Chapter 4  Supply Chain Relationships

Types of Relationships

■ Vertical:
  □ The traditional linkages between firms in the supply chain such as retailers, distributors, manufacturers, and raw materials suppliers

■ Horizontal:
  □ Business arrangements between firms that occupy “parallel” positions in the supply chain (e.g. two ocean carriers that share ship capacity)

■ Full Collaboration:
  □ Business arrangements between firms that occupy both vertical and parallel positions in the supply chain (e.g. consortium of carriers and shippers working to reduce empty truck movement)
Range of supply chain relationships

- **Transactional:**
  - Both parties are at “arm’s length”, with limited commitment

- **Collaborative:**
  - Two or more business organizations cooperate to drive better long term combined results

- **Strategic:**
  - Represents deep and long term commitments among supply chain partners. Firms willingly modify their business objectives and practices to help achieve shared long-term goals and objectives
Relationship Perspectives

Transaction vs. Strategic

Arm’s Length vs. Collaborative vs. Strategic Alliance

Vendor vs. Partner vs. Relational
Regardless of form, relationships may differ in numerous ways:

- Duration
- Obligations
- Expectations
- Interaction/Communication
- Cooperation
- Planning
- Goals
- Performance analysis
- Benefits and burdens
Figure 4-2  Process Model for Forming Logistics Relationships

1. Perform Strategic Assessment
2. Decision to Form Relationship
3. Evaluate Alternatives
4. Select Partners
5. Structure Operating Model
6. Implementation and Continuous Improvement

Potential Partner Capabilities

Company Needs and Priorities

Source: Copyright 2001, C. John Langley PhD Used with permission
Drivers

defined as “compelling reasons to partner”; all parties “must believe that they will receive significant benefits in one or more areas and that these benefits would not be possible without a partnership”

Facilitators

defined as “supportive corporate environmental factors that enhance partnership growth and development”; they are the factors that, if present, can help to ensure the success of the relationship
Collaboration:

- Collaboration occurs when companies work together for mutual benefit.

- Companies leverage each other on an operational basis and creates a synergistic business environment in which the sum of the parts is greater than the whole.
Figure 4-5  Types of Collaboration

(a) Vertical Collaboration
Suppliers
↓
Manufacturers
↓
Distributors
↓
Retailers

Supplier #1 ↔ Supplier #2
Manufacturer #1 ↔ Manufacturer #2
Distributor #1 ↔ Distributor #2
Retailer #1 ↔ Retailer #2

(b) Horizontal Collaboration

Supplier #1 ↔ Supplier #2
Manufacturer #1 ↔ Manufacturer #2
Distributor #1 ↔ Distributor #2
Retailer #1 ↔ Retailer #2

(c) Full Collaboration

Source: C. John Langley Jr.
Seven Immutable Laws of Collaborative Logistics

Collaborative Logistics Networks Must Support:

- Real and recognized benefits to all members
- Dynamic creation, measurement, and evolution of collaborative partnerships
- Flexibility and security
- Collaboration across all stages of business process integration
- Open integration with other services
- Collaboration around essential logistics flows
Definition of 3PL (Third-Party Logistics)

- A third-party-logistics firm is an external supplier that performs all or part of a company’s logistics functions.

- Multiple logistics activities are managed together to provide logistics/supply chain solutions.
Types of 3PL Providers

- transportation-based
- warehouse/distribution-based
- forwarder-based
- shipper/management-based
- financial-based
- information-based firms
US 3PL Market Growth ($Billion)

Third Party Logistics

- Revenue up almost 4.9 percent in 2008, began to moderate in 4th quarter
- Revenue has declined 6.7 percent in the first quarter 2009
  - International transportation management is down 14.6%
  - Domestic transportation management is down 10.9%
  - Value-added warehousing & distribution is down 4.3%
  - Dedicated contract carriage is down 11.9%
- Modest growth in the 3 – 4 percent range for 2009
<table>
<thead>
<tr>
<th>Outsourced Logistics Services</th>
<th>NORTH AMERICA</th>
<th>EUROPE</th>
<th>ASIA-PACIFIC</th>
<th>LATIN AMERICA</th>
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</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>83%</td>
<td>95%</td>
<td>95%</td>
<td>90%</td>
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<td>Warehousing</td>
<td>74</td>
<td>74</td>
<td>74</td>
<td>54</td>
</tr>
<tr>
<td>Customs Clearance and Brokerage</td>
<td>74</td>
<td>54</td>
<td>84</td>
<td>64</td>
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<td>Forwarding</td>
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<td>Freight Bill Audit and Payment</td>
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<td>24</td>
<td>14</td>
<td>14</td>
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<tr>
<td>Shipment Consolidation</td>
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<td>54</td>
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<td>Cross-Docking</td>
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<tr>
<td>Reverse Logistics</td>
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<tr>
<td>Transportation Management</td>
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<tr>
<td>Product Labeling, Packaging, Assembly, Kitting</td>
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<td>Supply Chain Consulting Services Provided by 3PLs</td>
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<td>14</td>
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<tr>
<td>Order Entry, Processing, and Fulfillment</td>
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<td>Fleet Management</td>
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<td>LLP/4PL Services</td>
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<td>Customer Service</td>
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Source: 2006 Eleventh Annual 3PL Study, Georgia Tech and Capgemini LLC. Used with permission.
<table>
<thead>
<tr>
<th>CUSTOMERS' EXPECTATIONS OF 3PL PROVIDERS</th>
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<tr>
<td>Superior service and execution (proven results and performance)</td>
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<tr>
<td>Trust, openness, and information sharing</td>
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<tr>
<td>Solution innovation and relationship reinvention</td>
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<tr>
<td>Ongoing executive-level support</td>
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<tr>
<td>Service offering aligned with customer strategy and deep industry knowledge</td>
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<table>
<thead>
<tr>
<th>3PL PROVIDERS' EXPECTATIONS OF CUSTOMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutually beneficial, long-term relationship with company</td>
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<tr>
<td>Trust, openness, and information sharing</td>
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<tr>
<td>Dedicating the right resources at the right levels, including executives</td>
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<td>Clearly defined service-level agreements</td>
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<td>Fiduciary responsibility and overall fairness relative to pricing</td>
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<td>Cost/Benefit</td>
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<td>------------------------------------------</td>
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<tr>
<td>Logistics cost reduction</td>
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<td>Fixed logistics asset reduction</td>
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<td>Average order-cycle length change (days)</td>
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<td>Service level improvement (percent “yes”)</td>
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Source: 2006 Eleventh Annual 3PL Study, Georgia Tech and Capgemini LLC. Used with permission. Service-level improvement figures taken from 2005 Tenth Annual 3PL Study, Georgia Tech and Capgemini LLC. Used with permission.
4PL (Fourth-Party Logistics)

+ Greater Functional Integration +
Broader Operational Autonomy

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