

Leveraging Strategic Alliances

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Abstract. Strategic alliances have demonstrated tremendous impact in reducing total purchasing spend and enhancing innovative product design. However, the reservoir of capable and willing suppliers is limited. Thus, effective supply managers need to develop the ability to promote commitment to alliances among suppliers. Effective alliances imply designing aspects of the supply chain, selection of appropriate suppliers, and leveraging effective partnering behavior where appropriate. This presentation will help supply managers work their way through this process.

Introduction. In general, we do not design supply chains. Instead, supply chains tend to develop and evolve over a period of time, and then supply managers inherit the task of getting a handle on the resultant jumble of relationships. This state of affairs is particularly difficult when the supply manager is presented with disarray among critical relationships where a strategic alliance with a supplier represents the most appropriate solution.

Every organization struggles to find the suppliers that it needs. In many cases, organizations may have good suppliers, but these suppliers are resistant to full collaborative participation. In order to develop the world-class suppliers that are needed to support success in today's competitive environment, and further, in order to engage these suppliers in alliances, supply managers need to learn a new set of tools for gaining the leverage necessary to overcome supplier resistance. This challenge requires that supply managers learn to change the thinking and behavior of their suppliers. However, given the nature of the relationships involved in strategic alliances, the application of leverage must be such that it engenders more than just compliance. Today's supply manager needs to learn the tools of education and social change that will bring forth commitment to mutual benefit from their suppliers. This session will survey the wealth of tools and techniques available to help accomplish this, and illustrate some of the most effective approaches.

That many organizations need to pursue strategic alliances with key suppliers in order to accomplish the creation of value for customers and high organizational performance is an open secret. The questions that should remain in the minds of many supply professionals are when to pursue such arrangements, and how to leverage cooperation from suppliers when alliances are appropriate.

What Type of Relationship is Appropriate? Supply managers should not seek to develop alliances with all of their suppliers. In fact, in many cases, attempts at creating such alliances represent waste, at best, and may even be counter-productive in some cases. Bুদ্ধress and Raedels (1998) devised a criticality matrix that provides guidance for such decisions.

The criticality matrix provides for viewing the determination of the type of relationship with suppliers from the perspective of market dynamics and the dynamics of the buying organization's operations. Thus, we can view the market criticality of goods or services as being high when a product is hard to source because of proprietary content or limitations in the number of potential suppliers. Low market criticality generally denotes materials or services that are readily available with many alternative sources.

Internal organizational dynamics related to a supply decision can likewise be arrayed from low to high in criticality. High internal criticality suggests large volume requirements and/or central importance to profitability, as might be the case with key components used in a number of products that are vital to a firm's profitability. Low internal criticality would be associated with materials and services used in low volumes, or that are not crucial to firm profitability.

For the purposes of this presentation, we are most concerned with those relationships that involve materials or services that represent both high external criticality and high internal criticality. It is in such cases that the leveraging of strategic alliances most clearly represents a path to competitive advantage.

Selecting the Right Suppliers. When faced with circumstances that would best be addressed by formation of a strategic alliance, the selection of the right supplier becomes particularly important. Supply managers need to make sure that we select suppliers who have both the capability and capacity to meet their needs. Obviously, the ideal supplier would either be world-class, or would clearly be headed in that direction. However, the number of world-class suppliers is limited, and may not exist for those supplies that an organization needs (a common feature of high market criticality). Even in those cases where world class suppliers are available, and the buying organization can achieve a relationship with such a supplier, leverage may be required in order to accomplish the creating the specific type of relationship that is desired. Smith and Zsidisin (2002) found that buying organizations are reporting that even during periods of economic downturn, world-class suppliers may experience limitations in meeting demand due to production capacity constraints.

In selecting suppliers for the most critical supply relationships, managers clearly need to determine both the capability and capacity limitations of suppliers, and the extent to which such limitations are subject to efforts at remediation. Smith and Zsidisin (2002) found that Early Supplier Involvement (ESI) can serve to help managers learn about these issues, and manage the attendant risk with potential suppliers. Further, ESI initiatives represent an effective means for gaining leverage with pre-existing suppliers to drive more appropriate types and levels of inter-organizational cooperation.

Negotiation for Alliances. There has been an increase in the extent of on-line negotiation. Such an approach to negotiation is contra-indicated when the goal of negotiation is the

development of a strategic alliance. Buddress, Smith and Raedels (2002) have found that on-line negotiation leads to increased frequency of deadlocks.

More importantly with respect to developing a collaborative relationship, on-line negotiation was subject to far less satisfaction both with the negotiation process and with the outcomes of negotiation than in the case of face-to-face negotiation. The potential damage to relationships of poorly considered application of on-line negotiation can be seen in the remark of a participant on one of our studies who noted that he and his on-line negotiation opponent “used to be friends, but now we are enemies.”

In the face of research that indicates that business relationships based solely on written communication tend to founder, great care needs to be exercised in the choice of form for communication associated with critical relationships. Research evidence suggests that face-to-face communication should be included along with written and telephone contact in order to best sustain relationships.

Education of Suppliers as a Means to Supplier Engagement. In spite of their best efforts, supply managers often may not be able to gain cooperation from the suppliers that they need. This may be the result of a lack of good suppliers or a lack of cooperation from good suppliers. In either case, the supply manager is faced with a need to convince existing suppliers of the necessity of working together. This need to gain leverage may well be the most fundamental level of supplier development.

One form of leverage results from power. It is possible to compel compliance from suppliers by the use of power. Sources of power include the magnitude of transactions and the size and reputation of the buyer. However, smaller buying organizations do not have access to such sources of power, and thus, may not be able to resort to such an approach (Smith and Wright, 2002). Further, In such development efforts, the supply manager is attempting to generate commitment, as opposed to compliance (Senge, et al, 1999) from suppliers.

Supply Chain Management effectiveness depends upon the best efforts of suppliers. These best efforts are not reliably something that can be compelled, but instead are largely the result of voluntary action obtained when the other party is convinced of a particular course of action. Commitment will drive performance, even in the absence of power or outside surveillance. Smith and Wright (2002) report that education of suppliers represents a path to gaining commitment from suppliers, even in the case of a previously reluctant or skeptical supplier, and this program will provide further discussion of how education may provide a powerful tool for leveraging strategic alliances.

Simulation and Pull Production Provide Lessons. It may be challenging to find content for educational efforts aimed at leveraging strategic alliances. While we can suggest two sources, the primary intent is to find a compelling way to present the problems encountered without collaboration, and then to show the value of the cooperative activities that might be envisioned as part of an alliance.

Simulation of production and supply chain issues can provide material for the educational efforts aimed at driving cooperative alignment from suppliers (Smith and Wright, 2002). Nearly any supply chain situation can be simulated using computer software that is readily available.

One popular situation involves “The Beer Game” (Senge, 1990). The rules for this simulation are subject to a large number of variations, any of which serve well to illustrate the challenges of supply chain environments managed without collaboration aimed at improving the overall system.

Smith, Buddress and Raedels (2002) suggest that lessons may be extracted from Borrowing from pull production to create the means to sustain strategic alignment. In particular, observation of effective pull production systems can provide means for both promoting and sustaining strategic alignment. Clearly, reductions in inventory, shortening leadtimes, reductions in delays, and the flow of necessary information with the work as it is completed are all lessons from pull production that can be considered in the supply chain context.

Summary. This session will discuss creation and maintenance of strategic alliances with an emphasis on approaches such as those presented in this paper that can be used to leverage effective strategic alliances.

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