traditional company-supplier relationship.

Better collaboration

Many companies have begun to look at supplier negotiations as an opportunity to create value, rather than to simply battle over price concessions. For example, the traditional approach to negotiations is to start with an extreme position and then subsequently make concessions until an accord is reached. However, this split-the-difference solution, according to the study, often leaves substantial value unrealized.

More and more, supplier negotiations are being conducted in a collaborative manner that lets both parties discover previously unimagined solutions that maximize the value of the deal. In interviews with purchasing executives from more than 100 companies, our study found that roughly 85% of respondents cited "negotiation is used as an opportunity to build good working relationships" as being "very valuable" or "critical." Yet, less than 25% of respondents used negotiation in this way.

Partnering companies should consciously try to build strong working relationships with suppliers during negotiations by attempting to understand their suppliers' goals, needs, and constraints, and by developing creative options that meet the needs of both sides. They should approach negotiations from the point of view that a strategic supplier relationship must create sustainable value for both sides if it's to last.

For example, a manufacturing company we studied uses a process of time-sensitive feedback and regular performance evaluations to drive supplier improvement, maintain an open communication flow, and more quickly spot areas in need of improvement. An online data-gathering system aggregates results weekly in such areas as delivery rates and quality defects. If needed, the company sends nonconformance notices to its suppliers. Suppliers can also go online to the company's Web site to check their ratings and results.

The weekly performance numbers are then fed into an overall supplier scorecard. A cost section evaluates how suppliers have affected the company's cost structure—whether they've brought new ideas or new product programs, the level of support for new products, and the level of flexibility in responding to drop-in demands.

The scorecard contains six elements, with each one aggregated to a number score. Once a year, the strategic buyer who owns the relationship reviews the scorecard with the supplier.

The road to strong alliances

We evaluated 20 best practices, including the manufacturing example above, aimed at enhancing the value of supplier relationships. These practices—divided into categories of evaluation and selection, negotiation, post-deal relationship management, performance monitoring, termination, and portfolio governance and management—constitute a road map for systematically negotiating and managing key supplier relationships more effectively.

In sum, the study demonstrated that greater value is derived from strong, collaborative working relationships with critical suppliers. When asked about value—in terms of cost savings, innovation, and quality—almost half the respondents said that strong supplier relationships deliver at least 50% greater value than poor ones.

Vantage Partners also asked respondents to quantify the benefit of implementing these 20 best practices. On average, respondents reported that they could save more than $43 million through these relationship-focused practices. Moreover, respondents who stated their answer with the most confidence reported that, on average, they saved almost $56 million in their bottom lines.

The marketplace is changing; companies are no longer isolated entities. Alliance partners, channels, suppliers, and customers are increasingly linked together to form extended enterprises. In both supplier-relationship management and alliance management, companies seek to apply more discipline to formerly ad hoc activities and to drive top-and bottom-line value through more effective collaboration. They've realized that systematically managing such value chains, and the relationships they encompass, holds tremendous promise for delivering significantly greater value for each business than it could achieve by acting alone.

Larraine Segil is a partner in Vantage Partners. She is the author of Measuring the Value of Partnering—How to Use Metrics to Plan, Develop and Implement Successful Alliances *(Amacom, January 2004).*

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Sidebar: Staples Sets Stock In Communication
Staples, the office-supplies superstore, puts communication at the forefront of its alliance strategy. Management believes this is the only way to maintain alignment—both internal and external. Staples gets so many requests for alliances that it has to be very analytical about the partners it selects and what it actually calls an alliance and treats as such. The metrics the company applies become critical to enable it to differentiate between those it wants to accelerate into more integrated relationships and those it doesn't.

Jeff Scheman, VP in charge of alliances for Staples, spells out some of the metrics the company uses. Communication is at center stage:

- **Articulation of goals and strategic alignment:** The alliances have to be squarely in the sweet spot of each company's strategic goals. The partners have to articulate what they are.

- **Implementation:** These metrics encompass communication, managing expectations, and reminding each team of the broader vision and mission of the alliance when things get tough. Staples' culture is to share and debate. Yet, this is foreign to some of its partners. Staples employees prefer to exchange ideas and push each other to think through issues, bringing rough points into the open in order to work them through.

- **Executive communication:** A very small group communicates among themselves often. Scheman talks with his boss, the CEO, and the chairman weekly to monthly. They also have a formal meeting where the alliance managers talk about the alliance with the chairman or CEO monthly or bimonthly. They present what's working or not, and why, and share the lessons learned. It's important to get the right feedback from partners. The goal is for the team to work toward common ground.—*Larraine Segil*

The 90-Day Plan

Over the past decade, alliances have contributed significantly to most large companies' revenue. As markets globalize, industries converge, and competition intensifies, executives must rely more heavily on partners to expand their reach. Here's a plan to help you build healthy alliances.

FIRST MONTH: Assess potential relationships

- Identify all the relevant parties and stakeholders. Determine who cares about the success or failure of the relationship and who doesn't.

- Analyze the interests of all parties. Find out why they're interested in the relationship and why they care.

- Look at the relationship structure or positioning and see if it answers the interests of the parties, especially the most important interests of each party.

- Establish metrics concerning the time it takes to make decisions and communicate those decisions.

SECOND MONTH: Develop a game plan for negotiations

- Begin to develop different options agreeable to both parties.

- Know what your walk-away alternative is—an important determination if you're to negotiate something that's acceptable to each party.

- Put a plan together to start making these options reality. Include metrics for who's accountable and the time period to act on these changes. The plan also must consider available budget and resources, and where, how, and who will contribute and manage them.

THIRD MONTH: Put a plan into action and constantly monitor success

- While implementing the plan, constantly rethink how to influence the parties who have direct and indirect interests.

- Make sure you have a communication protocol that's agreed to by all parties so that lines are kept open and clear.

- Constantly readjust as you learn more. Listen more intelligently and become wiser about issues, interests, options, and alternatives.