

Measurement of Supply Chain Relationships

Fact or Fiction?

Kevin Zwolinski of Business Advisors Click On Logistics Ltd takes a brief look at how the fight for market share in a tightening and uncertain market can still offer business improvement and competitive advantage opportunities by looking into some less traditional areas. The Logistics Value Tracker© process is outlined which is a Business Improvement Process based on measurement and diagnostics of supply chain relationships leading to the development and implementation of practical solutions.

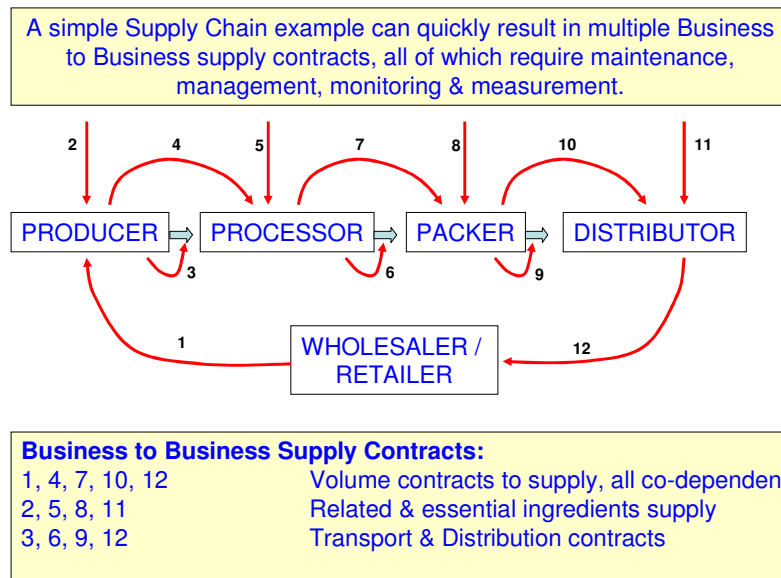
We live in times of continued uncertainty for UK plc with perhaps the only certainties being tax increases and cuts in public spending. This can only lead industry towards more belt tightening, investment curtailment and a cautious eye on the future. There are however some business improvement opportunities that do not require huge capital spend and the incumbent risk, these are to be found by looking “under the surface” of the physical operations.

The themes of getting “more from less” and lean process implementation are well established and deemed simply the right things to do. Areas such as: squeezing suppliers even more; headcount reduction; stop or slow down infrastructure development; and doubtless others, can generate direct cost reduction but most companies have already done that, so the question remains “what’s the next opportunity?”

The area under question is that of achieving true value from the Business to Business (B to B) relationships in your supply chain. Take by example, a regular Customer – Supplier relationship between a Logistics Services Provider and an end user customer. The goods may be delivered in accordance with the contract, but are you actually getting the best from what you have in place with this relationship, beyond the contractual commitment and the operational execution of the services? The answer in many cases is NO. The question (and indeed the answer) applies equally to both sides of any such relationship, and the proposition here is to apply a means of measuring the effectiveness of the relationship, in addition to measuring the operations performance.

Business to Business relationships make our Supply Chains tick, without these partnerships the Supply Chains simply would not function. We are generally very good at implementing contracts and the follow up of Key Performance Indicators, all of which set the scene for the relationship, and measure the fulfilment and execution aspects of the services which is usually reported historically. We rarely see much beyond that in terms of relationship maintenance, with the exception of corporate hospitality which can have mixed results. If things are going badly, then a day at the races isn’t going to fix them, indeed it could further antagonise. The pivot around which these relationships work is people, which sounds obvious but actually this aspect of a B to B contract rarely gets any structured attention, and only very rarely is subject to tangible measures.

A simple example of a Supply Chain is illustrated below which shows the various customer - supplier arrangements that could be in place, many of which are multiple relationships per node. These trading relationships would extend further to the wholesale and retail markets that bring products to market, including marketing, PR and associated brand activity which is not illustrated.



So what's the Issue here?

In real terms the *effectiveness* of a Supply Chain relationship is not covered by the standard approach of applying KPI's and metrics to logistics execution activity. Effectiveness is more of a strategic issue, but it has a direct bearing on operations performance so it would seem not a bad idea to measure it.

We can see that the various elements of the contracts to supply such as those illustrated should be straight forward and if they are all working properly, it would not be difficult to come up with a number of KPI's that measure the fulfilment performance. What is not so obvious however is how the effectiveness of such Business to Business relationships can be measured, by which we mean:

- What are the important relationship attributes that are essential to underpin a contract to supply?
- What do the key players in the relationship actually think about how it is working?
- Is anyone focussed on the joint enterprise?
- Who is thinking ahead about the sustainability and longevity of the relationship?
- Is anyone investing in the "well being" of the relationship?

These and other questions raise a number of issues: the contract might not be perfect, many are out of date by the time a new operation has been implemented; whilst the KPI's in place will provide some guidance on operations performance, they provide little or no supporting information on how the relationship is working, this is a people matter; it's an open question as to who owns the effectiveness of a relationship, often based upon where the perceived power lies, which can change from time to time. Once the contracts are signed, they are handed over to operations, but the effectiveness issues require strategic vision and forward thinking, which isn't always the domain of the operators.

We hear of "constructive conflict" which usually means it's OK to shout at one another, or engage in a similar monthly confrontation. Alternatively you can revert to the contract (assuming there is one), according to whose favour this leans towards. Each of these

approaches can have a profound effect on the potential sustainability of that relationship, unless of course everyone is happy with the arguments... Too often we hear "there is only a matter of months left on this contract, we have more pressing issues" and we will change partner then.

This may well be the case, but it does understate or perhaps avoid the opportunity of extracting the true value from the existing relationship, where WIN-WIN results can deliver tangible and sustainable results. Furthermore it does nothing to prevent the same situation occurring with a new supplier or customer if the follow on contract is entered into with the same frame of mind. The underlying effectiveness will only be unearthed if you look for it, if you measure it and only then can you manage it to stand a chance of achieving a sustainable partnership.

So what's the answer?

Click On Logistics Ltd has incorporated a measurement tool developed by partners SCCI Ltd into their overall business improvement approach. It uses an online scientific analysis method to provide the quantitative evidence that supports their overall supply chain relationship effectiveness measurement and management process. It is based on measuring how people rate selected attributes which are not intuitive, and which can be influenced by any number of issues that lie beneath the surface. These types of issue will never improve if left unattended and the overall approach extends way beyond this into business relationship transformation, supported by the direction and evidence provided by this approach.

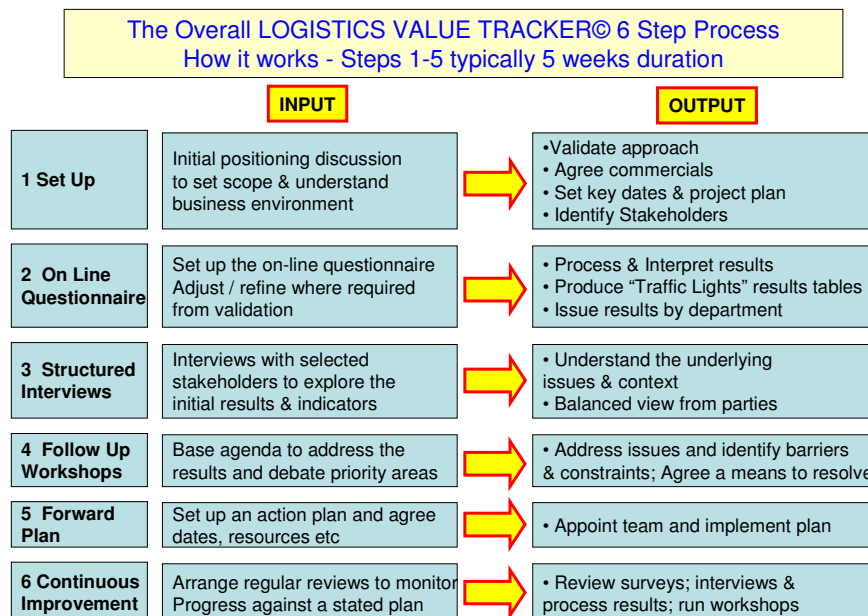
A series of questions based on scientific research is designed to provide an initial direction and profile for both Supplier and Customer. We should point out that the relationship does not have to be in conflict for this approach to work, there have been many examples which on the surface seemed fine, but just under the surface lay those opportunities that have never been stirred and brought to the surface to unlock the true value. The research continues to be further developed and updated by the ongoing use of the tool and ongoing knowledge management further deepens the effectiveness of the tool which can show best practice scores and examples on an industry by industry basis.

Unlike many approaches available in the market that are already very popular in the IT industry, this process engages both Customer and Supplier alike. We have seen other industry examples where the initiative is one sided, and the method is for one party (usually the supplier, shortly before a contract renewal) to elicit feedback from the customer. Some are better than others, but in reality the process requires an independent facilitator to generate optimum results for both sides simultaneously and to achieve a balanced and objective view.

The involvement of a third party to facilitate this process reveals many benefits, but most importantly they must be independent and capable of guiding the respective stakeholders throughout the process in a fair and unequivocal way. The third party can also help both customers and suppliers to prioritise and to resolve issues. This can support the extension to agreements without re-tendering; it can put fresh life into an ailing relationship; it can rejuvenate performance; and adjust the ways of working so that more meaningful and transparent interaction can take place. Only then can trust start to be built, which can only be earned. Trust cannot be purchased.

What is the Process? How does it work?

Logistics Value Tracker© is an end to end process run by Click On Logistics Ltd and comprises 6 steps.

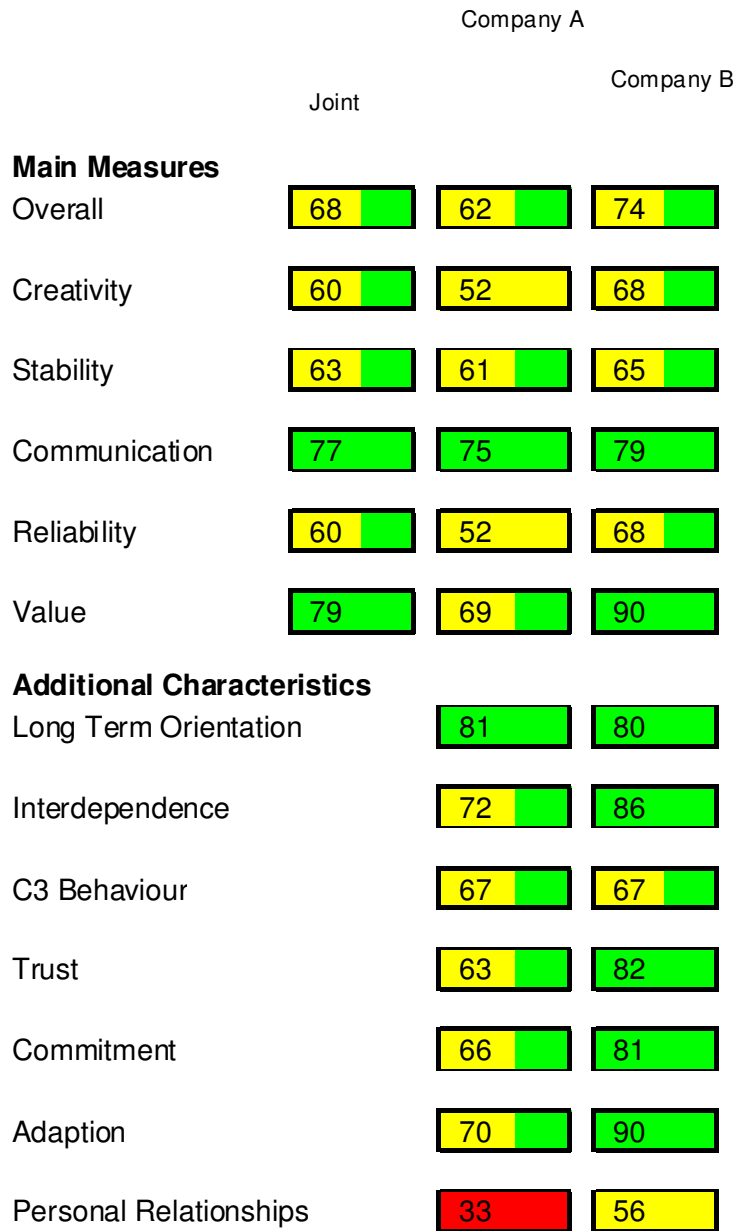


The Logistics Value Tracker© process is managed and run by Click On Logistics who act as independent facilitators and who set the scope and apply their experience to the benefit of all parties. It engages knowledgeable staff (those familiar with the execution and fulfilment of the contract) from both Customer and Supplier. It is sometimes necessary to tailor the approach for a given situation which is undertaken in the initial scope setting. Other project management matters such as key milestones and timing are defined up front.

The people involved are then provided with a web link to an online questionnaire survey structured around the key which provides the objective evidence which includes:

- A traffic light assessment of the performance of your organisation, by functional area, in delivering the alliance
- A list of your and your partner's scores against the specific indicators we have identified, based on scientific research
- Stakeholder views from both sides on the strengths and weaknesses of the alliance obtained through structured interviews with selected stakeholders
- And, if you have previously adopted the service, a comparison with the results from previous quarters/time periods and the other alliances in your portfolio

An example of the Traffic Lights output report that emanates from the web based questionnaire is illustrated below:

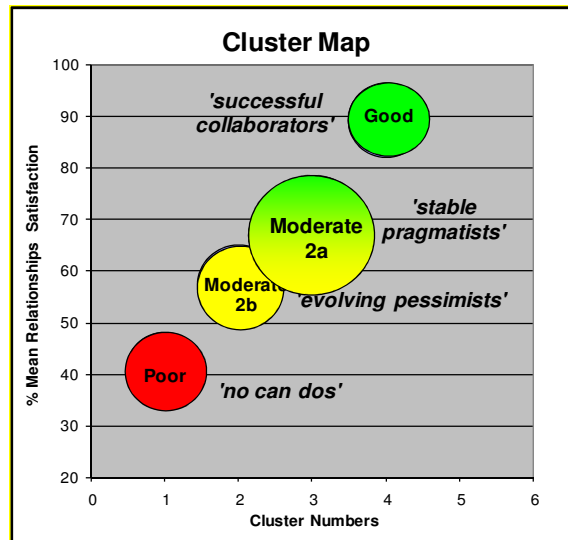


he overall score

At a glance one can see the profile, and the “Red – Amber – Green” signals the outliers. The questionnaire is supported by one-on-one interviews which provide further evidence, and also an opportunity to clarify any unusual results uncovered in the traffic lights output. The attributes listed are fully explained in the early part of the process and set into context, and these and the layers of detailed questions behind them are the subject of ongoing scientific research. The number of attributes has been distilled to a practical level for the purposes of process expediency.

(Note: “C3 Behaviour” represents Collaboration; Co-operation; and Co-ordination, a measure of the ability of the joint resources to achieve effective operations.)

The scores are then assessed on a cluster map, which indicates the relationship scores compared to the overall profile of results extracted from the ongoing Knowledge Management Process:

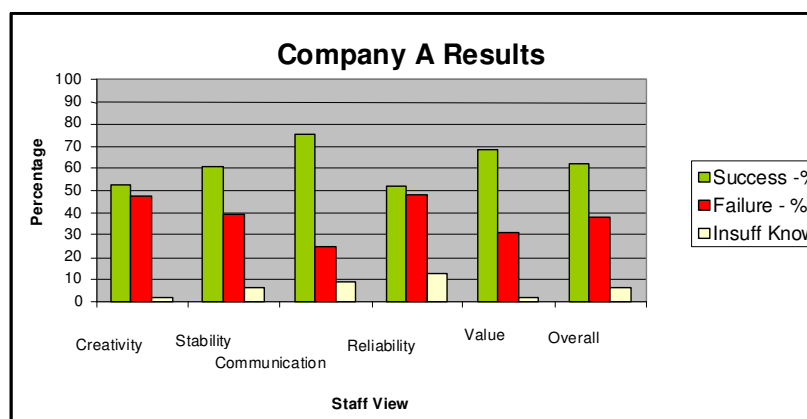


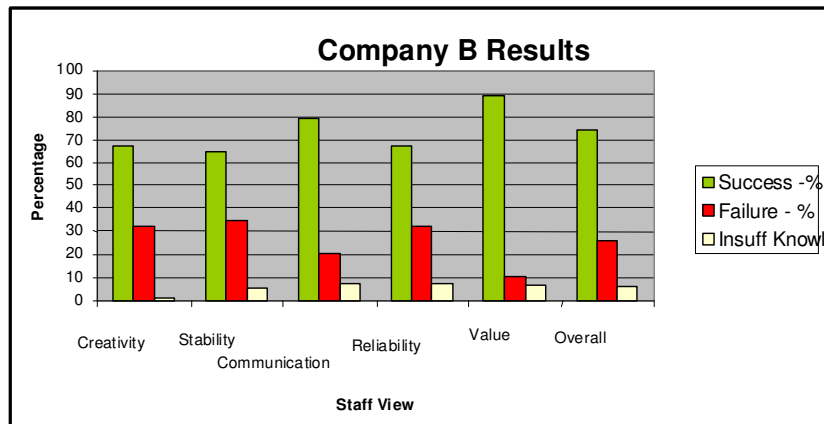
The Cluster Map provides an illustrative scale of where a set of results position the measured relationship which is an important scene setter for further discussion and development.

After the two teams have studied the outputs, they then come together in a facilitated workshop run by Click On Logistics, during which a sharing of issues and solutions paves the way to a constructive and open discussions. Typically the specific outputs that are provided include:

- Structured sessions tailored to meet the needs of the situation where views and results are expressed and assessed in a facilitated open forum
- Scores set in the context of overall effectiveness (see cluster map example)

Examples of how individual attribute findings and observations can be expanded and examined further are shown below. The bar chart compares the survey results by key performance area and in the example shown it is clear that Company A is much more negative about the relationship than Company B; however the overall pattern of results is similar which suggests that both are aware of the key issues. These may or may not be apparent in the day to day execution of the operations.





Each of the individual areas are then broken down and evaluated individually at Company level and by overall score, and the interview findings are incorporated into the analysis. This process is further extended to cover the Additional Characteristics shown in the Traffic Lights report.

Recommendations and Next Steps are set out in Strategic; Tactical and Operations levels, and a practical plan is agreed which typically includes:

- Follow up actions and agreement upon focus areas moving forward, with more analysis if required
- Develop a project plan for a Business Improvement Programme that is tailored to meet the needs of each case, there is no generic solution or “Product based” offer
- Implementation depends upon the situation and ownership of agreed change must lie with the parties involved. Support can be provided as required in Project Management or in continued facilitation of the extended process
- Continuous Improvement can be achieved by regular review and measurement to determine progress, or to adapt to major events that impact either or both parties

Conclusion

The process has had considerable success with leading branded companies that provide valuable knowledge development to form industry sector profiles.

- The approach is simple to digest and understand
- It is based around considerable research and a scientific approach
- Colour coded outputs enable the relationship managers to target relationship priority areas
- The results can be built into the ongoing governance process and regularly re-assessed on a consistent and independent basis
- It provides excellent evidence for briefing Executive sponsors

Building stronger Business to Business trading relationships through implementing The Logistics Value Tracker© process will underpin an improved understanding of the respective issues in a joint enterprise. A more reliable and sustainable business system can be achieved that is capable of delivering growth opportunities through improved customer and supplier satisfaction in a Win-Win environment.

This unique service with has been developed as a collaborative venture between Click On Logistics Ltd (COL), an established and specialist consultancy focused on helping Companies engaged in Logistics and Supply Chain Management activity to take evidence based decisions in business improvement, and SCCI Ltd a company that specialises in business relationship performance appraisals. We are confident that the combination of COL experience and insights combined with SCCI's back-office analytical tools will enable Logistics Value Tracker© to become the standard for assessing and optimising Supply Chain Relationships to the benefit of all parties.

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