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Customers are from
MARS,
Suppliers are from
Venus

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But customer-supplier relationships don't have to be in different orbits. By putting a relationship management infrastructure in place, CIOs can get more value from their service providers.

Good customer-supplier relationships are critical to doing business in today's rapidly changing, global economy. CIOs and IT managers are expected to deliver systems and provide IT services to support accelerating product delivery cycles, increasing customer expectations, and changing business requirements. These pressures are, in turn, forcing the CIO to consider and implement a variety of supplier relationships, from classic hands-off market relationships through joint ventures and alliances. As a result, effective management of supplier relationships has emerged as an essential organizational competence.

Although both providers and customers benefit from mutually effective relationships, the customer usually stands to benefit the most from good relationships, and suffer the most from bad ones. Thus, it is imperative that CIOs and IT managers build an organization-wide capability to effectively manage supplier relationships. Leaving the quality of the working relationship to the individual skills of supplier-relationship managers is not enough. At the organizational level, companies need to build and implement discrete, standardized pieces of a relationship management infrastructure.

Customer-supplier relationships are typically either value-shrinking or value-expanding. In the value-shrinking mode, the customer and supplier get stuck in negative perceptions and behaviors. They find it difficult to share information, they waste time on unnecessary activities, and they fail to share mutual gains or responsibility.

In contrast, in the value-expanding mode, customers and suppliers work together for their mutual benefit. Value-expanding relationships tend to yield unexpected joint gain, improved performance, better use of time, wiser choices, and continuous improvement. (See "The Value-Relationship Cycle.") Although customers may not

always recognize the importance of their role (it's the supplier's job to worry about the relationship, right?), they are wise to focus on what they can do ensure that their supplier working relationships are as good as possible.

Is your relationship value shrinking or expanding? For good relationship management, be sure to follow the value-expanding loop, which includes improving mutual understanding and trust.

When it makes sense for a customer to invest in converting a relationship into a value-expanding one depends on the kind of relationship it is. At one extreme of the customer-supplier relationship continuum are market-like relationships. Here, a customer has a choice of many suppliers, there is a relatively short contract duration, and it is easy to switch to another vendor (little or no cost or inconvenience).

At the other extreme are long-term alliances and partnerships in which an organization contracts repeatedly with the same vendor and develops a mutually beneficial relationship. In the middle are relationships that must endure and remain reasonably harmonious until a major piece of work is completed; these are termed "intermediate" relationships.

Market relationships, which cost the least to set up and administer, are relevant for work that is fairly simple and straightforward. They are also likely to yield the least from efforts to move them into a value-expanding loop. Intermediate relationships cost more and are relevant for work that is complex, and offer substantial potential benefits. Partnerships cost the most and are only relevant when the benefits of a close relationship with a vendor are substantial.

Thus, the kinds of relationship management infrastructure that companies implement need to make sense for the type of relationship it is.

Building Relationship Management Capacity

Companies that want to maximize the value of relationships across the organization, as well as spawn value-expanding relationships, must build the corporate capacity to do so. This requires:

- Processes and tools developed for the task of developing and managing the quality of working relationships, from initial exploration through contracting and ongoing management;
- Those processes and tools codified and formalized as standard practice;
- The individual's skills and operating assumptions, as well as organizational incentives and management messages, enable effective process and tool implementation.

The following are some examples of the processes and tools that IT organizations can build to gain this capacity. Again, these pieces of relationship management infrastructure are focused not on the substance of the deal--the terms, conditions,

service-level agreements (SLAs)--but on the quality of the working relationship. Organizations that gain the most from their supplier relationships understand this critical distinction and can focus on both. The substantive terms of an arrangement are of course important, and organizations need to have a clear process for ensuring appropriate focus on those. Without a dual focus, however, organizations are unlikely to systematically and regularly get into a value-expanding loop. (See "Keep a Dual Focus.")

Keep a Dual Focus

Substance	Relationship
Retirement and replacement of hardware	Building of trust/mutual respect
Use of third-party software	Giving each other the benefit of the doubt
Service levels	Understanding each other's objectives
Record storage, maintenance, and security	Consulting in a timely manner
Pricing	Feeling fairly treated, not coerced ("on the merits" conflict resolution)
Terms of employee transfers	Creating open, quality communication
Termination and return of data center operations or transfer to another party	Taking a "what is best for the venture" perspective

Focus on both "substance" and "relationship" issues for successful IT procurement endeavors.

Relationship Management Infrastructure

The following elements comprise the relationship management infrastructure:

Relationship Due Diligence

As part of their standard planning and analysis phases, customers ought to engage in a standard relationship due diligence. The purposes of such a process are:

- **Relationship Challenges.** Identify significant relationship management challenges likely to be encountered with a particular vendor.

- **Relationship Risks.** Assess the risks that those challenges might pose to a successful arrangement.
- **Supplier Potential.** Assess the capacity of the potential supplier to overcome challenges that may arise.
- **Relationship Mechanisms.** Identify the kinds of relationship management mechanisms that the customer and supplier would need to put in place to minimize the likelihood of such challenges arising, and maximize the probability of handling them successfully.

Engaging in a relationship management due diligence process as a standard practice enables customers to make better choices about which suppliers to work with; they can use the results of that process as part of the overall supplier assessment. More importantly, it helps set the stage for successfully working with those that are chosen. Customers can use the gathered information in their broader exploration conversations with potential suppliers. And just as evaluating suppliers on quality control over time creates a supplier pool with competence in quality management, explicitly building relationship management into the vendor selection process over time ought to create suppliers with greater competence and demonstrated capability for effective relationship management.

Negotiation Launch Process

During negotiations, customers and suppliers often inadvertently fall into the value-shrinking loop. Typically, this is not because of bad intent or ill-conceived tactics, but because there no agreed upon structure and process for how the negotiations will proceed. Both parties need to ensure that, during negotiations, they are: maximizing joint gain (truly getting to "win/win"); moving forward efficiently; and building a good working relationship. A way to help the two parties do just that is a standard negotiation launch process, which builds the necessary foundation for an effective, collaborative, and joint gain negotiation. Its purposes are:

- **Shared Vocabulary.** Develop a shared negotiation vocabulary and tool set among both the negotiators and those who will be called to play a role in the conversations.
- **Sound Working Relationship.** Begin to build the working relationship.
- **Negotiation Process.** Discuss and agree upon a clear process for how both parties will prepare for and conduct the negotiation.
- **Relationship Issues.** Identify, discuss, and plan for relationship issues that may be encountered during a negotiation.

For a market relationship, the negotiation launch can be as simple as a pamphlet outlining to potential suppliers how the customer prefers to negotiate, as well as suggestions and ground-rules. For an intermediate or partnership relationship, the negotiators and other key stakeholders may need to spend two or three days in an off-site program to discuss these issues.

Relationship Launch Mechanism/Process

Many customers understand the importance of getting their supplier relationships off to a good start, but few actually do. Customers generally assume that such activities are the vendor's responsibility. Proactive customers who want to ensure that they maximize the value of their supplier arrangement standardize their approach to launching supplier relationships, and insist that launches do happen. A relationship launch comprises:

- **Relationship Goals.** Jointly define the key characteristics of a successful working relationship, and ensure that all have a common picture of what such a relationship would look like in action.
- **Relationship Metrics.** Design metrics and tests for monitoring the above.
- **Relationship Mechanisms.** Build on the relationship due diligence process, discuss likely challenges, and design and agree to relationship management mechanisms.
- **Understanding.** Ensure that all those responsible for implementation understand the overall structure of the deal, and why specific choices were made.
- **Relationship Barriers.** Proactively deal with any relationship barriers coming out of the negotiation phase.
- **Communication Plan.** Jointly develop a communication plan for how all of the above information will be communicated to relevant parties.

The relationship launch is foundational to maximize the value of the arrangement. Without it, customers simply can't expect the relationship to function optimally.

Standard Relationship and Conflict Management Practices and Tools

In leaving the management of important supplier relationships to the individual skills of relationship managers, customers lose the opportunity to develop and deploy relationship management best practices, and a standard and well-understood relationship management approach. They also put their relationships at risk as individual relationship managers leave, and minimize the opportunity to learn and get better as an organization over time. Customers are therefore wise to develop a standard set of relationship and conflict management practices and tools to be used during implementation. These tools can be deployed in a generic way for more market-oriented relationships, or customized. While there are many different kinds of processes and tools, broadly their purposes are to:

- **Evaluate.** Evaluate the performance of the relationship by monitoring the substantive value created and distributed to both sides of the arrangement, and the quality of the working relationship.
- **Adjust.** Identify ways the management of the partnership needs to be adjusted so as to achieve previously defined goals.
- **Surface Breakdowns.** Ensure that inevitable breakdowns in communication, misperceptions, and conflict are easily and regularly surfaced and constructively addressed.
- **Find Value.** Uncover new opportunities to expand the scope and/or shift the focus of the relationship.

- **Best Practices.** Identify effective relationship management practices and tools to share and implement for other relationships.
- **Learning.** Provide the basis upon which an organization can look across all of its relationships and determine where it is doing well, where it is doing less well, and why mechanisms that customers can standardize and deploy include relationship audit processes and tools, standard conflict management mechanisms (focused not only on getting the conflict resolved, but also on identifying the cause of the conflict and relationship building among those involved), future problem identification procedures, "red phone" and other contingency planning mechanisms, and standard cross-cultural understanding and trust building efforts.

Ongoing Internal Alignment Process

Key internal constituents--executives, internal individuals responsible for delivering against commitments, regional offices whose markets are impacted by a decision--must "buy in" to the goals of a particular supplier relationship. Without this buy-in, barriers to implementation often arise, which make it quite difficult for the relationship to meet its goals. Customers should therefore develop and implement an internal alignment process covering the entire relationship life cycle. The purposes of such a process are:

- **Inclusion.** Include all appropriate internal constituencies (decision-makers, those responsible to the relationship for delivering a customer commitment, those impacted by the decision) in the decision-making process in the appropriate manner.
- **Information.** Ensure that relationship managers have all necessary information prior to making a decision.
- **Communication.** Inform all appropriate parties of decisions made, and the reasoning behind those decisions.

Customers are often unhappy with a supplier without recognizing their own contribution to the difficulty--in the form or lack of internal alignment and the mixed messages, missed deadlines, etc., that come with it. An internal alignment process can help minimize this.

At the end of the day, it is individuals who are responsible for implementing all of the above. Relationship managers should receive training on both the vendor's business--a key part of managing a relationship is being able to understand the other side's challenges and constraints--and the specific skills necessary to work effectively across customer/supplier boundaries. Finally, CIOs and IT managers should ensure that their relationship management efforts are adequately supported by management, and an appropriately aligned incentive system.

To get started with relationship management, CIOs or IT managers should evaluate their relationships, and determine what relationship management capacities the organization currently has in place, and which need to be built. From there the road to more value from supplier relationships is clear.

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