

# **Strategic Customer/Supplier Relationship**

## **A general introduction**

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**Developing the strategic relationship between customer and supplier is a long term activity which must be actively supported by all departments from the most senior manager down**

**Many corporations have identified their strategic customers and suppliers and now need to move to defining and developing the strategic relationship**

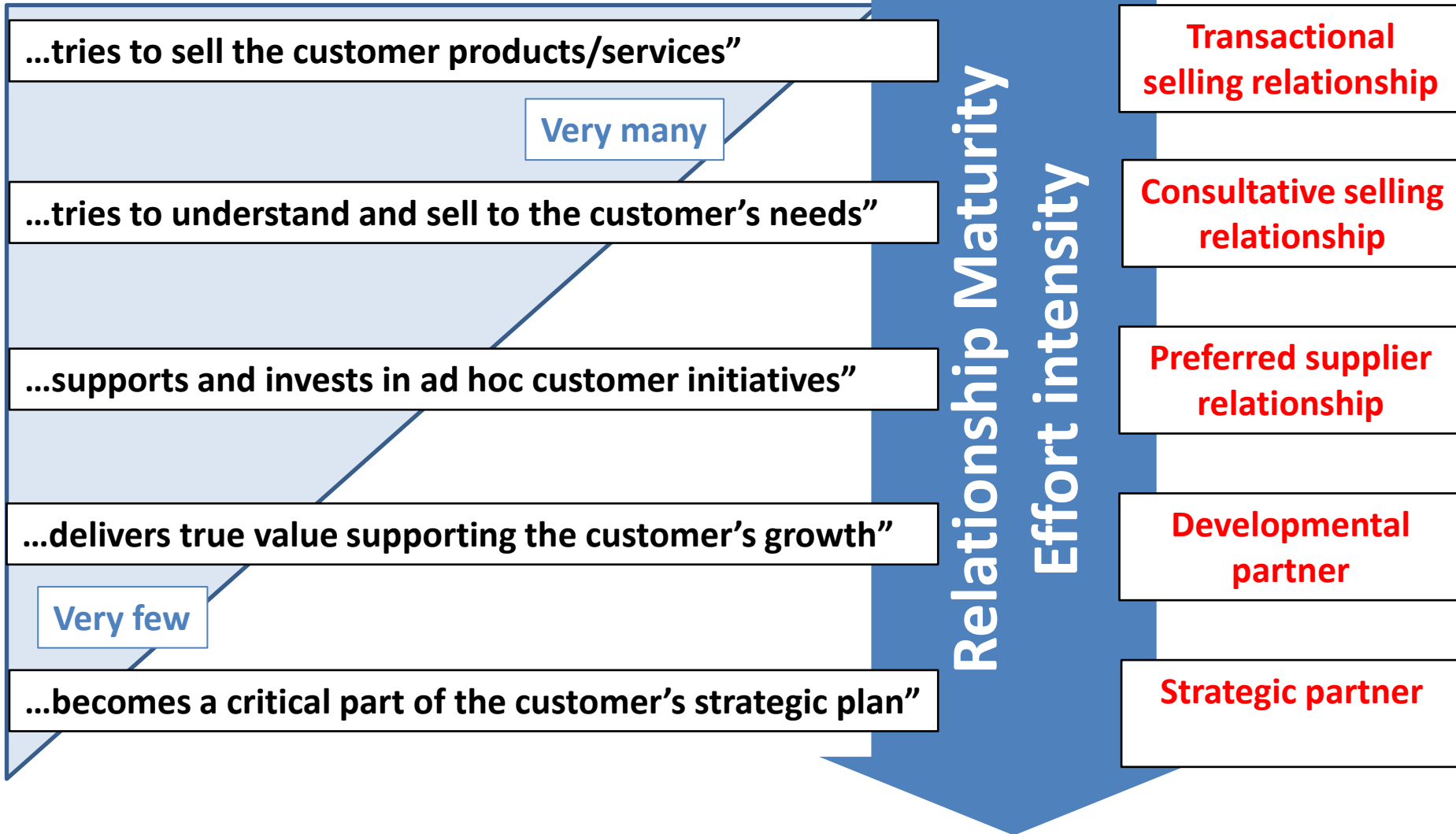
**This move entails a significant change in the relationship from “selling to/buying from” to one which focuses on identifying and driving customer value, removal of non-added value cost, defining the competitive differentiation and focusing on the needs of the customer’s customer**

## **Background – for many corporations, the traditional buyer/seller model is not producing the required level of growth and return**

- **A world of high competition and margin pressure – focus on price and discounts**
- **Customers apparently aiming to commoditise their supplies and suppliers**
- **Suppliers trying to differentiate their overall offer, only part of which will be their products and services**
- **Both sides aiming to:**
  - **Retain and increase business over the long term**
  - **Maximise margins**
  - **Drive down costs**
- **Adding real value requires a closeness of relationship and level of effort that can be committed to only a limited number of “strategic” customers and suppliers**
- **Such a high-level commitment cannot only be one-way - it must become a two way “strategic partnership” if it is to be sustainable**
- **The longevity and profitability of a “strategic partnership” are driven by the maturity of the relationship**

# We can identify five levels of customer relationship

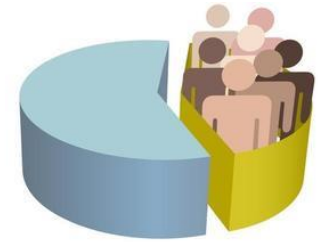
*“The supplier...*



# What is a strategic partnership? How do you know when you have one?

- 1 One preferred supplier has a **clear majority share** of the customer's eligible business

Both sides recognise the other as the preferred supplier/customer



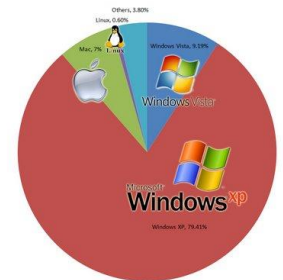
- 2 The overall margin for both sides is **significantly higher** than the industry average

We are focusing on value/costs not price/discounts – both sides have a higher margin because they are delivering more value and lower cost



- 3 The supplier and customer both have **exclusive first refusal** for strategic initiatives and development work

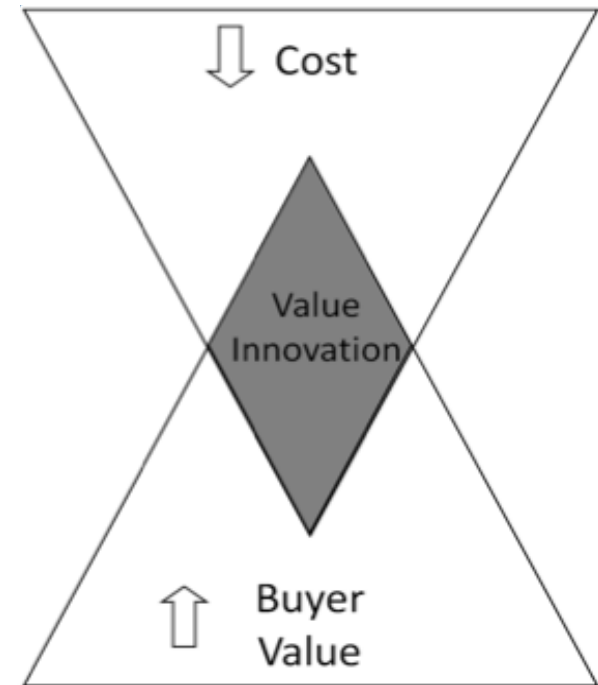
The long term future for both is assured is assured



Real value is defined and measured by both sides – it does not exist in the mind of one side only

**Value is driven by driving out cost and delivering measurable competitive advantages for which the ultimate customer will pay**

The  
Simultaneous  
Pursuit of  
Differentiation  
and Low Cost



**Without measurably adding value you are just another supplier/customer**

# Strategic Relationship

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**Why do we need to change?**

**An introduction to the main concepts**



Unilever

*“If I can't talk about habits, shoppers, points of purchase, category drivers, category profit or the future of the category, then the retailer will just ask me for more margin.”*

**Niall FitzGerald, former Chairman of Unilever**



Savings Made Simple

*“Joint business planning is a way to establish trust, which involves honesty and integrity. We can't be successful without our suppliers.”*

**Charles Redfield, Executive Vice President and Chief Merchandising Officer – Sam's Club**

The focus must be on the total supply chain and on the joint customer in order to create joint value - a strategy based on price is not effective for either side in the long term

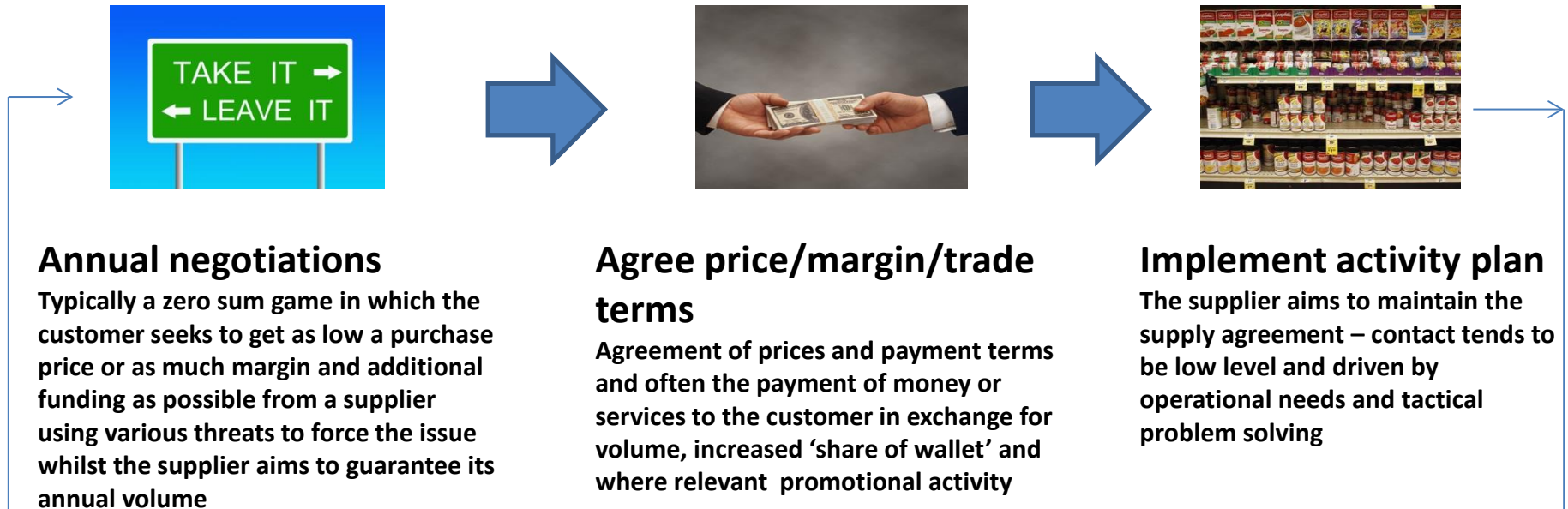


**Create joint value with the customer to unlock the sector opportunities with the customer's customer**



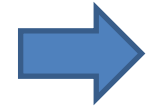
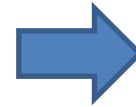
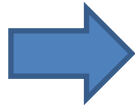
# We need to replace the traditional adversarial customer/supplier management process

The traditional relationship leans towards the transactional and tends to follow the three steps of:



The traditional approach is typically adversarial and aggressive  
The negotiation is a zero sum game - **one side's gain is the other's loss**

The real gain for both sides is not a short term supply agreements and discounts but rather is found in the value chain – mutual cost out and customer's customer value up



## 1. Establish mutual objectives

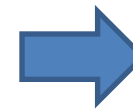
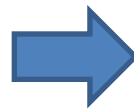
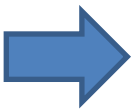
Both sides share their strategic objectives with a focus on mutual advantages and the value chain and customer's customer rather than a simple gain from the other side

## 2. Investigation and research

Joint teams to address specific mutual opportunities and customer issues and questions - focus on behaviour change and value chain/customer's customer needs

## 3. Identify the mutual opportunities

Both sides work together to assess opportunities – benefits for both sides identified measured vs initial objectives



## 4. Negotiate and agree a framework

Create a framework for cooperation which is acceptable to both and is underpinned by both sides' objectives

## 5. Joint development of the business growth plan

Both sides work together to create a mutual plan using defined measures and formats

## 6. Measure and review

Joint measurement and reporting against mutually agreed objectives – senior level commitment and involvement

- ✓ **Customer competition – competition is fierce – you can't treat everyone the same any more. Choose your partners**
- ✓ **Not all your current suppliers/customers will win – pick the long term winners with whom to work**
- ✓ **Customers are focused strongly on delivering value to their own customers – they want suppliers which actively support this – this is a core differentiation for a supplier**
- ✓ **Consolidation – fewer larger customers, competitors and suppliers**
- ✓ **The time and cost involved in developing a supplier/customer relationship is enormous - the payback time is long**
- ✓ **Customers are reducing their supplier based to fewer closer relationships**

**Strategic relationship development is not about increasing spending – it focuses on getting the best return from the spend**

**So expect to see a re-alignment of spending, time and effort by product range, brand, sector and supplier/customer. We can also expect to see a re-alignment of the use of resources**

**Changes can be expected to long-standing agreements, trade terms, promotional approaches and the service model**

**Focus will be applied to the total value chain with an effort to reduce costs and drive efficiency**

**Spending is likely to shift in favour of selected suppliers/customers and away from others - inevitably this will cause issues which must be managed carefully**

## This demands a new form of relationship – the old style adversarial model does not work

<b>framework</b>	<b>benefits</b>
<b>Formal commitment from the most senior management</b>	An annual plan agreed and delivered by whole team including management
<b>Clear objectives, goals and an understanding of constraints</b>	Everyone understands the goals
<b>Very good understanding of the other side and the customer's customer</b>	Shared learning delivers sector growth
<b>A willingness to share data and information</b>	Openness and honesty builds trust in the relationship
<b>A willingness for joint team activity</b>	The whole team buys into the goals
<b>Very strong and well developed negotiation skills from both sides</b>	As an annual process the sessions are tough but ongoing its about delivery of plan. Takes away the ongoing angst.
<b>The right attitude – it will not always be easy</b>	Open minded and will to make it work from both sides

## It will not work if...

- X There is resistance at any level of the management hierarchy – any level from either side can undermine the effort**
- X There is not demonstrable senior management support**
- X Knowledge and data are not shared**
- X Objectives and measures are not set up front to both sides and made clear**
- X Big steps are taken or instant results are demanded. This is long term process**
- X There is an unwillingness to take the difficult decisions - for example to reduce spending with one retailer to favour another**

**But...**

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***“Aren’t we doing this now anyway?”***

**No, most suppliers/customer aren’t –  
they still rely on price and discounting  
as the core relationship strategy**

Most major suppliers/customers have strong sector expertise . Yet many still focus on 'switch-share' models rather than sector and customer growth – which means that their **relationship is a zero sum game – one side's gain the is the other side's loss**

## **Danger signs**

- High focus on the product in the discussion
- Heavy focus on selling/buying rather than on delivering value to the customer's customer
- Operating a 'price drop' rather than a 'value added' strategy (common in most sectors)
- Starting with your agenda and needs rather than the mutual agenda and needs
- Being internally driven rather than collaboratively minded



- **Are we seeing enhanced sector growth and profit? – you must see resulting growth – if not something is wrong**
- **Are seeing improved ROI on our total investment? – if not then something is not working properly**
- **Are we seeing increased share of our customers' business? – to demonstrate the effective focus on the customer's customer**

**For more information...**

**...on this deck or any other aspect of strategic relationship development**

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