



Dangerous liaisons

By Timothy L. Mould and C. Edwin Starr

The benefits of good relationships with suppliers are now clear. But some partnerships are a waste of time and money, others are actually dangerous, and only a few will justify taking the risks that fully integrated collaboration demands.

Recent press on supply chain management in the business-to-business sector of the eEconomy leaves the impression that collaborating with suppliers is a little like participating in a 1960s love-in: The more partners, the better.

It's easy to understand why. Transaction and communication costs, which previously limited the extent of inter-company relationships, have fallen dramatically. Thanks to some well-publicized success stories, such as Dell Computer Corporation and Cisco Systems Inc., the business benefits of good relationships are now clear to all.

The risks associated with bad relationships are only beginning to be discovered, however. In fact, Accenture's work with high-tech companies and our research on organizations in other industries show that indiscriminate collaboration is as unhealthy a practice in business as it is in other facets of life. Some relationships are dangerous, others waste time and money,

and only a few justify taking the risks demanded by fully integrated collaboration.

What risks? Collaboration demands not only a commitment of resources but also the sharing of proprietary information. In some cases, the information exchanged during collaboration may be the most valuable investment a company makes in the relationship.

Leveraging relationships

But, of course, it will not be the only investment. Time must be invested in defining business objectives for the collaboration, people must be dedicated to the effort, and measurement systems must be in place to monitor progress. It may also be necessary to integrate and align processes and organizations. All of these elements constitute investments at risk in a collaborative effort.

So the decision to collaborate with suppliers should not be taken lightly. But how does one decide whether a collabo-

rative relationship is worth the investment and the work? Collaborative relationships are suitable only under certain conditions. When these conditions are not present, collaboration is not only inappropriate, it may also be counter-productive. Some of these conditions relate to the nature of the market, others to the nature of the product itself.

For example, consider the personal computer. Each one is an aggregation of components—boards, chips, wires, screws, switches, disks and software. Each component exists in a distinct market. The people who supply chips do not supply software, the people who supply screws and nuts are a different group from those who supply hard disks, and so forth.

Each component flows through a different set of market channels, and each of these component markets has a distinctive character. Some of the markets are monopolistic, oligopolistic or very brand-sensitive (think of "Intel Inside!"); in these cases, the suppliers have a great



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deal of leverage in relationships with their customers. Other markets are open—more commodity-oriented—with numerous highly competitive suppliers and low barriers to entry; here the leverage in a relationship rests more with the customer than the supplier.

Collaboration may be more or less desirable, depending on these market characteristics. We use the term *market sophistication* to describe all of the factors that influence how a component is bought and sold.

Turning our attention from the product supply market to the product supply chain, we see that some components are more complex than others. Just as the components in a personal computer may be positioned on a spectrum of market sophistication, they may also be positioned on a spectrum of *operational complexity*.

Operational complexity describes the intricacy of the supply chain of any particular component. Manufacturing cycle times, production capacity, length of the product life cycle, unit volume and the like all contribute to operational complexity. Screws, cables and the plastic housing of a personal computer can all be procured relatively easily and either stored inexpensively (because of their low unit cost) or delivered in just-in-time fashion by a local supplier. Memory and semiconductors, on the other hand, are typically produced in Asia and are often shipped to markets by air because of their short life cycles and higher costs.

Interaction

Using these basic notions of market sophistication and operational complexity, we have developed a framework for analyzing relationships (see chart, opposite page). Market sophistication and operational complexity interact to shape four basic types of supply chain relationships.

Transactional. Transactional relationships occur when there are many suppliers of a similar component and one supplier is as good as another. Think, for example, of the nuts, bolts and plastic clips—all essentially commodities—in a computer. In these cases, cost is the main criterion for selecting a supplier. It is pointless to invest significant time or effort in forming a fully integrated collaborative relationship, especially when there are Internet-based commodity exchanges that make it easy to identify low-cost suppliers (for a related article, see page 12).

Unique. Unique relationships are something like marriages of convenience: They may be necessary, but they aren't deep. For example, almost all personal computer makers need a relationship with Microsoft because most end users demand Windows-compatible software. There's no doubt who dominates the relationship between Microsoft and a computer manufacturer. With the capability to "transport" software electronically, there are relatively fewer demands on Microsoft and computer manufacturers than on other suppliers.

Operational. These relationships blossom when a component is so critical that any interruption of supply will be costly to the user, but where, at the same time, the market is unsophisticated, with most end users indifferent to the brand of component used. Take personal computer monitors. Companies must coordinate operations with one or a very few suppliers to ensure reliable, smooth and uninterrupted supply, but they are free to choose their collaborators from a number of prospective suppliers. Operational relationships are among the most suitable for collaboration.

Integrated. Integrated relationships, like good marriages, make one working unit out of two. Collaborators in these relationships share risks, costs, profits

and information almost without restriction because the market is sophisticated and the nature of the product demands the close coordination of operations and constant communication.

Clearly, there are certain circumstances under which collaboration with a supplier has the potential to cut costs, increase revenues or lower risk. Under some market and operating conditions, suppliers deserve a great deal of attention and consideration. Under other circumstances, suppliers will provide their goods and services without any expectation of commitment or cooperation beyond timely payment of the invoice. There is no point in investing more than is

necessary in any supplier relationship—or, conversely, less than enough.

Paths of least resistance

Instead of subjecting the decision of whether to collaborate to a careful analysis of market and operating conditions, many companies opt for an easier course and decide to collaborate with the suppliers of whatever product they use the most of, or pay the most for. In extreme cases, they may not bother to make a decision at all and instead just accept a supplier-proposed arrangement. This can be a costly mistake.

The framework of transactional, unique, operational and integrated collaborative relationships can be used

to analyze every link in the supply chain. Relationships with suppliers ought to be dictated by operating and market conditions; this framework can define the appropriate relationship—the bounds of intimacy, if you will—for each component supplier. Setting these bounds is the critical first step in any human relationship, but where supply chain collaboration is concerned, this is only the first step.

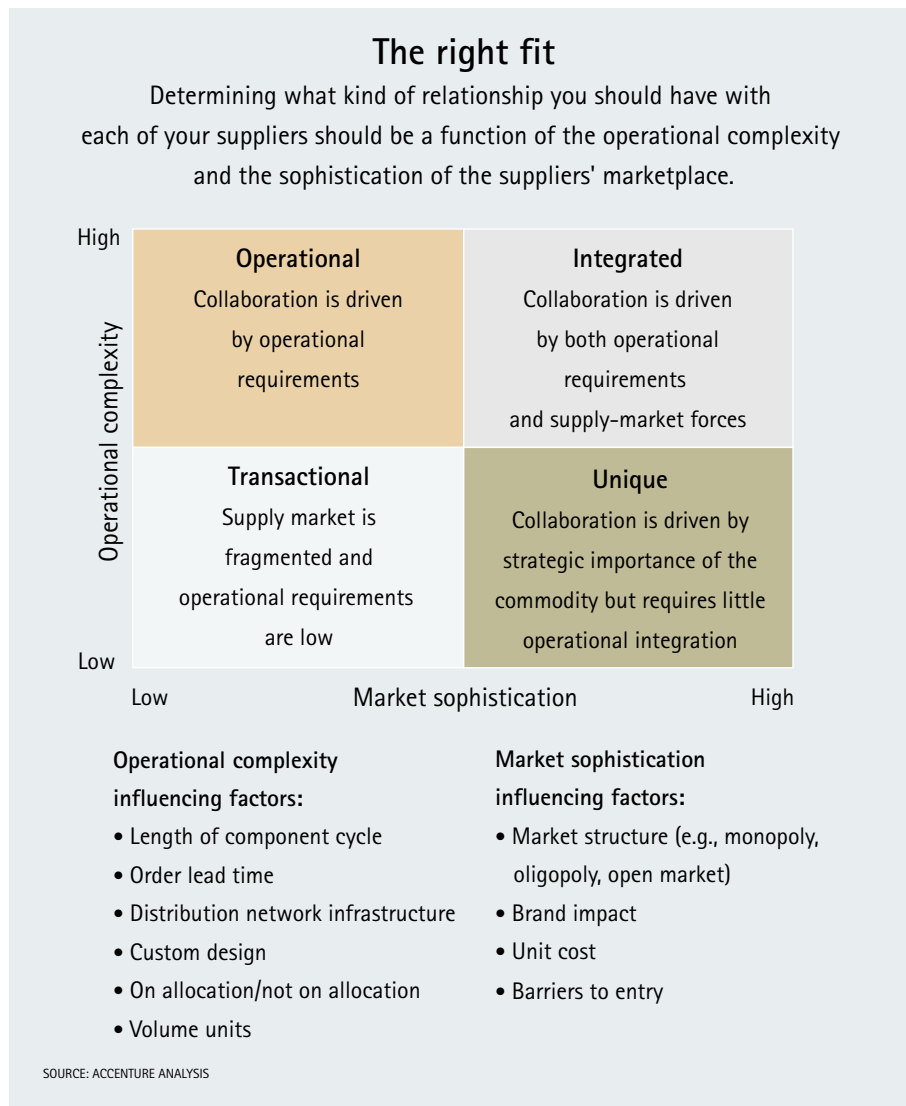
Next, to increase the likelihood of success, it is necessary to define the details of how the collaboration will work. The details may be grouped into four main categories: business objectives and strategies, technology infrastructure, process integration and organization.

How much to share?

The alignment of business objectives defines the nature of any collaboration. For the collaboration to be successful, both organizations must share strategic objectives and the values associated with risk and reward. There must be agreement about how progress and success will be measured against the collaboration’s objectives. Only after reaching an agreed-upon set of objectives and a way of measuring them can information, often proprietary in nature, be shared.

Information sharing is fundamental to achieving the business objectives of supply chain relationships. But how much information, and what kind, should be shared? Even transactional relationships, the most casual and easily replaced in the framework, demand some level of information sharing, even if it’s only about purchase orders and product specifications.

In deeper, operational relationships, it may be useful and appropriate to share planning and forecasting data. Integrated collaborative relationships typically involve even more information sharing—about capacity, production



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schedules, marketing plans, costs and actual on-hand inventory, for example. This degree of sharing will deepen the collaboration and can build such a high degree of trust that competitors will find it very difficult to threaten the relationship by cutting in.

Information exchange must take place across an infrastructure. This may require investments in new electronic communications technology, such as the meta-data system language XML, EDI (Electronic Data Interchange) and supply chain software. Fortunately, industry standards are emerging through consortiums, such as Rosetta-Net for high-tech, that will accelerate the speed of this information exchange.

Process integration can take a number of forms, depending on the objectives of the relationship. The degree of integration should be clearly defined so that everyone involved in the collaboration knows which are joint processes and which are separate. It must be clear where the links begin and end.

A collaboration always presents an organizational challenge. There is not a single governance model that will do justice to the myriad effective combinations. Nonetheless, decisions have to be made and responsibility must be assigned.

Consider these examples of successful supply chain collaboration.

One of the better-known examples can be found at Toyota. The automaker wanted to achieve best-in-class quality while also reducing costs. To that end it built competitive supply chain relationships both with and among its suppliers. Detailed competitive information was shared with parts suppliers about customer orders and forecasts, lead times, capacity utilization and inventory levels, design specifica-

tions, delivery performance, component and product costs, and ideas for improving operations.

How? Electronic communication is an important part of Toyota's collaboration infrastructure. The company works with suppliers to keep its plants and theirs close together—sometimes literally. Electronic communication and physical proximity are useful for scheduling just-in-time component shipments, reducing inventory carrying costs and keeping the supply chain flexible.

Organizationally, Toyota and its suppliers exchange employees and build cross-functional teams to smooth process flows, decrease lead times and further reduce inventories. This allows a number of processes to be integrated, including order fulfillment, materials management, operational planning, product design, and feedback on quality and performance.

Direct links

In a second example, Adaptec, a Milpitas, California, company specializing in communications connectivity devices, invested in eCommerce technology that would enable the company to collaborate over the Internet directly with its Asian suppliers.

Adaptec focused on the business objective of reducing manufacturing cycle times. It initially chose its three suppliers with the longest lead times. After agreeing on the objectives at all levels with the involved suppliers, the teams set to work. By the time they were finished, the cross-company, cross-functional teams had built direct links between Adaptec's SAP purchasing system and the suppliers' order management function.

In addition, the design and manufacturing processes were linked using an Internet document control system that

allows engineers and buyers to resolve design problems quickly. Adaptec and its semiconductor supplier, Taiwan Semiconductor Manufacturing Company, electronically linked their supply chains so that Adaptec would see, in real time, changes in TSMC's capacity commitments, and TSMC would have total access to information about demand downstream from Adaptec.

By focusing its limited resources on collaboration with the right suppliers, Adaptec was able to reduce cycle times by half, increase customer satisfaction and slash inventory costs. Other benefits included increasing flexibility to respond to market demand, improved business relationships and more competitive strategic positioning for the future.

Are you ready?

The collaboration framework outlines how and with whom to collaborate, but a final question must be answered before a successful collaboration can begin. Are you and your potential collaborator ready for such a relationship? Three factors are indispensable in the effort to forge more effective collaboration: capability, commitment and trust.

Both parties to the collaborative relationship must have the required capabilities to deliver their part of the agreed-upon business objectives. Imagine a components supplier who guarantees just-in-time daily deliveries but cannot even meet monthly delivery schedules.

If the capabilities exist, the commitment of management and resources is required to weather the inevitable disagreements over details and procedures. Without sustained executive support and resources (both money and people), the benefits of the collaborative relationship will lose visibility, and eventually the psychological and phys-

ical boundaries that separate companies will overcome the virtual links.

The fruit of capability and commitment will be a strong bond of trust—the strongest possible defense against all threats to a productive collaboration. This trust is based on the healthy interactions of individuals over time and cannot be forced or rushed. As the trust grows, so will the rewards of the collaborative efforts.

Supply chain versus supply chain

Throughout the 1980s and 1990s, under pressure from shareholders, customers and competitors, most companies were aggressive about improving internal efficiency. Now, with the emergence of the eEconomy and the drastic reduction in transaction and communication costs, it is time to look beyond the corporate boundaries.

In more and more industries, it is becoming apparent that the competitive field is no longer limited to company A versus company B. The game is now supply chain network versus supply chain network, with an increasing reliance on collaborative relationships to create links of value. It is a high-stakes game that requires caution when there is a significant investment of resources, proprietary information and time.

It is still neither feasible nor desirable to collaborate with all upstream and downstream supply chain participants. There is a way, as we have outlined in our analysis of collaboration, to improve the chance of success: Understand the factors that drive the depth and breadth of your relationships, identify the key components to structure each collaborative relationship and evaluate your readiness to collaborate.

When approached in this way, collaboration can be a story that ends with "happily ever after." ■



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