

What, Exactly, is “Partnering”?

By Rebecca A. Morgan
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The people who sell goods and services to support your business used to be called “vendors.” Here’s how to make a “partnership” work.

In my good old days in purchasing, we knew that the vendors were all out to get us. It didn’t matter if we were buying expensive tooling, cleaning services, or office supplies, we knew that negotiations were zero-sum; that whatever business they got came from us.

To make sure we got the best deal, we obtained at least three quotes, tried to talk each potential vendor into lower prices, and then chose one. I’m talking about a “vendor.” Not a “supplier,” and certainly not a “partner.” “Vendor” is what we called them, no different from the hot-dog guy with a pushcart on the corner. If we wanted some, and the price was right, we’d buy. Otherwise, we wouldn’t. And if we found someone else who would sell it to us cheaper, we left the current vendor without much hesitation. After all, it was all about getting what we need at the lowest price. That’s how we buyers were measured.

But for the past several years, the conversation has moved to “partnering.” Eli Goldratt and the Theory of Constraints reminds us that we are only as strong as our weakest supplier and weakest customer and that it is in our best interest for them to be healthy and vibrant. Additionally, lean manufacturing has taught us the value of working with a limited number of suppliers who can help make us better. And buyers are often now measured on “lowest total cost of ownership” instead of lowest purchase price. As a result of all this new thinking, we now understand there is a lot more to purchasing than just price and that suppliers are not the enemy. The lesson has been that we need good, strong, and profitable partners so they can help us become good, strong, and profitable companies. We’ve learned that we’re in this thing together.

While some of you may look at partnership with a jaundiced eye, let’s at least figure out what the term really means.

Sometimes so-called “partnerships” still look a lot more like the old model. Consider this example that seems to contain an imbalance: Wal-Mart has required that its top 100 suppliers use RFID (Radio Frequency Identification - a new technology) by January 2005. It is expensive and time-consuming to implement, and some question just where the payoff is for

the supplier. Is that really partnership? Is partnering actually a unilateral relationship where the big guy orders the small guy around?

The short answer is no, partnering is not one-directional, nor is does it apply any more or any less to the large/small combination than it does to large/large or small/small. Understand that regardless of the size of the companies involved, expecting suppliers to get better is not unreasonable. In fact, it is courting disaster to not require that suppliers get better. But, as the Wal-Mart example shows, the customer must also get better. The customer must encourage input from suppliers about what they do that increases costs, or prevents cost reductions. The two organizations must work together - i.e., “partner” - to ensure that they are better off together than apart.

I just helped a small manufacturer enter partnerships with two large suppliers. The implementation and follow-up plans included agenda items to look at the needs of both the customer and the supplier. We specifically discussed potential changes on both sides, ranging from material handling to payment processing to ordering cycles, that can help the suppliers serve my client better, more cost effectively, and profitably.

While some companies do misuse the term “partner,” keep in mind that Wal-Mart may actually be right in its belief that RFID will benefit its suppliers. What looks unilateral to the outside may in fact be mutually beneficial.

So what does a “partnership” really mean? If your company partners with a customer or supplier, it means that you have a joint commitment to succeeding together. You will remain separate businesses, but will work closely together so that each can be

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more profitable over the long run. You understand that the limitations of one limit both. In a partnership, an agreement is reached, typically multi-year, whereby both companies commit to working together to their mutual advantage. It may involve volume guarantees, price guarantees or commitments of other standard aspects of contracting.

But it will involve additional responsibilities as well. Commitment to help each other problem solve, find opportunities to control and reduce costs, include one another in product development, simplify material

handling issues, and identify joint marketing opportunities are just a few of the ways partners have agreed to work together.

So why would you consider a partnership? Why is it better, in this very cost-conscious time, than the “get three quotes and go with the lowest” approach to buying? Well, in some cases it may not be. But in some it is. Keys to success include picking the right areas of your business to partner, selecting the right partner, and being a good partner. I will address those in future articles.



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