HORIZONTAL COLLABORATION IN THE HEALTHCARE SUPPLY CHAIN

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INTRODUCTION – THE CURRENT LANDSCAPE

Many businesses are under increasing pressure to make supply chains leaner. Since the 2008 financial crisis, radical changes have been made in the business of shifting goods around the world, with the current economic climate impacted by many forces such as international financial downgrades, debt crises, and socio-economic and political unrest.

A number of analysts have predicted the demise of long-term supply chain relationships because of increased competition within the supply chains for less profit. As markets become tighter, energy and raw materials prices increase, and as working capital becomes under increasing pressure, supply chain collaboration would appear to be a counter-intuitive measure.

However, world-class supply chains benefit in many ways from collaboration – even in times of severe economic stress. These benefits extend beyond improved efficiency and effectiveness to include helping all the supply chain members meet customer demands, grow markets, and increase competitive market share.

Collaboration in the UK can be traced back to the 1980s, when manufacturers began to realise that complex bespoke supply chains and even product development processes had become too costly, and they could share resources with rivals without compromising product integrity.

THE PRESENT

Horizontal collaboration can have a significant financial effect on operating costs without affecting operational standards. Within the automotive industry, the savings are certainly impactful: the US Center for Automotive Research estimates that collaboration can help manufacturers make efficiencies of up to 40% by sharing vehicle tooling platforms.

In simplistic terms the process aims to share the elements of a supply chain network between businesses running similar operations; similar companies going to similar customers as a way to create critical mass. In some cases, this can even include competitors. The processes can be anything from warehousing and transportation to consolidating back office functions such as finance, administration and customer service.

The benefits of horizontal collaboration have long been known to the logistics industry, particularly in sectors where the supply chain is a significant element of operating cost. Now companies are looking in this direction, the sector has started to explore ways to pioneer and profit from this concept.

Collaboration can provide many benefits for customers, for example: a single delivery charge as larger deliveries reduce the number of trips, less packaging for products, less product wastage and overall better visibility. It also has the benefit of reducing fuel costs and increasing the utilization of vehicles, therefore lowering carbon emissions.

One way that companies can see if horizontal collaboration is right for them is by determining whether or not their supply chain offers them differentiation. If a supply chain does not present a specific market opportunity, then it makes sense for this to be an area where companies do not invest additional funds. In a market with fixed expectations of its supply chain and standardized levels of delivery, there is an established level of service across the industry. As every company in the market adheres to these fixed levels, improving supply chain frequency or quality will not create beneficial differentiation, so these companies must look elsewhere to see where they can optimize costs, and invest in revenue-generating opportunities.

Outsourcing to a third party logistics provider (3PL) is one way companies can reduce costs in a non-revenue generating area of the business. 3PLs will place your supply chain in a shared user environment and give you the benefit of an established supply chain with its own


infrastructure and support services, leaving your company to focus on its core business. If your industry has a largely common customer base, then the potential for cost reduction is greater, in line with the synergies of operation.

Taking the Pharma industry as an example, where clusters are commonplace, at DHL Supply Chain we have seen that as much as a 20% reduction in the number of individual deliveries is possible by using delivery consolidation. Currently the most common postcodes for delivery represent around 35% of drops with multiple orders, showing that horizontal collaboration in this sector, which spends around 1-3% of its budget on logistics, could represent a big saving.

Yet while some industry professionals predict widespread implementation of horizontal collaboration within just a few years, some customers are still meeting resistance from within their own businesses due to embedded expectations of delivery frequencies. Getting to grips with the best approach to implement these kinds of processes involves cooperation right across the supply chain.

CONSIDERATIONS

There are a number of considerations that businesses must bear in mind in order to judge whether horizontal collaboration is a viable opportunity.

Choosing the right partner

Collaborations can bring together two or more entities. When two partners decide to work together, a relationship of mutual trust can be established over time. However, in a many-to-many context, the situation becomes less straightforward. Some entities may enter the partnership with great provision and little gain, while others can benefit greatly with little to offer. In all cases, the selection of one or many partners needs to be made carefully.

The right partner is the one who has a similar organization size, culture and philosophy; and is also pursuant of common goals and objectives. The most suitable partner is ready to share benefits as well as risk, and uses similar technologies and planning techniques. Moreover, it needs to contribute positively to the value of the collaboration based on a cooperation strategy, complementary resources and an organizational compatibility.

Define responsibilities

In a context where a supplier and a customer aim for more efficiency in their supply chain, they must evaluate the possibility of sharing their business intelligence and jointly plan their operations so that responsibilities can be shifted from one entity to another in order to improve the global effectiveness of the relationship. One example of this is the Collaborative Planning, Forecasting and Replenishment business model (CPFR,) which aims to balance demand and supply – placing each company's distribution capacity before its competitor in order to define the most effective plan for both companies.

To achieve this, information such as sales history and stock availability must be shared so as to correctly integrate activities and eliminate excess inventory. This method is also useful to identify any differences in the forecasts or inventory, in order to correct the problems before they negatively impact sales or profits.

Determine the leader of the collaboration

Depending on the business context, the leadership of the collaborative relationship may differ. The company sizes involved in the collaboration, as well as their contribution and organisations' philosophies, are some examples of criteria that will influence the leadership ownership. Although the ownership of the leadership can change over time or be exercised in different ways according to the phase of the collaboration, this must be established from the start. Leadership is often placed in a third party, such as a logistics provider, who can then act as an "honest broker" in exercising governance over the arrangement.

Tailor operational middleware

Another challenge that may cause customers to view horizontal collaboration with some trepidation is differences in operational detail between competitors, be these logistical or systems related. For example, one company might use a different IT system to log its deliveries to its competitor; or one may use same day delivery service versus another company using a one week delivery service. In this instance, using a tailored array of different middleware programmes to cope with this level of differentiation, tailoring a programme in order to meet both customers' needs, allows for a smooth integration process without over compromising.

Agree payment terms

Agreement around payment terms between competitors can also be a point of concern. Numerous questions can be raised in this process if competitors choose to collaborate without the input from a 3PL – such as deciding the primary investor in the collaboration and the value of the investments the company is going to make. An objective 3PL may be able to assist with the initial financial projections – with pricing strategies based upon storage requirement, activity requirements, and transport requirement. Cost review periods every three to six months to ensure that expenditure is going in the right direction are also recommended.

Examine competition law

Lastly, there is the issue of competition law. Competition law, both at national level and at EC level, regulates, among other things, agreements between companies that have the purpose or effect of restricting competition.

While in itself cooperation between companies to enhance supply chain efficiency and, more broadly, develop competitive industry does not give rise to competition law concerns – and may indeed help to reinvigorate competition – the existence and nature of such cooperation may be misinterpreted or not fully understood by competition authorities.

For this reason it is important when considering any form of cooperation to ensure the compatibility of individual strategies with competition law and that these strategies are described and communicated in a clear way that limits any possible misunderstanding as to their nature and intent.

Through horizontal collaboration, industry standards in supply chain and delivery will be leveled across the market. As well as the cost benefits for all parties, horizontal collaboration can also assist with increasing shareholder value, improving operations, overcoming a lack of internal capabilities, keeping up with competitors and gaining competitive advantage.

To find out more

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