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Strategic Vendor Partnerships: Keys to Managing Customer-Supplier Relationships

The Problem

In today's business environment, more companies are taking extraordinary steps to protect their areas of core competence while outsourcing those functions least central to their competitive advantage. Not long ago you could identify the real buyer and seller, but today the lines are blurring. Business is now characterized by relationships of multiple partners seeking the gain of mutually beneficial goals. For example, Nike builds footwear for Footlocker and Nordies but those companies have specific price points as well as color swatches for the next-buying season. The supplier (Nike) needs the customer (JC Penney) to be a good supplier.

At Boeing, engineering plans for the kitchen in the 777 was conducted in teams from each of the major airlines -- they actually designed the food and beverage layout in the planes they intended to purchase. Microsoft relies on strategic vendor-supplier relationships with key hardware designers such as Dell, Hewlett Packard, Compaq, IBM. Many department stores no longer own their inventory; each department is run by the brand that occupies the space, so that you now shop in the Tommy Bahamas department inside a Macys. Whole industries have been transformed and the future is poised for even greater interdependence along the supply chain of business systems producers.

Traditionally, vendor-supplier relationships were handled with a contract-for-services approach. However, the work being produced today does not lend itself to a legal contract. It is too difficult to determine beforehand what the client will receive and the vendor will provide using a legalistic format. In its place, companies are forming strategic partnering relationships between suppliers-vendors and clients-customers. What kind of institutions, people, and professions can we turn to as an advocate for a fair process, without favoring one side or the other?

There seems to be a need for someone who can maintain the health of these reciprocal relationships. Will it be a mentor, mediator, arbitrator, public relations expert, sociologist, therapist, or all of the above? Perhaps the time has come for a new role: a third-party consultant whose job is to help guide the relationship.

This article outlines some of the major issues and opportunities in the complex world of vendor-supplier relationships; and offers suggestions for the organization development and public relations professionals charged with managing this changing dynamic.

Creating a Strategic Partnership

A successful strategic partnership begins with the creation of a **charter**, a social contract of the groups' jointly held beliefs and goals. In some industries, the charter is referred to as a "partnering agreement". The key to a successful long term relationships depends on how well each group lives up to the standards outlined in their written agreement.

In a workshop to create the charter, participants work at a high level of trust to establish their mission, vision, and a set of mutually beneficial goals they are willing to achieve. In addition, they are asked to design mirror roles with similar titles and job descriptions. For example, when creating the planning team, you might have a Contract Manager within the supplier organization working directly with a parallel Contract Manager in the vendor organization.

The purpose of mirror roles is to create a **parallel platform** that allows peer-to-peer comparisons, and establishes a foundation of equity from which individuals can build trust through collaboration. Well designed vendor-partner arrangements, whether in construction, software, hardware, manufacturing, human resources, information systems, or telecommunications, ought to follow a parallel structure.

Figures 1 and 2 below typify a parallel structure between mythical suppliers of IT services to a mythical large organization:

Figure 1: Typical IT Vendor Organization

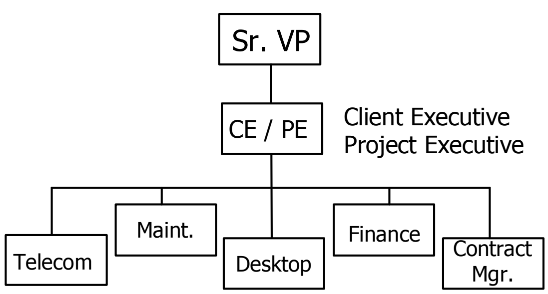
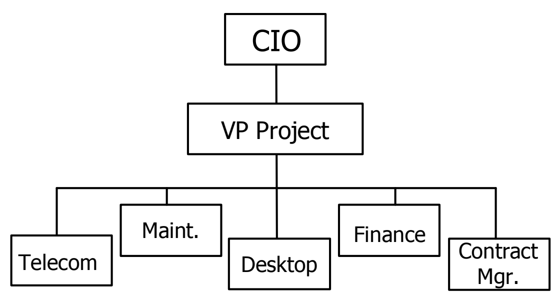


Figure 2: Typical Client Organization



Building Trust

Trust is essential in any long term relationship. Based on our work with vendor and supplier relationships, we've discovered the following elements of a trust hierarchy[1].

Figure 3: Trust Hierarchy

(HIGH TRUST)	
Level 1 Total Trust ↑	Each side operates in the best interest of the other, with unconditional positive regard.
Level 2 Social Contract ↑	Each side agrees to follow the social expectations documented in a charter created during a Partnering Workshop.
Level 3 Quid Pro Quo ↓	Each sides' actions are reciprocal, tit for tat, based on taking turns ("I'll do X if you'll do Y").
Level 4 Deception ↓	Each side meets obligations, in some cases taking advantage of the other while disguising true intent.
Level 5 Revenge (NO TRUST)	Each side operates to take advantage of the other or to impose punishment for previous failure.

Using the trust ladder as a framework, most vendor-client relationships start at the legal level of "quid pro quo". Depending on their actions, the parties will either advance towards mutual self interest, preserving a win-win relationship, or decline into a win-lose or even a lose-lose situation. We have discovered supplier-customer relationships must meet a series of critical conditions in order to be maintained:

1. The establishment of common goals and desired outcomes
2. Agreed-upon methods for running meetings and conducting business
3. Established methods for conflict resolution and appeal
4. A checklist to identify when the relationship is deteriorating
5. Regular team building sessions to share mutual, interpersonal feedback
6. Tight agreements regarding confidentiality – which information is to be shared, which is to be held in confidence

[1] From Kohlberg's Stages of Moral Development in "Stages: Understanding How You Make Moral Decisions" by Nathaniel Lande and Afton Slade, Harpercollins, 1979.

Where there is no social contract, and groups lack an agreed-upon charter, they run a great risk of losing trust. Though it takes relatively little time and energy to pull a relationship into decline, it takes considerable skill and a commitment to maintain good relationships to operate at the highest levels of trust.

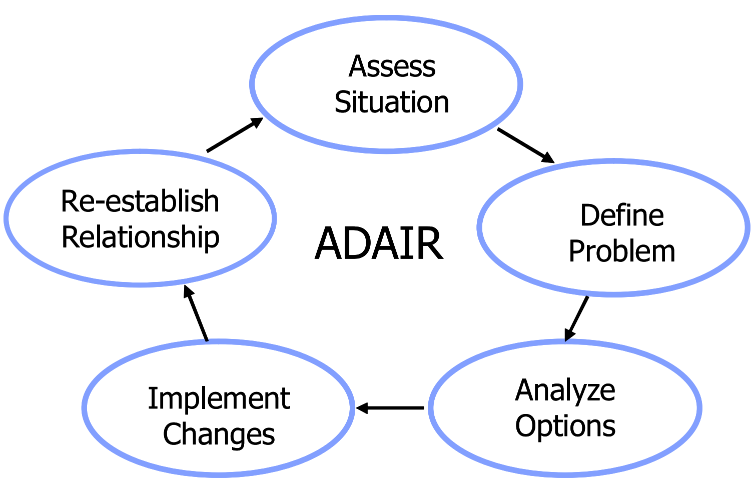
Signs of Deterioration

It's wise to pay attention to indicators that your relationship is cooling off or that trust may be deteriorating. Some warning signs to watch for include the following:

- People quit coming to meetings
- Missed dates without prior explanation
- One word answers to questions
- Issues quickly escalate into crises
- Issues resolved at the wrong level; people bring in the big guns to shoot an ant
- After a meeting between two people, what they report out to their respective teams is so disconnected that others recognize it
- End run around a person to their boss
- Conversations have a "blame" connotation ("who did it?")
- People don't follow through with promises
- People use emails and avoid talking face to face
- One side overburdens the other with innumerable issues
- Nonverbal signs of discontent during meetings: people pull their chairs back, fold arms, refuse to participate, heavy sighs, eyeballs rolling, etc.

ADAIR

To resolve issues and disputes, we recommend a step by step process called ADAIR:



Rules of the Road

How does one establish a bond that will endure the regular wear and tear of outsourced relationships? No contract is able to cover all issues; disputes are likely to surface that were unanticipated. The following guidelines will help ensure that your contractual relationships not only survive, but thrive.

Begin with a Partnering Workshop. When working with various vendor, supplier and client organizations, the value of a joint planning session called a Partnering Workshop can never be underestimated. Too often, people who must carry out a contract think nothing of spending weeks and months writing the contract itself, but no time at all with the parties to build up trust, confidence, and a sense of mutual respect. It takes time to establish good will, and people benefit from time together in preliminary offsite meetings to establish understanding and trust.

Create a Parallel Structure. As mentioned earlier, the purpose of mirror roles is to allow comparisons and establish a foundation of equity from which individuals can build trust through collaboration. Aligning structures into some kind of parallel platform will go a long way toward facilitating communication over the life of the contract.

Never Elevate Problems Beyond the VP Level. This is the one unwritten rule people in outsourcing arrangements never seem to miss. If a problem goes to the VP or executive level, it had better be worth it or it could be costly to your career. If too small of a problem escalates too high, you've violated the rule and the credibility you have built up may be cashed in.

Everyone Gets A Win. When you are the agent and you meet with the client organization to explore alternatives, this person upline from the negotiator watches closely. It is the agent who compares outcomes on the political scale – "this is what I want and you must live within these parameters." The higher up the organization ladder, the more this agent must also feel there's a win in it for them. When you go to meet with your counterpart to negotiate a deal, you can never go back to your boss without token evidence that you negotiated hard. Without that evidence, your boss may feel suspicious and ask, "Whose side are you on, anyway?"

View Issues as Currency. By viewing the issues that arise as a type of currency that can be traded, you can alleviate the ill will, blame and projection that accompanies most contractual relationships. For example, if I come to you with one big issue and you have three smaller ones, we can trade them. This technique helps everyone maintain perspective and keep the ball rolling in a positive direction.

Be Aware of Perception Filters. People do not perceive reality; they perceive **their version** of reality. Some people think about conflict from a Win-Win point of view, assuming there will always be creative solutions. Or, they believe they can change their wants to discover mutually satisfying goals, like mathematician John Nash when he won the Nobel Prize (from the movie "A Beautiful Mind").

A second view from a Win-Lose perspective assumes that whatever one party wins in a conflict, the other party must lose. Conflict at this level ultimately deteriorates into a Lose-Lose condition, where both parties intentionally prevent the other side from reaching their goals, even if it's not in their self interest. Much has happened during the past several decades to move the vendor-supplier partnership towards higher trust levels. Even the US labor movement is turning away from the Win-Lose model, as labor strikes are replaced with Win-Win bargaining.

Issues To Be Addressed in Your Partnering Agreements

Over the years, we have discovered the following kinds of issues are symptoms of a need for a tighter, more thorough social contract.

- ☐ **Benchmarking Standards:** A third party may be invited to review the contract and rule on the level of fairness. To move in line with acceptable industry standards, they may recommend that prices be reduced, deadlines extended, quality of data be improved, etc.
- ☐ **Changing Players:** When the people who negotiated the contract leave, those who come in after them may struggle to follow the contract.
- ☐ **Deal Clauses:** The "Extraordinary Event Clause" triggers a deal renegotiation if the company experiences a significant change due to divestiture, acquisition, dramatic change in the market, natural disasters, terrorist acts, etc.
- ☐ **Key Player Turnover:** The outsourcer often lacks the required talent and will hire skilled people for the duration of the project. However, these people may be reassigned. In fact, recruiting away the client's best people is a known practice, but the turnover will cause costs to spiral.
- ☐ **Missing Paperwork Trail:** Lack of clear documentation, disputed records, and lack of ability to prove that tasks or activities actually occurred.
- ☐ **Outsourcer Hiring:** Employees may receive mixed signals if the client organization believes they have continued control over the staff they released for vendor deployment.
- ☐ **Poor Performance Metrics:** Measurements that do not properly reflect what is important; or good measures that are used badly. Sometimes a supplier establishes metrics that are disconnected to mutually desired outcomes.
- ☐ **Price Basis Change:** Unexpected price changes based on pre-understood conditions such as how often a service will be delivered, or the volume or scope of the project.
- ☐ **Scope Creep:** Additional requests for unspecified services that are not fulfilled (badly defined statements of work).

- ☐ **Subcontractor Management:** A "flow down" problem may occur if a vendor asks a subcontractor to perform at a level less than what is expected. The client thinks they are going to get "X" but the outsourcer delivers "X minus one".

- ☐ **Withheld Payment:** Withholding payments related to a problem or dispute is a way to pressure the other side to seek resolution.

Principles Underlying Team Based Partnerships

Principles are a map that guide us through unknown terrain. The vendor-supplier team needs a road map of principles that will guide them through the inevitable challenges that will surface over the life of a project. The following list includes some of the more important principles for a TeamBased relationship:

✓ Common Code of Conduct

Social Psychologists suggest that group norms, those unwritten standards for group member conduct, can be more powerful stabilizers of human behavior than personality. The group sets behavior standards and reinforces these in often subtle ways. Norms are made explicit when group members come together and establish their desired code of conduct in a free and informed discussion, including protocols for dispute resolution. The group codifies its "code of conduct" in the form of a "Charter", which becomes the essential standard of behavior for all parties involved in the project.

✓ Aligned Performance Objectives

The participants must have clear, shared goals as a team. Indeed, these goals will act as a common pull, a "north pole" aligning their individual compasses. If lost in the wilderness, knowing the direction you are headed in contrast with "true north" can save your life. Shared goals have the same kind of importance.

Setting high-level goals is relatively easy; everyone agrees the project must get done on time and within budget. It is at the "objectives" level where goal clarity needs definition. Exactly what level of quality must be achieved? Who will have authority over certain decisions? etc.

✓ Aligned Conflict Resolution Method

Though much can and should be done to alleviate problems, it's possible that ambiguities, misinterpretations, misinformation, and even counter-productive actions of team members will occur. Thus, any conflict resolution method must resolve differences at the source, by those personally involved at the lowest possible level as quickly as possible and at the least cost. An appeal process must also be included so if one level of conflict resolution fails, the conflict is escalated to the next level for resolution.

✓ The Learning Organization

Mistakes are going to happen. You can verbally punish and belittle people for them, or take a learning approach that seeks creative solutions: "Let's see how we can solve this one!" and "What can we learn from this so it doesn't happen again!"

✓ Authority with Responsibility

People who will be held accountable must have the most accurate information available to solve problems. All parties in the vendor-supplier's relationship must agree to seek the most competent people and best sources of data when resolving problems. Seek out those with the greatest expertise when resolving a technical problem. Invite the process owner when you see a tradeoff in the cost-to-quality ratio. Make clear who is to implement any plans and decisions, and make sure all parties have clear responsibility to act. That is, they must have authority over the decision and sufficient resources to execute it.

✓ Fact Based, Fear Free

These words to describe the need to put as much accurate information into the decision-making mix as possible. In order to come up with facts, one must avoid motivating people with fear. In a fear-based environment, co-workers, team members, and front line employees become skilled at hiding the information from those they fear, telling only what they want to hear. Creating a fear free environment correlates with making high quality decisions.

✓ Linked Interdependent Relationships

Using the concept of a wheel, this principle says that the "managing" group at the hub is responsible for distributing information out to the "doer" groups along the spokes of the wheel. During regular meetings, all participants are responsible for communicating what happens back to their respective groups, and they must bring back the issues and concerns of their group to the "Managing" team. People must know if they are the link pins to their respective groups.

✓ The Principle of Affected Interests

This principle is also called the "Involvement Imperative" and says: Think of it as your responsibility to involve those affected in decisions that affect them. When problems occur, the planning or charter design team must think of who should be involved in the decision as much as they think about the best and most correct problem resolution. This is an essential element in the partnering team based relationship – it won't work without it. ■

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