


Chapter 11

Managing supplier and partner relationships

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Chapter objectives

By the end of this chapter, you will understand:

1. the role that suppliers and partners play in the achievement of CRM outcomes
2. the many types of supplier and partner
3. trends in supplier relationship management.

Introduction

This chapter examines the important role that suppliers and partners play in the achievement of CRM outcomes. As was made clear in the last chapter, every company is located in a network of other companies, organizations, groups and individuals, the performance of which significantly determines that company's success or failure. Among two of the more important network constituencies are suppliers and partners, who sit at different positions in the value chain.

The value chain (Figure 11.1) is a framework developed by Michael Porter that identifies ways companies create value.¹ The nine value-creating activities are clustered into primary and secondary activities. The primary activities listed along the bottom of the value chain are inbound logistics, operations, outbound logistics, marketing and sales, and service. The support activities are listed vertically at the top of the value chain and are procurement, technology development, human resource management and firm infrastructure. Value can be created by companies by managing each component of the value chain more efficiently and effectively, and by improving coordination of these activities across the business. In this chapter we are concerned with the

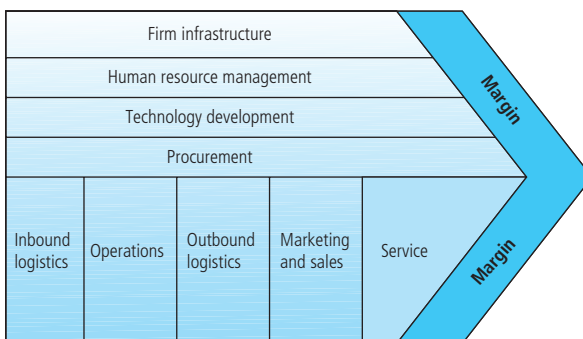


Figure 11.1
Michael Porter's
value chain model

relationships that companies establish with suppliers as they procure input goods and services (a secondary activity, according to Porter) and with partners in other parts of the value chain, for example, operations, outbound logistics, marketing, selling and service.

In the sections that follow we will first look at relationships with suppliers, and then partners.

Supplier relationships

Suppliers are the 'S' in the SCOPE model that was introduced in Chapter 10. Many people think that supplier relationship management is quite distinct from CRM. In IT terms this may be so. Supplier relationship management is a back-office function managed through enterprise resource planning (ERP), supply chain management (SCM) or specialist supplier relationship management (SRM) applications. CRM is a front-office function managed through a different set of software applications, though these can be seamlessly integrated with ERP, SCM and SRM. For example, SAP Business Suite offers a comprehensive family of industry-specific software applications including ERP, SRM, SCM and CRM that allow for complete integration.

We discuss supplier relationships here because we believe that suppliers can and should be aligned and synchronized to contribute significantly to the achievement of value for both the focal company and its customers. At the very least, suppliers need to be briefed and managed so that they provide the right inputs, at the right time and at the right price to enable the focal company to serve its customers well.

Case 11.1

Synchronizing customer and supplier management at SEAT

Supply chain management is synchronized with customer purchasing at Spanish auto manufacturer, SEAT.

EXEL is a global leader in providing supply chain solutions to the automotive industry. EXEL works closely with SEAT providing an all in one solution for the car manufacturer and its suppliers. Essentially EXEL manages the logistics for the just-in-time assembly line, linking the manufacturer with a network of more than 120 component suppliers. To achieve this EXEL manages the supply of 95 500 components every day and nearly 6500 components every hour, from the suppliers to the assembly line where 2335 cars per day are manufactured. It takes only 105 minutes between a part being ordered by SEAT and that part being assembled in the car. To build 2335 cars per day, EXEL receives an order for a new car every 35 seconds.

Relationships with suppliers are critical to the delivery of value to both the focal company and its customers. In 2006 General Motors spent US\$164 billion and General Electric spent US\$74 billion on purchasing

input goods and services. For many companies, purchasing costs are 50 per cent or more of the total costs of running the business. There are variations between industries: in electricity and gas utilities, input goods and services represent 10 to 15 per cent of sales. In electronics it is 30 to 60 per cent; in chemicals it is 40 to 85 per cent. In 2006, Toyota spent a total of ¥16 335 billion on input goods and services. A 1 per cent saving in procurement costs would lead to a direct improvement in Toyota's bottom line over ¥163 billion, undoubtedly thrilling shareholders!

The relationship between suppliers and their customers has often been portrayed as a conflicted, adversarial power struggle in which each player manoeuvres to secure a bigger share of profit. While there is still clear evidence of short-term, opportunistic behaviours on both the supplier and customer side, in recent years there has been a trend towards a more relational approach to supplier management. This is characterized as a shift from a win-lose approach to supplier management to a win-win approach.

Improvements in supply network management offer much more than the simple prospect of reductions in direct input costs.² Many companies now cooperate closely with their suppliers in a number of activities, such as product development, supplier accreditation and process alignment.

Product development

Suppliers may have ideas for product improvements or new products. A leading machine tool manufacturer, Mazak Corporation, is often in a position to advise customers of ways to make manufacturing operations more cost-effective. One study of the South African textile industry has found that collaboration between clothing manufacturers and clothing retailers accelerates the product development process, and enables fashion items to be brought to market more quickly than those of competitors.³ Sometimes product development costs and risks are shared between customer and supplier.

Supplier accreditation programmes

Some companies have introduced supplier accreditation programmes, under which certified or preferred supplier status is granted to suppliers that meet certain quality standards. If you are not accredited you are not shortlisted to supply, and without accreditation you cannot begin to establish a relationship. There are three main supplier accreditation options: requiring suppliers to be certified as ISO 9000 compliant; requiring suppliers to monitor and improve their operations against an external business excellence standard or developing and implementing your own accreditation programme.

One common approach to supplier accreditation is to require suppliers to be accredited against the international standard, ISO 9000. The ISO

316 Customer Relationship Management

9000 series is an international quality standard in which quality is defined as:

‘the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs’.

The ISO 9000 series is a family of related standards that have been developed to help organizations design, implement and operate effective quality management systems.

- ISO 9000 describes the fundamentals of quality management systems and sets out the terminology that is used in quality management systems.
- ISO 9001 specifies the requirements of a quality management system when organizations need to demonstrate their ability to provide products and services that meet customer or regulatory requirements.
- ISO 9004 provides guidelines for both the effectiveness and efficiency of quality management systems.
- ISO 19011 provides guidance on auditing quality management systems.

When a company is certified to ISO 9000 standards, this means that the company has documented its quality system to the satisfaction of an approved third party. ISO 9000 is administered by the International Organization for Standardization, based in Geneva, and is subject to periodic change.

Other companies insist that their suppliers apply for the Malcolm Baldrige National Quality Award, the European Quality Award or some other acknowledged business excellence model. The European Quality Award (see Figure 11.2), which is administered by the European Foundation for Quality Management, assesses company performance against a non-prescriptive framework. The model’s framework contains nine criteria. Five of these are ‘enablers’ (leadership, policy and strategy, people, partnerships and resources) and four are ‘results’ (customer, people, society and key performance results).

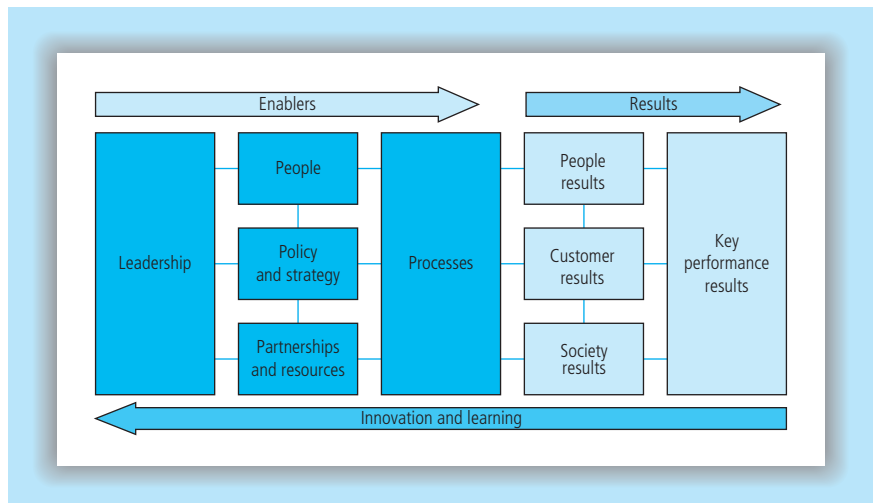


Figure 11.2
EFQM excellence
model⁴

results, people results, society results and key performance results). The 'enabler' criteria describe what an organization does. The 'results' criteria describe what an organization achieves. 'Results' are explicitly linked to 'enablers'.⁵

Other companies operate their own supplier accreditation programmes: Ford, Motorola and Body Shop for example. Motorola have said:

'If you're a Motorola supplier, an ISO 9000 certification won't even buy you a cup of coffee. We would never stop auditing a company with ISO 9000. It's just a fraction of what we are looking for'.⁶

The Body Shop rates its suppliers for their adherence to Body Shop's published ethical standards.

Process alignment

Once customers and suppliers make a commitment to each other, they may begin to look for opportunities to align their processes. Process alignment has the objective of reducing the costs of maintaining the relationship. Two processes are widely aligned: quality processes and the order fulfilment processes.

Aligning quality processes

Failure to comply with quality standards can be a huge cost for some companies. It has been suggested that the poor quality of incoming goods accounts for up to 70 per cent of total non-quality costs.⁷ Despite W. Edwards Deming's injunction that companies should 'cease dependence on inspection to achieve quality',⁸ many companies still use inspection for that purpose. An alternative is for the supplier and customer to determine jointly how to improve quality performance, thereby reducing, for both companies, the cost of nonconformance, and improving their competitive position. Process alignment on both sides of the relationship might look like this:

- the customer establishes best in class quality standards
- the supplier benchmarks quality conformance against best-in-class and identifies opportunities for improvement
- supplier and customer agree strategy for quality improvement, involving kaizen (continuous improvement by all people involved in the process), information sharing and ongoing benchmarking
- supplier introduces a quality assurance programme (quality inspection programme abandoned by customer!).

Figure 11.3 shows how NCR changed its purchasing processes as it became more relationally oriented.⁹ Important changes were that the company ceased the practice of inviting suppliers to tender annually and developed a number of key supplier relationships. The quality of bought in parts improved materially.

Figure 11.3
How NCR's
purchasing policies
changed

| Then | Now |
|---|--|
| <ul style="list-style-type: none">• Contract renegotiated annually• Incoming inspection• Purchasing components• Over 2000 suppliers• Unreliable parts quality | <ul style="list-style-type: none">• Evergreen contracts• Benchmarking• Securing technology• 150 suppliers• 50 to 100 non-compliance per million incoming parts |

Aligning the order fulfilment process

A second process that is often redesigned as companies become closer is the order-to-cash cycle, or the order fulfilment process. This process involves the customer establishing an acceptable inventory level and issuing an order for inventory replenishment when that limit is approached. The supplier fills the order and invoices the customer. The customer pays the invoice. Costs are removed and accuracy improved by the application of two different technology-based solutions: electronic data interchange and portals.

Electronic data interchange (EDI) enables suppliers and customers to trade electronically. EDI involves the interchange of unambiguously structured inventory, order and invoice data between computers according to agreed message standards. It eliminates the labour-intensive paper trail that is characteristic of many order processing systems. Large manufacturers, such as automobile companies, require their suppliers to implement EDI.

EDI delivers a number of strategic and operational benefits to companies. Strategic benefits from EDI include the following:

- EDI acts as a structural bond that not only symbolizes the commitment of the participants, but also acts as barrier to exiting the relationship
- EDI provides convenient access to accurate customer purchasing and payment histories and to detailed customer management costs that can be useful when conducting customer portfolio analysis
- EDI ensures improved customer service (more accurate and timely fulfilment)
- EDI records allow suppliers to produce more accurate demand forecasts
- EDI creates the possibility to developing new business processes such as just-in-time operations.

Operational benefits from EDI include cost savings, improved accuracy, better fulfilment performance, and improved cash flow and working capital positions.

- EDI eliminates the need to re-enter data from paper documents, thus preventing clerical errors. It has been suggested that 70 per cent of all

computer input has previously been output from another computer. Each re-entry of data is a potential source of error.

- Electronic processing of orders costs a fraction of paper-based systems, perhaps as little as one-tenth. This is partly because EDI reduces the need for people to be involved in order processing.
- EDI systems can reduce inventory costs. When customers submit their delivery requirements with order data, suppliers can plan production with more confidence, thus reducing inventories. Reduction in inventory can result in major savings.
- Use of EDI to transmit invoice data and payments can improve cash flow and working capital, as invoices are routinely dealt with according to rules built into the system.

One study of EDI in the automotive industry finds that although component suppliers are compelled to implement EDI by their assembler customers, they derive significant benefits including improved productivity, clerical staff savings, increased data accuracy, enhanced customer service and reduction in administrative costs. Suppliers who integrate EDI into their other systems enjoy even more dramatic results.¹⁰

Portals are becoming more common as companies try to reduce transaction costs and improve customer service. Extranets provide the infrastructure that enable customers to access a supplier's portal. A portal acts as a storefront. It is a company's electronic shop window. It has on display a number of products and services that are customizable for different portal visitors. The extranet enables customers and other visitors to get access to parts of the 'store' behind the portal 'storefront' from outside the company. Visitors gain access by password or security certificate. Customers can use a supplier's portal to place orders, track order progress, download training manuals, obtain price lists, access FAQ pages, and obtain invoices, brochures and collateral materials. Suppliers can use portals to service the requirements of some or all of their customers. One of the major benefits is that it reduces service costs by eliminating the use of more expensive communication channels, such as sales representatives, couriers, fax and telephone. Effectively, portals facilitate customer self-service. Whether this enhances or detracts from customer satisfaction is a moot point.

One company that has segmented its customer base, offering EDI to one segment and portal service to another, is Flymo, a manufacturer of lawnmowers available both through retail multiples and independent retailers. As shown in Case 11.2, Flymo services its large superstore customers by EDI. Smaller customers transact with Flymo through a portal.

Case 11.2

Flymo's electronic customer service

Flymo is a leading UK brand of lawnmower, targeted principally at the household market. The brand is distributed through two major channels: large do-it-yourself superstores and

smaller, often independent, distributors. Flymo introduced parallel technologies to service these two segments. In collaboration and with the full support of the DIY superstores, it introduced an EDI system. Smaller distributors were serviced by Flymo through a portal. Co-developed with IBM, and connected to IBMs global network for security purposes, the portal was introduced in 1998. It cost £100 000 to develop and implement, generating payback in less than one year. Flymo's smaller customers use it for online ordering, accounts and invoicing. It has eased communication between Flymo and dealers and raised customer satisfaction, although not all smaller customers responded positively to its introduction. It has also freed staff from routine order processing activity to deliver better customer service.

Trends in supplier relationship management

A number of trends in supplier relationship management are helping companies improve the value they create for themselves and their customers. Important among these are vendor reduction programmes, category management, product development alliances and electronic procurement.

Vendor reduction programmes

The tradition has been for companies to have many suppliers competing to supply inputs. These would be played off against each other to obtain the best deal on any particular transaction. This short-term focus is now being replaced by a relational approach to supplier management known as strategic sourcing or supplier partnering. A main driver of this change has been recognition of the high fixed costs of supplier management.

Purchasing costs can be divided into fixed and variable. Variable costs are those that are associated with a particular transaction. These include the costs of the purchased product and other item costs such as insurance and transportation.

Fixed costs are all the other costs of creating and maintaining a relationship with a supplier. These costs include:

1. The costs of raising and processing each order. The UK's Chartered Institute of Purchasing and Supply estimates these average about £50, regardless of the value of the items purchased.¹¹
2. The time of management and staff, as they check supplier credentials and credit ratings, communicate with suppliers, audit conformance to order specification and identify the best deal on a transaction-by-transaction basis.
3. Accommodation, heating, lighting, technology and so on.

These costs are fixed regardless of the value of the items purchased, and could possibly be greater than the invoiced value of the purchased items.

Purchasers customarily try to reduce variable costs by negotiating better prices or by outsourcing specialist services, such as logistics, to third parties. Often, however, there may be greater gains to be enjoyed from controlling fixed costs, and this generally means reducing the number of vendors with whom you transact.

Companies engaged in vendor reduction programmes are pursuing a number of benefits:

1. **Reduced transaction costs:** the fixed costs of purchasing are reduced when the number of vendors is reduced. This is complemented by reduced search costs. If you deal with a few regular suppliers, you spend less time and money searching for new suppliers to add to your list.
2. **Additional volume discounts:** by consolidating purchases that had previously been distributed among a number of suppliers, customers place themselves in a stronger negotiating position. Dun & Bradstreet, for example, consolidated their purchasing of tele-communications, IT and travel to yield annual savings of \$10 million.
3. **Performance compliance:** closer relationships with fewer suppliers, supported by shared information about future requirements and enabled by IT, produces better order fulfilment. Given closer relationships with fewer suppliers, customers expect their logistics and quality standards to be met. For example, many companies have adopted an OTIFNE logistics performance standard that requires suppliers to deliver on time (OT), in full (IF) and with no error (NE). If your supplier achieves on time compliance of 80 per cent, in full compliance of 90 per cent and no error compliance of 70 per cent, overall performance compliance computes at $90 \times 80 \times 70$ per cent, or only 50 per cent.
4. **Increased technical cooperation:** suppliers and customers can share customer and technical information to reduce risk, share costs and improve the probability of new product success.


Figure 11.4 sets out the benefits that retailer Tesco believes they enjoy from their strategic sourcing programme, and Figure 11.5 names a number of American, European and Australian retailers and manufacturers that have pursued vendor reduction programmes. You will see the results that some companies, like British Home Stores, Ford, SEAT, Shell Retail

Tesco claims several advantages:

- Lower costs
 - Improved investment climate
 - Better product quality
 - Improved logistics
 - Better product development
- ... and one danger:
- Supplier complacency

Figure 11.4
Tesco benefits from vendor reduction programmes

Figure 11.5
Vendor reduction
programmes from
around the world



| | | |
|--------------------------|---|--|
| British Home Stores (UK) | - | from 1,000 product suppliers to 80, of whom 35 supply 80% of BHS's retail assortment |
| Shell Retail (UK) | - | from 50 product suppliers to 30 |
| Laura Ashley (UK) | - | from 8 logistics vendors to 1 |
| Xerox (USA) | - | from 5000 suppliers to 400 in 5 years |
| Compaq (USA) | - | from 35 logistics vendors to 5 |
| Ford (USA) | - | from 3200 suppliers to 2100 in 6 years |
| SEAT (Spain) | - | from 1500 suppliers to 300 in 2 years |
| Woolworths (Australia) | - | from 2000 product suppliers to 300 |
| Wattyl (Australia) | - | from 100 suppliers to 10 |

and Xerox, have achieved by applying vendor reduction across the entire organization. The data on Compaq and Laura Ashley indicate the economies that are feasible within a particular area, such as logistics.

Category management

In recent years a number of retailers have introduced category management, in collaboration with brand manufacturers, as a means of improving business performance. Traditionally, retailers have bought brands from manufacturers, very often on deals, and then merchandised and promoted furiously to reduce inventory levels. Category management differs from this brand-centric procurement model, and can be defined as follows:

Category management is the management of a group of related or substitutable products as a single strategic business unit.

The focus is not on brands, but on categories such as shampoos, cereals, women's underwear and children's shoes. Category management has been described as:

'a management system (that) aims to reduce the distance from supplier to customer by defining and managing product categories, rather than individual brands, in an environment of enhanced mutual trust and cooperation between manufacturer and retailer'.¹²

Category managers are responsible for integrating procurement, pricing and merchandising of all brands in a category and jointly developing and implementing category-based plans with manufacturers, to enhance the outcomes for both parties.¹³ The retailer will often work with a 'category captain', usually a brand leader in the category, to create the category plan. The captain will be responsible for assembling a network of co-suppliers to contribute to the category. Jointly, the category captain and retailer decide upon product assortment, promotions, pricing, placement and space allocation, and new product development. Category plans strive to meet the needs of the retailer, suppliers and customers alike.

Category management requires the retailer and supplier to establish close links that enable them to agree category objectives, optimize the category assortment, introduce new products, de-list brands or items that do not contribute to category performance and plot category or brand promotions. Category management is enabled by IT applications such as EDI, electronic funds transfer and activity-based costing.

Category management is sometimes cited as a win-win strategy for both retailer and manufacturer, potentially capable of generating a number of benefits, as shown in Figure 11.6¹⁴ However, the consultants McKinsey & Company warn that most of the benefits from category management are skewed in favour of the retailer.¹⁵ Indeed, research confirms that retailers enjoy higher prices and higher profits under category management than do competitors with traditional brand procurement strategies. Higher retailer profits are only achieved under certain conditions, particularly when interbrand competition is high and consumer store switching is low. Few economic benefits exist for the retailer when these conditions are absent.¹⁶

| Benefits for supplier | Benefits for retailer |
|--|---|
| <ul style="list-style-type: none"> Increased profitability Increased business knowledge Improved relationships with retailers | <p>Financial:</p> <ul style="list-style-type: none"> Increased sales Increased margins Reduced costs Improved efficiency Increased market share <p>Non-financial:</p> <ul style="list-style-type: none"> Organizational learning More effective strategy implementation Better customer service Improved customer knowledge Understanding cost structures More open communications with suppliers Improved personal relationships Stability of best practice |

Figure 11.6
Category management benefits

Product development alliances

It is becoming more common for companies to cooperate with their suppliers in product improvement and new product development programmes. Supplier competencies can be used to reduce development costs and accelerate time to market. For example, suppliers may be able to advise on cheaper or better specifications for the product. They may share some of the cost burden if they are assured of being a key supplier

when the product is eventually brought to market. Suppliers may even be the original source of new product ideas for their customers. Technical Felts, a manufacturer of air filtration felts, membranes and fabrics, partners with significant customers to develop application-specific solutions to those customers' air quality problems.

Collaboration platforms provide a set of technological tools and an information environment for collaboration between businesses developing new products. These platforms enable the alignment and integration of processes or work from geographically-separated network members. For example, Boeing has established virtual design teams with its suppliers to work on aircraft design projects. Technology companies working on systems integration projects for clients that have multinational sites are also linked by these collaborative platforms.

Case 11.3

Cooperation between electronics components suppliers and OEMs in the automobile industry

Significant cooperation between electronics components suppliers and OEMs, such as Toyota and BMW, underpins brand success. Innovations in automotive electronics have become increasingly complex, resulting in high-end vehicles containing more than 70 electronic control units and offering a variety of functions to the driver. In-vehicle telematics and infotainment systems provide services like digital radio, broadcast services, television, global positioning systems and MP3 audio. Future applications and services will integrate information sources available outside and inside the car, requiring vehicle systems connecting in-vehicle consumer electronics devices with the outside world in order to realize the vision of an intelligent networked car, connected with the environment and providing the driver with information according to his demands. There is now very close cooperation between automobile brand owners and components suppliers. Automobile manufacturers do not have the in-house competencies to develop these electronics applications independently.

Source: Bosch GmbH¹⁷

Electronic procurement

Another trend in supplier relationship management is the development of electronic procurement. There is a strong economic incentive for companies to transact with suppliers online, and equally for suppliers to offer online procurement to their customers. For customers, online purchasing offers the prospect of reduced procurement costs and immediate order placement. One significant feature of online procurement is disintermediation (the elimination of one or more intermediaries from the supply chain). In other words, buyers can interact directly with suppliers and enjoy cost savings and communication direct to suppliers.

Suppliers, in turn, are motivated to sell direct to customers because it offers the prospect of three benefits: reduced customer management

costs, enhanced control over the customer experience and enhanced cash flow due to immediate payment. Banks have found that transaction costs are dramatically reduced. Transaction costs over the Internet are one-tenth of branch-based costs. Even telephone-based transactions are less than one-half the cost of branch transactions. In the travel business, distribution costs for a \$1000 package holiday are \$150 if sold on commission through a travel agent, but \$20 if sold direct over the Internet. These lower costs can be passed on to customers in the form of lower prices. The investment company Fidelity, for example, charges 3.25 per cent of the value of a purchase when a retail customer uses a standard paper-based application form to buy shares in mutual funds; when the purchase is made online the charge is only 1 per cent.

The trend towards electronic procurement is found in both business-to-business and business-to-consumer contexts.

Business-to-consumer e-commerce

Although the volume of consumer purchasing made online varies from country to country, and from product to product, the USA is still the marketplace in which online purchasing is at its most advanced. According to the US Census Bureau, in 2003 70 million American households (62 per cent of households) had one or more computers, up from 56 per cent in 2001, and sixty-two million households (55 per cent of households) had Internet access, up from 50 per cent in 2001. The Internet has become an integral part of the US economy. Eighteen per cent of adults conducted banking online in 2003. Twelve per cent of adults used the Internet to search for a job. Nearly half the adult population (47 per cent) used the Internet to find information on products or services. About one-third of adults (32 per cent) actually purchased a product or service online, compared with 2.1 per cent of adults who used the Internet for shopping in 1997.¹⁸ The trend is upward as consumers become more confident in their remote shopping behaviours.

Forecasting consumer spending on the Internet is a dangerous occupation. In 1998, for example, it was forecast that 7 per cent of consumer expenditure would be online by the end of the century.¹⁹ That did not happen. In 2006, US business-to-consumer e-commerce accounted for just 2.8 per cent of total retail sales, up from 2.4 per cent in 2005.²⁰ The categories that dominate consumer spending are computer hardware, movie and event tickets, automotive, office supplies, consumer electronics and child and baby products.²¹

Companies manage their customer interface on the Internet in different ways. Some companies only take orders online. Others also receive payment online. A few also deliver their product online, for example, software companies. Generally, shoppers like the convenience and speed of online purchasing and they expect to enjoy a price advantage over their bricks-and-mortar shopping.

Business-to-business e-commerce

B2B e-commerce is a much more significant phenomenon than B2C e-commerce. The US Census Bureau reports that in 2005

business-to-business e-commerce, which they define as transactions by manufacturers and merchant wholesalers, accounted for 92 per cent of all e-commerce. Evidence indicates that B2B e-commerce relies overwhelmingly on proprietary electronic data interchange (EDI) systems.²² Experts generally agree that the value of transactions in B2B e-commerce is about ten times the value of B2C e-commerce.

In the USA 27 per cent of the total shipments by value of manufactured output was sold online. The industries with the largest percentage of online sales were transport equipment manufacturing (53 per cent) and beverage and tobacco manufacturing (49 per cent). Eighteen per cent of merchant wholesaler trade sales were completed online in the same year.²³ The trend for both manufacturer and merchant wholesaler online sales is upward.

B2B e-commerce is growing quickly because entry costs are very low. It can cost as little as \$1000 to design a brochure-type website, with ongoing annual costs of web-hosting and site maintenance of only a few hundred dollars. In addition, for companies that choose not to use EDI, web-based trading employs open networks and standards delivering a much higher degree of interactivity and flexibility. The Internet is ubiquitous, accessible and cheap.

Timmers has provided a useful taxonomy of business models in B2B e-commerce.²⁴ Among the B2B models he recognizes are e-shops, e-procurement, e-malls, e-auctions and third-party marketplaces.

- **E-shops** we normally associate with B2C e-commerce, but some B2B enterprises also enable customers to purchase online. Customers anticipate lower prices, better information and greater convenience. Site operators expect enhanced revenues from reduced cost, increased sales and possibly the sale of advertising space, such as banner ads. Hewlett Packard's small and medium-sized business customers can buy direct online.²⁵ Some company websites, such as www.dell.com devote sections of their websites to corporate purchasing, as distinct from the household section.
- **E-procurement** involves the electronic tendering and procurement of goods and services. Japan Airlines, for example, procures some of its supplies through its web presence. For the customer, anticipated benefits include wider choice of suppliers, lower input costs and reduced transaction costs due to automation of the process. E-procurement may be accompanied by electronic negotiation and contracting. Customers and suppliers might also perform collaborative specification. Suppliers hope they will have the opportunity to submit more tenders, perhaps globally and experience lower tendering costs.
- An **e-mall** is a collection of e-shops on a single site. PTplace.com is an e-mall established by industrial components distributors for industrial components distributors. Distributors of Barden, Cooper, Dodge/Reliance, Drives Inc., FAG, Gates, INA, MRC, SKF or Timken products can shop for components at the one location, placing orders electronically, checking order status, availability and obtaining customized pricing. Each brand has its own shop at the site.
- **E-auctions** are electronic versions of conventional auctions. They feature electronic bidding, sometimes linked with payment and delivery. Some are enhanced by multimedia presentations of the

goods being auctioned. Benefits for suppliers and customers include increased efficiency in buying and selling. Websites such as www.liquidation.com, www.graysonline.com.au and even eBay conduct auctions of commercial and industrial equipment and supplies.

- **Third-party marketplaces** are buyer–seller websites that are operated by third parties. Microsoft has a third party marketplace for companies whose products and services may suit Microsoft’s small business customers.²⁶ Sometimes, an entrepreneurial third party forms a strategic alliance with key partners to establish the marketplace. This was the case with Hospitalitybex which was established in Singapore in 2000 to serve as an electronic marketplace for the hospitality industry. Hospitalitybex was initially set up with a small number of industry partners, with the primary objective of streamlining the procurement process. It provides a one-stop destination for product and service sourcing, negotiation, selection, ordering, fulfilment, payment and reporting for the now 4000 organizational members.²⁷

Not all of these e-commerce options are necessarily relational in character. E-auctions, for example, are compatible with a very transactional view of supplier relationships. Each auction can be viewed as a unique event in which participants buy and sell as if there were no history linking them. However, we are seeing evidence of co-opetition, that is, cooperation between competitors, to secure better deals on input raw materials and goods. For example, keen rivals Unilever and Procter and Gamble cooperate in the procurement of raw materials for manufacturing.

Partners

Relationships with business partners also need to be managed so that they can contribute to the achievement of CRM goals. We are not using the term ‘partner’ in this section in the same way that some CRM technology firms use it. Many technology firms offer what they call partner relationship management (PRM) applications. These applications help vendors manage their relationships with channel members, such as retailers and value added resellers (VAR). PRM is best thought of as the deployment of CRM tools for the management of relationships with a particular segment, that is, the channel member or partner. We examine PRM later in the book.

In this chapter we define the main function of partners as helping companies create and deliver value to their customers. They are the ‘P’ in the SCOPE model that was introduced in Chapter 10. Figure 11.7 identifies a number of different types of partners, divided into groups focused either on value creation or on value delivery.

Partners in value creation

We can identify a number of different types of partner in value creation: joint venture or alliance partners, category teams, benchmarking groups, regulators, customer advocacy groups and sponsors.

Figure 11.7
Partners in the
SCOPE model of
CRM

| Partners in value creation | Partners in value delivery |
|---|--|
| <ul style="list-style-type: none"> ● Joint venture or alliance partners ● Category teams ● Benchmarking partners ● Regulators ● Customer advocacy groups ● Sponsors | <ul style="list-style-type: none"> ● Agents ● Brokers ● Management contractors ● Consortia ● Franchisees ● Licensees |

Strategic alliances

The terms ‘joint venture’, ‘strategic alliance’ and ‘business partnership’ tend to be used interchangeably. Indeed there is no clear consensus on the differences, if any, between these terms. They all feature interfirm cooperation. Partners in joint ventures or alliances maintain their own strategic autonomy while simultaneously establishing activity links, resource ties and actor bonds between the partner organizations for particular purposes. When British Airways and American Airlines agreed to coordinate routes, schedules and reservation systems, this was an alliance. It was neither a merger nor an acquisition. Both retained their autonomy. Alliances may involve two or more companies, two or more nations and two or more jurisdictions. They can be highly complex entities with no clear legal status. Equally they can be very simple arrangements.

Not all alliances are strategic. To be so they must contribute to the strategic goals of both organizations. You would expect to find a more balanced contribution and participation in a strategic alliance. Historically, many joint ventures (JV) have been initiated to enable a dominant partner to enter a minor partner’s market. Essentially, the JV served as an export channel and there was little strategic value for the minor player. More recently, however, many JVs have featured bilateral or multilateral cooperation between partners in the development of new products for sale in the partners’ and other markets.

Case 11.4

The STAR Alliance

The STAR Alliance is an alliance between 17 international and 3 regional airlines serving 855 destinations in 155 countries. The international members are Air Canada, Air New Zealand, All Nippon Airways, Asiana Airways, Austrian Airlines, BMI, LOT, Lufthansa, SAS, Singapore Airlines, South African Airways, Spanair, Swiss, TAP Portugal, Thai Airways International, United Airlines and US Airways.

The Star Alliance network was established in 1997 as the first global airline alliance to offer customers worldwide reach and a seamless travel experience. In 2006 the alliance flew 405 million passengers, 859 billion passenger kilometers, on 16 000 daily departures with a fleet of 2777 aircraft, generating US\$115 billion. Passengers who are members of one of the Star Alliance airline frequent flyer programmes are able to earn miles or points on all qualifying flights across the Star Alliance network. Star Alliance Silver and Star Alliance Gold status are additional benefits that passengers become entitled to when they reach a higher status in an individual airline frequent flyer programme. Star Alliance Gold benefits include priority wait-listing, priority airport standby (where allowed by law), priority check-in, priority boarding (where available), extra baggage allowance and worldwide lounge access. Other member benefits include reduced waiting times and faster connections, because member airlines are located close to each other or share positions. Not only do passengers benefit, but so do the airlines. They experience economies of scale in purchasing everything from toilet paper to aircraft, shared costs estimated at over US\$1.5 billion, shared technology and shared airport positions.

There are a number of different types of alliances. Broadly they can be classified into alliances between non-competing firms and alliances between competitors (known as co-opetition).

Alliances between non-competing firms

There are three main strategic motives behind alliances between non-competing firms: market expansion, vertical integration or diversification.²⁸

Market expansion

Companies may enter into JVs to develop new domestic or international markets. Renault formed a JV with DINA (Diesel Nacional, SA) in order to enter the Mexican market. When Procter and Gamble decided to enter the Chinese market, they formed a JV with Guanzhou Lonkey Industrial Company (GLIC). P&G brought its technology and manufacturing expertise to the table. GLIC brought its distribution network and local knowledge. In the USA, medical clinics are establishing partnerships with retailers such as Wal-Mart, Target and the drug-store chain CVS to offer convenient and low-cost treatment for minor illnesses and injuries. In Brazil, Bradesco Bank has grown its credit portfolio through partnerships with retail chains that offer loans to poorer consumers.

Vertical integration

Vertical partnerships bring together neighbours in the supply or demand chain. Aerospatiale and Thomson set up a vertical partnership called

Sextant Avionique. Thomson manufactures avionics and electronic equipment used by Aerospatiale in its aircraft and helicopters. They formed a 50:50 JV to manufacture and design new forms of equipment for the aerospace industry. Pepsi acquired part of Pizza Hut, KFC and Taco Bell to secure access to the restaurant market segment.

Diversification

Alliances aimed at diversification feature cross-industry agreements. BMW and Rolls Royce got together to establish a JV to enable BMW to enter the aircraft engine market. JVs may be initiated when technologies begin to converge. Philips and DuPont have cooperated in the development of an optical disk system for data storage.

Alliances between competing firms

Alliances between competitors seem paradoxical. How can competitors cooperate? Research suggests that perhaps 70 per cent of alliances are between competitors.²⁹ There are, again, three main types of alliances between competitors: shared supply alliances, quasi-concentration alliances and complementary alliances.

Shared supply alliances

This happens when competitors get together to experience economies of scale on the manufacture of some component or some stage of the manufacturing process. Volkswagen and Renault jointly manufacture automatic gearboxes. The European market for automatic transmission cars is only 8 per cent of the overall car market. Together, because of the volumes, they generate economies that they could not enjoy independently, as they cooperate in research and development and manufacturing.

Quasi-concentration alliances

In a quasi-concentration alliance the parties collaborate for the creation of a product that the consortium then offers to the market. In other non-consortium activities the parties compete as usual. An example is the development of the Tornado fighter plane by BAE, DASA and Alenia. Given the huge capital costs it made little sense for the three to compete in the market independently. Quite possibly none of them would have made a return on their investment in the project. Collectively they were able to pool their resources and develop a product, the manufacture of which was shared among the three partners.

Complementary alliances

In a complementary alliance, partners bring different competencies to the alliance. Commonly, one partner has developed a new product that is distributed through the other party's distribution network. Ford sold rebadged Mazda cars, and Chrysler sold Mitsubishi cars in the USA. Chrysler only sold those models that filled gaps in Chrysler's product line.

Category teams

You read earlier in this chapter about the trend towards category management. A category team consists of the network of brand principals that contribute to a category offer by a retailer. The retailer, in partnership with the category captain, decides which brands and lines to stock. The UKs count line confectionary market contains a number of 'must-have' brands manufactured by Mars, Nestlé and Cadbury. Whoever serves as category captain, these three manufacturers must be offered shelf space.

Benchmarking partners

Benchmarking is defined as follows:

Benchmarking is a business improvement discipline involving the continuous, systematic evaluation of products, services and processes against organizations that are recognized as representing best practice.

Xerox, the copier company, is reputed to have originated benchmarking. Xerox's patents expired towards the end of the 1970s. As that happened, Japanese competitors like Canon introduced their products to the US market. To Xerox's alarm, they did so at a retail price that was lower than Xerox's manufacturing costs. Xerox began a benchmarking programme to find out what they could do to match and better the Japanese.

One of the key components of the benchmarking process is the selection of benchmarking partners (see Figure 11.8). A common misunderstanding about benchmarking is that it is simply a matter of identifying and learning from best in class companies. It is not so. Benchmark groups are networks of companies who expect mutual gain from their participation.

The benchmarking group may be internal to a company, intra or trans-industry. Each has their value, depending upon the benchmarking objective. For example, if you are a bank wanting to identify the practices which generate the highest average deposits per account, you would want to create an internal benchmarking group.

An intra-industry benchmarking group has been established by 18 corporations in the telecommunications industry, including AT&T, Nynex, MCI and GTE. They are learning from each other by sharing

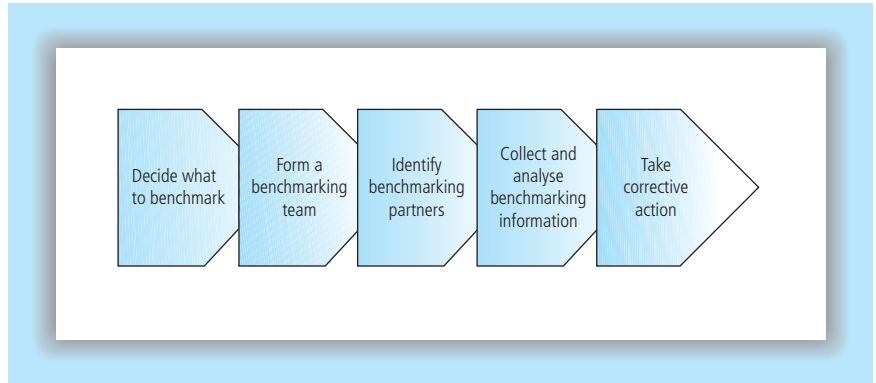


Figure 11.8
The benchmarking process

their knowledge of customer satisfaction, new product development and customer service.

A trans-industry group of benchmarking participants from FedEx, Caterpillar, Westinghouse and DuPont was established to learn from each other about best practices in the area of financial management. The London Benchmarking Group (LBG) is a group of over 100 companies working together to measure corporate community investment (CCI).

Participants usually have concerns about disclosure of competitively sensitive information to their benchmarking partners. For this reason, codes of practice have been developed. These include the Benchmarking Code of Conduct of the American Productivity and Quality Centre, and the European Benchmarking Code of Conduct.³⁰

Benchmarking groups can have significant impact on the creation of customer value. GPT Payphone Systems manufactures payphones, phonecards and payphone management systems for customers in 80 countries. It set up a benchmarking programme to identify best practice in receiving and managing customer returns. As a result it set up and rolled out a barcode booking-in system for returns that also served to track repairs, and a buffer stock system for replacing returned goods. The result was a 99.7 per cent success rate in next day replacement, and a considerable increase in customer satisfaction.³¹

Case 11.5

Benchmarking at Avon Cosmetics

In the USA, Avon Cosmetics' immediate customers are the 450 000 sales representatives that sell Avon products to the end consumer. Fifteen per cent of this sales-force generates 50 per cent of sales. Avon established an internal benchmarking study to identify and share best practice within and across the company's five geographic sales regions. The objective was to improve branch productivity through a range of process improvements. Among the outcomes were changes to the way managers were trained in the use of the company's IT system, an improved call management system and regular meetings between customer service supervisors to share ideas and experiences.

Regulators

Many industries are regulated, particularly those in which consumers are thought to be at risk either because of deregulation or because of monopolistic competition. These include financial services, telecommunications, rail, gas, electricity and airlines.

In the UK, Ofcom is the regulator for the communications industries, with responsibilities across television, radio, telecommunications and wireless communications services. Under the Communications Act 2003, Ofcom's statutory duties are:

'to further the interests of citizens in relation to communications matters; and to further the interests of consumers in relevant markets, where appropriate by promoting competition'.

A close relationship with regulators allows communications companies to ensure that they are not in breach of regulations or legislation, and have early knowledge of, and perhaps influence, forthcoming regulations or legislation. The regulator's office is also a source of useful insight into the issues that are worrying customers. Ofcom, for example, operates a complaints-handling process and conducts consumer research. Ofcom's investigation of the consumer experience of the fixed and mobile, Internet and digital broadcasting markets aimed at measuring how well consumers are faring in respect of choice, price and range; availability and take-up; awareness, comparing and switching; protection and concerns.

Customer advocacy groups

Customer advocacy groups (CAGs) promote and protect the interests of consumers. CAGs operate within many countries. There is the Consumers' Association of Canada, the Consumers' Association of Singapore and the Consumers' Association of Iceland, for example.

In the UK, the Consumers' Association, publishers of *Which?* magazines and books, is a not-for-profit organization which has been researching and campaigning on behalf of consumers since it was founded in 1957. With over 650 000 members, it is the largest consumer organization in Europe. Its mission is to 'make individuals as powerful as the organizations they have to deal with in their daily lives'.³²

There are some international consumer advocacy groups too. Consumers International (CI) is a federation of national consumer associations that 'defends the rights of all consumers, particularly the poor and marginalized, through empowering national consumer groups and campaigning at the international level'.³³ CI represents over 220 member organizations in 115 countries. It focuses on issues such as food distribution, health care and globalization.

CAGs can have direct influence on corporate behaviour, and indirect influence through lobbying activity. During the 1970s the UK's Consumers' Association (CA) developed its role as a campaigning body and lobby group. In 1972 it was instrumental in the establishment of the Office of Consumer Unions (BEUC) which lobbies consumer issues to the EC in Brussels. The CA claims responsibility for several important Acts of Parliament which have improved the position of consumers, including the Unfair Contract Terms Act 1977, the Consumer Agreements Arbitration Act 1988, the Property Misdescriptions Act 1991, the Cheques Act 1992 and the Sale and Supply of Goods Act 1994. The CA has recently campaigned to curtail the marketing of low quality food to children, to lift safety in the cosmetic surgery industry and to reduce bank charges.

Individual activists may also be worth considering as part of the 'P' constituency of SCOPE. For example Ralph Nader, the American lawyer and consumer activist, wields considerable influence. His 1965 book, *Unsafe at Any Speed*, detailed the carelessness of the American automobile industry in producing unsafe vehicles. A particular target was General Motors with its fragile Corvair. Nader wrote:

'A great problem of contemporary life is how to control the power of economic interests which ignore the harmful effects of their applied science and technology'.³⁴

The book led to congressional hearings and a series of automobile safety laws were passed in 1966. Since 1966, Nader has agitated for the introduction of at least eight major federal consumer protection laws, including the motor vehicle safety laws and the Safe Drinking Water Act. He has been involved in the launching of federal regulatory agencies, such as the Occupational Safety and Health Administration (OSHA), the Environment Protection Agency (EPA) and the Consumer Product Safety Administration. Nader had input into the recall of millions of defective motor vehicles and also improved access to government through the Freedom of Information Act of 1974.³⁵

Some consumer advocacy groups concentrate on single industries, for example the Timeshare Consumers' Association which aims to 'help make timeshare an enjoyable, value-for-money form of holidaying for consumers'.³⁶ Pharmaceutical companies work with and through patient advocacy groups (PAGs) to achieve the aims of both the advocacy group and themselves (see Case 11.6). PAGs are established to represent the interests of sufferers from disease, their families and carers. In the UK, for example, there are the National Schizophrenia Fellowship (NSF), Depression Alliance, SANE, Parkinson's Disease Society, British Diabetic Association, National Osteoporosis Society, Amarant Trust, Terence Higgins Trust, Women Health Concern, Aids Treatment Project, Wellbeing, Macmillan Cancer Relief, the British Heart Foundation and many others. The relationship between the pharmaceutical company and PAG can be mutually beneficial.³⁷

Case 11.6

Hoechst-Roussel aligns with patient advocacy groups

When Hoechst-Roussel Pharmaceutical launched Trental (pentoxifylline) for the treatment of intermittent claudication, an early form of peripheral arterial disease, its marketing management tried to reach senior citizens, the primary market for Trental, by launching an educational programme. Most older people did not view the major symptom of this condition – leg cramps or pain while walking – as a disease; rather they interpreted the symptoms as a normal part of ageing and, therefore, they did not seek treatment or even tell their physicians about the problem. The programme was unsuccessful until Hoechst decided to reach the senior population in a more effective and credible way through the development of a relationship with the National Council on Ageing (NCOA), a non-profit American resource of information, training, advocacy, and research on all aspects of ageing. The result was a national NCOA-sponsored public service education programme called 'Leg Alert'. At its core, Leg Alert was a medical screening programme. In the programme's first year, local Leg Alert screening events were held in communities across the national; local co-sponsors typically were an NCOA member centre, a local television station, and a local shopping mall, which also hosted the screening. Local physicians directed each event and served as programme spokespersons. The programme's first-year success – measured by such criteria as number of persons screened, media impressions achieved and product sales – was so great that Leg Alert 'how-to' screening handbooks now have been developed and distributed to senior centres and hospitals.

Sponsors

Although sponsors are generally insignificant in the for-profit context, they play a much more important role in the not-for-profit (NFP) context. Indeed, sponsors may be the principal source of income for the NFP.

Sponsorship can be defined as follows:

Sponsorship is the material or financial support of some property, normally sports, arts or causes, with which an organization is not normally associated in the course of its everyday business.

The relationship between sponsor and sponsored is one in which the sponsor pays a cash or in-kind fee in return for access to the exploitable commercial potential associated with the property. Overall, in 2006, global expenditure on sponsorship hit US\$34 billion.³⁸ There has been significant growth in sponsorship in recent years. This has been attributed to several conditions: the perceived ineffectiveness and inefficiency of advertising; government restrictions on tobacco and alcohol advertising; reduced government assistance to the arts; increased popularity and commercialism of sports and arts; the increasing trend to globalization of corporate/brand entities; and the progress of relationship marketing.³⁹

Sponsors are looking for a number of commercial gains from sponsorship including:

1. Increasing awareness and visibility for the product or company
2. Influencing consumer attitudes
3. Influencing consumer behaviour
4. Associating the product or company with a lifestyle
5. Entertaining key clients
6. Rewarding employees
7. Finding opportunities to launch new products
8. Differentiating the product or company from competitors.

For example, the cigarette manufacturer Rothmans sponsored the Williams Formula 1 motor racing team. Their objectives in sponsoring motorsport were to: increase awareness of their brands, encourage consumer trial and purchase of brands and maintain loyalty towards their more established products.⁴⁰

Organizations that enjoy the support of sponsors are common in the arts, sports or causes. However, trends indicate that such organizations are becoming more professional in seeking revenue streams from other sources. They are finding that they compete for limited sponsorship funds and that they must make a business case and deliver to the sponsors objectives in order to maintain the relationship.

Partners in value delivery

We identify a number of different types of partners in value delivery: agents, brokers, management contractors, consortia, franchisees and licensees. These might be thought of as customers under the 'C' of SCOPE. However, what sets this group apart from customers is that they do not take title to the products they sell. They do not therefore generate direct revenue streams for the focal company.⁴¹ Partners in value delivery are an integral part of many CRM implementations. In many cases, end customers regard them as the suppliers of the goods, rather than the manufacturer.

Agents

Agents are commonly used when a business is small or geographically separated from the markets served and it doesn't want or cannot afford to recruit and operate its own sales team. Agents do not purchase and resell; they simply represent the principals whose products they sell. They are order providers, offering business owners the opportunity to access their established networks. Agents generally work on a commission basis. Agencies are common in the fashion industry. Apparel manufacturers broadly split into two groups. Large international, national or regional brands such as Benetton, Nike and Giordano tend to operate at the high-volume end of the fashion market. Brands such as

Sass and Bide, Michelle Jank and Tea Rose tend to operate at the other extreme, selling through few outlets, known as 'destination outlets' at higher prices. Whereas the former have their own sales teams, the latter tend to operate through agencies.

Agents representing manufacturers fall into two major categories.

1. Manufacturer's agents represent one or more principals that produce non-competing lines. They provide an outsourced selling function. Generally they agree contractual terms covering lines sold, territorial rights, prices, commissions, order processing routines and returns policy.
2. A selling agent is contracted to sell a manufacturer's entire output. Very often these are found in primary and production-oriented businesses such as mining, forestry and industrial equipment.

CRM systems can assist the manufacturer-agent relationship in several ways. They can provide a portal through which product information is published, marketing funds are approved and order progress is tracked. Furthermore, agents themselves are users of CRM systems, as they communicate and sell to their clients.

Brokers

The role of the broker is to bring together buyer and seller. Brokers can be hired by either party. They assume no risk. Common examples are food brokers, real estate brokers and insurance brokers.

Management contractors

Management contractors are companies that undertake to manage some important part of a business, even the customer interface, on behalf of a principal. They are common in the hospitality industry, where the ownership and operation of hotels are separated. It is not unusual for hotels to be owned by an insurance or investment company, and for the operation of the hotel to be contracted out to a hotel management company. Contractors manage properties for well-known brand owners such as Holiday Inn, Marriott, Sheraton and Hilton. The contractor pays all the operating expenses and retains a management fee, normally between 3 per cent and 5 per cent of gross income, remitting the surplus to the owner. The owner provides the property, fixtures, working capital and assumes full legal responsibility. The contractor may undertake to manage the hotel under the operating standards of their own brand, or manage to the standards of another hotel brand. Sometimes hotel management companies are brought in to turn around a struggling property.

Where a contractor is brought in to manage the customer interface, it is in a position to influence customer experience, either positively or negatively. It is critical that the contractor understands the experience that the principal wants its customers to enjoy. CRM systems allow principals to access detailed information about customer interactions, therefore enabling them to manage their contractor relationships more effectively.

Consortia

A consortium is a group of organizations that act cooperatively for mutual benefit. Often the organizations are independent of each other, as in the Best Western and Flag Hotel consortia, and the members of the SPAR group of independent grocery retailers.

Sometimes they are not independent. Keiretsu and chaebols are Asian examples. Some Japanese companies have formed into keiretsu. The keiretsu is a family of interlocked organizations, connected by common memberships on boards of directors, shared banking arrangements and close personal relationships. Sumitomo and Mitsubishi are examples. In Korea, some companies have formed into chaebols. These consortia are similar to the keiretsu, but are reliant on close government connections for financial support: Daewoo and Samsung are examples.

Consortia are generally not-for-profit organizations, built to generate economies of scale for their members. There are economies to be found in purchasing, marketing, training and development, and operations. Whereas a single hotel could not afford to develop and promote itself internationally, as a member of a consortium in which all members pay an advertising appropriation, it could create an international presence. Similarly, consortia can afford to invest in a centralized reservation system, which would be unaffordable to an individual member. Consortia members also operate as a cross-referral network.

Consortia managements generally establish standards that members must meet in their operations. Best Western hotels reject 90 per cent of applicants. The consortium's objective is to create and deliver a consistent customer experience wherever they encounter a consortium member. Leading Hotels of the World, for example, is a consortium of hotels, spas and resorts which stress excellence in service, physical structure, cuisine and guest comforts. Failure to meet the required standards may result in exclusion.

Franchisees

Franchising is a rapidly growing form of business. A franchise is a license to operate a business format for a prescribed time format within a defined geographic area. Franchisees receive training in the operational and managerial processes for running the format successfully. They get access to a proven customer value proposition and a turnkey business operation. Typically, a franchise or investment fee is paid up front, as well as an ongoing royalty on sales. Franchise operations are among the best known in many industries: McDonald's, Holiday Inn, Century 21, Dunkin' Donuts, Midas, H&R Block, for example.

The relationship between franchisor and franchisee can be conflicted. Sources of conflict are generally connected to the asymmetry of the power relationship: the sharing of revenues from the franchisee's operation, the level of franchisor support and the degree of franchisor control. The franchisor typically demands that franchisees do not depart from the approved format. They want customers to have a standard experience wherever they encounter the brand. Franchisees,

in turn, may feel that they, the entrepreneurs, know more about the strengths and weaknesses of the business format than the principal. After all, they come into contact with customers and they have to run the operation. If franchisees were found to be changing the product offer and modifying processes, the franchisor would most likely terminate the contract.

There is a growing recognition that the franchisor and franchisees together can create a mutually beneficial network through closer cooperation. Mature franchising operations, such as Domino's Pizza, are now committed to learning from their franchisees' experiences. They no longer believe that headquarters is the source of all innovation and knowledge about their business.

Licenseses

Licenses are rights granted to a business partner to exploit intangible assets, such as technology, skills, designs or knowledge, in exchange for remuneration such as fees or royalties. The value of licensing arrangements is estimated to exceed US\$150 billion annually.

Licensing is commonly linked to the movie industry. Disney characters such as Mickey Mouse and Donald Duck have a long history of being licensed. Their images appear on a huge range of merchandise, from pyjamas to lunch boxes and breakfast cereals. Technology is also widely licensed. When Kodak invented the disc camera, it licensed the technology to a large number of competitors in order to speed up its access to world markets and inhibit competitors' investments in substitute technologies. Toshiba licenses its technology to Chartered Semiconductor Manufacturing. IBM makes over US\$2 billion annually from licensing its patents.

Licensing has spread into the packaged goods market. Allied Domecq has licensed the use of the Kahlua brand to the company Herbal Enterprise, who are introducing Kahlua Iced Coffee into supermarkets. You can also smoke Kahlua cigars. Jack Daniels, the bourbon brand, is licensed for use in Jack Daniel's Grilling Sauces. Licensors seem increasingly enthusiastic about these licensing deals, which pay royalties of 1 to 7 per cent of retail sales, because they generate out of category exposure for their brands and yield additional revenues for relatively little risk.

As with franchising, licensing arrangements can be fraught with difficulties. From the focal company's perspective it is important to ensure that licensees understand the brand values of the property they are licensed to exploit. The contract is designed to protect the property and ensure that it is used in appropriate applications. Disney would not license Donald Duck for use in a pornographic website.

CRM technologies play an important role in ensuring current standards, marketing material, product specifications and regulations are communicated to partners. This relies on technologies for content management that allow companies to manage the release of information. Network members can then be advised when a product specification is changed or an advertising campaign is about to be released.

Summary

In this chapter you have learned about the importance of two constituencies in the business network: suppliers and partners. Both help focal firms create value for themselves and their customers. Whereas suppliers provide the input goods and services that companies convert into marketable value propositions, partners cooperate with focal companies in other ways to create and deliver value for and from the company's customers. Relationships between suppliers and their customers are becoming increasingly cooperative and less conflicted. Many companies now collaborate closely with their suppliers in a number of activities, such as product development, supplier accreditation and process alignment. Electronic data interchange (EDI) and portals are widely employed to help manage the vendor–customer relationships. The trend towards electronic procurement is found in both business-to-business and business-to-consumer contexts. B2B electronic procurement, which has ten times the value of B2C online purchasing, takes a number of forms, including e-shops, e-procurement, e-malls, e-auctions and third party marketplaces. Relationships with business partners also need to be managed so that they can contribute to the achievement of CRM goals. Companies have a number of different types of partners in value creation: joint venture or alliance partners, category teams, benchmarking groups, regulators, customer advocacy groups and sponsors. There are also a number of different types of partners in value delivery: agents, brokers, management contractors, consortia, franchisees and licensees.

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