Collaborative Value Chains: The Next Competitive Advantage
ISM Presentation
Agenda

- The Ideas behind Supply-Chain Collaboration?
- The levers for Supply-Chain Collaboration
- The Methodology for Creating Supply-Chain Collaboration
- The Organizational Transformation required to make Supply-Chain Collaboration work?
Building a collaborative supply chain may require a paradigm shift from past business practices.

**Buyer Centric Supply Chain**
- Many direct suppliers with narrow value offerings
- Value is primarily added by Buyer
- Small supplier development efforts with many direct suppliers
- Cross supplier collaboration or strategies are limited or non-existent

**Collaborative Supply Chain**
- Few direct suppliers with broad value offerings
- Value is now added by both Buyer and suppliers
- Large supplier development efforts with few direct suppliers
- Cross supplier collaboration or strategies are used to create the optimal supply chain structure
The ideas behind Collaboration

- The **Supply Chain** is the connected series of organizations, resources, and activities involved in the creation and delivery of value to end customers.
- **Collaboration** is the formal process of coordinating the planning and execution of labor and materials flows among supply chain participants.

- The **holistic intent of collaboration** is to provide the highest levels of reliability, safety and labor efficiency while making most effective use of the competencies of all organizations in the supply chain.
Collaboration looks for opportunities across the combined value chain

- New product development
- Design
- Engineering

- Ordering
- Administration
- Tracking
- Payment
- Communications
eSourcing

- Network design
- Transportation
- Packaging
- Inventory management
- Warehousing

- Supplier evaluation
- Performance measurement
- Supplier certification
- Supplier training
- Supplier management

- Supplier's Price
- Landed Cost
- Customer's Additional Cost

Source: Executive Agenda, 2000
Collaboration leaders are usually created because of the characteristics of their industry

<table>
<thead>
<tr>
<th>Industry Characteristics</th>
<th>Asset Intensive Services</th>
<th>Project Industry</th>
<th>Mass Production</th>
<th>Non-Durable Consumer Products</th>
<th>Raw Material Processing</th>
<th>Retail</th>
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Creating a collaborative supply chain will require a significant effort in order to offset the existing paradigms and balance of market power.

- **Ultimate Spend Leveraging Across Strategic Commodities**
  - Contracts will have to be structured very creatively using volume forecasting, demand aggregation, ongoing joint process improvement, cost modeling, etc. in order to obtain maximum leveraging ability.

- **Relationship Strategies Developed by Commodity**
  - Past relationships will have to be carefully evaluated and strategies for new strategic alliances should be developed with only a select few partners that are willing to work closely in an intimate relationship like never before.

- **Intimate Relationship with Strategic Alliance Partner(s)**
  - Buyer and strategic alliance partners must be willing to completely open up books and share all information and ideas in order for effective collaborative relationships to develop. This will likely require a paradigm shift from all.
Agenda

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Opportunities to build a more collaborative supply chain may be found by re-evaluating four **value levers**

**Value Levers**

- Product & Service Designs
- Value Chain Structures
- Value Chain Processes
- Value Chain Systems

- Which products and/or services within the value chain may be improved through design collaboration?
- How can the value chain be structured so that relationships are more collaborative and material, info and money flow is streamlined?
- Which processes within the value chain may be extended across participants to add further value?
- How can information technology applications enhance collaboration and increase the value delivered by the supply chain?
Collaboration can be “Product or Service Design” focused

Utility Industry Examples

- Duke Egr. provides **OH Construction** and **Design & Development** of transmission projects for BPA.
- Priester provides TXU with **Prefab & Kitting** of **LMT** and other components such as **Transformers, Switchgear & CB**
- Asplundh provides **UG** and **OH Construction** for LA Power.
- IMServ provides **AMR Meters** and performs the **Meter Install & Read** for Salt Lake City Public Utility and Atlanta Gas & Light respectively.
- Atco Gas, Enmax Corp., Shaw Cable and Telus Communications use joint trench construction for **Gas, Phone, Cable & Electric**.
- BP Suppliers collaborate to jointly **Design & Develop** oil rig platforms
Collaborative opportunities can be “Structure” focused

Value Chain Structural Strategies

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<tr>
<th>Organization</th>
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<th>Process</th>
<th>Matrix</th>
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<td>3rd Party</td>
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Industry Examples

- Deere is big into **Process** alignment of their organization and **matrix** structures
- Chrysler is big in **vertical disintegration**; **Horizontal Integration**, and assigning 3rd **Party** ownership of systems of modules.
- Coke and Pepsi are big in the **tapered** approach and collaborates with suppliers on improvement opportunities and ensures suppliers do not take advantage of them.
- Volkswagen and Skoda use the **factory in factory approach** to allow suppliers to locate on site and integrate with operations.
- Fiberglass pole suppliers can setup **factory in factory** manufacturing for just in time.
- EMC has four 3rd **Party** contract manufacturers who are very inventory lean and then uses selected full service distributors to hold, kit and deliver supplies at the right time, place and location for the contract manufacturers.
Collaborative opportunities can be “Process” focused

Industry Examples

- **Design Mgmt / Supply Base** allow Early Supplier Involvement and conduct Value Engineering workshops with suppliers (e.g., Toyota, Deere)
- **Op Mgmt / Supply Mgmt** conduct Joint Project Planning activities for capital projects (e.g., Southern)
- **Supply Mgmt / Supply Base** conduct joint process improvement using Supplier Development (e.g., Honda, Deere, Big 3)
- **Supply Mgmt / Supply Base** have Vendor Managed Inventory, Consignments & auto replenishment (Paccar)
- **Supply Mgmt / Op Mgmt / Design Mgmt / Supply Base** worked as an equal team to design, cost and construct an oil platform (e.g., BP and the North Sea Oil Field Construction Project)
Collaborative opportunities can be “System” focused

Industry Examples

- **CPFR (Collaborative Planning, Forecasting & Replenishment)** Used to coordinate the supply and distribution of coal to utilities (BNSF, Coal Mines & Utilities)
- **ERP (Enterprise Resource Planning)** used to collaborate supply, demand & operations (e.g., Caribbean Cruise Lines).
- **Interactive Collaborative Environments** used to simultaneously access and create designs & specifications with contractors (e.g., McDonnell Douglas & Sandi National Lab)
- **Intranet** Used to view order, catalog and inventory info (e.g., Howard)
- **eProcurement** Used with partner suppliers to automate procurement (e.g., Idaho Power)
- **eSourcing** – Used to automate negotiations for categories such as transformers (Baltimore Gas & Electric)
Example: Clients use the framework to identify levers and prioritize projects

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<tr>
<th>Project Focus</th>
<th>Relationships</th>
<th>Value Levers</th>
<th>Benefit</th>
<th>Ease</th>
<th>Time</th>
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<td>• Outsourcing of value added activities related to pole assemblies or logistics</td>
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<td>• Joint process improvement with strategic suppliers to improve business processes via Supplier Development</td>
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5 = Very Favorable, 3 = Moderately Favorable, 1 = Unfavorable
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A holistic process was developed using new and existing methodology that provides guidance in the creation and refinement of a collaborative supply chain.
Define the target value chain

Collaboration Focus Tree

Corporate Strategy
- Vision, Goals

Key Value Chains
- Key Flows of Value (I.e., Infrastructure Repair, Replacement & Construction)

Competency Requirements
- Required Resources and Capabilities

SWOT Analysis
- Strengths, Weaknesses, Opportunities, Threats

Collaboration Strategy
- Targeted Collaboration Opportunities

Collaboration Team
- Potential Collaboration Partners

Define the Corporate Strategy & Structure

Define the Competency Requirements

Conduct SWOT Analysis

Select Collaboration Team

Define the target Value chain

Collaboration team & target value chain
Design the supply chain

- Map and Analyze the Current Supply Chain
- Brainstorm Collaboration Ideas
- Compare Collaboration Ideas
- Develop the Future Supply Chain
- Create Project Plan

Future supply chain model & project plan
Assign the supply base through Strategic Sourcing

Supply chain partners selected
Collaboration needs to reconsider traditional make vs. buy demarcations -Print Example

**Internal Print Management**
Large corporations may find that conducting print management internally is feasible

**External Print Management**
Eliminate duplication of process by driving vendor accountability upstream

**Hybrid Approach**
Digitization and eProcurement are enabling hybrid approaches, reducing the need for single channels of control
Advanced sourcing can create significant competitive advantage—Airline industry example

- Aircraft leasing
- Use of 2nd tier airport providers
- Technology providers for direct distribution of tickets

- Catering, IT, and other services become more efficient through leveraging of suppliers

- Supplier-developed defibrillators in airplanes
- Security equipment
- In-flight gambling and communications services

- Catering, IT, and other services become more efficient through leveraging of suppliers

- Supplier-branded amenities
- Features such as improved seating, telecoms

- In-flight gambling and communications services

Notes: (1) Harvard Business Review, August 2000
Align the supply base using Supplier Development

Supply chain is aligned to corporate strategy
Refine the supply chain using Value Discovery approaches

Optimal value discovery approach is recommended
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A disciplined approach of managing the eight dimensions of supply-chain management is required for companies to master collaboration.

Eight Dimensions of Supply Chain Management

**Direction Setting**
- Strategy
- Organization
- Culture

**Management Processes**
- Performance Management

**Work Processes**
- Strategic Sourcing
- Logistics Management
- Supplier Development
- Transactional Procurement
Gaps against leaders should be identified and addressed

Leaders have shown that consistent performance across dimensions enhances benefit realisation:
• Immediately realised - (Leaders are typically at 8-12% cost advantage)
• Benefits to be sustained over time
Increased customer awareness, change management and information-technology literacy emerge among a variety of increasingly compelling skills requirements.

Current and Future Purchasing/Supply Skills

- Customer Focus
- Managing Change
- Conflict Resolution
- Influencing and Persuasion
- Interpersonal Communication
- Negotiation
- Ability to Make a Decision
- Analytical
- Problem Solving
- Computer Literacy

Rating of Skills
1: Minor
5: Highly Important

Source: Purchasing Education and Training Requirements and Resources — CAPS
The vehicle that supports collaboration is often the root cause of why organizations can’t realize the advanced benefits

- Strategy is not linked to value-creation potential
- Strategy is not clarified or well articulated
- Rewards are not tied to appropriate measures
- Measures do not drive focus on strategic objectives
- Measures do not support execution of the strategy across the enterprise
- Managers lack appropriate feedback to make timely decisions

Value Creation Potential

Actual Value Creation
Questions?

Thank you for providing us with the opportunity to present this afternoon!

PLEASE CONTACT US IF YOU WANT A CUSTOMIZED PRESENTATION TO THE SPECIFIC COLLABORATION ISSUES OF YOUR INDUSTRY

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