



Logistics Association of Australia Ltd

STRATEGIC ALLIANCES – THE BASICS

In his second report, 1996 International Study Award winner John Reitze continues his presentation on the subject of Strategic Alliances.

"In times of change, learners inherit the earth, while the learned find themselves beautifully equipped to deal with a world that no longer exists."
Eric Hoffer

This quotation was displayed at Ryder Dedicated Logistics. It succinctly encapsulates the message communicated by the companies visited that they were using Strategic Alliances to grow their businesses.

In this paper, I will examine how the companies became involved in alliances, give details about how the alliance grew and how its health and benefits were measured.

Alliance Formation

Rate Negotiation leads to Strategic Alliance

The alliance between Goodyear Rubber and Tire Company (Goodyear), the shipper and Yellow Freight, the supplier of transportation services, forged in 1992, was not planned.

This relationship began as the result of a disagreement during rate negotiations, where Goodyear wanted to retain the current year's rate, whereas Yellow Freight had requested a price increase. At the time, Yellow was experiencing rising costs on the route in question and needed to raise its shipping rates in order to maintain profitability, or abandon the line altogether.

Goodyear's dilemma was that increasing their shipping costs was not an acceptable situation, but neither was finding a new carrier.

Goodyear and Yellow Freight have a unique relationship in that they are both customer and supplier to each other, one providing a product and the other a service.

The practice of reciprocity is illegal in the US through Anti-Trust laws.

The loss of government business would be more devastating than a fine/gaol.

Alliance Developed over 20 Years of Business

Schneider National have developed a strategic alliance with Procter and Gamble since the 1970s through the early recognition of common goals, having a similar culture and buying patterns and a faith in a long term view. Schneider offered a superior service based on a commitment to quality derived from Demming's principles and leading edge technology.

This superior customer commitment commands a premium price paid for warehouse closures, elimination of safety stock and the elimination of major transport problems.

Strategic Alliance Developed from Winning Contract

Ryder Dedicated Logistics (Ryder) and Whirlpool have deployed a strategic alliance since Ryder was selected in 1994 to provide third party inbound logistics to Whirlpool.

Whirlpool had 11 independently managed plants and 800 different vendors which provided no leverage.

Furthermore, inbound logistics was controlled by manufacturing, whereas control of outbound movements was centralised. The driver behind the alliance formation was Ryder's guarantee of certain savings and when these were achieved, a commitment to gain sharing.

Alliance Resulting from New Warehouse Development

The relationship between Hershey Chocolate and Exel gradually developed into a strategic alliance because it became the natural way of doing business. The early plant strategy to have full line plants across USA was flawed because of the increasing cost of capital and the continued expansion of production lines.

The decrease in all product passing through wholesalers and the consolidation of customer base has resulted in a decrease from 27 to eight warehouses.

Hershey found third party warehousing met their needs but the transition to using one large distribution centre away from the main manufacturing plant made the choice of contractor critical as this would have a large impact on business.

Due to previous history, Exel was selected and that choice has been a success.

Strategic Alliances Rapid Development for Short Term Projects

HUB Logistics provides distribution services to many customers who like flexibility gained from their third party logistics provider owning no assets. They design services around the customer, who only pay for what they need.

HUB satisfied customer demand for additional services, such as:

- Control warehousing
- Pull distribution
- Seasonal roll-out - information to 3000 camping grounds
- Niche service - Phillip Morris store installations
- Home delivery of advertising samples (10,000 deliveries over two days)

HUB's approach in developing strategic alliances with companies is to sell a total value added logistics package to senior management.

They do not sign volume contracts with the company and as such, the arrangement could end at any time.

However, what they do demand is an agreement on services to be supplied, expectations as partners and, most importantly, two-way confidentiality.

Contracts

Trust Supplants Contracts

In most alliances there exists a formalised contract for both companies.

The initial three-year agreement between Goodyear and Yellow Freight allowed for no increase in the first year and small predetermined increases in the second and third years.

Yellow Freight had major concerns about the ability of this approach to deliver long term sustainable margins.

These concerns were allayed by Goodyear's offer to provide a blank contract to Yellow Freight at any time Yellow Freight became uncomfortable with the joint approach to cost saving investigations.

Under these circumstances, Yellow Freight would fill in the percentage increase sought which Goodyear would honour.

The senior executive commitment from both companies and the development of strong personal relationships between members of both companies, combined with the successes, has meant that the "contract" has never been taken from the bottom drawer.

Alliance Surpasses Contract

Ryder and Whirlpool signed a five-year contract after a 12 month honeymoon period during which time Whirlpool became comfortable with Ryder's skills and plans for the ongoing relationship.

The contract has been able to be ignored, even when the guaranteed savings were not delivered in the first eight months. The commitment to the long term relationship, the growth in personal relationships through visits to Whirlpool facilities and the placement of a Whirlpool manager in Ryder's office to work as part of the Ryder team has strengthened the alliance.

Proud to Forget Contract Details

Schneider National has a formal contract with Procter and Gamble, which identifies expectations and non-conformance issues.

John Le Bouton, vice-president, Schneider National, was proud to admit that although he was party to the contract negotiations, he could not precisely remember the contract details because there had been no need to refer to the document.

Close and daily communications and the zeal to succeed ensured that performance criteria was almost always exceeded. Schneider National have engendered a spirit of ownership in their people to the extent that they feel they are part of Procter and Gamble. These team members work only on the Procter and Gamble account.

Shared Warehouse Facility Reinforces Alliance

Hershey Chocolate and Exel Logistics have a unique relationship where they jointly share one warehouse facility. By necessity they are in daily contact with each other and work closely as one team to the extent that it is almost impossible to identify which members of the team work for which company.

The contract details had long been forgotten with the emphasis on improving the warehouse distribution operations and not wasting time on deciding whether a request was included in the contract.

The team had a commitment to shared success and excellence to the extent that the team was always challenging itself to do better.

No Need for Contract

HUB Logistics does not require formal contracts with its alliance partners, preferring to be judged by its performance. The strength and longevity of the alliances are dependent on Hub delivering best service at lowest cost, eg: with Phillip Morris and AEP Industries.

HUB does not own any assets such as trucks or warehouses, but obtains the most appropriate equipment for each particular job. HUB provides flexible structures such as cross docks and uses different shipping types such as LTL carriers, pool agents, rail, FTL carriers, intermodal etc.

More so in HUB's business relationships is the need for strong personal relationships, trust and honesty as the continuing business is on the basis of a handshake with no written contract to support either party.

Regular site visits and weekly meetings between team members give the members accountability and responsibility.

Meetings

Regular meetings underpin the success of strategic alliances. In general, both alliance partners assume responsibility for co-ordinating meetings, especially under a formalised process eg: Goodyear and Yellow Freight. On the other hand, Schneider National usually arranges meetings primarily because its associates collect the data and report on Procter and Gamble customers as well as the set of standard measures.

Formalised Feedback Processes

Goodyear and Yellow Freight had the most formalised feedback processes of all the alliances studied. This did not necessarily mean that their alliance was more successful than any other, only that this was the way both companies felt would best achieve the desired results.

Within the above alliance, the cross function/company teams work together on a project and report progress each month to the steering committee comprising middle managers.

These same teams are required to give a formal presentation to the steering committee each quarter. At the annual meeting of the Executive group, two members from each team formally presented their team's results.

The team selects the presenters, one from each company, who are flown in to head office two days prior to the meeting in order that they can rehearse the presentation.

So close was the alliance that usually the team members presented the other alliance partner's results.

When a team had significant success, the entire team was brought to corporate headquarters, where they were introduced to a gathering of up to 1500 employees of both companies, before presenting their results.

The companies celebrate and recognise success. This has engendered the spirit of competition between teams, which maximises the benefits from the strategic alliance.

In all other alliances with a less formalised structure, regular communication and measurements were critical to their success.

Communication and Measurement

All alliances depend on strong communications between team members and management committees. Intercompany teams tend to operate independently eg. Schneider National and Procter and Gamble team, and the Kimberly Clark team, and maximise the benefits by competing against each other.

It should be mentioned that these teams sit adjacent to each other even though both companies are fierce competitors in the same market.

The integrity and commitment of the respective team members has not compromised or threatened customer/ supplier confidentiality. Each alliance has established its own set of measures to track service levels, performance and cost.

For example, the alliance with Goodyear and Yellow Freight has a range of measures which work off an index to mask confidential information. The measures employed include:

1. **Operating Ratio** - Fixed costs with Goodyear; Variable costs with Goodyear. The key is to match costs with income from Goodyear by location. If operating ratio is above 100, then Yellow Freight is losing money at that location.
2. **Transfer Data** - Number of direct deliveries between service centre and customer.
3. **Break Bulk Weight Ratio** - How much weight is passing through the terminal. Impacts on labour.
4. **End of Line Variable Cost** - Total cost of segment when truck reaches destination.
5. **Break Bulk Variable Costs** - Impact on terminal operating costs and effect of direct deliveries bypassing terminal.
6. **Linehaul Costs** - If bypass terminal, try and arrange backhaul for carriers.
7. **Service Date** - Transit Days - on time percent from pick-up to delivery to customer.

HUB Logistics provide a range of measures to its alliance partners depending on the service they are providing and the wide variability of the businesses.

Weekly measures include:

- Volume moved
- Cost of transport
- Out of route shipments
- LTL's
- Pool distribution
- FTL's
- Transfers
- Tracking
- Logistics and service summaries
- Invoice summary and breakdown

A range of industry comparison measures is constantly monitored ie: "test the line" and regularly reported to alliance partners to substantiate the claim that Hub are cost effective. The focus is directed towards best service at lowest cost.

As well as a range of standard performance measures, Whirlpool circulates a questionnaire to its customers/stakeholders with the request to rate Ryder's performance in terms of Whirlpool business.

In summary, examples from successful alliances in the US demonstrate some underlying principles:

1. Alliances must have executive support
2. There is no recipe for alliance formation
3. Trust and results supplant contracts
4. Regular (formalised?) communication/meetings essential for success
5. Measurements demonstrate alliance successes.