

Presentation

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Innovation and collaboration in Supply Chain

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**Benchmarking
Success**TM

Igniting the flame of progressive thinking

© 2005

What do we do?

BMS is about SC Development & Improvement

utilising

**Supply Chain
Diagnostic
& Audit Tools**

&

**Business Improvement
Peer Groups
(collaborate & change)**

where performance is audited & then compared to

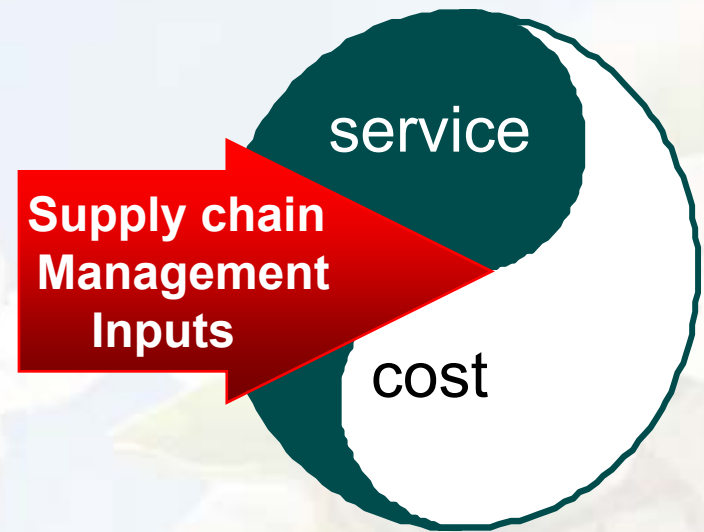
**BMS Supply Chain Best Practice Model
& over 700 supply chains**

1. **Service delivered by & through your supply chain,**
2. **Costs incurred across supply chain to deliver that service, &**
3. **Management inputs deployed**

that is **benchmarked with World Class Supply Chains** from our database,

to provide a **detailed Supply Chain improvement path** that satisfies short term & long term requirements, in the pursuit of world class performance.

700+ Supply Chains
In Database



Benchmarking
Peer Groups
(over 250 Companies,
20 groups)



Is Innovation and collaboration necessary for a world class Supply Chain?

- **Innovate – to make changes.**
 - Need contracts and thinking that nurture it.
- **Collaborate – to work with, to work in association.**
 - Create the conditions to enable it
 - Recognise cooperative behaviour, penalise competitive behaviour.
- Can a Supply Chain deploy a competitive model only and sustain world class performance?

World Class Supply Chains

Service

19% of Supply Chains deliver >97% in full by line.

Only 8% of supply chains match that with on-time Delivery Of >97%

Only 4% base that on the customer's 1st request

Cost

Only half of these organisations do it at optimum cost!

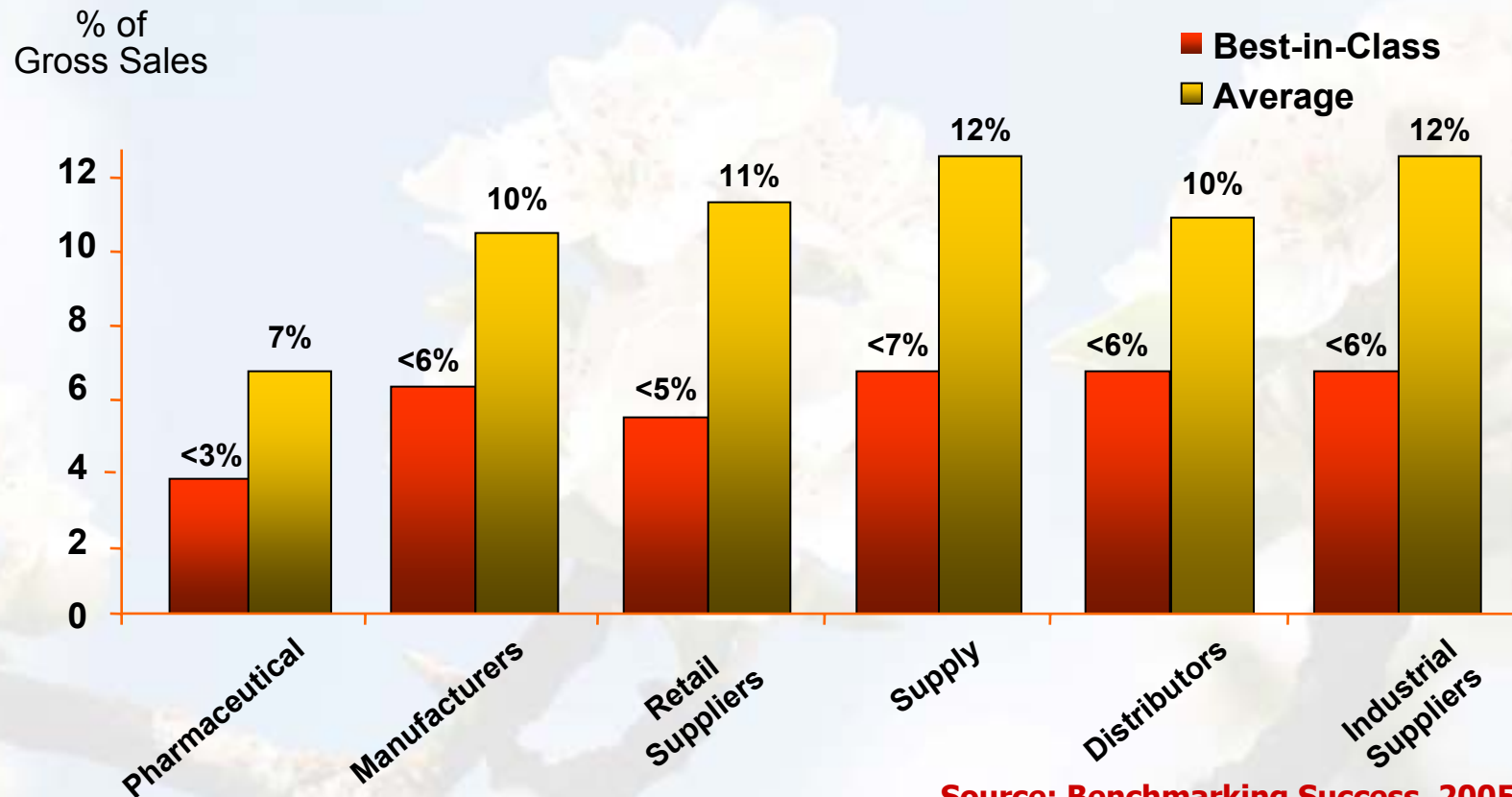
Only 2% of supply chains achieve world class DIFOT [delivery in full and on time] & optimum cost



Superior Performers Spend Less on Supply Chain

Best practice performers have 4-6% lower total supply chain costs as % of gross sales

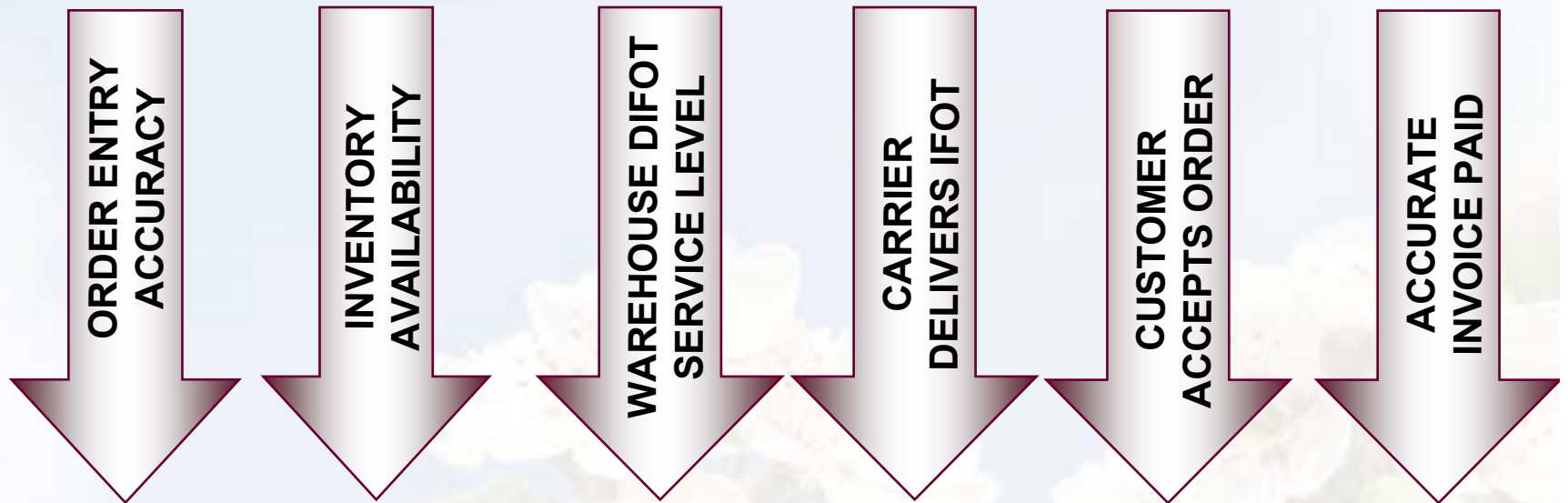
Total Supply-Chain Cost = Purchasing admin, Inventory Management, Inventory Carrying Costs, Warehousing, Transport & Customer Service)



Source: Benchmarking Success, 2005.



Probability of Perfect Order

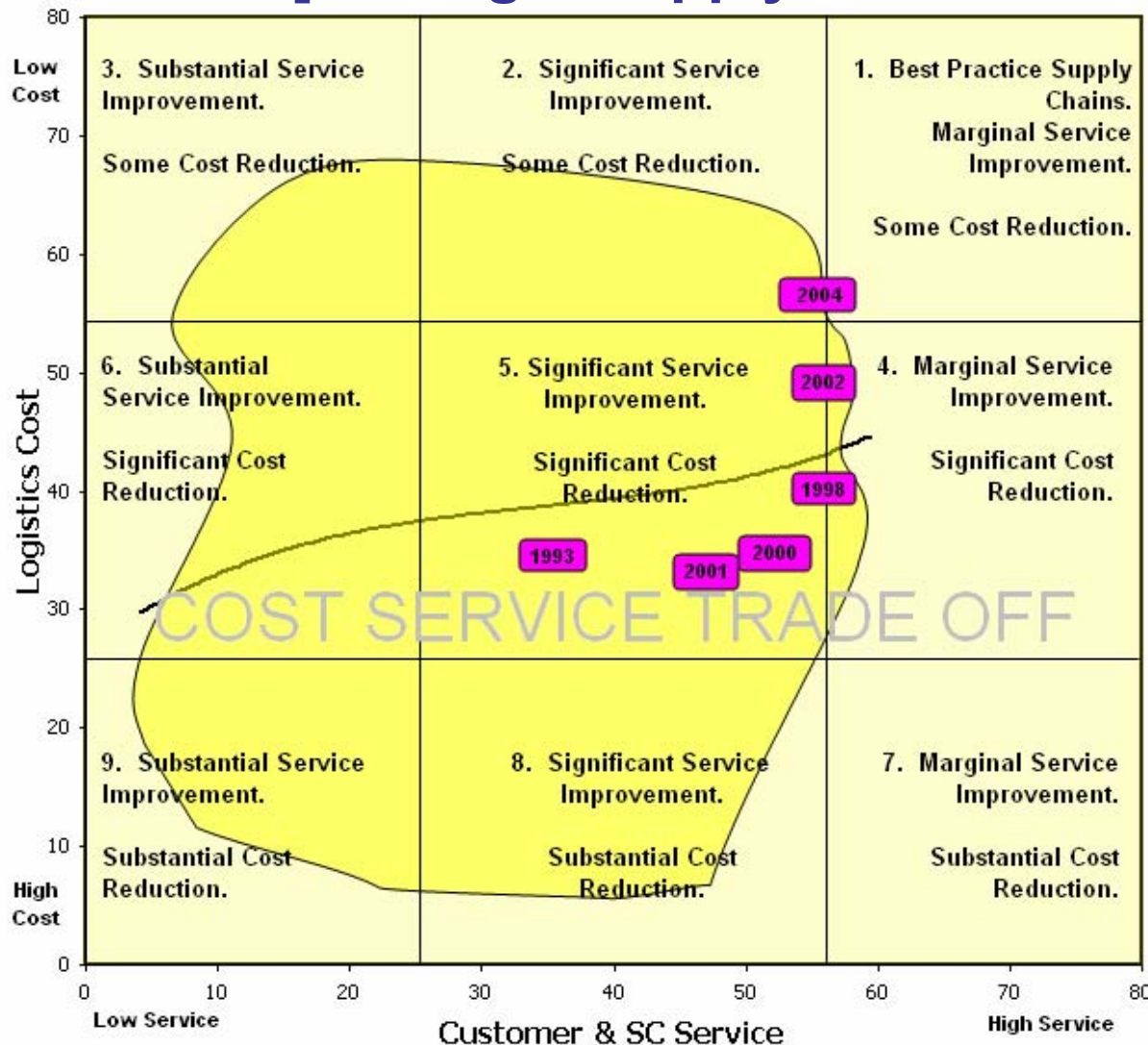



Example Company	96%	80%	82%	85%	97%	98%
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Perfect Order Probability	76% (.96x.8)	62% (.76x.82)	52% (.62x.85)	50% (.52x.97)	49% (.5x.98)
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What is the potential for improvement? What would be the effect on service levels and cost if the likelihood of a perfect order was 70%? Best in Class is above 85%

Example of business improvement over time using the BMS SCAR[®] [Strategic Supply Chain Audit Report] Process



 = Outlines the spread of other organisation's positions on the Champions-Challengers chart.

Champions Challengers[™] Cost & Service Trade Off Chart - comparison with 240 Retail Suppliers.

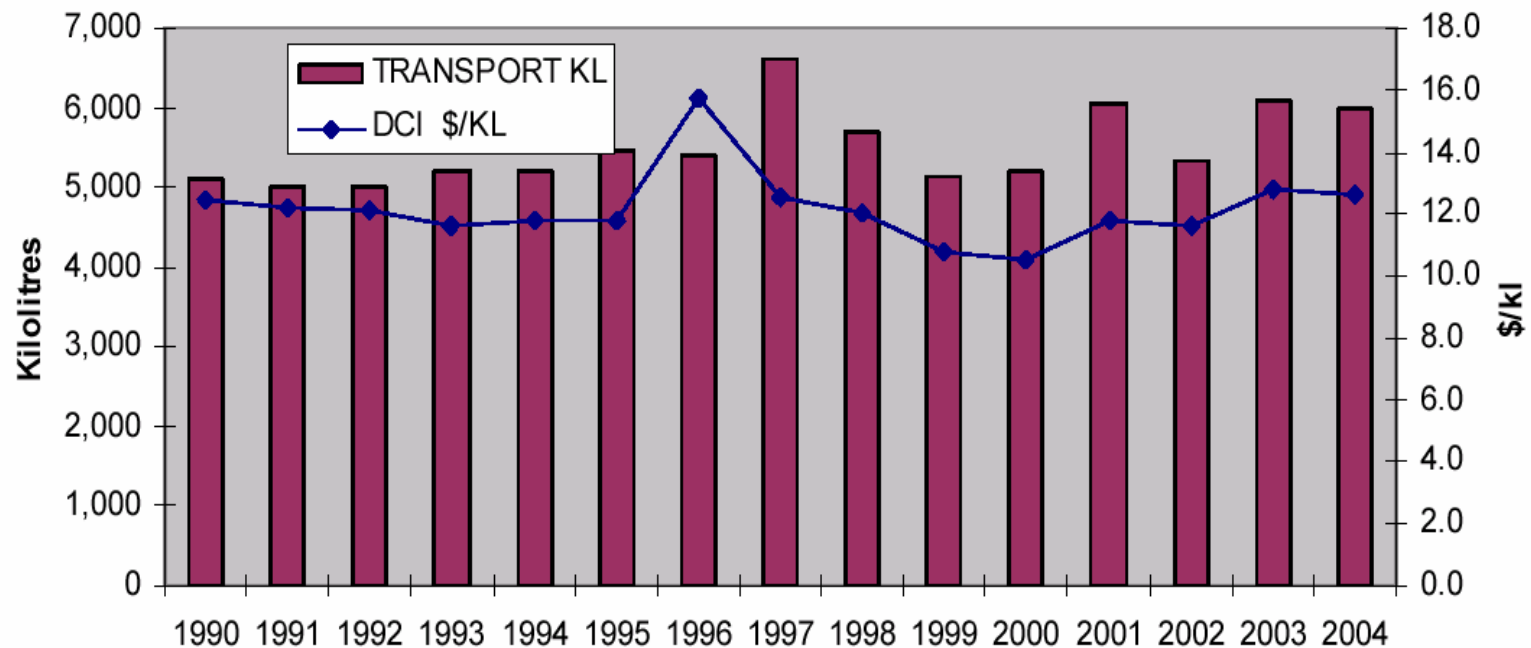
As the chart illustrates this company has maintained its world class service levels at a reduced the cost base over the 10 year period.

Service and costs worsened immediately after an ERP implementation, and have then improved dramatically up to 2004.



SCAR™ report review

- Benefits of insight into current supply chain performance
- Identifies what can be
- Improvement tool



Over the same period Victorian Transport Association cost index has risen 42.8% and CPI 34.98%

Is Innovation and or collaboration necessary for a world class Supply Chain?

- **Innovate = to make changes.**
 - Need contracts, thinking and conditions that nurture Innovation.
 - Contracts that create movement and win win scenarios.
 - Consider the 3PL – customer environment. 3PL needs to manage risk and so top line focused [can't give away revenue is thinking] – Client needs cost down but effective focus.
- **Collaborate = to work with, to work in association.**
 - Create the conditions to enable it. Examples? OCP – Ti West, Unilever – Woollies, GWF – Kalari, Coca Cola – McDonalds, others?
 - Recognise cooperative behaviour, penalise competitive behaviour.
 - Cycle of collaboration. When have you taken a hit for the benefit of one of your partners?
- **Can a Supply Chain that deploys only a competitive model sustain world class performance?**

Is collaboration or competition the most profitable way to work in a supply chain?

- Managed a number of projects deploying a collaborative partnering framework.
- Partnering value and components established deploying Global Supply Chain Forum model that;
 - Defines the relationship you currently have on a continuum from arm's length to vertical integration with 3 levels of partnerships in between.
 - Identifies the value to be derived if the relationship changes and becomes more strategic, i.e. becomes a partnership.
 - Details the relationship components required to deliver the promised value.
 - Enables development of an implementation strategy.

To Collaborate or not to ...

- Assess the level of cooperation in the relationship and understand is behind this competitive behaviour. Need to become more conscious.
- One example was a **collaborative design and construct process for a development and construction client [oxymoron?]**.

The methodology incorporated;

- Red Blue cooperation / competition simulation [prisoner's dilemma from game theory].
- Interface meetings.
- First planner at coordination meetings.

Red Blue Simulation

- Participants divided into teams.
- **Objective of simulation is for your team to achieve a positive score** (zero is not a positive score).
- Your team **must decide to play either red or blue for each of the 10 rounds – decision based on scoring system.** Two Negotiations.
- Play round one blind only. The facilitator is messenger between teams by updating teams on who has played what colour and its impact on score.
- **Example of Scoring if Three Teams**

Red Blue Simulation

If Teams Played these Colours				Then they Score these points			
Weeks	Team A	Team B	Team C	Team A	Team B	Team C	
1	Red	Red	Red	+ 3	+ 3	+ 3	
2	Blue	Red	Red	+ 6	- 6	- 6	
3	Blue	Blue	Blue	- 3	- 3	- 3	

Let's play one round – play individually.

What colour would you play in round one?

This simulation was conducted three times;

1. Initially with the **principals of the development company & key contractors & design consultants;**
2. **Supervisors** from the development company & key contractors & finally with
3. **Labourers** from the development company and key contractors.



To Collaborate or not to ...

The Process

- Design was collaborative – **design consultants and contractors** met to discuss how to improve the process. Contractors given work – **no tender**.
- Facilitated Interface conversations between parties – important to **equalise the power balance** between the parties to ensure the best outcomes.
- Win win because contractors did not have to start from an unsighted plan and consultants did less redraws and were welcomed on site.
- During construction many commented about the “feeling” onsite, comments like a **feeling of brotherhood and this collaboration is a social process**.
- The outcome was **transparency across the site and contractors** were committed to not let the team down – this created a real buzz on site.
- Trades shared equipment and contractors were aware of the impact they had on other contractors.
- **Many players made more margin from project because of less waste.**

To Collaborate or not to ...

- Successful **cooperative working** requires a **visible, transparent, accountable management system, comprehensive planning, firm commitments [promise management] and accountability** – even more so than a traditional top down management approach.
- The **relationships between design consultants - builder - contractors change**.
 - more **involvement** from trades / contractors that will build what is designed.
 - The planning process is both a **top down and a bottom up** process involving contractors. **Coordination meetings on site are collaborative**.
 - A **learning environment is created**. Traditionally **no time is allocated to learn** from project. Reviewed & identified what we could do better next time.
- “Feedback loops” were built into the system. The learning from this project was captured and fed into the next project.

To Collaborate or not to ...

Next Steps

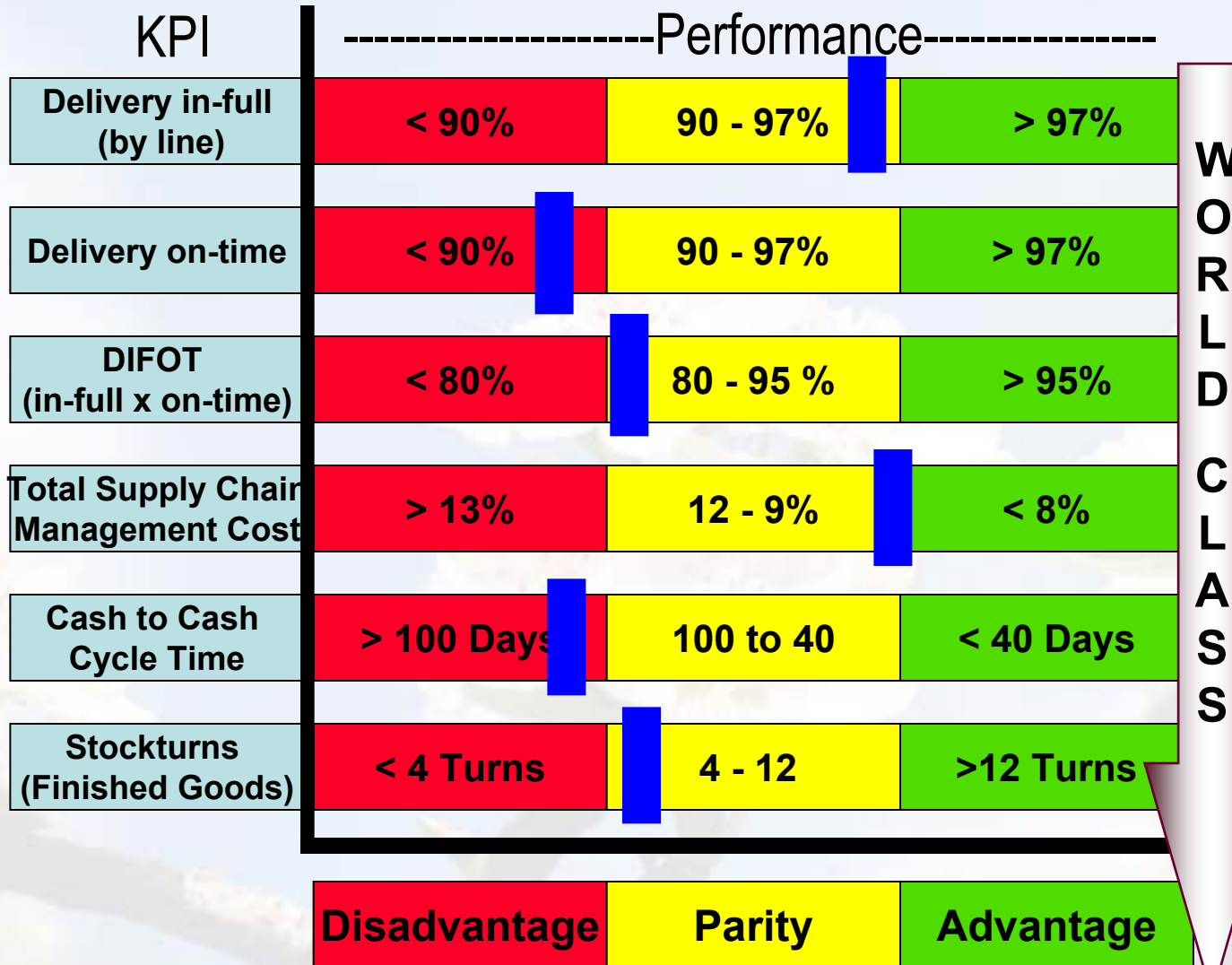
- Cycle of cooperation? Get value delivered from cooperation at different rates? How many projects to get the full value of cooperation?
- Take advantage of lower priced offers from companies outside the cooperation circle?
- We create win win but does it depend on how much is won?
- What destroys cooperative workings?

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Champions Challengers™ - Level 1 Metrics

CP Example Company Performance



Comparisons with all Database e.g. including:

Arnott's, HP, Dulux, Mattel, IBM, 3M, Honeywell, Mars, Siemens, Kodak, Nestle, BHP, Smorgons, Unilever, Mayne Health, Jeans West, Amcor, etc

Any questions?

Contact Stephen Hanman to discuss further – 0419 59 7744



Any takers for the free subscription service – you receive data to your company and dataset you select on the previous slide?

Email your contact details to info@benchmarkingsuccess.com



I trust the light bulb was turned on at least once!

