

A New Age for Successful Supplier Collaboration

by Patrick Bachet and Jacques Le Ny

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Why Supplier Collaboration?

With globalization, more and more industries are outsourcing key activities within their value chain to lower-cost countries. For over a decade, this has been the case for manufacturing industries such as textiles, electronics, high-tech, and consumer packaged goods - and more recently, pharmaceuticals too are joining the trend.

Initially, outsourcing was mainly thought of as a cost-driven strategy. But this strategy today demonstrates an uncertain result - saving at most 17%, without considering the possibility of disruptive fuel price increases. Rather, outsourcing should be considered as a wider opportunity for business growth:

- Reduced investment in capital assets;
- Shift from a fixed cost model to a variable cost model;
- Buy-in specialized knowledge and skills;
- Allow concentration on core capabilities;
- Gain a window on a new technology;
- Gain a faster time to market and ease access to markets;
- Spread risk

In the past, managers were able to manage the supply chain efficiently as all the relevant drivers were in their hands. Today, with outsourcing more prevalent, supply chain management is more complex because key activities may be in the hands of external partners. In parallel, the numbers of tiers in the supply chain have dramatically increased: the supply chain has become a network instead of an internal organization. As a direct consequence, there now exists:

- A complexity in getting visibility on current operations and performance (Delivery Service Level)
- A lack of agility and control in managing the supply chain (Delivery Service Level)
- A lack of optimization of the value chain (COGS)
- A greater dependency on external partners (Risk and Compliance)

Companies have been working for many years with suppliers and external outsourcing providers. So that's not new - what is different today is that the ability to build strong relationships with these suppliers has become a key success factor. Working with suppliers goes beyond sending purchase orders and receiving goods. Suppliers have to be involved in key decision-making processes in order to anticipate and jointly act on supply chain issues - becoming partners, and not just suppliers. At which point, it is vital to synchronize such partners and put the right resources in the right place in order to make the supply chain a strategic and competitive asset.

What is Collaboration?

Collaboration is a term that is often misused. Many organizations say that they “collaborate” with their suppliers, but in reality they rely primarily on email or face to face meetings for communication. We consider this level of collaboration to have serious limitations:

- Emails create circular communications that make it difficult to take decisions involving more than two people, so decisions may be taken without the involvement of people with all the relevant competencies and skills
- Face to face meetings take time to organize, and as a consequence critical business information may not be shared fast enough - or may not be sufficiently up-to-date when the meeting happens

True collaboration, on the other hand, is the ability to share information, competencies, skills, intelligence, and risks, and to then make appropriate commitments in terms of actions and business decisions. Optimum collaboration is achieved when collective intelligence is at its best - in other words, it goes beyond the sum of individual contributions). This can be achieved when you allow instant collaboration anywhere and at any time with both internal and external personnel, and when all of the information that is required is available and is used.

Trust is critical for collaboration but you build even more trust once you start to collaborate.

Collaboration is based on information, and can be split into 3 categories:

- 1 Transactional and planning information, which is data-based, structured and detailed;
- 2 Reporting information, which is data-based information, structured and aggregated; and
- 3 Knowledge-based information, which is all those forms of information not included in the categories above - informal information, documents, knowledge, experiences, skills and business and market intelligence

Transactional, planning and reporting information is derived through standard information systems such as Enterprise Resource Planning systems, Advanced Planning and Scheduling systems, and data warehouses. On the other hand, **knowledge-based information** comes from people’s minds, but is just as critical for running the business in an efficient way. The challenge is to get individuals to share their knowledge - and in this area, collaboration technologies are useful enabling tools.

Most activities are based on collaboration rather than on transactions.

Most business information is knowledge-based rather than data-based.



Successful collaboration requires transformation at four levels:

Cultural change

Considering each person as an asset, and one that is truly valuable for the extended enterprise: it is both cheaper and more effective to invest in your people than to invest in mathematical algorithms and automation in an attempt to “optimize”.

Organizational change

Putting in place a structure for cross-functional matters beyond the standard organization framework.

Management change

Implementing collaborative processes for cross-functional matters and break down organisational silos, if necessary developing reward mechanisms to motivate individuals share information and collaborate.

Technological change

Integrating both data-based and knowledge-based information through a comprehensive and extended enterprise platform, by implementing the full set of collaborative solutions.

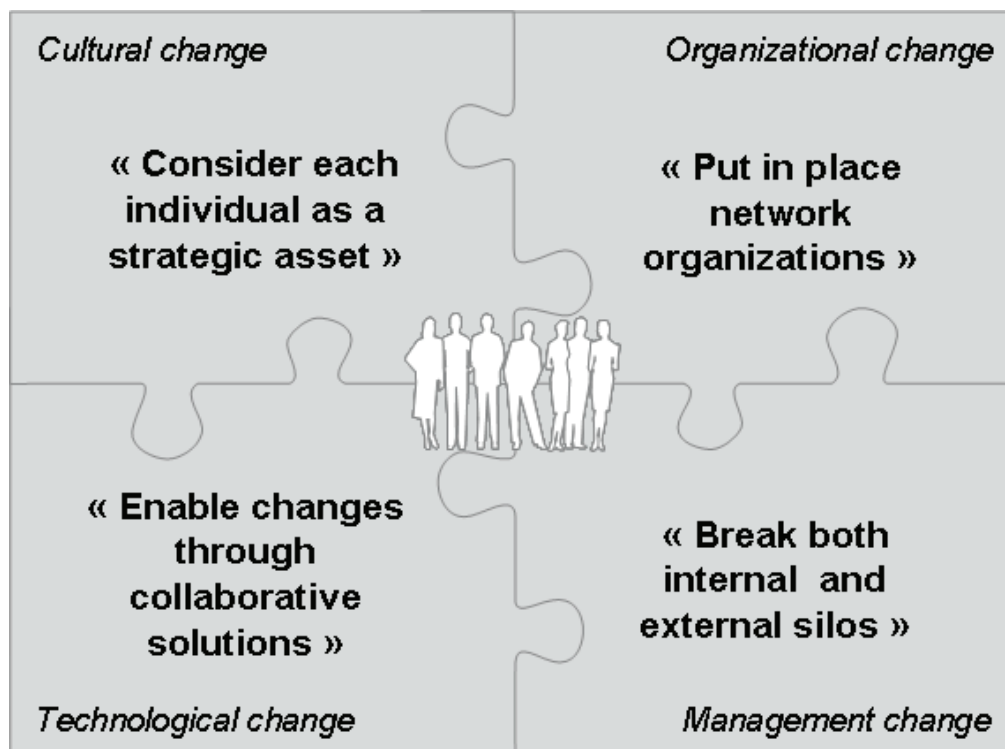


Figure 1: The drivers for collaboration

Collaboration is a cultural change. The actions of individuals need to be integrated so that each can build on what others are doing.

Supplier Collaboration as an End-to-End Process

In many industries, investments in supplier collaboration focus mainly on optimizing specific parts of the process, such as:

- The automation of information flows through EDI/XML platforms in order to cut operational costs and get better visibility of the entire physical supply chain
- The implementation of new collaboration models such as collaborative planning or Supplier Managed Inventory (SMI)
- Optimization in sharing sensitive or large amounts of data during the development phase
- The ability to control and monitor spending to rationalize purchasing organization and processes
- The ability to share quality inspection results, and define and monitor continuous improvement plans
- The optimization of the cash-to-cash cycle



Figure 2: Supplier collaboration needs to encompass the end-to-end process from planning to payment

However, as supplier collaboration is a truly end-to-end aligned process, it is important to invest in the relationship with the supplier at each stage of the process, especially when business priorities may need to adapt to a rapidly changing environment.

Here are some typical customer examples of a non end-to-end approach that we come across:

- Investments were originally focussed on purchase order automation, but by the time the process was implemented the critical issue had become obtaining visibility into the delivery, with the ability to collaborate on orders or the ability to become the “preferred customer to work with” becoming increasingly important
- Investments were focussed on purchase order tracking with work flow, but by the time the process was implemented the critical issue had become the workload on Accounts Payable
- Investments were focussed on the Accounts Payable process but the priority became to optimize the full cash-to-cash cycle, and the financial organization had not been involved early enough in the transformation

In this context, the process of creating supplier collaboration is a transformational journey. The whole scope of the transformation must be assessed with a strong shared vision based on priorities for the next five to ten years. This vision needs to be shared both internally - with purchasing, procurement, supply chain, logistics, and finance - and externally with suppliers.

The challenge is to get all business areas involved and to put in place a comprehensive and consistent end-to-end process.

To avoid any disruptions and risk in running the supply chain, all components must be aligned, consistent and comprehensive.



Collaboration is where Excellence will be Won or Lost

Collaboration is the ultimate level of maturity in the relationship with the supplier. If many companies focus their effort on contractualization and monitoring, and invest in integration in order to obtain more visibility, then improved collaboration becomes the logical lever to enhance maximum business value.

Collaboration helps share knowledge-based information, leverages people's competences and skills, and allows the right information to be in the right place at the right time for the efficient running of the supply chain. And collaboration is what enables the alignment of people in different organizations behind a shared goal. This method of working is exponentially more powerful than the one of constantly trying to control discrepancies after they have occurred. Trust is critical for collaboration, but you build even more trust by engaging in collaboration in the first place, as it encourages close relations through the dynamic involvement of people working more closely together.

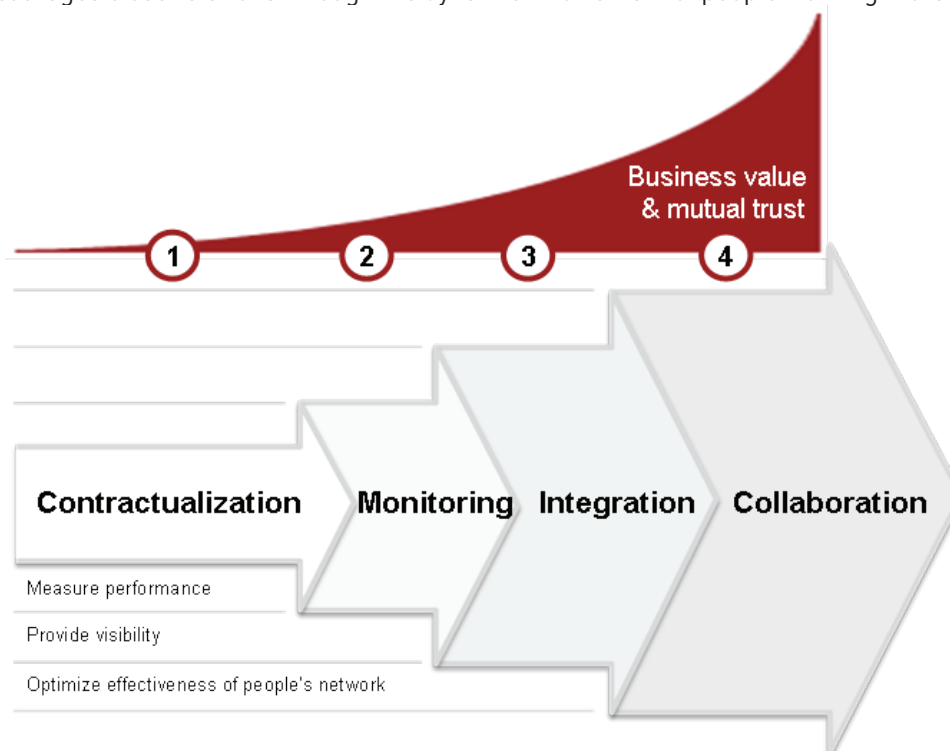


Figure 3: The value path for supplier collaboration

The maturity path to increased business value is a transformation journey made up of 4 major progressive steps:

Contractualization

Putting in place business policies that will bind customer to supplier. These policies are placed at strategic, tactical and operational levels. They cover many aspects such as purchasing, supply chain, quality and regulatory affairs.

Monitoring

Putting in place mechanisms to monitor the performance of the supply chain. This must be done at supplier level, but is also vital at customer level when there is a dependency between the two - such as when the customer must deliver specific packaging to the supplier.

Integration

Automating information flows in order to secure data reliability, and to obtain the best visibility into the entire supply chain.

Collaboration

Being able to share, understand, and decide in the most efficient way how best to predict and react to ever the changing business environment. This is based on being able to leverage a wide range of information, including policies, data-based information, key performance indicators, trends, competencies and skills. Contractualization, Monitoring and Integration are necessary first steps for successful collaboration, but it is invariably hugely rewarding to take the final step and integrate people, competencies, and skills in the process. Collaboration is the key driver for creating business value, as it is the process in which business decisions are taken on how to run the supply chain more efficiently.

The Collaboration Model

Collaboration is not a “one size fits all” practice. It must adapt to the relationship that a business has with its suppliers, and must respond to changes in the business’s environment and context.

The methodology can be briefly summarised as follows:

- 1 Rank your supplier relationships based on the following four criteria:
 - **How strategic** you and your supplier are to each other
 - The level of **cultural fit** between you and your supplier - i.e. the level of mutual trust
 - The capacity of your supplier to **adapt to your changing needs**
 - The level of **knowledge-based information and data you share** with each other

The higher the relationship comes in this ranking, the more important it is to work collaboratively - both asynchronously and synchronously - with that supplier.

- 2 Group your suppliers on where they sit on the following diagram. Use this to define your collaboration model. We define three levels of high collaboration:
 - **Coordination:** Each person involved in the end-to-end process transacts with others in the most efficient way possible. Investments are mainly cost-driven, and designed to bring about further synchronization
 - **Cooperation:** Information is gathered and shared. There is an understanding of capabilities on each side, and a shared belief in the importance of leveraging existing commitment and confirmation mechanisms. Information is shared regarding forecasts, inventories, and the delivery status of purchase orders
 - **Collaboration:** Intellectual assets - both competencies and skills - and risks are shared. Information is built jointly rather than just exchanged. The objective is to work together, and corresponds to the highest level of mutual trust

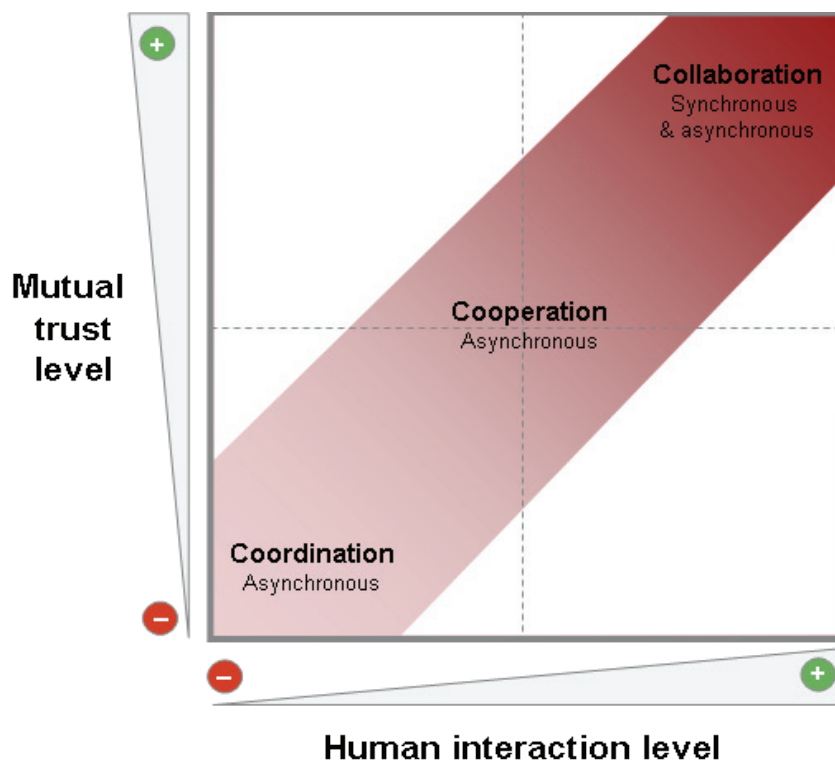


Figure 4: Define the right collaboration model

So how does it work in practice? Consider the following example of these three stages and how they look in supply chain planning and ordering policies - as defined, for instance, in a contractualized supply agreement between a customer and its suppliers.

Strict order policy

Orders are placed within a frozen horizon equal to the supplier lead time - the end-to-end manufacturing cycle, in effect. Orders cannot be changed. Beyond the frozen horizon, information is forecast at a detailed level for supplier capacity and procurement purposes.

Order cooperation

Orders are placed within a reduced frozen horizon and can be changed or partially cancelled within an agreed certain timeframe. Several order types can be defined with a specific service level.

Collaborative planning

Several modes are possible and have to be customized in regards to the supplier relationship. Below is a non-exhaustive list:

- **Commitment management:** Within a commitment horizon, planning is shared at an aggregated level with the supplier for capacity and procurement purposes. Beyond the commitment horizon, information is simply forecast at a more aggregated level
- **Supplier Managed Inventory:** The supplier is in charge of replenishing the inventories of the customer. This replenishment is based on forecasts and historic customer consumption as notified to the supplier. The collaboration is based on a strong Service Level Agreement
- **Event-based management:** Collaboration is executed in real-time as soon as an event happens, and is not aligned with the committed plan. This collaboration enables a fast reactive decision process together with the involvement of the right competencies and skills through the network

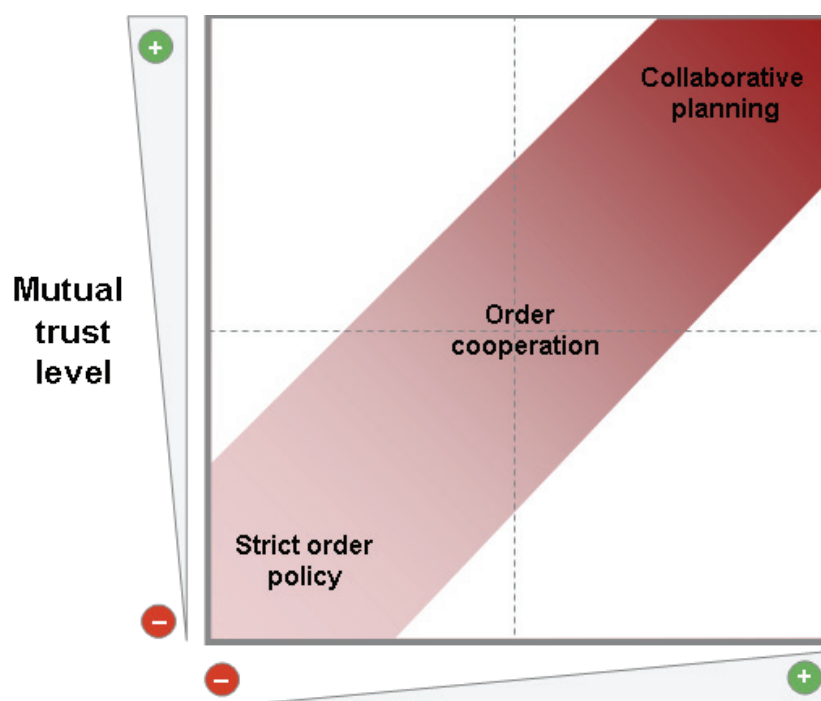


Figure 5: Collaboration model for supply planning and ordering policies

The Integration Model

One major step of the supplier collaboration value path is Integration (as shown in Fig. 3). Integration is the ability to get the right information at the right time and so to be synchronized, at least in terms of data-based information. This integration is required with suppliers, but can also bring real benefits when considering other relevant parts of the supply chain - such as logistics providers, customs bodies and any appropriate financial parties, such as banks involved in letter-of-credit transactions.

This integration may be customized with regards to supplier relationship and business priorities. It also requires the ability to interface information flows with partners, but also to manage them within the framework of a unique and comprehensive platform. This is the goal of Business Process Platforms (BPPs) (also known as Business Process Networks – BPNs).



Figure 6: The Business Process Platforms integrate the extended supply chain

For each of the partners, integration provides relevant and important abilities:

- **Buyers & agents:** Obtain reliable visibility into purchase orders and any amendments for the suppliers or local agents based in sourcing countries
- **1st & 2nd tier suppliers:** Confirm the receipt of orders and collaborate around these orders. Provide visibility into manufacturing and shipment processes. Scan and pack goods to secure physical shipments. Generate all relevant shipping documents
- **Quality inspectors:** Track quality controls and provide visibility to both customers and suppliers
- **Export customs:** Obtain all the information required for the export customs, and provide visibility to forwarders and customers regarding custom declarations. Manage all regulatory documents required for customs procedures
- **Forwarders:** Communicate the next shipments to come (both capacity and booking planning) and provide visibility to customers regarding transportation status.
- **Import customs:** Obtain documents and information required for import custom declarations
- **Banks & credit insurers:** Provide to the banks all relevant information to pay the suppliers. Subscribe to credit insurer in order to secure payments. Contract with factors for reverse factoring. Manage life-cycle of letters-of-credit



Competition is fierce in the integration services providers' market. The market players can be classified into three high-level categories based on their historical background and strategy:

Integration service provider

Formerly known as EDI/XML providers, they have since extended their services to Web EDI and demand/supply planning. The business model is usually Software as a Service (SaaS).

Purchasing marketplace

Formerly known as eSourcing/eRFQ providers, they have since extended their services to the supply chain area (planning, purchase orders, deliveries, and invoices management). The business model is either licensing or SaaS-oriented.

Web ERP/APS

Formerly known as ERP or APS providers, they have extended their services to web applications in order to support external partners' integration requirements.

Implementing a Business Process Platform requires the involvement of some key suppliers in an early stage of the transformation. Suppliers are already managing integration with other customers and there is a need to be sure that the solution being put in place will be adopted by each of the suppliers.

New Technologies as Enablers for Collaboration

With the Internet, a huge transformation has been achieved in the area of information management. It is a cultural change, too, in that it is a 'push-driven' rather than a 'pull-driven' approach: people are consumers of information, but also producers of information for a community of others with the same broad interests or information needs. That is the concept - and the reality - of Enterprise 2.0, where each individual is considered an "information worker".

New technologies are the critical components of an integration model that must truly support collaboration. These technologies enable the sharing, understanding, and managing a community of people for the better use of intellectual assets. And while a significant number of actors are playing in this area, but very few of them can truly offer a comprehensive and integrated set of technologies that we call **Business Collaboration Platforms**.

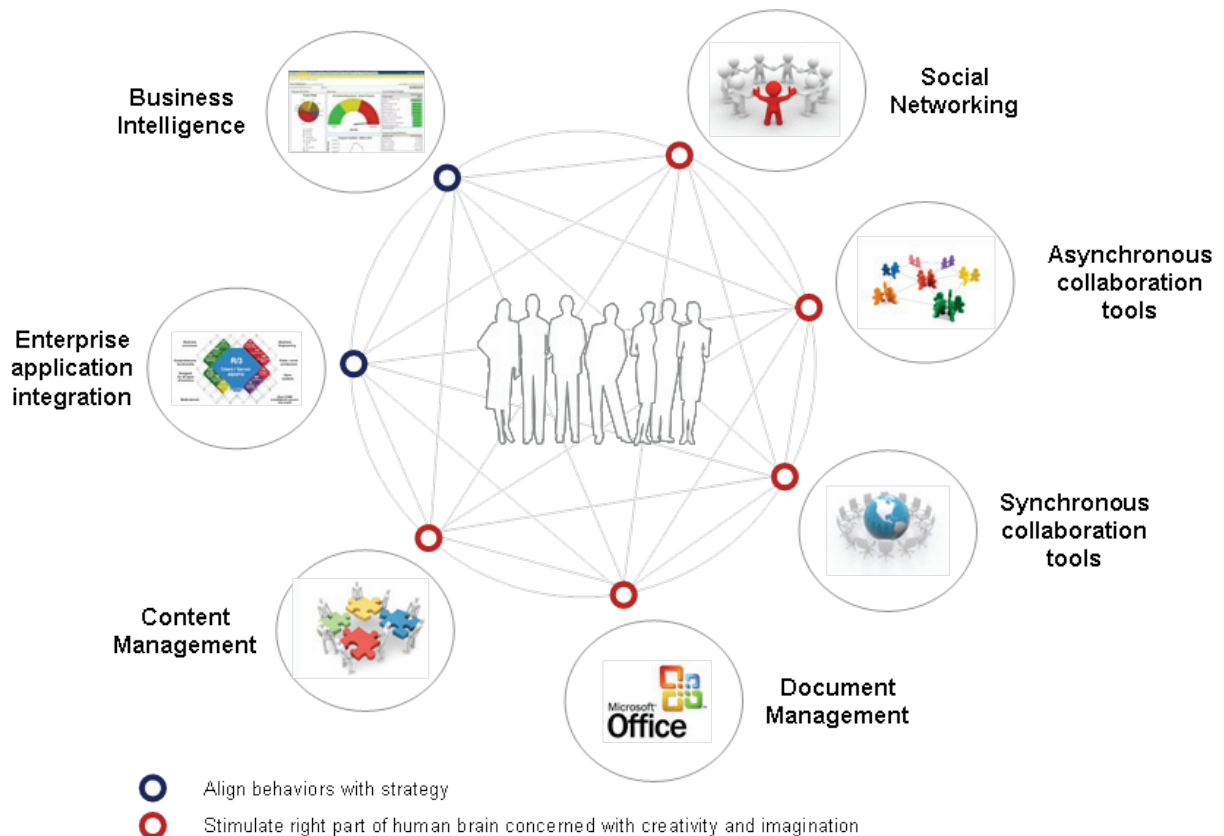


Figure 7: New technologies break organizational silos



New technologies for supplier collaboration can be classified into seven categories:

Social networking

Obtain a deep knowledge about the competencies and skills of the people that are in or around your network. Find the right people at the right time for the right issue.

Asynchronous collaboration tools

Create dedicated team 'workspaces' in order to share relevant information among a community of people with the same interests. Build your own on-demand database in order to collaborate quickly with partners without investing in expensive IT developments. Manage and track events, issues, meetings, tasks and activities in a collaborative way through the community.

Synchronous collaboration tools

Brainstorm, communicate, share and decide in real-time, wherever the relevant competencies are. Speed-up decisions cycles and reduce travel and expense costs. Get connected with anyone, at anytime, from anywhere, in an audio conference call.

Document management

Create documents and simplify synchronization with the network in order to keep them updated with the current version of the documents in question.

Content management

Create online content for informal information, in order to keep track of important events within a community of people with the same interests. Manage, track and archive documents.

Enterprise application integration

Provide aggregated and user-centric information to the community of interests. Integrate with back-end systems in real-time, in order to reduce the cost of non added-value activities, and to provide on-demand information to a wider community across the network.

Business intelligence

Provide user-centric dashboards, scorecards and key performance indicators automatically, and to the whole community. This reduces the cost of non added-value activities and creates a comprehensive information 'picture' within the business collaboration platform through a mix of data-based and knowledge-based information sources.

The service providers in this area began by developing solutions devoted to document management and archiving. However, in the past five to ten years, they have invested significantly in integrating a new set of technologies into their solutions - such as web conferencing, instant messaging and VoIP - and in integrating these solutions with enterprise business data, such as business intelligence tools and enterprise applications. Moreover, these platforms now often provide a state-of-the-art development framework to build on-demand web applications to immediately meet customer needs. The business model is usually a licensing one at present, but it is gradually moving to a SaaS one over time, following the trend towards "cloud computing".

The Collaboration Framework

Defining and designing the supplier collaboration model is a challenge for at least two important reasons:

- 1 Supplier collaboration must go beyond normal (i.e. transactional) processes. Collective intelligence is a key driver for bringing much more business value and this happens outside normal processes. That is a challenge because it requires re-engineering processes that are not yet fully formalized – and for which there is no culture of improvement. Moving to collaborative planning is a good first step, but on its own is not enough.
- 2 From actors playing in the area of business process platforms to the ones playing in the area of business collaboration platforms, everyone is talking about collaboration. But often, what is behind these terms is different. The challenge is to understand which technology is best for your collaboration needs.

The design of supplier collaboration processes requires the re-engineering of processes from a clean slate.

Web-based planning alone is not sufficient for supplier collaboration.

The collaboration framework aims to define at the macro level the right technology at the right place. The choice of technology depends mainly on three drivers:

- Whether the information is data or knowledge-based
- The need for synchronous and asynchronous collaboration
- The implementation costs

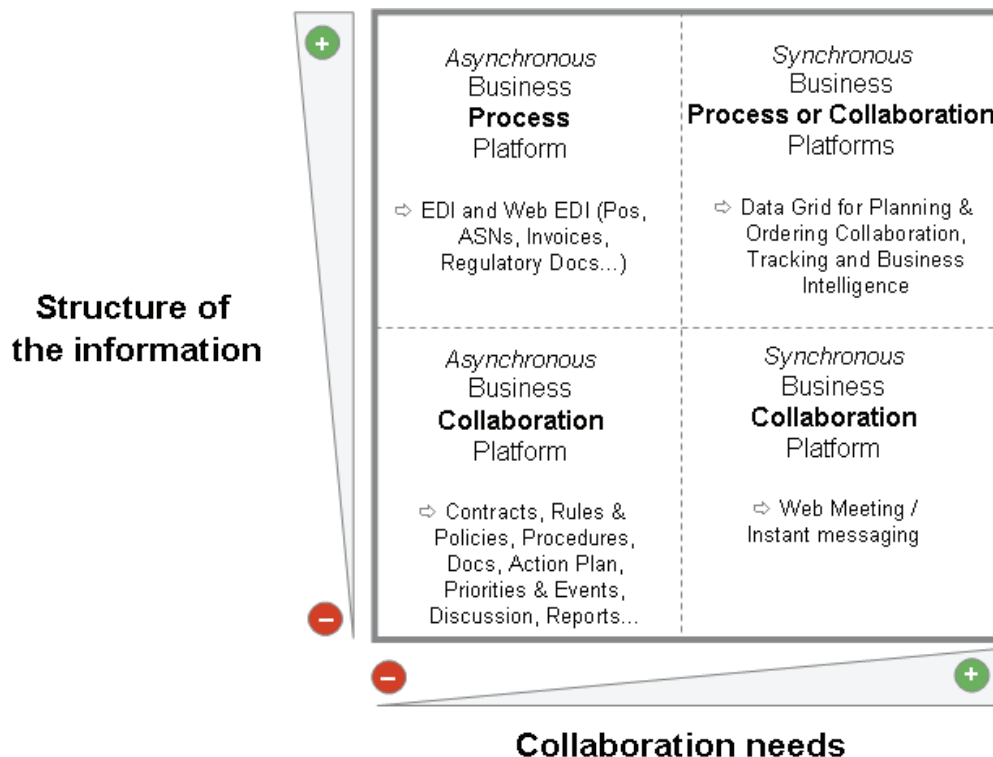


Figure 8: The collaboration framework aims to put the right technology in the right place



Both business process platforms (BPP) and business collaboration platforms (BCP) are to be considered when defining and designing the collaboration model, because the processes to be covered concern a broad scope of information management.

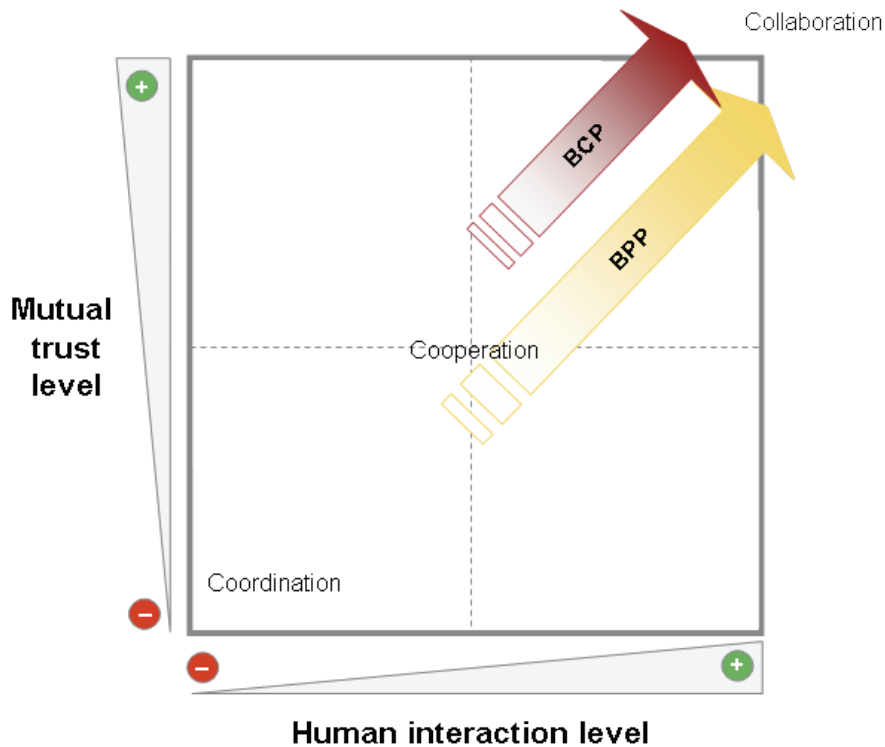


Figure 9: The choice of business platform depends on your collaboration model

If you are at the collaboration level, the business collaboration platform is your day-to-day portal to manage and run your business. The reason is that it provides user-centric and aggregated data-based information and combines it with the knowledge-based information at the same time. Business process platforms will be running in the background and will be used when looking for more detailed information.

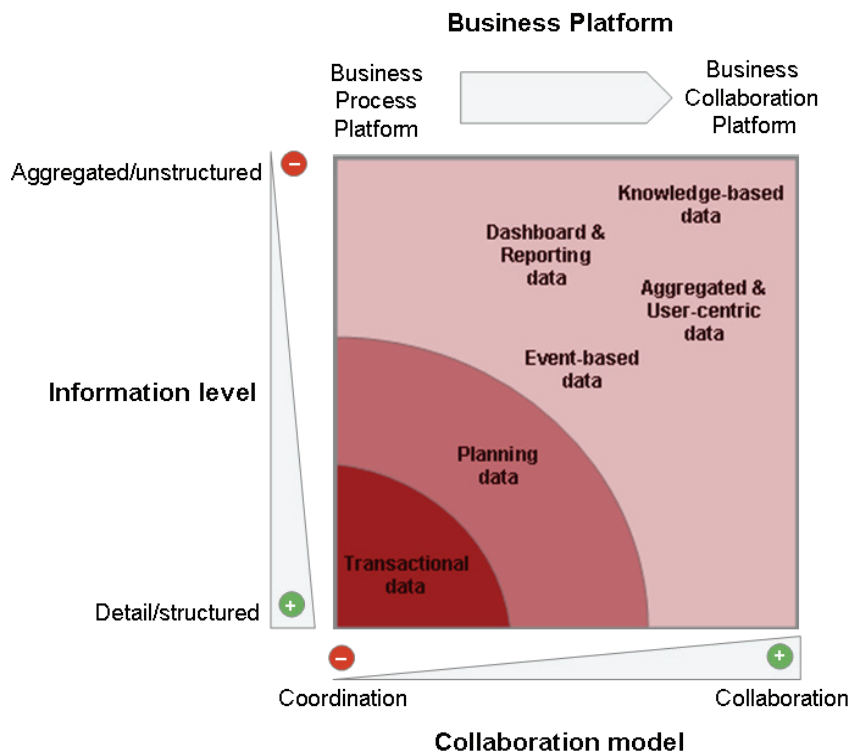


Figure 10: The choice of business platform depends on the structure of the information

A business collaboration platform is the future of your global and integrated information management platform – and is available in one single place, on-demand for the whole extended community:

- You can picture how your business is running (data and business intelligence)
- You have direct access to knowledge, intelligence, skills and competencies
- You can immediately collaborate thanks to web conferencing and instant messaging/VoIP

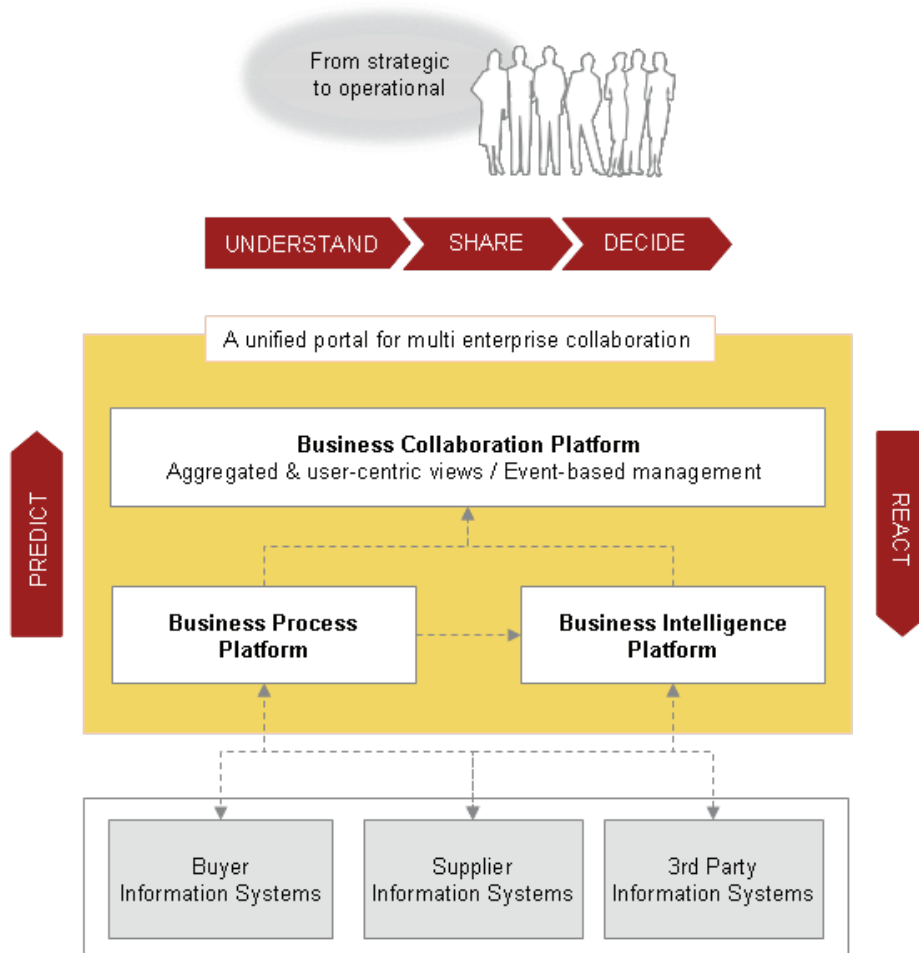


Figure 11: The future of enterprise information management

The objective is to manage your extended enterprise information in one single place to create state-of-the-art understanding, sharing, and decision-making processes that will bring much greater business value.



The Monitoring Process

In almost all industries, suppliers are monitored, but in some of them there are issues in obtaining reliable data for analysis, having adequate time to run analysis and simulations, and in gathering knowledge and collective intelligence. Yet this monitoring is a key process, as it is the right place in which to leverage collaboration between different partners in the value chain.

Because you have the right integration and collaboration models, you have all the critical information and resources in your hands to put in place an effective and efficient monitoring process. You do not merely look at the past; you look forward and define or adjust direction on a regular basis.

The objective of the monitoring process is to jointly build understanding, in order to predict, react, and take decisions with the right resources at the right time in the right place.

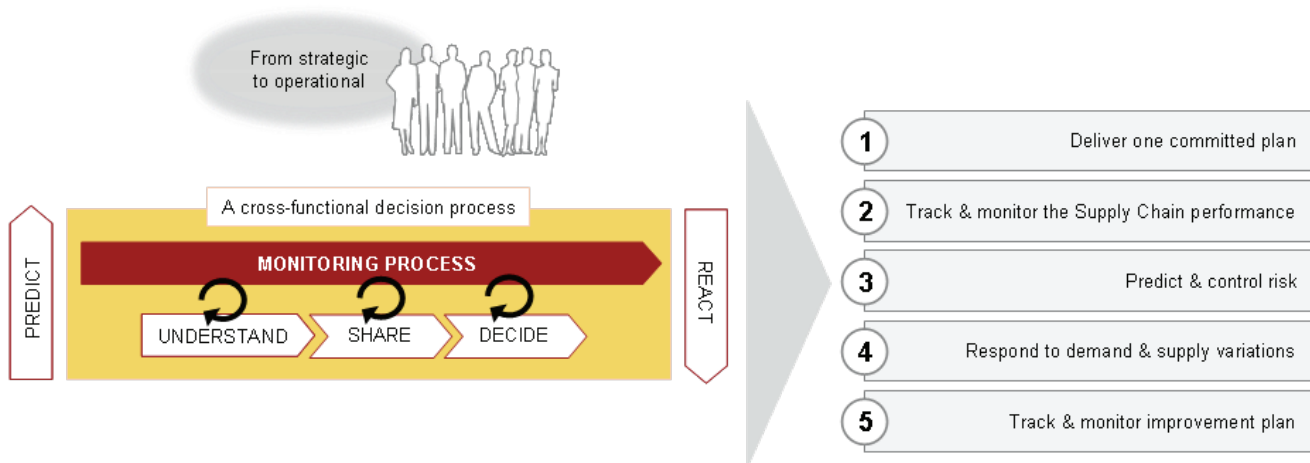


Figure 12: The monitoring process is a cross-functional decision process

A challenge of the monitoring process is to be cross-functional in a comprehensive framework. The process must not only be purchasing or quality-driven, it must involve all the business functions that are critical to - and involved in - supply chain efficiency.

How is this to be achieved? The answer is that as it is part of the collaboration model, it depends on the supplier relationship. It is driven by management meetings that may be held at different levels throughout the organization (executives, managers and team members) and also at different intervals. Thanks to new technologies, there is now an ability to involve the right people, competencies and skills, without locational constraints, and with only limited time constraints. Consequently, new technologies allow interaction in a more efficient way within the network, on a weekly basis or even more frequently if required.

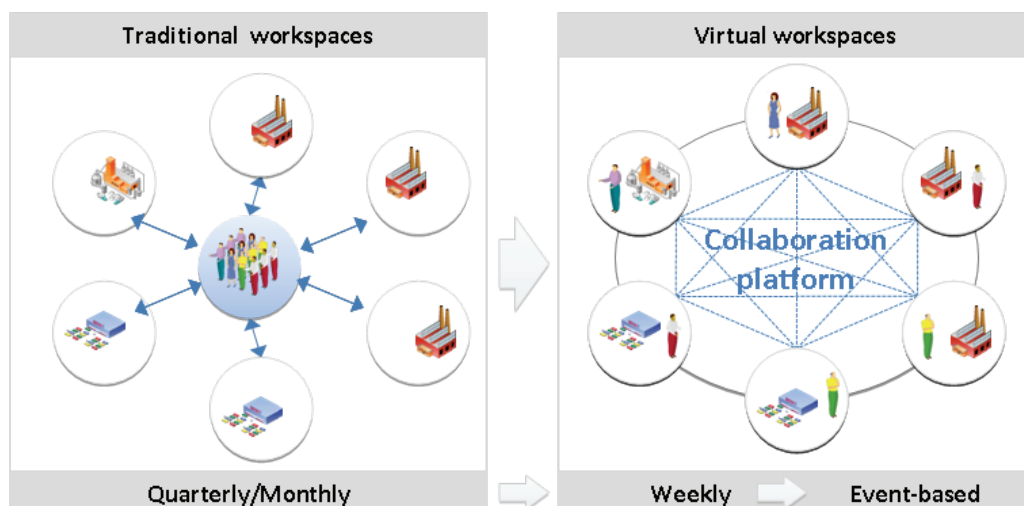


Figure 13: The pilot process is dependent on the supplier relationship

Focus: Order Cooperation and the Supplier Portal

Order cooperation is one characteristic of a global collaboration model. Order cooperation is defined as the ability to go 'back and forth' to suppliers with prospective purchase orders. This might happen when validating a new plan or following-up a previous plan. On the technology side, order cooperation is supported by data grids that are closely integrated with both customer and supplier back-end systems.

Support

Home New Tasks Transactions Reports Admin

Orders | Invoices | Payments | Manifests | Payment Protection | Financing | Receipts | Contracts | Consld Shipments | Adjustments | Event Mgmt

Worksheet PO Follow Up - CCL

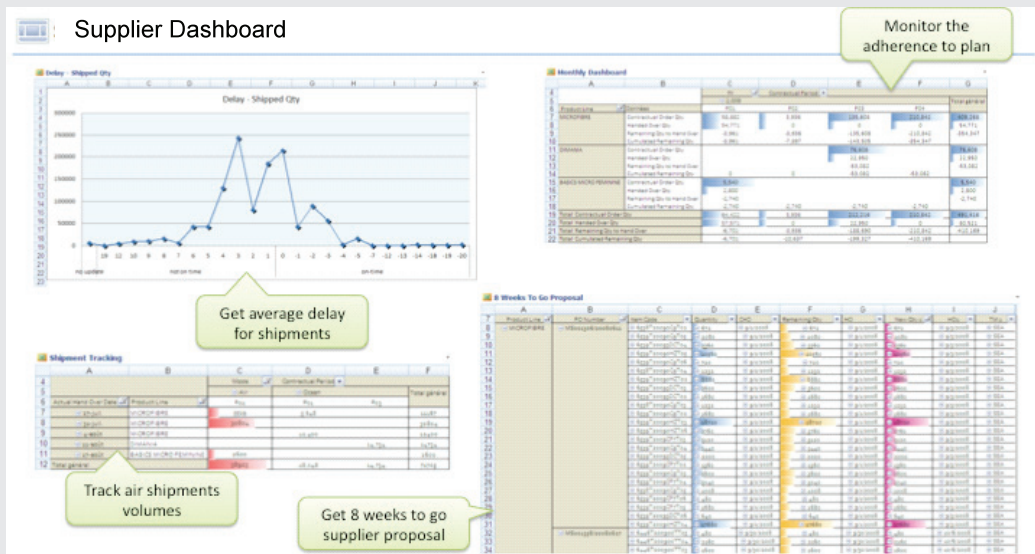
Status: Active

● Include rows closed in last [] days. ● Include exceptions for last [] days.

● Include orders with [] from [yyyy-mm-dd] to [yyyy-mm-dd] Refresh

Refresh	QTY	Rec'd Qty	Hand Over Date	DC Arrival Date	New Qty 1	New Hand Over 1	New DC Arrival 1	Trans ...	New Qty 2	New Hand O
Bulk Apply:										
1	1400	0	14... 2008-02-18	2008-03-10	1400	2008-02-09	2008-03-01	SEA		
2	400	0	400 2008-02-18	2008-03-10	0					
3	1600	0	16... 2008-02-15	2008-03-10	800	2008-02-23	2008-03-01	AC	800	2008-02-18
4	1600	0	16... 2008-02-11	2008-03-03						
5	1600	500	11... 2008-02-11	2008-03-03	500	2008-02-11	2008-03-03	SEA		
6	4240	0	42... 2008-02-05	2008-02-25						
7	7440	0	74... 2008-02-05	2008-02-25						
8	6480	0	64... 2008-02-05	2008-02-25						
9	4400	0	44... 2008-02-05	2008-02-25						

A supplier portal is a key means of establishing a tight relationship with suppliers. The objective is to share events, and be able to monitor the supply chain in a single place. Information is aggregated and user-centric. It combines both customer and supplier analysis, and allows instant collaboration for decision-making and issue-solving. On the technology side, a supplier portal is enabled through integrated business collaboration and intelligence platforms.





Conclusion

Supplier collaboration should be considered as an end-to-end process where all the end-to-end activities involved in the order cycle are aligned to deliver state-of-the-art performance. Its implementation is a transformation journey that faces cultural, organizational and technological challenges.

Integration enables the data-based information exchanges that are required for supply chain visibility, synchronization and monitoring. In parallel, collaboration is where excellence will be won or lost. Collaboration is the ability to share information, but even more to understand the capabilities that exist on each side, and to share risks and benefits. In short, collaboration institutes a dynamic and collective intelligence.

Consequently, collaboration can be considered as the way to achieve the mutual trust that will drastically improve decision-making, will allow efficient and continuous improvement and will leverage innovation. Furthermore, new technologies, such as the various business collaboration platforms on the market, are the technology enablers behind this collaboration.

The goal is to put in place an agile supply chain where all the partners within it are synchronized and where events can be predicted and reacted to in the most efficient manner. In short, this is what enables you to run your business better, and to ensure that your supply chain is a strategic asset to your organization.



Authors

Jacques Le Ny, Partner, France

Jacques is leading the supply chain planning and collaboration consulting services within Lodestone Management Consultants. He has led numerous implementations of supply chain planning and collaboration processes within high-tech, automotive, consumer products and life science. Jacques has 26 years supply chain experience and is also knowledgeable in supporting planning, business intelligence and collaboration technologies.



Patrick Bachet, Director, France

Patrick has more than 10 years of consulting experience for multinational companies mainly in the area of consumer packaged goods, life sciences and apparel. He is an experienced project manager, specialized in supply chain management, procurement and purchasing. For 7 years he has been dedicated to the design and implementation of collaborative organization and processes thanks to the new technologies. He is convinced that collaboration is where excellence will be won or lost. Patrick has been a lecturer in HEC France business school in both supply chain and program management 2.0 fields.



