



Chainlink Workbook 4

## Horizontal partnering

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### Introduction

This module addresses the benefits to be gained from closer working relationships between companies operating at the same stage of the supply chain. While particular emphasis has been given to specialist material suppliers working together to produce integrated construction packages, the principles involved are also applicable to horizontal partnering between other supply chain parties.

#### The benefits

By definition, specialist manufacturers and trade contractors have an unrivalled level of knowledge relating to their own areas of expertise. And, working in partnership, they are often in a position to offer more cost-effective, innovative and efficient solutions to construction projects. In an age where construction customers are increasingly demanding integrated 'best value solutions' rather than just discrete products, the need for suppliers to pool their expertise and resources has never been greater. For example, the modern customer doesn't really want, say, a roof tile nor even a roofing system; he wants a weatherproof and aesthetically acceptable weathershield that is defect-free, fit for purpose and economic from a whole-life perspective. Furthermore, since the majority of defect problems in construction occur at the interface between different components and elements, where competent organisations are working together as a team, optimal solutions in terms of both functionality and cost are more likely to occur than at present.

Through consciously working as part of a strategic alliance, complementary organisations can benefit from real synergism, where the individual parties gain disproportionate rewards from their collective activities. It is particularly important to realise that formalised horizontal partnering relationships can result in predetermined supply chain groupings that are extremely attractive to lead contractors and clients seeking long-term procurement relationships or are assembling partnered multi-project teams.

### Relevance

Construction product manufacturers/material suppliers seeking closer, long-term working relationships with other specialist manufacturers.

The object of this might be to:

- a) Develop integrated, added value, construction solutions, e.g. branded or unique system 'packages'.

b) Gain competitive advantage through exerting collective market leverage. This can be of significant benefit to the smaller organisation with little individual clout.

c) Engage in collaborative ventures such as joint research and development programmes. This has the potential to give substantial cost savings, more technically competent solutions and an accelerated route to market.

Such a horizontal partnership can take several forms including:

1) Peer-to-Peer

A one-to-one coalition of two equal partners.

2) Principal/subordinate

A partnering relationship involving a lead organisation and one or more junior partners. This might, for example, be a lead assembly company partnering with subordinate component suppliers.

3) Cluster groups

Several compatible organisations, perhaps SMEs (see **Module 5**), working together in partnership towards communal goals

## Using this Toolkit module

Each key step in the development of a formal partnering relationship between manufacturers and supplier is identified in the 'Process' column. The 'Culture and Activities' column then provides a summary of the necessary ethos and actions required for their implementation. The adjacent 'Tools and Techniques' column provides recommendations, Toolkit cross-references and links to external supporting information.

Note: Users of this Toolkit Module are encouraged to explore the other sections of this Toolkit to determine their position in the overall construction supply spectrum, to better understand the benefits and workings of the integration concept and to gain an appreciation of the need for collective supply chain focus to ensure a satisfactory end result.

## Workbook

Step	Process	Culture and activities	Tools and techniques
4.1	<b>Determine the need</b>	<p>Two or more organisations working collaboratively can leverage significant advantages in terms of efficiency, profitability and the creation of added-value solutions. However, intimate collaboration is not suitable for all companies. It requires 100% commitment from all/both parties and is generally NOT an easy option.</p> <p>Consider:</p> <ul style="list-style-type: none"> <li>• Is this form of partnering appropriate? <ul style="list-style-type: none"> <li>◦ Is it a good fit with your corporate strategy?</li> <li>◦ Does it fit with your market sector?</li> </ul> </li> <li>• For which of your products/ services/systems is it appropriate?</li> <li>• Does it open up the potential for supplying highly differentiated, added-value systems, improved quality, efficiency enhancements and other bottom-line benefits?</li> </ul> <p>Consider the competitive</p>	<p>Conduct a cost/risk/benefit analysis to determine the feasibility of this approach and examine the market implications – cost, competitor reaction, customer perceptions, commercial opportunity.</p> <ul style="list-style-type: none"> <li>• teamwork vs autonomy</li> <li>• known capital costs vs. potential cost savings</li> <li>• short-term disorder vs long-term productivity gains</li> <li>• market opportunities vs market restrictions</li> <li>• Board/Senior Management 'buy-in' to the ethos of supply chain integration is essential.</li> </ul>

advantages this might afford.

- Are you, your staff, and your partners, REALLY committed to partnering?

## 4.2 Core principles

- Mutual trust amongst all participants.
- Genuine commitment from top management of the partnering organisations.
- Equal commitment from the participant organisations.
- Communicating the vision – the need to sell the idea internally.
- Where possible, systems and assemblies supplied as all-inclusive 'material packages'.
- Principal Company capable of exerting leadership to achieve communal goals.
- Comprehension and dedication to integrated working throughout the network.
- A clearly defined strategy that sets out the aims, objectives and long-term goals.
- Clear, measurable, value-for-money benefits for all parties.
- Agreed, measurable and realistic performance indicators.
- Formal and informal communication between all parties.
- Creation of an environment of continuous learning and improvement.
- Suitable dispute resolution systems.

The Construction Manufacturers Partnering Association (COMPASS), through its Charter scheme, provides a means of establishing a cultural framework for the pursuit of supply chain integration. See the **Compass website** for more information.

### *Principal Companies*

Principal Companies must visibly commit to promoting the partnership both internally and externally.

**Tip:** Chief Executive of Principal Company, or other individual with the authority to commit the organisation and lead the necessary cultural change, to set up and lead a series of in-house seminar/workshops covering the rationale behind the partnering model, the objectives and the cultural/organisational changes necessary. These must be positive, interactive sessions with the aim of securing 100% staff commitment to the network/partnering philosophy.

## 4.3 Planning stage

Determine the goals of the partnership. These might include, for example:

- market penetration through competitive advantage
- improved bid outcomes
- workflow 'smoothing'
- product leadership
- package solutions
- earlier project involvement
- strategic marketing targets
- quality improvements
- technology transfer

See **Partnering Flowchart**

The stakeholders in the relationship must be properly represented and active in the relationship. A 'lop-sided' relationship where one party feels it is carrying the other is doomed to failure and might prove catastrophic.

**Tip:** Although to work properly the partnership must have the support of the board and the entire management team, it is recommended that each party appoint a partnering 'champion'

- 
- cost savings
- new product development
- electronic trading partnerships
- distribution/logistics collaboration
- shared infrastructure, e.g. research resources, marketing resources, etc.

to ensure that partnering principles do not slip out of focus.

**Tip:** Don't expect overnight results. It takes time to establish trusting relationships. Typically, 6–18 months might elapse between the exploration phase and the commencement of a working relationship.

It is essential that the goals of the partnership are clearly established and defined at the outset. This is undoubtedly a task for the directors of the partnering organisations.

However, by the same token, remember that partnerships evolve over time. Partnership boundaries are often fuzzy at first until the relationship(s) settle down and mutual respect and trust are established.

Determine the type of partnership that will be necessary to achieve your goals:

1) Peer-to-Peer

A one-to-one coalition of two equal partners.

2) Principal/subordinate

A partnering relationship involving a lead organisation and one or more junior partners. This might, for example, be a lead assembly company partnering with subordinate component suppliers.

3) Cluster groups

Several compatible organisations, perhaps SMEs, working together. Most cluster groups will be, or become principal/subordinate relationships.

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Identify the products/systems to be included in the partnership.

*Methodology:*

Step 1 - Consider the major components involved.

Step 2 – (a) is a consultant specification of individual components necessary, or, (b) can a clear overall output related performance specification be given?

Step 3 –

If (a), consider opportunities for standardisation, off-site fabrication and/or packaging of specified components.

- If (b), consider horizontal partnering approach.

Step 4 – Assemble network to identify relevant component suppliers

Step 5 – Establish Joint Management Team or Select Principal Company (where a complete package is being supplied, this will normally be the assembly company)

Step 6 - Formulate a Partnering Charter that reflects the spirit and substance of the relationship.

Give consideration to any necessary re-organisation to facilitate and progress partnering principles.

Determine the optimum number of partners? Will this change over time?

Ensure that operational issues such as confidentiality, investment risks, dependency risks, etc, are all addressed.

Put together a form of 'Partnering Charter' between the various parties. Depending on circumstances, this may range from a non-binding 'statement of accord' to a full binding contract but in most cases it is preferable to keep this as an uncomplicated, non-legal, document.

Subsidiary to the Partnering Charter must be a dispute resolution procedure. One of the prime benefits of partnering stems from its non-adversarial nature. However, even in the best-constituted partnering relationships, disagreements and misunderstandings will arise from time to time and it is prudent to have contingencies in place.

Refer to **Examples of Partner Charter** for an example of a simple partnering charter.

**Tip:** Be aware of the legal and contractual implications of a partnering agreement. It would be prudent to take legal advice when creating a Partnering Charter and before entering into any formal partnering relationships.

The basis for a dispute resolution procedure might take the following form:

1. Always attempt to resolve the dispute at the lowest level of authority.
2. If this fails, both parties should escalate the dispute upwards without triggering unnecessary delays or costs.
3. All disputes must be escalated up the authority hierarchy without jumping any levels.
4. Disregard for the problem or failure to reach a decision is not acceptable.
5. Provision for independent and speedy resolution in the event that agreement cannot be reached.

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#### 4.4 Selecting partners

The selection of the right partners is of utmost importance in a concept that revolves around mutual trust and support.

Partner selection programme:

Sell the business case to prospective partners, e.g. strategic advantage, exclusivity, mutual support, long-term relationship, cost savings, etc.

**Tip:** Invite prospects to

- How many partners are necessary to achieve the goals?
- There must be no weak links amongst the partnering members and they must all bring congruent skills.
- The number of partners will vary depending on factors such as the nature of the business and the availability of suitable candidates
- Consider the impact of site-wide specifications for certain components and the adequacy of partner product portfolios.

introductory, no obligation, seminars or one-to-ones to discuss the possibilities and gauge their commitment. Assess candidates using a rigorous quality-based selection system covering both quantitative and qualitative criteria.

**Tip:** Where appropriate, identify the partner best suited to a Principal Company role. In 50:50 relationships this role could alternate annually or biannually. Use this Toolkit to give structure to the partnership and a shared belief foundation.

See **Resources** for generic issues surrounding Partner selection issues.

Make sure you comply with the provisions of the Competition Act 1998 (see the **HMSO website** for more information), and relevant EU Procurement Directives and other legislation.

**4.5 Address relational/ process interface issues**

In most construction procurement scenarios, transactional and process-related improvements offer huge scope for cost/efficiency gains.

See **Module 1: Customer/ supplier procurement integration** for transactional cost reduction examples.

**4.6 Agreeing measurable objectives**

Set short- medium- and long-term targets. Distinguish between global objectives and project-specific objectives, e.g:

- health and safety, e.g. universal C.S.C.S compliance
- profitability
- technical
- environmental, e.g. attainment of ISO: 14000
- commercial
- cultural
- cost
- quality, e.g. attainment of ISO: 9000
- resources
- service levels and response times
- third party partnering certification, e.g. attainment of COMPASS Charter Status

**Tip:** Make sure you set objectives that encourage a high degree of engagement and interaction. Remember – the greatest success will accrue from the mutual attainment of common goals.

**4.7 Determination of**

Benchmarking through KPIs is an

Ensure, through regular

## Key Performance Indicators

essential part of the management process-enabling, continuous improvement to be measured and compared against both the partnership objectives and industry norms.

communications, that everyone involved in the partnering coalition are fully aware of the KPIs and their significance.

**Tip:** Adopt the COMPASS Charter Key Performance Indicators or equivalent as a straightforward means of monitoring and measuring continuous improvement. Note that the COMPASS KPIs meet the market monitoring requirements of ISO 9001: 2000, saving unnecessary duplication of work. For details go to the **COMPASS website**.

### 4.8 Management and communications

Ensure that a democratic and transparent partnership management process is in place to engender trust, commitment, enthusiasm and network 'ownership'.

Establish a mechanism for driving the partnering relationship throughout the partnership parties. The aim is to oversee the integration strategy with your partners, and to guide and monitor implementation.

Cultural transformation through education, emulation training and example.

#### *Risk management*

Establishing a horizontal partnering group is not about risk transferral; it is about risk management and removal. At this stage, the team should set out the basis for sharing risks. The correct management, monitoring and measurement systems will ensure that risk is identified, minimised and shared equitably. In some areas, insurance can be a means of transferring/controlling risk.

#### *Relationship building*

Partnering relationships must be nurtured, stimulated and rewarded.

Principal Company or Joint Management Team to set up a review team to review network progress against objectives and KPIs, agree on new objectives and resolve contentious issues as they arise.

Prepare a joint training programme to meet the commercial, technical and cultural aspects of the programme and in accordance with the agreed KPIs.

See *Control of Risk – A Guide to the Systematic Management of Risk from Construction*, available from **CIRIA**.

See *The Partnering Toolkit* pp 26, 27 available from **BSRIA**.

**Tip:** Ensure, through regular communications such as face-to-face meetings, conferences and newsletters, that everyone involved in the partnering relationship are fully aware of the strategic importance of the relationship and their personal role in making it work.

**Tip:** Hold regular, at least annual, joint conferences to foster team spirit and trust, share knowledge, educate and motivate. Encourage social and team-building events.

### 4.9 Adding value, differentiation and control through collateral guarantees

Assured performance can be offered through insurance-backed supply-and-fix guarantees. Shared liabilities and independent auditing of materials and workmanship ensures quality compliance.

For further information on manufacturer's combined product/workmanship insurance-backed guarantees refer to the **COMPASS website**.

<p><b>4.10</b></p>	<p><b>STEPS FORWARD</b></p> <p><b>Product co-development and innovation</b></p>	<p>A mature partnering alliance will develop the trust, confidence, mutual respect and interdependence to allow collaborative innovation and product development programmes to flourish.</p>	<p>Consider regular collaborative design workshops with the aim of reducing waste, improving quality, simplifying interfaces and producing value-engineered solutions.</p> <p>Start small and concentrate on easy-to-implement and cost-efficient product enhancements rather than long-term R&amp;D programmes.</p> <p>Design for installability, manufacturability, sustainability, rationalisation, standardisation, simplification and safety.</p>
<p><b>4.11</b></p>	<p><b>Collaborative marketing</b></p>	<p>Established horizontal partnerships can collaborate in promoting the participants' collective 'best value' packages and advantages. In this way even a small horizontal cluster group can exert significant promotional leverage.</p>	<p>Consider joint promotional programmes.</p>
<p><b>4.12</b></p>	<p><b>Develop electronic and other streamlined interfaces</b></p>	<p>Explore opportunities for extranet/intranet collaboration.</p>	<p>See <b>Module 1: Customer/supplier procurement integration</b></p>
<p><b>4.13</b></p>	<p><b>Vertical integration</b></p>	<p>Strong horizontal partnerships are in a powerful position to develop commercially attractive vertical partnering relationships with clients, principal contractors, consultants etc.</p>	<p>See <b>Resources</b>.</p>
<p><b>4.14</b></p>	<p><b>Refine, improve and develop</b></p>	<p>The constant monitoring of performance has been identified as one of the most critical factors in achieving partnering success. Partners must continually apply the lessons learned from feedback, reviews, successes and failures. Improve, improve, improve!</p>	<p>Review and continuously audit performance. Don't compromise on quality or commitment. If a partner consistently fails to deliver against its agreed objectives then:</p> <ol style="list-style-type: none"> <li>Reconsider the objectives to determine their validity/attainability. Adjust if necessary.</li> <li>Discuss the requirements with the partner in question with a view to rectification.</li> <li>If all else fails, determine the partnership agreement in accordance with the termination terms therein.</li> </ol> <p>See <b>Module 1: Customer/supplier procurement</b></p>

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