26. SUPPLIER PARTNERSHIPS AS STRATEGY

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ABSTRACT

The partnership approach to supplier relations is now a very common feature in many industries. This is due in large part to the phenomenal success of the ‘world class manufacturing’ (Schonberger, 1985), and ‘lean production’ crusades (Womack et al., 1990; Womack and Jones, 1994) over the last two decades, which have drawn their inspiration from the proven competitive practices of leading Japanese companies (Dyer and Ouchi, 1993). One of the by-products of this success has been the ever-widening faith in the virtues of supplier partnering.

The purpose of this article is to present a strategic perspective on supplier partnering to help companies to more critically assess the opportunities and risks associated with the adoption of the partnering approach. The article begins by contrasting the underlying rationale for supplier partnering with the more traditional arm’s length approach to buyer-supplier relations. Most companies with aspirations to world class manufacturing standards are now adopting the partnering approach. The practices of the following companies are included in this article: Amdahl; Apple; Bennetton; Digital Equipment Corporation; General Motors; Intel; Marks and Spencer; Toyota; Wal-Mart.

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A STRATEGIC PERSPECTIVE ON SUPPLIER-PARTNERING

To understand better the nature of the supplier partnering from a strategic perspective, it will be useful in the first instance to examine how it contrasts with the more traditional arm’s length approach to buyer-supplier relations.

The traditional approach

The traditional approach to buyer-supplier relations is based on two main premises:

(i) *The relationship is best managed through the market mechanism.*
- Suppliers compete with one another for the customers;
- Buyers shop around for the best deal;
- Repeat business is not guaranteed;
- Buyers and suppliers communicate and interact with each other at arm’s length;
- The ‘discipline of the marketplace’ keeps them independently on their toes.

and

(ii) *The buyer and supplier see themselves as essentially competing with each other for margin.*
- Both parties see it as a win-lose game;
- The primary focus is on the division of profit margin;
- The lion’s share goes to the party with the most economic power.

Under this traditional arm’s length perspective any company, at any stage in the industry chain, is seen to be in competition with its upstream suppliers and downstream buyers for profit margin (Porter, 1980). For example, the producer of soft-drink cans must compete for margin with the aluminum companies at one end of the supply chain and the soft drink companies at the other. All are ultimately dependent on the dollars of the soft drink consumers for their revenues, and the margin enjoyed by each of these players in the industry is seen to depend on its economic power in the overall market chain.

Within this perspective, company strategists are advised to try to reduce the power of their suppliers by maintaining multiple sources of supply, avoiding any uniqueness in the relationship that might make the cost of switching suppliers high, and searching for readily available substitute materials that would help to keep supplier prices in check. The ability to switch business easily among suppliers and pose a credible threat of bringing component production in-house can be used to keep the most aggressive and ambitious suppliers in line. Moreover, by avoiding long-term commitments and keeping its options continuously open, the buyer will always be able to move his business quickly and easily to those suppliers which, at any time, are the most efficient and technically advanced in their own sectors.

The strategic advice to suppliers in this perspective is the mirror equivalent. Suppliers are advised to keep their options open by not allowing themselves to become over-dependent on any one buyer. At the same time they are also advised to try to increase