COLUMN

The management of supplier relations is a critical dimension of running a successful transformer business

ABSTRACT

This article will define four major categories of supplier relations. Three important tools (Kraljic matrix, ATK Purchasing Chessboard, and Customer categorisation matrix) will be discussed as potential analysis tools for supplier relations. Finally, important elements of strategic partnerships will be analysed.

KEYWORDS

strategic partnerships, SRM (supplier relations management)

Creating value through supplier relations management and strategic partnerships

1. Introduction

The cost-share of purchased materials in a transformer starts with at least 50 % and could go up to 80 % depending on the market and type of the transformer. Suppliers have a very high impact on the quality level, delivery reliability, and cost competitiveness of transformer operations. In the previous article [1], specific factors in power transformer supply markets were analysed, and it was concluded that the transformers needed a supply chain, which is efficient and responsive at the same time, and this is a very challenging demand to fulfil. Therefore, the management of supplier relations is a critical dimension of running a successful transformer business.

This article will define four major categories of supplier relations. Three important tools (Kraljic matric, ATK Purchasing Chessboard, and Customer categorisation matrix) will be discussed as potential analysis tools for supplier relations. Finally, important elements of strategic partnerships will be analysed.

2. Supplier relation categories

We can classify the supplier relations in 4 categories:

1. Spot / opportunistic business relations: there is no long-term commitment from either side. The parties agree for a spot deal, and the relation is limited to the execution of the deal. There may be other deals in different instances, but the suppliers for every deal may as well change. Price is the main decision criteria. Tough competition and hard negotiations are the main characteristics of the relation. This type of relation requires more time and effort and very close monitoring of the market conditions in order to be successful.
2. Transactional / commercial relations: traditional buying and selling relation. The interactions are limited to commercial and operational issues only. Other company information is not shared. Price is still the main decision criteria, although delivery reliability and quality may get some attention. The relation is typically organised with a period contract.
3. Collaborative relations: both parties have a longer-term view on the relationship, and beyond traditional buying and selling, there will be collaborative activities, which could create benefits. The parties will share information to enable these activities. The focus will cover other cost elements in addition to the price.
4. Strategic relations: both parties have a strong commitment to long-term business relations. Sensitive and strategic information will be shared between the parties, and they will try to create synergies by aligning their strategic plans. There will be collaboration at all levels of the organisations. The parties see each other as indispensable parts of their business.

When professionally managed, it is possible to create value with all the 4 types of relations. However, the highest potential for value creation is through strategic relations.

It may not always be so obvious to decide which type of relation is the appropriate one with a particular supplier. Let us study some of the tools, which may help to analyse this.

3. The Kraljic matrix

The Kraljic matrix is a good tool to start with. In his landmark article [2], Peter Kraljic formulated one of the pillars of strategic sourcing, and the Kraljic matrix (Fig. 1) has become a very popular tool in the procurement since then. Kraljic classified the products in a two-dimensional matrix:

1. Profit impact / spend volume
2. Supply market complexity / risk

Based on these 2 parameters, the whole spectrum is categorised in 4 quadrants:

There are four supplier relation categories: spot / opportunistic business relations, transactional / commercial relations, collaborative relations, and strategic relations

1. Bottleneck items (low spend - high risk)
2. Non-critical items (low spend - low risk)
3. Leverage items (high spend - low risk)
4. Strategic items (high spend - high risk)

How can the Kraljic matrix be used to decide on the appropriate type of supplier relations? There is indeed a good correlation between the Kraljic quadrants and supplier relation types.

Non-critical items would fit well with a transactional / commercial relation. This quadrant represents a relatively smaller share of the total costs, but in terms of the number of purchasing transactions and number of suppliers, it is the most crowded quadrant. So, there is not enough time to dedicate the attention to each supplier, and since the products are not critical and risks are low, there is probably less potential to create value through cooperation. The focus is on minimising the transaction costs and establishing smooth processes to avoid disturbances.

For leverage items, opportunistic / spot relations might be used, although it does not mean that there is no room for commercial or collaborative relations. Another way of formulating it is that this is the only quadrant where spot / opportunistic business relations might be considered. For non-critical items, there could be very little saving potential to practice spot business, and it would really be a bad investment of time and efforts. Both bottleneck and strategic items have high complexity, and high risk and spot business could expose a company to high supply risks and potential disruptions. In a certain market environment, with some good luck, spot business might bring good profit; but on another occasion, a supply disruption may create a loss of multiple times the previous profit. Although leverage items are not complex, this does not mean that there is no room for a collaborative relation. Through joint efforts for cost reduction, process improvement or inventory reduction, both parties can achieve some gains, and even if the saving is small in percentage since these are high-spending items, they may still be significant in absolute value. Leverage items can also be handled through commercial / transactional relations. The first advantage over spot business is less time and attention spent. If the market is stable, an annual commercial contract may fit better than spot deals negotiated every few months. Putting an annual volume on the table may give the purchaser higher leverage than a spot deal, and better results can be achieved in addition to time-saving.

The Kraljic matrix analysis gives useful guidance about the appropriate type of relation for each product

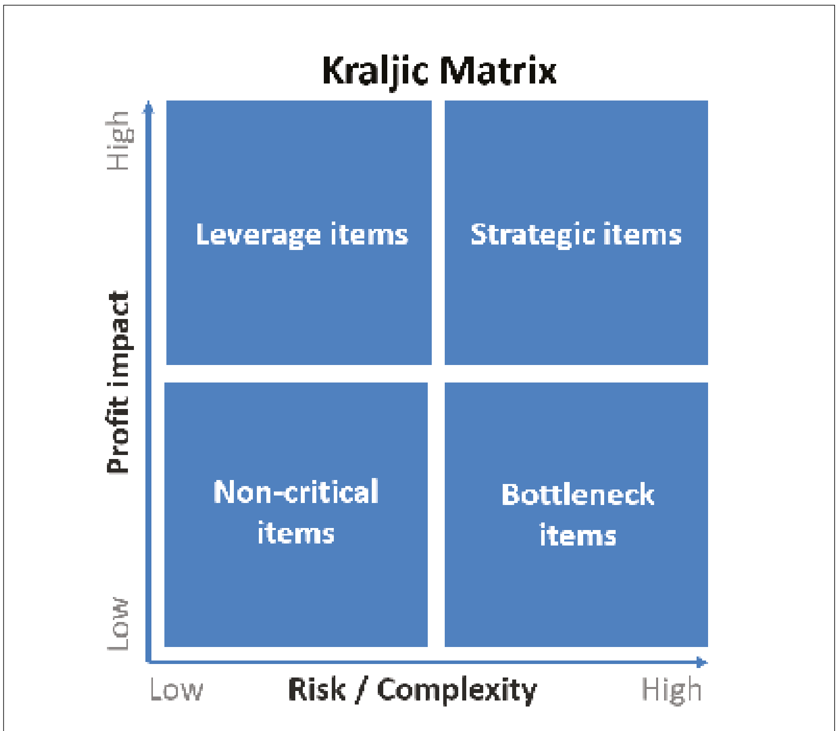

Figure 1. The Kraljic matrix

Bottleneck quadrant is the most difficult zone for a purchaser. It is not possible to address the challenges of this quadrant only by supplier relations management. There are internal tasks, like design changes, product substitution, change of specs, etc., to reduce the complexity. When it comes to supplier relations, spot business should absolutely be avoided. The most appropriate relation type would be a collaborative relation. Even strategic relations should be considered if possible, although low-spend volumes would make it difficult to attract the suppliers for strategic efforts.

It should be obvious that for strategic items, strategic relations are needed. Spot business for these items would be like gambling, and the company would be exposed to high risks. Transactional relations would mean loss of opportunities. Collaborative relations are under-exploitation of the potential gains for both parties. In the later part of the article, strategic relations will be analysed with more details.

In conclusion, the Kraljic matrix analysis gives good guidance about the appropriate type of relation for each product. However, the correlation is not one-to-one. Further analysis using other tools would give more insight.

4. ATK's Purchasing Chessboard (Fig. 2 - 4)

This methodology has been developed by A. T. Kearney in 2008 [3].

They have defined a matrix based on supply power and demand power, and the 4 quadrants are determined based on the power balance between suppliers and customers (Fig. 2).

Purchasing Chessboard defines 4 basic strategies for each quadrant. Then by defining 4 different approaches for each quadrant, 16 levers are generated (Fig. 3). With a further level of detail, the whole chessboard is created defining 64 methods (Fig. 4).

What makes Purchasing Chessboard very useful is the level of detail in the proposed supply chain management (SCM) methods. It offers a comprehensive toolbox, which can be used to solve a wide range of supply-chain problems. (A detailed explanation of the Purchasing Chessboard is beyond the scope of this article.)

Purchasing Chessboard defines 4 basic strategies for each quadrant which are subcategorised into 16 elements which are then subdivided with a further level of details which gives the whole chessboard defining 64 SCM methods

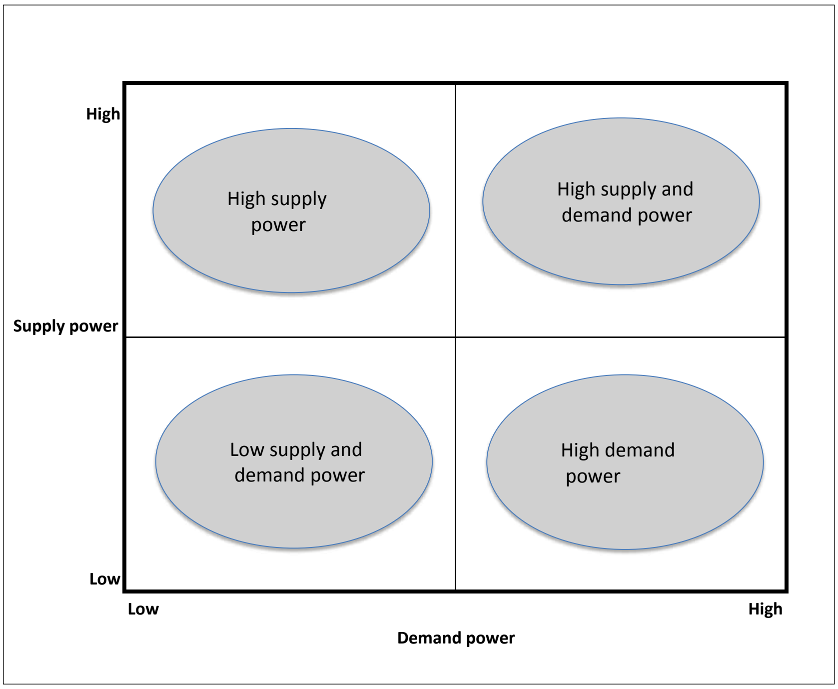

Figure 2. The purchasing playing field [3]

The proposed strategy for "low supply and demand power" quadrant is "manage spend". This correlates well with the non-critical items of the Kraljic matrix. The right type of supplier relations would be transactional / commercial relations.

For "high demand power" quadrant, the chessboard proposes to leverage competition among the suppliers. This quadrant resembles to "leverage items" of the Kraljic matrix. With similar explanations, spot, transactional / commercial or collaborative relations could fit depending on the specific characteristics of the product or market conditions.

The recommended strategy for "high supply and demand power" quadrant is seeking joint advantage with the suppliers. This quadrant is similar to Strategic items of the Kraljic matrix and, obviously, strategic relationships would be the right approach.

For "high supply power" quadrant, A. T. Kearney proposes to change the nature of demand as the right strategy. Interestingly, none of the 16 methods suggested for this quadrant is related to supplier relations. All the 16 methods are about finding a way to move out of the supplier. It is implicitly assumed that, since the supplier is powerful, it will not be possible to find a reasonable deal with them. This may not always be true. Although it is challenging, the buyer should still investigate the possibilities of establishing a collaborative relation with the supplier. The buyer should creatively think what values they can propose to the supplier, which could attract their interest. Changing the nature of demand will be a relatively long process, and success may not always be guaranteed. In the meantime, the buyer will have to live with the supplier, and the relations cannot be completely ignored. If the buyer is not able to generate any idea for a value proposition to the supplier, even paying a high price may do the trick. This may assure security of the supply and give the buyer priority among other customers. This might only be justified if it is a critical item, which could have a significant impact on the operational performance of the business.

Although this quadrant may be seen as similar to the "bottleneck items" of the Kraljic matrix, there are differences. Kraljic refers to the supply market complexity and high risk. While powerful suppliers increase the risk, there may be many other factors which could make the supply market complex and risky, and these might be well-addressed through supplier relations in some cases.

The spread of suppliers to 4 quadrants will show significant differences for different industries and in different market conditions. In the power transformer industry, the suppliers will show a good spread to all the 4 quadrants, as previously analysed

Purchasing Chessboard is a very useful tool because of the level of detail it gives for the proposed SCM methods

(1). There is a great number of suppliers with comparable or even higher power than customers. This would look quite different in the automotive industry, where customers have the absolute power in the majority of products. This insight is an important consideration when developing the procurement strategy.

5. Customer categorisation matrix (Fig. 5)

This is a tool, which is very relevant and useful when analysing supplier relations. However, it is not widely known in procurement circles. The purpose of the tool is guiding the buyers to think about how they might be evaluated and classified by their suppliers.

This matrix assumes 2 key parameters for the assessment of customers:

1. Business volume
2. Attractiveness of the customer

How should it be judged whether the business volume is high or low? First of all, it should be remembered that this graph is representing the supplier`s view, not yours. What you regard as high volume my not be seen as high by the supplier. You need to find out what percentage of the supplier`s business you represent. As a general guideline, if your business is at least 10 % of the supplier's total revenues, for most industries, this would be regarded as high. Then, what is the attractiveness? It could simply be defined as all other factors, except business volume, which could have an impact on the supplier`s view about the customer. These factors will be discussed in more detail further in the article.

There is an assumption that large business volume always makes a customer attractive, which is not true. High business volumes make a customer important, but not necessarily attractive.

The supplier will treat the customers in each quadrant very differently.

If the suppliers see you as a highly attractive customer and if your business volume is also high at the same time, you will be classified as a strategic customer, and you will be treated with the highest priority. The supplier will take the extra mile to satisfy your demands and will do everything in his capacity to maintain this account.

If you are seen as an attractive customer by the supplier, but if your business volume is low, the supplier will regard you as future potential and will put strong efforts into developing you as a larger customer and move you to the right quadrant to be a strategic customer. You will get high priority among other customers, and the supplier will try to find out what it takes to get more business from you.

If you are in either of these quadrants, you are well-positioned as a customer, and you

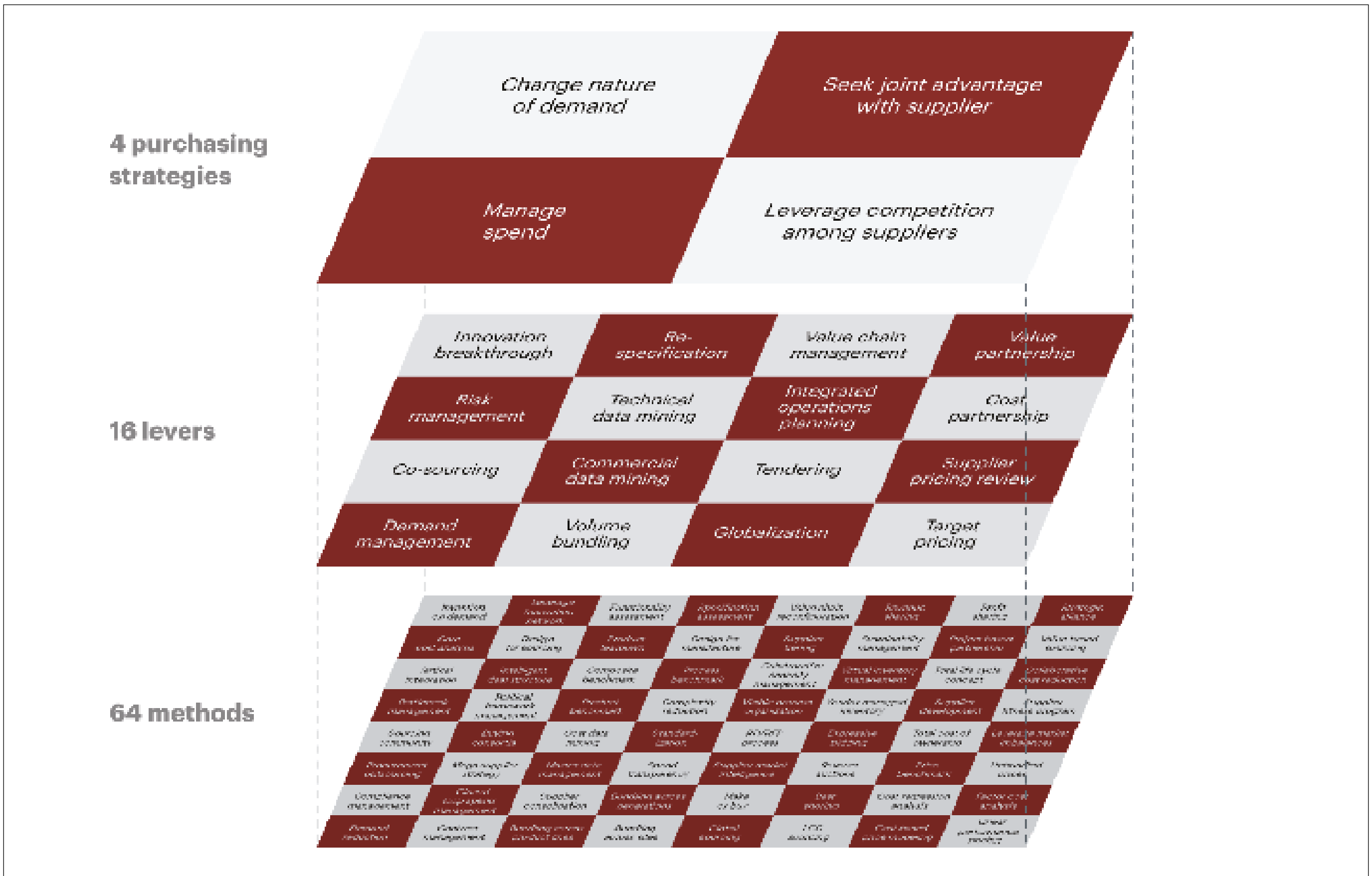

Figure 3. A. T. Kearney's Purchasing Chessboard [3]

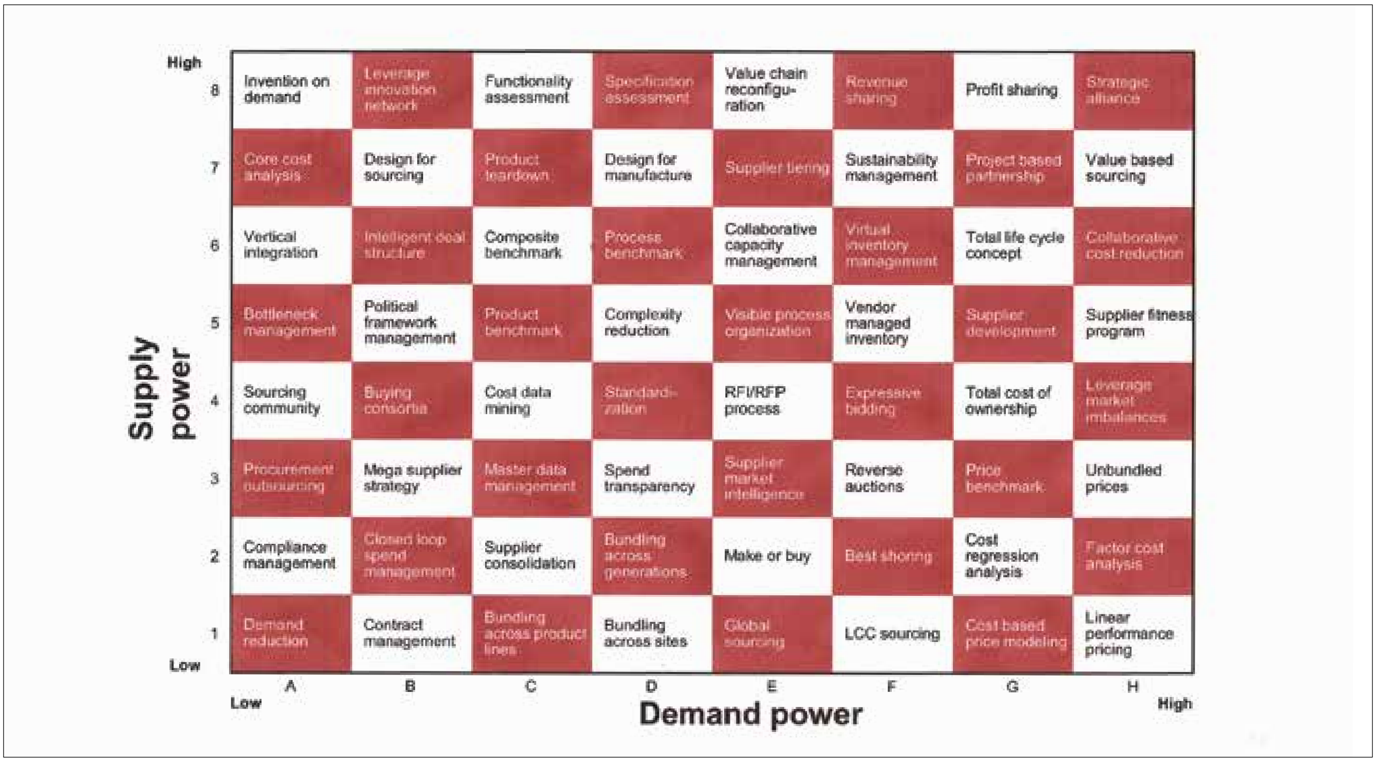

Figure 4. The Purchasing Chessboard 64 methods [3]

will be satisfied with the service you are getting from the supplier.

If you have a high business volume, but if the supplier does not see you as an attractive customer, they will treat you as an exploitable customer. The supplier would like to keep this customer as long as the business volumes stay high, but their focus will only be on the volume and profit margin. They will not be interested in a collaborative relation, and they will not treat this customer's demands with high priority. This would not be a good position for a customer.

The worst position for a buyer is to be seen as a nuisance customer by the supplier. This happens when the business volume is low, and when the supplier does not see the customer as attractive. If there is no shortage in the market, the supplier may continue to supply to this customer. But in case of a tight market situation, these customers would be the first ones to be kicked out. The customer demands or complaints will not get any real attention. These are not desirable customers for the supplier.

At this stage, let us focus more on the "attractiveness" concept. What makes a customer attractive? Customer attractiveness is dependant on the suppliers` perception of the "values" he is receiving from the customer in the business relation.

The purpose of the Customer categorisation matrix is to guide the buyers about how they might be evaluated and classified by their suppliers

In a case study [5] conducted in the automotive industry, the following 8 parameters were studied as potential antecedents of customer attractiveness: growth opportunity, innovation potential, operative excellence, reliability, support of suppliers, supplier involvement, contact accessibility, and relational behaviour. The detailed definitions are shown in Table 1. The conclusion of this study was that "growth opportunity, operative excellence, reliability, and relational behaviour have a positive impact on a supplier`s preferential customer treatment." And "almost no other

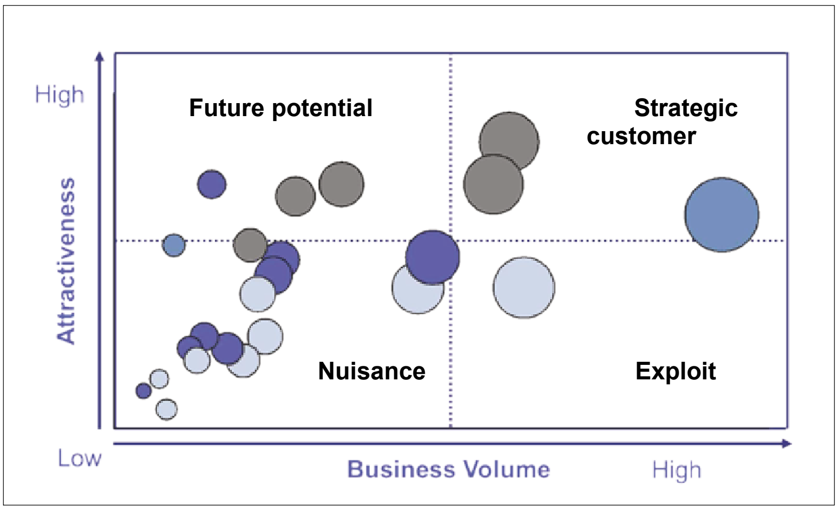

Figure 5. Customer categorisation matrix

Customer attractiveness is dependant on the suppliers` perception of the "values" he is receiving from the customer in the business relation

factors seem to have a significant impact on suppliers` behaviour." Another highlight from the same study is that "buyers who strive for preferential treatment by suppliers should avoid acting opportunistically, showing solidarity, mutuality, and flexibility instead. A relationship-driven approach based on shared values rather than on transactional exchange type of relationships seems to be conducive to the goal of securing preferential customer treatment." "Another previously neglected finding is the high impact a buying firm`s operational excellence (expressed by reliable forecasts and quick decision-making processes) has on a supplier`s perceived level of customer attractiveness."

These findings provide good insight into the dynamics of the customer-supplier relationships; however, it should be noted that the priorities would show variations from one industry to the other. Innovation potential might have appeared as the most important attraction factor in a hi-tech industry. Another important factor, which is not covered in this study is the "reputation / reference value of the customer". If you are a buyer for a company, that is the industry leader, this has a value for the supplier. Top global companies in the transformer industry have been benefiting from this fact.

So far, everything may look consistent with common sense when it comes to explaining customer attractiveness. If a bit of more challenge is required, try to answer the following question: If you are a demanding customer, does it make you attractive or unattractive? It may not be easy to give a simple answer to this. The answer really depends on the supplier`s strategy. If the supplier has an ambitious strategy to climb up to top positions in the industry, they will like the demanding customers since they will stretch the supplier in a positive direction and drive them to get better and better. If the supplier is already satisfied with their market position, they will see a demanding customer as a nuisance. If the supplier has an aggressive growth strategy, growth opportunity might be the most important factor for them for categorisation of the customers. These examples show that the attraction factors are not dependent only on the industry but on the suppliers` profile and strategy as well.

Another question, which may be asked, is how to prepare this matrix. Obviously, this cannot be performed through a direct question to the supplier. The suppliers will always tell that you are a very important customer. But if you observe suppliers` behaviour to you over a period of time, it is not difficult to understand where you are placed in this matrix. Are your calls returned immediately? Are your complaints taken seriously and are immediate actions taken for the correction? If you raise special requests, is the supplier responsive to them? Do you get direct attention from the

Table 1. The antecedents of customer attractiveness, supplier satisfaction, and preferred customer status [4]

Antecedents & indicators	Explanation of the antecedent
Growth opportunity – growth, volume, brand, image.	The supplier's abbility to grow together with the buyer and generate new benefits through the relationship.
Innovation potential – expertise, innovation possibilities and orientation.	The supplier's opportunity to generate innovations in the exchange relationship due to the buying firm's innovative capabilities and its contribution in joint innovation process.
Operative excellence – planning, decision making, process.	The supplier's preception that the buying firm's operations are handled in a sorrow and efficient way, which facilitates the way of doing business for the supplier.
Reliability – opportunism, contact compliance, agreements.	The supplier's perception that the buying firm acts in a consistent as well as reliable manner and fulfils agreements.
Support of suppliers – training, supplier development, advice.	The buying firm effort or assistance to increase a supplier's performance and / or capabilities.
Supplier involvement – early and close involvement in NPD.	Degree to which the supplier's personnel participate directly in the customer's product development team and is entrusted with developing product ideas.
Contact accessibility – cross-functional contact person.	The availability of a person who intensively shapes and advances exchange processes and reflects the buying firm's willingness to develop structural bonds with the supplier.
Relational behaviour – solidarity, mutuality, flexibility.	The buying firm's behaviour towards the supplier with regards to the relational focus of exchange capturing multiple facets of the exchange behaviour such as solidarity, mutuality, and flexibility.

highest-ranking people from the supplier side when needed? Do you get frequent visits / contacts from the supplier? Is the supplier trying to understand your needs well? Are they asking how they could serve you better? Your answers to these questions will clearly show you where you stand in the matrix.

Growth opportunity, operative excellence, reliability, and relational behaviour have a positive impact on a supplier`s preferential customer treatment

Another important point to highlight in this matrix is that this tool is not static but dynamic. The positions may shift due to factors beyond our control. If the market turns from oversupply to shortage, this will create shifts in the matrix. Changes in the ownership structure of the supplier, changes in the management team, a change of strategy, acquisitions or divestments are some other factors that could change the matrix.

Can a customer influence their position in this matrix? Definitely yes. Let us start with business volume. It is the customer who decides how many suppliers to use and how much volume to allocate to each supplier. If you decide to split your volume between 10 suppliers, you will be an unimportant customer to all of them. Obviously, the customer`s influence is not unlimited. If you are a small customer, even your total volume may not be enough to move to the "high" quadrant. When it comes to attractiveness, the customer can have a strong influence on most of the factors. Investing in relations, being a reliable business partner and respecting your agreements will already bring you above a certain threshold in attractiveness. It is important to understand the supplier`s strategy and assess which values would be important for them and think of how you can offer at least some of these values to them. If your company does not have a growth strategy, it will not be easy to offer a growth opportunity to your suppliers; but even in this case, it is not impossible. You may increase the share of the supplier in your purchases. You may check with the supplier if they would be interested in investing in some similar products and deliver you a more diversified portfolio of products. Or the supplier may be able to deliver a higher value-added package to you by supplying sub-assemblies instead of loose components, and they may even collect some of the components from other sub-suppliers. Offering a larger volume to create leverage is an easy procurement tactic, but there are other more creative tactics as well.

As a buyer, you should put yourself in the shoes of the supplier and ask yourself the question: why should I work with this customer? Are they really a good business partner for us? Why should we give higher priority to them? Why should I invest more of my time and efforts for them? Why should I give them the best commercial conditions? If you are not asking yourself these questions or not finding good answers to them, it is unlikely that you would get a good deal and good performance from the supplier.

This requires a pro-active, strategic approach towards the supplier, where you are positioning yourself to propose a good value package to the supplier, and you are marketing your company`s image as a good business partner. This is also called "reverse marketing", and you may find a wide range of literature on this topic.

6. Employment of the 3 tools

After all these explanations about the tools, the most important question arises: What do we do with these 3 tools? Analysing supplier relations by using these 3 tools will give us 3 different views:

- The Kraljic matrix tells us how important / critical the product for the customer is
- ATK Purchasing Chessboard shows us the power balance between the supplier and the customer
- Customer categorisation matrix (CCM) reveals how important the customer is to the supplier.

Different combinations of these 3 views can be experienced. A favourable combination would be the following: "Strategic product" (Kraljic), "High demand and high supply power" (ATK), and "Strategic customer" (CCM). In this case, both the supplier and customer see each other as very important, and they would be willing to collaborate to create a strategic partnership. What if we have the following combination: "Bottleneck item" (Kraljic), "High supply power" (ATK), and "Nuisance customer" (CCM). This would be a very high-risk combination for the customer and would require immediate attention. Otherwise, they could face supply disturbances anytime. The first point to think about is ways to increase their own attractiveness. If they could find a creative solution to this, they could collaborate with the supplier to mitigate the risk. Otherwise, they should try to find a way to reduce the complexity of the product and move it to the "non-critical" quadrant of Kraljic.

As the final comment, it should be noted that cultural factors also play a role in the preferred supplier relations. In some countries, there is a strong preference for spot business, and in some others, collaborative relations are more common. These cultural factors should also be considered when formulating the sourcing strategies.

7. Strategic partnership

In the last part of this article, we will elaborate more on strategic partnerships. Commercial / transactional and spot relations are well-known and very frequently practised in the market. The strategic partnership is the least understood and most challenging type of supplier relationship, and there are not many successful examples of it. This has been a very fancy and fashionable expression during the last decades. It is used frequently in business life without understanding the real meaning since it looks nice. It is quite common to use this term just in order to achieve a good price: "We are strategic partners; you should give the best price to us."

7.1. Prerequisites for strategic partnerships

Strategic partnerships are highly demanding relationships, which require certain conditions to be met before the process could start. The efforts would fail from the beginning if any of these conditions were not fulfilled.

Strategic partnerships are highly demanding relationships, which require certain conditions to be met before the process could start; otherwise, the efforts are likely to fail from the beginning

History of collaboration

It is not possible to jump into a strategic partnership without any history of collaborative relations between the parties. The parties need to learn about each other and their businesses, build-up some familiarity and confidence, and engage themselves in several improvement projects, which prove their capability to bring mutual benefits to their organisations. A successful collaboration history may encourage the parties to consider a strategic partnership as the next step.

Strategic compatibility

The companies must have compatible business strategies, otherwise, the strategic partnership will not work.

Important points to check are growth, innovation, market segments, differentiation, cost / price strategies, market positions.

If both companies have growth strategies, this will make for good strategic compatibility. They could create a good synergy and support each other`s growth.

A regional or local supplier with an aggressive growth strategy to be a global player, which is working with a global customer with an international footprint, would be a perfect match.

A family-owned supplier not wanting to grow due to the owner`s fear that they would lose control of the company growing in size, would not sit well with a customer that has a strong growth strategy. The customer would require more volumes and would need to cover the additional demand from other suppliers. The family company would see their share going down.

An innovative customer would normally need innovative suppliers that can support their R&D activities. They would be compatible and would create synergies.

A customer who has a cost leadership strategy would not be compatible with a supplier who is trying to achieve the price premium through differentiation.

A customer on the high-end segment of the market would not be compatible with a supplier on the low-end of the market.

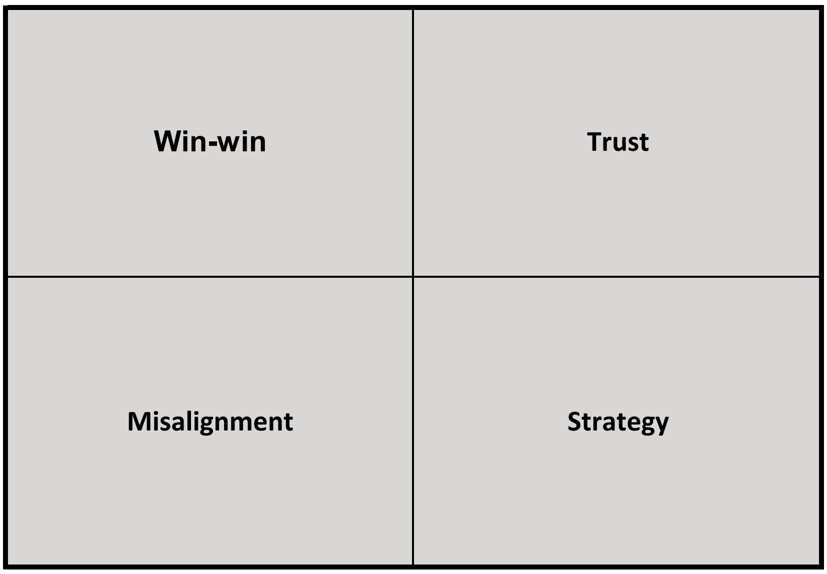

Figure 6. The Rubik's cube of customer-supplier partnership [6]

A customer that is a market leader would match well with a supplier that is also a market leader.

If a supplier has a strategy of achieving monopoly power by destroying the competition, they would not be interested in any strategic partnership.

If the strategic compatibility is not verified in the early stages, the parties would painfully experience a relation that is not working despite the goodwill from both sides.

Management commitment

The management of both companies must be strongly convinced of the value of a strategic partnership, and they should be committed to allocate efforts and resources to make it happen.

Agreement on a long-term pricing mechanism

Firstly, a strategic relation cannot be managed through an annual contract. In order for the strategic dimension of the relation to prosper, a long-term contract with a minimum duration of 3-5 years would be needed. For such long periods, it would not be possible to have fixed prices (for most products). The parties should agree on a long-term pricing mechanism. This is a very critical element of a strategic partnership, and if it is not addressed properly, it could seriously damage the relation. The negotiation process involves friction by its nature. A strategic relation should not be subjected to a confrontational process through an annual negotiation. The buyer should not threaten the supplier by moving the volumes to other suppliers if the price targets are not met. The Sales Manager of the supplier should not be forced to push a price increase aggressively in order to reach their bonus targets. These tactics do not fit to a strategic relation.

Once the need for a long-term pricing mechanism is recognised, the next step is to define and agree on this mechanism. It is strongly recommended not to create an artificial price mechanism that does not behave in line with the overall market for that product. If the market is following cost-based pricing, then the partners should also agree on cost-based pricing. And if there is market-based pricing, which moves according to the supply and demand balance, then the long-term agreement should adopt a similar mechanism. "Following the market trend" should be the main motto. Too much deviation from the market prices would always create pain for either one party or the other. The customer should have a price advantage in comparison to others, but the main value should come from the results of the strategic initiatives.

7.2. Imperatives of strategic partnerships

Cordon and Vollman [6] use the term "pair of aces" for strategic partnerships, and they depict the imperatives of a strategic partnership as a Rubik`s cube with 4 elements (Fig. 6).

These imperatives are the factors that make strategic partnership work.

- **Win-win:** This is very fashionable, but mostly casually used concept. Many of the strategic partnership efforts fail because of one party's feeling of not getting enough out of the relation. In a strategic partnership, the values delivered by each party have to be balanced and then re-balanced continuously during the journey. This is a voluntary relationship, and the satisfaction of both parties is the only factor that will make it sustainable. Each party should feel responsible for bringing satisfactory benefits for the other one. Almost all customer presentations include a few slides explaining what they expect from their suppliers, and they usually look like Christmas wish lists: the lowest prices, high quality, 100 % on-time delivery, continuous improvement, etc. What is usually missing is what they offer to their suppliers. The underlying assumption is that "it is enough to give the honour of being a supplier to our company". Is it really a good example of a win-win? Most customers have supplier performance measurements, and they communicate the results to their suppliers and expect them to improve these metrics. What about customer performance index? Are all the problems originating from the supplier? How much is the customer contributing to the problems? Is there any contribution coming from large deviations from forecasts, mistakes on drawings, multiple design changes, PO revisions, etc.?

Strategic partnership is analysed by a Rubik's cube with 4 elements which are Win-win, Trust, Strategy, and Managing misalignment

The purchaser-supplier satisfaction matrix, shown in Fig. 7, may be a good way to track the progress of the partnership. Ideally, the partners should see a nice diagonal move upwards, which should indicate that they are on the right track. In the case of downward progress, this should initiate the review mechanisms to identify the source of the problems and agree on the ways to address them.

- **Trust:** "Trust is perhaps the most important of all the four imperatives, the hardest to maintain, and the least obvious to define and assess" [6]. Trust has to be created and continuously nurtured at all stages of the relationship. Honesty, transparency, objectivity and fairness are the important factors to nurture trust, and personal relations play a very important role in maintaining trust. Parties have to build-up and maintain trust at all levels of their organisation. Trust that has been built-up in years can be destroyed in a minute with a major mistake. Trust is a must-have element of any strategic partnership.

- **Strategy:** The partners should have a shared vision of what they want to achieve in this partnership, an agreed strategy, and a roadmap with milestones that shows how they will get there. This is a task that needs to be addressed in the very early stages of the strategic partnership journey. It will not work with "Let us start the action now, and we will figure it out on the way as we go" approach. This will also allow to re-confirm the strategic compatibility between the two companies. Lack of a common strategy is undoubtedly a recipe for failure. The common strategy has to be updated based on the changes in the market conditions and the progress achieved by the partners.

- **Managing misalignment:** "There will always be misalignment, and it needs to be effectively managed. Doing so is a key part of the "grease" needed to run the continuous improvement engine" [6]. To create an intimate relation between two organisations is an extremely challenging task, and it is not possible to run this relation without conflicts. There will be misunderstandings, emotional reactions, conflict of interest situations, personal frictions, and all types of other problems you could imagine. The leaderships of the

Figure 7. The purchaser-supplier satisfaction matrix [5]

All these explanations about strategic partnerships may scare some of the readers and might lead them to think that this is "mission impossible", but it is not!

companies should not allow these conflicts to accumulate and escalate to the levels that would even threaten the relationship. They should create proper organisational structures to deal with these daily conflicts before they get more severe. Senior persons acting as key account managers on both sides and regularly communicating with each other and untangling daily issues might be one possible set-up. Companies should find the best possible set-up, which would suit the company culture and the organisational structure to address this important task.

7.3. Potential areas for value creation

Depending on the products and the priorities identified, the following areas can be targeted for value creation.

- **Joint R&D:** The strategic partnership may bring either new innovative product features or completely new products. If these could gain end-customer appreciation, it would mean a very significant contribution to the businesses of both partners.
- **Joint marketing for new products / product features:** The partners can execute joint marketing events to create or enhance end-customer appreciation for their new products.
- **Process improvement:** The partners could align and integrate their processes to improve productivity and / or increase the speed with reduced cycle times. This may also include coordinated automation of manufacturing operations.
- **Business model innovation:** The partners may create a new and innovative business model that could disrupt the market and create differentiation for both of them.
- **Achieving cost leadership**: The partners can cooperate to reduce the total cost of ownership and to achieve a competitive cost level, which is better than the other players in the market.
- **Developing new markets:** The partners can jointly plan activities to penetrate into new markets where they are not currently present.

In general, there would be more potential to achieve positive results out of these activities when two different companies with different domain competencies join their forces and resources.

Last words

All these explanations about strategic partnerships may scare some of the readers and might lead them to think that this is "mission impossible". It is not! There are very successful examples of strategic partnerships. It is a challenging and demanding task, but the potential rewards are also very significant.

Strategic partnerships will represent even a higher potential when an industry is going through major transformation and shake-up.

One example is the automotive industry facing the challenges of EVs.

Transformer industry is also in facing such a transition due to major shifts in the energy landscape: rise of renewables, slow and gradual decline of fossil fuels, increasing cyclical nature of power generation, increased demand for energy storage, increasing popularity of microgrids, smart grids, increasing energy efficiency requirements, noise requirements, environmental concerns, circular economy demands, changing energy consumption patterns due to new applications such as data centres, EVs, charging stations, digitalisation, improved capabilities of monitoring and controlling equipment, etc. We will probably see more fundamental changes in the market within the next 5-10 years than we have seen in the last 50 years.

The players who can understand the macro trends and who can bring innovative solutions will be the winners.

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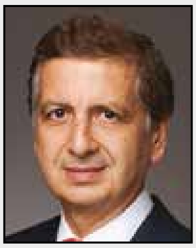

Ufuk Kivrak has BS and MS degrees in mechanical engineering. He has had more than 25 years of industrial experience in transformers and power grid industries. He has worked for ABB in several management positions in Turkey, Thailand, and Switzerland. He led the Supply Chain Management organisation of ABB transformer business globally from 2003 to 2015, which included explosive growth of transformer market from 2003 to 2008, followed by a market collapse in 2009 and onwards. In 2015, he joined Alstom Grid as VP-Strategic Sourcing and continued as Head of Strategic Sourcing in GE Grid Solutions after Alstom was acquired by GE. Currently, he is the Managing Director of SCM Consulting GmbH.