



Logistics Association of Australia Ltd

STRATEGIC ALLIANCE IN THE SUPPLY CHAIN

In the first of his reports, 1996 International Study Award Winner John Reitze outlines the background to and the potential for Strategic Alliances in the Supply Chain.

"An alliance reflects a process wherein participants willingly modify their basic business practices to reduce duplication and waste while facilitating improved performance". Donald J. Bowersox

Strategic Alliances represent change and change is often threatening and uncomfortable to some managers. To others, change represents both a challenge and an opportunity.

The Australian business philosophy changed dramatically from distribution management in the 1970's to logistics in the 1980's.

Carlton and United Breweries Ltd (CUB), Australia's largest brewer, is undergoing significant change from a position of market leader to that of lead enterprise.

The manufacturing division is driving this change which is now beginning to influence the more conservative and traditional areas of warehousing and distribution.

However CUB, like a number of other major Australian companies, is currently working towards the introduction of Performance Based Agreements with its major distribution suppliers.

These 'evergreen' contracts depend on a regular and formal review of jointly agreed measures to gauge performance. This is a tentative and critical step in the development of Strategic Alliances which currently are regarded by the industry as new and perhaps threatening. The vast number of Australian firms remain in the mind-set of 'business as usual'.

Their primary concerns are monthly sales, market share and earnings.

Each year is devoted to achieving gains in shareholders' wealth with no real attention to improving their long term prospects. They have failed to comprehend or address the issue of the 90's - are they ready to compete in a global economy?

Australian industry in general has extended enterprise leverage by controlling consecutive levels in the business process. Historically, the basic problems that have highlighted the need for a more co-operative perspective are opportunism, incomplete or inaccurate knowledge, insufficient co-ordination to cope with increased market uncertainty and the increasing need for specialised assets related to new and unique business practices.

The common solution to these four problems that has been used by Australian business in the past has been the practice of vertical integration and/or outsourcing.

Vertical integration has allowed a firm to achieve control and co-ordination through ownership. However, many firms have found to their disadvantage that this seemingly logical solution required large financial and subsequently risky investment and reduction or loss of flexibility due to heavy investment in specialised assets.

Rapid market changes combined with the development of technologically advanced equipment and processes has seen the trend of vertical integration slowly being replaced by their modern equivalent: Supply Chain Alliances.

Outsourcing, on the other hand, is the handing over of parts of logistics or manufacturing processes to another supply chain member who, because of its experience and specialisation, can offer reduced costs and increased efficiencies.

The major disadvantages of outsourcing is the loss of control and co-ordination when the firm concentrates on their specialised service at the expense of total supply chain management.

The increased potential of channel member's objectives to conflict diminishes the potential benefits.

At opposite ends of the supply chain, the traditional buyer-seller behaviour within Australian business has been based on an adversarial relationship.

The goal of negotiations in competitive free markets has the sole aim of minimising the purchase price.

In order to achieve the lowest price, the buyer normally engages in the following practices:

- Positions one supplier against the other
- Allocates each supplier sufficient share to maintain their interest
- Assumes an "arms length" short term contract
- Leverages power

- Treats company information as highly confidential
- Regards information as a source of power
- Ignores potential operating efficiencies
- Panders to personal bias/preference.

In the past, companies have totally ignored the issue of joint resources by supporting duplication of resources as the means to maintain a tight 'cheek' on their suppliers and customers.

The business world is undergoing massive change with increasing global competition demanding better quality, innovation, productivity and customer service/value while at the same time, the ability of most firms to deliver these expectations is shrinking.

The emerging trend to alliances or partnerships allows companies to focus on their core competencies while working closely with others in the areas that they excel and which provide their company with opportunities which they could not otherwise afford, without putting their companies at risk.

Any discussion on alliances raises many questions which, by their nature give rise to uncertainty which, in many cases, forces the concept of an alliance into the "too hard basket".

The uncertainties can arise external to the company or from within the company itself and include:

- Reaction from other suppliers / customers
- Competitor's reaction
- Change in economic environment
- Government legislation
- Affect on other parties
- The honesty needed by potential alliance partners to fully specify and define their objectives
- Firms maybe of unequal strengths
- Necessary relationships may not develop and grow
- Will our company be susceptible to partner opportunism
- Are the expected results/benefits achievable?
- Will the inevitable changes be acceptable or will they result in conflict?
- Who will make the decisions and how will the success or otherwise of the venture be assessed?
- Will the alliance guarantee lower costs?

These questions will be addressed in future papers where the experiences of some of the most successful alliances in the United States will be discussed, such as: Goodyear Rubber and Tire with Yellow Freight; Whirlpool with Ryder Specialised Freight; Schneider with Procter and Gamble/Kimberly Clark; HUB Logistics with Phillip Morris; Walgreen and Johnson and Johnson; Hershey Chocolate and Exel.

These companies were identified by Professor David Closs, Michigan State University, as being among the best in terms of stable and successful strategic alliances.

As part of the award, I was fortunate in being able to discuss alliances with participants, with the aim of identifying key characteristics that lead the companies to joint success.

These companies had no guidelines or 'blueprint' to guide them in their quest for joint improvements, now recognised as Florida, to assess in advance if a strategic alliances.

However, over a number of years, each developed alliances which have proven successful.

Each relationship is unique and the diversity (even within the same company) demonstrates that companies with different objectives and cultures can work closely together to maximise the benefits while remaining independent.

In fact, a number of companies (eg Schneider with Procter and Gamble and Schneider with Kimberley Clark) had a strategic alliance with competing companies but were able to maintain strict confidence within the respective teams and not place either alliance at risk

At the Council of Logistics Management Conference, a paper was presented by Doug Lambert on a partnership tool which was developed by the International Centre for Competitive Excellence, University of North Florida to assess in advance if a potential relationship is one that will result in a competitive advantage that is worth the time and resources to fully develop into an alliance or partnership.

The model was designed primarily as a tool to help develop new partnerships by allowing both parties to internally assess the drivers and the appropriateness of a relationship before jointly agreeing on the type of partnership.

This methodology will be briefly reviewed as one of the successful alliances visited had used this model to review their relationship a number of years after their alliance had been developed.

It may be a coincidence that none of the companies visited actually decided to form an alliance in a cold, clinical manner. In all cases, there was a problem or an opportunity to do things better with benefits to both companies.

With members of both companies working closely together over a period of time, a close relationship is developed especially if the 'team' gains some quick and sustainable wins.

With a high level of intercompany trust and senior management support, a long term alliance has every chance of developing.

Such is the nature of strong alliances that it is impossible for an outsider to ascertain which members of the alliance team works for which company.

The unshakeable belief in strategic alliances from both team members and managers alike supports the contention that this might be the business philosophy of the decade.