Getting Closer and Nicer: Partnerships in the Supply Chain

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This article addresses the shift in organizational buying behaviour and industrial marketing. Purchasing evolved from a fighting towards a co-operative mode. Similarly, business marketers increasingly turn towards a more relational marketing approach. This article introduces general managers to the issues at stake.

THE BUYER OF A GERMAN electronics company recently declared that 'following an obvious change in attitude taking place with regard to openness and co-operation between companies, we will have to modify the relationship with our suppliers substantially'. He presented the so-called SUCCESS programme as an answer to this challenge. SUCCESS stands for **Su**pplier **C**ustomer **C**o-operation to **E**fficiently **S**upport mutual **S**uccess. It is the formation of intercompany, cross-functional teams which tackle aspects of entrepreneurial concern, such as quality, logistics, R & D and production. The intent is to bring considerable increases in productivity for both partners. Such a co-operative approach will lead to much higher profit increases than could be realized via individual actions, he concluded.

In the past decade the industrial customer has radically changed. This inevitably leads the most responsive suppliers to change their marketing strategy. This article aims at introducing general managers to these developments. First the most important changes in buying behaviour during the 1980s and early 1990s—increased co-operation, outsourcing, and globalization—are sketched and analysed. Next, we propose relationship marketing as a suitable response to these changes and we discuss the emerging areas to which suppliers should pay special attention during the 1990s.

Evolutions in Buying Behaviour

Until the middle of the 1980s purchasers typically operated in an antagonistic mode towards their suppliers (Figure 1). This is perhaps best illustrated by the practices of the British and American car manufacturers.[1–4] They tried to realize a minimal cost per unit for components and consequently used tactics that are characteristic of tough negotiators. Playing different suppliers off against each other, continuously threatening 'backward integration', using shadow cost calculations and refusing to sign contracts which extended over more than 1 year, were common practices. Moreover, a low price was not enough. They also demanded service, total consistency and high production flexibility. When a supplier wanted to sell a system on which he could earn a considerable margin, they did not hesitate to 'reverse engineer it', look for suppliers for the subcomponents and reassemble the system from the parts. In the case of breakthrough innovations they even forced their suppliers to license the patent to competitive suppliers.

This model was also widely applied outside the car manufacturing sector. Heinz, for instance, always exacted price reductions from its four bottle suppliers via a system of punishments and rewards.

This antagonistic model had serious disadvantages. Firstly, the exploited suppliers were not prepared or able to invest in new machines or products.

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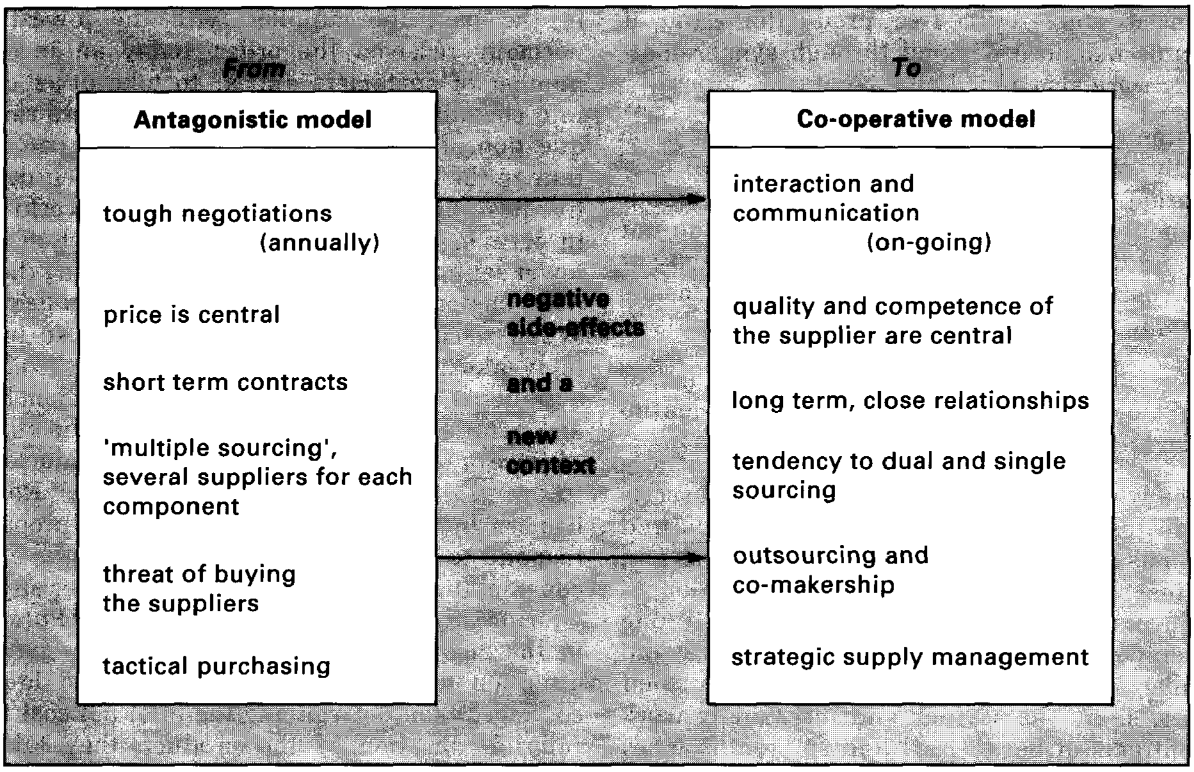

FIGURE 1. The change in buying attitudes and behaviour.

The purchasing companies began to realise that antagonism leads to short term savings only. In the meantime increased competitive pressure forced them to innovate more quickly and to provide a higher quality and reliability. In order to achieve this, the support of the suppliers was vital.[5] A second important disadvantage was that working with a large number of different suppliers led to inconsistencies in input, congestion in production and cumbersome administrative procedures. It was very difficult to manage this complexity.

In addition to these negative implications, new insights into inventory, production and quality pushed buyers in the direction of a so-called co-operative model in which close ties between suppliers and buyers develop in a strategic perspective (Figure 1). Besides research and development complementarity and leverage and total quality management, the Just-in-Time concept has a key role in the change in attitude.

In essense JIT is a (production) philosophy with a very simple message: goods must flow as smoothly as possible through the system and waste should be eliminated. To achieve the ideal flow, the following aspects are essential:[6–8]

- *Total quality management*, including preventive maintenance of machinery, to forestall breakdowns, defects and remakes. The quality of the goods supplied is crucial; to avoid the necessity for a goods-in inventory, the supplier has to carry out the quality control himself, or work on the basis of zero defects. Often the supplier is involved from the design stage of new products in order to arrive at optimal quality (the so-called co-design). Where there are no reliable suppliers, supplier development programmes, joint investment programmes and pro-active planning will have to be set up.
- Extreme simplification of the *production process* through improved lay-out of the factories, reduced set-up times, design for manufacturability, etc. A

balanced and trouble-free production—and if possible balanced demand through synchromarketing—are also aimed at.

- The *timing* of the incoming flow of goods has to be strictly synchronized. This requires careful consultation between supplier and buyer about production planning. True JIT-producers do not demand that their suppliers keep free capacity or take rush orders: 'Delivering just-in-time means planning in plenty of time', as Westbrook[9] puts it.

- Competent and motivated *employees*, a must for Total Quality Management and the rapid identification and solving of problems.

On the whole, Eisenhardt and Wescott[10] observe, JIT leads to a much greater sense of holistic and harmonious interrelationships among processes and people inside as well as outside the organization.

JIT buyers approach their suppliers from a long term perspective. Companies such as Deere and Caterpillar organize joint workshops with their suppliers, share the savings and inceasingly work with contracts of between 24 and 36 months. They also tend to engage in single and dual sourcing: co-operation and involvement typically results in a reduction in the number of partners.

A British producer of industrial heat and chilling equipment has a programme of dramatically reducing the number of its suppliers. In the buying office, a huge scoreboard indicates the actual number of suppliers vs the reduced number to be reached at the end of the year. In less than 3 years, the total number of suppliers has been reduced by 60 per cent. According to the chief electronics buyer, companies who want to remain on her list of suppliers will have to excell in the following areas: customer orientation, a continuous preoccupation with cost reduction, a high price/quality and service/delivery performance (speed up the process, reduce inventories).

The suppliers confirm these new attitudes. Studies of the American car manufacturing sector, once the classic example of the adversarial mentality, identified a much longer duration of supplier-buyer relationships, larger customer-specific investments by suppliers, and more open communication between a large number of functionaries of both companies. More emphasis on product quality and on value analysis is also reported.[7,11–13]

We notice a parallel development in the purchasing of machinery and other 'foundation goods'. Whereas in the past the supplier with the lowest price normally received the order, today an increasing number of customers appear to take other criteria into consideration. More and more buyers raise the question of how the capital investment can contribute in the long term to strengthening their competitive position. This brought Picanol, the world leader in weaving technology, to design machines with lower set-up times, with the aim of reducing the costs to its customers and to increase their mix flexibility. When selecting suppliers, companies also increasingly take into consideration the staying power of the supplier and even his growth potential. When buying an operation system, the risk of losing the ability to acquire or to fully use complementary products in the future is given considerable importance.[14] Responsiveness, the degree to which a supplier is prepared to respond to his customer's unique wants, is another consideration. Therefore, customers prefer suppliers who already have a long track record.[15,16] Purchasers in the most progressive companies now pay more attention to total cost management and life cycle costing. When determining the total net cost for the full life duration of the product, they take into account not only the purchasing price, but also the cost of financing, maintenance, poor delivery performance and quality deficiency. Such total value purchasing is still exceptional, but changes are occurring.

Asea Brown Boveri is a good case in point. The company distributes a brochure to its suppliers, 'ABB and our suppliers—Expectations of the relationship'. The company defines supply management as the controlled concentration of purchases of selected commodities and services from preferred, certified suppliers. The goal is the development of a competitive advantage through the implementation of long term, total cost reduction opportunities of mutual benefit to the supplier, ABB and ABB's customers. The company expects from its suppliers error-free quality and delivery, compressed cycle times, a reasonable price, innovative engineering capability and a portion of total cost improvements. In return, a co-operative supplier can expect a long term relationship and a share in overall cost reduction. ABB expresses its willingness to co-operate with high performing vendors not only on paper. In the field, suppliers report a change in ABB's attitude.

Parallel with the development towards a more co-operative model, the importance of outsourcing is growing. Co-operation and contracting out activities that do not belong to the core business, external coupling and internal decoupling, often occur together and frequently result in more or less densely structured networks of separate but entangled corporations.[17] In order to be able to respond flexibly to technological and commercial changes, many Original Equipment Manufacturers (OEMs) reduce their production base and transfer it to suppliers. In such value-adding partnerships the different parties work closely together to optimize the flow of goods and services. Instead of components, whole subsystems arelbeing supp ied to the OEM who in turn assembles and commercializes the final product. Sometimes the assembling and the physical distribution happen externally.

A case in point is the Gevamix, an automatic film processing device designed and commercialized by Agfa-Gevaert. The production of the electronic subsystem is contracted out to a small local electronics company called IC Systems, which supplies it to a small plastics moulding firm, Plastigi. The latter installs it in a housing, equipped with bowls, pumps, fittings and connections, and dispatches the finished product world-wide on Agfa-Gevaert's instructions. As a result of increased outsourcing and value-adding partnerships, a company needs a smaller but technologically more competent supplier base. This pattern is clearly discernible in the automobile industry.[18-20] The above mentioned Plastigi also assembles a sub-system for Bosch (but to which it has made important design changes) to be used by a coach manufacturer. In this kind of Japanese-styled 'tiering', the OEM deals with only a few first-tier suppliers directly. These have the responsibility for managing the procurement of parts or sub-systems from second-tier suppliers.[5]

Increasingly, not only production but also a large number of supporting in-house functions are contracted out. The rapid rise in cleaning, catering and factoring companies and the reduction of staff services in favour of external consultants, is a prime example.

As well as the trend towards co-operation and outsourcing, we observe an internationalization and even globalization of the purchasing function in certain industries. This is both a driving force and a consequence of increased networking.[17] The large number of mergers, takeovers and joint ventures which are taking place in Europe often have upstream implications. After the realization of such co-operation agreements, companies very often start rationalizing. In this process even reliable suppliers can bite the dust. Also, concentration of demand and centralization of purchases increase the bargaining power of customers and heighten the competition between suppliers. In some industries, marketers are already experiencing some of the less pleasant effects of the current trends.

In sum, purchasing has evolved to supply management[21] and in certain cases to supply chain management.[9] 'Clearly the nature of purchasing changes ... from a price-fixing operation to a capacity/technology matching function responsible for technical as well as commercial decisions'.[1]

Other logical consequences are increased co-operative behaviour and long term relationships among firms. However, one should keep firmly in mind that partnerships between suppliers and buyers are far from idyllic. 'There is nothing romantic or soft-headed about Japanese contracting practices', top economist Oliver Williamson[22] argues. 'What seems to distinguish these practices is that they have been raised to a higher level of refinement than are observed elsewhere.' As the purchasing manager of Janssen Pharmaceutica observed, 'The path to co-makership is strewn with technical, procedural and financial yardsticks and with management and organizational quality audit sessions'.[23]

This in turn implies that supply decisions are becoming more complex (or that companies are becoming aware of their complexity) and that more functionaries participate in the so-called buying centre or decision making unit (DMU). In companies that attach a lot of importance to quality, delivery performance and the strategic capabilities of their suppliers, and in companies with a global sourcing strategy, the lateral and vertical involvement across departments and hierarchy levels can be substantial even for relatively simple components.[12,24] In addition, increased networking often extends the DMU even beyond the purchasing firm's boundaries.

This evolution of effective purchasing from a looked-down-upon clerical/technical towards a critical business function has a direct bearing on the job environment and job description of the purchaser. From purchasing tactician he evolves into a supply strategist. Instead of waiting for the initiatives of potential suppliers and then reacting, he takes a proactive approach. He becomes an initiator who contacts, develops and tries to convince suppliers to manufacture new products that are tailor-made or to serve as a second source. As well as a 'reverse marketer',*[25] he is also a market researcher looking for alternative suppliers.

Purchasing Strategies

At the end of the 1980s the Wissema Group charted the status of purchasing strategy. This study[26] confirms the developments described above but at the same time qualifies them.

While purchasing was for a very long time aimed at keeping purchasing expenditure as low as possible, today its contribution to the competitiveness of the company comes first and foremost. Not only efficiency but also speed and flexibility of delivery, quality, and innovativeness are required.

Developments in and around the purchasing function have led to other, diverse relationships with suppliers. These supplier relations form the basis of a multitude of purchasing strategies, which can be reduced to three archetypes (Table 1).

*Reverse marketer' is a firm which uses a marketing approach to its suppliers.

In a *power strategy*, supplier and buyer see each other as opponents: the customer wants to buy a certain product from a supplier at a certain price and that is all. There is a rigid boundary between the activities of both parties. The buyer's role is restricted to negotiating with potential suppliers about price and additional conditions.

The *tuning strategy* involves more than price and delivery conditions. It is important how the total offer can be adapted to the requirements of the buying organization as far as packaging, logistics, application, etc. are concerned. The boundary between supplying and buying parties is flexible. To achieve the minimum total acquisition cost, the buyer consults other departments in his company.

The *co-operation strategy* goes a step further. It is not decided beforehand which product the company will buy. After determing the purchasing requirement in terms of the functions the product will have to fulfil, it is developed together with the selected supplier. As a result overlaps between the activities of both parties occur and the boundary between them becomes very vague. The buyer functions as broker and liaison between internal users and the supplier. He is responsible for managing the joint efforts.

TABLE 1. Characteristics of the three purchasing strategies.

	Power strategy	Tuning strategy	Co-operation strategy
Boundary with supplier	stiff, rigid	flexible	vague, secured mutual access
Relationship with supplier	antagonistic	distribution of tasks	mutual goals and overlapping activities
Selection criteria	price and purchasing conditions	total acquisition cost, cost of ownership	competences
Selection techniques	quotations, competitive tendering etc.	supply market research and vendor rating	total screening
Object of exchange	product	augmented product or application	performance
Product specification	given, developed entirely by one of both parties	tentative proposal with request for augmentation or cost engineering	based on a functional description (early supplier involvement)
Logistics and quality control	independent	distribution of tasks	integrated
Number of suppliers	many 'equal' suppliers	a number of 'preferred suppliers' and 'prime vendors'	a small numer of 'co-makers' and 'partners'
Role of the purchasers			
—External	technical and tactical specialist	reverse marketer	relationship manager
—Internal	follower	team leader	liaison, broker

Source: partly based on Wissema *et al.* (1989).

The selected purchasing strategy will differ depending on the business strategy, the competences and the power of the company. Generally speaking companies use different purchasing strategies simultaneously. In fact, the approach is determined by the nature of the purchased products and the resulting complexity of the purchasing market and the purchasing requirements.

In Figure 2 the three purchasing strategies, the two underlying dimensions and the co-operation spectrum are combined in one schematic overview.

Changes in production, quality and innovation strategy and a growing experience with the purchased product or with the purchasing market often lead to a change in purchasing strategy. As a result of the rise in TQM, JIT and related concepts, the growing importance of rapid innovation, the trend to focus on core processes and outsource the rest, and the increasing internationalization of corporate life, there is generally speaking a distinct shift to more co-operative purchasing strategies.

After summarizing and qualifying the change in the attitude of purchasing companies towards suppliers, a change in perspective is called for. In the following sections the implications for the strategy of the supplier will be examined in greater detail.

Evolution in Industrial Marketing

The evolution in industrial marketing will be discussed by means of a dual scheme (Figure 3). In the left-hand column the most important marketing management attitudes of the 1980s are listed. The

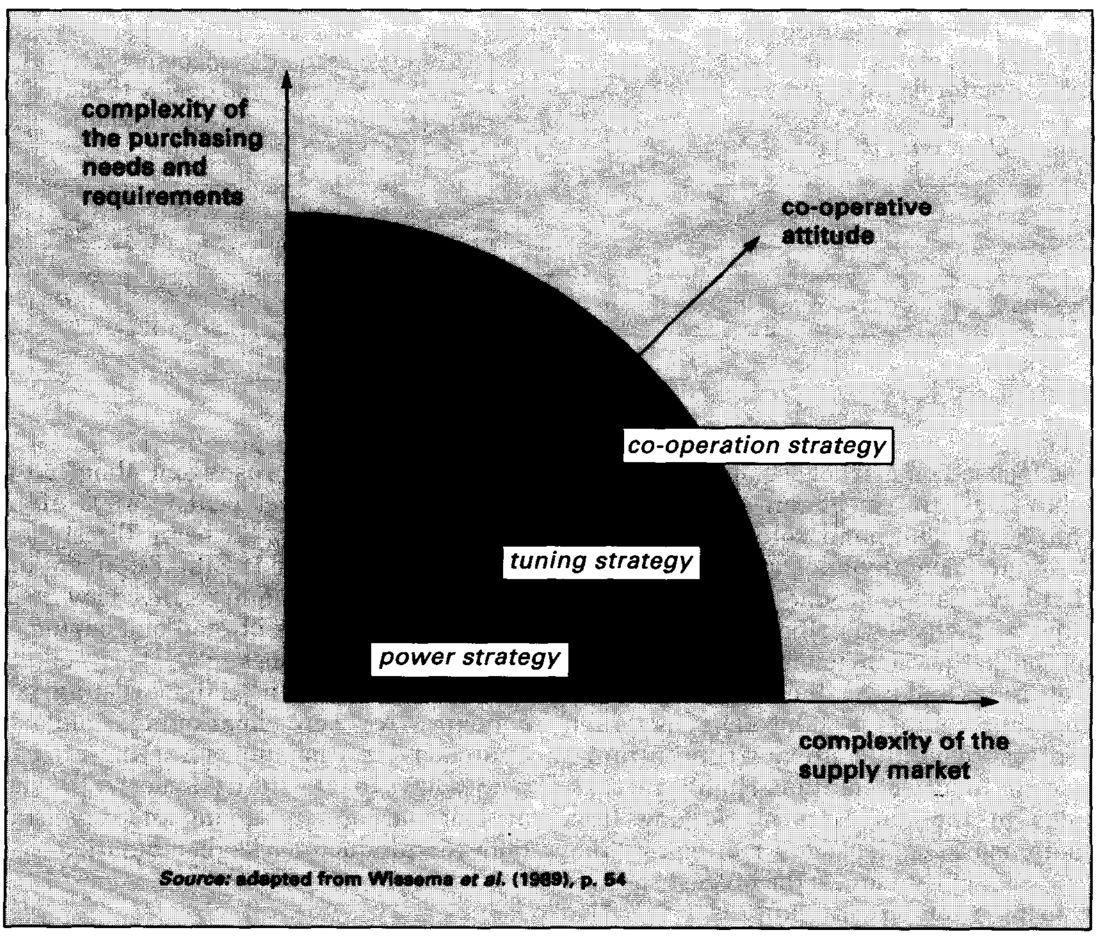

FIGURE 2. Complexity, co-operation and purchasing strategy.

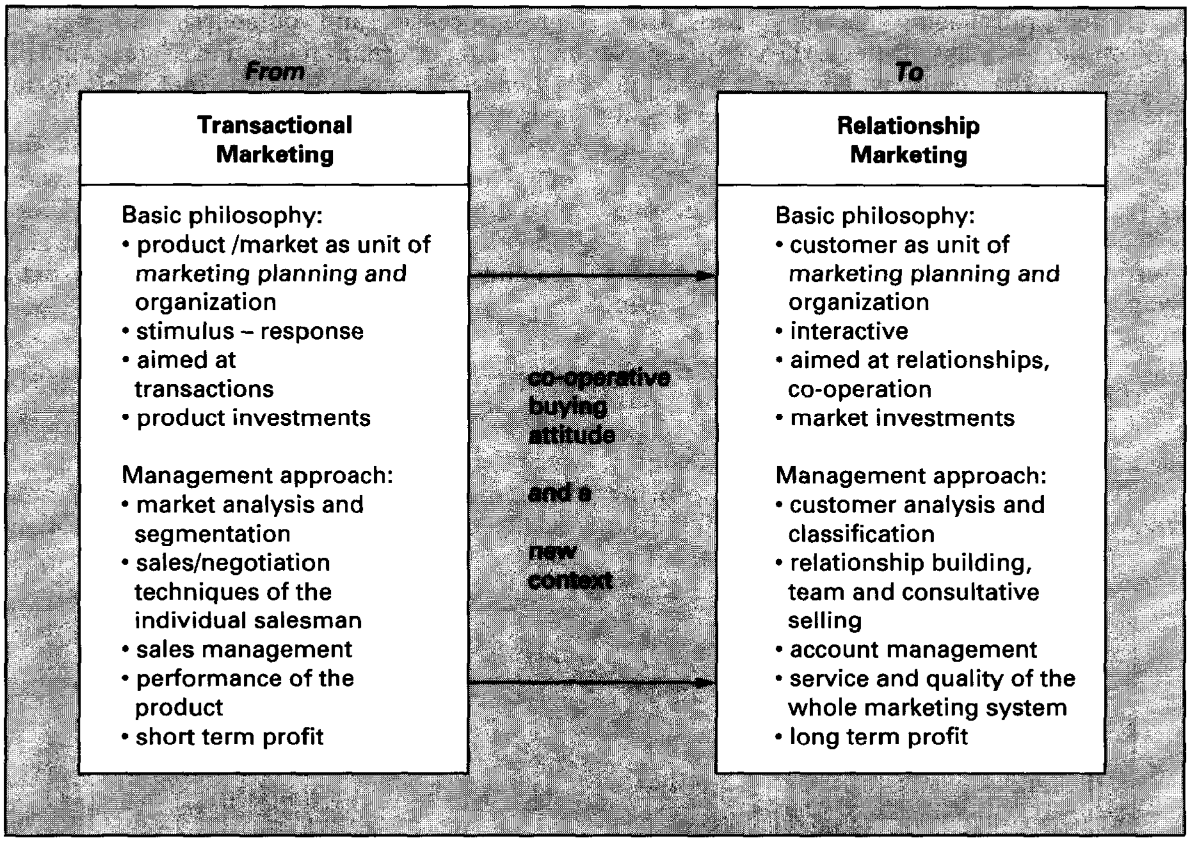

FIGURE 3. The change in industrial marketing.

attention was focused on market segmentation[27] and on product and sales strategy as core elements in the marketing mix. The right-hand column of Figure 3 sketches the fundamental philosophy and market approach that have gained ground in recent years.

Two groups of factors contribute to the rise of relationship marketing. Obviously the change in purchasing attitudes and behaviour leads to changes in marketing, but that is not all. The increased competitive pressure and the growing concentration in demand, result in a reorientation. Highly successful companies in the Far East make long term investments in markets, look for more profitable niches and subsequently acquire the biggest share of the market, using a total quality approach.[28,29] Also the flood of acquisitions and mergers leads to an increased concentration on new potential markets. In the tyre industry for example the market shares of the top four companies rose from about 50 per cent in 1986 to about 70 per cent in 1990 after some big takeovers (UGTC by Michelin, Firestone by Bridgestone, Armstrong by Pirelli). Suppliers of steel cord and rubber cannot ignore this new reality, which implies that the loss of only one customer can have dramatic consequences.

Conventional industrial marketing is no longer enough. A new marketing philosophy and approach—relationship marketing—is needed. Companies have to take the customer as the starting point of their marketing planning and organization rather than the product/market combination.

Relationship Marketing

Relationship marketing is built on a basic philosophy which is not directly aimed at immediate transactions but is based on building, supporting and extending customer relationships.[30] Only companies that have developed sufficiently close relationships—Ted Levitt uses the word 'marriages'—can call their marketing a success. Both parties therefore have to create structural (between companies) as well as social (between persons) ties.

Marketing efforts are no longer considered stimuli to which an immediate response is expected, but as market investments through which the distance between the parties becomes gradually smaller and is replaced by trust and interlacing. The boundaries between supplier and customer become vague.

Figure 3 shows that relationship marketing is not only a new philosophical attitude but also implies a new management approach.

A first pillar of relationship marketing is the *evaluation and classification of customers.* It is imperative to identify the key customers or key accounts. This is less straightforward than it may seem. Firstly, a lot of managers and salesmen are still inclined to think that a high turnover also implies a high contribution to the profit. However, after analysing the profitability of its customers, a synthetic resin manufacturer concluded that 13 per cent of his turnover was realized through customers with a very negative contribution![31] This clearly shows that turnover is a poor yardstick in identifying key customers. Secondly, a minority of marketers and sales people who are oriented towards contribution are often only concerned with the present profit contribution of customers, but not with future potential.

Therefore the company might underestimate 'tomorrow's customers' who show a strong growth potential as a result of market and technological developments. A selective investment in such customers may be called for.

Finally it should be emphasized that a customer can be valuable even if he does not generate a direct financial profit. Prestigious customers such as ESA or Airbus can be used as references. Other customers can be useful as a first access to a completely new market or act as a 'beach-head' to a big divisionalized company. Still other customers can help their suppliers in acquiring or extending new technological and commercial skills. Customer analysis and classification should allow the identification of the key customers—partners for the future.

In relationship marketing the company approaches its most important customers from a holistic perspective. It does not focus on the product being offered but on finding solutions to complex problems by providing expertise and after-sales follow-up. A relationship marketer tries to be a consultant to his customer. As well as using technical and business arguments, he tries to quantify the cost and profit implications of his solution by calculating for the customer what the cost of his unsolved problem is and which economic advantages his own system and partnership offer.

The approach relies on a *team of people* who can analyse and solve the problems and requirements of the customer from the perspective of their different types of expertise. Such a problem solving unit mirrors the customer's decision making unit. Due to the complexity of the numerous transactions and relations with key customers, such teams can consist of a large number of people with different functions and from different divisions and levels. Teamwork though is not easy: 'It is possible for a sales team to spend more time getting co-ordinated than selling'.[32] Good internal 'tuning' is absolutely necessary, not only in the sales activity but also throughout the whole company, in order to achieve a good delivered quality.

In relationship marketing quality means more than technical quality. Product service in particular has become a key element in marketing.[33,34] Service should not be a 'luxury item', only provided in favourable market conditions, but a vital component. Many European firms offer extra services to large customers. DSM for example not only sells granules for moulding car bumpers but also helps car manufacturers with creating and testing new designs. Such extra services strengthen the relationship between supplier and customer and can also increase profitability.

Open communication channels with the customer, reliability, simplicity, accuracy and speed are crucial to service quality and should be monitored thoroughly on a regular basis by means of a service audit.[35] Service excellence can only be achieved if all employees are customer, service and quality minded. This requires *internal marketing.* Relationship marketing implies a high degree of internal involvement and co-operation. Indeed, partnerships generally tend to involve both very high inter- and intra-organizational dependencies and so tend to increase the requirements for intraorganizational integration.[36,37]

Managing Key Accounts

Long term and intensive interaction with customers requires an organizational underpinning. *Account management* can be the answer because it regards the customer as the unit of planning, co-ordination and control for all functional activities. At present companies of very different sizes have adopted this approach, contrary to the situation some 10 years ago when only big companies used it.[38,39]

In a large number of businesses, account management has become a necessity as a result of the co-operative purchasing attitude and the concentration on the customer which have been discussed above. Globalization too favours account management. Customers with subsidiaries in different countries who co-ordinate their purchasing wish to hear one and the same tune from the supplier. They do not want to be confronted with price inconsistencies between separate deliveries to different subsidiaries. It may also be necessary to introduce the system because the largest competitors use it.

Account management can only succeed when structural changes are formally introduced which give the account manager enough authority and means to effectively realize his solutions. Only to the degree in which new remuneration systems, aimed at promoting teamwork among affiliates and divisions, are implemented and a clear communication procedure is established, can efficient account teams be built. Therefore, remuneration often contains a group bonus. Communication channels have to be open and informal. Each member of the team has to have a clear picture of his role in reaching the sales targets. One of the ways in which IBM tries to achieve this goal is by organizing, on a yearly basis, an account seminar with the aim of drawing up an account plan. The full account team participates in it.

Companies that develop relationship marketing cannot expect an immediate profit. A lot of investments and sacrifices have to be made. These efforts will only result in a strengthened competitive position and higher profits after some years. Moreover, not all buyers will be convinced in equal measure of the advantages of this new approach, and organizational obstacles within the company will lead to further delays. The concept of relationship building has to be marketed both externally and internally.

Only in flexible and market oriented companies with a strategic perspective and with top management support can the necessary reversal in industrial marketing be realized.

Relationship Marketing—Some Problems

Relationship marketing seems to signpost the new road for industrial marketing. With more and more customers striving for co-operative relations, and with increased competitive pressures, many marketers are forced to make extra investments in service and quality. They have no option but to look at the complete marketing system from the relationship perspective. However, a qualification is called for. Relationship marketing is not always possible or desirable.

In some situations where the cost and the risk of switching suppliers is low (e.g. computer terminals), the customer does not need an extra service and certainly does not want to pay for it.[40] Only to the extent that suppliers can differentiate their augmented product from their competitors' products can they convince their customers to remain loyal. A creative service for instance can provide scope for a certain degree of relationship marketing, but joint product development and other forms of close co-operation do not seem feasible in these cases.

Another qualification is pointed out by DeBruicker and Summe.[41] The more experience a customer has with a product the less need there will be for supporting programmes from the supplier. In certain cases the customer will break down a product into components, buy these from low price manufacturers and assemble the product himself. Extras such as advice and technical support are appreciated mainly by inexperienced customers.

Relationship marketing is the right method only when the customer values co-operation. It is possible to erect, via tight relationships, structural and social barriers that become obstacles preventing experienced customers to change suppliers.

Implications for Management

Lately interdependence and co-operation have been key words in areas such as product innovation, international management and strategic management. The insight is gaining ground that competition determines how the profit cake will be divided, but also that it is possible through co-operation to bake a bigger cake.[42] The development towards co-operation in the business world also affects the marketing-purchasing activity. Good relations between supplier and customer are advantageous to both parties. Some of the important implications are shown below.

Marketing executives have to question their traditional 'one shot prescription'. They must be willing to invest in customer development, as well as in market share. They have to identify their key customers and determine whether relationship marketing is useful in their situation. Anderson and Narus[43] provide a valuable frame of reference for deciding which customers to select for a collaborative relationship.

Marketing managers must fight the attitude to accept every order or to use sales revenue as the only parameter to assess customers. Indeed, they must stimulate their product and sales managers to select key customers within certain priority segments based on a number of attractiveness criteria, such as compatibility, technical learning, and profit potential. Marketing managers should also promote planning for individual customer accounts. In many industries, Account Plans are as important as Product Plans nowadays. A good account plan starts from an analysis of customer applications. It presents a situation analysis of the industry, and analysis applications and strategic issues relating to specific customers; a strategy section should tackle the question 'where do we want to go with this customer and this partnership?' The Account Plan also contains a section covering the medium term prospects such as technical support for specific applications, service, consultancy and advice. A financial projection for the next 5 years completes the plan.

Marketers finally have to realize that striving for and maintaining service quality and partnerships with other companies increases the need for more co-ordination within their own company. Therefore they have to make sure that they have the support of other departments and of top management. Total quality and intensified functional interdependence and interfacing mean that the internal tasks of a marketer become a key management concern. Many corporations are turning to planning and communication techniques and procedures such as Quality Function Deployment (QFD) to effectively manage functional interfacing.

Top managers can stimulate the evolution of their company to partnership marketing by taking several actions. Firstly, they must back marketing managers by delegating authority and demonstrating clear support, by attending account meetings, approving changes in compensation systems, promoting teamwork, etc. Secondly, they have to keep in mind that partnering, especially with international customers, cuts across division and country boundaries. They should accept that established company structures and planning procedures may come to be questioned. Finally, top management must enhance marketing muscle and flexibility since these underlie the market drive of the 1990s.

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