Partnering as a Focused Market Strategy

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Partnerships are the way for firms to do business—or so it seems when one reads today’s business press. Article after article routinely exhorts both customer and supplier firms to seek close, collaborative relationships with each other. Yet in practice, partnership-building efforts, even when sought by a customer, may not be in the best interests of a supplier firm. Take, for instance, the case of a leading manufacturer of corrugated boxes.

Last year, the company’s management decided that it was time to jump on the “partnership bandwagon,” and it targeted one of the company’s largest customers for a collaborative relationship. Believing that the best way to build the partnership was to help the customer enhance its product quality, managers hired a top consulting firm in the area of quality management to put on a two-day seminar at the customer’s headquarters. At the end of the seminar, the consultants recommended that the customer establish a “quality circle.” Taking the consultants’ recommendation to heart, the customer firm established a quality circle and decided to begin by investigating the firm’s purchases of corrugated boxes. When they finished deliberations, quality circle members concluded that the firm’s annual expenditure for boxes was far too high. Moreover, they recommended that the firm purchase only corrugated box “rejects,” which they believed would adequately meet firm requirements. As a result, the corrugated box supplier failed not only in its efforts to build a collaborative relationship, but lost the account as well.

This anecdote underscores the difficulties that managers can encounter in attempting to cultivate strong working partnerships with their customers. In this article, we present a comprehensive, strategic approach that offers managers guidance on decisions about which market segments and...
individual customer firms to target for close, collaborative relationships. This approach has six steps:

- Segment the market by product application and customer capabilities.
- Assess the value of the product offering to customers in each segment.
- Target segments, and customer firms within segments, for various kinds of relationships.
- Develop and implement relationship-specific product offerings.
- Evaluate relationship outcomes and reassign accounts.
- Periodically update the value of the relationship offering.

We examine the key considerations in accomplishing each of these steps and draw upon examples from firms that have successfully tackled them. As a preface to this approach, a continuum of working relationships that serves as a useful frame of reference for thinking about working relationships is discussed.

**Thinking Strategically About Working Relationships**

All customer and supplier firms that do business together have some sort of working relationship. Jackson has discussed a continuum of working relationships along which industries fall.² Purely transactional relationships, where the customer and the supplier focus upon the timely exchange of basic products for highly competitive prices, anchor one end. Purely collaborative relationships, or partnerships, anchor the other end. This latter kind of relationship comes about through partnering, which is a process where a customer firm and supplier firm form strong and extensive social, economic, service, and technical ties over time, with the intent of lowering total costs and/or increasing value, thereby achieving mutual benefit.

The nature of working relationships in business markets suggests that some further elaboration is needed with respect to Jackson’s rudimentary premise. Each marketplace, rather than occupying a single point on the continuum, is better characterized as a range of relationships that are more collaborative, or more transactional, in nature relative to that marketplace’s norm. We refer to this range as the *industry bandwidth* of working relationships. This bandwidth reflects the explicit or implicit relationship strategies pursued by supplier firms in an industry. Firms either attempt to span the bandwidth with a “portfolio” of relationships, or treat all customer firms more or less alike, thereby having a narrower range of relationships than the industry bandwidth.

Naturally, industry bandwidths for various markets fall along the entire continuum of working relationships. So, even the most transactional relationship in one industry might be more collaborative in nature than the most collaborative relationship in another industry, and vice versa. For example, compare the corrugated box, fiber drum, and programmable controller
industries depicted in Figure 1a. Because the underlying technology in the programmable controller industry is the most complicated and is still rapidly developing, collaborative relations in this industry can be all-encompassing, ranging from codesign of manufacturing systems to installation, training, and maintenance. Collaborative relations in the fiber drum industry tend to be more circumscribed and focus on helping customers modify their systems and procedures (e.g., lifting and stacking) to accommodate fiber drums. Finally, because corrugated boxes are considered a commodity by many customers, long-term supply contracts and just-in-time inventory programs generally represent the extent of potential collaboration.
Segment the Market by Product Application and Customer Capabilities

The initial task for a supplier firm in formulating a relationship strategy is to partition, or segment, the marketplace into relatively homogenous groups of firms. Business firms segment markets in a number of ways, with demographics such as account size and industry being the most common basis. Although demographics have the advantage of being accessible, they often provide little insight about the way the product is used and thus generates value for the customer firm. Because value can be regarded as the cornerstone of business marketing strategy, we advocate segmentation of the marketplace based upon the value of the product offering in a given application. This requires that market research be conducted to partition the marketplace into homogeneous application segments; that is, groupings of firms that use the product the same way to add value to the products that they, in turn, produce. The research may also reveal that, within particular applications, subsegments of firms exist that differ significantly in their technical know-how, problem-solving, or other capabilities.

Glen Raven Mills, a manufacturer of acrylic woven fabrics, provides a good example of product application segmentation. Initially, it would appear that Glen Raven Mills has two major segments—the awning market and the marine market. However, careful examination of the marine market demonstrates that there are two distinct applications. Power and sail boat manufacturers can purchase acrylic fabrics for use outside the boat (e.g., for boat covers and canopies) or inside the boat (e.g., seat covers). Moreover, detailed research has shown that acrylic fabrics provide different levels of value inside and outside the boat. As a boat cover, acrylic fiber provides largely functional value; that is, it protects the boat from wind and water damage. Relatively speaking, the total value provided is low because alternate materials ranging from canvas to plastic sheets can do the job. When used internally, acrylic fabric provides greater value because fashion-conscious consumers are willing to pay extra for designs and styles that are feasible only with acrylic fiber. Consumer preferences, in turn, create a greater need for partnerships, as boat manufacturers are anxious to work closely with fabric makers to produce styles that will catch the consumer's eye. Thus, Glen Raven Mills finds that product application is a superior basis for marketing segmentation.

Assess the Value of Your Product to Customers in Each Segment

Value refers to the perceived worth in monetary terms of the economic, technical, service, and social benefits received by a customer firm in exchange for the price paid for a product offering. Judgments about value also take into consideration alternative suppliers' offerings and prices. Given the fundamental nature of value in business markets, it is critical for
managers to gain estimates of the value of their products in particular applications and learn how it can be enhanced, particularly with relationships. A number of research methods—such as internal engineering assessments, focus groups, or conjoint analysis—can be used to obtain dependable value estimates. In practice, value assessment can be folded in as part of the market research study to identify application segments.

Consider the example of Macfield Texturing Company, a leading producer of texturized, dyed, and spun yarns for the hosiery industry. To gain a more accurate estimate of the value of its products, Macfield has set-up production simulation and product testing laboratories at its main plant that have all of the types of textile production equipment used by its customer firms. With this equipment, Macfield personnel can simulate customer production processes and manufacture actual products. In doing so, Macfield can measure precisely the costs a customer incurs by using its products versus those of the competition. Product benefits, in turn, are measured in the product testing lab, where finished goods are examined for wear and tear. Macfield uses its value information to target profitable applications and to create convincing sales presentations.

Target Segments for Relationship-Specific Efforts

Armed with the information gained in the preceding research, the firm is in a position to make several crucial decisions concerning the targeting of market segments for various kinds of relationship efforts.

**Determine the Number of Segments to Be Targeted**—The first strategic choice to be made by supplier management is whether to focus on one market segment and develop a narrow range of relationships, or to target a number of market segments and cultivate a “portfolio” of relationships. Many firms either choose or are forced to limit themselves to as few market segments as possible. The C.E. Smith Company, a contract manufacturer of metal parts, provides a prime example. Largely because the company is small, managers of the C.E. Smith Company only pursue high value-added business that requires substantial codesign and custom manufacturing and entails a close, collaborative relationship. As managers point out, the Smith Company could not compete against either the customer’s internal manufacturing department or large contract manufacturers for large-volume orders of standardized parts because these operations have economies of scale advantages.

**Select Market Segment Candidate(s) for Targeting**—Once the number of segments to be addressed has been determined, supplier management should next decide which market segment(s) will be targeted for collaborative emphasis versus transaction emphasis. We use the term “emphasis” in two key respects. First, “emphasis” is meant to capture our earlier notion...
that even the most transactional relationship in one industry bandwidth might be more collaborative in nature than the most collaborative relation in another industry bandwidth, and vice versa. Second, we use “emphasis” because some individual accounts within collaborative-emphasis segments should be targeted for transactional relations; similarly, some accounts within transaction-emphasis segments should be targeted for collaborative relations.

Segments where a firm’s product offering has superior value relative to the competition are targeted for collaborative emphasis, while segments where its offering does not are targeted for transaction emphasis. Segments where the firm has superior value represent natural places for the firm to allocate resources for relationship-building efforts. Customers in these segments are more likely to be receptive to such initiatives, and in fact, may be proactive themselves in suggesting closer relations. The ways in which the product offering achieves superior value in these segments typically reflect the distinctive competencies of the firm, and close, collaborative relations can spur further development of these as well as facilitate finding ways to buttress elements of the offering where value is presently deficient.

Sonoco Fibre Products Division provides an instructive example of market segment targeting. Its fiber drums can replace stainless steel drums in a multitude of industries ranging from cooking oil manufacturing to gunpowder production. Rather than attempt to serve all of these industries at once, Sonoco has first prioritized and then targeted market segments based on the value of its fiber drums in customer applications. Sonoco knows that its products create the greatest value in situations where: highly acidic or alkali products must be stored and transported; the disposal or reconditioning of steel drums presents an environmental hazard; a significant portion of the customer’s costs can be attributed to the transportation of heavy steel drums; and customers require “odd-sized” drums. Many of the partnerships in these high-value segments have paid dividends to Sonoco in the form of new product and service ideas. As time has progressed, Sonoco has moved down its priority list to segments with lower value potential, which receive greater transactional emphasis.

**Identify Individual Accounts for Collaborative versus Transactional Relations**—Having targeted specific segment(s), supplier managers should turn their attention to individual accounts, identifying likely prospects for partnerships versus transactional relations. In doing so, a supplier develops selection criteria based on customer firm and marketplace characteristics. Although these characteristics can be grouped in different ways, one useful way to categorize them is: philosophy of doing business, the relative dependence of the supplier firm and the customer firm upon the relationship, and the technological edge contributed by a customer firm.
Philosophy of Doing Business—Sonoco Fibre Drum Division seeks partnerships with customer firms that share a common philosophy of business. The ideal partnership candidate must have a “total cost” orientation. By focusing upon reducing their own total costs, these firms are more likely to seek out and recognize the value provided by Sonoco’s fiber drums and accompanying support services. Further, they also are more likely to recognize the benefits of joint programs and activities with Sonoco designed to reduce their total cost of operations. Other accounts that evaluate acquisitions solely on “purchase price” either perceive few benefits from collaboration or are unwilling to pay for the added service. These accounts are better served by steel drum manufacturers.

Relative Dependence on the Working Relationship—Experience suggests that collaborative relations prosper as long as the supplier firm and customer firm each have significant and roughly the same dependence upon the relationship. In this dependence situation, there is mutual interest in cooperating to find ways to add value or reduce cost and in equitably sharing these relationship benefits. This cooperative spirit in expanding the “value pie” and sharing equitably predominates over the conflict inherent in a customer-supplier relationship in determining how to split the “pie.” Because of this natural tension between cooperation and conflict in the relationship, supplier firms need to be mindful of the relative dependence of each firm upon the relationship.

Switching costs and time horizon are two dependence criteria which have been suggested. Typically, high switching costs serve as barriers-to-exit from a working relationship, and thus motivate a customer firm to actively collaborate with the supplier firm. Value created by continuity or consistency represent two specific sources of switching costs. For instance, customer firms typically make specific investments in “just-in-time” programs. Once in place, these programs and systems are not amenable to using multiple supply sources or to being easily changed. Product offerings from the same supplier can offer greater consistency than products from different vendors. For example, steel coils from the same mill tend to run more uniformly (i.e., less scrap and downtime for minor equipment adjustments) than coils from different mills, even though all coils meet the stated customer specifications. Finally, customer firms whose purchase decisions have long-term consequence (e.g., programmable control equipment for factory automation) are also more likely to collaborate with supplier firms.

The rate of marketplace change is another indicator of dependence. High Point Chemicals sells specialty chemicals to the textile industry. The marketplace for its customers’ products is highly volatile because fashion trends dictate product changes at least every two years. As a result, it is in the best interests of both High Point Chemicals and its key customers to have
highly collaborative relationships so that they can develop the next generation of dyes and finishing chemicals in advance of changes in fashions.

Technological Edge Contributions—Some firms, even when they are in transaction-emphasis segments, should be targeted for collaborative efforts. Manufacturers of technology-based products should target lead-user accounts and leap-frog accounts for collaborative efforts as a strategy for improving the value of their product offering in presently designated transaction segments. A lead-user firm is one whose present needs will reflect its segment's needs in future months or years, and one that is therefore positioned to benefit the most from collaborative solutions to those needs. A natural question, though, is: "Won't a supplier's competitors that presently have superior value in that segment have already 'locked-up' the lead-user firms in collaborative relationships?" The answer to this is that if the competitors are astute, they will have already engaged the lead-user firms, particularly the large ones, in collaboration.

In this case, a supplier firm's targeting strategy is to focus upon the small, aggressive firms who have the ability to "leap-frog" the present segment leaders with new technology. Such leap-frog firms may be newer entrants that are willing to pursue a riskier development strategy to gain market share. By engaging in collaborative efforts (e.g., codesign), the supplier firm seeks to significantly improve the value of its future offerings in this application.

Needless to say, lead-user and leap-frog firms in designated collaborative segments merit especially close monitoring and involvement by the supplier. To reflect this special status, supplier firms often designate this small subset of collaborative relationships as "strategic alliances." Working closely with these firms enables a supplier to innovate so as to continue to provide superior value over time and remain the offering of choice for that application.

Working with the field sales force, managers of the product-market group within Motorola's Semiconductor Sector continuously seek out lead-users and leap-frogs, using a two-stage identification process. First, they monitor and forecast growth in silicon usage among market segments. Currently, for instance, the automotive market ranks first in silicon technology growth potential while the military, due to projected budget cuts, ranks last. Next, they evaluate companies within each segment based on predicted technological developments within the potential customer firms and then compare this expected progress with Motorola's "Technology Roadmaps." A roadmap is a one-page diagram which charts the anticipated developments in a technology over the next ten years, the steps that Motorola plans to take to secure the technology, and the financial commitments that Motorola has made or needs to make to complete each development step.
Companies, large and small, that can aid Motorola in more rapidly and efficiently reaching the goals of a technology roadmap are targeted for partnerships.

With an eye on leap-froggers, Texas Instruments (TI) targets key emerging accounts in each market region and segment. These accounts are smaller clients that are served primarily through electronics distributors, but whose target markets are being principally developed through creatively designed products using TI systems products. TI participates in these firms' product design process as early as possible and, in doing so, suggests improvements that enable these firms to design products that fully capitalize on the strengths and capabilities of TI systems products. Another benefit of this early participation is that TI is able to better anticipate the future needs of its clients and the marketplace, and thus is able to provide better direction to its application development engineers.

Develop and Implement Relationship-Specific Product Offerings

With segment and individual account targets in mind, supplier managers construct, and then implement, relationship-specific offerings for collaborative and transactional targets. A focal implementation concern is how to handle special cases or problem relationships.

Constructing Relationship-Specific Offerings— As a supplier firm moves from transactional relationships to collaborative relationships, the product offering will change from a "core product," which addresses basic quality, price, and availability requirements of customers, to an "augmented product," which is customized in terms of physical and service attributes to meet more demanding customer needs. As a start in constructing the collaborative and transactional relationship offerings, the supplier firm undertakes market research to determine the extent and intensity of collaborative and transactional efforts currently practiced in the industry. That is, an understanding is gained of the present industry bandwidth.

The supplier firm's strategy is then to extend the present industry bandwidth in both the collaborative as well as the transactional direction. By becoming more collaborative and more transactional, a supplier firm attempts to gain a competitive advantage over other suppliers in both collaborative-emphasis and transaction-emphasis segments. We refer to this strategy as flaring-out from the industry bandwidth. By doing this, a supplier firm innovates to provide relationships that more closely meet the disparate requirements of various application segments and customer firms within segments.

As grist for this, a supplier firm can perform "benchmark studies" of other industries in an attempt to learn about collaborative and transactional
practices that might be adopted or adapted into their current offerings. Firms also can gain inspiration from a deeper understanding of their customers’ needs. Peters and Austin have documented a number of imaginative ways that Milliken Company “gets close to the customer,” such as establishing a “customer listening college” that teaches employees how to be more sensitive to customer concerns and problems, and an “internships in manufacturing” program that enlightens sales people on the possibilities and constraints of production. Finally, suppliers can gain insight by drawing on the experiences of their own employees. Millerken gathers and disseminates internal ideas through a program called “Fabulous Bragging Sessions,” where every ninety days, work teams are encouraged to give five-minute presentations on how they handle particular problems. This complementary flaring-out is depicted in Figure 1b as offerings a and d.

**Flaring Out by Unbundling**—The base transactional offering, a, becomes simply the core product itself. The pricing policy for the transactional offering reflects the underlying strategy: unbundling of the product offering elements. For each service that is unbundled, the price is lowered, but it is lowered less than the cost of presently performing the service, thereby improving the supplier’s profit margin. This requires an accurate understanding of the cost structure of performing each service, something that many firms have neglected.

Augmenting programs and services such as delivery, installation, training, maintenance, and technical assistance are each offered, in menu fashion, on an incremental price basis. A further critical feature of the pricing policy for the transactional offering should be that the sum of the price increments for the entire set of unbundled services should be greater than the price premium granted for the collaborative offering. This should reflect the economies of scope and scale that accrue from being a “full-service” supplier to a customer. Note that this pricing policy is market-oriented in that it allows customer firms to choose the product and relationship offering that they perceive provides the greatest value.

Some observations on unbundling the product offering, and competitive response, are needed. Depending upon the industry’s bandwidth position on the working relationship continuum, certain augmenting services or programs must be considered as part of the core product. For instance, in the programmable controller industry, initial training on how to use the product is an essential part of doing business with new customers. However, training of alternates or replacements in the customer firms might be a candidate for unbundling. So, for its own industry, a supplier firm first ascertains what the essential core product is, and then successively unbundles the remaining services, programs and systems to arrive at the transactional offering.
Competition or product maturity often forces firms into unbundling. Consider the case of a large chemical company that produces and markets a gasoline additive. Pursuing what they believed was a value-added strategy, over the years, company managers increased the number of services offered with the product until they reached 186. A major consequence of this, though, was to significantly increase the cost of the product. Growing uneasiness led the company to undertake some market research, which revealed that customers typically purchased about a third of their total requirements from the supplier in order to gain access to the services. The remaining two thirds of their requirements for the additive were secured from the other competitors, all of which offered the basic product with minimal services at slightly lower prices. In response, the firm eliminated services that were not being utilized, and unbundled many of the remaining services by charging a surcharge for them, retaining only a minimal set of services as part of the basic offering.

A natural concern that supplier managers have about an unbundling strategy is: “How will my competitors respond?” Most often, because they are similarly looking to improve their profitability, the competitors will match the supplier’s strategy and unbundle their offerings. In the event that they do not, the supplier is in a position to gain sales at the competitor’s expense. In the less likely event that one or more competitors match this lower price, yet continue to offer some services for “free,” the supplier must be willing to selectively let some customers “walk.” This is particularly difficult for sales-oriented firms to do, where any sale is a good sale no matter what its profitability. Nonetheless, the supplier must remember that: customers in transaction-emphasis segments have been previously designated as ones in which the supplier is not primarily interested; and it is easy to give value away, but it is the role of marketing to receive an equitable return for the value delivered to a customer.

A useful precaution for supplier firms that are anxious about potential negative consequences of unbundling is to “pilot test” this strategy. The firm selects the service that it believes is most amenable to unbundling (e.g., the service judged to be least essential) and then charges a fee for it. By closely monitoring the responses of customers and competitors, and within their own firm, managers can determine the viability of this alternative for the given segment as well as gain some implementation experience.

Supplier firms also need to anticipate some customer, and even sales-force, resistance to unbundling. Several years ago, a number of chemical manufacturers unbundled delivery services in response to rapidly escalating transportation costs. The result was a “firestorm” of complaints from distributors and customers alike who thought that delivery was a “free” service. By remaining stalwart, however, these suppliers were able to sustain the policy, although their relations with customers were initially strained.
Similarly, some suppliers of programmable controllers have unbundled field technical service by establishing this function as a separate cost-profit center. Charges for field technical service visits are either billed directly to the customer firm in the case of transactional accounts, or to the sales force (or business unit) in the case of collaborative accounts.

Finally, it is worth mentioning that some managers argue that pursuing both unbundling and augmented product strategies at the same time is too difficult and costly. Instead, they recommend that companies market either a core product for the lowest possible price or a fully-augmented product for a premium price. This argument, however, is not supported by recent research which found that for industrial systems (e.g., computer systems), a “mixed bundling” strategy (i.e., offering a core product, an unbundled product, and a fully-augmented product with different price schedules) is, in general, the most profitable.15

Flaring Out with Added Augmentation—At the other extreme, the collaborative offering, d, becomes the augmented product “wrapped” with whatever collaborative activities, programs, and systems that are valued by the customer firm. Some specific ways in which supplier firms have wrapped their product offerings with collaborative offering elements are summarized in Figure 2. Because collaborative efforts are only undertaken that add value to or reduce the total cost of the exchange between firms, a price premium should be granted in return for the collaborative offering. As an alternative to this, the customer firm may instead offer the supplier a greater share of its business, particularly when the potential cost savings occur in the customer firm’s operation. This second alternative is particularly effective when combined with a long-term purchase agreement. Prior to undertaking these efforts, then, frank discussions are needed with a customer firm’s management on the potential outcomes of each effort, and consensus should be reached on what would constitute an equitable sharing of achieved outcomes.

As an example of augmentation, look how Leaseway Transportation, a company in the trucking industry, has “flared-out” to create a collaborative offering in a market populated with transactional relationships. As part of its service to General Motors (GM), Leaseway has hired operations researchers to build a model of GM’s physical distribution requirements. Based upon this model, Leaseway designed a program to help GM schedule shipping routes, select car models for shipping, and determine the optimal sequence for off-loading cars at GM dealers to minimize potential damage and delivery time. The computer model is highly interfaced with GM’s in-house computer systems and can be utilized to troubleshoot emergency problems. Although Leaseway has only a 30-day contract with GM, that contract has been in effect continuously for over 35 years. Leaseway remains a major supplier of trucking services to GM.
Figure 2. Ten Ways to Augment the Product Offering for Collaborative Relationships

1. **"Pull" promotional programs** can be directed at the customer firm’s customers. This might involve trade journal advertisements touting the value of products made from or with the supplier firm’s components.

2. **Warranty, maintenance and repair agreements** can be offered to customer firms to reduce the risk associated with usage of a supplier’s products.

3. **Cooperative advertising and promotional allowances** can serve the dual purposes of enabling smaller customer firms to advertise regularly and coordinating customer and supplier market communication efforts.

4. **Joint sales calls** can be utilized to assist customer firms in developing new markets, or to deal with problem accounts.

5. **Coordinated cost-reduction programs** can be implemented to dramatically pare the customer firm’s real costs of doing business. Joint material requirements planning (MRP) systems, computer-to-computer order entry systems, just-in-time inventory programs, and statistical process control are some examples.

6. **Technical assistance** can be provided to augment customer firms’ technical product and application knowledge. Supplier firm technical and production experts can make suggestions on how the customer firm could gain cost savings through substitute materials and alternative production processes.

7. **Logistics and delivery systems** can be used to create value. For instance, a manufacturer of paint pigments discovered through its customer relationships that offering the pigment in “slurry form” rather than in “dry bag” form created greater value for the customer. This enabled customer firms to reduce costs in the production process because they no longer had to emulsify the pigment before use. As a side benefit, the manufacturer was able to gain logistical cost savings because greater quantities of pigment were ordered at a time and the slurry could be delivered more economically.

8. **Computer networking capabilities** can be used to troubleshoot customer problems from a remote location. For instance, a manufacturer of scientific testing equipment uses its network to solve customer problems more quickly. Data and computer software can be down-loaded from the equipment on-site and transferred to the manufacturer’s simulation computers via telephone interlink. The supplier can troubleshoot the software and make corrections in the case of problems. The corrected software can then be sent back to the customer firm via telephone interlink.

9. **Shared expertise programs** in which information is more openly shared between supplier and customer firms is another option. In the marketing area, one manufacturer of chemicals and plastics not only shares information on economic trends with customer firms but also performs market research studies for those customers which lack in-house research expertise. On the technical side, one manufacturing company has a “scientist exchange program” in which its own scientists spend time working in the research and development labs of customer firms.

10. **Value-enhancement and codeign programs** can be put in-place to upgrade the value of present customer firm products as well as to jointly design new products. Considerable value can be added to the product offering at times simply by a reallocation upstream of processing and production functions. For instance, many steel service centers now perform the functions of stamping doors and window panels for the auto makers, resulting in lower overall cost. The assembly of electronic components into modules or boards by electronic component manufacturers is another example of this process.
A final consideration relating to pricing policy is that long-term collaborative relationships should lead to what can be referred to as "cooperative pricing." Often, design specifications are taken from standard reference sources, which can lead to quoted specs that are unnecessarily stringent for the given application. The trust and cooperation that characterizes long-term collaborative relationships enable a supplier to utilize its expertise and suggest design modifications in return for a lower, delivered price.

Implementing Working Relationship Strategy—

Creating an Organization that Supports the Relationship Strategy—Companies that pursue a relationship strategy often reorganize their sales and marketing efforts to better serve the different sets of customer requirements. The most common response is to divide the sales force into several units, one each for categories of relationships ranging from transactional to strategic accounts. Each new sales force has different responsibilities and types of participants.

Motorola’s Semiconductor Sector provides an excellent example. The division is comprised of three field sales forces: a “Strategic Market or Segment” Sales Force that handles Motorola’s partnerships, a “Geographic” Sales Force that has responsibilities for transactional accounts directly served by Motorola, and a “Distributor” Sales Force that deals with distributors of Motorola products. Motorola’s Strategic Market Sales Force is composed of “teams” of technical sales engineers, applications engineers, quality engineers, and service personnel, among others, that are assigned to specific partnership accounts. It is the responsibility of these sales teams to deliver the technical and manufacturing know-how needed to make the partnerships successful. Members of the Geographic Sales Force act individually, calling on the thousands of customers that buy Motorola products. They perform traditional selling tasks, such as making periodic customer visits, giving presentations, solving problems, and taking orders. Finally, Motorola’s Distributor Sales Force serve as representatives to the trade. Their tasks include: encouraging distributors to stock and sell Motorola products, coaching distributor sales personnel on merchandising techniques, and working with distributors to maintain sound, working relationships with the smallest of Motorola customers. As an interesting aside, by carefully matching the skills and personalities of individuals to those needed to flourish in each of the different sales positions, Motorola has managed to avoid the conflict between multiple sales forces that is frequently cited by pundits.

Solving Common Relationship Implementation Problems—In putting the relationship strategy into play, it is inevitable that some special cases or problem working relationships will arise for the supplier firm. The ones of particular concern are customer firms that account for a "significant" pro-
portion of the supplier firm’s sales. A supplier’s tactics for these large accounts depends upon the targeting for their segment.

Certain large accounts in collaborative-emphasis segments either may not recognize the value of, or are unwilling to pay a premium for, the augmented product offering that they are presently receiving. Marketing communications, supported by value case histories or other results gleaned from the earlier research, should be used by a supplier to persuasively demonstrate the superior value provided. Sonoco Fibre Drum Division has done this with a dramatic set of videos. The videos convincingly show fiber drums outperforming steel drums in a series of Department of Transportation tests.

But some large accounts that tacitly understand this greater value attempt to take advantage of the supplier. Each time some program or system is offered to reduce cost or add value, these accounts opportunistically demand all of the benefits, without granting some price premium in return. An alternate large customer tactic is to “reward” the supplier with a larger share of the customer’s business, but then request greater volume discounts. This can be a “hollow bone” if it does not provide enough additional gross profit to cover the costs of the program or system. These opportunistic customers feel that they are “base-loading” the supplier's facility and expect the supplier to make its profits on other, presumably smaller, customers’ business.

This is a critical “moment of truth” for the relationship. Suppliers need to respond to such opportunistic accounts by “freezing them” at current levels of service and not offering any new collaborative initiative, such as a codesign program, to them. Should these accounts hear that a new collaborative program has been offered to another customer and question the supplier as to why they have not been offered the program, a supplier needs to firmly respond that they cannot afford to give away the value that such efforts produce, given their incremental cost to the supplier. In response to this inquiry, the supplier should ask: “If we undertook this collaborative effort and it produced the expected outcomes, what would this be worth to your firm?” If the opportunistic customer responds by saying “Nothing!” or some price (or volume) increment less than the cost of the program, the supplier should respond that they cannot undertake the effort at that return. The collaborative product offering for these opportunistic accounts is designated as c in Figure 1b.

Turning to transaction-emphasis segments, certain large accounts may want the new, unbundled lower price, but the previous service level. Once again, the supplier faces a moment of truth. If these are truly accounts that the supplier cannot afford to lose, some negotiation is needed. Once compromise is to exchange a basic set of services, such as delivery and technical assistance, for large-volume and longer-term purchase commitments. The transactional product offering for these problematic accounts is designated as b in Figure 1b.
Evaluate Relationship Outcomes and Reassign Accounts

Many business marketers, when asked about the success of their relationship-building efforts, respond that they feel the efforts have been successful, but that they have not submitted such efforts to the same scrutiny as they would other marketing programs or systems. This is because often no measurable objectives have been determined, with the results of relationship-building efforts viewed as contributing only to intangible "customer goodwill." However, remembering that the fundamental reason for all relationship-building activities and efforts is to either add value or reduce cost in the exchange relationship, and that there should be an equitable sharing of the added value or lowered cost, some formal evaluations of relationship outcomes are needed.

Motorola's Semiconductor Sector provides an instructive example of relationship evaluation procedures. Several years ago, when Motorola began partnering in earnest, senior management devised a one-page "Statement of Partnership Goals" that summarized what Motorola expected to achieve for both itself and key customers from the partnership process. The key objectives spelled-out on this statement can be briefly paraphrased as follows:

- All partnership programs (e.g., codesign or joint development) will result in profits for both Motorola and its partner firm.
- Motorola's sales to the partner firm will be substantial and/or exhibit significant growth potential.
- Motorola should have a significant, if not exclusive, share of the partner's business.
- The partnership should contribute significantly to achievement of Motorola's "technology roadmap" goals.

Periodically, senior management compares outputs from each of the Semiconductor Sector's approximately 60 partnerships to the goals specified on the partnership statement. Changes in sales and profits as well as the mix of complementary products sold to the partner firms are considered. In order to gauge the benefits of the partnership to the customer firm, managers examine results of Motorola's annual customer satisfaction survey. The survey summarizes Motorola's performance from the perspective of partner firms' managers from such functional areas as manufacturing, engineering, purchasing, and R&D. Following consultation with customer managers, partnerships that do not meet objectives are "downgraded." This is accomplished in two ways. First, responsibility for a downgraded account is transferred from the "Strategic Market or Segment" Sales Force to the "Geographic" Sales Force. Second, Motorola disengages itself from partnership programs (e.g., joint product development). Conversely, promising geographic accounts (i.e., transactional accounts) are upgraded to partnerships.
Another noteworthy example of relationship-outcome measurement is provided by Baxter Healthcare, which uses hospital supply needs per bed as its key relationship measure. Baxter has determined that it could potentially supply $27,000 worth of products and services per bed out of a hospital's total needs each year. Its long-term relationship goal, then, is to supply as much of that $27,000 need as possible. To accomplish this, a target of 15% growth in annual sales volume is established for each customer in Baxter's corporate relationship program, and firms that meet or surpass this target are rewarded with an annual bonus based on their percentage increment in volume. Baxter also works with customers that are having difficulty achieving this growth target to identify mutually beneficial ways for the firms to do additional business together.

A critical question which must be resolved in relationship analysis is: "How long should a supplier firm wait to meaningfully evaluate its relationship-building efforts?" Although the answer will vary, it is unlikely that results will begin to appear within the first year, and even two or three years may be needed. Two points can be made with respect to this, though. First, if baseline measures on each account (e.g., sales by product category and profitability) are not available, the supplier firm needs to establish an account information system early on. Second, perceived satisfaction with the supplier firm can serve as a useful intermediate criterion measure. To gain an accurate organizational perspective, and thus avoid being "blind-sided," this assessment needs to be taken across several functional areas in the account.

After a suitable period, the supplier firm should make a comparison of results for the collaborative accounts with those for the transactional accounts. Two analyses can be undertaken. First, the averages on the germane relationship measures are compared (e.g., gross margin and number of product modification ideas). If the results do not favor the collaborative accounts, this would suggest that the supplier's augmented product offering is not valued by the targeted accounts, either because of shortcomings in its construction or its implementation. If the results are in the expected direction, the supplier proceeds with an account variance analysis by comparing each account's numbers to the relevant averages. This diagnostic analysis enables a supplier to identify specific accounts that may have been missetargeted due to a misreading of the account characteristics. After further investigation, these accounts might be reassigned for more appropriate relationship efforts.

Periodically Update the Value Provided in Relationships

Supplier managers must periodically update the value of their product and relationship offerings in the collaborative-emphasis and transaction-emphasis segments. In this way, they can identify which new services
and product modifications can increase customer value as well as which services need to be unbundled or curtailed. Such studies can assess whether developments with lead-user or leap-frog firms should lead the firm to retarget a transaction-emphasis segment as a growth segment for collaborative efforts. At the same time, supplier managers should repeat their benchmark studies to discover new ideas for additional collaborative and transactional practices.

A supplier firm must also anticipate needed reformation of the collaborative relationship offering, based upon customer experience and the product life cycle. Early on, the firm should focus upon adding value through such things as technical and application support. As a product matures or customers gain extensive experience with it, the offering should evolve to emphasize ease of doing business, focusing upon programs and systems for improving the efficiency of exchange. By understanding and anticipating this evolution of the product offering, the firm can proactively reform collaborative programs and systems to remain responsive to customer needs over time.

Most important, firms should strive to avoid complacency, an insidious relationship-killer. They should continuously ask questions in a way that encourages customers to relate problems and shortcomings. The question, "What have we not done lately?" should be periodically addressed to each customer.\(^4\) This question's wording is significant in two respects. First, it is phrased in a manner so as to encourage the voicing of problems, rather than simply soliciting a socially desirable response ("Fine."). Second, the inclusion of "lately" recognizes the natural inertia that occurs in relationships and that leads to complacency. Most unhappy customers never complain, and it costs far more to create a customer account than to retain it.\(^5\)

**Conclusion**

Working relationships with customer firms are a significant asset of any supplier's business. Through partnerships, a supplier can leverage its limited resources through joint efforts with customers, gain the benefits of customer ideas and experience, and garner higher profit margins from value-added services. On the other hand, transactional relationships offer the supplier the opportunity to prune elements of the product offering that customers deem superfluous, yielding a more competitively priced offering while at the same time easing pressure on the supplier's profit margin.

To cultivate and sustain these disparate types of working relationships, a coherent strategic approach is needed. The segmentation, targeting, and relationship-building approach that we have advocated has customer value as its cornerstone and adopts the basic premise that not all market segments, or customer firms, want the same working relationship, or value it the same.
So, as we have discussed, supplier managers must systematically decide which customer firms are in their firm’s best interests to have collaborative relationships with, and then, actively work to keep them “delighted.”

References

5. Gross, op. cit.
11. Ibid.