

BUSINESS COLLECTIVE 1.0: **PARTNERING REBORN**



DHL

Most organizations still conduct business as separate entities that interact transaction by transaction. Relationships are “us versus them” – with winners and losers. That worked in the past. Not any more.

Globalization, and the fact that competition now comes from anywhere, can pop up at any time, and can disrupt entire markets overnight, is making this approach obsolete.

Enter Business Collective 1.0.

This emerging and transformational business model is enabled by technology and talent, driven by the speed of business, and necessitated by competition.

Business Collective 1.0 is a simple idea. Multiple organizations meld together to face the market as one single commercial entity.

They eliminate the barriers that traditionally separated not just internal departments, but external partners up and down the supply chain.

In this new ecosystem, a collective of organizations align on a shared mission and competitive strategy; and work together to capitalize on their strengths and overcome weaknesses.

Business Collective 1.0 (BC1.0) is not business as usual, as Frank Vorrath, Vice President, Global Supply Chain at Johnson Controls points out.

Business Collective 1.0 is a simple idea. Multiple organizations meld together to face the market as one single commercial entity.

“We have reached the limits of what transactional relationships can do. We must now take the approach of truly integrating - everyone becoming part of a unified business strategy and a unified front to face the competition and thrive. This means companies must open their books and doors in ways they never did before. All parties must step up their level of investments – in systems, people, process and infrastructure to support this business collective strategy. Companies and their service providers must shift from transactional relationships that focus on moving freight from point A to point B, to new strategic partnerships that create value for everyone.”

This paper is the first in a three-part series that explores the emerging concept of Business Collective 1.0. The papers, in sequence, define the concept, map out a blueprint for implementation, and finally, discuss the benefits of successful adoption.



WHAT IS BC 1.0 AND WHY DO WE NEED IT?

At first glance, the Business Collective concept may appear to be the logical extension of collaboration, a term that is so over-used it is starting to lose its meaning. But that would be selling it short.

The Business Collective is something different – it's about creating an end-to-end, mutually executed process that extracts waste and creates sustained value – for the end customer and for all parties in the 'ecosystem'.

This is a far cry from the procurement focus that so pervades traditional business relationships. "In most companies," observes Damian Pike, Vice President, Innovation & Transformation, DHL Supply Chain, "the focus has been on driving down costs. This essentially commoditized the goods and services provided by suppliers and service providers, and forced them to compete based on price reductions. While this saves money in the short term, as a strategy, its returns diminish rapidly over time. You can only cut prices so far."

Leading companies have, therefore, started to look at doing things differently, embracing an ecosystem approach to their commercial relationships. The central tenet of this strategy lies in answering the question: How can we work together to win in the global marketplace?

Eamonn Kelly and Kelly Marchese of Deloitte elaborate on this idea: "Many supply chains appear to be evolving into 'value webs', which span and connect whole ecosystems of suppliers

and collaborators. Properly activated, these value webs can be more effective on multiple dimensions—reducing costs, improving service levels, mitigating risks of disruption, and delivering feedback-fueled learning and innovation."¹

"Collaboration is an addition to, not a replacement for ... closed, contractual arrangements," Kelly and Marchese continue. "Clear commitments to meet rigorously monitored standards and service-level agreements will remain critical. But to claim the benefits of an increasingly fluid and interdependent value web, leaders should surround their contracts with trust; build on transactions and one-time deals to cultivate long-term relationships and mutual learning; combine the power of control with the potential of co-creation; make sure that defined, fixed standards do not create barriers to valuable innovation and co-evolution; and not only leverage leading practices, but also aim to create 'next practices'."

"This kind of partnering is not about winning alone; it's about winning together,"

This approach dovetails into and draws on the evolution of organizations from reactive to predictive enterprises. Companies are no longer relegated to running their business by "looking in the rearview mirror" – i.e. managing their operations based on weeks- or months-old information. Thanks

¹ Eamonn Kelly, Kelly Marchese, Supply chains and value webs, Deloitte, April 15, 2015.

to new technologies – combined with new management science – organizations are starting to anticipate and even predict the future and direct their global operations accordingly.

The customer is the focal point for the predictive enterprise, and the business collective is the means to serve them. “We must learn how to serve customers as a single entity, and in doing so, create shared benefit for everyone,” insists Vorrath.

“This kind of partnering is not about winning alone; it’s about winning together,” he continues. “It means that trading partners are aligning themselves towards a common goal, and truly working together as partners to create value for the end customer. They are doing this through shared processes, shared technologies and shared people.”

BUSINESS COLLECTIVE 1.0 - A NEW MODEL DEFINED

Multiple **organizations meld together** to face the market as a **single commercial entity** with the **customer** as the focal point.



Aligning on a **shared mission** and **competitive strategy**; and **working together** to **capitalize on strengths** and **overcome weaknesses**.

Partnering is not about winning alone; it’s about **winning together**.





THE PATH TO MATURITY: OLD TO NEW

As companies adopt a business collective approach, they move through certain stages of maturity.

“In the least mature stage,” reports Pike, “we might use our expertise in lean and six sigma to review a process and extract waste at one customer facility. Our customer reaps the benefit of having an outside expert look at its operation and drive new value by streamlining it.

“At the advanced end of the spectrum,” Pike continues, “two or more organizations share common business challenges, common cultural reference points and common values – all of which come together in a shared recognition that their joint capabilities allow them to solve problems better collectively rather than independently. For example, we are working with a leading airline catering company to combine our respective strengths – food service and logistics – to tackle problems they couldn’t address on their own. With this combined ‘lens’, we can start to uncover – and capitalize on - tremendous opportunities that we wouldn’t have seen by operating separately.”

In the old transaction-based paradigm, companies approached business from an “inside-out” perspective. “This means I look after my own interests, and I push my systems and self-interests on to the next party in the value chain, whether they are upstream or downstream. I am working in isolation, not in partnership,” Vorrath explains.

The new paradigm reverses this focus, to “outside-in”. “An outside-in strategy is based on one simple premise: The only reason we exist is the customer,” Vorrath says. “Everything we do starts with the customer. We must use data analytics to truly and completely understand the customer, and then design and configure the whole value chain network in a way that creates value for all the partners as they work together to serve the customer. Everyone is aligned to serve one outcome – serving the customer better.

“I don’t want to talk just about transactions,” he continues. “I want to have a different conversation about how we can share our complementary strengths to serve the customer.”

From the logistics service provider perspective, “We are no longer just competing for commodity tasks,” Pike notes. “Instead, we’re working together to tackle complex problems based on a shared understanding and prioritization of what is important.”

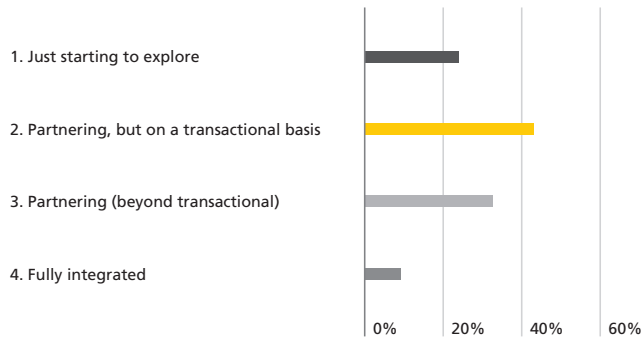
How far along are companies in implementing this ecosystem/collective approach? Not far..

“I’d say on a scale of 1 to 5, where 1 is the lowest maturity stage, the majority of companies are only at a stage 1.5,” Vorrath estimates. “We all have a long way to go.”



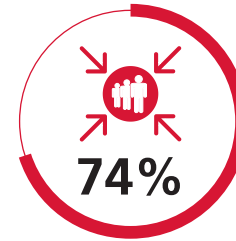
A survey by DHL Supply Chain validates this observation. In terms of relationships with suppliers, more than **70** percent of respondents that are heading down this path are either just starting to explore this kind of partnering, or partnering only at a transactional level.

WHERE ARE YOU ON IMPLEMENTING THIS NEW PARTNERING MODEL WITH SUPPLIERS?



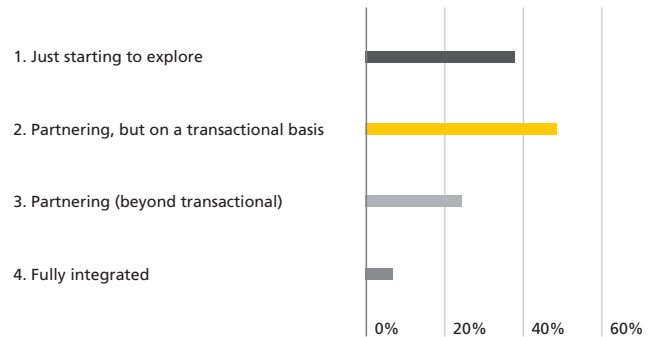
Source: DHL Supply Chain Survey, March 2016.

You need to start looking at problems from a holistic perspective," Pike advises. This means breaking down the barriers between companies and capitalizing on the efficiencies and synergies that result from "softening" these boundaries.



With regard to customer collaboration, the results are similar, with **74** percent of respondents either just starting to explore partnering, or partnering on a transactional basis only.

WHERE ARE YOU ON IMPLEMENTING THIS NEW PARTNERING MODEL WITH CUSTOMERS?



Source: DHL Supply Chain Survey, March 2016.

"In a traditional business relationship, waste occurs at the interface edges where one company stops and another starts," Pike explains. "In a business collective, you soften and blur the edges, and in so doing eliminate the waste and cost that stems from boundaries and redundancies."



FROM COST CUTTING TO BREAKTHROUGHS

The business collective reduces waste. That much is clear.

But it goes far beyond simply improving efficiency and cutting costs. Today, these are small stakes in the world of global competition. They help ... but do not make a real difference.

In contrast, attacking issues, challenges and opportunities as a Business Collective opens the door to business transformation – to making a real difference in a company's performance and position in the market. Business Collective is based on the proposition that organisms are more powerful acting collectively than acting alone - the 1+1=3 paradigm.

We have entered a new decade of the engagement and ecosystem-driven economy where the degree of collaboration, alignment and agility to manage change is critical not just to success, but to survival," stresses Vorrath. "In the future, a

"Every company will be part of an ecosystem and success will depend on whether your company is part of the strongest ecosystem. This is about transformational – not incremental change".

company won't simply compete against another company. Rather, every company will be part of an ecosystem and success will depend on whether your company is part of the strongest ecosystem. This is about transformational – not incremental change."

A Business Collective model is an exacting master – it demands the best of every partner. "Because we're working together toward a common goal," concludes Pike, "we bring our best game to the table. Working collectively, we do what we do ... but do it better."

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