AUTHORS
& Contributors

Claire Lawson • Opinion, page 11
is an associate at Russell Reynolds Associates, a global executive search firm, and the leader of its supply chain practice in the UK. Before this, Claire spent 10 years as a management consultant at Accenture, focusing on supply chain and procurement. She was also involved in large-scale outsourcing programmes as well as the establishment of supply chain shared service centres.

David McLain • Briefing, page 14
is chief procurement officer at Del Monte Foods, where he leads the company's global purchasing and commodity hedging processes. Since joining in 2007, his focus has included commodity cost variance-at-risk and supplier risk management. Before joining Del Monte, David served in various operational and consulting roles, including practice leader and partner at Tatum.

Mark Short • Tactics, page 16
leads the global transaction advisory services practice serving the automotive industry at Ernst & Young, based in Detroit, Michigan. Mark has more than 28 years' experience with the company, including 14 years in the practice. He has worked with a number of clients on monitoring troubled suppliers and conducting due diligence on stressed or distressed suppliers.

Luc Volatier • Supply chain risk, page 18
is an executive in residence at IMD in Switzerland, which he joined in 2007, where he specialises in procurement. Until recently, Luc was the CPO of Numico, a Dutch food manufacturer. Prior to this, he was the managing partner of UpStream Purchasing Consulting in Geneva for five years and the first procurement director for Danone in Asia.

Jonathan Hughes • Strategic sourcing, page 46
is a partner at Vantage Partners and its sourcing and supplier management practice leader. He has worked with procurement organisations on such areas as supplier relationship management, innovative sourcing strategies and improving collaboration with strategic suppliers. Jon's articles on negotiation, supply chain management and alliances have appeared in publications including *Harvard Business Review* and *CPO Agenda*.

Andrew Humphries • Collaboration, page 52
is the CEO and founder of SCCI, a company based in Milton Keynes, UK, specialising in measuring the effectiveness and diagnosing the improvement opportunities in collaborative business relationships. Prior to this, Andrew enjoyed a 34-year career in the Royal Air Force, where he became head of UK defence aviation logistics. He holds a PhD from Cranfield School of Management.

CPO Agenda
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Redactive Publishing Ltd, 17 Britton Street, London EC1M 5TP, United Kingdom. Tel: +44 (0)20 7880 6200

EDITORIAL
Tel: +44(0)20 7324 2746 Fax: +44 (0)20 7880 7690
E-mail: editorial@cpoagenda.com

Editor/publishing manager **Steve Bagshaw**
Deputy editor **Nick Martindale**
Sub-editor **Gareth Mytton**
Art editor **Adrian Taylor**
Art director **Mark Parry**
Editorial/web assistant **Jill Reilly**

ADVERTISING & MARKETING
Tel: +44 (0)20 7880 7551 Fax: +44 (0)20 7880 7690
E-mail: inquiries@cpoagenda.com

Sales manager **Darren Ephraim**
Events executive **Rebecca Montwill**
Senior subscriptions & circulation executive **Susan Kelly**

PRODUCTION
Tel: +44 (0)20 7880 6236 Fax: +44 (0)20 7880 7690
E-mail: production@cpoagenda.com

Production manager **Jane Easterman**
Senior production executive **Kat Anastasiou**

REDACTIVE PUBLISHING LTD
Managing director **Brian Grant**
Chairman **Lord Evans of Watford**

CONTRIBUTIONS
CPO Agenda welcomes ideas for articles. E-mail a short synopsis to steve.bagshaw@cpoagenda.com

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Take great strides together

Identifying what sort of partnership you have with suppliers is the first step on the road to more productive and profitable relations

By Andrew Humphries & Richard Gibbs

In a business environment where global sourcing is the norm, partnering is at the forefront of business strategy. One could say individual businesses no longer compete; rather it is the interconnected activities of supply chains and alliances that are the real competitive features of a company. Whether the objective is to extend your reach and coverage or to innovate and gain an operational advantage in the market, if you are not skilled in managing complex, networked activities across enterprise and national boundaries, you are unlikely to succeed.

In our book *Strategic Alliances and Marketing Partnerships: Gaining Competitive Advantage through Collaboration and Partnering* (Kogan Page, London), we take readers step by step through the process of evaluating their important business relationships and locating them within the Gibbs+Humphries (G+H) partnership types. This article, which outlines our research, aims to give CPOs a new and more powerful frame of reference for understanding their strategic alliances and supply chain partnerships so they can manage them more effectively. We describe an innovative way of characterising these key relationships using the G+H partnership types. We demonstrate how it provides an objective way of unlocking the comprehensive knowledge contained in highly complex business situations and show how you can significantly improve partnering performance to achieve competitive objectives.

Through collaboration, businesses can improve operational processes and reduce costs and time to market. Partnerships enable the value offering to the end customer to be enhanced and, crucially, they can be the source of long-term competitive advantage by delivering high returns on investment, better gross margins and above-average growth.

Strategic alliances can be used to bring new skillsets and capabilities into the organisation, which in turn generate new opportunities, innovation and enable the development of new products and services. They allow firms to initiate and accomplish objectives that, on their own, they could not even consider.

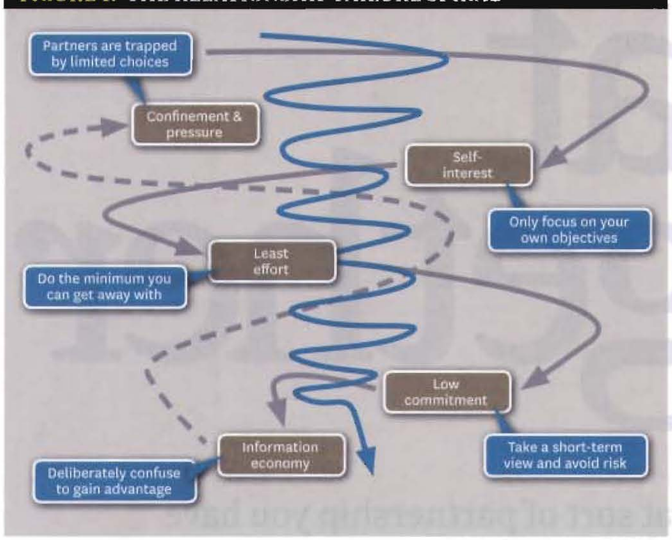
The reality is that many partnerships don't live up to expectations and some 40 per cent are dissolved in the first year. In some cases, the effects can be catastrophic. You only have to look back to the UK motor industry in the 1990s where bad behaviours caused production to be moved offshore and opened the door to firms such as Nissan and Honda from the Far East that really understood how to collaborate effectively.

The opportunities to fail in supply chain relationships are legion. Many of us would recognise that much of a manager's knowledge is about managing inside their organisation. Finding ways to work in teams and collaborate across the functional areas of a single business is a recognisable challenge. In larger organisations, it is not unknown for divisions to have serious squabbles between themselves – and they are part of the same team.

Looking outside one's own organisation and working with other businesses is not something that many of us are trained to do. In fact, the natural, competitive instinct of any organisation is to work close to home and to be wary of outsiders, be they suppliers,

ILLUSTRATION: PAUL BLOW

FIGURE 1: THE RELATIONSHIP FAILURE SPIRAL



customers or partners. After all, this is why we have contracts containing detailed terms and conditions. This wariness translates itself into a series of behaviours that, it can be argued, predestine partnerships to be unsuccessful.

Beyond these cultural issues, alliance management is an often-misunderstood concept. In many organisations, the function is diffused among commercial, sales, operations and senior staff. Who is the point of contact to facilitate and co-ordinate the activities within a firm that serve a relationship with another? Who centrally carries out co-ordination, problem resolution, performance management and planning for the joint enterprise?

This problem is compounded by the many business schools that continue to teach supplier relationship management and key account management, which promote a self-centred approach, rather than alliance management, which focuses on collaboration. Companies must adopt appropriate, objective governance measures that fully recognise the strategic value of their partnerships, otherwise they will invite failure.

Negative emotions

The steps in the failure of a relationship can be represented as a dynamic feedback loop or spiral with value being the main casualty that falls from its core (see *figure 1*, above).

Problems may begin with the partners feeling trapped and under pressure. This confinement is brought about in many situations, even when the companies have free choice. Simply electing to work with one firm can make a company feel trapped because it has deselected or consciously removed the opportunity of working with other businesses. This feeling of entrapment grows and leads it to take a very self-interested view of the arrangement, focusing on its own objectives to the detriment of the other party. This can often be the basis for adversarial negotiation as managers look to protect their own by gaining concessions and commitments from their would-be partner.

We have often seen what we describe as "partner envy" where companies impose their business model on the partner and then imply that the other is getting more revenue, more profit and more benefits from the deal than they actually are. This self-interest leads businesses to do as little as possible to stimulate the partnership. There can be a focus on the minutiae of agreements and action plans. Investment of time, energy and resources is kept to a minimum. Dealing with the other business is seen as a risk because it has its own shareholders, employees and agendas, which means it cannot be trusted. Companies start to take a short-term view, sacrificing the long-term profitability and potential of the partnership for short-term gain and benefit.

The final step in the downward spiral is the withholding or manipulation of information to gain advantage. Blatant, deliberate misinformation is often an outcome. This is one aspect that we see frequently in failing partnerships; it can be endemic in many environments where this "information economy" sets the scene from day one. This sorry situation then feeds back into the feelings of entrapment and the cycle starts again; nobody gains from this and the only outcome is value disappearing down the drain.

In the 1970s and 80s, the UK government didn't trust its defence contractors and fixed their profits while paying variable costs (the cost-plus policy). The contractors worked hard to creatively inflate their customer's view of their costs so the government put inspectors onto the production lines. In response, the contractors cut corners in design, knowing they would be paid in future to repair unreliable equipment returned from the front-line users.

Reversing the decline

But partnerships need not be prone to failure; after all, there are many examples, such as Warburtons the Baker and its cereals supply chain, that simply "fly". In this case a clear focus on the positive management of its important relationships removes the natural friction between partners. The reverse of the spiral of failure is where partnership rises continuously (see *figure 2*, facing page).

The starting point for these successful partnerships is an openness and willingness to create value for the partners and to recognise that a "win-win" relationship will enable the individual businesses to achieve their goals and ambitions. This value focus is built on an overt attention to operational processes and outcomes, but especially to the end customer. This generates a real in-depth understanding of how the partners can become more effective, more efficient and offer higher quality through the combination of their joint resources.

Operational improvement is further strengthened by the partners being willing and able to adapt and innovate in the face of an uncertain and changing market. All of this positively locks the businesses involved into a clear appreciation of the aims,

Andrew Humphries *(andrewhumphries@gibbshumphries.org) is CEO of SCCI, based in the UK, and Richard Gibbs (richardkgibbs@gibbshumphries.org) has over 20 years of operational management experience at multinationals such as Xerox and Novell*

purpose, objective and success measures of the partnership. Underpinning all elements of the spiral of success is communication. In many of the positive spiral partnerships that we have investigated, businesses recognise the increased cost of this activity but realise that it is an essential investment that invariably characterises a successful alliance. In the spiral of success, a virtuous loop is created where the joint value proposition of the partnership can be reviewed, enhanced and, if appropriate, redirected. All of this leads to above-average profitability, higher returns on investment and the extraordinary gains that accrue to excellent partnerships.

Our experience has shown that many partnerships exhibit characteristics of the spiral of failure, and sometimes accept it as the natural condition; they argue that the projected success spiral gains from partnerships are utopian and unachievable. Others seem to have the knack of working successfully in pairs, chains and consortia where efficiency, harmony and adaptability bring them tangible benefits. In reality, most partnerships perform in a spectrum between these two extremes.

An important reason why managers struggle to achieve partnership success is their inability to determine exactly where they are between the spirals and what specific strategy and tactics to use. Often emotion, complexity, fast-moving events and geographical issues conspire to introduce a "fog of war" that makes effective management very problematic. Typically managers lack the tools that they need to do the job. While supply chains and alliances will be subject to a lot of scrutiny through management dashboards of one flavour or another, the information provided can often be inappropriate to penetrating that fog.

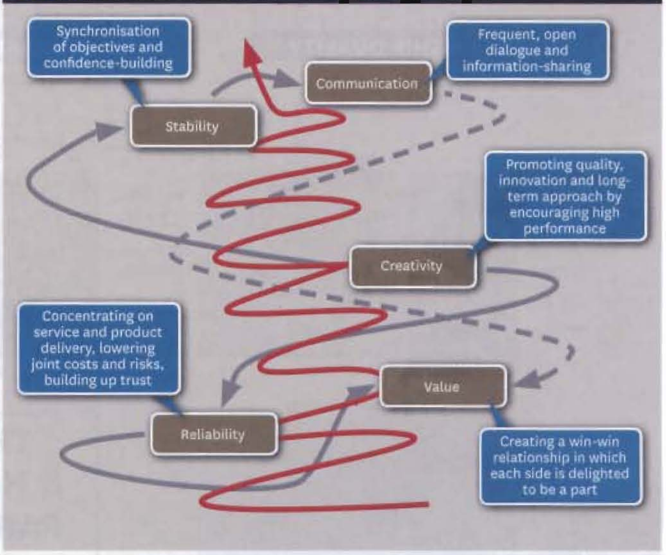
Fundamentally, these tools are at best inadequate for the job, and at worst promote and accelerate the spiral of failure. Typically, they will be lagging indicators of what has happened, or more usually what has not happened. They will reflect the business needs of one side of the partnership only and interpret the results in the context of the single firm. This leads to conflict and a view that the objectives of the partnership are being manipulated and changed. Normally they will result in fire-fighting and poor teamwork with a series of short-term fixes and actions. This kneejerk reaction to change is both ineffective and expensive and the absence of sound management tools is a primary cause of frustration, poor performance and partnering failure.

Steps to partnership success

What we need is a better management tool, a better way of understanding and discovering the causes of the partnership challenge, and a way to highlight those actions that will allow the partners to achieve their aims and objectives efficiently.

Our extensive research programme, which involved hundreds of substantial relationships in the public and private sectors, in a wide range of industries, functions and cultures, has enabled us to examine the characteristics of successful and failing partnerships in a wide sweep of partnering variants. Having designed the spiral models, the next stage pinpointed those drivers, operational elements, and behaviours that would directly influence partnership outcomes. Whether in a supply chain context or

FIGURE 2: THE RELATIONSHIP SUCCESS SPIRAL



strategic alliance, these are the factors that generate partnering performance and culminate in partnering excellence. They have as their consequence the extraordinary gains and benefits of successful business-to-business relationships.

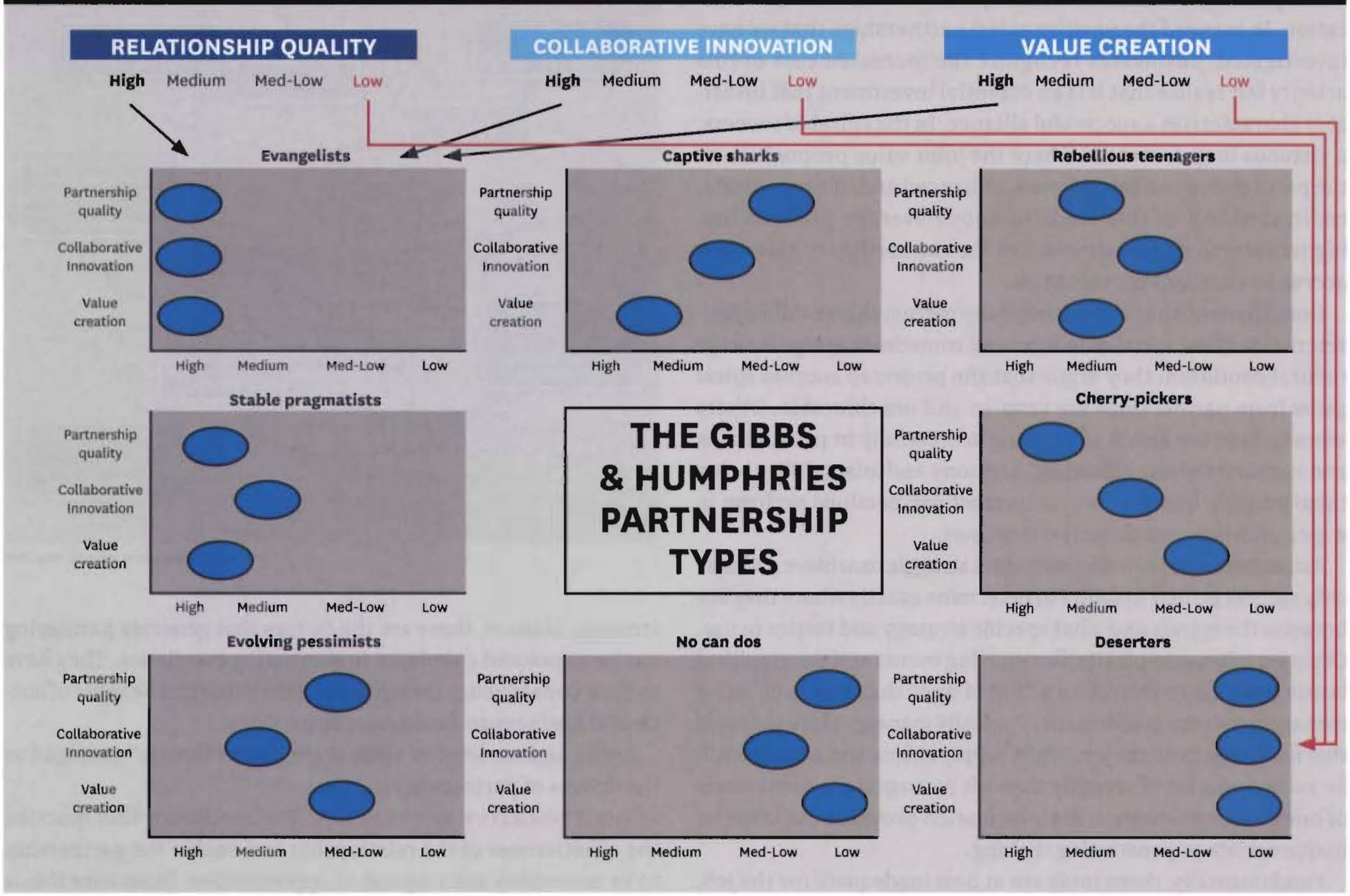
At the highest level of view, three "super factors" emerged as the drivers of partnership success:

- **COLLABORATIVE INNOVATION:** The conditions that describe the effectiveness of the relationship and enable the partnership to be innovative and respond to opportunities. In essence this is the "spark" that motivates the partners to make their relationship special; the magic in the marriage. Comprises: adaption, innovation, communication and co-operation.
- **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 that directly influence the duration and longevity of the relationship. Comprises: commitment and trust.
- **VALUE CREATION:** The efficiency of the partnership to create and capture the potential value that it offers. Often involves a focus on satisfying the end-customer rather than the small print in the contract and sharing the benefits of cost reductions and new business opportunities. Comprises: conflict management, synergy, value creation and process efficiency.

Behind each of these super factors are the details that enable us to ask the right questions of alliance personnel and give them the additional insight they need to promote improvement. The questions will probe matters such as the partners' 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 and attitudes; and operations management.

When viewing relationships using these super factors and matching them to perceptions of success or failure, some clear

FIGURE 3: GIBBS & HUMPHRIES PARTNERSHIP TYPES



patterns emerged. There were partnerships where the performance against all of our indicators was very high. Similarly, at the other end of the scale, failing partnerships were characterised by the poor ratings of the critical success factors. We were able to confirm that nearly all partnerships fell into one of eight partnership types (see *figure 3*, above). Most importantly, each type had a clear, individual "character" whose features were possible to understand including the general and specific performance and management challenges each represented. Each of the G+H partnership types, therefore, takes on a personality: good and bad, productive or challenging. In much the same way that Myers-Briggs types describe people's personalities, we are able to describe partnerships and as such we have named them to reflect their main tendencies.

- **EVANGELISTS:** Looks like a marriage made in heaven and usually good collaborators, but the partners 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 (see *case study*, facing page).
- **EVOLVING PESSIMISTS:** Continually focus on what is not working rather than what is working well. They have good intentions but effective service delivery is some way away.
- **CAPTIVE SHARKS:** Partnership hostages who work together because they have to. Usually aggressive.
- **CHERRY-PICKERS:** Only in it for the money and the short term, despite appearing at times to be committed.
- **NO CAN DOS:** In this relationship, the businesses are simply pulling in opposite directions with no common ground. A history of bad behaviour and outcomes has poisoned the atmosphere.
- **DESERTERS:** This stage typically precedes dissolution of the partnership or litigation.

It is important to recognise that, like people, partnership personalities do not fit neatly into a continuum. The complexity of their make-up shows that while we see types morphing over time, we need to think of them as transitions rather than a straight line from best to worst. Somewhere within this are the partnerships and alliances that you are working on today. Possibly for the first time this represents a specific tool for alliance managers.

So what are the general principles of discovering which G+H partnership type fits your strategic alliance? As we have mentioned, each one is defined by an extensive set of metrics but it is possible to get an approximate answer by considering a particular partnership in the light of the following three factors:

• **REFERENCES:** Our partner would provide us with a positive and flattering reference to a key customer or buyer.

• **EFFECTIVENESS:** In the past six months, we have increased the level of satisfaction of our customers as a direct consequence of this partnership.

• **VALUE:** We have seen a real cost advantage, margin gain or both as a result of working with this partner *or* we represent a significant share of this partner's business.

Next plot your answer using a subjective high, medium, medium/low or low assessment into the following matrix:

G+H types	Likelihood of good reference	Partnering effectiveness	Value significance
Evangelists	High	High	High
Rebellious teenager	High	Medium/low	Medium
Stable pragmatists	Medium	Medium/low	Medium
Captive sharks	Low	Medium	High
Cherry pickers	High	Medium	Low
Evolving pessimists	Medium/low	Medium/low	Medium/low
No can dos	Low	Medium/low	Low
Deserters	Low	Low	Low

Having found your relationship, what next? Of course, this will depend on which one you have identified. However, in general terms it is vital to share your findings with your partner and even better if you have carried out the exploration exercise together. You must then review your strategic objectives and ensure that you have a common understanding of how the alliance fits in. This may require some realignment, both jointly and individually.

Next follows a tactical review. Carefully identify the sources of friction that undermine the effectiveness of the partnership: negative spiral behaviours. Often fixing minor operational issues will go a long way to restoring confidence. Put in place projects to address more fundamental problems; the overall aim is to improve effectiveness by cutting costs and inefficiencies. The alliance is doubtless missing opportunities to capitalise on its strengths resulting from the positive spiral behaviours. Key to achieving these benefits is establishing good relationship management practices such as joint regular performance monitoring, problem-solving and planning activities. Providing a focus for the joint enterprise will ensure that continuous improvement replaces fire-fighting and stagnation. CA

CASE STUDY

REBELLIOUS TEENAGERS

Rebellious teenager-type relationships are normally high-performing businesses with good prospects. However, one party – often the least mature partner – will constantly voice its disapproval at the way things are run. It will tend to ignore the "niceties" and use the "hammer to crack a nut" approach to problem-solving. However, these relationships can be reconciled by common sense, although the stormy episodes are likely to return with very little notice.

In this case study, the 20-year relationship between a global confectionery/snack foods manufacturer and a smaller, specialist confectionery producer was worth £36 million a year. The customer firm derived significant business benefits from the relationship that it could not find elsewhere in the market but, although its partner never failed to deliver, it felt intense dissatisfaction because of the "aggro" in the arrangement.

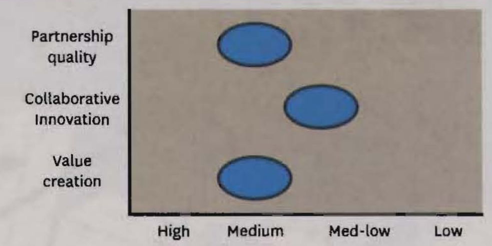
The highly specialised and accomplished supplier gained volume orders and enhanced reputation from working with its major customer. However, because the customer treated its dynamic, agile partner as if it were one of its in-house production, lines the latter felt aggrieved and frustrated.

Communication failures on both sides resulted in unreliable logistics, use of penalty costs, angry staff, fragile co-operation and low incentive to innovate. The supplier's highly entrepreneurial, "buccaneering" attitude did not help either.

Understanding their situation in detail allowed both organisations to re-energise their relationship with startling results. The customer invited the supplier to carry out a joint product review and sought its ideas for product design and increasing market share. As a consequence, improved joint revenues and volumes were quickly achieved.

A supply chain review involving third parties tackled ordering, quality control, co-ordination and problem-solving. Both parties concentrated objectively on fixing the issues and gradually things became more harmonious. We are not aware if the customer changed its co-manufacturer management policy but we are convinced it could reduce its costs if it used a lighter touch.

REBELLIOUS TEENAGERS



- Overall a good working relationship, but characterised by poor communication and often intense conflict.
- RTs can accuse their partners of a lack of fairness.
- Established partnership where the commonality of goals is now being questioned.
- RTs typically represent high performing partnerships.
- RTs can be responsive to a reappraisal and restatement of the joint objectives of the partnership.
- Significant effort is needed in two-way communication, which re-establishes view of benevolence.