

“O villain, villain, smiling, damned villain!”

What look like perfect, close partner relationships can mask manipulation and deceit, leaving us like Hamlet to marvel at the wickedness of the world. We talk to Professor Erin Anderson of INSEAD about her field work with Professor Sandy Jap on how to best maintain and build relationships with intermediaries...

RTM: I know you have become increasingly sceptical of "partner" as a way of describing channel relationships. Why?

EA: People use it so readily that now it is a euphemism. Some people use it to mean anyone who has a transaction with them. If you believe everyone you trade with is really "my partner" then you are being extremely naïve.

And I think naivety sums up how many suppliers and partners approach each other. This use of language from personal relationships is extremely odd if you think about it.

RTM: You mean managers who say "partner" don't question the self-interest of the suppliers or the intermediaries?

"You often find that one party is being manipulated."

EA: Precisely. Too many people are happy to take what may look like a perfectly good relationship at face value. Yet all business relationships are based on self-interest. Research shows that if you probe a bit you often find that one party is being manipulated. The party who is closest to the customer – the intermediary – is the expert who really knows the market.

This is something suppliers are very reluctant to understand. When I teach, I find all the time the assumption being made by manufacturers that because they create something and understand supply that they must also understand the demand side of the equation.

They don't! And sometimes that means they can be manipulated, even if they think they are in the driver's seat.

RTM: But surely as individuals we have a clear idea of what a particular relationship is all about?

EA: We think we do. But we don't. Academics frequently do dyadic studies where they ask the two people on either side of a transaction or commercial relationship to report to them separately. You then compare and profile their answers. It is unbelievable how differently both parties often view the relationship. We joke that if we did not have identification key to match the pairs we would be dead - we simply wouldn't be able to match the two sides together!

RTM: So you are saying that if I get on well with someone in business and we play golf together and so on and we have what I deem a good personal relationship then I may be wrong?

EA: Precisely. I know of a casestudy where a supplier to an automaker crafted close personal relationships with personnel in the automaker's purchasing division and then used these to hide irregularities! They would say stuff like: "if we eliminate a coat of paint then we would be forced to share that cost saving with purchasing – if we don't tell them all the cost saving is ours." And you know what? I don't think that kind of thinking is at unusual!

RTM: Yes, I know a number of senior people in computer distribution and resell who make it

their business to manipulate suppliers. In fact, sometimes it is almost their business model!

EA: Yes, it happens, and it can go both ways. Plus, it is not just manipulation. I can think of an example from the Italian building industry where 49 contractors created a network to share the control and distribution of resources and to diffuse risk across all members. This worked well at first, but gradually this approach undermined their ability to be competitive and profits plummeted. Short-term gain, long-term loss. In the same way many companies strain at all costs to retain customers. Yet often you find their most prized customers are not making them any money at all.

"A close personal relationship... is not a strong cement."

RTM: So how should we analyse relationships?

EA: I would say profit is the best guide. And it is amazing how few companies seriously and systematically measure it properly. Yes, it is very hard to do so, but unless you do so, you have no idea of your own self-interest! But you also need to be analytical and to constantly question whether relationships are really delivering long-term profitability.

RTM: So what are the factors which determine whether a relationship will degrade?

EA: Many companies see strong personal relationships between supplier and partner as the absolute key here. As we have already seen this is very dangerous. And research also shows that, in a crisis, a close personal relationship

between the two key managers in the two organisations is not a strong cement. We did a study of relationships between 321 agricultural distributors and their suppliers. We found that good personal relationships helped when all was going well. But as cracks start appearing, the pressure on the two individuals from within their own organisations mounts.

At the very least it is important to have strong personal relationships between several pairs of managers. You shouldn't mistake a bow tie where only one person in each company is in the relationship for a diamond, where many are. And you shouldn't count too much on personal relationships at all. Don't relax if you have a warm and cordial relationship. But I think there are much better ways to keep relationships on track.

"Bringing in fresh people can work."

RTM: Such as?

EA: Goal congruency is important. Research shows that where goals are substantially different, and not aligned, then relationships will tend to deteriorate fast. It is a sine qua non if you like.

RTM: So how do you ascertain whether you share the same goals?

EA: You could ask them, but sometimes you will get diplomacy and happy talk back. My experience is that your sales force in the field is likely to have a pretty good idea of what intermediaries really want.

RTM: So goal congruency is a qualifying factor. But what is the real cement?

EA: Mutual hostages. Whilst sharing similar and mutually acceptable goals is a good indicator, we find that relationships best survive when both parties have made real investments in personnel, equipment or R&D. These investments are often the only way to achieve a really good profit. By developing mutual hostages, the partners create a self-

enforcing contract in which each loses the incentive to cheat the other.

RTM: Can you give an example of a company which does that successfully?

EA: Yes, McDonalds. It leaves a lot on the table for the franchisee, research suggests as much as \$500,000. So both franchisee and franchisor have made a huge investment in a joint venture.

RTM: So how can you revitalise relationships which are going wrong?

EA: I think the first thing to say is that you need to put in place a mechanism for constantly and objectively reviewing relationships for goal congruency and profitability. If both are still there then there are a number of things you can do. We found that bringing in fresh people can work.

RTM: Really? When we talk to intermediaries they often complain about suppliers whose account managers move every 18 months.

EA: It depends upon how you do it and how skilled your account managers are. But Lincoln-Mercury cars in the USA has a policy of moving its account managers every two years in order to reinvigorate the relationship. Another approach is to focus on the potential loss to both sides.

"Most damaging thing...is the spiral of suspicion."

RTM: How do you mean?

EA: It really helps to clear the mind to look at what would happen if the relationship were to end.

RTM: So what do you do if a relationship goes into a tailspin?

EA: Too late to send in rafts of middle managers or, worse still, lawyers! Better perhaps to change the account manager and

try to start a new leaf. This is also the time for a serious meeting to look at mutual goals and profitability.

But our study shows that relationships which have been damaged do not, generally, recover completely. Nor do they become as profitable as relationships which were never damaged.

The most damaging thing of all is the spiral of suspicion. This can start with a seemingly innocuous thought. "Why is my partner meeting the competition?" "Why are they scouting markets that I view as mine?" One side often reacts by no longer sharing information or by withdrawing benefits. Hurt, the other side then responds in kind.

"All business relationships are based on self-interest."

A good example of this spiral is the way General Motors started to suspect that Fisher Body, its sole supplier of body parts, was taking advantage of its status and inflating its prices to GM. This spiralled downwards until GM bought Fisher – only to find that opportunism had never existed!

RTM: So you are really saying that suppliers need to systematically review relationships?

EA: Absolutely! Do not take relationships for granted in the first place and actively and continually audit them. I am convinced that inoculating your relationships in this way pays huge dividends. ■

Take aways

Understand what the other party wants from a relationship – what is its economic self-interest?

Do not take relationships at face value.

Measure the profitability and future value of relationships to your organisation.

Regularly and systematically audit your channel/alliance relationships.