

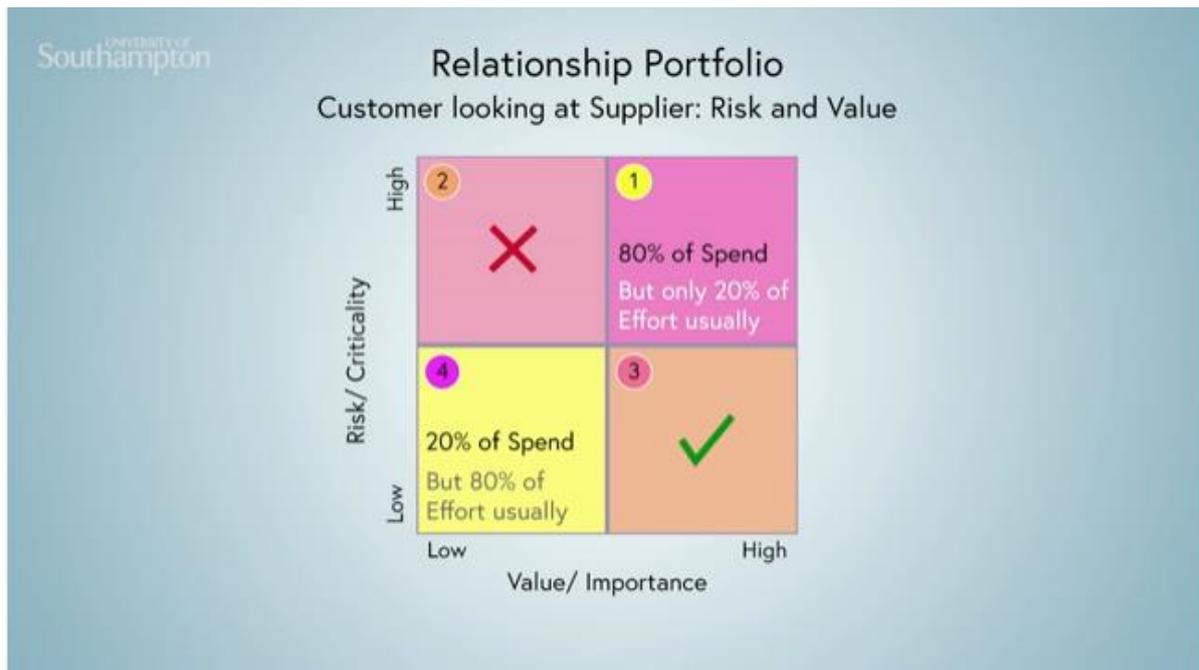
## Relationship portfolios

DOUGLAS MACBETH: This section is on portfolios of business relationships.

Businesses have relationships with multiple customers and multiple suppliers. Even in one organisation, there can be different relationships with the same supplier and/or customer. Strategic choices have to be made. And sometimes they have to be changed, as circumstances change. There needs to be a dynamic oversight to check that the full opportunities are being realised.



In order to plan the portfolio, it is necessary to understand how a customer organisation spends its money. This spend analysis usually results with a recognition that the majority of the spend is with few, but critically important suppliers, the 80/20 rule.

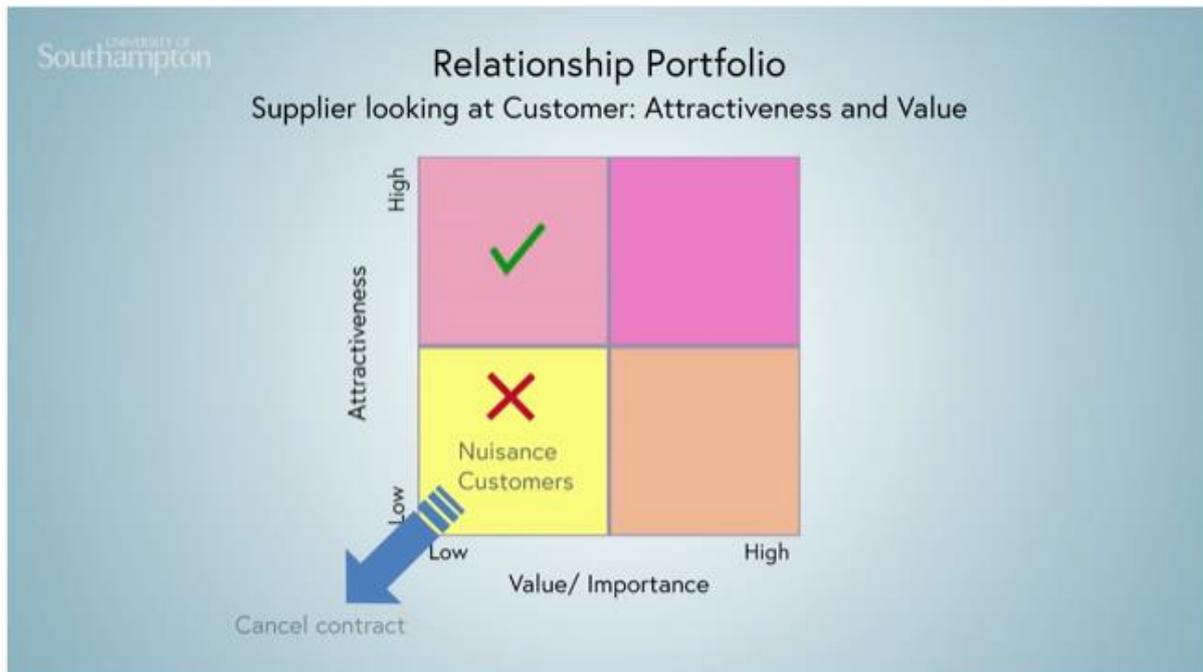


This is quadrant 1 [High value/importance, High criticality/risk]. However, although 80% of the spend is there, typically only 20% of the effort is. Most day-to-day effort is spent in quadrant 4 [Low value/importance, Low criticality/risk], with suppliers whose importance is very low and who can be easily replaced in the marketplace.

Quadrant 2 [Low value/importance, High criticality/risk] represents important but not high value supplies, often called bottlenecks, which cause problems and should be replaced, if at all possible.

Quadrant 3 [High value/importance, Low criticality/risk] allows the customer to aggregate their spend in a low-risk situation and leverage better prices through the volumes demanded.

Quadrant 1 is where cooperation and collaboration is most important, to keep the most important suppliers fully aligned with customer plans and performance.



Suppliers, however, are also looking at their customers to see how easy they are to deal with, what their future plans might be, and if they create opportunities for the supplier. And if they behave considerately to their suppliers. Such customers are attractive [High attractiveness, Low value/importance] and if they spend a lot, as well, so much the better. A low attractiveness, low value customer is just a problem and best replaced by a better one, if at all possible [cancel contract].

Slide 4 represents the situation when trying to choose business partners [Diagram shows Supplier attractiveness:value/Importance quadrant square next to Customer risk/criticality:value/Importance quadrant square]. Essentially, the customer on the right in the diagram looks at the supplier on the left and decides that this supplier is one of these critical few who should be closely aligned [High criticality/risk, High value/importance]. You therefore send out a request to this supplier that the supplier becomes the preferred supplier to this customer.

However, there are three possible responses from the supplier side. The first response is essentially the red green arrow at the bottom of the sequence of three. Essentially, this customer, although they want to be close to the supplier, is not spending enough with that supplier. And actually, doesn't represent an attractive option for them. The supplier therefore sees no advantage, no incentive to invest, and essentially makes the decision not to become a

close partner with this particular customer. There is no relationship of significance in this situation. There might still be trading situations, but no close involvement [Low attractiveness, Low value/importance].

The top line in the diagram has the customer sending out the same positive message to the supplier and the supplier thinking carefully about it. The supplier looking back at the customer is saying, actually, you're quite an attractive customer, but at the moment you're not spending enough. But it might be worth an investment in the hope that as we slowly begin to build understanding and involvement, then the business opportunities also grow. So the answer from the supplier, at this point, is maybe [High attractiveness, Low value/importance].

The final and best situation is when the customer chooses the supplier as their preferred supplier and the supplier chooses the customer as their preferred customer [High attractiveness, High value/importance]. So this is green all the way, a meeting of minds. The preferred customer is now working with their preferred supplier. In our experience, there will only be a small number of these in any portfolio. But these are the critical few suppliers on which the future performance of the customer fundamentally depends. And this is where all of the close and interdependent relationships need to be built and managed carefully.

