

Collaborative supply chain model can help control costs

INDIAN WELLS, CALIF. — A panel of leading manufacturers, distributors and operators addressed the opportunities and challenges of supply chain collaboration in a frank discussion here during the IFMA/IFDA Presidents' Conference, hosted by the International Foodservice Manufacturers Association and the International Foodservice Distributors Association.

Moderator Frank Muschetto, executive vice president and chief procurement officer for Topco Associates, opened the discussion by noting that his years of experience with McDonald's taught him that the businessperson's definition of collaboration is that it achieves results that cannot be achieved by anyone working alone. He suggested that McDonald's founder Ray Kroc's well-known quote, "None of us is as good as all of us," is a motto for all foodservice companies to live by.

The need for a better collaborative model comes down to rising costs.

"It's a challenge to find a way not to raise prices to the consumer," said Tad Wampfler, senior vice president of supply chain management for Wendy's International. "We have to find ways to remove costs without taking money from the distributor or the manufacturer."

He added that there can be tremendous savings when the supply chain works together.

"If we can control costs, it's a win for customers, distributors and manufacturers," he said.

Much of the panel discussion emphasized the critical need for transparency and trust among all channel partners. Otherwise, participants said, it is impossible to achieve any positive results from collaboration.

Transparency and trust have not been traditional hallmarks of the foodservice supply chain,



David Parsley, senior vice president of supply chain management for Applebee's International, says transparency is necessary for positive collaboration results.

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"Many people say they want true cooperation, but not everyone can do it," he said.

Parsley said one of Applebee's suppliers has collaborated with them for eight years, helping the chain to understand true product costs and working with them on commodity and risk management as well as "anticipatory issues management," such as problems with trans fats. The result has been savings for the operator and increased sales for the supplier.

John Inwright, executive vice president of the commercial division for Nice-Pak Products, also addressed the trust issue. "The more insights we get [into our trading partners' business models], the more we are able to meet their needs," he said. "It's all built on a framework of trust. We are not partners in business; we are trading partners. The basic foundation is how much you value trust."

Stephen Deasey, president and chief executive of The Sygma Network, a division of Sysco Corp., reminded the audience that the operative business model in the past has been "how do we grab a bigger piece of a very small pie." He pointed out that the model is zero-sum, merely shifting the costs from one party to another. The new, collaborative model means that each trading partner shares in a much bigger pie and every party wins.

Given the level of transparency and trust required for supply-chain collaboration, Muschetto asked, what are the risks involved? Jim Lavender, executive vice president of Ben E. Keith Foods, said risks are overstated. Other panelists, however, disagreed, noting that confidentiality is a big issue.

"The better the relationship, the less that risks come into play," Lavender said.

Ben E. Keith was one of a number of competitive distributors who founded Maverick Xchange, an electronic trade platform that later merged with eFS, a similar platform.

"We do more than one-half of our transactions through the electronic platform," Lavender said. "It's unnecessary to have a system all your own. We collaborate with Sysco for goodness' sake."

Lorne Brown, director of supply chain network optimization for McCain Foods USA, said his company historically had kept logistics information "close to the vest." When logistics management network Arrowstream (see sidebar) first approached McCain asking for complete

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disclosure of data in order to create a collaborative model, many managers perceived the disclosure risky. Panelists frequently mentioned Arrowstream as an example of a workable collaborative model.

Deasey added that, once operators "buy into the logic" of collaboration and have crossed that hurdle, they must develop trust that confidentiality will be maintained by all parties.

"The only way to take costs out of the supply chain is to collaborate," he said. "That revelation doesn't happen overnight."

One of the most important steps, Wampfler said, is to work with your partners to identify how you will share in the wealth derived from supply chain collaboration.

"You have to establish that there are savings for everybody, and that one party is not trying to squeeze the others by taking it all," he said.

Muschetto asked the panelists what attitudes or behaviors are part of the assessment as to whether a particular trading partner will collaborate successfully. Inwright said the first questions to ask are: "Do I trust the people in this company? Do they have the sophisticated intelligence to work with us? Do they have the support network to pursue the initiative?"

Longer term, he added, you have to judge the value of the commitment and execution that each trading partner has invested.

"It's not easy work for anybody," Inwright said. "Problems come up, like management change, buyouts, crises like E. coli. You have to be able to maintain the capacity as an enterprise to carry on with the collaboration."

Parsley noted that it is too risky for the communication to be among only a few people.

"You need a broader point of contact," he said, recommending that discussion occur at the senior management team level, the category management level, and other levels such as R&D.

Inwright agreed, saying, "We need to cast a wider net and reach out to brokers and end users as well."

"We've all been guilty of sitting down and deciding what the customer wants without talking to them," Lavender said. "Now we sit down with customers and suppliers to understand what drives their businesses. We've had good success with that." ⁿ

Arrowstream based on collaborative model

Arrowstream, a company founded by Steve LaVoie in 2000, is a logistics management network for the foodservice supply chain. One of the company's innovations is a new model for optimizing inbound freight by merging freight deliveries from several companies in order to ship full trailer loads. This LTL, or "less than trailer load," consolidation achieves significant savings. Arrowstream also has a series of management application services that allow such benefits as real-time supply chain visibility, optimization of category management, limited-time offer management, sales focus, planning and analysis, and production planning.

In an article for Q2, a publication of the Yale School of Management, LaVoie said his vision in starting the company was to end old logistics problems. What he discovered was the need to discard the old business model in which each party acted only in its own self-interest. A new shared-savings model was needed, in other words, a collaborative model that would have to be used by the entire supply chain.

"We did not begin with an interest in trying to 'to the right thing' or any kind of altruistic intent," he said. "We offered customers a material cost advantage over how things were currently done. ... To generate these savings we were required to become a different kind of entity, equally focused on solving two distinct problems.

"The first was to transform the supply chain from a reactive to a proactive process. The second was to create a new kind of market based upon shared savings, trust and collaboration.

"We now truly believe that our greatest contribution has been the value derived from creating a 'trusting market' where the participants agree to share." ⁿ