Developing and Implementing Supply Chain Partnerships

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Many executives are developing supply chain partnerships in an attempt to reduce costs, improve service and gain competitive advantage. While partnerships can be beneficial, they are not appropriate in all situations. This article provides a model which can be used to determine whether a partnership is warranted, and if so, how close of a partnership is warranted.

When analyzed in detail, it became apparent that the relationship was not a partnership; rather it was simply a long-term contract with volume guarantees. The reason why managers from both firms believed that they were involved in a partnership was each firm was achieving the desired outcomes from the relationship.

In an environment characterized by scarce resources, increased competition, higher customer expectations, and faster rates of change, executives are turning to partnerships to strengthen supply chain integration and provide sustainable competitive advantage. Partnering provides a way to leverage the unique skills and expertise of each partner and may also "lock-out" competitors. According to Rosabeth Moss Kanter, "...being a good partner has become a key corporate asset...In the global economy, a well-developed ability to create and sustain fruitful collaborations gives companies a significant competitive leg up" [1]. But exactly what is a partnership, and when is one appropriate? At first glance, the answers to these questions may appear straight-forward, but they are not.

In our work with members of The International Center for Competitive Excellence, high level executives from a number of firms recognized as leading edge in their industries, we found that there is considerable confusion over the definition and use of partnerships. For instance, members provided us with 18 relationships that were described as good partnerships from which we could learn. In fact, one member said that his firm had a long history of partnering and that other Center members would "learn a lot about partnering from us." After in-depth study of both sides of each relationship, it was agreed that two of the 18 relationships were best in class and that a number of relationships were not partnerships at all. The executive previously quoted admitted that perhaps only one of his firm's relationships was a "real" partnership.

In another case, an executive from a major manufacturer in the health care industry selected a relationship with a small-package express delivery company which executives from both firms regularly referred to as a partnership. When analyzed in detail, it became apparent that the relationship was not a partnership; rather it was simply a long-term contract with volume guarantees. The reason why managers from both firms believed that they were involved in a partnership was each firm was achieving the desired outcomes from the relationship. The transportation firm received a large revenue increase as the single-source provider of the service and the manufacturer achieved the service improvement and cost reductions that were promised. The initial reaction of an executive from the manufacturer was that she ought to work to turn the relationship into a partnership. This executive's reaction is understandable and fairly common. A basic

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premise which seems to permeate business today is that partnerships are essential elements of business strategy and managers should strive to achieve such relationships with every customer and supplier. This is not only flawed thinking, it is dangerous thinking. The lesson here is that a partnership is not necessarily a requirement for achieving business success.

Partnerships, while necessary and beneficial, are costly in terms of the time and effort required [2]. Consequently, a firm cannot and should not partner with every supplier, customer or third-party provider. It is important to ensure that scarce resources are dedicated only to those relationships which will truly benefit from a partnership. Yet, many organizations become involved in relationships that do not meet their expectations and/or which end in failure. How can managers determine, in advance, if a potential relationship is one which will result in competitive advantage, and is worthy of the time and resources needed to fully develop into a partnership? Further, all partnerships are not the same. How does management know what type of partnership would provide the best pay-off? These questions are answered with the partnership model presented in this article. The model presents a systematic process for developing, implementing and continuously improving corporate relationships.

What is a Partnership?

Relationships between organizations can range from arm's length relationships (consisting of either one-time exchanges or multiple transactions) to vertical integration of the two organizations, as shown in Figure 1. The predominance of relationships between organizations have been at arm's-length. Two organizations conduct business with each other, often over a long period of time and involving multiple exchanges. However, there is no sense of joint commitment or joint operations between the two companies. In arm's length relationships, a seller typically offers standard products/services to a wide range of customers who receive standard terms and conditions. When the exchanges at hand end, the relationship ends. While arm's length represents an appropriate option in many situations, there are times when a closer, more integrated relationship, referred to as a partnership, would provide significant benefits to both firms. A partnership is a tailored business relationship based on mutual trust, openness, shared risk and shared rewards that yields a competitive advantage, resulting in business performance greater than would be achieved by the firms individually.

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A partnership is not the same as a joint venture which normally entails some degree of shared ownership across the two parties. Nor is it the same as vertical integration. Yet a well managed partnership can provide benefits similar to those found in joint ventures or vertical integration. For instance, Pepsi chose to acquire restaurants such as Taco Bell, Pizza Hut and KFC in order to ensure distribution of its products in these outlets. Coca-Cola has achieved a similar result, without the cost of vertical integration, through its partnership with McDonald's.

While most partnerships share some common elements and characteristics, there is no one ideal or "benchmark" relationship which is appropriate in all situations. Because each relationship has its own set of motivating factors driving its development as well as its own unique operating environment, the duration, breadth, strength and closeness of the partnership will vary from case to case and over time. Our research has indicated that three types of partnerships exist:

• Type I. The organizations involved recognize each other as partners and, on a limited basis, coordinate activities and planning. The partnership usually has a short-

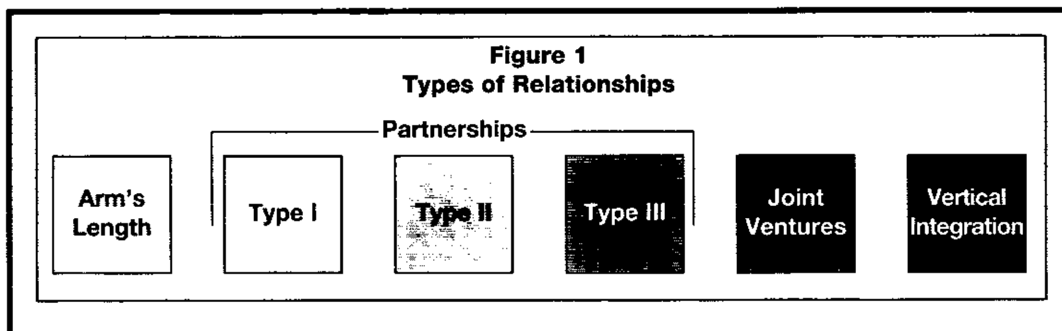

Figure 1
Types of Relationships

term focus and involves only one division or functional area within each organization.

- Type II. The organizations involved progress beyond coordination of activities to integration of activities. Although not expected to last "forever" the partnership has a long-term horizon. Multiple divisions and functions within the firm are involved in the partnership.
- Type III. The organizations share a significant level of operational integration. Each party views the other as an extension of their own firm. Typically no "end date" for the partnership exists.

Normally, a firm will have a wide range of relationships spanning the entire spectrum, the majority of which will not be partnerships at all but arm's length associations. Of the relationships which are partnerships, the largest percentage will be Type I with only a limited number of Type III partnerships. Type III partnerships should be reserved for those suppliers or customers who are critical to an organization's long-term success.

Research Methodology

The partnership model was developed based upon detailed case studies of relationships involving members of The International Center for Competitive Excellence. Managers from member firms identified 18 relationships which they believed reflected partnerships (see Table 1). Over 60 in-depth interviews, ranging from one to four hours were conducted with managers at various levels and functions in both firms involved in each relationship. The interviews were conducted using a comprehensive, pre-tested interview guide of 45 questions, which had been developed based upon an extensive literature review. The interviews were conducted in-person and recorded. The interviews were transcribed and returned to the interviewee for review. Based upon the approved transcripts, a case study of each relationship was developed. The cases were sent to the involved center members for comments and a final review.

The approved case studies, along with the literature review, were used as a basis for the development of the partnership model. Each case relationship was then analyzed using the model and ranked by degree of partnering present. It was determined that not only were the relationships studied not the same, not all of them were partnerships. A detailed implementation guide for the model

Table 1
Relationship Cases Used to Develop The Model

Lucent Technologies (formerly known as AT&T Network Systems) and Panalpina for freight forwarding services of telecommunications equipment in the South American Market. Lucent Technologies manufactures and installs telecommunications systems, high-tech fibers, and switching technologies. The systems are shipped in the form of component parts with final assembly and installation in-country. As Lucent entered the Latin America market, it found customs documentation requirements to be particularly burdensome. For instance, the Brazilian government required that the documentation describe every separate part and item. For large systems this was equivalent to taking an automobile apart and shipping it by every nut, bolt, screw, fender, and bumper. Panalpina is a forwarder with offices in facilities in Central and South America and with a well established in-country infrastructure.

A small package express delivery company and a manufacturer for national distribution of healthcare products. This involved an offering of both air and ground transportation on the part of the carrier and a guaranteed volume on the part of the manufacturer.

McDonald's and Martin-Brower for the distribution of products and supplies to franchisees and company stores. Martin-Brower is the largest of McDonald's six distributors, handling approximately 40% of McDonald's locations. Martin-Brower distributes a complete range of products from food supplies to paper items.

McDonald's and OSI for the supply of hamburger patties to McDonald's restaurants. OSI is a manufacturer of beef patties, supplying approximately 25% of McDonald's volume. Mc Donald's is OSI's only customer.

McDonald's and Coca-Cola for the supply of beverages to McDonald's restaurants. McDonald's is Coke's largest customer and Coke is McDonald's largest supplier. Coca-Cola is the only cola beverage sold in any McDonald's store.

Xerox and Ryder for the delivery, installation, and removal of copiers. In this relationship, Ryder truck drivers deliver, set-up, test, and demonstrate copiers for Xerox. In addition, the drivers also perform initial customer training and remove old equipment.

Xerox and Ryder for inbound transportation services to Xerox's manufacturing locations. Xerox depends upon Ryder Dedicated Logistics to manage the Xerox in-bound network so that JIT requirements are met.

Whirlpool and ERX for the warehousing and distribution of Whirlpool appliances to dealers and customers within 24-48 hours of order placement. Quality Express is a program through which Whirlpool sought to improve its customer service levels by partnering with third party providers. ERX is a joint venture between MARK VII, a transportation company, and Elston-Richards, a warehousing company, and operates six of eight Quality Express programs.

Whirlpool an KP Logistics for the warehousing and distribution of Whirlpool appliances to dealers and customers in one of eight Quality Express programs. KP Logistics is a partnership between Kenco, a warehousing company, and Premier Transportation.

Whirlpool and TRMTI (Leaseway) for the warehousing and distribution of appliances to dealers and customers in one of eight Quality Express locations. TRMTI is a division of Leaseway Transportation and had been providing delivery services to builders in Florida for Whirlpool prior to the initiation of Quality Express.

3M and Yellow Freight for less-than-truckload outbound transportation services. This was a relationship which extended from 1981 until 1993 and evolved from a one-year contract to a long-term based arrangement.

Target and 3M for a wide range of consumer products. This arrangement involves seven distinct relationships: one between the two corporations and six others between 3M divisions and Target departments.

was developed and provided to Center members, who are using the model and the guide in developing and managing relationships.

The methodology used in this study addresses a number of frequently cited criticisms of partnership research. For instance, Baba [3] complained that most partnership research was based only on a limited number of interviews, often with just one executive, from only one party to the partnership. Another concern is that much partnership research is based upon mail surveys. While mail surveys allow for gathering large amounts of data from numerous sources, the extent and richness of the data collected are limited. Also, with a mail survey, there is no assurance that all participants are interpreting the questions in the same way.

"While case studies of partnerships do provide a fuller picture at the micro organizational level, such studies have not followed a unified research framework that would permit replication and generalization of findings. Partnership studies would benefit from research designs aimed at identification and explication of integrative processes that serve to bond partners and strengthen interorganizational relationships. Future research on partnerships must have the partnership dyad as the minimum unit of analysis. Investigations that capture only from one side of a given partnership (even if both partner types are represented in a sample) will fail to reflect accurately the dynamic forces that bond or break partnerships in the long run" [4].

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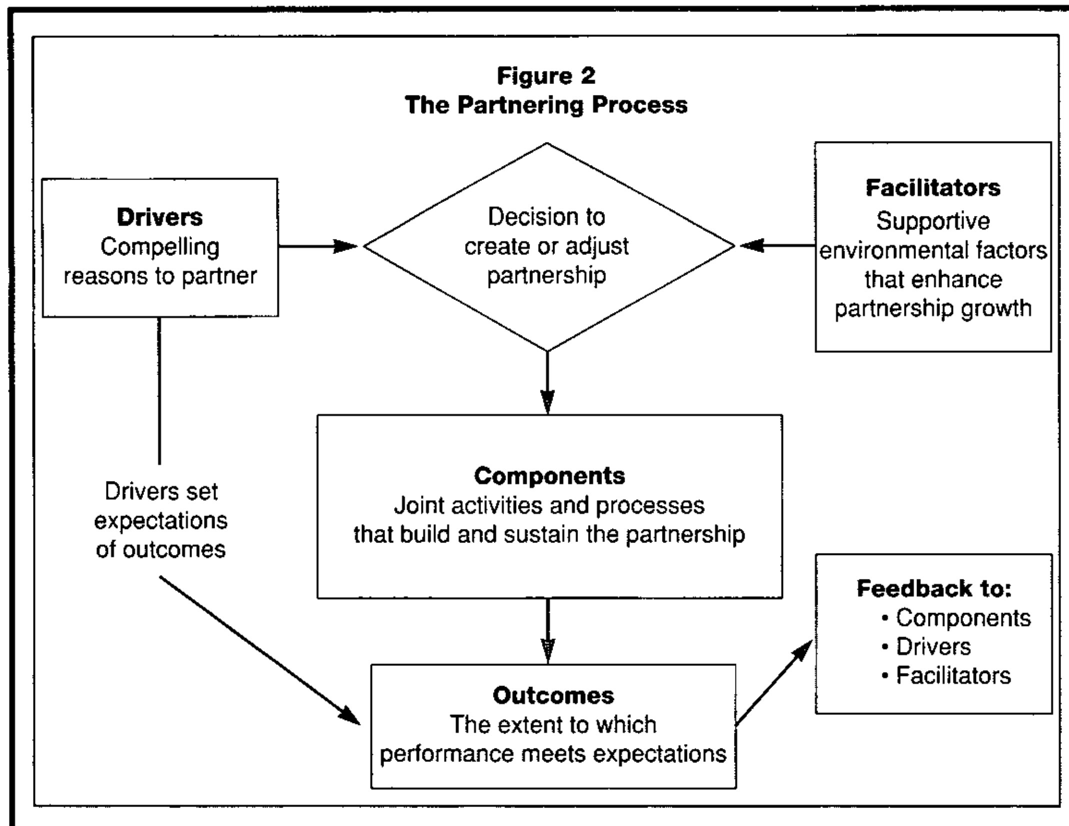
The Partnership Model

The partnership model has three major elements: drivers, facilitators, and components, which lead to outcomes, as shown in Figure 2. Drivers are compelling reasons to partner. Facilitators are supportive corporate environmental factors which enhance partnership growth and development. Components are joint activities and processes used to build and sustain the partnership. Outcomes reflect the performance of the partnership.

Drivers

Both parties must believe that they will receive significant benefits in one or more areas and that these benefits would not be possible without a partnership. The primary potential benefits which drive the desire to partner include: asset/cost efficiencies, customer service improvements, marketing



advantage, and profit stability/growth.

Asset/Cost Efficiencies. A potential for cost reduction provides a strong reason to partner. Closer integration of activities may lead to reductions in transportation costs, handling costs, packaging costs, information costs, or product costs and may increase managerial efficiencies. A partnership may also enhance the development and use of specialized equipment and processes between the parties, without fear of technology transfer to a competitor. McDonald's found that by establishing partnerships with regional distributors who serve as the single distributor for all products to all stores within a region, delivery and ordering costs were reduced [5].

...drivers must exist for each party. It is unlikely that the drivers will be the same for both parties, but they need to be strong for both.

Customer Service. Integrating activities in the supply chain through partnerships can often lead to service improvements for customers in the form of reduced inventory, shorter cycle times, and more timely and accurate information. After discovering that they were significantly slower in deliveries to dealers and had more damage than competitors, Whirlpool developed a Type III partnership, termed Quality Express with ERX. ERX, a logistics service provider, is a joint venture between MARK VII Transportation Company and Elston-Richards, a warehousing company, created specifically for this partnership. According to a Whirlpool executive, "Our original goal was to be 95% on-time, within the first year. By the fourth month we were at 99%" [6].

Marketing Advantage. A third reason for entering into a partnership is to gain a marketing advantage. A stronger integration between two organizations can: (1) enhance an organization's marketing mix, (2) ease entry into new markets, and (3) provide better access to technology and innovation. Through its partnership with Ryder for delivery and installation of copiers, Xerox was able to reduce its costs and thus become more price competitive. Target chose to partner with 3M in order to gain access to special packaging and creative promotional and product strategies [7].

Profit Stability/Growth. A potential for profit improvement is a strong driver for most partnerships. Strengthening of a relationship often leads to long-term volume commitments, reduced variability in sales, joint use of assets, and other improvements which enhance profitability [8].

While the presence of strong drivers is necessary for successful partnerships, the drivers by themselves do not ensure success. The benefits derived from the drivers must be sustainable over the long term. If, for instance, the marketing advantage or cost efficiencies resulting from the relationship can be easily matched by a competitor, the probability of long-term partnership success is reduced.

Assessing Drivers

In evaluating a relationship, how does a manager know if there are enough drivers to pursue a partnership? First, drivers must exist for each party. It is unlikely that the drivers will be the same for both parties, but they need to be strong for both. For instance, in the Whirlpool/ERX partnership, improved service was the driver for Whirlpool, while stable, guaranteed volume was the driver for ERX. Second, the drivers must be strong enough to provide each party with a realistic expectation of significant benefits through a strengthening of the relationship.

Each party should independently assess the strength of their specific drivers by using the assessment guide shown in Table 2. The guide lists the four drivers and provides examples of each. These examples are not meant to be all inclusive, but rather should be used only as a starting point. Both parties to the potential relationship must develop and agree upon specific descriptors of each driver that are appropriate for the relationship. Further, parameters for measuring each descriptor must be developed. For instance, under the driver Asset/Cost Efficiencies, the parties must decide whether product cost reductions are relevant. If so, a specific cost reduction target should be established. It is important that the descriptors of each driver be specified and agreed upon because the success of the partnership will be measured based upon whether the desired improvements are actually achieved.

The guide provides a rating scheme with a maximum score of 24. A very low score (below 8) indicates that the potential pay-off from a partnership is so low that it should not be pursued, and therefore it is not necessary to proceed with the model and evaluate the facilitators. A score of 8 or above indicates that facilitators should be examined. A high score (16 or above)

Table 2
Assessment of Drivers

Drivers are strategic factors which result in a competitive advantage and which help to determine the appropriate level of a business relationship. For each driver, circle the boxed number which reflects the probability of your organization **realistically** achieving a benefit **through forming a tighter relationship**.

	Probability				
	No Chance				Certain
ASSET/COST EFFICIENCY	0%	25%	50%	75%	100%
1. What is the probability that this relationship will substantially reduce channel costs or improve asset utilization?	1	2	3	4	5
-product costs savings -distribution costs savings, handling costs savings -packing costs savings, information handling costs savings -managerial efficiencies -assets to the relationship					
If you rated efficiencies in the shaded area and if the advantage is either a sustainable competitive advantage or it allows your firm to match benchmark standards in your industry, circle the 1 to the right.				1	
	Probability				
	No Chance				Certain
CUSTOMER SERVICE	0%	25%	50%	75%	100%
2. What is the probability that this relationship will substantially improve the customer service level as measured by the customer?	1	2	3	4	5
-improved on-time delivery -better tracking of movement -paperless order processing -accurate order deliveries -improved cycle times -improved fill rates -customer survey results -process improvements					
If you rated customer service in the shaded area and if the advantage is either a sustainable competitive advantage or if it allows your firm to match benchmark standards in your industry, circle the 1 to the right.				1	
	Probability				
	No Chance				Certain
MARKETING ADVANTAGE	0%	25%	50%	75%	100%
3. What is the probability that this relationship will lead to substantial marketing advantages?	1	2	3	4	5
-new market entry -promotion (joint advertising, sales promotion) -price (reduced price advantage) -product (jointly developed product innovation, branding opportunities) -place (expanded geographic coverage, market saturation) -access to technology -innovation potential					
If you rated marketing advantage in the shaded area and if the advantage is either a sustainable competitive advantage or if it allows your firm to match benchmark standards in your industry, circle the 1 to the right.				1	
	Probability				
	No Chance				Certain
PROFIT STABILITY/GROWTH	0%	25%	50%	75%	100%
4. What is the probability that this relationship will result in profit growth or reduced variability in profit?	1	2	3	4	5
-growth -cyclical leveling -seasonal leveling -market share stability -sales volume -assurance of supply					
If you rated profit stability/growth in the shaded area and if the advantage is either a sustainable competitive advantage or if it allows your firm to match benchmark standards in your industry, circle the 1 to the right.				1	

Add all the boxed numbers which you have circled and place the total in the box to the right. This represents the strength of your motivation to partner.

indicates a potential for significant benefits and suggests that a partnership be pursued.

Facilitators

Drivers provide the motivation to partner. But even with a strong desire for building a partnership, the probability of success is reduced if both corporate environments are not supportive of a close relationship.

Drivers provide the motivation to partner. But even with a strong desire for building a partnership, the probability of success is reduced if both corporate environments are not supportive of a close relationship. On the other hand, a supportive environment which enhances integration of the two parties will improve the success of the partnership.

Facilitators are elements of a corporate environment which allow a partnership to grow and strengthen. They serve as a foundation for a good relationship. In the short run, facilitators cannot be developed. They either exist or they don't. And the degree to which they exist often determines whether a partnership succeeds or fails. Facilitators include: corporate compatibility, similar managerial philosophy and techniques, mutuality, and symmetry.

Corporate Compatibility. For an integrated relationship to succeed partners must share compatible values. The cultures and business objectives of the two firms must mesh. They do not have to be identical, but they cannot clash. For instance, the value placed on strategic planning and the approaches used for planning should be similar. The more similar the culture and objectives, the more comfortable the partners are likely to feel, and the higher the chance of partnership success [9].

Managerial Philosophy and Techniques. Another important facilitator is the compatibility of management philosophy and techniques between the two firms. While corporate culture changes very slowly and business objectives are set at the top, operational level managers implement the objectives through their managerial philosophy and techniques. Such things as organizational structure, attitude toward employee empowerment, the relative importance of teamwork and both the use of and approach toward TQM are examples of management philosophies. The strong similarities in basic values as well as operating styles between McDonald's and Coca-Cola provides a strong foundation for an highly integrated Type III partnership [10].

Mutuality. The ability of a management team to put themselves in their partner's shoes is critical in partnering. This ability is usually expressed as a willingness to develop joint goals, share sensitive information, and take a long-term perspective. Mutuality is exemplified by Whirlpool's Quality Express relationships. According to one of Whirlpool's partners, "...in a partnership you are taking on your partner's goals and aspirations... You have to be willing to give up your own identity. You lose your identity, but you grow with your partner." From the Whirlpool side, an executive expressed mutuality this way. "A partnership has to benefit both parties. It cannot be a one way relationship because if you are going to weaken the other side, eventually you are going to weaken the whole operation" [11].

Symmetry. The probability for success is enhanced when the partners are "demographically" similar. Symmetry in terms of importance of each firm to the other's success, relative size, market share, financial strength, productivity, brand image, company reputation, and level of technological sophistication will make a stronger relationship. When firms are relatively symmetrical, there is no junior partner and therefore none of the insecurity, defensiveness and fear which is often found in an unequal relationship. The partnership between McDonald's and Coca-Cola is enhanced by the fact that both have strong brand images and each is the number one firm in its industry. Further, McDonald's is Coca-Cola's largest customer and Coca-Cola is McDonald's largest supplier, adding more symmetry to the relationship [12].

Additional Facilitators

The four facilitators already mentioned are universal in that they should exist in any relationship. Their presence strengthens the probability of success and their absence increases the chance of failure. In addition, situation-specific facilitators may be present. While the presence of these facilitators is likely to increase the probability of success, their absence does not spell failure. The additional facilitators include exclusivity, shared competitors, physical proximity, a prior history of working with the partner, and a shared high value end user.

Exclusivity. When managers of both firms are willing to entertain the possibility of exclusivity, then the opportunities for and the likely advantages of the partnership are broadened. For example, Whirlpool views the Quality Express relationship with ERX as a significant competitive advantage. While ERX management may consider providing a similar service to manufacturers of complimentary non-competitive products, such as kitchen cabinets or televisions, this service would not be offered to direct competitors of Whirlpool. In the case of a branded product where exclusivity would not be possible, exclusivity can be addressed by establishing a separate division that deals solely with the large partner or by providing customer unique packaging.

Shared Competitors. In the relatively rare case when both parties face a common competitor, the partnership is likely to have a stronger foundation. An excellent example of this is the McDonald's and Coca-Cola relationship in which they both face Pepsi as a competitor. "Now that Pepsi is in the hamburger business... it has given us a synergy that has added to the partnership," stated a McDonald's executive.

Close Proximity. If key players from both firms are located near each other this can enhance the relationship. The relationship between Target and 3M reflects the influence of proximity. According to a 3M representative, "[the relationship] developed over time since both companies are based in the Twin cities."

Prior History. Firms with a prior history of positive interaction will have an advantage when building partnerships. Having worked closely and successfully with a partner in the past strengthens the chance of future successful interactions [13].

Shared End User. In the case where both partners are serving the same end user, and that end user is of particularly high value, the partnership is likely to be strengthened. For example, both McDonald's and Coke place emphasis on the young consumer market and this strengthens their relationship.

Assessing Facilitators

Facilitators apply to the combined environment of the two potential partners. Therefore, unlike drivers which are assessed by managers in each firm independently, facilitators should be assessed jointly. The discussion of corporate values, philosophies, and objectives often leads to an improved relationship even if no further steps toward building a partnership are taken. The strength of facilitators can be assessed using a 25 point rating scheme shown in the guide in Table 3. The higher the facilitators, the better the chance of partnership success. A very low score (below 8) would suggest that even with strong drivers, a partnership is likely to fail because of a hostile environment. Conversely, very high facilitators (16 or above) could lead to partnership success even in the face of low drivers (8-11 points).

Partnership Types

If both parties realistically expect benefits from a partnership and if the corporate environments appear supportive, then a partnership is warranted. However, not all partnerships are the same. Three types of partnering exist, each with different degrees of integration. The appropriateness of any one type of partnership is a function of the combined strength of the drivers and facilitators. A combination of strong drivers and strong facilitators would suggest a Type III partnership, while low drivers and low facilitators suggest an arm's length relationship, as shown in Figure 3.

While it might seem, from all of the press on the importance of integrated relationships and alliances, that managers should attempt to turn all of their corporate relationships into Type III partnerships, this is not the case. In partnering, more is not always better. The objective in establishing a partnership should not be to have a Type III partnership, rather it should be to have the most appropriate type of partnership given the specific drivers and facilitators. In fact, in situations with low drivers and/or facilitators, trying to achieve a Type III partnership is likely to be counterproductive. The necessary foundation is just not there. Having determined that a partnership, of a specific type, is warranted and should be pursued, the next step is to actually put the partnership into place. This is done through the components.

In summary, the assessment of the drivers and facilitators is used to determine

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Table 3
Assessment of Facilitators

Facilitators are factors which provide a supportive environment for the growth and maintenance of a partnership. For each facilitator, indicate the probability of it being a factor in this relationship, by circling one of the boxed numbers

	Probability				
	No Chance				Certain
CORPORATE COMPATIBILITY	0%	25%	50%	75%	100%
1. What is the probability that the two organizations will mesh smoothly in terms of:	1	2	3	4	5
(a) CULTURE?					
-Both firms place a value on keeping commitments					
-Constancy of purpose					
-Employees viewed as long term assets					
-External stakeholders considered important					
(b) BUSINESS?					
-Strategic plans and objectives consistent					
-Commitment to partnership ideas					
-Willingness to change					

	Probability				
	No Chance				Certain
MANAGEMENT PHILOSOPHY AND TECHNIQUES	0%	25%	50%	75%	100%
2. What is the probability that the management philosophy and techniques of the two companies will match smoothly?	1	2	3	4	5
-Organizational structure					
-Use of TQM					
-Degree of top management support					
-Types of motivation used					
-Importance of teamwork					
-Attitudes toward "personnel churning"					
-Degree of employee empowerment					

	Probability				
	No Chance				Certain
MUTUALITY	0%	25%	50%	75%	100%
3. What is the probability both parties have the skills and predisposition needed for mutual relationship building?	1	2	3	4	5
Management skilled at:					
-two-sided thinking and action					
-taking the perspective of the other company					
-expressing goals and sharing expectations					
-taking a longer term view					
-mutual respect					
Management willing to:					
-share financial information					
-integrate systems					

	Probability				
	No Chance				Certain
SYMMETRY	0%	25%	50%	75%	100%
4. What is the probability that the parties are similar on the following important factors that will affect the success of the relationship:	1	2	3	4	5
-Relative size in terms of sales					
-Relative market share in their respective industries					
-Financial strength					
-Productivity					
-Brand image/reputation					
-Technological sophistication					

ADDITIONAL FACTORS (BONUS POINTS)	Yes	No
5. Do you have shared competitors which will tend to unite your efforts?	1	0
6. Are the key players in the two parties in close physical proximity to each other?	1	0
7. Is there a willingness to deal exclusively with your partner?	1	0
8. Do both parties have prior experience with successful partnerships?	1	0
9. Do both parties share a high value end user?	1	0

Add all the boxed numbers which you have circled on this page and place the total in the box to the right. This represents the strength/ability to sustain and grow the partnership.

Figure 3
Propensity to Partner Matrix

FACILITATOR POINTS		DRIVER POINTS 8-11 Points	DRIVER POINTS 12-15 Points	DRIVER POINTS 16-24 Points
	8-11 Points	Arm's Length	Type I	Type II
	12-15 Points	Type I	Type II	Type III
	16-25 Points	Type II	Type III	Type III

the potential for a partnership. That is, should a partnership be implemented and if so what type of partnership is appropriate? However, it is the management components and how they are implemented which determine the type of relationship that is actually in place.

Components

Components are the activities and processes that management establishes and controls throughout the life of the partnership. Components make the relationship operational and help managers create the benefits of partnering. Every partnership has the same basic components, but the way in which the components are implemented and managed varies. Components include: planning, joint operating controls, communications, risk/reward sharing, trust and commitment, contract style, scope, and financial investment [14].

Planning. Joint planning, a key component of effective partnerships, can range from the sharing of existing plans to the joint development of strategic objectives. Effective joint planning adds both flexibility and strength to a relationship. In the McDonald's and Coca-Cola relationship, joint planning is done at multiple levels, on both a periodic and continual basis [15].

Joint Operating Controls. In a partnership, either party should be able to change the operations of the other for the good of the partnership. The ability to make changes can range from being encouraged to suggest changes to being empowered to operationalize a change without needing prior approval or notification from the partner. Within the Whirlpool Quality Express partnership, ERX can change the delivery schedule to a customer, without first obtaining approval, or even notifying, Whirlpool [16].

Communications. Effective communication, on both a day-to-day and a non-routine basis, is a key component of successful partnerships. Integrated E-mail systems, regularly scheduled meetings and phone calls, and the willingness to share both good and bad news, as well as communication systems such as EDI, all contribute to the success of a partnership. The more breadth and depth that exists in communication patterns, the stronger the partnership is likely to be. Communication links should be across all levels of the organizations including strategic, tactical, operational, interpersonal, and cultural [17].

Risk/Reward Sharing. At the core of a partnership is the concept of "shared destiny." Mechanisms need to be in place to ensure that not only are the benefits and rewards of the partnership shared, but that the costs and risks are also shared. A strong commitment to shared risk is evident when either party is willing to take a short-term "hit" in order to help out the partner and to strengthen the partnership over the long-term. In one of our cases, a firm deliberately delayed a planned price increase because its partner was not meeting its financial goals due to competitive pressures. In another case, productivity gains above a stated level are shared 50/50 [18].

Trust and Commitment. No partnership can exist without trust and commitment. Loyalty to each other, loyalty to the partnership, and a long-term focus are all elements of trust and commitment. True partners do not have to constantly worry about being replaced. While most executives involved in partnerships found it difficult to precisely define trust, they all intuitively knew when it existed.

Contract Style. The type of contract which governs a partnership speaks volumes about the relationship. The strongest partnerships generally have the shortest and least specific agreements or no written agreement at all. A one to two-page document, outlining the basic philosophy and vision for the partnership, is all that is needed when the parties are truly integrated. The partnership contract for the Quality Express program is only about three pages long, and most managers operating under the contract had not seen it and were not aware that it existed. The "contract" between McDonald's and Coca-Cola is not in writing. It is an agreement based on trust and sealed with a handshake [19].

After having determined the appropriate type of partnership and the associated level of component implementation, the parties must agree on how each component is specifically going to be put into place and managed.

Scope. A partnership is made stronger by including more of the economic activities of each firm within the relationship. The number and complexity of the value-added steps covered and the amount of business involved are key elements of a partnership. The strength of the partnership between Xerox and Ryder is reflected in the scope of activities which Ryder's truck drivers perform for Xerox. Ryder performs light assembly and testing of equipment and Ryder truck drivers deliver the new machines, set them up, demonstrate them for customers, and take-away the old equipment [20].

Financial Investment. A partnership can be strengthened by the sharing of financial resources across the relationship. Shared assets, joint investment in technology, exchange of key personnel, and joint research and development reflect a high degree of financial interdependence. Such interdependence leads to a stronger partnership [21].

Levels of Components

Each of the eight components will be evident in every partnership, regardless of type. However, the amount of each component, ranging from low to high, and the way in which the component is managed will vary depending upon the type of the partnership. For instance, while every partnership will have some degree of joint planning, that planning can range from infrequent, ad-hoc sharing of individual plans (low) to systematic, multi-level, joint strategic planning (high). Table 4 shows the various levels of implementation for each component.

When a Type I relationship is warranted, implementation of the components at a low level is appropriate. For a Type II partnership, there should be a predominance of medium level implementation. A Type III partnership should reflect a predominance of high level implementation of the components.

Implementing the Components

After having determined the appropriate type of partnership and the associated level of component implementation, the parties must agree on how each component is specifically going to be put into place and managed. For instance, if it is determined that a Type III partnership is appropriate, this means that the majority, but not necessarily all, of the components should be implemented at a high level. Therefore some decision must be made on which of the components will be implemented at a high level, and which may be more appropriately implemented at a medium level, as well as a timetable for implementation and the resources needed.

At Texas Instruments, this model was used with a major supplier. After deciding that a Type II partnership was appropriate, the parties agreed to specifics on how communications were to take place, what type of joint planning was to be done, the operations which would be jointly managed and other aspects of the components. Each partner then determined what resources were necessary in terms of dollars, time and personnel; and commitments were obtained from top management for those resources. As a result, both parties understood and accepted the expectations and requirements of the partnership.

A partnership, if appropriately established and effectively managed, should improve performance for both parties.

Outcomes

A partnership, if appropriately established and effectively managed, should improve performance for both parties. Profit

Table 4
Partnership Component Levels

Partnership Component		Low	Medium	High
PLANNING	• Style • Level • Content	• On ad-hoc basis • Focus on projects or tasks • Sharing of existing plans	• Regularly scheduled • Focus is on process • Performed jointly, eliminating conflicts in strategies	• Systematic: Both scheduled and ad hoc • Focus is on relationship • Performed jointly and at multiple levels, including top management; objective is to mesh strategies; each party participates in other's business planning.
JOINT OPERATING CONTROLS	• Measurement	• Performance measures are developed independently and results are shared	• Measures are jointly developed and shared; focused on individual firm's performance.	• Measures are jointly developed and shared; focused on relationship and joint performance
	• Ability to make changes	• Parties may suggest changes to other's system	• Parties may make changes to other's system after getting approval	• Parties may make changes to other's system without getting approval
COMMUNICATIONS	NON-ROUTINE	• Very limited, usually just critical issues at the task or project level	• Conducted more regularly, done at multiple levels; generally open and honest	• Planned as a part of the relationship; occurs at all levels; sharing of both praise and criticism; parties "speak the same language"
	DAY-TO-DAY • Organization	• Conducted on ad-hoc basis, between individuals	• Limited number of scheduled communications; some routinization	• Systematized method of communication; may be manual or electronic; communication systems are linked
	• Balance	• Primarily one-way	• Two -way but unbalanced	• Balanced two-way communications flow
	• Electronic	• Use of individual system	• Joint modification of individual systems	• Joint development of customized electronic communications
RISK/REWARD SHARING	• Loss tolerance • Gain Commitment	• Very low tolerance for loss • Limited willingness to help the other gain	• Some tolerance for short-term loss • Willingness to help the other gain	• High tolerance for short-term loss • Desire to help other party gain
	• Commitment to fairness	• Fairness is evaluated by transaction	• Fairness is tracked year to year	• Fairness is measured over life of relationship
TRUST AND COMMITMENT	• Trust	• Trust is limited to belief that each partner will perform honestly and ethically	• Partner is given more trust than others, viewed as "most favored" supplier	• There is implicit, total trust; trust does not have to be earned
	• Commitment to each other's success	• Commitment of each party is to specific transaction or project; trust must be constantly "re-earned"	• Commitment is to a longer term relationship	• Commitment is to partner's long-term success; commitment prevails across functions and levels in both organizations
CONTRACT STYLE	• Timeframe	• Covers a short time frame	• Covers a longer time frame	• Contracts are very general in nature and are evergreen, or alternatively the entire relationship is on a handshake basis
	• Coverage	• Contracts are specific in nature	• Contracts are more general in nature	• Contract does not specify duties or responsibilities; rather, it only outlines the basic philosophy guiding the relationship
SCOPE	• Share	• Activity of partnership represents a very small share of business for each partner	• Activity represents a modes share of business for at least one partner	• Activity covered by relationship represents significant business to both parties
	• Value-added	• Relationship covers only one or a few value-added steps (functions)	• Multiple functions, units are involved in the relationship	• Multiple functions and units are involved; partnership extends to all levels in both organizations
	• Critical activities	• Only activities which are relatively unimportant for partner's success	• Activities that are important for each partner's success are included	• Activities that are critical for each partner's success are included
INVESTMENT	• Financial	• There is low or no investment between the two parties	• May jointly own low value assets	• High value assets may be jointly owned
	• Technology	• No joint development of products/technology	• There is some joint design effort and there may be some joint R&D planning	• There is significant joint development; regular and significant joint R&D activity
	• People	• Limited personnel exchange	• Extensive exchange of personnel	• Participation on other party's board

enhancement, process improvements, and increased competitive advantage are all likely outcomes of effective partnerships. Specific outcomes will vary depending upon the drivers which initially motivated the development of the partnership. It should be noted, however, that a partnership is not required to achieve satisfactory outcomes from a relationship. Typically, organizations will have multiple arm's length relationships which meet the needs of and provide benefits to both parties. One of our case study relationships, between an express delivery company and a national manufacturer, was viewed by both parties at the beginning of the research as a partnership, since both parties were receiving their desired outcomes: a service improvement and cost reduction for the manufacturer and a revenue increase for the delivery company. At the completion of the research, it was clear to management in the manufacturing firm and the researchers that this relationship was not a partnership. The components of a partnership were not present. The desired benefits resulted from the fact that the parties were appropriately using an effective arm's length relationship.

Applications of the Model

The model was designed primarily as a tool to help develop new partnerships. When used in this manner, the party desiring a partnership should first use the model internally to assess the drivers and the appropriateness of partnering. The potential partner should then do the same. If both parties decide that a partnership has potential, they must jointly evaluate the facilitators and agreement must be reached on the type of partnership and the implementation of the components.

In addition to being used as a tool for assessing a new relationship, the model can be used to diagnose existing relationships.

Establishing a New Partnership

AlliedSignal, a long-term customer of Sea-Land Services, recently asked the carrier's management to consider a partnership. AlliedSignal's goal was to combine all the services of CSX, Sea-Land's parent company, into a single relationship. This included barge, intermodal, rail and trucking, as well as the existing container business. Sea-Land representatives suggested the use of the model as a guideline for understanding and implementing a partnership.

Two very positive results emerged from this experience. First, the model clearly indicated to the parties the difference between a partnership and a long-term contract with volume and price guarantees (which is often mistakenly thought of as a partnership). According to one manager, "...the model identified eight or nine behaviors which we needed to change, as well as eight or nine behaviors we thought they could change."

Second, in a multi-division firm it is difficult to put a single-face forward. The model helped CSX coordinate the response of different business units to a partnership opportunity. In the words of a Sea-Land manager, "If we are looking at a corporate solution for the customer, one CSX unit might have to do something that in the short run will be suboptimal, but in the long run will be positive for CSX Corporation as a whole as a result of positive gains made by other CSX units. Or we may have to gamble and set rates and service commitments, which we know the competitor will match; and we will have to rely on the customer's integrity to deliver on their promise." Sea-Land was willing to make these commitments as long as a partnership was in place and other CSX divisions were on board.

Diagnosing an Existing Relationship

In addition to being used as a tool for assessing a new relationship, the model can be used to diagnose existing relationships. It works as an excellent check to ensure that a relationship is the appropriate type. By jointly working through the model, partners can determine if the relationship needs to be strengthened, needs to be loosened, or should be left as is.

For example, Goodyear and Yellow Freight have had a strong relationship for a number of years. Since 1992, they have closely coordinated efforts and participated in numerous joint activities for distribution of tires. Although no problems existed in the relationship, management in Goodyear's Logistics and Product Supply Group decided to evaluate the partnership using the model.

Teams from both Goodyear and Yellow evaluated the drivers and facilitators using the assessment forms. Multiple personnel, at various levels, in both firms assessed the relationship. The scores were analyzed to

identify any gaps or inconsistencies between levels within each corporation, as well as between the two corporations.

The assessment of the drivers and facilitators confirmed that a strong (Type II) partnership was appropriate. The components were then reviewed in a systematic way by joint teams. Management from both firms believe that working through the model has strengthened the partnership and has identified areas for improvement.

Strengthening a Key Relationship

Texas Instruments used the model to strengthen its relationship with Photronics, a key supplier of photomask. TI purchases 99 percent of its domestic market photomask requirements from Photronics, which represents about 36 percent of Phonotronics' sales. Photronics has five facilities in the U.S., including one in Texas dedicated to TI. The Texas facility was originally a TI operation, which was divested in 1990 by TI and was purchased by Photronics in 1993. Nearly all of the key personnel in the Photronics operations are ex-TI employees.

Realizing the importance of the relationship, the two firms used the model to determine how the partnership might more effectively be managed. Initially, considerable time was spent in joint meetings agreeing upon the meanings of each element of the drivers, facilitators, and components. Then each party independently assessed the drivers. This was done by multiple people at various levels in both firms (10 people from Photronics and 25 people from TI). After assessing both drivers and facilitators, the firms agreed that the most appropriate type of relationship was a Type II. In a meeting attended by vice presidents from TI, the president, the chairman and vice-presidents from Photronics, and numerous operational personnel from both firms, agreement was reached on the specific implementation of the components. The team prioritized the components and developed a detailed implementation plan outlining what each party would do to ensure successful implementation. Over a four month period the teams held approximately five to six hours of meetings per week, involving eight to 10 people from each firm.

Both firms are now more satisfied with the direction of the partnership and its current working arrangement. They have shared and meshed five year plans and each has made a commitment to the other. Even though their existing contract expired in 1995, the have decided to move forward with no contract.

Implementing Relationship Management

The model is also useful in harmonizing the partnership process throughout an organization. It provides a way to systematize the approach to partnering. Texas Instruments has used the model as a partnership marketing tool within the firm. The common language of drivers, facilitators, and components helps executives see the importance and potential of partnerships.

The model further serves as a screening tool in deciding where to allocate scarce resources. A firm can have a Type III partnership with only a limited number of partners. This limitation makes it critical that the correct relationship style is used in each business-to-business link. The model suggests which relationships offer the best potential pay-back and should be given the most attention and resources.

Management from both firms believe that working through the model has strengthened the partnership and has identified areas for improvement.

Institutionalizing the Partnership Process

Partnering is critical to long-term competitive success, and the partnership model can help managers develop and implement a cohesive, focused partnership strategy. Based upon the experiences of the case study firms, institutionalizing the partnership approach so that it will survive the departure/transfer of a key executive requires a recognition of the importance of: a champion, preselling, education, organization, empowering employees and reporting.

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As with any major organizational change, systematizing the approach to partnership management requires a champion or change agent who will promote the partnership concept throughout the organization. Texas Instruments' success with the partnership model was due, in large part, to the aggressive leadership of a change agent.

The model has been most successful in those firms where a change agent first sold top management on the concept of partnering and then introduced the details at an operational level. Short presentations, customized to each individual firm, and

emphasizing the systematic approach to partnering were used as a "hook" to gain the interest of managers, customers and/or suppliers, as well as to gain a commitment to further education.

When the effort was made to educate managers about the details of the model, its use was a success. On the other hand, in those cases where the process was only briefly explained, frustration and failure resulted, at least initially. It is imperative that all parties on both sides of the partnership have a common understanding of language and terms. Everyone should be using the same meaning for a Type III partnership, for instance.

Building and developing partnerships takes time and resources. A "partnership organization" within the firm enhances the probability of continued availability of those resources. The most common "structure" seen within the case study firms was one of teams. In the Goodyear/Yellow Freight partnership, there are seven teams at various locations, with members from both parties participating on each team. These teams greatly facilitate the communications and planning necessary for an on-going commitment to partnering.

The partnership model offers a systematic process for ensuring that partnerships are developed and managed in the most beneficial way for both firms.

A partnership can enhance an organization's ability to empower its own employees as well a those of its partner. In the partnership between Whirlpool and ERX, ERX drivers were empowered to evaluate shipping damage and negotiate settlement, thus solving a potentially damaging customer service issue immediately. This eliminated the need for a damage adjuster and enhanced customer goodwill. Both parties felt comfortable with this arrangement due to the partnership components which were in place. Joint planning and training took place, close communications were established, and a high level of trust existed.

Similarly, Xerox empowered Ryder Systems delivery personnel to unpack, set-up and test copiers, thus eliminating the need for multiple visits from Xerox personnel including technical representatives, sales people, and a technician who removed the old equipment. In doing so, Xerox was placing its quality reputation on the line and in the hands of Ryder personnel. Trust, planning, operating controls, and risk sharing all had to be in place for this system to work.

In order to keep the partnering process on track, there needs to be regular reporting and communication about the partnership and its progress both within each firm and across the organizations. In case study firms, this reporting was done at joint team meetings, through internal newsletters, and in written managerial reports. The initiation of a new partnership between CSX and AlliedSignal was widely announced in corporate newsletters. This keeps all potential contacts across the two organizations aware of the partnering initiative.

Conclusions

In today's competitive environment with leaner organizations it is necessary to form closer relationships with key suppliers, customers and third-party providers in order to maintain a leadership position and to grow. But the same forces that provide the benefits of partnering make it impossible to develop these relationships with everyone. Trying to develop a partnership where one is not warranted will waste valuable resources while providing minimal return. Not having a partnership when one is appropriate squanders an opportunity for competitive advantage.

The partnership model offers a systematic process for ensuring that partnerships are developed and managed in the most beneficial way for both firms. Users of the model have found that the most helpful aspect of the model is not the specific scores obtained, but rather that the process leads to a complete discussion of all important issues. However, the partnership model alone is not sufficient to guarantee effective relationship management. Business will continue "as usual" unless managers are provided with incentives and are rewarded for building and maintaining effective partnerships. Top management must not only embrace partnership ideals, they must also recognize and reward cooperative behavior.

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