



Logistics Association of Australia Ltd

COLLABORATION IN THE SUPPLY CHAIN

This is the third in a series of articles by Peter Bainbridge, 2003 LDA winner. The Logistics Development Award is sponsored by CHEP Australia.

One of the major themes to emerge throughout the 2003 Council of Logistics Management Conference in Chicago was collaboration. It is becoming more and more apparent to the biggest companies in the world that they have to collaborate with other parties in their supply chain to achieve what was often referred to as "supply chain mastery".

The biggest of the big, Wal Mart, Dell Computers, Ford Motor Company and Pepsico, amongst others, realise that even a company their size cannot go it alone. They have suppliers, logistics providers and even internal divisions that they must collaborate with if they are to gain efficiencies in their supply chain.

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What is collaboration?

Collaboration in a supply chain context relates to a customer sharing its business plan, budgets and other forecasting in order to achieve better service and reduce costs. More than that, collaboration can see firms involving third parties in their budgeting and forecasting process. Although many firms have totally inadequate methods of forecasting, they seem to expect that their supply chain partners will be able to cope with spikes in demand for their resources.

By way of example, without proper planning and supply chain visibility, we cannot expect a third party warehouse provider to cope with the fifty unexpected containers that are coming this week from an overseas supplier when the week before they only processed ten.

For those of us who work on the customer side of logistics management, we are often quick to criticise our third party service providers. What we don't fully understand is that only supply chain visibility allows us to cope with high demand periods. Customers seem to expect providers will have resources lying idle, just waiting for the call to action.

Why do firms collaborate?

The biggest reason that firms collaborate is to achieve the results that they cannot achieve alone. No matter how big a company is, it cannot achieve its goals without some form of collaboration. There are only so many times that a customer can beat a provider over the head for better rates. Whilst cost is always important in the supply

chain, there are other, smarter ways to achieve savings. Collaboration is one of them. The more you let your supply chain partners into your business, the more they are able to plan and innovate.

Collaboration shifts the balance of power in business relationships towards the customer. Relationships with third party providers can often seem stand-offish or even adversarial, when the offer of collaboration is made it not only breaks down communication barriers that can exist but also puts pressure on the provider.

If a customer shares information with its provider, a lot of the excuses for poor performance are removed.

There is better utilisation of resources because service providers can plan better and utilise their resources to a much higher level. The huge capital investment that is required to maintain a truck fleet, a warehouse or even container ships, can be better justified as their utilisation increases. If a customer collaborates with a provider, not only will the provider achieve forward planning of resources but better service for the customer with whom they collaborated.

What is the desired outcome?

Why do firms forecast? Why do firms budget? Obviously the desired outcome is greater certainty. When we have a plan to measure our performance against, we can see how our business is performing and identify the specific areas needing improvement.

A presentation at CLM by Ford Motor Company highlighted that through collaboration with Schneider Logistics, back orders for spare parts were down 90% and dealer customer satisfaction was up 47% throughout the United States. Schneider provided Ford with people and software to help them totally re map their spare parts business.

What is CPFR?

Collaborative Planning, Forecasting and Replenishment (CPFR) is the process of communicating clearly and regularly with all the parties involved in the supply chain.

In a survey presented at the CLM conference by Accenture, 25% of respondents (all US based) to a supply chain survey indicated that full CPFR had been implemented within their business. I think we know the answer as to whether or not the percentage is that high in Australia!

What is CTM?

Collaborative Transport Management (CTM) is at the forefront of what can be achieved from collaboration. The theory behind CTM is simple and involves planning and forecasting with the third party transport provider.

The objective is to ensure not only that the provider has resources available to make deliveries on the customer's behalf, but also allows the provider the chance to look at smarter, more efficient ways to service the customer's requirements.

As soon as a purchase order is placed, all supply chain partners have full visibility and are able to plan their resources accordingly. Obviously this process is dependent on the information being as accurate as possible.

If a provider is unable to put forward resources, the customer can go to the market for that particular job. In the case of Pepsico, carriers will obviously provide low rates

and good service as the chance of more regular work from such a large company could result. Pepsico also benefits as it gains spot rates for cartage which can often come out of spare capacity.

Who is using CTM?

The biggest advocate of CTM at the Conference was Pepsico. Pepsico spend upwards of \$US2bn on freight per annum. It has its own fleet of trucks, along with a heavy usage of third party providers.

What other forms of collaboration are there?

It can be argued that Customer Relationship Management (CRM) and Supplier Relationship Management (SRM) fall into the category of collaboration.

How many firms really collaborate?

As logistics people we need to ask ourselves are we really collaborating with the rest of our supply chain? Whilst not wanting to hazard a guess at the percentage of companies that do collaborate with their supply chain partners, simple processes of collaboration could be adopted quickly should all parties be willing. Few companies would drag their heels in coming to the table when the benefits are highlighted.

Conclusion

Whilst many presenters at CLM highlighted collaboration as a key to driving benefits from their supply chain, they were quick to point out that true collaboration is hard work. It requires intense sharing of information, regular communication and a common goal.

If you are willing to put in the effort and exhibit the discipline to collaborate, the rewards are plain to see.

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