UPS Professional Services Insights

Building the Business Case: Vendors vs. Strategic Partners

The more successful new products and services that a company can bring to market, the better you can expect to drive long-term financial performance. This is just as true among professional service firms as it is in other industries. In today's hypercompetitive world, a robust innovation pipeline depends in large part on strategic relationships with key suppliers and vendors.

What Makes a Strategic Partner?

Beyond the in-house versus outsource decision, progressive companies are approaching vendor relationships along a continuum. The type of relationship a firm establishes with each vendor will vary depending on the objective, internal management capacity, and long-term importance of the transaction.

SOURCING CONTINUUM

TRANSACTIONAL			RELATIONAL		INVESTMENT	
Basic Provider Model	Approved Provider Model	Preferred Provider Model	Performance Based/ Managed Services Model	Vested Business Model	Shared Services Model	Equity Partnerships

Source: "Your sourcing model can make or break the deal," Kate Vitasek, University of Tennessee, IACCM Contracting Excellence, March 31, 2015.

Collaborative Innovation

More than two out of three (69%) CEOs in all industries report that they are partnering with suppliers through joint ventures, strategic alliances and informal collaboration, according to PricewaterhouseCoopers LLP's 18th Annual Global CEO Survey. In addition to suppliers, companies are collaborating with customers, academia, NGOs and competitors. Beyond new revenue opportunities, access to new technology and innovation are key drivers of such efforts.

69% OF GLOBAL COMPANIES ARE PARTNERING WITH SUPPLIERS

TOP DRIVERS OF BUSINESS COLLABORATION

1. ACCESS TO NEW/EMERGING TECHNOLOGIES
2. ACCESS TO NEW CUSTOMERS
3. ACCESS TO NEW GEOGRAPHIC MARKETS
4. ABILITY TO STRENGTHEN INNOVATION CAPABILITIES

Source: PwC's 18th Annual Global CEO Survey, May 2015.

The Contract Negotiation Disconnect

Business relationships are slowly evolving, according to the International Association for Contract and Commercial Management (IACCM). While executives may be pushing for more strategic relationships, supplier contract negotiations still revolve around prices and risk allocation. There's a clear disconnect between what parties on both sides regard as important and the primary focus of their contract negotiations.

MOST NEGOTIATED TERMS		MOST IMPORTANT TERMS
Limitation of Liability	1	Scope of Goals
Price / Charge / Price Change	2	Responsibilities of the Parties
Indemnification	3	Change Management
Service Levels and Warranties	4	Delivery / Acceptance
Payment	5	Communications & Reporting
Service Withdrawal / Termination	6	Price / Charge / Price Change
Warranty	7	Service Levels and Warranties
Intellectual Property	8	Performance / Guarantees / Undertakings
Performance / Guarantees / Undertakings	9	Payment
Delivery / Acceptance	10	Limitation of Liability

Source: 2013/2014 Top Terms, IACCM.

Industry Investment in Innovation Lags

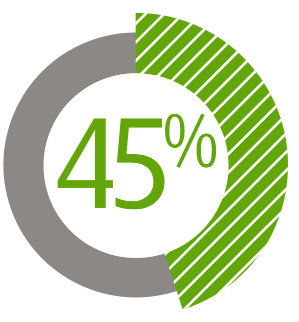
Looking at a specific sector, more than half of insurance executives recognize innovation as critical to their firm's growth prospects. Still, a significant number of insurers (45 percent) lack a formal innovation strategy, and three out of four insurance leaders report that they lack the internal skills to drive innovation, according to KPMG.

3 out of 4 insurance leaders report that they lack the internal skills to drive innovation

PERCENTAGE OF INSURANCE COMPANIES *WITHOUT* A:

CHIEF INNOVATION OFFICER

FORMAL INNOVATION STRATEGY



Source: Demystifying the public private partnership paradigm: The nexus between insurance, sustainability and growth, KPMG International.

VISIT ***WWW.PERFORMANCE.CFO.COM*** TO DOWNLOAD THE WHITEPAPER AND LEARN MORE ABOUT STRATEGIC RELATIONSHIPS.

IndustryWeek