

CO³ TEST PROJECT REPORT:

HORIZONTAL COLLABORATION IN FRESH & CHILLED RETAIL DISTRIBUTION

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Executive Summary

This document describes the creation and management of a horizontal collaboration community in fresh & chilled retail distribution between 2 Fast Moving Consumer Goods shippers (Nestlé & PepsiCo), a logistics service provider (STEF) and a neutral trustee (TRI-VIZOR). This case has been elaborated and documented with support from the EU-financed project 'Collaborative Concepts for Co-modality' or CO³. More information about this logistics innovation project can be found on the consortium website: www.co3-project.eu.

TRI-VIZOR, a Belgian spin-off company of the University of Antwerp, acted as a neutral orchestrator (=offline trustee) and community manager and documented this case study on behalf of the CO³ consortium. The preparation phase of this case goes back to the beginning of 2010, with the Belgilux Association of Branded product Manufacturers (BABM) acting as initial trustee. The project took 2 years to reach implementation phase. The community with PepsiCo and Nestlé is today still live and evolving with STEF acting as joint logistics service provider and TRI-VIZOR providing occasional trustee services in the background.

Conforming to the standard methodology developed and promoted by Work Package 4 of the CO³ consortium, a 3-phased approach was used to set up this test case:

- Phase 1: identification of compatible shippers and logistics flows
- Phase 2: preparation of a collaborative concept and business case
- Phase 3: operational implementation and management

The distribution synergy between the Belgian fresh networks of Nestlé and PepsiCo was simulated and the logistics transport synergy of setting up horizontal collaboration in the future was calculated by the neutral trustee in an 'offline' mode.

At the start of this project 5 different brand manufacturers of fresh and chilled products were involved. All initial participants were members of BABM. After a first analysis round, 2 companies decided to leave the project in an early stage. An extensive business case was calculated for the 3 remaining companies in the preparation phase. After these business case calculations were finalised, 2 out of the 3 companies (Nestlé and PepsiCo) decided to move forward with the horizontal collaboration. To set up the collaboration, a Request for Proposal was launched with support of the trustee to select the most adequate logistics service provider to organize the operational aspects (warehousing and transport). The logistics service provider that was selected in this case was STEF, a European logistics service provider that specializes in temperature controlled logistics.

Since all logistical processes are managed by STEF, it also is fully responsible for the management of the administrative and financial flows. The neutral trustee will however perform periodic audits to make sure that the agreed gain sharing principles are respected in the invoicing by STEF and to ensure that the collaboration keeps running smoothly.

The identification phase for this case started in the beginning of 2010 and the operational go-live of the collaboration network between Nestlé and PepsiCo took place in the second quarter of 2012. The next steps were taken with support from CO³. This demonstrates that horizontal collaboration can take a long time to set up and expand.

A very important aspect of this horizontal collaboration test case was how to cope with anti-trust laws. As Nestlé and PepsiCo are competitors, antitrust compliance was crucial and e.g. detailed cost or order information could not be shared amongst both parties.

The information was therefore only shared with the neutral trustees BABM and TRI-VIZOR. The process was closely monitored by a specialized external lawyer and by the legal departments of both PepsiCo and Nestlé.

From CO³ perspective, this case study has the following key learnings:

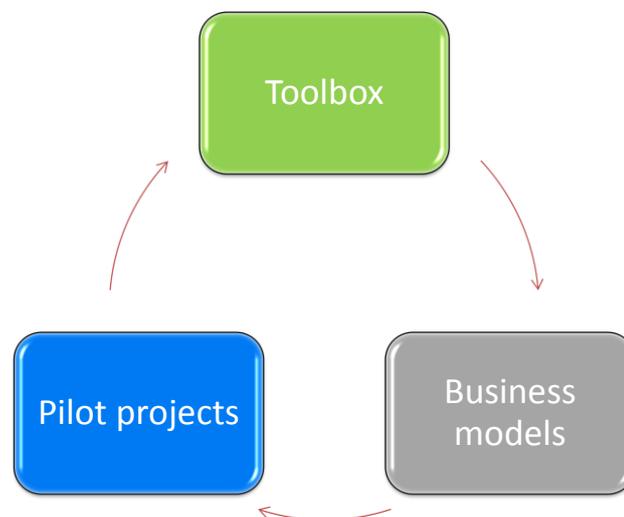
- 1) The completion time of this project was exceptionally long. This seems directly related with the number of partners initially involved, with the fact that there were competing shippers in the community and with the fact that not only transport but also other logistics processes (e.g. VAL) were in scope of the collaboration. In addition, the logistics flows in scope are customer-facing, i.e. they touch the retail delivery distribution centers, making the project extra sensitive.
- 2) In the beginning of the project, the participating shippers were very apprehensive about anti-trust exposure. There was a high degree of scrutiny from the internal legal departments as well as from an external legal expert. Only after a few months of exploratory face-to-face meetings and internal NDA signoffs, sufficient trust was installed and the project gained real traction.
- 3) Of the 5 candidate players in the original community, only 2 went ahead with the actual implementation. The reasons for dropping out were quite diverse: too high perceived transition effort and risk, reluctance to phase out existing warehouse infrastructure, incompatible strategic timelines of the different shippers, incumbent LSP's making aggressive individual counter-offers to protect their business, etc.
- 4) No multilateral collaboration contract was signed. The basis of the collaboration is a traditional service contract between every shipper and STEF, with some additional collaborative clauses.
- 5) BABM and TRI-VIZOR acted as offline trustees only in this case, based on a consultancy contract. STEF acts as online trustee with regard to the ad hoc synchronization of loads. No real-time synchronization takes place.
- 6) It is difficult to maintain complete data secrecy in a coalition of only 2 shippers. In theory, every partner can calculate the volumes of the other partner by subtracting its own volumes from the total pie. The same goes for cost data, although this would quickly become a labour intensive exercise.
- 7) Ethical behavior and fairness towards the LSPs were key attention points in this case study. For example, all incumbent LSPs were invited to participate in the joint tender and had a chance to bid for the total operation.
- 8) Still, there remains a strong segmentation of the LSP market in terms of understanding, acceptance and support of horizontal collaboration and gain sharing. Only a minority of them embraced these concepts. Some LSPs who were invited to the joint tender, openly refused to participate as they wanted to stick to their traditional groupage model.
- 9) Horizontal collaboration is people business. Even with a strong business case and potential savings, human and psychological aspects and interpersonal trust will make or break the project.
- 10) Once a successful collaborative cluster has been established, this can create a 'snowball effect' by attracting new shippers and volumes. This is to the advantage of both the shippers and their LSP.
- 11) Shapley Value needs continued dissemination and promotion to have it accepted by market players as standard solution and best practice for gain sharing. This will be addressed in the final stages of the CO³ Consortium (training workshops).
- 12) True horizontal collaboration delivers what it promises. With the right mix of shippers and the support of a strong neutral trustee and LSP, a coalition can generate 10-15% transport cost savings and even more significant CO₂ reductions.

1. Introduction

1.1 Background

The EU-funded CO³ project (Collaboration Concepts for Co-modality) aims to develop, professionalise and disseminate information on the business strategy of logistics horizontal collaboration in Europe. The goal of the project is to deliver a concrete contribution to increasing vehicle load factors, reducing empty movements and stimulate co-modality, through collaboration between industry partners, thereby reducing cost and transport externalities such as congestion and greenhouse gas emissions without compromising the service level. The project will coordinate studies and expert group exchanges and build on existing methodologies to develop legal and operational frameworks for collaboration via freight flow bundling in Europe. Furthermore, the project consortium of knowledge institutes and specialised industry players will develop new business models for logistics collaboration. The developed tools, technologies and business models will be applied and validated in the market via pilot studies or 'test cases'. Finally, the CO³ consortium will promote and facilitate matchmaking and knowledge-sharing through conferences and practical workshops to transfer knowledge and increase the market acceptance of horizontal collaboration.

The core of the CO³ project is what is referred to as the *applied research cycle*. This cycle has been set up as a continuous learning and feedback loop between the models and tools needed for supporting collaborations, the most suitable business models for groups of companies wanting to collaborate and finally the actual test cases for collaboration. These elements are developed under individual work packages as shown below.



PICTURE 1: THE CO³ APPLIED RESEARCH CYCLE

1.2 Context

Manufacturers of fast moving consumer goods (FMCG) typically have a logistics flow of Full Truck Load (FTL) and Less than Truck Loads (LTL) to their main customers, large retail distribution centers. As a lot of FMCG manufacturers have the same retail distribution centers as common ship-to addresses, horizontal collaboration is an interesting option for these manufacturers. In recent history, many attempts at horizontal collaboration have been made by many different companies, but due to the

absence of a standard legal framework and fear of antitrust laws these projects could not provide stable long-term solutions. This resulted in an increased demand in the market to establish a standard legal and operational framework for horizontal collaboration. The CO³ Consortium, funded by the EU, was established to help create and standardize such a framework and help to create long-term solutions for horizontal collaboration without fear of conflict with antitrust laws.

An example of FMCG companies that are often faced with the problem of frequent LTL deliveries to retail distribution centers, are manufacturers of fresh and chilled food products (2-4°C). These goods are transported under temperature control from producer warehouses to retail distribution centers in small quantities to avoid expiration. In this market, there are a number of big companies with several brands of fresh and chilled goods in their portfolios. Due to the specific needs of the retailers and the limited amount of possible combinations within one company's own portfolio, LTL deliveries are often the only option. This is one of the reasons why logistical costs of fresh and chilled products are a key cost driver with great variability, making these flows a big source of uncertainty in FMCG companies' cost calculations. On request of a number of its members, BABM (Belgilux Association of Branded products Manufacturers) started to explore possible synergies in 5 big Belgian networks of fresh & chilled (2-4°C) goods and decided to collaborate with TRI-VIZOR as neutral trustee for the analysis of the synergy possibilities, business case calculation and eventually, the implementation of a structural horizontal collaboration between the different shippers.

1.3 Stakeholders

❖ Nestlé

Nestlé is a leading nutrition, health and wellness company. Nestlé is known for the numerous food brands in its portfolio, covering almost every food and beverage category. Some examples are: Nescafé, Perrier, Herta, Maggi, Nestea, etc. Nestlé has a worldwide turnover of 83,6 billion CHF, of which 18% in Europe, is active in 130 countries and has 461 plants. Nestlé Belgium has a turnover of 505 million euros and is active in retail with 38 brands. Nestlé is also a member of the High Level Industry Board of the CO³ consortium.

❖ PepsiCo

PepsiCo is one of the world's leading food and beverage companies with a worldwide turnover of more than 65 billion USD, is active more than 200 countries and has a global portfolio of diverse brands (e.g. Lays, Pepsi, Tropicana, ...). PepsiCo is the market leader in crisps, savoury snacks and chilled juices and was the nr. 1 fastest growing FMCG company in Belgium in 2012. The headquarters of PepsiCo BeLux are located in Zaventem. The production sites of PepsiCo BeLux are located in Zeebrugge and Veurne.

❖ STEF

STEF is a European logistics service provider and is specialised in temperature controlled logistics. STEF has 223 sites in Europe with over 1 million m² of storage and crossdock space. They are present in 9 European countries and have over 14.000 employees. Because they are a strong believer and supporter of horizontal collaboration and were willing to apply transparent gain sharing principles in the LTL invoicing towards the collaborating companies, STEF was selected as the logistics service provider of the community, providing joint transport and warehousing for Nestlé and PepsiCo.

❖ BABM

BABM is the Belgilux Association of Branded products Manufacturers. BABM represents FMCG branded products in the BeLux area on a number of key issues.

The mission of BABM is to build the optimal climate for A-brands to deliver value and choice to consumers, through constant innovation and free and fair competition. BABM supports its members by providing information, networking and stakeholder contacts.

As such, BABM was asked to explore possible logistics synergies in 5 Belgian networks of Fresh & Chilled (2-4°C) goods. After a selection procedure, BABM decided to collaborate with neutral trustee TRI-VIZOR for the analysis of the synergy possibilities, business case calculation and implementation for a stable horizontal collaboration environment for these 5 shippers.

❖ TRI-VIZOR

TRI-VIZOR is a Belgian spin-off company of the University of Antwerp, specialized in logistics horizontal collaboration. Together with Giventis International BV, it operates as neutral trustee, facilitator and project manager for the collaborative test cases in the CO³ Consortium. In this particular test case, TRI-VIZOR brought the interested companies around the table, evaluated their potential logistics synergy, facilitated the integration process and helped the companies and their staff to overcome various operational and mental barriers. After the implementation of the collaboration, TRI-VIZOR continues to monitor the project as an offline trustee, responsible for the periodic follow-up and the evaluation of the collaboration.

Email contact@co3-project.eu to get the full report!