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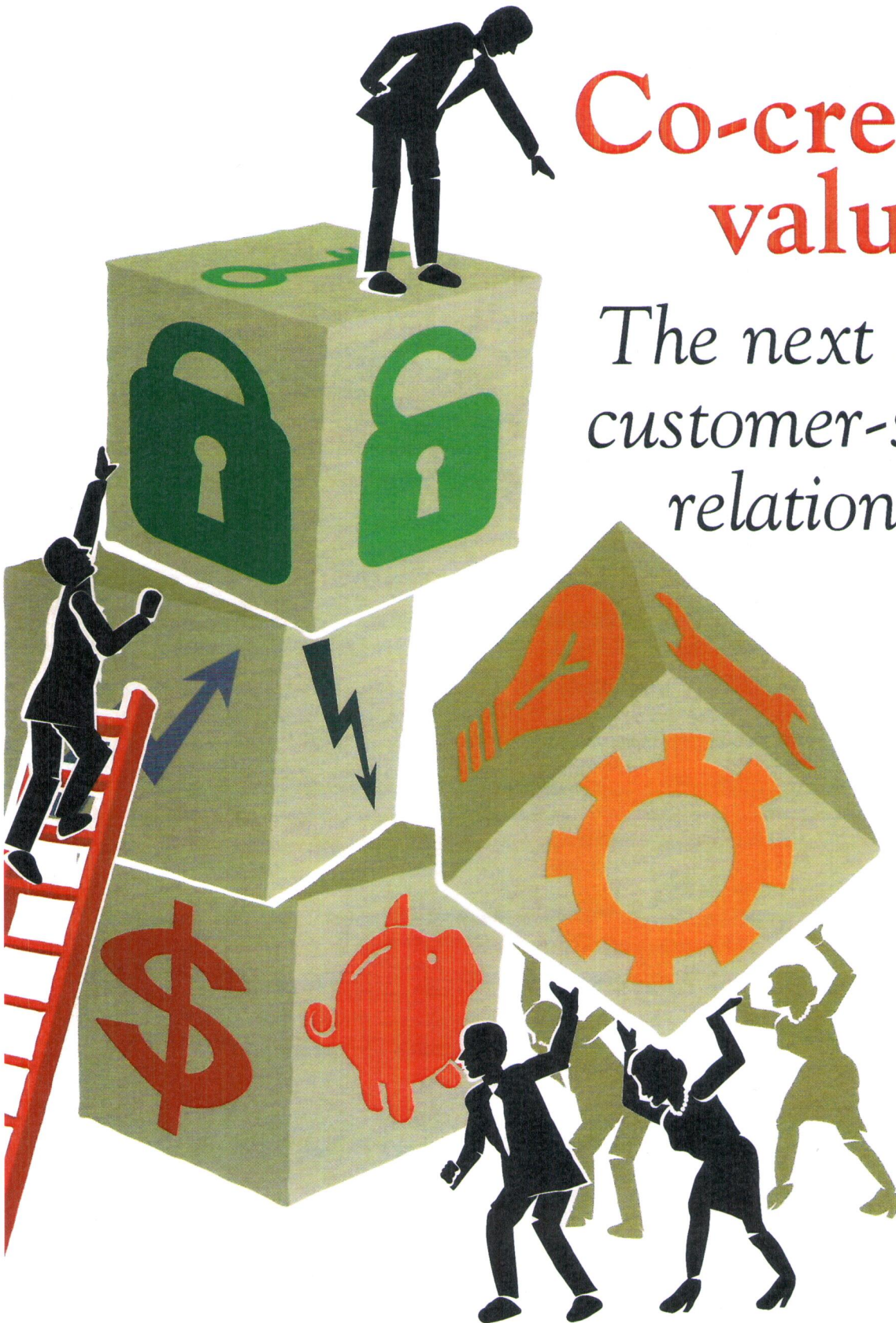
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# Co-creating value:

*The next level in  
customer-supplier  
relationships*





In 2011, Bob Evans Farms and Gordon Food Service began to jointly identify and actualize opportunities for profit growth through the use of cross-functional teams. The financial benefits to date have exceeded \$31 million dollars. Here's how they achieved those stellar results.

**FOR MORE THAN THREE DECADES** supply chain managers have been told that significant benefits can be gained by developing collaborative relationships with key customers and suppliers that are based on purposeful cooperation over time, the identification and implementation of joint initiatives, and the sharing of financial gains. While a number of success stories have been reported in the press, evidence suggests that managers still experience great difficulty in implementing relationships that meet the expectations of both parties. Our research has shown that there are two primary reasons for disappointment with the outcomes of collaborative efforts. The first is that one or both parties had unrealistic expectations going into the relationship. The second is that the expectations were reasonable but were never articulated and agreed upon, thus no plan for achieving them was developed, and failure was the result.

Managers need a methodology that they can use with key customers and suppliers to structure collaborative relationships. With this in mind, two tools were jointly developed by researchers and executives associated with the Global Supply Chain Forum of The Ohio State University: The Partnership Model and The Collaboration Framework. These tools are used in a 1.5-day session and a one-day session, respectively, to provide a structure that enables management to articulate and communicate expectations, agree upon joint goals, develop a plan for achieving those goals, and measure the benefits in financial terms. In this article, we will describe how Bob Evans Farms (BEF) and Gordon Food Service (GFS) used The Collaboration Framework to form the basis of a lasting

and mutually successful commercial relationship that has yielded more than US \$31 million<sup>1</sup> in additional profit for the companies to share over the last four years.

### Structuring the business relationship

Bob Evans Farms, with sales of over \$1.3 billion, owns a restaurant chain that operates more than 500 restaurants in the United States and a food products division that sells branded products to grocery retailers. As part of an earlier research project, we worked with BEF's management to document in financial terms the difference in value that was being created by two suppliers. At that time, BEF purchased \$16.7 million of ingredients from Supplier A, with whom the company worked in cross-functional, cross-firm teams that included representatives from marketing, sales, purchasing, finance, research and development (R&D), and logistics. BEF purchased \$18.5 million of products from Supplier B, where the relationship was between the supplier's salesperson and BEF's buyer.

The cross-functional relationship with Supplier A was creating significantly more value than the relationship with Supplier B. We termed this capability "value co-creation," which we define as the joint identification and actualization of profit growth opportunities in buyer-seller relationships that use cross-functional teams. Because the value created in the relationship with Supplier A was millions of dollars greater than the value created in the relationship with Supplier B, Richard Hall, executive vice president of supply chain management at BEF, said at the time, "Any supplier who wants to be viewed as

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strategic must have the willingness and capability to work in cross-functional teams and think in terms of value co-creation.”

The company’s belief in the importance of value co-creation was clearly evident a few months later, when BEF decided to address its second-largest cost category: the distribution of food to the restaurants. BEF used multiple distributors in a network that had evolved over time. Management decided to consol-

idate the distribution to restaurants with a single provider, and a national request for proposal (RFP) was issued. Four suppliers that participated in the RFP were selected as finalists. A scorecard was developed to evaluate their capabilities, and “potential to co-create value” was included among the selection criteria.

Gordon Food Service, with sales of more than \$10 billion, was selected even though two other distribu-

## [ABOUT THE COLLABORATION FRAMEWORK]

Following the success achieved with The Partnership Model, which has been used by companies such as Cargill, Coca-Cola, and Amcor Asia-Pacific, among many others, to structure more than 100 relationships, the researchers and executives associated with The Global Supply Chain Forum, a research center at The Ohio State University, developed The Collaboration Framework, a tool for strengthening collaborative relationships in a one-day session.

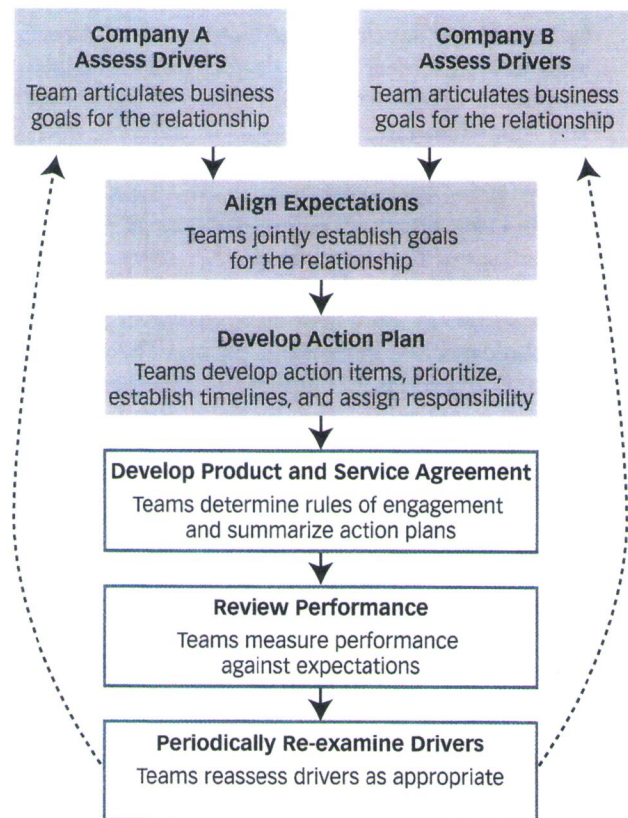
The Collaboration Framework comprises six activities: assess drivers (the business goals for the relationship) for each company; align expectations; develop action plan; develop product and service agreement; review performance; and periodically re-examine drivers (see Figure 1).

The “assess drivers” step requires that each company’s representatives meet in separate rooms with a facilitator to identify their business goals for the relationship in terms of four driver categories: asset/cost efficiencies, service improvements, marketing advantage, and profit growth/stability. Then, the two management teams come together, and each presents its drivers to the other organization’s management team.

In the “align expectations” session, the teams mutually establish goals based on both companies’ drivers. “Develop action plan” requires that the teams prioritize initiatives, assign responsibilities, establish timelines, and agree on the appropriate metrics. These activities take place in a one-day “collaboration meeting,” and the output provides the customization of the product and service agreement that is necessary for key customers and suppliers. The product and service agreement is a written summary of the rules of engagement and action plans. It is necessary to review performance on a regular basis (monthly, quarterly) to ensure that each company has achieved its drivers. Finally, the teams should meet again in 18 to 24 months to re-examine the drivers.

While in the case described in this article, management decided that The Collaboration Framework was the most appropriate tool, the Partnership Model could have been used to structure the relationship. Both address expectations and the development of a joint plan, but the Partnership Model also deals with relationship style issues and requires an additional half-day to complete.

**[FIGURE 1] THE COLLABORATION FRAMEWORK**



[SOURCE: DOUGLAS M. LAMBERT, A. MICHAEL KNEMEYER, AND JOHN T. GARDNER, *BUILDING HIGH PERFORMANCE BUSINESS RELATIONSHIPS* (SUPPLY CHAIN MANAGEMENT INSTITUTE: SARASOTA, FLORIDA, 2010), P.79]

**Editor’s Note:** For more information on The Partnership Model, see Douglas M. Lambert and A. Michael Knemeyer (2004), “We’re in This Together,” *Harvard Business Review*, Vol. 82, No. 12, pp. 114–122.



tors offered larger savings than GFS when compared to the existing system with multiple distributors. Management's decision was driven by GFS's comparative advantage in the "potential to co-create value" and "financial stability" criteria. The difference in savings between the distributor that quoted the lowest total cost and GFS was \$2.7 million. If management's decision was to be justified, the financial outcomes of the value co-creation opportunities with GFS had to be greater than \$2.7 million per year.

Six months after the contract was awarded, GFS had managed an uninterrupted transition from the old distribution system to the new one, but little progress had been made toward the value co-creation goal of \$2.7 million. Management at BEF asked us to deliver a seminar for some of GFS's managers on the benefits of working in cross-functional teams and the concept of value co-creation. However, we were concerned that the seminar might be viewed as putting pressure on GFS's management to reduce costs in order to help BEF recoup the \$2.7 million. It is not co-creation of value if all the initiatives come from one side of the relationship. Consequently, it was decided to use The Collaboration Framework, which provides a structure for management in the two companies to jointly identify initiatives and agree on a plan to achieve them. (For more about The Collaboration Framework, see the sidebar and Figure 1.)

On March 22, 2011, a one-day collaboration meeting was held in Grand Rapids, Michigan. A total of 33 managers from BEF and GFS representing functions such as sales, marketing, manufacturing, logistics, finance, information technology (IT), research and development, and purchasing participated in the meeting. GFS's chief executive officer (CEO), chief financial officer (CFO), and president were present, as well as BEF's executive vice president of supply chain management.

### Turning ideas into action

In the first session of the meeting, managers from the two companies worked independently to identify their drivers, or goals for the relationship. The BEF team identified 18 drivers, and the GFS team identified 22 drivers. When the two groups presented their drivers to each other in the "align expectations" portion of the meeting, they discovered that 10 of the total of 40 drivers were similar for both companies. For example, managers at both companies wanted to:

(1) reduce the current number of proprietary stock-keeping units (SKUs that GFS carries exclusively for BEF) and proprietary vendors used by BEF (vendors that are exclusive to Bob Evans and are not used by other GFS customers);

(2) offer GFS's freight management services to BEF's suppliers;

(3) jointly explore opportunities to hedge commodity prices against market fluctuations; and

(4) have GFS's and BEF's product development teams participate in joint culinary ideation sessions, where the teams discuss ideas for new menu items.

Of the 18 drivers identified by BEF's managers, 17 were accepted by GFS and became joint goals for the relationship. Some drivers were accepted without further information gathering. Examples include increas-

ing the sales of BEF's products through the retail stores owned by GFS; the expansion of the cross-docking operations; and the provision of the same service level for BEF's two retail formats. Other drivers were accepted subject to further evaluation of the economic opportunities and the feasibility of implementation. Examples include fuel contracting, increasing backhauling, freight forwarding, and expanding GFS's operations into new geographic areas. In some cases, drivers were accepted under certain conditions. One example was the sale of excess inventory;

GFS would agree to sell BEF's excess inventory to other customers if BEF's managers achieved the goal of reducing the number of SKUs.

Of the 22 drivers identified by GFS's managers, 21 were accepted by BEF. For example, balancing the quantities of products ordered by the restaurants; implementing "key stops" where GFS drivers are given access to restaurants in order to make nighttime deliveries; the simplification of administrative duties; and the implementation of a joint employee-discount program became joint goals for the two companies. Some drivers were accepted subject to further evaluation of the benefits and implementation costs. For example, it was necessary to evaluate the suppliers that GFS's management wanted BEF to use and compare them with BEF's current supplier base before a decision could be made.

Of the 40 proposed drivers, two were not accepted. The expansion of GFS's operations to geographies it did not currently serve was deemed not feasible by

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When the collaboration meeting ended, managers left with an understanding of both sides' expectations as well as an action plan for implementing the jointly identified initiatives.

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GFS's management. Also, BEF's management was not willing to accept GFS's request to extend the five-year term of the contract until there was evidence that the value co-creation efforts would exceed the \$2.7 million premium paid for GFS over the lowest-cost distributor in the RFP. The reasons for rejecting these drivers were explained to the group. The companies then developed action plans that included goals, priorities, responsibilities, and timelines for each of the drivers that had been accepted. When the collaboration meeting ended, managers left with an understanding of the expectations on both sides of the relationship as well as an action plan for implementing the jointly identified initiatives.

After the collaboration meeting, the companies organized quarterly business review meetings to evaluate the progress made in the relationship. These meetings were led by the steering committee members and by the relationship coordinator (a critical position held by a BEF employee who was responsible for

tracking the progress of all the initiatives and documenting the financial benefits). Each meeting started with presentations by the project team leaders about the status and the financial contribution of their projects. New project ideas were discussed, and the list of drivers identified in the collaboration meeting was reviewed to determine whether projects that originally had been identified as low priority should be elevated to a higher priority. The teams also made decisions about closing projects that had been completed.

### Finding savings and new opportunities

Guidelines for measuring the financial outcomes of the joint initiatives were distributed to the project leaders after the initial collaboration meeting. The incremental financial benefits derived from the projects were calculated as profit improvements for BEF and/or GFS. The two categories of benefits were defined as cost savings and profit improvements related to revenue enhancement.

**[FIGURE 2] FINANCIAL MEASUREMENTS OF VALUE CO-CREATION FOR THE FIRST FISCAL YEAR**

Company	Driver	1st year benefits
Bob Evans Farms (BEF)	Reduce proprietary vendors and stock-keeping units (SKUs)	\$234,546
	Evaluation of existing vendors	180,613
	Vendor freight management	31,820
	Fuel surcharge	592,001
	Increase backhauling	576,609
	Early pay discount	288,003
	Sale of excess inventory	9,526
	Pricing for a specific region	225,522
	Simplify the administration of courier services	5,393
	Chemical program*	1,008,447
	Consolidation of low-volume retail items*	72,826
	Storage of items from previous seasons at no cost*	94,549
	Waffle-maker return*	14,535
	Subtotal	\$ 3,334,390
Gordon Food Service (GFS)	Reduce proprietary vendors and SKUs	\$ 72,750
	Vendor freight management	24,866
	Simplify the administration of courier services	8,088
	Chemical program*	850,000
	Restaurant purchases from GFS's retail stores*	75,705
	Subtotal	\$1,031,409
<b>TOTAL</b>		<b>\$4,365,799</b>

\*New initiative discovered by cross-functional, cross-firm team after the one-day collaboration meeting

[SOURCE: ADAPTED FROM DOUGLAS M. LAMBERT AND MATIAS G. ENZ, "MANAGING AND MEASURING VALUE CO-CREATION IN BUSINESS-TO-BUSINESS RELATIONSHIPS," *JOURNAL OF MARKETING MANAGEMENT* 28, NO. 13/14 (2012): 1588-1625.]



Cost savings positively impact the operating profits of one or both companies. Cost savings were defined as reductions of variable costs at any point from raw material purchase through delivery to the customer. Cost savings included logistics costs (such as freight, inventory, and warehousing), maintenance costs, materials costs, personnel costs, and product and service quality costs. In the case of BEF and GFS, financial investments such as the purchase of assets (facilities, vehicles, equipment, and so forth) dedicated to the relationship were not required. If financial investments were to be made by either party, then the net present value of the cash flows over the life of the investment would be calculated in order to verify that the initiatives met the companies' hurdle rates on new investments—in other words, the minimum acceptable rate of return on those investments.

The financial benefit of revenue enhancements achieved through the implementation of the joint projects was calculated as the segment controllable margin resulting from the increased sales of new products. This represents the net sales directly resulting from the project less incremental variable costs, such as manufacturing, marketing, and logistics costs, and assignable nonvariable costs incurred specifically for that segment during a specified period. This exercise was necessary for the teams to demonstrate the increased revenue and associated profit contribution for their initiatives.

During the first full year after the daylong collaboration meeting, the combined before-taxes profit impact was \$4,365,799, of which BEF received \$3,334,390 and GFS received \$1,031,409. A summary of the financial measurements of value co-creation is provided in Figure 2. During the first year, the companies focused on cost-savings initiatives that could be completed in a short time frame in order to build enthusiasm and achieve BEF's value co-creation goal of at least \$2.7 million. In the second year, the teams put more effort into revenue-generating initiatives, such as increasing the sales of BEF food products through GFS's distribution channels, helping BEF conduct product presentations to GFS's other customers, increasing the utilization of GFS's stock items for new products, and having GFS's culinary team make presentations to BEF's product-development team.

As the teams worked together, they identified more initiatives. For example, the chemical program (distribution of dishwashing, cleaning, and maintenance

chemical products to the restaurants) was an opportunity that managers identified after the collaboration meeting. This became the largest profit improvement for both companies as a result of lower prices for BEF and the segment controllable margin on the increased business for GFS.

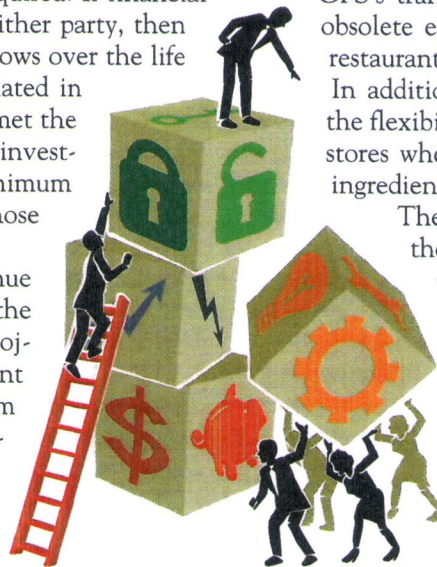
Other new initiatives included the consolidation of the procurement and warehousing of low-volume retail items; the storage of food items from previous seasons at no cost; and the utilization of GFS's transportation fleet to return pieces of obsolete equipment (waffle makers) from the restaurants to the equipment manufacturer. In addition, restaurant managers were given the flexibility to buy directly from GFS's retail stores when there was an urgent need for an ingredient.

The BEF and GFS experience confirms the potential benefits of using The Collaboration Framework to identify and implement value co-creation initiatives using cross-functional, cross-firm teams. A total of \$4,365,799 in additional profits was achieved during the first year. The profits from value co-creation opportunities have continued to grow, to more than \$7.3 million in year two, \$9.2 million in year three, and \$10.5 million in year four.

Two additional collaboration meetings have been conducted between BEF and GFS since the first meeting in March 2011. The second collaboration meeting was held 21 months later, in December 2012, and the third took place 22 months after the second one, in October 2014. The follow-up meetings were held for two reasons: (1) in both companies there had been a number of changes in the members of the cross-functional teams that supported the relationship, and management believed that the new members would benefit from the experience; and (2) although the teams were identifying new opportunities while they worked together to implement the initiatives that had been identified in the first collaboration meeting, management believed that this was not a substitute for a focused, one-day meeting where each company's drivers were identified and joint plans developed. Based on this experience, we would suggest that for key relationships, a collaboration meeting be held every 18 to 24 months.

### Creating mutually profitable relationships

Faced with increased pressure to reduce costs and improve revenues, managers are looking for opportunities to co-create value with key customers and





suppliers. Opportunities for value co-creation in business relationships arise when the capabilities and knowledge that exist within each company's organization are leveraged through cross-functional, cross-firm teams. However, because implementing those teams requires a substantial amount of time, effort, and resources on the part of all involved, cross-functional relationships are economically viable only with customers and suppliers where a high potential for value co-creation can be demonstrated.

To identify the key relationships where cross-functional teams should be created, customers and suppliers need to be segmented as part of the implementation of customer relationship management (CRM) and supplier relationship management (SRM) processes. Segmentation and resource-commitment decisions should be based on financial measurements that capture the value each customer and supplier helps to co-create.

In this article, we showed how The Collaboration Framework enables cross-functional, cross-firm teams to co-create value that can be measured in financial terms. BEF and GFS used The Collaboration Framework to structure a lasting and mutually successful business relationship. In four years, the combined

profits before taxes achieved for the two companies was more than \$31 million. Each year, the target set by management was exceeded, and the two companies expect that the profit contribution will continue to increase.

The collaboration has been highly successful, and executives at the two companies expect that the benefits of value co-creation will continue to accrue. For that reason, both BEF and GFS are using The Collaboration Framework to structure other key relationships. As this example has shown, the concept of value co-creation represents the next level of development for customer-supplier relationships.  $\Delta$

**Note:**

1. All monetary figures in this article are in U.S. dollars.

This article is adapted from Douglas M. Lambert, editor, *Supply Chain Management: Processes, Partnerships, Performance*, 4th edition (Ponte Vedra Beach, Florida: Supply Chain Management Institute, 2014), Chapters 16 and 17. Copyright 2014, Supply Chain Management Institute. Used with permission. For more information see: [www.scm-institute.org](http://www.scm-institute.org).