

# Value chain co-ordination: collaborating to compete



# Outline

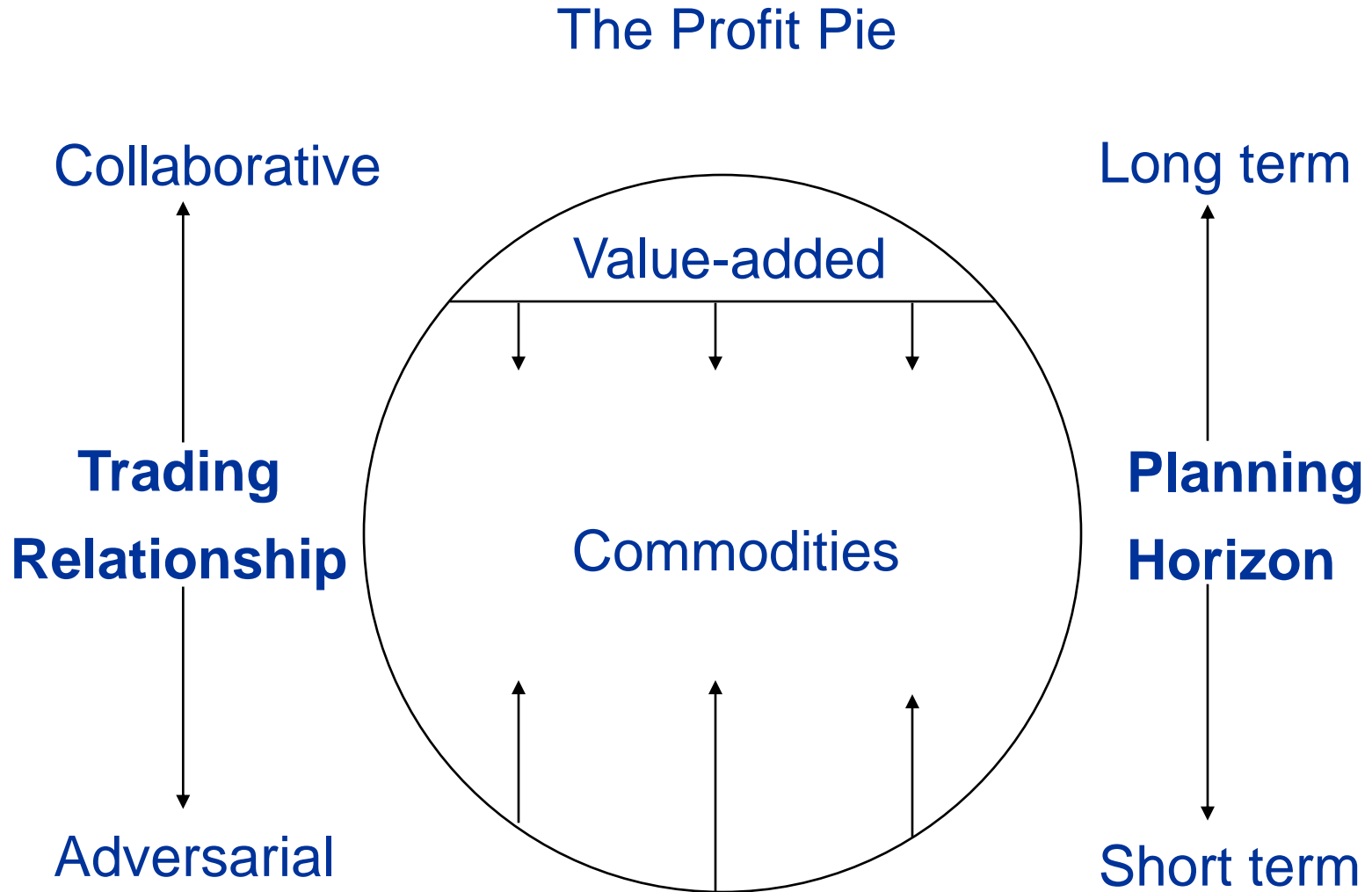
- Commoditisation
- Lean Thinking
- Process Integration
- Value Chain Analysis
  - Case Study
- Conclusions



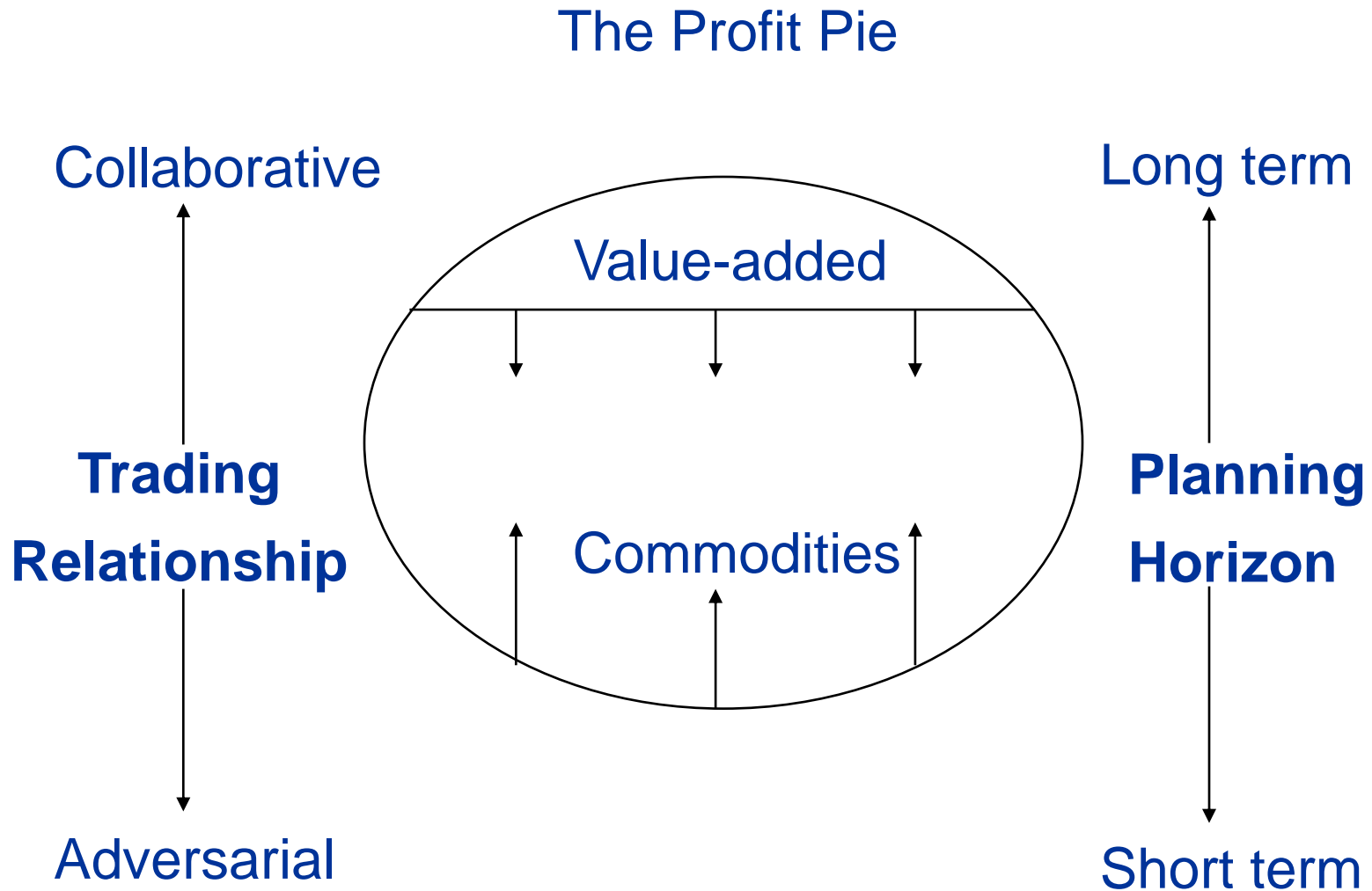
# 1. Commoditisation

- Characteristic of mature markets everywhere
- Driven by
  - improved information systems
  - faster technology transfer
  - greater labour mobility
- Resulting in
  - entry barriers falling
  - product life cycles shrinking
  - differentiation increasingly difficult
  - Exclusive focus on volume/market share/cost/price

# 1. Commoditisation



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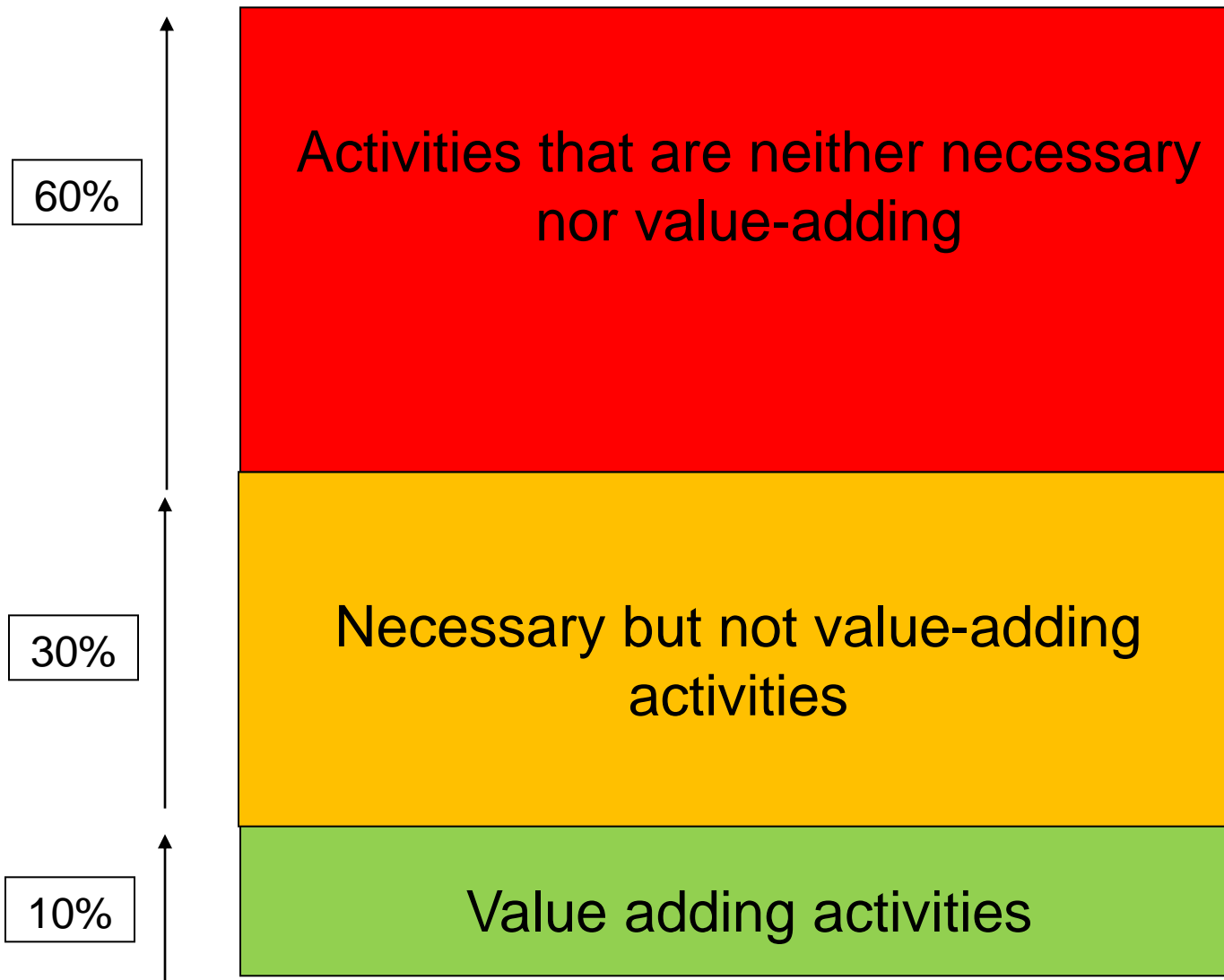
# 1. Commoditisation

## How do firms react?

- Buyers
  - First move is the (ab)use of power to squeeze costs upstream
  - Downstream concentration
- Suppliers
  - Cut corners in an attempt to survive
  - Upstream fragmentation + lack of confidence = lack of investment

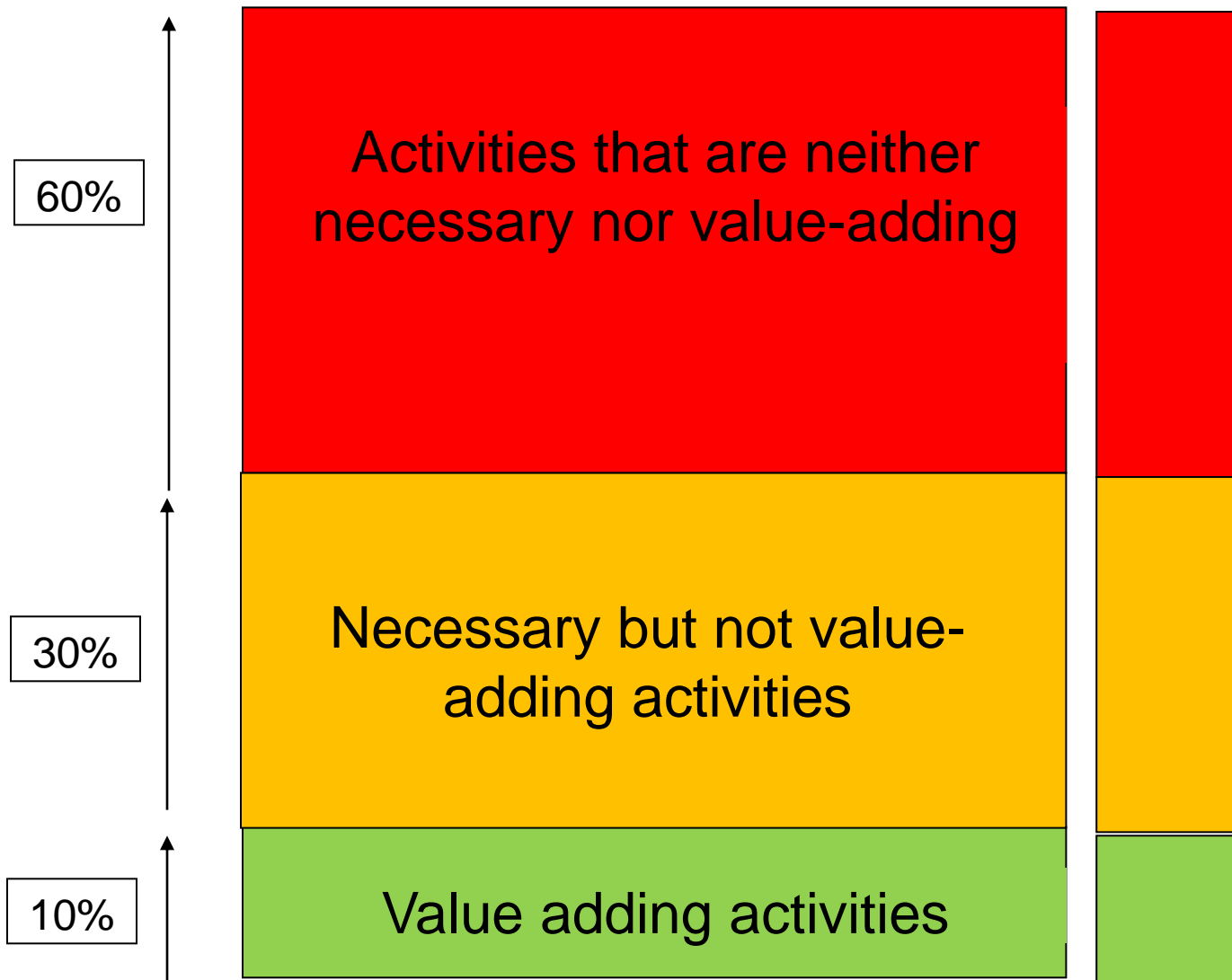
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How do firms react – When Squeezed?



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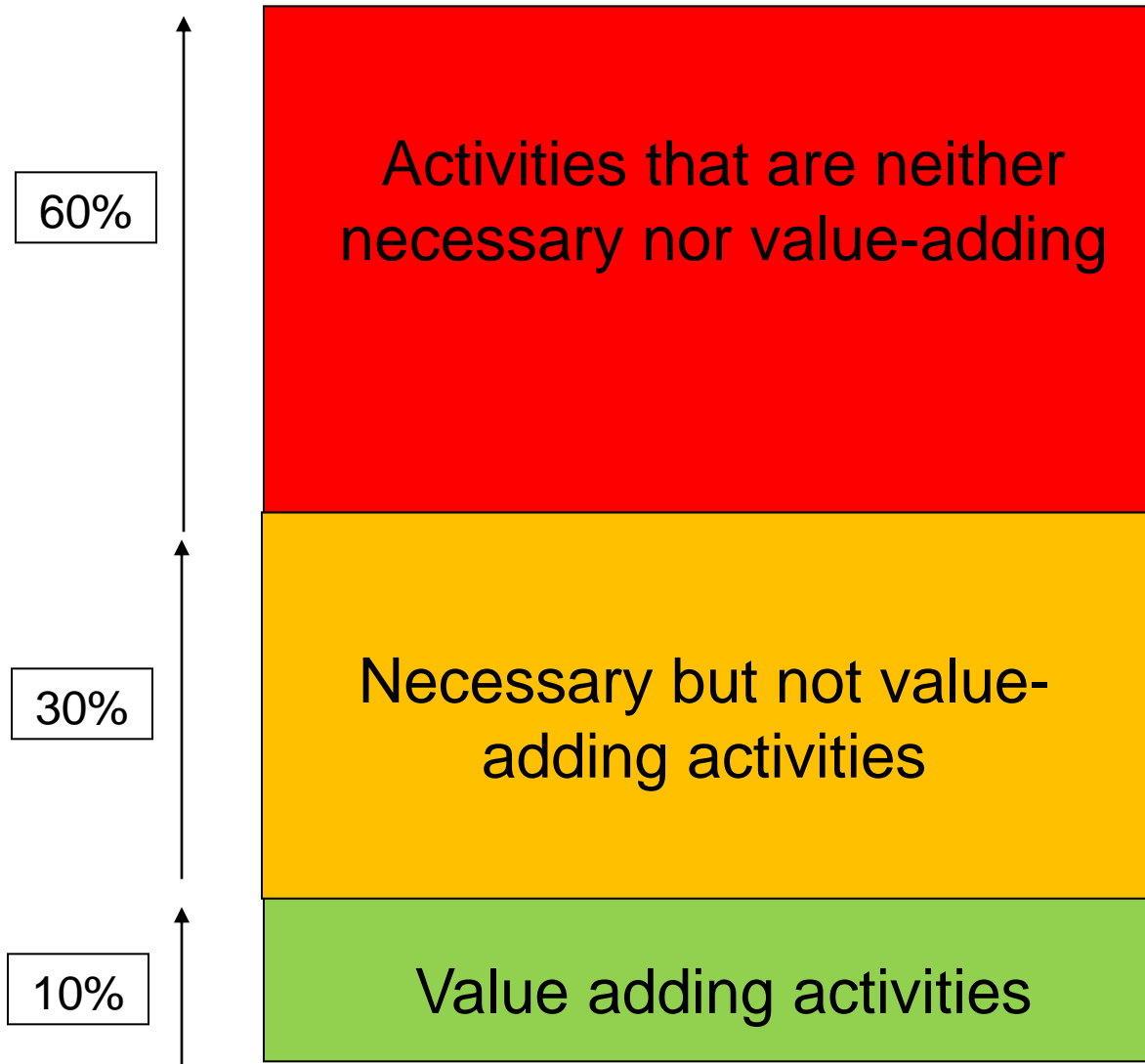


## 2. Lean Thinking

- Sooner or later firms discover 'lean' thinking
  - Systematic review of value and elimination of waste within the **manufacturing process**
  - Focus on products and value streams rather than asset management
  - Reduction of **total** cycle time (identification of need – delivery of solution)

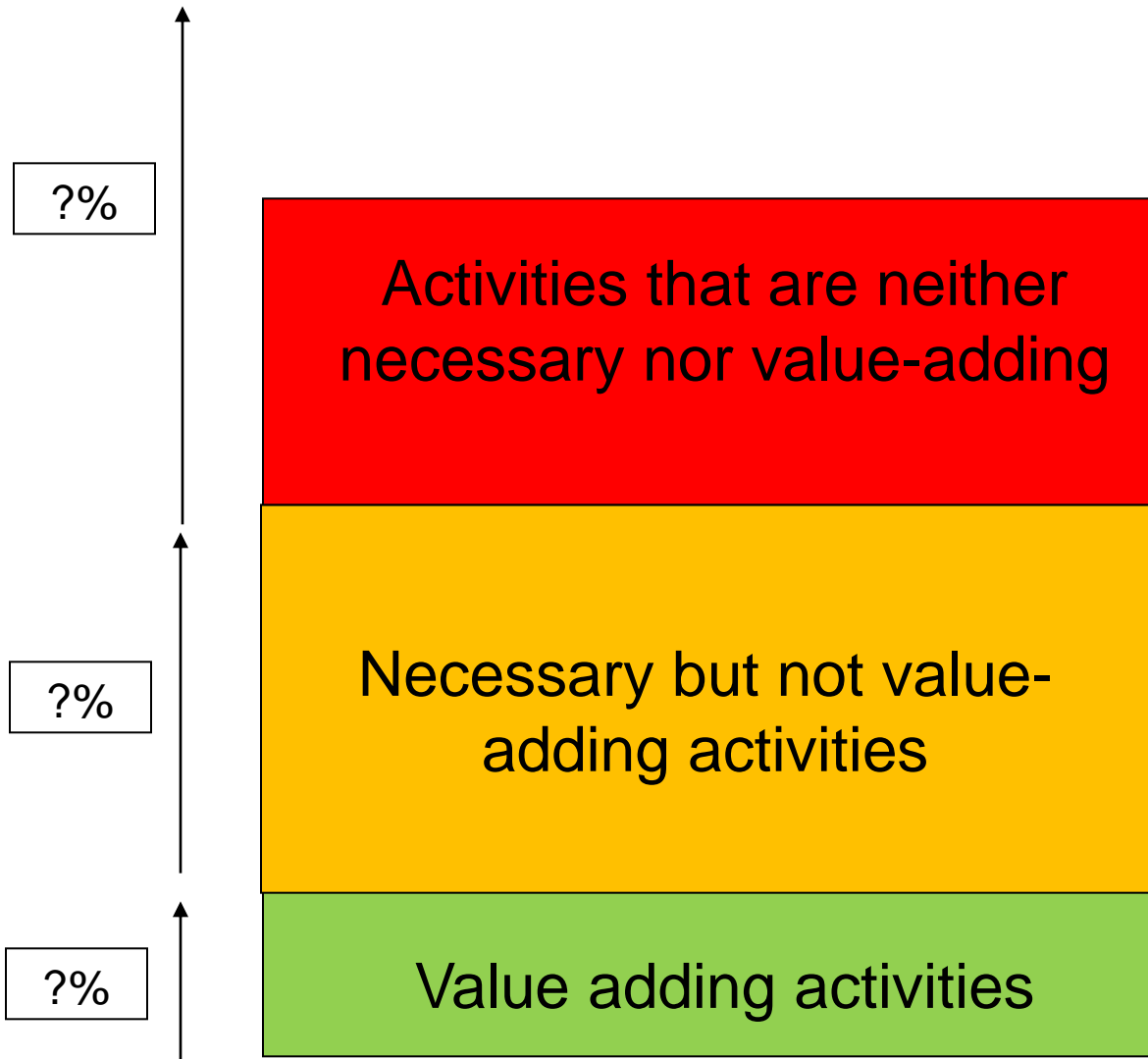
## 2. Lean Thinking

Focus on waste reduction



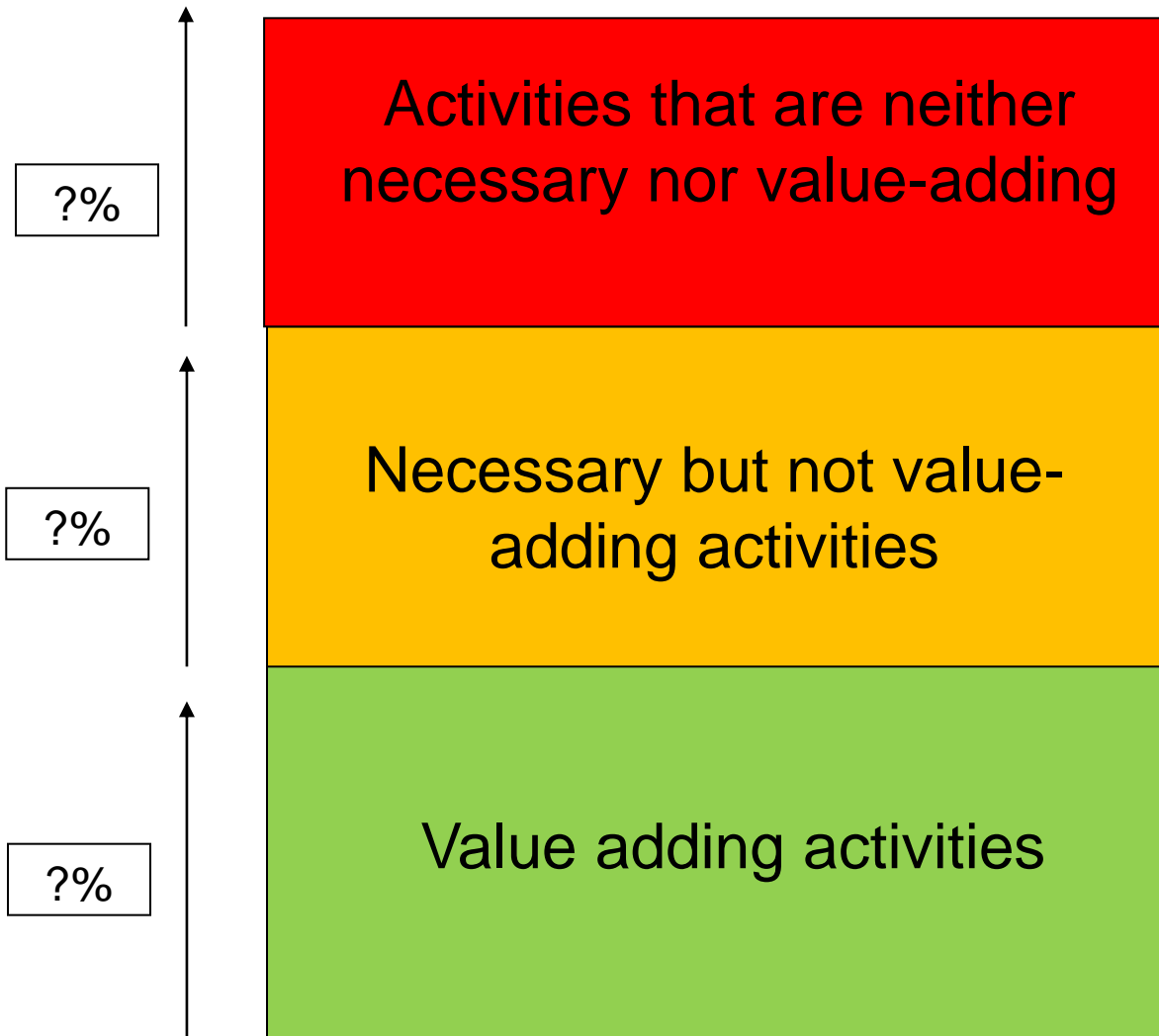
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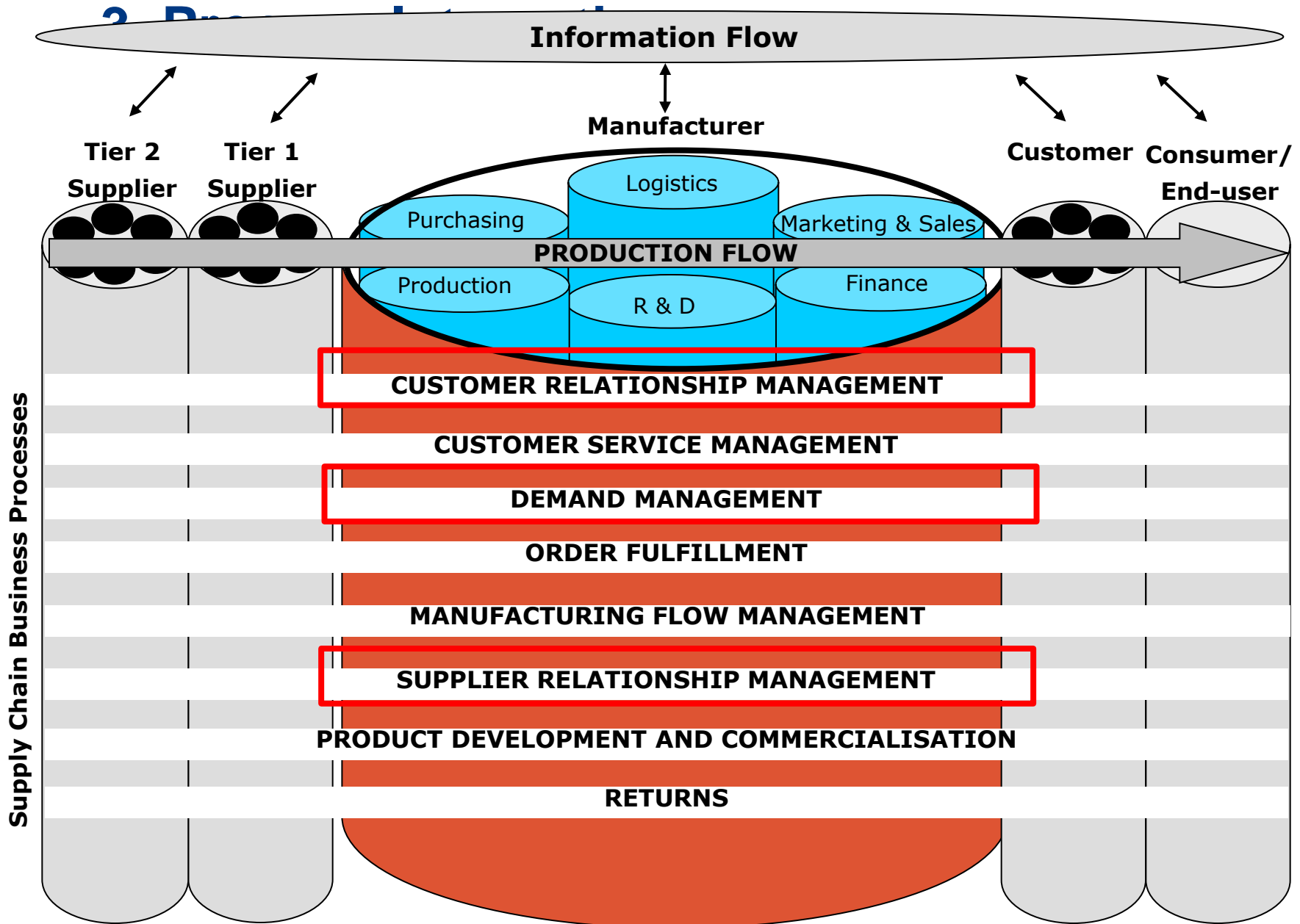
## 2. Lean Thinking

and resource allocation?



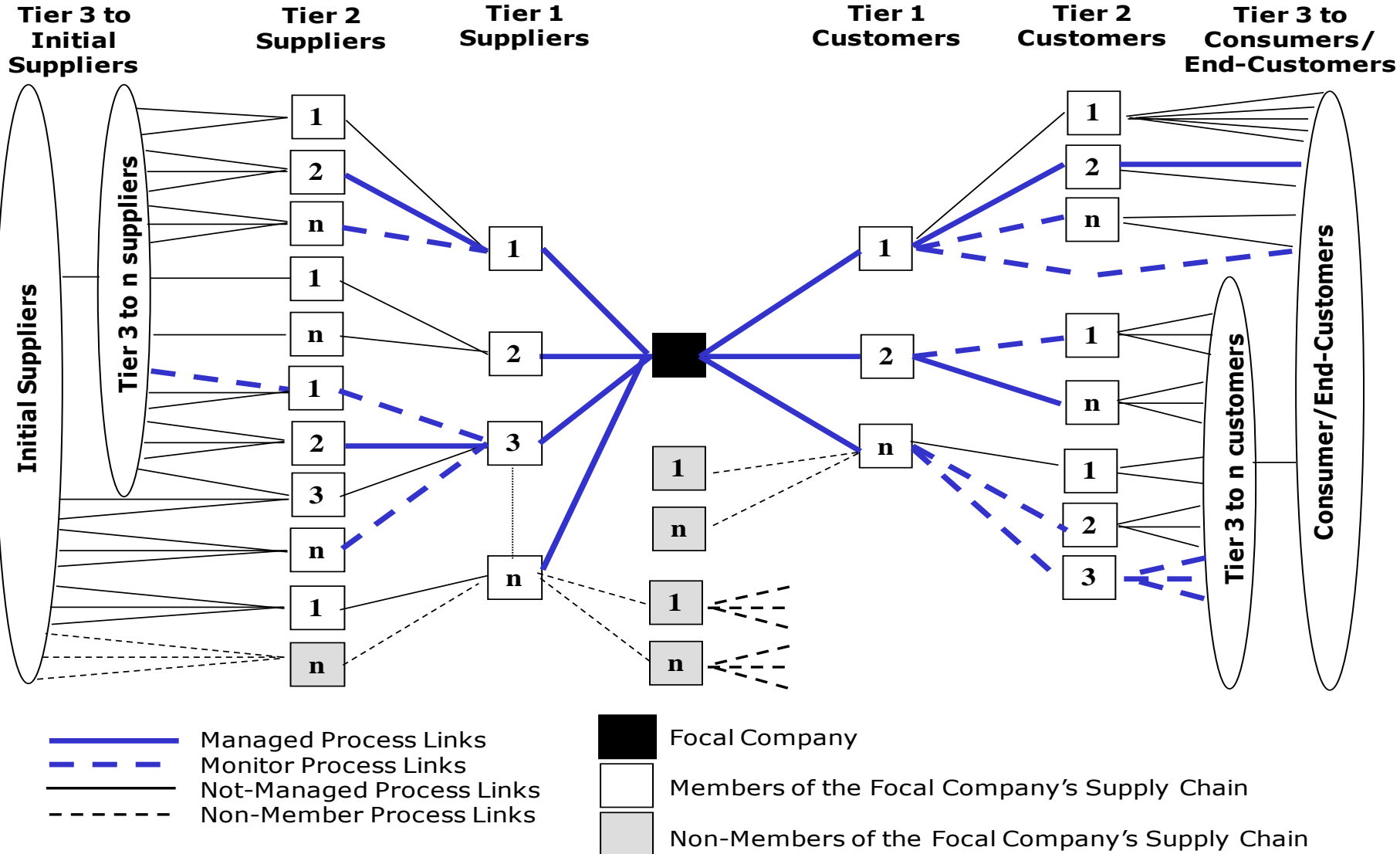
## 2. Lean Thinking

- Leaning the (internal) manufacturing process involves **major change** so leaning the supply chain always left to last
- Benefits of leanest manufacturing dependent on the willingness, capability and capacity of supply chain partners to adapt
  - Cannot assume supply chain will fall in line
  - Requires collaborative approach towards purchasing and supply



# 3. Process Integration

**Types of Inter-company Business Process Links**



# Relationship Continuum

- Arm's Length
- Partnerships

## Type I

Co-ordination of activities  
Limited functional scope  
Short time horizon

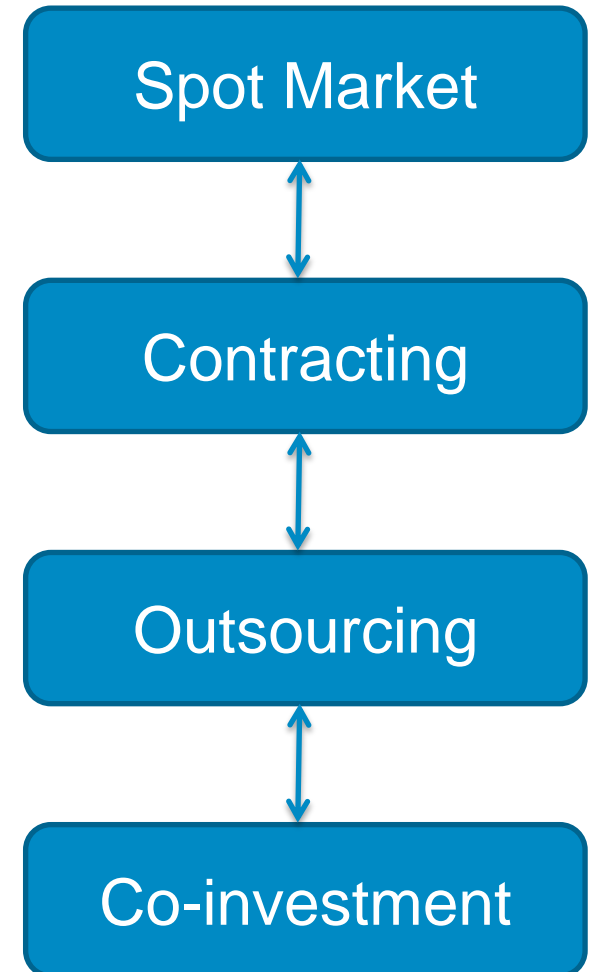
## Type II

Strategic Integration of activities  
Multi-functional scope  
Longer time horizon

## Type III

Operational integration of activities  
Open-ended commitment

- Joint Ventures
- Vertical Integration





# What is a key customer?

## Scale – today

- Efficient use of production capacity
- Essential cash flow to sustain the business
- Significant market share
- Significant proportion of sales revenue

## Profit – tomorrow

- Confidence to invest in long term development of the business
- Potential for sales growth in the long term
- Above-average profit margins
- Potential for increasing profit margins

# What is a key supplier?

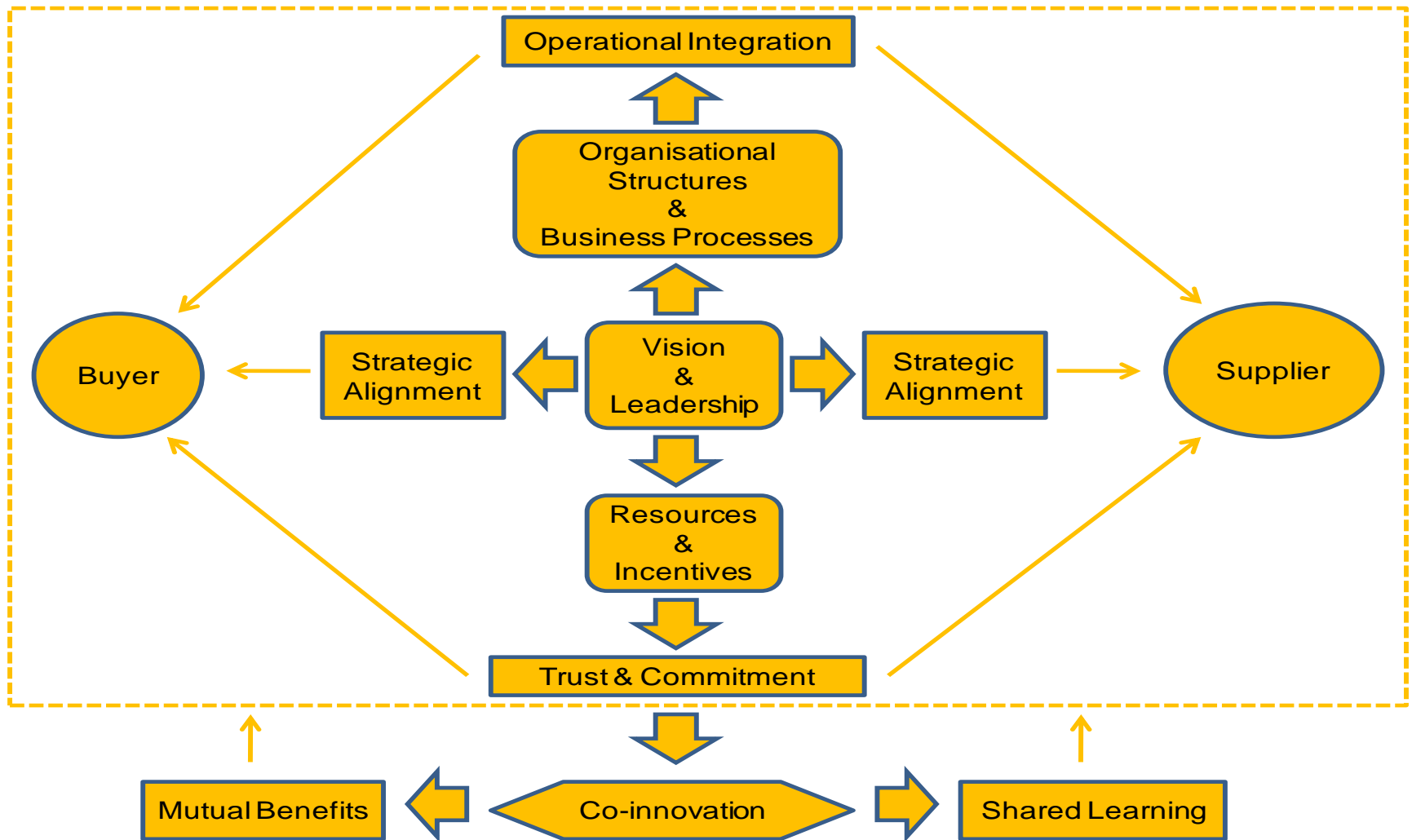
## Scale/Risk – today

- Large share of current spend
- Criticality of inputs
- Availability of alternatives
- Switching costs

## Profit – tomorrow

- Potential contribution to innovation and NPD
- Potential source of differentiation
- Potential access to new markets

# Collaboration Roadmap



## 4. Value Chain Analysis - Principles

- Scope for improvement 'everywhere' but often hard to see (particularly when nobody is looking!)
- Need to find ways to draw the attention of different stakeholders to the opportunities for improvement at different stages in the supply chain
- Valued Chain Analysis (VCA) can be an effective way to extend the line of sight
  - Analytical tool
  - Communication tool ('seeing the whole')
  - Catalyst for change

## 4. Value Chain Analysis - Principles

- Combines the structural emphasis of supply chain mapping with the detailed insights of process mapping

	<b>Supply chain mapping</b>	<b>Process mapping</b>
<b>Orientation</b>	External	Internal (typically)
<b>Level of detail</b>	Low to moderate	High
<b>Purpose</b>	Strategic	Tactical

## 4. Value Chain Analysis - Process

- Multi-dimensional diagnosis of the current state
  - Material flow ('in the eyes of the consumer')
    - wasteful, necessary, value adding
  - Information flow (strategic & operational)
  - Relationships (within and between organisations)
- Identification of improvement projects
  - Implementation is a **collective responsibility** and the benefits must be shared
  - 'Silo' solutions will always be sub-optimal and will not deliver **sustainable** competitive advantage

## 4. Value Chain Analysis - Methodology

Stage 1 – Identify chain captain and at least one partner (downstream) to drive the project

Stage 2 – Establish commitment of senior management

Stage 3 – Assemble project team and necessary resources

Stage 4 – Establish boundaries of confidentiality

Stage 5 - Select the value stream

- Product family serving a specific market/customer/distribution channel

Stage 6 - Establish what it is that consumers value

Stage 7 - Map the current state

- Collect information and data relating to three key flows

Stage 8 - 'Groundtruthing'

- Validation of key findings and Identification of improvement projects

Stage 9 - Dissemination of shared learnings

- Confidential reports to stakeholders ('warts and all')
- Generic report for wider audience

Stage 10 - Evaluation

## 4. Value Chain Analysis - Practice

### Bagged Salad (Australia)

- Houston's Farm & Coles/Woolworths

### Processed Vegetables (Australia)

- Simplot & Coles

### Wine (Australia – UK)

- Yalumba (Aus) & Tesco (UK)

### Fresh Pork (Canada)

- Co-op Atlantic & Tony's Meats

### Mangoes (Australia - UK)

- Manbulloo & Sainsbury's

### Railway Rolling Stock

- Angel Trains (ROSCO) and South East Trains (Rail Network)

### Garden Plants

- Bransford Webb & Dobbies

### Social Services

- Kent County Council



# Context

- In 2008 the Australian wine industry was facing one of its greatest challenges in living memory
  - to compete on a global stage with quality wines for the mass market, without jeopardising the livelihoods of wine producers, the communities they serve or the environment upon which they rely
- Growing awareness of and interest in sustainability
  - production, processing and distribution
- Lack of understanding of customer needs and consumer wants, with serious implications for resource allocation

# Methodology

- Value Chain Analysis (VCA)
  - 10 consumer focus groups
  - Survey of 1,000 UK supermarket shoppers
  - 38 semi-structured interviews conducted with 57 people in 12 organisations
  - On-line stakeholder survey (growers (12), input and service providers (10), Yalumba (30), Tesco(1))
  - 3 x 'groundtruthing' presentations
  - Identification of improvement projects
- Life Cycle Analysis (LCA)
  - Assessment of CO2 emissions in the OLT value chain, from grape to glass
  - Yalumba – 'Commitment to sustainable winemaking' (Camilleri, 2008)

# Key Findings

- Consumer Value
- Material Flow
- Emissions
- Information Flow
- Relationships

# Consumer Value

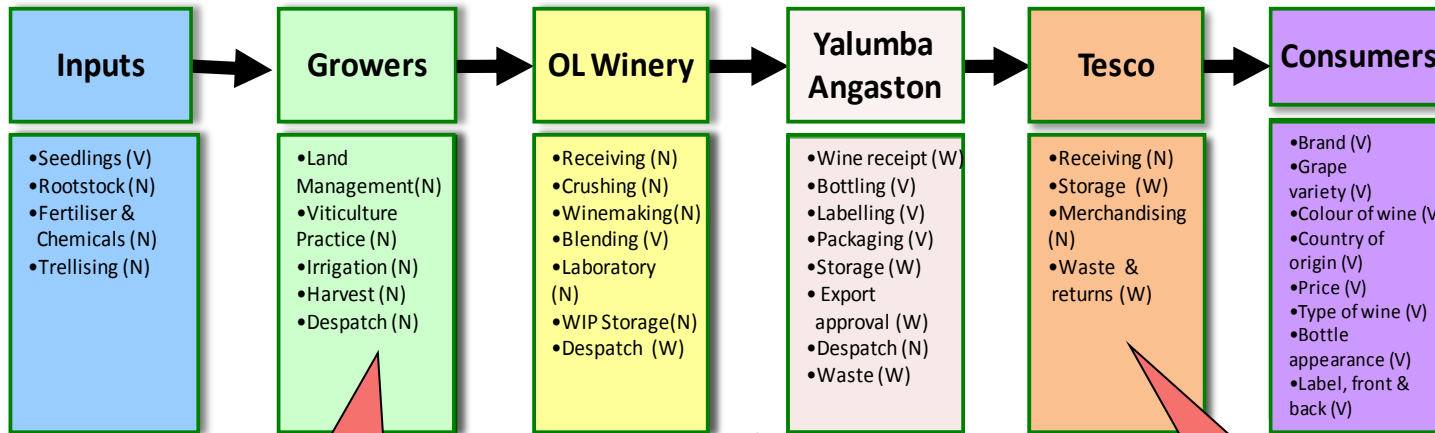
## Most Valued attributes

- ✓ Price per bottle
- ✓ Type of wine (e.g. dry/sweet)
- ✓ Colour
- ✓ Grape variety
- ✓ Information on the back label
- ✓ Recommendations from friends/relatives
- ✓ Country of origin
- ✓ Brand name
- ✓ Specific region within a country
- ✓ Year of vintage

## Least valued attributes

- ? Recommendation in newspapers/magazines
- ? Alcohol content
- ? Appearance of the bottle
- ? Type of closure
- ? Environmentally sustainable production process
- ? Environmentally sustainable packaging
- ? Design of the front label
- ? Distance the wine has traveled
- ? Weight of the bottle
- ? Suitability for vegetarians/vegans

# Material Flow



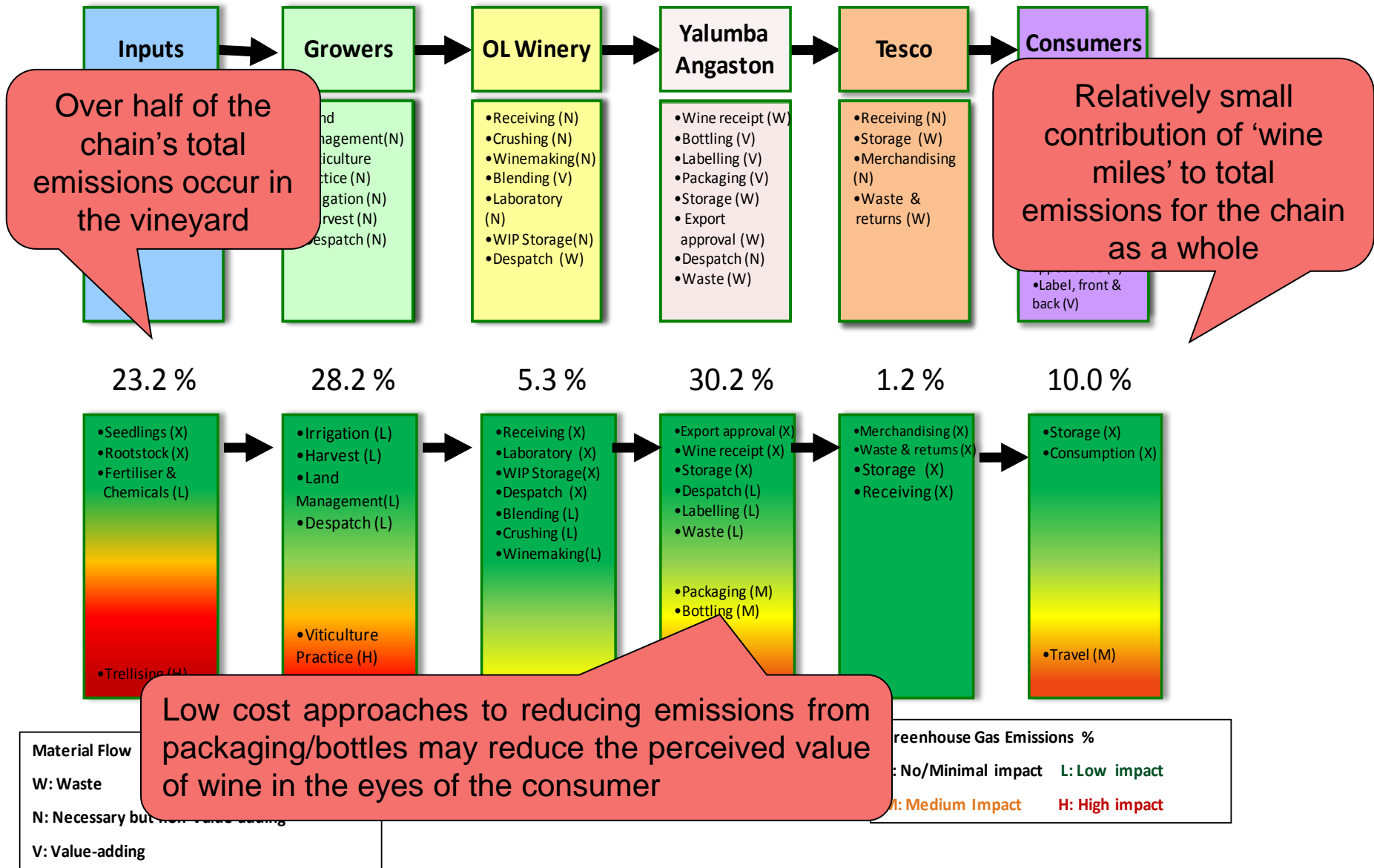
Proliferation of necessary but non-value adding activities implies a focus on efficiency

Material flow is largely efficient, but trans-shipping from the OL Winery to Yalumba Angaston for bottling is wasteful

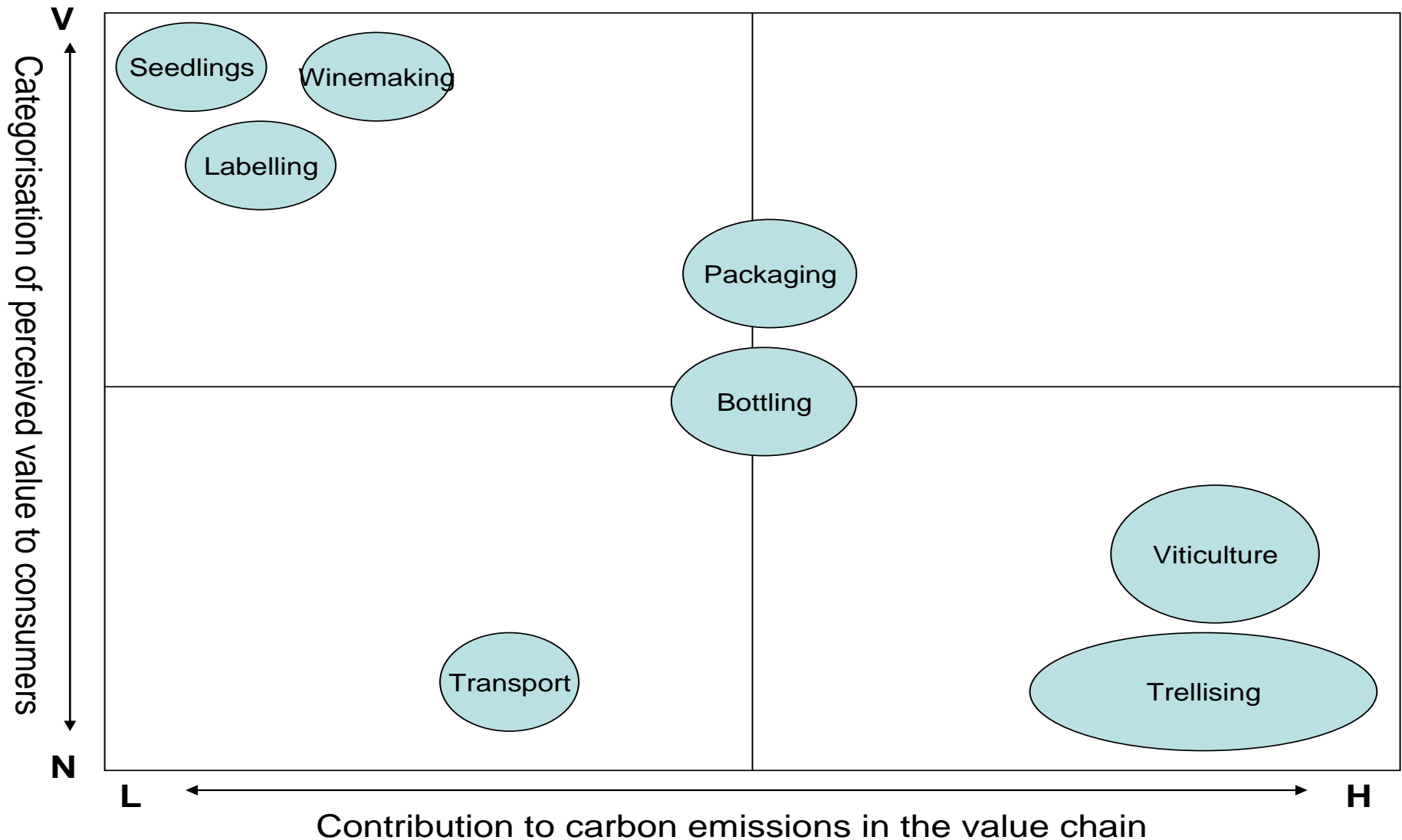
Reliance on promotions introduces uncertainty in forecasting sales, potentially creating waste & loss of value upstream

Material Flow →  
 W: Waste  
 N: Necessary but non Value-adding  
 V: Value-adding

# Emissions



# Value-Emissions Trade Off

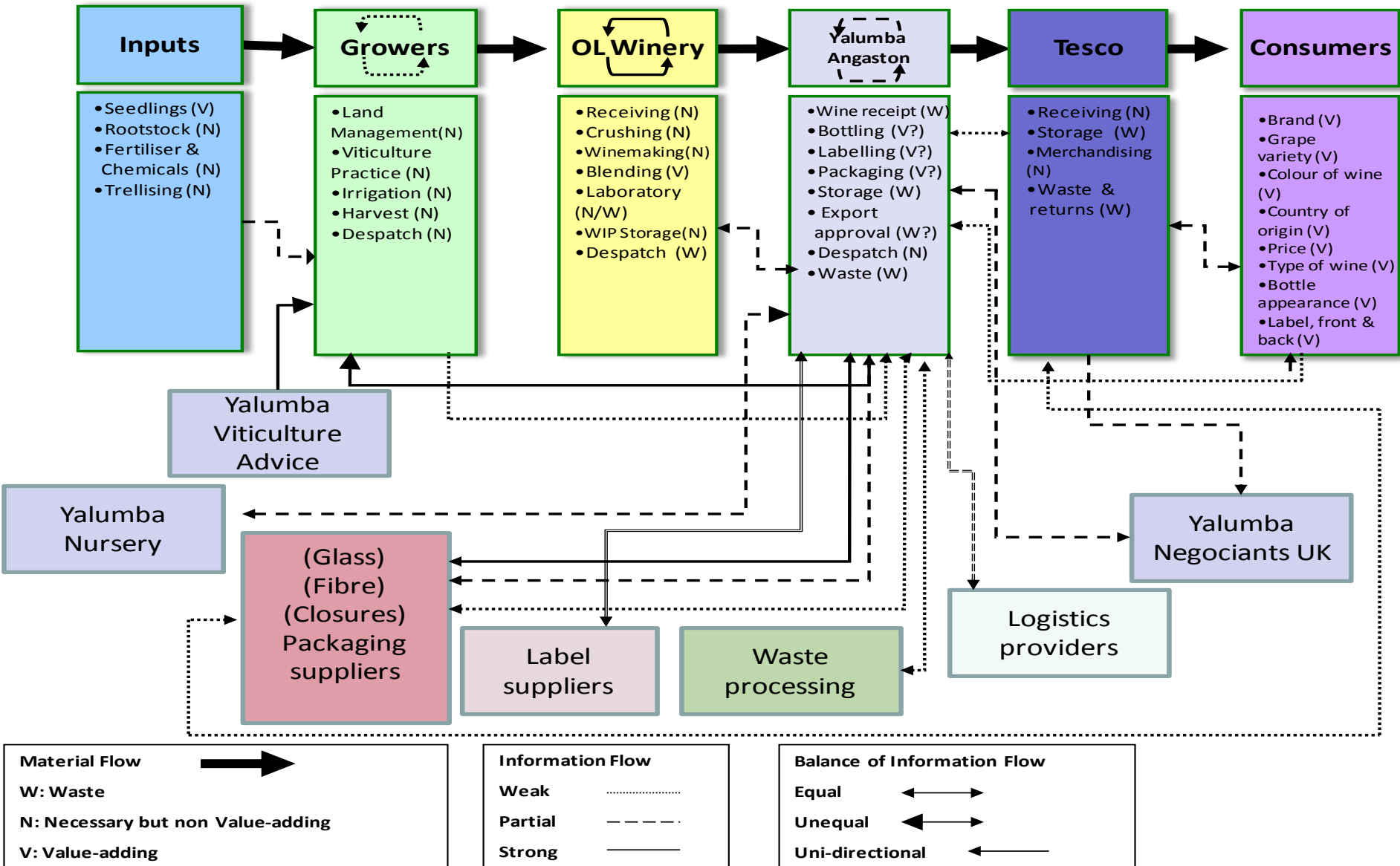


# Information Flow & Relationships

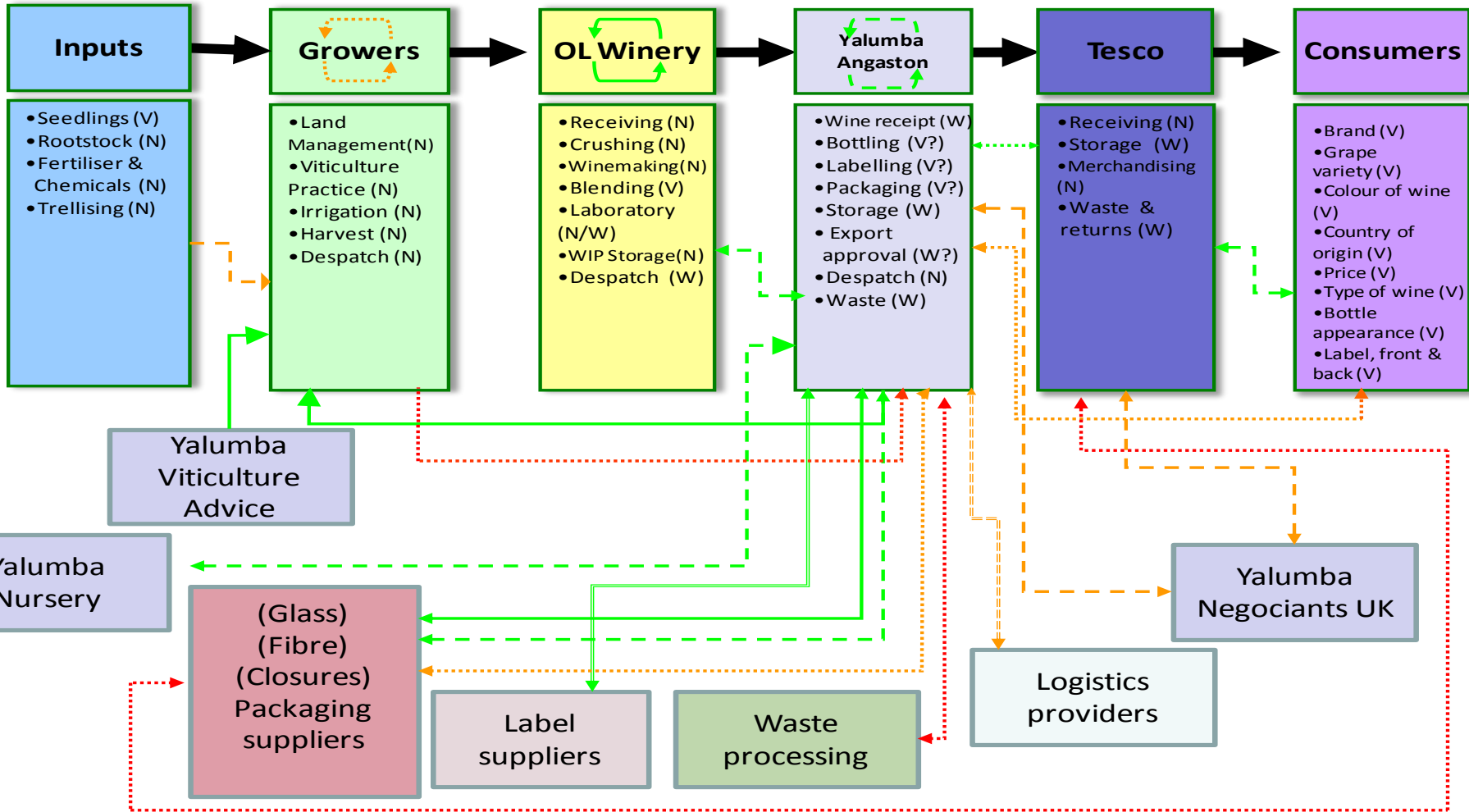
- Clear correlation between information flows and the nature of relationships
  - OLT value chain characterised by strong relationships
  - Yalumba widely respected - as a customer, a supplier and a place to work
- Greatest opportunity for improvement lies in leveraging the strong relationships to improve the flow of information, particularly downstream
  - Understanding of customer (Tesco) needs and consumer wants (value) is distinctly limited upstream, particularly amongst input suppliers and growers



# Information Flow



# Relationships



**Material Flow**

**W: Waste**

**N: Necessary but non Value-adding**

**V: Value-adding**

**Information Flow**

**Weak** ..... (dotted line)

**Partial** - - - - (dashed line)

**Strong** ——— (solid line)

**Balance of Information Flow**

**Equal**

**Unequal**

**Uni-directional**

**Relationship Strength**

**Red: Weak**

**Orange: Basic**

**Green: Strong**

# Improvement Projects

- Consumer Insight & Demand Forecasting
  - Generic (industry-wide) problem
- Innovation culture
  - Learning from 'failures'
- Leveraging sustainability
  - USP Vs Corporate Values
- Branding (product portfolio)
  - Introduce 'value' line to protect OL
- Internationalisation of the supply base
  - Reduce costs

# **Case Study No.2 – EQOS (e-collaboration)**

## 5. Conclusions

- Co-ordination of the value chain requires collaborative decision-making (forecasting, planning, implementation, performance improvement)
- Effective management of relationships (within and between organisations) is a fundamental enabler
- VCA can facilitate transition from a reactive operational mindset to an integrated value chain approach
  - anticipate changes in the market environment
  - exploit opportunities and mitigate risks
    - Faster
    - More efficiently
    - More effectively

# Thank you!

- **Keep in touch with us...**

- Website: <http://www.kent.ac.uk/cvcr>
- Blog: <http://blogs.kent.ac.uk/value-chain-thinking>
- Follow us on Twitter: [@valuechains](https://twitter.com/valuechains)

