

Partner Relationships: Confrontation, Collaboration, or Both?

Product Value Management

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PRODUCT LIFECYCLE MANAGEMENT
ROAD MAP™



CPDA: Collaborative Product Development Associates, LLC

CPDA's Product Lifecycle Management (PLM) research programs target the critical decisions in Product Lifecycle Management challenging Design, Engineering, Manufacturing, and Information Technology managers and executives. CPDA's PLM collaborative research programs provide in-depth analysis of strategies, products, issues, processes, technologies, trends, case studies, and surveys for assessing technology, business goals and objectives, and implementation road maps.

The cohesive suite of collaborative programs clarifies and evaluates new capabilities, frameworks standards, and development issues; it highlights the most advanced uses of leading technologies, and it links the technical effort to the realization of business value. The four collaborative research programs include:

- ***Design Creation and Validation:*** A bottom-up view of engineering requirements from the desktop across the enterprise. Advanced computer-aided design (CAD), engineering analysis, manufacturing technologies, collaboration, and visualization software serve as springboards for gaining a competitive advantage. The Design Creation and Validation service applies CPDA's structured methodology to the evaluation of new products and processes as well as to current projects in client organizations. A critical focus, the emerging technology of knowledge engineering with templates and rule-based architectures focuses on delivering the needed tools into the hands of product developers to capture knowledge, and to formalize its use. The use of direct geometry access and manipulation, data translation technology, XML alternatives, and JT options are also assessed for their ability to deliver interoperability across the diverse and disparate business and technical applications.
- ***Design/Simulation Council:*** The Council promotes a standard framework employing common terminology to integrate and optimize the diverse and divergent specialist activities currently fragmenting design efforts. CAE must fully integrate with design, up front, to close the chasm between design and analysis. Analysts must actively participate continuously in design decisions and enter the mainstream. The impending breakthrough in CAE will rest on knowledge reuse, process capture, and streamlining.
- ***PLM Integration / Product Definition:*** A top-down view provides a conceptual framework for collaboration across different product development perspectives, bridging customer needs, systems engineering and tradeoffs, design solutions, and fulfillment and manufacturing. Integration and interoperability in complex PLM environments pose substantial hurdles. The rapid transition to cross-enterprise collaboration, at all levels of design and supply, intensifies the pressure on existing, inwardly focused IT architectures to support and enable new modes of doing business.
- ***Product Value Management:*** Common processes for design, development, and product introduction across the supply chain may be validated with reference models such as SCOR (Supply Chain Operational Reference model), or VCOR (Value Chain Operational Reference model). Business process modeling (BPM) facilitates the building of consensus around a common understanding and terminology, across organizations and functional silos. Mapping BPM to a service-oriented architecture based on open standards represents a critical second step. An IT integration infrastructure in a Federated Enterprise Reference Architecture (FERA)[™] supports a loose coupling between enterprises extending across the supply chain.

Collaborative Product Development Associates was formed by the PLM research team of D.H. Brown Associates, Inc. (DHBA).



Partner Relationships: Confrontation, Collaboration, or Both?

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Christian Verstraete leads the High-Tech industry and the Supply Chain Portfolio go-to market strategy for Hewlett-Packard. In this role he works closely with internal groups to review best practices and to define how they can be used in their go-to market strategies.

This report is based on Mr. Verstraete's presentation to PLM Road Map™ 2005, CPDA's annual conference, which took place this year on September 28 and 29 in Dearborn, Michigan.

EXECUTIVE SUMMARY

Successful adaptation to change comes down to organizational agility. Yet the pace and scope of change today exceeds the response capabilities of many organizations. To succeed, organizations must replace reactive management with strategic proactive management. The most successful firms proactively anticipate change. They reduce the latency factors by looking ahead. The simple act of anticipation can open doors to new ways of doing business and can cause an organization to improve its agility and its response to change.

OPTIMIZING ACROSS THE SUPPLY CHAIN

Organizational partners must play a key role in developing a climate of anticipation. Find those partners that add key value to your end product or service. Perhaps they provide a component that gives you a strategic advantage. Perhaps they provide just-in-time delivery of parts better than anybody else. Whatever it is, you recognize their contribution as a key competitive component. In a traditional relationship with such a supplier, you would work at arm's length, negotiate down to the nickel, and treat them as a separate, external entity. Any change you propose to them, or they to you, becomes an external and generally unanticipated change factor.

In the new climate of anticipation, you and this supplier work together both tactically and strategically. You cooperate on design issues, on delivery issues, on every aspect of your relationship. This is a change in mentality. You can't afford to be lucky when you find good suppliers, and you can't afford to add and drop suppliers as a change strategy. Successful firms today must extend their sense of proactive management and anticipatory management to their suppliers.

LESSONS FROM CONSUMER ELECTRONICS

In the quest for survival, many consumer electronic companies bet heavily on emerging technologies and markets. They also invest substantially in product development channels and branding. To control costs, many now outsource much of their manufacturing to specialist companies and low-labor-cost countries. I think it is worth your time, if you are in another business, to examine the consumer electronics business closely. There are lessons to be learned.

HP is actively reworking its supply chains to become more anticipatory and to increase cooperation with its suppliers. About seven years ago, HP created a global operations team and gave it a mandate to realign supply chains. At the time, each one of HP's 80-plus divisions had its own supply chain; every division did its own thing in its own little world of operations. The new global team reduced all the supply chains supporting those 80-plus divisions by first reorganizing them into five groups: *No-Touch*, *Low-Touch*, *Configure-to-Order*, *High-Value*, and *Services*.

Once we identify our supply chains by type, our next step is to look closely at the length of our various chains. We are looking at our design chains, our supply chains, and our customer chains. We have two initiatives. *Design for Supply* seeks to optimize the product not only for the customer but also for the supply chain. For example, we added a new feature to our all-in-one printers, a bar code that will be read by the printer on first use. All the printers are built the same, but when it reads the bar code on first use, the printer knows, "Oh, I'm Chinese," or "Oh, I'm American." Instead of having separate SKU's of any model for each market, we now have one SKU that differentiates on purchase. The small additional cost of the bar code and in the internal software that responds is easily recouped by the reduced cost of building, stocking, and shipping for each market. Design for Supply can reduce supply chain costs, improve time to market, reduce design effort, create shorter order cycles, and reduce material cost.

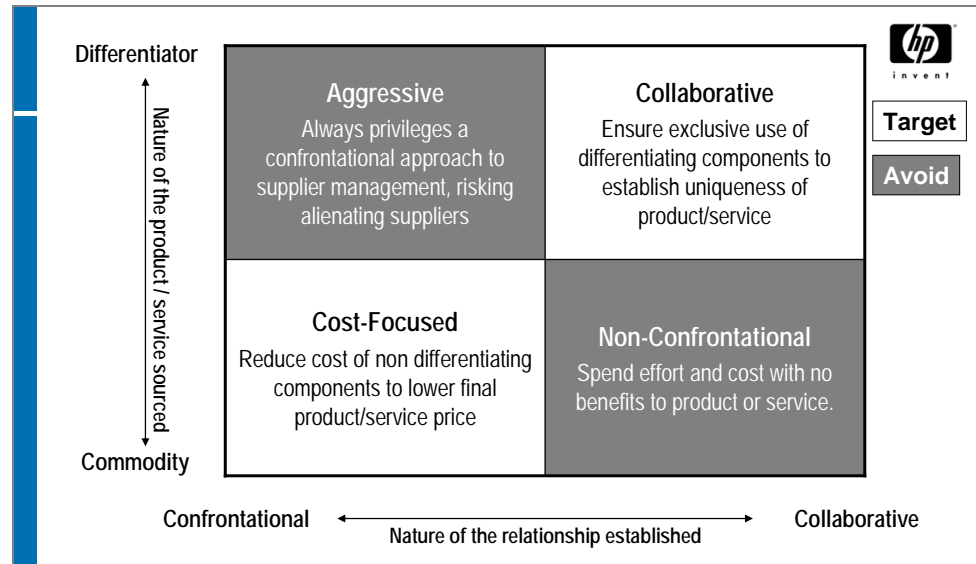
The second initiative, *Demand Shaping* asks, "How can I sell what I have on hand?" It seeks to link demand to supply, so that we can adapt our response to customers and at the same time, try to adapt customer demand in favor of existing products.

THE ROAD MAP FOR SUCCESSFUL COLLABORATION

HP knows the importance of the supply chain, the importance of reacting quickly, and the importance of integrating design and demand into the supply chain. The big question then becomes, how do we collaborate successfully? Like most companies, we started to outsource manufacturing for cost reasons. But we quickly learned we needed to build close relationships with our manufacturing partners. When quality problems started to arise, HP realized that we had to take into account the manufacturing facilities of our outsourcing partners during the design phase. Next, we realized that to improve time to market, we had to go beyond accounting for their facilities in our design work. We had to involve our suppliers in the design process. That led us to begin to outsource the design of commodity products or components, so that we could

focus on development of more innovative, higher-value products. This last step helped us get innovation to market sooner.

FIGURE 4
Not All Suppliers
Should be
Viewed in the
Same Way



Courtesy of Hewlett-Packard

We also recognize four types of suppliers for creating value depending upon how we perceive them, and how we relate to them. They are:

- Cost Focused
- Collaborative
- Non-Confrontational
- Aggressive

Generally speaking, we confront companies that provide commodity products, and we collaborate with companies that provide us unique products or services. As relationships mature, we sometimes become more collaborative with commodity suppliers, and we sometimes get more confrontational with differentiators.

We classify five types of collaboration. *Traditional Procurement* seeks the best price, period. It is strictly a purchasing function, all confrontation and negotiation. *Collaborative Procurement* adds a bit of high tech to Traditional Procurement, with reverse auctions, e-auctions, purchase order collaboration, and maybe the use of XML forms or other electronic data interchange. Fundamentally, it is still a confrontational process, but you agree to reduce relationship costs.

Things start to get interesting with *Supply Chain Collaboration*. The buyer and seller work together to improve costs in the supply chain. Some savings accrue to the buyer, some to the seller. This changes the mentality from the confrontational approaches. You work to build trust and create win-win situations. You manage risk and establish teamwork.

Value Chain Integration naturally extends and fully realizes collaboration across the supply chain. The objective is to reduce supply chain costs and time to market by optimizing the finished product for the supply chain that will build it. Value is created as the chain designs for supply, reduces inventory, and cooperates in

forecasting and planning. It requires all involved to work across divisional boundaries, to work in virtual teams, to establish joint objectives, and to abandon traditional ways of relating to suppliers. Value Chain Integration takes advantage of PLM in the extended enterprise, it collaborates in real time, and it uses business process management across boundaries. If you succeed at Supply Chain Collaboration, you will have created new levels of trust between buyer and seller.

Sustainable Partnerships can occur when all the above steps are fully implemented. The objective is to ensure the sustainability of differentiation through privileged relationships with key suppliers. The partnership realizes additional value because it offers unique characteristics that allow for premium pricing. It is not uncommon for Sustainable Partnerships to lead to equity investments or merger.

HP took twenty years to mature its inkjet procurement. In 1985 HP kept in-house almost every component and process. Today almost all processes and components are outsourced. It took time to find suitable partners, to help them build capacity, and to gain trust. New technologies and other innovations also shifted relationships. No one-time decision can map where a supplier fits in to your collaboration portfolio.

KEY ELEMENTS TO SUCCESSFUL COLLABORATION

In the final analysis, the three key elements are processes, infrastructure, and people. Whenever possible, build processes on standards, for two reasons. One, you don't have to reinvent the wheel to create a new process. Two, it increases the willingness of suppliers to work with you when you offer to use a familiar standard.

For infrastructure, the rule is the same as for processes; rely on existing standards whenever possible. Start with a simple web portal or the use of XML forms, and you can eventually work up to business process collaboration.

People are the most important key element. Work to change minds with win-win negotiations. Build trust starting with inter-personal relationships, then move out step by step to inter-organization trust. Proactively anticipate issues that will challenge trust. Allow time for people to experience and internalize the change, and always look for people in your organization or in the extended enterprise who can lead change.

Collaboration implies a win-win relationship. It implies building both personal and organizational links between the enterprises. At HP every six months we have an executive review where we tell our suppliers how various divisions in our company perceive our relationship with the supplier. Sometimes we bring issues to the table, but it is with an attitude of moving on to improvement.

Above all, allow time for these various relationships to mature. You can't expect that after twenty years of being squeezed for every nickel, a supplier is going to flip in one day and enter into a sustainable partnership.

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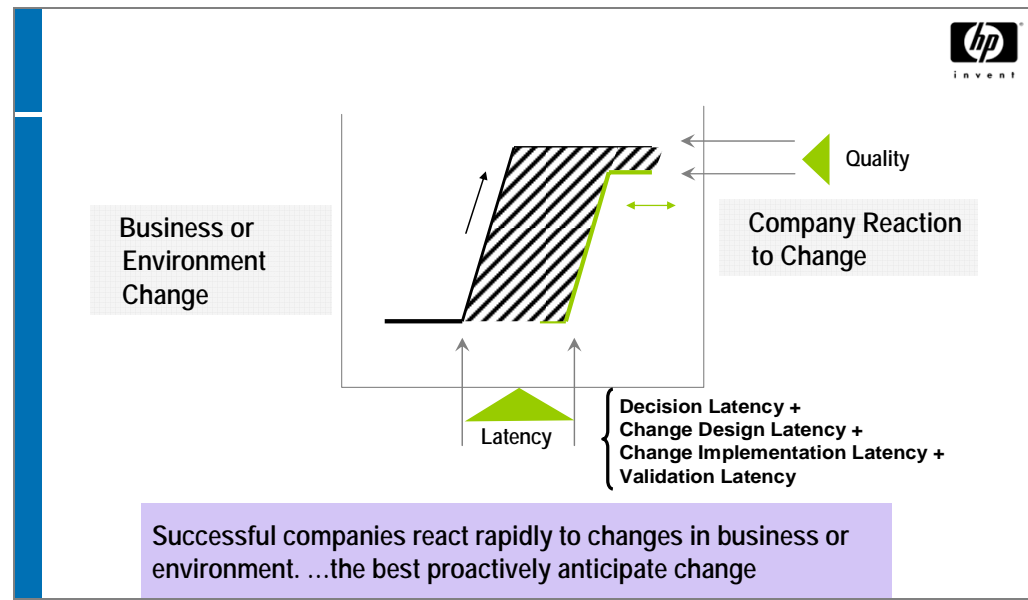
In the good old days of manufacturing, everything was done in-house. Today companies rely on an ecosystem, or an extended enterprise. Call it what you will, but firms now rely on many people outside their organization. That is not a problem if life is simple. Unfortunately, life is usually not simple. We have to learn to cope with change.

It is crucial today to understanding how to manage the manufacturing ecosystem. Manufacturers must strike a balance between day-to-day actions and the successful management of new situations, new ideas, and new events. Some of these new things will prove to be a distraction, while others will prove to be essential to future growth and success.

ANTICIPATING CHANGE

Successful companies react rapidly to changes in their business model or in the business environment. How fast they react is a function of four latency issues that come into play. The first is *decision* latency, the amount of time it takes to approve change. The second is *change design* latency, the amount of time it takes to design the new item. The third is *change implementation* latency, the amount of time it takes the extended organization to retool, both literally and metaphorically. The fourth latency issue is *validation* latency, the amount of time it takes to work out the kinks, so to speak, in the new order.

FIGURE 1
How We React to Change...



Successful companies react rapidly to changes in business or environment. ...the best proactively anticipate change

Courtesy of Hewlett-Packard

While it is important to react and to implement change, the most successful firms do not react, they proactively anticipate change. They reduce the latency factors by looking ahead.

Change is forced upon the organization by both external and internal events. External events include new government regulations, changes in the supply channel, geopolitical events, natural disasters, new competition, unexpected sales demand, and shifts in market behavior. Internal events include reorganizations, mergers and acquisitions, new business practices, quality issues, invention of new technologies, and cost reduction initiatives.

Successful adaptation to change all comes down to organizational agility. Things have always been changing, and organizations have always had to cope with change. But the pace and scope of change today exceeds the response capabilities of many organizations. Too much change threatens the viability of an organization. To succeed, organizations must replace reactive management with strategic proactive management.

OPTIMIZING ACROSS THE SUPPLY CHAIN

The simple act of anticipation can open doors to new ways of doing business and can cause an organization to improve its agility and its response to change. Organizational partners must play a key role in developing a climate of anticipation. Find those partners that add key value to your end product or service. Perhaps they provide a component that gives you a strategic advantage. Perhaps they provide just-in-time delivery of parts better than anybody else. Whatever it is, you recognize their contribution as a key competitive component. In a traditional relationship with such a supplier, you would work at arm's length, negotiate down to the nickel, and treat them as a separate, external entity. Any change you propose to them, or they to you, becomes an external and generally unanticipated change factor.

⇒ "According to Deloitte Research, "...the group of companies that leads in coupling business processes and information exchange across their trading partners delivers as much as 70% higher profitability than those companies that do not integrate with trading partners."

In the new climate of anticipation, you and this supplier work together both tactically and strategically. You cooperate on design issues, on delivery issues, on every aspect of your relationship. This is a change in mentality. You can't afford to be lucky when you find good suppliers, and you can't afford to add and drop suppliers as a change strategy. Successful firms today must extend their sense of proactive management and anticipatory management to their suppliers.

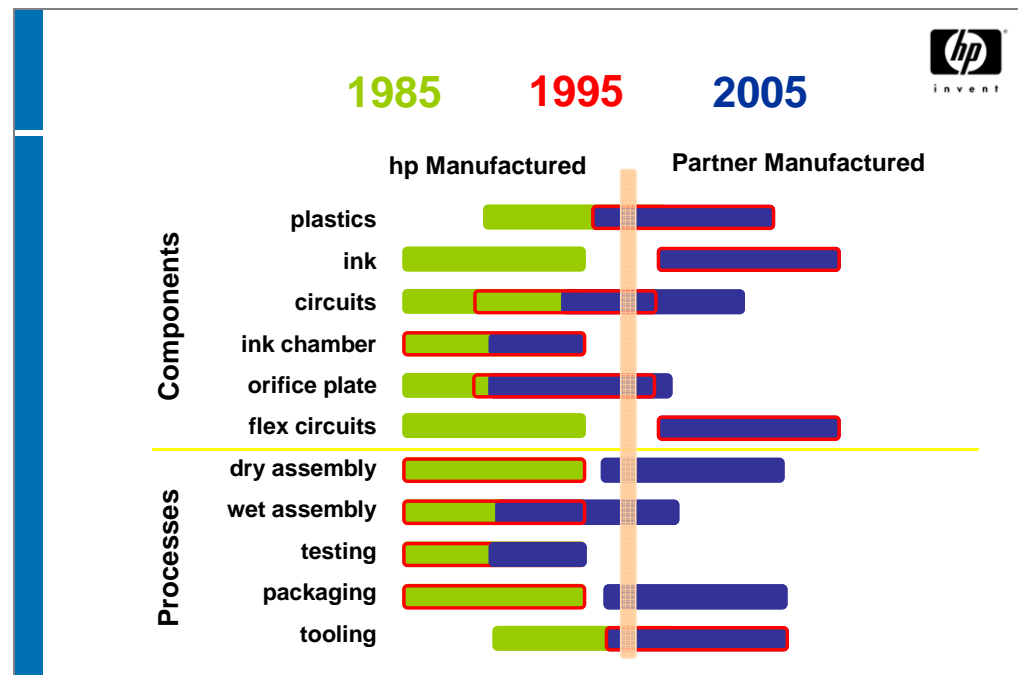
A story about Frito-Lay, the snack foods conglomerate, illustrates this point. In the last ten years, Frito-Lay has essentially wiped out 50% of the European chip market. How? They formed strong partnerships with a packaging machine company and a packaging materials company. Working together, the three companies created a new packaging material that allowed chips to stay fresh twice

as long as the competition's. Next, they promoted this freshness advantage as a differentiator. Mothers like to have chips on hand. They prefer the Frito-Lay chips because they stay fresh in the drawer longer. As a direct result of perceived improvement in freshness, some competitors went out of business. But a more interesting result is that other competitors went to Frito-Lay's suppliers – but these two firms were so busy fulfilling Frito-Lay's needs that they had no excess capacity. Frito-Lay did not just reap extra value from their suppliers; they also created extra value for their supply partners. They took what most companies think of as a tactical job – purchasing – and turned it into a strategic asset.

According to Deloitte Research, “Our research shows that the group of companies that leads in coupling business processes and information exchange across their trading partners delivers as much as 70% higher profitability than those companies that do not integrate with trading partners.” In other words, working closely with suppliers really can increase shareholder value, which is, in the end, what we are all in business to do.

HP is actively reworking its supply chains to become more anticipatory and to increase cooperation with its suppliers. About seven years ago, HP created a global operations team and gave it a mandate to realign supply chains. At the time, each one of HP's 80-plus divisions had its own supply chain; every division was doing its own thing in its own little world of operations. The new global team reduced all the supply chains supporting those 80-plus divisions by first reorganizing them into five groups: *No-Touch*, *Low-Touch*, *Configure-to-Order*, *High-Value*, and *Services*.

FIGURE 2
Evolution of
Co-development
Partnerships in HP's
Inkjet Business



Courtesy of Hewlett-Packard

NO-TOUCH

No-Touch is a supply chain of products that never touch an HP facility. They are manufactured by external companies. Notebook computers are a good example; only the order and the invoice come inside an HP facility.

LOW-TOUCH

Low-Touch products come into an HP supply chain as one element for one repetitive task. We keep our desktop PC's low-touch by maintaining generic manufacturing as long as possible, using what we call postponement. In Europe, desktop PC's vary by country—different keyboards, different manuals, different CD's. At the last moment we put the right keyboard with the right CD and the right stuff in the box, and ship it.

CONFIGURE-TO-ORDER

Configure-to-Order is when we put the pieces together order by order. We have telecom products that combine HP and non-HP pieces. When we get an order, we match up the equipment, add the software, and ship.

HIGH-VALUE

High-Value is the supply chain our systems integration business uses. For example, we are delivering communication bays to network and service providers. In these we include HP and non-HP hardware, software, and sometimes even special cabling and repair components. In an integration center all parts are assembled, tested, and sent to the customer. Another example is when we deliver an SAP system to a customer where we combine hardware, the SAP software, and appropriate services, to allow the solution to be taken into operations.

SERVICES

Our Services supply chain provides spare parts for everything we maintain in the field.

Having identified our supply chains by type, our next step is to carefully examine the length of our various chains. We are looking at our design chains, our supply chains, and our customer chains. We have two initiatives, *Design for Supply*, and *Demand Shaping*. We use these two strategies to shorten and improve our various chains.

DESIGN FOR SUPPLY

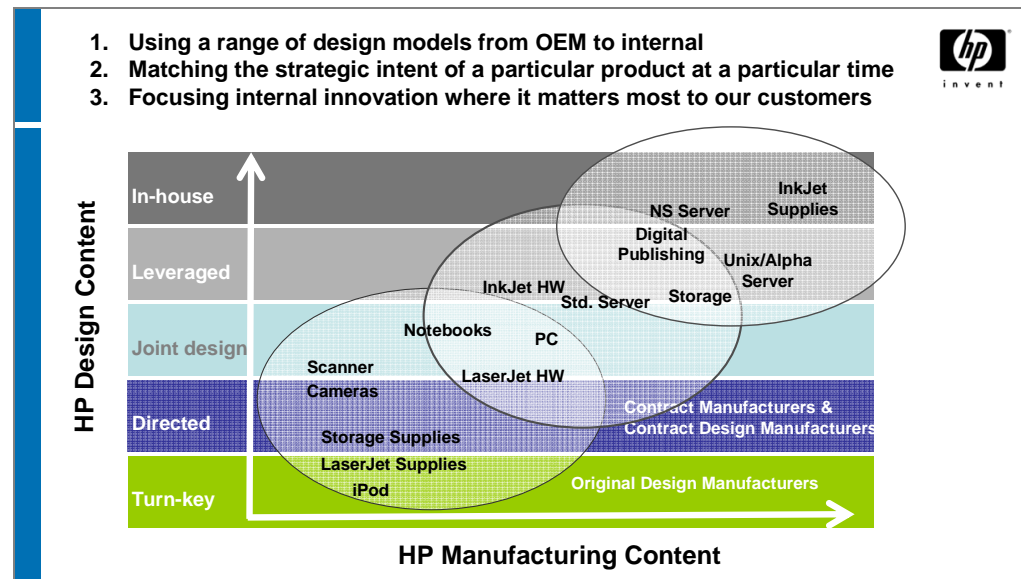
Design for Supply seeks to optimize the product not only for the customer but also for the supply chain. For example, our newest all-in-one printers (fax/print/scan/copy) are getting more square in shape. In years past, they had a more rounded shape. The new ones are squarer because it allows us to greatly reduce packaging and shipping costs. It has become cost effective for us to ship by air now, instead of shipping by sea. A second new feature of these all-in-one printers is the addition of a bar code that will be read by the printer on first use. All the printers are built the same, but when it reads the bar code on first use, the printer knows, "Oh, I'm Chinese," or "Oh, I'm American." Instead of having separate SKU's of any model for each market, we now have one SKU that differentiates on purchase. The small additional cost of the bar code and the

internal software that responds is easily recouped by the reduced cost of building, stocking, and shipping for each market. This is just one example of how Design for Supply can add real value to the company. We have found that Design for Supply can reduce supply chain costs, improve time to market, reduce design effort, create shorter order cycles, and reduce material cost.

DEMAND SHAPING

Demand Shaping asks, “How can I sell what I have on hand?” For example, getting the right Intel chips at the right time can be a real nightmare. We may be short of one type of chip, but have a large inventory of another. If demand is high for the chip in short supply, but low for the chip we have in good supply, we have a problem. Demand Shaping seeks to link demand to supply, so that we can adapt our response to customers and at the same time, try to adapt customer demand in favor of existing products.

FIGURE 3
HP Examples of
Partner Collaboration



Courtesy of Hewlett-Packard

THE ROAD MAP FOR SUCCESSFUL COLLABORATION

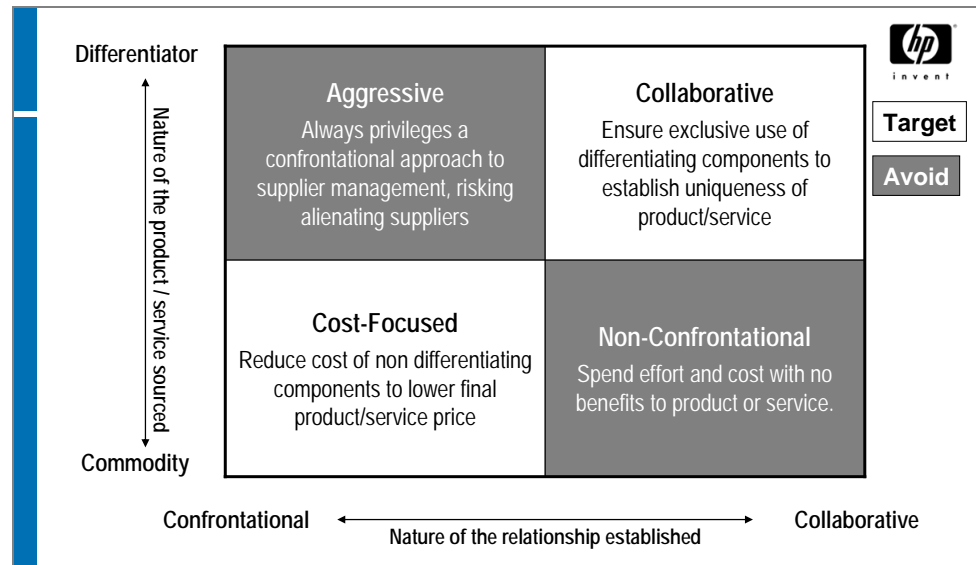
HP knows the importance of the supply chain, the importance of reacting quickly, and the importance of integrating design and demand into the supply chain. These activities create additional partnerships. The big question then becomes, how do we collaborate successfully? We started our education in collaboration the hard way, when we began to outsource much of our manufacturing. Like most companies, we started to outsource manufacturing for cost reasons. But we quickly learned we needed to build close relationships with our manufacturing partners. Quality problems started to occur, and it made HP realize that we had to take into account the manufacturing facilities of our outsourcing partners during the design phase. Next, we realized that to improve time to market, we had to go beyond accounting for their facilities in our design work. We had to involve our suppliers in the design process. That led us to begin to outsource the design of commodity products or components, so that we could focus on development of

more innovative, higher-value products. This last step helped us get innovation to market sooner.

We now recognize four types of suppliers, and five types of collaboration for creating value. The four types of suppliers are named for both how we perceive them and how we relate to them. They are:

- Cost Focused
- Collaborative
- Non-Confrontational
- Aggressive

*FIGURE 4
Not All Suppliers
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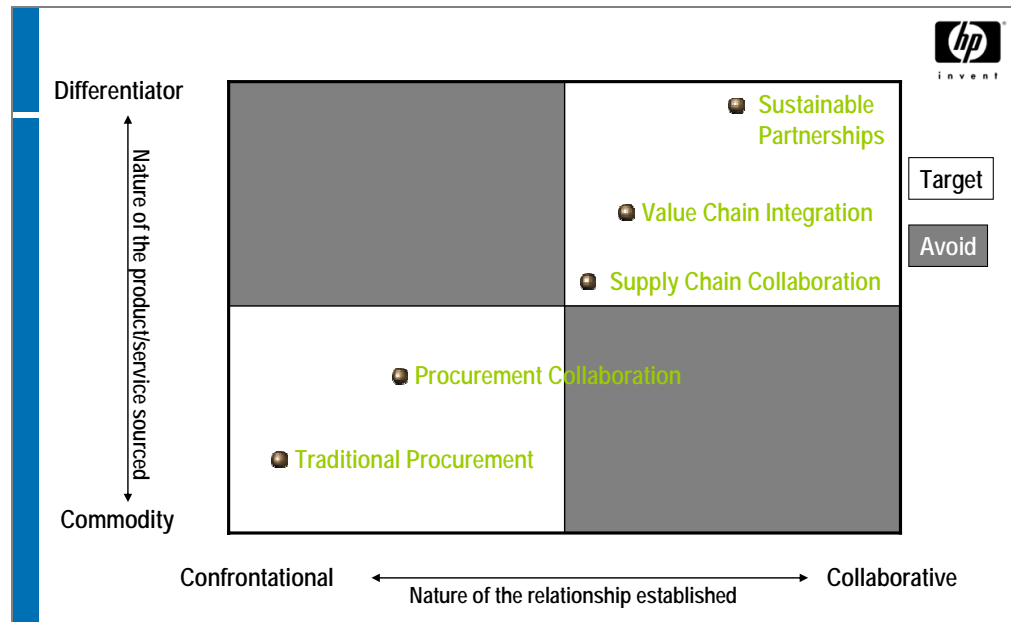


Courtesy of Hewlett-Packard

Generally speaking, we confront companies that provide commodity products, and we collaborate with companies that provide us unique products or services. As relationships mature, we sometimes become more collaborative with commodity suppliers, and we sometimes get more confrontational with differentiators. The five types of collaboration are:

- Traditional Procurement
- Collaborative Procurement
- Supply Chain Collaboration
- Value Chain Integration
- Sustainable Partnerships

FIGURE 5
Five Types of
Collaboration for Value
Creation



Courtesy of Hewlett-Packard

TRADITIONAL PROCUREMENT

Traditional Procurement seeks the best price, period. It is strictly a purchasing function, all confrontation and negotiation: “When can we get it and how cheap will you sell it?” Traditional Procurement is not very high-tech, just phone and fax and maybe email. Traditional Procurement creates no new value; it just shifts it from one player to the next.

COLLABORATIVE PROCUREMENT

Collaborative Procurement adds a bit of high tech to Traditional Procurement, with reverse auctions, e-auctions, purchase order collaboration, and perhaps the use of XML forms or other electronic data interchange. Fundamentally, it is still a confrontational process, but you agree to reduce relationship costs. A little value is created, compared to Traditional Procurement, thanks to automation and optimization of communications.

SUPPLY CHAIN COLLABORATION

Things start to get interesting with Supply Chain Collaboration. The buyer and seller work together to improve costs in the supply chain. Some savings accrue to the buyer, some to the seller. This is a change in mentality from the confrontational approaches. You work to build trust and create win-win situations. You manage risk and establish teamwork. Techniques such as CPFR (collaborative planning, forecasting, and replenishment) are adopted. Supply Chain Collaboration doesn’t happen in a day. You have to build trust and create the relationships step by step. Eventually you get to a point where the collaboration is creating new value. For example, a colleague was recently in a conference with an important supplier of electric motors. “Look,” the motor supplier said to my colleague, “today I supply you with 3,000 different models. We could probably do with about 150 if you would adapt your designs a little. It would be cheaper for me, and cheaper for you. But every time I talk to your

design engineers, they say, ‘no, no, no, we need these fasteners here, those fasteners there, so you need to make all these different products.’” The comment made the buyer realize that additional value could be created by getting the supplier more involved in their design process.

VALUE CHAIN INTEGRATION

Value Chain Integration is the natural extension of fully realized Supply Chain Collaboration. The objective is to reduce supply chain costs and time to market by optimizing the finished product for the supply chain that will build it. Value is created as the chain designs for supply, reduces inventory, and cooperates in forecasting and planning. It requires all involved to work across divisional boundaries, to work in virtual teams, to establish joint objectives, and to abandon traditional ways of relating to suppliers. Value Chain Integration takes advantage of PLM in the extended enterprise, it collaborates in real time, and it uses business process management across boundaries. If you succeed at Supply Chain Collaboration, you will have created new levels of trust between buyer and seller. In Value Chain Integration, it is often more trouble to build new levels of trust inside the lead organization, particularly in R&D.

SUSTAINABLE PARTNERSHIPS

Sustainable Partnerships can occur when all the above steps are fully implemented. The objective is to ensure sustainability of differentiation through privileged relationships with key suppliers. Additional value is created because the partnership has reached a point where it offers unique characteristics that allow for premium pricing. It is not uncommon for Sustainable Partnerships to lead to equity investments or merger.

If you chart these five types of collaboration by the number of suppliers and the potential for value creation, it becomes obvious that as a company moves through these collaboration phases, from Traditional Procurement to Sustainable Partnerships, there is a decrease in the number of suppliers and an increase in the potential for value creation at each step. No one approach is correct. A firm that believes in creating Sustainable Partnerships will always have some relationships that will never advance beyond Traditional Procurement. The important thing is to examine every supplier relationship, to start looking at supply partners as a portfolio. Categorize each supplier, and work on advancing each relationship. Don't jump immediately to acquisition just because you have a good working relationship with a supplier.

	OBJECTIVE	KEY PROCESSES	VALUE CREATION	SKILLS REQUIRED	TECHNOLOGIES USED	APPROACH TAKEN	SCOPE OF RELATIONSHIP AT BUYER SIDE
Traditional Procurement	Get the best price	Purchase Order Generation and Fulfillment.	No value is created; value is shifted from supplier to buyer.	Tough negotiation skills, know how far to go - not too far	Phone, fax, mail	Confrontational	Procurement Department
	Typically for commodities with a large supply base.						
Collaborative Procurement	Get the best price while reducing handling costs for the buyer.	Purchase Order Collaboration, Reversed Auctions	Only value created is the reduction of procurement personnel, due to automation of tasks.	Tough negotiation skills, Experience with EDI, XML, and other communication technologies	EDI, XML, e-Auctions, Public Marketplaces	Confrontational	Procurement and IT department
	An extension traditional procurement. Typically for commodities with a global supply base. Has grown out of the momentum of the public marketplace.						
Supply Chain Collaboration	Improve the profitability for both supplier and buyer by reducing the cost of the supply chain.	Supplier-Managed Inventories, Forecast Collaboration, Collaborative Forecasting, Planning and Replenishment	Inventory reduction, visibility of forecast and planning, etc. reduce the cost in the supply chain, hence create value for both parties.	Change mentalities Build trust Understand win-win approaches Manage risk Establish teamwork Work in multi-cultural environments	EDI, XML (e.g., RosettaNet), transactional integration, private marketplace	Increasingly Collaborative	Procurement and IT Department
	For suppliers of commodities with a smaller supply base or differentiated material. Ensures availability of supply without large inventory levels. Builds increasing dependencies between partners.						
Value Chain Integration	Reduce supply chain costs and time to market by optimizing the finished product for the supply chain that will build it.	Collaborative Development, Engineering Change Management, Supplier-Managed Inventories, Forecast Collaboration, Collaborative Forecasting, Planning and Replenishment	Design for supply chain, inventory reduction, visibility of forecast and planning, etc. reduce the cost in the supply chain, hence create value for both parties.	Work across divisional boundaries Work in virtual teams Establish joint objectives Change mentalities	Real time collaboration, Extended Enterprise PLM, Business Process Management	Collaborative	Typically Procurement, IT and R&D Departments
	Typically used for sub-assembly and contract manufacturers. Implies important links between partners and requires a strategic management approach.						
Sustainable Partnerships	Ensure sustainability of differentiation through privileged relationships with key suppliers of the differentiating components.	Collaborative Development, Engineering Change Management, Supplier Managed Inventories, Forecast Collaboration, Collaborative Forecasting, Planning and Replenishment	The uniqueness of the product characteristics offered allows premium pricing, providing enhanced benefits for all parties involved.	Work across divisional boundaries Work in virtual teams Establish joint objectives Change mentalities Financial Acumen	Real time collaboration, Extended Enterprise PLM, Business Process Management	Collaborative, Alliance Oriented	Typically Procurement, IT and R&D Departments, Top Management
	Typically used for the partner(s) ensuring the unique nature of the end product. Includes alliance building & joint ventures, or equity investments. May go all the way to acquisitions.						

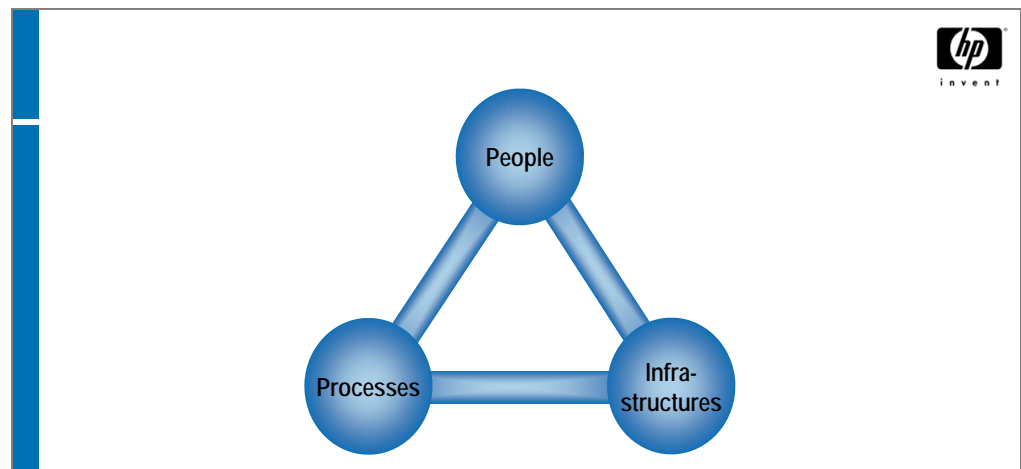
It took HP twenty years to mature its inkjet procurement. In 1985 HP kept in-house almost every component and process. Today almost all processes and components are outsourced. It took time to find suitable partners, to help them build capacity, and to gain trust. At the same time, new technologies and other innovations caused shifts in the relationships. There is no one-time decision on where a supplier fits in to your collaboration portfolio.

In the quest for survival, many consumer electronic companies are betting heavily on emerging technologies and markets. They are also investing substantially in product development channels and branding. To control costs, many now outsource much of their manufacturing to specialist companies and low-labor-cost countries. I think it is worth your time, if you are in another business, to examine the consumer electronics business closely. There have been problems and struggles; there are lessons to be learned. Collaboration is an evolutionary process. In the end, you build extended enterprises that reach into all the tiers.

KEY ELEMENTS TO SUCCESSFUL COLLABORATION

In the final analysis, the three key elements are processes, infrastructure, and people. Whenever possible, build processes on standards, for two reasons. One, you don't have to reinvent the wheel to create a new process. Two, it increases the willingness of suppliers to work with you when you offer to use a familiar standard.

FIGURE 6
Key Elements to
Successful
Collaboration



Courtesy of Hewlett-Packard

For infrastructure, the rule is the same as for processes – rely on existing standards whenever possible. Start with a simple web portal or the use of XML forms, and you can eventually work up to business process collaboration.

People are the most important key element. Work to change minds with win-win negotiations. Build trust starting with inter-personal relationships, then move out step by step to inter-organization trust. Proactively anticipate issues that will challenge trust. Allow time for people to experience and internalize the change,

and always look for people in your organization or in the extended enterprise who can lead change.

Collaboration implies a win-win relationship. It implies building both personal and organizational links between the enterprises. At HP every six months we have an executive review where we tell our suppliers how various divisions in our company perceive our relationship with the supplier. Sometimes we bring issues to the table, but it is with an attitude of moving on to improvement.

Above all, allow time for these various relationships to mature. You can't expect that after twenty years of being squeezed for every nickel, a supplier is going to flip in one day and enter into a sustainable partnership.