

# EXAMPLES OF SUPPLY CHAIN INTEGRATION FROM OTHER SECTORS

A Kennedy Nov 2016

A number of industrial sectors wholeheartedly embraced supply chain integration a while ago and these include automotive, aerospace, electronics, retail and construction. Neither pharma nor logistics are perceived as front-runners in this sphere.

My own background as an exponent of supply chain integration stems from my experience as a collaboration practitioner in the construction business, which as an industry includes some of the most complex, most highly regulated and (historically) most antagonistic supply chains around. So the first examples below are from this space.

However these are followed by examples from the retail, automotive and computer sectors.

## 1. Efficiency North Consortium

An integrated supply chain in the UK public sector where eleven organisations came together and through a number of mutual arrangements, including the alignment of specifications, the creation of materials sourcing frameworks, the sharing of knowledge and processes and by applying mutual benchmarking models they realised huge productivity gains and net cost savings of more than 5% on a £2bn spend.

An parallel supply chain in London comprising ten integrated organisations achieved 12% net savings against baseline costs. Other similar chains have achieved savings of up to 30%.

## 2. North Tyneside Partnering Agreement (NTPA)

An integrated supply chain created using a quality-based selection system that resulted in overall cost-savings of 15% on a £80m school refurbishment programme as well as huge jumps in end-user customer satisfaction and service perceptions. Some individual elements of the programme achieved savings of up to 50%. Suppliers were awarded contracts on a guaranteed 4 year tenure basis. This resulted in very close working relationships, collaborative innovation, commitment to training programmes, a clear understanding of mutual commitments, a collective focus on extracting maximum value and of ensuring maximum predictability.

## 3. Korrugal Design & Construction

This contractor was the first in the UK to introduce a supply chain collaboration model that combined horizontal and vertical collaboration. Becoming an integrated team member involved the open sharing of knowledge/information/experience and in working together and with the client in the creation of better-value solutions. This was undertaken in return for long-term commercial relationships. This approach proved enormously successful in its initial objective of reducing supply chain risk and significant benefits in terms of cost and performance quickly followed. The resulting model was soon replicated by other parties (PRO-net, TEAM-KAL etc) and it went on to form the basis for much of the work on the UK-government sponsored Integrated Supply Chain Tool-Kit.

## 4. London Borough of Hackney Strategic Alliance Programme

This was a Constructing Excellence Demonstration Programme that achieved a 35% reduction in overall costs.

This was a result of a structured integration programme designed to:

- Develop a common supply chain using volume-related framework contracts
- Jointly measure performance
- Gain end-to-end supply chain commitment to continuous improvement.

**The retail, electronics and automotive sectors are amongst the leaders in the operation of integrated supply chains and well-known examples include:**

## 5. Wal-Mart

Wal-Mart is regularly featured as an exemplar of supply chain integration. Its vertical partnerships with suppliers such as Procter & Gamble and 3M are well known. There are mutual benefits for both Wal-Mart and its supply partners and the benefits are shared - Wal-Mart gains competitive prices and a reduction in inventories while the supply partners get real-time demand information via satellite link and guaranteed long-term business.

## 6. Dell

The heart of Dell's success is its integrated supply chain, which has enabled rapid product design, fabrication, and assembly, as well as direct shipment to customers. Dell's supply partners become intimate parts of the Dell business and are held to the same exacting quality and performance standards as in-house segments of the business. Dell's famous "Dell Direct Model" is a supply-chain collaboration model that was the first of its kind in the computer industry. It combines a high speed, low cost distribution system with direct customer relationships and build-to-order manufacturing. As well as providing a 6% component cost reduction Dell's collaborative approach reduced inventory levels from 30 days to 13 days while cutting the order fulfilment cycle to less than 36 hours and slicing \$30 off the cost of each customer delivery.

## 7. Volkswagen

Volkswagen place very high expectations on their sub-assembly suppliers and this necessitates high degree of integration. However, in return the suppliers enjoy long-term partnership deals which can be as long as 15 years. The partnering agreements involved include gain-share incentives relating to defect reductions, order fulfilment speed, innovation etc. By relying on this highly integrated supply chain VW can concentrate on logistics, engineering, quality assurance, and customer service. The integration is so total that the assembly staff at the VW supply partners all wear a standard uniform bearing the VW logo and VW quality staff routinely conduct QC directly on the partner's premises. The adoption of this highly integrated approach has reduced overall costs at VW by 15-25% as well as creating greater supply chain flexibility, easier order customisation improved management of risk and greater supply chain certainty and security.

## 8. Starbucks

Starbucks is able to charge a premium for coffee, previously a commodity product, and exponentially increase the company's sales through collaborative intercompany relationships that keep costs low while expanding the firm's offerings. It chooses its suppliers very carefully (quality and service take priority over cost) and then shares an unusual amount of financial information, using a two-way, open-book costing model that allows suppliers to see the company's margins and Starbucks to review the vendors' costs. In return, the company expects suppliers to treat it as a preferred customer in terms of pricing, profit percentage, and the resources committed to the partnership.