Collaborative Supply Chain Development

James Graham

I will be discussing .....

- Collaborative Supply Chains
  - What are they
  - Commercial benefits
  - Critical success factors
- Case Study
  - Farmers – Scottish Organic Milk Producers – First Milk / Wiseman - Tesco

Traditional v Collaborative

Traditional	Collaborative
Assumes many customers & suppliers	Recognises limited choices of customers and suppliers
Price is only differentiating factor	Price is one of many factors in total cost calculation
Focus is on individual transaction	Focus is on repeating and reliable transaction history
Perspective limited to company boundaries	Perspective is of interdependent firms with aligned interests
Cannot justify investment in customers	Need to invest to support key customers and suppliers
Short term maximising	Medium to long term acceptable returns
No commitment – opportunistic behaviour	Commitment and mutual support
Buyer beware	No unpleasant surprises
Improve enough to win order	Continuous improvement to improve whole chain competitive performance
Hide failure to avoid loss of sales opportunity	See failure as opportunity to improve & remove possibility of future failure

Advantages of Collaborative Supply Chains

- Responds more quickly to market opportunities and changing circumstances
- More likely to be competitive and commercially sustainable for all chain participants
- Create interdependence and uniqueness in the chain
- Transformation from “traditional” to “collaborative” delivers a step change in competitiveness and performance

Commercial Benefits in Collaborative Chains

1. Waste removal
2. Added value
3. Joint process improvement and collaborative planning
4. Coordinating forecast and actual demand
5. Sharing of some resources
6. Long term thinking and mutual support
7. Fair recognition of effort

Delloittes Study of Manufacturers 2003

"Only 7% of manufacturers were effectively managing their supply chains, but they were 73% more profitable than non-adopters."

Key Management Issues in Collaborative Chains

1. Researching and responding to market changes
2. Fewer, but more important, chain participants
3. Relationship management
4. Balancing collaboration with commercial interest
5. Total chain costs and global sourcing
6. Processes for producing only what is wanted
7. Information visibility and e-business
8. Measures and continuous improvement

The ‘Ingredients’ for Successful Development

- ✓ Strong commercial motivator
- ✓ Business proposition with targets and measures
- ✓ Identified points of connection and authority between chain links
- ✓ Honest brokers to overcome obstacles
- ✓ Informed specifications
- ✓ Industry support organisations

Scottish Organic Milk 2002/03

- Consumers – organic milk with short shelf life or out of stock, and not marketed
- Retailers – faster growth and larger production in south
- Processor – volumes in Scotland too low to make cost efficient processing and logistics
- Producers – low % of milk attaining organic premium and continued production under threat

Action Initiated

- Commercial motivator
  - Farm production unsustainable
  - Called in honest broker to assist
  - Market research carried out in Scotland
- Business proposition
  - Findings shared
  - Business proposition developed
  - All Scottish in Scottish stores, plus labelling and promotion
  - Volume targets to create viability for all in chain

- Points of connection and authority
  - Established collaborative delivery team as soon as business proposition adopted
  - Authorised decision makers
- Role of honest broker
  - Maintain momentum across all participants
  - Broker through obstacles
  - Introduce & manage other ‘out of chain’ resources
- Industry support organisations
  - SEERAD grant support
  - MDC research

Outcomes

- Scottish consumers satisfied by fresh, local product
- Volume growth from 2.7m litres to 8m litres in 18 months
- Processing & logistics attaining viable volumes
- % milk attaining organic premium increased from 24% to 100%
- Farm price increase from 21ppl to 28ppl
- Expanding consumer demand for other organic dairy products = new opportunities for the chain

Summing Up

- A progressive move to more collaborative chains is taking place because commercial competitiveness is enhanced (think of your toughest global competitors)
- Has proven to be transferable between industries
- Essential to mix all the right ‘ingredients’ together for success
- Once a collaborative business proposition has been delivered, the next challenge will already have appeared

Introduction to SAOS

- A Scottish development organisation, specialising in co-operation and collaboration
- Deliverer of new business starts, business development strategies, and strategic projects involving co-operation and collaboration
- A partnership between SEERAD and 80 primary co-ops in Scotland. Scottish Enterprise a major client and partner
- Non profit distributing – all resources applied to our work
- Governed by Council and Board
- Small expert team