Coopetition with Suppliers

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Vantage’s sourcing and supply chain management practice

Negotiation | Collaboration | Innovation | Transformation

We partner with clients to help them achieve world-class procurement and supply chain performance through strategic advice, organizational transformation, hands-on advisory support, and design and delivery of training and coaching programs.

Transforming procurement organizations and enhancing supply chain performance for competitive advantage.

Coopetition

Coopetition (noun) – collaboration with another company while simultaneously competing with them.

For example…

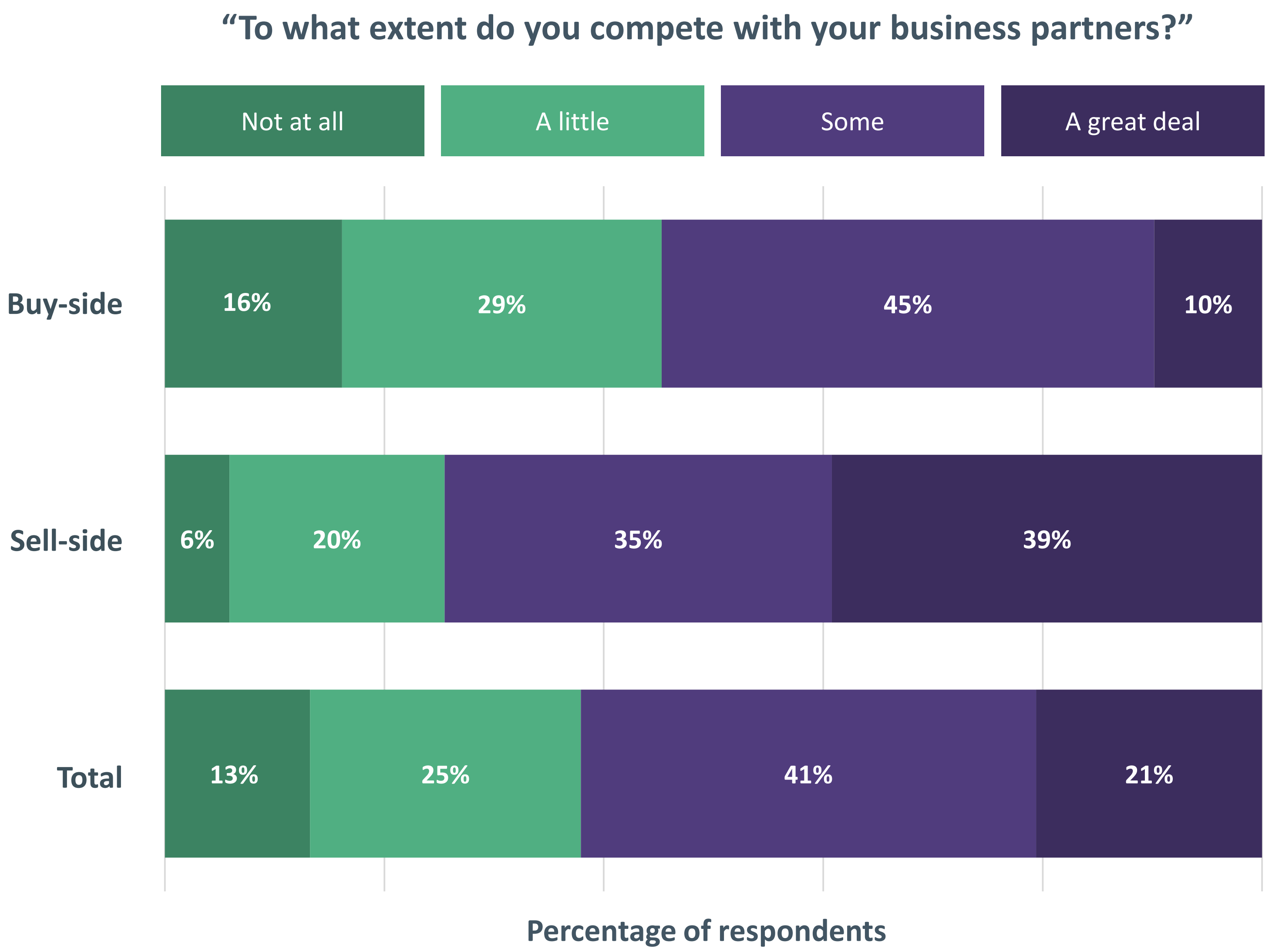
- Netflix relies on Amazon Web Services as a strategic supplier for the back-end infrastructure to support Netflix's streaming operations, even as they compete fiercely with Amazon Prime Video in the video streaming market.
- Renault-Nissan-Mitsubishi has formed a strategic supplier partnership with Google to source the Android OS for power media displays in their new cars. Meanwhile, Google's self-driving car program poses a looming competitive threat – but also perhaps an opportunity for expanded future collaboration.

Topics

1. Parsing levels of interaction between firms
2. When to collaborate with competitors
3. Reaping the benefits of coopetition while managing the risks
4. Closing thoughts

Parsing levels of interaction between firms

Most companies compete with their business partners

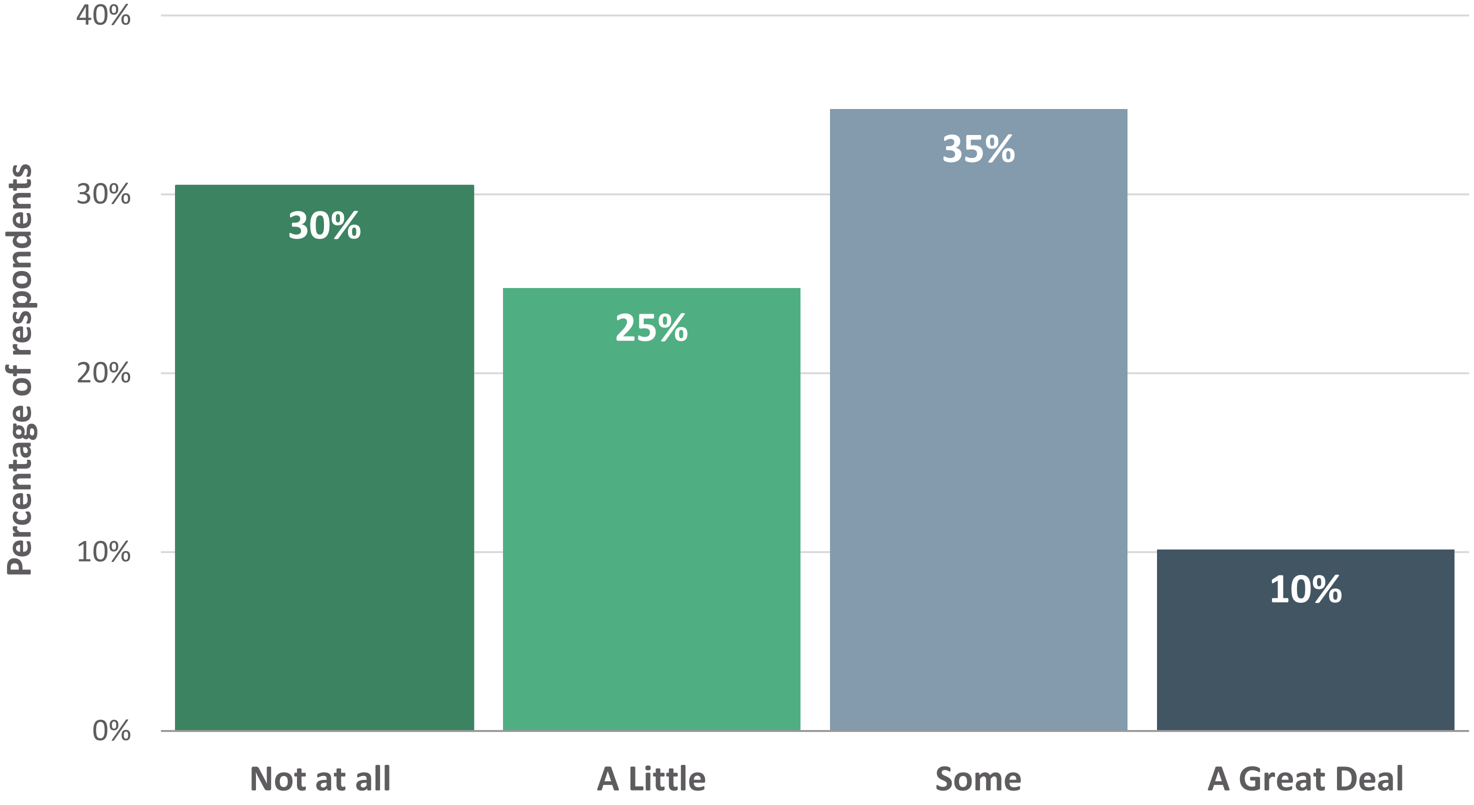


Sell-side professionals are **almost 4X as likely** as buy-side professionals to report competing with their business partners **a great deal**

Source: Vantage Partners 2020 Coopetition Study, with more than 185 responses from over 155 companies. Poll conducted during Vantage-ISM Coopetition Webinar, May 2020; N = 393

Poll results:

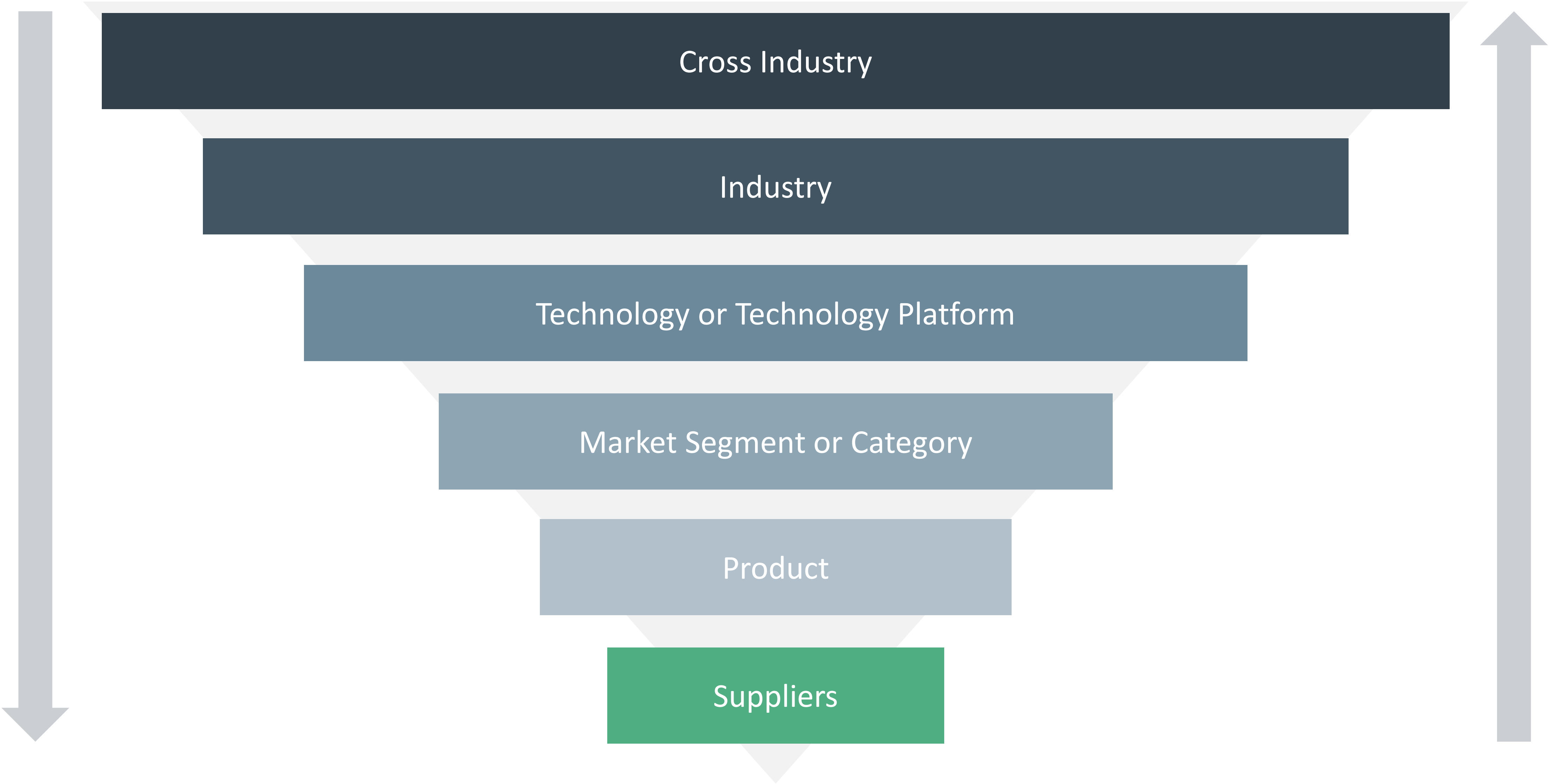
"To what extent are you experiencing – and/or expect – heightened conflict or competitive interactions with your business partners as a result of COVID-19?"



70% of respondents
are experiencing and/or expect **heightened conflict or competitive interactions** as a result of COVID-19

Source: Poll conducted during Vantage-ISM Coopetition Webinar, May 2020; N = 210

Companies compete at many different levels



Levels of competition

Cross Industry	Companies from separate industries compete to address the same customer *underlying need*, often in a very different way.
Industry	Companies compete for strategic influence and total share of an overall industry sector.
Technology or Technology Platform	Companies compete to deliver broad-based solutions that meet, or can be adapted to meet, multiple different needs across a broad range of customers.
Market Segment or Category	Companies compete for total share of a market segment, across multiple products.
Product	Companies compete in the market with products that deliver the same or similar *functionality* to customers.
Suppliers	Companies compete for the best people, pricing and ideas from suppliers.

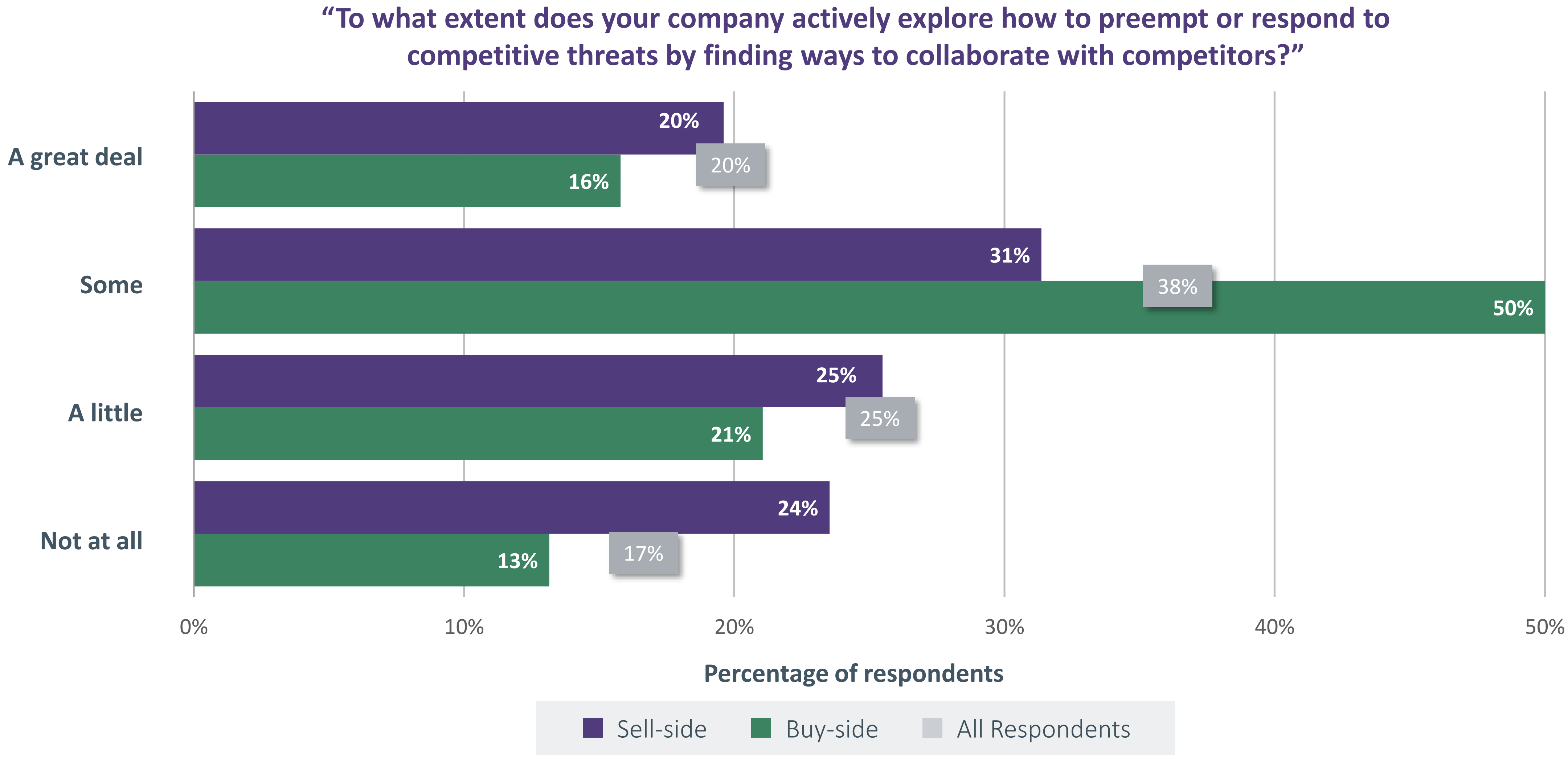
Example: Amazon and Netflix

KEY
- Collaboration
- Competition

LEVELS OF INTERACTION		EXAMPLES
Cross Industry	Collaboration	Amazon Web Services provides critical back-end infrastructure for Netflix.
Industry	Competition	Compete for market share in the Digital Media and Entertainment industry.
Technology or Technology Platform	Collaboration	Amazon enables Netflix to stream content to consumers.
Market Segment or Category	Competition	Compete for market share in certain geographies. For example, both have acquired Hindi content to win subscribers in India.
Product	Competition	Amazon Prime Video competes with Netflix's streaming service.
Suppliers	Competition	Compete for exclusive rights over major TV networks. For example, in 2012, Disney gave Netflix exclusive rights to stream Disney films during the "pay-TV window."

When to collaborate with competitors

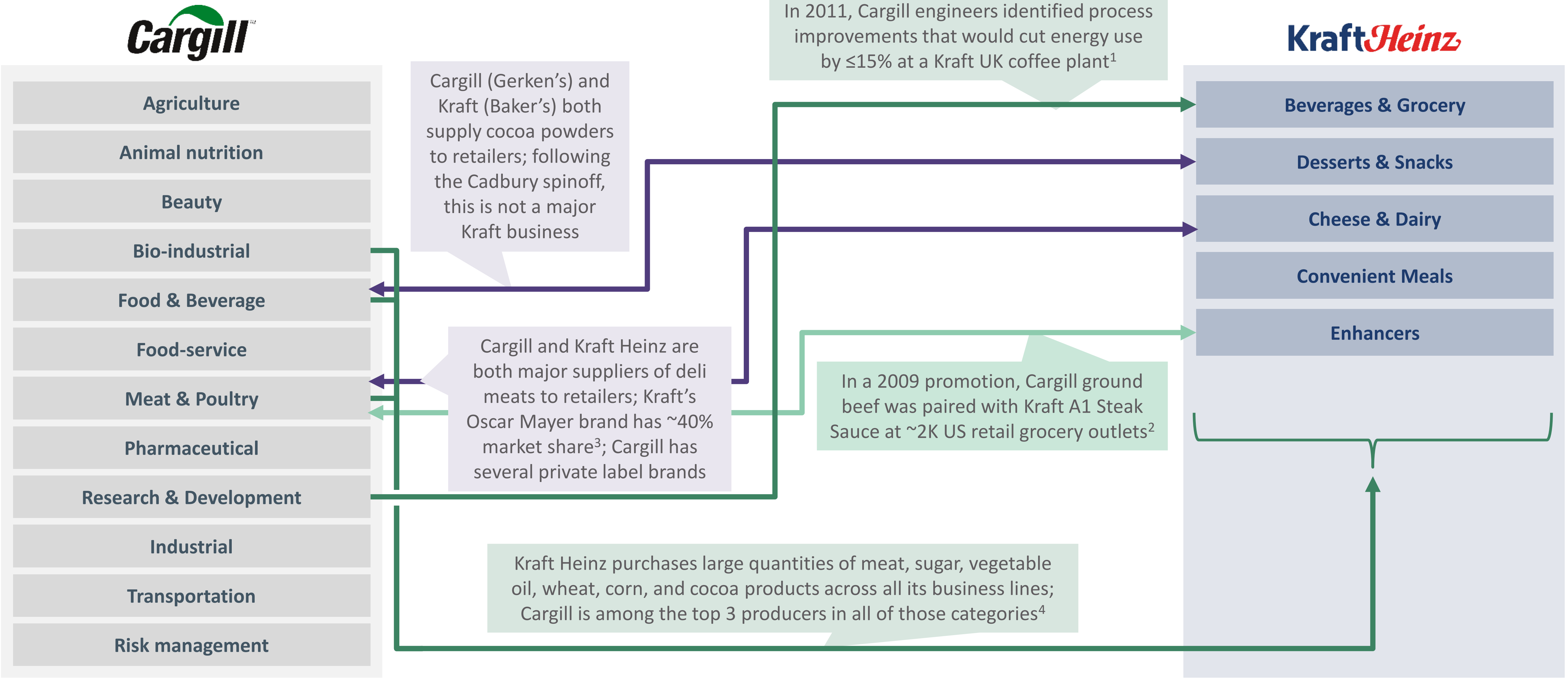
Many companies actively explore collaboration with competitors, to preempt or respond to competitive threats



Source: Vantage Partners 2020 Coopetition Study, with more than 185 responses from over 155 companies.

Cargill and Kraft Heinz: Competition and collaboration across business lines

KEY
- Customer – supplier relationship
- Other collaboration
- Competition



Sources: Company SEC filings, Cargill (1), Progressive Grocer (2), Statista (3), Business Wire, Provisioner Online, IBIS World, PR News Wire (4).

Auto OEM digital competitive strategies

PRIMARY COMPETITIVE STRATEGY

Build alone	**Build** with other OEMs	**Integrate** Apple and/or Alphabet into own platform	**Rely on** Apple or Alphabet platform

	2014	2015	2016	2017	2018	2019	2020
Mitsubishi			Integrates Apple CarPlay + Android Auto			Partnering with Google to power media display	
Nissan				Integrates Apple CarPlay	Integrates Android Auto	Partnering with Google to power media display	
Volvo			Integrates Apple CarPlay	Integrates Android Auto			Integrating Google-developed OS
BMW				Integrates Apple CarPlay			Integrates Android Auto
GM			Integrates Apple CarPlay + Android Auto				
Kia		Integrates Android Auto	Integrates Apple CarPlay				
Mazda				Joins SmartDeviceLink Consortium	Integrates Apple CarPlay + Android Auto		
Ford			Starts SmartDeviceLink Consortium	Integrates Apple CarPlay + Android Auto			
Toyota			Joins SmartDeviceLink Consortium	Begins using open-source software		Integrates Apple CarPlay	Integrates Android Auto
VW			Integrates Apple CarPlay + Android Auto			Begins plan to create a new car OS	

Consumer satisfaction: “infotainment systems / digital dashboards”

PRIMARY COMPETITIVE STRATEGY

Build alone	**Build** with other OEMs	**Integrate** Apple and/or Alphabet into own platform	**Rely on** Apple or Alphabet platform

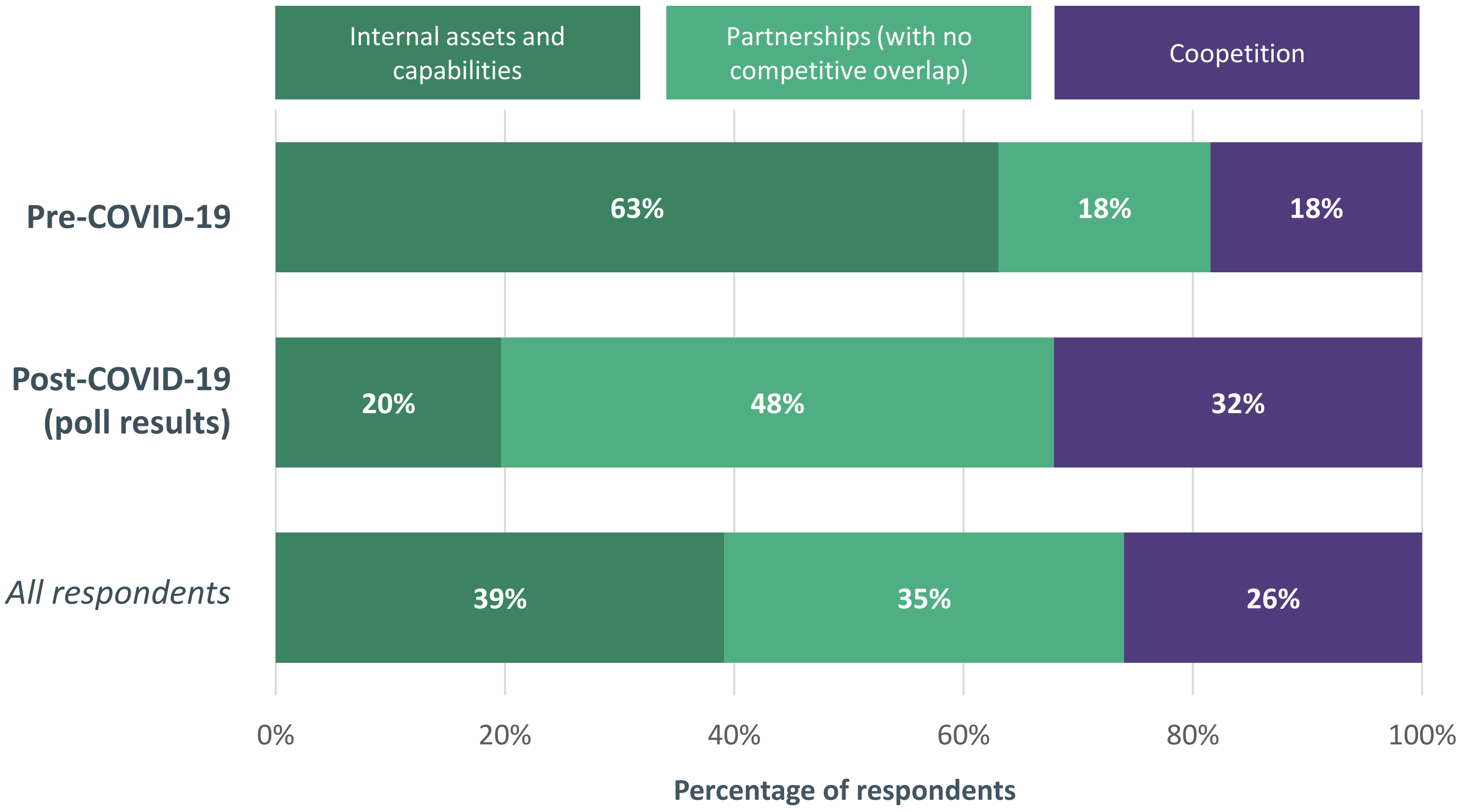
	2015	2018	DIFFERENCE
Ford	49	73	**+49%**
BMW	60	80	**+33%**
Toyota	44	58	**+32%**
Volvo	52	63	**+21%**
Kia	57	67	**+18%**
GM	57	66	**+16%**
Nissan	54	61	**+13%**
Mazda	49	53	**+8%**
Average	53	65	**+23%**

Source: Consumer Reports. Ratings on a 0-100 scale.

Reaping the benefits of coopetition while managing the risks

Poll results: Expectations for drivers of future success

Greatest expected driver of success over next five years*



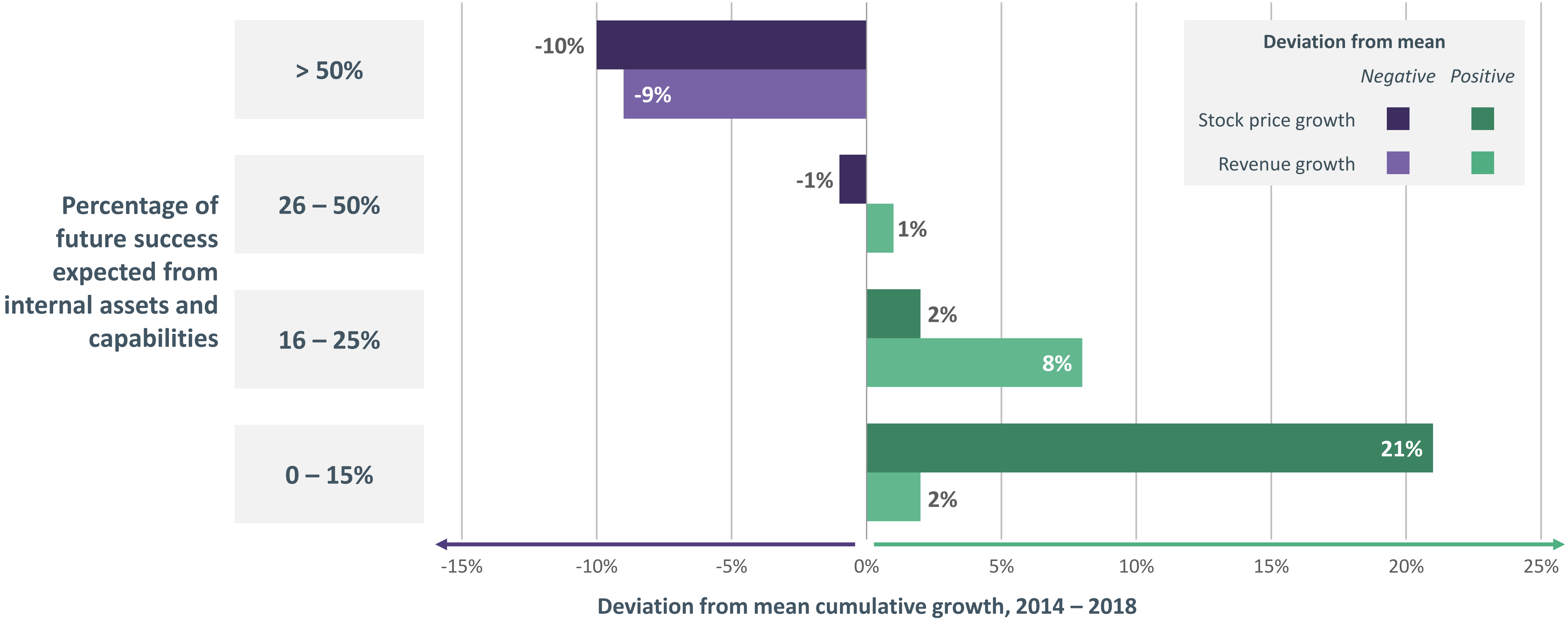
**Pre-COVID-19 respondents allocated percentages (summing to 100%) to each success driver. Post-COVID-19 respondents selected 1 of the 3 success drivers.*

Post-COVID-19 respondents are **122% more likely** to expect the greatest amount of future success from **collaboration with partners**

39% of respondents who compete with partners “a great deal” expect coopetition to drive at least 50% of their success over the next five years

Sources: Vantage Partners 2020 Coopetition Study, with more than 185 responses from over 155 companies. Poll conducted during Vantage-ISM Coopetition Webinar, May 2020; N = 350

Companies that expect to rely heavily on internal assets and capabilities have experienced lower growth



Mean stock price growth: 11%; mean revenue growth: 21%

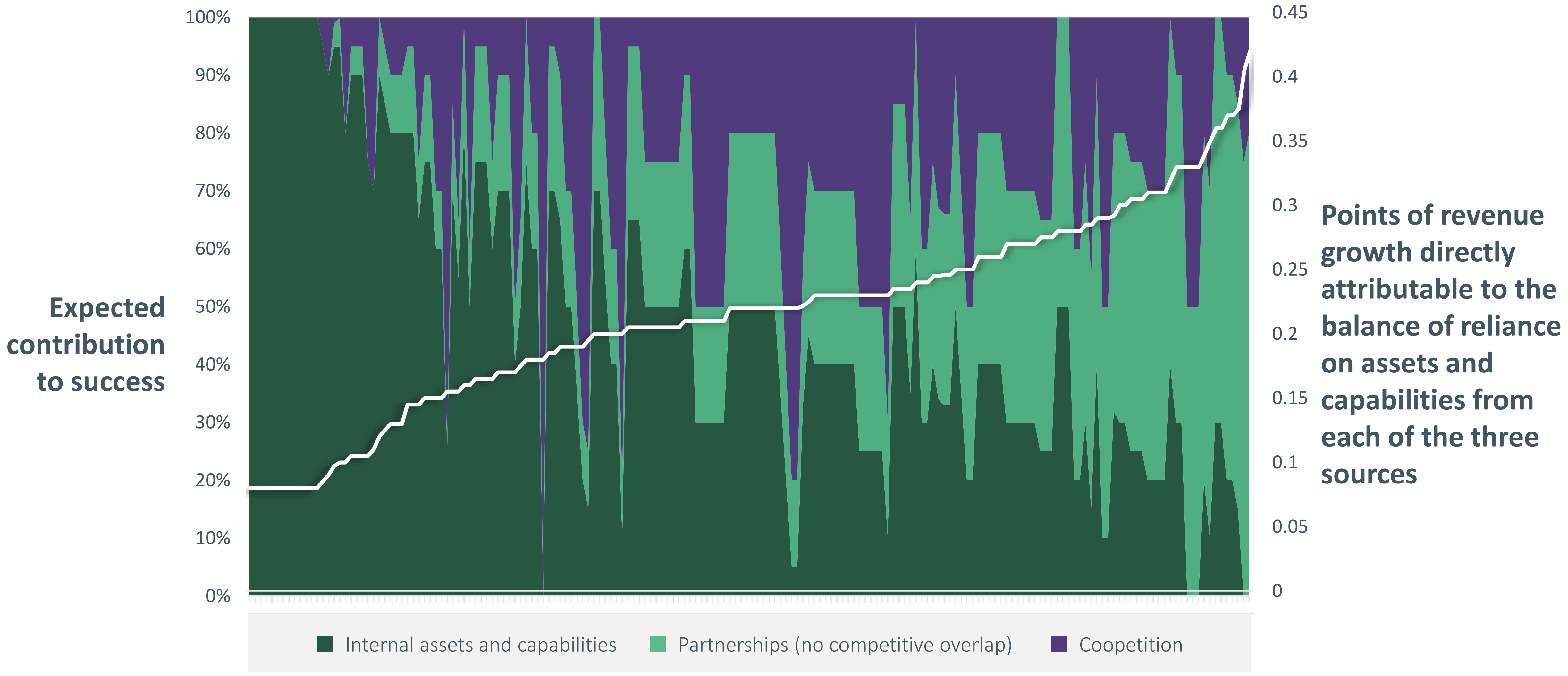
Source: Vantage Partners 2020 Coopetition Study, with more than 185 responses from over 155 companies.

Companies that leverage external assets and capabilities outperform those that rely heavily on what they can do in-house

The line shows the Impact of expectation of success from a company's own assets and capabilities vs. partnerships on historic revenue growth rate (holding all other factors constant). These results were derived using an OLS regression analysis with robust estimators of variance, constant = 0.09, coefficient = 0.002. Significant at the 90% level.

Source: Vantage Partners 2020 Coopetition Study, with more than 185 responses from over 155 companies.

Coopetition contributes less to growth than partnerships with no competitive overlap – but still more than reliance on internal assets



The line shows the Impact of expectation of success from each of the three categories of assets and capabilities on historic revenue growth rate (holding all other factors constant). These results were derived using an OLS regression analysis with robust estimators of variance, constant = 0.08, coefficient for all partnerships = 0.004, coefficient for coopetition = -0.003. Significant at the 90% level.

Source: Vantage Partners 2020 Coopetition Study, with more than 185 responses from over 155 companies.

Apple and Samsung

The challenge Apple faced

- In 2005, Apple initiated a strategic supplier relationship with Samsung: first of NAND flash memory, then of critical and differentiating application processors, for the iPod, iPhone, and iPad.
- In 2009, Samsung launched the Galaxy S – which Apple saw as a cheaper version of its basic design.

How Apple responded

Competition

- Filed dozens of lawsuits for patent infringement; litigated from 2011 – 2018.
- Pursued alternatives to reduce dependence on Samsung (e.g., for OLED screens).

Collaboration

- Continued to rely on Samsung – the 2017 iPhone X held $110 in Samsung components, the most of any supplier.
- Invested in Samsung relationship (e.g., future purchase guarantees for OLED screens).

Results

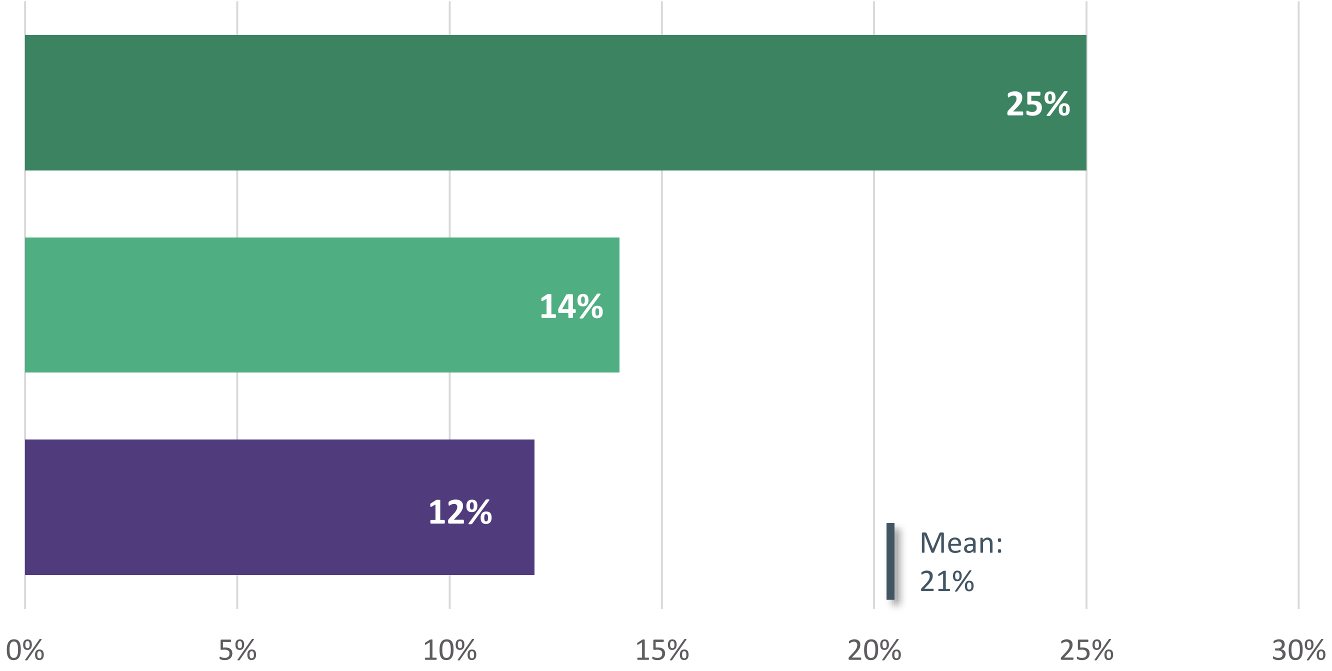
- In 2019, **Apple earned twice as much profit – $8B – as the rest of the smartphone industry** combined.
- In 2018, **sales to Apple comprised an estimated 35% of revenue at Samsung's component division** – 75% more than revenue from sales to its own mobile division.

Sources: The Wall Street Journal, CNBC, Motley Fool, Counterpoint Research

Effectiveness managing coopetition has a direct impact on revenue growth

Percentage of respondents	
28%	**Very effective at managing coopetition**
50%	**Somewhat effective at managing coopetition**
11%	**Not effective at managing coopetition**

Cumulative revenue growth, 2014 – 2018



Respondents reporting their companies are **“very effective” at managing coopetition** saw **more than 2X revenue growth**, compared to those who rate their companies as “not effective”

Source: Vantage Partners 2020 Coopetition Study, with more than 185 responses from over 155 companies.

Companies are not people, but…

Companies do not have intentions.

Companies do not have feelings.

Companies do not make decisions.

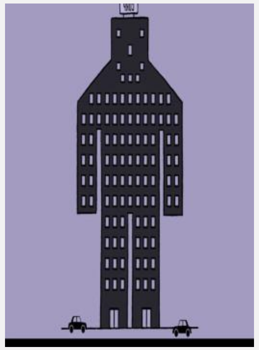
Companies are not people, but our brains think they are!

“They are trying to cheat us!”

“All they care about is making money!”

“They are trying to [redacted] us!”

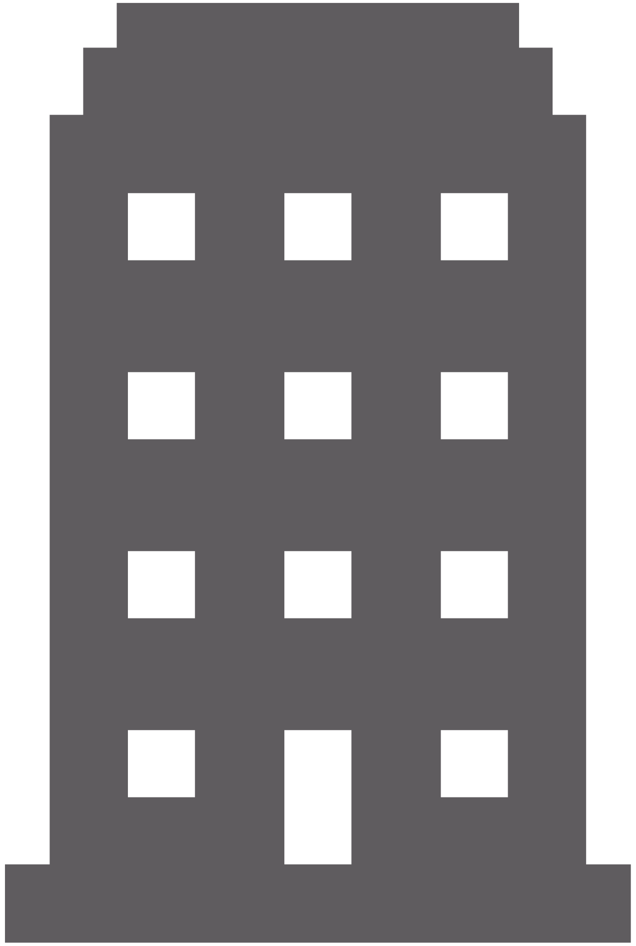
THE WALL STREET JOURNAL.



OUR BRAINS SAY CORPORATIONS ARE PEOPLE TOO

“…people used similar parts of the brain to understand corporate and human behavior.”

What we see



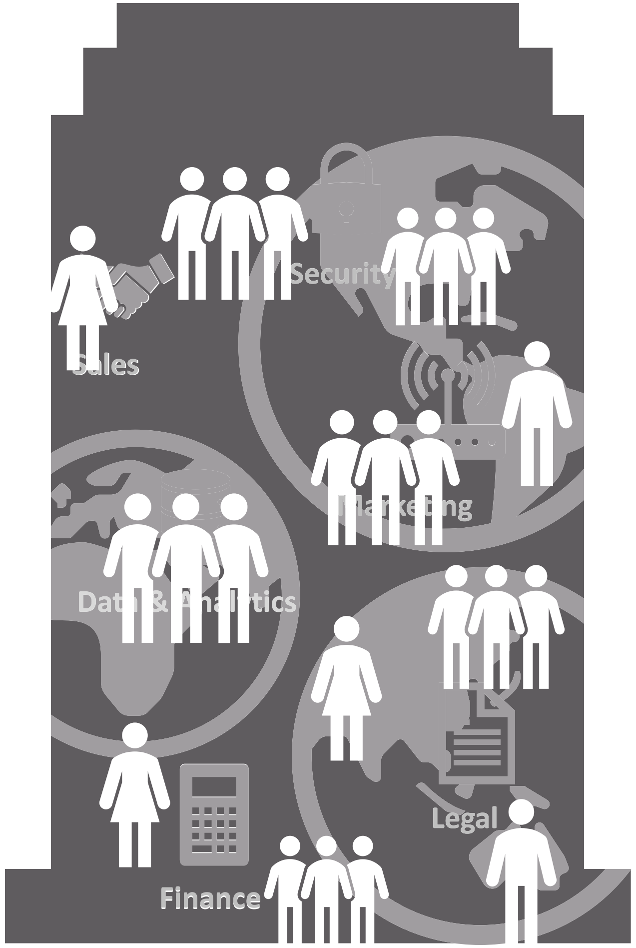
Supplier

What lies beneath the surface

Enterprise Sales

BU Sales

Account Team



Supplier

C-Suite

R&D

Services

Advice

- Analyze the interests of different constituencies at suppliers: Board, C Suite, BU leaders, Account team.
- Influence the actions of suppliers by influencing the perceptions, incentives, and then actions, of key constituencies and individuals.
- Don’t expect or rely on companies (and individuals within companies) to do anything that is not in their-self interest.
- Avoid becoming frustrated or angry when suppliers do things that they believe are in their own interest, regardless of how bad it is for us.
- Always ask “What’s in it for them?”, while also challenging suppliers to live up to their own espoused values.

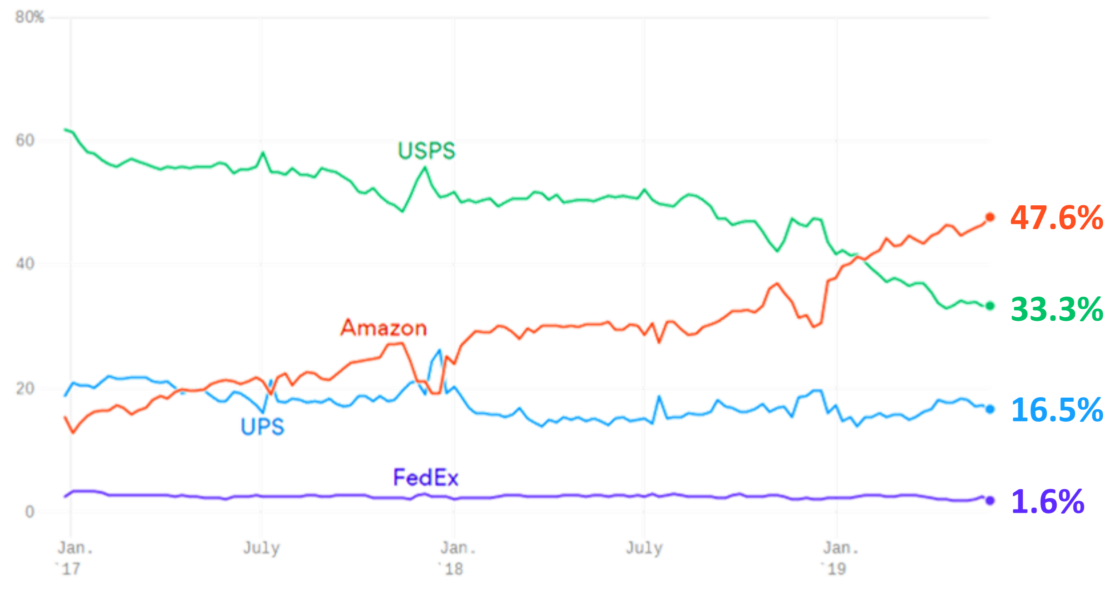
UPS and Amazon part 1: A growing pie, and a ticking clock

2017: UPS revenue from 20% share

~$6.5B

Share of Amazon shipments by carrier

Weekly, December 2016 – May 2019



Source for data: Rakuten Intelligence; for chart: Axios Visuals

2019: UPS revenue from 16.5% share

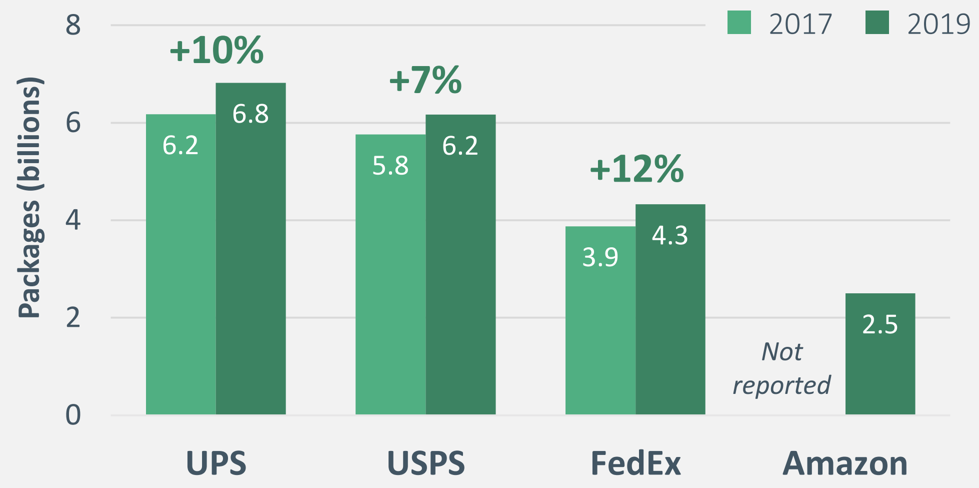
~$10.6B

Amazon online retail revenue grows 30%

- Amazon has been a major UPS customer since the early 2010s.
- In 2017, Amazon launched and quickly scaled its own shipping service – a direct competitor to UPS, FedEx, and USPS.
- Estimated UPS revenue from Amazon nearly doubled from 2017 – 2019.
- However, Amazon's share of its shipments will likely rise further (a widely cited 2019 Morgan Stanley report predicted 66% in 2022), which could squeeze UPS.

UPS and Amazon part 2: Investing for the future

US packages shipped, 2017-19



Operating margin, 2017-19

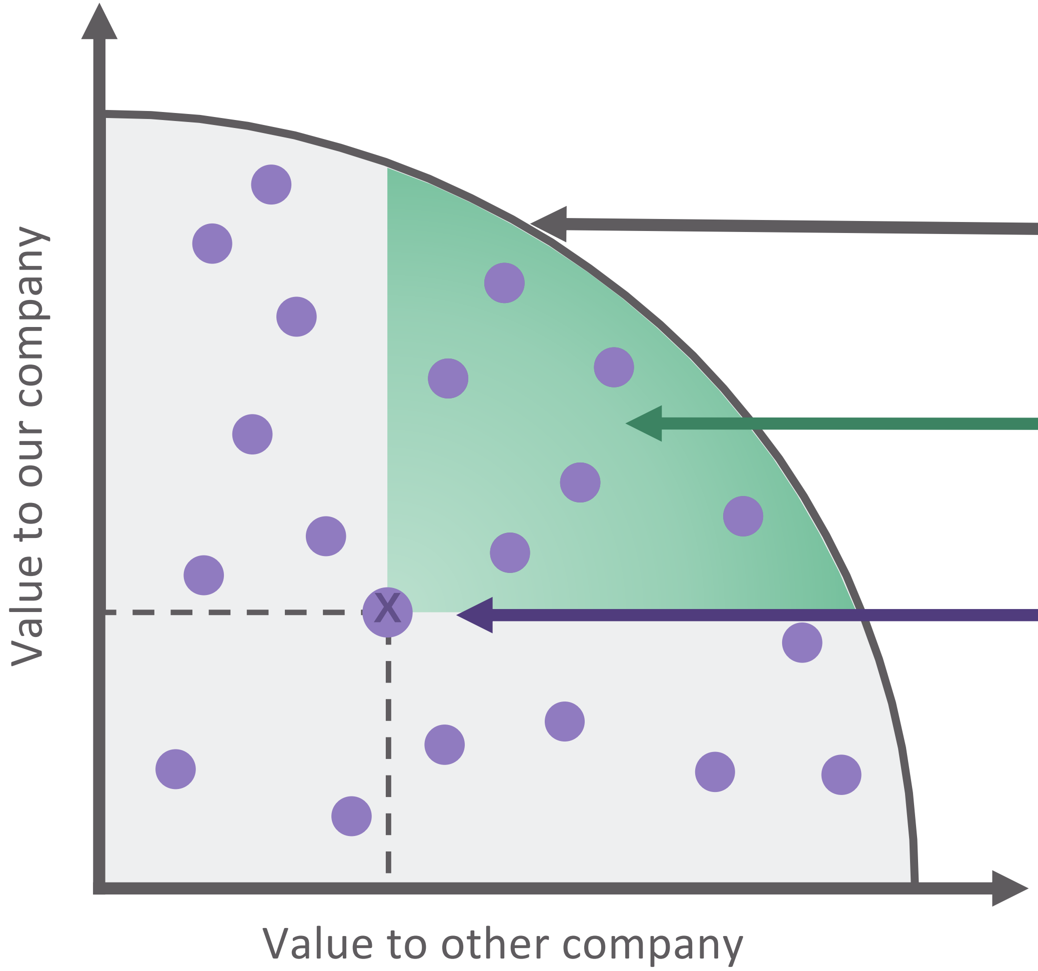
	2017	2019	Change
FedEx	7.6%	6.4%	**-16%**
UPS	11.3%	11%	**-3%**
UPS advantage	**+49%**	**+72%**	**-81%**

- In 2017, UPS launched a 3-year investment plan, to better serve Amazon and position for broader success in e-commerce.
- Capital spending doubled, focused on new aircraft, automation and package-sorting capabilities.
- Operating margins have remained steady and higher than at FedEx – despite disproportionate growth in residential e-commerce deliveries (US retail e-commerce sales grew 33% from 2017 – 2019).

"UPS posted its strongest peak-shipping season since at least 2013 last year, and these trends should continue as new global sorting hubs come online."

– Helane Becker, Cowen analyst

Interactions between companies are not zero-sum



Pareto Frontier:
The range of possible value-maximizing outcomes.

Zone of missed opportunity.

Typical agreements/outcomes.

There are usually opportunities to create new value and mutual benefit, even with competitors, and there is always the risk of miscalculation or irrational behavior driven by emotions that leads to mutual loss.

Closing thoughts

Key take-aways

- Expect competition from key suppliers.
- Work with commercial leaders to analyze competitive risks and potential benefits of collaboration with suppliers, across the extended value chain.
- Actively manage coopetition across the entire supplier lifecycle.
- Treat suppliers as groups of constituencies and individuals, not monolithic entities.

ALIGN AND ADVANCE

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