



## SUPPLY CHAIN MANAGEMENT – BENEFITS FOR ALL

Report of seminar 155 held on 18th March 2010  
at 1 Great George Street, London

### SUMMARY

#### KEY CONCLUSIONS

- Competitors within a framework should be willing to openly share bad performances to aid overall outcomes for the client.
- Where culture and personalities on both sides may contribute to problems, this can be overcome by early feed upwards of emerging problems.
- Concentrate energy to form partnering relationships at lower working levels.
- Develop a thicker social component of a relationship to act as a shock absorber when the supplier underperforms; this can also accelerate problem solving.
- When a client has a very large annual budget spend with substantial outsourcing of resources, it is important to realise that it has to get involved and badge itself because of reputational risk. It cannot allow the supply chain to take this risk on its behalf.
- Whilst baseline unit costs are important and they need to be known and understood by the client, other important aspects should also be taken into account. Together they can lead to joint solutions development.
- Delayed payments to supply chains add costs which ultimately clients bear. Innovative financing can significantly improve business operations and keep small and medium enterprises (SMEs) solvent, with consequent financial benefits for the client as well.
- Future assessments of supply chain capabilities will give greater emphasis to issues such as corporate social responsibility, client budgetary constraints and opportunities for efficiencies. Rewards will be given for improvements to outcomes and addressing issues.
- Supply chains should be examined end to end, to identify where the highest sunk cost is. Manage risks in the early components of the chain and build in flexible response capability.
- Trust, transparency and good communications are important. The supply chain is dynamic and it needs to be agile in the face of external impacts.

*These are the views of Malcolm Noyce, Executive Director, MPA*

On most major projects the supply chain accounts for 60–85% of the project spend, but frequently attracts the least attention from the management team. Supplied items are often highly complex and represent significant projects in their own right, yet the same procurement procedures that are used for buying routine commodities are sometimes employed.

The selection of partners in the supply chain is a key part of the project strategy, but supplier capability often goes untested until it is too late. Evidence shows that monitoring and controls are also weak and that commercial terms often present a barrier to good performance.

Looking at these and other supply chain issues, this seminar examined best practice in supply chain management. It brought together speakers from academia, consultancy, research, client and supplier, and represented a wide cross section of experience from different industry sectors, including health, finance, aerospace, automobile manufacture, rail and shipbuilding.

## THE CHALLENGES OF THE SUPPLY CHAIN

Effective supply chain management is commonly understood to involve good relationships, but if good relationships are critical why do so many companies find it so hard to get them right?

The Supply Chain Research Centre at Cranfield School of Management looked at this issue by exploring the characteristics of a difficult relationship between a supplier and customer. In the case study, key personnel in each company described how they viewed the relationship in the light of:

- The atmosphere of the relationship
- The trust and trustworthiness within it
- The sharing of risk and reward
- Communication
- Transparency of operation between the two parties

The study indicated that the relationship was actually a bundle of relationships, both within and between the companies; these relationships operate at a number of levels and are influenced by both the function and culture within the organisations.

As in most major projects it was found that the needs of both the supplier and the customer were the same, and included common goals such as consistent quality, cost-effective solutions and a risk sharing partner. Observations from the study were outlined, and it was noted that overall the relationship could have been improved if expectations had been aligned from the start and managed throughout.

The [ProCure21](#) is a procurement method for publicly funded NHS capital schemes, and is currently being used to deliver community hospitals, primary care centres, mental health services and other acute services such as cardiac care and out-patients units. Used by 165 NHS Trusts, this national framework was introduced in 2003 following reports in the late 1990s on the construction industry by Sir John Egan and Sir Michael Latham – these reports were an attempt to encourage a more collaborative working partnership and long-term relationship between the public and private sector.

This presentation from the Department of Health set out some of the challenges faced in successful performance management in the current ProCure21 framework. The improvements and changes to be adopted in the new ProCure21+ framework, which will be introduced in September 2010, were outlined. In particular, it explored the practical challenges at framework level on the management of the Tier 1 supply chain and below, and how the supply chain demonstrates that it has the appropriate structures and mechanisms in place to performance manage effectively throughout their own organisations.

Some typical problems that can arise at project level were discussed, and solutions outlined. For instance, advice was given regarding contractors working on hospital sites, which can restrict normal working behaviours and present some logistical challenges. Effective lines of communication with the organisation are essential, as is collaborative working.

ProCure 21+ improvements will include improved monitoring of schemes, an annual review of the framework members, supply chain management forums, and will encourage best practice champions within the NHS. For the contractors there will be targets based on performance figures and appropriate penalties in the event of poor performance.

In today's economic climate it is still difficult for non-investment grade companies and SMEs in the supply chain to get credit. In the past few years supply chain finance has emerged as a comprehensive tool to take out cost, unlock working capital and improve access to liquidity in complex supply chains.

This presentation from Citibank examined the conflicting objectives of buyers and suppliers in traditional commercial terms negotiation. It looked at the drawbacks of existing receivable purchase programmes and the economics of supply chain finance, discussing how costs could be reduced and profits increased with the use of Citibank's supply chain finance mechanism.

The basic mechanics behind this scheme were explained, with examples of where companies have successfully utilised the technology. In essence, the mechanism creates value for the suppliers, as they get paid early, the cost of their funds goes down and they have access to more liquidity. The buyer is able to determine how the economic benefits should be shared. The mechanism presents a value proposition to both the supplier, who can access cheaper working capital, and the buyer who can negotiate lower supply costs.

There were examples of where companies have successfully utilised the technology, and suggestions as to how delegates could judge whether it could be applicable to their projects.

Network Rail was formed in October 2002 and since then its annual level of project investment has grown to £4 billion per annum. This covers a variety of projects across the railway network, including new control systems, new stations and large scale enhancement projects such as Thameslink. Over this period Network Rail has developed its supplier relationships and has demonstrated real performance improvement through its supply chain. This presentation looked at reasons for this improvement and the lessons learned, as a background to how Network Rail's plans are developing over the next five years.

The Control Period 4 Delivery Plan 2009 is a five-year funding plan to operate, maintain and invest in the rail infrastructure, with a number of objectives and targets to improve performance and safety. A key challenge is the delivery of significant efficiency targets. For instance there is a focus on delivering more train services within the existing infrastructure, which means an innovative approach to reducing the time the railway is out of service in order to deliver projects.

90% of the annual spend on infrastructure projects is outsourced and delivered by partners and suppliers. Given the breadth of services, procurement is very varied, as is the supplier market. Suppliers include many different organisations and cultures within one project environment, such as signalling and telecoms, civil engineering, commodity procurement, electrification and station renewal.

The presentation looked in detail at the supplier management strategy, and the role of the 'supplier engagement maturity roadmap'. The importance of strong supplier relationships and positive two-way interaction was stressed – not just in terms of procurement, but also in terms of how the infrastructure is maintained in the long term.

## LESSONS FROM SUPPLIER CAPABILITY ASSESSMENT FOR THE HIGHWAYS AGENCY

The Highways Agency is an Executive Agency of the Department for Transport, and is responsible for operating, maintaining and improving the motorways and trunk road systems in the UK. As a public sector body with a large proportion of its funds going through its supply chain members, there is emphasis on achieving value for money, sustainability and efficient delivery.

Introduced in 2003, the Capability Assessment Toolkit (CAT) is designed to form part of the Highways Agency supplier selection process, and to promote capability improvements in the supply chain. Developed jointly by a collaborative team of suppliers, assessors and the Highways Agency, the process has evolved over that time to reflect the needs and agendas of the Agency and its major suppliers. The latest iteration, CAT4, is currently under development and is expected to be in place by the end of 2010.

This presentation from Advance Consultancy reviewed the history of CAT, the factors influencing its evolution, and the lessons learned from applying this type of assessment framework in procurement. It looked in detail at the framework and development of CAT1, CAT2 and the current CAT3. Through its assessment process, which includes 24 indicators covering areas such as direction and leadership, strategy and planning, people, partnerships, processes and resources, it was noted that CAT3 has become a very good strategic differentiator.

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CAT looks at the supplier's management and organisational capability, rather than their technical knowledge and skills, in order to come up with a rating that will materially affect how successful they will be at winning major contracts. At the same time the process is designed to give the supplier feedback about how they are doing, what are considered to be the constraints in their operation and what parts of their work process they might consider doing differently.

The numerous benefits of using CAT were outlined – for instance it was noted that focusing on capability as part of the supplier assessment process is a valuable way of knowing to what extent suppliers ensure that information flows up and down and across their organisations.

## THE CHALLENGE OF CREATING AN AGILE FINISHED VEHICLE SUPPLY CHAIN

During the last three decades car manufacturers have been operating a largely 'sell from stock' model in which cars are designed and built and then sold to market from existing stock. The recent economic downturn has meant that the global vehicle supply has outstripped actual customer demand, whilst at the same time manufacturers have been slow to react to the reduction in demand.

PA Consulting Group considered the question of how vehicle manufacturers could take on the challenge of creating an agile vehicle supply chain to meet the ever changing demands of customers, whilst keeping the model effective and efficient for the manufacturer itself. The presentation looked at the characteristics and operation of a typical supply chain. With some 3,000–4,000 components going into a car, this might include some 200 different suppliers supplying components from many different countries.

A specific case study carried out for a successful automotive manufacturer was outlined, where the task was to improve the overall process and give a leaner and more agile supply. A business case was built, and the client was helped to implement a process designed around a number of objectives: these included ways to improve operation of working capital, how to better address what customers wanted to buy, and how to enable dealers to hold fewer vehicles.

It was argued that actively using an end to end supply chain for strategic advantage would create a winning supply model for the future, and allow the automotive industry to become more flexible and responsive to customer demand. It was noted that some of the lessons from this strategy could be transferred to other areas of the major projects sector.

## CONCLUSION

Seminar Chairman, Roy Hill, European Managing Director of CH2M HILL, noted the number of common themes that had emerged throughout both the presentations and subsequent discussions. Whilst there is still progress to be made, the day's events highlighted the considerable investment and progress in managing the supply chain



## PARTICIPATING ORGANISATIONS

3G Communications Limited  
Advance Consultancy Ltd  
Aedas Architects Ltd  
Amey  
BG Group  
Capita Symonds  
Centre for Research in the  
Management of Projects  
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