



WINNING ALL THE WAY

*Successful strategies
for collaborative commerce*

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Contents

Introduction	2
Part 1 – Defining the value proposition	3
1.1 What is c-commerce	4
1.2 Collaboration drivers – the customer	5
1.3 Collaboration drivers – cost and operational pressures in the supply chain	6
Part 2 – Creating the collaborative community	8
2.1 Multiple customers in the supply chain	8
2.2 Trust – the missing link	9
2.3 The Learning Enterprise	11
Part 3 – Technology assisted c-commerce	12
3.1 The technology infrastructure	12
3.2 Partner relationship management	13
Part 4 – Case Studies – Lessons in reality	16
4.1 Herlitz’ experience of using vendor managed inventory shows it is possible to profitably enhance trusted relationships	16
4.2 Saleslink tackles inventory, forecasting and cultural issues	17
4.3 Dexion’s experience of deploying advanced order configuration shows how effectiveness can be improved in engineering-led enterprises	19
4.4 USABCO demonstrates how step change works.	20
Part 5 – An action plan for success	21
Glossary	22
End Notes	23

Introduction

As a management theory, collaborative commerce (c-commerce) makes perfect economic sense. Based on the simple principle that organizations can realize tangible gains by working in closer partnership with their suppliers and their customers, c-commerce is rapidly gaining currency in boardrooms around the world. Not only does collaboration promise cost efficiencies, it also offers the potential for increased revenues through better customer relationships, improved business intelligence and the development of new business processes. Ultimately, by leveraging a range of technologies, collaborative organizations can work together to achieve one broad goal – delivering business benefits for every member of the community, from customers, through the entire supply chain, and back to the providers of raw materials or core services.

But while the theory is sound, turning it into practice is no easy task. Collaboration presents enormous cultural challenges, both within organizations and in the development of new business relationships with third parties. It requires a fundamental shift in business mindset, from board level down to the shop floor, and extensive change management. It can demand significant investment in technology, sometimes requiring relatively unproven, leading-edge software applications and integration techniques. While the potential benefits of collaboration are too important to be ignored, the activities involved should not be undertaken lightly.

This paper explains the cultural, organizational and technical issues companies will face as they adopt a collaborative philosophy. Drawing from the experiences of pioneering organizations in the field, it provides a practical perspective on how companies can deliver value in a measurable, ongoing manner. Because it is unrealistic to adopt collaborative working practices wholesale, the paper explains how change management projects need to focus on achieving a series of tangible, step wins, delivering benefits to every participant in the collaborative community. Evolution rather than revolution is the key. Tackled in this way, organizations can achieve tangible returns on their investments, minimize internal and external conflict, and enjoy the benefits on the bottom line.

Part I – Defining the value proposition

1.1 What is c-commerce

Although collaboration has emerged comparatively recently as a mainstream management strategy, as a business philosophy it isn't new. The moment farmers went from gathering crops and selling directly in marketplaces to distributing through intermediaries, collaboration was born. In today's complex business environment, it is almost impossible to conceive of industries where collaboration does not feature in some way. Across sectors such as automotive, high-technology, retailing and construction, the resources required to create and distribute finished products from raw materials are simply too great for a single entity. The issue businesses face, therefore, is not whether collaboration is a 'good' or 'bad' strategy – rather, it is how to leverage c-commerce to deliver business value.

C-commerce can best be understood as 'the activities of a community of business interests, where all participants derive economic benefit from the sharing of information and/or business processes.' Typically, the interactions between participants are defined as a 'value chain', a sophisticated version of the process-based supply chain that incorporates advanced activities such as shared planning and distribution. The concept of a chain, implying a series of logical links, is a little misleading as collaboration rests on multiple, fluid relationships within a community, but the term at least recognizes that 'value' is the major business driver:

Within this definition of c-commerce, there are three distinct business models:

- Coercive
- Defensive
- Partner

The coercive model is by far the most common today. In this model, a channel master or category leader dominates value chain activity, dictating the way business is conducted and defining the structure of the community. The prime objective of the coercive model is to provide the master with the greatest economic rewards possible, although there is a declared intent that suppliers should also receive benefit. In practice, the master dictates and often controls the means of data transmission, the data that is shared and the manner in which sharing takes place. These ideas underpin centrally-controlled private trading exchanges, and are also common in sectors such as retail, where major chains dictate the way product is received and marketed. Frequently, these kinds of business models are price-driven.

The defensive model has evolved as a direct response to the perceived threat posed by channel masters. In this type of community, enterprises that serve specific industry segments, but do not compete directly, come together in a coalition to remove friction from their processes and improve their competitive edge. In Europe, for example, a group of large automotive component manufacturers has formed a coalition designed to improve their logistics operations. Each participant is a large enterprise in its own right, supplying multiple auto manufacturers. But despite their size, they still need to respond to the pricing demands of the channel masters. By pooling their resources in an area that is deemed to be non-competitive, they gain mutual benefits through cost reduction.

The third model – partnership - is in the early stages of development, but represents the basis for true collaboration in the long-term. In this model, every participant in the value chain has a vested interest in promoting the common good because each has the opportunity to benefit. The key characteristics of a partnership model are:

- Collaborative initiatives center on the 'customer'
- There is the potential for n number of wins inside the value chain
- Wins benefit all participants, albeit to differing degrees
- The driver for developing the model is often perceived as a supply chain issue, but the real imperative is to optimize customer value.

In essence, the partnership model is a combination of business and relationship strategies, designed to create and maintain lasting partnerships where the benefits ebb and flow between the different participants. In this model, no single factor like price has an over-riding impact – rather, the aim is to understand the cause and effect of business activities, enhance business processes and strategic development and optimize value for the whole community. When executed, this approach creates what we call a **Winⁿ Scenario**.

This kind of partnership is beginning to evolve in industries that were previously characterized by channel master business models, including the retail sector. A large amount of retailers' profit is earned from promotional activity, which requires a delicate balance between store throughput and inventory holding. To minimize inventory, retailers frequently operate just-in-time stocking policies, but outages on promotions can be as high as 18 per cent, representing a five per cent reduction in overall profitability. Overcoming this problem requires a high degree of cooperation with suppliers and a sophisticated approach to forecasting – neither of which is possible in the typical coercive, channel master model.

The fundamental problem in the retail environment is that the production and order estimate processes are often flawed. In most cases, manufacturers' demand forecasts are based on models that imply a relatively fixed rate of sale, calculated using algorithms that average past performance with a weighting for recent activity. That calculation usually fails to take into account a number of important demand characteristics, including the effectiveness of the marketing campaigns in different locations. More importantly, the data on which it is based is often inaccurate - retailers sell their point-of-sale (POS) data as a service back to suppliers, but it's typically 8-10 weeks out of date.

As we outline in Part 4.1 below, one global food manufacturer found a way of solving the problem by persuading the retail community to provide POS data far more efficiently, reducing the time lag in receiving data to six working days. As a result, both the manufacturer and retailers were better able to plan production and promotional spend, quickly respond to fluctuations in demand and ultimately reduce stock outages. The net result was a win for both parties.

The partnership model did not stop there. Recognizing the value of the information it held, the manufacturer offered both POS and production data to several of its key suppliers. As a result, raw material supply was optimized, leading to further reductions in both outages and inventory build-up – a true **Winⁿ Scenario**. 'It was like someone turned the lights on,' says one participant. Note that at this point, there has been no requirement for major re-engineering of any business process, no renegotiation of trading terms and only a modest investment in technology. What has changed is the business relationship: while the retailer maintains its dominant position in terms of dictating supply, its role and attitude have evolved into something closer to a partnership mentality.

1.2 Collaboration drivers – the customer

While the coercive, channel master business model remains dominant, a number of pressures are building on companies that will force change in the way they do business. Nowhere is this more significant than in the field of customer relationships. Today, customers are armed with more information than ever before on what products and services they can buy, largely as a result of the evolution of the Internet and media globalization. Technology advances, increased competitiveness and market maturity make switching suppliers much easier in industries that were once able to lock their customers in, particularly in sectors such as telecommunications, utilities and financial services. At the same time, product life cycles are shortening in many industries, increasing competitive pressure as suppliers attempt to maximize sales in a reduced window of opportunity. As a result, the customer is more empowered than ever before, while suppliers are under ever-increasing pressure to improve their ability to meet demand.

These factors are reflected in the emergence of customer relationship management (CRM) as a mainstream business philosophy. To date, much of the investment in CRM methodologies and technology has been based around process improvements, designed to improve the way that sales, marketing and service functions operate. But the real drivers are more fundamental and are central to collaboration.

The underlying assumption beneath CRM is that the customer is the source of the supplier's wealth, and that the focus of every business should be to acquire, retain and leverage high-value customers. Part of that strategy centers on the way the organization interacts with the customer – the quality of its marketing, the speed of customer service, and so forth. But above all, customers will ultimately do business only if they are persuaded that a supplier can meet their full range of needs. As such, organizations need to invest in building a better understanding of customer requirements and behavior patterns, adjusting their product and service sets accordingly. In this way, the whole impetus of the demand/supply chain shifts dramatically. Where once organizations were able to push their products and services out to the market, today the market is beginning to pull the products it wants.

This evolution has a profound impact on organizational structure. While businesses have typically been structured around the products and services they sell, now they are being built around the customers they serve. Barriers between departments are beginning to collapse as companies take an enterprise-wide perspective of their customers, understanding issues relating to a wide variety of functions including sales, marketing, finance and support in the context of the customer. In this new world, the customer is both the starting point and the ongoing focal point of all activities.

In the context of collaboration, this evolution is extremely significant. If the customer is the focal point for the front-end organization that supplies it, it will inevitably become the focal point for all of the organizations within the value chain that contribute to providing the goods and services it purchases. Traditionally, supply chains have been built with the goal of supplying goods to the final vendor: now, value chains need to be built with the goal of meeting customer demand.

Likewise, just as CRM is driving major structural and philosophical change within front-end supply organizations, so change will be required all the way through the value chain to ensure that participants are collaborating effectively to meet customer demand. It is no more valid for a value chain to consist of a series of self-contained units than it is for a customer-centric organization to consist of self-contained, stove-pipe departments. From basic information exchange to shared processes and collaborative planning, the value chain is evolving into a fluid, flexible entity, optimized to meet customer demand.

1.3 Collaboration drivers – cost and operational pressures in the supply chain

Cost pressures inside the supply chain have intensified to extraordinary levels in the last five years. The advent of sophisticated demand planning engines has eased some of the inventory problems, allowing manufacturers to squeeze costs out by fine-tuning deliveries into production. But in industries such as high technology, automotive and aerospace, suppliers have recognized that to remain competitive, they need to find ways to reduce cycle times in everything from design to replenishment. The problem they face is that it is not easy to maintain visibility through all the processes involved in getting a product to market, and despite their best efforts at creating process efficiency, there are too many points where things can go wrong.

In procurement, for example, studies indicate that between 60 to 80 percent of the manufactured value is held by major component suppliers, which are used as outsourcing agents to the manufacturer's assembly systems. These sub-contractors in turn have their own suppliers for multiple parts and sub-assemblies. Within the value chain, each of the participants is constantly juggling the interests of different suppliers and customers.

Manufacturers have spent years trying to find effective ways of communicating with their customers and subcontractors to find out in advance what demands will be placed on the factory floor and whether their partners are equipped to supply the necessary parts. But their efforts are typically undermined by communication problems. In practice, most interactions rely on telephone calls, faxes or emails – methods that are inefficient, slow and difficult to act upon.

Automating this process in a collaborative framework is an imperative. As we illustrate in Part 4, some organizations are already enjoying tangible benefits from automating their procurement processes and exchanging data to improve forecasting – initiatives that are driven as often by sub-contractors as they are by channel masters. Likewise in logistics, considerable progress has been made through the emergence of third party logistics providers (3PLs), which become the pipeline for multiple suppliers looking to reach similar customers. Today, 3PL organizations can drive down cost and improve effectiveness by aggregating delivery to multiple drop points. These organizations are accepted as part of the supply chain landscape because they do not pose a threat to the customers they serve. Indeed, 3PL organizations would argue that by acting as trusted third parties, they have removed a considerable problem for manufacturers.

In planning and design meanwhile, some industries have recognized the strategic value obtained by bringing suppliers together from the very start of a product's life. In automotive engine design, for example, some companies have discovered that operating a collaborative community dedicated to bringing new ideas to market can remove as much as 20 per cent from the delivered cost of new product.

The positive results obtained from collaborative logistics, planning, design and distribution act as markers for how the entire supply chain can be re-organized. But the pressures remain. There are major cultural obstacles to be tackled (see Part 2.2 below) and the supply chain is in a state of flux, constantly reviewing business practices and processes on a number of fronts. Solving pain points is the order of the day, but establishing priorities in the context of a smoothly operating collaborative function, where the prime business driver is the customer, is a strategic, not a tactical issue. As we outline below, setting those priorities is a key step in determining which solutions will deliver the most benefit.

Summary

- There are three chief collaborative business models: coercive, defensive and partnership. True collaboration comes only the partnership model, which offers ongoing benefits to all participants
- As opportunities for benefit cascade down the value chain, multiple wins emerge for all parties. This is the *Winⁿ Scenario*
- Relationships within value chains are fluid, not fixed. Organizations need to take a different perspective on their business partnerships, recognizing that existing ways of doing business may not deliver the highest value
- Customer demand is the key driver for business relationships. Organizations need to move from being product or service focused, to putting customers at the center of their value chain
- Collaborative working practices are emerging as effective methods of easing cost pressures within the supply chain. The experiences of early adopters demonstrates the potential benefits of collaboration in procurement, logistics, planning, design and distribution

Part 2 – Creating the collaborative community

2.1 Multiple customers in the supply chain

One of the key elements of building a collaborative environment is the recognition that product-driven enterprises must change their focus to become part of a customer-driven value chain. The definition of a customer, however, is not confined to the final recipient of goods and services. In the business-to-business supply chain, organizations can be both customer and supplier during their interactions with other parties. As a result, customer management strategies should permeate the entire value chain, linking tightly to supply chain management initiatives.

To date, supply chain initiatives have typically been concentrated on the process of bringing products or services to the customer. By contrast, the concept of service, so critical to good customer management, has largely taken a distant second place. While it is a crucial factor in retaining high value customers, operationally this element of supply chain strategy is complex.

The automotive after market is a good example. When a customer takes a vehicle into a service station, the station is the supplier; in turn the station is a customer of the manufacturer (typically for technical support) and a wide variety of parts suppliers. At the same time, the parts suppliers are both customers of raw material suppliers and suppliers to manufacturers and multiple retail outlets. All along this value chain, customer requirements vary and there is widespread potential for friction. If, for example, a parts supplier is out of stock, does the manufacturer step in and source from another supplier; or does it allow the service station to poll the network itself to find a replacement? Either way, since one participant in the value chain will be losing business, procedures need to be in place to handle the process in a pre-agreed and timely fashion.

Today, these negotiations are usually conducted over the telephone, by email or by fax, yet an automated collaborative environment can be relatively easily established. The necessary technology already exists to automate order, invoice and delivery processes: the next required step change is to allow permission-based access to inventory records held by alternative suppliers, tied to one system for negotiating basic terms and conditions of trade and another for delivery scheduling. In addition, each of these 'new' services should be tied back to the customer records.

Underpinning these interlinked systems would be a series of business rules defining what steps should be taken in an attempt to resolve supply issues. They might begin by defining the order in which part suppliers should be approached; move next to a process for sourcing an alternative product; and conclude with a pre-agreed process for managing unavoidable delays (for example, by providing the customer with a replacement vehicle while the part is sourced). By streamlining this set of interlinking processes on a pre-agreed basis, the value chain provides enhanced levels of service to the vehicle owner.

This approach has several advantages. First, the customer is treated in a consistent manner that supports brand values. Second, the integrated supply element of the value chain is in the best position to respond to need without compromising any of the participants. The key to making it work is in the application of clearly understood business rules applied to everyday business scenarios, backed by a coordinating technology infrastructure.

It is early days for the development of this kind of collaborative business environment, and it is clear models will evolve over time as communities gain experience in how they deliver benefit. As always, one problem facing participants is that the early period of evolution will be unpredictable, marked by iterative experimentation. Additionally, some organizations may resist the move because of the uncertainty and instability it creates, while brand and market leaders are likely to adopt strategies designed to retrench or consolidate their hold on a particular sector. However, the growing power of customer demand will inevitably force change sooner or later, and those sectors that are able to move from coercive and defensive models to partnership communities will gain huge competitive advantage. In many cases, it will be the more innovative enterprises within the value chain that drive change, sometimes from unexpected sources, but the development of partner models will only be possible if channel masters participate. To do so, they will need to be convinced that tangible benefits will be derived from the investment.

2.2 Trust – the missing link

Much of the focus surrounding c-commerce has been on technology, with the implicit assumption that software will in some way solve the problems of supporting an ever more demanding customer base. That approach, however, ignores the human factors that impinge on an enterprise's ability to execute on a collaborative strategy. Even within a single organization, departments such as sales, marketing, production and finance typically operate in functional stovepipes – yet c-commerce traverses a range of responsibilities and requires extensive cross-functional information flows and joint initiatives. Attempting to develop a collaborative strategy without addressing these issues – both from a mindset and structural perspective – will only invite conflict.

In many organizations today, for example, the sales department produces forecasts and presents them as a fait accompli to production. Channel partners place spurious orders based upon previous experience of delays in obtaining stock, and subsequently cancel or re-order to suit real customer demand. The accounts department blocks supply to an important customer who has inadvertently become delinquent, but fails to advise the sales force to prevent further orders being taken. Each action develops friction inside the value chain, while profit opportunities are lost and customer dissatisfaction increases. These familiar operational problems become magnified many times over in the collaborative community as the number of vested interests multiplies.

Solving these difficulties is a four-part process. First, there has to be recognition across the value chain - and within each department of every participating organization - that the driving force for any business initiative is to meet customer demand. Operational excellence – the typical driving factor for a department - has to be viewed from the perspective of customer relevance, not as an end in itself. This shift in mindset is not possible without buy-in at board and departmental management level – and in that respect, the best way to build a collaborative strategy is to encourage all senior executives to participate in its development. This process should be replicated externally. While that may be difficult in the coercive community, buy-in is essential.

Second, shifting departmental and corporate objectives requires changes in performance measurement and management at every level. If operational excellence is to be viewed in the context of customer relevancy, then the measurement of those activities has to be similarly skewed towards that customer-centric goal. In many instances, this will lead to significant change in the way both individuals and entire functions are measured. Customer satisfaction metrics, for example, may be incorporated in the measurement of functions that until now have not considered themselves to be customer-facing (such as finance and quality control). Likewise, performance management of partner organizations will go beyond typical metrics such as timely and accurate delivery of goods, to incorporate measures of how effectively partners respond to changing demand or cooperate in collaborative forecasting. And in a partnership community, service-level agreements, which today are typically struck on a master/servant basis, will likely become more balanced in terms of bi-lateral responsibilities.

Third, enterprises need to map out a strategy for bringing senior functional heads together to analyze and rectify common areas of difficulty. A large part of value within any collaborative community derives from process, and optimization is an iterative, ongoing goal that requires organizations to learn from experience. Culturally, enterprises need to tackle problems in a manner where individuals can take responsibility without taking blame. For example, a post mortem into the loss of a customer might initially reveal that essential parts for a critical shipment were held up because of a supplier's failing. Was that production's fault for not scheduling correctly, or the supplier's fault for not shipping on time? What if accounts payable had been delinquent in settling the parts supplier's account? Each of these reasons signifies a failure in process, each has a domino effect on other areas of operational responsibility – and each can be remedied in such a way that future difficulties are prevented, provided information is shared in a non-hostile environment.

Finally, organizations need to dedicate resource from the outset to tackle cultural issues. Early adopters have discovered that functional change management is a time-consuming, resource hungry exercise that can catch the unwary by surprise. Internally, individuals may require extensive retraining, and will need to be convinced that change brings value both to the organization as a whole and to their own roles. Externally, organizations are also advised to pilot collaborative initiatives with their most trusted partners, before approaching organizations with which they have a weaker relationship.

2.3 The Learning Enterprise

Just as underlying assumptions about the magical power of technology prove to be false, so the assumption that c-commerce participants operate at optimal efficiency inside their respective organizations is rarely true. Each function within an enterprise will be at a different state of readiness, depending on its short-term business priorities and the significance of its role in executing corporate strategy. Likewise, organizations in similar market segments will themselves be in different states of readiness.

Integration technology can assist to an extent in moving the agenda forward by smoothing out internal data flows and integrating business processes across different systems. But collaborative communities need to understand that not everyone will be in a position to benefit at the same pace. This creates a dilemma, since the community has to decide baseline levels of efficiency before determining strategies for going forward. The solution is for community members to regard themselves as learning organizations, mapping out agreed levels of desired competence in handling basic processes such as invoicing, ordering and service response times. These should be stated as goals to be achieved over a specified period of time, but they should not be seen as representative of the lowest common denominator. Where enterprises need help, others must be prepared to openly share their experience of best practice to those prepared to take up the challenges. By implication, those enterprises most willing to raise internal standards of efficiency will emerge as the most valuable community members.

This learning activity will usually be driven by one coordinating organization – sometimes the enterprise that originally took the lead in pursuit of a c-commerce project, or a participant with in-depth experience of running complex channel partner initiatives. As the c-commerce community evolves, sub-communities will also emerge, congregating around a natural hub player. These sub-communities are not competing with others in the value chain, but represent meeting points for specialist participants that share similar issues. Examples might include specialist component design, collaborative replenishment and education.

Summary

- The concept of customer service is relevant throughout the value chain. Organizations within the value chain need to develop business rules and a technology infrastructure to optimize service levels, in order to deliver the best service to the end customer
- Operational excellence should not be seen as a goal in itself, but be viewed in the context of customer relevancy
- New collaborative working practices will require different methods of measuring and managing performance, at both an individual and departmental level
- Organizations within the collaborative community must take a common approach to problem solving, shifting away from a traditional blame mentality
- Cultural issues are a major factor in the development of collaborative communities and can slow progress significantly. Wherever possible, they should be anticipated and addressed at the outset
- Community members should regard themselves as learning organizations

Part 3 – Technology assisted c-commerce

3.1 The technology infrastructure

Many of the technology components required to build a collaborative community already exist within organizations – in most cases, however, they have been implemented to optimize existing methods of working, rather than being geared to a c-commerce strategy. In practice, therefore, organizations will likely be required to combine existing functionality with new, specialist technologies under the umbrella of a collaborative initiative. This pragmatic approach is far removed from the 'Big Bang' implementation philosophy prevalent in the 1990s: rather, the emphasis is on step-by-step, incremental change, driving towards a strategic collaborative goal.

This value of this approach can be demonstrated by applying the principles to our example of the automotive after market, where we demonstrated the inherent inefficiency of sourcing parts through phone, fax and email (Part 2.1 above). In a situation where a service station is seeking parts to carry out a vehicle repair, a superior level of customer service could be offered if the station manager were able to automatically send a request to parts makers and other stations to receive best-case delivery information. Once an acceptable offer is received – at the manager's PC, PDA or cell phone - the station could electronically initiate an order, and if relevant, trigger an SMS message that advises the customer about anticipated delivery date.

This requires several technology enablers. To begin with, a communications infrastructure is required that automates 'request' and 'answer' activities. Exceptions will still need handling, and this might best be handled through the creation of a web-based portal, to which accredited community members have privilege-based access. The portal should operate in near real-time, so a robust messaging system will be required to allow high-speed computer-to-computer communications once an action – such as an order placement – has been initiated. To avoid manual re-keying and administration, these systems should interact with each organization's 'back office' accounting applications. Overlaying the whole structure will be a business intelligence layer, providing the community with important feedback data.

Some of these requirements are easier to implement than others, and communities will need to agree which problem presents the best opportunity to maximize value to the participants. There is a strong case for considering buying the necessary business critical applications from a single source because this will provide the easiest way of connecting modules within an applications suite. However, this is not going to be practical or desirable in every case.

One alternative is to choose a vendor that provides pre-packaged 'connectors' between different applications, allowing data to be exchanged across a 'neutral' or 'open' framework. While there has been a proliferation of 'open' standards for exchanging information, the industry is migrating towards common methodologies such as XML, RosettaNet and UDDI. These different de facto standards allow applications that do not 'understand' one another to more readily exchange documents like orders and invoices. These standards are still evolving, but already industries like high tech and automotive are enjoying the benefits.

In the long term, collaborative communities will be built on a “many-to-many” basis, requiring organizations to communicate electronically with a vast range of different systems. Ultimately, this will require deep-level process integration, but today it’s unlikely that participants will be willing – or indeed able - to make that level of investment. Again, pragmatism should rule the way. Basic automated data exchange in areas such as order management and sales forecasting can bring significant reductions in both inventory and stock outages, while automated procurement reduces overhead and allows purchasing departments to focus on strategic relationships. These “lower-level” initiatives deliver major benefits in their own right. To achieve them, organizations should consider partnering with a solutions vendor committed to providing 70-80 per cent of requirements ‘out of the box’, which reduces customization work and speeds up the implementation process.

Acquiring, consolidating and pooling domain expertise across the community is also critical. Many industries have reservoirs of untapped knowledge, providing a huge opportunity to jumpstart c-commerce initiatives by helping community members quickly identify common issues and problems. Tapping knowledge effectively requires a framework for information analysis retrieval and feedback, including agreement about what information can be released under anonymous cover and what has to be shared on a disclosed identity basis. Beginning with easy targets, such as general supply statistics, paves the way for further information delivery.

Finally, the temptation to design new processes to resolve existing flaws should be resisted until community members understand the value they are achieving from the step change strategy. It is a familiar trap for organizations to focus on prestige IT projects promising quantum leap gain. In general, executing a series of step improvements to meet end-customer demand reaps far higher reward.

3.2 Partner relationship management

Underlying the concept of collaborative commerce is the recognition that value can be created by building mutually beneficial relationships with trading partners. Nowhere is this more evident than in third party networks of dealers and resellers, where channel management techniques are often poor and the concept of a relationship between vendor and partner usually means little more than a series of buy/sell transactions

Improving relations with third parties is the driving force for the newly-emerging strategy of partner relationship management (PRM). Despite the overriding importance of third parties to many organizations, particularly in their international operations, many organizations lack even the most basic information about their partner base. One channel-dependent enterprise, for example, discovered that its 12,000-strong reseller base in fact consisted of 7,500 partners, only 5,000 of which were productive. Depending on the industry, third party networks account for between 40 to 70 per cent of sales, and the more organizations can do to cultivate channel loyalty, improve processes and deliver tangible returns, the greater the impact on bottom line profit.

Third party partners primarily require information that helps them make money – be it product collateral, pricing, details of new offers, or allocation of cooperative marketing funds. Building workflows that exchange and aggregate that data – not just to one point of contact at a partner organization, but ultimately to individuals within it – is a complex process that requires an in-depth understanding of the way the channel operates and the flexibility to meet unique partner requirements.

More to the point, because they are partners and not employees, third party organizations have a stronger voice in saying how they want that data exchange to happen. While the largest vendors may be able to impose methods of doing business on their partners – ‘work through the PRM network or don’t work with us at all’ – most organizations rely on a degree of goodwill from their partners. With internal CRM applications, organizations have the power to impose a solution on their workforce: with PRM, independent entities demand a more collaborative approach to rollouts.

Today’s PRM solutions are at an early stage of development but the basic, required functionality is already understood and can be incrementally assembled. At the very least, vendors will need to provide the following *basic* functions:

<i>Administrative functions</i>	
Partner administration	Market and sales analysis
Closed-loop lead management	Channel forecasting
Channel compensation	Collateral content
Lead distribution	Promotions management

<i>Value added functionality</i>	
Training	Personalization
Knowledge distribution	Product configuration

Both the process and value-added functionality take PRM to the starting point of a collaborative commerce framework. To make sense as a cost effective solution set, each application should ideally be delivered via private portals, integrated wherever possible to back office transaction systems. At all stages, partners must have a compelling reason to join, hence the inclusion of shared information as a cornerstone to delivering value. In the second phase, elements drawn from existing supply chain and advanced analytics applications enter the equation. Over time, customers can expect to see extensions into the following areas:

<i>Collaborative PRM functionality</i>	
Collaborative demand forecasting and planning	Logistics sharing
Collaborative design	Multi-channel inventory management
Project management	Multi-point distribution planning
Permission driven bid systems	Analytics

Summary

- Collaboration requires a flexible communications infrastructure that can be accessed by all participants. Creating a portal for information sharing provides a useful starting point
- Integration of different applications – both internally and between organizations – is the biggest technical challenge of c-commerce. Ultimately, collaboration requires deep-level integration between different companies' systems, but this is an unrealistic goal for nascent communities. Organizations should focus instead on the significant benefits that can be derived from "lower-level" automation and data exchange
- The choice of software supplier should be based on a number of practical factors, including the level of customization required, speed of deployment, and the availability of pre-packaged "connectors" to different systems. Adherence to "open" standards such as XML is also important, as they allow fast track connections between systems.
- The technical development process can be reduced if organizations tap domain expertise across the entire community, pooling knowledge and skills in the pursuit of a mutually-beneficial infrastructure
- Channel partners are a significant source of revenue and opportunity. Managing third party relationships through partner relationship management (PRM) systems is a practical way of delivering mutual benefit in the collaborative community

Part 4 – Case Studies – Lessons in reality

4.1 Herlitz' experience of using vendor managed inventory shows it is possible to profitably enhance trusted relationships

Herlitz is one of the largest stationery manufacturers in Europe, producing and purchasing almost 40,000 products to deliver to supermarkets, department stores and other distribution channels. Its sales representatives and merchandisers regularly serve more than 10,000 stores and its supply chain is complex.

The company had a long history of managing in-store shelf space on behalf of major outlets, but this meant its sales representatives were required to be located in some stores on a continuous basis. At the same time, data was being collected on the basis of inventories rather than sales. Herlitz discovered this method of managing inventory gave rise to an average retail stock outage of around six to eight per cent.

The company knew it could improve the situation by moving to a sales- rather than inventory-based model, but persuading retailers wasn't easy. For one thing, the long-term presence of Herlitz staff inside the retail chain had created relationships that retail managers were reluctant to give up. In addition, retail customers saw little reason to hand over their point of sale (POS) data: "Retailers think the POS data is their market intelligence and don't see a reason to give it up. When they are prepared to show it, they want suppliers to pay for it," says Walfried Wagener, managing director of Mercoline, Herlitz' outsourced IT provider.

However, WalMart's entry into the German market gave Herlitz customers pause for thought. The U.S. chain's legendary ability to react quickly to market change left Herlitz thinking about how best it could react. "There's nothing like a new market entrant to persuade people to think again," says Wagener.

As a result, Herlitz was able to introduce a replenishment system - part of an advanced planning and scheduling (APS) package it acquired from J.D. Edwards - that enhanced its existing vendor-managed inventory. Using this system, it's able to capture POS and inventory data overnight. This information is subsequently fed into systems that give salespeople, in-store managers, buyers and demand planners insight into how a store is performing against forecast and what its future needs will be.

Each party uses the data in a different way but the overall results have been impressive. Herlitz estimates, for example, that it is delivering 1.5 million euro in value each year to Metro, a major retailer with 50 outlets. The savings come from a combination of reduced stock outages - which fell from 6-8 per cent to 2-3 per cent - and accelerated stock turns. In addition, "the stores managers have accepted the fact that their in-house Herlitz contact is no longer needed in the same way," says Wagener.

At the back end, the APS system is fully integrated into third party enterprise resource planning, production planning and logistics systems, allowing Herlitz to close the transaction loop.

Benefits from Herlitz APS/VMI	Stock volume per item	Stock turn rate per item	Stock out rate per item	Order taking cycle time	Customer time	Transparency of inter-organizational process
While deploying new application and business model	▲	▲	▲	▼	▲	▲
Key: ▲ falling ▲ rising ▼ reduced ▲ improved						

As expected, not every participant in the Herlitz value chain is capable of leveraging the company's new technologies today, limiting its ability to offer full collaborative planning, forecasting and replenishment (CPFR). "Smoothing out the long line supply chain would be ideal - but is difficult," says Wagener. Currently, Herlitz provides forecast data to some of its key suppliers, but Wagener acknowledges that most cannot take advantage of the information because they do not have their own planning systems. Even so, he believes that providing data to as many suppliers as possible will give important insights into supply chain effectiveness: "I am convinced this is the way for the future," he says.

4.2 Saleslink tackles inventory, forecasting and cultural issues

Having embarked on the first phase of a significant collaboration project, Bruce Thornburg, VP of operations at Saleslink, is frank about the ups and downs. On the plus side, his company has achieved a 27 per cent reduction in inventory and slashed the administration burden for its procurement department, allowing buyers to focus on strategy rather than the time-consuming logistics of transactions. In the course of doing so, however, he has also had a blunt awakening to the cultural challenges inherent in collaborative commerce.

Saleslink - which provides materials management, assembly, fulfillment and other services for the high-tech/electronics industry - began a collaborative initiative last summer on one of its largest customer accounts, Sun Microsystems. Using J.D. Edwards' Advanced Planning Solution (APS) and Demand Planner, the company automated inventory management across its own supply chain on several product lines, and implemented a customer-centric forecasting system. Phase two of the rollout - scheduled for Q1 2002 - will see it enhance its forecasting capabilities by electronically interacting with Sun's own systems to pull down distribution and manufacturing data.

Before the rollout, says Thornburg, Saleslink's buying group was spending most of its working day facilitating transactions down its supply chain by fax, email and telephone. That left little time for strategic buying - the relationship building and evaluation of supplier processes that allows organizations to maximize their business partnerships. After the initial implementation, however, those transactional activities have been reduced from six working hours per day to just one or two.

At the same time, the forecasting process for the Sun lines has enabled Saleslink to cut its inventory by 27 percent. And that's just the beginning. The company expects the second phase of the project, which will see it download data from Sun's i2 Factory Planner directly into its APS, to reduce inventory by a further 30 percent. "It will have a pretty significant impact," says Thornburg. "Right now, it's a guessing game. If we were to remove more of the unknowns, we could really eliminate a lot of inventory."

These benefits are already flowing down Saleslink's supply chain. By passing on its forecasts and details of its existing inventory levels, the company has removed part of the guessing game for its own partners. In particular, that has allowed its suppliers to optimize their transportation processes, cutting their costs and allowing them to reduce their prices to Saleslink.

But while the project has already brought tangible benefits, the changes have exposed cultural challenges. For Saleslink's own supply chain, the developments have been handled relatively smoothly. "They were quite easy," says Thornburg. "Suppliers were starving for much the same information that we now have. It required some changes in the suppliers' business processes, but they were open to that." Within Saleslink itself, however, the change management process was more extensive. In procurement, the company's challenge was to allow the system to run the processes, rather than people, changing job roles so that individuals focused on exceptions rather than managing all of the transactions themselves. "Some people wanted to adhere to the old ways of doing business – they wanted to understand everything that was going on. That was very difficult – people had been doing this for a very long time. We had to work with individuals on a daily basis, and constantly point to the value the system was creating and how it was helping them. As they saw the value-add, they came round." The change management process took some two months. "It's something I totally missed," says Thornburg.

In terms of forecasting, Saleslink is endeavouring to make managers accountable for their own forecasts, preventing blame being shifted to the buyers. "Forecasting was viewed as a necessary evil, not in terms of its positive impact on the company," says Thornburg. "We'll realize millions of dollars in savings from this." The company is now discussing introducing incentives, in the form of bonuses or incremental pay, to link forecasting effectiveness to compensation.

Thornburg cautions organizations to select their pilot customers carefully when they embark on a collaborative program of this nature, particularly when dealing with large companies operating in a more complex and bureaucratic environment. Saleslink chose to pilot its collaborative project with Sun because it had long enjoyed a strong working relationship and there was no issue about trust. "We were concerned about that, so we chose very good suppliers with good relationships. It could be an issue as we roll out further – you've got to be very careful about it."

From a technical perspective, Thornburg says few difficulties have arisen, partly because the company is not seeking to link transactional systems, but rather to extract data from its enterprise resource planning system offline. It expects more of a technical challenge when it begins to interface with Sun's systems and needs to understand the customer's chosen formats. Ultimately, however, the two-year payback on the project – covering some \$1.4 million in software, implementation and consultancy – will be dictated by the pace at which customers and employees are prepared to move.

4.3 Dexion's experience of deploying advanced order configuration shows how effectiveness can be improved in engineering-led enterprises

Herbert Schmauch, group IT director at Dexion, one of the world's leading materials handling, industrial storage and office filing manufacturers, has a realistic view of the world. Dexion's business, to use Schmauch's words, "is not exactly rocket science," but its dominant position doesn't mean it can ignore customer service. Eighteen months ago, the company saw an opportunity not only to improve the customer experience in the field, but also to improve the value delivered to its best customers. "We saw Web-enabled order configuration as the starting point for rationalizing our sales processes so that we could better serve our high value customers and make more effective use of our skilled engineers," says Schmauch.

The company understood that while its sales staff tried to get the best information from customers, there were inevitable gaps in understanding. As a result, engineers were frequently taken out of their R&D and high value engineering roles into the sales cycle, leading to friction and wasted time in creating manufacturing orders. In adopting a web-based tool, Dexion felt that it could be safely placed in the hands of sales staff and resellers, because the Advanced Order Configurator (AOC), which was supplied as part of an overall J.D. Edwards OneWorld implementation, contains all the information needed to prepare configured product. This frees up engineers to concentrate on complex warehouse configurations, where the customer usually requires a customized solution.

"We are confident that sales personnel will be able to handle about 80-90 per cent of customer requirements, but we cannot realistically expect them to deal with complex warehousing scenarios," says Schmauch. In those cases, the sales staff act as the first point of contact and are able to gather basic information from which engineers can tailor a solution, ensuring their talents are fully engaged on creating high value solutions. A select few customers with ongoing needs will also be provided with direct access to AOC. "Resellers find it hard to see where the value is, so we will show them through the experience of our sales force," adds Schmauch.

From a manufacturing perspective, AOC links to 'back office' manufacturing to provide a bill of materials that production can then schedule into works orders.

Dexion recognizes there could be risks in deploying AOC - having reduced the opportunity for error and moved most sale closures out into the field, it could be faced with manufacturing bottlenecks as a result of accelerated sales activity. To solve that, the company is reviewing whether to implement J.D. Edwards 'available to promise' module. This will allow it to provide customers with reliable delivery dates prior to placing manufacturing orders.

Schmauch thinks there less to be done on the supplier side at this time because most of its materials are commodity items that are subject to calling off when needed from bulk orders. Whether that remains true as the company develops its demand chain solutions remains to be seen. However, there is a strong case for rationalizing logistics and transportation by bringing freight forwarders and carriers into the Dexion demand system and this is being considered as part of a later implementation.

Although relatively 'low-tech,' Dexion's practical step-change approach is a good illustration of how an organization achieves success when it is prepared to get buy-in from staff that might be threatened by new technology and working practices. In Dexion's case, management was able to demonstrate enhanced value in the new work required of its sales and engineering staff. At the same time, the company has not tried to solve all issues at once, and recognizes the potential for creating additional problems as a result of increased business velocity. To that end, its AOC is not being thrown into the marketplace but deployed in a phased manner.

4.4 USABCO demonstrates how step change works.

USABCO is a leading South African manufacturer and distributor of household plastics under the brand names Rubbermaid and Addis. A year ago, the concept of collaboration was not on the agenda, but that has changed dramatically. "Economically, South Africa is under pressure. The threat of new entrants that have superior technology is real and we had to react," says Trevor Allman, USABCO's IT executive and leader of its J.D. Edwards implementation.

USABCO had engaged in an enterprise resource planning (ERP) implementation and learned valuable lessons. Chief among these was the requirement to thoroughly engage all staff about the impact of change on the business. This is not just a matter of training, but a recognition that small step changes encourage employees to progress in an environment where practices were deeply entrenched. These concerns meant that full automation of warehouse product transfers had to be deferred while employees understood how they worked for them. In planning, for example, employees were introduced to forecast information in a gradual manner so that trust could be established in the system. "We have to prove value delivery at each stage and in our climate that means taking small, bite-sized chunks," says Allman.

But the next step is proving more challenging. USABCO wants to introduce advanced collaborative planning and scheduling that provides links to both customers and suppliers. On the customer side it wants to share access to inventory, orders and invoices with retailers. On the supply side, it would like to improve warehouse distribution and build a link to manufacturers to automatically share forecast information.

USABCO agreed to use EDI to XML document transformation with large customers like Spar. This transformation allows documents to be read and, if needs be manipulated, in a standards Web browser or XML-enabled application. This adds a great deal of flexibility to enterprises exchanging data because the need for custom integrations is significantly reduced. It also means that XML documents are readable to anyone with a Web browser. For large customers, this means that order and invoice accuracy are improved because both partners share the same price book information and are exchanging information in a well-understood, common manner. For smaller retailers, USABCO wants to offer order and invoice access using browser based XML documents. "We are working out how we might encourage smaller retailers to collaborate. Many of them will not be familiar with computers," says Allman. On the supply side, Allman expects it will take longer to persuade its outsourced manufacturer to collaborate because those supplier systems will need to be integrated to USABCO's. "We have to show a benefit to them that makes investment commercially acceptable," he says.

Despite the challenges, USABCO is confident the business will move forward significantly in the next year. In a year when the company has gone from viewing collaboration as out of reach to a position where it is a firm reality, Allman concludes on an optimistic, if cautious note: "These changes are inevitable but we have to be careful to draw a fine line between knowing there are benefits and rushing into projects."

Part 5 – An action plan for success

- The collaborative community is here. Figure out which type of community you belong to - is it coercive, defensive or a real partnership? Recognize that it is possible to develop partnership-based sub-communities within the context of a larger coercive model.
- Regardless of the nature of the community, customers are defining the way businesses develop – not products and services. Building your business around the customer will result in the dismantling of inter-departmental barriers – so be prepared to work collaboratively inside the enterprise before going out into the wider, partner community.
- Work with organizations in the value chain to develop business rules and a technology infrastructure to optimize service levels, in order to deliver the best service to the end customer. Develop new, customer-centric methods of measuring and managing performance at an individual, departmental and community level
- Establish how collaborative working practices can ease cost pressures within the supply chain. The experiences of early adopters demonstrates the potential benefits of collaboration in procurement, logistics, planning, design and distribution
- Recognize that collaborating outside the enterprise requires change across the board. Building trust inside the community is a huge challenge but one that can be overcome provided the relationships are based on taking responsibility rather than apportioning blame. That means allowing people to make mistakes.
- Look for the potential to create mutual wins. This will foster acceptance and development of the c-commerce community. As opportunities for benefit cascade down the value chain, the *Winⁿ Scenario* emerges
- Building the collaborative community requires the internal integration of key applications and the creation of flexible communication systems. It cannot easily be handled in one go, so enterprises should start small and build out on the basis of need. Organizations should focus on the significant benefits that can be derived from “lower-level” automation and data exchange
- Choose your software supplier on the basis of practical factors, including the level of customization required, speed of deployment, and the availability of pre-packaged “connectors” to different systems. Adherence to “open” standards such as XML is also important, as they allow fast track connections between systems.
- Tapping domain expertise across the value chain will speed up the development of the collaborative community. Ensure that collaborative communities are learning communities where experience is shared openly
- Partner relationship management systems will provide significant benefits in the large distribution networks that characterize many industries.

Glossary

Analytics A combination of financial and non-financial measures, loosely falling into three categories. Strategic analytics provide data for planning and group-level decision-making, while operational analytics measure performance at a departmental and individual level and should be the basis for continuous performance management and improvement. Foundational analytics underpin an organization's enterprise-wide analytical approach.

Collaboration A management philosophy that refers to the way organizations partner for mutual benefit, working on a more equal footing than traditional hierarchical relationships. Conceptually, collaboration sees the traditional walls between organizations broken down, allowing data to be pooled and creating 'virtual' teams comprising individuals from different organizations. The term can similarly be applied to internal working relationships.

Customer Relationship Management (CRM) A management philosophy that recognizes the central importance of customers as the source of value to an organization.

Demand chain A management philosophy that sees companies maximizing revenue by focusing on the needs of the customer and then tailoring marketing, selling and servicing processes to interactively collaborate with business partners and customers to meet or exceed customer expectations.

EDI (Electronic Data Interchange) A set of standards for secure, machine-to-machine transactions. Often seen in mainframe environments but being slowly replaced by XML.

Partner Relationship Management (PRM) A relatively new management philosophy that recognizes the important contribution made by distribution channels and which seeks to harness its activities as part of collaborative initiatives.

Supply Chain Management A management philosophy designed to reduce cost inside manufacturing organizations through the analysis of demand characteristics, that are in turn fed into operational manufacturing planning.

Value chain A management philosophy that brings together both supply and demand chains in such a way that the chain is seen as a fully interactive set of customer centric business processes.

Vendor Managed Inventory (VMI) A management system where suppliers pro-actively manage retail inventories on behalf of customers, organizing replenishment according to agreed shelf space loadings.

Win" Scenarios A situation where collaborative initiatives give rise to multiple 'wins' to both individual and groups of enterprises inside the value chain.

XML (eXtensible Markup Language) A way of defining electronic documents so that documents are independent of the application that generated them. Ensures that information can be more readily shared, and ultimately processed between organizations.

End Notes

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