

# Managing Buyer Supplier Relationships

## In practice

- Honda of America has adopted BP (Best Practices, Best Process and Best Performance) Supplier program
  - To help suppliers implement Kaizen philosophy for continuous improvement and organizational change
- John Deere build up a systematic supplier development approach to upgrade supplier's just-in-time capabilities

## In practice

- Aerospace and defence companies
  - Boeing, Lockheed, Northrop Grumman, Rockwell Collins, Parker Aerospace, and United Technologies
  - Established a program called the “Supplier Excellence Alliance”
  - To share best practices with suppliers and to realize performance improvements
- Toyota Supplier Support Center
  - Suppliers receive assistance in building lean manufacturing capabilities

## In practice

- McDonalds
  - Worked closely with suppliers to develop a sophisticated model to reduce the cost of chicken
  - The model isolates how various feed mixes affect weight gain in chickens
  - Suppliers able to optimize chicken weight gain in response to changing food prices

## WHY ARE BUYER SUPPLIER RELATIONSHIPS IMPORTANT?

Relationship types – the continuum of  
buyer supplier relationships



Transactional



Collaborative



Alliance



## The two extremes

### Transactional

- Discrete
- Market-based
- Opportunistic
- Arm's length

### Alliance

- Relational
- Partnership like
- Cooperative

Attribute	Discrete	Relational
Communication	High potential for problems	Systematic approach to enhance communications
Competitive Advantage	Low	High
Connectedness	Independence	Interdependence
Difficulty of Exit	Low	Difficult – high impact
Duration	Short	Long
Expediting	Reactive	Proactive
Level of Trust	Low	High
Number of Suppliers	Many	One or few
Quality	Incoming inspection	Design quality into system
Relations	Inward looking	Concern with each other's dwell being
Division of burden/benefit	Each party has its own strictly defined obligations	Shared
Focus	Price	Total Cost

## Key ingredients of supplier partnerships

- Building trust
  - Partners are more willing to work together, find compromise solutions to problems, work toward achieving long term benefits for both parties
- Shared vision and objectives
  - Move beyond tactical and operational issues
- Personal relationships
  - People make things happen. Not organizations
- Mutual benefits and needs
  - Should result in win-win

## Key ingredients of supplier partnerships

- Commitment and Top management support
  - Partnerships are more successful when top executives support the partnership
- Information sharing and lines of communication
  - Should facilitate free flow of information
- Relationship capabilities
  - Partners must have right technology, cost, quality and deliver capabilities

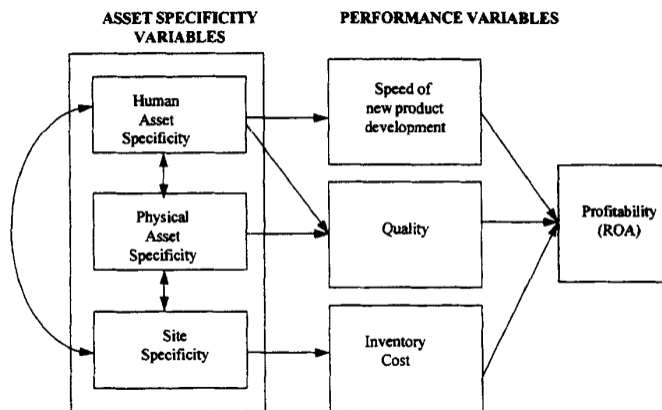
## Steps in designing a relationship with cooperation and trust

- Step 1: Assess the value of the relationship and its contributions
  - Identify the mutual benefit provided
  - Identify the criteria used to evaluate the relationship
  - Important to share benefits equitably
  - Clarify contribution of each party and the benefits each party will receive
- Step 2: Identify interdependencies, operational roles, and decision rights for each party

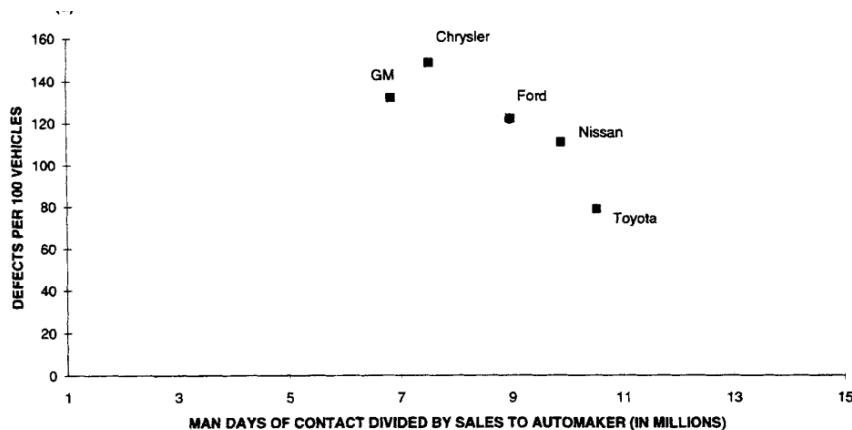
## Steps in designing a relationship with cooperation and trust

- Step 3: Create effective contracts
  - Contracts that encourage negotiation when unplanned contingencies arise
  - Informal relationships and agreements can fill in the gaps of “incomplete” contracts
- Step 4: Design effective conflict resolution mechanisms
  - Formal specification of rules and guidelines for procedures and transactions
  - Regular, frequent meetings promote communication

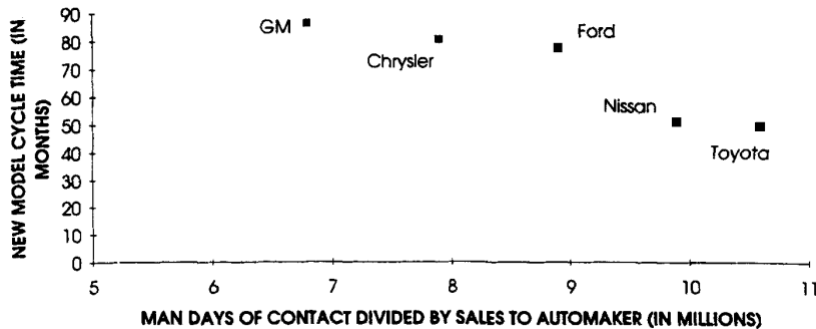
## Key variables and impact of alliances



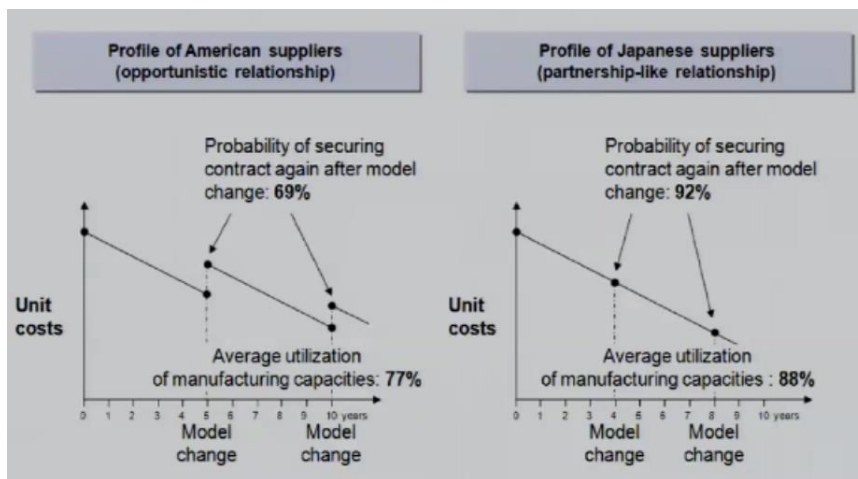
Can you see a pattern here?



## Can you see a pattern?



## Experience curve effects with traditional American and Japanese Approaches

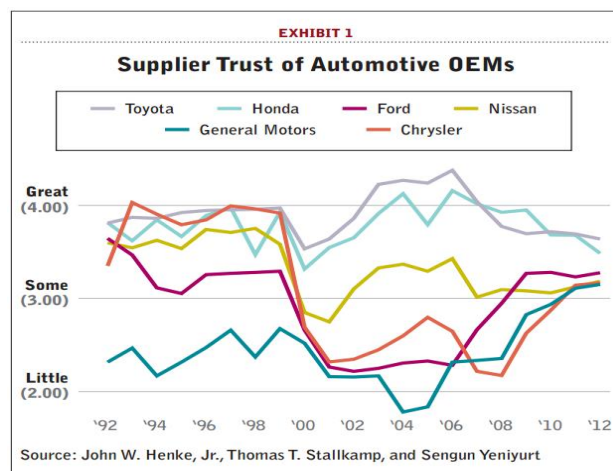


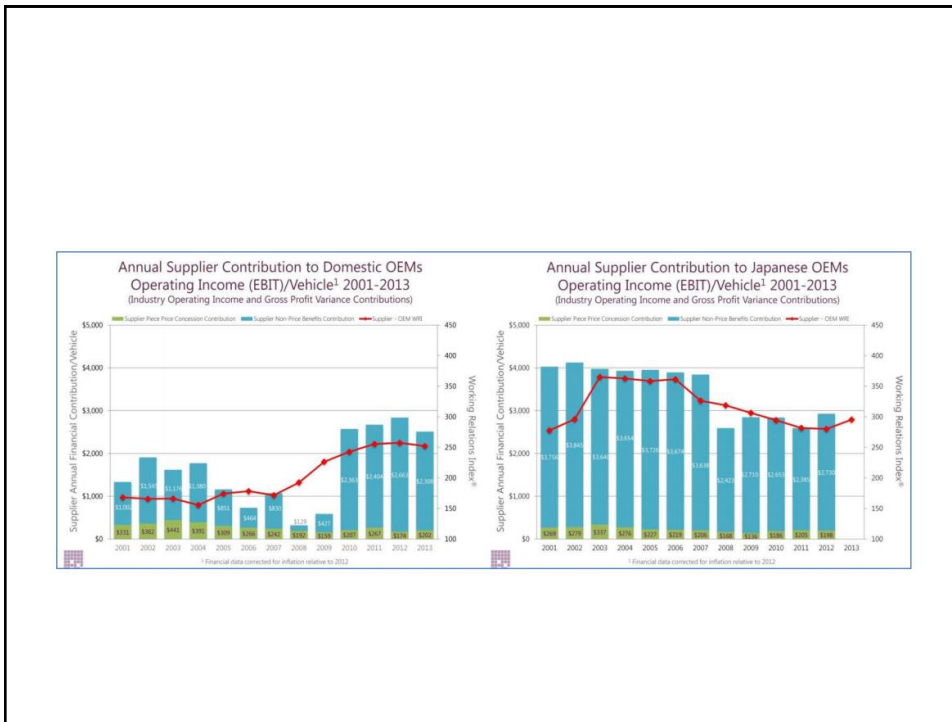


## The Japanese were doin it right!

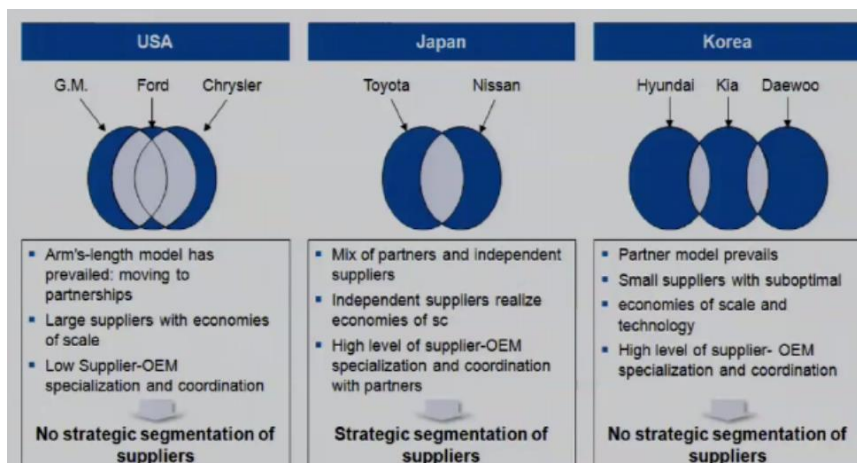
OEM	YEAR			2003 - 2004 % Change	2002-2004 % Change
	2002	2003	2004		
Toyota	314	334	399	19.5%	27.1%
Honda	297	316	384	21.5%	29.3%
Nissan	227	259	294	13.5%	29.5%
Industry Mean	224	234	261	11.5%	16.6%
Chrysler	175	177	183	3.4%	4.6%
Ford	167	161	160	-0.6%	-4.2%
GM	161	156	144	-7.8%	-10.6%

## Are the Japanese still doin it right!

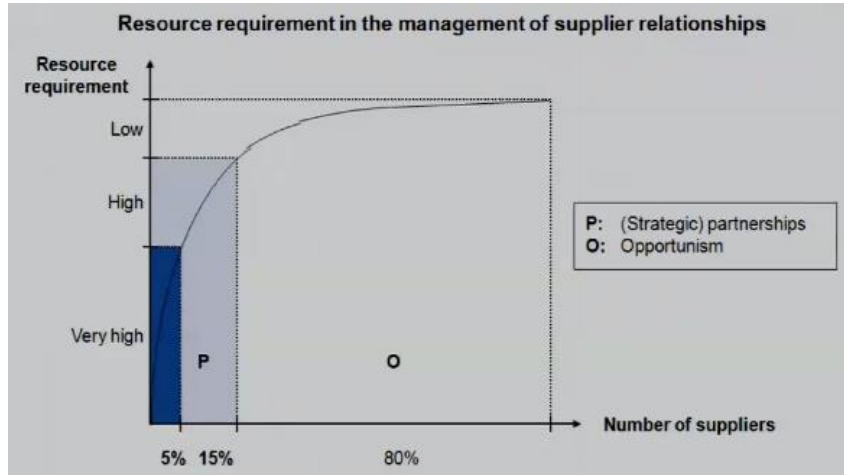




## Strategic supplier segmentaion

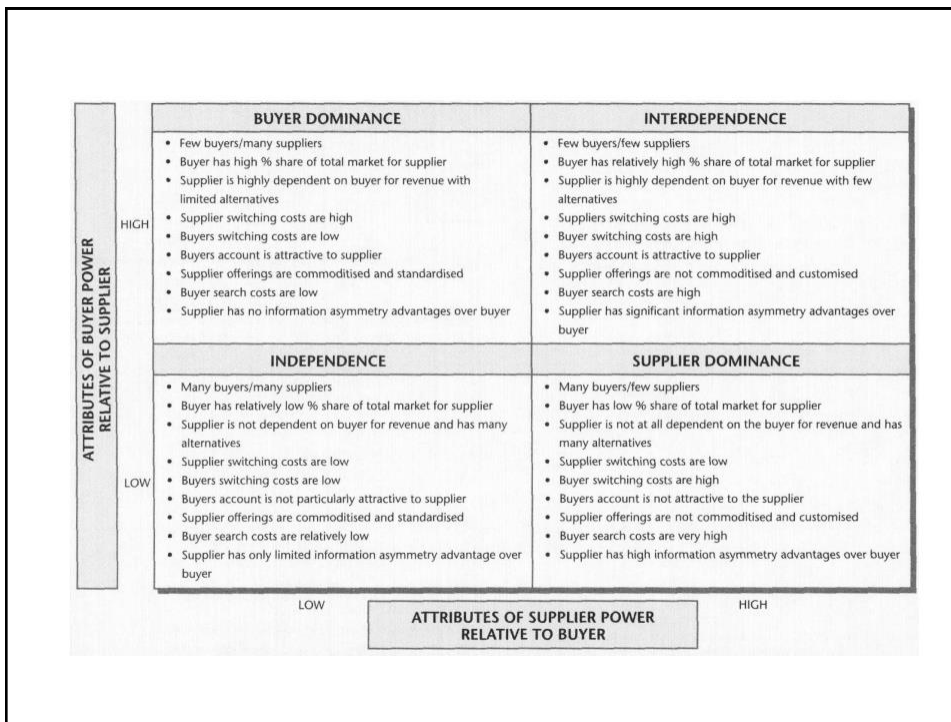


## Supplier portfolio management



## The Role of Power

- Captive buyer: high buyer specific investments and low supplier specific investments;
- Captive supplier: low buyer specific investments and high supplier specific investments;
- Market exchange: low buyer specific investments and low supplier specific investments;
- Strategic Partnership: high buyer specific investments and high supplier specific investments



## Next Session

- Simulation session debrief
- Pre-mid term wrap-up