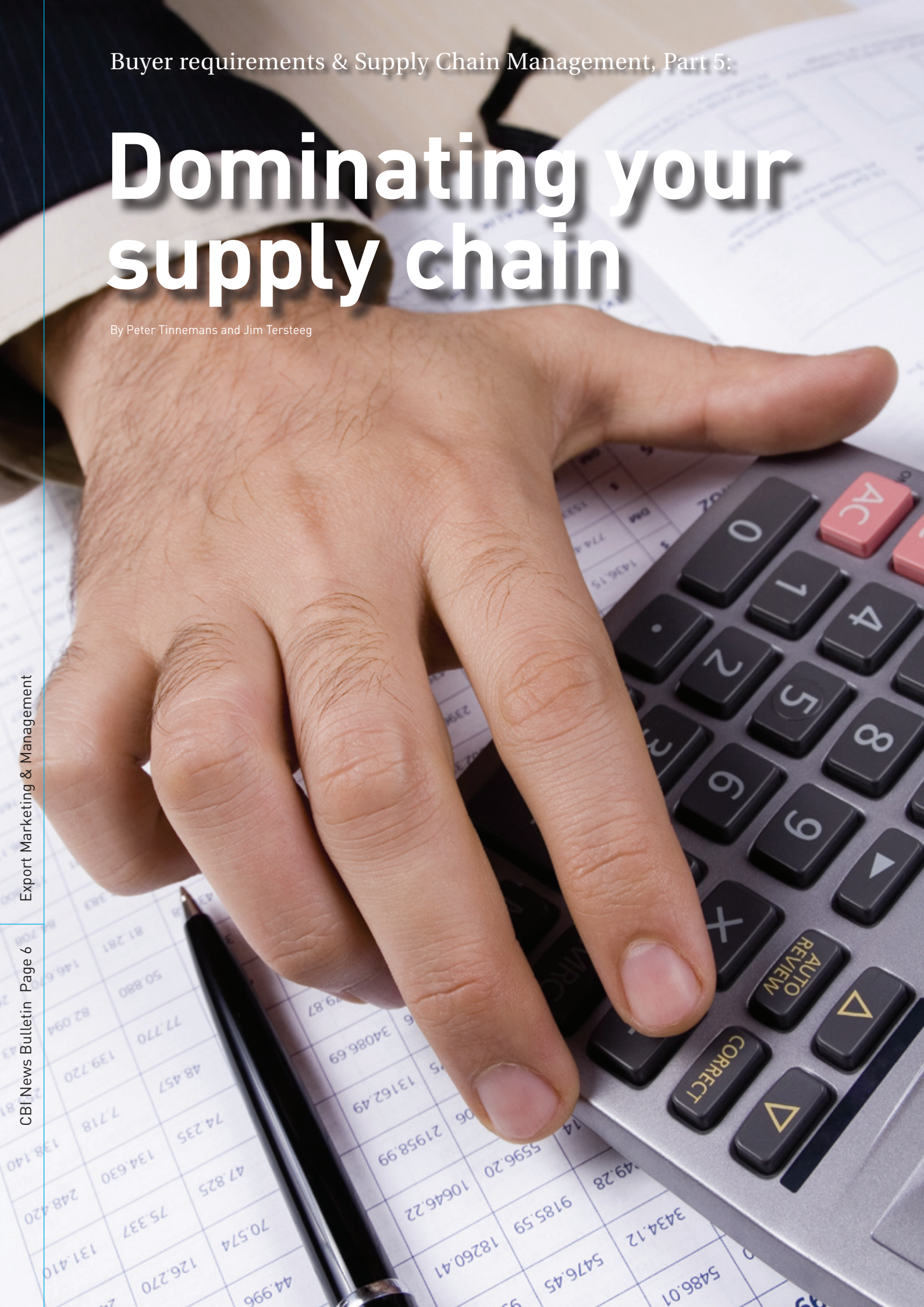


Buyer requirements & Supply Chain Management, Part 5:

Dominating your supply chain

By Peter Tinnemans and Jim Tersteeg



Globalisation is rapidly changing the corporate environment. European companies are searching for suppliers and partnerships on a global scale. This movement is creating many opportunities for SMEs in developing countries, but there are preconditions that have to be fulfilled before a supplier relationship is within reach. This series of six articles on buyer requirements and supply chain management offers an overview of European standards you're likely to encounter in doing business within the EU. This fifth article deals with visibility.

Supply chain management is increasingly becoming a matter of optimising all organisations participating in the chain – not only your own company, but suppliers and customers as well. A supply chain is controlled by the most dominant player in the chain, who will enforce his own standards and regulations on you as a supplier. Taking the basic principles of Supply Chain Control & Visibility to hand and implementing them in your company is a good way of using this mechanism. Your company will benefit and you'll be able to show (future) partners your level of control, enhancing the overall efficiency and effectiveness of your supply chain.

Supply Chain Control & Visibility is a framework consisting of three levels:

1. Process control & visibility

Organisational characteristics: at this level, your organisation has clearly defined, described and implemented all operational processes. For the most important processes Key Performance Indicators (KPIs) are in place. The measured KPIs are regularly analysed and reported on, which leads to corrective actions where necessary.

2. Organisation control & visibility

Organisational characteristics: on top of the first-level characteristics, your organisation has now organised all processes and conducts internal company reviews on a regular basis to gauge the extent to which the organisation is developing in the direction of its ambition and objectives/targets.

3. Supply chain control & visibility

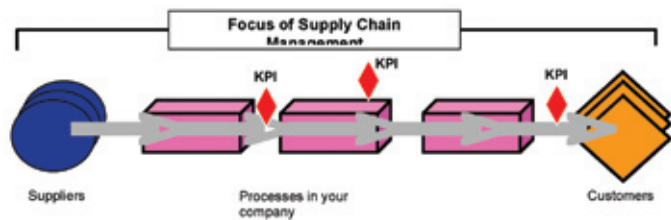
Organisational characteristics: apart from self-reviewing, your organisation now also reviews supply chain partners and customers as well. The reviews are conducted on the basis of pre-agreed KPIs. These KPIs reflect the success of the entire supply chain.

The three levels of supply chain control & visibility are linked to each other and can only be attained in successive order. Some

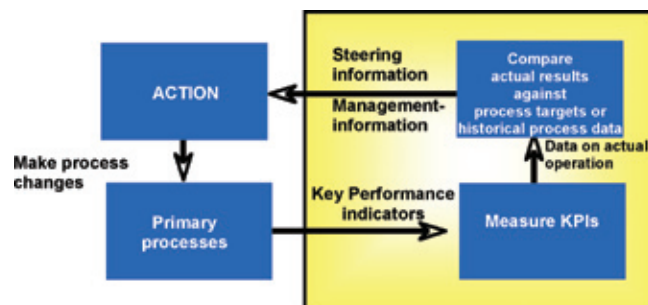
organisations operate on the second level but most – even global operators – are on the first level or below. Companies that have attained the third level are few and far between. However, there is a clear trend in supply chain management towards the highest level.

Process control & visibility

Every organisation is built of processes: primary processes like purchasing, manufacturing, packaging and shipping, and secondary processes, such as human resources, marketing, finance and R&D. The first step in assessing your company's overall performance is to analyse the key financial figures (revenues, net income, cash flow et cetera). With the insight you obtain from these indicators you will have an overview of your organisation's general condition. For insight into your operational efficiency and effectiveness, you will need a more in-depth analysis. You will have to establish and implement KPIs for your key processes: time spent in a process step, material or labour usage, waste volumes, product failures et cetera. Your best bet is to try and define KPIs that directly indicate the quality as perceived by your customers or the efficiency of your processes.



The number of KPIs you'll require depends on the type of organisation you are. However, in order to produce meaningful information rather than mere data in your weekly or monthly reports, you must limit the KPIs to the real key indicators.



Once the KPIs are in place you'll be able to regularly report on actual process performance, which means your processes will become controllable: the information produced can lead process improvements. Once you are managing all the relevant processes in this way, your organisation has reached the third level of process control & visibility.

Organisation control & visibility

On this level the entire organisation is in scope and all relevant primary and secondary processes are controlled in the way described in the previous level. KPI results are monitored, analysed and

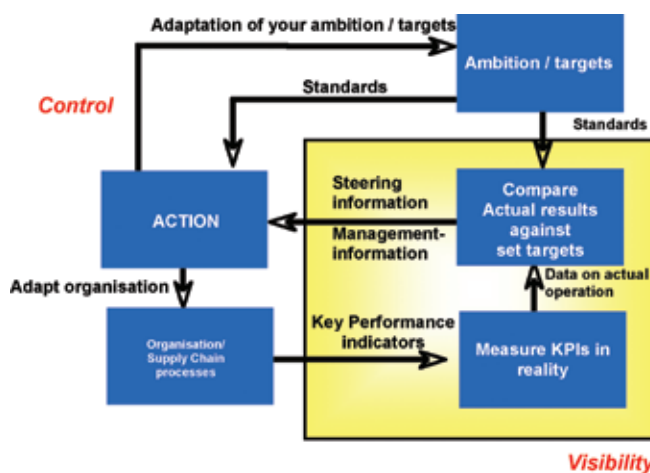




converted into management information. Management regularly reviews this information and compares it with the business plan. This can lead to changes in processes and procedures or in company targets, as some ambitions may prove to be unattainable: markets can change, rules and regulations can change, competition can increase et cetera. In those circumstances it is better to adjust your business plan than to keep on under- or over performing. The management information is divided into three areas of attention: operational, tactical and strategic information. Operational information is information on all operational processes. This is where the largest amount of data are generated and transformed into meaningful information.

Tactical information is aggregated operational information and information on the performance of the supply chain. High-level performance of suppliers and customers is reported on this level. On the strategic level market information is analysed and trends are taken into account. Strategic information supports your company in making long-term decisions.

Depending on the size of your organisation, different management layers may be involved. In small- and medium-sized organisations the operational information is used on the workshop floor and the tactical and strategic information by the management.



Supply chain control & visibility

The third level of the framework moves beyond the boundaries of your company. The focus now shifts from your company itself to the organisations of key suppliers and customers. If you reach this level you are assuming the dominant position in the supply chain. Your own company is efficient and effective and you expect the same level of professionalism of suppliers and customers. In most supply chains, dominance tends to be downstream: it's easier to lay down demands as a buyer than as a supplier. However, it is becoming increasingly clear that suppliers can steer their customers as

well. The food and products industries are prime examples. At this level your company will impose its quality own standards on suppliers and perhaps even customers. To make sure they meet your requirements, you will have to provide them with process and organisation standards. You can demand certain KPI updates and perform regular audits. Suppliers audits tend to cover the entire organisation: all relevant primary processes and secondary processes are checked in the actual production facilities. An audit also covers the strategic and tactical components of an organisation, though this is a minor part of the audit. A customer audit will most likely focus on the customer's commercial process. How are the products and services you deliver marketed to the end user? This level of supply chain control & visibility demonstrates the clear presence of your company in the supply chain.

Implementing the framework

You can use the following 8-step procedure to implement the Control & Visibility Framework:

- Start by coming to a clear understanding of all the different processes in your organisation. Construct a process chart that describes the processes, shows how they are interrelated and which employees are responsible;
- Having identified your key processes, you must then define a set of KPIs. What set of indicators does your management want regular reports on? Make sure the KPIs are clear, unambiguous and measurable.
- Determine how you will measure the KPIs. What data will be derived from the various processes to compose data for further analysis?
- Determine who will be measuring the KPIs.
- Determine the frequency with which the KPIs are to be measured.
- Determine who will gather the data from the different processes and convert them into useful management information.
- Describe the management information process. When is management information discussed and which organisational levels (operational, tactical, strategic)? Use these meetings to adapt your processes or your business plan.
- Make sure that all relevant employees are well informed. Start a pilot project with a limited scope and try to gradually expand from there.

Your competitive advantage

Exporters offering this level of control & visibility on the European market have a considerable advantage over their competitors. Implementing the control & visibility framework, on whatever level, will help you run your company efficiently and give you credibility with European buyers. With regular monitoring, your company will be able to improve its performance – and with that, your turnover, profits and success in the market may soon be on the rise.