Collaborative Business for Value Chain Management

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Abstract

Increased urbanization, aging population, increasing spread of wealth, increased impact of consumer technology adoption, increase in consumer service demands, increased importance of health and wellbeing, growing consumer concern about, sustainability, shifting of economic power, scarcity of natural resources, increase in, regulatory pressure, rapid adoption of supply chain technology capabilities, impact of next-generation information technologies generate the new objectives for supply chain management.

The next step in the collaborative process is to achieve alignment between the retailer and the manufacture partners on the targets, score and direction to follow, and the desired outcomes of the collaborative initiative.

In the new generation of inter-organizational business model, we see collaboration evolving from the slow and linear collaborative planning, forecasting and replenishment (CPFR) model, and JAG model to a rapid-response, synchronous approach that proliferates multi-enterprise supply chain information to all partners in near real time.

A company can now achieve visibility into POS data from its customers, as well as planning, order and inventory information, so it can truly perform collaborative replenishment. A company can also closely collaborate with its suppliers by sharing inventory, order and capacity information.

Keywords: collaborative business, value chain, future supply chain, working together, collaboration, consumer and shopper journey

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Introduction

We are now in a market-driven economy, where the individual consumer is the ultimate channel master. The transfer of power from manufacturers to retailers sparked a series of paradigm shifts in how products are developed, introduced, distributed, serviced and retired. In the multi-enterprise global economy of today and the future, the supply chain is the common denominator across all of these elements. In order to understand these shifts, we must understand the megatrends that directly influence them. [Levi, Caudill, 2007]

**Megatrend 1: Mass Customization** - In a commoditized world, consumers will increasingly satisfy both their basic and their non-essential needs through their consumption patterns.

**Megatrend 2: Globalization and Micro-segmentation** - The aging populations of the United States, Europe and Japan will create new marketing challenges and service opportunities.

**Megatrend 3: Rapid Innovation** - Competitive advantage can be gained by focusing on product leadership, customer intimacy and operational excellence. Central to this focus are product innovation and supply chain collaboration.

**Megatrend 4: Collaboration Among Multiple Enterprises** - In the new paradigm, companies are no longer single enterprises. They are members of specialized teams consisting of vendors, service providers and customers--all of whose roles are symbiotic and whose responsibilities are interdependent.

It appears that everywhere in the world where we meet leaders of the business and political world, practically everybody feels that *this age is different, new type of normality: chaotic*. [Kotler, Caslione, 2009]

*Blue ocean strategy* challenges companies to break out of the red ocean of bloody competition by creating uncontested market space that makes the competition irrelevant. Instead of dividing up existing – and often shrinking – demand and benchmarking competitors, blue ocean strategy is about growing demand and breaking away from the competition. [Kim, Mauborgne, 2005]

Value innovation is a new way of thinking about and executing strategy that results in the creation of a blue ocean and a break from the competition. [ROther, 2010] Importantly, value innovation defies one of the most commonly accepted dogmas of competition-based strategy: the value-cost trade-off. It is
conventionally believed that companies can either create greater value to customers at a higher cost or create reasonable value at a lower cost. Here strategy is seen as making a choice between differentiation and low cost. In contrast, those that seek to create blue oceans pursue differentiation and low cost simultaneously. [Kim, Mauborgne, 2005]

Supply-chaining is a method of collaborating horizontally – among suppliers, retailers, and customers – to create value. Supply-chaining is both enabled by the flattening of the world and a hugely important flattener itself, because the more these supply chains grow and proliferate, the more they force the adoption of common standards between companies (so that every link of every supply chain can interface with the next), the more they eliminate points of friction at borders, the more the efficiencies of one company get adopted by the others, and the more they encourage global collaboration. [Iyer, Seshadri, 2009]

When the world is flat, our company both can and must take advantage of the best producers at the lowest prices anywhere they can be found. If you don’t, your competitors will. So global supply chains – that draw parts and products from every corner of the world – have become essential for both retailers and manufacturers. [Friedman, 2005]

1. A New Model for Enhanced Collaboration

Integrating these improvement solutions together with collaboration concepts into a cohesive model will provide the future supply chain architecture that will help bring new efficiency and cost reduction for the industry. Researches in this domain demonstrates how the different solutions should be considered in relation to each other, and makes it clear that a big impact on the parameters can be made when the following concepts are merged and implemented: Information sharing – driving the collaborative supply chain; Collaborative warehousing; Collaborative city distribution (including home delivery and pick-up); Collaborative non-urban distribution (including home delivery and pick-up).

1.2. New Ways of Working Together
New Ways of Working Together is about developing new ways for vertical trading partners to work together – including sustainable changes in culture, collaborative business planning and new measures and rewards. For a bilateral trading partner relationship, it offers an integrated roadmap for getting alignment and commitment on four key strategic choices in the collaboration of trading partners, which can ultimately lead to more satisfied shoppers and the elimination of waste, both of which should, in the end, produce better business results. [GCI, 2008]

- **Focus on the Consumer**: involves trading partner bilateral collaboration to better meet the needs of our consumers and shoppers. One breakthrough concept, ECR Europe Jointly Agreed Growth (JAG) methodology, addresses the fact that, in more strategic relationships, annual business planning is simply insufficient. Business plans must allow for longer time horizons.

- **Connect Business Information**: addresses transparency and information sharing by establishing common goals, common measures and a common language. Key components include the establishment of GS1 standards for key performance indicators and the use of Global Data Synchronization.

- **Prepare People**: addresses the organizational structures, capabilities, measures, people performance incentives and rewards that either facilitate or create barriers to collaboration.

- **Share Supply Chain**: is all about how the industry and trading partners must do things differently to address volatile energy costs and the need for more sustainable business practices.

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**Figure 1.**

**New ways of working together – Eliminate Supply Chain Disruptions, Enable Growth**
1.3. The concept of collaboration

Building the capacity to collaborate is hard work and demands the best of people, particularly when it involves people from different organizations with different goals and with little history of working together. [Senge, 2008]

Categorizing Collaboration in the Consumer Products Value Chain

For consumer products companies, meeting the demands of the “new world thinking” inherent in the industry today requires the formation of collaborative relationships that enable companies to grow at reduced cost while providing sustainable consumer value. Relationships within the value chain that have evolved over time are either typically based predominantly on short-term market transactions, or have developed into long-term ownership solutions. [Thomson, Ortis, Micheletti, 2006]

Collaboration versus other business models: Figure 2 shows relationships characterized as contractual non-equity based relationships – such as event-based, data sharing, and process harmonization.

Figure 2.

Partnership categorization in the Consumer Products Value Chain
As transaction costs have decreased this has spurred companies within the consumer products value chain to outsource more of their non-core activities. The concept of traditional outsourcing is a request for proposal process, followed by formal contract negotiations.

1.4. Four collaboration concepts are at the heart of the overall future supply chain architecture:

1. Information sharing - driving the collaborative supply chain;
2. Collaborative warehousing;
3. Collaborative city distribution, including home delivery and pick-up;
4. Collaborative non-urban distribution, including home delivery and pick-up.

Trend: What Is Driving the Objectives

The first phase of the 2020 Future Value Chain project involved identifying and analyzing the trends that will have the greatest impact on our industry in the coming 10 years. Twelve global root trends were identified that address change in society, shopper behavior, environment and technology. [GCI, 2010]

1. Increased Urbanization and the rise of megacities will impact the size of stores, logistics and the supply chain, and distribution infrastructures, among other factors.

2. Aging Population will have economic and political consequences related to the amount of money spent on necessities like food and drink, and the type of delivery services, store formats and locations offered to older consumers.

3. Increasing Spread of Wealth will lead to a growing middle class in developing regions, impacting consumption and availability of food items and providing a source of growth for manufacturers and retailers.

4. Increased Impact of Consumer Technology Adoption will be reflected not only in consumers’ own behavior but also in their ability to influence the
buying behavior of other consumers as the use of social and digital media continues to spread.

5. Increase in Consumer Service Demands will define new service models, offered via the Internet, that move beyond selling individual products and will bring different types of “solutions” to consumers and shoppers.

6. Increased Importance of Health and Wellbeing will have significant ramifications as sales of healthful products and services are expected to nearly quadruple in the coming five years.

7. Growing Consumer Concern about Sustainability will lead consumers to look to governments and companies to play a major role in combating climate change.

8. Shifting of Economic Power to countries like China and India will cause trade areas to evolve and a new generation of globally competitive companies from these developing markets to emerge.

9. Scarcity of Natural Resources like energy, water and food will become a growing issue as demand is projected to outstrip easily available supplies over the next decade, resulting in increasing production costs.

10. Increase in Regulatory Pressure will be seen particularly for hot-button areas like the environment, sustainability and food safety.

11. Rapid Adoption of Supply Chain Technology Capabilities will enable a more synchronized value chain with greater visibility and traceability.

12. Impact of Next-Generation Information Technologies like cloud computing will lead to a new way to deal, jointly, with business and technology in the consumer goods industry.


2. The Consumer Centric

2.1. Serving Consumers in a Sustainable Way

Current supply chain designs are primarily aimed at improving on-shelf availability, reducing cost and supporting sound financial figures (like ROI or
return on brand equity). In the future, the industry must design for additional parameters like CO2 emissions reduction, reduced energy consumption, better traceability and reduced traffic congestion. The impact of these new parameters on the current bottom line may not yet be substantial but will grow in the coming years and efficiency improvements will almost certainly be realized. Supply chain strategy needs to look ahead and give priority to these parameters. All stakeholders in the supply chain will need to play their part to accomplish this change. Consumer awareness and demand for new products and services will also accelerate the adoption of new practices.

In recent years, the term "shopper/consumer centric" has become popular to describe decisions by retailers and manufacturers that focus on influencing shopper behavior to improve business results. New approaches, such as "shopper marketing", have emerged as the new statement of what innovative "shopper centric" business processes look like. However, retailers and manufacturers seem to have different views on what a "shopper centric" business approach means and what it encompasses. These differences are not difficult to understand: both retailers and manufacturers put shoppers/consumers at the center of the process, but the difference is that retailers typically think of stores/categories first while manufacturers typically think about their brands first. Clearly there is a big opportunity to bring these two complementary perspectives together around an integrated consumer/shopper approach.

### 2.2. Consumer and Shopper Journey Framework

The central idea that drives the C&SJ Framework is the concept of the Consumer & Shopper Journey. This is defined as: "The mapping of the behavior and decisions of a group of consumers/shoppers, from Consumption through to Purchase and Post Purchase."

The fundamental proposition of the C&SJ Framework is that the insights generated from the C&SJ lie at the heart of a collaborative shopper-centric business approaches, including Category Management and Shopper Marketing. Once these insights are uncovered, a collaborative business process and a set of business tools then leverage these insights to develop superior value propositions for target consumers and shoppers. The complete C&SJ Framework as shown in Figure 3 consists of three components: 1. The Insights Models; 2. A

**Steps in the Process**

The most important component of the Consumer & Shopper Journey Framework (C&SJ Framework) is the Collaborative Business Process. This process consists of three steps: Strategic Context / Preparation; Strategic Alignment; Collaborative Business Planning. [ECR EUROPE, 2011]

The essential starting point for any successful collaborative initiative is for each partner to clearly define the internal requirements for a successful collaborative effort and to complete the internal tasks needed to prepare for collaborative work. This work must be undertaken independently by the retailer and the manufacturer to ensure that each of their organizations is prepared to begin the joint business planning and implementation work. To complete this preparation, as shown in Figure 3, three specific tasks should be completed:

1. **Set the Internal Direction** – the retailer and manufacturer, working independently, answer key questions to ensure that the collaborative work will deliver results that are consistent with each firm’s business objectives and strategies;

2. **Select Target Consumers and Shoppers** – the retailer and manufacturer gain internal agreement within their respective organizations on the consumer
and shopper segment, or segments, to target through collaboratively developed programmes;

3. Select and Engage Target Partner – each partner defines the criteria to be used to select the appropriate partner for the collaborative effort and uses these criteria to elect and engage the selected partner.

The next step in the collaborative process is to achieve strategic alignment between the retailer and the manufacturer partners on the targets, scope and direction to follow, and the desired outcomes of the collaborative initiative. This involves the completion of three tasks:

1. Aligning on Consumer/Shopper Targets – In Step 1, each partner defines independently their target consumer and shopper segment, or segments. Subsequently, the partners need to agree on which target segments will be the focus for their collaboration. This alignment is essential prior to beginning the detailed work of developing a business plan to deploy strategies and tactics against the selected target segments;

2. Merging Consumer & Shopper Journey Insights – The retailer and the manufacturer bring different consumer and shopper insights into the collaborative work. A major goal of the C&SJ Framework is to synergies these insights in the development of segment-focused value propositions and programmes. This task identifies these insight synergies and also any significant information gaps that should be addressed to better understand and influence the consumer and shopper journey for the selected segment, or segments;

3. Setting High Level Shopper Strategies – Based on the opportunities identified through these combined insights, the retailer and manufacturer develop a set of preliminary, high level strategies that provide guidelines for more detailed tactical programmes;

The final step is business planning and implementation. The key tasks completed in this step are:

1. Identify the Scope of the Plan;
2. Develop and Revise Shopper Marketing;
3. Implement and Evaluate.

Conclusion. Best practices for New Generation SCM Model
**Integration across functions:** new-generation SCM processes automatically combine this cross-functional information, analyze it, identify exceptions, recommend changes and then rapidly communicate these changes to supply chain partners and customers.

**Acceleration of processes:** with the latency of integrating the necessary information greatly reduced, supply chain management can become a real-time process.

**End-to-end management:** end-to-end supply chain management requires the integration of information from many applications.

**Demand-driven supply chains:** one of the most important characteristics within end-to-end supply chain management is the ability to drive the supply chain from actual customer demand instead of from sales forecasts.

**Integration of planning and execution:** in new-generation supply chain management, planning and execution are increasingly integrated.

**Collaboration:** in the new generation, we see collaboration evolving from the slow and linear Collaborative Planning, Forecasting and Replenishment (CPFR) model to a rapid-response, synchronous approach that proliferates multi-enterprise supply chain information to all partners in near real time.

**Process innovation:** in the new generation, SCM systems can be quickly and easily modified to support process innovation, encouraging new practices.

**Focus on business processes, not software applications:** companies are buying business process platforms, with standard process workflows from a workflow library, and then modifying and extending these workflows to create unique business processes.

**References**


• GCI (2010), *2020 The future Value Chain*

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