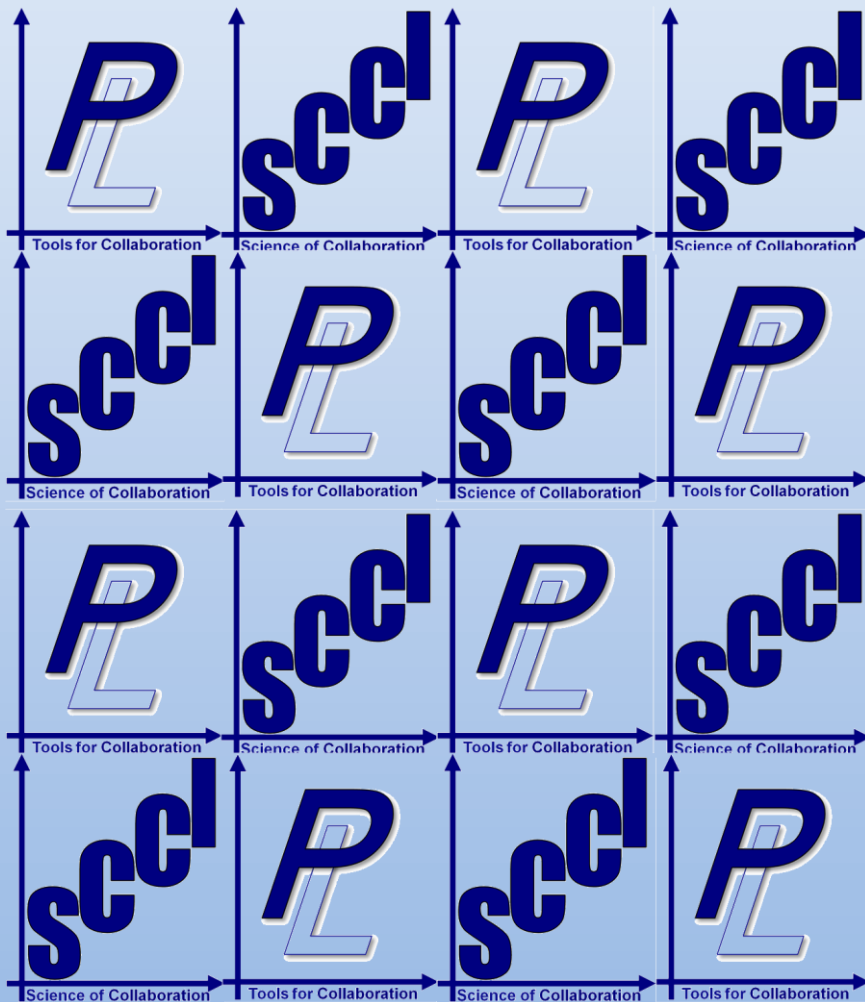


Case Study: Food Supply Chain Triad: 'Three's A Crowd?'



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Case Study – Three’s A Crowd?

By Andrew Humphries & Linda McComie

4 Year Relationship – value £200m pa:

- Retailer (Customer) – Big 4 supermarket (traditional ‘beat-em-up’ supplier management; provides the channel and expects suppliers to provide its big profits)
- Processor (Supplier) – Abattoir & processor (information gate-keeper, innovator and market specialist)
- Breeder (Supplier’s Supplier) – Pig breeder (highly specialised producer, conforming to prestigious quality standards)

‘We have to negotiate all of the time to maintain our share and our price. We are kept on our toes and not given any quarter.’

Objectives:

- Project sponsored by the British Pork Exporters Association to increase UK market share in the face of cheap competition from Europe

Issues Revealed:



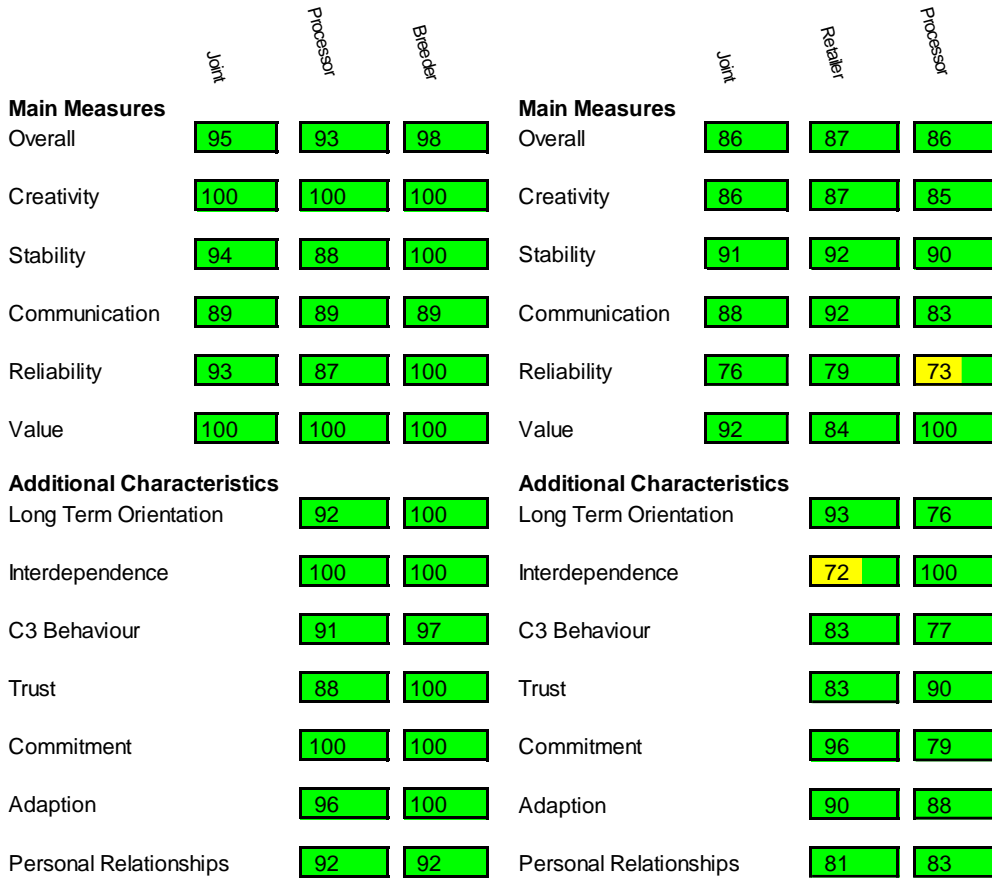
- **Retailer:** Rarely listens, siloed organisation, changes Buyers to avoid building relationships. Commercial arrangements breed fear and distrust. Order forecasting system inadequate. Has begun inspecting Breeder processes to assure quality
- **Processor:** Unsettled by lack of long term contract. Uses own order forecasting system and protects cost structure information fearing Retailer will use it to drive down prices. Suspicious of Retailer contacts with the Breeder
- **Breeder:** Long, collaborative relationship with Processor. Careful to keep Retailer happy. Quality of the product enables him to resist pressure and stand-up for himself

‘We provide much of the data on pricing, promotions and so on that gives us both market insights. We have the expertise and knowledge and employ someone specifically to do this.’

Note

Originally we offered to consider this project as an alliance – a single relationship. However the Processor wished to keep the Retailer at arms-length from his Supplier, fearful that greater knowledge of the supply chain costs would encourage the Retailer to use this to reduce prices further.

Performance at a glance



Bandings	Colour	Response
0-49%	Red	Urgent Action Required
50-59%	Amber	Corrective Action Required
60-74%	Amber/Green	Corrective Action Recommended
75-100%	Green	OK Unless High Priority

- **Innovation** – the leap of faith, being creative, flexible and resilient
- **Investment** – Alignment of objectives, investment in people, know-how, infrastructure and management effort and, long-term vision
- **Communication** – open and transparent, frequent and extensive, learning, planning and anticipating
- **Operations** – focusing on service and product delivery, lowering joint costs and risks, building trust
- **Value** – perceived and actual benefits, satisfaction
- **Long-term Orientation** – encouraging stability, continuity, predictability and long-term, joint gains
- **Interdependence** – loss in autonomy is compensated through the expected gains
- **C3 Behaviour** – Collaboration, Co-operation, Co-ordination, joint resourcing to achieve effective operations
- **Trust** – richer interaction between parties to create goodwill and the incentive to go the extra mile
- **Commitment** – the relationship is so important that it warrants maximum effort to maintain it
- **Adaption** – willingness to adapt products, procedures, inventory, management, attitudes, values and goals to the needs of the relationship
- **Personal Relationships** – generating trust and openness through personal interaction

These traffic lights show that both relationships are productive. The Processor/Breeder partnership is particularly harmonious. There are some rough edges between the Processor and the Retailer where it is perceived that the latter lacks long-term commitment and a collaborative attitude.

Recommendations

- **Commercial Arrangement**
 - Review the Processor/Retailer commercial arrangement to promote collaborative working
 - Reflect the changes in the Supplier commercial arrangement
- **Strategic Performance Incentives**
 - The Retailer should recognise the strategic capabilities of the Processor and Supplier to increase market share by improving the brands, widening the product range, improving quality and reducing costs
- **Supply Chain Forecasting**
 - The Retailer to reduce costly forecast errors by working more closely with the Processor and Supplier
- **Relationship Performance**
 - Conduct regular relationship performance measurement
- **Relationship-Building Communications**
 - A joint Enterprise Relationship Management meeting should regularly review performance, solve problems, assign actions, monitor staff resourcing and communicate with a single voice

Outcomes

- Processor instigated regular supply chain planning meetings to pre-empt close relationship between Retailer and Breeder
- Planning meetings improved communications and had positive impact on overall effectiveness
- Processor asked Retailer for a long term contract in exchange for a cost-plus agreement as a way of making the best of the Retailer's insights into production thru contacts with the Breeder
- All the parties are on better terms with each other although the Retailer is only slowly adapting, counter to its culture

'It's nice to have the Retailer take an interest in us but we have to be careful we don't say too much and upset our Processor'

Notes

The parties were reacting to their tactical situations

This pork supply chain is generally effective and appears to have strong market potential. The three players bring to the enterprise unique resources and capabilities which act together in a complementary manner to fulfil the objectives of the business. However, our appraisals have detected some discontinuities due probably to the speed of growth, the inherent constraints in each of the businesses and the cultural differences that naturally exist. We believe that more emphasis on formal relationship management across the whole chain will bring greater efficiencies and effectiveness.

Since there is a common objective it might be possible to achieve greater synergy by managing the chain as a single entity/alliance but, we do not have enough evidence to recommend this way forward.



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