Strategic Customer/Supplier Relationship

A general introduction

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.

Version 2
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...*

- "...tries to sell the customer products/services”
  - Very many

- "...tries to understand and sell to the customer’s needs”

- "...supports and invests in ad hoc customer initiatives”

- "...delivers true value supporting the customer’s growth”
  - Very few

- "...becomes a critical part of the customer’s strategic plan”

Source: SMCG Strategic Selling Model
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.
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.

Without measurably adding value you are just another supplier/customer.
Strategic Relationship

Why do we need to change?

An introduction to the main concepts
Background – if you don’t focus on value then you will focus on price and margin – examples from the cpg/fmcg sector

“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

“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:

1. **Annual negotiations**
   - Typically a zero sum game in which the customer seeks to get as low a purchase price or as much margin and additional funding as possible from a supplier using various threats to force the issue whilst the supplier aims to guarantee its annual volume.

2. **Agree price/margin/trade terms**
   - Agreement of prices and payment terms and often the payment of money or services to the customer in exchange for volume, increased ‘share of wallet’ and where relevant promotional activity.

3. **Implement activity plan**
   - The supplier aims to maintain the supply agreement – contact tends to be low level and driven by operational needs and tactical problem solving.

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
Strategic relationship development - why it is now so important?

- 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

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

- There is resistance at any level of the management hierarchy – any level from either side can undermine the effort
- There is not demonstrable senior management support
- Knowledge and data are not shared
- Objectives and measures are not set up front to both sides and made clear
- Big steps are taken or instant results are demanded. This is a long term process
- There is an unwillingness to take the difficult decisions - for example to reduce spending with one retailer to favour another
"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
Despite sector and category expertise, both sides rely too heavily on the product, ‘price drop’ and trade discount strategies.

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 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 really doing this?
Success metrics for the supplier – ask yourself...

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

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