



Is the best method of managing your trading relationships really 'constructive conflict', which usually means it is OK to shout at one another or engage in a similar monthly confrontation?

Measurement of supply chain relationships *Fact or fiction?*

- Kevin Zwolinski, Managing Director, 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.

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, and perhaps by thinking around a few corners.

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, stopping or slowing down infrastructure development and countless others can generate direct cost reduction; but most companies have already done that, so the question remains: what is the next opportunity?

The area in question is that of achieving true value from the business-to-business (B2B) relationships in your

supply chain. Take, for 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 the need to apply a means of measuring the effectiveness of the relationship, in addition to measuring the operations performance.

B2B 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 KPIs, 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 is not 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 B2B contract rarely gets any structured attention, and only very rarely is subject to tangible measures.

A simple example of a supply chain is illustrated in Figure 1, 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 is the issue here?

In real terms, the effectiveness of a supply chain relationship is not covered by the standard approach of applying KPIs 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 a good 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 were all working properly, it would not be difficult to come up with a number of KPIs that measure the fulfilment performance. What is not so obvious, however, is how the effectiveness of such B2B 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 focused 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; and whilst the KPIs 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 is 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 is not always the domain of the operators.

We hear of 'constructive conflict', which usually means it is 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

Simple example of a supply chain

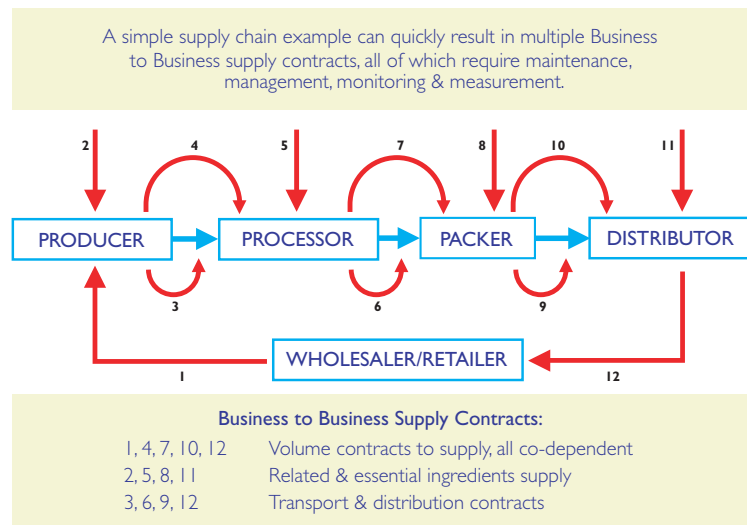


Figure 1

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 to extract 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.

How can this business requirement be addressed?

Against the background of in-depth analysis and research, studies have shown that quantitative evidence can be generated by asking the right questions of the key stakeholders and relationship influencers on both sides of the arrangement. The hypothesis is that by utilising a structured questionnaire and a scientific software



Kevin Zwolinski argues that the need to be able to measure supply chain relationships beyond key performance indicators (KPIs) of logistics execution takes the measurement process into the uncharted waters of relationship effectiveness

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analysis method to interpret results, the basis for a truly meaningful method of measuring the effectiveness of B2B relationships can be achieved.

The essence of the analysis is to flush out those issues just below the surface that are perhaps not intuitive and that benefit from a structured approach to bring them to the surface. The relationship does not have to be in conflict for this approach to work. There have been many examples of where everything on the surface seems fine, but just under the surface lie those opportunities that have never been stirred and brought to the surface to unlock their true value or to prevent real costs being incurred.

Unlike many approaches 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 that 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 an independent third party to facilitate this process reveals many benefits, but most importantly they must be capable of guiding the respective stakeholders throughout the process in a fair and unequivocal way. Typical outcomes can result in an

extension to agreements without re-tendering; fresh life can be breathed into an ailing relationship; operations performance can be rejuvenated; and ways of working can be adjusted 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?

The end-to-end process comprises six steps – see Figure 2. The process is best managed and run by independent facilitators 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 the customer and the 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 stakeholders are then provided with a web link to an online questionnaire survey structured around the key issues, which provides the objective evidence, including:

- A traffic light assessment of the performance of the organisation, by functional area, in delivering the alliance
- A list of customer and supplier scores against specific indicators based on scientific research
- Stakeholder views from both sides on the strengths and weaknesses of the alliance, obtained through follow-up interviews with the benefit of the initial results
- Comparisons made with previous study results, if appropriate, and with any other alliances in the portfolio

An example of a traffic lights output report that emanates from the web-based questionnaire is illustrated in Figure 3. 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.

Six steps of the end-to-end process

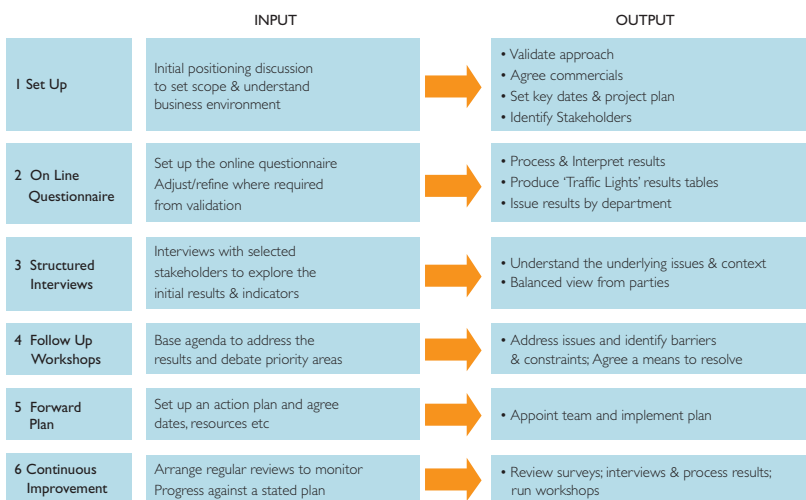


Figure 2

After the two teams have studied the outputs, they come together in a facilitated workshop, during which a sharing of issues and solutions paves the way to 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

Each of the individual areas is 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. Individual attributes can be analysed and investigated in further detail according to priority status arising from the workshops.

Recommendations and next steps are set out in strategic, tactical and operations levels, and a practical plan is agreed that typically includes:

- Follow-up actions and agreement upon focus areas, with more analysis if required
- Developing 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 dependent on the situation and ownership of agreed change, which 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 achieved by regular review and measurement to determine progress, or to adapt to major events that impact either or both parties

Conclusion

The process is known as the Logistics Value Tracker®, run by Click On Logistics Ltd, and it has been successfully used by branded companies that provide knowledge development to form industry sector profiles. The approach is simple to digest and understand, and is based around considerable research and a scientific approach. Colour-coded outputs enable the relationship managers to target relationship priority areas, and the results can be built into the ongoing governance process and regularly reassessed on a consistent and independent basis. It provides evidence for briefing executive sponsors.

Building stronger B2B trading relationships through implementing systems such as 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 service has been developed as a collaborative venture between Click On Logistics Ltd (COL) and SCCI Ltd, a company that specialises in business relationship performance appraisals. This combination of COL's experience and insights combined with SCCI's back-office analytical tools means Logistics Value Tracker® could become an extremely valuable tool for assessing and optimising supply chain relationships to the benefit of all parties.



Traffic lights output report

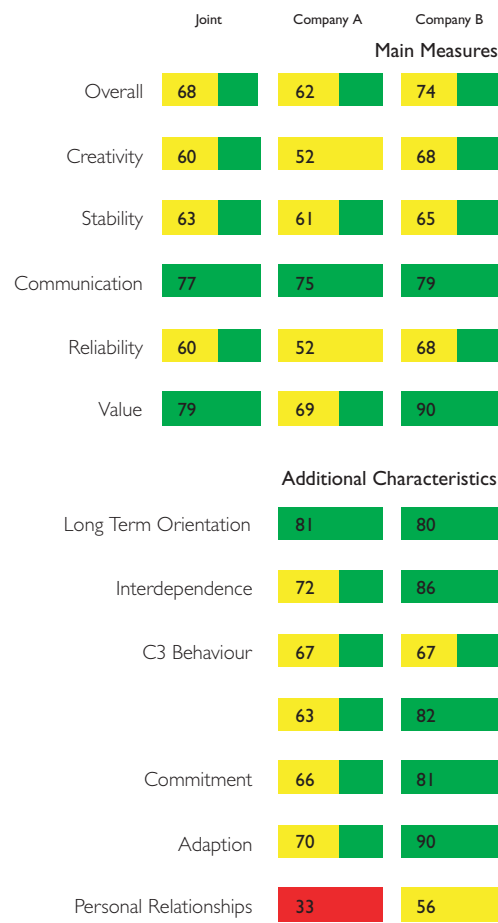


Figure 3

Note. C3 behaviour represents collaboration, co-operation and co-ordination, a measure of the ability of the joint resources to achieve effective operations



About the author

Kevin Zwolinski is Managing Director, Click On Logistics Ltd, a consultancy focused on helping companies engaged in logistics and supply chain management activity to make evidence-based decisions in business improvement.

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