



## Relationship Models



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### Introduction

In most contracts the model of a relationship lies between the traditional arm's length arrangement and a full partnership agreement. The former model, also known as 'transactional,' describes the relationship where "the agency orders and the supplier supplies". The arm's length model does not require a supplier to understand the purchasing company and its business objective or add value above just supplying the goods or services "in full, on time and to specification."

As an example, this relationship model can be applicable to software licensing. Partnership agreement, on the other hand, arises when buyer and supplier understand each other's business objectives and communicate openly. This relationship is about adding value and requires sharing risks and rewards. Partnership arrangements work better when there is a degree of cultural alignment, certain convergence in goals and the commitment to the relationship at all levels (Industry Capability Network:7).

Another relationship model classification was suggested by Bensaou (1999) who examined Japanese and US automobile manufacturers. The level of relationship integration depends on the governance structure or relational design a company adopts under different external circumstances, and on the way it manages relationships.

Thus, depending on the governance structure the model can be described as a 'captive buyer' (technically complicated products, stable market demand with limited growth, large supply houses), 'market exchange' (highly standardised products, stable/declining demand, small 'mom and pop' shops), 'strategic partnership' (products require high customisation level, strong market demand and growth, large supply houses) and 'captive supplier' (technically complicated products, high growth market, strong supplier proprietary technology).

Depending on the way relationships are managed, each of the four relationship models described above can have different information sharing mechanisms defined as continuous exchange of important and detailed information for captive buyer relationships, boundary-spanner task characteristics and climate and process characteristics.

In detail, the characteristics of Strategic Partnership (High Relationship Investment) are:

- High level of customisation required
- Close to buyer's core competency
- Tight mutual adjustments needed in key processes
- Technically complicated part of integrated subsystem
- Based on new technology
- Innovation leaps in technology, product/service
- Frequent design changes
- Strong engineering expertise required
- Large capital investment required

(Bailey et al 2015)

Reasons that contribute to the termination of relationships are: non-performance, change in the requirements of either party, or economic factors (Burnes and Anastasiadis, 2003; Campbell and Pollard, 2002).

### Definition

Relationship models describe the types of connections/associations between buyers and suppliers, along with the interactions which occur over time as part of these relationships (Carr and Pearson, 1999). These models typically focus on the initial formation of relationships as well as on the relationship maintenance (Bensaou, 1999). Relationship models help buyers and suppliers understand ways to maximise value, secure mutual benefits, align performance and strategic objectives and, when necessary, terminate a relationship (Bensaou, 1999; Forker and Stannack, 2000).

### Successful application

To formulate strategies for building relationships with suppliers, it is important for buyers to understand the characteristics and interrelationships of buyer/supplier relationship factors. These relationships generally develop along a few stages which define management strategies to support such relationships. For example during the introduction stage, there is a need for social support, information exchange and securing of suppliers. During the growth stage of a relationship managers need to facilitate trust, innovation development and interdependence. Maturity stage can require cost reduction actions, commitment development and increased orders from suppliers (Subramanian, 2010).

The more you are a partner with suppliers, the more they will bring innovation to you. If procurement professionals handle the suppliers, it is better for the company and the suppliers.” (Jacobs, K., 2018)

### Steps to successful application

1. Match the optimal relationship type (market exchange, captive buyer, captive supplier, strategic partnerships) to the relevant product, technology, supplier, and market conditions.
2. Identify an appropriate management profile for each relational type match based on information sharing, boundary spanners' task characteristics and climate and process characteristics.
3. Ensure that the relationship is neither under-designed nor overdesigned. This generally refers to matching high (or low) relationship requirements with high (or low) actual relationship capabilities.

*Bensaou (1999)*

4. Collaborative alliances need to be managed through coordination, trust and relationship, and conflict resolution. Some practical suggestions to implement would be:

**a) Business integration first, then procurement integration**

The critical misconception is that procurement can manage it all, just by bundling volumes and harvesting benefits. Business comes first to synergize. Procurement knows how to monetize synergies, but not before Business people agree on specifications, branding, customer experience etc.

**b) Joint vision and strategy**

Procurement collaboration needs to be articulated by Executives, and reflected in the vision and strategy of the alliance. Loosely coordinated vocational initiative simply won't work.

**c) Shared KPIs**

When we operationalize the joint strategy, we need to define a small set of KPIs (savings, efficiencies) that will be reported to everyone's management and embedded into individual performance metrics of all stakeholders.

**d) Operational efficiencies through collaboration**

Collaboration should ease lives. Joint tendering saves time and effort, as opposed to a multitude of individual tenders. Collaborative procurement strategy shapes up local category strategies. Effective operational model makes best people in the alliance working for the benefit of everyone.

**e) Standardised processes and templates**

You will have to standardize some processes, metrics and documents – as simple as KPI definition, or as complex as category trees. Joint tenders needs to be recognized by individual governance bodies, so your Tender Committee would want to review a standard familiar evaluation. Once alliance members approach the same preferred supplier with their contracts, these would better be standardized.

**f) Communicate!**

You would need to communicate a lot, so establish community channels. Communicate extensively, create awareness, achieve gradual adoption, and then convert adopters into change champions. Remember, if you want to be successful, you'll have to manage the change.

**g) Open doors approach**

Don't shut your doors to those, who didn't want to participate initially. Let them know there's always a chance to join. They will watch, and sooner or later decide to catch up, as soon as they find it useful. (Dovgalenko, S., 2018)

## Hints and tips

- Arm's length relationships may be appropriate in some tactical circumstances. When an organisation already operates a portfolio of different relationships, most of which are longer term partnerships, the chances of negative performance consequences arising from occasional arm's length relationships are minimal (Cox, 1996).
- It is important to create an exit strategy to ensure separations are handled professionally. This will also minimise disruption and damage for stakeholders (Campbell and Pollard, 2002).
- When measuring relationships with suppliers, buyers should break down the possible advantages into quantifiable measures, always take into account the number of suppliers they work with, not underestimate the importance of intangible benefits, such as reduced risk (Supply Management, 2010a).
- In order to maximise limited resources, it is important to build supplier relationship management programmes on a segmentation of the supply base using multiple weighted criteria agreed with internal stakeholders (not just the volume of spend) (Supply Management, 2010b).
- The actual relationship model matters less than the way it is managed (Bensaou's, 1999).

## Potential advantages

- Relationship models can promote awareness among members of a purchasing department on the impact of short- and long-term supplier relationships (Lysons and Farrington, 2006).
- Relationship models can help to highlight and identify the risks involved in buyer-supplier relationships (Lysons and Farrington, 2006).
- Relationship models help purchasing departments achieve a balance between internal firm resources and external supplier-possessed resources (Lysons and Farrington, 2006).

### Potential disadvantages

- Relationship models have been criticised for their mostly academic origins and focus (Lysons and Farrington, 2006).
- Many prominent relationship models neglect issues of relationship termination and refer to it mainly in the context of outsourcing/offshoring relationships (Bensaou, 1999; CIPS Australia: Where is the exit?).
- Exit strategy is a sensitive issue and it is very rarely discussed during the early stages of the relationship which may negatively impact agreed service levels (Power et al., 2004)

### Performance monitoring

- Transaction-level improvement measures: the number of transactions between requisition and pay and time taken per process (Supply Management, 2010a).
- Many of the benefits of supplier relationship management are intangible and difficult-to-quantify (e.g. reduced risk). If that is the case managers should focus on small internal process improvements such as reducing call times and complaints and queries (Supply Management, 2010a).
- Strategic supplier relationship management: measure shared processes and shared benefits/costs that produce faster time-to-market, better quality, lower costs and increased flexibility (Supply Management, 2010a).

### Case studies

- When JP Morgan merged with Bank One in 2004, the company terminated a seven-year outsourcing contract with IBM worth US\$5bln only two years in. The company rehired 4,000 employees and was likely to pay IBM a generous fee for the early termination of the deal (CIO, 2005).
- IBM as an outsourcing company failed to generate the projected cost savings of US\$530m for NiSource Inc., an energy company. As a result the latter amended a 10-year, US\$1.6bln contract after two and a half years.
- Thus, NiSource's exit strategy enabled the company to reconfigure elements of the contract and backsource some of the processes in-house (Nevers, 2008).
- Toyota shares 50% of its financial benefits from joint efforts with suppliers as a way to incentivise them to keep generating ideas (Supply Management, 2010b).

### Summary

Collaboration or Supplier relationship management (SRM) is undergoing a major transition. Here are some best practice facts for effective collaboration:

- Earning your suppliers' trust with honest communication, listening to their concerns and involving them in your processes ultimately makes them a vested partner in your business.
- It's mutually beneficial. If you are aligned with your suppliers and treat them as partners, both businesses will experience higher success rates, decreased risks and enhanced collaboration and innovation. Studies have found the top procurement teams that have successfully aligned with their key suppliers have improved supplier capabilities of innovation, quality, reliability and costs/price reductions and agility to reduce risk factors. Greater value can be achieved for both businesses, something that would be difficult to achieve if operating independently

- Successful collaboration and SRM yields a faster time to market, transactional efficiency, competitiveness, risk management, and large financial gains - all of which not only contribute to your bottom line, but also allow you to deliver a quality and cutting edge product, putting you ahead of the market. ( Rizza, M.N, 2015)

## Further Resources/Reading

### Web

- The partnership model: A type of buyer-supplier relation [kburl.me/jqn4e](http://kburl.me/jqn4e)
- Why is supplier relationship management so difficult [kburl.me/9y095](http://kburl.me/9y095)
- Relationship management: the case of Chrysler [kburl.me/p4bph](http://kburl.me/p4bph)
- Building better supplier partnerships [kburl.me/ws621](http://kburl.me/ws621)
- Critical issues in supplier management [kburl.me/7p0fb](http://kburl.me/7p0fb)

### Books

- Principles of Supply Chain Management: A Balanced Approach, Joel D Wisner, Keah-Choon Tan, G Keong Leong, ISBN 978-0324657913
- Supply Chain Management: Processes, Partnerships, Performance, 3rd edition, ISBN 978-0975994931
- Supply Chain Management: In Theory and Practice, Birgit Dam Jespersen, Tage Skjoett-Larsen, ISBN 978-8763001526
- Purchasing and Supply Chain Management, Dr Kenneth Lyons, Dr Brian Farrington, ISBN 978-0273694380
- Purchasing and Supply Chain Management, Robert Monczka, Robert Handfield, Larry Giunipero, James Patterson, Donald Waters

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### Video

Supplier relationship management (CIPS Australia seminar)

<https://www.youtube.com/watch?v=fmIEIrDDE9k>

