Developing & Managing Supply Chain Relationships

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Session Objectives/Presentation

Objectives
To explain the role of relationship management in achieving supply chain competitive advantage
To provide a development and implementation process and key guidelines for managing successful relationships

Presentation
Role, Definition and Types of Supply Chain Relationships
Development & Implementation Process
Detailed Guidelines for Success--not Failure!
The Role of Relationship Management in Achieving Supply Chain Competitive Advantage

Relationships are of many varieties...

The focus of relationship management is on:
- Improving individual focus and management
- Increasing both individual firm and *joint* performance and creating synergy for both to occur

The key is to determine *with whom, when* and *how* to establish the appropriate supply chain relationship(s)
The appropriate degree of relationship intensity is determined by the need for both (or multiple) organizations to *willingly modify* basic business practices to reduce duplication and waste while facilitating improved performance to create a competitive advantage.

Or: *win – win* negotiations
Types of Supply Chain Relationships

Internal Relationships
  • Cross-Functional
  • Cross-Business Unit/Geography

External Relationships
  • Customer
  • Service Supplier
  • Material/Component Supplier
## Spectrum of Buyer/Supplier Relationships

<table>
<thead>
<tr>
<th>Transactional Arm’s Length Relationship</th>
<th>Acceptance of Mutual Goals</th>
<th>Relationship /Alliance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Traditional Role</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Confrontation</td>
<td></td>
<td>Cooperation /</td>
</tr>
<tr>
<td>Suspicion</td>
<td></td>
<td>Trust &amp; Value</td>
</tr>
<tr>
<td>Explicit Knowledge</td>
<td></td>
<td>Tacit Knowledge</td>
</tr>
<tr>
<td><strong>New Relationship</strong></td>
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</tbody>
</table>
In the typical transactional role:

- The buyer provides the product design input.
- **Price** considerations dominate the transaction.
- The buyer seeks safety in numbers—more suppliers are better.
- Little interaction occurs.
- The duration of the relationship is **short**.

“Just give me the right product at the lowest cost, on time—thank you.”
In an ideal relationship, the following is likely to occur:

- the supplier provides meaningful input into product design
- the supplier base is small
- process/capability-based buying is the norm
- buyers-suppliers share product & process technology
- interactions are often close, open and informal
- long-term relationships are the norm
- buyers engage in supplier education and training
- objectives & goals are shared for mutual benefit
- Buyers-suppliers provide personnel & financial support
## Relationship Development Approaches

<table>
<thead>
<tr>
<th>DIFFERENTIATING FACTORS</th>
<th>TRANSACTIONAL APPROACH</th>
<th>ALLIANCE APPROACH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Situation or Question</strong></td>
<td>➢ What is needed to correct the specific problem?</td>
<td>➢ Are resources available&lt;br&gt;➢ Where should resources be allocated for <strong>best cost/benefit</strong>?</td>
</tr>
<tr>
<td><strong>Primary Objective</strong></td>
<td>➢ Remedial&lt;br&gt;➢ Correction of supplier deficiency</td>
<td>➢ <strong>Continuous improvement</strong> of the supply base</td>
</tr>
<tr>
<td><strong>Scope</strong></td>
<td>➢ Single Supplier&lt;br&gt;➢ Supplier development <em>project</em>&lt;br&gt;➢ Ad hoc</td>
<td>➢ Supply base&lt;br&gt;➢ Supplier development <em>program</em>&lt;br&gt;➢ On-going</td>
</tr>
</tbody>
</table>
Objective: Establish and maintain relationships that will meet current and future capability needs

Forward looking and proactive
Continuous improvement oriented

First requirement is capability assessment

- Total cost oriented
- Multi-dimensional
Collaborative alliances can be resource-intensive. They must be used selectively.

Devote resources where you get the biggest impact

“Keep the best, get rid of the rest”
Transaction Cost Economics

Buyers

Transactional = No Dependence

Value added = “a risk premium”

Supplier

No Hazards, & No Safeguards

Hazards & No Safeguards

Both Hazards & Safeguards

Source: Oliver E. Williamson 1996
Integrative Process Change Management

Knocking Down Integration Barriers

- Internal – Functional Walls
- External – Corporate Walls
- Global – International Walls
Cross-Enterprise Collaborative Framework

Relational Clarity

- Contract
  - Product/Service Procurement
- Outsource
  - Function/Process Performance
- Administered
  - Dominate Enterprise Engagement
- Alliance
  - Voluntary Integration
- Enterprise Extension
  - Functional/Process Spin or Absorption

Acknowledged Dependency & Resource Sharing

Limited ____________________ Linked
Cross-Enterprise Collaborative Framework
Relational Clarity

- Contract: Product/Service Procurement
- Outsource: Function/Process Performance
- Administered: Dominate Enterprise Engagement
- Alliance: Voluntary Integration
- Enterprise Extension: Functional/Process Spin or Absorption

Information Sharing Balance

Strategic
Operational
Cross-Enterprise Collaborative Framework

Relational Clarity

- Contract
  - Product/Service Procurement
- Outsource
  - Function/Process Performance
- Administered
  - Dominate Enterprise Engagement
- Alliance
  - Voluntary Integration
- Enterprise Extension
  - Functional/Process Spin or Absorption

Governance Structure and Leadership Process

- Command and Control
- Benevolent Autocrat
- Shared Authority
RELATIONSHIP MANAGEMENT:
Both Externally & Internally!

I USED TO NOT CARE ABOUT MY SUBORDINATES.

BUT THAT'S ALL CHANGED.

NOW I DELEGATE THE NOT-CARING FUNCTION TO WHAT'S HER FACE OVER HERE.
Relationship Guidelines Initiation

Assess All Organizational Competencies

Determine Clear Goals and Objectives for Each Relationship
- Understanding & Alignment of Motives

Identify and Select Complementary Partners, or “Fit”
- “Best” versus “Most Appropriate” Partners
- What will be the Role of Price?

Other Observations
- Try to Avoid Tendency to Compress Early Stages
- Understand The Customer is the Primary Relationship Initiator
Conduct Comprehensive Joint Strategic Assessment
   — Strategic Fit & Direction

Conduct Comprehensive Joint Operational Assessment
   — Operational Fit, Available Resources & Capabilities

Establish *Formalized* Operating Procedures and Performance Measures
   — Well Defined Roles, Responsibilities and Measures
   — Develop Comprehensive *Two-Sided* (Win-Win) Measures
   — Insure There are Provisions for Sharing Measures
Relationship Guidelines Implementation (cont.)

Develop Personal Relationships

Use Contracts to Establish Agreement, not to Manage the Relationship
  – Formal, Written Contracts
  – Informal, Social Contracts

Knowledge Sharing: Both Explicit Knowledge (Facts) and Tacit Knowledge (Complex)

Consider Both Character-Based (Strategic) and Competence-Based (Operational) Trust
STRATEGIC

- Establish Initial Expectations
  - Potential Benefit
- Establish Secondary Expectations
  - Potential Benefit
- Determine Expected Effectiveness
  - Potential Net Benefit
- Evaluate Perceived Effectiveness
  - Actual Benefit?

OPERATIONAL

- Need Awareness
- Establish Search Criteria
- Search
- Establish Selection Criteria
- Selection/Decision
- Determine Joint Operating Standards
- Implementation/Administration
- Evaluate Operating Standards
  - Continuous Measurement
- Assessment
  - Sustain
  - Modify
  - Terminate
  - Continuous Measurement
Trust

Character-based (Strategic): Examines the characteristics Inherent in each partner’s philosophy or organizational culture.

(1) Integrity
(2) Identification of Motives (cross-culturally as well)
(3) Consistency of Behavior
(4) Openness
(5) Discreetness

Trust

Competence-based (Operational): Examines actual behavior and operating performance.

(1) Specific Competence Required
(2) Interpersonal Competence = People
(3) Competence in Business Sense
(4) General (Overall) Business Judgment

Relationship Guidelines Success Factors

Acknowledge Shifting Power Differentials
  — Relationship are Dynamic *not* Static

Maintain Continuous Communication
  — Information Sharing is critical
  — Senior Management Support is Needed

Incorporate Selected Technologies
  — *The Right* Technologies versus *Current* Technologies
  — People make it Happen, Technology Makes it Easier

Consider Provisions for Relationship Termination
  — Freedom to Exit

Concentrate on *Outcomes = Measurement*
  — Shared and Continuous Performance Measures are a Must!
The Reasons Relationships Fail

• “Fuzzy Goals”
• Inadequate Trust
• “Lip-Service Commitment”
• Human Resource Incompatibility
• Inadequate Operating Framework
• Inadequate Measurement

Source: Bowersox, Closs & Cooper, 
Supply Chain Logistics Management, 2002
The Four Perils of Relationship Management

Implementing Relationship Management Before Creating a Customer Strategy

Rolling Out Relationship Management Before Changing Your Organization to Match

Assuming That More Relationship Management Technology is Better

Stalking, Not Wooing, Partners / Customers

Source: Rigby, et. al HBR, February 2002
ONGOING RESEARCH STUDY FINDINGS:

Relationship Characteristics
- Academic qualifications, experience and age
- Relationship maturity

Communication Characteristics
- Channels of communication and functions

Relationship Satisfaction
Predictors of Performance in:
Collaborative vs. Transactional Relationships
Qualifications

Some significant differences in levels of academic qualifications

<table>
<thead>
<tr>
<th>Academic qualification</th>
<th>Buyers</th>
<th>Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School Certificate</td>
<td>6.7%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Vocational training</td>
<td>8.2%</td>
<td>.9%</td>
</tr>
<tr>
<td>Bachelors Degree</td>
<td>58.2%</td>
<td>59.1%</td>
</tr>
<tr>
<td>Advanced degree</td>
<td>26.9%</td>
<td>35.5%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>.9%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
## Level of Experience - Summary

<table>
<thead>
<tr>
<th>‘Average’ levels of experience</th>
<th>Buyers</th>
<th>Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time in Company</td>
<td>16.7 yrs*</td>
<td>9.6 yrs</td>
</tr>
<tr>
<td>Time in Position</td>
<td>5 yrs</td>
<td>5.5 yrs</td>
</tr>
<tr>
<td>Time in Industry</td>
<td>16.7 yrs</td>
<td>15.5 yrs</td>
</tr>
</tbody>
</table>

* Significant difference
‘Average’ age:
Buyers 44.5
Suppliers 44.7
But difference is significant

<table>
<thead>
<tr>
<th>Age</th>
<th>Buyers</th>
<th>Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-29</td>
<td>6.6%</td>
<td>.9%</td>
</tr>
<tr>
<td>30-34</td>
<td>10.6%</td>
<td>8.3%</td>
</tr>
<tr>
<td>35-39</td>
<td>11.3%</td>
<td>19.4%</td>
</tr>
<tr>
<td>40-44</td>
<td>13.9%</td>
<td>20.4%</td>
</tr>
<tr>
<td>45-49</td>
<td>29.1%</td>
<td>24.1%</td>
</tr>
<tr>
<td>50-54</td>
<td>22.5%</td>
<td>10.2%</td>
</tr>
<tr>
<td>55-59</td>
<td>6.0%</td>
<td>9.3%</td>
</tr>
<tr>
<td>60+</td>
<td>7.4%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
My firm has been buying/supplying this product from/to this company for ...

There are significant differences

‘Average’
Buyer = 10yrs
Supplier = 12.3 yrs
For each stage of the buying/selling function, please indicate your most common means of communication....

While usage is dispersed over many channels, dominant channels can be identified.
Communication Mean Satisfaction

- Only EDI showed a significant difference
Relationship Satisfaction

To what extent are you satisfied with your supplier’s current performance?
1- Very Dissatisfied, 7 – Very Satisfied
Buyer mean – 5.7
Supplier mean - 5.3
But, there are some significant differences between the partners....
Key Study Findings (preliminary)

Buyers are ‘lifers’, suppliers have wider industrial experience
While companies have been trading for 10+ years, personal relationships are <3 years old
Communication channels vary with the process
Satisfaction is generally high, but there are some “dysfunctional” relationships

And…lastly, what attributes lead to performance?
Predictors of Performance:

Collaborative vs. Transactional Relationships

Collaborative Relationships
- Trust
- Communication

Performance

Transactional Relationships
- Trust
- Rewards/Cost
- Long-term Commitment
- Communication

Drs. Dan Lynch & Judith Whipple MSU
The Levels of Supply Chain Evolution

- Enterprise integration
- Corporate excellence
- Partner collaboration
- Value chain collaboration
- Full network connectivity

Where are you? Your Partners?

Logistics Effectiveness Steps:

**Strategic goal setting:** Organization / employee and Supply Chain Partners!

**Resource acquisition and utilization:** Financial and human

**Performance environment:** Organizational climate and motivation

**Communication process:** Downward, upward and horizontal

**Leadership and decision making:** Need expertise in both

**Organizational adaptation and innovation:** Constant monitoring required!  

*OR…*

*Source: Organizational Effectiveness by Steers*
Supply Chain Relationship Success: It’s... Your Choice!

DILBERT
By Scott Adams

My company is moving to a “just in time” inventory strategy. You'll deliver when we need it.

So... your success depends on my company doing what it promises? You have my deepest sympathy.

I feel a sharp, stabbing pain in my chest. And so it begins.
In Summary / Conclusions

Utilize Relationship Management throughout the Supply Chain (internally & externally).

Thereby, establishing the Supply Chain as the primary unit with which to Integrate and achieve competitive advantage now and into the FUTURE!.

Exchange information and knowledge & establish both Communication & Trust!

Thank you!

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Questions