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Are You in Sync With Customers? A Partnership Reality Check

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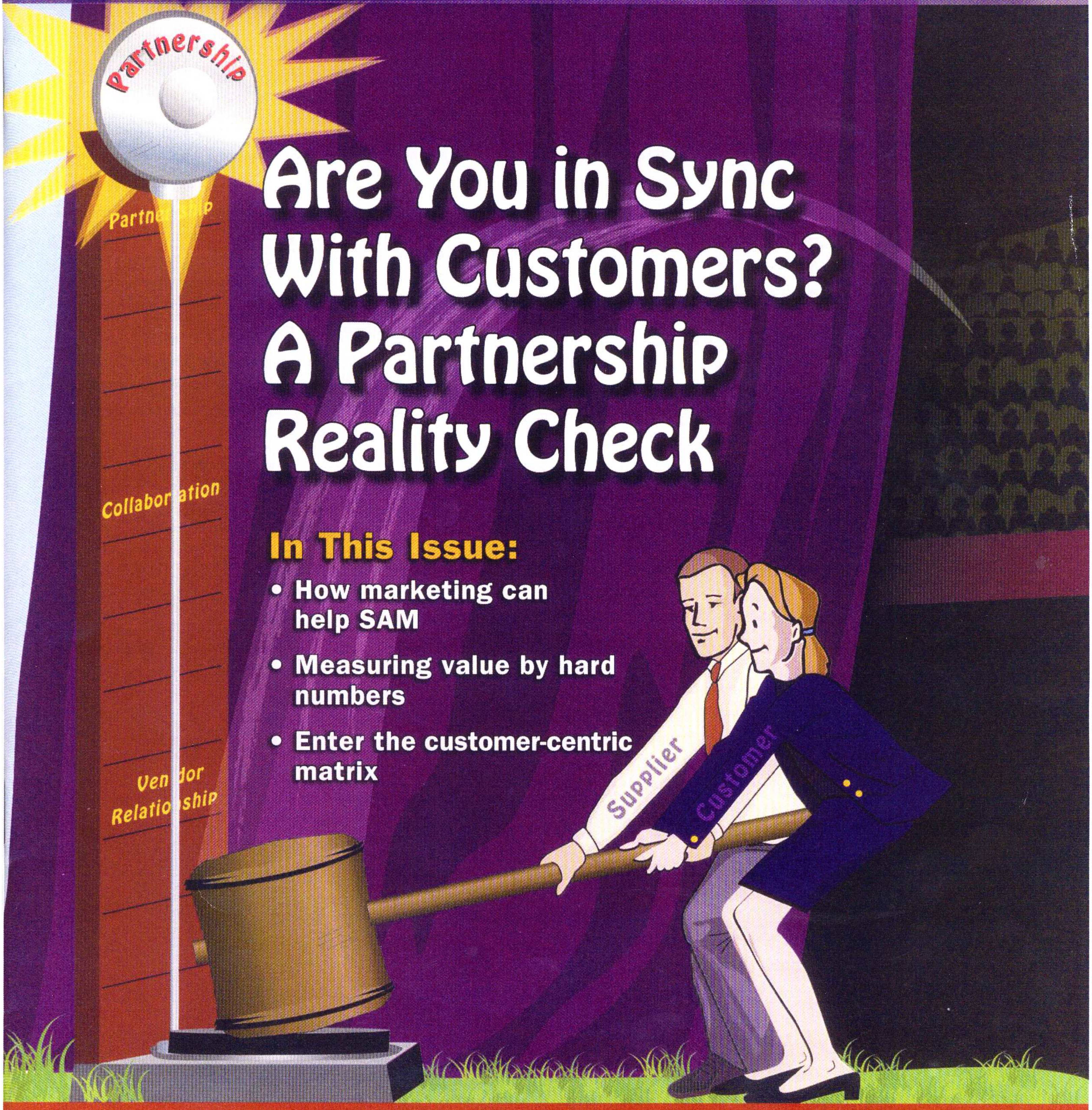

STRATEGIC ACCOUNT MANAGEMENT ASSOCIATION

Changing the rules of the supplier-customer game: Part 1

By Larraine Segil
partner
Vantage Partners LLC

This article is the first in a two-part series for Velocity®. *The first piece looks at how present market conditions have changed the dynamic between suppliers and their most important customers, as well as how there are now opportunities for dramatic innovation and integration as never before from the point of view of both supplier and customer and for focusing on larger, more complex relationships. Part 2 will look at these relationships from the specific perspective of a smaller company that might need to sell to and partner with a larger organization.*

"If you treat me like a vendor, I will act like one." "If you act like a vendor, I will treat you like one."

Have you and your customers been in this doomed loop of irreconcilable differences? How can you change the conversation from price to value? What if the markets you play in are commoditizing? How do factors like accelerated time-to-market and the pressures of fierce competition affect your ability to maintain your customer? And, finally, how do you align your own organization and colleagues to play better together so that you can give your customer one voice and consistency of service?

Transforming key customer relationships into significantly integrated partnerships is the way leading companies are becoming indispensable suppliers. But how does one get past "partnering" (a much abused term) to the nuts and bolts and reality of this transformation?

Here's the formula—the four fundamental differences in a transformed customer-supplier relationship. Do your key customer relationships have these?

1. **Innovation:** The customer views the supplier as an innovative partner – even in business processes – and a contributor of new product and service ideas.
2. **Collaboration:** The supplier creates a series of joint activities with the customer that

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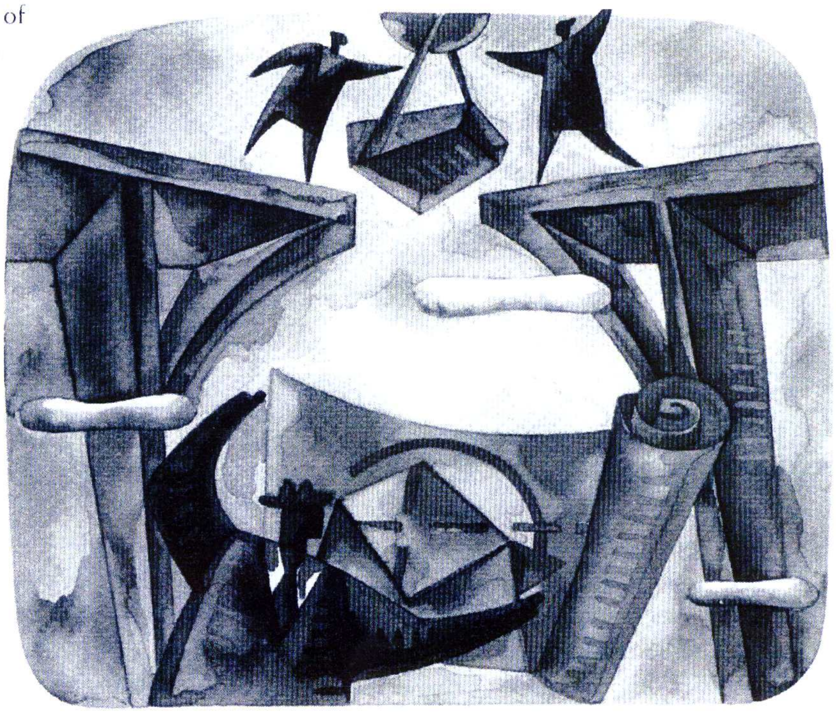


don't discuss price and are not for the purpose of selling.

3. **Rules of engagement:** The customer and supplier address conflict resolution jointly as opposed to identifying culprits and assigning penalties.

4. **Open-book relationships:** The supplier and this special customer create a transparent relationship in reference to costs, margins and operations that affect both parties so that the mutual gain of both organizations becomes the metrics of each.

1. Innovation

Recently, one of our supplier clients created a financial services product, but rather than pitching it, the supplier approached the customer with an analysis of the customer's present challenges. In joint discussions about how the supplier's technology could be adapted to serve the particular needs of the customer, the product offering was modified and actually became better. And since the application was customized for that particular partner, there was no concern about repurposing the technology into a more generic form for larger sale and distribution. This was a joint gain—leading to a larger pot of gold for all concerned.

This is more of an opportunity than a burden because the more integrated a supplier becomes, the more interdependent it is with its customer. Interdependence is a complex balance of mutuality and a realization that both parties have skin in the game. We look at the concept of joint gain, not zero sum, and coach all parties on the creation of examples that support this philosophy.

In recent months Procter & Gamble's CEO, A.G. Lafley, has made public announcements that his company expects to gain at least 50 percent of its innovative ideas, products and services from suppliers. Indeed, P&G, having acquired Gillette, is more focused than ever on working closely with suppliers designated as strategic. And that designation will not be given – now or in the future – to a supplier that is unable or unwilling to collaborate to increase its innovation contribution to P&G. Pretty definitive game rules. And if you as a supplier want to play, you had better open your books, offer transparency regarding your pricing and be prepared to become an extension of P&G's research and development arm.

Now how exactly does one collaborate to increase innovation contribution? This is achieved by creating a joint innovation team along with the customer, preceded by an understanding of the joint commitment to a strategic relationship where conversations happen on a senior management level as well as at lower levels of the organization. The joint innovation team creates its own set of metrics. One of our clients, a manufacturing company in the engineering field working with a hardware company in the IT world, co-created an extensive list of metrics for a joint innovation team. (See Figure 1.)

These joint innovation sessions must yield mutual benefits and cannot be a one-way street with innovation going only from supplier to customer. That is where the strategic relationship with a senior manager comes in—to ensure that the customer lives up to its commitments, too.

The quid pro quo for this kind of open collaboration means that it is perfectly acceptable and understandable to expect from the customer certain kinds of behaviors in return, which leads to the next characteristic of these special customer relationships.

2. Collaboration

We have worked with a leading consumer products company that spent a huge amount of internal effort and resources in redefining its supplier base. The company designated certain important suppliers as strategic and set up a system internally that created segmentation metrics for these suppliers and impressed on the company's internal colleagues to understand and accept this new way of behaving.

After multiple joint meetings with the suppliers who were strategic, the company and its suppliers were beginning to design new opportunities together with a new and more open, trusting working relationship. That's when an event happened that almost derailed the whole program. Procurement, thinking that it was doing its job well – indeed, considering that procurement is rewarded for price reductions while

Figure 1. A sample of joint innovation and design metrics

These metrics are from a joint innovation team comprised of employees of a manufacturing company and an IT hardware company.

- number of customer products on the market using your company's patents
- number of jointly developed customer products on the market
- number of co-branded products
- when your company should be involved in the development process
- projected and actual profitability and sales from new products (product by product)
- ROI by project
- ROI of joint innovation and design overall
- percent completion for joint projects
- number of partnerships supported
- number of design suggestions from your company that have been implemented
- time left to implement product changes and new products (absolute and against plan)
- number of integrated products
- number of ongoing projects
- occurrence of joint planning meetings for innovation
- number of meetings with the customer's customer
- defining a successful product launch
- metrics jointly developed with the customer

Source: Vantage Partners LLC

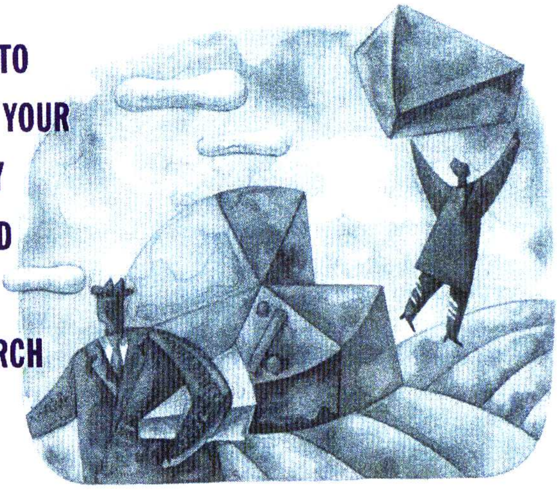
maintaining good supplier quality and delivery – put out an RFP for the very products one strategic supplier diligently had been working on with the customer.

To say the supplier was upset is an understatement. It was a good thing the supplier and customer had discussed rules of engagement and how to resolve conflict. A mechanism already had been created to address the fury, disappointment and sense of betrayal that ensued.

Daniel Meyer, head of global sourcing for P&G, says that on occasion his CEO unexpectedly participates in collaborative meetings. They are that important.

One of the deliverables that ensues from a more strategic relationship with your key customer is to expect and plan that the customer will engage in regular joint business planning sessions with you as a strategic supplier, during which your mutual business goals will be established and, if necessary, revised. So you have every right as a supplier to expect certain behaviors from your key customer—earlier involvement in the sourcing discussions and specifications around supply opportunities, joint design and creation of novel and innovative ideas and products in which the supplier contribution is called upon early and with respect.

IF YOU AS A SUPPLIER WANT TO PLAY, YOU HAD BETTER OPEN YOUR BOOKS, OFFER TRANSPARENCY REGARDING YOUR PRICING AND BE PREPARED TO BECOME AN EXTENSION OF P&G'S RESEARCH AND DEVELOPMENT ARM.



These expectations for cooperation and problem-solving lead to the next characteristic of key customer relationships that differentiates them from the normal vendor model.

3. Rules of engagement

We are aware of a supplier company that knew it was going to be late in delivery. So, thinking in the spirit of collaboration, the supplier immediately told the customer of the problem and proposed solutions that would ameliorate the potential damage to the customer's schedule. The procurement professional checked the contract, saw that penalties would be applicable and immediately applied them.

What do you think happened next time? Well, you can see that procurement trained the supplier never to say it would be late again. And the supplier continued to hope it would be able to resolve the lateness problem before the customer could find out, so as to avoid the penalties. The next time there was a problem, the customer and supplier had no time to plan for an alternate solution, and the damage was significant to both.

Reward the right behavior, and it's likely that's what you will get! If the customer and supplier had discussed and resolved why the late delivery would happen – poor internal controls, a sub-supplier lack of quality or myriad other reasons – the customer and supplier could have jointly fixed the problem and gone forward with a better working relationship, even building trust in the process.

Identifying the problem and creating a mechanism for joint contribution to the

Figure 2. D-I-C-N framework

Alignment ≠ Consensus

To ensure effective pursuit and implementation of the alliance, organizations need to inform, consult and negotiate with appropriate internal stakeholders.

The **D-I-C-N** framework provides a structured framework for achieving that goal:

- **D Decision driver:** The individual with responsibility for driving/facilitating the decision-making process
- **I Inform:** Parties who have the right to be fully informed of decisions and, in some cases, informed along the way about the decision-making process
- **C Consult:** Parties who have the right to be adequately consulted prior to any decision being made
- **N Negotiate:** Parties who have the right to vote – to be negotiated with (though not necessarily to veto)

Figure 3. D-I-C-N framework

1. Select a recent decision that was difficult to make due to the number of people involved.
2. Create a D-I-C-N matrix for what actually happened when you made the decision.
3. Create an ideal D-I-C-N matrix for that same decision.

Decision	Decision Driver	Inform	Consult	Negotiate	
				Veto	No Veto

solution rather than dealing with blame and penalties is a hard transition for many companies. The entire procurement process – the contractual boilerplate, the attitude of the middle management players, etc. – is focused on the old model of "customer decides, supplier does what it is told." If the supplier messes up, the customer imposes penalties. It is well understood that you will receive the behavior you reward. Why, then, would many smart and resourceful people believe that by imposing penalties, the right behavior would be stimulated?

Of course one of the fundamental problems in many key customer relationships is that there is confusion about who really is in the decision-making position. There are often so many players (all of whom indicate they are the decision-makers), but frequently these stakeholders play different roles.

In the example above, where the RFP was unexpectedly released, those two companies took some weeks to begin to restore trust again. But the companies used a conflict resolution mechanism that enabled them to find out where the decision makers were and who needed to be informed of decisions when they had no involvement in the process. There were other people who needed to be consulted about these kinds of strategic supplier decisions, as well as people who were such significant stakeholders in the designation and management of strategic supplier relationships that they needed to be part of the actual decision-making process.

We call the process DICN, so that the parties identify who will drive the decision (D), who must be informed (I), who must be consulted (C) and who is in the role of negotiator and actually makes the decision potentially with a veto power (N). (See Figures 2 and 3 on Page 11.)

4. Open-book relationships

Some of the experience I have had on the board of a NYSE company, where I also serve on the audit committee, shows there is a delicate balance among the risks and obligations a public company has for its own capital and product costs (including R&D cost) and the interest and requirements a customer may have in knowing those. In addition, although it's easy for a procurement group to say, "We want you to have a certain ratio of margin to price," this may be difficult to standardize across an organization that has different product groups and divisions and therefore different needs for capital investment, operating costs and so on. Again, it all goes back to having a senior-level relationship with the customer and a strategic conversation that enables reality to be balanced with demands.

THESE JOINT INNOVATION SESSIONS MUST YIELD MUTUAL BENEFITS AND CANNOT BE A ONE-WAY STREET WITH INNOVATION GOING ONLY FROM SUPPLIER TO CUSTOMER.

There is no doubt many supplier-customer relationships are unbalanced in their interdependency, and so moving to a more integrated model requires a constant attention to relationship factors. The devil is in the details. Although companies put most of their focus on the strategy, business planning and legal and financial terms and conditions, the foremost cause of relationship failure – and hence the place where more focus and attention must be placed – is poor or damaged working relationships between partners. This problem manifests itself as breakdowns in trust, build-up of negative partisan perceptions, questioning of one another's motives, festering conflicts, little joint problem-solving and feelings of disrespect and being coerced.

Open-book and transparent relationships with customers are difficult. They require that a certain level of reliability has been established before they can work. Here's an example. Recently a financial services company with whom we were working began significant discussions with two of its key customers. The goal was to develop the kinds of relationships that we are referring to in this article. The customer almost immediately said, "You are way too expensive, and your salespeople keep pushing products on me. You seem to have too many new products. In fact, last month your sales guy told me you released 15 new financial service products. I don't need most of them, and frankly I am tired of seeing your salespeople here all the time. Just cut your prices and keep the sales folks at home."

Ever heard that kind of conversation before? One of the key requirements for a special relationship with a key customer is its willingness to play ball with you. Our advice to the client was, "You are at the wrong level of the customer. This fellow is interested only in price, he has no incentive system that rewards his taking any risk, he cannot innovate in his job, and he wants open-book information to bring down price. Wrong guy, wrong conversation, wrong level."

The most successful open-book relationships have been with suppliers who already have had an ongoing relationship with that customer and where the customer is willing to open its world of needs, requirements and innovation issues to the supplier. Doing it too early in the relationship cycle can lead to the conclusion that "the customer doesn't want that kind of relationship with us." Our advice is to probe higher in the company and find the strategic thinker who sees the large picture. The procurement level may actually see your services, if integrated, as reducing its area of purview and, in some instances, putting procurement jobs at risk.

So how do you probe higher? You may be surprised how receptive a senior leader at your customer will be—if the payoff for access means collaborative joint innovation and potential competitive advantage.

Consider another of our clients, a *Fortune* 1000 company in the services arena dealing with a much larger customer. The sales team worked with the customer's top relationship manager to organize a planning meeting. The team brainstormed on the best way for its CEO to meet with the customer's CEO but realized that would not be possible—the customer's CEO was too difficult to access. Analyzing who at the customer would have "skin in the game" from a strategic (not procurement) point of view, the team viewed the head of global sourcing as the best accessible person.

After some internal team discussion, it was decided the best approach would be an informal one. The head of global sourcing was friendly and more than willing to have an "offline" discussion informally over dinner. In fact, he offered to include some of his team. The dinner group was deliberately kept small so the conversation could include wide-ranging topics regarding each other's preferences, strategies, customer concerns and so on. The result was another meeting, more formal this time, with key stakeholders in the room—the first joint business planning meeting for the two companies.

Rather than making such a meeting a bureaucratic process, make it a visioning session. Ask for action items on both sides so the next stage can involve paying attention to the details that give this kind of commitment life.

In other words, take a chance, and make the connection. Plan your communication to address the interest of the customer and the value that will appeal to the customer, rather than what it is you want to do for your company or yourself.

Conclusion

In this article, the goal has been to stretch and bend your mind from the traditional way of thinking about your customer—i.e., as the buyer of your products and services. The desired state for key customer interaction is on the development, design and collaboration level, where the output is a jointly valuable result. Interaction should not be driven only by the interests of procurement but instead with sustainability of the relationship in mind, including all the warts and wobbles, as one moves forward in a changing market.

Part 2 will look specifically at the unique characteristics of customer relationships with smaller suppliers, which don't work the way the larger ones described here do.

Larraine Segil is a partner at Vantage Partners, a leading international management consulting firm providing consultation on business relationships to *Fortune* 500 and *Global* 100 companies. She has written books on business relationship management and speaks and consults worldwide on alliances for domestic and global companies. She has been named by the *Financial Times* Knowledge Dialogue Group as its world thought leader on alliances.