Partnerships in Supply Chain
Choosing the right relationship
Choosing the right relationships

• Key points

A  What types of relationships can be observed in supply chains?

B  How can each type of relationship be tailored to different types of product?
Choosing the right relationships

The essential of supply chain is collaboration
Choosing the right relationships

Relationship styles continuum

- Inside system
- Joint venture
- Strategic alliance
- Partnership
- Vertical integration

trust

Almost none
Arm’s-length
Inter-personal
Inter-organizational
Inside system
Choosing the right relationships

Reducing dependence on these items through diversification of suppliers and substitute products.

Using strength carefully to draw suppliers into a relationship that ensures supply in the long term.

- **Bottleneck items**
  - Buyer power
  - Not jointly developed; Unbranded; Do not affect performance and safety in particular; have required low investment in specific tools and equipment.

- **Strategic items**
  - Strength
  - Reducing prices and pushing for preferential treatment.

- **Non-critical items**
  - Weakness
  - Large

- **Leverage items**
  - Little
  - No. of available supplier

In-sync Supply Chain Management
Partnerships in the supply chain
Partnerships in the supply chain

• Key points

A. What are partnerships?

B. What are partnerships’ advantages and disadvantages?
Partnerships in the supply chain

- Lower level of collaboration results in information block and inefficiency
Partnerships in the supply chain

• **The characteristics of partnerships**
  – Sharing of information
  – Trust and openness
  – Coordination and planning
  – Mutual benefits and sharing of risks
  – A recognition of mutual interdependence
  – Shared goals
  – Compatibility of corporate philosophies
Partnerships in the supply chain

**Characteristics of partnership types**

<table>
<thead>
<tr>
<th>Partnership type</th>
<th>Activities</th>
<th>Time horizon</th>
<th>Scope of activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperation</td>
<td>Fewer supplier; Longer-term contract</td>
<td>Short-term</td>
<td>Single functional area</td>
</tr>
<tr>
<td>Coordination</td>
<td>Information linkages; WIP linkages; EDI exchange</td>
<td>Long-term</td>
<td>Multiple functional areas</td>
</tr>
<tr>
<td>Collaboration</td>
<td>Supply chain integration; Joint planning; Technology sharing</td>
<td>Long-term with no fixed date</td>
<td>Firms see each other as extensions of their own firm</td>
</tr>
</tbody>
</table>
Partnerships in the supply chain

- **Economic justification for partnerships**
  - Inter-firm relation-specific assets
    - Duration of safeguards
    - Volume of inter-firm transactions
  - Knowledge-sharing routines
    - Partner-specific absorptive capacity
    - Incentives to encourage transparency and discourage free riding
  - Complementary resources and capabilities
  - Effective governance
    - Employ informal governance mechanisms

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Partnerships in the supply chain

• **Advantages of partnerships**
  – Save cost of negotiations
  – Reduce monitoring of supplier soundness
  – Increase productivity

• **Disadvantages of partnerships**
  – Inability to price accurately qualitative matters such as design work
  – Need for organizations to gather substantial information about potential partners on which to base decisions
  – Risk of divulging sensitive information to competitors
  – Potential opportunism by suppliers
Supplier Networks
Supplier networks

• **Key points**

  A  What are supplier associations?

  B  What is Japanese Keiretsu?
Supplier networks

• **Supplier associations**
  
  – The network of a company’s important suppliers brought together for the purpose of coordination and development. Through the supplier association forum this company provides training and resource for production and logistics process improvements. The association also provides the opportunity for its members to improve the quality and frequency of communications, a critical factor for improving operational performance. (Aitken, 1998)
Supplier networks
Supplier networks

• **Japanese keiretsu**
  – Japanese business consortia based on cooperation, coordination, joint ownership and control.
  – The keiretsu’s controlling base
    • Equity exchange between supply chain members
Supplier Development
Supplier development

• Key point

How can upstream supply processes be integrated to improve material flow?
Supplier development

• **Integrated processes**
  – Collaborative planning and strategic development
    • New product development
    • Material replenishment
    • Payment
Supplier development

- Integrated processes

Insync Supply Chain Management
Suppliers development

- **Synchronous production**
  - The approaches to improve synchronous supply chain processes
    - Transparency of information upstream and downstream
    - Vendor-managed inventory (VMI)
Co-creation in the supply chain

Traditional Relationship
Focus on splitting the pie

Extended Enterprise
Focus on expanding the pie

Source: J.H. Dyer, *Collaborative Advantages*
The search for collaborative advantage

• Seek out opportunities for horizontal as well as vertical collaboration

• Co-operate to grow the cake, compete on how to slice it

• Leveraging capabilities and knowledge through collaboration

• Share assets in the supply chain where appropriate
The extended enterprise viewpoint

### Single company thinking
- Focus on the customer
- Increase own profits
- Consider own costs
- “Spread the business around”
- Guard ideas, information and resources
- Improve internal process efficiency

### Extended enterprise thinking
- Focus on the ultimate consumer
- Increase profits for all
- Consider total costs
- Team with the best
- Share ideas, information and resources
- Improve joint process efficiency

Source: A T Kearney
The role of supplier and customer collaboration

Intermediary

Manufacturing Collaboration
- Design for localisation
- Scheduling synchronisation
- Design anywhere build anywhere

Customer Collaboration
- Joint product definition
- Rapid proposal response
- Online custom configuration

SPEED to Margin

Supplier

Enterprise

Product Development Collaboration
- Global platform design
- Customisable products
- Global distributed product development

Supplier Collaboration
- Joint development
- Outsource design
- Contract manufacturing

Customer

Complementor

Source: Accenture
From “Bow-Tie” to “Diamond”

Traditional buyer/supplier interface

Building stronger partnerships through multiple linkages

R & D
Production
Marketing
Supply chain

Sales
Buyer
Marketing
Operations
Business development
Supply chain

Key-account selling

R & D
Production
Marketing
Business Development
Supply chain

Supplier
Customer
Supplier
Customer
Implementing Partnerships
Implementing partnerships

• Key point

What are the barriers to achieving partnerships in the supply chain?
Implementing partnerships

Open market negotiations

cooperation

Coordination

collaboration
Implementing partnerships

• Barriers to build partnerships
  – Power
  – Self-interest
  – Focus on negative implications of partnership
  – Opportunism
  – Focus on price
The business case for supply chain integration

• Supply chains compete, not companies

• Most opportunities for cost reduction and/or value enhancement lie at the interface between supply chain partners

• Supply chain competitiveness is based upon the value-added exchange of information

• Supply chain integration implies process integration

• Supply chain competitiveness requires the collective determination of strategy
The supply chain of the future

Yesterday’s Model
- Independent entities
- Inventory Based
- Low cost production

Tomorrow’s Model
- Virtual networks
- Information based
- Customer value oriented

Mass production
mass marketing

Mass customisation
one-to-one marketing

Mass customisation

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