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Hooking Up

How HarperCollins and Kerrygold make collaboration work in real life.

By Nancy Bartels, *Managing Editor*
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We've all heard the grand collaboration story: Companies link up with suppliers and customers so that information flows seamlessly back and forth, and companies enter a grand paradise of perfect fulfillment, near-zero backlog and record profits where nobody could be happier. The truth is few, if any, companies have achieved this supply chain nirvana.

Many enterprises of all sorts are embarking—with good results—on smaller-scale collaborative operations, however. The secret of success seems to be responding to a specific need, rolling the solution out on a manageable scale with selected customers and patiently working through the problems—all the while keeping one's eye on the goal. The formula has worked well for businesses as diverse as publishing and those making and distributing dairy products.

Bookseller Blues

It's a time-honored custom in the publishing business that book stores can return unsold copies to the publisher for credit—a good deal for the stores, a not-so-good deal for publishers.

In the case of HarperCollins (HC), the second largest English-language book publisher in the world, returns were averaging 35 percent to 40 percent on hot titles. Getting those numbers down was the challenge for Allen Hoffman, HC's manager of supply chain systems.

Fortunately for Hoffman, he wasn't starting from scratch. HarperCollins has been working on efficient information exchange with its biggest customers for close to 25 years. It has been committed to being on the leading edge of supply chain technology and has invested significantly in forecasting technology from Silvon Software and database and electronic data interchange (EDI) software from Tie Commerce.

Six years ago, HC began using EDI with its biggest customer, Barnes & Noble. The two companies began trading advanced shipping notices and point-of-sale (POS) information, setting the stage for a collaborative operation between the two that has reaped benefits for both publisher and bookseller.

The EDI setup moved HC to think about "managing the supply chain," Hoffman says. "If I think over the next five months, I'm going to sell 100 books in your store, you don't need all of them today. If I know you're going to sell 10 or 20 a month, can I ship you 25 and then 20 and then 15 so you're not maintaining that huge overhead?"

That sounds logical, but it was a big shift in customary practice. "There used to be an overall feel in the industry that if you put a big stack of books in front of people, they knew they were supposed to buy that book," Hoffman explains. "Well, it didn't work. We had to let people know about books another way—through marketing, publicity, author appearances."

This big change was met with resistance both at HarperCollins and with its customers. Hoffman admits to having to "inflict it" on customers at first and to "screaming matches in the halls" with HC sales executives. But after four or five years of working with the system—and the promise to overnight at HC's expense copies of titles that were running short—big clients are "learning to trust us," says Hoffman. They are seeing savings in terms of storage and the expense of unpacking books and then repacking them for return. The initial success has led Barnes & Noble to approach HC about linking its new i2 Technologies system in order to share even more information.

Meanwhile, the return on investment on this collaborative venture makes for a good



read: HC has reduced returns on its closely managed titles from 38 percent to 15 percent. "I was told every one of those points was worth a million dollars," Hoffman says.

Dairy Delight

For Kerrygold, a wholly owned subsidiary of the Irish Dairy Board and a major exporter of dairy products to Europe and North America, the push for collaboration came from its customers.

"We needed to react to demand for shorter lead times, increasing volumes, more frequent deliveries and more complexity—all without compromising service levels or adding costs," explains Ray Levett, sales director at Kerrygold. "We are being asked to help retailers make decisions on issues such as case size, shelf life, where product should be displayed and order frequency."

Kerrygold's response involved upgrading its Movex manufacturing and forecasting systems from Intentia, developing a set of key performance indicators (KPI) with its customers, linking to retailers' systems to collect POS data and good, old-fashioned face-to-face discussions with key customers about plans and promotions.

Because Kerrygold distributes a perishable product to stores with rapid turnover, the KPIs relate to delivery performance. The company aims for a 99.5 percent service level, meaning that 995 times out of a 1,000, it delivers the right order to the right place with no quality issues. It also tracks stock availability, finished goods, warehouse picking accuracy, waste and customer claims.

Still, even with the best of intentions, collaboration is not totally seamless. "Regrettably, each retailer adopts their own system," Levett says. "This means we have to 'buy in' or subscribe to access sales information on an individual basis."

Generally, Kerrygold can access information such as POS data via the Internet, but the information gained there provides only a rough estimate. "We wouldn't base production on that alone," says Levett. "We sit down and discuss planned demand, but since we have input in the setting of shared business objectives and KPIs, we have a pretty good idea of what demands will be made of us over a given time."

This may be the real payoff for Kerrygold and its customers. The upgrading of technology and the willingness to share plans and data have laid the foundation for even more collaboration—and more benefits—in the future. "For example," Levett says, "We might review customer demands for a certain product and decide that we could reasonably expect the customer to use a slightly larger pack. We would then work out the holistic benefit of supplying the product in a bigger format. That might deliver benefits right back through sourcing, packaging materials, production efficiency, logistics and distribution."

Readiness Check

If you:

- can't meet demand fast enough,
- can't handle the speed of delivery,
- can't handle change requests,

then it's probably time for you to think about electronic linking to your suppliers and customers. So says Jonathan Kall, CEO of Interwave Technologies, an independent consulting integrator focused on collaborative manufacturing. But there's more to supply chain collaboration readiness than that. You have to look at your people, your processes and your technology, he says.

People readiness on your side means being committed to the cultural and process changes that such linkage implies. On your customer and supplier sides, you have to be able to explain the return on investment of the process. The heart of collaboration is trust and mutual benefit between organizations. If those aren't there, the process will fail.

Process readiness means that you have operational flexibility. "You have to understand that this whole concept of tying the supply chain together, especially when you're a manufacturer, is a continuous improvement vehicle," Kall says. You will use the information you get through collaboration to continually improve your performance,

and that means you have to have systems in place that can effect change, and you have to be ready to change systems that hinder it.

Technology readiness is not just about choosing hardware and software; look for common design and reuse capability. "You don't want to do one-offs," Kall says. "You want configurable implementations and architectures built on standards, not custom code. You want to be able to do this once and roll it out over multiple divisions."

In short, supply chain collaboration readiness is a three-legged stool: You have to have people, processes and technology all working together for it to succeed.

When the Going Gets Tough...

How hard is collaboration? "Really, really hard," says Paris Gogos, senior vice president, product management, at efficient market services, a demand forecasting software vendor.

Why? He cites four reasons:

1. Companies as yet have no clearly articulated view of what they want to collaborate about. Exactly what business processes do you want to talk about with whom? Why?
2. Collaboration is about trust and relationship building, and those things take time. They can't be forced.
3. Taxonomy. Automatic information exchange requires a common set of terms and standards, something that's not there between many suppliers and customers in many industries.
4. Technology. Not everybody has the systems that can exchange information in real time on the detailed, granular level that successful e-collaboration requires.