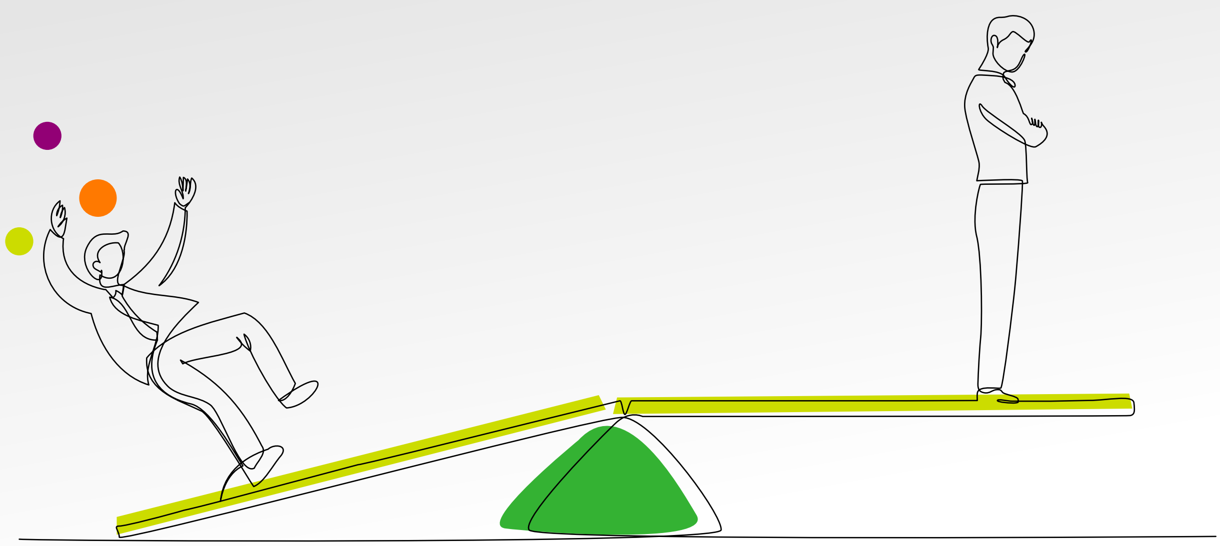
Overcoming the Misalignment Driving Friction Between Supply Chain Partners



Introduction

Today's supply chain faces tremendous pressures. Over the past decade, customer expectations have increased, accelerating demands on suppliers and retailers. Lead times between order and delivery have vanished. Fuel costs are surging, the costs of labor and raw materials are spiraling, the is uncertain and consumer demands are rising of these factors contribute to massive pressures partners.

And these pressures are impacting relationships.

For many trading partners, these impacts are evident in siloed datastreams, with difficult to locate agreements, friction in workflows and misalignment on goals. All these challenges left unattended eventually lead to fractured relationships and broken trust.

In order to work more effectively together, repair that trust and form stronger, longer-lasting relationships, trading partners need to overcome these challenges. The only way for that to work is for trading partners work more closely together—to collaborate with each other. According to McKinsey, "...companies that collaborate effectively across the supply chain have enjoyed dramatic reductions in inventories and costs, together with improvements in speed, service levels, and customer satisfaction."

But are trading partners collaborating effectively? Are companies working together to reduce siloes, friction and misalignment? Enable decided to find out.

We surveyed nearly **250** manufacturers, distributors, buying groups and retailers about their trading agreements, points of friction and collaborative processes. We wanted to learn if trading partners were collaborating effectively with each other or just getting by. We wanted to find out if friction existed between trading partners – and if so, between who, specifically.

Some of what we learned confirmed what we already knew: that supply chain pressures have changed the shape of how trading partners do business. But we uncovered a startling trend: manufacturers and distributors are surprisingly misaligned in some key areas.

Let's take an in-depth look at these discoveries.

Key Takeaways

1

Supply chain pressures have polarized relationships

- Approximately **2 in 5** distributors and buying groups report stronger relationships.
- **Two-thirds** of manufacturers say that their relationships have remained stagnant or grown weaker.
- **Only 25%** of retailers believe their relationships have grown stronger.

2

Most organizations aren't managing their relationships with legally binding agreements or contracts

- **Only 8%** of buying groups and distributors manage all their relationships with legally binding agreements.
- **Nearly half** of all manufacturers manage 50% or fewer of their relationships via contracts.

3

Distributors and manufacturers face significant misalignment

- **Only 9.8%** of distributors report strong alignment between themselves and trading partners.
- Approximately **half** of all distributors report a lack of alignment about 50% of the time, meanwhile **75.58%** of manufacturers report alignment between them and their trading partners.
- **40.4%** of manufacturers say they review goals monthly but only 23% of distributors report the same.

Supply chain pressures have polarized relationships

We talked in the introduction about the pressures facing the supply, but let's revisit those for a moment. While some of the negative impacts of the COVID-19 pandemic may finally be improving, new challenges are piling up: surging fuel costs, spiraling costs of labor and raw materials, economic uncertainty — whether current or impending — coupled with the threat of stagflation.

These pressures aren't just testing the movement and supply of goods. They're also pushing relationships between supply chain partners to breaking point. Suspicions of price gouging are causing deep distrust, while delays and stockouts combined with astronomical prices are causing tensions to spill over into disputes — sometimes rupturing relationships entirely.

It can't go on like this. If unpredictability and volatility are the new normal in the supply chain, relationships between supply chain partners must change, too.

For some, these pressures have brought improvements. Approximately **2 in 5** distributors and buying groups told us that in the face of mounting pressures, they're experiencing stronger relationships than ever before. Especially for distributors who are part of buying groups, this makes sense. Buying groups have tremendous buying power and can negotiate excellent deals on behalf of their members. It makes sense that these groups would see positive improvements.

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Unfortunately, manufacturers and retailers don't have the same, positive outlook. **Only 25% of retailers** believe their relationships have grown stronger in the face of supply chain pressures. Meanwhile, **two-thirds** of manufacturers told us their relationships have either remained stagnant or grown weaker. While buying groups and some distributors have fortified their relationships, manufacturers and retailers have faced increasing pressures. In spite of this, **66.1%** of manufacturers and **50%** retailers expect to see growth this year.

The Industry Scoop

Among the various industries we surveyed, we found the majority had a neutral to positive outlook. Many anticipate positive growth over the next 12 months, and most report that their relationships have either stayed the same or become better in the face of mounting pressures.

The pharmaceutical industry stood out among the respondents as being overwhelmingly positive. Not only do **85.7%** expect positive growth over the next 12 months, but **71.4%** report their relationships have either stayed the same or improved.

So, what's the cause of these polarizing results?

A lot of issues contribute to this polarization, especially what we previously talked about in the introduction to this section. But we think there's a deeper underlying cause: a lack of alignment between trading partners. Let's unpack this a bit more.

Most organizations aren't managing their relationships with legally binding agreements or contracts

Contracts are a critical part of business. They ensure both parties are held legally responsible for the promises they make – that Business A will deliver so many units of product to Business B for a given price. And if Business A fails to do so, they can be held accountable for that failure. Contracts protect our businesses and keep us honest.

But our survey showed us businesses aren't utilizing contracts as well as they could be.

We asked respondents how many of their trading agreements are managed by documented and legally binding agreements, and we were surprised to discover that only **8%** of buying groups and distributors manage all their relationships in this way. About half of all manufacturers manage **50%** or fewer of their relationships via contracts. Retailers are in a slightly better position – they manage about **two-thirds** of their relationships via contracts.

> **Only 8% of buying groups and distributors** manage all their relationships with contracts or legally binding agreements.

Aside from the obvious legal ramifications, you might be asking what the problem with this actually is. Maybe it's enough for your business to stick to verbal agreements. We'll quote an old adage: you don't know what you don't know.

Managing trading agreements without a contract in place is like running blind. You don't know where you're going, where you're heading, what you're going to receive when you reach your destination, or even the reason why you're going there. Without a contract in place, it becomes difficult to hold your trading partner accountable for agreed-upon goals. In the context of rebate agreements, the absence of a contract makes it challenging to enforce payment obligations.

It makes sense, then, that only **22.5%** of respondents overall use their contracts as a way to align on trading objectives. Why? Because they don't have contracts in place.

Without a contract, you don't know what you're working towards or why – and that's the definition of misalignment.

The Industry Scoop

The long story short? More contracts are necessary to facilitate successful trading partnerships. On average, **50%** of respondents across all industries told us they document **50% or fewer** of their relationships with contracts. Some industries seem to play more fast and loose than others. Automotive had the most contracts in place, with **76.9%** managing **50% or more** of their relationships with contracts. Fast-moving consumer goods and pharmaceuticals were a close second, with about **57%** managing **50% or more** of their relationships with contracts.

We also discovered that most industries negotiate contracts that last between **12-24 months** (with the exception of the electrical industry, which negotiates most contracts every 6-12 months). But this means that contracts are only being revisited once every one to two years. We hope we aren't too bold when we suggest that one to two years between contract revisions is likely far too lengthy for most agreements, especially considering how volatile markets currently are.

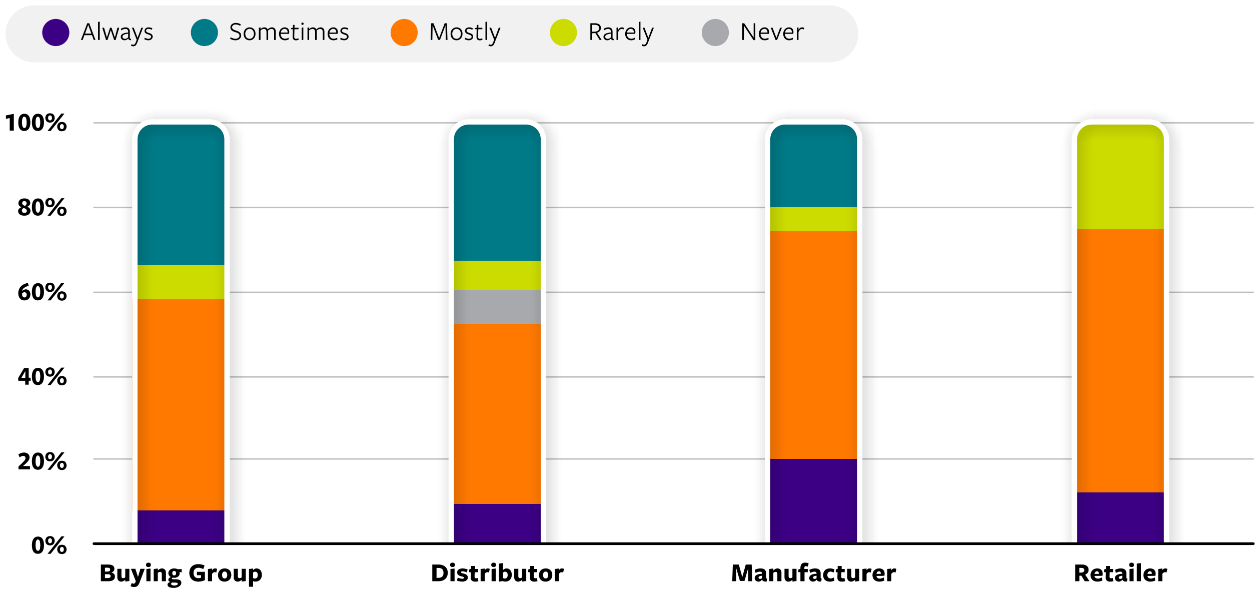
Distributors and manufacturers face significant misalignment

That's a bold statement, we know. Let us start by saying that we aren't here to point any fingers. We're not placing the blame for misalignment at the feet of any particular business or industry. Misalignment happens. It's a fact of doing business. What we want to do in this section of our report is talk to you about where misalignment exists — and then tackle some possible solutions.

Alignment is polarized

About 50% of respondents told us they're "mostly" aligned with their trading partners.

Q: How often do your trading agreements align your objectives with those of your partners?

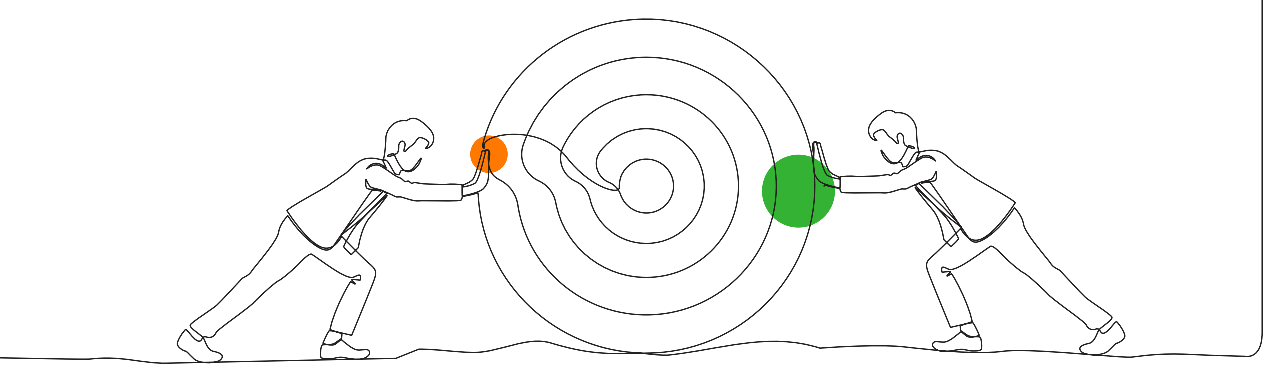


But we're concerned about the 50% of respondents who aren't mostly aligned across the board.

Only 9.8% of distributors report that they're always aligned with their trading partners. A shocking **47.5%** report sometimes, rarely or never aligning with their partners—nearly half. Of all the groups we surveyed, distributors generally feel least aligned with their trading partners. They report the least amount of communication and the most amount of friction (with **67.2%** indicating they experience friction, compared to **52.5%** of manufacturers).

Buying groups report more alignment—this is a strength of buying groups that we've discussed before. Buying groups help distributors pool their resources and buying power, among other things, and do a fantastic job communicating to their members.

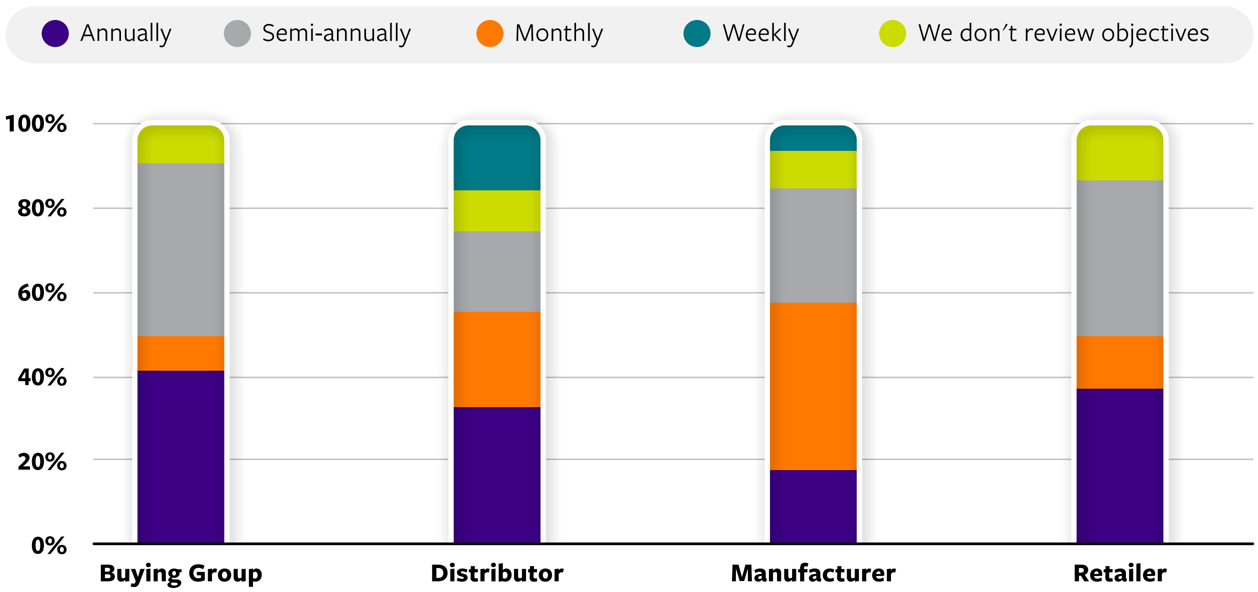
Distributors report the **least alignment with their trading partners.**



A clear breakdown in communications

Most businesses report reviewing objectives on an annual basis, which means they're likely only reviewing their objectives when their contracts are up for renewal. Given the current volatility in our supply chain, we believe this isn't often enough. Buying groups are very active in keeping up with their objectives, with **41.7%** of them reviewing their objectives semi-annually (twice per year).

How often do you review objectives with your trading partners?



What stands out to us the most here, however, is that manufacturers think they're communicating with their customers monthly, but their customers are telling us that's not the case. This isn't the first time we've seen this data. You may have read our 2022 State of Volume Rebates Reports (we wrote a version for **manufacturers** and one for **distributors**).

In those reports, 44% of distributors told us that, in their organization, only purchasing and senior management are familiar with the details of their rebate programs. Meanwhile, 46% of manufacturers said that trading partners need an increased awareness of their programs.

Somewhere, communication is breaking down, especially between manufacturers and distributors — and this needs to be addressed if trading relationships are to improve.

The majority of respondents told us that they use meetings to align objectives (a whopping 54.3%). Only 22.5% rely on their contracts to help them stay aligned. It is our belief that these meetings aren't bringing enough alignment between trading partners. Communications between meetings are faltering — or worse yet, these meetings aren't happening at all, in spite of internal efforts.

Overcoming misalignment

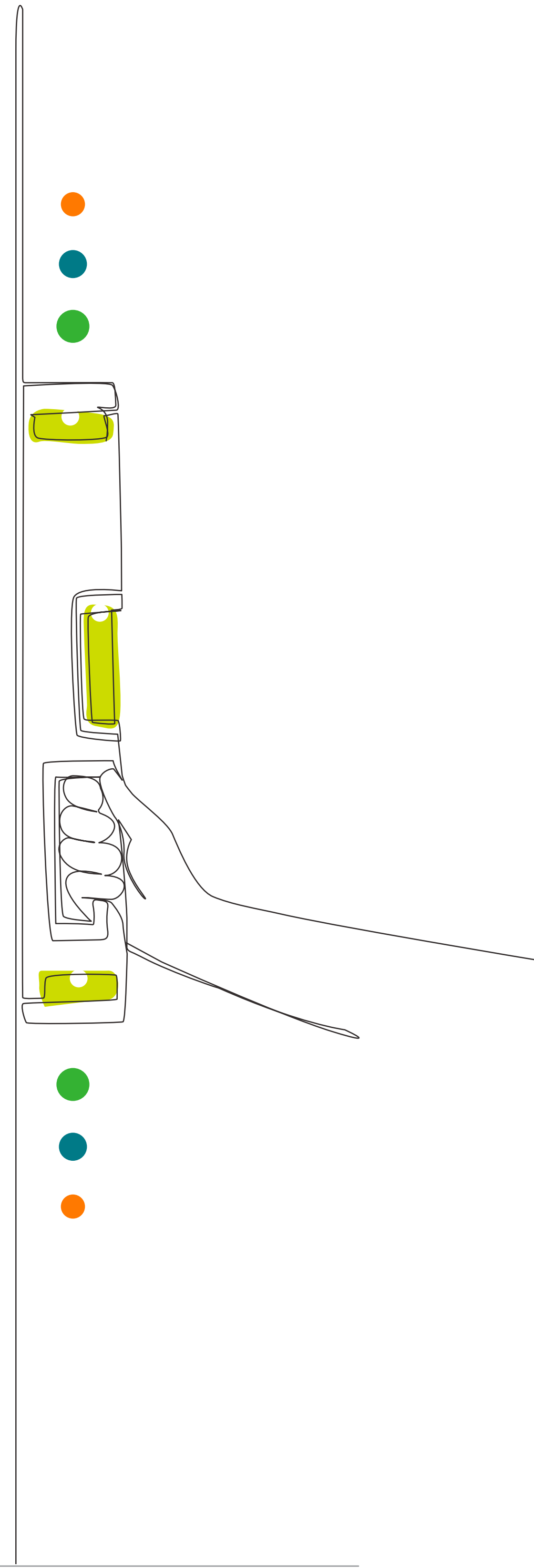
So, where do we go from here? Do we despair at the rampant misalignment and inability to communicate around our goals?

Absolutely not! One of the things our survey clearly showed us is that when alignment between trading partners is good, then **76%** of the time the relationship became stronger even during difficult circumstances! What businesses need to do is explore better, more effective ways to align their goals and objectives, and then they need to work together in lockstep by being true extensions of each other.

We believe businesses can do that by sharing more data with each other. **31.9%** of respondents still rely on spreadsheets to manage their data. We'd like to suggest that it's time to move beyond the humble spreadsheet and onto systems that are designed to support collaborative efforts between businesses. Systems like ERPs and online collaboration portals allow businesses to share information more readily with each other, decreasing the need for meetings while increasing visibility to all stakeholders.

We also believe that businesses need to work more collaboratively together. It's time for manufacturers and distributors specially to have very honest conversations with each other about their contracts — by which we mean getting goals down on paper — and then actually have the meetings they think they're having. Buying groups and retailers are already doing a decent job of communication, but we'd challenge them to do even better. In an environment that's ever-changing, make the decision now to align with your members and trading partners regularly so that everyone is on the same page.

As trading partners continue to do business, close collaboration will mean stronger, tighter relationships. It will mean achieving goals more effectively — whether that means on shorter timeframes or at better price points. Those trading partners who collaborate together will ultimately reap more rewards than those who don't.

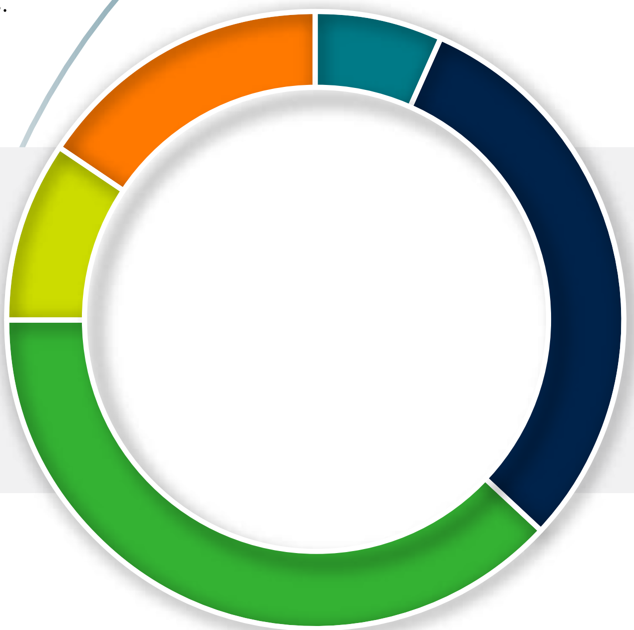


Our Methodology

We surveyed **245** buying groups, distributors, manufacturers, retailers and service providers across numerous industries.

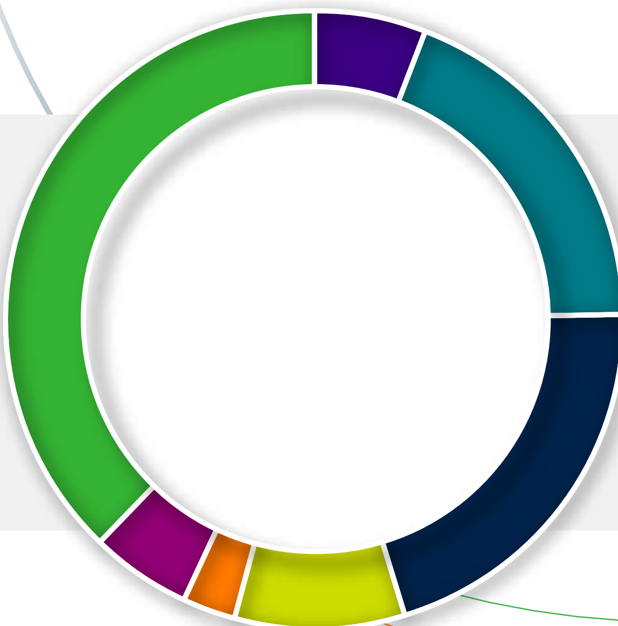
Respondents by type

- Buying groups: **6.9%**
- Distributors: **30.2%**
- Manufacturers: **38.0%**
- Retailers: **9.4%**
- Service providers **15.5%**



Respondents by industry segment

- Automotive: **6.1%**
- Building and Construction: **18.8%**
- Electrical **20.4%**
- Fast-Moving Consumer Goods: **9.0%**
- Pharmaceuticals: **2.9%**
- Plumbing and HVAC: **5.3%**
- Other: **37.6%**



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Schedule Free Demo

About Enable

Enable helps manufacturers, distributors, and retailers take control of their rebate programs and turn them into an engine for growth. Starting with finance and commercial teams, Enable helps you better manage rebate complexity with automated real-time data and insights, accurate forecasting and stronger cross-functional alignment. This lets you — and everyone in your business — know exactly where you are with rebates. Then you can extend Enable externally to suppliers and customers, setting them up with one collaborative place to author, agree upon, execute on, and track the progress of deals. Find out more and try it for free at **enable.com**.