Abstract. As manufacturers work to shorten cycle times while improving quality and value to the customers, the importance of a well functioning supply chain is being seen as a competitive advantage. In order to achieve this efficient chain, trust must exist between all prominent links in the chain. Research is showing trust to be the single most important factor in achieving performance from the supply chain.

By investing the resources and time to build strong trust with its supplier, Quaker Oats developed a strategic alliance with Graham Packaging of York, Pennsylvania, that resulted in a $20 million savings per year. That exceeded the ingoing project objectives by over $1 million annually.

Building Trust to Accomplish Large Procurement Projects. The association between buyers and suppliers exists at various levels appropriate to the product or service being procured. Traditional relationships exhibiting more adversarial properties are sufficient when contracting for commodities or non-production, non-essential materials or services. In these relationships the players will share minimal information; bargain rather than problem solve, and conduct each contract as if it were the last forthcoming.

In an effort to ensure performance, buyers will craft detailed contracts designed to reward suppliers for compliance, with punitive clauses protecting against nonconformities. These traditional contracts take the place of trust in the relationship, leaving little room for non-compliance. The result is that the supply professional gets what they ask for, but nothing more. As a result, neither the buyer’s firm nor the supplier’s organization is willing to invest effort or resources in this relationship, so neither benefit beyond the execution of the contract.

Non-commodity items and services require a relationship that supersedes the traditional adversarial approach. A collaborative, strategic alliance is required for such buys, or when planning a significant procurement project. Buyers must develop a foundation for sharing information. Supply professionals are the portal through which an interdependent relationship between manufacturers and suppliers can thrive. This relationship can result in leveraging resources, sharing of technology, and coordinating efforts in cost, quality and productivity improvements but for it to flourish trust must be a part of the relationship.

How to Build Trust. Trust is required to sustain commitment to the buyer/supplier relationship. David H. Maister, co-author of The Trusted Advisor, describes four steps in driving trust in a business relationship. 1.) Credibility-gaining an understanding of each other’s
business. This understanding establishes credibility which leads to trust. 2.) Reliability-do what you say you are going to do when you say you are going to do it. 3.) Intimacy-deal with people as people rather than role players. Make a true commitment to meeting the other’s needs. 4.) A lack of self-orientation-a commitment to mutual satisfaction in this relationship (Yuva). Yuva writes, “Trust is transactional and without practicing these behaviors, trust is often lost due to misunderstandings.”1

**Gatorade/Graham Alliance.** Quaker Oats Company of Chicago, Illinois had captured over 82% of the global market in the sports beverage industry with its Gatorade brand. In an effort to grow its Gatorade market share, Quaker Oats searched for ways to bring a lower priced product to the market. With the bottle being the biggest expense in producing Gatorade, the purchasing department established a goal of lowering the bottling cost $10MM-15MM per year. Quaker worked to build trust and create a relationship with a second source that would result in mutual benefits and goals. As you can imagine, the original supplier was resistant to Quaker’s attempts to improve its current position with it. At one point it asked Quaker Oats what price it would take to not pursue a dual sourced strategy. Although the existing contract contained clauses that created difficulty, Quaker Oats had learned from mistakes in this contract, and pursued an alliance with a second source.

The trust building process Quaker Oats had employed in searching for a second source, resulted in the alliance between the Quaker Oats Company and Graham Packaging of York, Pennsylvania, Graham is a leading global manufacturer of custom blow molded plastic containers. The Quaker Negotiation Team spent a year putting this alliance in place. In addition to visiting bottling companies, plastic molding organizations, and resin suppliers, the team spent many hours holding trust building sessions with the potential suppliers. The most difficult groups to convince were the internal executive management team and the board members. The proposal for Graham to operate on-site at Quaker Oats required a cultural adjustment according to Mr. Richard Reider, currently Director of QTG Package Purchasing for Pepsico. (Mr. Reider was director for Quaker Oats Purchasing at the time of these negotiations.). Quaker had been in a business relationship with the current supplier for 12 years. Because Gatorade represented 40% of this supplier’s business, Quaker management believed it had enough leverage to obtain the most competitive price. Managements’ trust in the existing single sourced supplier’s ability to produce the least costly product available, lead it to question another supplier’s ability to beat the current price. Senior management at Quaker Oats was uncomfortable with the level of commitment required by both parties, to make Mr. Reider’s on-site proposal work. Once Graham agreed to management’s insistence of a “meet competition” and an “escape” clause in the contract, and based on Mr. Reider’s substantial projected savings and his ability to confirm Graham’s technical competence, the alliance between Quaker Oats and Graham Packaging was able to go forth. This alliance resulted in significant savings from the current supplier as well.

Quaker Oats was not the only benefactor from this alliance. Graham Packaging was able to draw on its new alliance to grow. In 2001, Graham’s purchase of Owen’s Illinois’ bottling division made Graham Packaging a giant in the bottling industry. Also in 2001, Gatorade’s
success was the spark that ignited much of Pepsi's interest in acquiring Quaker Oats. Quaker Oats and the Gatorade product are now part of the Pepsico family.¹

As a result of this alliance, an in-plant bottling facility was constructed at the Gatorade plant in Atlanta, Georgia. Quaker supplied capital for the plant expansion while Graham covered the cost of equipment in the facility. Graham agreed to operate the plant and accept responsibility for meeting quality and efficiency standards. It also agreed to be responsible to sell unused capacity in the off-season. This alliance produced savings of more than $20MM/year by creating a relationship based on trust and sharing of cost information.

REFERENCES


¹ Mr. Richard G. Reider, personal interview, June, 2007.