

# Lecture 2000 | Partnering today and tomorrow

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Last year Peter Bonfield spoke at this event. I am sorry to admit that I'm old enough to go back – just – to the days of the old GPO which comprised both BT and The Post Office. Although I have to say that it was probably less of a partnership then than when Peter and I do business today.

So I've had some experience of partnerships being broken up and having to form new ones, not least as business, and its sourcing, become ever more complex.

But why go in for partnership at all?

Let's start with the basics.

Partnership Sourcing Limited have published three objectives that I think are pretty good reasons for entering into partnering:

- to delight customers;
- to build competitive advantage; *and*
- to minimise total costs across the organisation's supply chain.

Now, any company would want to do those three things, but why should it be through partnering as opposed to any other method?

Well, once again I want to turn to the Partnership Sourcing Limited definition which says partnership sourcing is:

**' A commitment by customers and suppliers, regardless of size, to a long-term relationship based on clear, mutually-agreed objectives to strive for world-class capability and competitiveness.'**

For me there are some very important and different concepts in there.

- The first is 'a commitment regardless of size';
- The second that relationships need time to develop;
- Perhaps more importantly, it is 'based on clear, mutually-agreed objectives'.

## Drivers and enablers

With these key thoughts in mind, I want to look at some of the drivers and enablers that are making partnering of growing importance in today's business world and in tomorrow's so-called 'new economy'.

I would like to illustrate this by describing how we are making it work in The Post Office in terms of the skills, culture and process requirements. I will also touch on some of the issues that we face as a large public sector organisation where, for example, public procurement rules apply.

Finally, I want to highlight some of the pitfalls and benefits of partnering. I will draw out some lessons that we have learnt the hard way but which have then helped us build partnerships that are even more successful.

So firstly, the drivers. For me there are four major challenges facing business today, with the first two closely linked.

### **Globalisation**

Globalisation is a word that we hear a lot. Borders are coming down in terms of international business. It is now far easier and far more common for even small and medium-sized enterprises to be trading internationally. Relationships between organisations are having to change. We are seeing a move away from relationships based on the physical proximity of customers and suppliers to one that is based on communication and information links.

Globalisation is stimulating brand new service propositions. The motor industry, for example, has moved away from regional platforms to develop worldwide common platforms. One of the first of these was the Ford Mondeo with the common chassis platform being used as the basis of new products built simultaneously in Brazil, the US and Europe.

The effect was to open to component suppliers the possibility that they would be required to supply common components to several sites around the world. This changed the way of doing business to the extent that local partnerships became the preferred way forward.

Thinking global, acting local. Yet the cause and effect don't really matter. To the customer it is the overall value of the offering that they will be looking at.

In order to face up to this competition, organisations increasingly need to look at their own value chains to ensure that they are adding value at every point. They also need to understand how they fit into the value chains of others.

Since the 1990s we have seen the growth of alliances in many of the key markets as they globalise, consolidate and become more complex. In this situation, we find that one supplier or group of suppliers often cannot fulfil the total needs of customers. They therefore join together to offer services and add value in a way that they could not achieve on their own.

So that is the impact of globalisation.

### **E-commerce**

The second trend is e-commerce. Never a day passes without some new story from the e-world. Who has succeeded; who has failed.

Every MD of an e-commerce company has their own hockey-stick graph showing you how many trillions of dollars the market is about to be worth!

But I believe that it is fundamentally changing the way we do business – it is both a driver and an enabler to partnership working:

- It both reduces the costs of working with partners internationally and increases transparency by enabling an organisation to identify and work closely with partners on world-wide scale; *and*
- It also challenges the traditional customer/supplier relationship model.

I am convinced we are seeing the start of a decline in the traditional physical customer/supplier relationship and a move towards more of a virtual relationship based on communication technology.

This brings with it an interesting dilemma. In a world where the barriers to entry are quite low to anybody who wants to get onto the Net, a website presence can look equally impressive for a one-man-band in a back room as it can for a blue-chip organisation.

So when that organisation is on the other side of the world and you might not know very much about them, how on earth do you know who or what you are dealing with, whether it is a customer or a supplier? In other words, if you are looking at partnering, how reliable a partner are they going to be?

E-commerce is changing the business model and the way we have to think about saluting and working with partners.

### **Sustainability**

The final two challenges are also interlinked and very important for us in The Post Office. The first is sustainability, that is, not consuming resources faster than they can be replenished. It is about living on earth as if we intended to stay.

Many would argue that this is the biggest, most fundamental issue facing all of us. In the distribution industry we have quite a dilemma here, because we tend to run large vehicle fleets and that means that we produce carbon dioxide. In fact, someone once told me, probably enough each year to cover Wales. So if you are Welsh – many apologies.

But the vital and serious point for us was to build a partnership to address these kind of issues.

We have been working with a number of vehicle suppliers to develop dual-fuel technology and much cleaner engines. We have run successful trials in a couple of cities in the UK. One uses a hybrid diesel and electric-powered vehicle that uses diesel when it is up to speed and working at its most efficient. It switches to electric power for city centre use where there is stop-start motoring and where diesel fumes tend to cause most pollution. We have also been at the forefront of developing gas-powered vehicles and evaluating their use in a city centre and urban environment.

Working in collaboration with suppliers has enabled both parties to gain a greater understanding of the issues, costs and technologies involved. It helps us to share knowledge and experience and it is helping us to develop even more efficient and effective products.

And above all, we have shared a common view about sustainability.

## **Business ethics**

The final trend is business ethics. For me this is about openness and trust and about managing your business in a way that is morally defensible. This does not mean that we have to impose our cultural values on other cultures in a global market environment – a sort of cultural imperialism. But it is about not using the global market place to allow exploitation of other people.

We were recently developing a relationship with a new supplier of work-wear – what my old GPO would have called ‘uniforms’. This is a very big area for The Post Office, employing as we do 200,000 people. We were dealing with a supplier in a developing country where it is the norm for young people of 13 years old and up to work. We discovered that 11 and 12 year olds were being taken out of school to work for very low pay. So we actually broke off negotiations when we found out, despite the attractive financial benefits to The Post Office, because we felt it was exploiting people in a way that was unacceptable to us, our customers and other partners.

## New factors

So the basis for partnership working is changing. New factors are coming more into play:

- globalisation;
- e-commerce;
- sustainability;
- business ethics

All are important. Some or all are affecting us every day. To succeed against this background requires a refocusing of business actions.

### Time to market

The first is the need to get to a market quickly. And in an ever-increasingly complex world that often means organisations sharing knowledge and experience with other partners in order to achieve this.

### Sharing

Next is the ability to manage in an uncertain world; to be able to pool learning and experience and also share risks and rewards with partners. So building flexibility and responsiveness to changes in conditions.

We have been doing this with some of our partners, supplying sorting equipment in a new rapidly-developing market segment. The main problem that we face is uncertainty: on the one hand about how the market will develop and on the other, the need to develop state-of-the-art sorting equipment to meet market opportunities. This is not an area where a traditional invitation to tender specification is going to work easily. So we have developed a partnership of equals with our suppliers. We share the risks and rewards and we work together to develop the technology using pooled experience and knowledge.

### Sum of parts

The final factor for me is the old 'sum of the parts' argument: the whole is greater than the sum. We recently announced a joint venture partnership, in the international cross-border letters market, between TNT Post Group (the Dutch Post Office and a key competitor) and ourselves. This is a market where economies of scale and scope apply. Whilst both of us have been successful in individual markets in North America, Europe and the Pacific rim, this had only resulted in each of us having an average of 5-6% market share against the incumbent, usually the domestic postal administration.

The partnership has created the world's largest cross-border mailing organisation with an average of 10-12% market share in all of the key markets. This means overnight that both organisations have a credible number-two player in the key

markets, which can benefit from the economies of scale and scope. This is the kind of benefit that joining together both organisations brings.

## Lessons about partnership

So far we have talked about how partnership can work effectively for organisations, but that isn't to say that it is always the most appropriate response. There are still times when it is better not to enter into a partnership agreement. Sometimes it is not the right thing for one of the partners, or indeed both. It is true, also, that sometimes partnerships outlive their usefulness.

Nor do they always work as planned. We have a few examples of that too in The Post Office. But when it has happened, we've tried to learn the lessons.

Over the last couple of years we have learnt a number of key lessons in The Post Office and I wanted to use a few quick case studies to illustrate my point.

### Learning IT

In the first example, one of our Business Units was working with a major IT provider to put in place a finance and billing system. In this instance, there was perhaps a little too much trust. From our side we assumed that they understood the issues facing us and our business perhaps better than they actually did. On their side, I think they trusted a little too much in our expertise and faith in them. Our people thought, 'Well, these guys are the experts', when in fact the experts didn't know enough about our organisation. The result was that for a significant period this Business Unit couldn't send any invoices out. Not something I recommend!

We managed to sort things out eventually and when we sat down to analyse what had happened and why, both sides were able to learn something from it. As a result we are now working very closely with that same company on rolling out management systems across the entire enterprise - and we have been doing it successfully.

So the first, and basic, lesson is to understand what you want and what you are expecting from the partnership and ensure that your partner understands this too.

### Finding boundaries

The second story concerns a programme to put in a customer management system. This ambitious programme is designed to equip all of our customer service and sales people with databases so that they can track all of the transactions and interactions that we have had with a customer.

For an organisation that deals with pretty much every business in the UK, as you might imagine this is a complex and large task, and as you might also imagine, we haven't the skills and the resources in-house to undertake it. So we have had to work with partners.

Then we found the partnership wasn't working. Trust started to break down. As we thought our suppliers were trying to put one over on us, we started to become more defensive. As they thought we were trying to put one over on them, they started to become very secretive and look for ways out of the agreement.

The result was that both sides started to think about how they were going to extricate themselves from this mess. Instead of working together to get the job done, we were working against each other to try to minimise exposure.

In the end we sat down together. We took some time out to review what was going on and what each party wanted from the relationship. We came back together, redefined a very tight process, put in place key performance indicators, measured them regularly, and made sure that we communicated openly. We also defined the scope of the partnership so that we knew where the boundaries were – and it began to work.

The lessons are so basic but time after time companies like ours still get them wrong.

## Internal partners

The third area concerns IT again. We have a number of Business Units within The Post Office and they have internal customer/supplier relationships with each other. And in fact, those supplier/customer relationships are just as robust as one would find in the external market. Supplier units must achieve or better external market benchmark performance, and internal customers are very demanding.

IT is a classic area where we need to have a partnership because the knowledge requirements are so great that Business Units cannot hope to track efficiently all of the changes and opportunities as they develop.

So we put in place an internal partnership with each of the Business Units for IT procurement. Each party clearly defined what they required. Key Performance Indicators were specified so everybody knew what was being achieved. This facilitated open discussion and sharing of plans and through these activities we have driven 11-12 per cent cost reduction across The Post Office on IT spend. For an organisation our size, that kind of saving is well worth having.

The partnership delivered real benefits. After all this *is* the reason why you have the partnership in the first place!

## Exit strategy

The final point relates to my earlier story around the programme to put in place the customer management information system. Part of the new approach to agreed expectations and measures were criteria to establish when the relationship would have run its course and what was going to happen then.

Now I realise having an exit strategy up front may sound a little negative, but few, if any, partnerships will last forever. So a 'pre-nuptial' agreement that identifies when a relationship has run its course, and how both parties will exit, reduces the risk of the trust breaking down; it allows both partners to focus on making the relationship work.

## Lessons summarised

To summarise the lessons then, I think that potential partners need to do the following:

- Understand exactly what it is that they are putting in and getting out of the partnership;
- Have some mutually agreed key performance indicators so that the partners know it is being successful;
- Ensure that the partnership actually delivers the benefits to both parties; and
- Have a clear and up-front exit strategy for when the relationship has run its course.

Doing these things, in our experience, increases the probability of a positive outcome to the partnership.

## The way ahead

Let me try to draw my themes together and above all deal with why I think that partnership working is the way to go.

Business is becoming more complex. Margins are tighter. Old market boundaries are disappearing. Companies that were competitors now have co-operation agreements. Companies that didn't exist six months ago are now our competitors.

We can no longer do many things on our own – even if we ever could. We have to develop new and different ways to impact on:

- Costs;
- Quality; and
- Speed to market.

But also the way we do business will change, driven by e-commerce. The rules of the game will change. Previous competitors or plain 'suppliers' suddenly are recognised as partners.

We need to share knowledge and experience in a way that can put a group of organisations ahead of the game.

We need to create value for our customers by leveraging the combined skills and activities of differing partners.

So a distinctive competence now and into the future will be the ability to use culture, process and people to make partnerships work really effectively. The organisations that achieve this will be able to reach further and offer more value than their competitors.

Let me leave you with two final thoughts;

We have a rule of thumb in The Post Office that says, 'A bad deal is still a bad deal even with a partnership agreement in place.'

But I would also add that a good deal often becomes a better one when enacted effectively with a partner.