



**White
Paper**

Strategic Customer Supplier **Team Benefits**

By Dean A. Baker, PMP
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The Customer/Supplier relationship is a key element spanning both the project and operation phases of the equipment life cycle that can have a major impact on manufacturing competitiveness. If the customer and supplier, form a team relationship that adds synergy it can have dramatic effects on the success of the initial equipment and facility installation as well as the on-going manufacturing performance. An effectively implemented Customer/Supplier team benefits both the customer and supplier; therefore, either party can initiate the team after securing the agreement and support of the other. Implementing the joint team at the outset of an equipment/facility purchase to takes advantage of all opportunities over the life of the equipment and maximizes results. However, initiating a joint team many years after the equipment has been in production also yields benefits.

The advantages of the Customer/Supplier relationship are not limited to manufacturing. In the retail business, the relationship between Proctor and Gamble and Wal Mart began with a supplier initiated meeting between John Smale, CEO of Proctor and Gamble, and his executive team with Sam Walton and his Wal Mart senior executives to see if they could reach some common ground for mutual benefit. They found that by being more open, communicating more effectively, and establishing trust in the relationship both companies realize a significant positive impact. Don Soderquist in his book “The Wal Mart Way” cites the growth of annual purchases from Proctor and Gamble in 1987 of \$350 million just prior to formation of their relationship to \$8 billion in 2004 as an example of the mutual benefit gained through their relationship.(Soderquist, 2005, p.167-172)

Whenever a company uses outsourcing to solve a competitive problem, resolve resource skill or quantity issues, or deal with budget or cash flow it creates the potential for a Strategic Customer Supplier relationship. “The root of many outsourcing problems is often that many companies fail to recognize the importance of appropriately managing the relationship between the outsourcing organization and the company that performs the outsourcing service and balancing control and independence between the parties in the relationship.” (Johnson, Johnson, & Arab, 2006, p. 78) Whenever outsourcing work is critical to the strategic plans of the company, using the strategic customer/supplier team approach to structure and man-up the outsourcing project will increase success.

Traditional thinking and organizational structures typically place a wall between the customer and supplier and reinforce it with lengthy contract language designed to protect the respective parties. Often times the Customer Supplier relationship is very adversarial. Many customers view the supplier as the bad guy, delivering poor quality, missing schedules, aggravating cost problems, and generally not living up to expectations in supplying productive material or



manufacturing equipment/facilities. The customer/supplier relationship is much like the past Union/Management relationship in the US automotive industry that negotiated contracts with a win-lose mentality. Now, both union and management are beginning to see that to survive they must change to a more collaborative relationship. In a similar manner, customers and suppliers need see the degree to which they are dependant and the value in working collaboratively to their mutual benefit. Forming joint teams for every relationship is not the answer. Rather Customers and Suppliers need to seek out specific relationships that are strategic to their respective businesses. When both the customer and supplier see the strategic value in the relationship, a joint team process is correct.

The Customer/Supplier team approach is ideally suited to large projects and high investment manufacturing systems with strategic value based on size, complexity, or risk to both customer and supplier. Either the customer or supplier of the project or systems to be improved initiates the team process. Given the organizational barriers, contract language, and past adversarial relationships; senior executives from both the customer and supplier must support the relationship through their words and active participation in the team. This is not a stretch, since the team-focus is around project and improvement efforts of strategic value to both the customer and supplier and therefore high on the senior executive's priority list. To accomplish this involvement and provide the required leadership to the entire process the customer/supplier relationship begins with the formation of a leadership team. The leadership team defines the balance of the team structure, sets goals, aligns business objectives, assists in resolving issues, and oversees the total relationship.

For the customer a strong relationship with the supplier provides a huge source of knowledge and opportunity regarding the competition. The supplier deals with the competition on a daily first hand basis helping to meet their needs for new equipment and assisting in resolving equipment problems with quality and productivity impact. As a result, the supplier has a broad perspective of the possibilities the equipment offers, different approaches for solving problems, and various industry strategies employed. Frequently the supplier can become the door for gaining access to the competitor to see equipment operating. Of course, this usually requires agreement for a reciprocal visit by the competition, but the information acquired can be worth it.

For the supplier a strong relationship with the customer provides first-hand knowledge regarding the performance of the supplier's equipment as well as the supplier's competitors. In general, customers of high investment equipment are highly capitalized and are far larger companies than the equipment-suppliers. For example, the automotive companies' capitalization is in the billions while many of their equipment suppliers are only in the millions. Because of their size and ability to specify components in their equipment, the customer can exert significant influence on the equipment supplier's component supply base to meet schedule and quality requirements. In addition, the customers often enjoy large price discounts on components that the supplier can share.

The preceding two paragraphs have only touched on a few of the advantages gained by the customer and supplier from a strategic team relationship. Figures 1.1 A through C below provides a more complete list of advantages. During the past ten years the author has been



involved in customer supplier teams initiated by customers or suppliers covering both project and equipment enhancement activities. This list only represents the cumulative advantages the author has personally observed to date covering the teams with which he has been involved and thus may not be all-inclusive. Other independent research confirms many of the advantages listed. (Boston, Keller, & Rooney, 2002; Shuman & Twombly, 2006) In the following three-part list, Part A covers advantages enjoyed by both the customer and supplier. Parts B and C cover advantages unique to the customer and supplier respectively.

Strategic Customer Supplier Team Advantages

Figure 1.1 A. Advantages to Customer & Supplier

Lessons learned improve both customer and supplier
Improved communication quality and effectiveness
Improved efficiency by working smarter not harder with the each other
Leadership links all stakeholders
Inter-company brainstorming and dialogue creates greater innovation
Builds trust & respect among participants aiding future problem resolution.
Raises the importance of the activity within the respective company
Critical mechanism for expediting or resolving issues
Drives urgency in deadlines, open issues, and decisions
Valuable insight gained through knowledge of the other company's perspective
Surface opportunities to improve results
Leverage other projects, resources, or experiences to increase success
Relationships carry over to benefit other activities in which the companies are involved Improves coordination/facilitation of individual company teams

Figure 1.1 B. Advantages to Customer

Influence supplier equipment development to meet customer technology challenges
Benefit from suppliers knowledge & experience of competitors
Ability to tap supplier's technical resources aids in success
Facilitates the integration of new equipment and improvements into customer operations

Figure 1.1 C. Advantages to Supplier

Leverage the customers influence and size in buying process
Benefit from customers knowledge & experience of other suppliers
Influence customer's assessment of future equipment needs
Build awareness of supplier capabilities among customer decision makers
Facilitate new equipment buy offs and enhance customer satisfaction
Increase requests for service and spare parts
Generate training opportunities
Create future business opportunities.
Increase efficiency and utilization of engineering and project management personnel
Opportunity for longer-term contracts and improved asset utilization
Faster recognition of customer requirements and reduced change implementation time



Figure 1.2 - Strategic Customer Supplier Leadership Team Survey Summary
(93 surveys covering 11 projects between 1997 and 2007)

	2	1	0	-1	-2
1 Roles & responsibilities	45	38	7	3	
2 Communication requirements	41	41	9	2	
3 Recognizing risk/potential problems	48	32	10	2	1
4 Maintaining/adjusting schedules	37	40	14	1	1
5 Initial timing requirements	34	39	20		
6 Supplying a better product	32	41	19	1	
7 Performance & technical spec.	27	42	24		

82% Positive and Less than 2% Negative

The data in Figure 1.2 also supports the value of a Strategic Customer Supplier Team approach. It is a summary of surveys conducted at the end of major equipment projects evaluating the overall effectiveness of the joint approach in terms of seven parameters by the Leadership participants. The surveys represent 11 projects in the automotive stamping industry occurring between 1997 and 2007. The leadership teams consisted of company presidents, members of board of directors, VP of operations, engineering directors and managers, program and project managers, sales and purchasing managers from the US, Canada, Japan, Germany, and Brazil. In the 93 surveys, representing a broad cross section of functions, organizational perspectives, business interests, and cultural diversity there was an overwhelming 82% positive assessment on the merits of the joint team with less than 2% negative.

Figure 1.3 – Weighted Value of Survey Parameters

Parameter	Weighted Value
Recognizing risk/potential problems	126
Roles & responsibilities	125
Communication requirements	121
Maintaining/adjusting schedules	113
Initial timing requirements	107
Supplying a better product	104
Performance & technical spec.	96



Multiplying the total survey checks for each parameter and column by the respective column value and then adding the results across all columns for a given parameter yields a weighted-point value for each parameter. The results shown in figure 1.3 listed in descending order reflect the greatest value is in recognizing risk/potential problems with a point total of 126 and defining roles and responsibilities with a point total of 125. Communicating requirements is close with a total of 121 points. Overall, the range in values is only 30 points. This tight range indicates all parameters yielded significant value.

Whether you are a customer or supplier, the Strategic Customer Supplier Team offers tremendous opportunities to improve results of projects as well as improvement efforts. You must pick the correct Strategic Projects and build a team relationship that allows both parties to participate and benefit equally. The team process builds synergy and adds great value enabling your company to achieve its strategic goals.

References:

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