DIALOGUE

Dawson Dialogue

Collaboration
'Start Sleeping With The Enemy'

Dawson Dialogue assists business executives' awareness of critical logistics and supply chain management issues.

DAWSON CONSULTING

a Dawson Group company

About the Authors

David Anderson, *Strategy Advisor for Dawson Consulting, has twelve years of management consulting experience in strategy and operational improvement. Working in the USA, Asia and Australia, David has led a number of strategy and re-structuring efforts in television, retailing, building products, pharmaceuticals and telecommunications. More recently, David has focused on incubating web-based businesses that create significant industry breakthrough.*

Philip Cryer, a Managing Partner of Dawson Consulting, has led some of the most exciting, commercially focused supply chain collaboration projects in Australia so far. Combining significant strategic and line management experience across industries such as retail, manufacturing, fresh produce and building products, Philip is now modernising entire supply chains for the benefit of all trading partners.

A lot has been written recently about the new opportunities for collaboration between supply chain partners. A brief study reveals that much of what has been published is “new wave” concept or simply repackaging of existing practices like contract manufacturing, strategic procurement or logistics outsourcing. We believe that collaboration represents a more fundamental shift in the evolution of supply chain relationships and that we are still in early days with respect to how collaboration will change supply chain models and what benefits will actually be realized.

Dawson Consulting has recently been involved in ground-breaking work with Coles Supermarkets across a number of product categories and supply chains. This work has begun to surface insights and learnings that detail what collaboration really involves and more importantly how you get started on a proper course with your trading partners. As a result of this work, we would like to share the following perspectives in this Dawson Dialogue. Our view is that:

- **Collaboration represents the next fundamental shift in the evolution of supply chain relationships**
- **Within a wider strategic context the best opportunities currently available are in addressing fundamental supply chain processes**
- **Perceived difficulties can be overcome – it is all in the way you approach collaboration**
- **Collaboration should start by changing the way you work with trading partners and not by focusing on information sharing and IT**
- **Any IT investment should be made incrementally to reflect the trial-and-error nature of collaborative efforts**

To understand our view on collaboration, it is important to start from a strategic perspective and an overview of the evolution of supply chain relationships (Figure 1)

Collaboration, The Next Stage

Since the 1970's, corporate strategy has dictated how supply chain relationships were to be managed. At that time, the framework was largely oriented toward portfolio management within attractive industries. If you happened to hit upon a piece of a growing and profitable industry, the game was to own as much of the supply chain as you could afford and integrate these assets vertically. This allowed the owner greater control over early stage resources, an ability to shift margin up and down the chain and potentially a role in a monopoly or some form of oligopoly. Noted practitioners included ITT Corporation, Fletcher Challenge and CSR.

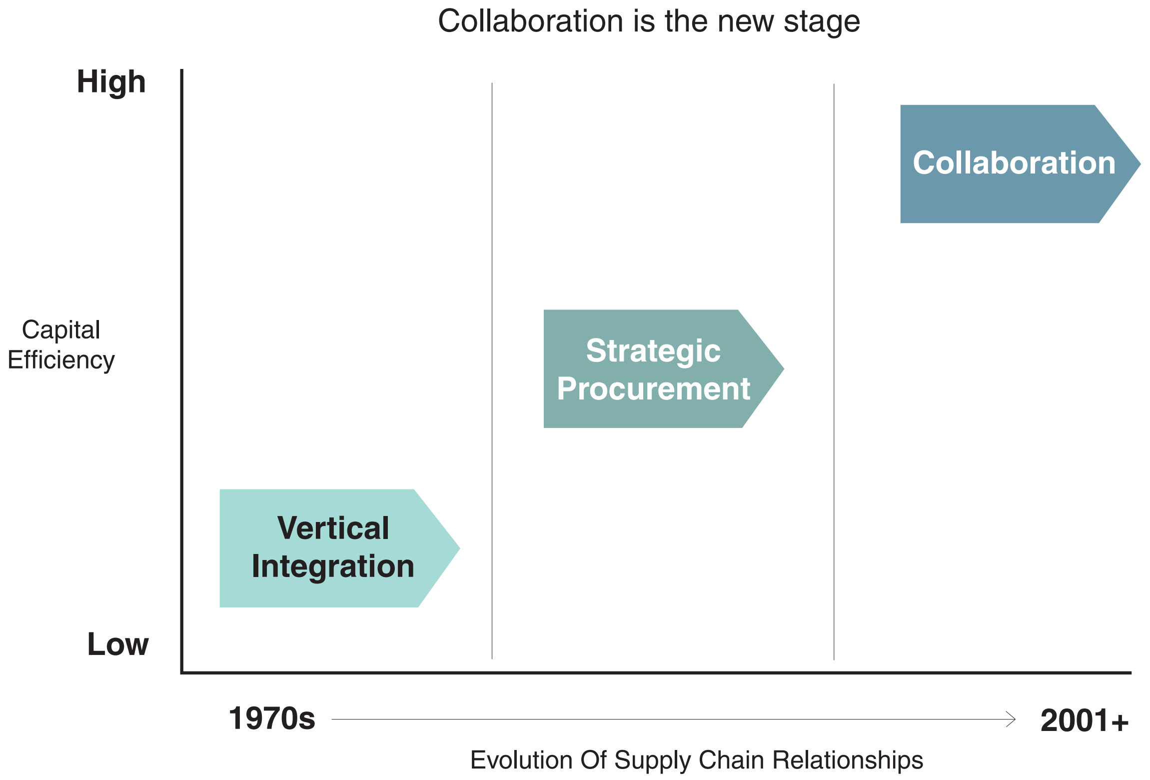
As industries globalized and cheaper, more efficient sources emerged, there was less of an advantage in owning the base assets of production. Proactive corporates sold these entities off and moved toward a multiple supplier or distributor model.

Selling off these assets, then playing multiple trading partners against each other was often advantageous in that you improved both your balance sheet and earnings at the same time. However, by the 1990s, the sheer number of suppliers common to an expense category had exploded creating massive administrative costs and few pricing benefits. As a result, strategic procurement became the prevalent model.

Strategic procurement involved auditing items where you had significant spend, determining where you had leverage, rationalising the number of suppliers in these categories and securing long-term, volume-based contracts. Strategic changes like contract manufacturing and logistics outsourcing became popular alternatives in this environment. These relationships were managed through service level agreements (SLA) and key performance indicator (KPI) monitoring. The results of strategic procurement often created substantial one-time gains in the order of 10-15% across indirect items and 5-10% across direct items, plus provided a platform for incremental improvement.

More recently, the early adaptors of strategic procurement have begun to ask "what's next?" With the advent of the internet, new procurement exchanges emerged and were touted by the media and industry thinkers as the next stage in the

Figure 1. Evolution of Supply Chain Relationships



relationship model. Our viewpoint, which is reflected in our client's experience as well, is that e-procurement offers a new set of channels and tools that will create some efficiency and price benefits on a limited range of items. *However e-procurement does not represent the next fundamental shift*. In fact, despite hand-chosen case studies published in business journals, it is difficult to find reported savings of over 3-5% across the average total procurement spend from e-procurement sources.[1] Strategic procurement showed that relationships are more important to delivering value than new technology-based models (Figure 2).

A new stage in the evolution of supply chain relationships is emerging. The next stage rests on the creation of a new relationship framework involving multiple large and medium sized businesses who share a common supply chain. In simple terms, collaboration is the opportunity to establish a common vision to create a more cost effective, mutually beneficial supply chain. **It deals with the problem of having to continually place pressure on trading partners only to find they are unable to deliver further value.**

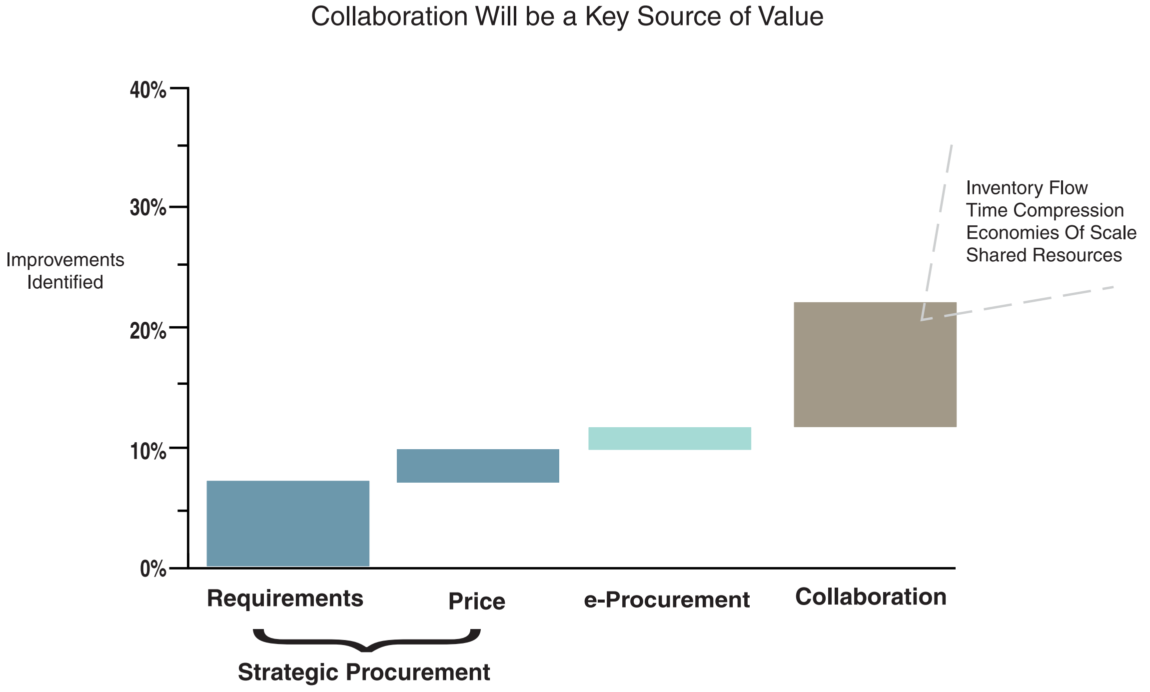
Collaboration is not a directive or dictatorial exercise where a large trading partner continues to squeeze their smaller counterparts. Rather it is an establishment of common strategic goals, equitable sharing of the benefits in achieving these goals and a fair distribution of the costs and workload. It means more than SLAs or partnership arrangements. Collaboration involves each company leveraging processes, information and people across the supply chain in a way that helps the individual entity to operate at higher level of performance than could be achieved in isolation.

Opportunities in the Fundamentals

The work we have undertaken in collaboration has pointed to a number of potential areas for either fundamental change or early wins. We have found that these can occur by leveraging across traditional supply chain relationships as well as non-traditional relationships.[2]

Our work across traditional supply chains has highlighted the level of disconnect that has occurred in conducting even the most fundamental and long-standing processes. We are finding that the majority of supply chains have not been designed holistically, but rather, they have evolved on a piecemeal basis with a legacy of process and technological introductions layering ever-increasing complexity, and cost. By taking a more holistic view of the optimum

Figure 2. *Value of Collaboration*



supply chain re-established under a common vision, the potential to extract savings is large.
So far, we have identified actual "runs on the board" for collaboration as applied across the **fundamental** end-to-end supply chain. Independently, similar approaches have shown to reduce inventory by 15 – 20% as well as reducing operating costs.[3]

We have used collaboration to deliver efficiencies in four areas;

Efficient Ordering
Processes and rules for basic order establishment, order transmission, through to order management by trading partners. The core themes used in collaborating on Efficient Ordering have a general focus on reducing the "bull-whip" effect [4] and "out of stocks". These include: sharing of actual end-customer sales, implementing one point of order entry, proactive planning and forecasting either collectively or giving one company responsibility for forecasting across the entire chain, and managing order quantities to reduce lead times.

Paperless Supply Chain
Processes and rules for capturing of delivery information at the back dock through to reconciliation and settlement of claims and invoices. The core themes used in collaborating on Paperless Supply Chain include advance notification and alerts, full delivery and returns information captured through electronic means, and full electronic processing of settlement and invoices.

Efficient Storing and Picking
Processes and rules for the movement of product or raw materials from the end of the production line through to the point where they are staged or warehoused then dispatched as orders. The core themes used in collaborating on Efficient Storing and Picking are generally positioned to attack the problem with ordering and picking "uneconomic" volumes (i.e., non-bulk). They include implementation of Pick-to-Zero distribution, identifying the governing economic order quantity across the total supply chain, and changing shipment packaging configurations to make them more economic to store and pick.

Efficient Delivery
Processes and rules for the movement of product or raw materials from the suppliers dispatch area through to arrival at the customer's agreed drop point (either direct to store, central warehouse or Pick-to-Zero facility). The core themes used in collaboration in this area revolve around optimising load volumes, joint planning on establishing delivery windows around efficient route planning, and quick turn-around at the drop-point.

One of the most advanced supply chain collaborators is Procter & Gamble Co. (P&G) As a leader in the field of collaboration P&G has worked hard to develop efficient ordering with key customers, (in particular with one of their key customers Wal-Mart), as a way of releasing upstream efficiencies in the supply chain. P&G is notified every few hours by Wal-Mart as to how many SKUs of products have been sold by store. This information goes all the way back to some of its key suppliers – particularly labelling and packaging, and in some cases the makers of ingredients that go into the soaps and detergents. As a result, the entire supply chain has saved millions in cash related to inventory.

Beyond these basics there seems no shortage of opportunities for more advanced forms of collaboration. P&G has recently started on an ambitious program to fully implement a complete standard for Collaborative Planning, Forecasting and Replenishment (CPFR). This will organise all relevant forecasting and demand data that is collected by retailers and made available to suppliers over the Net. P&G will roll-out this system to all retailers and expects to reduce cash investment related to inventory by an additional $4.5 billion or a 50% savings.[5]

For those just beginning collaborative relationships, we believe that the probability of success is greatest when trading partners **start with opportunities at a fundamental level**, parcel changes into small "bite size" chunks then implement in rapid succession. After there is a history of success, they may wish to move to more advanced collaboration such as supply chain personalisation, product design or optimisation "on the fly". It is important to note that we have not found a scarcity of ideas or new practices. Our insight comes from discovering an approach that breaks through the barriers to successful collaboration. These barriers are discussed in the next section.

Common Barriers to Collaboration

Given the substantial opportunities in collaborating within just the supply chain basics, why haven't companies made more progress in practice? Certainly business journals and especially software vendors would indicate that collaboration is more prevalent and not that difficult to achieve. In reality, we have not found this to be the case. Our discussions with trading partners reveal that collaboration is far more difficult to achieve. The reasons given most often include:

1. **We are not linked by a common platform or data model.**

2. **We are not able to produce core information required to handle a change due to confidentiality or lack of systems capability.**

3. **We are culturally not ready to trust each other (i.e. *to sleep with the enemy*).**

4. **We are not prepared to change our processes.**

Certainly the IT spend required to create common platforms across various entities would scare anyone away from collaboration. And no one wants sensitive product information, like the recipe for Coke, floating around the web. Internal process controls put in place over the years to rectify a "major screw-up" aren't there by mistake. But are these the real reasons that collaboration has not taken off in practice?

Digging beyond these four stated issues, we have found that the basic flaw occurs when trying to use the traditional sell / buy relationships that govern trading relationships to create collaborative relationships. This is best depicted in the following figure 3.

The traditional working relationship between buyers and sellers allows two businesses to identify and conduct normal trading. Practically, this is done in three ways:

- Annual "top to top" discussions in which broad strategic initiatives are jointly identified and prioritised.
- Sales-Buyers meet to establish a business development plan incorporating the outputs of the "top to top" meeting. This session is usually held semi-annually and involves the establishment of a more detailed action plan with milestones and KPI's for implementing the agreed to initiatives.

- Regular meetings to discuss promotional and pricing related initiatives, and to review the milestones, established to review the KPI's.

This process, on paper, is a logical way in which senior executives are able to jointly establish a set of guidelines for the day to day tactical operators (buyers and sellers), to manage both the longer and shorter term direction of the category / product/s being purchased. In addition this way of working is easy to manage given the inherent clarity in roles and accountability.

In finding more efficient ways to leverage the holistic supply chain for greater levels of efficiency and mutual benefit, we find this type of approach sub-optimal for a number of reasons.

- The traditional nature of buyer / seller relationships is one of confrontation, usually over prices, promotions and terms, leaving implementation of strategic initiatives as a lower priority, and on occasions as a bargaining tool.
- KPI's for the buy side of the transaction are heavily geared toward delivering product at a certain price, and in the case of retailers to achieve a revenue target and a set margin. This results in the focus being predominantly on delivering tactical not strategic initiatives.
- Key people required to implement initiatives are usually not part of the redesign process. When it is, it is usually left up to the seller to try and push through the agreed to initiatives resulting in uncertainty on the buy side executors over how and why implementation should take place

Our essential finding is that the core inhibitor to collaboration is not related to information, technology, lack of common platforms, or security. These are problems relating to the way trading partners talk with each other and, unfortunately, are used as the "red herring" that stands in the way of progress. The core problem is in the fundamental ways that trading partners **work with each other.** As a result, the breakthrough in successful collaboration comes from separating "information flow" from "process flow" and changing the way trading partners work together first, then dealing with the enabling mechanisms second.

The key to getting collaboration started on a path to success, is through addressing the fundamental ways that trading partners work together. Rather than diving into operational activities and incrementally improving pieces, trading partners need to create a joint supply chain vision (Figure 4) This vision will than serve as a "new constitution" that defines priorities, ensures benefits flow mutually between parties and that everyone has the right incentive to put their hat in the ring.

Shared Vision

A shared vision is developed by first articulating what each trading partner wants to achieve from their supply chain activities. Typically upstream participants, raw material providers, primary and secondary manufacturers, are aiming to establish a customer co-ordinated demand platform. This enables upstream trading partners to:

i.) maximise production runs through the provision of more accurate forecasts
ii.) increase inventory flow while reducing inventory levels
iii.) optimise forward distribution (load-out factors)

Downstream parties such as wholesalers, distributors and retailers are generally aiming to:

i.) improve stock availability (reduced out-of-stocks)
ii.) reduce levels of mark-downs and wastage
iii.) increase inventory flow while reducing inventory levels
iv.) enhance retail execution (packaging, promotion, stock on show)

Most of what is expressed in this section will fall into a category that is common across the supply chain or that is unique to a particular trading partner. The filter is used to separate and synthesize these elements and to help determine what would be valuable for the entire group to achieve. Generally visions start small and quite tactical. Facilitation and synthesis helps to bring them up to a more strategic level that represent core themes that can be applied across the entire supply chain. The chart in Figure 5 indicates how tactical elements can be grouped into core initiatives.

Shared Benefits

This activity involves dividing up the commercial value generated through collaboration. Generally, you should avoid discussing money or claims in any detail at this stage. The discussion of benefits needs to be done in a preliminary fashion with the goal at this stage of determining what is worth implementing first up and what will eventually provide the most value to support the strategic vision. Important also at this stage is developing a set of guidelines/principles for how the benefits will

Figure 3. *Collaborative Change Is Difficult Using the Traditional Relationship Model*

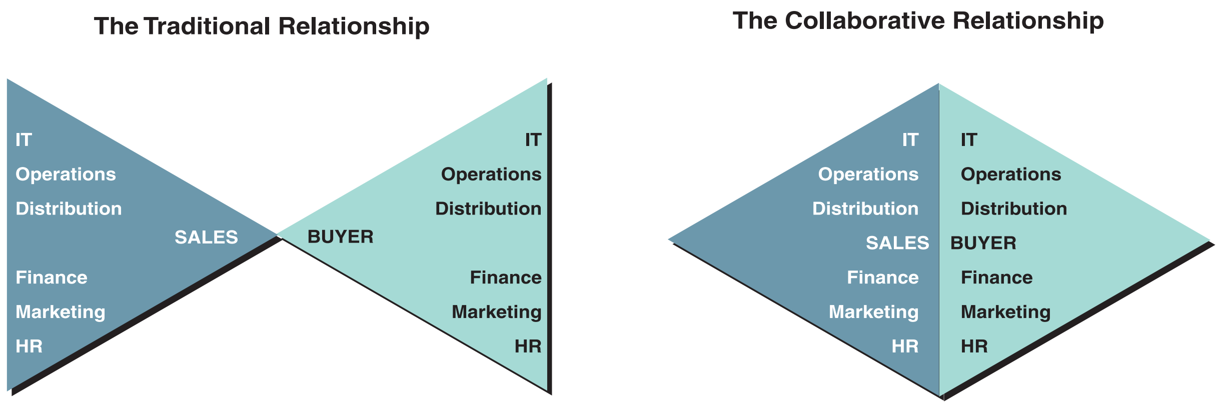
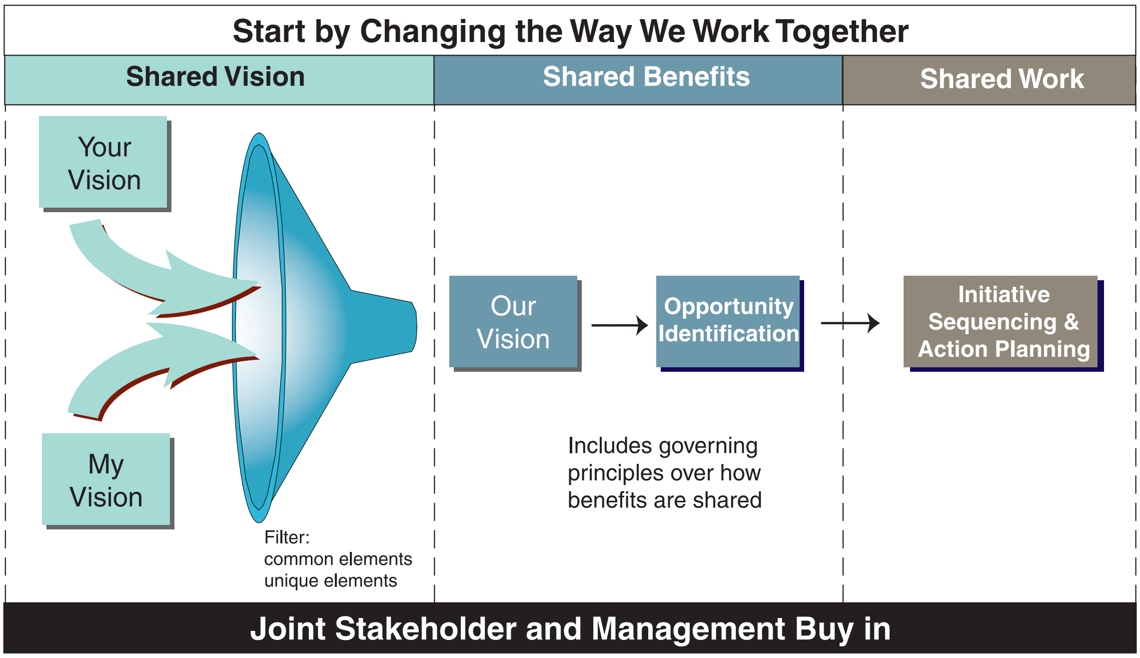


Figure 4. Changing the Way We Work Together



be shared within each initiative once they are implemented. Examples would be:

i.) simply go 50/50 on all areas
ii.) reap what you sow – benefits are pro-rata to investment
iii.) split after upfront investment has been recovered

Methods of transferring value or collecting should also be outlined in any shared benefits agreement.

Shared Work

This activity involves determining as a group the priority, timeframe and resources allocated for each piece of work to be accomplished. The principle used in determining how to share the benefits comes into play to guide work allocation across the trading partners.

Working at a strategic level to define shared vision, benefits and specific initiatives to address, does require the working relationships to be enhanced to include key operational staff that can get the change done. This is depicted in The Collaboration Relationship in Figure 3. In this way, the change management required can be advanced quickly within the supply chain community.

Note that this is not meant to take the form of a new operating model, but rather as a mechanism for creating change across the supply chain. We still think that the basic buyer-seller relationship is core and critical in governing how partners trade.

Now . . . Let's Talk

While much of our recent success in collaboration has been in approaching the way we work before addressing IT, we know that systems play a vital role in the long term sustainability of collaborative efforts. However because collaboration involves multiple enterprises, we do not think that IT issues can be approached in the same way that they are within a single enterprise. Large integrated packages or ERP suites don't really have a role given the likely variety in IT platforms that would exist across multiple parties, let alone the time, staff resources and costs of implementing a standard platform across multiple entities. Given that fundamental collaborative efforts are only in early stages at this point in time, current off the shelf packages would not have full collaborative functionality (no matter what they may market) built into their code. Issues like privacy, security and confidentiality must be pre-eminent in any systems implementations and finally, with all the trial and error experimentation that is likely to occur during the early going, flexibility must be a significant requirement.

We believe that the right approach is to have clarity around what is needed to "start talking", then to take a phased approach toward IT changes. In essence, you need to first walk, then run, then fly with any IT changes supporting collaboration.

One of the first "rabbit holes" that collaboration projects head down is related to information sharing between parties. Projects often never come out of the hole as concerns over privacy and security seem like they can never be reconciled. The problem often occurs when the information requirements are scoped well beyond what is truly required to achieve usage and outcome goals. You don't need to have a full blown conversation to make collaboration work. Often times you don't need to share information related to customer specific pricing or proprietary process information. In fact, once you go through the hard exercise of properly scoping the information needs, you may find that highly confidential information is not even required and that privacy is no longer an issue.

Information scoping questions include determining:

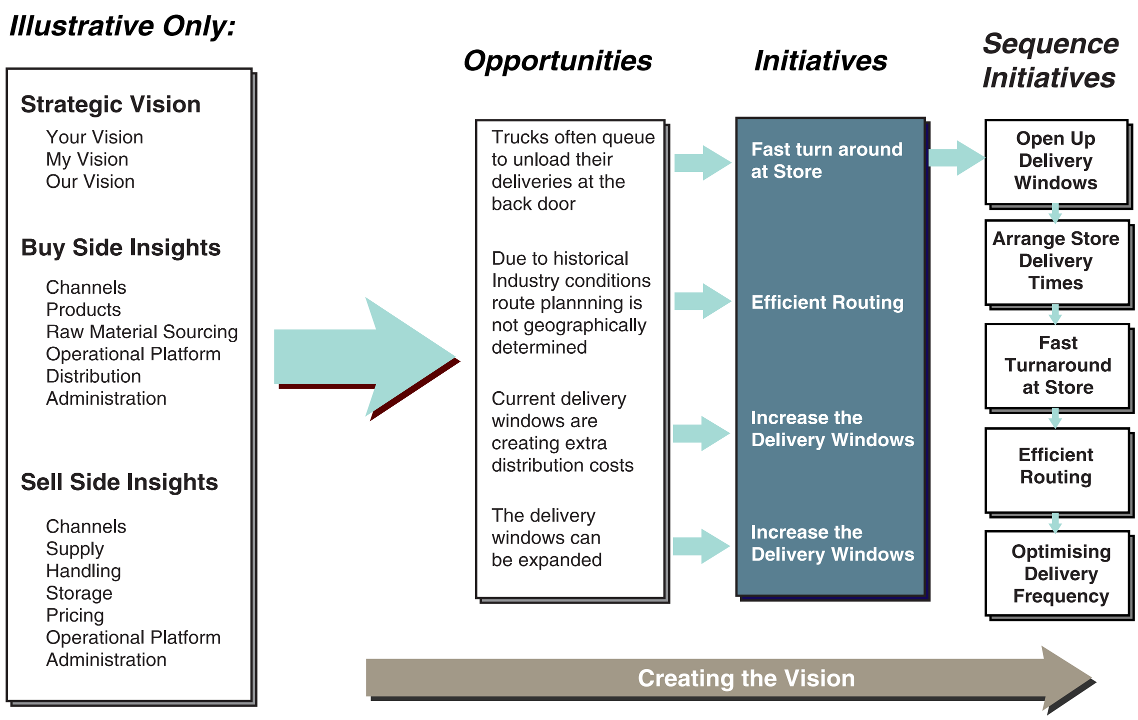
- Which key tasks and decisions most influence a goal?
- What information is needed at each step to make critical decisions?
- Where are there obvious pain points or inefficiencies created by the absence of information?
- What minimum information is required to guarantee we achieve our desired goals?

Preparing to Spend the IT Dollars

A key principle behind every collaborative effort is to share the costs and effort required to achieve the objectives. Clearly not everyone will be at the same level of capability when it comes to existing IT systems. Additionally, there will be differing financial situations within a supply chain community. Here again, common ground is required especially when approaching the IT spend.

Having any conversation around IT is a delicate subject these days and requires a bit of structure to support the right outcome. We use a simple framework to structure how the trading parties might wish to pave the way (Figure 6). The basic idea is to decide how to get started with a technology component by exploring at least three different alternatives: lo-tech, mid-tech and hi-tech. An example would be: a collaboration exercise has identified a need to tie together the distribution of sales data.

Figure 5. Driving the Vision into Initiatives



There are a number of ways that this could be approached.

Under a lo-tech scenario, the trading partners may decide that at this time it is most advantageous to simply phone each other and keep a daily log book of sales to use to guide production and distribution levels. Alternatively, a mid-tech solution may be to link sales systems together through simple messaging software or by uploading the information to a closed extranet residing on the web. And finally, with a little more investment and expense, a fully functional private information exchange can be set up between the parties. The exchange polls for sales data, distributes simultaneously through a more sophisticated transaction manager that messages to each trading partner's ERP system and is equipped to generate alerts on unplanned demand spikes.

Each alternative is explored on quantifiable benefits, enhancement costs, time to implement, how wide the gap is from current resource and systems capabilities, and on-going costs. Decisions can reflect multiple releases or a migration path where the shared IT architecture is changing overtime from a lo-tech to hi-tech environments.

The benefits of this approach include the following:

- Ensures the group looks at simplistic as well as complex approaches
- Structures a somewhat difficult conversation within a company let alone across the enterprises
- Accommodates differences in trading partner IT platforms
- Establishes an entire IT migration path based on benefits to help fund further investments

Once this conversation is complete and the migration path agreed, a project plan results, which outlines time frames and resource requirements and helps the trading partners kick-off implementation.

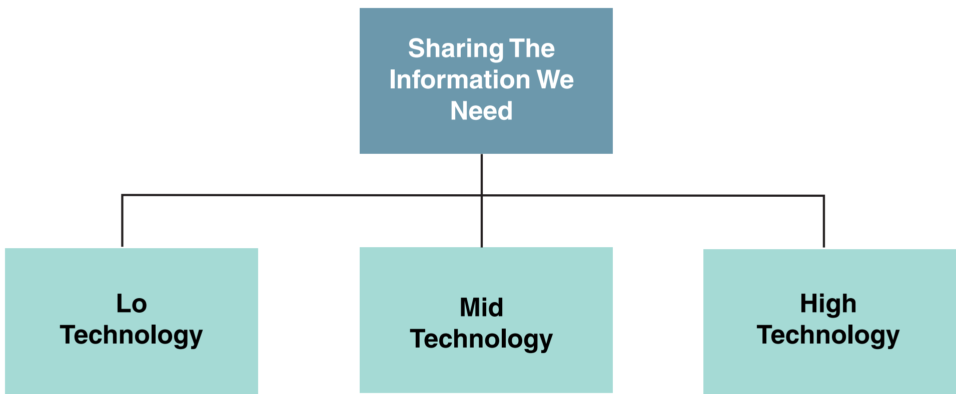
Key Principles to Consider

While new models for collaboration emerge in the coming years, a few key points are important to keep in mind to avoid being caught up in the hype and excitement of collaboration.

This is a commercial exercise

Collaboration is about making money and creating

Figure 6. Determining Technology Options



	Lo Technology	Mid Technology	High Technology
Tools	Phone Fax EDI	Messaging Systems Private Exchanges	Supply Chain Event Management Planning Tools
Example Providers	*General Electric*	*ECN* *WebMethods* *MQ Series* *Biz Talk* *Atlas Commerce*	*ElectronEconomy* *Viewlocity* *I2* *Manugistics* *G-log*

value for customers and shareholders. It is not about getting together to develop a better understanding of your trading partners business, developing strong relationships with the key people in each other's organisation, or sharing mutual complaints about working with each other. It is about developing and achieving hard, measurable objectives.

This is about sharing the pain and the gain

Collaboration is done in a fair and professional environment. Most efforts require an initial leader who takes responsibility for kicking off the initiative and may be even funding the first few steps. Once the course is defined, costs and benefits are allocated on a fair basis as collaboration involves hard work and requires extra effort to gain the prize. Benefits should not flow in one direction and it is expected that larger trading partners understand and operate to this principle.

This is not rocket science

The more sophisticated the model, the less likely anything will be done. Getting several successes under the collective belt through doing the fundamentals is worth much more than pondering over more sophisticated concepts like neural-networked supply chains, on-line supply chain "bots", dynamic discovery of trading partners or any other new wave possibilities. Do what your trading community is capable of, then build into more sophistication into the platform if it adds commercial value.

Next Steps

The new era of supply chain relationships, collaboration, is upon us. It is important to remember that it is still early days for true collaborative models and anyone suggesting that they have five-plus years of experience is probably talking about strategic procurement activities and not collaboration. You need to get on a learning curve with those who have already pioneered, experimented and produced results from collaboration. In our work with Coles Supermarkets and other supply chain communities, we are on the frontier of what is possible through collaboration. We invite you to contact us to learn more about our approach and provide a view on what may be possible in your supply chain from collaboration.

Endnotes

[1] Dawson Consulting Analysis

[2] Non-traditional relationships involve entities that have never traded but have common assets or other supply chain elements that could be leveraged for mutual benefits. This will be covered in a subsequent paper.

[3] Arizona State University – MBA Study, 2000

[4] The phenomenon where orders to the supplier tend to have larger variance than sales to the buyer and distortion propagates upstream in an amplified form.

[5] Purchasing, December 2000

About
Dawson Consulting

Dawson Consulting, part of the Dawson Group of companies, is Australia's largest management consultancy specialising in logistics, supply chain management, and the application of Supply Chain technologies.

With a strong bias towards implementation, Dawson Consulting provides practical, sustainable solutions for modern supply chains. Consistently driving towards measurable outcomes, we generate a rapid return on investment for our clients.

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