

# Cross Enterprise Collaboration

## An enabler for Growth

*“Ultimately, what is in the best interests of all will be in the best interests of each”*

*Michael Hammer, The Agenda*

### The Imperative for Collaboration

Today’s business environment makes it crucial for separate organizations to work together to achieve growth. This imperative is driven by several realities:

- Few organizations will control all the criteria; product attributes, availability and responsiveness, after sale service, value-added capabilities, and relationships that go into buying decisions
- Most companies deal with a few significant customers and a few large suppliers due to industry consolidations, strategic sourcing initiatives, and a focus on core competencies
- Information accessibility and availability create higher expectations of what is possible.

Many executives will accept the premise that multiple organizations working toward a common objective will achieve higher performance than organizations working alone. However, buyer-seller relationships, traditional business practices, and a lack of knowledge of collaboration’s characteristics impede progress. Rather than focusing on a common objective, time is spent on individual issues not common challenges.

Such an environment:

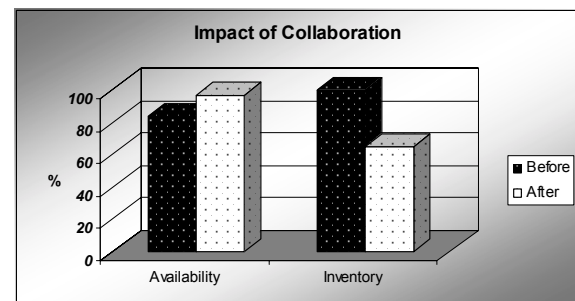
- Inhibits incorporation of supplier innovations in product development
- Hinders mutual marketing and sales that leverages the strengths of each
- Prohibits operating efficiencies because necessary information is not provided to others

The result of such an environment is uncertainty, doubt, and lack of trust that creates waste -- manifest in lost sales, unnecessary inventory, low utilization of assets, and extra tasks and activities for all.

### Impact of Collaboration

Recognizing this situation, a manufacturer and a major customer decided to develop a collaborative order to delivery process.

Within one year they raised product availability from the mid 80’s to the high 90’s, reduced inventory about 30% in year one, and achieved significant further reductions over the next two years. In addition, they found their relationship stronger as they focused on a common challenge. Both achieved financial benefits in higher revenue, lower cost and improved asset effectiveness.



### Characteristics of Collaboration

Beginning an effort to collaborate with key customers and suppliers requires an understanding of the characteristics that will exist upon completion. When collaboration exists across enterprise boundaries a few visible characteristics will exist. These include:

#### Process alignment

The output of one company’s process flows easily to the input of another’s. This is more than electronic data interchange. It requires an alignment of the timing, granularity, and elements of information from one to another. It is driven by decision timing to improve performance in usual business metrics; availability, utilization, inventory, etc.

An example may be useful. Prior to establishing a collaborative order to delivery process, a well meaning customer provided a forecast of it’s projected needs 30, 60, and 90 days into the future. The supplier dutifully received this data from its large customer but did little with it. The supplier’s manufacturing planning and scheduling process timing was not aligned with the customer’s. Decisions on major subassemblies and final configurations were done to forecast, not actual demand. The supplier didn’t want to suggest its customer’s well

meaning effort wasn't valuable so they accepted an investment in inventory on items that could be configured rapidly, with little lead time.

As a first step to collaboration, these two companies aligned their forecasting process. They identified the elements each needed for their business, the granularity of data necessary, and when this data was needed. Notice, neither had to explain why they had such requirements (or the internal limitations behind their requirements). The forecasting effort by the customer was aligned with the planning and scheduling practice of the supplier. Soon, inventory was reduced, plant utilization increased, and product availability improved. Sales increased, costs decreased and margin for both improved.

### ***Mutual Reliance***

It is not uncommon for customers and suppliers to duplicate a portion of their tasks, activities, and investments. This occurs because of lack of visibility, lack of trust, and/or lack of knowledge. Mutual reliance calls on parties to determine who should best perform a task or make an investment. The objective is to eliminate waste that exists as an unnecessary cost or an underutilized asset. Again, an example to illustrate.

A manufacturer produced many products that could be sold to every customer, and some products that could only be sold to specific customers. In the business as usual world, they maintained inventory of each category. In the process of establishing a collaborative replenishment process with some customers, the manufacturer established a means to improve availability and responsiveness for the product that could be sold to all, and enabled the customer to eliminate their inventory of such items. Concurrently, the two worked collaboratively to establish a make to order process for the unique items, eliminating that inventory for the manufacturer.

Determining what business needs will be met through reliance on another is a difficult decision, analytically and emotionally. It requires a rigorous understanding of responsibilities, risks, and risk mitigation strategies.

### ***Commitment***

One of the biggest adjustments in a collaborative environment is to reassess traditional relationship characteristics. As two organizations work together toward common issues: product launch, major sale, or ongoing replenishment, difficulties will arise. Some companies attempt to predict every potential problem and define remedies and actions into agreements. Others rely on size, clout, and implications for future business.

Collaborative relationships require a process to resolve problems and a recognition that they will occur. To establish an effective problem solving process it is critical both parties understand each others attitudes toward aspiration, trust, and difference. For example, if one participant's aspiration is to expand into new markets, while the other's is to reduce costs, the focus, activities, and measurement of each will be different. If one organization gives trust until it is proven one is untrustworthy, while the other doesn't trust until it's proven, difficulties will arise. If one believes differences are to be valued as they create better solutions, while another views difference as problems to avoid, an uneasy working relationship will exist.

### **Collaboration's Challenges**

Knowing the need, the characteristics, and the benefits of collaboration, what then are the challenges? How can they be addressed?

The first challenge of collaboration is selection--picking the right business partners with which to collaborate. Those selected must offer the potential for creating differentiated performance that will result in mutual benefit. Once the goal is clear, considerations of existing relationships, commercial and personal, as well as competitive and market realities must be incorporated.

Having selected an appropriate organization, both parties must now determine how the collaborative relationship will be different than traditional business practices. The objectives must be clear, measurable, and mutual. A focus on business processes and capabilities is essential. Transforming a process to "faster, cheaper, better" requires a mutual agreement as to the process(s) that will have the best marketplace impact. Very often an independent, objective intermediary can accelerate these efforts as each party can bring concerns or issues to a neutral participant for evaluation, discussion, and an approach to resolution.

### **Collaboration: an enabler of growth**

Separate organizations, working together toward a common goal, can produce a higher level of performance than if each works alone. Capabilities and competencies can be utilized for more impact to increase revenue, reduce costs, and improve asset effectiveness. Collaboration can contribute to this objective, aligning processes, creating mutual reliance, and establishing common commitments.