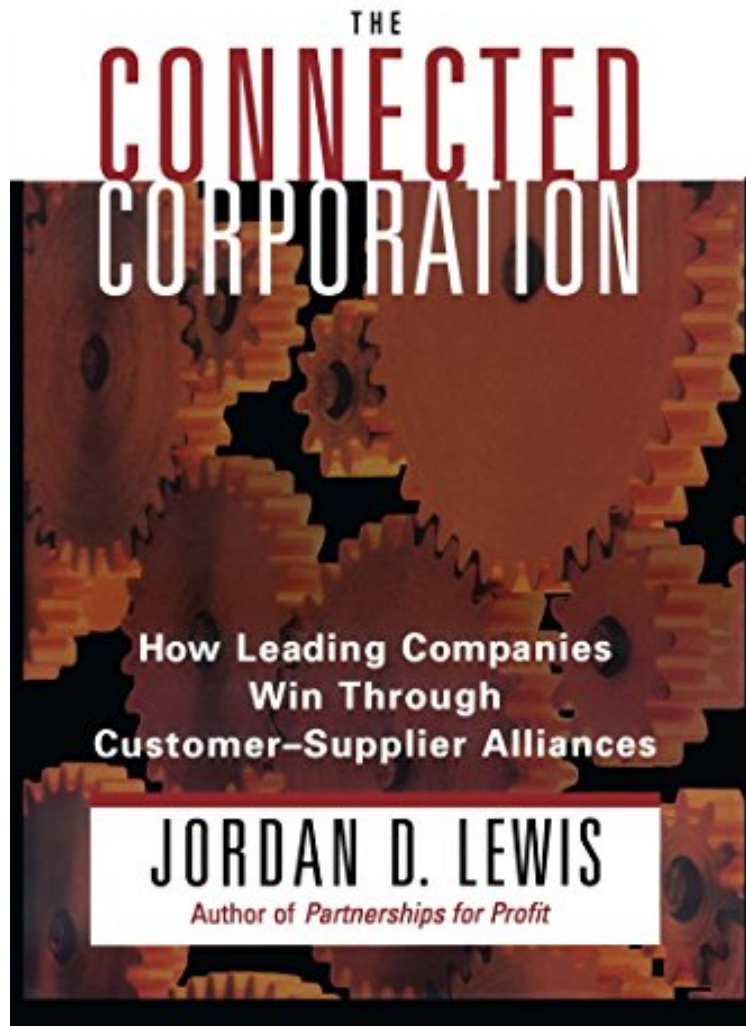


## Connected Corporation: How Leading Companies Manage Customer-Supplier All

*Jordan D. Lewis*

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**Jordan D. Lewis : Connected Corporation: How Leading Companies Manage Customer-Supplier All** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Connected Corporation: How Leading Companies Manage Customer-Supplier All:

1 of 1 people found the following review helpful. Highly Recommended! By Rolf Dobelli Author Jordan D. Lewis uses the experiences of four major companies - Motorola, Philips Consumer Electronics Company, Marks Spencer and Chrysler - to show the benefits of creating an alliance with your suppliers. The book, which is thorough and complete,

if a bit long-winded, explains the benefits of such customer-supplier alliances, shows how to get started if you want to form a partnership and spells out how to maintain the relationship. The obligatory tables and figures are conveniently listed right after the table of contents. If you are in a huge rush, you can skip the book and just read the tables, because you will probably get a condensed version of the same information. But we at getAbstract think you'll enjoy reading how these four companies fumbled through the awkward initial stages of customer-supplier alliances and then emerged into trend-setting, money-making success.

Until now, the relationship between a company and its customers or suppliers has consisted of arms-length haggling over the price of a part or a service. Today, reveals alliance expert Jordan D. Lewis, customers and suppliers are actually embracing each other—sharing data, design work, and even research and development. The result, Lewis finds, has been a dramatic improvement in each firm's costs, quality, cycle times, and customer satisfaction—without added expense. Building on his groundbreaking work, *Partnerships for Profit*, Lewis shows managers how to maximize the potential of these new customer-supplier alliances—described by the Wall Street Journal as a "revolution"—by drawing upon his hands-on experience and research with best-practice firms worldwide such as Motorola, Chrysler, and Marks Spencer. Although more and more firms now recognize the importance of customer-supplier alliances, few actually know how to make them work. Using interviews with employees ranging from top executives to purchasing and sales people, Lewis takes the reader inside these leading-edge companies and their top suppliers to show precisely how the "connected" corporation can double its competitive resources by forging customer-supplier relationships for greater financial strength, higher market share, more value, and increased operating flexibility. Lewis provides the tools managers need to structure and manage effective and successful alliances. He discusses all of the initial questions on how to get started—when to use alliances, how to choose the best partners, and how to set clear objectives targeted on high performance. Specific techniques are presented to foster joint creativity—from building interfirm teams to systems-based thinking—as well as methods for monitoring alliance performance and progress. Lewis also shows ways to develop the foundation of cooperation, negotiation, and trust between partners which is so crucial in achieving optimum competitive advantage. By capitalizing on the new customer-supplier alliances, any firm can increase its competitiveness regardless of industry, company size, or whether its focus is on goods or services. Lewis provides managers of all types with the framework they need to avoid the pitfalls and enjoy the full benefits of the connected corporation.

Jerald A. Bluberg Senior Vice President, Dupont Company There is a tidal wave of vertical alliances coming and Jordan Lewis provides the knowledge and experience base to enable all companies to join it. About the Author Jordan D. Lewis, an international consultant, author, and lecturer, advises many of the world's leading firms and is a well-known expert on strategic alliances. A Fellow of the World Economic Forum, he has been profiled by CNN, "Business Day," Wall Street Journal, Financial Times, and Japan Times. He lives in Washington, D. C. Excerpt. copy; Reprinted by permission. All rights reserved. Chapter 1 CUSTOMER-SUPPLIER ALLIANCES: UNLOCKING THE POTENTIAL Our first reaction was to get angry and say, "Why didn't you do this before?" They said, "Because you didn't ask." Rolando Anderson, global purchasing head of Asea Brown Boveri, after a supplier made a part at 30 percent lower cost when ABB gave it design responsibility We now realize that the people who make these components know a lot more about it than we do. Ronald Woodard, president of commercial airplane production, Boeing Imagine that some firms could double their competitive resources -- and greatly improve their costs, quality, cycle times, technology, customer satisfaction, and more -- usually without added expense. Who could ignore the chance? In fact, this prospect has always been nearby for most firms. Yet most have rejected it, perhaps because of a mistaken desire to avoid becoming dependent on others. Until now, virtually the entire art of business strategy has focused on how a firm could wring more from its own assets. Relationships with suppliers were at arm's length, confined to an exchange of terms from the customer and price from the supplier. By withholding all other data about its plans and processes, the supplier thought it was guarding its margins; the customer believed it was avoiding reliance on the supplier, which might exploit this dependence to win a higher price. Such narrow relationships prevent joint creativity. Firms that refuse to share knowledge limit what they can do together. Confining the possibilities also encourages a transaction attitude: What each firm gets from suppliers depends on its bargaining power alone. A transaction mentality, though, assumes an endless line of suppliers -- for every one discarded, another is waiting to serve. This logic overlooks the possibility that an unbridled use of power will damage suppliers or drive them away. It also ignores the full potential of what suppliers can do, and it guarantees that a customer will get little more from its suppliers than what others get. By contrast, working with suppliers to create unique value adds them to a firm's distinct competitive resources. Since suppliers get one-half of a typical firm's revenues, cooperating with all of them doubles its competitive resources. And that is just the supply side of the picture. Companies have long recognized that success requires getting close to customers: Only by better serving customer needs can firms outflank their rivals. Remarkably, this celebrated paradigm of marketing is incomplete. No firm can get close to a customer unless the customer wants this. Every firm is both a customer and a supplier. It is not consistent to seek closer ties with one's customers while

refusing to build the same kind of relationships with one's suppliers. Yet many firms that make great efforts to partner with their customers do just this, forcing suppliers to take risks alone and demanding price concessions and other actions that weaken suppliers' commitments and even the firms themselves. In a time of savage competition, such practices are self-defeating. As might be expected from increased competencies, close collaboration can produce dramatic results compared with arm's-length transactions: Higher Margins. British retailer Marks Spencer (MS) has consistently been the most profitable firm in its industry, and its suppliers have enjoyed above-average profits as well. "MS has depended very largely on the partnership approach, which has made possible our outstanding values and, in turn, excellent sales," says chairman Sir Richard Greenbury. Lower Costs. Chrysler began using supply alliances in 1990. Between 1991 and 1994, higher motivation of suppliers and their better integration into Chrysler's operations led them to propose cost savings totaling \$1.1 billion. In the 1994 model year alone, more than \$500 million in savings were achieved. Because about 69 percent of the total cost of producing Chrysler's cars are managed by its suppliers, these savings were a major reason why Chrysler had the lowest costs and highest profits per vehicle of any automaker in North America. And Chrysler is still in the early stages of building supply alliances. More Value for Customers. MS and its suppliers are constantly pushing the frontiers of value, and often break important new ground. Together, they created the easy to iron cotton shirt, machine washable silk, and machine washable lambswool knitwear. For piece dyed knitwear, MS and its suppliers cut the time between factory order and store receipt from twelve to sixteen weeks to a few days. In foods, MS is a widely acclaimed source of fresh, attractive items, made without preservatives and yet totally safe, some with a shelf-life of just one day. An example was the development of precooked rice, which requires extreme care to produce the taste and texture that appeal to consumers, while totally avoiding bacteria -- for which rice can be a breeding ground. Larger Market Share. Motorola's Paging Products Group (PPG), which has won 60 percent global share of its markets, could not have done that without cost, quality, cycle time, technology, and other advances made by its suppliers. Underlying such benefits at Chrysler, MS, Motorola, and other firms are more specific gains from customer-supplier alliances: \* Ongoing cost reductions that can double those possible through market transactions \* Quality improvements that exceed what individual firms can possibly do alone \* Design cycle times 50 to 75 percent shorter than those in traditional relationships \* Increased operating flexibility, which in some firms has yielded an economic lot size of one -- the ultimate in flexible manufacturing \* More value for the customer's customers, including faster and better responses to new needs and opportunities \* Enhanced leverage with technology, including earlier access to new concepts and more control over technological change \* More powerful competitive strategies, gained when a customer adds its supplier's expertise to its own

The techniques described here are generally applicable to all firms, regardless of size or industry. Best practice in customer-supplier links is largely independent of whether the activity involves materials, parts, equipment, or services. In some cases, however, such as risk sharing with suppliers, the methods to use depend on whether the customer is a retailer or distributor, or whether it sells directly to other firms.

Competition Is Driving Firms to Integrate

Commerce has traditionally involved a chain of independent firms, each adding separate value to items bought from others. Typically, each link in that supply chain has been an arm's-length pact. Buyers shopped for price and performance in the open market. Whenever the marketplace offered a better deal, one supplier was left for another. These arrangements are regarded as central to the success of market economies. This notion is faulty, for they also impede economic growth. In fact, supply firms cite poor relations with their customers as one of the most critical barriers to their improved competitiveness. For example, U.S. and European automakers long suffered from high costs relative to their Japanese rivals. A main obstacle to reducing these costs was the firms' hostile relationships with their suppliers, which are only now being turned around. Similar problems troubled the computer chip business. Sematech, the nationwide semiconductor alliance, was launched to perform RD on a scale that would save firms that make chip manufacturing equipment, which had grown dangerously weak. Yet the creation of Sematech did nothing to address a crucial cause of the problem: longstanding adversarial relations between chip producers and their equipment suppliers. Sematech members, representing 80 percent of U.S. chip volume, did not involve suppliers in their planning, nor did they share data on equipment performance. Business relations were conducted purely on short-term considerations, although today the situation is changing. Driven by brutal competition, supply chains in every industry are moving toward integration. The demands on individual firms have become too vast to be met by each one acting in isolation. For a company to deliver maximum value to its customers, it must receive maximum value from its suppliers. Moreover, no firm working alone can differentiate its products as much as is possible with suppliers' help. Nor can it have lowest costs if its suppliers do not, or top quality without their support, or shorter cycle times than theirs, or more generally obtain their best efforts on any task unless they choose to apply them. No contract or amount of bargaining power can create these benefits. They can be gained only in an environment of cooperation and mutual commitment. To distinguish the new, integrated arrangements from typical arm's-length supply chains, the former will be referred to here as value chains.

Hallmarks of Powerful Customer-Supplier Alliances

By definition, a strategic alliance is a relationship between firms in which they cooperate to produce more value (or a lower cost) than is possible in a market transaction. To create that value, they must agree on what it is, need each other to achieve it, and share the benefits. Without a shared objective, meaningful cooperation is not feasible. Without mutual need the firms may have the same objective, but each can reach it alone. If

they do not share the benefits, they cannot expect the commitments required for cooperation. For alliances with customers and suppliers, the closeness implied by these conditions is manifest in an elaborate web of joint tasks, which in turn are governed by a set of key principles.

**Objective: To Beat The Market** There are two paths by which alliances add value. One is to produce more for the customer's market than is available from other sources. This path spawns healthier revenues and profits for partners to share. The second path leads to lower total costs. For instance, rather than reducing each firm's costs separately, between 20 and 30 percent of the savings in successful customer-supplier alliances comes solely from the efficiencies of cooperation. Such savings help partner firms offer market-beating prices without damaging suppliers' margins.

**Add a New Outlook to Strategy** Traditional competitive strategy matches a firm's internal abilities with its market opportunities. Because supply alliances add an entirely new set of resources, they create a new, powerful frontier of strategy. To identify supply opportunities, scanning and benchmarking current and potential suppliers, plus a continuing dialogue with them, become ongoing tasks as vital as marketing research and competitive analysis.

**Customers: Create a Stable Base of Fewer Suppliers** Having fewer suppliers makes it easier to build the mutual understandings, trust, and close coordination essential for continuous improvement. Moreover, one element of obtaining the lowest costs is to provide suppliers with the best possible scale economies, which occur when there are fewer suppliers. Infrequent changes in suppliers are also important. Change adds costs through higher overheads, lost learning curves, and less efficient investments by suppliers. The need for stable relationships is one factor that makes partner choice so important.

**Partner Choice Is Critical** It is not realistic for any firm to seek alliances with all of its major customers. Partnering calls for specific organizational norms that are not present in all firms. Similarly, in selecting suppliers to be alliance partners, it is best to emphasize organizational traits rather than surface attributes like best price. Because alliances create more value than market transactions, and because competitive markets keep increasing the benefits they offer, alliances must stay ahead of the markets they serve. For a customer in a price-competitive market, a supplier's price tomorrow must be better than its price today.

Many of an organization's greatest strengths are ingrained in its culture. For example, a keen ability to cut costs is manifest in attitudes and practices that are widely accepted across a firm. Such links with corporate culture affect any improvement -- such as in quality or cycle time -- that depends on organizational processes. For best performance, the process of supplier choice must locate firms with internal norms that support the same continuing advances sought by the customer. That is why supplier selection criteria at Chrysler, Motorola, Marks Spencer, and other leading firms emphasize organizational culture rather than the current best offer.

**Ally with All Relevant Suppliers** For maximum benefit, it is essential for a firm to cooperate with all companies in its supply base whose products, parts, materials, or services affect its costs or performances. Motorola's Pacing Products Group, for example, spends a small fraction of its total purchases on production equipment. Yet work with equipment suppliers has dramatically increased PPG operating flexibility, at times reaching the ultimate goal of economic lot sizes of one unit. That is a tremendous advantage in a market where success often favors the most agile firms.

Another reason for alliances with the whole supply base is that it is difficult to build trust with some suppliers while continuing traditional animosity with others. The practices needed for each style are polar opposites; they cannot be sustained in the same organization. Further, there is no way to know what ideas that might significantly affect one's business are being withheld by suppliers that have not been included in an alliance.

**For Best Performance: Challenge and Commitment** The essence of customer-supplier alliances is to create more value for the customer's market than the same firms could do in an arm's-length relationship. Because the objective is the customer's market, the customer must set the alliance course. Further, producing more value imposes a demand on both partners for superior performance. Should the supplier slip badly, or if another firm is well ahead with desired performances, the first supplier may lose the business. Those conditions create destructive tension in a relationship. For an alliance to function, they must be offset by other forces that encourage supplier commitment. In short, how hard a supplier works for a customer depends on what it gets back: The more a customer meets its needs, the more the firm will stretch.

The most obvious supplier needs are stable and growing revenues, healthy margins, and credible opportunities for new business. Another is to be treated fairly. When a supplier has problems, for instance, the best course for the customer is to help solve them rather than go to the expense of developing a new supplier. Besides, the experience of Motorola, Marks Spencer, and other firms indicates that suppliers' problems often have roots in how customers manage the relationships.

Also important -- but often overlooked -- is the need for advanced competitive skills in areas like quality management, improved design, lower costs, and better service. It is clearly easier to develop such competencies in the cooperative framework of an alliance than to do so alone without feedback or guidance. In fact, suppliers that enjoy alliances with Chrysler, Motorola, Marks Spencer, and other leading customers regard gaining such skills as one of the most valuable benefits of their relationships.

Just as a supplier must keep winning its customer's business, so too must the customer win its supplier's loyalty to get the most value from that firm. Providing exceptional benefits to suppliers is essential to high-performance alliances.

**Interfirm Links Are Broad, Deep, and Unique** The greatest value from cooperation comes from integrating each firm's separate processes into seamless operations. Instead of lowest price from the supplier, the emphasis is on lowest total cost; rather than seek fastest separate response times, the goal is shortest combined cycle time; and so on. By focusing on shared processes, both customer and supplier recognize that the traditional practice of separately optimizing each firm's performance often

compromises their joint effort, just as poor functional integration within a firm raises costs and slows reactions. The more value sought from suppliers, the more they must be involved in the customer's business. Achieving lowest total cost, for instance, requires attention to all cost drivers, many of which involve several business functions -- design, quality, logistics, technology, and marketing among them. Each of these may be influenced by suppliers, and each affects how suppliers work. So the most productive customer-supplier interfaces require multifunctional teams, which must be involved in depth. For example, cooperation at the pre-concept stage offers the best opportunity to leverage design and quality of the customer's product or service. The greatest benefits of customer-supplier alliances come from continuous improvement over the long term. Such improvement calls for ongoing alignment of firms' priorities and resources, which requires top-to-bottom connections at all relevant policy and operating levels. If decisions on matters like capacity and technology development are made separately, partner firms may evolve away from meeting each other's needs. Further, to create the most value, a supplier must adapt its organization for each customer interface, reflecting the need for resources, structures, and practices that are unique for each situation.

**Replace Contracts with Stronger Commitments** It is not possible to write contracts about the extensive interfirm activities customer-supplier alliances require. There are too many tasks, too many connections, and too many uncertainties. None of the high-performing alliances depicted here involves traditional detailed contracts. Indeed, many function without any contracts at all. Alliances are sustained by mutual need, a common objective seen as important enough to dominate any issue, a willingness to share the benefits, and a trusting relationship. To an important extent, alliances are between people. When adjustments must be made, only people who trust and understand each other can make them in a way that maintains commitments. Only people who share a vision and the enthusiasm to make it a reality will invest the efforts needed for an alliance to succeed.

**Best Practice Requires Specific Organizational Norms** Customer-supplier alliances work best in firms with continuous-improvement cultures, long-term views, and root-cause attitudes toward issue resolution. Other requirements are a high degree of internal trust, robust team processes, substantial delegation and empowerment, and a genuine openness toward outsiders. The very best customer-supplier alliances involve companies where people at all organizational levels understand and support the goals of the firm. This alignment promotes the wide support of alliance objectives and avoids the conflicting priorities that hinder many firms. The ability to sustain small ongoing improvements (what the Japanese term *keizan*) facilitates a constant flow of ideas between companies so they can continue to create more value together. Similarly, comfort with long time horizons supports the joint planning that keeps firms' performance on the cutting edge.

A root-cause attitude -- a preference for getting to the bottom of problems and eliminating their origins -- is needed to resolve issues between companies without animosity, and to build new understandings needed to sustain continuous improvement.

**Teamwork** (including horizontal processes that easily span internal boundaries) is essential for alliances with customers and suppliers. One reason is the multifunctional nature of these alliances. Another is that the greatest benefits of such alliances require cooperation across business units. Without trust, information is not shared, and commitments are withheld. If a company treats its employees fairly, honestly, and with trust and dignity, they will be more likely to treat others that way. Further, the multifunctional interfaces needed for customer-supplier alliances are most effective at firms that have mastered teamwork on the inside. And since value creation may be at several organizational levels -- including the lowest -- firms that have succeeded in empowerment and in delegating authority into the depths of their organizations get the most benefit from such alliances. All these behaviors also go hand in hand with a constant drive for total quality in all aspects of a business. It is no coincidence that firms like Motorola and Marks Spencer, which excel at supplier alliances, have just such a drive.

**Executive Leadership Is Essential** In marketing, it is common for a firm's top executives to take a lead role in building customer relationships. Yet suppliers typically do not get such attention, although they receive about one-half of the average firm's revenues, which puts them on an equal footing with a firm's internal activities. Further, the tasks involved in supply alliances are as complex and demanding as any other aspect of business. To deny them top management attention is tantamount to senior executives ignoring the inner workings of their own firm. Moreover, the organizational transformations required for supply alliances will not occur without top leadership. In fact, firms with the most effective supply alliances enjoy ongoing visible support from the highest corporate levels.

**Link Alliances in Value Chains** Alliances between customers and their direct suppliers are the first step in building a powerful network that reaches far up the value chain to deliver the most possible value to the final customer. Because suppliers account for about one-half of the average company's costs, their suppliers represent one-half of those costs, and so on going back up the value chain. Further, every company in the chain innovates within its scope of expertise. A customer that effectively manages all of those costs and leverages all of that creativity builds a tremendous competitive advantage for itself, compared with rivals that still regard suppliers as firms whose goods they buy through ann's-length, price-dominated transactions.

**Common Myths and Misunderstandings** It is not true that only large, rich firms like Chrysler, Motorola, and Marks Spencer can be effective in these relationships. Even small businesses -- and others with limited resources -- have built powerful alliances with their customers and suppliers. Consider that, like many other small companies, Craftsman Custom Metal Fabricators, a 135-employee sheet metal firm near Chicago, has successfully converted its trading links with suppliers and customers into effective alliances. Targ-It-Tronics, a small Florida-based producer of flexible electronic circuits, has grown dramatically through such

alliances. Desmond Sons, which began as a small clothing manufacturer in Northern Ireland, has grown tenfold through such alliances. All alliances do not deserve that label. Some firms mistakenly regard any long-term relationship as an alliance (the term partnership is also used). Such beliefs are dangerous, because they create a false sense of security. That a relationship may persist for some time is not necessarily related to whether it sustains continuing improvements, as is the case with true alliances. In competitive markets, the only safety is in creating more value than one's rivals: Here, alliances have a demonstrable edge over ann's-length transactions. Another common misunderstanding about supply alliances is that an increased reliance on fewer sources is risky, because it makes a firm vulnerable to their quality and dependability problems. Nonsense. Attitudes about poor reliability in supply relationships stem from practices that discourage commitments and inhibit longer-term investments needed for quality and other improvements. Some people believe that having an equity stake in suppliers is essential for close relationships. This attitude stems from observations about Japanese supply keiretsu where large firms in the automobile and other industries have such arrangements with their suppliers. In Japan, however, those suppliers in which customers own equity appear to be financially and technologically weaker than the independent suppliers with which they compete. By contrast, supplier independence is a source of strength and a benefit to supplier and customer alike. The Western firms that have succeeded with supply alliances hold no equity in their suppliers. Pitfalls on the Road Ahead Crossing the bridge from conventional customer-supplier relationships to alliances is not simple. Often a history of adversity must be overcome, and habitual attitudes and routines changed -- dramatically. To be sure, immediate cost savings (on the order of 10 percent) may be possible simply by shrinking a firm's supply base. Yet several years may be needed to bring about the deeper changes and build mutual trust that support ongoing improvements and produce the most powerful results. There is a sharp contrast between having alliances with only one or two selected suppliers and having alliances with all of them. Standalone deals to pursue specific opportunities typically bypass problematic internal processes; leveraging the entire supply base cannot. Further, it is one thing to build trust with a few people in one firm for the life of a project. It is an entirely different matter to nurture durable, trusting relationships with many firms. This difference is where most initiatives to form supply alliances bog down. Overlooking the needs for substantial changes in management and organization styles, and for broad and deep interfirm links, many companies assume the process is a mechanical one: Just reduce the supply base, establish a supplier rating system, mandate cross-functional teams, and everything is set to go. This assumption is wrong. Only a consistent long-term commitment from top management to wide-ranging transformations leads to the best results. Just as significantly, suppliers must be seen in a wholly new light. As the authors of a landmark study of the automobile industry, *The Machine That Changed the World*, wrote: "Progress remains blocked by an unwillingness to give up the power-based bargaining firms have relied on for so long. In our interviews with customers and suppliers we found strong evidence that everyone knows the words of the song but few can hold the tune." Copyright copy; 1995 by Jordan D. Lewis