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ALLIANCE BUILDER

For **Larraine Segil** *of Vantage Partners, the ability to build strong relationships correlates directly to business success. The author and management consultant has helped hundreds of organizations navigate the sometimes formidable obstacles that can frustrate alliances. In fact, it was Vantage Partners' early work at the Harvard Negotiation Project that laid the framework for the historic Camp David accords in 1978 and the constitutional transition in South Africa in the 1990s.*

Today, as an alliance expert and partner at Vantage Partners, Segil is showing companies how to build stronger alliances with their customers and suppliers. Her latest book, Measuring the Value of Partnering: How to Use Metrics to Plan, Develop, and Implement a Successful Alliance *(AMACOM, 2004,) explains how to put successful alliances in place—and create the metrics necessary to keep them successful. Segil's earlier works include* Intelligent Business Alliances *and* Fast Alliances.

Asked about her core message for supply chain professionals, Segil responds without hesitation: "Change the essence of your relationship with key partners from price to value." She spoke to SCMR Editor Francis Quinn from the Vantage Partners offices in Los Angeles.

PHOTOGRAPHS BY TIM TADDER

Q: What's the biggest mistake that companies typically make when entering into a relationship?

A: Certainly, one of the biggest mistakes is not really understanding what they're trying to achieve through the relationship. Now I know that sounds mundane, but you'd be amazed how often parties don't communicate clearly what they want to accomplish.

To develop that understanding, you need strategic alignment of the partnership strategies from the very beginning of the relationship. That doesn't necessarily mean that the strategy has to be the same for both partiers. But it does mean that you start off with a strategic understanding of the direction you're trying to achieve. The partnership could be of relatively low strategic importance for you and high for your partner. Now, that's fine as long as you know what the difference is and you can manage your expectations. But remember, if it's a highly strategic relationship for you and it's much less strategic for your partner, there's a high likelihood that you will be doing all of the work.

Sometimes the strategic direction of your partner will change during the course of the relationship—and you need to be aware of that. They may become disinterested in the relationship and start pulling back on the committed resources. You need to be on top of that and ready to take appropriate action.

Q: And that's where metrics come into play?

A: Absolutely. Every key aspect of the relationship needs to be tracked as a metric. Because when you see those metrics' levels beginning to drop, these are leading indicators of potential alliance failure. By tracking the relationship metrics you can tell if your partner's attention is waning. Where once you might have expected them to come to the table to discuss adjustments in the scope of the relationship, you now can't even get them to return your phone calls. You may have a contract, but that's about it.

Q: Could you talk a bit more about the importance of metrics in a relationship?

A: Metrics are absolutely essential. We see metrics as falling into four categories: strategic, financial, operational, and relationship. And these metrics are applied in two distinct stages of the relationship—the development stage and the implementation stage. So whether you're in the development stage or the implementation stage, you should have metrics in each one of those categories. The specific metrics will vary depending on the kind of relationship you're putting together. Vantage Partners has developed a framework of relationships based on the value or strategic importance and the cost of switching suppliers. (See Exhibit 1.) We've categorized the supplier relationships into commodity, collaboration, custom, and strategic. My book gives many examples of metrics for each type of relationships. So you could basically cherry-pick from a menu of what makes sense for you based on the nature and strategic direction of the relationship.

Q: Most readers can understand traditional metrics like on-time delivery or order-fill rates. But you also advocate the use of nontraditional metrics. Could you give an example?

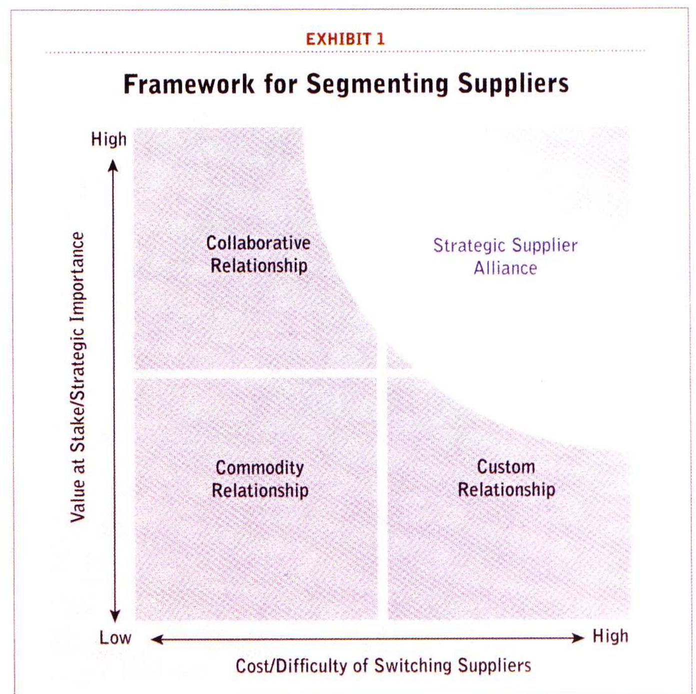
A: A good one is ROMOC, or return on market opportunity cost. This metric looks at cost and market opportunity not just as a one-time deal but rather as a multiplier that extends over the course of the relationship. So let's say that you were thinking about going into a new market, and you were potentially going to partner with a supplier who was already integrated into that market with other customers. If you negotiate on price alone with that supplier, without understanding the value they have to offer over and above the product or service in question, you would be undervaluing the relationship's true potential. ROMOC is a metric we've developed to help companies understand that potential. It's a nontraditional metric that essentially changes the equation from price to value.

Q: How do you know you're partnering with the right people in the first place?

A: The process of selecting a partner is not about serendipity, or liking someone, or even having worked with someone in the past. It needs to be a structured process. You need to develop selection criteria that reflect what's realistic in the marketplace and, at the same time, respond to

EXHIBIT 1

Framework for Segmenting Suppliers



your needs. Compatibility is a huge issue when it comes to managing relationships over time. So you need to take a close look at the culture of prospective partners as part of the selection process.

The selection process also needs to consider the level of integration that will be required. Therefore, it's critical to consider compatibility early on in the selection process. If you're looking for a strategic supplier, you would have more integration. Therefore, you would be looking closely at the cost or difficulty of changing suppliers. If you're looking for a commodity supplier, the integration would be a lot less, and issues like culture compatibility and cost of switching would have relatively less importance. So basically the selection process requires you to do some tiering, some analysis, and even some scenario building.

Over time, the business reasons for going into the relationship become inversely proportional to the compatibility issues.

Q: You've emphasized that communication is key to any successful relationship. What tips can you give readers on effectively communicating with their alliance partners?

A: The one thing you should never do is stop communicating with your partners. Even if you thoroughly disagree with them and you don't like what they're doing, the moment you stop communicating, you basically terminate any opportunity for remediation. Two-way communication is key. Communication protocols can be actually built into the process of a managing a relationship so that you can control who gets to speak to whom. In this way, you don't have mid-level managers rushing off and asking for changes when they don't have the authority to do so, or a supplier running ragged trying to satisfy somebody's needs that has nothing to do with what they should be doing, and so on. So controlling and managing communication, keeping communication going, making sure that communication is structured and appropriate and valuable and clear—these are all key elements of a true partnership.

Q: You also emphasize the importance of cultural integration in any successful alliance. Why is this so important?

A: It's a huge issue that comes up continually. We have found that over time the business reasons for going into the relationship become inversely proportional to the compatibility issues. In other words, organizations spend a huge amount of time looking at why they're going into business together, why they're going to buy from or sell to each other, and what kind of deal they can work out. Yet they spend very little time looking at how decisions are made at the respective companies, what kind of organizational structures are in place—are they hierarchical or egalitarian. Is there consensus-based decision making, what kind of approach do the companies take with regard to time-to-market? Do they like to test and retest and then beta test before launching a product or initiative? What's the speed of change within the organizations, and so on.

In short, companies usually address the business issues surrounding the deal but pay little attention to these cultural issues. The problem is that over time the business reasons of why you went into the deal become less and less important, while the cultural challenges become more and more important. My research into hundreds of companies shows that the business and culture issues intersect at about three and one-half years into a five-year term. And it's at this point where 60 percent of relationships fail. That's why it's so important to bring those cultural issues up early in the relationship.

Q: Talk about the role of a champion in the alliance development process. Is that an essential position?

A: I think champions are important, but they have to be qualified and positioned properly. We have developed a tool to help companies do that. It's called "DICN," each letter referring to a key role in the alliance-development and decision-making process. The champion is generally in the "D" box, the *driver* of the decision. This individual may not necessarily be the one who has decision power but is someone who is very excited about the relationship and has taken the initiative to get it moving forward. Then you have people in the "I" bucket, people who need to be *informed* about the progress of the alliance development. They really don't want

to make the decision regarding the alliance or drive the initiative. But they need to be informed of what's taking place because it's important to their world. Then there are people in the "C," or *consult* bucket. These are the individuals whose counsel and input is needed to make the right decision with regard to the alliance. Finally, in the *negotiation* "N" bucket are the individuals who make the decisions. They have the power to approve or veto the alliance provisions.

Now we often find that in important relationships everybody rushes to the table and says "I need to be heavily involved in this. I need to be in the 'N' bucket with the veto power, and so on." We'll say, "Fine, no problem. Oh, and by the way, this level of involvement will involve at least four to six hours of reading a week, and two or three meetings that will take maybe four hours, and so forth." The response is typically, "Well, I don't have time for that, but I do need to be consulted on this project." To which, we'll say "O.K., you can be a consultant—the 'C' bucket—and that will involve a couple of hours of your time each week." So you can see, the DICN tool is very effective for defining the role of the champion and other key players—and getting the right people in the right role.

Q: Is it difficult to change the nature of your relationship with an existing supplier, specifically moving it to a more strategic level?

A: Because of the burden of history involved with a particular supplier, making the transition can be difficult—though it's certainly not impossible. You may have worked with a supplier over the years and built up a history of interaction for better or for worse. And now you're trying to transition something that had been a largely commodity-type relationship into a more strategic alliance in that upper right-hand quadrant. The problem is that up until now, you've only been talking about money and cost savings with this supplier. Now you have to change the conversation to knowledge transfer, integrated value, collaboration, and so on. So even though many companies and many of your readers may recognize the opportunities in transitioning folks to integrated strategic suppliers, they are fighting an uphill battle in their own organizations because of the transactional—and often adversarial—history of interactions.

Q: It's tough to get past the transactional mindset that most purchasing people grew up with.

A: Exactly. Many people in the organization will continue to consider these partners as vendors. We see this often. A delicately framed and developed alliance relationship is scoped out by two parties and gets handed off to procurement. The procurement folks then proceed to drill it down to a vendor relationship again. In my first book, *Intelligent Business Alliances*, I recommended strongly that you bring the procurement people into the strategic negotiation up front. Don't wait to bring them in until the end because they will only do what they know how to do. If you want them to play a strategic procurement role, you need to make sure they're involved in the strategic part of the process.

Q: Any other traditional approaches of working with your supply chain partners that need changing?

A: One area is the negotiation process with suppliers, which traditionally has been confrontational. The typical scenario is that two parties come to the table and start off by trying to get 100 percent of what they're after. Then you yield some, and I yield some. Then you yield a little more, and I yield a little more, and so on. So we end up with something that neither of us is really happy with. There is so much that we've left in the area of joint gain—what we call the Pareto frontier. Joint gain is the opposite of zero-sum. Zero-sum says the more you get, the less I get; if you win, I lose. Joint gain says the more you get, the more I get, too. In other words, there's an atmosphere of plenty rather than an atmosphere of less.

Q: Our readers are heavily involved in acquiring services, such as transportation or third-party logistics services. Do service-oriented alliances differ significantly form purely product relationships?

A: In virtually every service relationship, there's a knowledge-capital component, which is a somewhat softer notion than a product. For this reason, it's much harder to measure the value of a service. Yet there are a number of metrics you can apply to determine that value. I'm talking about measures that gauge key aspects of the relationship like responsiveness, flexibility, innovation, the ability to act quickly and appropriately to changes in scope. Just consider that last metric relating to changes in scope. By doing it well, you can literally save millions of dollars over doing it poorly. Plus, you avoid tying up huge amounts of energy and senior management time and attention. So in a service-intensive relationship you need to measure such things as flexibility and responsiveness as well as whether your partner is delivering on time.

Q: You encourage companies to assign a relationship manager to their key suppliers. What role do these individuals play?

A: The relationship manager's role is to ensure that the interactions occurring between you and your partner are managed in a coherent and proactive manner—not as a series of independent, unrelated transactions. In some cases, the relationship manager may even get involved with your supplier's supplier because what the tier-two supplier does has a huge impact on the tier-one supplier's performance. The relationship manager is responsible for setting the metrics for these external partners and measuring the outcomes.

The other role is interfacing with all the internal stakeholders, meaning the business units within his or her own organization and corporate as well as individual functional departments like purchasing and logistics. So this can be a

10 Responsibilities of a Lucent Global Supplier Relationship Manager

1. Serve as owner of supplier/Lucent relationship.
2. Develop and manage relationship using performance improvement plan.
3. Compile, evaluate, monitor metrics using supplier scorecard.
4. Facilitate cross-company teams to drive results.
5. Set strategic direction of technology with Lucent and supplier.
6. Own business development with supplier.
7. Write and manage alliance agreements with supplier.
8. Monitor industry practices outside Lucent.
9. Drive Lucent Supplier Relationship Program opportunity assessment.
10. Be responsible for specific initiatives such as inventory, delivery, shortages, cost, quality.

Source: *Negotiating and Managing Key Supplier Relationships*, Vantage Partners, 2003.

pretty big job. To give it the attention it deserves, you need to have a person dedicated to the job full time—particularly if you want to move the relationship to the strategic, upper right-hand quadrant.

Vantage Partners recently released a report titled *Negotiating and Managing Key Supplier Relationships*, which was led by my partner Jonathan Hughes, who runs the Supplier, Sourcing and Procurement area of focus for our company. The report examines the subject in depth, and I believe would provide good insights for your readers on the role and benefits of a relationship manager. (The accompanying sidebar from the report shows how one company, Lucent Technologies, successfully structured the supplier relationship manager position.)

Q: You cite Avnet as a company that builds successful supply chain alliances and also effectively measures them. What's their secret?

A: It always starts at the top. When you read the quote in my book from Avnet CEO Roy Vallee, there's no doubt where he stands: "We are all about alliances—relationships are fundamental to what we do, and we measure them in order to constantly ensure that we are increasing shareholder value." As a distribution company, Avnet is in the middle, and they have to be both supplier oriented and customer oriented. I talk about some of the storms they have weathered in this position. In one particular case, HP actually changed the whole nature of the relationship with them. HP said we're not going to use you as we have in the past, we want to skinny up this contract, we are going to do a lot of the service stuff ourselves that you had been doing. All of a sudden the game had changed, and Avnet had to totally rethink the relationship. They went forward with a successful redesign and re-launch of the relationship. It was a masterful turnaround.

In my book I point to Rick Hamada of Avnet Computer Marketing as an example of a business leader who understands the value of metrics. He views metrics as a way of ensuring that you do what you promised you will do, consistently, because that's the fundamental basis of building trust. And if you can do what you said you're going to do, the supplier or the customer will keep looking to you to solve their problems. And if you do that well, you'll move to the higher level of being a problem anticipator. You just keep integrating yourself further and further into your partner's business. The more you do this, the more you change the conversation from cost to value.

Q: You just mentioned trust. Where does that fit into the relationship equation?

A: Trust is a squishy kind of concept. First, you need to understand that "trust" is not necessarily "like." In other words, you may not very much like your partner and, in the real sense of the word, you may not actually trust them as you would a family member. But you may be able to trust them in a business sense because they do what they say they are going to do.

Really, trust is all about understanding commitment. Now, what does commitment mean? Commitment means giving promises on things that you can actually deliver on. Commitment also means understanding the distinction between the substance and the value of the relationship. This may help to illustrate the point: A company might say, "Look, we've been good customers for so long, why don't we just drop this unnecessary measurement." Or, "You've been a supplier for so long, why don't you just give me an extra discount?" That's confusing the value of the relationship with the substance of the deal. So we always counsel our clients that you can be very, very tough on business terms and not have that interfere with the value of the relationship. In fact, you shouldn't be using relationship as the crutch to help you get a better business term. That's a spiral-down problem that will get you into breach of trust eventually.

Q: Let's say things don't work out so well and you have to end the relationship. Is there any way to do that painlessly?

A: There is no such thing as a painless termination. But I do believe that termination needs to be made in consultation with your partner. It has to be negotiated. In other words, termination shouldn't mean that one day you just stop returning the other person's calls. A negotiated termination should be communicated in a respectful, collaborative manner. It should be done in a way that leaves the door open for working together again in the future.

We've actually seen companies' reputations being negatively impacted by the way they've treated their suppliers. The auto industry is a good example. As we well know, sometimes what goes around comes around. And you may end up working for another company but dealing with the same supplier thinking, "Oh no, I wish I hadn't been so tough on them last time!"