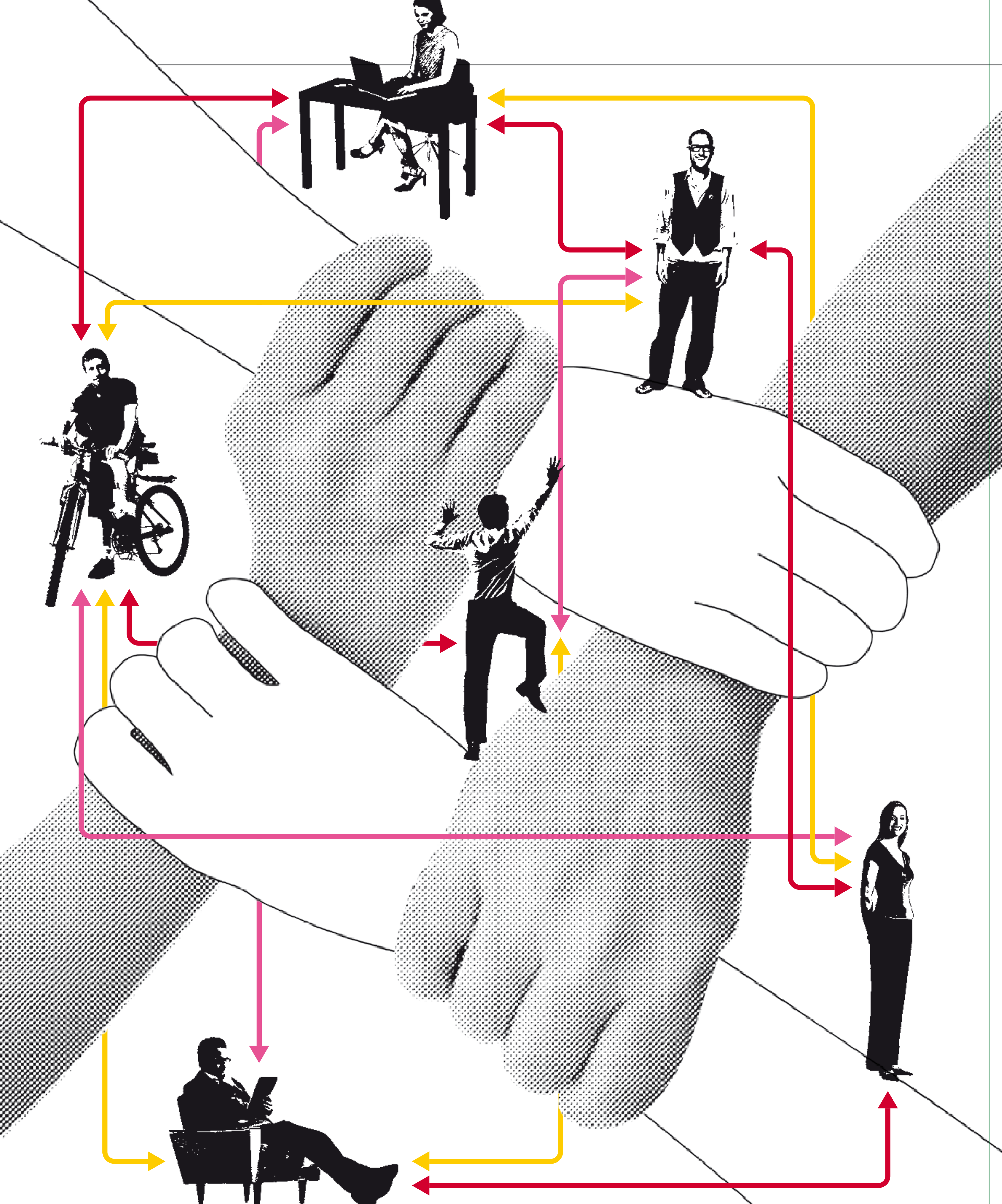

Collaboration: A Foundation for Supply Chain Innovation

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Introduction

At a recent presentation by a leading retailer to a global beverage supplier a simple yet challenging request was made. "We need you to cut your logistics costs by 5.25 percent. Without this we cannot do business with you!" The response, as you can imagine, was not particularly positive; cries of "we don't have that level of margin" and "we will be giving you stuff for free!" were heard at the meeting. After four years of downward price pressures there are no longer the reserves to take such a cut. But after an initial emotional response, it was recognized that new ways of working would have to be used to meet this challenge and this could only be done by working with the customer and perhaps even competitors. It was recognized that by innovation and collaboration perhaps this cut could be achieved.

> *"Collaboration is about working together to bring resources into a required relationship to achieve effective operations in harmony with the strategies and objectives of the parties involved thus resulting in mutual benefits."*

There are many drivers resulting in the need for companies to innovate their supply chains. The sustainability agenda, for example, is forcing innovation. Head of corporate sustainability at Asda Walmart, Julian Walker Palin, is quoted in recent supply chain press as saying, "Our customers have told us they want retailers like us to provide affordable, sustainable products as the norm, not make it a complex choice with a premium attached. By helping our suppliers to become more sustainable and efficient at the same time through the Sustain & Save Exchange we are helping to ensure everyone can afford to make sustainable choices."

Asda Walmart will require the alignment of values across the supply chain. Their customers, it seems, have bought into sustainability, but do other supply chain members embrace this value also? In order for sustainability and efficiency to be created across the supply chain network, partnerships and collaborative relationships will be key. It now seems that many 'burning platforms' are forcing organizations to innovate, and for innovation to be effective, collaboration is often required. Competition is no longer between individual companies but the supply chains they are part of.

In this article we explore the concept of collaboration and why we are going to be increasingly dependent on such approaches in the future.

How Do We Define Collaboration?

When looking at collaborative and partnership relationships we often find the terms are used interchangeably. Collaboration is about working together to bring resources into a required relationship to achieve effective operations in harmony with the strategies and objectives of the parties involved, thus resulting in mutual benefits.

The Global Supply Chain Forum defined a partnership as a tailored business relationship based on mutual trust, openness, shared risk and shared rewards that results in performance greater than would be achieved by two firms

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working together in the absence of partnership. Both these definitions emphasis the multiplication effect of collaboration: By bringing together two parties a win-win relationship is created. We move from one plus one making two, to one plus one making eleven! The language of multiplication.

The definition for supply chain management used by Cranfield School of Management is “the management of upstream and downstream relationships with suppliers, distributors and customers to achieve greater customer value-added at less total cost.”

> *“So, as companies strive to manage their supply chains, collaboration becomes increasingly important.”*

The key emphasis is the management of relationships within the supply chain. The recognition that competition is no longer between individual businesses but between the supply chains they are part of forces organizations to collaborate and partner with the best to gain competitive advantage. Analysis of how supply chain failures, such as late delivery, trade restrictions and quality issues, impact on shareholder value show an average reduction of nearly 25 percent in the share prices of an affected company. However, such supply chain failures are often not the complete responsibility of the companies whose share price has been hit, but are contributed to by failures in suppliers and possibly customers that then cause a significant failure in one organization. This creates our first ‘burning platform’: The pressure of shareholder value and supply chain resilience. So, as companies strive to manage their supply chains, collaboration becomes increasingly important. Recent events, such as the Japanese earthquake and tsunami, the floods in Thailand and volcanic eruptions, have demonstrated how fragile modern supply chains can be, but those organizations that have built and sustained high-quality relationships with supply chain partners have proved to be significantly more resilient to such disruptions.

Horizontal and Vertical Collaboration – the Concept of Co-opetition

A major challenge and opportunity being recognized is collaboration between competitors. The concept of horizontal collaboration, which has been defined as “the pooling of logistics activities and consolidation of supply chains between two manufacturers for mutual benefit”, requires new forms of collaborative relationships. The manufacturers could be competing or non-competing, but often organizations are being forced to review how they can work with competitors. Collaboration between competitors, the concept of ‘Co-opetition’ (from COOPEration compeTITION) where competitors come together in order to compete.

Examples of this approach have been commonplace in many industries. For example, brewers Heineken and Guinness build breweries together in developing markets to produce both competitors’ products. Carmakers Ford and Volkswagen Group co-developed and manufactured the original Ford Galaxy, Seat Alhambra and Volkswagen Sharan people carriers. The advantage to those involved in ‘co-opetition’ is that a category or market can be developed at lower risk to each organization. Now co-opetition can be utilized by logistics providers to lower CO_2 and reduce costs for a group of companies in a sector. The challenge for an organization is having the skills and abilities to manage such relationships effectively.

Creating Effective Collaborative Relationships

To create a win-win relationships there are two key dimensions that need to develop. The first is C3 behavior, a combination of Co-operation, Co-ordination and Collaboration and the second is trust.

C3 behavior is seen as being essential to maintain a successful business partnership especially when it is linked with commitment to the achievement of shared, realistic goals. There is generally an evolution that needs to take place. Co-operation is initially required, often in the form of short-duration low-risk interaction. This then builds to co-ordinating activity requiring longer commitment and greater working together and finally collaboration is achieved, where both parties may jointly plan and define operations and strategy. This is very similar to any personal relationship. Initially you may go on a short, low-risk 'date', for example a trip to the cinema. This then may progress to both parties spending more time together, co-ordinating their activities and finally a marriage may occur, where both parties collaborate!

Trust is a keystone of business-to-business relationships. Trust enables co-operative behavior, promotes improved relationships, reduces harmful conflict and allows effective response in a crisis.

> ***"Technical ability and intelligence (IQ) alone do not guarantee success, and may be only one qualifying factor rather than the winning factor in the race to be collaborative. The emotional intelligence (EQ) of the organization is critical in enabling a collaborative culture."***

Trust requires risk (a perceived probability of loss), uncertainty (over the intentions of the other party), interdependence (where the interests of one party cannot be achieved without reliance on the other) and choice (options are available) as essential conditions. There is little doubt that repeated cycles of exchange, risk-taking and successful fulfilment of expectations strengthen the willingness of parties to rely upon each other and, as a result, expand the relationship, in effect producing a virtuous circle that can be developed and promoted. The alternative, lack of trust, may precipitate a downward spiral of conflict leading to diminished operations or failure.

The New Skills for Collaboration – Moving from IQ to EQ

It has become apparent that managers need new skill sets to develop C3 behavior and trust and thus develop collaborative relationships. All organizations need to have an emphasis on so called 'soft skills'. Technical ability and intelligence (IQ) alone do not guarantee success, and may be only one qualifying factor rather than the winning factor in the race to be collaborative. The emotional intelligence (EQ) of the organization is critical in enabling a collaborative culture.

When building a collaborative relationship, social skills, empathy and motivation are of high value. Daniel Goleman in his book *Working with Emotional Intelligence* discusses this factor in detail and Cranfield School of Managements research highlights the requirements for these high-level skills.

A survey by the Society of Human Resource Management further emphasizes the need for emotional intelligence in gaining competitive advantage. The survey analyzed a series of top companies, selected for profitability, cycle times, volumes and other key performance measures. They found that the outstanding companies had the following competencies in managing their 'human assets': organizational belief and commitment to basic strategy; open communication and trust building with all internal and external stakeholders; an interest in building relationships inside and outside the organization where they offered competitive advantage; collaboration, support and the sharing of resources; an environment where innovation, risk taking and learning together is promoted and a passion for competition and continual improvement.

Effective Collaboration Within Your Organization

Internal collaboration, within an individual organization, is also becoming critically important. Analysis of both internal and external relationships by Cranfield School of Management, using a technique for assessing the strength of collaborative relationships, has shown that it is not uncommon for internal relationships within an organization to be far worse than the external relationships they have with customers or suppliers. The internal relationships may be treated with contempt, with functions trying to gain advantage over each other, like a failing marriage where both parties are continually bickering but in the presence of strangers they appear like the perfect couple!

Those organizations which collaborated well internally had greater performance in terms of meeting customer needs and accommodating special customer requests, and new product introduction was significantly better. This resulted in an increased customer perception of the organizations which led to increased sales and margin.

The Building Blocks of Collaboration

For collaborative relationships to be successful a number of key foundations need to be in place. Both organizations need a common focus (commitment to a basic strategy). This may, in the retail supply chain, be focusing on the customer and, because data sharing then becomes critical, IT systems need to be in place to enable this. An agreed joint process is required; this is often a problem as it is not uncommon for organizations to have little understanding of their own internal processes so agreeing on a joint one can be difficult. Integration of internal applications is important to ensure good communication and data flow. Flexibility and responsiveness are also critical for both organizations to exhibit, creating agility within the relationship.

The Building Blocks of Measurement

One of the biggest requirements is agreed joint performance measures; both parties should be measuring the success of the relationship in a common way using the same measures. Hard measures will need to be used but also soft measures for measuring the success of the relationship in terms of levels of trust and personal relationships.

One particular question we do need to ask is if collaboration is so important to the success of a business in our modern global economy, why do so few organizations measure the 'soft' relationship issues and continue to focus on hard performance measures which only reveal the symptoms of failure and not the causes? Organizations need to ask questions like: How many business relationships do we have? Why are they important? Which ones are doing well and why? Which ones are NOT doing well and why? How do we identify hard targets for continuous relationship improvement? Techniques like the 'Supply Chain Collaboration Index' available from SCCI Ltd enable organizations to gain answers to such questions and work together on relationship improvement. This approach has been used by Masterfoods, EDF Energy, AMEC, and the UK Ministry of Defence amongst others to measure and improve the effectiveness of key collaborative relationships. The measurement and management of collaboration is receiving increased notice.

B2B customers may require suppliers to demonstrate that they have effective processes and measures in place to manage relationships. In the UK for example, a new collaborative standard, BS11000 has been launched by the British Standards Institute. This requires organizations to go through an eight-stage process that includes assessment and measurement.

Reduce, Re-route, Re-Time, Re-mode

The 'burning platform' of the London 2012 Olympics has also forced organizations to innovate and collaborate. The impact of the Olympics on supply chains in London was significant. The Olympics was Britain's largest peacetime logistical exercise, equivalent to running 26 simultaneous sporting world championships at the same time. All businesses with operations in and around London needed to plan to ensure business continued as usual. When considering the movement of goods, deliveries and collections the motto: "Reduce, Re-route, Re-Time and Re-Mode" was developed.

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Reduce – Where possible consolidate and join multiple orders into a single delivery to reduce journeys. Collaborate and coordinate with neighboring business to share deliveries. By doing this it is anticipated that a reduction in individual organizations costs and the amount of CO_2 produced may result in cost savings.

Re-Route – By identifying the traffic hot spots using the feely available planning tool provided by Transport for London, companies can identify if it is appropriate to re-route deliveries, perhaps using different depots to supply from or perhaps different suppliers. This will save time and CO_2.

Re-Time – Arrange out of hours deliveries when roads are quieter, plan to receive deliveries outside the busiest times.

Re-Mode – Revising the mode of transport is encouraged. Organizations are being asked to look at using different transport and delivery modes – cycling or walking couriers might be used for small deliveries. Use 'driver's mates' to minimize drop off parking by enabling them to jump out and deliver. Use secure drop boxes for smaller items. This potentially can save further time, costs and CO_2.

These actions may provide a surprising legacy from the games, because it is forcing all in logistics and transport to innovate. The 'burning platform' generated by this event may have lasting impact by reducing costs and increasing sustainability of transport operations for years to come. Foundational to this is developing new ways of working together

Conclusion

When striving to create win-win relationships it could be argued that the first question all organizations need to ask before creating a collaborative relationship is: "How will the company or internal function you want to collaborate with benefit from collaborating with YOU?" At the end of the day if there is nothing in it for the other party there is no motivation for collaboration and therefore the 'multiplication effect' will not occur. 'Burning platforms' are often useful to bring the benefits into sharp focus for both parties.

SUCCESS AND FAILURE FACTORS