

RETURN ON INVESTMENT - STRATEGIC PARTNERS

Working with the best strategic partners can make a big difference to a company's marketplace outcome. Companies need to be able to sieve them out and forge a relationship with them.

In Singapore and in the world, companies that possess a sustainable competitive advantage win. Whether companies are operating in B2B or B2C settings, few are able to rely on their own to deliver value to their customers. Most are hindered by a limitation of their own expertise and capabilities. As a consequence, they need to forge relationships with partners and suppliers who can help them improve their value proposition. For instance, despite having a wide array of toys, the Toys'R'us of old had limited online order fulfillment capabilities. But it saw in Amazon.com, an online retailer, as a company that had the strength it lacked and which was excellent order fulfillment capabilities. Subsequently Toys'R'us moved toward a strategic partnership with the online retailer, which allowed customers to purchase toys online. A better value proposition had emerged from that partnership.

The business community often view such strategic tie-ups

between companies at the same stage of the value chain, e.g. between a manufacturer and another or between a retailer and its counterpart, as the best way to enhance the value of a company's offer. Most do not place a company's relationship with its suppliers and service providers to be at the same level of strategic importance as those mentioned previously. This view should be corrected. In a few instances, such as in the area of customer insights and strategy advisory, working with the best professional service providers can make a huge difference to a company's marketplace outcome. These are instances where the calibre of the service providers is very varied and where their expertise is far beyond that found in the buying organization. In these situations, choosing the external partner becomes a challenge. Firstly, the expertise asymmetry means it would be difficult for the buying organization to evaluate the external partners. And deciding on the partner becomes risky.

**Expert
Opinion**

Dr. Raymond Teo
Adj. Faculty
(Singapore Management
University)



This brings about a second challenge, which is the level of trust the buying organization has to place on these service providers. The buyer's thoughts would go something like this, 'Since you know so much more, I will have to rely on you to tell me what I need. And I hope you are doing it in my best interest'. Most companies are not prepared to be put in such a situation. They feel that since they are paying, they want control over the buying situation. Furthermore, trust has not developed to a stage where buyers would allow their service providers to dictate what they need to do. Not surmounting these obstacles will not only prevent companies from achieving high collaborative premiums by working with these high calibre partners but also put them at a competitive disadvantage if these gems work with their competitors.

To source for such high calibre partners, one has to work on two areas – seeking out these potential partners and working

towards a higher level of trust and commitment with them. The quotation and tender approach seems to be the method of choice when it comes to choosing vendors and service providers. Such open buying systems may be appropriate in situations where there are many service providers and where the variance in quality among these service providers is small. This method should not be used in situations where the variance in quality among service providers is high, for instance in sourcing for professional services with high intellectual demands. In the article ‘Which kind of collaboration is right for you?’ the authors Professors Gary Pisano and Roberto Verganti point out that such open systems should be avoided in situations where the variance in supplier’s expertise and competency is large. They explain that in such situations, the negative consequence that stems from the best companies not wishing or willing to participate is severe. Indeed, in the real world, this is a real possibility. Many excellent professional service providers do not wish to enter into relationships with buyers who do not or are unable to see value in them. Hence, the better op-

tion would be for companies to proactively seek out the best partners. These partners need not be companies with a long history and conforming to traditional industrial classifications. These companies are likely to be young specialist firms that are very good at what they do. For instance, a marketing communications service provider could be made up of the most creative people and specialise in guerilla marketing (non traditional) strategies. It could also be a customer insights and advisory service provider with extensive expertise and whose team comprise of Ph.D. holders who are not only able to undertake complex analyses but also offer invaluable strategic advice to their clients.

For such intellectual-based professional services, one should remember that it is the people and team that one works with rather than the company that delivers the value. Therefore, when choosing these partners, the buying organisation needs to thoroughly evaluate the background and credentials of the team members, and to a lesser extent the brand name of the company. As these specialist firms are likely to be smaller

and therefore having lower operating costs, their services are likely to better value for money too. Buying organisations, therefore, need to be more involved in such purchases. They need to improve their knowledge in specific specialist domains. They should also read and attend more seminars to know who the thought leaders are in these domains.

The next step is to build on this relationship. Trust between two parties cannot be built through one working project. It has to be nurtured over time. One good way is to work initially on smaller projects. This would not only allow the buying organisation to assess the calibre of the service provider but would also allow the latter to assess the level of commitment of the buyer towards a longer working relationship. This consideration is important to some niche service providers who prefer not to serve their client’s direct competitors.

Over time when strong bonds are forged between the company and its partners, it will surely achieve high returns on partner investments.

“ **For such intellectual-based professional services, one should remember that it is the people and team that one works with rather than the company that delivers the value.** ”