

Supply Chain

For AKAM Diploma students



The Association for
Key Account Management

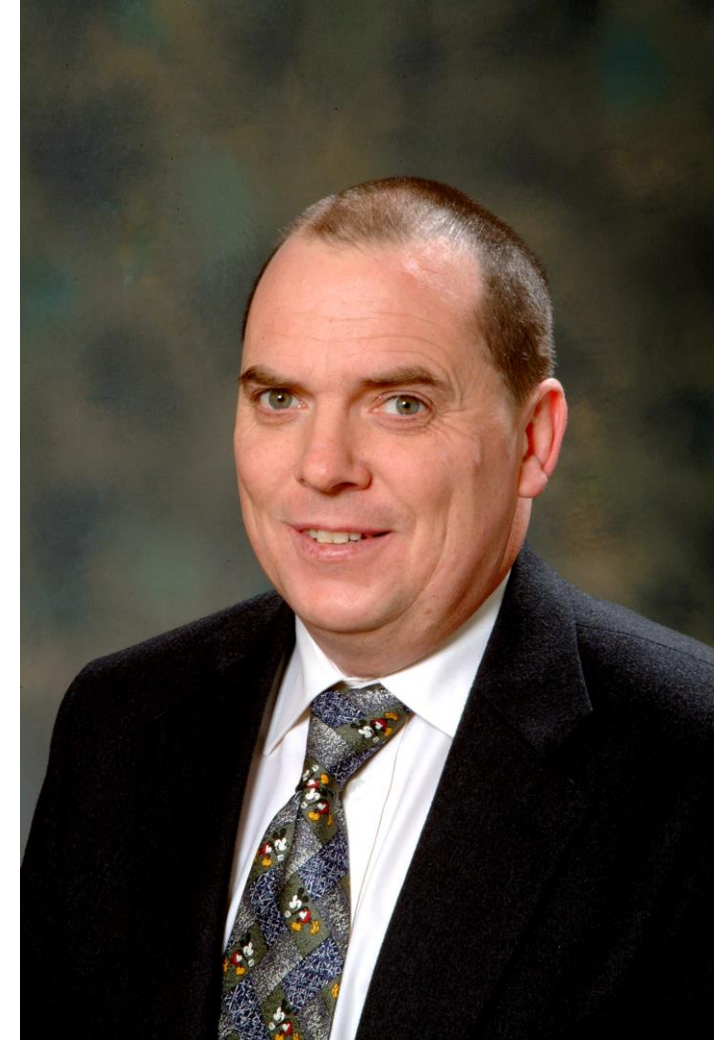
Dr Simon Templar

Professionalising Key Account Management | a4kam.org

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Simon Templar is a qualified accountant and a visiting Fellow at the Centre for Logistics and Supply Chain Management, Cranfield School of Management and Royal Holloway University of London, United Kingdom. Simon completed his PhD at Cranfield in 2013, has an MSc in logistics and supply chain management at Cranfield in 2001 and has a BSc combined studies (transport and economics) from Plymouth Polytechnic (United Kingdom). He has more than 20 years' industrial experience in a wide range of management roles, including finance, sales and marketing, physical distribution management, and human resource management.

Simon is a founding member of the Supply Chain Finance Community, a non-for-profit association, which aims to share SCF good practice and new research in an open, collaborative environment. Simon co-authored *Financing the End-To-End Supply Chain: A Reference Guide to Supply Chain Finance* in 2016. In 2019 Kogan Page published *Supply Chain Management Accounting: Managing Profitability, Working Capital and Asset Utilisation* written by Simon. The 2nd edition of *Financing the End-To-End Supply Chain: A Reference Guide to Supply Chain Finance* was published in August 2020.



Agenda

1. Introduce supply chain and supply chain management
2. The importance of supply chains
3. Supply chain structures
4. Supply chain management and firm performance
5. Supply chain management and integration with other functions within an organisation.

Objectives

1. To acquaint key account managers with basic concepts and terms used in supply chain management.
2. To highlight the important role that supply chains have in fulfilling customer's demand.



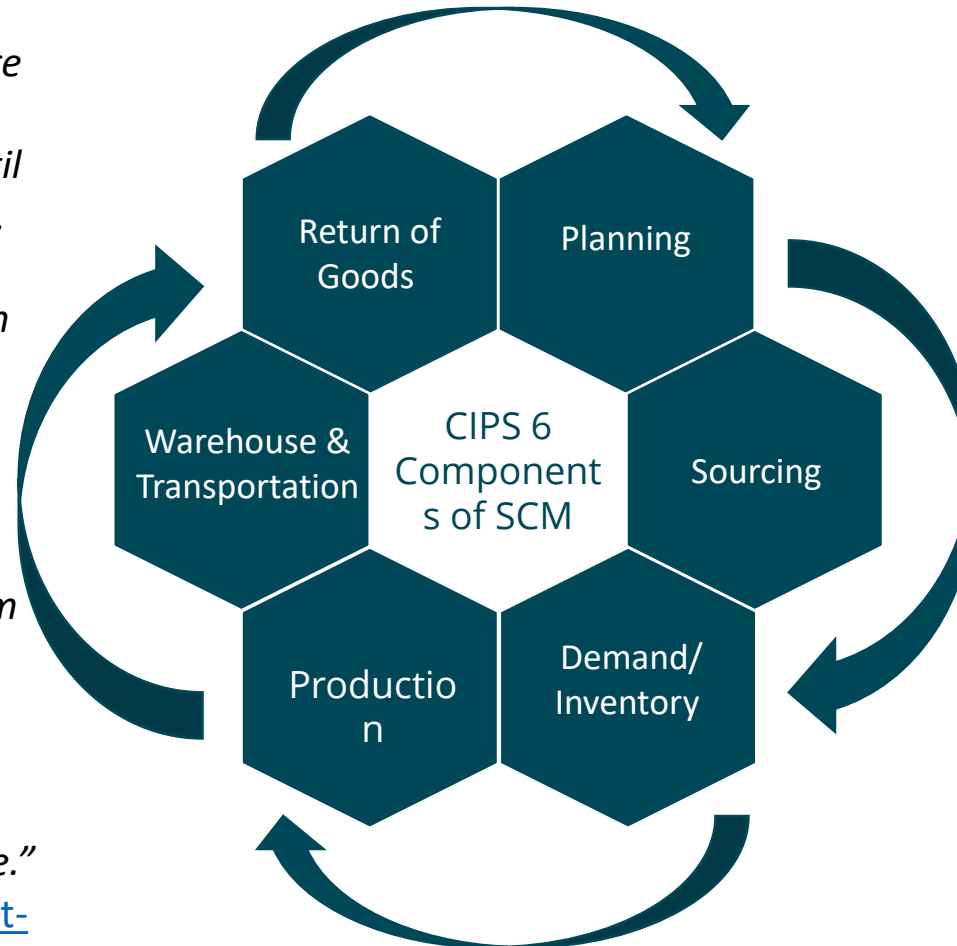
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1.0 Introduce supply chain and supply chain management

“The supply chain conceptually covers the entire physical process from ordering and obtaining the raw materials through all process steps until the finished product reaches the end consumer. Most supply chains consist of many separate companies, each linked by virtue of their part in satisfying the specific need of the end consumer.” CIPS (2013:1)

“Supply Chain Management (SCM) is the handling of the flow of goods and services from the raw manufacturing of the product through to the consumption by the consumer. This process requires an organisation to have a network of suppliers (that serve as links in the chain) to move the product through each stage.”
<https://www.cips.org/knowledge/procurement-topics-and-skills/supply-chain-management/>



Lambert et al (1998:1) adopt the Global Supply Chain Forum’s definition of Supply chain management *“..is the integration of key business processes from end user through original suppliers that provides products, services and information that add value for customers and other stakeholders.”*

Cooper et al (1997:5) highlight the 8 key SCM processes are:

1. Customer Relationship Management
2. Customer Service Management
3. Demand Management
4. Order Fulfillment
5. Manufacturing Flow
6. Supplier Relationship Management
7. Product Development and Commercialisation
8. Returns Management



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How many supply chains bring you breakfast?

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- Bread
- Milk
- Orange juice
- Cereals
- Gas
- Eggs
- Bacon
- Water
- Tomato ketchup
- Electricity
- Banana
- Coffee
- Butter
- Tea
- Apple juice
- Grapefruit
- Marmalade
- Ham
- Salt
- Jam
- Pepper
- Cheese
- Yogurt
- Peanut butter
- Olive oil
- Chocolate spread
- Blueberries
- Lemon
- Pineapple
- Washing-up liquid
- Fish
- Sausages
- Vegetarian sausages
- Tomatoes
- Strawberries
- Soya milk



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Your global kitchen

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This weekend have a look at the food and drink items in your kitchen cupboards and refrigerator and see how many countries you can find. The importance of global supply chains and trade.

- France
- New Zealand
- USA
- Romania
- Portugal
- India
- Russia
- Egypt
- Morocco
- Germany
- Chile
- Spain
- Republic of Ireland
- South Africa
- Sweden
- Mexico
- Peru
- Canary Islands
- Italy
- UK
- Australia
- Netherlands
- Columbia
- Ivory Coast
- Greece
- Costa Rica
- Poland
- Kenya
- Argentina
- Romania
- China
- Zimbabwe
- Turkey
- Israel
- Ecuador
- Dominican Republic



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2.0 The importance of supply chains



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The Importance of Supply Chains

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We often take supply chains for granted and only recognise their importance to us when they fail. For instance when:

- No dial tone on your home telephone line;
- The bins are not collected in your street;
- No mobile signal at your holiday location;
- The shelves are empty and your local supermarket;
- The trains are not running for your commuter journey to work;
- No internet connection at your location;
- No water comes out of your tap at home;
- No fuel and your local filling station;
- Your routine operation is cancelled by your hospital;
- Your internet banking site is off-line and you need to transfer money.



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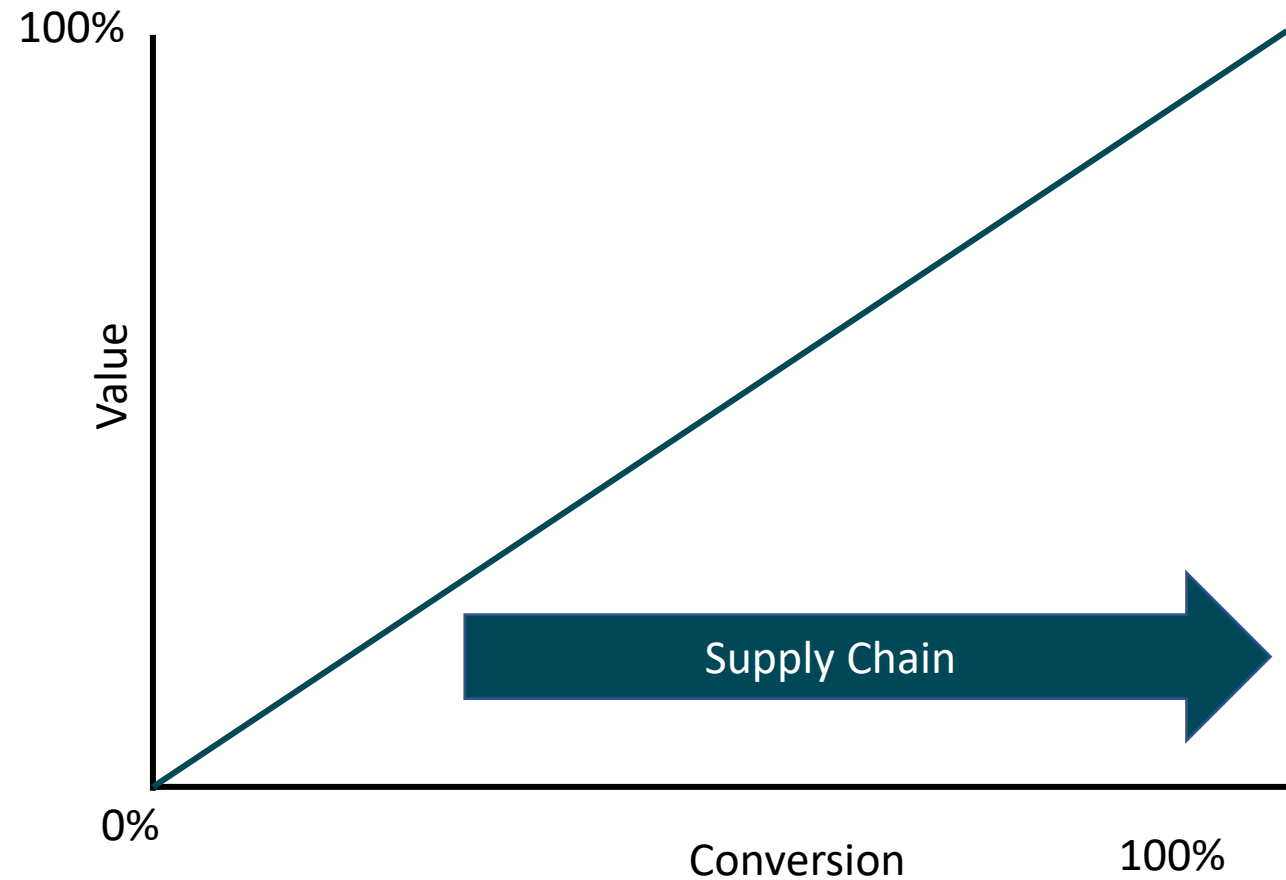
Why do KAM need to know about SC?

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Your organisation's supply chain operation contributes to:

- Fulfilling customers demand;
- Understanding and managing the cost to serve your customers;
- Supporting your customer relationship management initiatives;
- Facilitating new revenue opportunities for your business;
- Assisting you with new product introductions;
- Supporting promotions such as 'Black Friday';
- Expediting returns management for your customers;
- Improving your customer's profitability through cost reduction initiatives;
- Enhancing your organisation's reputation by developing ethical and sustainable supply chains.

Coffee cherries into instant coffee
Iron ore into steel rails
Cocoa pods into chocolate bars
Cotton buds into T- shirts
Cereal grains into bread
Crude oil into petrol
Wind power into electricity
Data into information
Meat into burgers
Components into a computer
Compounds into pharmaceuticals





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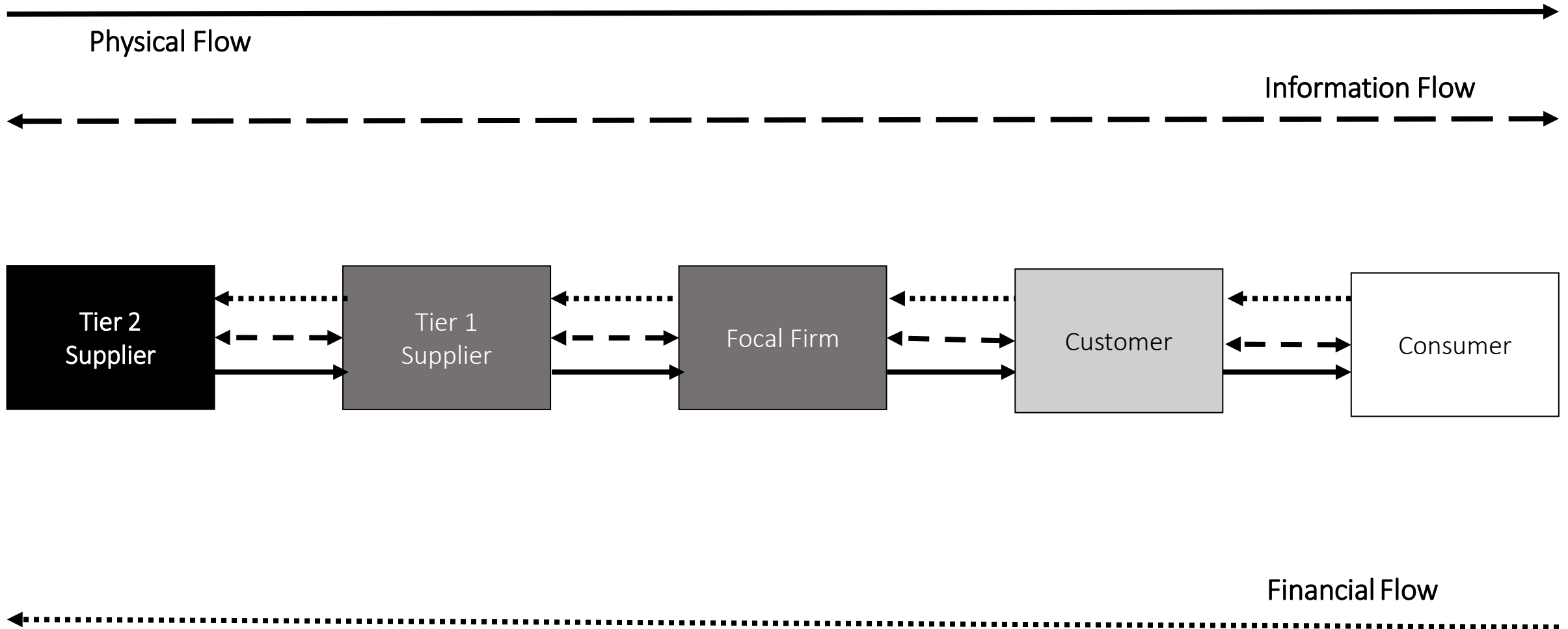
3.0 Supply chain structures



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Physical, Information and Financial Flows

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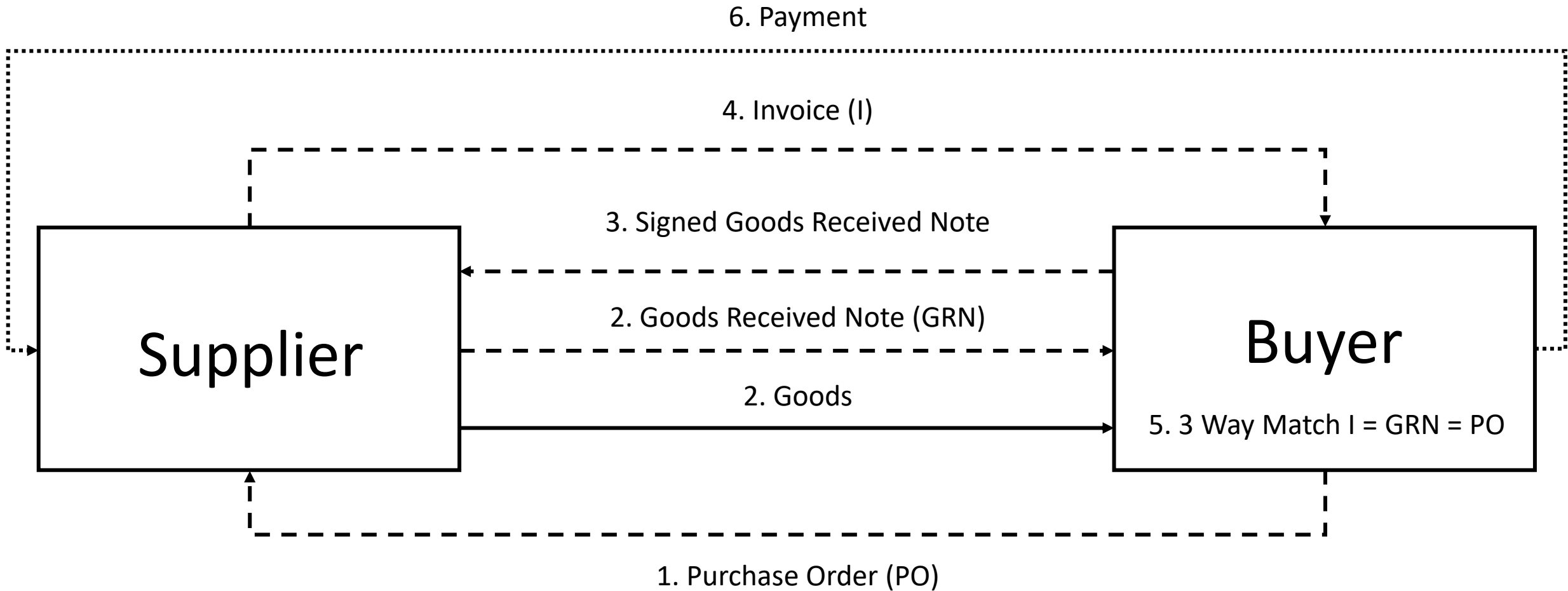




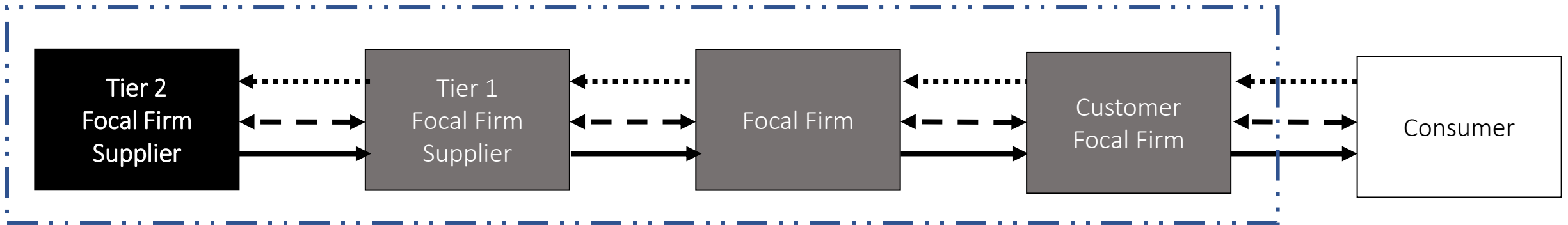
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Its not over until the invoice is paid

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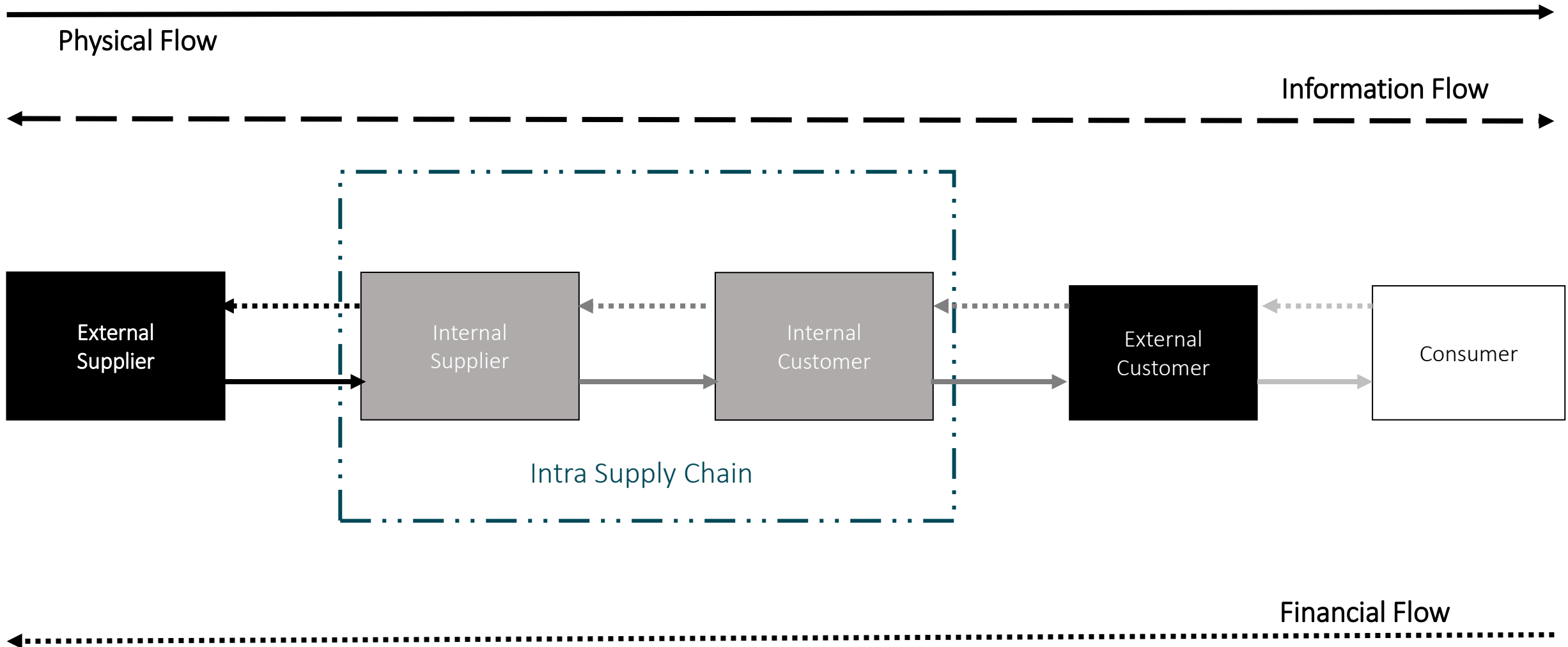


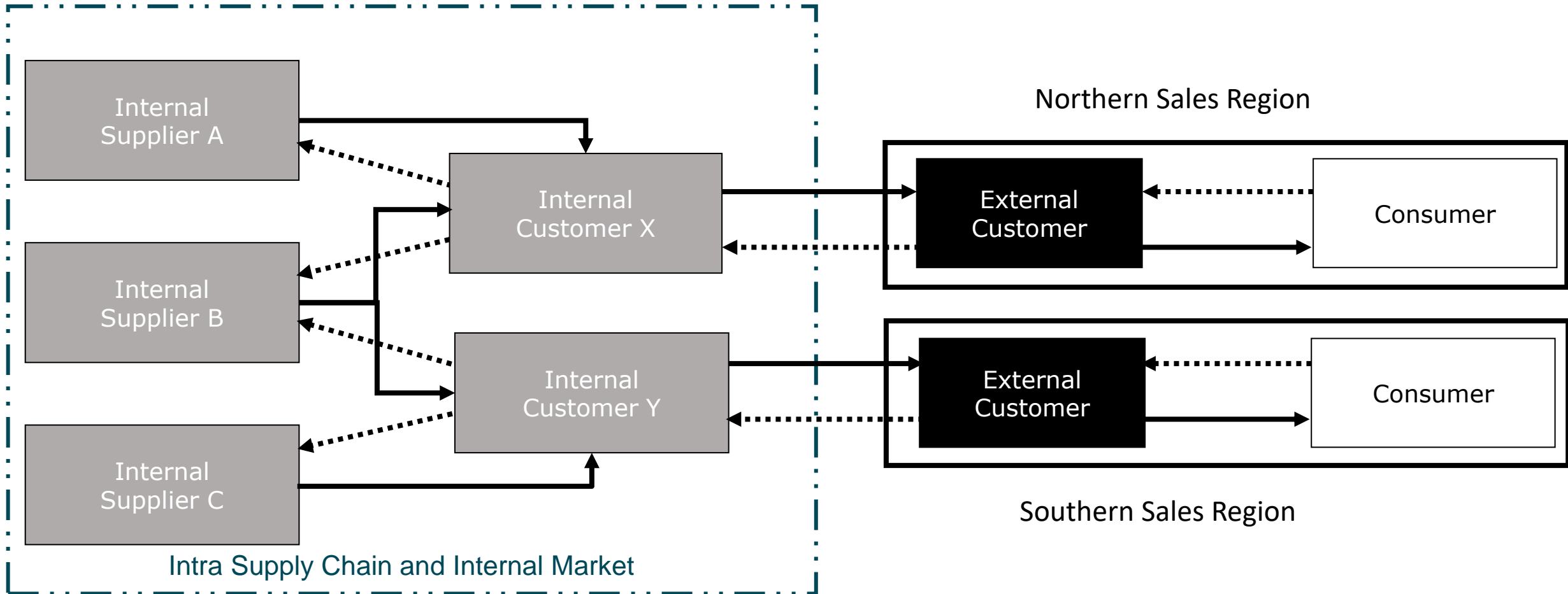
Vertical Integrated Supply Chain

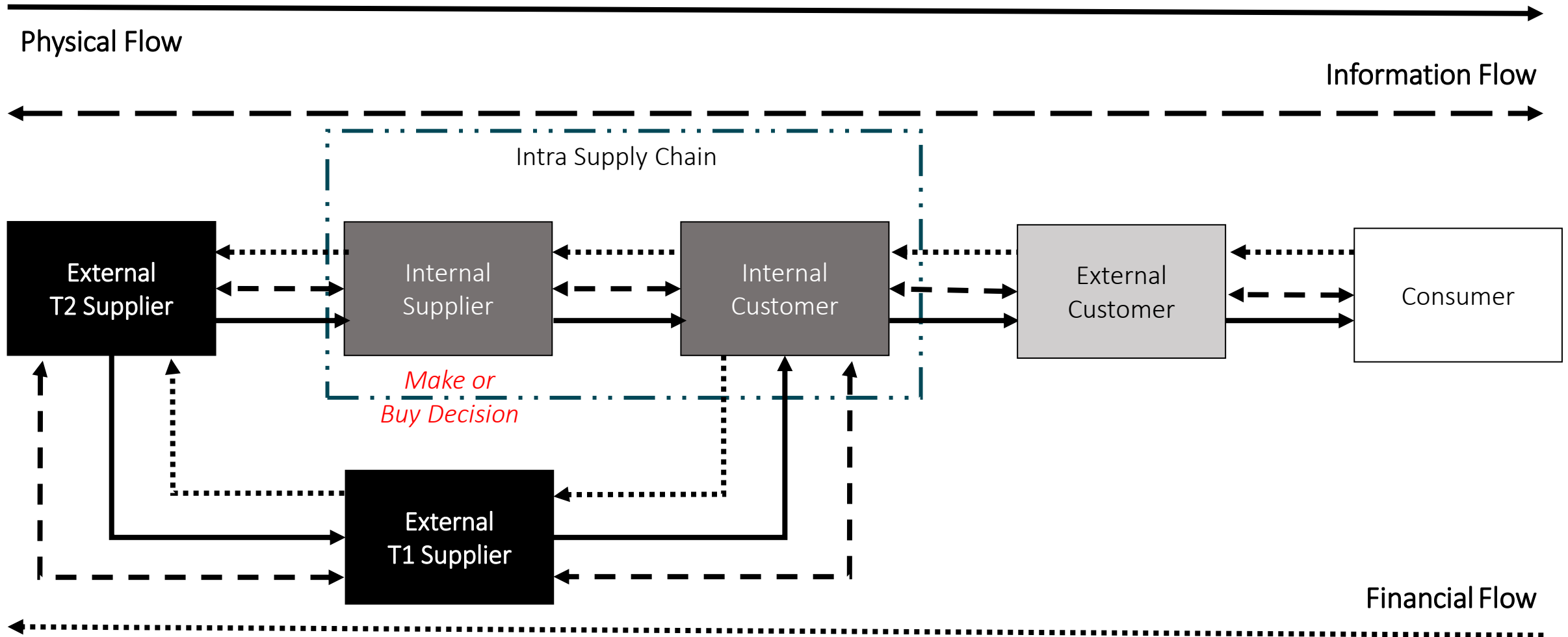


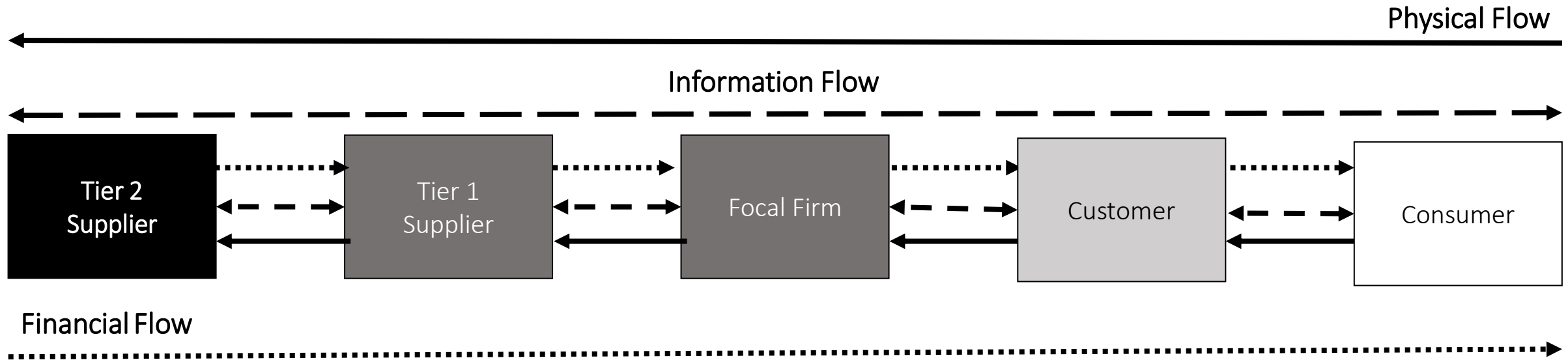
Virtual (decentralised) Supply Chain



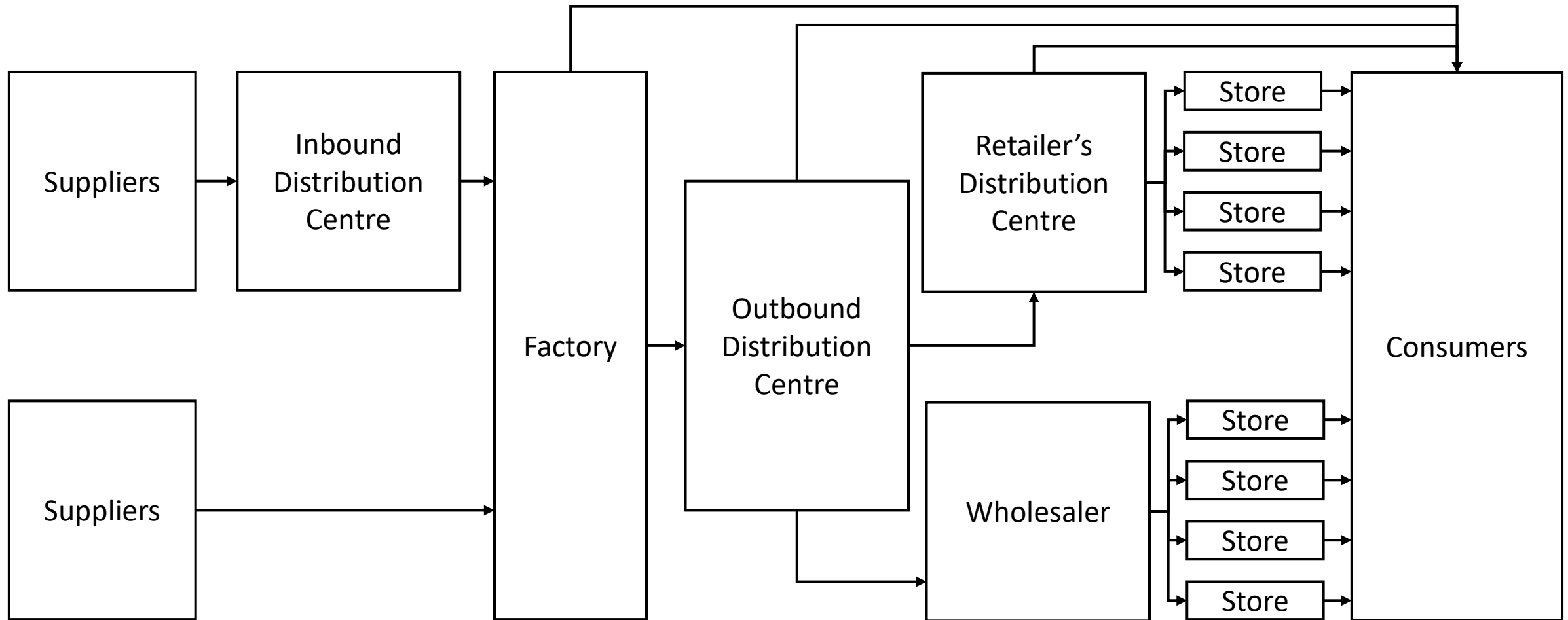






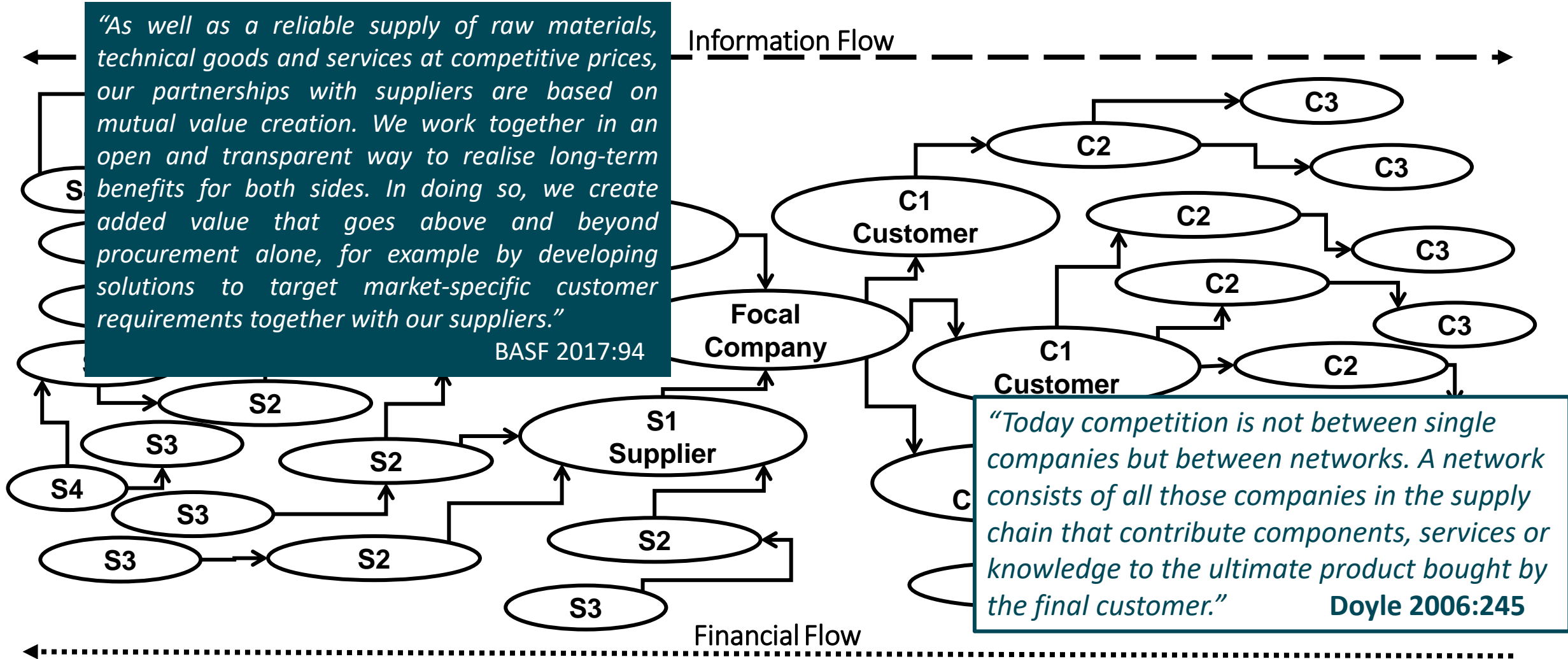


“Returns management is the supply chain management process by which activities associated with returns, reverse logistics, gatekeeping, and avoidance are managed within the firm and across key members of the supply chain. The correct implementation of this process enables management not only to manage the reverse product flow efficiently, but to identify opportunities to reduce unwanted returns and to control reusable assets such as containers.” Rogers et al (2002:1).



"As well as a reliable supply of raw materials, technical goods and services at competitive prices, our partnerships with suppliers are based on mutual value creation. We work together in an open and transparent way to realise long-term benefits for both sides. In doing so, we create added value that goes above and beyond procurement alone, for example by developing solutions to target market-specific customer requirements together with our suppliers."

BASF 2017:94





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4.0 Supply chain management and firm performance



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Gaining Competitive Advantage

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Academic

*“Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in **designing, producing, marketing, delivering and supporting its production**. Each of these activities can contribute to a firm’s relative cost position and create a basis for differentiation.”*

*“A firm gains competitive advantage by performing these strategically important activities more **cheaply or better** than its competitors.”*

Porter 1985:33-34

Practice

*“Nestlé is committed to margin expansion. We have set an underlying trading operating profit margin target of 17.5% to 18.5% by 2020, up from 16% in 2016. Our primary driver is to **reduce structural costs in non-consumer facing areas**. Well-identified projects in **manufacturing, procurement and general administration** are expected to deliver total savings of CHF 2.0 to 2.5 billion by 2020. We are **optimising our manufacturing footprint and increasing efficiency throughout our operations**. This will both increase our **capacity utilisation and reduce our conversion costs**. Through global procurement, we leverage Nestlé’s **purchasing power worldwide**.”*

Nestlé Annual Report 2017:52



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SCM and Firm Performance

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*“The financial impact of purchasing and supply management goes well beyond **cost reduction**. It extends to such critical performance areas as **business growth, profitability, cash flow, and asset utilisation**. Supply chain managers need to be able to quantify that broader impact. And then convey that message upward so that top management better understands how **purchasing and supply management can contribute to company success**.”* Ellram and Liu 2002:30

Christopher (2011:58) introduces three financial imperatives where SCM can have an impact:

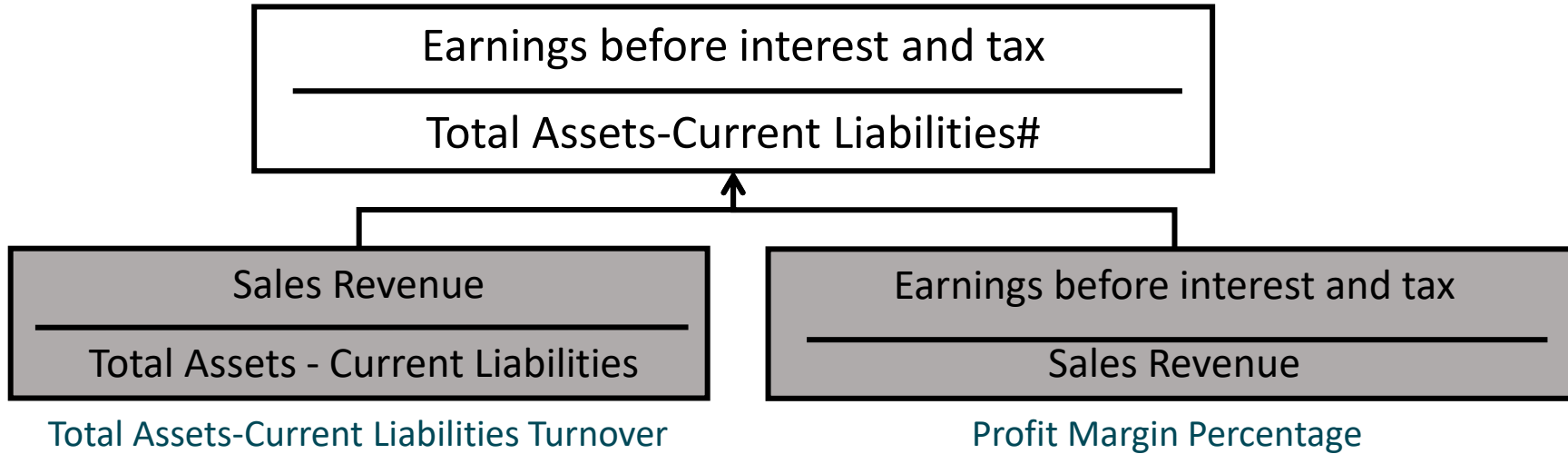
- *“The **bottom line** has become the driving force which, perhaps erroneously, determines the direction of the company.”*
- *“**Strong positive cash flow** has become as much a desired goal of management as profit.”*
- *“The pressure in most organisations is to improve the **productivity of capital – to make the assets sweat**.”*



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One Key Ratio That All KAM Need To Know

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Academic

“Reveals how much profit is being made on the money invested in the business and is a key measure of how well management is doing its job”

Brookson 2001:43

Practice

“Within the framework of One Siemens, we seek to work profitably and as efficiently as possible with the capital provided by our shareholders and lenders. For purposes of managing and controlling our capital efficiency, we use return on capital employed, or ROCE, as our primary measure. We aim to achieve ROCE within a range of 15% to 20%.”

Siemens 2017:9

#Total Assets-Current Liabilities = Non-current assets + working capital = Capital Employed



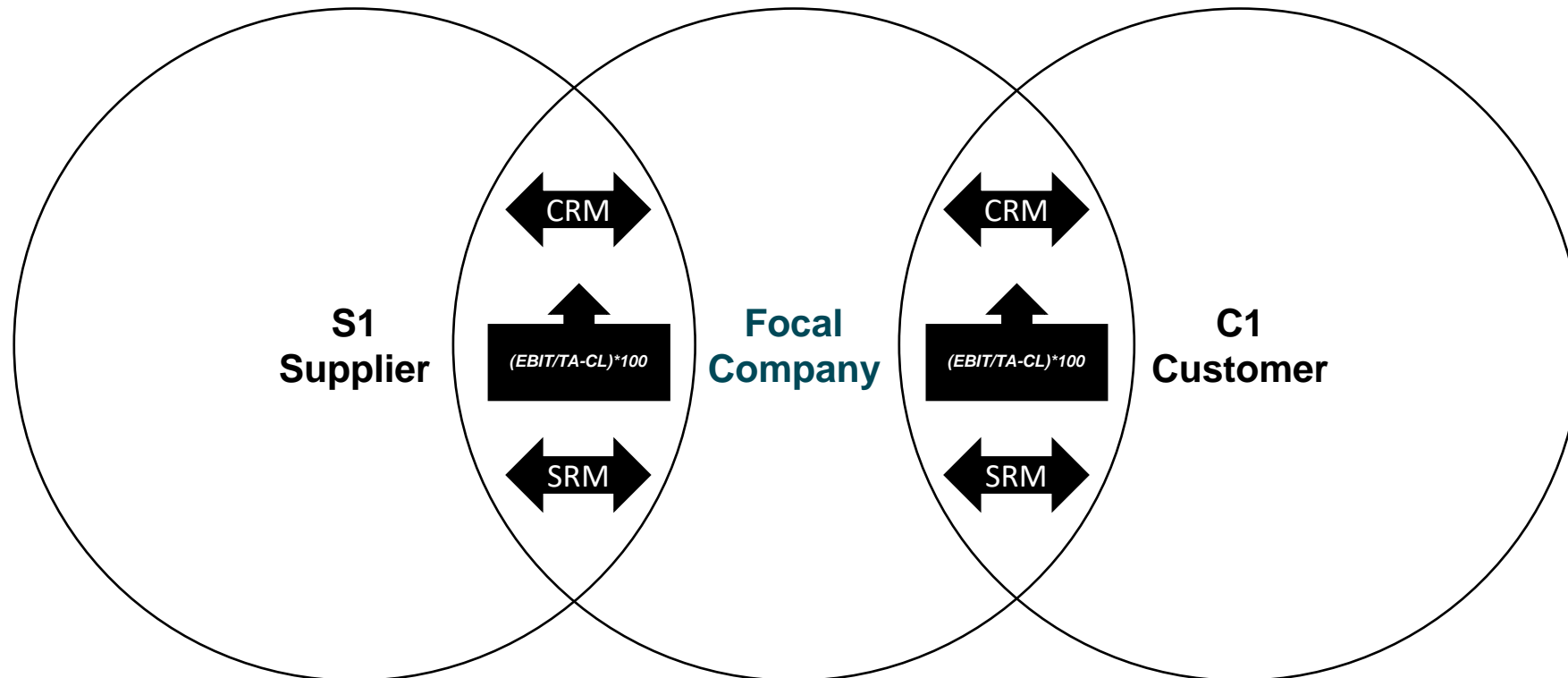
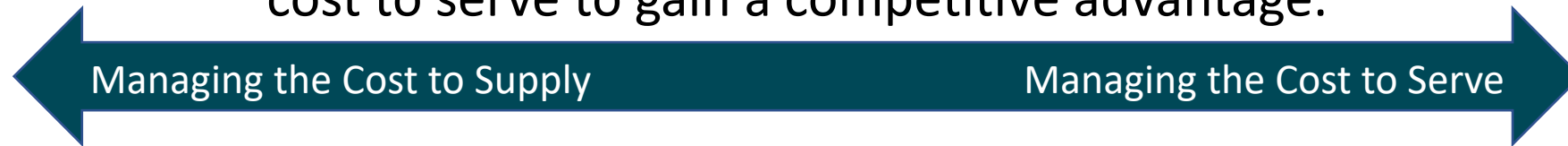
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SCM and ROTA – CL Improvement

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Ratio Key Components	Variables	Supply Chain Initiatives
Earnings before tax and interest (increase)	Revenue (increase)	Improving customer service levels Introducing new products Developing enhanced customer relationships between supply chain interfaces
	Expenses (decrease)	Reducing the costs of holding inventory Outsourcing non-core activities Reduce administration costs Introducing new technology Improving productivity
Total asset – current liabilities (decrease)	Non-current assets (reduce)	Outsourcing non-core activities Improving asset utilisation
	Current assets (reduce)	Reducing inventory levels Increasing
	Current liabilities (increase)	Extending suppliers payment terms Introducing supply chain finance initiatives

The Focal Company needs to manage both its cost of supply and its cost to serve to gain a competitive advantage.





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5.0 Supply chain management and integration with other functions within an organisation.

Agility

"The ability to rapidly and cost-effectively adapt to market changes with no significant negative impact on quality or dependability."

Grant 2012:262

Leagile

A hybrid strategy incorporating both lean and agile techniques."

Grant 2012:268

Lean

A business management philosophy that considers the expenditure of resources for any goal other than the creation of value for the end-customer to be wasteful and thus a target for elimination."

Grant 2012:268

Bicheno (2000:14-15) identified 15 common themes from the lean literature they are:

<i>Customer</i>	<i>Prevention</i>
<i>Simplicity</i>	<i>Time</i>
<i>Visibility</i>	<i>Improvement</i>
<i>Regularity</i>	<i>Partnership</i>
<i>Synchronisation</i>	<i>Gemba</i>
<i>Pull</i>	<i>Variation</i>
<i>Waste</i>	<i>Participation</i>
<i>Process</i>	

Christopher's 7 principles of an agile supply chain are:

- 1. "Synchronise activities through shared information;*
- 2. Work smarter, not harder*
- 3. Partner with suppliers to reduce in-bound lead times*
- 4. Seek to reduce complexity*
- 5. Postpone the final configuration/assembly/distribution of products*
- 6. Manage processes not just functions*
- 7. Utilise appropriate performance metrics"*

2011:112-116



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Ethical and Sustainable Supply Chains

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“OECD Guidelines for Multinational Enterprises encourage companies to incorporate social, human rights and environmental considerations into the way they do business, anywhere in the world.”

<https://www.oecd.org/about/impact/towards-ethical-supply-chains.htm>

“Supply chains continue to be one of the most important levers for business to create positive impact in the world, with an estimated 80% of global trade passing through supply chains. By working together, buyers and suppliers in global supply chains and networks can advance human rights including labour rights, climate resilience, environmental protection, inclusive economic growth and ethical business practices.”

https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2Fsupply_chain%2FSupplyChainRep_spread.pdf

What’s Fairtrade? Fairtrade is about better prices, decent working conditions, local sustainability, and fair terms of trade for farmers and workers in the developing world.

<https://www.fairtrade.org.uk/What-is-Fairtrade/>

The UN General Assembly has urged the international community to step up efforts to eradicate forced labour and child labour, and declared 2021 as the Year for the Elimination of Child Labour.

https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_713925/lang--en/index.htm

“At Kingfisher, we respect human rights and do not tolerate any form of modern slavery. However, we recognise that no supply chain is without risk of modern slavery and it is our responsibility to ensure we understand these risks and work in partnership with our suppliers to identify and mitigate them.”

https://www.screwfix.com/images/general/assets/pdf/Kingfisher_MSA_statement_2020.p



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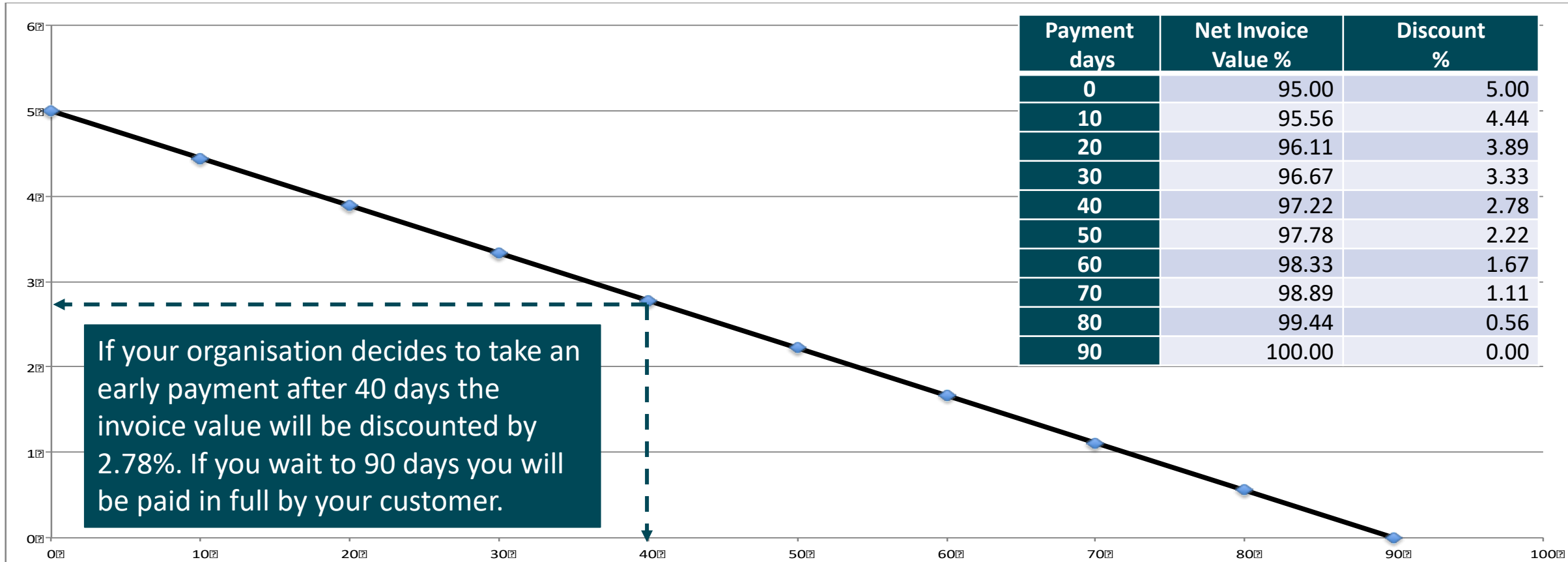
Supply Chain Finance

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What happens when your key account extends their payment terms from 30 days to 90 days, your organisation has to wait an extra 60 days to be paid. Supply Chain Finance could be the answer.

The European Banking Association (2014:5) defines SCF as:

“The use of financial instruments, practices and technologies to optimise the management of the working capital and liquidity tied up in supply chain processes for collaborating business partners. SCF is largely ‘event-driven’. Each intervention (finance, risk mitigation or payment) in the financial supply chain is driven by an event in the physical supply chain. The development of advanced technologies to track and control events in the physical supply chain creates opportunities to automate the initiation of SCF interventions.”



The European Banking Association (2014:48) defines dynamic discounting as:

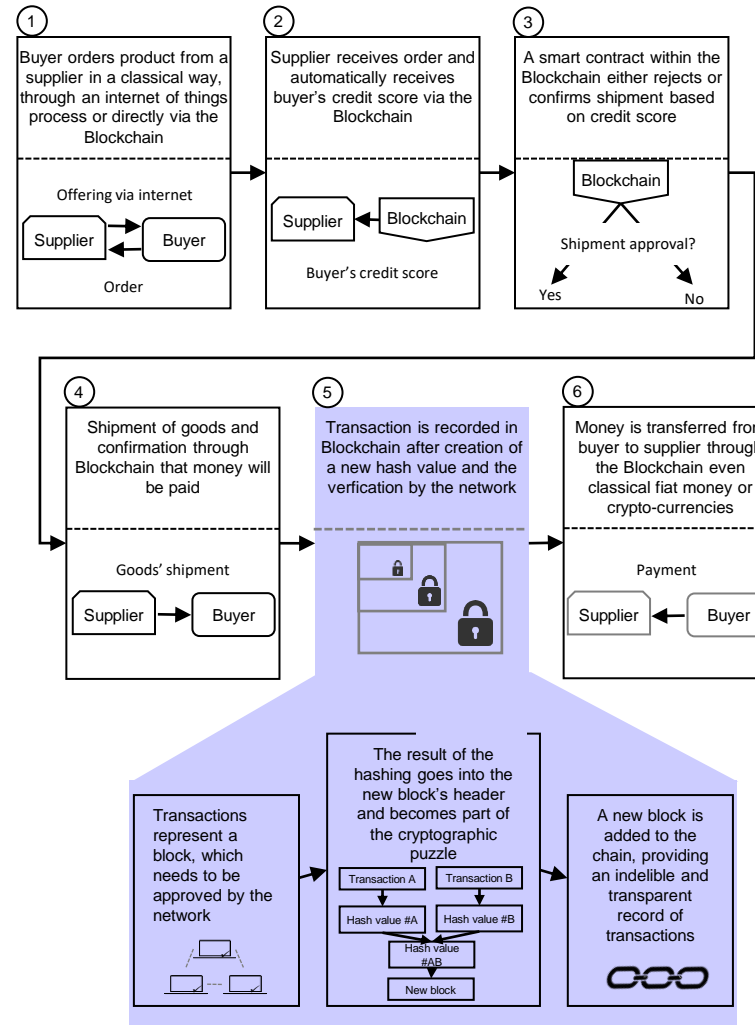
“Dynamic discounting offers suppliers the early receipt of accounts payable due from a buyer in return for a variable discount. Typically, the funds are provided by the buyer from its own liquid resources.”

“Blockchain is a single system of record. That means only one access point has to be generated for each partner, but the chain itself is replicated across all partner ‘nodes’ in the system.”

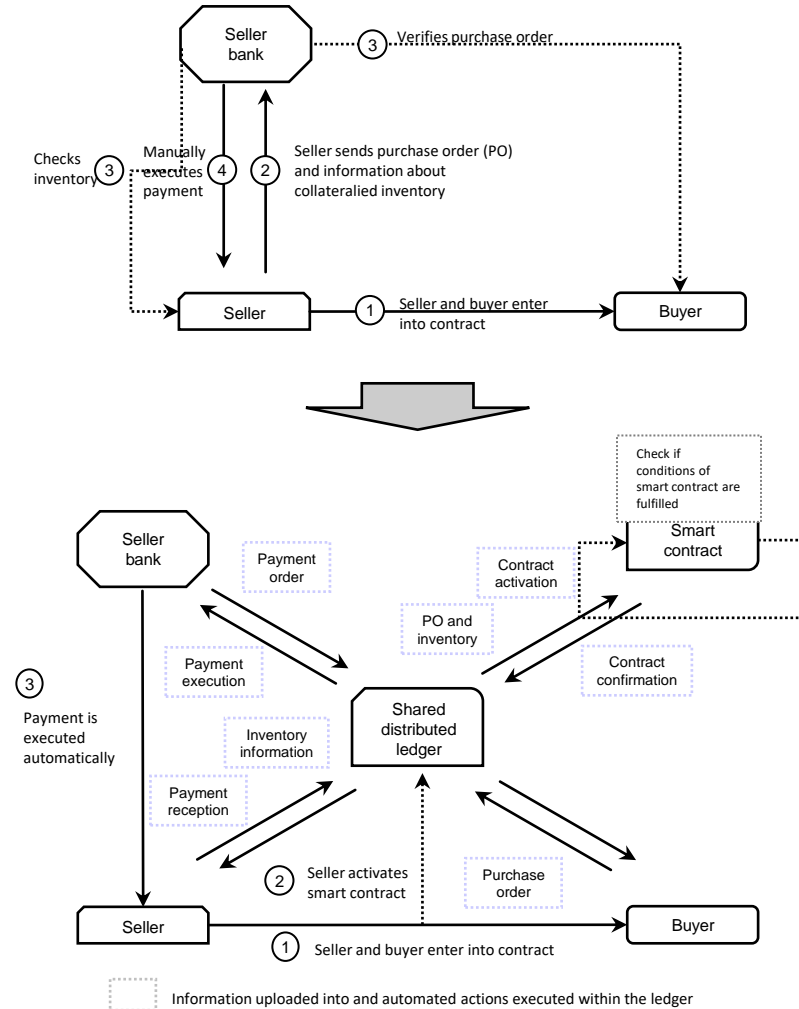
Francis 2018:10

“Everyone has access to a shared single source of truth that, at the same time, is a great approach to increasing transparency and trust in the blockchain.”

Templar et al 2020:394

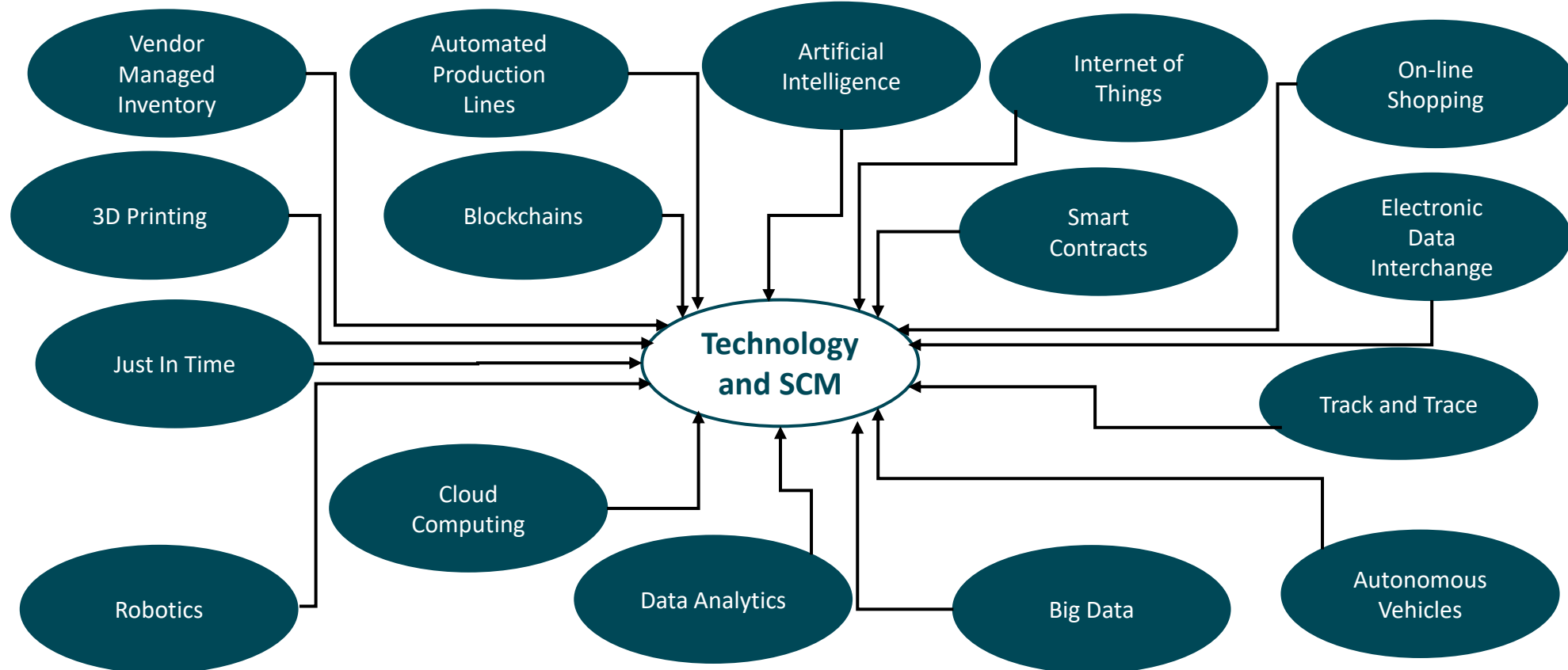


Templar et al 2020:395



Templar et al 2020:397

“Supply Chain 4.0 – the application of the Internet of Things, the use of advanced robotics, and the application of advanced analytics of big data in supply chain management: place sensors in everything, create networks everywhere, automate anything, and analyse everything to significantly improve performance and customer satisfaction” Alicke et al 2016:3





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Kingfisher Modern Slavery Act transparency statement 2019/20 [accessed 21st December 2020] https://www.screwfix.com/images/general/assets/pdf/Kingfisher_MSA_statement_2020.p

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