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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!



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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)

Definition of Relationship Intensity

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



Transactional	Arm's Length Relationship	Acceptance of Mutual Goals	Relationship /Alliance
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Traditional Role

Confrontation
 Suspicion
 Explicit Knowledge

New Relationship

Cooperation /
 Trust & Value
 Tacit Knowledge

Transactional Attributes

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.”

Relationship Attributes

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

DIFFERENTIATING FACTORS	TRANSACTIONAL APPROACH	ALLIANCE APPROACH
<i>Primary Situation or Question</i>	<ul style="list-style-type: none"> ➤ What is needed to correct the specific problem? 	<ul style="list-style-type: none"> ➤ Are resources available ➤ Where should resources be allocated for best cost/benefit?
<i>Primary Objective</i>	<ul style="list-style-type: none"> ➤ Remedial ➤ Correction of supplier deficiency 	<ul style="list-style-type: none"> ➤ Continuous improvement of the supply base
<i>Scope</i>	<ul style="list-style-type: none"> ➤ Single Supplier ➤ Supplier development project ➤ Ad hoc 	<ul style="list-style-type: none"> ➤ Supply base ➤ Supplier development program ➤ On-going



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Buyer-Supplier Relationships

Objective: Establish and maintain relationships that will meet current *and future* capability needs

Forward looking and proactive

Continuous improvement oriented

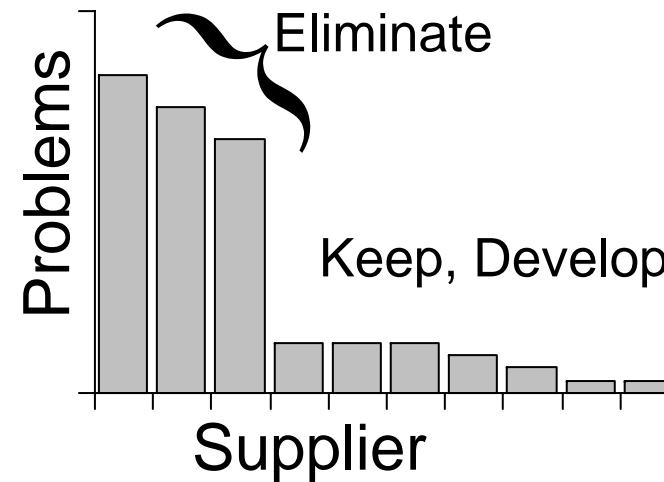
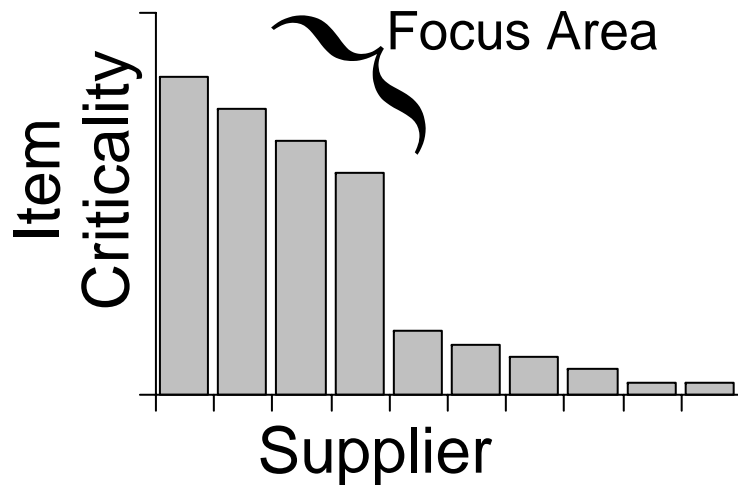
First requirement is capability assessment

- 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

No Hazards, & No Safeguards

Supplier

Hazards & No Safeguards

Value added =
“a risk premium”

Both Hazards & Safeguards

Relational =
Total Commitment

Integrative Process Change Management

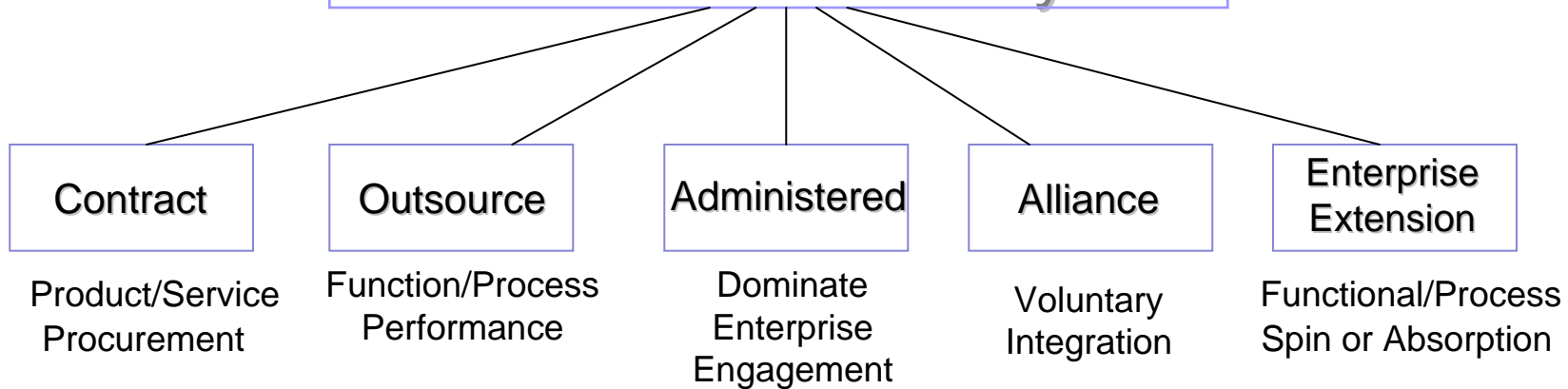
Knocking Down Integration Barriers

- Internal – Functional Walls
- External – Corporate Walls
- Global – International Walls

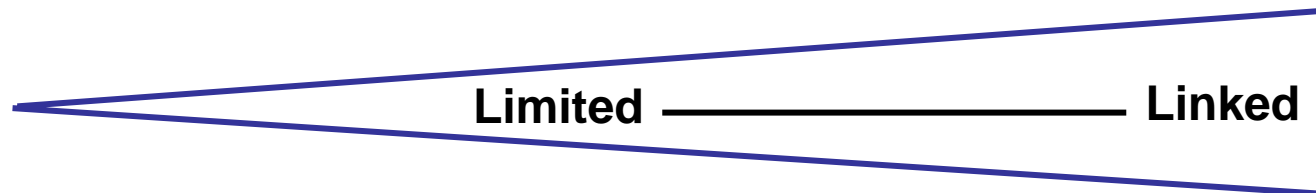


Cross-Enterprise Collaborative Framework

Relational Clarity



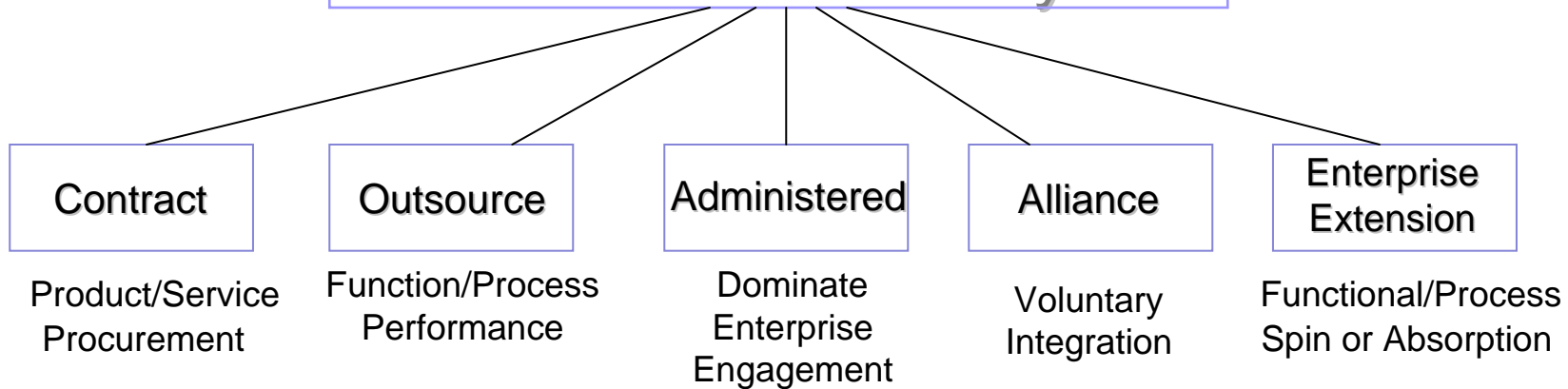
Acknowledged Dependency & Resource Sharing



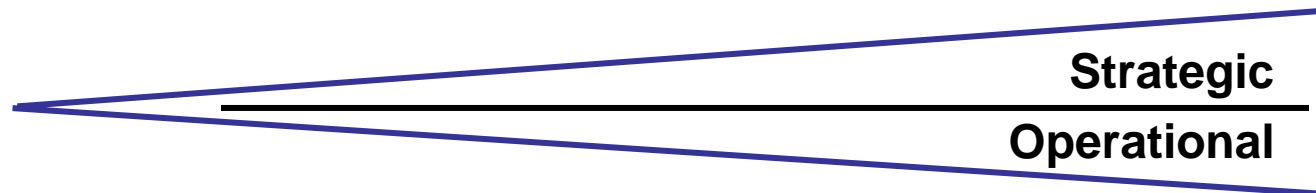


Cross-Enterprise Collaborative Framework

Relational Clarity



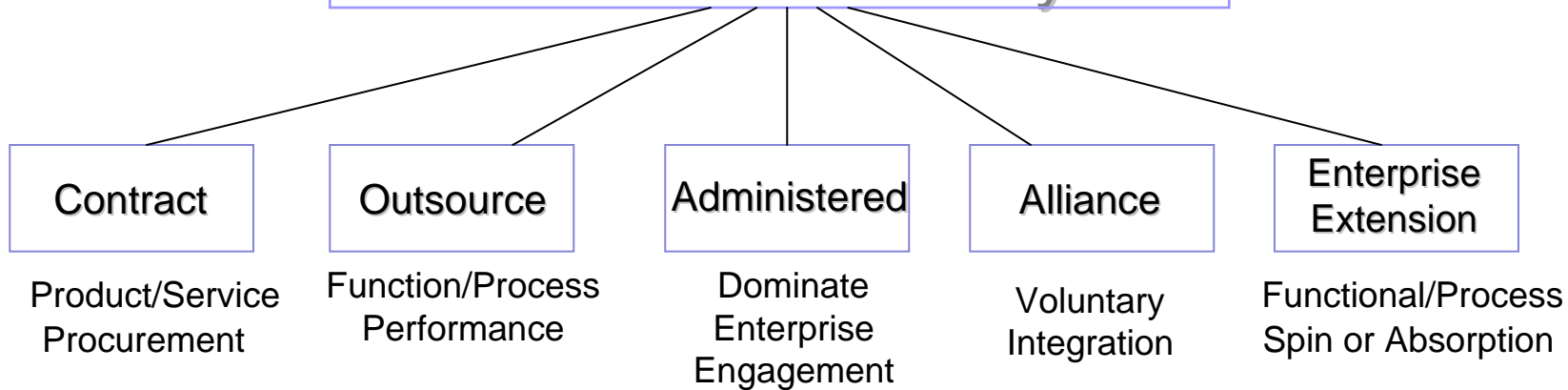
Information Sharing Balance





Cross-Enterprise Collaborative Framework

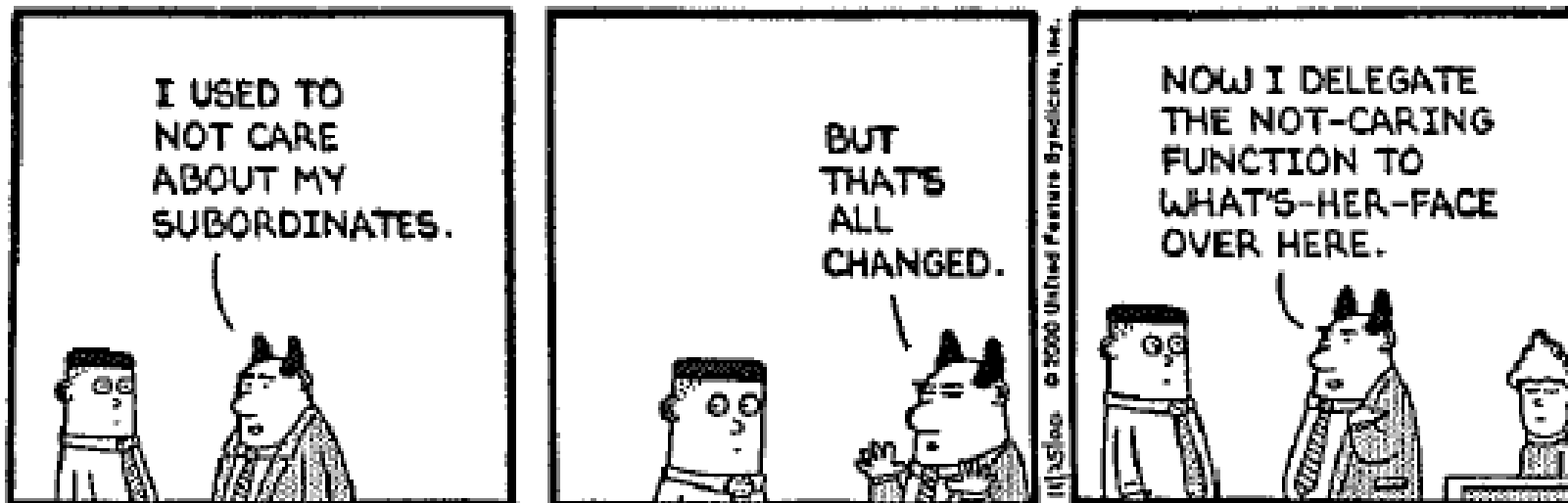
Relational Clarity



Governance Structure and Leadership Process



RELATIONSHIP MANAGEMENT: *Both Externally & Internally!*





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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

Relationship Guidelines Implementation

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



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Relationship Guidelines Implementation (cont.)

Develop Personal Relationships

Use Contracts to Establish Agreement, *not* to Manage the Relationship

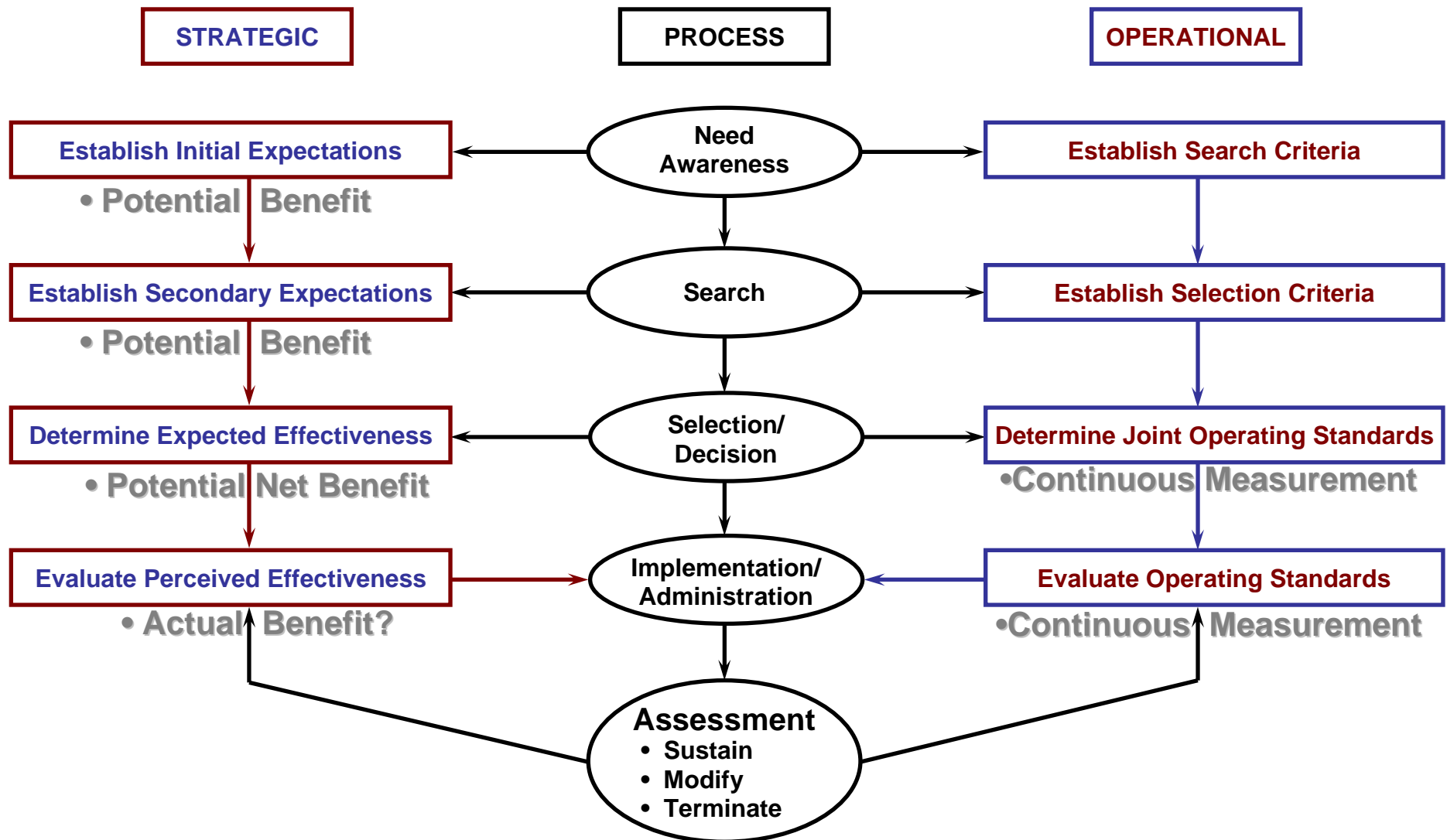
- Formal, Written Contracts
- Informal, Social Contracts

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

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



In Partnership With





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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**

Based on John J. Gabarro (1978), "The Development of Trust, Influence and Expectations," in *Interpersonal Behavior: Communication and Understanding in Relationships*, Anthony G. Athos and John J. Gabarro, eds., (Englewood Cliffs, NJ: Prentice-Hall, Inc.).



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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**

Based on John J. Gabarro (1978), "The Development of Trust, Influence and Expectations," in *Interpersonal Behavior: Communication and Understanding in Relationships*, Anthony G. Athos and John J. Gabarro, eds., (Englewood Cliffs, NJ: Prentice-Hall, Inc.).

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



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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



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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

		Person	
		Buyers	Suppliers
Academic qualification	High School Certificate	6.7%	3.6%
	Vocational training	8.2%	.9%
	Bachelors Degree	58.2%	59.1%
	Advanced degree	26.9%	35.5%
	Other		.9%
Total		100.0%	100.0%

Level of Experience - Summary

'Average' levels of experience	Buyers	Suppliers
Time in Company	16.7 yrs*	9.6 yrs
Time in Position	5 yrs	5.5 yrs
Time in Industry	16.7 yrs	15.5 yrs

* Significant difference

'Average' age:

Buyers 44.5

Suppliers 44.7

But difference is significant

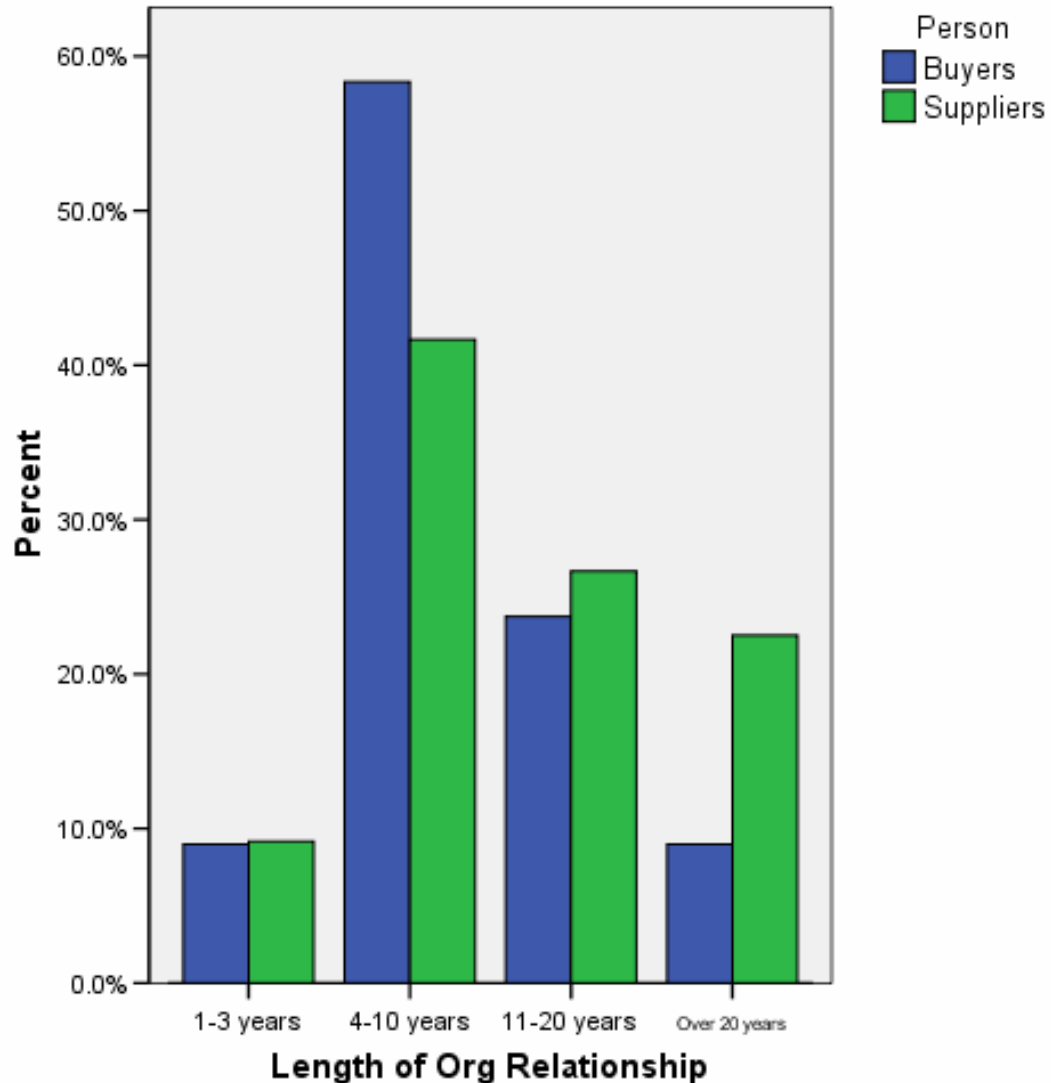
		Person	
		Buyers	Suppliers
Age	25-29	6.6%	.9%
	30-34	10.6%	8.3%
	35-39	11.3%	19.4%
	40-44	13.9%	20.4%
	45-49	29.1%	24.1%
	50-54	22.5%	10.2%
	55-59	6.0%	9.3%
	60+		7.4%
Total		100.0%	100.0%



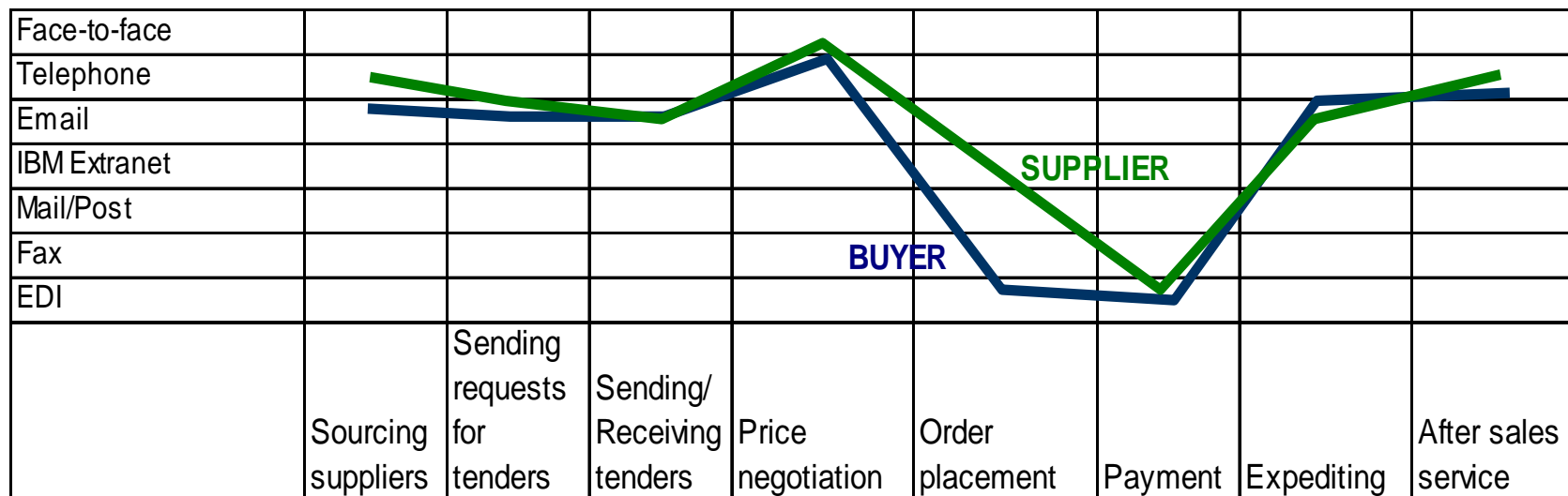
My firm has been buying/supplying this product from/to this company for ...

There are significant differences

'Average'
 Buyer = 10yrs
 Supplier = 12.3 yrs



Communication Function



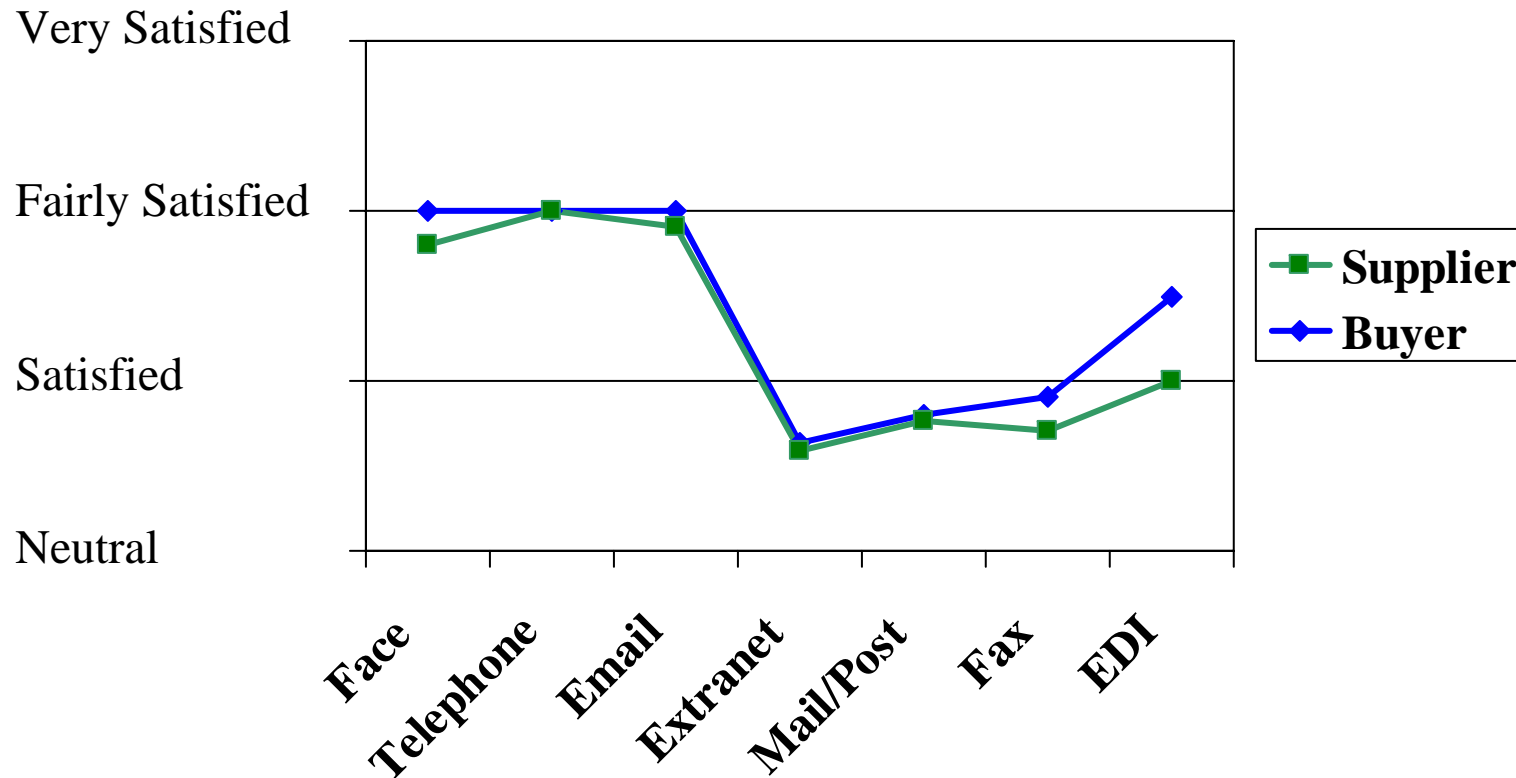
For each stage of the buying/selling function, please indicate your most common means of communication....

While usage is dispersed over many channels, dominant channels can be identified



Communication Mean Satisfaction

- Only EDI showed a significant difference





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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.....



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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

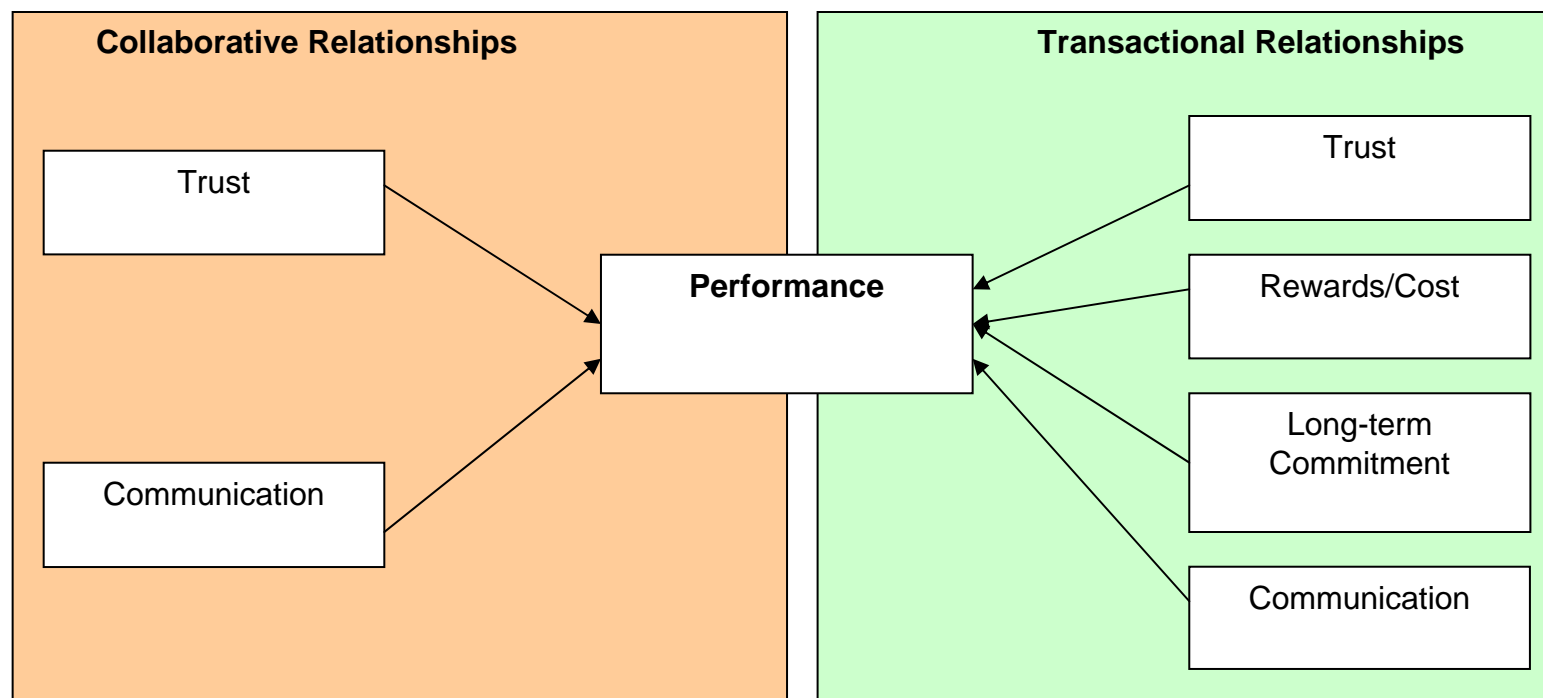
Communication channels vary with the process

Satisfaction is generally high, but there are some "dysfunctional" relationships

And...lastly, what attributes lead to performance?

Predictors of Performance:

Collaborative vs. Transactional Relationships





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The Levels of Supply Chain Evolution

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

Where are you? Your Partners?

Source: Poirier C. C. & F. J. Quinn (2006) "CSC-SCMR Survey Says: Solid Gains," Supply Chain Management Review, 10(1), 34-41



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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





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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

