



# Collaboration in supply chains - the myth and the reality

By Dr John Gattorna

“Collaboration” is one of those concepts that is over-used and over-worked in the supply chain vernacular. The reality is that for any product (or service) category in a given market, it is very unlikely that more than 25% of customers at best will have truly collaborative buying values. By this I mean that they genuinely seek close relationships with their key suppliers; tend to single-source; are brand loyal; will share information freely; are price tolerant; and above all are forgiving in the

way they tolerate failures to supply.

In other words, the perfect customer profile. Yet what do many suppliers do? They ignore these sometimes suffering customers as they relentlessly pursue other more demanding customers who have none of the virtues listed above. Worse still, suppliers take advantage of their loyal customers by using them to cross-subsidise their more costly efforts in servicing demanding customers.

## DE-BUNKING SOME OF THE MYTHS

In the early years of ‘Lean’ manufacturing, as introduced and practiced by Japanese manufacturers, it was taken for granted that suppliers would collaborate in the systematic joint effort to eradicate cost, rather than just move it up and down the chain. This was a given, and all the parties to these selective arrangements benefited.

However, as globalisation took hold and supply chains became longer and more complex, something was lost in the translation. Today, while there are still supply chains where the parties collaborate, there are also many other supply chains where this is not the case. Indeed, various generic types of supply chains co-exist in parallel to provide different supply experiences for customers in the same market.

In my book, *Living Supply Chains*, I make the distinction between those market situations where customers are genuinely collaborative, and those that are not. Why? Because you have to recognise which is which and deliver different value propositions via different network configurations. We are now operating in a world where nuances make the difference between success and failure, operationally and financially, and you ignore this reality at your peril. To avoid confusion, I have labeled those supply chains where true collaboration exists as ‘Continuous Replenishment’.

## TRULY ‘COLLABORATIVE’ SUPPLY CHAIN CONFIGURATIONS

The cultural value that is treasured above all others in a truly ‘collaborative’ supply chain is trust, which in turn leads to close working relationships for mutual gain. Information is shared freely; long-term stability in the relationship is actively sought, and strategic partnerships are forged for mutual benefit. This is the much sought after ‘collaborative zone’, and it is a condition that inevitably takes time and patience to develop.



However, it is also a condition that depends almost wholly on the 'alignment' of cultures between buyers and suppliers, rather than anything more tangible. This is the part where many executives are either out of their depth or simply in denial about.

Why, because they either don't understand or don't want to delve into this abyss where all the 'forces of darkness' exist, in their own organisations. I have always said that this is the area we should be focusing on rather than getting carried away with Porter's competitive analysis. In reality, there has been an unhealthy preoccupation with competitors and studying competition, often to the point of paranoia, and this has distracted executives from looking more deeply at the internal cultural capability of their own enterprises, where progress and greater understanding is going to bring greater returns for the time, effort, and money invested. We will not be able to go to the next level of supply chain performance until this mountain is climbed and conquered.

### THE UNIQUE SUB-CULTURE OF COLLABORATION

The key is to identify which customers have truly collaborative values, and treat them as a separate segment to the rest in your customer base. Unilever's former CEO, Anthony Burgmans got it right when he said, in effect, that you should only collaborate with those customers and (suppliers) who genuinely want to collaborate. For the rest you do whatever you have to do, but don't waste your time trying to be collaborative - it is too wasteful on resources, and goes to the heart of my observation that too many suppliers are over-servicing some customers, and under-servicing others, and have no idea which is which!

So how do we shape the appropriate internal culture to drive Continuous Replenishment supply chains towards those customers who genuinely seek a collaborative relationship? It involves a unique combination of standard resources as follows:

- set up a series of multi-disciplinary 'Account Clusters' that dedicate all their attention to specific clients, or groups of clients;
- select personnel for these teams such that the net bias in each team is one of

empathy for customers and stability of the relationship;

- put standard Customer Account Management processes in place;
- underpin these processes with selected technologies such as Customer Relationship Management (CRM); Vendor Managed Inventory (VMI); and other customer-friendly point applications. This is the right place to use such systems, but be warned that they are not as effective in other situations where customers do not display genuine collaborative values;
- develop two or three Key Performance Indicators (KPIs) that will help you keep key customer (or supplier) relationships on track, eg, length of time the customer has been buying from you; the share of

everything is done by the book, and stability of the relationship is regarded as paramount.

In other words, the internal clusters that service collaborative customers, across all disciplines, have to ideally reflect the same values as the customers that they serve.

### 'REQUISITE COLLABORATION' - A MORE ACCURATE DESCRIPTOR

So 'collaboration' is a condition that is definitely not for everyone. I prefer to think in terms of 'requisite' collaboration, ie, where you collaborate as much as, or as little as, a particular customer wants or deserves. In this way you avoid a lot of costly over-servicing. Once you have identified the truly collaborative customers in your marketplace you can take a minimalist approach to contracts, and focus more on non-binding Memoranda of Understanding (MoUs) that provide guidance for engaging each other but in the end rely on trust. And it works. Research I did in Asia Pacific in 2003 clearly showed an inverse

correlation between the performance of 3PLs in situations where they were locked into rigid and complex contractual arrangements.

So too, as we move beyond traditional buyer-seller relationships and 3PL-style supplier relationships, to more complex new supply chain business models (such as 4PLs), it is going to be vital that the partners selected to join supply chain consortiums and joint ventures, are culturally aligned from the outset.

### A TECHNIQUE TO CONSOLIDATE COLLABORATIVE RELATIONSHIPS

One technique I have developed over the years to help foster collaborative relationships is 'Strategic Partnering'. This is a process I have written about at length in *Living Supply Chains*, and involves developing enduring corporate relationships based on understanding and shared knowledge. The process takes its name from developing and maintaining a strategic 'fit' between the goals, capabilities, and market opportunities of both buyer and seller organisations involved in a particular situation. The two parties commit to a unique but not necessarily exclusive relationship - that is key, and it works! ■

\*John Gattorna, *Living Supply Chains*, FT Prentice Hall, London, 2006

“The cultural value that is treasured above all others in a truly 'collaborative' supply chain is trust, which in turn leads to close working relationships for mutual gain.”

the customer's wallets in a particular product category. Other KPIs such as forecast accuracy and Delivery-in-Full-on-Time-Error-Free (DIFOTEF) are simply taken for granted in this type of relationship.

- incentives for internal staff should focus on schemes that encourage participation and sharing within the serving team - there is little place for individual egos in this sub-culture;
- job designs have to be consistent with the incentives and involve a lot of discussion and consensus - fortunately there is the time available for a lengthy process with this type of customer because they themselves don't like quick action and surprises.
- there is a lot of personal face-to-face communications within the Account clusters;
- the focus of most training is on team-building;
- the personnel recruited to Account clusters are carefully selected on the basis of the 'Feeling' (or F) dimension in their Myer Briggs Type Indicator (MBTI); and
- leadership of the Account clusters will typically be quite traditional in that