Harnessing the power of partnerships

Collaborative relationships are helping companies to avoid the supply chain failures that so often undermine successful innovation.

Product innovation is the life-blood of every business. However, developing and delivering new products to global markets is becoming increasingly complex. Once limited to fashion-driven products, constant product innovation, short life cycles and high cannibalisation rates are becoming typical for many industries in today's business environment.

Increasingly, customers are demanding customised offerings while investors relentlessly drive managers to find lower costs and growth. From apparel to high technology, the dual forces of outsourcing and globalization have led to a rapid supply chain disintegration and increasing coordination complexity. Product designers, marketers and manufacturers that were previously located in a single facility are today spread over several countries in organisations with different cultures, languages and business objectives.

Moreover, there are new supply chains include emerging markets that add new risks and often slow down the new product introduction process.

For apparel, not long ago, apparel brands such as Levi's did it all, operating their own US production plants along with their core design and marketing activities. Now, the company has shuttered the plants that once dotted the south-eastern US and outsourced much of that production and even design.

The same is also true for a host of other products, from PCs to lawn mowers. Ten years ago, Hewlett-Packard, the electronics group, designed and manufactured PCs for regional markets in Europe and the US. Now, designers, marketers and assemblers are scattered across different companies.

There is little doubt that this global migration has enabled consumers to obtain cheaper goods of higher quality. Consider apparel, which began moving to low-cost countries a long time ago. Over the past decade, the sector has consistently landed at the bottom of the consumer price index, although inflation during that period, as measured by the US consumer price index, has hovered between 2.5 and 3 per cent annually. Meanwhile, apparel has seen nothing but relentless deflationary pressures. Since 2000 alone, the sector has deflated at 2-3 per cent every year (see figure 1). From computing power to horse power, consumers are living in the cheap decade.

- The supply chain becomes more complex

For managers, the wonder of price deflation have come at the cost of increased supply chain complexity. In other words, with the supply chains of more clothing manufacturers spanning the globe, increased supply chain complexity has stranded every player in the industry - sometimes to a breaking point.

When this happens, products fail to meet customer expectations or arrive too late for the extended season, requiring deep markdowns to liquidate inventory before the next set of goods arrives.

In some industries, such product introduction stumbles can be fatal. Palm, the handheld PC manufacturer, learned this lesson during the launch of its m500 and m605 series of personal digital assistants. The new models showed promise but, in the rush to bring innovative new features to market and lower its production costs through a new off-shore outsourcing relationship, Palm stumbled. Collaborating with a new manufacturing partner was difficult and the required product and manufacturing process innovation stalled the new product release, causing Palm's sales to dive as customers waited for the new model. Palm has never really recovered.

HP learned a similar painful lesson when it tried to innovate and reduce costs in its notebook computer division. With increasing product options and a complex outsourced supply chain, HP may have reached customers late and had to sell at deep discounts. Struggling to speed up launches, products shipped from Asian suppliers sometimes had to be reworked in regional distribution centres to meet US and European requirements. The resulting costs and delays were devastating. HP learned that it had to develop collaborative teams across functions and organisations to ensure products were...
designed to accommodate supply chain capabilities.

- Lessons on how to collaborate better

Companies must learn to collaborate better, both within their own units and across the extended enterprise. And under intense price pressures, effective collaboration becomes all the more important and difficult.

In a series of four executive roundtables (part of the Thought Leadership Summit on Digital Strategies, held a collaborative effort between the Turk School of Business at the University of Texas, Cisco Systems, and a group of global companies including General Motors, Caterpillar, Whirlpool, and a number of other companies), senior managers from diverse industries shared their success stories and conclusions about how to foster innovation through supply chain collaboration, as well as the lessons learned.

Examining the histories of many different collaborative efforts, these important management lessons were centered on the importance of:

Collaboration cannot be an afterthought. Too often, collaboration is something management hopes will develop after a business process is in place. That hope is not reality. The result is too often a disaster. This is particularly true in industries with a long tradition of optimizing the use of capital. While such practices may be effective in their own supply chains, they may be ineffective in the broader environment of the extended enterprise.

Effective collaboration requires a change in the way companies focus on growing their own customer base. Collaboration means understanding the needs of other companies, seeing the world through their eyes, and sharing that information with other companies.

Research suggests that companies that adopt a collaborative approach will see a significant increase in their competitiveness. Companies that do not adopt a collaborative approach will see a significant decrease in their competitiveness.

Examples of companies that have successfully adopted a collaborative approach include:

- IBM
- HP
- Dell
- GE
- Siemens

These companies have seen significant improvements in their bottom line, including:

- Increased revenues
- Reduced costs
- Improved customer satisfaction
- Increased innovation

For example, IBM has seen a significant increase in revenues due to its successful collaboration with its partners. The company has also seen a significant reduction in costs and improved customer satisfaction.

In addition, companies that have successfully adopted a collaborative approach have also seen significant improvements in their innovation. For example, IBM has seen a significant increase in the number of patents it has been awarded due to its successful collaboration with its partners.

In conclusion, effective collaboration is essential for companies that want to succeed in today's competitive environment. Companies that are able to collaborate effectively will see significant improvements in their bottom line, while companies that are not able to collaborate effectively will see significant decreases in their competitiveness.

Table 1: Defining IS US apparel

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>75%</td>
</tr>
<tr>
<td>India</td>
<td>10%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>5%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>5%</td>
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Note: The percentage represents the share of apparel production in the country.