

Chapter 4 Supply Chain Relationships

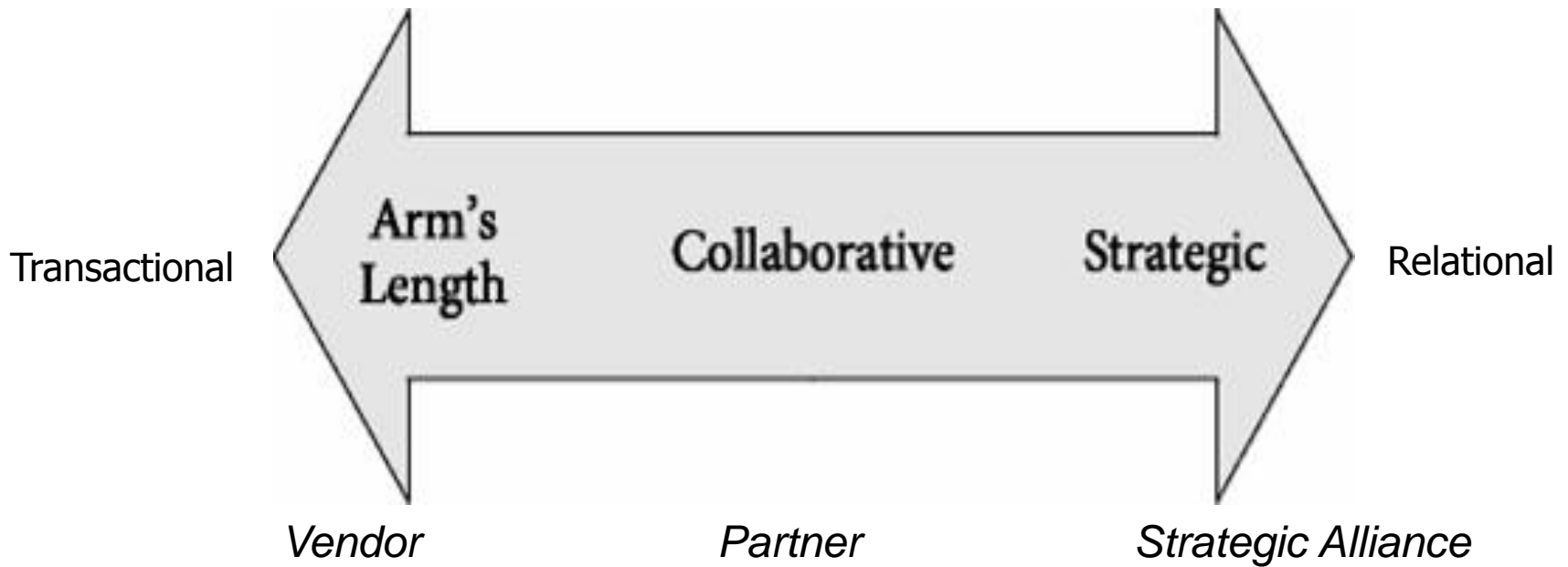
Types of Relationships

- 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



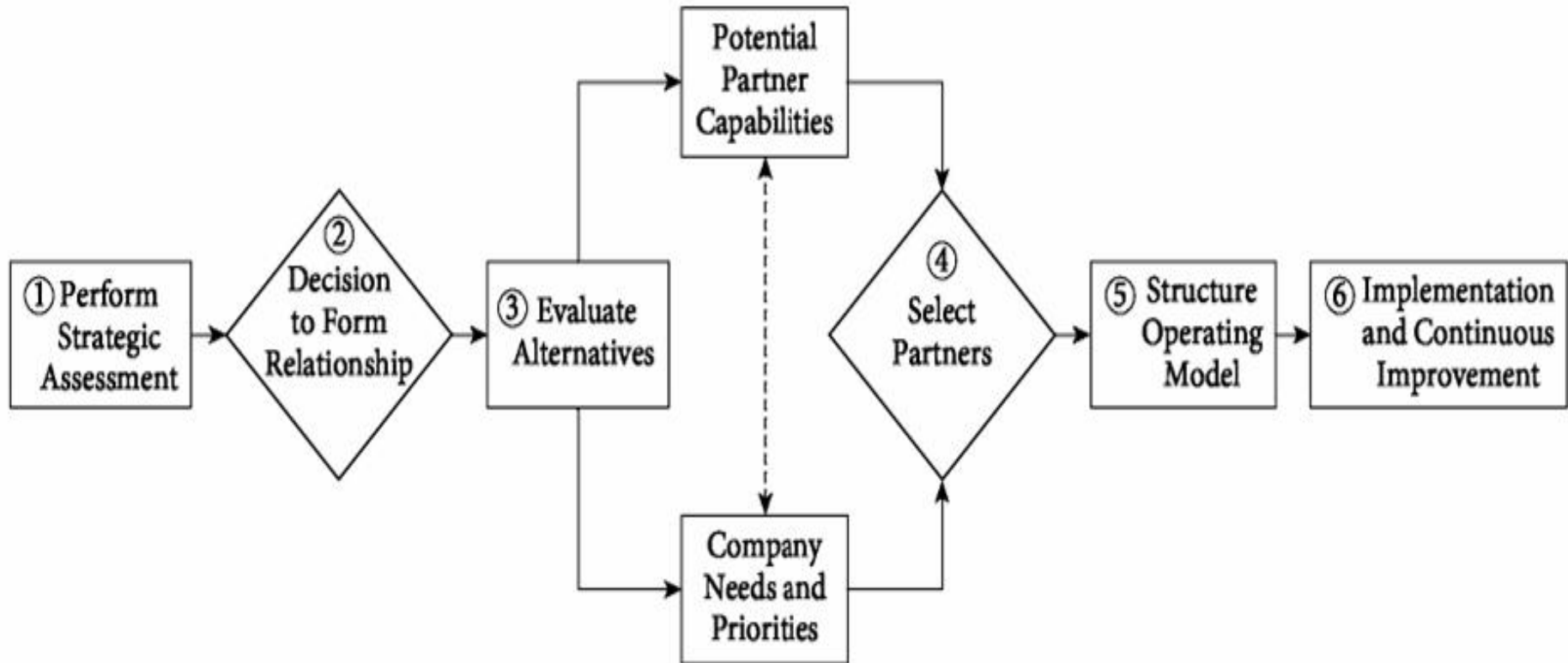


Regardless of form, relationships may differ in numerous ways:

- Duration
- Obligations
- Expectations
- Interaction/Communication
- Cooperation
- Planning
- Goals
- Performance analysis
- Benefits and burdens

Figure 4-2

Process Model for Forming Logistics Relationships



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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

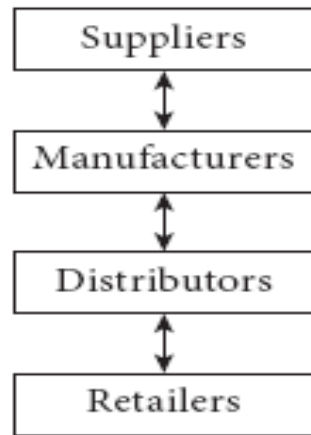


Collaboration:

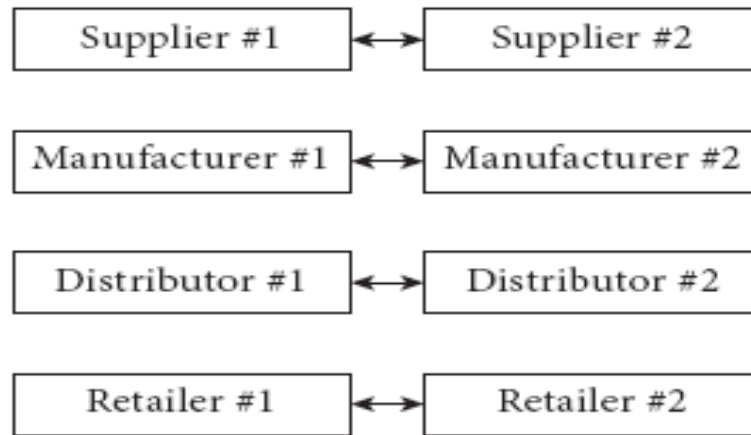
- Collaboration occurs when companies work together for mutual benefit.
- Companies leverage each other on an operational basis and creates a synergistic business environment in which the sum of the parts is greater than the whole.

Figure 4-5

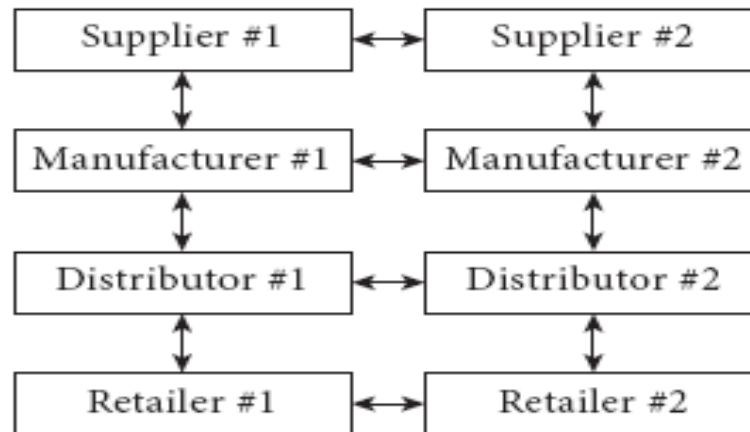
Types of Collaboration



(a) Vertical Collaboration



(b) Horizontal Collaboration



(c) Full Collaboration



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

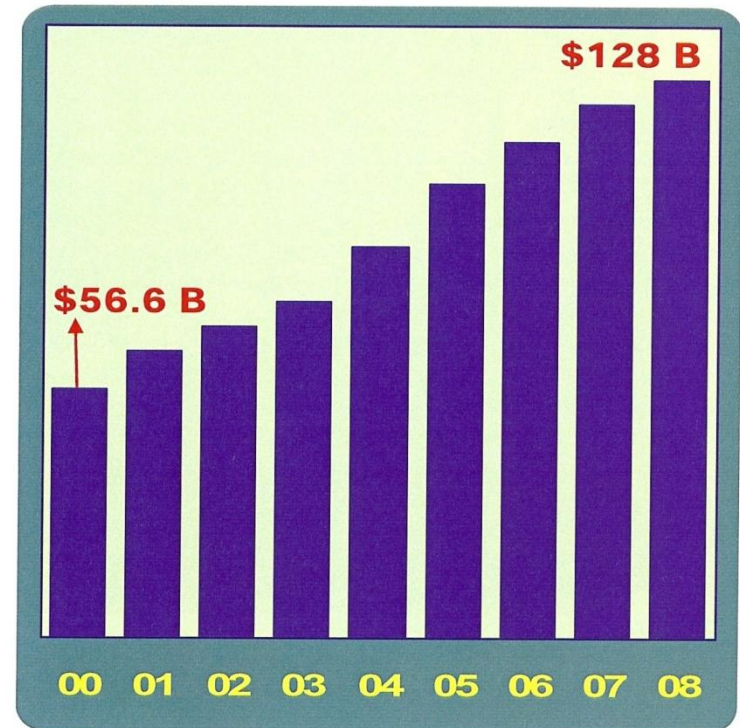


Table 4-4**Outsourced Logistics Services**

	NORTH AMERICA	EUROPE	ASIA-PACIFIC	LATIN AMERICA
Transportation	83%	95%	95%	90%
Warehousing	74	74	74	54
Customs Clearance and Brokerage	74	54	84	64
Forwarding	54	54	64	14
Freight Bill Audit and Payment	54	24	14	14
Shipment Consolidation	44	54	54	34
Cross-Docking	34	44	34	14
Reverse Logistics	24	44	34	34
Transportation Management	24	34	44	14
Product Labeling, Packaging, Assembly, Kitting	24	44	34	24
Supply Chain Consulting Services Provided by 3PLs	24	14	14	14
Order Entry, Processing, and Fulfillment	14	14	14	14
Fleet Management	14	24	24	34
LLP/4PL Services	14	14	4	14
Customer Service	4	4	14	14

Source: 2006 Eleventh Annual 3PL Study, Georgia Tech and Capgemini LLC. Used with permission.

Table 4-7**Expectation Setting Relative to 3PL Relationship Management****CUSTOMERS' EXPECTATIONS OF 3PL PROVIDERS**

- Superior service and execution (proven results and performance)
- Trust, openness, and information sharing
- Solution innovation and relationship reinvention
- Ongoing executive-level support
- Service offering aligned with customer strategy and deep industry knowledge

3PL PROVIDERS' EXPECTATIONS OF CUSTOMERS

- Mutually beneficial, long-term relationship with company
- Trust, openness, and information sharing
- Dedicating the right resources at the right levels, including executives
- Clearly defined service-level agreements
- Fiduciary responsibility and overall fairness relative to pricing

Table 4-8**Average Customer Results from Use of Third-Party Logistics Providers**

Cost/Benefit	North America	Western Europe	Asia-Pacific	Latin America
Logistics cost reduction	10%	11%	14%	12%
Fixed logistics asset reduction	13%	22%	22%	37%
Average order-cycle length change (days)	From 11.0 to 8.4	From 10.1 to 6.5	From 15.7 to 13.9	From 14.9 to 10.0
Service level improvement (percent "yes")	62%	67%	64%	77%

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*

