

## SUPPLY CHAIN INSIGHTS

# BEYOND TRANSACTIONS: TAKING PARTNERING TO THE NEXT LEVEL

New business partnering models are reshaping the way leading companies work with their suppliers – to everyone’s benefit.

**Organizations that recognize the value of partnering closely with suppliers are more successful. Not only that, they are more innovative, and that innovation delivers competitive advantage.**

That’s the finding of several major research studies conducted over the past few years by IBM’s Institute for Business Value. In fact, in one such study – a survey of chief procurement officers - 38 percent of respondents from top-performing organizations said that introducing innovation into the enterprise from suppliers and other sources is among their top three priorities. This compares to just half as many of procurement underperformers.

While the IBM studies focused specifically on enterprise procurement practices, they highlight an important trend developing across business sectors and geographies: Leading companies are transforming their supplier relationships from the old transactional model, to a new ecosystem model. We call this new partnering strategy the business collective – or Business Collective 1.0 (BC 1.0).

The business collective model shakes up the traditional supplier-customer paradigm. That status quo is built on an “I win, you lose... take it or leave it” approach to purchasing, where the supplier or service provider has the disadvantage.

However, times are changing. John Paterson, former Chief Procurement Officer at IBM and Chairman of the Procurement Leaders Advisory Board talks about this change. “We in procurement occupy a wonderfully advantaged position in that we understand the needs of our companies and at the same time have visibility into the capabilities of our suppliers.”<sup>1</sup>

BC 1.0 capitalizes on this opportunity. It harnesses the combined strengths and capabilities of suppliers and their



customers to deliver powerful benefits. The “collective” faces the market as a single commercial entity, aligned to a common mission, goals and objectives.

“Tapping into the enormous capability of the thousands of suppliers with whom we do business is perhaps the largest opportunity procurement has today,” Paterson argues. “Unfortunately, we tend to be prescriptive in our needs to the extent that we inhibit any opportunity for suppliers to be creative on our behalf. It’s a weakness we must address.”

### The power of en masse

BC 1.0 requires companies to reinvent procurement. Fortunately, companies are making progress on this front. According to a report by Oxford Economics, 65 percent of procurement practitioners say procurement at their company is becoming more collaborative with suppliers. The reason? The pace of business change demands that organizations be able to respond to new market demands with agility and innovation.<sup>2</sup>

In this climate, buyers aren’t collaborating with suppliers merely as providers of materials and goods, but as

<sup>1</sup>. <http://www.procurementleaders.com/cpo-think-tank>, accessed April 15, 2016.

<sup>2</sup>. <http://cerasis.com/2015/10/15/supplier-collaboration>, accessed April 15, 2016.

strategic partners that can help create products that are competitive differentiators. Forward-thinking chief procurement officers (CPOs) who are on this path understand how valuable supplier partnerships can be. They not only value collaboration, but are leading a revolution in how their buying organization conducts its business. "Procurement must start looking to suppliers for inspiration and new capability, stop prescribing specifications and start tapping into the expertise of suppliers," says David Rae of Procurement Leaders magazine.<sup>3</sup>

BC 1.0 supplier relationships don't just deliver the right product. They can drive synergies that otherwise would be difficult, if not impossible, to achieve within the confines of the individual business. "The game-changer," says Sundar Kamak in his article "The Future of Supplier Collaboration: 9 Things CPOs Want their Managers to Know Now," "is when you drive those synergies with thousands of suppliers. The Apple iPhone is a prime example of collaboration en masse. Without the apps, the iPhone is just another ordinary phone."

Thus, once companies start extending advanced partnering to more and more suppliers, the capabilities of the business increase by orders of magnitude.

Clearly, BC 1.0 is not business as usual, as Frank Vorrath, Vice President, Global Supply Chain at Johnson Controls points out. "We have reached the limits of what transactional relationships can do," he says. "We must now take the approach of truly integrating - everyone becoming part of a unified business strategy and a unified front to face the competition and thrive."

This strategy reduces and, ideally, eliminates the waste and latency that occurs at the junctures that typically separate companies. "This is a new way of thinking. A holistic way," says Damian Pike, Vice President, Innovation & Transformation, DHL Supply Chain. "It requires breaking down barriers both within companies and between companies, and shifting away from a focus on just cutting costs. This is foundational. These old dividing lines must become transparent and porous. Organizations can no longer afford to view their supplier relationships as commodities."

To read our white paper, **Business Collective 1.0: Partnering Reborn**, please click [here](#).

<sup>3</sup>. <http://cerasis.com/2015/10/15/supplier-collaboration>, accessed April 15, 2016.