



Collaboration Between Organisations



This knowledge paper is supportive of Procurement professionals operating at Managerial level of the CIPS Global Standard



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Introduction

The CIPS' practice documents are written as a statement in time. They are a collection of views on good practice within a particular subject area and are intended to provide direction, with some guidance for context and interest. The reader is encouraged to use the CIPS practice documents for their own purposes, such as writing policy statements, guidance or procedures. This particular practice statement has been written primarily for the benefit of full-time purchasing and supply management professionals, but can be used by anyone associated with, or interested in, purchasing and supply management.

This document is about collaboration between organisations as it relates to the purchasing and supply management function.

Definition

Collaborative procurement is not easily defined but one definition comes from Colin Cram. Cram defines collaborative procurement as being when two or more groups of people, or organisations, engaged in procurement, work together for mutual benefit¹. This definition can be extended to create a new dimension known as cCommerce or "collaborative commerce". A simple definition of cCommerce is "performing commerce collaboratively with trading partners using Web Based Information Integration (WBII)."

Background

The concept of collaboration is not new. Professor Maria Rey² explains in her report "Supply Chain Collaboration" that Japanese companies in structures called sogo-shoshas are "clusters of related companies with common ownership and strong single leadership that offer each other privileged access to products, services and personnel." This concept is similar to that of a virtual organisation and derives from another Japanese concept Keiretsu; an organisational collective of manufacturers, suppliers, trading and finance companies, that is based around mutual shareholding and cooperation. The virtual organisation is defined³ as:

"A temporary network of independent organisations linked by information technology to share skills and costs in pursuit of a common goal."

As the corporate world develops globally, and management structures flatten and become more agile, collaboration between organisations becomes increasingly common to facilitate the realisation of corporate and public sector goals. The use of technology has increased the ability of organisations to collaborate not only in their supply or value networks, but also in the use of collaborative planning, forecasting and replenishment methodology (CPFR). CPFR seeks cooperative management of inventory through joint visibility and replenishment of products throughout the supply chain. Efficiency is therefore created through the decrease in costs that result from the electronic sharing of processes across the supply network, e.g. logistics, merchandising etc.

Virtual organisations are based on co-operation facilitated by technology and underpinned by trust, core competencies, equality and a shared vision.

¹ Cram C. Two Heads: Always Better Than One, Government Opportunities, September 2003.

² Rey M. Supply Chain Collaboration, Business Briefing: Global Purchasing and Supply Chain Strategies, 2002.

³ Lyons, K and Farrington, B 2016 Procurement and Supply Chain Management 9th edition Pearson.

Explanation

Collaboration in the supply chain

Business today involves a far greater degree of collaboration and this is largely the result of technology enablers such as the Internet, the reduction of communication costs and the increase in cloud computing. Collaboration is also seen as a new enabler that can help business create competitive advantage. Today's technology is undoubtedly one of the principal enablers at the application level as it facilitates the integration of business processes, but this must be supported by both information systems and people-based decisions. The CIPS therefore believes that there are two fundamental requirements for collaboration to work:

- Technology must deliver the right information to the right people at the right time and in the appropriate context to make quality decisions, and,
- Technology must enable people to use information effectively, so this can be used at the appropriate points in the business process.

There is no doubt that today's technologies facilitate process integration which enables disparate companies to collaborate and yet still achieve their company objectives. Interdependency between supply chain partners is continually increasing and this means that information, such as forecasting and planning, must be shared between organisations so market expectations can be met. Global competition is forcing companies to form alliances and to collaborate so they can differentiate themselves in an increasingly consumer driven market place.

The more you are a partner with suppliers, the more they will bring innovation to you. If procurement professionals handle the suppliers, it is better for the company and the suppliers.” (Jacobs, K, 2018)

There are many different collaboration structures, some formal, but many others informal in their structures and we will consider some of the more common ones in this section.

Shared Services is a form of public-public partnership and is of particular interest to smaller public bodies that have less capacity to deal with procurement and back office functions in a corporate way. Some of the most common are the operating or delivery models where the shared service uses a common operating and service delivery framework. Another example is a lead organisation where an organisation consolidates and centralises a business service that is then shared with other organisations. An example of this is “SCOTS Connect”, a range of IT products and services offered by the Scottish Government.

There are a variety of models for joint procurement including, but not limited to, purchasing consortia and centre led action networks (CLAN). Mary M Aylesworth in her paper "Purchasing Consortia in the Public Sector Models and Methods for Success" identified five structural models of purchasing collaboration operating across Canada, the United States and the United Kingdom. The "Local Network" is usually a relatively informal relationship often between a mix of public entities. They join together to obtain better pricing, share information and in some cases share resources.

The "Voluntary Co-operative" is the most common form of purchasing consortia and can range from informal groupings to highly structured groups. In this model purchasing managers source products and services based on needs defined by the participating organisations. The Central Buying Consortium (CBC) is an example of this model and is a loose confederation of 17 local authority members. The work of the CBC is carried out by a Management Committee and Technical Panels. More information can be found on the CBC web site⁴. The

⁴ <http://www.cbconline.org.uk/public/home.htm> (last accessed 27.01.12).

third model is the "Regional Purchasing Agency". This is a pseudo-cooperative type of consortium where central government bodies receive services from the Agency but their control and input is limited. The fourth and fifth models are Member Owned Service Bureau and For-Profit Enterprise. These models are commonly used in North America but their use in the UK public sector is limited by statute.

Centre led action networks (CLAN) is a procurement model that exists in a variety of forms but one of the most common is employed within federal structures that have highly devolved decision making procedures. A core team of procurement professionals identify collaborative opportunities and may negotiate framework agreements for organisation-wide requirements. They may also provide core expertise to the devolved parts of the organisation that may have little or no procurement expertise. Whilst this model is not, strictly speaking, a collaborative model it is worth mentioning in this practice statement as it is an enabler of collaboration.

The structural reform plan of the UK coalition government (2010) has heralded the growth in commissioning. The word "commissioning" denotes a strategic as well as operational involvement in service planning. Practice-based commissioning (PBC) is a key strand of the recent NHS reform policy in England and it is interesting to note that this is being used as an enabler for the policy of patient choice and another key government objective "care closer to home" (Department of Health 2006b)

Public, private partnerships and the public finance initiative are models of partnering where the objective is the "delivery of better services to citizens through the creation of sustainable partnerships between councils and suppliers in the public, private, social enterprise and voluntary sectors for the delivery of services and the carrying out of major projects, including construction⁵".

Other examples of partnering models include local authority companies, joint venture companies and concessions or franchises. There are many different service delivery models and equally there are many different reasons why organisations might want to partner with one another. Some of these reasons include access to new technology, wider markets, new skills and investment. In the public sector, strategic partnerships, (whether public-public, public-private or public-voluntary sector), can forge strong links that can help to improve service delivery and to deliver the community plans.

Collaborative alliances need to be managed through coordination, trust and relationship, and conflict resolution. Some practical suggestions to implement that would be:

- 1. Business integration first, then procurement integration**

The critical misconception is that procurement can manage it all, just by bundling volumes and harvesting benefits. In my opinion, Business comes first to synergize. Procurement knows how to monetize synergies, but not before Business people agree on specifications, branding. Customer experience etc. Otherwise, procurement needs to have a bullet-proof mandate to align on the cheapest option within the alliance.

- 2. Joint vision and strategy**

Procurement collaboration needs to be articulated by Executives, and reflected in the vision and strategy of the alliance. Loosely coordinated vocational initiative simply won't work.

- 3. Shared KPIs**

⁵ National Procurement Strategy for Local Government, Partnering and collaboration, Chapter 4, page 27.

When we operationalize the joint strategy, we need to define a small set of KPIs (savings, efficiencies etc.) that will be reported to everyone's management and embedded into individual performance metrics of all stakeholders.

4. Operational efficiencies through collaboration

Collaboration should ease lives. Joint tendering saves time and effort, as opposed to a multitude of individual tenders. Collaborative procurement strategy shapes up local category strategies. Effective operational model makes best people in the alliance working for the benefit of everyone.

5. Standardised processes and templates

You will have to standardize some processes, metrics and documents – as simple as KPI definition, or as complex as category trees. Joint tenders need to be recognized by individual governance bodies, so your Tender Committee would want to review a standard familiar evaluation. Once alliance members approach the same preferred supplier with their contracts, these would better be standardized.

6. Communicate!

You would need to communicate a lot, so establish community channels (e.g. Microsoft Teams, SharePoint, project collaboration tools etc.). Even daily communication needs to be organized differently; otherwise emails from myriads stakeholders across the alliance would swamp you quick.

Communicate extensively, create awareness, achieve gradual adoption, and then convert adopters into change champions. Remember, if you want to be successful, you'll have to manage the change.

7. Open doors approach

Don't shut your doors to those, who didn't want to participate initially. Let them know there's always a chance to join. They will watch, and sooner or later decide to catch up, as soon as they find it useful. (Dovgalenko, S 2018)

E-marketplaces

E-marketplaces are web-based marketplaces whose early evolution was led by dot-com start-ups. The concept started as a new way to procure products, especially indirects. The scope of this concept has now widened dramatically and the true value is now as a mechanism that enables greater collaboration and synchronisation between organisations.

The use of eMarketplaces, eCatalogues and eAuction systems is fuelling the development of open sourcing environments, and it is these environments that will facilitate collaborative commerce solutions. This however, is not the whole picture and the CIPS believes that in order for collaborative commerce to continue to evolve, more attention must be paid to the development of business intelligence tools so that critical business data can be extracted from all parts of the value chain. William M. Adams, et al identifies four categories of commerce that are transacted over the Internet.

The four categories are:

- Consumer-to-Consumer (C2C)
- Consumer-to-Business (C2B)
- Business-to-Consumer (B2C)
- Business-to-Business (B2B)

For the purposes of this document we will look more closely at the development of the last category as this model is based on simultaneous buyer and seller eMarketplaces and has experienced phenomenal growth

and development in the last few years. The development started with passive websites with minimal product information and limited interaction with customers and suppliers. This has now progressed to the eCommerce stage where Internet based transactions and integration are common but there is a heavy dependency on technology.

The next stage of development identified by Adams et al, is the eMarket stage where Internet based transactions and integration are common but the technology has advanced to allow vertical and horizontal collaboration. The final stage is cCommerce (collaborative commerce), where Adams et al⁶ identify a further stage of development, "where enterprises are formed that are hyper-competitive participants in both mature and emerging markets". This they describe as being the Agile Virtual Enterprise (AVE). The AVE has been defined as:

"A temporary yet structured alignment of independent companies linked by information technology to share skills, capacity and innovation for mutual market success."

Each company contributes only what it regards as its core competencies. The network has little hierarchy and focuses on functionality along the value chain⁷. An AVE is a collaborative infrastructure that is leveraged with technology and is a dynamic alliance between companies that bring in "complementary competencies, resources and capacity scaling that are collectively available to each other, with the objective of delivering a product or service to the market as a community with mutual shared interests."⁸

Jeffrey H Dyer⁹ recognises that over the last ten years there has been a shift away from vertical integration as original equipment manufacturers (OEM's) have increasingly outsourced their in-house parts divisions. Dyer also believes that "competitive advantage will [increasingly] be created by teams of companies." This will mean a fundamental change of mind-set from today's executive norm. Dyer explains that the traditional executive perspective focuses on the individual firm's economics whereas the focus of competitive advantage is channelled through the economics of the entire value chain, thus benefiting all the parties within that value chain.

Dyer concludes that creating extended enterprises requires firms to recognise their interdependence on each other and illustrates this by citing examples of collaboration in the automotive industry. Chrysler and Toyota, he suggests, have been the first in their industry to recognise and exploit this interdependence, therefore gaining competitive advantage over rivals Ford and GM through the creation of integrated teams of companies. Another example of collaboration is Wal-Mart; the biggest retail chain in the U.S. Wal-Mart allows its suppliers to access its internal information management system in order to get an overview of its stock situation. Suppliers therefore know when it is time to make a replenishment delivery.

The apportionment of intellectual property (IP) rights is also vital to a successful collaboration, and can have a significant impact on the structure of the deal. A number of schemes have been worked out for apportioning IP rights between collaborating partners, the simplest of which is to designate all IP as jointly owned. In most

⁶ William M Adams, Raymond M Wallace, Arpan Sengupta, Pushing the Digital Frontier: Collaborative Commerce: The Agile Virtual Enterprise Model, Ch. 12, 2001.

⁷ O. Arnold and M. Hartling, Virtuelle Unternehmen; Begriffsbildung und discussion. Arbeitspapier der Reihe "Informations und Kommunikationssysteme als Gestaltungselement Virtueller Unternehmen" (Nr.3/1995).

⁸ William M Adams, Raymond M Wallace, Arpan Sengupta, Pushing the Digital Frontier: Collaborative Commerce: The Agile Virtual Enterprise Model, Ch. 12, 2001.

⁹ J H Dyer, Collaborative Advantage: Winning Through Extended Enterprise Supplier Networks, Oxford University Press 2000.

collaboration, however, IP rights either remain with the inventor or are allocated based on technology, and the choice is dependent largely on the structure and goals of the collaboration.

Extended enterprises require a high level of resources to generate value through partnerships, and therefore the organisation wishing to establish an extended enterprise may need to focus on partnering those suppliers that bring high value, customised inputs that interact with other components and systems. However as J. Dyer suggests, "collaborative advantage does not materialize overnight"; it takes time to develop strong relationships and make investments in dedicated assets and not all partnering relationships will survive and therefore the CIPS believes that it is necessary to integrate a robust exit strategy at the developmental stage of the extended enterprise, so all parties involved have a clear understanding of the business risks and benefits.

Conclusion

As new ideas and technologies continue to blur functional and organisational boundaries the CIPS believes that supply management is moving away from the collection of operational disciplines that it was once associated with. Organisations of the future must be flexible and adaptable and able to respond to change using new innovations and collaborative techniques to achieve their strategic objectives.

Collaboration or Supplier relationship management (SRM) is undergoing a major transition.

Here are some best practice facts for effective collaboration:

- Earning your suppliers' trust with honest communication, listening to their concerns and involving them in your processes ultimately makes them a vested partner in your business.
- It's mutually beneficial. If you are aligned with your suppliers and treat them as partners, both businesses will experience higher success rates, decreased risks and enhanced collaboration and innovation. Studies have found the top procurement teams that have successfully aligned with their key suppliers have improved supplier capabilities of innovation, quality, reliability and costs/price reductions and agility to reduce risk factors. Greater value can be achieved for both businesses, something that would be difficult to achieve if operating independently.
- Successful collaboration and SRM yields a faster time to market, transactional efficiency, competitiveness, risk management, and large financial gains - all of which not only contribute to your bottom line, but also allow you to deliver a quality and cutting edge product, putting you ahead of the market (Rizza, M.N, 2015).

Articles

- Dovgalenko, S (2018) Seven tips on collaboration in procurement Supply Management Sept
- Jacobs, K ,(2018) Four tips on leadership and collaboration Supply Management July
- Rizza, M.N., (2015) The five secrets of supplier relationship management Supply Management Feb

