Transformational Customer Partnerships: What are They? How can a Company Create and Sustain Them?

A White Paper

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Introduction

Customer relationship management and account management are well-established disciplines at most companies. The insights of CRM and account management, properly implemented not only through software tools, but also through changes in business processes and organizational culture, have delivered significant value to many organizations and their customers. At the same time, an increasingly competitive marketplace requires senior management to understand and employ new approaches for working with their most important customers that go beyond traditional CRM and account management.

Traditional Customer View of Suppliers	The Transformational Partnering Perspective
▪ Suppliers are companies from whom we purchase goods and services ▪ Contracts are the primary tool by which we manage interactions with suppliers ▪ Our interactions with suppliers are fundamentally zero sum ▪ Leverage over suppliers is the key to value	▪ Our key suppliers are a source of knowledge, expertise, and assets that we can leverage to gain competitive advantage ▪ Key supplier relationships require formalized governance and relationship management processes ▪ In a world of competing supply chains, our success is tied to that of our key suppliers ▪ Collaboration with our top suppliers is the key to value

Despite promiscuous use by both customers and suppliers of the term "partnering" to describe their relationships, few companies have systematically assessed whether they could or should form true partnerships with any customers (in part because they lack any meaningful definition of the term). Even fewer have successfully formed and sustained such relationships. In this white paper, we will share advice for when and how to create and sustain key customer partnerships.

Many companies complain that their key customers view them simply as vendors, and that while customers may talk about valuing innovation, high quality and service levels, their actions bespeak a narrow, short term focus on price. Many companies believe their customers do not understand, appreciate or even want to learn about the full range of capabilities and expertise that they could bring to bear to deliver more value. But then most suppliers focus their efforts on how to increase sales volume and margin. That is, they act like vendors who see their customers simply as wallets. If companies want to be perceived by their key customers as strategic business partners rather than simply vendors, they need to change the way customers think about and experience working with them. This in turn requires fundamental changes in a company's culture, policies, business processes, management systems, and the skills and behaviors of its customer-facing personnel.

There are enormous financial rewards to be realized by transforming key customer relationships into true partnerships. This transformation entails moving away from a traditional trading relationship where the strongest links are between sales and procurement, to one where linkages are made and collaboration occurs across multiple functions and management levels between companies. Contact begins to happen not just when there is a sale or purchase to make, but at myriad other touch-points. Examples include exchanging marketplace intelligence, sharing expertise and ideas, co-developing new products, simplifying or integrating processes, and sharing capital investments. Each of these connections has the potential to create new value for each partner.

There are two fundamental reasons why companies should concern themselves with the formation and management of customer partnerships — both as a concept, and as a formal business discipline. One is that the evolution of strategic sourcing is leading companies to continue to reduce their supply base, and in many cases, to subject their suppliers to increased competitive bidding pressure in an attempt to drive down costs. Companies that do not identify with which customers they can change the game, and then act to do so, will continue to experience increasing levels of bidding competition, price/margin pressure, and uncertainty about future business. Companies need to demonstrate to their key customers that those customers can realize more value through collaboration with them, than by exercising leverage over them.

The other reason, the sister phenomenon to the reason above, is that more companies are implementing supplier relationship management programs to systematically assess with which suppliers they can collaborate, and to enhance their ability to drive innovation and growth (in addition to the continuous focus on cost reduction). It is with those suppliers that they will adjust their policies, business processes and allocation of resources to facilitate such collaboration. So, not only is there a need for companies to transform their key customer relationships, there is an opportunity. Many companies are already convinced; they just need willing and able partners.

Companies who understand what their key customers are looking for in a strategic supplier partner and who proactively take steps to make themselves attractive candidates for such collaboration stand to reap benefits including more business, higher margin business, and greater predictability of their revenues from key customers. CRM and account management offer, at best, limited insight into how to do this. A more transformational approach is needed.

At P&G's 2003 Annual Shareholders Meeting, CEO A.G. Lafley said, "Our vision is that 50% of all P&G discovery and invention could come from outside the company."

This creates new opportunities for suppliers, along with new requirements to invest in technology development, new processes, and new equipment — while knowing that the return on such investments could be at risk due to the inherent technical uncertainties of product development, as well as the possibility of changes in consumer preferences. In this context, true collaboration between customer and supplier, not leverage, is the key to success for both sides.

But while the potential rewards are substantial, so are the investments which must be made by both parties to move beyond the typical buy from/sell to, vendor-customer relationship, to a more interdependent, integrated, and strategic relationship. Such a change entails creating or formalizing more functional interfaces (e.g., R&D to Marketing), enlarging the scope of functional interactions (e.g., sharing market information, joint product development, integrated materials planning), and often creating new or enhanced processes for managing the overall relationship (e.g., coordinated strategic planning, tracking value created against an enterprise-level relationship scorecard). While much of what we have to share in this white paper has relevance to many types of customer relationships, our specific focus is on how to identify that small set of your customers where you have the ability to create a true partnership that transcends a traditional trading relationship, and how to build and sustain such arrangements.

Defining Transformational Customer Partnering

The five buckets of activity described below comprise the essence of transformational customer partnering.

1. Identifying which customers should be transformational partners

What are the characteristics of customers which could be transformed into partners and why should they be treated differently from other customers?

The criteria a company uses to evaluate with which customers to form transformational partnerships needs to be based on more than simply current or projected sales volume. In our experience, it is useful to think along two orthogonal dimensions.

The first is to assess the potential to create additional economic value for both sides. Such value may take many forms (e.g., supporting a customer's expansion initiatives into new global markets, supporting new product development initiatives by contributing intellectual property and/or R&D staff, or collaborating on major supply chain reengineering efforts to improve time-to-market or to realize breakthrough efficiencies and cost reductions, and the like.

The second dimension involves evaluation of the customer's willingness to collaborate in a true partnership. For transformational customer partnering to work effectively over time, mutual commitment is required. It is difficult for a supplier to sell a type of

Overview of the key elements of transformational customer partnering

1 Identifying which customers should be strategic partners. While many customer-supplier relationships might benefit from enhanced collaboration, there are likely to be only a very small number of customers with which a company can create breakthrough value for both sides. Realization of such value requires broader collaboration involving more people and functional areas from both companies. It mandates deeper collaboration involving more sharing of information, more joint decision-making, and more sharing of risks and rewards than is typical in most customer-supplier relationships.

2 Aligning the supplier's and customer's strategies. From the supplier's perspective, transformational partnering with key customers is about ensuring that the benefits to the customer of subjecting the supplier to regular competitive bidding situations are outweighed by the value that can be gained through a long-term, predictable, mutually committed relationship. This kind of relationship requires a high degree of transparency about long term strategic objectives and plans, and the willingness and ability to discuss where and how to align strategic direction and investments.

3 Aligning the supplier's and customer's organizations. Traditional customer-supplier relationships are characterized by the fact that interaction is focused on buying from and selling to one another. Hence the strongest interfaces are usually between sales or account management teams from the supplier, and procurement professionals at the customer. A transformational customer-supplier partnership requires identification of all the key geographic, business unit, and functional touchpoints where collaboration between supplier and customer needs to occur to realize potential value. Both parties will need to adjust existing policies, incentives, and business processes (and likely implement new ones) to ensure that greater collaboration does in fact occur. Transformational partnering requires not only that new interfaces (e.g., between R&D organizations) are formalized, but also that existing interfaces (e.g., Sales to Procurement) are adjusted as needed so they are aligned with, and support the overall vision and strategic objectives for the relationship.

4 (Re) aligning the supplier company to maximize the value it delivers to the customer. Many companies have taught their suppliers that "divide and conquer" approaches to sales and account management are the best (and perhaps only) way to profitably do business with them. Even where this is not the case, sales and account management processes and resources at most companies are organized (understandably and appropriately) to maximize sales. Very few companies have the policies, processes, and people in place to enable delivery of maximum value to their most strategic customers, and to manage relationships with them as partnerships rather than trading relationships. Somewhat counter-intuitively, customer relationships with the potential to be transformed into true partnerships are precisely those where a traditional focus on trying to increase sales will in fact sub-optimize the potential for long term revenue and profit.

5 Measuring the value of the business relationship and the quality of the working relationship between partners. The metrics in place on both sides of typical customer-supplier relationships are often inadequate to, and in many cases even disabling of, the kinds of activities that need to occur in a true partnership, and of the manner in which customer and supplier need to interact in order to maximize value to each side. Transformational partnering requires metrics that are jointly defined, focused on strategic and often hard-to-quantify value, (not only, but also not excluding, more traditional measures like cost savings) and that explicitly address and enable active management of the *procedural* dimension of the relationship (i.e., the "soft" stuff: the level of trust, the efficiency and quality of communication, the ability to effectively resolve and learn from differences and conflicts).

value which the customer doesn't care about, or to build a more collaborative, strategic relationship if the customer doesn't believe it is important.

The following questions are a useful guide for suppliers to engage their key customers in conversations to evaluate whether or not there is potential to transform the relationship into a strategic partnership:

- What are the customer's major strategic objectives and key challenges? How might we deploy our assets and capabilities and adjust our plans to better enable their success?
- To what extent does the customer see us as able to enable their long-term success in the ways in which we think we are able to?
- What are the underlying reasons they view us as they currently do? What is *our* contribution? That is, what are we doing or not doing that contributes to their perceptions of us?
- Can the customer's perspective be changed? How? What are those things under our control, that we can do even without their active support or involvement, to begin changing how they view us?
- What would we each need to do differently in order for us to make a unique and strategic contribution to our customer's success?
- What are the risks and costs (to each of us) of making such changes? Are they warranted in light of the potential upside (to each of us)?

2. Aligning the suppliers' and customers' strategies

Only when a customer can see the potential for significantly greater strategic and financial value from a supplier, does that customer have a compelling reason to interact with a supplier in a very different, more collaborative way. They need to see a return on the additional investment, risk, management, attention, complexity and openness they would need to accept and commit to in such a relationship.

In order to deliver breakthrough strategic value, a supplier will almost certainly need access to a broader and more senior group of customer executives than is typical in most customer-supplier relationships. The supplier needs to hear from, and be able to make suggestions to, executives who have a broad and strategic view of their business, and who are both able and willing to think creatively about how their key suppliers can contribute to competitive advantage and the long term success of their company. The supplier also needs the customer to be more open and willing to share their strategies and plans. This typically requires the supplier and customer to put in place some new "joint" processes (e.g., joint business planning) that will ensure regular dialogue focused on exploring strategic opportunities to create joint value, rather than solely on the performance of today's business.

3. Aligning the suppliers' and customers' organizations

Transformational partnering is about broadening and deepening collaboration between customer and

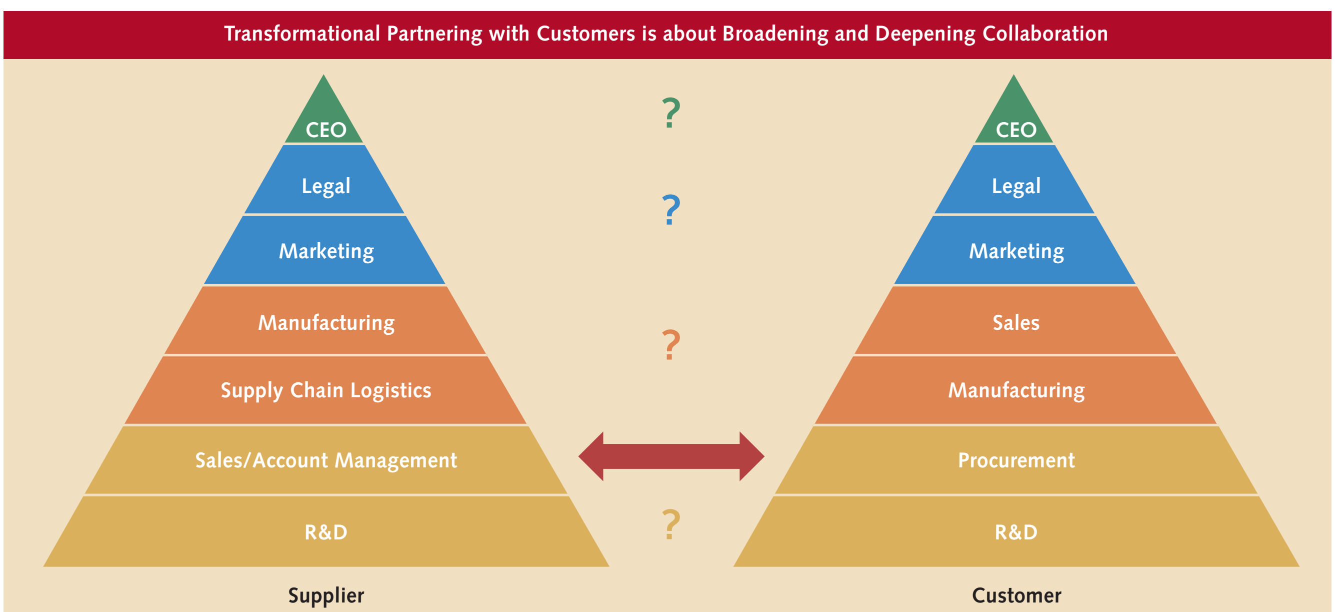

Figure 1

supplier so that the primary interface is not just between Sales and Procurement, but involves linkages between Marketing, R&D, Product Management, Customer Service, Manufacturing, business unit leaders, and the like (See Figure 1). This kind of relationship enables partners to spot and capitalize on opportunities to create value together, thereby transforming a simple trading relationship into something much more valuable and durable. In order to make this work, companies also need to look at their own organizations and break down barriers that keep them from working well cross-functionally and/or across business units, which in turn limits their ability to be a good partner to their customers.

4. Re-aligning the supplier company to maximize the value it delivers to the customer

The chart below represents Global Telecom, a fictional name but a real company, which provides telecommunications solutions to the Global 2000. This is what they looked like before implementing a Transformational Customer Partnering program for their key customers.

Global Telecom exemplified three common internal barriers to transformational partnering with key customers. They are described below.

i.) No one team or executive orchestrating activities and resources across divisions

As can be seen in Figure 2, Global Telecom's organization structure was focused around product and geographic silos, and lacked a cohesive, customer-centric focus. This significantly hampered their ability to both identify, and execute on, opportunities to deliver additional value to their key customers, particularly for the more strategic opportunities that cut across the customer's business and geographic units. Global Telecom had over 20 business units independently calling on a single strategic customer with no overall account strategy or coordination. Global Telecom's 20 business units were selling into 12 of the customer's organizational units (functional, product and geographic), and in several cases they found they were competing against themselves for new business as the customer played one unit off against another. They were wasting their and the customer's time, confusing their customer with mixed messages, and unable to spot creative ways to integrate offerings

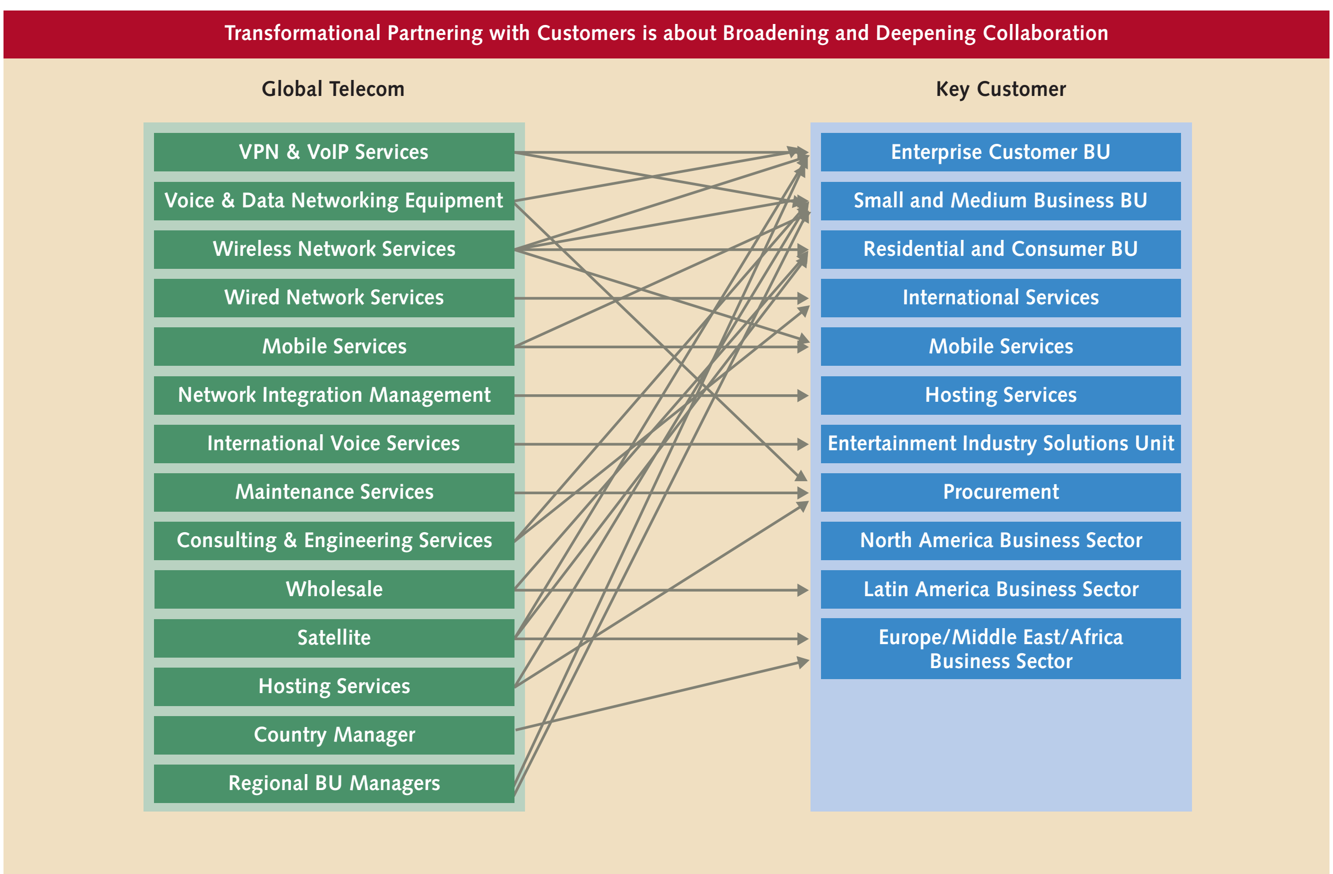

Figure 2

to add greater value to the customer.

ii.) Lack of internal alignment

Global Telecom had no overarching account strategy for this key customer, and no one within Global Telecom was responsible for ensuring that various business development initiatives were linked to the customer's most important initiatives. In addition, no one had the responsibility for examining solutions that were sold to the customer to identify efficiencies and cost savings opportunities, or to identify opportunities for innovation, which could benefit the customer without sacrificing profit margin.

Global Telecom's customers were seeking not only cost savings, but also greater price/cost transparency and predictability. But at Global Telecom, some divisions had a "Let's be opportunistic and grab as much margin as we can in the short term" strategy, while others were trying to go to market with a strategy and message of "We are seeking long-term relationships with our customers; let's price for market share, share productivity gains with the customer, and expand our relationships, while still making an acceptable margin." Needless to say, the latter message was greatly undermined by the behavior of those Global Telecom divisions pursuing a more opportunistic, short-term focused go-to-market strategy. We are not saying that the latter strategy is "right" and the former strategy is "wrong." Both have their time and place depending on market size and maturity, competitive pressures, and the lifecycle stage of the products or technology in question. The point is that it is extraordinarily difficult, if not impossible, for part of a company, a single division or business unit, to successfully implement on its own a long-term, focused, more collaborative partnering approach with key customers. Transformational customer partnering requires an enterprise level approach, which means active sponsorship and involvement from executive management.

iii.) Inadequate metrics and misaligned incentive systems

Customer metrics at Global Telecom were almost exclusively focused at the business unit level. There was simply no way to evaluate overall value being realized from key customer relationships. Instead, each business unit had their own limited view of key customer accounts. Much like the various blind men (each touching a part of an elephant) who fruitlessly debate whether elephants are like snakes (trunk), or camels (tail), or something else, no one at Global Telecom had the data to make trade-offs or to spot and evaluate cross business-unit opportunities and solutions at key customers.

Moreover, almost all metrics were narrowly focused on sales and margin. There were almost no metrics to evaluate the strategic or overall financial value being delivered to customers, or to measure the quality of the working relationship, the level of trust and effectiveness of communication that are so essential to building and maintaining effective partnerships. Consequently, little attention was paid to such dimensions of customer relationships.

Not surprisingly, most salespeople at Global Telecom were motivated to quickly close the next deal. They lacked the inclination and skills to learn about their key customers' businesses. They saw development and pursuit of cross-unit solutions as far more difficult and less likely to be recognized and rewarded internally than simply selling their own division's products or services. And in their day-to-day interactions with customer counterparts, they behaved like vendors trying to make the next sale, not like the trusted advisors and strategic business partners they had the potential to be.

5. Measuring the value of the overall business relationship, and the quality of the working relationship between partners

The metrics designed for typical customer-supplier relationships often aren't appropriate to support a true partnership. For example, metrics which involve imposition of penalties for delivery or quality problems can often create an adversarial dynamic between supplier and customer which actually makes it more difficult to diagnose and solve complex problems. Ironically, the very "incentives" created to try to get better performance and value from the supplier may shape interactions between customer and supplier staff in such a way as to actually undermine improved performance. Such penalties can make suppliers reluctant to notify customers of potential problems early — before they become costly and more difficult to solve — or to disclose all the information which would enable efficient and effective problem-solving.

In a transformational partnership, the way decisions

At one leading information technology firm, the independence of several business units meant that customers were served according to how strongly various business unit leaders pushed their agendas and need for resources. Because allocation of staff, manufacturing capacity, scheduling priorities, and other decisions about how to serve customers were driven in large part by organizational politics and status, the results were puzzling — indeed they often seemed arbitrary or even random — to key customers. This kind of unpredictability led customers to be suspicious of the supplier's assurances that they were important and would be the recipient of new, cutting edge technology and know-how. Moreover, creating solutions that required cross-business unit collaboration and investment of time and effort, when resulting revenue and profit opportunities would be less attractive for some business units, was almost impossible.

Eventually, senior executives stepped in. First, it was necessary to identify and gain agreement across the organization as to who the top priority customers were — for the enterprise overall. This meant that some business units had to accept that some of *their* most important customers were not the *firm's* most important customers, with attendant implications for allocation of manufacturing capacity and other resources. Naturally, this was a bitter pill to swallow for business unit senior management, who were measured on their own units' P&L performance. Many difficult conversations, trade-offs, and adjustments in incentives, governance structures and planning and decision-making processes had to be made to reasonably satisfy the interests of all concerned. Eventually, however, such efforts were successful and enabled far more effective internal coordination and collaboration across business units, which led to more value being delivered to customers, leading to higher sales and improved margins not just for the company overall, but for each of the business units as well.

are made, conflict is resolved, issues are escalated, and problems are solved springs from a belief that success for each side depends on success for the other, and from a commitment to creative joint-problem solving in the face of differences or difficulty. By contrast, traditional customer-supplier relationships are generally characterized by an implicit or explicit belief that interactions are zero sum (more for you is less for me, and vice versa), 'gottchas' by the customer, defensiveness on the part of the supplier, and often less value, in the end, for both. Transformational partnering requires fundamentally new ways of interacting together, and that in turn typically requires fundamentally different kinds of metrics: more strategic metrics, and fewer tactical ones; more shared metrics and fewer unilateral ones.

Transformational Partnering: Alignment Challenges and the critical role of the Relationship manager

Simply labeling a customer as a "partner" and throwing more dedicated resources at them is not enough. Transforming a customer relationship into a true partnership requires persuasively demonstrating the value the customer stands to gain, involving the customer in planning and implementing significant changes to policies and business processes, and gauging their willingness to play according to changed rules and to commit additional resources to the relationship.

Changing and aligning the collective assumptions and beliefs held by myriad individuals at multiple levels of management within a company, much less between companies, is a complex task, and codifying beliefs in the form of the organizational policies and business processes that shape the way individuals interact is as critical as it is difficult. As with other kinds of significant change, the first step on the path to success is an honest reckoning with the magnitude of the task. Senior executives on both sides need to recognize the pervasiveness and depth of engrained assumptions and attitudes that run directly counter to transformational partnering.

One of the more frustrating challenges for companies trying to transform their key customer relationships into collaborative partnerships is the different priorities and perceptions of value that typically exist up and down the customer's organizational hierarchy.

A customer's senior management will often espouse a strategic perspective focused on growth and innovation and a desire to look at potential supplier contributions beyond lower prices. However, many of the people in day-to-day supplier-facing roles are measured, rewarded, and act in ways contrary to that view.

Realizing significantly more value from key customer-supplier relationships requires changing the nature and quality of multiple individual interactions between both companies. Changing individual *behavior* in turn requires changing individual *mindsets*, as well as changing the organizational environment (policies, incentives, etc.) that shapes and constrains individual behavior.

When senior executives engage in conversations about transformational partnering, they need to recognize that *their* alignment is not sufficient. They need to actively drive change throughout their respective organizations, and they should expect and plan for how to actively engage and address significant resistance.

In our experience, many senior executives fail to ensure that they themselves are aligned around the meaning of "partnering." It is all too easy (see chart at right) to engage in conversations about elevating a relationship to a more strategic level in an abstract fashion such that fertile ground is created for unmet expectations, unpleasant surprises, and the kinds of conflicts that can derail a partnership almost from inception. Senior executives can only align their own organizations if they share a clear and operational picture of what their "partnership" will entail, and what each company and its employees can expect from one another.

Companies Often Have Similar Definitions of a Partnership

Customer's Definition of a Partnership with a Key Supplier		Supplier's Definition of a Partnership with a Key Customer
■ "We are going to expand the amount and kind of business we do with each other." ■ "We trust each other, and respect and value each other's strengths."	same	■ "We are going to expand the amount and kind of business we do with each other." ■ "We trust each other, and respect and value each other's strengths."

Ideas About the Actual Behaviors that Indicate a Partnership Often Differ Significantly

Customer's View of Partnership		Supplier's View of Partnership
■ "We challenge each other when an answer or decision doesn't make sense" ■ "We award business to the most qualified supplier – otherwise neither we nor our partners will be successful for long" ■ "Our partners give us the lowest prices" ■ "We're partners as long as we both benefit from a partnership"	very different	■ "They take our word for it when we tell them the best way to do something" ■ "We get preference in bidding for business" ■ "Our partners value our quality, service and innovation, and don't beat us up on price" ■ "Being partners means we're in this together for the long-haul."

The critical role of the Strategic Relationship Manager

In light of the various alignment challenges discussed above and throughout this article, both internal and external, it is, in our experience, critical to have a single, senior, empowered relationship manager dedicated to each customer partner. Such a role is not a silver bullet; it is a necessary, but by no means sufficient, element of implementing a transformational partnering program. In the table below, we some of the key characteristics that strategic relationship managers should possess.

1. Ability to get things done through persuasion and influence

The relationship manager for a transformational customer relationship generally has few dedicated resources. He or she has a mandate to coordinate activities across multiple business units and functions, each with their own, often conflicting, priorities and perspectives. Only an individual with superb influence skills is likely to be able to align myriad stakeholders around the trade-offs and complex collaborative efforts needed to deliver transformational value to a key customer.

2. Ability to build and manage relationships

The transformational relationship manager is part orchestral conductor, part air traffic controller, and part mediator. Internally and externally, he or she is the person who uncovers myriad needs and opportunities across the entire customer organization, and finds and deploys the relevant expertise and resources from his or her own company. To find such opportunities, individuals in this role need to be well-connected; they need to be expert at building and maintaining a wide network of relationships at their customer and within their own company. And, as noted above, since they will often encounter conflicting agendas and priorities, they need to be able to leverage strong relationships with key stakeholders as a key asset in their influence repertoire.

3. Sales experience and credibility

The role of the relationship manager for a transformational customer relationship is not to sell. Although sales levels are expected to grow under his or her management, the role is much more one of internal advocacy for the customer, relationship management, facilitation (internally and with the customer) of efforts to uncover and capitalize on new opportunities to create value, and the like. If selling is all the role is about, the customer will quickly perceive that "partnering" is, for the supplier, just another name for pushing product or services, and not a true collaboration which delivers more and different value. Nevertheless, indeed because of this, the transformational relationship manager will regularly need to fight battles where short term opportunities to maximize revenue or profits conflict with larger, but longer-term opportunities to deliver greater value to a key customer, and to realize greater value in return. Only someone who has a high degree of credibility with sales executives and senior salespeople will be persuasive that such trade-offs are indeed worth making. Putting someone in this role, no matter how talented, who has never carried a major quota, is a recipe for failure.

4. Line management experience

In addition to possessing sales experience and credibility, the transformational relationship manager should also be a senior person who has had line management responsibility, including accountability for a P&L. Success in this role requires a level of management maturity beyond what most individuals with a pure sales background will possess. Transformational relationship managers need to be able to see the big relationahip picture, and have the experience balancing many different priorities. In many ways, their job will be running (albeit via influence rather than via formal authority backed up by dedicated resources) a complex, multi-faceted relationship with a key customer, much like they managed a line of business previously. They should have familiarity (nto necessarily specialized expertise) with the many technical, operational, and commercial dimensions that may constitute the scope of a transformational partnership.

How Do You Begin?

Create a cross-functional executive governance team for the customer partnering program

At its core, transformational partnering requires culture change. A transformational partnership between companies depends upon changes in how individuals at a supplier who directly interact with key customers behave. Also impacted are the much larger number of individuals who make decisions or are responsible for activities that directly impact the value delivered to key customers. Because of the complexity of aligning resources and approaches across diverse functions and business units in order to make transformational partnerships successful, we have found that a senior, cross-functional team is needed at the supplier to drive such efforts.

Such a team (or steering committee) will typically define the overall program for transformational partnering at a company. They oversee critical ongoing decisions that need to be made across key customer partnerships. For example, if the company is developing a new technology, do they ask one key customer, or another, or several, to help fund it and collaborate with them on its development? This group of individuals will typically help to define, and then monitor, key metrics for the overall program, and for each key customer partner. As discussed above, such metrics will look very different than traditional sales metrics, and will be strategic in nature (and hence involve an inherently high degree of subjectivity). They will include metrics to enable the company to assess the extent to which they are contributing to the competitive advantage of their key customers, and the extent to which they are continuing to add value to their key customers in a way that no other company could. They will also ensure that the major investments of time and effort they are making in such relationships are delivering an attractive return for *their* company.

Build a business case — Why are we doing this? What is the value we and our key customers will realize from this effort?

The kind of relationship we are describing — one with multiple functional touch-points beyond the traditional Sales to Procurement interface which defines the majority of customer supplier relationships, one that involves joint planning and mutual commitments based on a long-term time horizon, and one that requires a high degree of coordination and collaboration — is difficult and costly to build and maintain. It is therefore essential to rigorously assess the costs and benefits for one's own company as well as for customer candidates for such efforts, to determine where there is significant net economic value to be realized.

Large companies comprise multiple business units and functional areas, each with their own objectives and priorities. Building a compelling business case for transforming a key customer relationship is complex; it requires understanding in what ways various functions and business unit stakeholders and decision-makers within a company assess value differently. Procurement may be more focused on sourcing globally. The head of supply chain management might be more interested in supply chain integration or logistics improvement opportunities. At the same time, the head of a business unit might be more interested in product innovation, while the marketing staff might care more about speed to market. Although procurement is almost always involved, each function, product, category, geography or even business unit within the customer may constitute different audiences who assess value in different and important ways. What are the value propositions for them? What are the costs of closer collaboration? What are the fears and concerns that the customer might have about such a relationship (e.g. loss of leverage, becoming dependent on a supplier who may later decide to use the customer's dependence to extract higher prices, the amount of time and effort required of them to make the relationship successful, how they will explain to many other suppliers why they are not willing to make similar investments in relationships with them)?

Jointly develop and implement a relationship management framework with each key customer

This entails jointly developing with each customer a common picture of what new relationship management resources and activities need to be put in place to realize the potential economic value identified, as well as how extant processes and policies need to be modified. For example, as noted above, each side may need to designate senior individuals to act as dedicated relationship managers. Such a role is not the same as, and should not replace, a traditional sales account manager role on the supplier side, or the role of buyer or category manager on the customer side.

Joint strategic planning between senior executives across functions at both customer and supplier may need to be formalized, with clear policies for what information will be shared. Such interactions need to be situated in a larger process or system that ensures whatever new ideas are uncovered are systematically analyzed, put through a formal review process, and if approved, supported with the resources necessary to ensure effective execution.

There are different kinds of opportunities to create value with different customers (e.g., expand into a new international market together, develop a new product, further integrate and streamline the supply chain, share market intelligence, etc.) and the forms of potential value will drive what new connections need to be made between companies and what processes need to be put in place to spot and execute on opportunities.

A Final Thought

Many of the ideas in this white paper had relevance to the management of customer relationships in general.

Two Views of Relationship Management

Traditional Customer-Vendor	Transformational Partnering
Customer employs vendor management approach; supplier employs account management approach; they manage each other	Customer and supplier jointly define and implement a unified governance structure for managing their relationship
The goal of governance is to clearly separate each side's roles and responsibilities	The goal of governance is to clearly define roles and responsibilities for working effectively *together*
Metrics are defined by the customer and used to evaluate the provider	Metrics are jointly defined to evaluate the performance of the relationship
Information is shared on a need to know basis	By default, information is shared and both sides aim to maximize transparency
Each side focuses on extracting as much value as it can from the other	Both sides focus on helping each other to be successful

That said, true transformational partnering is both costly, and extremely difficult. In our experience, few companies have more than a dozen customer relationships that have no potential to be transformed into true partnerships, and many companies don't have any. Moreover, even when no potential is there, it can only be realized through significant investment of time and effort. Far better to start with just one or two customers, and then expand efforts, than to undertake an overtly ambitious effort without sufficient resources. Customers have heard talk about partnering for a long time, and many are understandably jaded. You probably won't get more than one chance to transform a relationship with a key customer. Hopefully what we have shared in this paper will enable you to make the most of those opportunities.

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