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UPDATE
Supply Chain Management

Don’t choose the wrong supply chain partner

Shared goals, structure critical to success

BY ANNE ZIEGER

In theory, just about any supply chain partnership opportunity is worth a second look. After all, working closely with other participants in the chain can build goodwill, streamline operations and shave expenses, all valuable in ramping up your business. Ideally, a good partnership will take demand and supply planning to a new level of efficiency and profitability.

In practice, however, some partnerships cost more than they give. The wrong partnership may burn up profits, waste valuable staff time and even damage long-term business prospects. While linking up with strategic partners is important, avoiding costly relationships may be even more important, consultants say.

“Most companies react to opportunities rather than positioning the opportunities within an overall strategy,” says Rebecca Morgan, president of Fulcrum ConsultingWorks Inc., a Cleveland, Ohio-based consulting firm focused on supply chain management issues. “The reality is that you have got to pick very carefully. The partnership needs to be consistent with what you want to be as a company long-term.”

High hopes

According to a study from New York-based consulting firm Accenture, companies start out with high hopes for their partnerships. Of 150 execs surveyed, nearly one-third expected to see increased sales or cost reductions from collaborating with partners. Eleven percent expected to improve their decision-making, and 9% looked for increased capabilities from collaboration.

Pressure to partner may come from varied quarters within a company. Sometimes, partnership efforts are initiated by the supply chain manager, but in many cases, word comes down from a company’s chief financial officer (CFO), notes Arthur St. Onge, president of York, Pa.-based St. Onge Company, an engineering firm specializing in supply chain, logistics and inventory optimization.

“The CFO has responsibility for optimizing the assets of the company, and one of the assets of the company is finished goods inventory,” St. Onge says. “If there’s a way to reduce the cost of producing them and still meet customer service requirements, that reflects very favorably on the value of shares in the marketplace.”

What makes companies move ahead with their partnership plans? Pretty much any chance to become more efficient, consultants say. “One triggering event would be the opportunity to decrease the amount of inventory across the entire supply chain, if that were recognized by both sides,” St. Onge notes.

Unfortunately, pressure to partner — to at least appear to be doing the right thing—can push companies into relationships that don’t work. For example, companies may only look at building tighter relationships with suppliers they already use, perhaps out of inertia. Sticking to the familiar may seem like the smart, conservative move, but sometimes it's a losing approach.

"The guy you've been buying from for five years may not be the right guy," Morgan says. "He may be good at filling purchase orders, but a partnership is more than just filling purchase orders. What I need is for that supplier to work with me to maximize my success as a company overall."

Penny pinching

One of the worst mistakes a company can make is to lock themselves into a penny-pinching relationship. Unless the partnership is built around broad financial goals rather than per-unit prices, the partners may end up burning through a great deal of effort for very little return, suggests Michael Hugos, CIO, Network Services Co., (NSC), a $6.7 billion distribution cooperative in Mount Prospect, Ill.

NSC's 75 regional owner-members supply food service disposables, printing paper and janitorial/sanitary items. None is large enough to pursue national accounts alone, but through the cooperative, they jointly serve companies like Baskin-Robbins and Borg-Warner.

To tie the group together, NSC offers access to advanced IT services through a Web-based system called Netlink that gives buyers access to product catalogs, allows them to enter orders, and provides daily access to purchasing data by product, supplier and purchasing location.

Rather than squeeze members on price, NSC focuses on buyers who want help in reducing their total costs—companies that want supply partners rather than ultra-cheap suppliers. "We want customers who will work with us on the total cost of use. If all they really want is the last nickel off a gallon of floor wax, we're not who they want."

Making the investment

Another common mistake is to pick partners who aren't willing to invest the time and money necessary to make the partnership succeed.

Green Bay, Wise.-based Schneider Logistics Inc., a leading logistics provider offering outsourced logistics and freight payment services, works closely with 250 international companies, including the customer service divisions of both General Motors and Ford.

In theory, Schneider can partner to provide everything these customers need to manage their logistics operations, including its proprietary supply chain management software, payment services and management consulting support. But Schneider has found that things don't work as well unless its customers are willing to take things a step further.

In many cases, client companies end up hiring additional staff members to manage their end of the process, including project managers, account managers and technology experts. These staff members typically report directly to their counterparts within Schneider, keeping information and ideas flowing smoothly in both directions, says Todd Ericksrud, Schneider, vice president of customer service.

"People need to understand that no tool can manage an out-of-control process by itself," says Ericksrud. "The most successful relationships are [where] clients understand that managing [supply chains] isn't passive—that they must have involvement within their own organization.

Fostering trust

Still another mistake companies make is agreeing to partner before they're sure they can trust that partner—or sticking with relationships that don't inspire such confidence.

While trust may be intangible, it's critical to success, particularly for complex projects like inventory optimization, St. Onge says. "That requires a very committed relationship between the two parties involved to make it work very well," he says. "The two parties would have to act for all intents and purposes as though they were one company not two."

Too many companies, however, go into agreements they call partnerships, then try to control the relationship from end to end. "A lot of the automotive companies did this at the beginning," Morgan says. "They issued a unilateral ultimatum: you will do this for me if you want to do business with me, no matter what it means for you."

But that type of approach, she says, is doomed to failure in most cases. "If we call people partners, but then make demands on them and show them who's boss, that's never a true partnership," Morgan says.

By contrast, companies such as Toyota have taken a completely different approach. While it sets tough pricing standards for its suppliers, its goal is to make those suppliers more efficient, not force them to live on tiny profits, Morgan says. These days, savvy companies may push suppliers to cut costs, but will often let the suppliers keep part of the resulting margin for themselves, she notes.

"They truly understand that you're only as good as your weakest supplier," she says. "So they work with suppliers to make them strong."

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