

9. Two to Tango

Purpose, participants and application

- **Purpose**

- To identify strategies based on material/product segmentation and the supplier's perception of the company as a customer.
- To support differentiated management, directing focus and resources towards what is important.

- **Participants**

- Sales, production, purchasing, logistics, and product development.

- **Application**

- In phase 1.

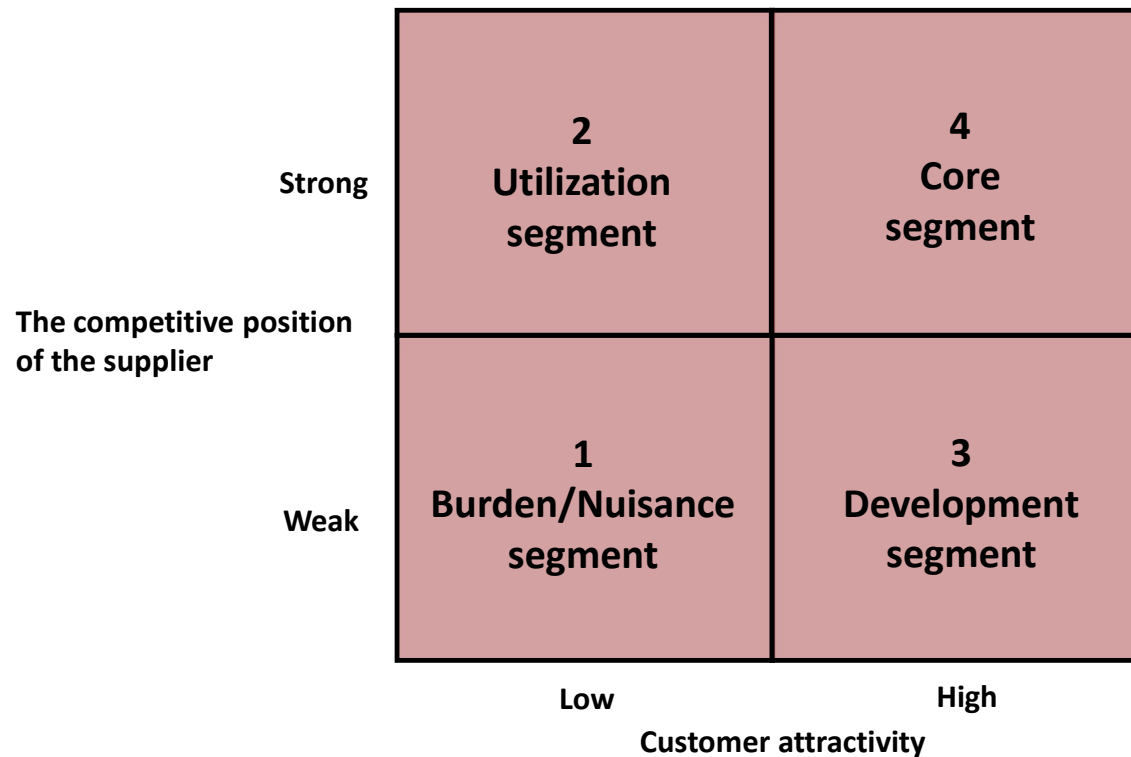
Why include the customer perspective

- A challenge with material/product segmentation is that it's often seen only from the buyer's perspective. It's also important to consider the supplier's approach towards the company as a customer.
- The supplier often also segments customers. Who are the most important customers, who should we work more with, who is okay to work with, and who are just problematic customers? Often, the supplier doesn't see the buyer in the same way the buyer sees the supplier. Some customers are treated better than others.
- It's problematic if a strategically important product is supplied by a vendor who sees the buyer as troublesome, bothersome, and not creating value.
- In assessing and working with sourcing, it can therefore be advantageous to gain an overview of how the supplier perceives the customer and develop action strategies for collaboration based on that perception.

Procedure

- The starting point is tool 8: "Material/Product Segmentation."
- Evaluate the supplier's view of our own company based on the dimensions (example):
 - Customer attractiveness (from the supplier's perspective):
 - Customer attractiveness is based on factors such as profit margin on orders, current share and growth of revenue, technology, payment behavior, integrity, and image.
 - The competitive position of the supplier:
 - The supplier's competitive position is determined by factors such as the number of suppliers, switching costs, and the substitutability of products.
- The two dimensions yield four customer segments, as shown on the next page.
- Align the supplier's perspective with the material/product segmentation's positioning and identify risks and potential actions (slide 8: 'Two to Tango').
- It's not always easy to obtain information about both dimensions. However, there are often indications: Are deliveries made on time, with the right quality and quantity, or are there often issues and delays, is the supplier proactive in solving problems that arise, is there a sense that other customers are prioritized, What is the turnover with the supplier etc.? But just starting the dialogue and information gathering is valuable.

Supplier's customer segments (example)



Based on Van Weele (2018) *Purchasing and supply chain management*, Seventh Edition, Cengage Learning, Andover, UK

Supplier's customer segments

1 – The Burden/Nuisance Segment: The supplier is subject to competition. The customer is seen as a nuisance because the customer often can and will switch suppliers, as it is easy because there are many of them, and because standard products are often exchanged. Long-term and sustained relationships are difficult to build in this segment. The customer is of only minor economic importance.

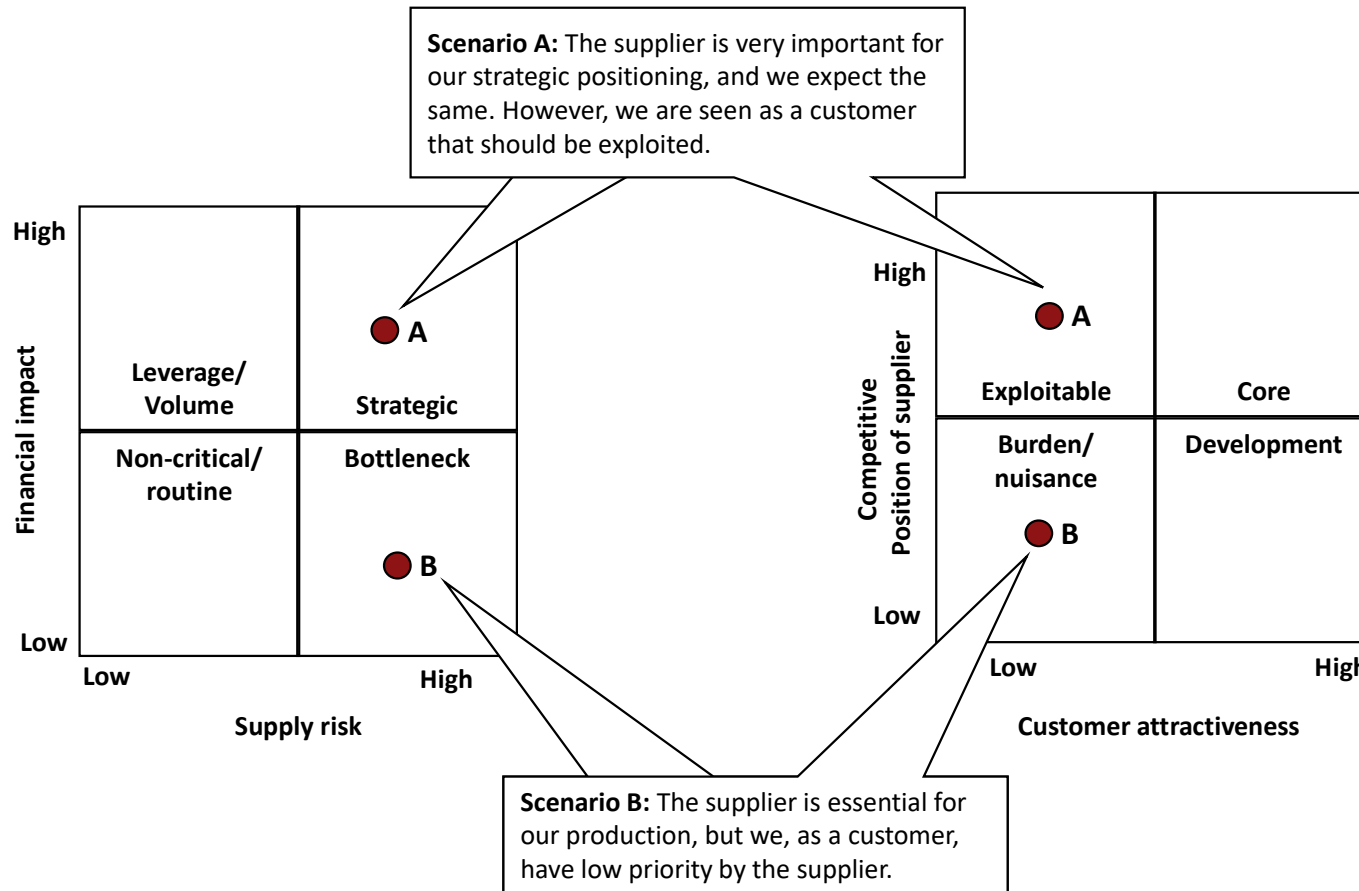
2 - The Exploitable Segment: Here, the supplier has a dominant position over its customers. The customer is often dependent on the supplier, as there are only few alternatives. This allows the supplier to charge a higher price due to a strong position.

3 - The Development Segment: Here, the supplier is in a weak position, being subject to competition from several other suppliers. The customer is attractive. The supplier's strategy is often to deliver increased value added to the customer to increase revenue at the expense of competitors. This can include a wider range of products, additional services, increased quality, better terms, etc. Therefore, the supplier is willing to invest in the relationship.

4 - The Core Segment: This segment is suitable for building long-term and close customer relationships. Given the customer's importance, the customer is often managed by dedicated employees such as Key Account Managers (KAM), as it is crucial that this type of customer is satisfied. The supplier will often go to great lengths to retain the customer.

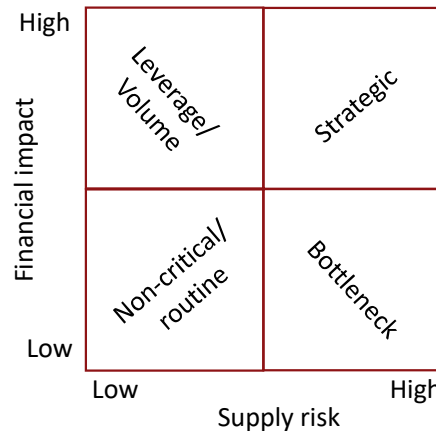
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It takes two to tango: Scenarios and strategies



It takes two to tango: Scenarios and strategies

High	Exploitable <ul style="list-style-type: none"> Adversarial relation Check power balance Consider other sources 	Core <ul style="list-style-type: none"> Sound position Improve own profit
Low	Nuisance <ul style="list-style-type: none"> Mismatch Accept short-term Change supplier 	Development <ul style="list-style-type: none"> Supplier development opportunities Encourage participation
	Low	High



High	Exploitable <ul style="list-style-type: none"> Great caution Raise mutual dependency Seek competition 	Core <ul style="list-style-type: none"> Good match Potential long-term relationship
Low	Nuisance <ul style="list-style-type: none"> Very high risk Seek competition Raise attraction 	Development <ul style="list-style-type: none"> Potential match Work closely together to develop business
	Low	High
	Competitive position Of supplier	
	Customer attractiveness	

High	Exploitable <ul style="list-style-type: none"> Moderate risk Monitor price trend Seek alternatives 	Core <ul style="list-style-type: none"> Strong position Maintain relation Offer other alternatives
Low	Nuisance <ul style="list-style-type: none"> Possible mismatch Passive relation Seek alternative suppliers 	Development <ul style="list-style-type: none"> Good supplier interest Offer incentives Raise mutual dependency
	Low	High

High	Exploitable <ul style="list-style-type: none"> Moderate cost risk Closely monitor price and service Change supplier 	Core <ul style="list-style-type: none"> Good match Intensify relationship Maintain long-time relationship
Low	Nuisance <ul style="list-style-type: none"> High service-risk Change supplier Offer incentives 	Development <ul style="list-style-type: none"> Potential risk Raise mutual dependency Offer incentives
	Low	High