CIPS Position on Practice

P&SM: Partnering

An approach with an attitude (or management ethos) of openness, effective communication, trust, honesty, transparency, sharing, mutual benefit, close collaboration and co-operation towards selected suppliers.

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Introduction

The CIPS' practice documents are written as a statement in time. They are a collection of views on good practice within a particular subject area and are intended to provide direction on good practice with some guidance for context and interest. The reader is encouraged to use the CIPS practice documents for their own purposes, such as writing policy statements, guidance or procedures. This particular practice statement has been written primarily for the benefit of full-time purchasing and supply management professionals, but can be used by anyone associated with, or interested in, purchasing and supply management (P&SM). This document is about partnering and partnering arrangements.

Definition

A partnering arrangement may be defined as an approach with an attitude (or management ethos) of openness, effective communication, trust, honesty, transparency, sharing, mutual benefit, close collaboration and co-operation towards selected suppliers.

It is important to differentiate between partnering and partnerships, the latter having a specific legal basis; as such partnering is fundamentally different in nature from partnerships and is a form of relationship between businesses that are independent of each other and connected only by their contractual relationship as buyer and seller. A legal partnership on the other hand is of two parties jointly carrying out the same business being jointly liable for all risks and costs of that business. It is imperative that where only partnering, (not partnership), is intended this is made expressly clear and that the relationship is not described to other businesses as one of 'partnership'.

CIPS believes that partnering is an effective and beneficial approach to managing relationships with some suppliers provided it is undertaken strategically, professionally and selectively. It is a valuable tool for the purchasing and supply management professional and demands a specific set of skills and competencies from those who will be responsible for developing and managing the partnering arrangement. Partnering is a supply chain process which should be led by the purchasing and supply management professional and include colleagues in the organisations entering into the partnering arrangement.

Background

The concept of working in collaboration with key suppliers is not new and covers a wide range of close relationships between businesses.

The idea of partnership itself was developed most successfully in the USA and Australia during the 1990's[1] and was popularised in the UK following Sir Michael Latham's joint government/industry report on the construction industry in 1994, where he stated that partnering allowed companies to "achieve specific primary objectives by maximising the effectiveness of each participant's resources and expertise." [2]

Partnering arrangements have been successfully implemented for a broad spectrum of supplies, services and works contracts. Examples include hotel services, supplies of business-

[1] Baden Hallard R: Project partnering: principles and practice, Thomas Telford, London, 1995
[2] 2 Latham, M: Constructing the Team, London, HMSO, 1994

critical items for manufacturing, and various construction projects, some of which are large-scale projects with a lifespan of several decades. Partnering is increasingly common in the outsourcing of those services which support an organisation's core business.

Explanation

CIPS believes that it is the responsibility of the purchasing and supply management professional to determine which supplies, services and works would be most suitable for a partnering arrangement, and to work cross-functionally with colleagues in identifying the most suitable suppliers to adopt the role of partners.

Although partnering is most useful in longer-term, strategic and high value contracts, the principles of partnering may also be applied to contracts of relatively short duration. It is a question of balancing the resources required, perhaps by means of a cost-benefit analysis, to establish and manage a partnering arrangement.

Partnering is also useful in respect of particular projects that have a finite duration; in such cases details such as performance targets, time schedules and cost must be agreed at the outset. Equally, it is important that any risk and reward provisions are based upon real business needs.

Another example of where partnering is useful is in alliances where the client/owner would normally have a participating role - for instance having an equity stake in the relationship. This underlines the interdependency of the parties within the supply chain and the importance of the process which establishes the alignment of objectives between the parties involved.

CIPS believes that partnering arrangements should only be considered with those suppliers able to bring additional value to an organisation over and above that of simply supplying the goods or services required. Purchasing and supply management professionals are encouraged to seek extra value from suppliers and identify the value they can offer over that of the competition. It should also be emphasised that partnering is likely to be the preferred solution where both parties feel it is the best value-adding strategy to follow i.e. they can both identify areas of mutual interest. It could be argued that partnering arrangements may not deliver best value for money in all markets, for instance a highly competitive commodity market as, although value, volume and risk may be high, maximising the benefits of constant competition might be the most effective purchasing strategy.

Some suppliers may not wish to partner with the buying organisation. This depends on how those suppliers position the buying organisation in their marketplace. It may be the case that the buying organisation is not perceived as an important or valuable customer, compared with those who may be unwilling to develop that relationship. In such cases, the purchasing and supply management professional should endeavour to persuade the supplier of the merits of partnering by demonstrating the benefits to both companies from the arrangement and facilitating a supplier development programme.

There are also the questions of size and power to consider; CIPS believes that size is not as important as the relative power between partnering organisations as it is easier to partner when the balance of power between the organisations is more or less equal.

As partnering is a resource-intensive approach, it could be argued that it should only be undertaken where the benefits obtained exceed those that could be obtained by more traditional, less resource-intensive means. However, it can lead to substantial business benefits for both parties, not least as the opportunity to exploit the marketplace by combining both organisations' sales and marketing forces or their research and development resources.

Developing a partnering arrangement

Partnering arrangements normally develop once the supplier/buyer relationship has been established. However, should a competitive process such as tendering be used to identify the suitable partner then the evaluation criteria would have to be specific to the partnering arrangement in question - this would not necessarily be the same as that for the provision of supplies, for instance. Whether or not a competitive process is employed, there should be specific discussion and negotiation on the objectives of the partnering arrangements and the respective roles to be undertaken by the two parties.

CIPS advocates the use of output or outcome specifications when developing the partnering arrangement so that innovation and creativity can be encouraged.

The two parties need to determine those areas where close co-operation between the two businesses will generate the most valuable benefits. Partnering is based on the principles of trust and collaboration, with the two parties working very closely in specific areas. It is good practice to establish an audit trail so that close business relationships remain at a professional level.

Businesses engaged in partnering should take particular care over their contractual arrangements. Some organisations prefer to employ a written ‘partnering agreement’ which simply describes the working relationship i.e. what is required of the two parties without any legal document. CIPS advocates the use of ‘partnering agreements’ but believes these should be supported by a carefully written contract. The close working relationships involved in partnering give rise to specific legal issues which may well be beyond the scope of normal contract terms.

For example, the parties may work jointly on product development and so issues such as which party owns the resulting intellectual property rights need to be clarified. Equally, open book accounting and other open disclosure policies give rise to a confidentiality requirement which needs to be agreed. CIPS also recommends the inclusion of a suitable Dispute Resolution procedure in the contract.

Typically arrangements are set for an initial period, often five years, with an option to review at the end of the period. If the contract is meeting expectations and market testing has demonstrated that the costs associated with the contract are still competitive then the contract can be extended, or re-negotiated, for a further period.

Some organisations prefer to let contracts on an ‘evergreen’ basis; that is to say with no specific end date envisaged. This can lead to complacency, and such contracts in particular require carefully thought-through exit strategies.
It could be argued that an element of traditional ‘arm’s length’ purchasing can legitimately be introduced into the process when negotiating such aspects as payment mechanisms, allocation of risk and contractual terms and conditions. However, this attitude should be replaced with a

friendlier atmosphere once the contract has been agreed and market forces are no longer given a priority.

It is important that there is compatibility between partnering organisations and that the individuals involved can work comfortably together. One way of being introduced to individuals in a potential partnering organisation is to arrange for a presentation from potential partners to be given by those who would be contributing to the relationship rather than by the sales team.

Partnering often requires a cultural shift in at least one of the organisations involved in the arrangement. Any such arrangement should be sponsored by senior management within both organisations but driven from the bottom with appropriate change management to support any required cultural shift. An important aspect is expectation management which requires attention from the very beginning of the partnering arrangement through to its conclusion. There should be at least one individual (quite possibly the purchasing and supply management professional) who is personally responsible for ensuring the partnering arrangement is properly managed. This role requires a strong personality in order that the arrangement remains on a professional footing with demonstrable measurable benefits being defined on an on-going basis.

CIPS believes that one key objective of any strategic partnering arrangement should be continuous improvement. Objectives and targets must be measured and progress monitored. This measurement and review will help reduce any tendency towards complacency between partners. Partnering arrangements should enable all involved to become more flexible, more communicative, share ideas, risks, resources and benefits within an ‘umbrella of security’. Partnering can thus be useful in underpinning further corporate initiatives such as joint ventures. There is much emphasis on 'soft' skills with the need for excellent interpersonal and communication skills on both sides. Regular meetings between the ‘partners’ are essential with representative cross-functional teams from both organisations working together in an atmosphere of confidentiality to develop the relationship to its full potential. Being able to work effectively in a team is a key requirement for anyone involved in partnering; the logic being that through working together, the whole can become greater than the sum of the parts.

Open book costing

Maximum value can be derived from a partnering arrangement which includes open book costing. However, the extent of openness is a subject for negotiation. The supplier would probably prefer to reveal costs relating to the contract in question only, as opposed to its entire business. Both parties have to feel comfortable with the extent of the transparency, and to minimise any risk associated with this intimacy, a confidentiality agreement should be drawn up.

If an open book policy is introduced, it should be on an equitable basis with both parties sharing information. There should be a clear and valid reason for it that is understood by both parties, for instance in order to cost, and subsequently price, change.

When working together, under for example a supplier development programme to take costs out of the supplies, it is easier if both parties have a thorough appreciation of the costs and how these fit with the overall infrastructure of the business. Furthermore, adoption of open book costing throughout the organisation can be very resource-intensive and may require the assistance of professional accountants in order to make an accurate assessment of the data obtained in this way.

When adopting open book policies, it is important that the buying organisation does not abuse this position by reducing the supplier's margin to such an extent that the supplier feels the business is no longer attractive or, where they have no choice but to continue, perceive it as a win/lose relationship.

Conclusion

Partnering, with or without open book costing, requires a particular skill set and approach from purchasing and supply management professionals. It can deliver significant business benefits for both parties and may form part of a supplier development programme. CIPS believes that purchasing and supply management professionals should develop their competencies in delivering and managing partnering arrangements and that this approach to purchasing and supply management will become increasingly popular, providing organisations with a means of gaining additional competitive advantage.

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