


# Relationship Management



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### Introduction

The Chartered Institute of Purchasing and Supply (CIPS) commissioned Professor Paul Cousins at Manchester Business School to produce a white paper to discuss theories, concepts and applications of inter firm relationship management. The paper has two key purposes:

1. It aims to provide an overview of the development of scholarly thinking on relationship management over the last twenty years;
2. It provides some practical frameworks to help firms think about how they might position, measure and manage their existing and new business relationships.

This document summarises the key messages and models in this paper, along with the implications for managers and CIPS' position regarding relationship management.

### CIPS position

- CIPS believes that as far as possible, procurement strategies are in harmony with the time-scales and objectives of the corporate plan.
- Supplier relationship management is a key skill of all purchasing and supply management professionals and one that should be acquired.
- The purpose of investing in relationships with a supplier is to improve their performance in fulfilling the needs of the buying organisation, thereby improving the buying organisation's performance and creating mutual benefit.
- Purchasing and supply management professionals must be able to understand and deploy power and dependency factors in supply chains and buyer/supplier relationships.
- The purchasing and supply management function should utilise appropriate tools to gain an understanding of the supplier's perspective of the buying organisation.
- CIPS believes the role of the purchasing and supply management professional is to be the custodian of the supply base, thereby ensuring that internal customers are satisfied with the service from suppliers.

### Background

As the world becomes increasingly more competitive, firms are seeking more innovative ways to create value and improve their levels of efficiency and effectiveness. Traditionally firms have focused on improving their internal processes. In recent years this focus has changed and increased attention has been centred on the management of the firm's supply activities. This has changed the way that firms think about managing their internal and external organisational processes and as a consequence has increased the visibility and importance of relationship management.

Supply Chain Management (SCM) has had to move away from a purely process role towards a much more strategic network co-ordination process approach. This trend has been a movement towards supply base rationalisation resulting in fewer, but more strategically powerful suppliers. These suppliers need to be managed strategically.

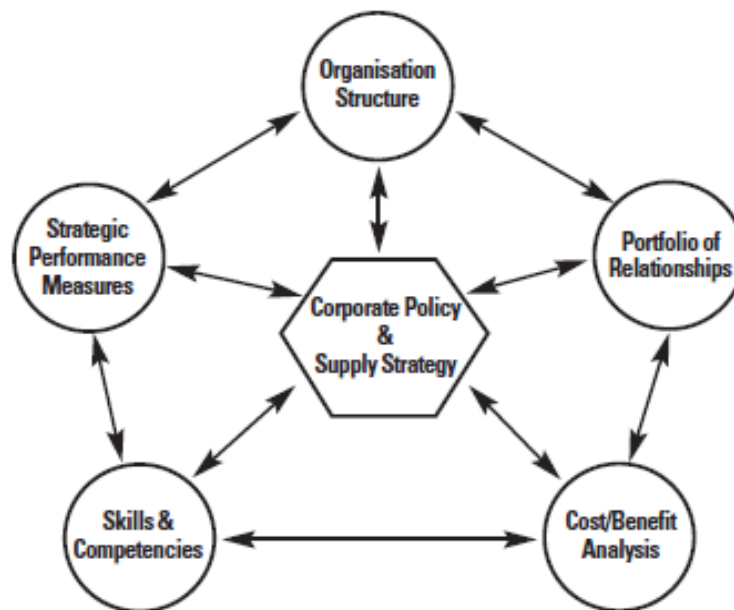
This means developing a clear understanding of how to manage inter (between) and intra (within) firm relationships.

## Key issues P&SM professionals face when managing relationship strategies

The Purchasing and Supply Management (P&SM) professional faces many factors for consideration when forming a relationship strategy. The model below outlines six key factors that need to be considered simultaneously.

Figure 1 is known as the supply wheel, developed from a large research project which examined the strategic supply issues of 750 firms.

**Figure 1: The Strategic Supply Wheel**



Source: Cousins (2002)

The Supply Wheel stresses the importance of aligning corporate and supply policies. A lack of connectivity makes it extremely difficult, if not impossible, for P&SM professionals to set their own policies, goals and strategies that reflect the needs, wants and direction of the organisation itself. The overall focus of the organisation, whether it is cost or differentiation, will dictate the corporate and, therefore, procurement strategy.

Procurement departments have a high profile in cost focused organisations. Tactical methods of cost reduction with short to medium term relations are favoured over more complex long term relationships. Organisations that choose to differentiate from their competitors however are focused on product, customer and/or market development activities.

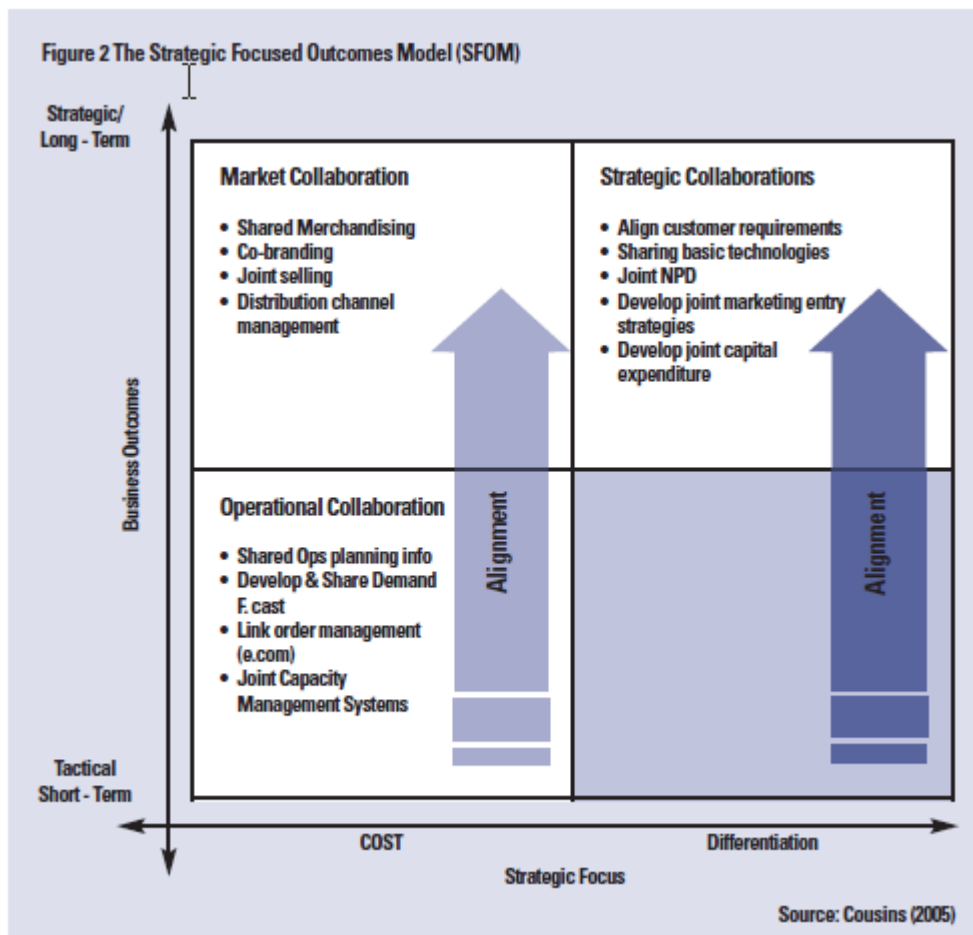
A closer collaborative approach is required with long term goals, often with mutual benefits for buyer and supplier.

Figure 2, the Strategic Focused Outcomes Model (SFOM) indicates which strategies should be followed dependent upon the strategic approach taken by the firm. The emphasis here is appropriateness and allocation of resources.

Operational Collaboration strategy consists of actions such as sharing operations planning

information, developing and sharing demand forecasts, linking order management systems, usually via an intranet and joint capacity planning management systems to align operational flows.

Market Collaborations are concerned with tactics such as shared merchandising, co-branding, joint selling and management of distribution channels. Strategic Collaborations are concerned with aligning the customer requirements with the supplier, the sharing of technological processes and products to enhance offerings to existing and new customers which may lead to new product development activities.



## What is a relationship?

To successfully manage appropriate relationships it is necessary to look at them from a practice stance. By breaking down the relationship into process steps, and then the role of the manager, is to measure success based on delivering business outcomes. This could be in the form of price reduction, cost information exchange, technology or innovation exchanges and so on. It is therefore important to base the relationship process and objectives on the goods and services provided rather than the supplier. One supplier may have a portfolio of relationships appropriate for differing supply items.

## Complexities of Relationships

Managing buyer/supplier relationships is a complex task; the management of wider issues such as dependencies, risk or certainties, the frequency of exchange and bounded rationality



require careful consideration. Figure 3 provides an overview of the key issues when dealing with relationship management.

Dependencies are defined as mechanisms that create a reliance on either the buyer/supplier or both. There are four key dependencies; economic, historic, technological and political. These dependencies are not mutually exclusive. The dependencies can be identified by both the buyer and supplier firms as drivers for the development and manipulation of the relationship. In order to use these to gain business success the firm must take a strategic stance.

The aim of either side would be at worst to create 'interdependence' (or mutual dependency) this occurs when the buyer and supplier are relatively equally dependent upon each other. Alternatively the strategic approach may be to create a one-sided dependency on the other ie. the supplier is dependent upon the buyer or the buyer is dependent upon the supplier. This situation will allow the dominant party to exploit their relationship position and maximise value.

The other aspect that needs to be considered is the level of 'risk' that is involved with the management of this interaction. The balancing out of dependencies and risks will yield a variety of possible relationship management strategies such as Tactical Collaboration, Strategic Collaboration, Opportunities or Adversarial strategies.

Alignment of these strategies to the overall sourcing process needs to be focused at product level. The choice of the relationship approach or strategy should be based on focusing the appropriate relationship type to the outcomes required from the business transaction.

The frequency of exchange refers to the type and amount of interactions within the relationship; it is an important mechanism for managing inter-firm transactions. The greater the exchange, the more information and learning is passed between the parties, the less likely it is for opportunism to take place.

Bounded Rationality is a concept where humans view problems within their own individual context which is established by their systems of values and beliefs. This is an important concept to consider when forming intra (internal) relationships as a mismatch of goals and objectives between elements or functions of the organisation can cause conflict.

Aligning these beliefs and values through cross-functional teams for example, enables the decision making process by forming one bound of rationality. Without these relationships working effectively and efficiently, the firm cannot hope to encourage and engender deep inter-firm relationships.

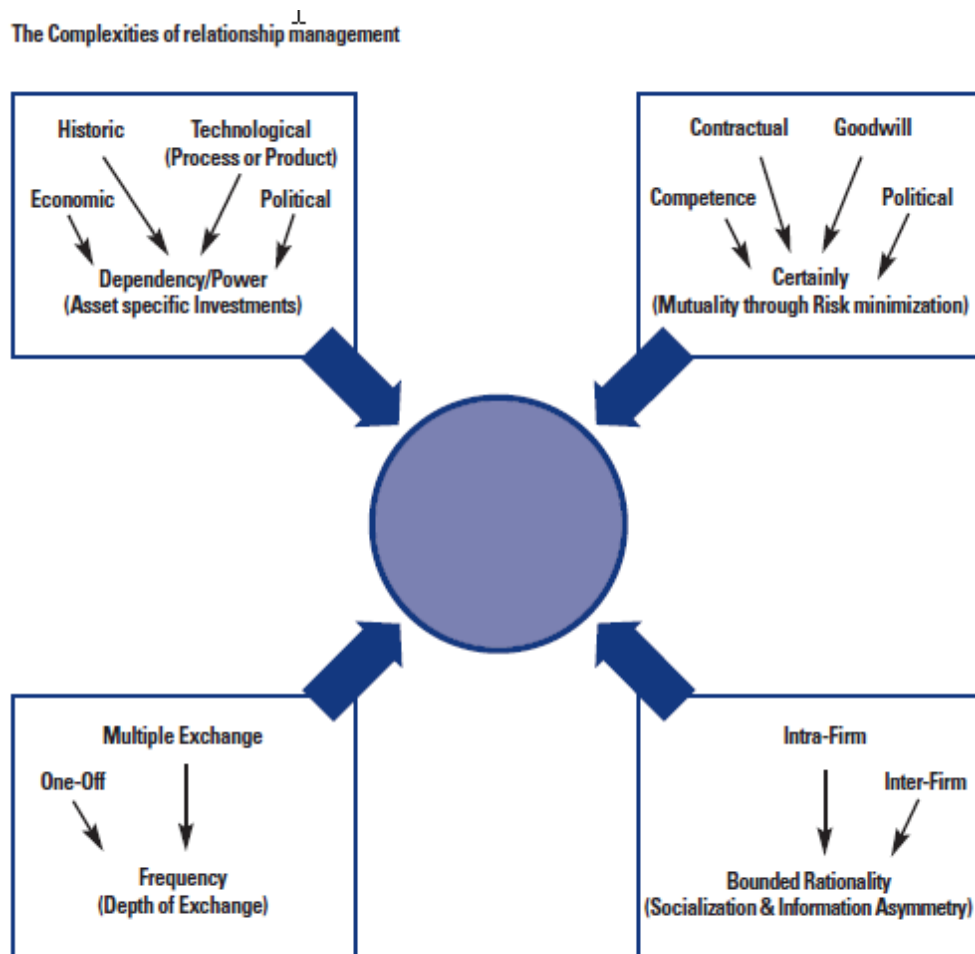
### Implications for P&SM Managers

- 1 The management of inter-firm relationships is complex. It is not sufficient to simply set up an agreement, action plans need to be followed to instigate change. The Supply Wheel demonstrates the complexity of areas that need to be considered simultaneously.
- 2 It is important to consider what a 'relationship' is. Relationships are referred to as processes that drive or facilitate changes in behaviour. Naturally these can be positive or negative depending on how they are used.

- 3 It is important to consider relationships at the level of the product or service, and not at the level of the firm e.g. it is impossible to say that the relationship with firm X is good bad or indifferent, there will be as many views on this as there are people involved. The point is that firms need to consider strategically what they buy and then apply the appropriate relationship which will deliver the maximum value for their business. Milton Friedman's famous quote, the "business of business is business" applies here.
- 4 Inter and Intra firm relations. Relationship management should not begin with changing the way a firm manages its suppliers. It should start with how the buyer firm interacts with itself (intra firm relationships). It is vitally important that relationships are aligned internally first before any attempts are made at changing, enhancing or refocusing existing inter-firm relationships.
- 5 Building a business case. There must be a business benefit from refocusing relationship approaches. Firms (both buyers and suppliers) need to think clearly through what these benefits are, and also, if the costs of getting them outweigh the actual benefits. Whilst this may sound obvious, it has certainly become apparent during this research with major firms, how few consider these important decision drivers. Firms tend to reduce supply bases with little cost knowledge, move towards higher dependency relationships without performance measurement or skill changes and so on. The point here is that if a firm is going to adopt a different way of working then it must consider all of these aspects and build a business case for doing so.
6. Relationship strategies are dynamic, they need to be thought through and managed over time. At different stages they may require different people/skills to manage them. It is important that firms choose appropriate relationships to deliver the maximum value for their transaction. This can be achieved through manipulating and managing the dependency/certainty mix.

## Conclusion

This study presents theories, models, tools and techniques to allow practicing managers to consider the strategic complexities of managing inter and intra firm relationships. Subsequent studies will produce a 'how to' relationship guide, which will focus on a methodological approach for relationship measurement, management and re-engineering.



Source: Cousins (2005)

## Further reading

*Cousins, P. D. 2002.*

**A conceptual model for managing long-term inter-organisational relationships.**  
*European Journal of Purchasing & Supply Management*, 8(2): 71-82.

*Cousins, P. D. 2005.*

**The alignment of appropriate firm and supply strategies for competitive advantage.**  
*International Journal of Operations & Production - Management*, 25(5): 403-428.

## About the Author

Paul D. Cousins is Professor of Operations Management and CIPS Professor of Supply Chain Management at Manchester Business School (MBS), UK. He is also Director of the Supply Chain Management Research Group and Head of the Department of Decision Sciences and Operations Management at MBS. His career to date has spanned a range of business sectors from industry (Westland Helicopters & Sikorsky Aircraft), consulting (A.T.Kearney) to academia (University of Bath, The University of Melbourne, Australia, Queen's University Belfast and Manchester Business School).

It has led him to work in a variety of countries including the UK, Europe, USA and Australia. He has obtained over £1.5m in research grants and has conducted research and consultancy work for numerous firms across a range of industrial sectors at national and international level. He has published four books, numerous book chapters and over 40 journal and conference papers. His main research interests focus on the area of supply management: Strategic Supply Management, Environmental Supply, Inter-Organisational Relationship Management and Technology and Innovation Management. He has published in a wide range of journals, including Journal of Operations Management, International Journal of Operations & Production Management, Production and Operations Management and the British Journal of Management.





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