

## CO<sup>3</sup> POSITION PAPER:

# ***CHARACTERISTICS OF COLLABORATIVE BUSINESS MODELS***

Andrew Palmer, Heriot-Watt University  
Maria Jesus Saenz, Zaragoza Logistics Center  
Tom van Woensel, Eindhoven University of Technology  
Eric Ballot, Mines ParisTech



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CO<sup>3</sup> Project  
[www.co3-project.eu](http://www.co3-project.eu)  
[contact@co3-project.eu](mailto:contact@co3-project.eu)

a.palmer@hw.ac.uk  
Logistics Research Centre  
School of Management and Languages  
Heriot-Watt University  
Edinburgh, UK  
EH14 4AS

## Executive Summary:

# **CO<sup>3</sup> Position Paper about Characteristics of Collaborative Business Models - Initial Framework**

*The EU funded 'Collaboration Concepts for Co-modality', or 'CO3' in short, has the aim of developing, professionalising and disseminating information on the business strategy of logistics collaboration in Europe.*

## **IDENTIFYING COLLABORATIVE BUSINESS MODELS**

As part of the CO3 project this report has been produced to identify those characteristics that can contribute to a successful collaborative business model. It focusses specifically on the cultural, philosophical and operational aspects of companies who currently collaborate horizontally in one form or another, and compares this with companies who have yet to consider, or have rejected, this approach.

The methodology involved developing an interview protocol which was based on existing literature from a wide range of sources. The literature considered the cultural and operational aspects of collaboration and this identified the key elements to be included in any discussions with companies. Individual companies were selected for interview based on a range of criteria including:

- Different industry sectors
- Retailers, manufacturers and logistics service providers
- Multi national and local operations
- Range of transport modes

In total 30 companies were interviewed in four countries. Some of the companies were duplicated in order to understand different perspectives. These individual interviews were supplemented by focus group seminars involving people who also represented a wide range of logistics related activities. They were split into breakout groups and given a set of questions to discuss. The members of each group were made up of representatives from multiple industry sectors, and at least one logistics service provider (LSP), so that there was a balance between depth and coverage. All the sessions were recorded.

The elements derived from the literature, and used in the interviews, covered aspects of company culture, including the corporate environment and managerial philosophy, the drivers for, and components of, collaboration. This philosophical and cultural analysis was supported by operational and supply chain characteristics.

## **COMPANY CULTURE**

From the discussions there was no clear definitive model of a successful collaboration because all companies behave differently. However, there were certain

elements that had to be in place to make a successful outcome more likely. Two characteristics that stood out were transparency and trust. All the literature and the vast majority of companies stated that trust was paramount. There had to be a belief that all the companies in a partnership would work as a team and that they are together for the benefit of each other in the concept of mutuality and solidarity. Companies in a collaboration needed a similar culture, similar business objectives and a desire to make collaboration work. For many of the companies interviewed CSR and the environment are key pillars of their mission statement and those that are likely to collaborate will have targets for CO<sub>2</sub> reduction. The increasing competitive environment will force companies to find efficiency improvements and the main drivers are cost reduction, customer demands and the need to maintain or improve service levels.

If these drivers are present in the company then the main driving force behind horizontal collaboration are key people within a company. If these individuals have many years of logistics experience, know their operations extremely well, take an active part in external logistics events, and there is clear support from top management, then the chances of achieving a successful collaboration with a partner are greater. One of the main barriers to collaboration was finding the right partners. Many companies relied on logistics service providers to suggest partners or ad hoc opportunities, and others attended various “speed dating” meetings, with varying levels of success. Some of the interviewed companies undertook a form of due diligence to ensure any partner they found was economically, financially, operationally and legally healthy.

As well as the need for trust and finding the right partners, the top barrier to collaboration was internal politics and a company’s own organisation culture. Large companies particularly were more likely to be fragmented and have internal divisions who were not collaborating, and have to overcome a silo mentality.

## **PREFERENCES**

In terms of preferences the manufacturing companies nearly always said that their priority was to collaborate vertically with customers if possible. This is understandable because of the perception that this ties the manufacturer to the customer as well as providing more efficient transport. When it comes to horizontal collaboration then companies would always prefer a non-competitor, before a semi and full competitor.

## **GAIN SHARE**

With the current levels of collaboration all the gain share mechanisms between partners are fairly simplistic relying on a basic percentage allocation of savings, or a logistics service provider setting rates which reflect the opportunities for collaboration. With the exception of France, legal contracts between shippers

involved in horizontal collaboration don't exist, though shippers would have legal contracts with LSP's.

## **OPERATIONAL CHARACTERISTICS**

As well as company culture there had to be operational synergy between partners. This meant that the vehicles used had to be compatible, the area covered by these vehicles and sizes of loads had to be complementary, and the products had to be compatible with each other and the vehicles being used. One of the key operational areas was service levels. This was considered in the interviews as a major concern given the pressure from customers for more frequent, faster deliveries of smaller quantities. This makes companies continuously search for new ways to improve their service levels without incurring higher costs. Many of the interviewees agreed that horizontal collaboration could be of benefit in these circumstances.

## **TRANSPORT MODE**

Road was by far the dominant mode of transport for the companies interviewed. There were a few instances of rail freight movement but the companies felt that services across Europe tend to be nationally organised and there is a need to make it work more effectively across Europe. The companies wanted rail services to better understand the needs of shippers and provide a commercial level of services

## **INITIAL BUSINESS MODEL**

The outcomes from the interviews have resulted in an outline business model encompassing three distinct phases. The first is exploration which is the initial stage of companies recognising the potential benefits of collaboration, examining the key elements described in this paper, and sharing relevant ideas and opportunities with each other. The second phase is assimilation which transforms the ideas from the first phase into a workable collaboration. Finally, exploitation applies the assimilated knowledge to create new processes that benefit the relationship and their common logistics flows.

This deliverable has focussed on the characteristics of companies and examined the issues, drivers, barriers and components of collaboration in order to develop an initial framework and outline business model. The next steps will focus more on the operations of these companies interviewed so that improvements can be made to the model. Discussions with more companies, and additional focus group meetings, will test out these improvements.

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## The Consortium

### Coordination:



### Tools and techniques: Strengthen the operational and legal framework



### Identifying appropriate Collaborative business models:



### The Logistics Laboratory: Case studies (CO<sup>3</sup> Trustee)



### Knowledge transfer and networking

