

Supply Chain Partner Assessment

Is Your Organisation Involved In A Supply Chain Where Collaboration With Important Partners Is Critical To Success?

Are You Satisfied With These Relationships?

Do You Know For Sure Your Partners Are Satisfied?

Many organisations are involved with complex supply chains where relationships with channel partners are critical for success. Often the relationship between partners is not what either partner would like but at the same time there is a fear of surfacing the problems because this might "let the genie out of the bottle". The relationship may also be different dependent on the level within the respective organisation the person holds. There may also be a difference in the areas of concern between the partners with different root causes driving the problem.

The cost to organisations of ineffective supply chain relationships is not minor. Research in the USA has indicated that a third of supply chain disruptions are driven by external partners (suppliers and customers). It also highlighted that the impact of supply chain disruptions were far more damaging than had been previously thought¹:

- 107% Drop in Operating Income
- 7% Lower Sales Growth
- 11% Growth In Costs
- 14% Growth in inventories
- 33% to 40% Reduction In Stock Returns vs Benchmarks
- 13.5% Higher Volatility in Stock Price

It is extremely unlikely that protagonists in these situations would prefer that the conflict and poor relationships continue to the detriment of the supply chains performance. Most leaders would like to address the concerns and raise the performance of their

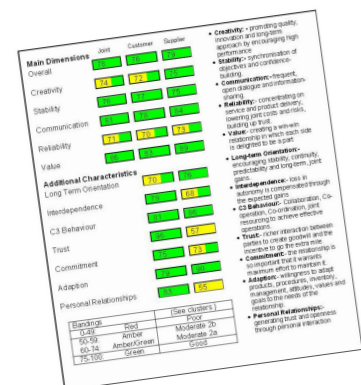
¹ Kevin Hendricks, Vinod Singhal THE EFFECT OF SUPPLY CHAIN DISRUPTION ON LONG TERM SHAREHOLDER VALUE, PROFITABILITY & SHARE PRICE VOLITILITY, June 2005.

supply chain. The solution is often that the party with the power in the relationship will expect the other party to "lift their game" and if not seek a replacement partner, only to find that the problem persists with a new partner or gets worse.

The failure of a supply chain relationship will often not be driven by one root cause alone. Many failure modes may be found driven by a number of root causes which may or may not be linked. If you add the complexity of individual relationships, expectations and perspectives then it can be very hard to sort out a failing supply chain partnership.

AD Supply Chain Group Pty Ltd has in collaboration with SCCI of the UK developed an assessment tool and intervention methods that help organisations objectively measure the state of their channel partner relationships and drill down to root causes and opportunities for improvement. We can then if required provide ongoing support to address the issues identified and of course rerun the measurement tool at the end of the process to show the improvements made in the relationship.

The model uses an initial "on-line" questionnaire developed by SCCI which is answered by knowledgeable people at all levels within the channel partners involved. This will generate output which can then be used to target follow up interviews which provide further detail and context for



Barometer Report

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the results. This report is in a simple traffic light form which quickly focuses the user on the areas where work is required. It will also show up where one party is satisfied to the detriment of the other partner and vice versa. This Stage 1 or Barometer report can then be used to target the follow up phone interviews.

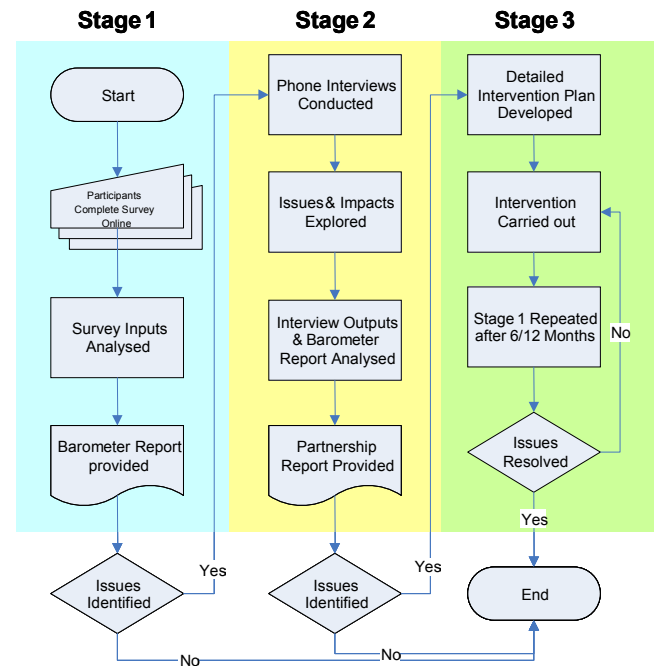
In Stage 2 we conduct a series of phone interviews which are focussed on the findings of the Barometer report. Respondents provide further context to the on-line survey results and assists in drilling down to root causes for any issues identified in Stage 1. The questions used have been put together so that objective as well as subjective results can be drawn from the interviews.

The use of the “on-line” tool and phone interviews ensures that the impact of the survey on the organisations involved is minimised. All responses are anonymous which provides the opportunity to surface issues that might not normally be raised during internal communications.

In putting together this programme SCCI & AD Supply Chain Group Pty Ltd have developed the staged approach referred to above. Once Stages 1 & 2 have been completed the client/s will have a very clear picture of the relationship between the parties and opportunities for improvement will be highlighted. At this point the decision can be made to go onto Stage 3 which will seek out the optimum methodologies to close the gaps and bring the relationship onto a more mutually beneficial basis.

SCCI's tool has been widely used in Europe where it has helped numerous organisations make changes to their relationships across organisation boundaries as well as internally in large complex organisations. AD Supply Chain Group Pty Ltd has targeted this tool for use in complex supply chains where the relationships may often be less clear than the normal “Customer/Supplier” surveys require. In supply chains there are often service providers that are not direct suppliers or customers. The contractual relationship may in fact be with a third party that both partners must satisfy.

Process Flow Chart:



Timeframe:

Each Stage is self contained and if no issues are found then the process can halt at that point. It is recommended that Stage 1 be repeated after 6 to 12 months even if no issues are found to develop an understanding of the relationship trend.

The timeframe for each stage is as follows:

Stage 1:	2 weeks
Stage 2	3 to 6 weeks
Stage 3	Project Dependent

Outcomes:

Clients will have a facts based assessment of the relationship with an important partner. The ability to improve the Supply Chain activities has driven significant operational savings for clients:

“Case A” = \$1.4m saving over 3 years

“Case B” = \$12m reduction in costs

(Copies of case studies can be provided)

A more important question to ask, when looking beyond the savings that might be made is **“What would be the impact of losing this key Supply Chain Partner?”** It costs many times more to find a new Partner than to retain the one you have.

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