

C I N T R A F O R

Working Paper

61

**ACHIEVING SUCCESSFUL
BUSINESS-TO-BUSINESS RELATIONSHIPS
BETWEEN
FOREST PRODUCTS SUPPLIERS AND DISTRIBUTORS**

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28 October 1996

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EXECUTIVE SUMMARY

Smart marketers build long-term, trusting, “win-win” relationships with valued customers, distributors, dealers, and suppliers. This research effort explores the specific factors, conditions, and activities that contribute to building successful supplier-distributor relationships in the forest products industry. We sought to answer the question, “What spells success in business-to-business relationships between forest products suppliers and distributors?”

Utilizing comparative analyses of best business-to-business relationships, in-depth interviews were conducted with executives at five forest products firms. The structured interviews profiled business dimensions consistently present in outstanding business-to-business relationships. The results reveal that successful relationships involve: frequent communication; extensive joint marketing planning and performance reviews; the exchange of customized products; promotional efforts that are a joint activity; delivery systems that are reliable and dependable; and pricing practices that foster few problems and quick resolutions, to name a few. In an effort to make the research findings more practical and useful, a worksheet exercise that incorporates these principles has been designed to help you analyze your business-to-business relationships.

INTRODUCTORY REMARKS

The basic task of managing customer relations cuts across both consumer marketing (selling to individuals or households) and business-to-business marketing (selling to other companies). Companies engaging in either form of marketing can increase the likelihood of expanding market share and raising profits by moving their focus from transaction marketing to relationship marketing. Transaction marketing simply involves a single or occasional exchange between a buyer and a seller. Every purchase or sale transaction, then, involves a “new” search for an exchange partner. On the other hand, relationship marketing, with its inherent understanding of the substantial costs involved in continually searching for new exchange customers, focuses on building and maintaining long-term relationships between a buyer and seller. Smart marketers build long-term, trusting, “win-win” relationships with valued customers, distributors, dealers, and suppliers. In general, we have known that such relationships are accomplished by promising and delivering high quality products, good service, and fair prices to customers over time.

In this study, the focus was on exploring the specific factors and conditions that contribute to successful, long-term relationships in the context of business-to-business relationships in the forest products industry. While published research investigating interactions between business and consumer is plentiful, the focus of this research is to take a step backward in the distribution channel and examine relationships in the business-to-business or industrial marketing context. We sought to answer the question, “What spells success in business-to-business relationships between forest products suppliers and distributors?” More specifically, this research investigated the types of interactions that take place between suppliers and distributors to promote trust, long-term commitment, and mutually beneficial

relationships. Given increased competition in the business environment, being an astute manager of business-to-business relationships is imperative for long-term success.

The findings of this study are based on interviews conducted with presidents and vice presidents of forest products firms located in the Pacific Northwest. The in-depth interviews sought to identify which conditions, factors, and activities tend to be associated with highly successful business-to-business relationships between forest products suppliers and distributors. What was learned in the interview process is discussed at length in the research findings section. In hopes of making the information learned in this study easily translatable to managerial implementation, a worksheet is provided as a business-to-business relationship self-analysis tool. Ideally, the worksheet exercise will provide insight on how to improve your business-to-business relationships.

METHODS

Sample

The scope of this research was to analyze firms that distributed forest products in the Pacific Northwest, randomly chosen from *the Washington State Value-Added Wood Products Directory* published by the Center for International Trade in Forest Products. Table 1 profiles the responding firms. Total annual sales range from \$25,000 to \$75,000,000. Main lines of business include a commodity-oriented company selling only treated lumber extending to a company selling an array of value-added home building materials.

Table 1: Profile of the Forest Products Firms Interviewed

Respondents (Distributors)	Total Sales of the Firm	Markets Served	Primary Products Sold	Primary Customers
President	\$9,000,000	US, Japan	Building materials	Building contractors
Vice President	\$22,000,000	US, Canada	Building materials	Home centers
President	\$2,000,000	US	Building materials	Building contractors
Vice President	\$75,000,000	Global	Treated lumber/pole	Home centers and contractors
President	\$250,000	US	Fancy face veneer	Industrial buyers

Questionnaire

Data was gathered using a thirty page questionnaire that was administered using the personal interview format. The questions focused on a variety of factors that could conceivably impact the success of business-to-business relationships in the forest products industry. These included traditional marketing mix elements such as the products exchanged, promotional activities, distribution channels used, and pricing arrangements. Additionally, questions also covered interfirm activities like the types and frequency of communication exchanged between the supplier and distributors, competitive factors having an influence on the partnership, and the degree to which joint planning and performance reviews are conducted.

Each of the five distributor firms answered the questions in terms of one specific supplier that was chosen by the respondent at the onset of the interview. Respondents were asked to choose their best relationship with a forest products supplier, where “best” is defined multidimensionally as being “difficult to replace the sales and profits that result from this supplier,” “disruptive to end operations with this particular supplier,” “trustful relationship,” “deeply committed to the partnership,” and “this supplier

looks out for my company’s best interests.” Table 2 provides information about these best suppliers chosen by the distributor firms that were interviewed for this study.

Table 2: Profile of Firms Chosen As “Best” Suppliers

Supplier’s Main Business	Age of Relationship	% of Total Purchases with Supplier
Building materials manufacturer	14 years	10%
Door and window manufacturer	60 years	50%
Building materials manufacturer	2 years	10%
Untreated lumber manufacturer	19 years	11%
Face veneer manufacturer	9 years	35%

RESEARCH FINDINGS

Traditional Marketing Activities

When companies try to differentiate themselves from competitors, they first engage in segmenting the market based on certain variables or characteristics deemed important in the context of that particular business environment. Following identification of market segments that consist of buyers with similar characteristics, wants, or needs, the next step is to evaluate the attractiveness of each segment in terms of both the willingness and ability to purchase the company’s products. Segments thought to be of particular financial appeal are selected and an accompanying positioning strategy is devised.

Positioning, then, is designing the company’s product offering so that it occupies a meaningful and distinct competitive position for target customers. Traditional marketing tactics used are the product itself, promotional vehicles, distribution channels, and pricing policies. What was learned in the interview process in regards to each of these four marketing activities are discussed in the sections that follow.

Products Exchanged Between the Supplier and Distributor

A common definition of a product is anything that can be offered to a buyer that possesses the ability to satisfy a need or want. A product often consists of a bundle of attributes that a customer perceives, such as product intangibles like servicing, warranty, and engineering as well as product tangibles like treated wood for decking or structural joists, to name two. This study sought to uncover what aspects of products and product related issues are important in the best supplier-distributor relationships in the forests products industry. This research uncovered two product-related activities occurring in the successful business-to-business relationships: the presence of opportunities for shared new product development between the supplier and distributor and the availability of customized products.

The product life cycle concept reminds us that developing and introducing new products is vital to business growth and profitability over the long-term. When the forest product distributors were asked about the area of new product development, they indicated that having the opportunity to be involved with the supplier in the new product generation, design, and implementation process is critically important. Distributors value being able to suggest new product ideas to the supplier because having such input enables them to better align product attributes with the particular needs of their target customers. Distributors view themselves as being important in the idea-generation stage for new products or even product redesign for a mature product, primarily because distributors tend to have more contact with actual buyers, thus a better understanding of what buyers want. One distributor described how the company's best supplier involves it in new product development process:

Yes. We participate [in new product development]. Actually [our best supplier] does quite a bit of research at the market level. They go right to the consumer and they'll have focus groups, or go right to the contractor and have focus groups. We participate in those extensively.

Another distributor pointed out that its extensive role in generating new products favorably resulted in broadening the supplier's product line:

Our new product ideas extend into trying new species. We got them into the mahogany business. We kept pushing for it. We were instrumental in pushing this because we wanted it.

A third distributor commented on how important it is that its best supplier allows it to be involved in both developing new products and developing customized products:

We've worked together [on new product development] for about six years, adding components so the product is more effective. The other thing we have the flexibility of doing is taking what you might call a canned product and either adding or deleting components to customize it to the market.

The drivers behind and the degree of product customization can vary widely from product to product. However, the basic intent behind allowing a standardized product to evolve into a customized product is to make the product more attractive to buyers. Distributors were asked about opportunities to request customized products from their best suppliers. The interview results yielded an unequivocal "yes" from

all five of the distributors when they were asked about whether or not being able to request customized products is a prominent feature in their best business-to-business relationships. Opportunity for product customization is seen as critical because it enables the distributors to satisfy their customers' needs more fully and to increase sales and market share. A distributor volunteered the following information regarding product customization:

There are all kinds of decking products out there, but we [supplier and distributor] did some radius-edged decking to try to combat some of the other treaters and other opportunities out there. Instead of a rectangular piece of decking it may be rounded on the edges. To me, what customization does is add value. Let's take the price and the rectangular size out of the game and try to add some value to it, something a little different. A profile that's different. It may catch on so that you and I can make a bit more money.

Promotional Activities

Promotion consists of all activities employed by a firm to communicate information about itself, its activities, and its products to its customers in an attempt to influence product demand. The traditional promotional mix involves advertising, personal selling, sales promotion, and public relations, also referred to as publicity. The interviews uncovered four areas of promotion that have particular merit in the best supplier-distributor relationships, including cooperative sales training, shared sales calls, and generating new customer leads.

Salespeople working for distributors need to be trained in how to conduct successful sales calls. Such training can be formal or informal and done by either the supplier or distributor, or by both in tandem. Cooperative sales training requires firms to coordinate training between distributors and suppliers to provide employees with a broad array of skills necessary to sell forest products effectively. The majority of the distributors interviewed valued cooperative sales training to a high degree. The following statement regarding a formal supplier training program was shared by a distributor:

They [the supplier] come and train our new hires, share the cost of off-site training, etc. We have in house training where they come and train our people. They put on a week long distributor training session back at their factory which centers on product and selling skills. They have worked with a sales training development company and have developed a sales training seminar.

Engaging in joint supplier-distributor sales presentations, formal or informal, and personal sales calls is another promotional activity discovered to be exercised in the best supplier-distributor relationships. The distributors indicated that joint sales calls are a preferred way of doing business because it enabled their salespeople to introduce the supplier to their customer, and this demonstrated the seriousness of the of the manufacturer's commitment to quality and service. Secondly, when suppliers are present, distributors felt as though they could better present to their customers specific technical information about the product. A distributor indicated the following about shared sales calls:

If I had a customer that I felt it would be a large advantage for me to take my supplier along, I'd do it. I can call this supplier and say, here's a contractor who'll buy a lot of

these if we can just get them on board. And they'll send their rep down. He's wonderful. He's here to help us anytime.

A second distributor had another reason for using joint sales calls:

Not for technical reasons, but for warm and fuzzy reasons, just to make the person feel more comfortable with the product and the company behind it. To let them know that there's another person other than me that cares about the sale and the product as much as I. We take them [the supplier] to all our customers. We visit with our customers. They know every single one of them.

Having the supplier play a role in generating new customer leads is common in the best relationships. However, the degree to which suppliers and distributors share customer leads varies in structure from extreme supplier involvement to casual supplier referrals. A distributor shared the following about its supplier's method of sharing customer leads:

[The supplier's] marketing department corresponds with potential customers right up until about ten weeks before they purchase the product. So when we receive the lead, those people have made the decision that they're going to do a project, remodel or build, and they are in the process of making a product choice. Then the information is given to us.

Distribution Arrangements

The firms interviewed for this study are distributors of forest products. Distribution objectives between forest products suppliers and distributors tend to vary with specific product characteristics, but there are several conditions that encourage successful distribution arrangements. These include economic criteria favoring cost minimization; control criteria encouraging shared responsibility and dependability; and adaptive criteria involving both supplier and distributor commitment to respond swiftly to market changes.

During the interview process, respondents suggested that three factors tend to be present in their best business-to-business relationships. These involve delivery systems, delivery service, territorial arrangements. Delivery service refers to a broad spectrum of factors such as accuracy of delivered orders, ease of unloading, ease in sorting, and sensitivity to a distributor's unique needs. As the quality and value of delivery services increase, so does the level of satisfaction in the supplier-distributor relationship. A distributor shared the following regarding a supplier's evolving delivery service:

They [supplier] are working on a program to palletize material. Right now their truckloads are packed by hand. That's labor-intensive for us when it comes to unloading and loading. If we could unload it with a forklift it would take about a third of the time and they [the supplier] are working on that program.

The second factor associated with the best supplier-distributor relationships centers on how consistent supplier delivery systems are. Distributor satisfaction with suppliers is enhanced when deliveries are dependably executed in accordance with agreements as well as in a timely manner.

The third factor focuses on the importance of territorial agreements. Territorial agreements encompass intensive, selective, or exclusive distribution agreements between suppliers and distributors. Intensive distribution agreements involve selling the product through any distributor in any market area; selective distribution agreements involve selling the product through a limited number of distributors; and exclusive distribution agreements involve selling the product through a single distributor. The distributors interviewed said that exclusive distribution agreements between suppliers and distributors are prevalent in their best relationships. The following distributor testimonial reveals the value of an exclusive distribution arrangement:

We have exclusive distribution for them on the West Coast. It's a written agreement. But it's better than a written agreement because it's so well understood. They do a lot of things for us, so it's a two way street. When you build this relationship you've got to work with people. It's kind of like a marriage, you've got to extend some effort.

Another distributor had this to say:

Because we enjoy an exclusive market with [this supplier] we are willing to do a lot more things to support their company and vice versa. We don't mind making an investment in additional personnel or inventory because when that product sells its going to come from us and we get the benefit.

Pricing Policies

Pricing is the only element of traditional marketing activity that generates revenue for the firm. Yet in practice pricing can be one of the most difficult elements of the marketing mix to determine effectively,

and it can, ironically, be one of the most flexible. Pricing should be evaluated frequently to ensure that it accurately reflects changes in markets, production costs, competitors' prices, value of the product from the customer's point of view, and costs associated with production and marketing. Regarding pricing, this study explored pricing issues present in the best supplier-distributor relationships, and two consistent practices were uncovered. These activities involve resolution of pricing problems and generous payment terms.

Pricing problems are not entirely absent in the best supplier-distributor relationships, but what is apparent is how quickly and fairly pricing problems are resolved. Anecdotal accounts provided by the distributors offer testimony regarding how pricing disputes are resolved, equitably and in a timely manner. A distributor shared the following details about a pricing problem with its best supplier:

[My employee] called to get some wood a few days ago. He was given a price and said 'fine, sounds good.' Then he goes to place an order today, and the supplier quotes a price twice what he had been quoted a few days ago. We just worked the numbers out and said, hey, there must be some misunderstanding here. We didn't have it written, just a verbal agreement. We told them that we weren't going to take it at that price. No hard feelings, but we just can't take it. So he [the supplier] backed off and said, OK, we'll go ahead and let it go for that original price that you thought I quoted it at. We respected that.

Competitive distributor payment terms and discounting activities are available in the company's best supplier-distributor relationships. A distributor shared the following about payment terms with their best supplier:

I like 20th terms [1% discount if paid in 20 days]. I can play a lot of money games with the suppliers that are 10 to 20th just to spread my cash flow out a bit.

In addition to favorable payments terms that extend the period of financial floating, distributors are also offered generous discounts.

When my supplier finds out how much we're buying, they sharpen their pencil on that line as much as they can. I probably am very close to the lowest price level with [best supplier]. Based on quantity purchased. Products that they supply on an on-going basis. They get it down a notch or two.

Interfirm Activities

As was discussed in the previous section, the best supplier-distributor relationships were investigated in the context of the traditional "marketing mix" activities that enable a firm tactically to achieve corporate goals and objectives. Additionally, this research explored a variety of interfirm activities, such as information exchange, competitive factors, and partnership elements, that occur between suppliers and distributors. One of the major challenges facing companies today is creating and maintaining strategic partnerships in rapidly changing business markets and environments. Interfirm activities are often undertaken between supplier and distributor companies to improve performance and create a unique

competitive advantage. In this section, characteristics of interfirm activities in high-performance supplier-distributor relationships are presented.

Communication

Communication involves a variety of devices for continuing dialogue between suppliers and distributors. Personal visits between suppliers and distributors are an important factor in successful business-to-business relationships because they establish camaraderie and facilitate feedback on working aspects of the business relationship. Increasing the frequency of face-to-face visits between suppliers and distributors tends to be associated with a higher reported level of satisfaction with the business relationship.

Our supplier visits us at least once if not two times a week. We've got ongoing dialog about everything we do. He was in here today. His first question and darn near last question is always, what can we do for you? What else can we do for you?

Another distributor elaborated:

We have visits with them frequently. At least once a week if not twice. They like to camp out with us, to bring us our bidding back that they're doing for us, to pick up more to head up there for engineering or for figuring. Remember when I told you we send them the blueprints, they take them up there and figure the materials, do the engineering, redraw the plans with I-joist? Most of the blueprints that we see are not drawn for I-joist, they're drawn for solid sawn lumber like 2x8s or 2x10s, so they have to completely redraw what the architect had originally drawn. They've got all the

equipment up there to do that, so when they send those plans back to us they look completely different. It's wonderful. It's a whole division up there that just does that. I couldn't ask for more. It's accurate, they do the engineering, they accept the responsibility that it's accurate, they send pictures down that tell my builders how to put it together. The builders look at this and say, "perfect." They are very involved with us, and it makes for a good relationship.

In addition to personal calls, telephone communication is also important in the best supplier-distributor relationships. The frequency of telephone calls has a positive correlation with relationship satisfaction. The distributors said that telephone communication ranged from one to six times a day with their best supplier. A distributor shared the following regarding communication with the company's best supplier:

It's like a marriage, you've got to have some disagreements to understand each other better. But open communication will certainly solve all that. They [the supplier] disagree with me and that's good. It's when you don't talk and they don't talk that you're running down the wrong road. I don't like problems, so I want to do everything I can to get rid of them, most of the time using phones.

Competitive Factors

Competitive factors refer to aspects of the particular supplier-distributor relationship described during the interview process and how that relationship relates to alternative relationships that are readily available. The distributors interviewed indicated that a variety of competitive factors are important in their best supplier-distributor relationships, such as the number of alternative suppliers that the

distributor has the option of conducting business with and relying on; whether or not a particular supplier is looking out for the distributor's best business interests; and the synergistic value of combined partnership strengths.

Distributors believe that their best suppliers act more competitively and offer better service, quality, and value because those suppliers are aware of the fact that the distributor has the option of conducting business with many other competing suppliers. Said another way, if a distributor is totally dependent on one supplier, the balance of power would then shift from the distributor to the supplier, leaving the distributors in a weakened negotiation state.

Single sourcing is dangerous. You could get new management that sees things differently. Several years ago when [our supplier] got into the pole business we looked at joint venturing with them. We wanted certain guarantees and the people we were dealing with said, yes, we'll give you that guarantee, however if we get fired and aren't here in four or five years we can't vouch for the next chain of command.

Another person had this to say:

There's no one company that could supply our needs, but even if they did we would not put all of our eggs in one basket. To lower risk and because people change in their relationships. We've had deals that went on that I would call a relationship about buying poles that it went on for 10 years. Then the management changes and good-bye relationship.

Another condition that distributors find desirable is a supplier who consistently seems to be looking out for the best interests of that distributor. While the concept of “best interests” covers a broad spectrum, the distributors interviewed define this term as directly linked to high quality service. In fact, service provided an underlying theme throughout these in-depth interviews. An example of the link between company interests and service is illustrated through this distributor's comments regarding the company’s best supplier relationship:

[My supplier] offers extraordinary service. They are so on the ball, it’s hard to explain. If we need a sample and we need it the next day, it'll just be there the next day. It will always be there. If they're shipping stuff out and its coming out in a crate, it will always be intact, it will always be on time for our convenience.

The final competitive factor is the recognition and value of combined strengths in the best supplier-distributor relationships. The benefit of a synergistic relationship can be a powerful tool in the marketplace and is positively correlated with relationship satisfaction. A distributor shared the following regarding the synergy of its current best business-to-business relationship:

Success can't happen by yourself. I'd rather create success with the one I'm doing business with than to go and reinvent the wheel. My feeling is they feel as strongly about that as I do. We both win and only through both of us winning will we be successful.

Partnership Elements

Partnership elements involve joint associations between suppliers and distributors like joint planning, joint performance reviews, and strong expectations of future growth and expansion with that supplier.

Joint planning consists of the market planning activities that are conducted between suppliers and distributors. The majority of distributors interviewed used some type of market planning with their best supplier on a routine basis. For example:

In the true sense of the word we do have a partnership with [this supplier]. All our market planning and promotional efforts are intermeshed. We do the planning and go to the market together. The product is a value added product, it's not a commodity that's sold on price, so there has to be a fair amount of strategy taking the product to market.

The distributors also indicated a follow-up activity to planning, that of performance reviews or an assessment of how well the planning activities are implemented and carried through to completion.

Performance reviews are viewed as providing an opportunity for valuable feedback on a timely basis which ultimately improves communication, mutual commitment to the relationship, and financial performance of both parties.

We sit down with the suppliers and give them the feedback directly. If a person's going to be completely effective, it's important that we let them know what we consider their strengths and weaknesses. The more feedback, the more effective they can be. It always helps when they know what your expectations are.

Future growth and expansion is the last of the partnership elements that emerged from the interviews with distributors. The majority of the distributors reveal that they envision a future relationship with their

best supplier and felt that continuing the relationship is important. One distributor had this to say about forecasting the future with the company's best supplier:

The way that it works for the most part is independent retailers like myself don't tend to bounce around, it is not to our advantage to bounce around. So we find those companies out there that are consistent, day in and day out and we marry them. That's the partnership that we're really talking about here.

CONCLUSION

There is a broad spectrum of factors, conditions, and activities associated with successful business-to-business relationships, relating to both traditional marketing mix variables and interfirm activities. It is hoped that the research findings presented here will enable forest products managers to incorporate these insights into their business practices so as to increase business performance. In an effort to make this information more practical and useful, a worksheet that incorporates these principles has been designed to help you analyze your business-to-business relationships.

ANALYZING YOUR BUSINESS RELATIONSHIPS

Use a separate worksheet for each business relationship you want to evaluate, and then circle the appropriate number for each question. Scores should then be added for a total number between 0 and 105. The scale at the bottom of the page indicates the relative effectiveness of the business relationship.

Product			
Do you jointly develop new product ideas?	Never	1 2 3 4 5	Frequently
Are you involved in new product development with this supplier?	Never	1 2 3 4 5	Substantially
To what extent are you able to request customized products?	Never	1 2 3 4 5	Extensively
Promotion			
Do you use cooperative sales training programs?	Rarely	1 2 3 4 5	Extensively
How often do you conduct joint sales calls?	Never	1 2 3 4 5	Frequently
How many new customer leads does this supplier generate for you?	None	1 2 3 4 5	Many
Distribution			
How reliable is the supplier's delivery system?	Unreliable	1 2 3 4 5	Reliable
How would you describe the quality of the delivery service?	Poor	1 2 3 4 5	Outstanding
Are other firms selling this supplier's product in your area?	Many	1 2 3 4 5	None
Pricing			
Do pricing problems occur with this supplier?	Frequently	1 2 3 4 5	Never
Should pricing problems arise, how quickly are these resolved?	Slowly	1 2 3 4 5	Quickly
How favorable are the payment terms offered by this supplier?	Unfavorable	1 2 3 4 5	Favorable
Communication			
How often do you and this supplier exchange physical visits?	Never	1 2 3 4 5	Frequently
How frequently do you and the supplier communicate by telephone?	Rarely	1 2 3 4 5	Frequently
Do you use EDI, JIT, Fax, or Email systems to communicate?	Never	1 2 3 4 5	Extensively
Competitive Factors			
Are there other alternative suppliers that you could use?	None	1 2 3 4 5	Many
Does this supplier look out for your interests?	Never	1 2 3 4 5	Frequently
Does synergy arise from your combined strengths?	Never	1 2 3 4 5	Extensively
Partnership Elements			
Do you engage in joint planning with this supplier?	Never	1 2 3 4 5	Often
Are performance reviews conducted by you and this supplier?	Never	1 2 3 4 5	Frequently
To what degree do you see this relationship growing and expanding?	Not at all	1 2 3 4 5	Substantively

0-15 = Very poor
 16-35 = Poor
 36-55 = Fair
 56-75 = Good
 76-95 = Very Good
 96-105 = Superior