

**COMPETITIVE ADVANTAGE THROUGH
OUTSOURCING OF NON-CORE LOGISTICS
ACTIVITIES WITHIN THE SUPPLY CHAIN OF
BRITISH AMERICAN TOBACCO KENYA.**

By

KIRUI STANLEY K.L.

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DECLARATION

This management project is my original work and has not been presented for a degree in any other university.

Signed: *Stanley* Date: 27/9/2001

KIRUI STANLEY K.L.

This management project has been submitted for examination with my approval as university supervisor.

Signed: *Evans* Date: 27/9/2001

PROF. EVANS AOSA

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I am also particularly grateful to my parents who denied themselves so much to make me what I am today. Last but not least, thanks to my dear wife, Betty, and my children Nicole and Jerry for their patience as I took their rightful time to prepare this project.

DEDICATION

To my father, Daniel K. Kirui, who challenged me to exploit my full potential.

To my wife, Betty with love and our children Nicole and Jerry.

PROLOGUE:

“The value proposition is completely clear: Companies should at least consider outsourcing anything that is not tied directly to competitive differentiation.” *Art Williams, Giga Information Group.*

ABSTRACT

Competitive advantage is found in the corporate technologies and production skills that are organised into core competencies. The root of competitive advantage lies in the core competencies, which allow businesses to adapt to the marketplace opportunities. Outsourcing is the tool that allows organisations to focus on their core competencies. As organisations outsource those activities that are non-core, it frees management time and resources to focus on activities that are core.

The strategic benefits to outsourcing are wide reaching and in some cases, unexpected. Greater value, higher service levels, lower costs, innovation and business partnerships that encourage new thinking and introduction of new ideas are as a result of the new tight business relationships that outsourcing fosters. Historically, outsourcing relationships created during the first 20-30 years of the outsourcing industry were by companies that were in financial trouble. These old structured relationships tended to favour the Outsourcer, in the end the company lost.

British American Tobacco (BAT) Kenya was among the first few companies in the country to have successfully outsourced its non-core logistics activities to a professional logistics company. This research aimed at providing an in dept study of what triggered this outsourcing at BAT Kenya, document the experience, challenges and how they were overcome. The study was justified by the fact that while the benefits of outsourcing were known, research had shown 95% of outsourcing cases implemented all over the world failed. The answer to successful outsourcing pointed towards the manner in which the outsourcing relationships were managed.

Eight executives working in the supply chain function of BAT Kenya were interviewed in depth regarding why, how and the benefits achieved from outsourcing

the non-core logistics activities within the supply chain function. Similar interviews were also carried out with top two executives of the professional Logistics Company, Tibbet & Britten (T&B), who are directly involved in the BAT Kenya Contract so as to obtain a balanced view. The feedback from the questionnaires completed by the respondents formed primary data which was then analysed qualitatively.

The study established that BAT Kenya reaped maximum benefits from outsourcing the activities because it looked at the outsourcer as a long-term asset that is a source of ongoing value. It dedicated time and resources in managing the relationship and maximising its value. The intention from the word go was to keep the relationship for as long as it brought value – understanding that over time, new parties and alliances may need to be formed as technology and organisations change. Services Level Agreements and Key Performance Indicators dashboards were among the tools put in place to objectively measure the outsourcer's performance and contributions as well as foster communication. The customer and the outsourcer behaved as integrated supply chain rather than win/lose adversaries, they are interdependent during the relationship. Cross-functional teams involving both parties were put in place to drive the process forward in a structured project management manner to achieve continuous improvement. Through this outsourcing, BAT Kenya achieved better focus on its core business, reduced logistics costs, and improved management of working capital and service quality to its customers.

Because logistics is central to a company's service quality as well as its cost structure, innovative approaches to logistics management such as outsourcing of non-core logistics activities are of particular importance. As companies in Kenya become more familiar with outsourcing within their logistics functions and as credibility and capabilities of outsourcers increase, outsourcing is certain to increase.

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Evolution of Corporate Strategy

During the late 1960s and the early 1970s, companies were intent on expansion through mergers and acquisitions, sometimes regardless of the kind of business involved. The term 'conglomerate' became fashionable. Economic theories suggest that when functions can be performed more efficiently in-house, firms will enlarge and perform those functions themselves (Cooper, 1994). The emphasis during the 1980s and 1990s changed to concentration on core business functions.

The emergence of Outsourcing

Three forces, separately and in combination, are driving today's companies deeper and deeper into territory that most executives and managers find frighteningly familiar. These are Customers, Competition and Change (Hammer & Champy, 1993). Core focus has also been applied to companies reviewing their constituent parts and streamlining the number of businesses in which they participate (Kanter, 1991). Peters & Waterman (1982) agree to this line of thinking. They said that excellent companies remained close to the knitting by focusing on their core businesses and outsourcing what was regarded non-core.

Outsourcing involves the use of external companies to perform functions previously performed within the organisation. Outsourcing is an approach that enables firms to gain competitive advantage. Corporate use of outsourcing has increased dramatically in recent years as corporations realise its tremendous benefits. Significant changes within many segments of the business have encouraged the use of outsourcing practices (Pearce and Robinson, 1997).

Triggers of Outsourcing

A combination of economic and regulatory forces contributed to the growth of outsourcing in the 1980s (Lieb, 1991). Sheffi (1990) identified several of these forces, including increased competition from foreign companies and a more demanding market place in the form of stockless retailers. Others include evolving just- in-time production lines, the high service levels expectations yet long supply lines experienced in globalised operations and the restructuring of corporations to eliminate debt by cutting costs, reducing the asset base, and trimming the labour force. Many firms found the use of outsourcing attractive because it allowed them to concentrate on their core competencies and obtain a streamlined supply chain system, exploit third-parties economies of scale, to achieve a higher level of specialisation, and reduce financial risk (La Londe and Cooper, 1990). Outsourcing promises benefits but there are risks associated with it.

Outsourcing in Kenya

The Kenyan environment has become more complex imposing challenges on companies operating here. There is pressure for companies to increase efficiency, productivity, cut costs and to focus more on the customer. Preliminary discussions with managers at British American Tobacco Kenya revealed many corporations have adopted one or more provider outsourcing for various departments, which include information systems, staff services such as payroll and transport, employee recruitment, order tracking and even complaint handling. The companies known to have implemented outsourcing include East Africa Breweries, Unilever Kenya, Standard Chartered Bank, Nestle Foods, Bata East Africa and Colgate Palmolive.

At British American Tobacco Kenya

British American Tobacco Kenya has outsourced various non-core activities to third party suppliers. Key among these includes computer hardware maintenance, security, catering

services, shift transport, cleaning services, workshop services, expatriate staff housing and market research. Because of limited resources, this study was limited to impact of outsourced non-core logistics activities within the supply chain of the organisation. They include, order consolidation, transport, warehousing and clearing and forwarding operations. An understanding of its experiences could be useful in indicating the value of outsourcing for companies in Kenya.

1.2 STATEMENT OF THE PROBLEM

Outsourcing has been adopted widely in the world as a strategy to gain competitive advantage. To achieve time, process and cost advantages, companies are increasingly seeking outside firms to perform activities previously conducted in-house. Such outsourcing makes sense for firms that lack the necessary economies of scale, skills or technology to perform certain functions quickly and efficiently. Additionally, many firms seek third-party providers not because they are incapable but because they can focus on their own competencies.

While outsourcing has been amplified as a success story, it would appear that the manner in which outsourcing is implemented is key towards its success. A recent research demonstrates that well-run companies, those that usually perform well in the market, are likely to see effective outsourcing as part of good management practice (Johnson & Scholes, 1998). But it also makes very plain that the magic of outsourcing is not working for most corporations. Only 5% of the 300 organisations investigated had found outsourcing high on benefits and low on drawbacks, for the rest, the outcome of outsourcing was either mediocre or a total flop.

British American Tobacco has in the recent past outsourced non-core logistics activities in its supply chain function to a third party. This research aimed at assessing how the company implemented outsourcing of its non-core logistics activities in comparison to the outsourcing

model put forward by Bendor-Samuel, document challenges experienced and the benefits achieved.

1.3 RESEARCH OBJECTIVES

This research aimed at assessing how British American Tobacco Kenya implemented outsourcing of non-core logistics activities and compare with the outsourcing model put forward by Bendor-Samuel, document challenges experienced and the benefits achieved. A detailed review of process maps after outsourcing was done will be presented.

1.4 IMPORTANCE OF THE STUDY

This study report is of benefit to various people:

- British American Tobacco Kenya will benefit from this study in that the report is an instant source of information for its management and staff.
- Other fast-moving consumer companies operating in Kenya and specifically the other players in the cigarette industry will also benefit from this study. The report acts as a source of information regarding best practice in outsourcing. They should be interested to learn from the British American Tobacco experience and thus will not need to 're-invent the wheel'.
- Academically, this study is expected to contribute to the existing literature in the field of strategic management in general and outsourcing in particular. It should also act as a stimulus for further research to refine and/or extend the present study, especially in Kenya.

1.5 OVERVIEW OF THE STUDY REPORT PRESENTATION.

This study is structured into five chapters. The first chapter is an introductory one. It provides the background of the study, statement of the problem, objectives and importance. The second chapter provides a review of literature in strategic management and more specifically literature in the outsourcing field. The main focus is outsourcing in the logistics function; the why and the how in form of a theoretical model presented. Details are provided for some known barriers and demonstrated prerequisites for successful outsourcing. This second chapter also provides information regarding the road to outsourcing at British American Tobacco (BAT) Kenya that resulted from its business process-reengineering program. This literature review section alludes to successful implementation of outsourcing of non-core logistics activities at BAT Kenya and justification being the need to document their experience, challenges and benefits.

The third chapter outlines the research design detailing the population, data collection methods and means of analysing the data. Chapter four presents the findings of the study and data analysis. The last chapter contains a summary of the research findings, recommendations, conclusion, limitations and further research directions.

CHAPTER 2

LITERATURE REVIEW

2.1 The Evolution of Corporate Strategy

During the late 1960s and the early 1970s, companies were intent on expansion through mergers and acquisitions, sometimes regardless of the kind of business involved. The term 'conglomerate' became fashionable. Economic theories suggest that when functions can be performed more efficiently in-house, firms will enlarge and perform those functions themselves (Cooper, 1994). The emphasis during the 1980s and 1990s changed to concentration on core business functions, hence outsourcing. Core focus has also been applied to companies reviewing their constituent parts and streamlining the number of businesses in which they participate (Kanter, 1991). Johnson and Scholes (1998) have similar conclusions. They say that from the 1980s onwards, many organisations became aware of the impact on their performance of other companies in their distribution and supply chains. There was also a growing concern that companies were too stretched in terms of their spread of activities and were under performing in some crucial areas of their operations.

Cole (1996) summarises the work of the classical management era writers in what he calls the principles of management. It is argued that there are advantages in division of work within the organisation since it reduces the span of attention or efforts for any one person or groups and therefore develops practice and familiarity. This argument is very much in line with the later thinking of focussing on core business.

2.2 Focus on the Value Chain

According to Porter (1998), 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 products. Each of these activities can contribute to a firm's relative cost position to create a basis for differentiation. The value chain disaggregates a firm into strategically relevant activities in order to understand the behaviour of costs and the existing potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities more cheaply or better than its competitors.

Reconfiguring the value chain and performing value chain activities better gives a firm competitive advantage.

Hines et al (2000) brought up the concept of lean approach. They say that value needs to be created in the eyes of the consumer, who is the one that pays for product or service he consumes. This focus is therefore translated across functional and company boundaries in both design and delivery of an appropriate product-service bundle. In order to do this, the lean message suggests that the focus of attention should not be in the company or functional department but instead on the value stream. The value stream is those sets of tasks and activities required to design jointly by all players in the value stream from the point of view of customer specification right back to the raw materials source (Prahalad & Hamel, 1991).

2.3 Emergence of Outsourcing courtesy of Business Process Reengineering

Incremental change is not enough for many companies today. Managers groping about for a more fundamental shift in their organisation capabilities must realise that change programs treat, not underlying conditions. These companies do not need to improve themselves; they need to reinvent themselves. Reinvention is not changing what is, but what is not. The journey to reinvent yourself and your company is a sink – or – swim proposition (Champy, 1995). This provides a summary for the need for Business Process Reengineering. Outsourcing has been adopted as a strategy to foster this organisational reinvention. To achieve time, process and cost advantages companies are increasingly seeking outside firms to perform activities

previously conducted in-house (Anderson, 1998). Such outsourcing makes sense for firms that lack the necessary economies of scale, skills or technology to perform certain functions quickly and efficiently. Additionally, many firms seek third-party providers not because they are incapable but because they can focus on their own competencies.

Outsourcing is based on the notion that strategies should be built around core managerial and technical competencies that add the most value in the value chain, and functions or activities that add little value or that cannot be done cost effectively should be done outside the firm – outsourced. When done well, the firm gains a supplier that provides superior quality service at a lower cost than it could provide itself (Pearce and Robinson, 1997).

2.4 *Outsourcing in Supply Chain Management*

Outsourcing is gaining significance in as far as sub-contracting of non-core logistics activities to third party logistics service companies is concerned. The basic services provided by third parties include transportation, warehousing, and light manufacturing as well as specialised services such as clearing and forwarding. Third party logistics service companies have probably existed as long as there has been trade but perhaps less prolifically and under less glamorous labels. With high interest rates and intense efforts to reduce inventories during the 1980s, a significant shift toward third party logistics service providers occurred. Businesses deciding to concentrate on their core competencies or capacities continued to fuel this trend. Drucker (1982) sees this trend continuing.

Nowhere in business is there greater potential for benefiting from interdependency than between customer firms and their suppliers, including third-party providers. This is the largest remaining frontier from granting competitive advantage – and nowhere has such a frontier been neglected (Drucker, 1982).

Sub-contracting is that process through which a task or an activity is simply handed over to a specialist. This is different from outsourcing because outsourcing involves partnering, which supports a virtual supply chain. These partnerships may not be for all time – quite possible they exist only to exploit a specific market opportunity but are ‘seamless’ and truly synergetic. ‘In-sourcing’ or ‘re-sourcing’ define outsourcing, which has an element of strategic partnership or alliance and is different from sub-contracting (Christopher, 1998).

Thompson and Strickland (1993) say strategic alliance is one means of increasing resource capability through external emphasis. They argue that this alternative allows a firm to extend its strengths into competitive arenas that it would be hesitant to enter alone. A partner’s functional capabilities can reduce the firm’s financial investment significantly and increase its probability of success. Logistics activities are expensive and capital intensive. To move and store materials and distribute products require a lot of space, a lot of equipment, a lot of people, and increasingly, a lot of computer hardware and software. In today’s climate of severely constrained resources, where enhanced asset productivity is often a prerequisite to survival, cost management is becoming an area of key focus (Randall, 1993).

The logistics channel forms one of the key business interfaces, linking a company with its suppliers on one end and with its customers on the other. A breakdown along this channel, whether it be a miscommunication of an order, a shortage of key material or component, or a delayed or damaged delivery, can have devastating effects on customer and supplier relationship. As chains of supply and distribution become global and logistics in turn grows more complex, opportunities for channel breakdowns only increase. Delivery of service and quality has therefore increasingly become another area of focus in addition to cost control (Randall, 1993).

2.5 *Why Outsource?*

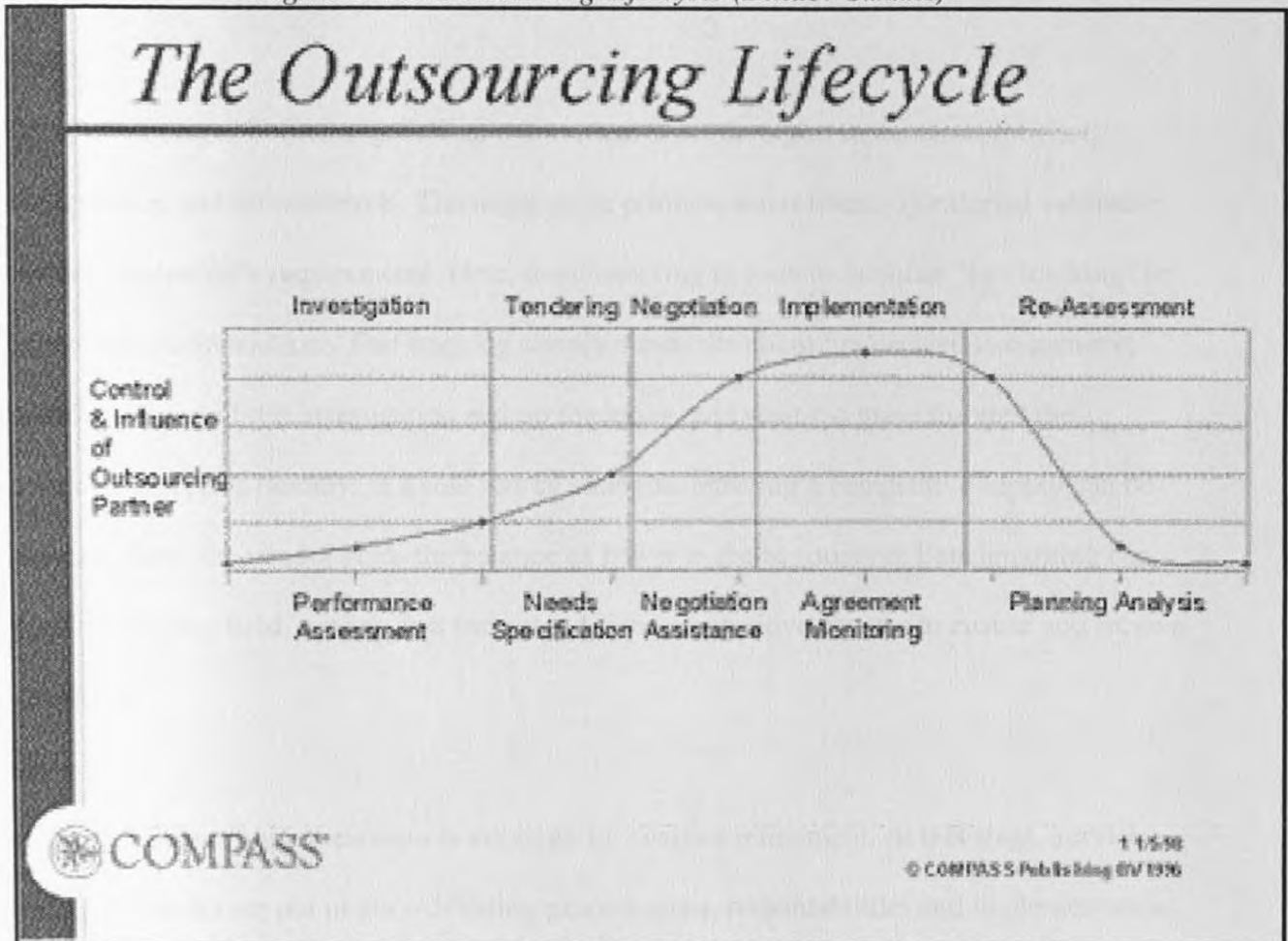
The key strategic reasons for outsourcing identified by various researchers (Pearce and Robinson, 1997) are firstly, the need to improve business focus following realisation that several 'how' issues are siphoning off huge amounts of management's resources and attention. Secondly, it is used as a vehicle to access world-class capabilities. The very nature of specialisation by outsourcing providers means they have extensive worldwide, world-class resources to meet the needs of their customers. Thirdly, outsourcing is used to achieve accelerated re-engineering benefits. Outsourcing is often the by-product of business process re-engineering. As such, through outsourcing, an outside company that has re-engineered and achieved world-class processes takes over the processes thus enhancing attainment of benefits. Fourthly, there are tremendous risks associated with investments an organisation makes. When companies outsource they become more flexible, more dynamic and better able to adapt to changing opportunities. This is because their partners do some capital investments on their behalf. Finally, outsourcing enables freeing of resources for other purposes. Through outsourcing, the organisation re-directs its resources from non-core activities toward activities that have the greater return in serving the customer.

A recent research demonstrates that well-run companies, those that usually perform well in the market, are likely to see effective outsourcing as part of good management practice. But it also makes very plain that the magic of outsourcing is not working for most corporations. Only 5% of the 300 organisations investigated had found outsourcing high on benefits and low on drawbacks, for the rest, the outcome of outsourcing was either mediocre or a total flop (Johnson & Scholes, 1998). It would appear that the manner in which outsourcing is implemented is key towards its success but on the other hand outsourcing has its dangers.

2.6 The Bendor-Samuel Outsourcing Model

Bendor-Samuel (1999) outlays a five-step model to ensure a fair outsourcing deal throughout the lifecycle: See figure 1 below.

Figure 1: The Outsourcing Life-cycle (Bendor-Samuel)



Investigation stage: This is the stage where existing processes and systems are reviewed and compared to the best of breed. It is at this stage that the opportunities for improvement are identified. Whether outsourcing has potential advantages or not, is the key question asked at this stage. This investigation stage provides a baseline of current costs and service levels. This information can be used to compare apples-to-apples against performance improvements delivered by the outsourcer and against industry trends throughout the relationship.

Tendering stage: This is the stage where knowledge gained from benchmarking is incorporated to set optimum performance targets for the organisation. This helps identify the serious contenders for the business and spells out that world-class performance is expected - and will be measured.

Negotiation stage: Before negotiation, it is critical to set the right expectations for cost, performance, and service levels. The negotiation position is reinforced by external validation of the organisation's requirements. Here, benchmarking is done to facilitate "fast tracking" or sole source considerations. Fast tracking simply means the client has decided to outsource, usually with very little investigation and no tendering, and wants to move through the negotiation process quickly. In a sole source situation, ensuring a competitive supply can be difficult. Here, the vendor holds the balance of power in the negotiation. Benchmarking can level the playing field, serving as a surrogate for the competitive process to ensure you receive a fair deal.

Implementation: Implementation is the stage for contract refinement. At this stage, service level agreements are put in place detailing process maps, responsibilities and implementation of key performance indicators. Structures and reporting lines are defined and implemented.

Relationship Management: Benchmarking is most commonly employed in relationship management. In relationship management outsourcing deals are renegotiated. Several organisations have had to renegotiate contracts within two years of being signed. Usually dissatisfaction over pricing and service levels are the main drivers for renegotiations. Benchmarking plays a key role in renegotiations, since clients need access to industry performance parameters in order to make a case with the outsourcing vendor.

McCutcheon (1995) wrote that if not implemented well, outsourcing could lead to an abdication situation instead of the desired delegation of non-core activities to the supplier-partner. He says, the greatest danger in outsourcing is the attitude of ‘getting rid of what a company does not like’ by subcontracting them out as opposed to the company outsourcing its non-core activities so as to enable it focus on its core activities. The result of the abdication process described is a lack of process ownership, lack of accountability, and blame culture and eventually lose-lose situation for both parties. See table below.

Table 1: Delegation, not abdication.¹

DELEGATION	ABDICATION
Focus on core-competencies: Outsource the rest to the experts	Get rid of what you do ‘not like’
Expert manages the outsourced process fully	Process ownership problems
Joint accountability	No accountability
Partnership culture	Blame culture
WIN-WIN SITUATION	LOOSE-LOOSE SITUATION

2.7 *Some Common Outsourcing Mistakes*

Bendor-Samuel (1999) puts forward common mistakes suppliers make as firstly ignoring the customer’s unique needs. Outsourcing providers who have repeatedly demonstrated their integrity and ability to get the job done are too confident about their skills and knowledge. Because of that, they have a tendency not to listen closely when their prospects tell them what they want. Instead, they tell their customers how to do things. Bullying buyers into doing things their way results in higher prices or an inflexible contract structure. Often these providers fail to take the time to understand the nature of this sale because they feel they don’t have to. But they do have to. They have to focus on what creates value for each customer.

¹ McCutcheon, D. (1995). *Problem Sources in Establishing Strategic Supplier Alliance*, International Journal of Purchasing and Materials Management.

Secondly is ignoring the importance of leverage. One of the biggest business benefits of outsourcing is the ability to use leverage. This is where the supplier creates value for the buyer. Suppliers must structure their transactions to accentuate the value they create through leverage. The most successful and prosperous outsourcing relationships occur when the supplier has clear and unambiguous responsibility for a process. Suppliers must clearly explain the importance of leverage to their prospects. These advantages include the access to scarce resources, the ability to substitute expensive resources for cheaper ones, process expertise and access to capital. Buyers are the most satisfied and get the best value for their dollars and suppliers are able to make above-average returns when leverage is part of an outsourcing relationship. When suppliers have articulated responsibility, neither side wastes time arguing over disputed areas of the contract. And these are the relationships that grow because they engender trust. Neither side feels the other partner is trying to take advantage of them. Prospects must understand the value of leverage and how it will help them in their outsourcing relationships.

Thirdly is avoiding accountability. Having a supplier responsible for a process is core to the definition of outsourcing. Suppliers stress accountability during their initial negotiations. But in reality the sales contracts and governance documents say, "Trust me." Suppliers try to shirk responsibility because responsibility means risk. They will do whatever they can to legally remove that risk. Shirking responsibility typically happens when the customer refuses to ink a flexible contract. Ironically, the vendor increases its risk by avoiding risk. If the buyer remains accountable for the process, it can dictate to the vendor how it wants things done. This is always a recipe for disaster. It is human nature to attempt to maximise a relationship in one's favour. The way to maximise an outsourcing relationship is to have the vendor align its interests with the buyer. That way, when the supplier makes a move to maximise its process, the move helps the buyer, too.

Finally is sending in the “C” team to manage the account. After the “A” sales team inks the sale and goes on to wooing the next prospect, the vendor sends its “C” team to manage the new account. Historically, vendors have rarely invested top resources in account management. This is a mistake because outsourcing is like a marriage. The vendor has to work every day with its customers to make an outsourcing relationship work. If customers are ignored, they react like a spurned spouse: dissatisfaction and disappointment lead to animosity.

On their part, buyers too make various mistakes commonly: First is relying too much on executive contact. Once they have decided to outsource, buyers are usually in a hurry to get the deal done. To put the transaction on the fast track, the two groups of executives get together, shake hands and let the next level work out the nitty gritty details of the relationship. It is important to complete the transactions as quickly as possible as long as they are done in a thorough manner. Outsourcing relationships create substantial value for the buyer; months of wrangling over the details eat up the desired cost savings. Outsourcing is closely akin to mergers and acquisitions. Buyers are divesting a process they currently own which includes the transfer of both assets and people. For this reason, buyers must involve various elements of the company. Top level executives are rarely enough.

Second mistake made by buyers is letting the supplier lead the process. This mistake is the most common outsourcing mistake and the most deadly. The essence of outsourcing is the buyer transfers the process and buys results. The quickest way for a buyer to destroy the value of an outsourcing relationship is to dictate how the process is to be done. By definition, the supplier should be an expert in the outsourced process and better at it than you. When buyers tell their hired experts what to do, they are removing the ability of the supplier to add value to the process. And they are erasing the supplier’s accountability. That results in higher costs and lower quality services. All these factors combine to make the relationship bad for both sides.

The best way for a buyer to fix this problem is to know exactly what it wants before it begins the outsourcing negotiation process. The buyer's team must know why it will benefit from

Third is paying by problem resolution. Customers often push to pay their suppliers by problem resolution. While this sounds like an elegant solution, it is really a short-sighted approach.

Buyers paying only to fix problems are giving the supplier no economic incentive to correct the systemic, underlying causes of those problems. It's like a physician treating the symptoms but ignoring the disease, if you pay by the problem, you get more problems. A better compensation plan is to pay the supplier for specific service; this encourages them to get to the root of the problem. For example, if the problem is old equipment, the supplier will be willing to invest in more up-to-date assets.

Fourth is interfering with the process. Unfortunately, this is a common mistake. Buyers just can't let go and won't transfer the ownership of the process to their outsourcing suppliers.

They can't get over this deep cultural change. To keep the process under control, they tell the supplier how to do things. The tendency to do this becomes overwhelming when the buyer assigns a manager who was responsible for this function to head up the outsourcing governance team. This executive has a great deal of difficulty not dispensing advice. This, however, is a very slippery slope. Vendors have no opportunity to enjoy leverage or scale, two of the big advantages of outsourcing, if they have to do everything the buyer's way.

Fifth is signing a contract with too long a term. What will the Internet look like five years from now? No one has any idea. But a number of buyers are tempted to sign up for five years of Internet hosting. This is lunacy. It's impossible to create boundaries or service level agreements for an unknown process. Suppliers prefer long-term contracts because the commitment allows them to invest their own capital in the process. Shorter contracts require

shorter amortisation periods. It is more advisable for customers to develop long term relationships but sign short-term contracts. This is done by matching the term with the life cycle of the process and staying in tune with the natural changes of the business cycle. Buyers, if the term becomes a deal breaker, break the deal. This is not a good relationship!

Sixth is improper governance. Buyers new to the process often don't assign the right people to manage the process. They assume that since they've outsourced it, they don't have to worry about it any more. Wrong! There is a tendency to assign the governance job to an employee who has just come out of that function. This can become a problem because these employees can be embittered now that they no longer have line responsibility for the process. They look for ways for the supplier to fail. The best person in this job is someone who has some understanding of the process but who is primarily a businessperson who can focus on the results. Buyers must now view this process as a business relationship and use those parameters to judge it. The job now is to provide adequate oversight and responsibility. A different way of thinking must prevail.

Seventh is lack of accountability. Accountability is not about buyers looking for ways to punish suppliers. The purpose of penalties is to ensure that the higher ups in the supplier's organisation realise they have a problem that they have to fix. Sometimes the onus rests completely on the buyers. In these instances, the buyers don't follow through on their assigned tasks. If the buyer is responsible for the telecom segment and it gets the bandwidth requirements wrong, it can't hold the supplier responsible for that mistake.

Last is forgetting the supplier is a business asset. Far too often, the buyer regards its outsourcing supplier as the provider of a commodity – someone who prepares the payroll or hosts an application. But suppliers have amassed a wealth of knowledge about their industry.

Buyers must take them into their confidence and let them help them! They can add significant value.... If let. And when a supplier creates value, buyers must reward them accordingly.

Buyers can compensate their vendors by:

- Helping them win more business in the organisation.
- Helping them win business in the marketplace.
- Extending their contract.
- Relaxing a service level that's insignificant to the buyer but is costly to them.

Reinforcing their value encourages suppliers to do more! Buyers who make these mistakes create strained and difficult outsourcing relationships.

2.8 *Barriers to Outsourcing*

Randall (1993) put forward various barriers to outsourcing of logistics activities. That outsourcing of the activities to third parties represents a great opportunity in some circumstances but a significant risk in others. The uncertainty inherent in outsourcing is, in fact, one of the main reasons why so few contract logistics projects have actually been attempted in the world over. After all, it is always easier to stick to the status quo.

Other barriers to outsourcing include the fact that many functions other than logistics are involved in the decision making process. As the number of functions involved increases, the decision making process becomes more complicated. Also, because outsourcing is a fairly new concept, internal procedures have not been formalised to accommodate decisions on logistics outsourcing.

Secondly, functional buying behaviour and reward structures may inhibit innovation. In many cases, the principal benefit of logistics outsourcing is a reduction in the overall logistics costs – not necessarily transportation costs. If a manager responsible for promoting a contract logistics

opportunity is evaluated and rewarded solely by his ability to reduce transportation costs, and no credit for achieving a reduction in overall logistics costs, such a manager will not effectively sell the contract logistics concept to the other functions whose 'buy-in' is needed.

Thirdly, in many organisations, the key benefit of simpler, more reliable supply chain is reduced channel-inventory. Unfortunately, inventory is 'nobody's responsibility' in some organisations. If the principal benefit of logistics outsourcing has no owner, it becomes difficult to find someone inside the corporation willing to sponsor a logistics outsourcing project.

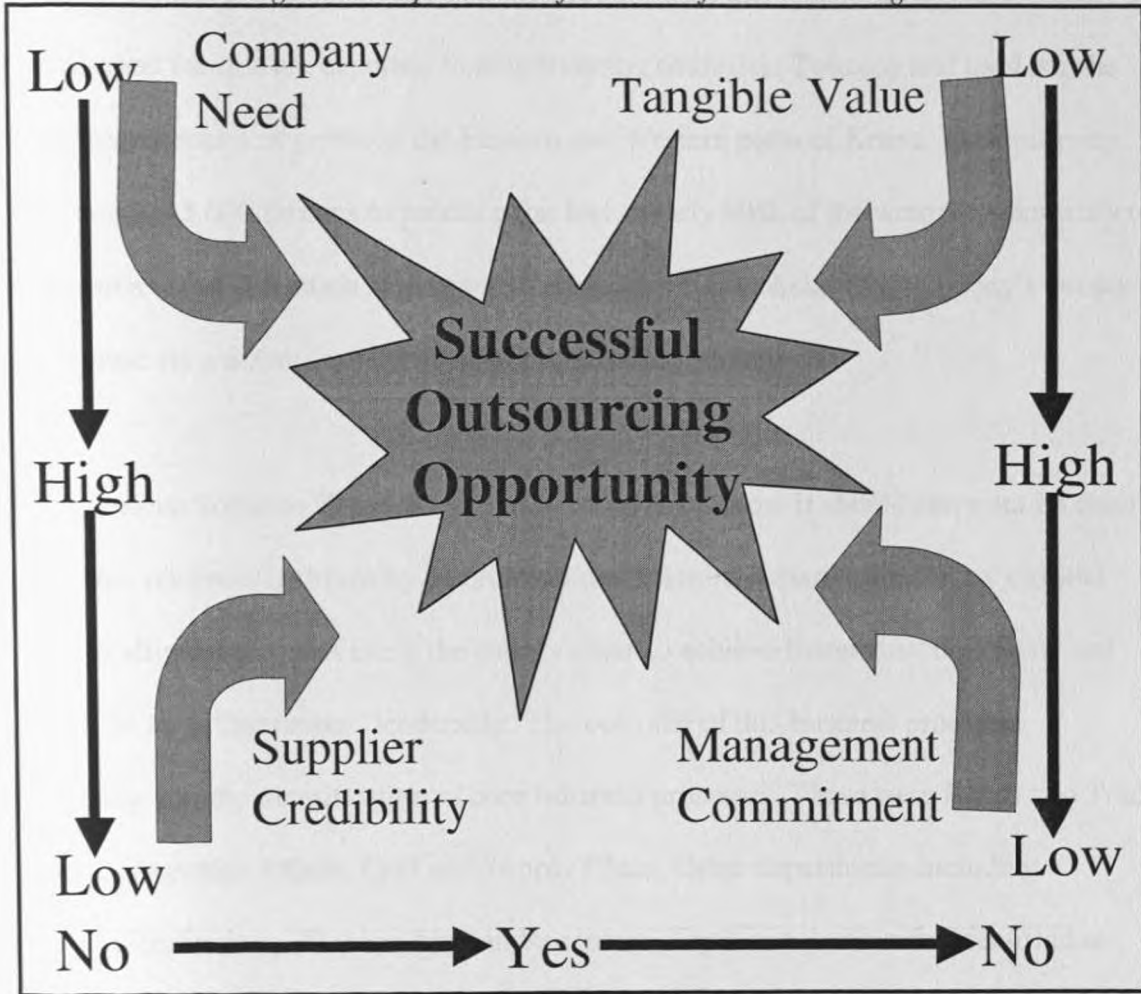
Fourthly, logistics outsourcing implementation means that the corporation gives up some management control of the complex process that may include inventory management, materials handling and transportation. Because of their complexity, contract logistics relationships need to be long-term in nature, and many managers will be apprehensive about becoming overly dependent on one supplier. Lastly, it is difficult in some corporations to establish a benchmark of the existing logistics costs for developing comparisons and subsequently for measuring the level of benefits from an implemented logistics-outsourcing project.

2.9 Requirements for Successful Outsourcing

Randall (1993) goes on to put forward the requirements for successful outsourcing, see figure 1, below. First is that a 'strong need' for outsourcing has to be identified. Organisations undergoing rapid change due to changing internal and external environments are likely to benefit from outsourcing. Similarly, companies facing significant capital and headcount constraints are also more likely to benefit from outsourcing. Secondly, before committing to outsourcing, companies want hard evidence that 'tangible value' will be achieved. To quantify

the benefits, a comprehensive feasibility study needs to be carried out to benchmark existing practices and identify the opportunities for improvement.

Figure 2: Requirements for successful Outsourcing



Thirdly, credibility of the supplier to be outsourced to is very crucial for the success of the project. The credibility is determined by experience in required services, proven track record in implementing and operating similar contracts, financial strength and a multiyear commitment to the contract. Lastly, management commitment must be sufficient to overcome the roadblocks that will undoubtedly emerge. For the outsourcing project to work, there needs to be a senior manager who is committed to act as sponsor of the project and guide it from idea to reality.

2.10 The Road to outsourcing at BAT Kenya

British American Tobacco Kenya is a major player in the local cigarette industry. It commands over 70% of the market share. About 80% of the cigarettes manufactured by the company are sold locally and the rest are exported to neighbouring countries. Tobacco leaf used for the cigarettes manufacture is grown in the Eastern and Western parts of Kenya. The company supports nearly 15,000 farmers to produce the leaf. Nearly 90% of the wrapping materials used in the manufacturing operation are imported from Europe and Asia. The company's products are distributed via a network of 50 distributors across the country.

British American Tobacco Kenya did a thorough review of how it should carry out its business in 1998. This review was driven by a combination of British American Tobacco's global initiative to align its business along the supply chain to achieve better customer focus and change in the local Operations' leadership. The outcome of this business processes reengineering was the identification of core business processes. These were Brand and Trade Marketing, Corporate Affairs, Leaf and Supply Chain. Other departments including Information Technology, Finance, Human Resources, Legal and Audit were identified as support functions for the core business processes. It was during this same review that the supply chain department was set up to source marketing's requirements and delivery on-time-in-full to the customers at optimum cost.

At British American Tobacco, the supply chain constitutes Procurement, Manufacturing and Logistics functions. Procurement's role is to define the best source of materials with regard to quality, price, and lead time bearing in mind the need for flexibility and reliability.

Manufacturing is charged with the responsibility of producing the required amount of product at the right time, quality and at minimum cost. Logistics on the other hand is responsible for co-ordination of all the supply chain activities, which include planning operations, materials,

distribution and transportation requirements. The logistics function is also responsible for analysis and management of relationships with Tibbett and Britten, the professional Logistics company to which the physical logistics activities have been outsourced.

British American tobacco Kenya has very recently outsourced the procurement of its non-production inputs also called maintenance, renewals and operational (MROs) supplies to new E-Commerce company called e-Sokoni. Prior to that the company also implemented outsourcing of its non-core logistics activities with the hope of achieving benefits – cost reduction, increase in efficiency and increased customer service. Although there are potential benefits, there are inherent risks and difficulties with such outsourcing activities. It would be enlightening to know the experience of British American Tobacco in this regard.

CHAPTER 3

RESEARCH METHODOLOGY.

This chapter details the research design used to achieve the objectives of the study, which were to assess how British American Tobacco Kenya implemented outsourcing of its non-core logistics activities in comparison to the outsourcing model put forward by Bendor-Samuel, document challenges experienced and the benefits achieved.

3.1 *Population/sample:*

This was a case study on BAT Kenya's supply chain. The study was intended to provide an in dept study of how outsourcing was carried out and to document the reasons behind the success. A cross-sectional study would not have been appropriate for this research because not many companies in Kenya have achieved the level of success in outsourcing of non-core logistics activities as BAT, according to preliminary discussions held with both T&B and BAT executives. It was appropriate to focus the study on the Logistics function in view of the fact that logistics is central to a company's service quality as well as its cost structure thus innovative approaches to logistics management such as outsourcing are of particular interest.

3.2 *Data collection*

This study used primary data obtained through in depth personal interviews with 8 of the executives working within British American Tobacco Kenya's supply chain function including one member of the Board of Directors. Two of the top managers of T&B, the third-party company whom the services under review were outsourced to were also interviewed. Their response formed part of the primary data used. The personnel interviews were conducted on

the basis of interview guidelines designed. The questionnaire (Appendix 1) was structured to address triggers of the outsourcing, anticipated benefits, challenges encountered and how they were overcome and finally list the benefits actually achieved.

This data was collected using both structured and unstructured questions in the questionnaire. The kind of questions posed to the interviewees were a combination of open and closed-ended type which were aimed at encouraging them to provide as much information as possible. Literature review carried out by the researcher and research objectives formed the backbone of the questionnaire design. All the questionnaires were administered personally by the researcher.

Checking the company's records provided secondary data, particularly the internal budget review documents. Trade journals, local and regional newspapers and magazines were scanned for relevant information pertaining to British American Tobacco Kenya.

3.3 Data analysis

The feedback from the questionnaires completed by the executives formed the basis for qualitative analyses done. Qualitative descriptive analyses carried out were used based on the variables covered. The data collected was also analysed in comparison to existing literature (Bendor-Samuel, 1999). These qualitative descriptive analyses have been exclusively applied in related studies in the past by Bett (1995), Njau (2000) and Thiga (1999).

CHAPTER 4

THE STUDY FINDINGS

4.1 Introduction

This chapter deals with the data analysis and interpretation of the responses of the ten executives chosen for the study. Personal interviews were conducted for all the ten executives. According to the responses received the analysis and interpretation of the data is hereby undertaken.

4.2 Triggers of outsourcing of non-core Logistics Activities.

The following factors were identified as the triggers that led the company to consider outsourcing its non-core logistics activities. Firstly, there was complete dysfunction in the entire logistics activities of the company. There was significant duplication of effort, roles and activities. There were at least 10 players who carried out various logistics activities within the organisation. For example;

- The company managed its pool cars internally.
- There was another internal system responsible for management of personal cars for expatriates and senior managers.
- Vehicles for Sales & Marketing Representatives were leased from a local Car Hire company.
- A multinational motor vehicle company with a local operation supplied motor cycles and tractors for use in the Leaf growing areas while at the same time the company had its own fleet of the same type that were grossly under-utilised. Leaf is grown in Eastern, Western and Nyanza provinces of Kenya.
- A large transport company was involved in movement of leaf from the leaf growing areas to the Green-Leaf-Threshing Plant in Thika.

- The company contracted various independent transporters to move re-dried leaf from its Thika Green-Leaf-Threshing plant to the manufacturing site in Nairobi.
- Movement of finished goods from the Nairobi factory to various depots across the country were undertaken by the same large transporter who moved Leaf from the growing areas to the Thika plant. However, the activities were carried out independent of each other.
- Within the sales regions, BAT had its own trucks, which it used to supply cigarettes to the distributors from the regional depots. The marketing department solely managed these.
- Lastly, a second large transport company was running the business of moving imported materials from the port of Mombasa to either the Nairobi or Thika plants.

Despite all the activities listed above, there were various complaints regarding poor levels of services received. When a new CEO took over the running of the company, he questioned why so many players were involved in the logistics activities of the company. This is when the thinking to consolidate all non-core logistics activities under one outsourcer was muted.

The second trigger to the outsourcing as perceived by the company's management today was that there was need to have clarity of functions and process re-alignment. The logistics process lacked co-ordination and clear strategy. There was desire to centralise all logistics activities first, ensure accountability is put in one place and processes were reviewed. As a matter of fact, a Logistics Manager was latter appointed, charged with the responsibility to manage the integration and consolidation of the logistics function.

Thirdly, it was identified that there was a huge potential saving, close to USD 2 million per annum, to be achieved via centralised logistics and outsourcing of the non-core activities. At a time when the profits were starting to plateau, the company needed every cent it could get. It was desired that this outsourcing could lead to a lean operation and one that is more focused on its core competencies.

Fourthly, the new CEO believed in the thinking that companies should identify their core competencies and focus on them to achieve competitive advantage. According to internal assessments done by a select group of managers, the company saw physical logistics as a non-core competency and therefore saw an opportunity to outsource to the experts in that area.

When this outsourcing was being reviewed at the beginning of 1998, it was clearly quite fashionable in the country. It was the way to go. A few multinationals such as Unilever Kenya were already doing it and various others were considering doing it too.

Finally, there was need to improve service delivery and it was thought that one of the ways to ensure customer orders were delivered on-time-in-full all the time was to outsource cigarettes deliveries to the distributors. There was also the need to ensure both green and dry leaf were delivered on time where they were required to ensure smooth operations and minimal losses in transit and storage.

From above findings, it is clear that the triggers for outsourcing on non-core logistics activities at British American Tobacco Kenya differed significantly from the known triggers elsewhere in the world. Pearce and Robinson (1997) have identified the following triggers:

- Increased competition
- More demanding market place
- Just-in-time production lines
- High Service Level expectations by customers
- Long supply lines in terms of supplier lead times
- Cost cutting needs
- Asset base reduction requirements
- Need to enhance logistics Management Information Systems (MIS).

Of the triggers listed above by Pearce and Robinson, only cost cutting needs and the need to enhance logistics MIS were significant in as far as triggering outsourcing in BAT Kenya. Most notably, by the time outsourcing was being initiated, competition in the market had not changed significantly. British American Tobacco Kenya commanded 86% of market share.

Table 2 below, and appendix 2 summarises the company's sales trend for the period 1996-2000.

Table 2: BAT Sales Volume Trends (Million Cigarettes)²

	1996	1997	1998	1999	2000
BAT	6600	5900	5800	5350	5070
Others	1000	1000	1100	860	1090
Total Market	7600	6900	6700	6210	6160

Similarly, customer services expectations and demands in the market place did not play a major role in the decision to outsource because the company dictated terms in the market place.

4.3 Benefits anticipated following outsourcing of the non-core Logistics Activities.

The Executives interviewed largely agreed that the benefits anticipated to come with outsourcing of the non-core logistics activities were first and foremost the opportunity to reduce costs. With the various players involved in the referred activities, it was felt that there were opportunities to cut costs through integration, networking and synchronisation of transport of goods across the country. The key objective was to maximise use of return loads and in the process achieve savings on transport costs. At the time it was estimated that a saving of USD 2 million per annum was possible. This saving was to improve the profitability of the business, which was facing reduced sales volumes. It was anticipated that the Expert Logistics

² Source: BAT Kenya internal Documents

providers would also bring along best practice in the activities thus ensuring anticipated savings are achieved.

Outsourcing was secondly expected to provide the ability for rest of the organisation to focus on core business. The core businesses of British American Tobacco are Manufacturing and Marketing cigarettes and Leaf growing and processing. Expertise involvement in the logistics activities was anticipated as a key benefit because the experts would bring in wealth of experience from elsewhere. Outsourcing of these activities was also seen as an opportunity to free the time of marketing people to concentrate on marketing activities without having to worry about product supply. Similarly, procurement and leaf growing personnel would focus on their core activities thus enabling the organisation achieve greater heights in sourcing and agronomy.

Service improvement was the third most important benefit expected. Prior to outsourcing, almost all aspects of logistics were performing sub-optimally. Delays in deliveries to Distributors and degradation of Leaf during transport coupled with high costs were very commonplace. Outsourcing was considered as the gateway to world class capability of the incoming partner. Although the market place was not as demanding at the time and competition was minimal, the company saw the need to perform its activities in a faster, cheaper and better manner, hence outsourcing. It was beginning to dawn on the company that it had to change the way it carried out its activities in order to survive in future. By involving an expert in the logistics field, the company hoped to be more flexible in its operations so as to achieve better customer service. It was hoped that Outsourcing would assist the company in achieving re-engineering acceleration, re-engineering of the organisation was taking place simultaneously.

Although investments risk reduction was considered a benefit with outsourcing implementation, it did not rank very high. The company however hoped to reduce its asset base so as to achieve optimal utilisation of the resources left. Release of resources, such as people, for other causes was another benefit that did not rank very high although with Outsourcing headcount reductions were bound to happen and this was expected to save the company in salaries and benefits paid to the employees.

4.4 The Pre-work leading to Outsource of non-core Logistics Activities.

4.4.1 Feasibility studies consultant.

Following the completion of review of status of the company by the new CEO who arrived to head British American Tobacco Kenya in mid 1997, he concluded that there was a lot of opportunity for improvement in regard to efficiency of logistics activities. This point was effectively sold to the company's top management and all appreciated the need to have a full review of the said activities.

A consultant who had outsourcing experience from a multinational with a local operation was headhunted for the job. The consultant hired had also worked with the same multinational in its China operation in a similar project. The brief to the consultant when he was hired was to look at Leaf transport across the country. Employing his entrepreneurial spirit, the consultant expanded the review to include the total physical logistics in the company including cigarette distribution and in-bound logistics of raw materials and other inputs and the clearing and forwarding operation.

4.4.2 Feasibility studies carried out.

The Consultant spent time to first understand the company's physical logistics set up at the time followed by a discussions and review of the set up in other multinationals within the

country, who had already outsourced some of those activities. These included Unilever Kenya and Carnaud Metal Box, where he worked before. The findings from the feasibility studies showed that although there were various problems encountered in those companies, some benefits were achieved. Unilever for one had not realised the savings anticipated fully and this was close to two years after outsourcing. The aspects outsourced in Unilever Kenya were finished goods warehousing and distribution across the country. The studies however provided direction that outsourcing in British American Tobacco Kenya was to take. At the time, outsourcing was considered the right thing to do and clearly, there was no set up that would 'fit all'. British American Tobacco Kenya cautiously agreed to adopt some of the learnings from the other organisations with a view of customising or modifying them to fit its own requirements. The British American Tobacco group did not have any benchmarks the local operation could borrow from. The Kenyan operation was the first in the group to actually consider outsourcing the physical logistics aspects worldwide.

4.4.3 Project Sponsor

The company's new CEO initiated the Outsourcing Project in British American Tobacco Kenya. He was very keen to see its implementation so as to achieve synchronised processes that deliver cost savings. This role was well executed and the successful implementation of the project relied heavily on it. The project was top-down driven. Other key members of the management team involved were the Production and Finance Directors, Regional Director and the Procurement Manager. This team worked together with the consultant throughout the project life. Known project management techniques were employed.

4.4.4 Factors seen as critical for the project's success.

Supplier credibility was seen as critical for the successful implementation of Outsourcing. The company believed a supplier with experience in provision and management of physical

logistics services, a proven track record in implementing and operating similar contracts and a commitment to a multi-year contract were key characteristics sought. British American Tobacco was not keen on the financial strength of the supplier, in fact the company was willing to support the supplier that won the contract to set up its operations as long as that was agreeable to the supplier. The company was also looking for a supplier who was flexible and willing to consult exhaustively with the company.

Another key critical factor identified was management commitment. It was believed that the commitment of management should be sufficient to overcome the roadblocks that would undoubtedly emerge. The CEO was aware that for the outsourcing project to work, their needed to be his personal commitment to act as sponsor of the project and guide it from idea to reality. Undoubtedly, the people responsible for the implementation of the project ought to have the right attitude to make it work. The company felt that a partnership approach was required to succeed in the undertaking. Employee support did not rank very high in terms of critical success factors but nevertheless, the company knew that it needed to keep the rest of its employees fully informed on the project progress. The feasibility studies were generally kept secret and employees were only informed once the final direction had been determined.

4.4.5 The Supplier Selection Process.

Once the company had decided on the exact activities to be outsourced, it set off to select an appropriate supplier. Three potential suppliers were interviewed. First, a brief was prepared detailing the expectations of the company and this was communicated to all the potential suppliers. When the three potential suppliers returned with their proposals, one, Tippet & Britten was outstanding. They already had similar contracts with Unilever Kenya and Carnaud Metal Box based in Thika. They had an advantage over the others in that they were an international logistics group present in 28 countries across the world and were listed in the

London Stock Exchange. They had experience in provision of several services including Warehousing Management, Road Transport, Sales Order Processing, Supplier Stock Management, Integrated IT Systems and even International Supply Chain. Within Kenya, Tibbet and Britten had already invested over USD 5million in capital, had 26 operating sites with presence in Nairobi, Mombasa, Daressalaam and Kampala. They also had a base fleet of 50 commercial vehicles and a further 250 subcontracted from other transporters. In addition, they also had a successful partnership with an established clearing and forwarding agent. British American Tobacco selected this supplier because of the flexible solutions they presented and their international experience applied already to local operations. Tibbet & Britten (T&B) also had the reputation of managing its operating under internationally accepted standards. In summary, the selection of the supplier was based on the following criteria:

- Scope of services offered in geography and breadth terms.
- Contract logistics experience and commitment in terms of demonstrated capability, MIS, People and Projects done so far.
- Proven ability to make things better following feasibility studies findings and discussions with Unilever and CMB who attested to service levels improvements as a result of using the supplier in their logistics activities.
- Although the selected supplier did not have cigarette industry experience, they were selected nevertheless due to experience in other fast-moving-consumer-goods industry in general. Supplier financial strength and competitive pricing were not key for the selection process. British American Tobacco Kenya wanted to approach the outsourcing in a partnership manner and expected full transparency on all costs and savings.

4.5 The actual outsourcing implementation process.

The following steps were followed during the actual outsourcing implementation of physical logistics activities at British American Tobacco Kenya. Core activities of the company and how centralised physical logistics was expected to provide synergies across them were identified (Appendix 3). The actual non-core logistics activities that were outsourced include:

- Green Leaf warehousing and movements.
- Finished Product warehousing and distribution and
- Imported raw materials clearing, forwarding, transport and warehousing.

These were implemented in three phases, each phase involving the different parts of the business above. The phases were based on impact of the anticipated benefits, Leaf logistics having a higher impact on cost savings and process dysfunction. Finished goods distribution and primary supply chain were implemented later.

4.5.1 Establishment of requirement

Once the supplier had been selected, British American Tobacco proceeded to agree with the supplier on the expectations from both parties. This were detailed in a letter of intent done by the supplier and signed off by the company. Detailed in this letter of intent were the agreed Key Performance Indicators by area of responsibility. The performance indicators were in two sets, service performance and financial performance (Appendix 4). The Key Performance Indicators were complete with targets for both upper and lower limits expected. The performance was to be monitored on a monthly basis and discussed. Any deviation from the expected level of performance was to be explained fully and measure put in place to reverse undesired trends. It was agreed that the targets would be revised continuously so as to be in stretching, achievable and realistic.

4.5.2. Setting of the operating budget.

After setting of the operating service and financial performance indicators measurement and targets were agreed the next step was to set the operating budget for the contract. The budget was created on a zero-based basis. The entire operation was broken down into the various cost elements. Both parties then signed off the initial budget numbers for the agreed contract.

4.5.3 Setting Service Level Agreements

Service level agreements were then put in place. A specific Service Level Agreement was put in place to cover each different part of the contract. There was one for Leaf Logistics, In-bound and Secondary Supply Chain (Appendix 5). Although this do not constitute legally binding documents, they acted as operational reference document that guided the relationship between British American Tobacco and T&B, its provider of logistics services. A contract was drafted but was not signed immediately because both parties agreed to run the project on a trial basis for a period of 6-9 months before firming up the contract. It was agreed the letter of intent and the Service Level Agreements would suffice to see the project through the trial period. The structure of the Service Level Agreements (SLA) is process maps of the new processes, documentation of clear procedures, basic service commitments, desired performance monitors and responsibilities of both parties. The SLA was complete with necessary actions to be taken in case of failure to meet desired level of performance. A lot of actions depended on the team trust. Once the parties agreed on the contents of the SLA, they all appended their signatures. Often, teams sat down to go through the SLA as a group and agreed on necessary amendments and signed off.

4.5.4 Providing Capital Investments and fixing management fee

Before the start of Outsourcing of the non-core logistics activities, it was agreed that British American Tobacco would inject an agreed amount of capital to enable the supplier set up base and be in a position to provide the service. At the same time the charging method agreed

between the supplier and the company was that of open-book. The term implies that the customer would meet all the costs that the supplier has incurred on his behalf. At the end of the period (normally one month), the customer reimburses the supplier the full operating costs incurred as well as the management fee. Both parties committed to work together so as to achieve year-on-year reduction in process costs. The management fee was agreed at 7% between the two parties. There were various other charging methods brought to the table including fixed-unit rates and cost-plus. British American Tobacco chose the open book so as to ensure full benefits are achieved. It was not clear to the company how much exactly was going to be achieved in form of savings and therefore it did not want to fix the amount payable for the contract.

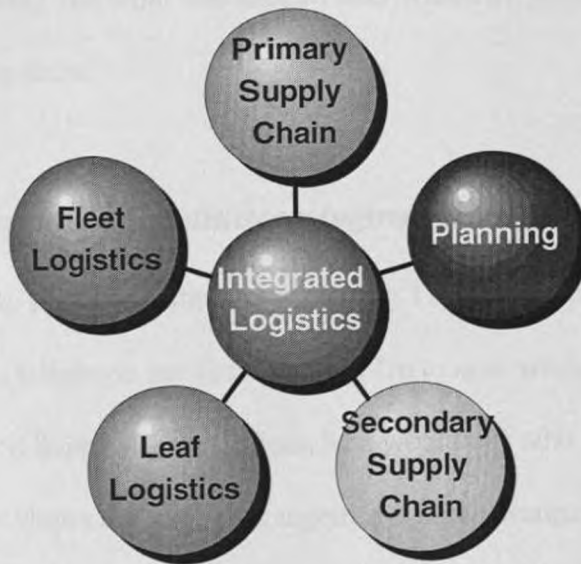
4.5.5 Addressing Human Resource issues and communication

Whenever outsourcing is implemented there are human resource issues such as redundancies that arise. The case for British American Tobacco was not any different. The final headcount reduction in the company following implementation of the Outsourcing was 56. Fortunately for the employees affected the new supplier offered them employment. Some did take up the offers while a few opted for other moves. Almost 90% of the former employees were absorbed by the supplier, either in the BAT Contract or other T&B contracts, only 10% were out-placed. All affected employees were spoken to individually before official announcements were made regarding the outsourcing of the activities. The sponsor and project manager also addressed members of the management board prior to official announcements. All employees of the company were then called into a special team brief where it was announced officially that the company was outsourcing its non-core logistics activities. After the plan to Outsource was announced officially, the company moved on to constitute the implementation teams.

4.5.6 Formation of implementation teams

Implementation teams were then set up. This constituted members for both supplier and the company. Five implementation teams were set up to ensure smooth hand-over of the activities and also agree on total process implementation, control and evaluation. Figure 2 below shows the five teams that were set up to run the project. The Supply Chain Planning function was not outsourced, it remained in the hands of British American Tobacco but was crucial for the other logistics functions hence the reason why it was regarded part of the integrated logistics function. Fleet constituted a whole lot of activities that too had little to with the non-core logistics activities but for lack of a better 'home' within the organisation was put as part of logistics. Fleet section is concerned with the management of the company's total fleet.

Figure 3: Project Sub-sections Teams



British American Tobacco Kenya and its supplier, T&B, set up three teams to continuously manage their operations in the three distinct areas covered by the contract namely; Secondary Logistics, Primary Logistics and Leaf Logistics. Table 3 below shows the composition of the three teams.

Table 3: Sub-teams composition

Primary Supply Chain Team	Leaf Logistics Team	Secondary Supply Chain Team
Planning Manager – BAT	Leaf Logistics Mgr - BAT	Customer Services Mgr - BAT
Production Planner - BAT	Operations Manager – T&B	Distribution Manager - BAT
Logistics Manager - BAT	Leaf Stores Manager – T&B	Finance Manger, Mtg - BAT
Material Planner – BAT	Transport Manager – T&B	Operations Manager – T&B
Production Manager – BAT	Leaf Growing Mgr - BAT	Stores Manager – T&B
Materials Developer – BAT	Leaf Planner – BAT	Demand Manger - BAT
Supplies Planner – T&B	Leaf Finance Mgr - BAT	Trade Mtg Manager - BAT
Operations Manager – T&B	Logistics Manager - BAT	Exports Co-ordinator - BAT
Stores Manager – T&B	Contract Manager – T&B	Transport Manager – T&B

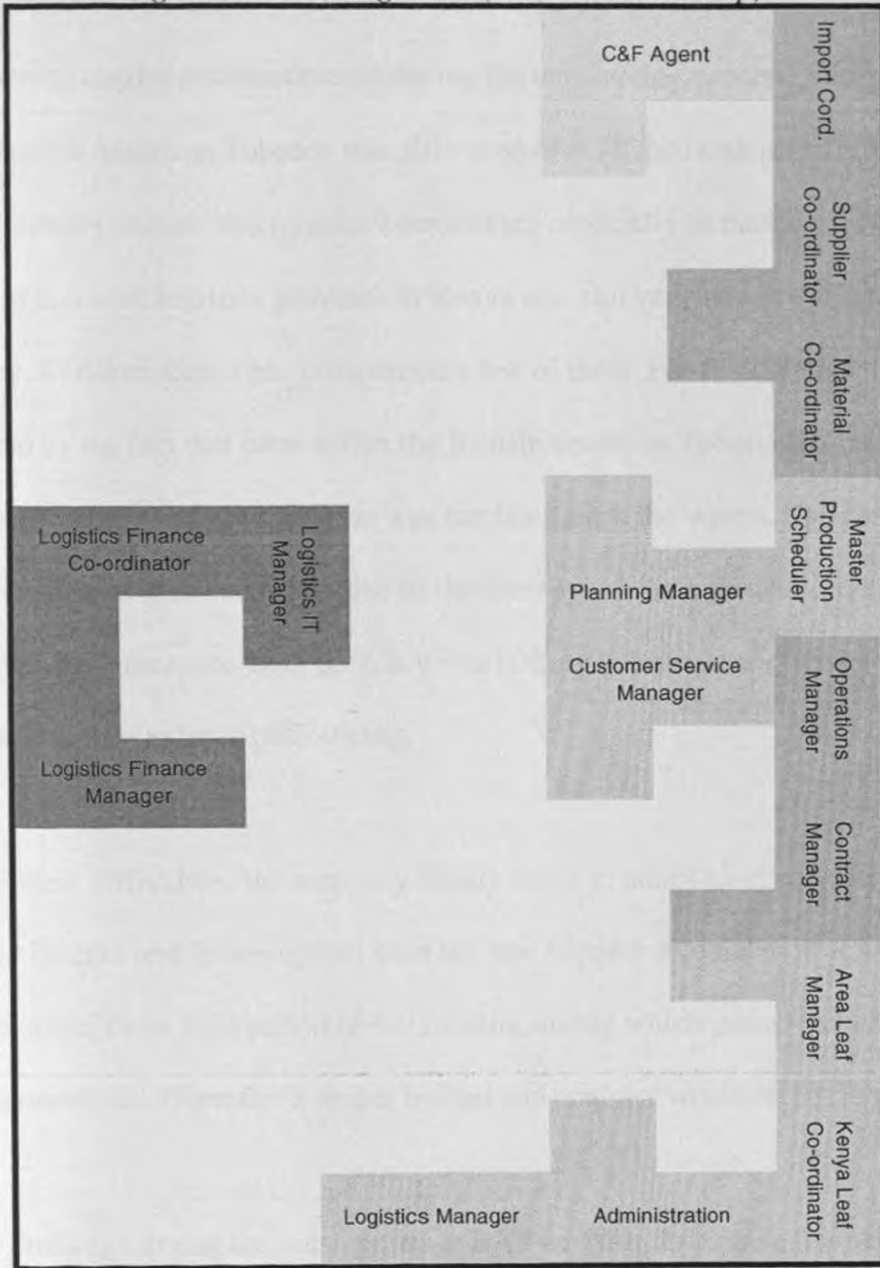
It is worth noting that the teams consisted of employees of both companies. To ensure integration of the processes, there were members who sat in more than one team.

Team boards of three sub-projects were put in place (Appendix 6). The three cross functional teams i.e. Leaf, Secondary and Primary Logistics, created derived own missions, identified suppliers and customers, both internal and external. They then took stock of their processes to determine what was working and what was broken after which they concentrated on the broken ones with a view of fixing them.

4.5.7 Establishing forum for continuous improvement.

British American Tobacco provided sitting space for the T&B employees within its premises. They also got computers, telephone and fax facilities. Up to now when a stranger walks into British American Tobacco Supply Chain Offices, s/he would not know who works for BAT and who for T&B. Figure 3 below shows the sitting arrangements in the company's logistics office showing interaction of employees from both parties. In this pool or workstation, there are employees from T&B (Operations Manager, Contract Manager, Imports, Materials and Supplier Co-ordinators). There is a representative of the Clearing & Forwarding (C&F) company in-house, sitting with the team. T&B subcontracted the C&F operations to its partner, Transami. The other members of the cell are BAT Logistics and Logistics finance and IT supports.

Figure 4: Total integration (Workstations Set-up)



The teams, which also had membership from of other BAT function, outside Logistics, met first on a weekly basis and later every two weeks to review performance of the processes. The agenda of the action-oriented meetings included project milestones review and discussions on opportunities for improvement areas identified. The projects' implementation teams used project management techniques for successful outsourcing.

4.6 Implementation Challenges and how they were tackled.

There were several challenges encountered during the outsourcing process. Study findings showed that British American Tobacco was able to resolve all the bottlenecks effectively. During the feasibility studies benchmarks were lacking especially in the Kenyan environment. Outsourcing of non-core logistics activities in Kenya was still very new at the time, only one local company, Unilever Kenya had outsourced a few of them. For BAT Kenya, the situation was aggravated by the fact that even within the British American Tobacco group, there were no points of reference. The Kenyan operation was the first to test the waters. The company also found itself in a unique situation where due to the diversity of the logistics activities, it was not easy to establish the base costs. Data accuracy was lacking because the activities were managed independently prior to outsourcing.

To overcome these difficulties, the company finally chose to adopt baseline costs provided and decided to put them to test. It was agreed with the new supplier that the project would be carried out on a trial basis for a period of 6-9 months, during which period the actual costs would be monitored and thereafter a proper budget and contract would be put in place.

Another key challenge during the outsourcing at BAT was that there were few vendors to pick from whom could do the job. Despite this, BAT went through a screening exercise of the three potential vendors very seriously just as if it was performing strategic analysis. The screening exercise included all the components that go into a good business decision; checking their references, evaluating the little information available on them and checking level and reliability of their resources. The company was aware that the supplier was going to be a replacement for it in some aspects and therefore had to establish their ability to grow and flex with its needs. It was seeking a supplier that it could tailor to be its partner. Discussions were

held within BAT's management to and a matrix was created for the entire outsourcing process. These were useful for the final selection of the vendor.

Resistance to change was another major challenge that had to be managed at BAT. Employees especially those who were performing the tasks that were earmarked for outsourcing were resistant because they were not certain about their jobs' security in the new company. The company spoke to all affected employees individually and requested them to apply for jobs with its new partner. There was general scepticism on the part of the company's employees especially because the supplier selected had had start up problems with Unilever Kenya.

Selling the outsourcing concept to the employees was a key challenge. It was rather easy for the management to buy-in the outsourcing concept because most were aware of the potential benefits. The CEO who acted as the sponsor gave the project a lot of weight and most managers had no choice but to support it. The project was first adopted on a trial basis. Service improvements, cost savings achieved during the trial period and management commitment towards the success of the project reduced the uncertainties associated with the project and eventually ensured widespread support. Constant open communication of project progress and cumulative savings achieved accelerated acceptance of the outsourcing project.

Challenges such as inventory ownership were not significant because clear procedures were put in place in form of SLA. Clear measures of performance were also put in place thus ensuring roles and responsibilities were clear. Cross-functional teams with participants from BAT and supplier working together ensured common objectives were in place.

4.7 Benefits Achieved.

The benefits realised by BAT from Outsourcing its non-core logistics activities were varied.

First among these was Logistics Cost Reduction. Table 4 below shows actual cost savings in Kenya shillings achieved following the implementation of outsourcing in late 1998 using 1997 operating costs as the baseline.

Table 4: Savings achieved in Ksh³

Project Savings	1997	1998	1999	2000
Inflation Rate	0%	0%	0%	0%
Leaf Logistics Project	0	3,332,636	9,676,995	10,535,612
Central / Fleet Admin	0	-5,378,067	-14,427,936	-11,508,657
Customer Services	0	0	27,511,991	28,319,484
SC Planning	0	0	2,984,829	9,864,039
Primary Logistics Cost	0	0	210,000	-43,901
% Project Savings	0%	-1%	11%	16%
Total Operating Cost	0	-2,045,431	25,955,879	37,166,577

A total of Ksh 26million was saved in 1999 representing 11% reduction over 1997. In 1998 the savings grew to Ksh 37 million or 16% savings using 1997 baseline. The savings were achieved through integration, networking and synchronisation of transport of goods across the country, which in effect meant maximising use of truck return loads. The figures above exclude savings from fleet operating costs that were around USD 1million in 1999, again based on 1997 actual costs. At the launch of the project, the company had anticipated an annual saving of USD 2 million per year. Though this target was not met, the savings achieved assisted the company achieve profit during a time when revenues were dwindling.

Secondly, BAT Kenya was able to focus on its core businesses following outsourcing of non-core logistics activities. The company's buyers, trade team and leaf growing managers said about 40 % of their time previously spent on performing logistics activities are now utilised to perform their real jobs. Although this claim is difficult to justify, the research showed that the

³ Source: BAT Kenya internal documents

company has achieved other savings and objectives as a result of the managers spending more time in other value-adding activities.

Third was improved management of working capital. Expertise input in areas such as lead-time reduction and increased velocities across the supply chain was effective in management of working capital. The table below shows the movements in the company's Finished Goods and Wrapping Materials stock balances in Ksh. million.

Table 5: Impact of outsourcing on working capital⁴

	1997	1998	1999	2000
Finished Goods	390	278	262	149
% Reduction V 1997	0	29%	33%	62%
Wrapping Materials	378	300	150	-80
% Reduction V 1997	0	21%	60%	121%

The savings in working capital investment are very significant. On the wrapping materials, working capital savings were achieved via buffer stock reduction as well as a new initiative to achieve longer credit period with suppliers of primary materials. Without in put from the logistics services supplier, it would have been difficult to achieve these good results. Last but not least was improvement in service delivery. Customer delivery on-time-in-full improved to 100% in year 2000 compared to performance levels of 50-60% in 1997. This was achieved due to access of the world class capability of the logistics services partner who more flexibility in the distribution operation thus improving customer service level. Improvement of management information systems across the supply chain also ensured customer service levels, internal and external, went up drastically. Additionally, BAT was able to synchronise its inbound and outbound marketing logistics activities and was thus able to provide good customer service.

⁴ Source: BAT Kenya internal documents

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of study results and discussions

Outsourcing of the non-core logistics activities at BAT Kenya was triggered by the need to eliminate duplication of roles, effort and the dysfunction existing at the time. The need to have in place clarity of process and re-aligning the logistics function was the other overriding trigger. Thirdly, logistics operating cost reduction and improved working capital management were anticipated. Fourthly, BAT Kenya took the outsourcing opportunity so as to enable it focus on its core business. Finally, outsourcing was considered the right strategy to achieve better customer service delivery.

In order to gain benefits in outsourcing, the BAT Kenya first pinpointed the processes that were really core to its business. It determined where it needed to invest its money and those processes stayed in-house. The next step was to determine what was broken and what was working. It concentrated on the broken processes first. It looked at processes where an outsourcing provider could bring most leverage in areas like expert process ownership, best practice and scale. BAT Kenya was successful in outsourcing its non-core logistics activities because:

- Pricing and service levels established at the start of the contract contained meaningful mechanism for continuous improvement. Transparency in costs, operations and margins helped to manage the outsourcing relationship.
- When BAT was planning to outsource it sought a supplier with cultures similar to its own. In addition to the compatible cultures, the two parties also ensured there are no fundamental differences in their goals and objectives. Although these were and are frequently difficult to harmonise, the partnership approach towards the relationship helped.

- The outsourcing contract was flexible on key assumptions regarding technologies, business conditions, personnel, and other relevant issues otherwise one or both parties would have tended to become dissatisfied. Due to the dynamic nature of the business environment today, these assumptions change a lot. However detailed the contract or favourable the terms, the contract cannot anticipate the changes in an evolving environment. This phenomenon avoided either of the party becoming disenchanted with the relationship. A continuous improvement spirit was incorporated throughout the process.
- BAT did not underestimate the time and attention required for managing the outsourcing relationship. It did not hand over management responsibility to the supplier. It was not an abdication either; it delegated responsibility and accountability to the supplier. This way, the supplier did not operate in a priority vacuum, and service levels improved because the supplier's agenda was in sync with the buyer's business objectives.
- BAT ensured management oversight did not lack by ensuring the team that negotiated the contract stayed engaged in the contract management. A new team that may or may not understand the contract's intentions was not given responsibility for managing the relationship.
- Employees that understood the pre-outsourced environment had been transferred to the supplier's team. Although this could have caused disruption in continuity, it did not have significant adverse effects on the outsourcing relationship because the team leaders of the relationship from both the supplier and the buyer were both new.
- BAT Kenya's CEO played a central role in the outsourcing project acting as the project sponsor. Management commitment was guaranteed throughout the process. The project was top-down driven. For a project of this strategic magnitude, this was the only way it could have worked. It was a major deviation from the way the company ran its activities before. The human resource issues that arose were speedily resolved in an amicable manner. This way, resistance from the affected employees were forestalled.

- Use of tools such as service level agreements and performance dashboards accelerated the achievement of the anticipated benefits. Team approach during implementation was very effective especially with the application of proven project management techniques. The value brought by the cross-functional teams that included members from the outsourcer's side cannot be overemphasised. The T&B team was fully integrated into BAT Kenya's supply chain. Besides these, the team was empowered to track the contract's operational performance, revise the targets regularly and agree own milestones.

The challenges encountered included lack of benchmarks. To overcome this, BAT Kenya decided to adapt rough baseline costs and monitor performance against them. A zero-based budget was then agreed with the supplier. Although there were few vendors who could provide the service BAT Kenya was seeking, it carried out a thorough screening exercise eventually picking a compromise candidate. The supplier selected was one that was flexible enough to be tailored to the company's requirements.

After all was said and done, BAT Kenya scooped good benefits from the outsourcing project.

These included:

- About 20% logistics operating costs saving was achieved within three years.
- Up to 40% of employees' time previously spent on logistics activities was freed. These employees could therefore use the extra time to focus on other activities critical to the business. The business as a whole was also able to focus on own competencies.
- Wrapping materials and finished goods inventories were reduced by 121% and 62% respectively.
- Customer service delivery improved to 100% from 60% in less than three years.

5.2 Conclusions

In general BAT appear to have successfully implemented the outsourcing project because of the open and transparent manner in which it carried out the process.

- The outsourcing evaluation and decision process was on the CEO's list of top priorities. Senior management took the lead in the entire process – from identifying the objectives for outsourcing to establishing a sound structure for ongoing management of the relationship. The decision to outsource was a major organisational decision and ultimately the senior managers' responsibility.

- Supplier selection criteria must be established and very clear from the onset. BAT sought a supplier with international skills, broad customer/supplier base, willing to flexible/customised solution. This accelerated the success rate, improved buy-in and removed burden of proof on the part of the supplier. Contract term must be just right.

- Outsourcing worked in BAT because the company had demonstrated a culture of transparency and openness throughout the process.

All discussions with the potential suppliers were held very openly and the attitude taken was that of two equals, it was a clear partnership approach. The attitude was delegation, not abdication. The other important aspect for the success was the fact that the timing was just right. The company had been through a business process re-engineering and a culture-change program. It had emerged into a learning organisation according to study findings.

- It is important to put clear processes and measures of performance in place for the outsourcing relationship to work. The SLA and key performance indicators worked very well for BAT. Incorporating continuous improvement to the whole process is crucial. When performance targets are raised are achieved continuously it is time to raise the bar. There should be no limit to improvement. Communication all-round in regard of the contract ensures that all parties are informed of all the developments, there should be no interruption to flow of needed information.

- Involvement of hands-on in outsourcing implementation is of great value. The front-line team must be fully empowered to take decisions regarding the contract. Reference should only be made to the top management team if a major deviation from strategy is anticipated.

5.3 Recommendations

- To avoid problems, buyers need to be very careful in identifying the exact scope and description of services and include a responsibility matrix and glossary of terms in an outsourcing contract. This way, clarity of process and responsibility becomes very clear. This worked for BAT.
- Because business conditions change, ongoing challenges and negotiations are part of an outsourcing relationship, and both parties need to develop an attitude of give and take and finding the middle ground.
- The suppliers' flexibility and willingness to go beyond the printed type on the contract pages will help the parties find a middle ground in negotiations.

5.4 Limitations of the study and how they affect the conclusions

By design, this study was intended to document the experiences, challenges and benefits of outsourcing at BAT. It was quite a big task for the executives to recollect the details of what actually transpired, although this happened only three years ago. This is a reflection of the speed the environment has been changing in the recent past. If some crucial information pertinent to the study was missed out, the other reason is because the managers working in BAT change roles too often. On average managers hold a position for only 12 months. Of course a change of role comes with new challenges and the person very easily forgets the details of the previous job held. It is believed proper documentation of major strategic undertakings like this one would add value in terms of ensuring mistakes are not repeated and best practice is maintained.

5.5 Suggestions for further research.

The proliferation of outsourcing in BAT and across Kenya is a phenomenal across types of activities, across industries and at every level of the organisation. Each year brings more activity than the year before. It truly is a fundamental re-thinking of organisation structure and of how companies create value. Outsourcing continues to be the most dynamic trend within business today. Outsourcing is certainly reaching maturity stage in the country. East African Breweries, the major player in beer industry, has outsourced part of its logistics and supply chain activities recently. It would be interesting to establish its experiences and those of other organisations who have outsourced to check if they utilised BAT learnings. The future of outsourcing industry will focus more on strategic alliances kind of arrangements, far more advanced in terms of outsourcer-customer relationship.

In particular, the direction is to move to the next level for value creation. Within the context of this explosion in outsourcing agreements, the first major obstacle is how to take outsourcing to the next plateau in the value proposition clients seek from outsourcing relationships.

Companies are increasingly aware of the dangers of viewing outsourcing as a short-term cost reduction tactic, and increasingly seek outsourcing arrangements which can improve their asset utilisation, service levels, customer satisfaction, and increase revenues. As companies try to move toward this new plateau, they have to change the way they think about creating and managing these new relationships. They also need to recognise that they will have to do a better job of communicating these values at all levels within their organisations. The providers have begun trying to communicate a broader value proposition. The issue is more slowness on the part of customers to truly recognise that they need to focus on value.

New management skills are required to move outsourcing to the next level. The perspective from top management on the value-added partnership that can create value in outsourcing should always be shared by the people who are assigned the responsibility for managing the outsourced function and who deal with the supplier-partner on a daily basis. Leadership skills associated with successful management of these new outsourcing relationships are so different from traditional management skills that re-training these managers is mandatory.

A true focus on customer satisfaction is on the offing. Technical service parameters alone will not sustain the relationship between two organisations on an on-going basis. The character of the relationship and its ability to be flexible, innovative, and consistent with expectations are key. That requires a new awareness of the importance of having a common language and common yardsticks for understanding, measuring, and communicating customer value. Two critical elements within customer satisfaction are first the individual or group that set up the relationship, and the second the actual end user of the services.

Questionnaire

APPENDIX 1
QUESTIONNAIRE

Questionnaire

To be answered by Supply Chain Managers at British American Tobacco Kenya.

Section 1: Personal Details

1. Position in the Company.....
2. State years of experience in the company:

Section 2: Triggers and planned benefits to outsourcing of non-core logistics activities

1. List the triggers to outsourcing of non-core logistics activities and rank them in order of importance.

- (i)
- (ii)
- (iii)
- (iv)
- (v)
- (vi)
- (vii)

2. How significant were the factors listed below in triggering the outsourcing carried out? Rank the factors in order of significance from 1-9, 1 being least significant and 9 being most significant.

- (i) Increased competition

- (ii) More demanding market place
- (iii) Just-in-time production lines
- (iv) High Service Level expectations by customers
- (v) Long supply lines (supplier lead time)
- (vi) Cost cutting needs
- (vii) Asset base reduction requirements
- (iix) Labour force reduction needs.
- (ix) Need to enhance logistics MIS

3. What benefits were anticipated to come with outsourcing of non-core logistics activities?

- (i)
- (ii)
- (iii)
- (iv)
- (v)
- (vi)
- (vii)

4. How did the organisation regard the importance of the following strategic benefits associated with outsourcing? Rank the factors in order of importance from 1-5, 1 being least important and 5 being most important.

- (i) Enable the organisation to focus on core business
- (ii) Gateway to world class capability of partner
- (iii) Achievement of re-engineering acceleration
- (iv) Investments risk reduction

Section 3: Implementation in various phases

Section 3a Exploratory Phase

1. *Who was responsible for the feasibility studies?*
(a) External Consultant (b) Internal Consultant (c) Potential supplier?
2. *What feasibility studies were carried out and what was the outcome?*
(a) Best practice in Kenya (b) Best Practice in group (c) Other best Practice
3. *Was there a sponsor for the project?*
(a) From department (b) From another department (c) From group
4. *What factors were seen as critical for the success of the project?*
(a) Supplier credibility (b) Management commitment (c) Employee support
5. *How would success be measured? Was this agreed?*
(a) Operational Key Performance Indicators, KPI (b) Strategic KPI
6. *Were various potential suppliers considered? How many?*
7. *Were other members of the management involved at this stage?*
8. *Were employees involved during the feasibility studies?*

Section 3b Supplier Selection and communication

1. *What business activities were actually outsourced? Why?*

Contract trucking

Contract warehousing

Integrated contract trucking/warehousing

Channel management outsourcing

Performance-based contracting

2. *What criteria were used to select the supplier?*
 - (a) *Scope of services offered (geography and breadth)*
 - (b) *Contract logistics experience (capability, MIS, People, Projects done)*
 - (c) *Industry experience*
 - (d) *Proven ability to make things better (feasibility studies, service levels)*
 - (e) *Supplier financial strength and commitment to contract logistics*
 - (f) *Competitive pricing*
3. *What terms were agreed with the supplier? Why? Benefits to the company?*
4. *Who was involved in this decision?*
5. *How and in what forum was this decision communicated to the rest of management?*
6. *How and in what forum was this decision communicated to the rest of the employees?*
7. *Did this outsourcing decision result in any job losses? If so how was it managed?*
8. *Where other assets of the company affected by this decision? What happened?*

Section 3c Actual Implementation

1. *Was the implementation carried out in a phased approach? Why? What were the phases?*
2. *Did the processes and procedures change with the new supplier's entry? What changes actually happened? Please provide process maps before and after.*
3. *Was a contract signed? What period of time was it for? Exit clause?*
4. *Where service level agreements signed?*
5. *Where key performance indicators agreed beforehand? What were they?*

6. *What arrangements were agreed to achieve good communication flow between the company and the new supplier?*
7. *Did the new supplier bring in own employees?*

Section 4: Implementation Challenges and how they were tackled.

1. *What were the major challenges faced in each of the following stages of the project?*

Feasibility studies

Supplier Selection

Starting up

First few months of operation

2. *How were these challenges overcome?*

Uncertainty related to outsourcing

Buy-in from other functions

Management buy-in

Ownership on inventory

Benchmarking the costs and service levels

3. *How significantly did the following factors help to overcome the challenges?*

Credible sponsor willing to convert opportunity to implemented reality

Corporate culture for innovation and change

Reward/motivation

Ability to benchmark current costs estimated and actual future costs systems

Section 5: Benefits Achieved

1. *List short-term benefits achieved (within 3 months)*
2. *List mid-term benefits achieved (within 24 months)*

3. *List long-term benefits achieved (after 24 months)*

4. *Rank how significant the following benefits were to your organisation.*

Reduced transportation costs

Reduced material handling and storage costs

Inventory levels reduction

Improved channel responsiveness

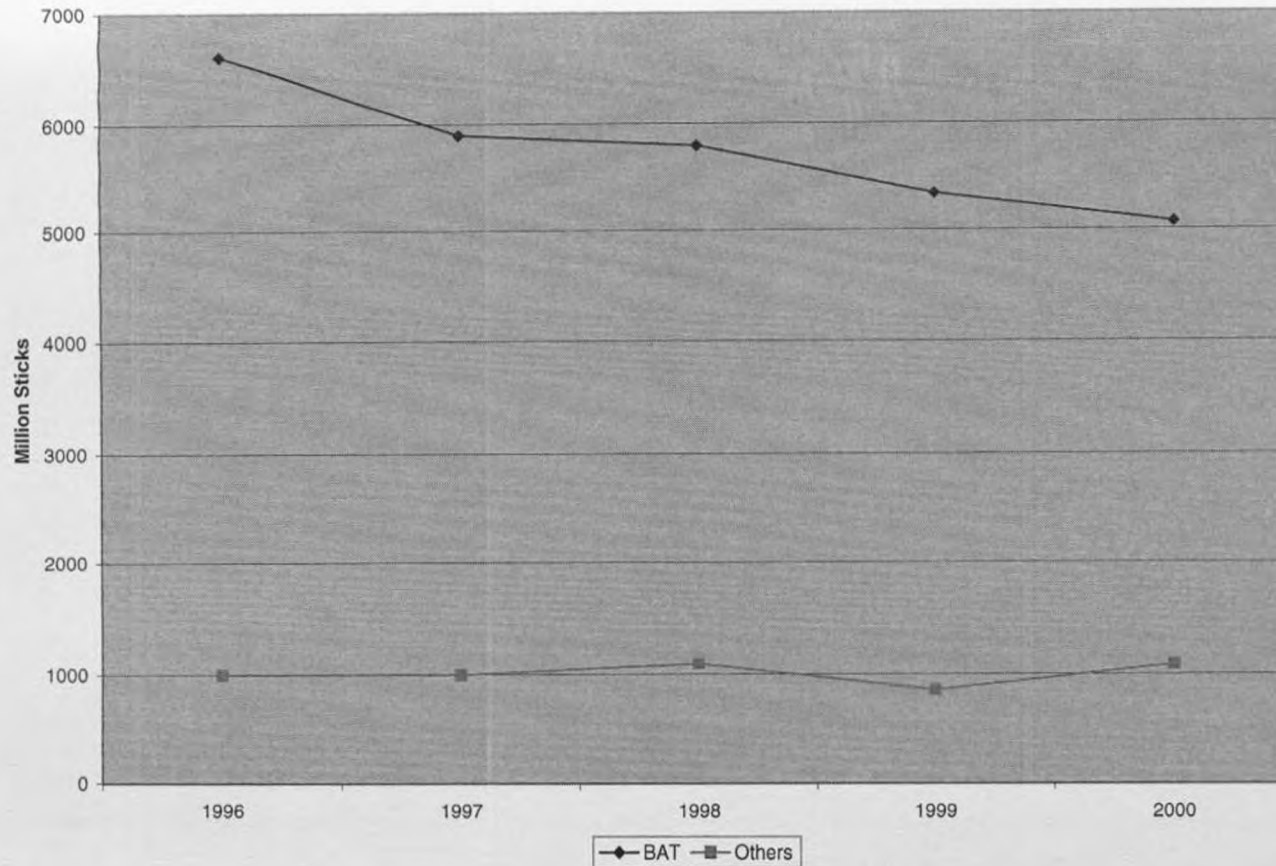
Improved channel control

QUESTIONS
W. J. Walsh, Toronto

Appendix 2

BAT Sales Trends

British American Tobacco Sales Volumes Trends¹

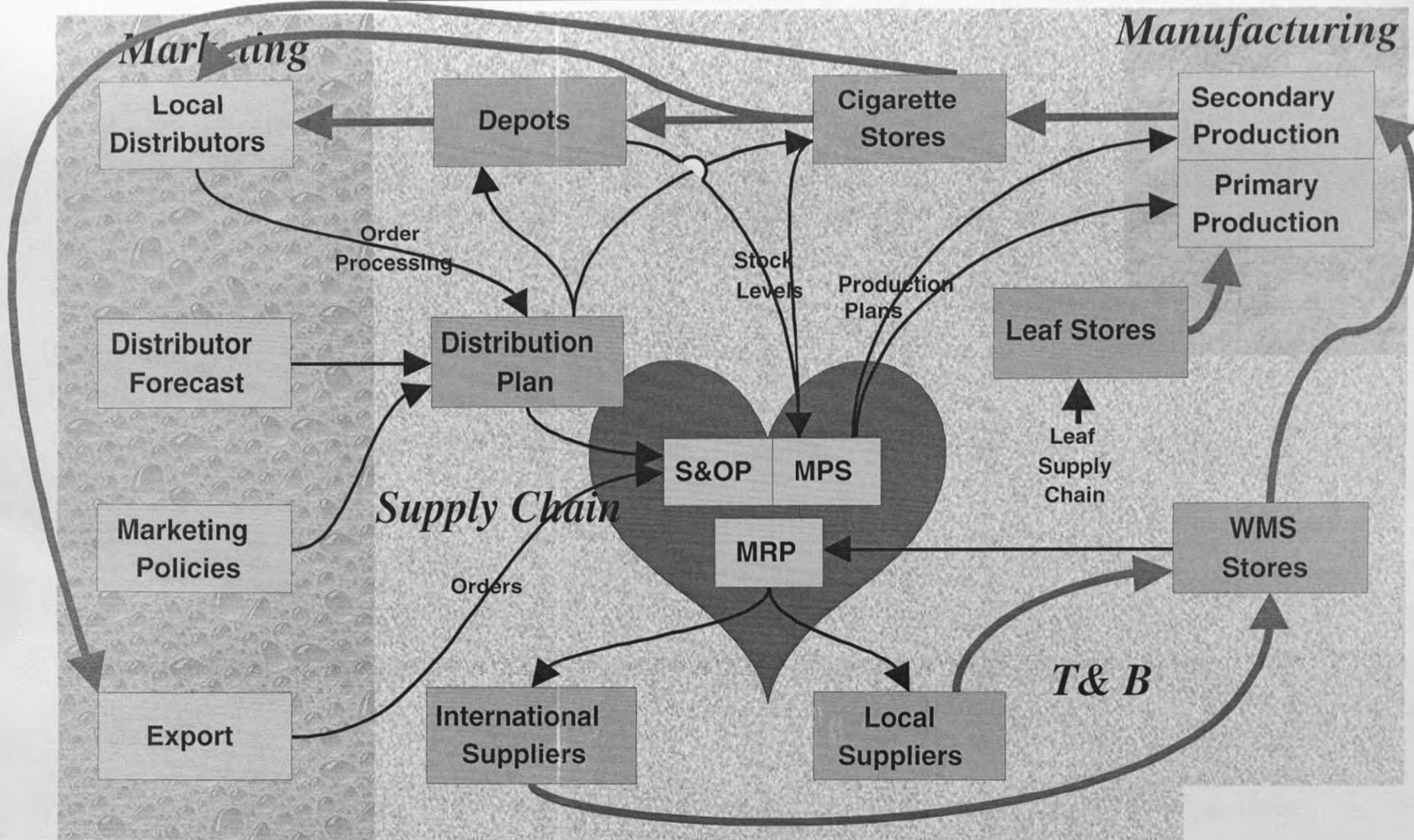


¹ Source: British American Tobacco Kenya Financial Statements

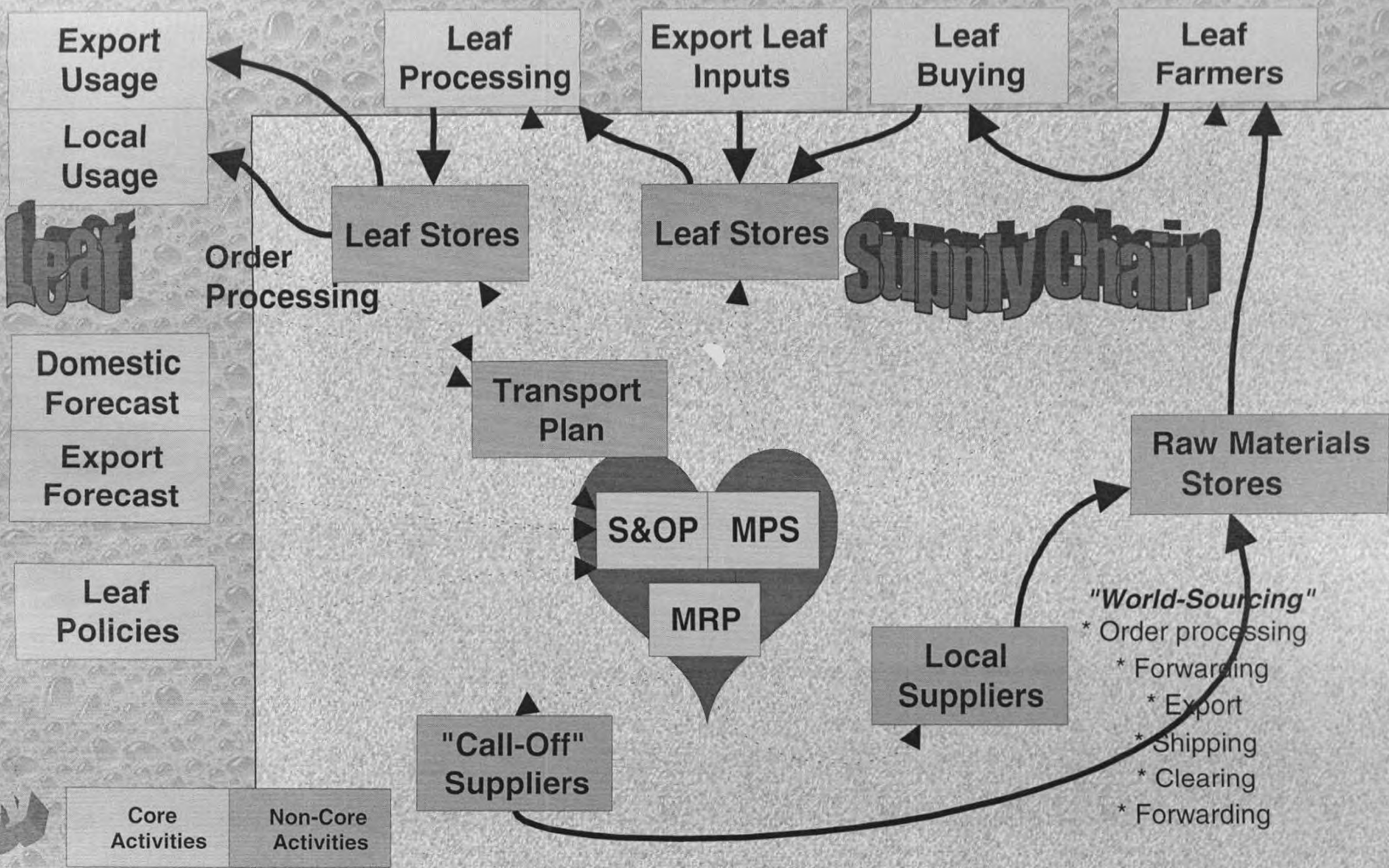
APPENDIX 3

THE BAT SUPPLY CHAIN MODELS

“Supply Chain Model - Cigarette Business”



Supply Chain Model - Leaf Business Model



APPENDIX 4

KEY PERFORMANCE INDICATORS

Key Performance Indicators

Section	Monitor	Description	Who	Min	Max		
Customer Service	T&B	OTIF Delivery	% Delivered on time, in full to policy	T&B	95%	100%	
		On Time Deliveries	% Deliveries on time to policy	T&B	96%	100%	
		In Full Deliveries	% Deliveries in full to order	T&B	98%	100%	
		Fleet Availability	% of days fleet available for work	T&B	90%	100%	
		% Distribution Journeys Subcontracted	% journeys subcontracted out	T&B	0%	10%	
		Damaged Cartons	Number of damaged cartons	T&B	0	1	
		Short Packing Incidents	Number of short-packing incidents	T&B	0	0.5	
		Payment Collection	Number of failures to receive correct payment	T&B	0	2	
		T&B Cost v Budget	T&B Secondary Logistics cost v budget	T&B	0%	100%	
		T&B Cost v Baseline	T&B Secondary Logistics cost v baseline	T&B			
	Internal Customers	ESR Stock Out Days	SKUs x Number of days of stock outs	Log	0	1	
		Distributor Stock Out Days	Distributor stock outs due to Logistics	Log	0	0.3	
		Total Cost v Budget	Secondary Logistics cost v budget	Log	0%	100%	
		Total Cost v Baseline	Total Secondary Logistics cost v baseline	Log			
	Supply Chain Planning	Logistics	1 month sales forecast av. accuracy	Actual sales v 1 month forecast	Mktg	95%	105%
			1 month sales forecast - worst brand	Actual sales v 1 month forecast - Worst SKU	Mktg	85%	115%
			3 month sales forecast av. accuracy	Actual sales v 3 month forecast	Mktg	95%	105%
			3 month sales forecast - worst brand	Actual sales v 3 month forecast - Worst SKU	Mktg	85%	115%
			Orders receipt on time	% of orders placed on time by Distributor	Mktg	90%	100%
Order alterations			% of orders altered each week	Mktg	0%	5%	
Orders Received OTIF			% Orders OTIF to policy, no alterations	Mktg	90%	100%	
Fixed Time Fence Changes			Plan changes within 1 week time-fence	Log	0	0.4	
4 Week MPS Changes (Total)			Plan changes within 4 weeks time-fence	Log	0	5	
8 Week MPS Changes (Total)			Plan changes within 8 weeks time-fence	Log	0	10	
Internal Customers		T&B Non-Stock Costs	T&B costs exc. Stock costs	T&B	0%	100%	
		Total Planning Costs v Budget	Total costs v budget	Log	0%	100%	
		Total Planning Costs v Baseline	Total costs v baseline	Log			
		Av. Weekly Schedule Attainment	Average weekly production v plan performance	Mfg	98%	102%	
		Worst SKU Weekly Schedule Attainment	Average weekly production v plan performance	Mfg	95%	105%	
		Av. Monthly S&OP Attainment	Average monthly production v plan performance	Mfg	98%	102%	
		WMS Wastage	Average % WMS wastage by value	Mfg	0%	3.0%	
		Leaf Wastage	Average % Leaf wastage by value	Mfg	0%	4.5%	
		Total Quality Rejects	Total number of quality rejects	Proc	0	1.5	
Incoming Quality Rejects	Number of quality rejects at IQC	Proc	0	1.0			
Factory Quality Rejects	Number of quality rejects at factory	Proc	0	1.0			

Key Performance Indicators

Section		Monitor	Description	Who	Min	Max
Inventory	Logistics	FG Inventory Accuracy	% accuracy of FG inventory	Log	100%	100%
		WMS Inventory Accuracy	% accuracy of WMS inventory	T&B	100%	100%
		Leaf Inventory Accuracy	% accuracy of Leaf inventory	Log	100%	100%
		FG Durations (Days)	Average days of FG duration in days	Log	12.0	16.0
		FG Durations (Value)	Total value of FG	Log		
		FG SKU < 5 days	Number of days any SKU < 5 days duration	Log	0	1
		WMS Durations On Site (Days)	WMS durations on site in days	Log	22.0	28.0
		WMS Durations Total	WMS durations on site + on route	Log	55.0	70.0
		WMS SKUs < half policy	Number of days any SKU < 1/2 target	Log		
		WMS Stock Out Days	WMS SKUs x Number of days of stock outs	Log		
		% WMS Value > 3 months old	% of stock older than 3 months	Log	0%	15%
		WMS Average Payment Days	Average supplier payment credit days	Log	45.0	90.0
		WMS Net WCR Days	Net days of stock in chain (stock - credit)	Log	12.0	-30.0
		WMS Duration (Value)	Total value of WMS	Log		
		Total Working Capital v Budget	Total Working Capital v Budget	Log	0%	100%
		Total Working Capital v Baseline	Total Working Capital v Baseline	Log		
		MRP Management	Logistics	CS3 Period End	Number of days to close month's CS3	Log
MRP Runs	Number of MRP reviews during month			Log	4.0	8.0
BOM Accuracy	% accuracy of BOM			Log	99%	100%
Expediate Messages > 15 days	% of MRP expediate messages			Log	0.0%	5.0%
Problem Expediate Messages	% Expediate Message - Not 'planned'			Log	0.0%	5.0%
Delay Messages > 15 days	% of MRP delay messages			Log	0.0%	5.0%
Problem Delay Messages	% Delay Messages - Not 'planned'			Log	0.0%	5.0%
Cancel	% of MRP cancel messages			Log	0.0%	2.0%
Raise Late > 5 days	% of MRP raise late messages			Log	0.0%	2.0%
Port Management	T&B			Average WMS Clearing Days Sea / Land	Average number of days to clear seafreight	T&B
		Average WMS Clearing Days Air	Average number of days to clear airfreight	T&B	0.0	4.0
		% WMS Cleared On Time	% of WMS cleared OTIF	T&B	90%	100%
		Bond Clearance	Average days to clear from Bond	T&B	0.0	4.0
		Average non-WMS Clearing Days S / L	Average number of days to clear seafreight	T&B	0.0	8.0
		Average non-WMS Clearing Days Air	Average number of days to clear airfreight	T&B	0.0	4.0
		% Non-WMS Cleared On Time	% of non-WMS cleared OTIF	T&B	90%	100%
		WMS Demurrage	Value of WMS demurrage	T&B		
		Non-WMS Demurrage	Value of non-WMS demurrage	T&B		
		Stock Cost Financials/Supplier Manag	Logistics	IDF Processing Time	Number of days to process IDF	Log
OTIF Payment Local	% local supplier paid on time and in full			Log	90%	100%
OTIF Payment International	% international suppliers paid OTIF			Log	90%	100%
OTIF Delivery Local	% deliveries OTIF from Local Suppliers			Log	90%	100%
OTIF Delivery International	% deliveries OTIF from International Suppliers			Log	90%	100%
% Local Suppliers with SLA	% Local suppliers with SLA by value			Log	90%	100%
% International Suppliers with SLA	% International suppliers with SLA by value			Log	90%	100%
C&F v Vol Adj Budget	Cost of C&F v volume adjusted budget			T&B	0%	100%
Inbound Logistics v Vol Adj Budget	Cost of Port to Factory Logistics v vol adj budget			T&B	0%	100%
Inbound Freight v Vol. Adj. Budget	Cost of Supplier to Port			T&B	0%	100%
Stock Cost Financials/Supplier Manag	T&B	WMS Stores Management	Cost of operating stores v budget	T&B	0%	100%
		Administration Costs v Budget	Other costs v budget	T&B	0%	100%
		T&B Total Cost v Budget	Total T&B related cost v budget	T&B	0%	100%
		T&B Total Cost v Vol Adj Baseline	Total T&B related cost v volume adj cost	T&B		
		T&B Total Cost v Vol Adj Budget	Total T&B related cost v vol adj baseline	T&B	0%	100%

APPENDIX 5

SERVICE LEVEL AGREEMENTS

Service Level Agreements – Primary Supply Chain

Service Level Agreement

Ref. No: SLAT&BPRIMARY1

Title: *T&B Primary Operations Budget*

Scope:

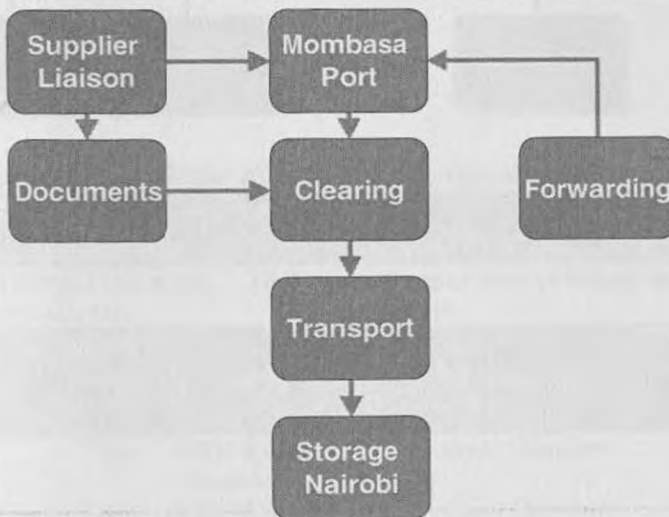
This document covers the budget for the T&B Primary Logistics operations for British American Tobacco Kenya.

Order placement, tracking, and follow-up, Documentation, Clearing and Forwarding activities in Mombasa, transport from Mombasa to Nairobi and Leaf / WMS stores are covered by this agreement.



Update Date: Mar. '99

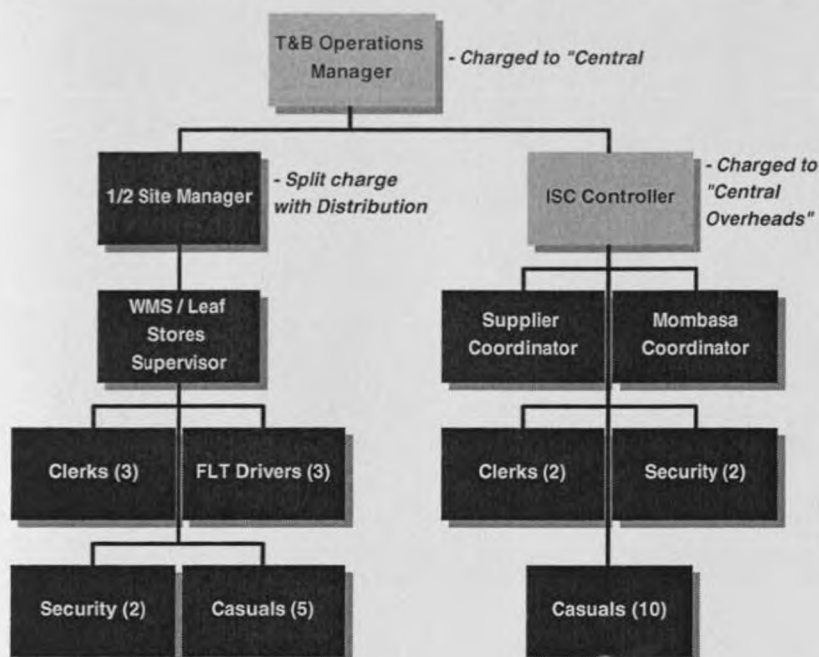
Process Map (Top level flowchart of the process)



Process Notes (Supporting notes for the procedure showing key areas of responsibility)

Key processes covered by the budget in this agreement are:

- Order placement, tracking and follow-up with agreed suppliers
- Clearing documentation processing
- Mombasa Clearing for incoming WMS
- Transportation from Mombasa to Nairobi
- Storage of WMS and Leaf in Nairobi



For detailed operational procedures, please refer to the appropriate SLAs.

Basic Service Commitments

What	Expected Service	Who	Action in case of failure
Cost	Actual cost / unit within target amounts	T&B	Full explanation of failures and action plan to correct the short-falls

Key Performance Indicators (KPIs)

What	Who	Target Perf.	Monitoring Technique	Who	Freq.
Cost / Container Clearing	T&B	6,000 Ksh / Container	Cost / Container	T&B	Monthly
Cost / Container Forwarding	T&B	4,700 Ksh / Container	Cost / Container	T&B	Monthly
Transport Cost / Container	T&B	42,000 Ksh / Container	Cost / Container	T&B	Monthly
WMS Wages Costs	T&B	Within Budget	Actual v Budget	T&B	Monthly
C&F Wages Costs	T&B	Within Budget	Actual v Budget	T&B	Monthly
Demurrage Costs	T&B	< 80% of 1998	Actual v Target	T&B	Monthly
Fork Lift Truck Operating Costs	T&B	< 80% of 1998	Actual v Target	T&B	Monthly

Payment Details (If Applicable)

Budget Summary:

Error! Not a valid link.

Budget Details: Clearing & Forwarding Costs & Transport to Nairobi

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Budget Details: Wages

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Non-Budget C&F Operating Costs (To be monitored as a KPI)

Demurrage: 80% of 1998 baseline

Fork Lift Truck Operating Costs: 80% of 1998 baseline

Other Costs

All other cost payable to the Government (port charges, etc) to be recharged at cost

Documentation (If Applicable)

NA

Review Process

Monthly T&B / BAT Logistics Review Meeting

Other Comments

- Refer to SLAT&BPAY for detailed systems as to how payment will be made.
- T&B documentation and invoices to clearly separate Agency costs, Government set costs, ad Demurrage costs

Agreed By

On Behalf Off

Who

Date

Signature

BAT - Logistics

T&B

BAT - Finance

Service Level Agreement – Leaf Logistics

Service Level Agreement

Ref. No: SLALEAF1

Title: *Eastern Africa Leaf Transport Operations*

Scope:

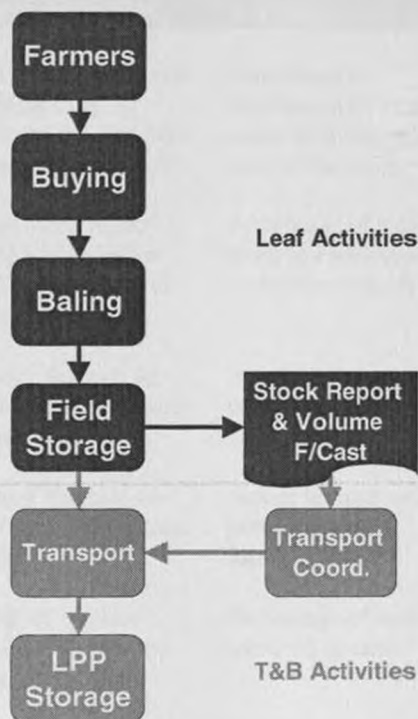
This document covers movement of leaf from leaf storage centres in the field to delivery in central LPP stores.


BRITISH AMERICAN TOBACCO
Eastern Africa



Update Date: Mar. '99

Process Map (Top level flowchart of the process)



Process Notes (Supporting notes for the procedure showing key areas of responsibility)

Scope Of Responsibilities

- BAT Leaf manage the buying, baling and storage process up to local field stores which are reachable by normal trucks.
- BAT Leaf provides weekly updates of stock volumes and predicted baling volumes over the next 3 weeks.
- T&B arrange trucks to deliver stock from the stores to the central LPP stores, whilst ensuring that stocks at all field stores stay within agreed stock volumes.
- All vehicles must achieve BAT quality standards (as outlined on the T&B Vehicle Inspection Sheet – these can be either open-body or containerised). BAT despatch personnel will verify the standard of all vehicles before loading.

Service Level Agreement – Leaf Logistics

Service Level Agreement

Ref. No: SLALEAF1

Title: *Eastern Africa Leaf Transport Operations*

Scope:

This document covers movement of leaf from leaf storage centres in the field to delivery in central LPP stores.

BRITISH AMERICAN TOBACCO
Eastern Africa



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- All vehicles must achieve BAT quality standards (as outlined on the T&B Vehicle Inspection Sheet – these can be either open-body or containerised). BAT despatch personnel will verify the standard of all vehicles before loading.

Sub-Process 1 Notes (If Applicable)

It is important that all Distributors should follow the standard Marketing Policies. However it is acknowledged that occasionally Distributors will be unable to follow policy for a short period of time.

Distributor Recovery Tracking Format

Logistics will track all recovery plans using the following format:

Region	Distributor	Problem	Policy Impact	How Solve ?	Who ?	Orig. When ?	Weekl y Cost	Comments

Additional Costs

The costs of "Special" costs for supporting non-conforming Distributors will be as follows:

Notified special requirements covered by an action plan: All costs covered by Logistics, but reported to Marketing for information and accountability.

Special requirements not planned, or passed the agreed recovery date: All costs recovered from the Distributor by Marketing (internal reallocation from Logistics to Marketing).

Basic Service Commitments

<i>What</i>	<i>Expected Service</i>	<i>Who</i>	<i>Action in case of failure</i>
<i>Ordering Placement Time</i>	10am on agreed day of the week	Distributor (Mkting)	Failure recorded and reported to the Marketing Regional Manager for action
<i>Order Accuracy</i>	Order placed for each SKU as per policy	Distributor (Mkting)	All failures recorded and reported to Marketing Regional Managers
<i>Distribution Plan</i>	Match distributor requirements when economical	T&B	Adjust loading to best meet Marketing and Logistics requirements, and clearly communicate reasons to Marketing on the order confirmation
<i>Distribution Plan</i>	Completed by 3pm on day orders received	T&B	Failure recorded, with root causes and plan completed ASAP
<i>SOP Data Entry</i>	Completed before the next working day after the orders placed	Logistics	Failure notified to the Customer Service Manager for review and completed ASAP
<i>Invoice</i>	Printed and passed to T&B by 8.30am on the planned day of despatch	Logistics	Failure notified to the Customer Service Manager for review and action. Invoice prepared ASAP.
<i>Payment Receipt</i>	Unless the Distributor is using the "Direct Debit" payment system, a valid payment method will be received by T&B before delivery made.	T&B	The distributor will have payment available within 60 mins of the vehicle's arrival (as long as the vehicle is not early), if not, the driver will notify T&B Nairobi and leave WITHOUT delivering the stock.
<i>Unloading Time</i>	Within 60 mins of arrival at the Distributor	Distributor (Mkting)	Failure recorded and notified to the Marketing Regional Managers
<i>Payment forwarded to Marketing Accounts (apart from define distributors for local</i>	Within 2 hours of the delivery vehicle returning to Nairobi	T&B	Failure notified to Marketing Accounts and Customer Services Manager. Full explanation given by T&B. Payment forwarded ASAP.

Other Comments

- Refer to SLAT&BLEAF for detailed on operational budgets
- Stock level allowances by location are agreed in writing with local field management (see attached draft form)
- It is planned for T&B to take over stock management at the Leaf Field Stores in the future

**Agreed By
On Behalf Off**

Who

Date

Signature

BAT - Logistics

BAT - Leaf

T&B

Leaf Field Stock Weekly Update

(To be sent every Monday before 12pm, with the week end status)

To: T&B Nairobi (Fax: 02 - 541005 or Lotus Notes to Branco in Nai

Location:

Baled Capacity:

Present Loose Stock (MT) :

Present Baled Stock (MT) :

Forecast	Mon	Tues	Wed	Thurs	Fri	Sat	Sun	Wk2	Wk3
Buy (MT)									
Baled (MT)									

Comments

Prepared By:

Service Level Agreement Ref. No: SLADIST/2

Title: Distribution of Domestic Finished Goods

Scope:

This document covers the process from Distributors placing an order to stock delivery and payment.

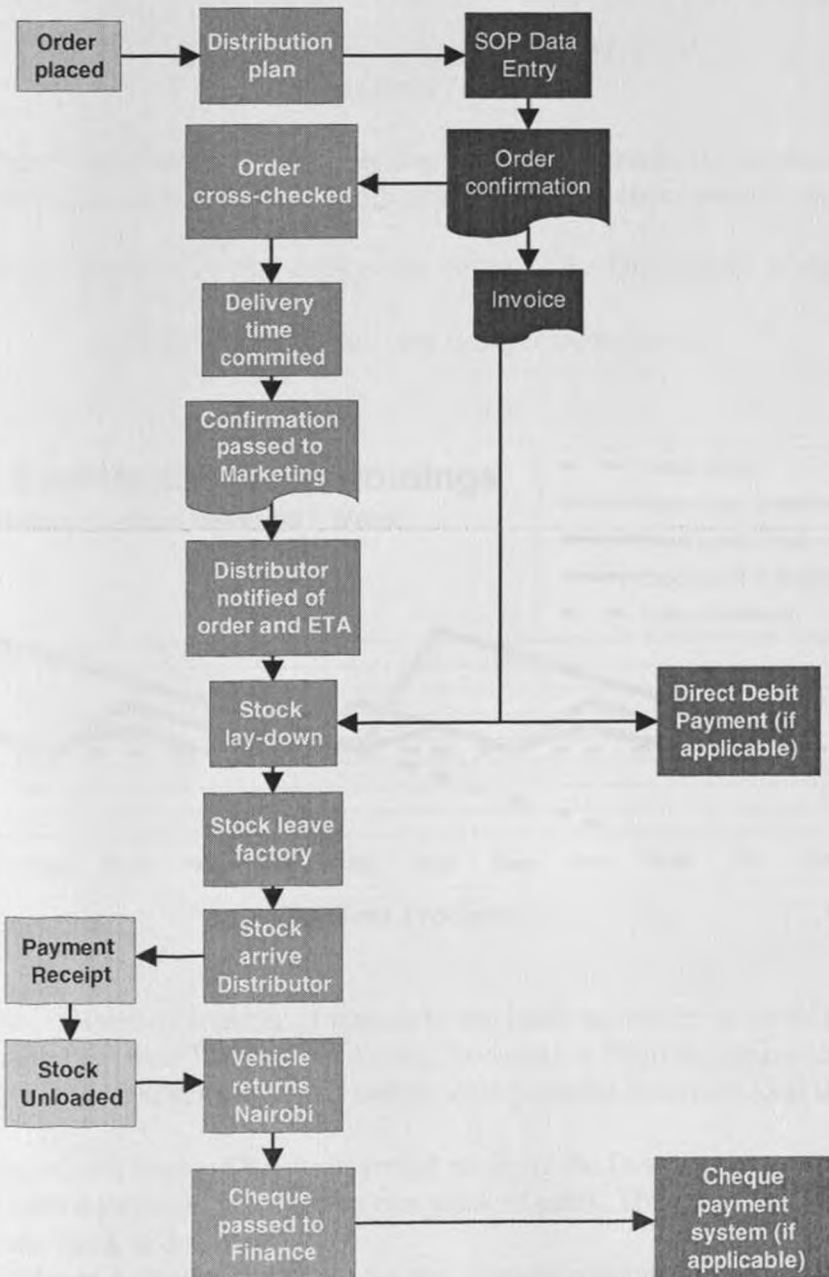
Marketing policies are clearly stated. In case of a Distributor being unable to follow policy, procedures are documented for non-conformance.



Update Date: March '99

Process Map (Top level flowchart of the process)

Distributor / Marketing T&B Logistics Marketing Accounts



Marketing Policies

All orders are to placed as per the following Marketing Policy unless Logistics have been notified in advance in writing (see Sub-Process 1)

Deliveries / Week			
Av. Cartons / Week	< 250 Cartons	250 – 500 Cartons	> 500 Cartons
Approx. Milles / Week	< 3,300 Milles	3,300 – 6,600 Milles	> 6,600 Milles
Deliveries / Week	One	Two	Three

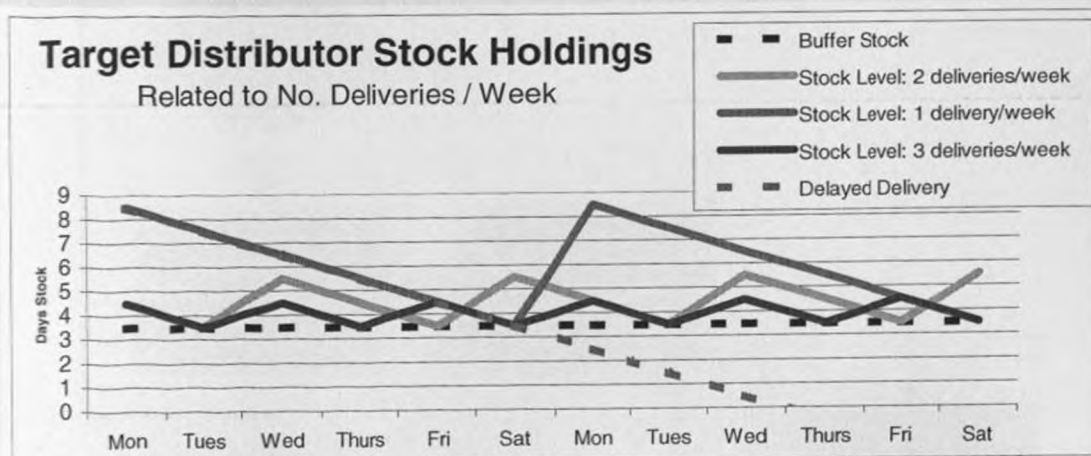
Minimum Buffer Policy By SKU

The targeted 3.5 days buffer stock refers to the minimum stock holding to be held at the distributors for each SKU. The calculation is as follows:

$$\frac{\text{Monthly Sales Volume} \times 3.5 \text{ days}}{\text{Working Days / Month}}$$

In practice this means that just before a delivery of stock is made, the targeted stock cover is 3.5 days. As such if delivery is 3.5 days late then a stock-out will occur.

Minimum Buffer Definition: The stock cover on site at the Distributors in days cover per SKU when the delivery is expected to arrive.



Payment Processes

1. Direct Debit: Automatic transfer of money by the bank on receipt of an authorised invoice. British American Tobacco Marketing Accounts in Nairobi receive the invoice from Logistics when the vehicle leaves and process payment when the load is due to be delivered.
2. Bank Guaranteed Cheque: Cheque payment made by the Distributor as long as the bank as guaranteed payment worth up-to one week of sales. The cheque is given to the driver when the stock is delivered.
3. Bankers Cheque: A Banker's Cheque for the required amount is given to the driver on receipt of the stock.

Unloading Time

Within 60 minutes of the vehicle arriving.

Order Receipt Time

Orders are sent to Logistics (02-541005) on Friday (or Tuesday for some Distributors) by 10am.

Order Formula

Orders are placed weekly by Distributors on the standard order form. The order quantity by SKU is calculated as follows:

$$\begin{aligned} & 3.5 \text{ Days Minimum Buffer} \\ - & \text{ Present Stock} \\ + & \text{ Next Week's Est. Sales (based on previous 3 weeks)} \\ + & \frac{(\text{Next Week's Sales} \times \text{Days until 1}^{\text{st}} \text{ delivery})}{\text{Days In Week}} \\ - & \text{ Stock on route for delivery} \\ = & \text{ Next Week Order} \end{aligned}$$

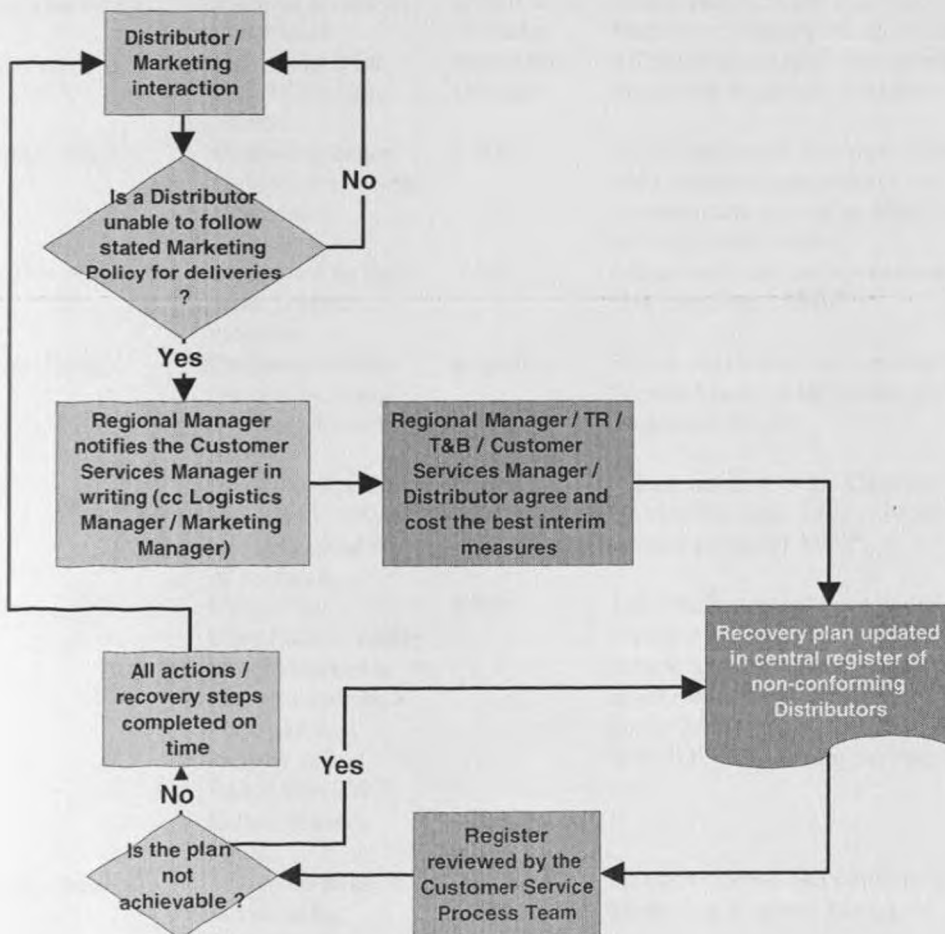
Sub-Process 1 Map (If Applicable)

Non-Conforming Distributor Procedure

Marketing / Distributor

Joint Team

Logistics



Sub-Process 1 Notes (If Applicable)

It is important that all Distributors should follow the standard Marketing Policies. However it is acknowledged that occasionally Distributors will be unable to follow policy for a short period of time.

Distributor Recovery Tracking Format

Logistics will track all recovery plans using the following format:

Region	Distributor	Problem	Policy Impact	How Solve ?	Who ?	Orig. When ?	Weekly Cost	Comments

Additional Costs

The costs of "Special" costs for supporting non-conforming Distributors will be as follows:

Notified special requirements covered by an action plan: All costs covered by Logistics, but reported to Marketing for information and accountability.

Special requirements not planned, or passed the agreed recovery date: All costs recovered from the Distributor by Marketing (internal reallocation from Logistics to Marketing).

Basic Service Commitments			
<i>What</i>	<i>Expected Service</i>	<i>Who</i>	<i>Action in case of failure</i>
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<i>payment)</i> Payment forwarded to Regional Offices for predefined distributors	Before the vehicle returns to Nairobi	T&B	Failure notified to Marketing Accounts and Customer Services Manager. Full explanation given by T&B. Payment forwarded ASAP.
Distributors following policy	All Distributors to place orders and receive deliveries as per policy	Marketing	Marketing agree a recovery plan with the Distributor as per the agreed procedure. All additional costs covered by Logistics. The distributor (through Marketing) pay for all other additional deliveries and any special deliveries which have not been actioned on time.
Low Distributor Stocks	Distributors should never run out of stock. Any SKUs with stock levels < 2 days to be actioned immediately	Distributor (Mkting)	Logistics notified immediately in writing of any SKU stock levels below 2 days, and an emergency delivery is arranged
Changes in order	No changes within a week fixed order time	Distributor (Mkting)	Any emergency changes notified to Logistics / T&B in writing and actioned where possible.
Missing Stock on route	No stock losses between ESR and Distributor	T&B	T&B reimburse the variance in full.
Damage Stock	80% of agreed baseline	T&B	Follow separate D&D procedure

Key Performance Indicators (KPIs)

What	Who	Target Perf.	Monitoring Technique	Who	Freq.
Delivery as per plan	T&B	95% OTIF Deliveries as per latest target (Initial target: +/- 90 mins Nairobi, +/- 180 mins ex-Nairobi – decreasing by 5 mins by month)	Review of % orders delivered inside target window for each distributor	T&B	Weekly
Order placed on time	Distributor (Mkting)	95% orders received by T&B	Review of % orders received on time	T&B	Weekly
Order Accuracy	Distributor (Mkting)	All orders according to policy +/- 10%	<ul style="list-style-type: none"> Estimated buffer stock at first delivery as per policy +/- 10% Estimated buffer when order placed as per policy +/- 10% 	T&B	Weekly
Order Changes	Distributor (Mkting)	0 Order changes	Review of number of order changes by SKU	T&B	Weekly
Distributors following policy	Marketing	95%	Review the number of distributors following full policy as a percentage of total number of distributors	T&B	Weekly
Invoice preparation	Logistics	All invoices forwarded to T&B by 8.30am on the day of delivery	Review the number of invoices received on time as a % of total invoices received	T&B	Weekly
Vehicle Unloading Time	Marketing	95% Unloaded OTIF to policy (initially 60 mins)	Review % of deliveries unloaded within target period of time	T&B	Weekly
Payment forwarded to	T&B	Within 2 working hours of vehicle	Review % payments passed to Marketing	T&B	Weekly

Marketing
Accounts /
Regional Office

returning to Nairobi /
Before vehicle leaves
Kisumu/Mombasa

Accounts / Regional
Office within target
period of time

Payment Details (If Applicable)

Prices: As per latest Company price list.

Payment Terms: As per latest company policy outlined above

Documentation (If Applicable)

Weekly Order Form

Review Process

Customer Services Process Team (initially fortnightly)

Other Comments

Agreed By

On Behalf Off

Who

Date

Signature

Logistics

Marketing Accounts

T&B

Marketing HQ

Marketing Nairobi (N)

Marketing Nairobi(S)

Marketing Rift Valley

Marketing Mountain

Marketing Coast

Marketing Lake

Distributor Order Calculation Guide

Order Process (refer to order form)

To complete the manual order form, the following process is followed. When using the computerised automatic order system, only complete stages 1,2,6,7,10,11,12 the rest of the calculations will be made automatically.

Predefined information:

B = Milles / Cartons

H = Minimum Buffer Days

E = Days between order deadline and first delivery

1. Enter the estimated / actual closing stock at the order deadline. For example, if the deadline is 4.30pm Friday, the stock is what the distributor expects the stocks to be at 4.30pm (= Thursday closing stock + estimated receipts Friday – estimated sales Friday) (= "A")
2. Enter next week's estimated sales (milles) (= "C")
3. Calculate the minimum buffer stock in Milles:

$$\text{Minimum Buffer} = D = C/6 \times H$$

$$\text{Minimum Buffer} = \frac{\text{Est. Next Week Sales} \times 3 \frac{1}{2}}{6 \text{ Days (1 week)}}$$

4. Calculate the amount of sales that the distributor will make before the first planned delivery during the next week:

$$\text{Sales Before 1st Order} = F = C/6 \times E$$

$$\text{Sales Before 1st Order} = \frac{\text{Est. Next Week Sales} \times \text{Days Before 1st Delivery}}{6 \text{ Days (1 week)}}$$

5. Calculate the theoretical order in milles according to BAT policy:


$$\text{Theoretical Order} = G = C - A + D + F$$

$$\begin{aligned} & \text{Est. Next Week Sales} \\ & - \text{Closing Stocks} + \text{Deliveries on route} \\ & \quad + \text{Min. Buffer Stock} \\ & + \text{Sales Before 1st Delivery} \\ & = \text{Theoretical Order} \end{aligned}$$

6. Finalize actual orders in milles (the theoretical order rounded up to the next whole carton requirement).
7. Split order to "blue-print" delivery days (in carton equiv. Milles). This should be assigned in a fashion to ensure a flat stock level during the week (NOT weighted towards the last delivery)
8. Calculate the number of cartons for each delivery day (number of milles / the milles/carton (=A))
9. Calculate the total number of cartons to be delivered.
10. Enter the cheque numbers for each delivery.
11. Sign the order
12. Immediately fax the order to 02-541005 (before the order deadline of 10am)

APPENDIX 6

TEAMBOARDS

<p>Our Team: <i>Jane (Co-ordinator)</i> <i>Patrick Charles</i> <i>Jeremy Francis</i> <i>David Martin</i> <i>John Paul G</i></p>	<p>To attain service excellence to our customers by seeking to provide total solutions to their requirements by the end of 1999. To continuously improve our processes and impact positively on the profitability of East Africa Leaf.</p>		
<p>Our Suppliers: Tibbet & Britten Leaf centres</p>	<p>Our Processes:</p> <ol style="list-style-type: none"> 1. Thika receipt of green leaf 2. Laydowns of leaf 3. Despatches of Processed leaf to Nairobi and export customers 4. Export control and documentation 5. WMS transport to outstations 6. Tobacco collection to LPP 	<p>Our Customers: LPP Thika. SCTC Leaf centres Nairobi</p>	
<p>Our MOPs:</p> <ol style="list-style-type: none"> 1. Unloading speed of 8 tonnes per hour 2. Zero demurrage 3. Target waiting period < 6 hrs average 4. Pre-processing loss < 2% average 5. Deliveries of 40T per day Thika-Nairobi 6. Export consignments loaded onto vessel within 7 days 7. WMS material issued to customer within two days 8. Stocks in field >95% of stock levels infield 9. Stock forecast >95% of updates in NBO by Monday 12noon 10. Vehicle >98% to meet BAT stds. 11. Baling forecast – 1 week forecast +/-20% accurate against target 	<p>Our Meeting Schedule: Every fortnight.</p>	<p>Our Meeting Ground Rules: Each meeting must have agenda Sent out in advance. Agenda must be followed Lateness fine of 100/- for every five minutes and 500/- for non-attendance without apologies Minutes sent out 48hrs after meeting Actions to be completed on time Lateness penalty of 100/- for every day action is late No interruptions during meetings (including radios) Subject matter focus Usage of “parking bays” and GRIPS</p>	<p>Our Meeting Agenda: Standing Agenda: Review of previous weeks actions Allocation of action plans for the next week “5 Minute brainstorm” session</p>

Customer Service Team Board – Operation "Moto Moto"

Our
 Hussein
 Isaac
 Jeremy
 Branchi
 John
 Kariuk

Dadson
 Joe (or
 Boaz
 Watta bwib

Our
"By the end of year 2000, to be the Benchmark Secondary Chain Logistics operation for British American Tobacco Africa

This will be achieved through World-Class people and processes support our core-activities, ensuring product is delivered to right place, at the right quality, time, quantity and



- Our**
- Tibbett & Britte
 - Manufacturin
 - Plannin
 - Distributor
 - Marketin
 - Custom

- Our**
- Distributor Ordering, Direct Delivery & Deliver
 - Sales Order
 - ESR
 - D&D

- Our**
- Marketin
 - Distributor
 - Financ

Our MOPs

- Service
- OTIF to Nairobi Dist. (+/- 45 min)
 - OTIF to non-Nairobi Dist. (+/- 90min)
 - Distributor order changes
 - Distributor unloading within 1hr
 - Payment to company policy
 - Distributor buffer stocks

Operating

- Direct delivery cost / case (30 Ks target)
- Process costs v budget
- Vehicle fuel consumption
- Weekly KMs v Target
- Vehicle availability

Working Capital

- Stock durations (10 days)

Our Meeting

Fortnightl

Our Meeting Ground

- Lateness: 100Ksh / 5 min without (max:500Ksh /
- Late Actions: 100Ksh working day
- Keep to the
- No
- GRIPS

Our Meeting

- Key Performance
- Distributor
- Deliverie
- Invoicin
- Payment
- Distributor
- ESR
- Damaged
- FG

Mwanzo: Primary Supply Chain Team Board 'A'

Our Team:

- Stanley (Coordinator)
- Michael
- Douglas
- Patrice
- Martin
- Shadrack
- Judy and
- Branchi

Our Mission:

To develop and operate a Primary Supply Chain Process that delivers quality materials as per customers' requirements at minimum logistics costs.

Service, Quality and Money!



Our Suppliers:

- Planning
- Product Development
- Procurement
- Marketing
- Leaf
- Engineering
- Tibbet and Britten
- WMS Materials Suppliers

Our Processes:

- Vendor Scheduling
- WMS Supplier Kanbans
- Bond Management
- Clearing & Forwarding Operations
- Warehouse Management

Our Customers:

- Planning
- Marketing
- Leaf
- Finance
- Engineering
- Tibbet and Britten
- WMS Materials Suppliers

Our MOPs:

Service Levels

- Supplier OTIF - 95%
- C&F OTIF - 100%
- Nil material impacts on Operations

Operating Costs

- Shipping, C&F - Within targets
- No Demurrage costs
- Overall costs - within budget

Working Capital Costs

- WMS on site - Within policy
- WMS en-route - Within Policy

Our Meeting Schedule:

- Meetings fortnightly

Our Meeting Ground Rules:

- GRIPS apply
- Lateness without apologies: Ksh100/5Mins, Ksh500 max
- Late actions: Ksh100 payable/working day late
- Brief and to the point
- Meetings not longer than 1 hour
- Minutes captured on team-board 'B'
- Continuous communication of progress on actions to team by actionees.

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