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VELOCITY INFORMATION TO SPEED PAST THE COMPETITION

Changing the rules of the supplier-customer game: Part 2

This article is the second in a two-part series for* Velocity®*. The first piece looked at how present market conditions have changed the dynamic between suppliers and their most important customers, as well as how there are new opportunities for dramatic innovation and integration from the point of view of both supplier and customer. Part 2 considers these relationships from the specific perspective of a smaller company selling to or partnering with a larger organization.

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"We have no leverage as a small supplier with large customers. There is no hope for us to be considered as partners. We are lucky if we can get someone to return our calls."

Does this statement reflect the frustration you feel as a small company? Are your larger customers so bureaucratic that it's hard for you to find the decision maker, and when you do, he is normally somebody in procurement who considers you a vendor he has to work with, and because you are a small business, he would rather not work with you at all?

Or maybe you are one of the lucky smaller companies with a special product, service or component that, despite your size, enables you not only to get the attention of your customer, but also to have a dedicated account manager at the customer company who makes sure your intellectual property offering is secured and transferred to enable the customer's competitive advantage?

Your question now might be: How can a small business gain and give increasing value in these kinds of relationships, when your organization probably has fallen into each of those categories at one time or another? This article addresses that concern.

The concept of partnering invokes perceptions of equal benefit, undivided attention and people of the world holding hands in harmony. But business partnering is often quite different. The benefits are rarely, if ever, equal. Going into any kind of business partnership between suppliers and purchasers with an expectation of equality is a setup for failure. Partnering should include mutual benefit—that is, value flowing toward each of the partners. However, aligning expectations about the amount, quality and duration of the benefit will be a key success factor. In reality, one party is far more likely to gain greater benefit than the other at varying points along the relationship life cycle.

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The best way to make this dynamic come alive will be to tell a story, a true story. The companies involved will be real, but their names are fictional.

Elexa's path to partnership

The small company is Elexa Inc., a privately held distributor of highly pure materials used for microchip manufacture. The customer, Global Aerospace, is one of the largest manufacturers of aerospace products in the world. Normally Global Aerospace would not deal with Elexa at all, preferring instead to handle orders directly from the manufacturers of highly pure materials. However, there is an interesting angle to this story that multiplies the challenges and opportunities.

Global Aerospace does not place orders for materials until its research and development group has specified that the particular highly pure, rare earth or advanced material is exactly appropriate for application to the components that it will be using in its product. The scientists in the R&D group test small amounts of material to find out which ones fit the application. Consequently, the scientists are the real influencers to the buyer.

The story gets more complicated. Whenever the R&D scientists call their normal large supplier, Advanced Materials Inc., to place an order for a very small sample of the desired material – something that, for example, might cost just $400 – the people from Advanced Materials who receive the call are in the sales group. The commission on such a small sale is laughable to them, yet the cost to process sending such a sample within the bureaucracy of Advanced Materials is about $5,000. The salespeople either deliberately ignore small requests or conveniently forget about them.

The scientists get frustrated. They search around and find Elexa, which primarily deals in small orders of less than $50,000. Elexa does not have a force of salespeople who run around meeting customers, which would be too expensive for Elexa to maintain given the size of the typical order. (Instead, Elexa builds relationships with customers primarily on the telephone and online.) When the first call from Global Aerospace comes in, Elexa's salespeople are delighted to supply a sample and follow up with the scientists so that when the order translates into a larger amount, they can process it.

HE WHO HAS THE HIGHEST PRIORITY FOR THE PROJECT IS THE ONE WHO DOES ALL THE WORK.

At this point, Elexa has an idea. Elexa approaches Advanced Materials and says:

"We do not process very large orders, but you do. Why don't we form a partnership? We (Elexa) will handle the relationship with Global Aerospace on all small orders until the order grows to the size you prefer, which suits us fine because we only process small orders. When the size of the order reaches a certain threshold, we will hand it off to you."

Advanced Materials agrees to refer the incoming calls for small orders (the upper level is set at $50,000) to Elexa. There is huge excitement at Elexa, which now has become party to an alliance with one of the largest customers in the industry and a partnership with one of the leading suppliers! Elexa's business is going to explode with growth! To Elexa, it appears that, as a small distributor, it has discovered the link in the system that would enable it as the small crumb player to play with the two big cakes: the large customer, Global Aerospace, and the large supplier, Advanced Materials.

Next, something happens that you might have seen coming: After establishing a formal partnership with Elexa, Advanced Materials does nothing, absolutely nothing. The salespeople at Advanced Materials do not refer the incoming calls from Global Aerospace to Elexa. They continue to hang up on the R&D scientists from Global Aerospace who call with small orders. At Advanced Materials, it's still business as usual with no discernable changes in behavior. What has happened here?

Advanced Materials clearly has not responded to the partnership. Its salespeople are not motivated to respond to the R&D calls from Global Aerospace, which they continue to regard as an annoyance. Elexa begins to realize that Advanced Materials will never refer small-order phone calls because its compensation system has remained the same. The salespeople at Advanced Materials are not rewarded on small orders that grow into larger ones.

And now, Elexa finally learns the golden rule: The partner for whom the project is of the highest priority is the one that does all the work.

So, Elexa decides to change its own behavior. Instead of waiting, hoping and expecting (or demanding) that the partner do what it has promised to do, Elexa houses its own order-processing people at Advanced Materials' offices to handle the small-order phone calls from Global Aerospace. Advanced Materials agrees to this because it does not cost anything. Actually, Advanced Materials doesn't really care one way or the other.

The small orders from the R&D people

at Global Aerospace are picked up and handled by the people at Elexa, who are working right out of Advanced Materials' offices. Gradually, those smaller orders lead to larger production orders that Elexa passes on to Advanced Materials and for which Advanced Materials' salespeople *are* compensated. Finally, the system has started to work.

Here are the lessons from Elexa's experience that create principles that could work for you in your small or large company partnerships:

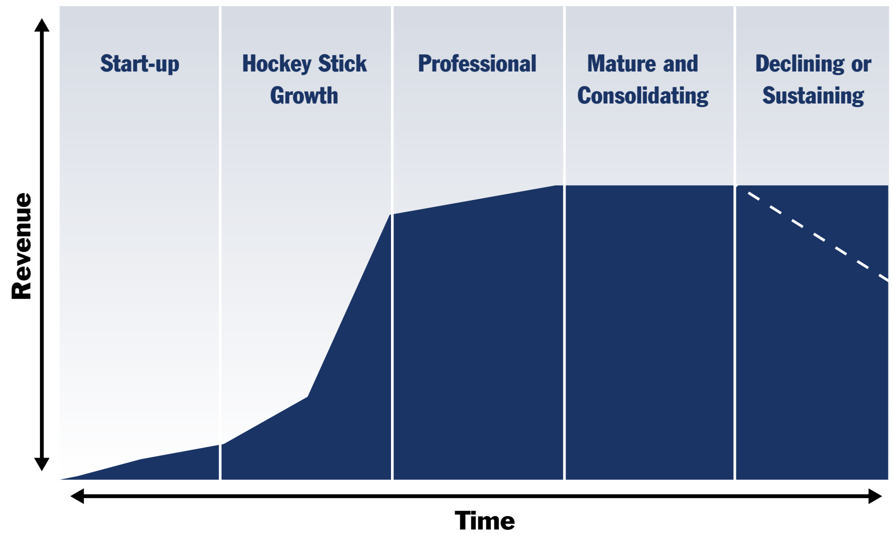
1) Understand interests, not just positions

Investigate the interests of all parties—that means asking not just *what* they want, but *why* they want it. Interests are very different from positions. Most people ask for and consider only positions – such as "We want only to fill big orders" – rather than asking and answering questions that reveal the underlying interests at stake. "Why do you want to fill only big orders? What is the hope, the fear, the concern about what you want?"

In Elexa's situation, asking the "why" question for the salespeople at the large supplier leads it to discover that the sales teams at Advanced Materials ignore and drop small orders from Global Aerospace's R&D team because they do not really believe that the requests – which often ask for a variety of expensive-to-process samples in varying small quantities – will *ever* translate into sizable, compensable purchase orders. Indeed, the salespeople at Advanced Materials have no interest in pursuing initially small R&D requests on the chance that they will evolve into larger orders.

After a false start – in which Elexa presumes that the logic of what it had suggested would be clear to all parties – Elexa decides to do the additional work that will enable the tracking, pursuit, fulfillment and reporting to occur so that small orders from Global Aerospace's R&D department can grow into the large orders that are valued by Advanced Materials.

Figure 1. Organizational life cycles



Source: Vantage Partners LLC

2) Be aware of the company's life cycle

One of the keys to managing expectations is to recognize that companies in different stages of their life cycles behave differently. I have researched more than 200 companies through my work at the California Institute of Technology, where for 22 years I have taught a two-day program for executives on alliances and partnering at the Caltech Industrial Relations Center. The companies have varied in size from small (under $100 million) to large (over $1 billion). Figure 1 lays out these life cycle stages. Figure 2 identifies the characteristics that are most commonly found in each of them.[1]

My more recent research has supported this view and added another layer—which is that the alliance itself has its own life cycle and must be managed accordingly.[2] For Elexa and Advanced Materials, Global Aerospace was just the beginning. As calls came into Advanced

Figure 2. Characteristics of life cycle stages

Start-up	Hockey stick	Professional	Mature	Declining	Sustaining
insecure	confident	systematic	complacent	over-planning	planning entrepreneurship
proactive	quick to react	planning / predictive	protective	budget driven	controlled structurally
emerging	aggressive	marketing, not just sales	risk averse	form over substance / ritualistic	systematic aggressive flexibility
single focused	multi-focused	cautious	administrative	hierarchical	sufficient to be proactive
risk intense	lack of management depth	conflict resolving	rigid	non-active (less is more)	
founder driven	"sales are first" philosophy controlling	new hires / old fires	profit driven (cost reduction)	change makers seen as problem creators	
non-continuous delegation		consensus building	middle management proliferates		
			form over substance		

Source: Vantage Partners LLC

Most people consider only positions (e.g., "We only want to fill large orders") rather than exploring the underlying interests at stake.

Materials' order processing center, Elexa's employees were there to report that many customer orders, not just the ones coming from Global Aerospace's R&D department, were being ignored or dropped by Advanced Materials' salespeople for being too small.

The opportunity for Elexa was enormous. Elexa grew its own business by working with Global Aerospace and other customer orders that came through the door at Advanced Materials. As the relationship grew from start-up to hockey stick (see again, Figure 1 on Page 26), Advanced Materials' sales teams started to visit Global Aerospace's R&D scientists and invite Elexa's account executives to the meetings. Both sides increased the resources they devoted to support the alliance, and the joint account teams changed to include more process-oriented people. Elexa realized that it needed to speak the language of the receiver of the information—namely it needed to have employees who could work with the sales teams at Advanced Materials.

Likewise, Advanced Materials realized that its formerly uninterested salespeople had something to learn and gain from Elexa. For Advanced Materials, thinking about the different personalities involved and changing the composition of the team to meet the situational needs of its customers became a core success factor for the maturing relationship.

3) Develop a niche

Developing a niche – which may not be exciting or even immediately remunerative – is essential to working with large companies if you are small. Certainly at first blush, Elexa didn't make a lot of money from Global Aerospace's really small orders. However, a lack of bureaucracy at Elexa enabled its senior management to take some risks and decide to experiment to see whether a new business relationship could be developed with Advanced Materials. This kind of opportunity spotting is much more difficult at a larger company because processes, rules and precedents often get in the way.

But at a smaller company, if you collect enough crumbs, then you can make a sizable mound – respectable enough to be a good business – without having to eat the whole cake.

Conclusion

Serving large customers when you are small requires courage. Elexa's first approach to Advanced Materials was gutsy. The Advanced Materials executives who first met with Elexa's senior management were amused and patronizing. Elexa learned that serving large customers requires persistence, thinking of each party's interests, understanding the "why" answers, and then having the gumption to go back into a lion's den of amused, initially dismissive executives and push the opportunity.

Because the smaller member of the partnership invariably has the most to lose or gain, small companies must always remember the golden rule: He who has the highest priority for the project is the one who does all the work. That's not just your work, but the work of the partner, too.

Finally, your abilities as a smaller company to be nimble, change direction, behave differently, admit a mistake and not allocate blame to cover yourself are some of your competitive advantages. You will see things that should be fixed in larger companies where no one has the courage to do so. If you find that it fits your interest and capabilities to step in, then go ahead and take care of those matters yourself. That is the way to become a valued partner.

This is a story I know well. I was the CEO of Elexa, and this approach turned our company around. It enabled us to grow and taught me a lot about partnering from the front lines of profit and loss responsibility.

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[1] Larraine Segil, *Intelligent Business Alliances: How to Profit Using Today's Most Important Strategic Tool* (Crown Publishing Group, 1996). Chapter two lays out an approach to life cycle analysis.

[2] Research completed for a book: *Larraine Segil, Measuring the Value of Partnering: How to Use Metrics to Plan, Develop and Implement Successful Alliances* (AMACOM, 2004).