judgements sounder and your life closer to your heart's desire."

Similarly, whatever the circumstances of your business partnership, the understanding of type can make your assessments clearer, your management sounder and your actions better aligned to your objectives. ||

Andrew Humphries is currently CEO of SCCI, which specialises in measuring commercial relationship performance. He had a 34-year career in the Royal Air Force culminating as Head of UK Defence Aviation Logistics. Richard Gibbs is a recognised expert in marketing channels and has held senior positions with Xerox and Novell. The book can be purchased from the Institute of Management Bookshop or online.

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