Capitalizing on the unexpected

Things don’t always go as planned. New research sheds light on how procurement professionals can successfully manage the unexpected with their suppliers.

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There’s an old adage that no plan survives the first contact with the enemy. Or, as Mike Tyson famously put it before one of his prize fights: “Everyone has a plan ‘till they get punched in the mouth.” If there wasn’t some truth to those adages, there wouldn’t be Murphy’s Law, a Plan B or bumper stickers with a colorful variant of the phrase “Stuff happens.”

What’s true in our everyday lives is also true in supply chain management. Supply chain organizations create plans for designing, making and delivering products, and their procurement teams contract with suppliers to deliver the goods. In the best relationships, suppliers enable their customers to bring new products, technologies and services to market before their peers. To that end, successfully managing buyer-supplier relationships has become vital in today’s fast-paced business world, helping buying companies innovate and stay ahead in the competitive global marketplace.

But, just as Mike Tyson’s opponents often found themselves on the canvas despite their best plans, the best supplier relationships sometimes are confronted with the unexpected — positive or negative events beyond the control of one party or both. When they do, not only must buyers deal with the resulting effects, which are a common cause of relationship stress, but they also miss out on opportunities for improvement. In a recent study, we set out to learn how these unknowns can affect the buyer-supplier relationship, and in so doing, provide some insight into how to create strategies to deal with them.
It is obvious that maintaining positive relationships with suppliers provides a critical competitive advantage, but every relationship involves numerous complex and interacting factors. These may include a nebulous web of personal relationships, manager-to-manager communications, off-the-record deals and day-to-day crises. The difficulty in maintaining the vital connection between buyer and supplier given uncontrollable factors is especially pressing for chief procurement officers, who find their supply managers increasingly relying on trust to augment formal contracts when working with other companies.

When it comes to managing buyer-supplier relationships, working to build long-term partnerships is important, but doing this and just hoping for the best is not enough. While much has been written about how to handle the passive and predictable aspects of a relationship, less has been dedicated to managing the chaotic factors. Experience tells us that these unforeseeable events can be just as consequential to a business partnership, but their inherent unpredictability can make it difficult to deal with them. How can managers best handle an unfavorable unexpected incident—like a project delay—in a way that reduces conflict? Similarly, how can they leverage a positive incident, like an unexpectedly valuable suggestion for process improvement? Are there any key factors that can be isolated and understood to help managers react to incidents in a way that will strengthen their businesses and relationships?

To answer those questions, we posed two online, scenario-based experiments involving approximately 1,000 experienced sales managers from various industry segments who had encountered similar situations before.

In the simulation, each subject acted as the sales manager for a supplier jointly developing a new product with the buyer. The subjects were told about the business relationship between the buyer and supplier, including information about interpersonal and informal connections. Once the scenarios were completed, we asked a series of questions so the subjects could assess changes in the business relationship between the buyer and supplier due to the unexpected incident for the scenario in question. Figure 1 provides an overview of the two scenarios. Our findings provide insights that we feel will be beneficial to those who manage buyer-supplier relationships and the events that influence them.

Scenario No. 1: An unexpected negative incident

In the first scenario, 605 participants experienced a common negative incident: an unexpected R&D project delay. Before introducing the incident into the scenario, subjects received information about their relationships, which was generally framed as being either cooperative or uncooperative in nature. Next, we asked them through a questionnaire to assess their baseline trust levels toward the buying company based on the information provided.

The participants were then informed about the unexpected project delay and asked to assess the trust level between companies a second time. Finally, the participants received descriptions of the buying company’s effort to remedy the situation. There were three possibilities: an apology, financial compensation or an offer to join the buyer’s strategic supplier council. After reviewing the buyer’s offer, the participants were asked a third time about their level of trust in the buyer.
Scenario No. 2: An unexpected positive incident
In the second scenario, 428 participants were provided information about a balanced—neither highly cooperative nor highly uncooperative—relationship with the buyer before any event. These participants then experienced an unexpected but favorable incident: a process improvement suggestion that enabled their company (the supplier) to reduce R&D costs. They also received information about the source of the event, with three possibilities: the buying company’s R&D efforts; mutual exchanges between the buyer and the supplier; or an achievement of a member of the buyer’s open innovation network. The participants were then asked to provide their assessment of the buyer-supplier relationship in terms of their perceived trust in the buying company.

Next, participants were told about the buyer’s attempt to leverage the situation in one of two ways: by either requesting a one-time payment or demanding that the supplier explore similar process improvement opportunities for the buyer. After receiving this information, the participants were asked a second time to assess the relationship in terms of trust.

Follow-up interviews
After collecting our data, we conducted several follow-up interviews with purchasing managers and executives from different organizations with annual sales volumes ranging from $4 billion to $18 billion. These face-to-face interviews were conducted individually or in groups of two people and used to contextualize our experimental findings. The questions focused on several areas, including understanding the role that both business and personal relationships play in joint buyer-supplier projects, the types of incidents that managers experience, the ways they are communicated toward their counterparts and the mechanisms that managers use to remedy unfavorable incidents and leverage favorable ones.

Mitigating unfavorable incidents
Unfavorable incidents, such as unexpected project delays, shifting deadlines or budget cuts, can have severe consequences for buyer-supplier relationships. The results of our study showed that this negative impact was stronger when companies already had a cooperative business relationship. The stronger a company’s existing ties to a partner, the more an unfavorable incident affected their trust levels.

A greater level of existing trust between buyer and supplier may mean more potential for damage to that trust, but strong interpersonal relationships between buyer and supplier managers can help in mitigating and repairing that damage.

While perhaps counterintuitive at first glance, this interaction makes sense when examined in more depth. Companies with cooperative business relationships have established norms and expectations along with financial and social obligations. The more familiarity and trust that exists in the relationship, the greater the potential for damage by a negative event, much as being let down by a close friend might hurt much more than if it were merely an acquaintance. This means that restoring trust between companies with strong cooperative relationships before negative incidents is even more important than we may have thought.

That said, our study also found a balancing effect: strong, well-developed interpersonal relationships can help mitigate the fallout from negative incidents. Healthy relationships between managers mean more potential for being understanding when things go wrong. They can also help people in both companies develop strategies to deal with similar incidents in the future. One executive in the raw materials business said: “If you have a strong personal relationship, you tend to help each other sooner. You have discussions about where you want to go, how you can work together and how you can get there.”

The bottom line is that a greater level of existing trust between buyer and supplier may mean more potential for damage to that trust, but strong interpersonal relationships between buyer and supplier managers can help in mitigating and repairing that damage.
Make the best of a bad situation
The impact of the response to an incident can be as important as the incident itself. Managers in long-term business relationships may feel that they have proven themselves enough that responding to a problem with an apology is sufficient, but our findings show that simply apologizing can lead to a further deterioration in trust. Our scenario data indicated that the buying company had to offer the supplier a substantial benefit to compensate for the simulated project delay.

A favorable incident even compels the supplier toward sharing more knowledge with the buying company in the future, which can be invaluable.

According to one manager in the packaging business, it’s important to keep the supplier motivated. “Appreciation comes first, but then you have to promise that there will be plenty of opportunities in the near future,” the executive said. Specifically, our results indicated that suppliers responded more positively in the case of an unfavorable incident when they were offered financial rather than non-financial compensation, regardless of the prior state of the business relationship.

More interesting still, when offered financial compensation, previously uncooperative business relationships often improved to a level greater than what existed before the unfavorable incident occurred. These findings mean that successfully handling an unfavorable incident can actually improve the business relationship. Similar insights have been observed in the service domain: The so-called “recovery paradox” suggests that successfully handling unfavorable service situations can create enough trust to turn angry customers into ones happier and more loyal than customers who never experienced a problem at all.

Companies are often reluctant to react when a past business relationship has been uncooperative, but our study shows that inaction can mean squandering huge opportunities. “If you don’t treat suppliers well, they won’t offer you great ideas anymore, but rather give them to your competitors,” one manager in the industrial manufacturing industry said. Regardless of the past relationship, offering a substantive benefit is the best way of protecting the future working relationship.

Favorable incidents/leveraging opportunities
While unfavorable incidents are more frequent, unexpected favorable incidents can be equally important. Unfortunately, many companies tend to focus on crisis management and disaster response, missing the opportunities represented by unexpected positives. A manager in the packaging industry we interviewed put it this way: “Good things frequently happen, although you tend to neglect them and only focus on the tricky ones.”

Our findings indicated that favorable incidents can be used to create additional financial or non-financial benefits for the buying company. A favorable incident even compels the supplier toward sharing more knowledge with the buying company in the future, which can be invaluable. The executive in the raw materials industry we interviewed elaborated on this, telling us: “You can get important information about market trends. These are valuable and allow you to anticipate future developments.”

Interestingly, the impact of a favorable incident was strongest when it was caused by a joint achievement of the two companies: The unexpected outcome was perceived more positively when both sides felt that they contributed to it. “It’s always a joint project, for sure. It is not only our company or the supplier, but us working together with them to make this successful,” a manager in the raw materials industry stated. This means that one can benefit from being gracious when developing healthy, long-term business relationships, even to the extent of giving a counterpart the perception of having contributed to a positive event—whether or not this was the case.

When good things happen
Given the importance of reacting to positive events, what is the best way of doing so? Our results suggest that suppliers seem to generally appreciate demands of non-financial benefits. For example, asking the supplier to explore similar process improvement opportunities for the buyer was even interpreted as a positive attempt to intensify the business relationship going forward. “The supplier helped us to optimize our portfolio,” another manager in the packaging industry highlighted. On the other hand, suppliers responded negatively when they were asked to equally share the financial benefits that they were likely to realize from the favorable incident.
Finally, our findings indicate that the buying company’s open innovation network also seemed to influence how managers perceive and respond to favorable incidents. “We get great ideas and insights from our innovation network. These can be generated in the most strange ways and are incredible and sometimes crazy,” the manager in the industrial manufacturing business said. Highlighting the contributions coming from the buying company’s innovation network is thus attractive when seeking to increase other companies’ contributions to it.

**Leveraging the unexpected**

The longstanding approach to handling unknowns has been firefighting: quickly dealing with a negative incident to return the relationship to the status quo or feeling good about a positive incident and then getting back to business as usual. This is understandable in a fast-paced world where managers often don’t have time to react to new situations.

However, our research clearly showed that unknowns play a much larger role in the buyer-supplier relationship than previously thought. Improper handling of negative and positive incidents can have long-term implications, damaging relationships or wasting opportunities for improvement. To that end, we have several broad recommendations (Table 1 provides a more in-depth summary of those recommendations).

First, managers must start by viewing unexpected delays and setbacks not as nuisances, but as opportunities. The research shows unequivocally that a successfully handled negative incident can improve a buyer-supplier relationship, sometimes resulting in a stronger bond than existed before the event.

Second, our research highlights how important it is for buying companies to manage the interpersonal aspects of their business relationships. Our study supports the notion that investing in interpersonal relationships can reduce the harmful consequences of an unfavorable incident. It is sometimes easy to forget about the personal aspects of business-to-business relationships, but neglecting them can hurt your bottom line.

Third, when encountering a favorable incident, our findings suggest that to create the best outcome, companies should highlight informational and non-financial exchanges between firms. They should also emphasize the contributions of network partners to strengthen business relationships across the network.

At the time it is occurring, an unfavorable incident may seem very different from a favorable one. But for the wise manager, both bring opportunities. In this respect, any unexpected incident should be seen as at least partially favorable, as it presents an opportunity to improve project outcomes or strengthen business relationships.

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**TABLE 1**

**Capitalizing on unexpected incidents in buyer-supplier exchanges**

<table>
<thead>
<tr>
<th>THE UNEXPECTED NEGATIVE</th>
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<tbody>
<tr>
<td>• Always respond, both to deal with the situation at hand and take advantage of opportunities that arise as a result of the event.</td>
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<tr>
<td>• Companies with strong cooperative relationships can suffer more from an unfavorable incident than those with weak ones, making restoring trust even more important.</td>
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<tr>
<td>• Healthy interpersonal relationships between managers can help soften the blow of an unfavorable incident and also encourage companies to develop strategies to deal with similar occurrences in the future.</td>
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<tr>
<td>• Make up for an unfavorable incident by offering your counter-part a substantive benefit. Simply apologizing is insufficient, even for established relationships, and may further deteriorate trust.</td>
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<tr>
<td>• Successfully handling an unfavorable incident can change the very nature of the business relationship for the better, forging a stronger bond than existed before.</td>
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<tr>
<th>THE UNEXPECTED POSITIVE</th>
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<tr>
<td>• Positive events can be leveraged to create additional financial or non-financial benefits.</td>
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<tr>
<td>• Never miss a chance to be gracious to the other side when developing a healthy, long-term business relationship. Highlight informational and non-financial exchanges between both firms to create the best outcome moving forward.</td>
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<tr>
<td>• Companies generally appreciate requests for non-financial benefits but respond negatively when asked to share the financial benefits they realize from a favorable incident.</td>
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<tr>
<td>• Highlight contributions from your innovation network to increase other companies’ contributions to it.</td>
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Source: Author