



**SupplyVelocity®**

# **Trust & Collaboration in the Supply Chain**

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### Collaboration is Supply Chain Management

Collaboration is a core component of supply chain management. Supply chain management can be defined as:

“The coordination and management of materials, information and financial resources from suppliers through a firm’s operations to customers with the purpose of maximizing customer service and minimizing costs, thereby enabling the supply chain to profitably grow sales.”

In order to make this definition a reality, you need to collaborate with partners; and in order to collaborate, you need to trust your partners and be trustworthy. Partners includes suppliers, service-providers such as third party logistics providers or information providers, your bank/lender and your customers.

### Is Collaboration Really Happening?

There is a lot of evidence that supply chain management, as defined above, is not really happening. A study of buyers showed that they said that collaboration with suppliers is important, but not at the risk of paying anything more than the lowest price. In other words, supply chain management is fine, but what they really value is old-school negotiating. If buyers, who are probably at the fulcrum of supply chain management don’t believe, then how can it happen?

The answer is that there are some enlightened CEOs and Vice Presidents of Operations / Supply Chain that understand the strategic importance of collaboration for long-term profitability and organizational viability. So yes, collaboration is happening, but only when it is of strategic importance to the top levels of the organization.

### Levels of Collaboration

Collaboration has levels. It is not all-or-nothing. At the lowest level it is sharing long-term forecasts with suppliers and customers. It could simply be vendor management inventory. At the highest level it includes short, medium and long term planning. This includes joint product development, agreed upon production forecasts that the entire supply chain will use, sharing of strategic initiatives such as geographic expansion or planned acquisitions.

Now you can understand why collaboration requires trust. Sharing forecasts and strategic plans or doing joint product development requires absolute trust that this information will not be given to competitors. This leads us to why you may choose not to collaborate with certain supply chain partners.

### Why Doesn’t Collaboration Work?



There are both good and bad reasons why collaboration efforts don't work for all companies. Here are some common reasons:

- If your supply chain partners are part of your competitors supply chains, you may not want to share sensitive data.
- It could be that you simply have too many customers, none of whom are a significant % of your business. The benefits of collaboration must be greater than the costs. Usually benefits will only outweigh costs if you have a few significant strategic supply chain partners (customers and suppliers).
- Your information technology systems are not capable of integrating with supply chain partners. The technologies that allow different systems to integrate are called Enterprise Application Integration (EAI). It may be that your technology support group is not capable of implementing EAI.
- You have poor internal communications. If you cannot communicate with your internal supply chain, you will likely not succeed in collaborating with external partners.
- There are too few points of communication. If there are only one or two champions of collaboration in your firm and at your suppliers and customers, and these people leave, often the collaboration leaves with them. Therefore, you need to make sure that there are multiple points of communications and that collaboration is supported by executive leadership, at your firm and your supply chain partners.

#### How to Successfully Collaborate

Supply chain researchers have outlined a few key methods that will help you be successful. First, map out your processes and the processes at your supply chain partners. Only by understanding formal and informal processes can you be sure that collaboration efforts don't breakdown because no one considered a key step in the process.

The second, and much more difficult method, is to create a supply chain performance scorecard, that all supply chain partners use to measure success of their collaborative efforts. This is where the leadership of your company must lead. If a firm doesn't support the success of the supply chain, and is only looking out for its short-term interests, then collaboration will fail.