Getting Ahead of the Collaboration Curve

A White Paper Sponsored By APL Logistics

End -to-End Worldwide
Supply Chain Management

apllogistics.com

APL Logistics™

April 2015

Over the past two decades, the concept of supply chain collaboration has steadily gained traction.

Recent research from such diverse sources as McKinsey & Company, Nielsen, the Consumer Goods Forum, High Beam Research, and the Grocery Manufacturers Association suggests that a vast percentage of businesses have tried such collaborations to some degree or aim to do so in the near future. In fact, as many as 94 percent of companies may be willing to engage in a collaborative relationship,[1] and in some industries, as many as 80 percent are already actively involved in at least one such relationship.[2]

It's not hard to understand why.

Today's companies face an unprecedented array of logistical challenges and complexities including:

- Volatile fuel costs.
- Longer supply chains.
- Heightened service expectations.
- Inventory that must be spread across multiple sales channels.
- Sustainability pressures.
- Shorter delivery windows.
- Global expansion.

They're also constrained by a shrinking or limited pool of key resources. For example, much of the world's transportation infrastructure is aging or inadequate—or both. A critical truck-driver shortage also continues to be an obstacle; and budget stagnation is far more common than budget growth.

Additionally, thanks to a volatile economy, businesses are tasked with maintaining or growing a customer base that's increasingly price sensitive, savings-driven, and willing to take its business elsewhere if suppliers don't deliver on the service quality, flexibility, and customized improvements that they expect.

Failure to Launch

Collaborative distribution has gotten a lot of press over the past few years due to its potential. On the surface it seems like a no-brainer—companies partnering to bundle product loads to save on shipping and distribution costs. However, despite all of the practice's compelling value propositions (See P2), a vast majority of companies in many industries still don't collaborate often—or particularly well.

In one Transport Intelligence study, less than 40 percent of the companies who said they were willing to collaborate indicated that they'd still be willing to do so if it meant working with a competitor—about the same number of companies indicated that they had attempted to engage in at least one such collaborative relationship already.[1]

In the 2010 incarnation of the annual Customer and Channel Management Survey released by McKinsey & Company, Nielsen and The Grocery Manufacturers Association, respondents reported that only 20 percent of their collaborative efforts were delivering significant results.

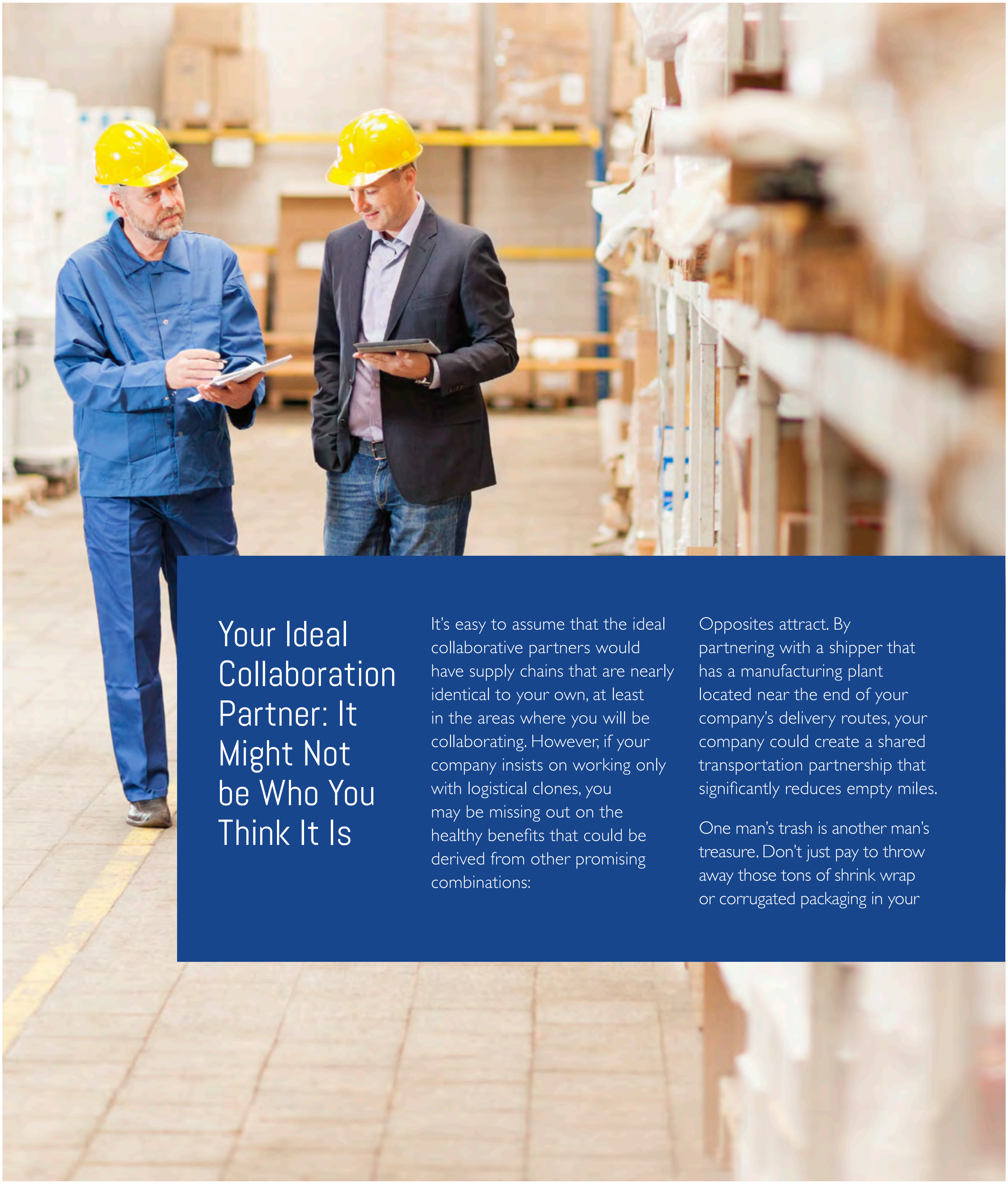
According to industry experts, these less-than-impressive numbers may be due partly to the kinds of businesses with which companies are willing to collaborate.

1 Transport Intelligence 2009
2 McKinsey & Company, Nielsen and The Grocery Manufacturers

The Critics are Raving about Supply Chain Collaboration: A Sampling of Collaboration Statistics from around the Supply Chain

- Businesses that are engaged in some form of collaboration with their suppliers at any tier are 38 percent more likely to achieve or surpass their expectations and have their initiatives result in cost reductions. (2012 study of 1,000 supply chain executives by Deloitte in conjunction with ASQ, Institute for Supply Management, and Corporate Responsibility Officers Association)
- If a grocery retailer collaborated with each of the top three brands in all of its 25 grocery retailing categories, the benefits would be equivalent to a 4 percentage point increase in its EBIT. Manufacturers who collaborated with the "same degree of intensity" with their top 10 retailers could boost their margins by 5 percentage points. (2008, 2010 Customer and Channel Management Survey, McKinsey & Company, Nielsen, and the Grocery Manufacturers Association)
- Supply chain collaboration could increase margins by as much as 3 percentage points for all kinds of supply chain players, including OEMs, Tier 1, 2 and 3 manufacturers, and their fixed capital managers. (The New Drumbeat)
- Successful collaboration resulted in a decrease of out-of-stocks at approximately 4 percent and a cost reduction of 5 percent for participating food and grocery companies. (2008, 2010 Customer and Channel Management Survey, McKinsey & Company, Nielsen and the Grocery Manufacturers Association

Winning companies are five times more likely to view retailer collaboration as a strategic priority. (2012 Customer and Channel Management Survey, McKinsey & Company, Nielsen and the Grocery Manufacturers Association)



Your Ideal Collaboration Partner: It Might Not be Who You Think It Is

It's easy to assume that the ideal collaborative partners would have supply chains that are nearly identical to your own, at least in the areas where you will be collaborating. However, if your company insists on working only with logistical clones, you may be missing out on the healthy benefits that could be derived from other promising combinations:

Opposites attract. By partnering with a shipper that has a manufacturing plant located near the end of your company's delivery routes, your company could create a shared transportation partnership that significantly reduces empty miles.

One man's trash is another man's treasure. Don't just pay to throw away those tons of shrink wrap or corrugated packaging in your

1 "Collaborative Execution, Speed, Innovation and Profitability," Kevin O'Marah, SCM World, 2012

Writing in a 2011 World Trade 100 story, "The ABCs of Collaborative Logistics," APL Logistics executive David Frentzel observed that, "If a company is too tightly focused on finding partners whose demand chains are virtual clones of its own *[which is often the case]* it may be overlooking some other potentially promising combinations." (See Your Ideal Collaboration Partner…)

"Collaboration may be of more interest to a smaller partner, which might invest more time and effort in the program than a very large one that is already juggling dozens of similar initiatives." — Luis Benevides and Verda De Deskinazis

Some additional collaboration failures may be traced to companies' natural wariness about sharing detailed information concerning their practices and processes with outsiders—a condition of collaboration. Although recent research from Kevin O'Mara of SCM World suggests that a surprising majority are less concerned about sharing information than was previously assumed. In fact, just 31 percent of the 374 supply chain professionals surveyed for his study considered issues of trust and proprietary information to be an impediment, while the rest felt the issue of trust between collaboration partners is either benign or non-existent.[3]

Additionally, some companies may find their best collaborative intentions thwarted when it comes to getting buy-in from other key players in their supply chains—those whose cooperation will be essential to making the new model work but who don't stand to directly profit from the arrangement themselves. For example, in a collaborative relationship between manufacturers

warehouses. There may be companies, such as polymer manufacturers, that will gladly provide baling equipment and haul-away services free of charge—a win-win scenario for you both.

Look up (or down) your supply chain. Sometimes the best opportunities for teamwork and collaboration are closer than you think. Under the right circumstances, some of your suppliers may be more than willing to help you create a more streamlined order and delivery schedule. Or some of your retail customers may be amenable to consolidating and optimizing multiple departments' orders going to the same location in exchange for a percentage of savings. The bottom line? There needs to be some sort of supply chain intersection. A good candidate for a partner in a shared logistics initiative will have a supply chain that has key origin or destination points near yours, closely parallels yours, or frequently crosses paths with customers, vendors, or suppliers.

Just be sure the mix of your two companies' products is permitted by DOT regulations and is unlikely to alter the condition of your inventory.

In a 2012 Supply Chain Quarterly article, "Six Steps to Successful Supply Chain Collaboration," co-authors Luis Benevides and Verda De Deskinazis suggested that collaborations between companies of similar size—the seemingly obvious fit companies often aim for—may actually be less valuable than collaborations with smaller players. Simply put, some companies may not be casting their collaborative net widely or open-mindedly enough.

that involves making co-loaded deliveries to the same retailer, it's critical to get that retailer's multiple purchasing departments to streamline their ordering processes, even though the retailer may not immediately experience any substantial improvements as a result of the new arrangement.

Not surprisingly, many collaborations have been derailed by the perception of disproportionate workloads and gains among participants. As one former president of a leading consultancy once said, "[it's] very difficult…to trust that others will play fair. While it's often clear that sharing and collaboration can have significant benefits, people suspect the other guy is getting more."[4] At times, this inequity is clear from the start, such as when one company has already agreed to provide the facilities and equipment for a shared warehouse. On other occasions, it reveals itself over time as is the case when one partner winds up reaping better financial rewards than the other. Either way, unless addressed appropriately and proactively, it can be a recipe for misunderstanding, acrimony, and ultimately, failure. (See What's In It for You?...)

Finally, there is the issue of IT. Collaboration depends on optimal levels of transparency and visibility, and while such levels are now achievable, thanks to recent advances in web-enabled technologies, the task of getting all players—and their heterogeneous technology systems and software—on the same page is still not for the faint of heart or wallet. In fact, even major systems providers, like SAP, acknowledge that, "…solving many of the connectivity problems between organizations…can be costly and require substantial commitments of IT resources."[5]

What's In It for You? Benefits of Collaboration

When it comes to meeting all of today's rigorous logistics demands, as the song says, one is the loneliest number. Experts say that collaborative, rather than stand-alone supply chains are the wave of the future. Here's why:

- **Reduced LTL (Less-than-Truck Load) costs.** Collaborative partners that routinely and strategically co-load their shipments are able to create bigger and better-optimized truckload shipments.
- **Improved customer service.** By shipping to the same destinations together instead of separately, collaborative partners can provide their customers with more supply chain conveniences—such as a steady stream of smaller, more frequent deliveries—without having to charge more.
- **Better sustainability (green practices)**. Because they're combining portions of their carbon footprints, collaborative partners can create more "best loads" and reduce transportation redundancy, single-truck use fees, and other supply chain waste.
- **Lower infrastructure expenses.** Collaborative partners often enjoy the economic benefits of sharing various line items such as real estate, labor, equipment, and systems.
- **Greater innovation.** In the world of process improvement, two heads are better than one. Collaboration provides the ideal forum for sharing best practices, engaging in open communication, and generating better solutions.
- **Increased customer retention.** In a competitive landscape where price and service alone cannot guarantee customer loyalty, collaborative supply chains can be more responsive to customer demands, like savings and performance improvements, or new efficiencies.
- **Fewer empty miles.** By engaging in collaborative relationships with players further up the supply chain, companies may be able to eliminate some of the transportation inefficiencies associated with empty backhauls.

4 Fred Adair, former president of SmytheDowardLambert in "The New Drumbeat: Collaboration, Collaboration, Collaboration," BusinessWeek.com
5 Supply Chain Collaboration: The Key To Success In A Global Economy, 2007, SAP AG

Is There a Secret to Successful Collaboration?

Thankfully, the benefits of collaboration are more than worth the effort it takes to power through these barriers. When deployed properly, collaboration has been associated with everything from cost reductions and productivity increases to improved decision-making and considerably smaller carbon footprints. The operative term is "deployed properly," because—just as there are numerous reasons why certain collaborative relationships fizzle—there are also countless best practices that increase the chances of collaborative success.

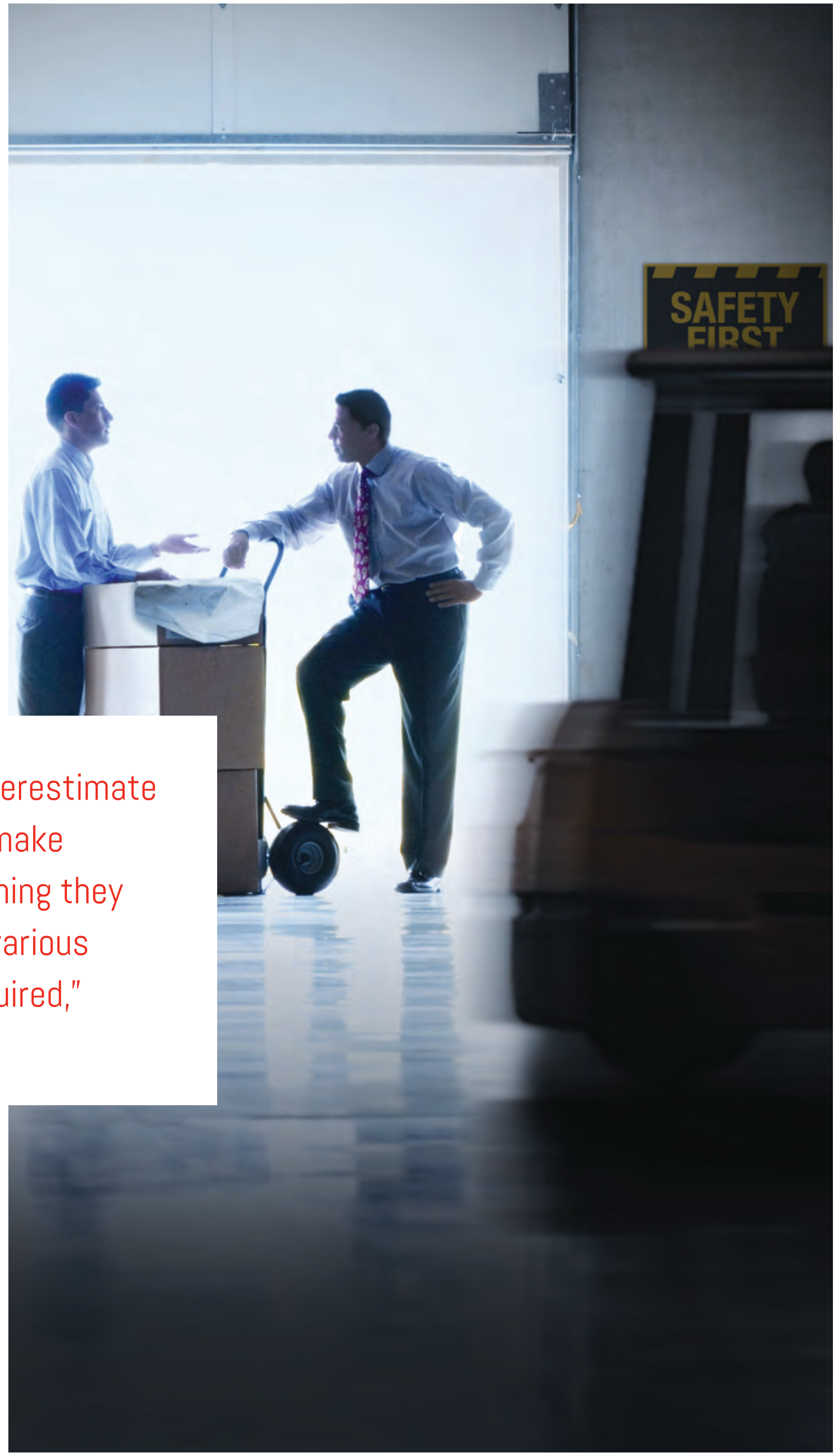
For example, Dr. Matthew B. Myers, professor of logistics at the University of Tennessee, suggests that companies give new collaborative relationships ample time to hit their stride. He has observed that some of the best cost savings often "result from routinized procedures over the life of the relationship" and that generally speaking, "the longer the relationship, the more indirect costs—operational and otherwise—are reduced."[4]

Benevides and De Deskinazis agree, adding that companies also should:

- Collaborate in their areas of supply chain strength, rather than weakness.
- Select collaborative partners based on commonality of interest, infrastructure, and capability, rather than their relative size.
- Enhance the sophistication of their collaborative benefit-sharing models to make a wider variety of gain-sharing arrangements possible.

Another key study suggests that there are no fewer than eleven key supply chain collaboration facilitators including:

- Establishing clear expectations.
- Joint problem solving.
- Adaptability.
- Willingness to share the collaboration pains as well as the gains.



Follow the Leader

The problem is that many of these good behaviors don't come naturally, even when businesses are working within the safe confines of their own organizations. This is why experts often recommend having a firm, focused collaborative leadership structure in place.

> "Companies frequently underestimate the resources required to make collaborations work, assuming they can leave it up to staff in various functions to do what's required,"
>
> —Benevides and De Deskinazis.[6]

According to Benevides and De Deskinazis, this is a recipe for chaos and confusion, an opinion echoed by the authors of "Keys to Successful Collaboration." They too observed that, "… without a champion to move collaboration forward, nothing significant will ever be accomplished."[7] In other words, at some point, someone must take the driver's seat.

6 "Six Keys To Successful Supply Chain Collaboration" Supply Chain Management Review, 2012
7 "Keys To Successful Supply Chain Collaboration" Supply Chain Management Review, 2000

The job description for this champion/driver may vary from organization to organization—and from collaboration to collaboration. But among other things it should include:

- Clearly defining the parameters of the partnership up front, so that everything has been firmly and contractually agreed upon—from each player's roles and responsibilities to the expected distribution of benefits.
- Identifying potentially detrimental differences or disconnects between partners' organizational structures, corporate cultures, systems, and communication styles—and putting processes in place to reconcile them.
- Establishing a clear performance measurement and reporting system for the collaboration and how they will be conveyed (e.g., scorecard, KPI report, or other mutually-agreed-upon method).
- Facilitating a healthy stream of communication between partners.
- Ensuring a joint, non-confrontational approach to problem solving.
- Overseeing the timely distribution of financial gains according to the collaboration agreement.

Some organizations feel the designated chairman of a cross-functional steering committee and an implementation team, usually one that has a healthy representation from all participating partners, can easily handle these responsibilities. However, many companies prefer to tap into the skill sets of outside consultants or 3PLs instead, citing these players' expertise, neutrality, and experience in working with varied corporate cultures.

This was the strategy pursued by the Consumer Goods Forum when it launched a European pilot program for a collaborative rail, truck, and barge agreement. It selected CapGemini as the program integrator.

Several leading consumer goods companies used a similar set up that, in 2014, inspired APL Logistics to develop ShipMax Alliance, a turnkey logistics collaboration solution that helps shippers find and take advantage of relevant co-loading opportunities, such as:

- Shared transportation opportunities with shippers that routinely deliver to their biggest customers and have compatible freight.
- Route and load optimization, including combined shipments that feature more balanced varieties of weights and sizes.
- Load tendering.
- Scheduled pick-ups from multiple origins.
- Delivery appointment scheduling.
- Freight cost and savings allocation.
- Detailed carrier performance reporting and customer dashboards.

What's Next for Collaboration?

Like sustainability, collaboration is a supply chain trend that is unlikely to diminish, especially as the growth of the omnichannel explodes and manufacturing hotspots like China and India continue to develop into dominant consumer markets in their own right.

Such developments have spurred organizations like the Consumer Goods Forum to predict that, within the next decade, the companies that are the most successful at supply chain operations will be those that work together, rather than separately.

The question is: Will your company be ahead of the collaborative curve—or behind it?