Ask the experts:

Building a collaborative model

Is supply chain management a challenge or an opportunity?

Darren Clark, assistant treasurer, Sainsbury's

We have around 800 stores of all shapes and sizes in the UK, so supply chain issues are important. Yet a retailer of this scale and type will be challenged when trying to marry its physical and financial supply chains. It requires a separate focus on each element, trying to maximise efficiencies along the chain at the micro level.

A good example is the cash (that is, coins and notes) supply chain, an often neglected area that nevertheless brings up some fundamental challenges. Cash accounts for around 25% of all our sales and is growing, both in terms of volume and as a percentage of our takings. A key issue for us is the time lag between the cash being taken at the till and it starting to earn interest once it has been deposited in the bank. Under the current system this can take several days.

The key problem is that the chain is rather inflexible. There are set cash-in-transit pick-up schedules that don't take account of readiness in terms of counting and bagging. This leads to empty pick-ups and overstored (and non-interest-earning) cash, which makes the system inefficient. Of course, any delays by the cash-in-transit supplier can lead to missed 'trunkings' to the cash processing centres.

Yet such a challenge brings its own opportunities. Both cash-in-transit and technology companies have been developing intelligent safe solutions. These are in-store safes that count and record the money placed in them, which – in theory – should let the banks credit cash once it is in the intelligent safe.

Intelligent safes are something we are very interested in, not least because other innovations to the cash supply chain have simply moved the bottleneck along. Intelligent safes address our chief concern: the delays prior to Sainsbury's earning interest on the cash.

Of course, there is a way to go with this technology, but it is a clear opportunity. And we are working with our cash processor, Alliance & Leicester Commercial Bank, to test the feasibility of such innovations, as well as others such as intelligent tills (that count the money) and in-store change recycling tills that help close the cash supply chain loop.

A RETAILER OF THIS SCALE AND TYPE WILL BE CHALLENGED WHEN TRYING TO MARRY THE PHYSICAL AND FINANCIAL SUPPLY CHAINS.

Dominic Broom, European head of global trade services at Bank of New York Mellon

In my experience, treasury attitudes towards supply chain management will often depend on whether the corporate treasury in question is viewed – and views itself – as being either profit-led or cost-led. The former mindset is often more disposed towards looking at the big-picture changes, in order to generate profits, while the latter can have a tendency to strive for best practice through making smaller, more incremental changes.

I have sympathy with both approaches. Although the end result of implementing a supply chain management solution may be a major step-change for many organisations, it can usually be largely achieved through a series of incremental changes to current practices. This differs from the approach – insisted on by some – where major changes, new technology and practices, and new ways of financing, all need to be implemented in one 'big bang'. Certainly, the latter approach is most likely to cause alarm in any corporate treasury, whether it's a cost or profit centre for the business in question.

This issue of how changes are brought about is partly a perception problem. Many service providers, especially banks, will be keen to push a commoditised product that requires companies – and often their suppliers as well – to adopt a whole range of new practices in one go. This can create the perception among treasurers that achieving the changes in supply chain management practice capable of delivering substantive benefits in terms of cost and risk mitigation will always necessitate this type of sea-change. It is something that may be hard to sell to other areas within their own organisations.

An alternative approach could be to involve a range of service providers – banks, third-party logistics companies, financial logistics companies, etc – with each playing to their own strengths and collaborating to offer a solution tailored to the needs of the client. This type of collaborative approach will often involve a series of small changes in practice across and involving several areas of a corporate's supply chain, in stark contrast to the one-size-fits-all approach.

Though the tools needed to deliver the solution to the client will be similar in most cases, the way that they stack is going to vary between, say, a major retailer and a smaller manufacturing company. In this respect, the key to success is in linking up these tools correctly, although one institution doesn't necessarily have to provide all these services. There needs to be recognition from banks, as well as third-party providers, that though we need to be involved in these processes from the start, we won't always be in the driving seat at all points in the chain.

Stuart Morrison, chief executive officer at EZD Global
Surprisingly little collaboration exists between the logistics and banking areas when it comes to supply chain management. What's more, existing methodologies and paradigms reinforce these non-collaborative practices, making innovation and thinking outside of the box key challenges for the major players.

Collaboration between different business areas within a corporate also needs to be addressed. It is often more of a problem in larger organisations where, even if senior executives want to implement changes, they can be thwarted by entrenched practices, perhaps due to fragmented areas of responsibility. These problems are less pronounced in smaller organisations, where the management is less detached from the realities on the ground, as well as private equity-owned entities where the owners generally take a much more detailed interest in the day-to-day running of the business.

Certainly, the trade banks have been making efforts to address structural issues between counterparties, although it is only by dealing with the silos within organisations that we are going to create significant changes in attitudes towards the supply chain. And these same banks need to accept that while they may excel at supplying liquidity and providing specific products for specific circumstances, they are certainly not solutions providers.

In our view, the real solutions providers are third-party logistics providers, which can take a much more holistic view of the movement of goods and documentation. And we need to see more co-operation between these organisations and the trade banks.

With respect to the current conditions, rising fuel costs and the worsening economic picture are proving a double-edged sword for collaborative supply chain management techniques. On the one hand, these tough conditions have been leading many procurement and finance executives to try and squeeze cost savings and efficiencies from the supply chain wherever they can be found. On the other, competition in the banking sector is causing many of these providers to push their more orthodox products on corporates as part of a broader package. And these default instruments and techniques, letters of credit and so on, are structured to keep trading parties apart – a practice that we are doing our best to address by developing solutions that encourage a collaborative approach.

Ulrike Rowbottom, director of strategic projects at UTI Worldwide
As a supply chain solutions provider, the new approach to supply chain management that we and others are advocating is a radical innovation. Yet it does not involve any significant changes in processes. These are already in place in most corporates, which means we are advocating joining up the dots in a slightly different way rather than a major revolution to organisational models.

When it comes to purchasing, I would certainly like to see more cross-functional teams that take into account financing and inventory costs. Silos within an organisation are one of the biggest obstacles we come up against when trying to implement a holistic supply chain solution that takes into account all aspects of the chain including finance, inventory and so on.

Many senior logistics or supply chain executives will frequently only look at one element of the cost without taking into account the entire spectrum of costs and risks associated with procurement. In many ways, it is the traditional methods of assessing corporate metrics relating to the supply chain that are counterproductive as they reinforce existing ways of behaving. For example, when trying to explain the broader impact of a particular technique to a supply chain executive, their interest will often extend only to improving those metrics that directly affect their business area (and usually their bonus).

While letters of credit have certainly been the treasurer's friend for many years, a more collaborative model is now beginning to emerge that offers a great deal more transparency across the entire supply chain. For example, problems with a manufacturer meeting its obligations may not be immediately apparent with a letters of credit structure, while under a more collaborative system with enhanced channels of communication, problems would be flagged up much earlier in the process.

In terms of collaboration between service providers, we are only beginning to see what is possible. With respect to my own organisation, while we would traditionally be focused on the physical side of the supply chain, our clients are increasingly asking for a solution that incorporates a financing element, and this type of approach certainly requires collaboration with banks and financial logistics companies.

See The Weakest Links, page 32

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