

An analysis of late shipments from South African  
vendors to EU buyers.



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## **EXECUTIVE SUMMARY**

This dissertation set out to ascertain that a South African vendor, on-time delivery to EU buyers, was unreliable. Late deliveries from South African vendors to EU buyers have led to Kingfisher Sourcing Africa (Pty) Ltd being a volatile sourcing office for the Kingfisher Group.

Kingfisher Sourcing Africa (Pty) Ltd need to take considerable measures in determining which South African vendors they source products from in order to determine their success or failure.

This research has highlighted the following problem:

- i. South African vendors are unreliable suppliers.

Recommendations derived from this research include:

- ii. The need to clarify terms and conditions of trade,
- iii. To ensure Kingfisher Sourcing Africa (Pty) Ltd has a contract in place with South African vendors,
- iv. To periodically and systematically evaluate South African vendor's :
  - Financial capabilities
  - Supply chain capacity
  - Management structure
  - Product offering mix

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## GLOSSARY OF TERMS AND ACRONYMS

CEO	Chief Executive Officer
DC	Distribution Centre
DIY	Do It Yourself
DSO	Direct Sourcing Office
ETA	Estimated Time of Arrival
ETD	Estimated Time of Departure
EU	European Union
FCL	Full Container Load
KAL	Kingfisher Asia Limitede(Pty) Ltd
KSA	Kingfisher Sourcing Africa (Pty) Ltd
KSEE	Kingfisher Sourcing Eastern Europe
KSO	Kingfisher Sourcing Office
LRD	Latest Receipt Date
OOS	Out Of Stock
OpCo	Operating Company
OT	On Time
OTIF	On Time In Full
OTIFEF	On Time In Full Error Free
SCM	Supply Chain Management
SKU	Stock Keeping Unit
UK	United Kingdom
USD	United States Dollar
VBA	Vendor Buying Agreement
WWW	World Wide Web

## **1. INTRODUCTION**

Kingfisher Sourcing Africa (Pty) Ltd (KSA), is a Kingfisher Sourcing Office (KSO) located in Pietermaritzburg, South Africa, which forms part of the Kingfisher Group.

This dissertation investigates what EU buyers require with regards to on-time delivery from South African vendors and when South African vendors have actually delivered, taking into consideration certain factors which influence this obligation.

Primary order and shipment information collected from KSA reveals the difference between what EU buyers have requested, and what the South African vendors have provided. Possible factors contributing to South African vendors' ability to supply products on time are:

1. Transportation costs
2. Exchange rate fluctuations
3. South African timber prices

Taking the above three factors into account, South African timber manufacturers have experienced difficulty supplying EU buyers with the products they require, when they want them.

### **1.1. The aim of the research**

A challenge facing South African buyers is to successfully deliver official Purchase Orders (PO's) on the required date previously agreed to with the EU buyer. These dates are commonly referred to as Latest Receipt Dates (LRD's) and are crucial dates when the goods must arrive at Durban port to ensure the Distribution Centres (DCs) in the UK have sufficient inventory quantities in their warehouses. These LRD's are agreed to by the South African vendors and EU buyers prior to the order being made an official PO.

The aim of this dissertation is to determine whether South African vendors deliver their products on time to EU buyers.

## **1.2 The motivation for this research**

As the Kingfisher Group actively operates in a global market, they face certain obstacles when sourcing and supplying products from KSO. This ultimately affects the Group's core business model, global performance, and eventually their bottom line.

KSA, formally known as Alpine Trading (Pty) Ltd, acquired this family owned business in December 2003, and at present is moulding the organisation into Kingfisher's sub-Saharan KSO. KSA's primary source of exports is pine timber DIY products which are manufactured by a well-established group of local manufacturers that ship between 250 and 300 containers per year.

The need for this research is to clearly distinguish the difference between the PO LRD requested by the EU buyer, and when the South African vendor has actually delivered against the agreed PO. The author, a Supply Chain Analyst at KSA, has detected that South African vendors seem to continually displease EU buyers by sometimes delivering products after the agreed LRD.

Providing statistical data of the actual on-time delivery dates could present South African vendors with information detailing their performance, as well as provide a gap between what they have agreed, and what they have delivered.

The motivation behind this dissertation is to formulate recommendations to the Kingfisher Group and South African vendors, in an attempt to improve the on-time delivery of products to EU buyers. In this dissertation, the author specifically looked at local timber manufacturers presently supplying EU buyers.

In the past two years the Rand has significantly strengthened against the British Pound, which has led to many local exporters being relatively uncompetitive in the global market. Other factors which have had a substantial impact on KSA's vendor's competitiveness are timber price increases, timber supply in South Africa, and transportation costs. KSA's unreliability and lack of competitiveness has led to EU buyers looking to source products from other KSO's around the world.

As Burt et al (2003: p. 16) suggests , "the objective of sourcing is the identification and selection of the supplier whose costs, qualities, technologies, timeliness, dependability, and services best meet the firms need."

### **1.3 Introduction to the Kingfisher Sourcing Offices**

The Kingfisher Group comprises wholly owned subsidiaries in overseas countries, referred to as Kingfisher Sourcing Offices (KSO). The KSO's actively source DIY products which EU buyers believe UK consumers will procure. KSO's source products from the geographic regions they're in, and supply these products to certain European and Asian stores the Kingfisher Group controls. KSO's acts as the agent for all the Kingfisher operating companies sourcing products worldwide

#### **1.3.1 Kingfisher background and Group structure**

Kingfisher has a majority shareholding in Europe's largest DIY retail chain, and merchandises their products in over 330 stores in Europe alone. They also have a majority shareholding in French DIY retail chains, German DIY retail chains, and other European DIY retail chains, and have recently expanded into Asia through acquisitions of locally managed DIY stores in Hong Kong.

The Kingfisher Group manages their KSO's while also having majority shareholdings in numerous DIY retail chains across Europe and Asia.

### **1.3.2 EU buyers and Kingfisher Asia Limited**

EU buyers have been sourcing commodities from the Asian based KSO, known as Kingfisher Asia Limited (Pty) Ltd (KAL) for the last fifty years. According to Mark Chedgy, Kingfisher Supply Chain Manager, "we have been accustomed to receiving world class service and have an excellent, reliable supply chain which achieves an annual average on-time delivery in excess of 98%."

As globalisation has become more apparent, and various countries realizing the importance of international trade and the numerous opportunities open to local firms and manufacturers to participate in this global market, there has been a significant increase in the need for improved supplier performance and supplier compliance. With this in mind, EU buyers are in a position to source products from any country they choose, providing they fall within the parameters of their service requirements as determined in the Kingfisher Vendor Manual (Appendix 1), and most importantly, that their products are competitive.

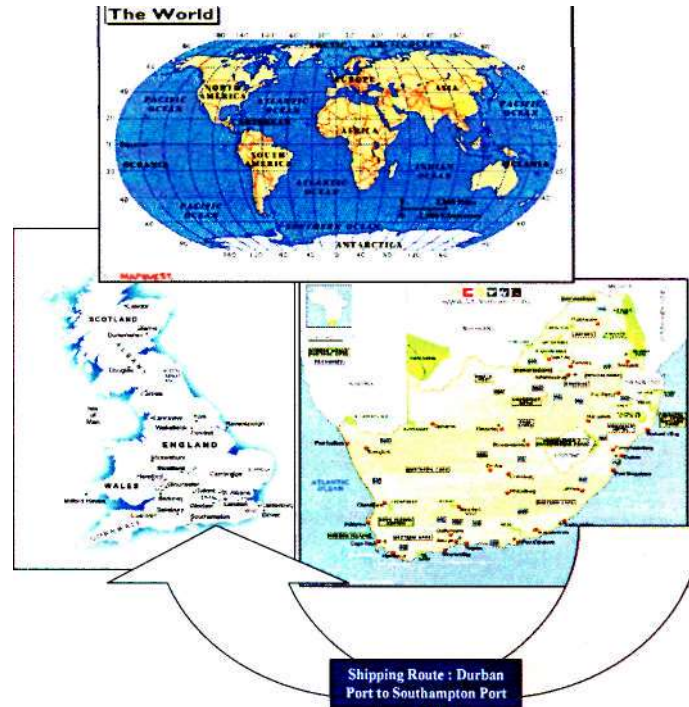
### **1.3.3 Kingfisher Sourcing Africa's fit within the Group**

KSA's primary objectives are to source competitive products from South African vendors within their geographic location, and supply these products to Kingfisher stores across Europe and Asia.

KSA is seen as a strategic move to enable the Kingfisher Group to take advantage of resources South Africa has to offer when the time is right. The fact that Kingfisher have a KSO in nearly every major continent, suggests that EU buyers could potentially source products from any continent they desire. The presence of KSA in South Africa merely adds to the Group's sourcing artillery and ultimately provides EU buyers with a greater scope of locations and products to supply their European and Asian customers with.

Figure 1 provides the supply chain route from South Africa to EU buyers in the UK.

Figure 1: Kingfisher Sourcing Africa Overview



Source: Maps 2006

### 1.3.4 Kingfisher Sourcing Africa's product range

KSA have sourced numerous products from South African vendors, however South African pine is the preferable timber used in the manufacturing process. KSA source and supply a product range which includes the following categories:

- \* Bathroom cabinets
- \* Fire mantels
- \* Fun products - wooden jungle-gyms
- \* Landscaping products
- \* Leisure furniture sets
- \* Radiator cabinets
- \* Shelving products
- \* Wooden doors and gates

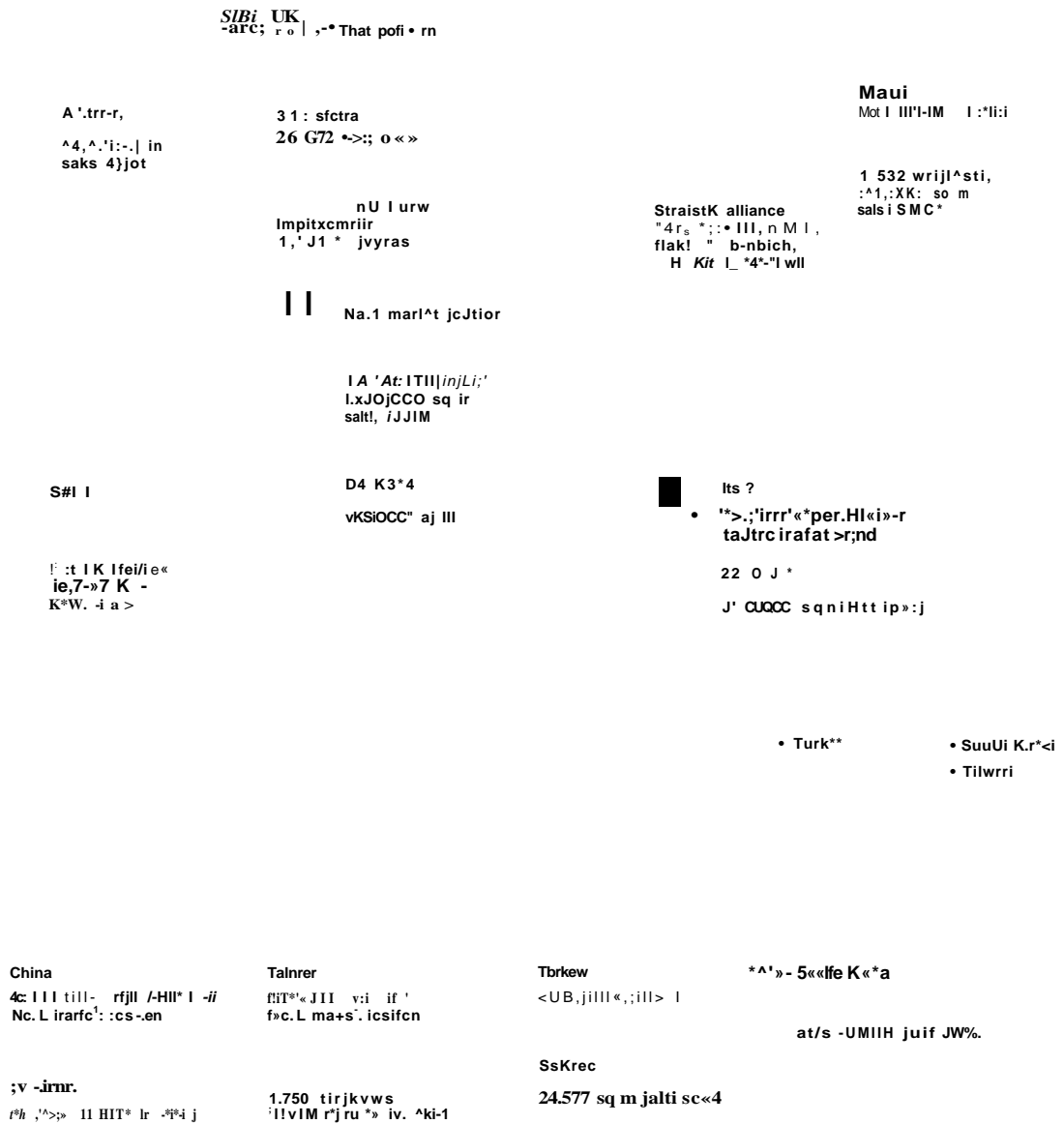
In the above mentioned categories, there are numerous product offerings which make up the range, however for the purpose of this dissertation, product confidentiality is requested thus the author cannot display or explain the product attributes.



Figure 2: Kingfisher store overview

Kingfisher pic - At a glance

C'jrtim. To xhe weld's bss: hterratoral rome riorJverKTt retail\*.



Source: Kingfisher Annual Review, 2005 p.2

## 1.4 Kingfisher's supply chain operating system

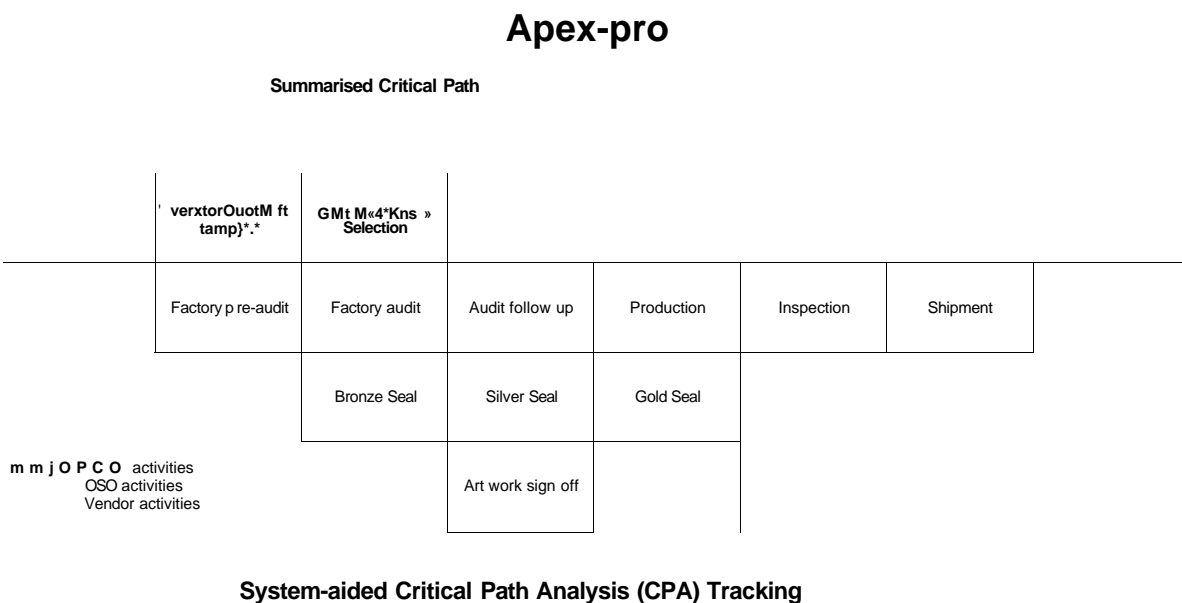
Apex-pro is a customised supply chain tool which has been developed by the Kingfisher Group. This operating tool tracks the activities of products from the product conception stage, right through to customer payment.

Apex-pro is widely used across the Kingfisher Group by many Operating Companies (OpCos) and KSO's for information sharing and being perpetually up-to-date is essential. Almost every business transaction is handled by the program making it a complete supply chain management tool.

### 1.4.1 An overview of Kingfisher's global supply chain tool

All the relevant information pertaining to a product's life cycle is traced and monitored along the supply chain, giving the relevant persons the complete "supply chain visibility".

Figure 3: An overview of Kingfisher's supply chain tool



During certain stages in the product life cycle, the relevant persons at the OpCo or KSO update the necessary information so that one can determine whether or not a product brief, or project, is running according to plan.

This supply chain tool was developed as a communications tool between the OpCo and KSO with the intention of "seaming the gap" - creating closer ties between information sharing and communication.

#### **1.4.2 An overview of the summarised critical path of Apex-Pro**

Although the actual application of Apex-Pro is considerably complex and detailed, the eight summarised points mentioned below are a brief explanation of Figure 3.

##### **1. Sourcing brief**

At this stage the OpCo determines the kind of product(s) they are requiring to include in their product offering. The brief is loaded on Apex-pro with the necessary details pertaining to the product(s), and the entire Kingfisher Group has access to these details to ensure all the KSO's have an opportunity to quote.

##### **2. Vendor quotes and samples**

Once the vendor has the necessary details pertaining to the product(s), they manufacture samples in-line with what the EU buyers require. Furthermore, they provide the EU buyers with quotes for the product(s).

In conjunction with the above, the KSO quality inspectors perform a factory pre-audit to ensure the products are supplied from a reliable source, as well as the factory falls within the parameters of Kingfishers factory requirements.

### **3. Cost modelling and selection**

EU buyers then have the ability to choose the product(s) which they feel will best suit their requirements. They also have the benefit of physically seeing the product and comparing attributes and prices with that of other products supplied.

The KSO quality inspector then performs a factory audit on the supplier to ensure they meet the necessary requirements as stipulated by EU buyer.

The factory will make samples of the products and stores them on site so that quality inspectors and the EU buyer can ensure the factory is not changing the product spec from the samples initially sent. This stage is generally known as the "Bronze Seal".

### **4. Raise official Purchase Orders (PO)**

Once both the factory and the buyer have reached consensus on the agreed price, shipment date(s) and quantity, the buyer raises a pro-forma invoice on Apex-Pro. The pro-forma invoice is then checked by the KSO and then passed on to the vendor. Once the vendor signs the order, the order becomes an official PO.

KSO quality inspectors continually visit the factory to ensure they are adhering and maintaining to the required factory standards, as well as the quality of the products are adhered to.

At this stage, the product moves into the "Silver Seal" stage, where the product(s) have passed through the necessary quality checks and both the buyer and the KSO are happy with the product(s).

The KSO product sourcing manager and the EU buyer agree on the artwork to be used on the packaging material.

## **5. Production**

At this stage the factory is in full production, producing the product(s) the EU buyer requests. The KSO quality inspectors continually check the quality of product(s) so as to ensure the products are fit for the EU buyer.

The factory produce a "Gold Seal" which is an exact replica of the products which are being manufactured, this product sample is kept by the KSO as a sample for future reference.

## **6. Inspection**

Before the vendor ships the product(s), the KSO quality inspector performs numerous quality checks to ensure that the required quality has been met. Although they cannot inspect and assemble an entire container, they perform Final Random Inspections (FRI) on all shipments leaving a vendor's factory.

## **7. Shipment**

Once the product(s) have successfully passed through the inspection process, they are ready for shipment. At this stage, the KSO supply chain analyst notifies the OpCo supply chain analyst to advise them of the shipment details (Container number, Seal number, Vessel, and estimated time of arrival).

## **8. Payment**

Once the contract has been fulfilled, EU buyers make the necessary payment to the vendor and the KSO claims their commission from the transaction. This is determined in the Vendor Buying Agreement (VBA).

## **1.5 Kingfisher's Vendor Manual**

The purpose of the vendor manual is to help vendors develop and supply products in line with the requirements of KSO, and trade efficiently with the Kingfisher group. See Appendix 1.

The vendor manual is an authoritative source of Kingfisher policy, procedures and "terms of trade" and forms part of the Kingfisher contractual arrangements with Vendors. Compliance with the Manual enables the high standards of the Kingfisher Group to be met avoiding additional costs

Whilst the legal contract for the sale and purchase of merchandise is between the vendor and the operating company, KSO's act on behalf of each OpCo to manage all aspects of the relationship.

Prospective vendors should use the vendor manual to assess whether they have the capabilities to meet the requirements and enter into trade with KSO and the OpCo.

### **1.5.1 Vendor Buying Agreements**

The Vendor Buying Agreement (VBA) forms the standard documentation setting out terms between the OpCo, KSO and the vendor, where KSO acts as agent for the OpCo. See Appendix 2.

This document is customised per vendor, stating the products they supply with the agreed prices, container fills, Stock Keeping Unit (SKU) information, and lead-times to which the OpCo, KSO and vendor agree and sign. This document constitutes a valid contract between the two parties.

### **1.5.2 Disputes**

This section briefly describes the three stages of how disputes between Kingfisher, its OpCos and vendors are resolved. It still applies if either party has terminated the agreement.

### **1. Notice of dispute**

The vendor must refer all disputes relating to fixed compensation (other than invoicing) in writing to the General Manager in KSO. The letter should provide a reasonable level of detail about the nature of the dispute. KSO and the Vendor will then seek to settle the dispute by negotiation.

### **2. Mediation**

Any dispute which has not been resolved within 56 days notice of stage 1 above, may, by written notice (the mediation notice) given by either party to the other, be referred to mediation by a suitably qualified independent mediator.

### **3. Expert determination**

Should the dispute not be resolved in the mediation process, the vendor manual states that the dispute should be referred to expert determination through appointed representatives, i.e. a lawyer.

### **1.5.3 Fines and penalties pertaining to late delivery**

Vendors that deliver late against the agreed LRD, and consequently fail to honour their signed VBA, there are penalties highlighted in the vendor manual for non-compliance. Fines directly related to late delivery are briefly summarised below:

1. 1-7 days late - 3% of FOB value of merchandise
2. 8-14 days late - 5% of FOB value of merchandise
3. More than 14 days late - 10% of FOB value of merchandise

See appendix 3.

It's stated in the vendor manual that it's not the intention of Kingfisher or its OpCos to penalise non-compliant vendors, but to merely seek financial recovery of costs which will be incurred as a result of their late delivery and non-compliance.

#### **1.5.4 Lead times agreed with South African Vendors**

As stipulated in the Vendor Manual, lead times are agreed to on the 1<sup>st</sup> of January and are fixed for 12 months. The vendors agree to this lead time and are well aware of the dates given. (Newton, 2006)

From when the vendor signs the official Purchase Order (PO) to when they are required to ship the products from Durban port, are eight full weeks for existing products. Existing products are products the vendor has been supplying for six months or longer. New products have a twelve week lead time from an official PO, thus new products (developed through research and development) have an additional four full weeks in the agreed LRD, (Newton, 2006), thus:

1. New product lead time = 12 Weeks from the official PO to LRD
2. Existing product lead time = 8 Weeks from the official PO to LRD

Prior to PO being made official, KSA supply chain analysts would work with the vendor on their production plan, as well as negotiate LRD's with EU buyers. Once agreement is reached, the pro-forma orders would be signed by the South African vendor and thus changes the status to an official PO. KSA supply chain analysts would always check the following four key points with regards to the order:

1. The SKU item number is correct
2. The SKU description is correct
3. The SKU price in Pounds is correct
4. The LRD was agreed to by both parties in writing.

Once these formalities were agreed to and accepted, the KSA supply chain analysts would change the order status from pro-forma, to an official PO on Apex-Pro.



### **1.5.5 Implications of late shipments**

Not supplying goods on the agreed LRD causes numerous situations of "non-value adding" time, whereby countless emails and phone calls are sent and received. The only solution to missing the required LRD at Durban port is to airfreight a container(s) from South Africa to the UK. This does not usually help the cause, and by now business relationships and credibility are seriously harmed and doing business becomes very difficult as all parties try and avoid responsibility for the costs incurred.

Although fines and penalties can be exercised, reliability and credibility are far more important, as when product briefs get posted on Apex-pro, KSO performance and word of mouth at the OpCo play a pivotal role with regards to which KSO wins the brief.

### **1.5.6 How EU buyers rate KSA's supply chain performance**

Following steps 1 through 4 in Figure 3 above, are critical path measurements which the OpCo and the KSO can monitor to ensure the product(s) are developed in-line with the necessary requirements, and that any problems experienced in the initial stages are overcome quickly.

Steps 5 through 7 are the most crucial stages, as at this point official PO's have been raised and the OpCo is expecting the PO to be delivered on an agreed LRD.

These stages are predominantly the stages, for which the vendor is solely responsible and by which the OpCo measures the KSO, and with which the KSO measures the vendor. Should vendors not be able to meet the agreed LRD, there is a possibility the products will miss the promotional dates, and/or the required "in store" dates. Furthermore, there is a possibility that Kingfisher stores in the UK will not have inventory in their warehouses and in their retail outlets.

The above transactions and procedures are monitored by Apex-Pro. Should a critical milestone not be met or adhered to, automatic emails are sent to the responsible party. Thus Apex-Pro is a well established supply chain tool used by the Kingfisher Group.

The determination of a late delivery is the difference between what the EU buyer and the South African vendor have agreed to in terms of the official PO LRD, and the actual date the PO is completed - delivery date at Durban port. This information can be extracted from KSA's internal operating tool, Orders and Shipments.

## **1.6 A brief overview of factors contributing to late shipments**

In the past few years South African vendors have had to face the following, but not limited to, three factors which have had a significant influence on their competitiveness as well as their ability to deliver products on time.

### **1. Transportation costs.**

As the majority of the vendors used in this report are based in and around Pietermaritzburg, the transportation costs associated in delivering the container(s) to port are considerable. Additionally, South Africa is geographically further away from Kingfisher stores, than those of European and Asian locations.

### **2. Exchange rate fluctuations**

As discussed later in the literature review, prices are agreed well in advance and thus exchange rate fluctuations could seriously hamper/benefit the vendors overall bottom-line.

### **3. S.A Timber prices**

South African timber prices have changed significantly in the last two years, and being the primary material used in the manufacturing process, South African vendors have recently been faced with considerable price changes.

## **2. LITERATURE REVIEW**

### **2.1 Introduction**

This literature review aims to determine the effects of globalisation as an organisational strategy, and how the alignment of marketing, supply chain management and global sourcing all collectively and coherently work together to create a winning formula for organisational success.

There is however one single factor that can have a substantial impact on an organisation's success. Walker *et al* (2003, p. 17) concludes that, "organisation's success over time hinges on its ability to provide benefits of value to its customers." Trunick (2003) "No shipper wants to get his shipment for free - he wants to get his shipment there on time."(p.26), which suggests that supplying products to customers on time is essential. Trunick (2003) goes on to say that, "shippers value reliability more than speed" (p.26).

Thomas Powell (1995) states that:

"Determining customers' (both inside and outside the firm) requirements, then meeting those requirements no matter what it takes is essential for survival." (p. 19) which further supports the fact that giving customers what they want, when they want it is indispensable for an organisation.

Another statement which supports customer focus is "Identify customers and their needs" (Juran, 1992, cited in Thompson and Strickland, 2003, p. 396).

The above statements all support the fact that determining customer requirements, then meeting their requirements are critical factors which organisations need to adhere to, should they want to survive.

## 2.2 Introduction to strategy

A common thread woven through management text books is that a company's strategy is the most crucial factor in determining an organisation's survival in the future.

This section outlines and defines strategy with the intention of achieving an understanding of the different functions and methods exercised to achieve the organisational objectives. The overall corporate strategy of the organisation is the foundation from which all other strategies are formed. These strategies must however, take into consideration the other departments' strategies to ensure and produce synergy within and throughout the organization. If marketing in the Kingfisher Sourcing Africa (KSA) chain fails to include the supply chain strategy in their goals and objectives, there will be no working to a common purpose, and therefore no synergy and sense of achievement amongst the team.

Thompson and Strickland (2003) state that, "a company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers" (p.3).

Thompson and Strickland (2003 :p.3) further suggest that:

"In crafting a strategy, "management is saying, in effect, among all the paths and actions we could have chosen, we have decided to move in this direction, focus on these markets and customer needs, compete in this fashion, allocate our resources and energies in these ways, and rely on these particular approaches to doing business. A strategy thus entails managerial choices among alternatives and signals the organisational commitment to specific markets, competitive approaches, and ways of operating."

Heizer and Render (2001) state that, "strategy is an organisation's' action plan to achieve its mission. Each functional area has a strategy for achieving its mission and for helping the organisation reach the overall mission" (p.33)

The role of strategy is clearly significant with regards to a firm's success or failure. Hill (2003: p408) acknowledges that many international markets are now extremely competitive due to the liberalization of the world trade and investment environment. He goes on to say that "in industry after industry, capable competitors confront each other around the globe."(p.408) Thus Hill highlights the significance of international trade and the importance of an organisation's strategy.

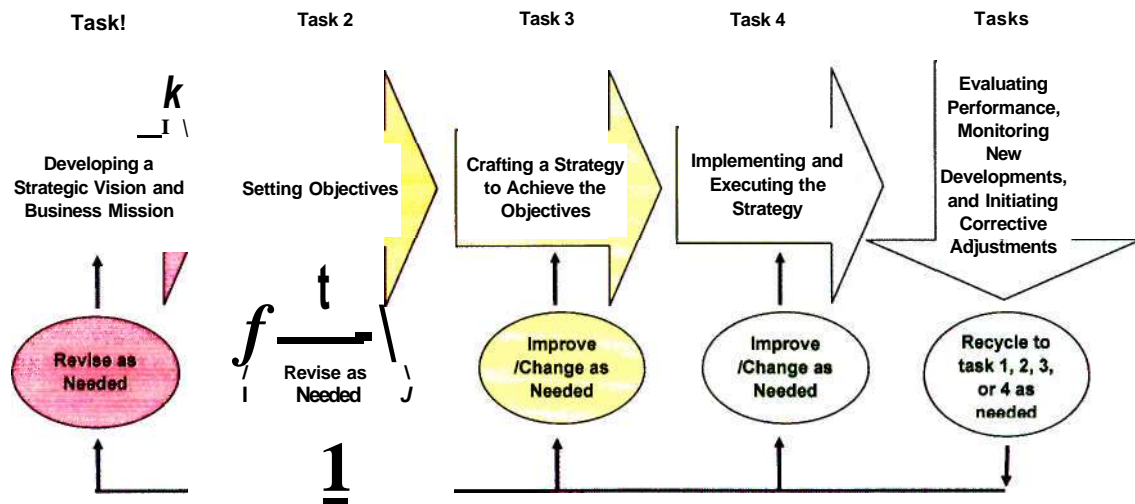
### **2.2.1 The five tasks of strategic management**

"The strategy-making/strategy-implementing process consists of five interrelated managerial tasks" according to Thompson and Strickland (2003 :p6)

1. Forming a strategic vision of where the organisation is headed - so as to provide long-term direction, delineate what kind of enterprise the company is trying to become, and infuse the organisation with a sense of purposeful action.
2. Setting objectives - converting the strategic vision into specific performance outcomes for the company to achieve.
3. Crafting a strategy to achieve the desired outcomes.
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Evaluating performance and initiating corrective adjustments to vision, long-term direction, objectives, strategy, or execution in light of actual experience, changing conditions, new ideas, and new competitors.

The above five strategy making processes can be further explained and understood in Figure 4 below. The steps provide a framework with which an organisation can follow to successfully implement and execute their strategy.

Figure 4: The Five Tasks of Strategic Management



Source: Thompson and Strickland (2003:p7)

## 2.2.2 Business strategy

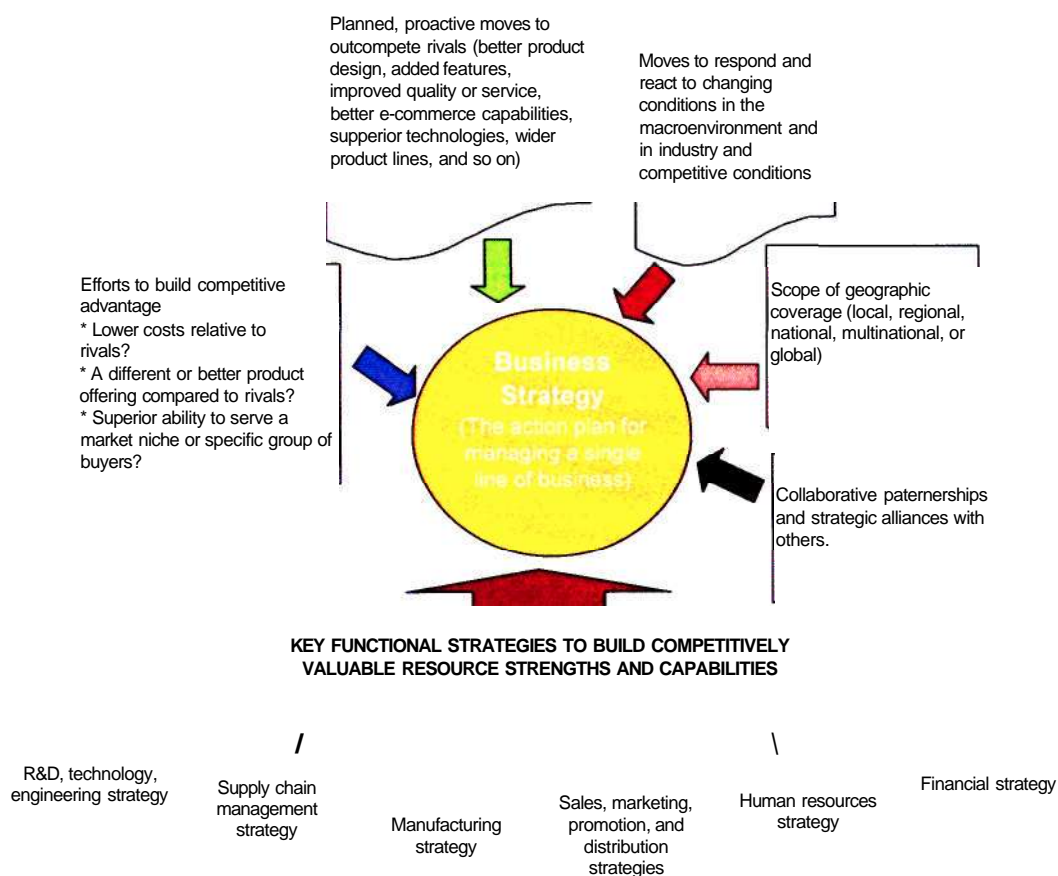
Thompson and Strickland (2003 :p55) suggest that, "the central thrust of business strategy is *how* to build and strengthen the company's long-term competitive position in the marketplace." Thompson and Strickland (2003) further suggest that, "the most successful business strategies typically aim at building *uniquely strong* or *distinctive competencies* in one or more areas crucial to strategic success and then using them as a basis for winning a competitive edge over rivals" (p.55)

In Figure 5, a supply chain and marketing strategy suggest the importance of survival and success of a business. However, these two strategies would have to coincide with the overall business strategy to ensure synergy within the workplace, and create a common purpose throughout the organisation.

Thompson and Strickland (2003:p369) indicate that some activities in the value chain are always more critical to strategic success and competitive advantage than others. Among

the primary value chain activities are certain crucial business processes that have to be performed either exceedingly well or in closely coordinated fashion for the organisation to deliver on the capabilities needed for strategic success. The above mentioned points suggest that KSA's supply chain and marketing activities are crucial business processes that form the foundation of the organisation's success or failure.

Figure 5: Identifying Strategy for a Single Business



Source: Thompson and Strickland (2003, p.54)

### 2.3 The Kingfisher Group Strategy

Jerry Murphy, Chief Executive Officer (CEO) of Kingfisher advocates that, "Putting customers at the heart of any retail business is a prerequisite for delivering sustainable growth and returns to shareholders" (Murphy, 2005, cited in Kingfisher's Annual Review, 2005, p.4) which signifies Kingfisher's objectives with regards to giving customers what they want.

According to the Kingfisher vendor manual, Kingfisher state that their core focus is to provide their customers with the following: (Kingfisher vendor manual, 2006, p.6)

- With direct access to the most exciting and innovative merchandise
- From the best in class factories
- At the best possible prices
- With the right level of quality
- Delivered on-time and in full and error free.

Through the following values and principals:

- **Our Products** - We will be the best source of own brand / unbranded merchandise for all our customers.
- **Our Staff** - We will provide our staff with the skills and experience necessary to compete and win against the competition.
- **Our Customers** - We are passionate about the quality of our customer service and we always aim to anticipate, identify and exceed the expectations of our customers.
- **Our Vendors** - We see our Vendors as an integral part of our business and we are committed to long-term and mutually beneficial partnerships with them.
- **Our Supply Chain** - We strive to build a flexible and efficient end-to-end supply chain to enable us to achieve competitive advantage in the market place.



- **Our Ethical Values** - We will only buy from factories that respect the rights and well-being of their workers and recognize the long-term value of the environment.
- **Our Ambitions** - No matter how good we are, we can always get better!
- **Our Quality** - We are committed to meeting the quality requirements and expectations of our customers

Source: Kingfisher vendor manual 2006.

The above mentioned points clearly illustrate Kingfisher's objectives with regards to providing customers with excellent service and products.

### **2.3.1 Kingfisher's markets**

As described in Chapter one, Kingfisher own a string of DIY retail chains and sourcing offices across Europe and Asia, and around the globe respectively. Kingfisher source and supply a wide range of DIY products that one could use in attempts at improving ones home. "Kingfisher is Europe's leading home improvement retailer" (Kingfisher Annual Review, 2005, p.5)

Thus it can be derived that Kingfisher's target market is that of home owners and parties intending to purchase products which will improve or add value to their immovable assets.

### **2.3.2 How the KSO sourcing system works throughout the Group**

The Kingfisher Sourcing Offices (KSO) are strategically located around the globe in attempts at sourcing products that "will be the best for all our customers" (Kingfisher vendor manual, 2006)

Through the KSO, Kingfisher sources products with the aid of their supply chain tool, Apex-Pro and supplies their string of retail outlets with these products.

## **2.4 Background of globalisation**

Everyday we see fundamental shifts occurring in the new world economy,

Hill (2003) states:

"We are moving rapidly away from a world in which national economies are relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulations, culture and business systems. As technologies advance we move toward a world in which barriers to cross-border trade and investment are tumbling; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over; and national economies are merging into an independent global economic system. The process by which this is occurring is commonly referred to as globalisation" (p.4).

The business opportunities open for organizations by way of globalisation have increased significantly and have presented them with numerous challenges.

Hill (2003) suggests that:

"Globalisation has increased the opportunities for a firm to expand revenues by selling around the world and reduce its costs by producing in nations where key inputs are cheap. Thus taking advantage of the opportunities available to firms where they can source/manufacture products at low costs is vital to leveraging their businesses overall competitive advantage" (p.5).

Hill (2003) states that "globalisation has two main components: the globalisation of markets and the globalisation of production" (p.6). Hill (2003) goes on to say that, " due to such developments in an increasing number of industries it is no longer meaningful to

talk about "the German market", "the American market", "the Brazilian market" or "the Japanese market"; for many firms there is only the global market" (p.6).

Kingfisher Sourcing Offices (KSO) are established in Asia, Africa, Eastern Europe, India and Brazil from which they source products.

Hill (2003) states that:

"Organisations source goods and services from locations around the globe to take advantage of national differences in the cost and quality factors of production (such as labour, energy, land, and capital). By doing this, companies hope to improve their overall cost structure and/or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively" (p.7). This suggests that Kingfisher is actively involved in the latter, and is ultimately an organisation participating in a global market.

The retailing industry in global trade has been somewhat of a laggard as only in the past few years have businesses been merchandising foreign products in local retail chains.

Hill (2003) has suggested that:

"Retailing has been primarily local in orientation, but in a testament to the scope and pace of globalisation, this too is now changing. Falling barriers to cross-border investment have made it possible. Rapid economic growth in developing nations and market saturation at home has made globalisation a strategic imperative for established retailers seeking to grow their business" (p.5). This underpins Kingfisher's strategy to have sourcing offices around the globe, whilst expanding their retail chains across Europe and Asia with a product offering from a diverse range of sources.

"Kingfisher is an international home improvement business in markets that fit its strategic criteria of attractive scale, structure and economies. Operating through its main retail

brands, Kingfisher operates in nine countries across Europe and Asia and is the market leader in five countries, giving the Group an excellent platform for growth in all of its markets". (Kingfisher Annual Review, 2005, p.4)

### **2.4.1 Drivers of Globalisation**

Two macro factors seem to underlie the trend toward greater globalisation.

Hill (2003) states that:

"The first is the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II. The second factor is the technological change, particularly the dramatic developments in recent years in communication, information processing, and transportation technologies" (p.8).

Taking the above into consideration, we clearly distinguish the following 3 drivers of globalisation.

- 1. Communication.** Hill (2003) states that, "over the past 30 years, global communications have been revolutionized by developments in satellite, optical fiber, and wireless technologies, and now the Internet and the World Wide Web (WWW)" (p. 11).

The technological advancements have had a tremendous assistance with Kingfisher being able to communicate on a global scale. The use of their supply chain operating tool, Apex-Pro (*Figure 3 - page 7*) keeps all parties around the globe continually up-to-date with product information and project progress on a real-time basis.

The ability to use both landlines and mobile phones has facilitated in the ability to maintain constant communication between KSA and the OPCO's. The ability to have a

Video Conference (VC) with EU buyers and personnel has tremendously helped foster relationships and overcome critical milestones in daily operations.

- 2. Transportation Technology.** Hill (2003) suggests that, "the most important are probably the development of commercial jet aircraft and superfreighters and the introduction of containerisation, which simplifies transshipment from one mode of transport to another. Containerisation has revolutionised the transportation business, significantly lowering the costs of shipping goods over long distances" (p. 11).

As KSA ships between 250 - 300 containers per annum, this transportation technology has allowed customers in the U.K to purchase products from South Africa at competitive prices. Additionally, this technology has allowed Kingfisher to, "Introduce new products and participate in international sourcing." (Kingfisher Annual Review, 2005, p.8). The ability to book a flight online, and fly overseas within half-a-day is remarkable. EU buyers have the ability to jet-out to South Africa to physically see the factory, and meet the South African vendors.

- 3. Information.** As stated in point two above, communication and information sharing are "spin offs" of technological advancements in the past 30 years. Information is widely available on the WWW.

Kingfisher is able to share information through their communication channels (WWW & Apex-Pro) to help them be more efficient and effective in the operations and supply chain activities.

## **2.5 Explanation on Global Sourcing**

Global sourcing is a merely a firm's choice and ability to search for resources beyond their boundaries in attempts to profitably trade with them. Hutt and Speh (2001) state that, "several forces are driving companies around the world to globalise by expanding

their participation in foreign markets" (p.254). Levitt (1996) states that, "Singled out most frequently as a major force driving the globalisation of markets is the assertion that customer needs are becoming increasingly homogeneous world wide" (p.92).

"Kingfisher's geographic scale and diversity gives the Group unrivalled buying power, delivering lower prices to customers and driving sales and profits", says Sir Francis Mackay - Kingfisher Chairman (Kingfisher Annual Review 2005, p.4). The existence of a global market is apparent, whereby buyers and sellers can easily analyse and source resources from any part of the globe.

Howlett (2006, p.25) suggests that, "globalisation of retail brands and the retailer supplier base is creating a critical need for global supply systems." Thus global sourcing is considered to be essential.

### **2.5.1 Local, national, and international sourcing**

It has been noted by Burt *et al* (2003) that, "prior to the discovery process for building a supply base, the company must consider the issues of local versus national versus international sourcing" (p.344). As Kingfisher has the ability to source product(s) from a multitude of suppliers, careful consideration is required when deciding to use the latter.

Local buying has the following advantages:

1. Closer cooperation between buying and selling firms is possible because of close geographical proximity. Just-in-time (JIT) deliveries are thus facilitated.
2. Delivery dates are more certain since transportation is only a minor factor in delivery.
3. Shorter lead times frequently can permit reductions or the elimination of inventory.
4. Rush orders are likely to be filled faster.

National buying has the following advantages:

1. National sources, as a result of economies of scale, can in some situations be more efficient than local suppliers and offer higher quality or better service at a lower price.
2. National companies often can provide superior technical assistance.
3. Large national companies have greater production capacity and therefore greater production flexibility to handle fluctuating demands.
4. Shortages are less likely with national companies because of their broader market.

Reasons for global sourcing:

1. Superior quality. A key reason for global supply management is to obtain the required level of quality.
2. Better timeliness. A second major reason for global sourcing is to improve the certainty of the supplier meeting schedule requirements.
3. Lower cost. International sourcing generates expenses beyond those normally encountered when sourcing domestically. Nonetheless, it is possible to reduce the firms *total cost* of material through global sourcing.
4. Broader supply base. Sourcing globally increases the number of possible suppliers from which the firm can select. Increased competition for the buying firm's business will then better enable the firm to develop *reliable*, low cost suppliers.

Taking the above advantages into consideration from Burt *et al* (2003: p.367), Kingfisher has determined that strategically having a KSO in Africa is imperative to their business requirements thus the establishment of KSA. Although the above suggest possible reasons to support international sourcing, there are however factors facing organisations opting to participate in this strategy.

Sinnett (2006, p.47) suggests that, "Finding the best resources globally to address a company's development, operational and support requirements" is important, and that "off-shoring is an important factor of overall growth strategy."

### **2.5.2 Macro environmental issues involved in global sourcing**

Although one cannot operate in isolation, according to Fry *et al* (2001) "economic forces are the second of six environmental forces that have an impact on business. Like the others, these forces are beyond the control of the firm" (p. 165).

As described by Walker *et al* (2003), "The sociocultural, demographic, and physical environments are but three of six major components of the macroenvironment. The other three are the political/legal, economic, and technological components" (p.88).

The above six macro environmental factors are essential points a globally active organisation needs to take into consideration and address before successfully sourcing from that economy. As South African sociocultural factors differ from those across the globe, Kingfisher executives would need to take into consideration the cultural differences with regards to business transactions and procedures. Another pivotal macro environmental issue with which Kingfisher could find difficulty with is the political/legal aspect. South Africans tend to have "their way/old school" of doing business, whereas Kingfisher operates with VBA's, and where a supplier fails to comply with the requirements, fines and penalties are exercised to ensure specified trading conditions.

Walker *et al* (2003) suggest that, "macro trends can have powerful influence on the attractiveness of markets, as well as on marketing practice" (p.99). Kingfisher obviously found the South African market an attractive market to source, procure and distribute timber products to their stores in the UK.



### **2.5.3 Potential problems experienced in global sourcing**

Taking the above macro environmental issues into consideration, there are however other hurdles experienced when sourcing products globally. As outlined below, there are four possible factors which can adversely affect the effectiveness and competitiveness of global sourcing.

1. Long lead times. Variable shipping schedules, unpredictable time requirements for customs activities, the need for greater coordination in global supply management, strikes by unions, and storms at sea (which can cause both delays and damage) usually result in longer lead times. KSA lead times, as discussed in chapter four, vary between eight and twelve weeks.
2. Additional inventories. Inventory-carrying costs must be added to the purchase price, the freight costs, and the administrative costs to determine the true cost of buying from global sources. As mentioned above, additional lead times, which traditionally exceed thirty days, must be considered in planning foreign purchases.
3. Lower quality. As previously mentioned, global suppliers frequently are utilized because many of them can provide a consistently high level of quality. There is a risk that production outside of the domestic firm's control can result in "off spec" incoming products.
4. Higher costs of doing business. Communication problems, the distances involved in making factory visits, and so on all add to the costs of doing business with global suppliers. Port-order services are more complicated because of currency fluctuations, methods of payment, customs issues, and the utilisation of import brokers and international brokers all add to the costs of global sourcing.

The above potential problems associated with global sourcing are highlighted by Burt *et al* (2003: p368) and are some of many factors which global sourcing presents buyers. EU buyers face similar issues when trading with KSA as they need to take into consideration the above issues when determining whether to source product(s) from South African vendors.

Sinnett (2006, p.48) suggests that, "there are perceived risks to off-shoring. The number one perceived risk, is service." Sinnett (2006, p.38) further suggests that, "risks associated with the outsource model are particularly higher in terms of risk."

However large the risk, Sinnett (2006, p.48) clearly states that, "outsourcing is a strategic imperative." He is convinced, "that global sourcing will become more widespread."

## **2.6 The definition of a supply chain**

Reddy (2001) defines Supply Chain Management (SCM) as, "covering the process and technology of coordinating the uninterrupted flow of raw materials and products across the supply chain. The ultimate goal is to use the company's resources profitably. Supply chain management is made up of three areas: supply chain planning, supply chain execution, and supply chain transaction. These systems all work together to synchronise the activities within and out the firm" (p.2).

If one wants a simple definition, Burt *et al* (2003) state SCM, "links all the supply interacting organisations in an integrated two-way communication system to manage high quality inventory in the most effective and efficient manner. This concept can be rather abstract and vague because it embraces a multitude of policies, procedures, and organisational structures".

Burt *et al* (2003) state that, "a supply management department is the hub of a large company's business activity. Supply management has continuing relationships with all the other departments in a firm" (p.41). Hutt and Speh (2001) add that, " the rising value of logistics as a strategic marketing weapon has fostered the integration of sales, marketing, and logistics functions of many business marketers" (p. 156).

### **2.6.1 Strategic supply management activities**

The supply chain as a functional strategy should focus on the following 10 points as indicated by Burt *et al* (2003, p. 18):

1. Environmental Monitoring. Supply management must understand supply markets and monitor the supply environment to identify threats and opportunities. These threats and opportunities include material shortages that affect one or more industries that supply the firm.
2. Integrated Supply Strategy. Supply management must develop and manage the firm's supply strategy as an integrated whole instead of a series of unrelated strategies. The corporation's strategy is the key driver of the supply strategy.
3. Commodity Strategies. Supply management must develop and update sound commodity supply strategies. These include strategy updating, technology access and control and risk management.
4. Data management. Supply management, accounting, and information technology must cooperate in the collection and application of supply data with the objectives of facilitating strategic supply planning.
5. Corporate Strategic Plans. Supply management must join marketing and operations as the key players in the development of each firm's corporate strategic plans. Supply management provides input to the strategic planning process on threats and opportunities in the supply world.
6. Strategic Sourcing. The firm must design and manage its supply base in line with the firm's strategic objectives. Several actions such as periodically reviewing the firm's base of active suppliers, identify the appropriate type of relationship, and optimise the supply base are key activities the firm must analyse.
7. Strategic Supply Alliances. The development and management of supply alliances frequently are two of the most crucial and most strategic activities undertaken by any firm.

8. Supply Chain/Supply Networks. The development and management of a firm's supply chain or supply network parallels the development and management of supply alliances, but it's infinitely more complex.
9. Social Responsibility. Supply management must develop and implement programs which protect the environment.
10. Understand Key Supply Industries. Supply management's impact is directly proportional to its knowledge of the industries in which it buys. Supply professionals study and understand the industries which provide key materials, equipment, and services, their cost structures, technologies, competitive nature, and culture.

The above points illustrate supply management has both strategic and tactical components. Burt *et al* (2003) suggest that, "when both are executed efficiently and effectively, supply management becomes a key to the organisations survival and success" (p.21).

### **2.6.2 Successfully applying the Supply Chain Management Approach**

It is suggested by Hutt and Speh (2001) that, "the nature of the firm's supply chain efforts will often depend on the nature of the demand" (p. 150).

Fisher (1997) suggests that:

"Products can be separated into two categories, "functional" items such as paper clips, grease, and nuts and bolts or "innovative" products like IBM's ThinkPad or other high-tech products. The importance of this distinction is that functional items require different supply chains than innovative products. Functional products typically have predetermined demand while innovative products do not" (p. 106).

As KSA's products are items such as "paper clips, grease, and nuts and bolts", they would be classified as "functional" products according to Fisher (1997) "The goal for

functional products is to design a supply chain that achieves physical distribution efficiency, that is, it minimises logistics and inventory costs" (p. 106)

Fisher (1997) says, "The key information sharing takes place within the supply chain so that all participants can effectively orchestrate manufacturing, ordering, and delivery" (p.106).

The ability to provide customers with what they require is particularly important in Kingfisher's regard. As determined in point 2.3, Kingfisher aims to provide their customers with products on time. Thus reliability plays a significant role in the process.

Leahy (2006) states that, "a focus on customer needs has increased supply chain management effectiveness" (p.38). Leahy (2006) goes further to say that, "improving supply chain management is focused around one basic measurement - reliability. Determining how reliable we're being - and what's driving that reliability - is product availability" (p.38). Thus the ability of South African vendors to supply EU buyers with the products they require, when they require them, is reliability, and a fundamental supply chain management objective.

Leahy (2006) suggests that:

"Customer Relationship Management (CRM) may be among those best positioned to serve companies' supply chain management needs. However, business performance management systems will always play a pivotal role in linking operational functions to companies overall strategies. The linkage is the most important driver of performance improvement within any organisation" (p.42). Thus organisational performance is related to CRM.

Leahy (2006) implies that, "It's easier for companies to focus on the supply side first and not address CRM issues, and that needs to be turned around" (p.37) Customer focus and giving them what they want is a key.

### **2.6.3 The just in time philosophy**

"Lean supply chain will be a competitive strategy" states Carter *et al* (2000, p. 14). Burt *et al* (2003) states that, "When properly implemented, a just-in-time (JIT) system results in the following supply chain benefits: reduced inventory, increased quality, and reduced lead times" (p.335), thus ensuring a lean supply chain.

Burt *et al* (2003) further suggest that, "flexibility is achieved through methods encapsulated in the just-in-time (JIT) philosophy, also known as a lean strategy" (p.335). Under this principal, suppliers need to carefully and accurately coordinate the delivery of parts. Hutt and Speh (2001) suggest that, "delivery of the specific product at the precise time" (p. 156) is paramount. With this in mind, the need for South African vendors to supply products when they're required by EU buyers is significant - thus the Latest Receipt Date (LRD) on official orders signifies the date at which the products need to be delivered to Durban port.

Hutt and Speh (2001) advise that, "Marketers have realised they have no choice other than to provide immediate delivery of their products. Business marketers will have to meet this challenge as many companies now compete on the basis of inventory turns and speed to the market" (p. 156). Hutt and Speh (2001) state categorically that, "purchasing agents begin the buying process by calling suppliers with the best delivery service" (p.159).

### **2.6.4 World Class Supply Chain Management**

As Kingfisher actively participates in sourcing, distributing and retailing of Do-It-Yourself (DIY) products, it's important that we understand the philosophy of World Class Supply Chain Management.

Burt *et al* (2003) state that, "The World Class Supply Chain Management philosophy reflects those actions and values responsible for continuous improvement of the design,

development, and management processes of an organisation's supply system, with the objective of improving its profitability and ensuring its survival, as well as the profitability and survival of its customers and suppliers. The term "world class" recognises that companies compete in an existing or impending global environment" (p.6).

This is clearly the environment in which Kingfisher has chosen to compete and thus clearly illustrates their need to have a functional supply chain. The environment in which KSA compete is highly competitive, where Kingfisher Asia Limited (KAL) and Kingfisher Sourcing Eastern Europe (KSEE) are strong contenders for the products KSA currently source and supply, this signifies the need for KSA to be competitive and provide EU buyers with the World Class Supply Chain Management principals.

### **2.6.5 Supply chain summary**

In summary, Hutt and Speh (2001) suggest that, "supply chain management is focused on improving the flow of products, information, and services as they move from origin to destination" (p. 169). A key driver to supply chain management is the coordination and integration among all participants in the supply chain, primarily through sophisticated information systems such as Apex-Pro which the Kingfisher Group utilizes. Hutt and Speh (2001) imply that, "the goals of reducing waste, minimizing duplication, reducing cost, and enhancing service are the major objectives of supply chain management. Thus, effective supply chains integrate operations, share information, and above all, provide added-value to customers" (p. 169).

### **2.7 Factors South African vendors face**

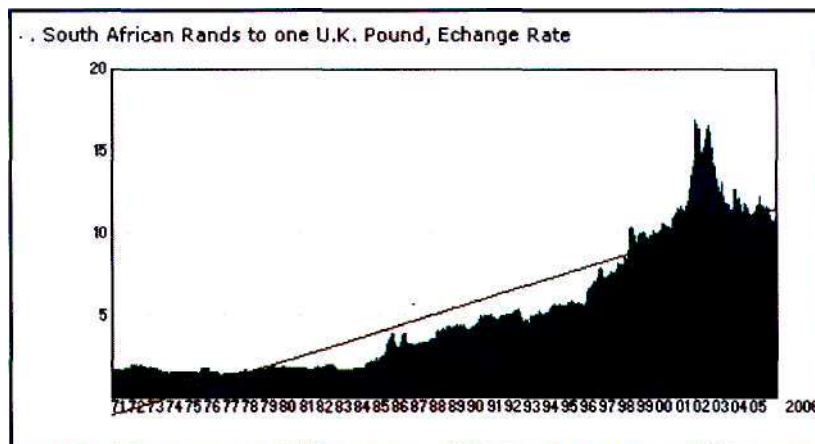
Mentioned earlier in point 2.5.2 and 2.5.3, there are certain macro environmental factors, as well as other factors which hamper the ability of South African vendors to supply EU buyers the products they require, at the right price, and at the right time. According to

Kotler (2001), "marketing is simply the delivery of customer satisfaction at a profit" (p5). Thus, not supplying products to customers when they want them, will inevitably lead to customer dissatisfaction!

### 2.7.1 Exchange rate fluctuations

Over the past three years the South African Rand has significantly strengthened against the British Pound. This would have played a significant role with regards to the vendor's cash flow, as well as their price competitiveness in the UK.

Figure 6: South African Rand to one British Pound, Exchange Rate



Source: Department of Trade and Industry

The graph represents the exchange rate fluctuations between the South African Rand and the British Pound since 1972 and up to and including the beginning of 2006. This is represented by the x-axis. The y-axis reflects the Rand value one Pound will buy. One can note that in the early 70's, the Rand was the stronger of the two currencies. At the end of 2005 however, one Pound would buy approximately twelve Rand.



This signifies how the Rand has progressively weakened against the Pound in the last thirty years. However in 2001 through to 2003 the Rand was at an all time low, where one Pound would buy in the region of eighteen Rand. During this time, exports to the EU were in favour of South African vendors as they effectively received more money due to exchange rate fluctuations.

As reflected in Figure 6 above, the Rand has gained value and strengthened against the Pound during the period 2004 and 2005. The effects on South African vendors would be terrible as they would not effectively earn what they did during the 2001 through 2003 period (taking into consideration they shipped the same quantity of goods.)

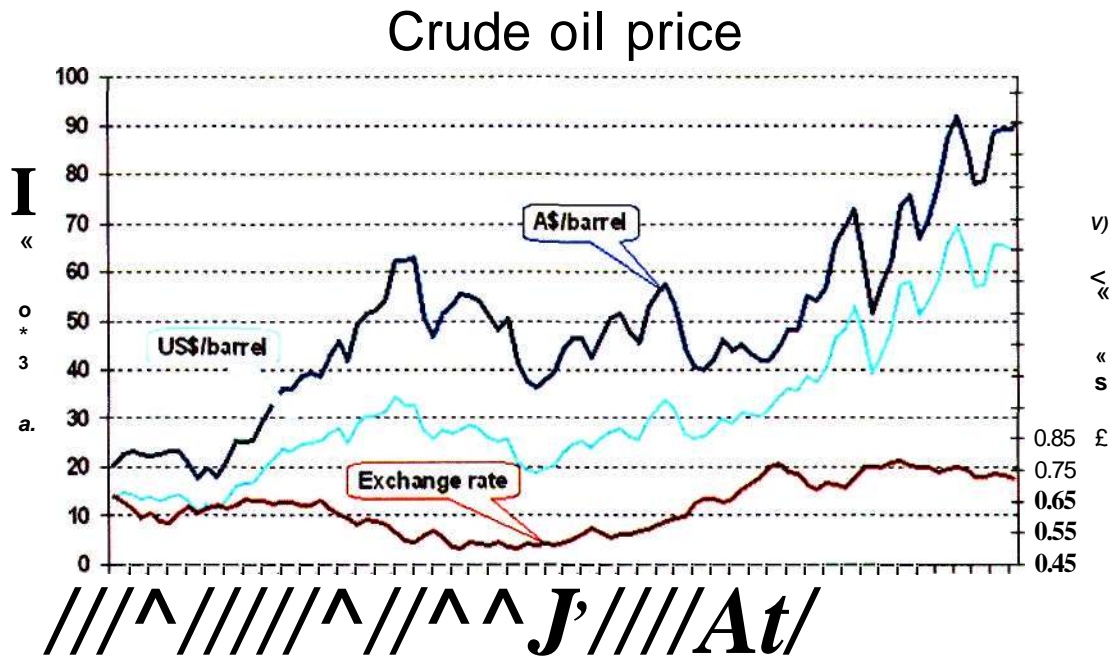
Additionally, South African products would have lost their competitiveness during 2004 and 2005 as EU buyers would be effectively paying more for the product(s) due to exchange rate fluctuations. Thus the exchange rate implications briefly mentioned above have tremendous effects for both the EU buyers and the South African vendors.

### **2.7.2 Transportation costs**

Enslin (2005) wrote, "The high cost of transporting timber to the Durban factories was also affecting profitability, thus directly affecting the competitiveness of South African vendors."

Although this phenomenon is experienced by suppliers all over the world, South Africa is geographically further away from the UK than that of Asian and European suppliers, thus it would appear that the net effect of the global crude oil price increases would not have affected European and Asian suppliers as badly.

Figure 7: Crude Oil Prices per United States Dollar (USD)



Source: Caltex 2006

The above graph illustrates the effect of the net price changes in crude oil in United States Dollars (USD). The x-axis represents the annual time line associated with this change. The y-axis reflects the typical price one would pay for a barrel of crude oil in USD. Although mapped against the Australia dollar, one can note that the exchange rate fluctuations (mapped on the right-hand side of the y-axis) are insignificant in relation to the changes in the price per barrel of crude oil. Simply, the price of crude oil has significantly increased in the past three years, and the implications thereof are directly related to the competitiveness of South African vendors.

### 2.7.3 S.A. Timber prices

The recent booms in the South African economy have seen huge developments in the structural market. Structural timber is highly sought after as this commodity forms the

basis of roof foundations of houses. Enslin (2005) states that, "There is massive demand for structural wood products for housing. You must not underestimate what good the government is doing in building houses."

As Kingfisher predominantly exports timber products, it has been noted that the supply of timber has been scarce. The timber mills are generally sawing timber for the structural market.

Enslin (2005) states that:

"Since January 2004 the lumber price index has risen 33 percent and higher-grade timber prices are up 47 percent. And we have just been issued a notice from suppliers saying that prices are due to rise a further 15 percent to 20 percent".

Thus the primary raw material used by the South African vendors has significantly increased in the past two years. This too has had the effect of South African vendors products being uncompetitive compared to those of other global suppliers. Enslin (2005) states that, "While local wood prices are rising, in Russia and Brazil there is an oversupply of soft plantation wood, making furniture exporters in these countries far more competitive"

## **2.8 The impact of unreliable vendors**

Morton (2003) states that, "delivery is extremely critical." (p. 12) He goes further to say that, "you have to pay attention to dating codes, or you're going to lose business." (p. 12) This supports the fact that the implications of shipping late (not giving your customer what they want, when they want it) will have a significant effect on the organisation.

The implications of being unreliable have momentous effects on Kingfisher's bottom line. Should a vendor not ship their products on time, there is a certain chance that a

Kingfisher store will reach a stage of, Out Of Stock (OOS). This not only dissatisfies the end user, but also dissatisfies the store manager and Kingfisher as a whole.

Should a customer be unable to purchase a product due to an Out Of Stock (OOS) situation, there is a chance that the customer could go to a competitor, and receive the service they require. Thus, Kingfisher has adopted and developed a vendor manual (Appendix 1) which clearly defines the implications of late shipments, and the penalties and fines Kingfisher can exercise.

Not only do late shipments affect the bottom line, they also have a negative affect on the credibility of a vendor and OSO. Thus, when doing future business with the vendor and OSO, the **On-Time** performance is a critical determinant of "who gets the product(s)"

## **2.9 Concluding remarks**

Burt *et al* (2003) states that, "Supply management must be a core competency based on its impact on the bottom line. The philosophy of World Class Supply Management requires change driven by upper management. World-class supply managers proactively improve the supply process with the long-term goal of improving the competitive capability of the firm and the firm's supply chain" (p.21).

Bryne (2006) suggests that, "organisations of many sizes and shapes have come to view global sourcing and manufacturing as a competitive necessity" (p.26) Bryne (2006) states that, "tomorrow's supply chains must be more global and more flexible than ever before" (p.27).

Bryne (2006) categorically states that the, "following best practices can help companies achieve effective global operations and ultimately improve their performance:

1. Clearly articulate customer requirements

2. Design information flows to help ensure accurate, real-time visibility across the supply chain.
3. Identify and manage risks and uncertainty

### **3. RESEARCH METHODOLOGY AND DESIGN**

#### **3.1 Introduction**

In this dissertation primary data gathered from Kingfisher Sourcing Africa's (KSA) internally developed management tool namely, Orders and Shipments is used to determine the gap between what EU buyers require, and what service levels South African vendors provide. The information gathered clearly establishes the difference between the two dates, and thus one can accurately quantify the difference between the two. As KSA and their vendor's performance are measured by this supply chain management tool, both EU buyers and KSA have the identical information pertaining to the delivery results.

#### **3.2 Definition of the research problem**

This research seeks to prove the fact that South African vendors do not give EU buyers the service level they require, with specific reference to On Time deliveries.

#### **3.3 Research Question**

Do South African vendors deliver their products on-time to EU buyers.

#### **3.4 Research objectives**

The four objectives of this research report are:

1. Quantify delivery history statistics.
2. To analyse of the on-time (OT) statistics.
3. Determine the percentage of late deliveries of South African vendors to EU buyers.

4. Formulate plans to improve the on-time delivery of South African exports to the EU.

### **3.4.1 Research rationale**

This research is useful to Kingfisher as it clearly highlights the importance of supply chain management and how to improve supply strategies and processes from South Africa. The rationale is to formulate recommendations to Kingfisher and South African vendors to improve their on-time (OT), which determines EU buyers' satisfaction, which ultimately determines Kingfisher Sourcing Africa's (KSA) success or failure.

### **3.5 Research design and strategy**

The research attempts to gain a holistic view from a supply chain perspective and identify a gap between when customers want their products, and when they actually receive them

The information required for this research report has been collected over the past two years (February 2004 - January 2006) from Kingfisher Sourcing Africa's (KSA) database. The information has been readily available in the past to analyse and draw up conclusions pertaining to KSA's on-time delivery performance.

As determined in the research question above, the information required for this report relies on two dates, namely the official Purchase Order (PO) date agreed to between the two parties, and the actual delivery date achieved.

The strategy is to manipulate all the raw data into a few columns which specify:

1. The date the EU buyer and South African vendor agreed the product(s) would be delivered to Durban port.
2. What date the South African vendor delivered the product(s) at Durban port.

The difference will determine whether or not South African vendors met the EU buyers' requirements or not.

### **3.5.1 Research data collection**

Data collected directly from KSA's computer database has enabled this research to be possible. The data is considered primary as the information was directly extracted from KSA's management operating tool, Orders and Shipments.

### **3.5.2 Research data analysis**

The information gathered was exported to Microsoft Excel by the author. In Microsoft Excel, the data was manipulated and sorted to provide statistical data pertaining to KSA's vendor's shipment history in graphs and tables in Chapter 4 of this research report.

### **3.6 Research data limitations**

Potential limitations of this research report are mentioned below:

1. Other potential reasons for KSA's poor supply performance not relating to supply chain management
2. The confidentiality of Kingfisher's high level strategy
3. Sometimes production is urgently required, thus the lead time and the LRD's are ignored.
4. The EU buyer measures each SKU in a container, not each container individually. Thus if one container is late, and has ten SKU's inside, this significantly skews the on-time results.



It must be noted at this point that all the data extracted from the KSA computer database may not in all instances be 100% accurate due to potential data input errors by the KSA administration department, however this would be unlikely and insignificant as the information was audited by Price Waterhouse Coopers.

The information gathered was directly extracted from KSA's Orders and Shipments management tool. This information is used as the basis for conducting business operations in South Africa and is therefore considered accurate information.

### **3.6 Concluding remarks**

This chapter has discussed the research methodology used to generate the data for the analysis. It was decided by the author that the best method to gather information for this research topic was to delve into and analyze information specifically pertaining to orders raised on the KSA operating system, and the shipment history directly relating to the official Purchase Orders (PO).

The following chapter analyses and interprets the discussed data retrieved from the KSA computer database.

## **4. RESULTS OF THE RESEARCH**

### **4.1 Introduction**

This chapter examines the data gathered and provides the cognitive results from the order and shipment data collected. The South African vendor performance data is presented in tables and graphs and illustrates the findings of the research.

The main question in this research was to determine a gap between what EU buyers require and what South African vendors have supplied. From the literature review it was established that supply chain management and customer satisfaction go hand in hand. The effects of supply chain management and supply chain performance have a direct effect on the success or survival of the organisation.

### **4.2 South African vendor documentation**

Only at the invoicing stage do KSA calculate and determine if the PO is late or not. The reason for this is because once the PO has been invoiced to a corresponding PO, the PO LRD will distinguish the difference between the two dates. All invoices are made and captured prior to the date the container arrives at Durban port. Vendors can only ship their products once KSA had received the necessary shipping information, being:

1. South African vendor invoice:
  - I. PO corresponding with KSA's and the EU buyers.
2. South African vendor packing list
  - I. Highlighting the method used to pack the container.
3. KSA quality inspection report

- I. All shipments have to be checked for quality performance prior to shipment.

However even if there were no vessels sailing on the LRD, vendors have the ability to store their containers free of charge at the EU shipping lines warehouse in Durban, Maersk Logistics. South African vendors have the luxury of supplying their container(s) two weeks prior to the agreed LRD, however, should the EU buyer require the products urgently, they could promptly arrange for the shipment of them from their storage location situated at Durban port.

#### **4.3 The calculation methodology of the gap analysis**

As discussed through this report, the primary reason for this research was to determine the gap between what EU buyers require and what they receive. The calculation of the gap analysis was performed as follows:

1. The agreed LRD between the South African vendor and the EU buyer, less
2. The actual shipment date of the South African vendor.

In the following pages the author illustrates the findings from the data collected and analysed.

#### **4.4 KSA year end 2005 gap analysis**

The information was prepared on a quarterly basis, clearly listing the LRD's and the actual shipment dates. The following method was used to determine whether the PO is late or not:

The beginning of February 2004 saw the first month that Kingfisher Sourcing Africa (KSA) was in operation. As discussed earlier, KSA acquired this family owned business

and reengineered its operation methodology. KSA would now be closely monitoring vendor performance and reporting these results back to the Kingfisher Group.

The table presented below is a fair representation of the format the KSA Supply Chain Manager (SCM) would present to the KSA General Manager (GM), and ultimately to the Kingfisher Group.

#### 4.4.1 2005 Quarter one supply results

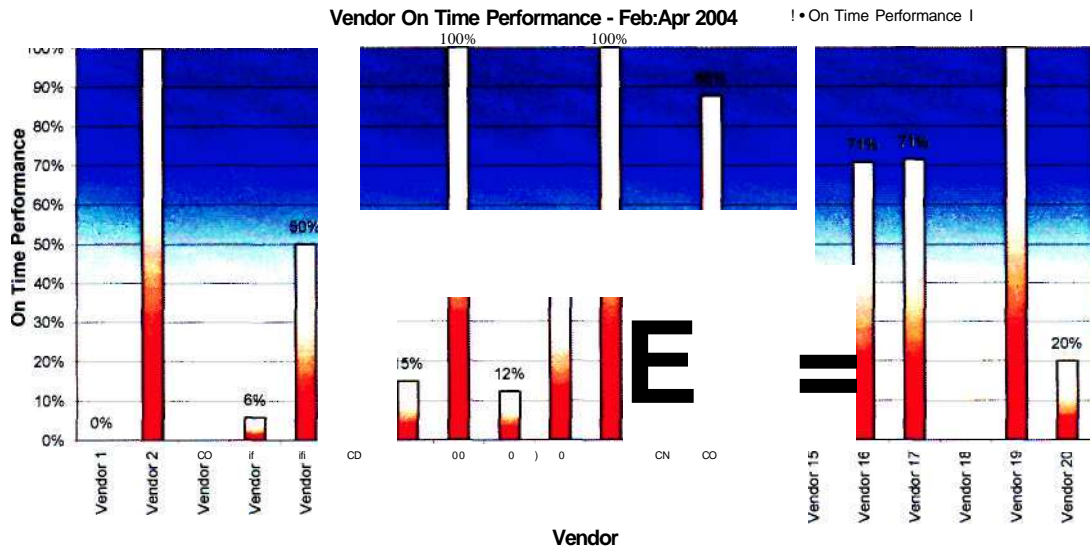
The results presented in the Table 1 below illustrate KSA's first quarter results with regards to on-time delivery to EU buyers.

Table 1: 2004 Quarter 1 Vendor On-Time Delivery Results

KINSF SHER SOURCING AFRICA				2004 Quarter 1										
Vendor	Total Shipped				Late									
		In Del	Full %	Total %	1-5 Del	Days %	6-10 Del	Days %	11-15 Del	Days %	16-20 Del	Days %	Over 20 Del	Days %
Vendor 1	1	0	0%	0%	0	0%	0	0%	0	0%	0	0%	1	100%
Vendor 2	10	10	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 3				0%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 4	17	1	6%	6%	5	29%	4	24%	2	12%	4	24%	1	6%
Vendor 5	2	1	50%	50%	1	50%	0	0%	0	0%	0	0%	0	0%
Vendor 6	7	0	0%	0%	0	0%	0	0%	0	0%	0	0%	7	100%
Vendor 7	74	11	15%	15%	14	19%	10	14%	26	35%	6	8%	7	9%
Vendor 8	10	10	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 9	73	9	12%	12%	6	8%	13	18%	7	10%	13	18%	25	34%
Vendor 10	61	27	44%	44%	3	5%	14	23%	6	10%	1	2%	10	16%
Vendor 11	17	17	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 12				0%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 13	268	235	88%	88%	28	10%	2	1%	3	1%	0	0%	0	0%
Vendor 14				0%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 15	1	0	0%	0%	1	100%	0	0%	0	0%	0	0%	0	0%
Vendor 16	219	155	71%	71%	14	6%	19	9%	18	8%	5	2%	8	4%
Vendor 17	14	10	71%	71%	0	0%	0	0%	0	0%	0	0%	4	29%
Vendor 18				0%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 19	6	6	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 20	125	25	20%	20%	10	8%	7	6%	7	6%	10	8%	66	53%
<b>retail DIY Sector</b>	<b>905</b>	<b>517</b>	<b>57%</b>	<b>57%</b>	<b>82</b>	<b>9%</b>	<b>69</b>	<b>8%</b>	<b>69</b>	<b>8%</b>	<b>39</b>	<b>4%</b>	<b>129</b>	<b>14%</b>

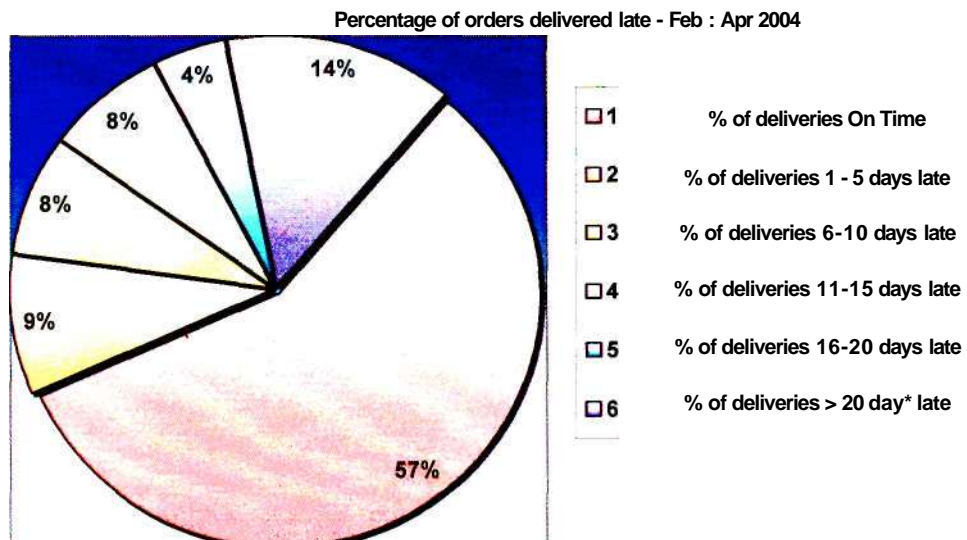
The results presented in Table 1 above are the true on-time delivery results achieved for the quarter. Of the 20 vendors that distribute through KSA, only sixteen vendors shipped products to the UK. Of these sixteen vendors, four achieved the requirement of 100% on-time. The balance varied between 0% and 88% for their on time deliveries. The performance for the quarter was a mere 57%. The vendor results can easily be viewed in the form of a bar chart below.

Chart 1: Vendor On-Time Performance - February: April 2004



The bar chart above visually presents the vendors on-time performance against those of other vendors. Although the majority of vendors did not manage to achieve the Latest Receipt Date (LRD), EU buyers and KSA measure the number of days a vendor is late. The pie chart below quantifies and presents the number of days late a vendor delivers their products to Durban port.

Chart 2: Percentage of orders delivered late - February : April 2004



The chart above clearly illustrates the percentage of Purchase Orders (PO) that were delivered after the agreed LRD. 9% of official PO's were delivered between one and five days later. Collectively, 16% of the vendors' deliveries to Durban port were between eight and sixteen days late. 14% of the customers' orders were delivered more than twenty days late, nearly an entire month after the agreed LRD.

Although not a desirable on-time performance in KSA's first quarter of trading, EU buyers did not exercise any fines or penalties as stipulated by the Vendor Buying Agreement.

#### 4.4.2 2005 Quarter two supply results

Taking into consideration the South African vendors first quarter on-time results, they had the ability to use these results as a benchmark for improved performance. Table 2 below reflects the management tool KSA would present to the Kingfisher Group.

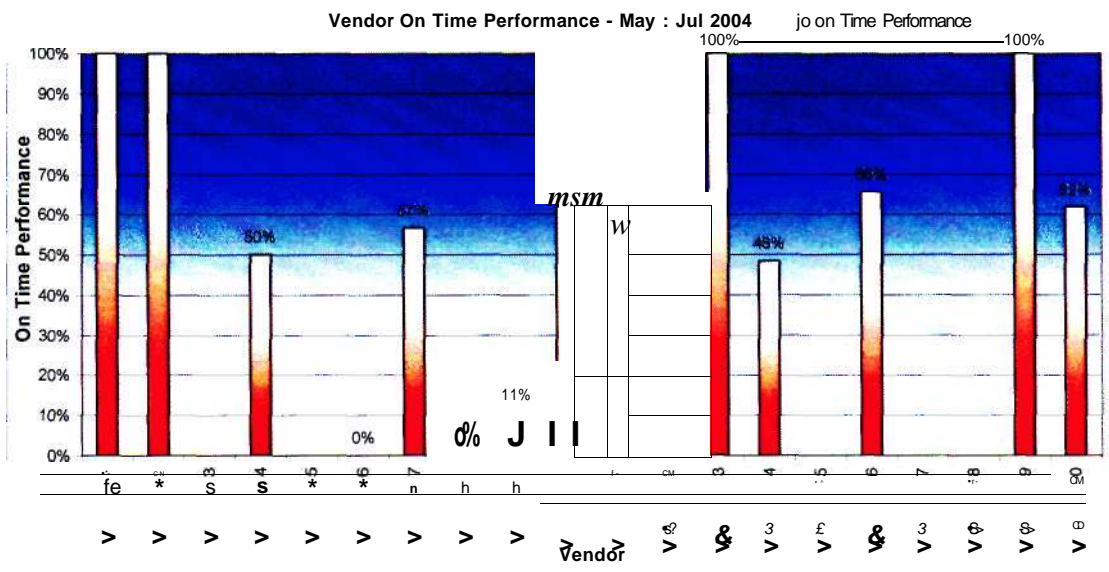
Table 2: 2004 Quarter 2 Vendor On-Time Delivery Results

KINGFISHER SOURCING AFRICA				2004 Quarter 2										
Vendor	Total Shipped				Late									
		In Del	Full %	Total %	1-5 Del	Days %	6-10 Del	Days %	11-15 Del	Days %	16-20 Del	Days %	Over 20 Del	Days %
Vendor 1	2	2	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 2	8	8	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 3														
Vendor 4	2	1	50%	50%	1	50%	0	0%	0	0%	0	0%	0	0%
Vendor 5														
Vendor 6	17	0	0%	0%	0	0%	0	0%	0	0%	0	0%	17	100%
Vendor 7	53	30	57%	57%	11	21%	6	11%	0	0%	0	0%	6	11%
Vendor 8	2	0	0%	0%	0	0%	1	50%	1	50%	0	0%	0	0%
Vendor 9	46	5	11%	11%	9	20%	15	33%	9	20%	5	11%	5	11%
Vendor 10	84	52	62%	62%	1	1%	1	1%	16	19%	0	0%	14	17%
Vendor 11	16	9	56%	56%	7	44%	0	0%	0	0%	0	0%	0	0%
Vendor 12														
Vendor 13	96	96	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 14	31	15	48%	48%	8	26%	0	0%	8	26%	0	0%	0	0%
Vendor 15														
Vendor 16	242	159	66%	66%	52	21%	10	4%	14	6%	0	0%	7	3%
Vendor 17														
Vendor 18														
Vendor 19	6	6	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 20	123	76	62%	62%	38	31%	6	5%	1	1%	0	0%	2	2%
<b>Total DIY Sector</b>	<b>728</b>	<b>459</b>	<b>63%</b>		<b>127</b>	<b>17%</b>	<b>39</b>	<b>5%</b>	<b>49</b>	<b>7%</b>	<b>5</b>	<b>1%</b>	<b>51</b>	<b>7%</b>

The results above present EU buyers with a slight improvement compared to those achieved in the first quarter on time delivery performance. A 6% improvement on the previous quarter's 57% is trivial; however the trend would suggest that South African vendors had taken the dreadful result into consideration, and taken LRD's more seriously. This is supported by the fact that 17% of deliveries were in the region of one to five days late. However 7% of deliveries were still significantly late.

Of the 7% of deliveries that contributed to the shocking performance, 17 deliveries (10%) were achieved by one vendor. 100% of their deliveries were more than twenty days late on the agreed LRD. Chart 3 below reflects these results, and visually highlights which vendors contributed to the on time performance.

Chart 3: Vendor On-Time Performance - May: July 2004



Four vendors again managed to achieve the EU buyers' requirements, by accomplishing a 100%) on time delivery result. However, there were still vendors only reaching between 0% and 66%). Taking the consolidated figures into account, a 63% on time delivery result was achieved in the second quarter by South African vendors.

Chart 4: Percentage of orders delivered late - May: July 2004

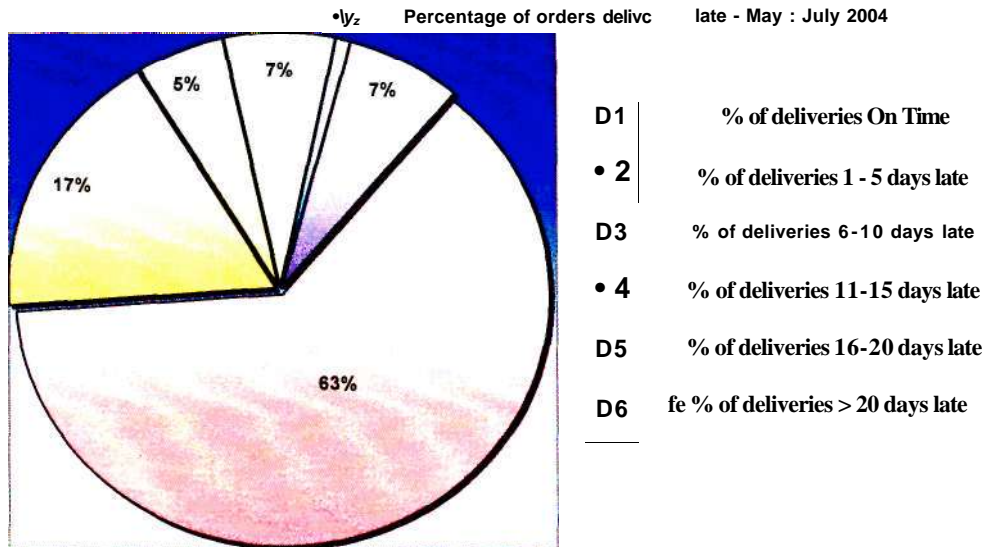


Chart 4 suggests that South African vendors had improved on their on time delivery performance, however, 37% of official PO's were still delivered after the agreed LRD. Although an improvement, EU buyers would still consider this performance as below par.

#### 4.4.3 2005 Quarter three supply results

Table 3: 2004 Quarter 3 Vendor On Time Delivery Results

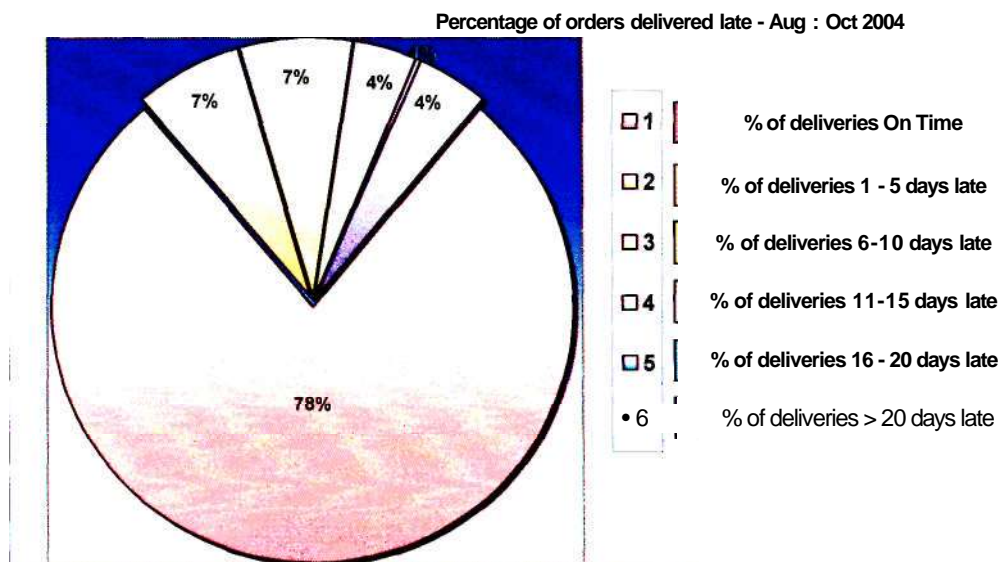
KINGFSHERSOURCING AFRICA				2004 Quarter 3										
Vendor	Total Shipped	On Time		Total %	Late									
		In Del	Full %		1-5 Days Del %	6-10 Days Del %	11-15 Days Del %	16-20 Days Del %	Over 20 Days Del %					
Vendor 1														
Vendor 2														
Vendor 3														
Vendor M	1	0	0%	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor S														
Vendor 6														
Vendor 7	60	50	83%	83%	6	10%	1	2%	1	2%	0	0%	2	3%
Vendor 8														
Vendor 9	38	35	92%	92%	1	3%	0	0%	0	0%	0	0%	2	5%
Vendor 10	91	60	66%	66%	4	4%	12	13%	3	3%	0	0%	12	13%
Vendor 11	13	2	15%	15%	0	0%	10	77%	1	8%	0	0%	0	0%
Vendor 12														
Vendor 13	293	293	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 14	51	10	20%	20%	18	35%	11	22%	10	20%	0	0%	2	4%
Vendor 15														
Vendor 16	194	139	72%	72%	18	9%	9	5%	10	5%	4	2%	15	8%
Vendor 17														
Vendor 18														
Vendor 19	7	7	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 20	17	0	0%	0%	4	24%	9	53%	4	24%	0	0%	0	0%
<b>Total DIY Sector</b>	<b>765</b>	<b>596</b>	<b>78%</b>		<b>51</b>	<b>7%</b>	<b>52</b>	<b>7%</b>	<b>29</b>	<b>4%</b>	<b>4</b>	<b>1%</b>	<b>33</b>	<b>4%</b>



Following the upward trend, quarter three saw South African vendors improve by 15% on the previous quarter's results. Although only half of the vendors supplied EU buyers, and only 765 products were delivered to Durban port, the result indicates that South African vendor on time deliveries were on the rise. Only 22% of deliveries were delivered after the LRD, and importantly, the deliveries which accounted for twenty days and more, had improved.

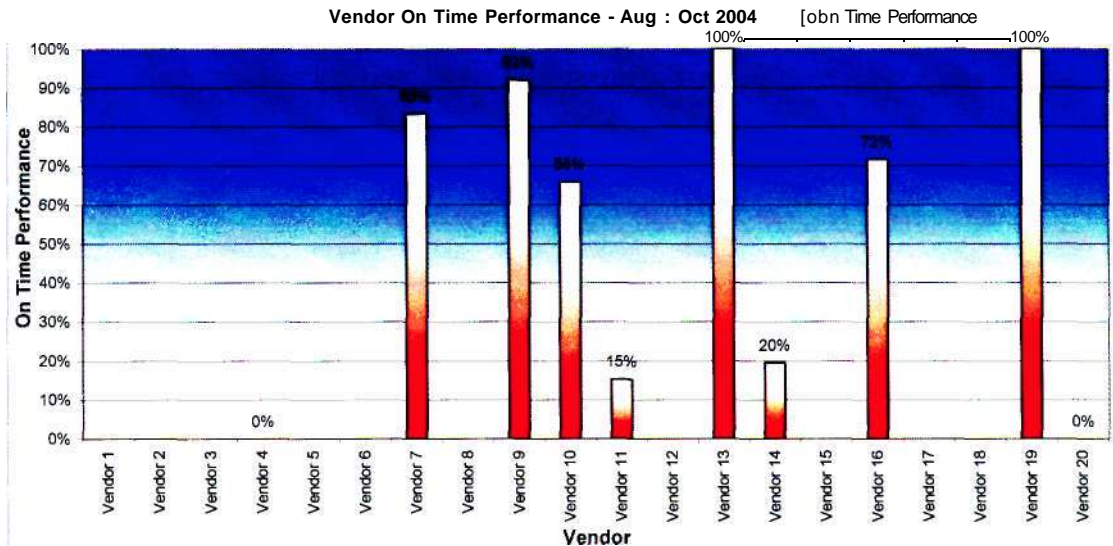
Chart 5 below clearly reflects the improvement from South African vendors in this quarter, and further suggests that quarter four should present EU buyers with another improvement on these on time delivery results.

Chart 5: Percentage of orders delivered late - August: October 2004



In pie chart 5 above, one can clearly see the improvement in on-time deliveries achieved by South African vendors. 9% of the 765 products delivered were greater than two weeks after the agreed LRD. Although still unacceptable, the improvement is considerable.

Chart 6: Vendor On-Time Performance - August: October 2004



In Chart 6, we see that only two of the ten vendors achieved the desired 100% on time delivery result. The other eight attained results between 0% and 92%.

#### 4.4.4 2005 Quarter four supply results

The final quarter of the January 2005 year end presented KSA management with a disappointing on time delivery result. The result achieved by South African vendors was similar to that of first quarter. A pitiable 58% on time delivery achievement in this quarter would have the effect of KSA being seen in a bad light again.

Kingfisher Asia Limited (KAL) has an average on-time result of 98.5%, thus other KSO's are measured and compared against their performance results.

Table 4: 2005 Quarter 4 Vendor On-Time Delivery Results

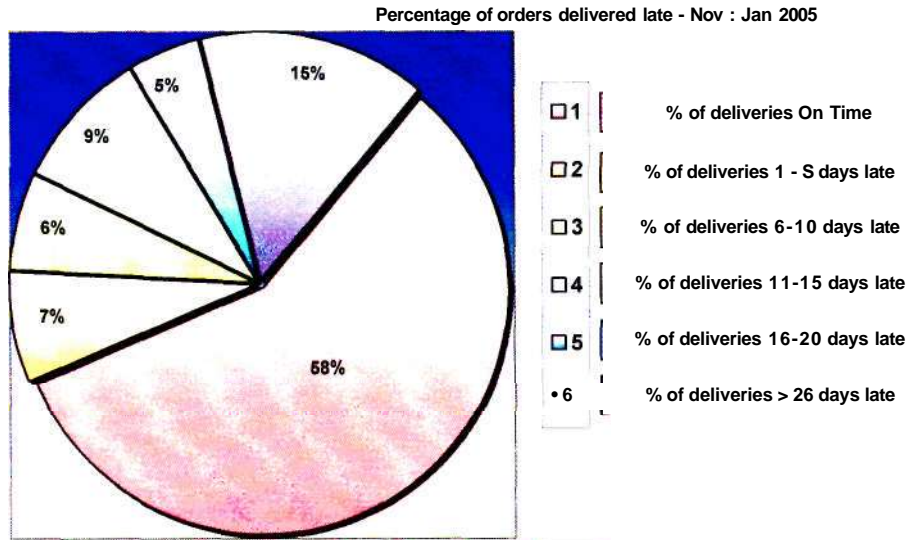
KING F SHER SOURCING AFRICA				2005 Quarter 4											
Vendor	Total Shipped				Late										
		In Del	Full %	Total %	1-5 Del	Days %	6-10 Del	Days %	11-15 Del	Days %	16-20 Del	Days %	Over 20 Del	Days %	
Vendor 1	2	2	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%	
Vendor 2															
Vendor 3	2	2	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%	
Vendor 4															
Vendor 5	2	0	0%	0%	1	50%	1	50%	0	0%	0	0%	0	0%	
Vendor 6															
Vendor 7	23	7	30%	30%	0	0%	7	30%	0	0%	1	4%	8	35%	
Vendor 8	7	3	43%	43%	2	29%	0	0%	1	14%	0	0%	1	14%	
Vendor 9	58	41	71%	71%	11	19%	5	9%	1	2%	0	0%	0	0%	
Vendor 10	72	51	71%	71%	3	4%	1	1%	3	4%	2	3%	12	17%	
Vendor 11	9	0	0%	0%	0	0%	6	67%	3	33%	0	0%	0	0%	
Vendor 12	3	3	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%	
Vendor 13	81	75	93%	93%	4	5%	0	0%	0	0%	2	2%	0	0%	
Vendor 14	60	5	8%	8%	3	5%	4	7%	19	32%	4	7%	25	42%	
Vendor 15															
Vendor 16	188	93	49%	49%	13	7%	10	5%	22	12%	16	9%	34	18%	
Vendor 17															
Vendor 18	20	19	95%	95%	1	5%	0	0%	0	0%	0	0%	0	0%	
Vendor 19	6	6	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%	
Vendor 20															
<b>Total DIY Sector</b>	<b>533</b>	<b>307</b>	<b>58%</b>	<b>51%</b>	<b>38</b>	<b>7%</b>	<b>34</b>	<b>6%</b>	<b>49</b>	<b>9%</b>	<b>25</b>	<b>5%</b>	<b>80</b>	<b>15%</b>	

Of the fourteen South African vendors that delivered products during this period, six vendors managed to achieve an on time delivery result of greater than 90%. The balance however, contributed to the disheartened result.

The visual representation in Chart 7 below, states that collectively, South African vendors performed worse in quarter four than in quarter one. 15% of the 533 deliveries were delivered to Durban port after the agreed LRD. Additionally, nearly 30% of late deliveries were in excess of eleven days late, as opposed to only 8% in the third quarter.

One might suggest that the supposedly upward trend of on time deliveries had reached a peak.

Chart 7: Percentage of orders delivered late - November: January 2005



Although certain South African vendors were managing to provide EU buyers with reliable supply, KSA's performance of 58% for on time deliveries was considerably poor.

Chart 8: Vendor On-Time Performance - November: January 2005

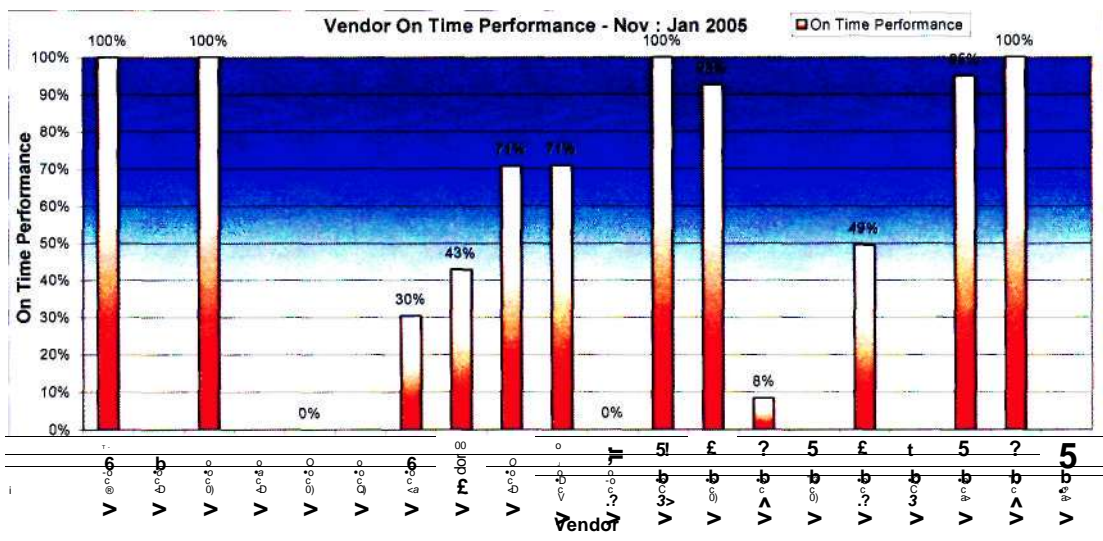


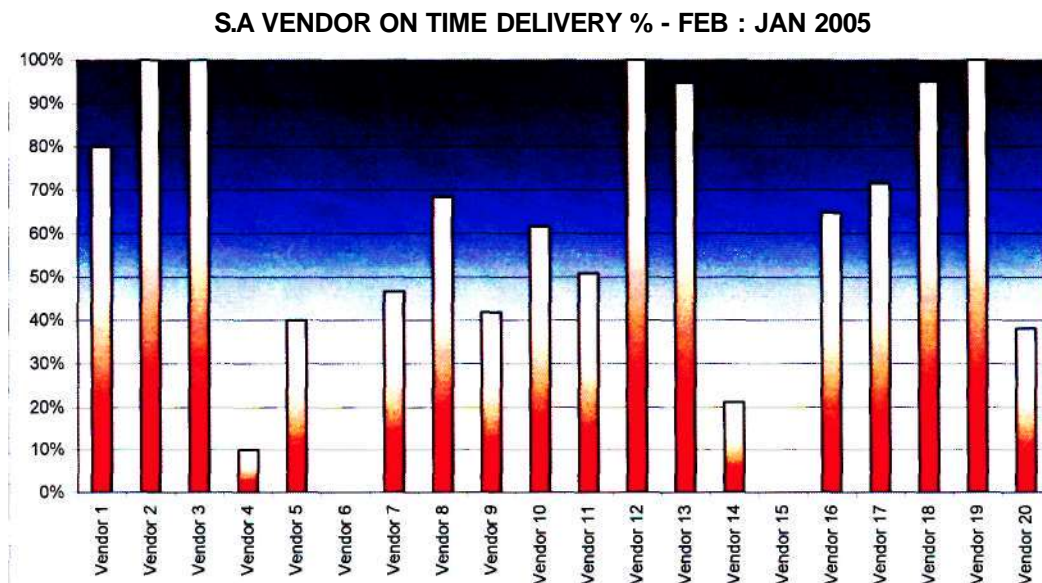
Chart 8 above clearly identifies which vendors are not adhering to the Kingfisher on-time delivery requirement as stipulated in the VBA.

#### 4.4.5 2005 Year end supply results

After a "roller-coaster" first year on time delivery result achieved by the South African vendors trading with KSA, the financial year end on time performance results were compiled and distributed to EU buyers, as well as South African buyers.

The collective results of KSA vendors are presented in Chart 9 below. This information is shared amongst the KSO's around the Group to establish which KSO is the worst.

Chart 9: South African Vendor On-Time Delivery % - February: January 2005

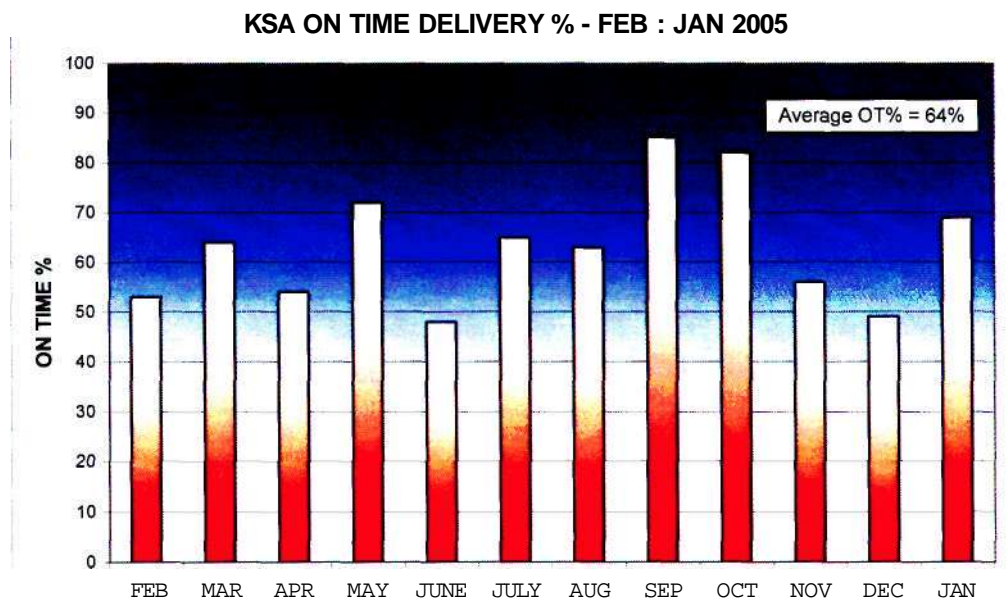


Certain vendors managed to achieve a relatively high on time performance; however the majority of the vendors accomplished unsatisfactory results. The data presented above clearly distinguishes a variance between the agreed LRD, and the actual shipment dates achieved by most of the South African vendors.



Collectively, the year end on time delivery results achieved by the South African vendors was poor. An on time average of **64%** was achieved. This quantifies that 36% of official Purchase Order (PO) LRD's were not achieved by South African vendors in a twelve month period. Chart 10 below supports these findings.

Chart 10: KSA On-Time Delivery % - February: January 2005



KSA's South African vendor base had let the company down. With an average on-time delivery of only 64%, EU buyers would not be impressed in the reliability in supply. As determined in Chapter two, giving customers what they want is essential for organisational success.

#### 4.4.6 2005 Year end supply conclusion

A poor on time delivery performance was achieved by the South African vendors. As mentioned above, 64% of the EU buyers' requirements were met. This meant that less than two thirds of official PO LRD's were achieved during the Kingfisher financial year. Thus, 36% of customers actually got what they wanted.

## 4.5 KSA year end 2006 gap analysis

After a full year of trading as KSA, the on time performance was an appalling 64%. The need for KSA and South African vendors to turn the results around is detrimental to the survival of the business. As mentioned during the literature review, supply management is a pivotal determinant in the success or survival of an organisation.

### 4.5.1 2006 Quarter one supply results

It's noted that only 16 vendors were on KSA's database at the beginning of 2005, as opposed to 20 in early 2004. 4 South African vendors either pulled-out of the export market, or they were uncompetitive and not able to supply EU buyers any longer.

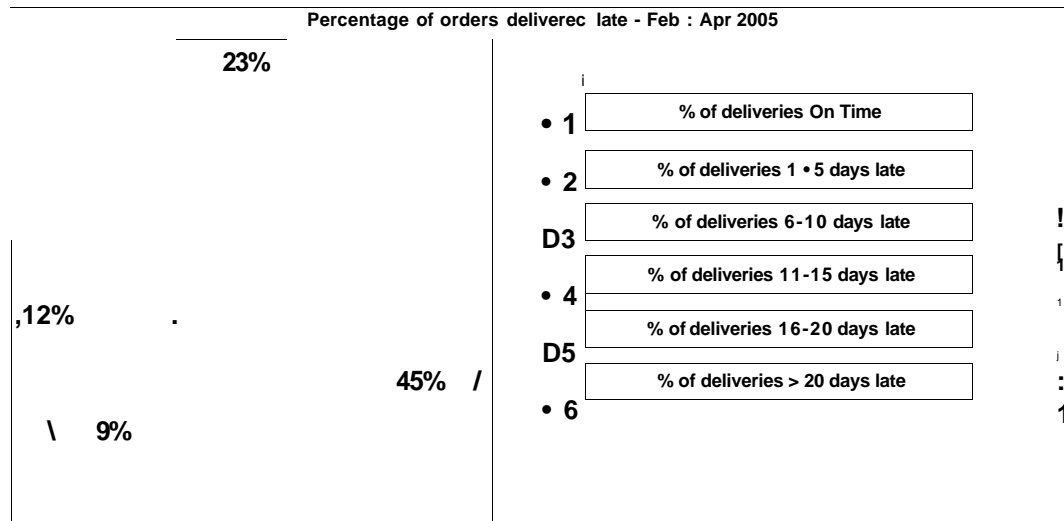
An all time low ontime delivery result was achieved in the first quarter of 2005. Table 5 reflects an unbelievable result of 45%.

Table 5: 2006 Quarter 1 Vendor On-Time Delivery Results

KINGF SHER SOURCING AFRICA				2005 Quarter 1											
Vendor	Total Shipped				Late										
		In Del	Full %	Total %	15 Del	Days %	6-10 Del	Days %	11-15 Del	Days %	16-20 Del	Days %	Over 20 Del	Days %	
Vendor 1	3	1	33%	33%	0	0%	0	0%	0	0%	0	0%	2	67%	
Vendor 2	2	1	50%	50%	0	0%	0	0%	0	0%	0	0%	1	50%	
Vendor 3															
Vendor 4	3	3	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%	
Vendor 5	53	11	21%	21%	13	25%	12	23%	11	21%	2	4%	4	8%	
Vendor 6	16	8	50%	50%	5	31%	2	13%	1	6%	0	0%	0	0%	
Vendor 7	61	13	21%	21%	0	0%	2	3%	1	2%	2	3%	43	70%	
Vendor 8	108	47	44%	44%	8	7%	6	6%	5	5%	10	9%	32	30%	
Vendor 9	19	7	37%	37%	2	11%	6	32%	0	0%	0	0%	4	21%	
Vendor 10	104	102	98%	98%	0	0%	2	2%	0	0%	0	0%	0	0%	
Vendor 11	60	18	30%	30%	5	8%	4	7%	9	15%	9	15%	15	25%	
Vendor 12															
Vendor 13															
Vendor 14	166	53	32%	32%	4	2%	39	23%	14	8%	6	4%	50	30%	
Vendor 15	62	30	48%	48%	26	42%	6	10%	0	0%	0	0%	0	0%	
Vendor 16	9	9	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%	
<b>Total DIY Sector</b>	<b>666</b>	<b>303</b>	<b>45*</b>	<b>45%</b>	<b>63</b>	<b>9%</b>	<b>79</b>	<b>12%</b>	<b>41</b>	<b>6%</b>	<b>29</b>	<b>4%</b>	<b>151</b>	<b>23%</b>	

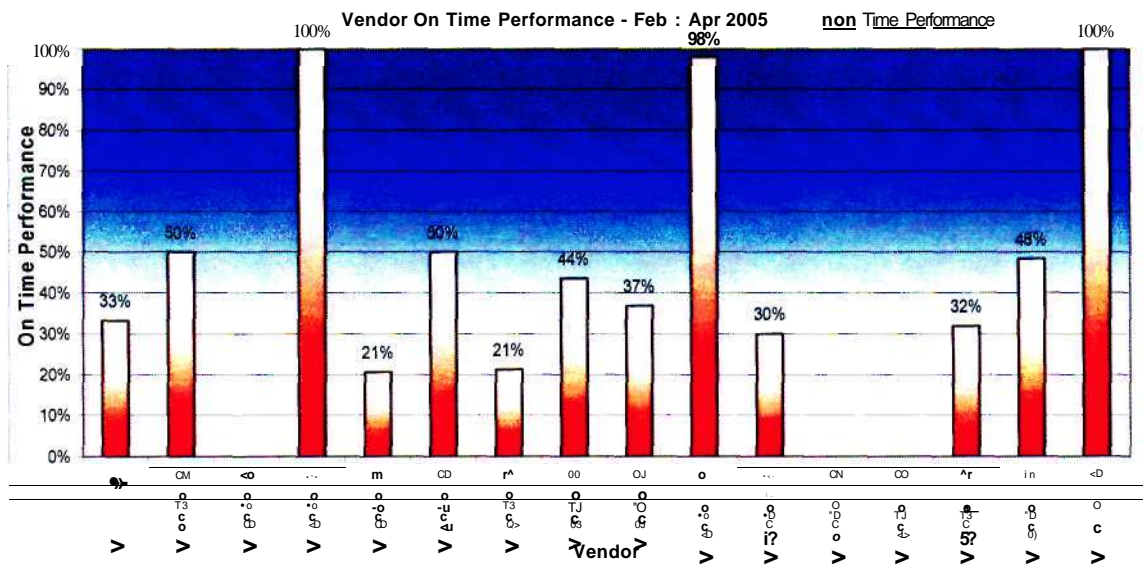
Not only was the on time delivery result disappointing, the increase in late shipments greater than twenty days was 23%. Shipments in 2004 quarter one were also considerably greater than the present six hundred and sixty six.

Chart 11: Percentage of orders delivered late - February: April 2005



The percentage of late deliveries against the LRD was now reflecting 55%. Of which 23% of late deliveries were in excess of twenty days after the required date. Compared to the results achieved in the first quarter of 2004, this quarter is significantly worse.

Chart 12: Vendor On-Time Performance - February: April 2005





Of the four South African vendors who achieved 100% on time supply in the quarter one of 2004, only two managed to accomplish this in 2005. More than 60% of the thirteen South African vendors supplying EU buyers in this quarter managed to achieve an on-time delivery of less than 50%.

#### 4.5.2 2006 Quarter two supply results

Yet again, the South African vendors managed to achieve a horrendous on time delivery result of 45% for the second quarter of 2005.

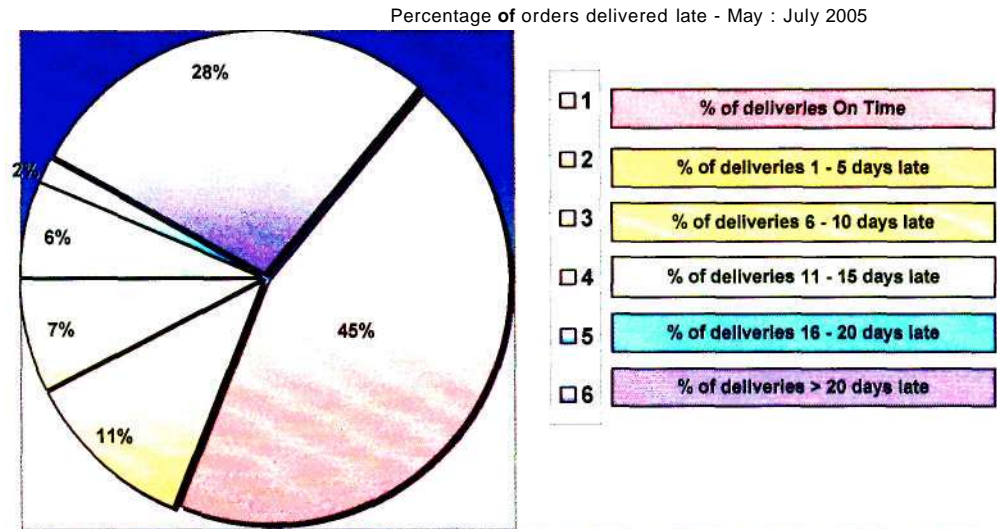
Table 6: 2006 Quarter 2 Vendor On-Time Delivery Results

KING SHER SOURCING AFRICA				2005 Quarter 2										
Vendor	Total Shipped				Late									
		In Del	Full %	Total %	15 Del	Days %	6-10 Del	Days %	11-15 Del	Days %	16-20 Del	Days %	Over 20 Del	Days %
Vendor 1	1	0	0%	0%	0	0%	0	0%	0	0%	0	0%	1	100%
Vendor 2														
Vendor 3	3	3	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 4														
Vendor 5	33	18	55%	55%	4	12%	15%	2	6%	0	0%	4	12%	
Vendor 6	17	0	0%	0%	0	0%	12%	5	29%	3	18%	7	41%	
Vendor 7	30	12	40%	40%	3	10%	0%	0	0%	0	0%	15	50%	
Vendor 8	100	56	56%	56%	4	4%	7%	11	11%	2	2%	20	20%	
Vendor 9	11	11	100%	100%	0	0%	0%	0	0%	0	0%	0	0%	
Vendor 10	25	20	80%	80%	1	4%	8%	2	8%	0	0%	0	0%	
Vendor 11	48	5	10%	10%	14	29%	2%	0	0%	0	0%	28	58%	
Vendor 12														
Vendor 13	3	2	67%	67%	1	33%	0	0%	0	0%	0	0%	0	0%
Vendor 14	44	12	27%	27%	8	18%	7	16%	1	2%	0	0%	16	36%
Vendor 15	6	4	67%	67%	2	33%	0	0%	0	0%	0	0%	0	0%
Vendor 16	3	3	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
<b>Total DIY Sector</b>	<b>324</b>	<b>146</b>	<b>45%</b>	<b>45%</b>	<b>37</b>	<b>11%</b>	<b>24</b>	<b>7%</b>	<b>21</b>	<b>6%</b>	<b>5</b>	<b>2%</b>	<b>91</b>	<b>28%</b>

It's noted too that deliveries are down from the same time in the preceding year. In 2004 quarter two, the total amount of products shipped is 728. This suggests that PO's for South African vendors have decreased by more than 55%.

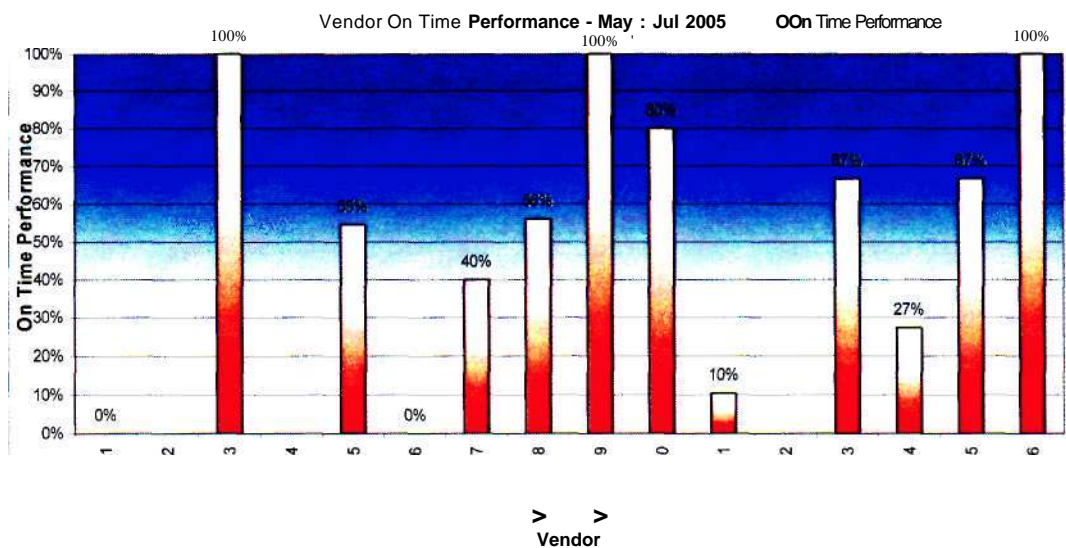
A further analysis of these results illustrates the increase in PO's being delivered more than 20 days late on the agreed LRD. The pie chart 13 below, clearly distinguishes the increase in supply greater than twenty days.

Chart 13: Percentage of orders delivered late - May: June 2005



Mirrors of the first quarter in 2005, 55% of EU buyers' PO's have been supplied later than originally requested. A year ago, 63% of PO's were delivered on time resulting in an overwhelming 18% decrease in performance. Additionally, PO's delivered more than twenty days late had risen by 21%. This poor performance is reflected in Chart 14.

Chart 14: Vendor On-Time Performance - May: July 2005



### 4.5.3 2006 Quarter three supply results

After a terrible on-time delivery start to the year in the previous two quarters, the South African vendors managed to achieve a considerably better result in the third quarter.

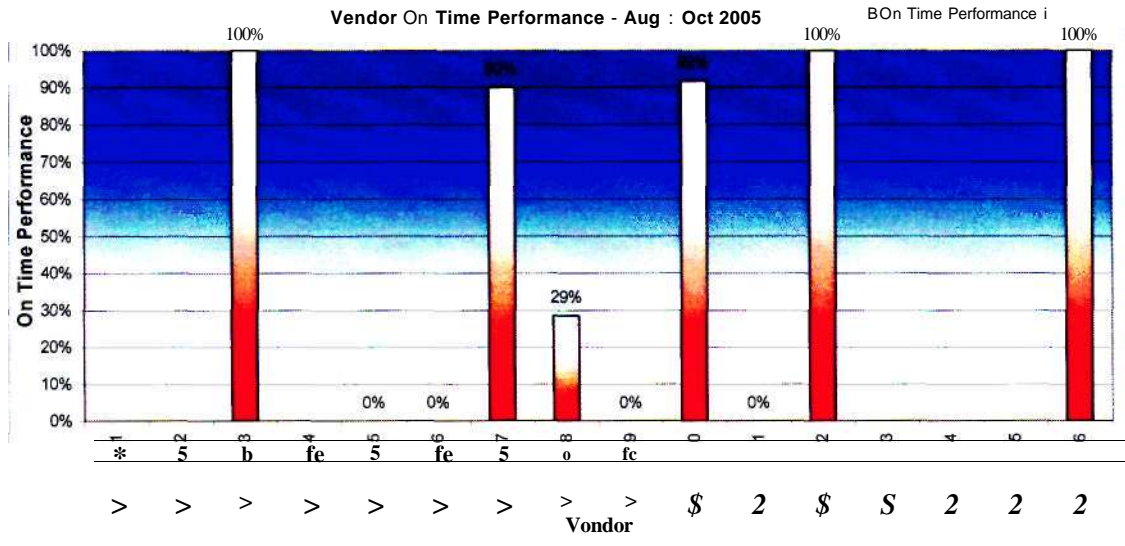
Table 7: 2006 Quarter 3 Vendor On-Time Delivery Results

KING SHER SOURCING AFRICA				2005 Quarter 3										
Vendor	Total Shipped				Late									
		In Del	Full %	Total %	1-5 Del	Days %	6-10 Del	Days %	11-15 Del	Days %	16-20 Del	Days %	Over 20 Del	Days %
Vendor 1														
Vendor 2														
Vendor 3	4	4	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 4														
Vendor 5	3	0	0%	0%	0	0%	0	0%	0	0%	1	33%	2	67%
Vendor 6	4	0	0%	0%	0	0%	0	0%	0	0%	0	0%	4	100%
Vendor 7	20	18	90%	90%	2	10%	0	0%	0	0%	0	0%	0	0%
Vendor 8	7	2	29%	29%	0	0%	0	0%	0	0%	0	0%	5	71%
Vendor 9	8	0	0%	0%	5	63%	3	38%	0	0%	0	0%	0	0%
Vendor 10	36	33	92%	92%	3	8%	0	0%	0	0%	0	0%	0	0%
Vendor 11	1	0	0%	0%	0	0%	0	0%	0	0%	0	0%	1	100%
Vendor 12	1	1	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 13														
Vendor 14														
Vendor 15														
Vendor 16	2	2	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
<b>Total DIY Sector</b>	<b>86</b>	<b>60</b>	<b>70%</b>		<b>10</b>	<b>12%</b>	<b>3</b>	<b>3%</b>	<b>0</b>	<b>0%</b>	<b>1</b>	<b>1%</b>	<b>12</b>	<b>14%</b>

The total amount of products shipped in this quarter was down from the previous year's quantity; 765 products delivered in the third quarter of 2004 as opposed to a mere 86 products in 2005. This was a net change of 790% in volumes requested by EU buyers. Even though South African vendors were supplying EU buyers with less volume, on-time delivery was worse than the third quarter of 2004 by 8%.

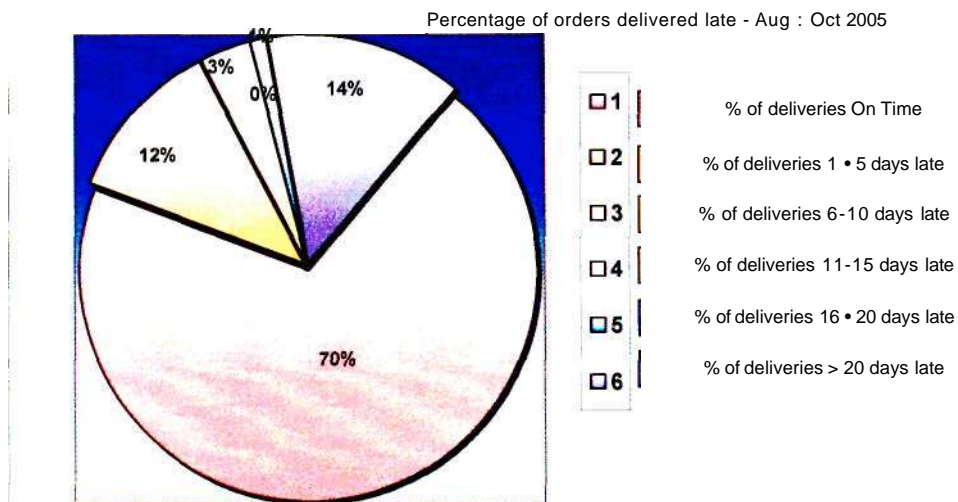
As reflected in Chart 15 below, of the 10 South African vendors still supplying EU buyers, 40% of the vendors managed to achieve a 0% on-time delivery, while 30% managed to achieve a 100% on time result. 20% of these vendors managed to attain an on-time performance of greater than 90%.

Chart 15: Vendor On-Time Performance - August: October 2005



In chart 16 below, one concludes that 30% of official PO's are supplied to EU buyers late. 14% of these PO's are greater than twenty days late.

Chart 16: Percentage of orders delivered late - August: October 2005



#### 4.5.4 2006 Quarter four supply results

After a disappointing three quarters, the South African vendors manage to attain their third worst result in the eight quarters presented. With considerably less EU buyer demand for products from South Africa, vendors still managed to achieve a poor on-time delivery result of 56%.

Table 8: 2006 Quarter 4 Vendor On-Time Delivery Results

KINGFSHERSOURCING AFRICA

2006 Quarter 4

Vendor	Total Shipped				Late									
		In Del	Full %	Total %	15 Del	Days %	6-10 Del	Days %	11-15 Del	Days %	16-20 Del	Days %	Over 20 Del	Days %
Vendor 1	4	4	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 2														
Vendor 3	8	8	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 4														
Vendor 5	120	48	40%	40%	28	23%	27	23%	7	6%	5	4%	5	4%
Vendor 6	9	8	89%	89%	0	0%	1	11%	0	0%	0	0%	0	0%
Vendor 7	36	24	67%	67%	4	11%	1	3%	4	11%	0	0%	3	8%
Vendor 8														
Vendor 9	11	9	82%	82%	0	0%	0	0%	2	18%	0	0%	0	0%
Vendor 10	35	14	40%	40%	6	17%	3	9%	0	0%	4	11%	8	23%
Vendor 11														
Vendor 12														
Vendor 13	2	2	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 14														
Vendor 15	13	13	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
Vendor 16	6	6	100%	100%	0	0%	0	0%	0	0%	0	0%	0	0%
<b>Total DIV Sector</b>	<b>244</b>	<b>136</b>	<b>56%</b>	<b>56%</b>	<b>38</b>	<b>16%</b>	<b>32</b>	<b>13%</b>	<b>13</b>	<b>5%</b>	<b>9</b>	<b>4%</b>	<b>16</b>	<b>7%</b>

In the past eight quarters analyzed, the on time supply of products to EU buyers has never been maintained. Collectively, the South African vendors have not managed to give EU buyers what they want for one quarter.

Yet again, pie chart 17 below illustrates the percentages of orders that are delivered later than the agreed LRD. 44% of all PO's for this quarter have not achieved their requested LRD.

Chart 17: Percentage of orders delivered late - November: December 2005

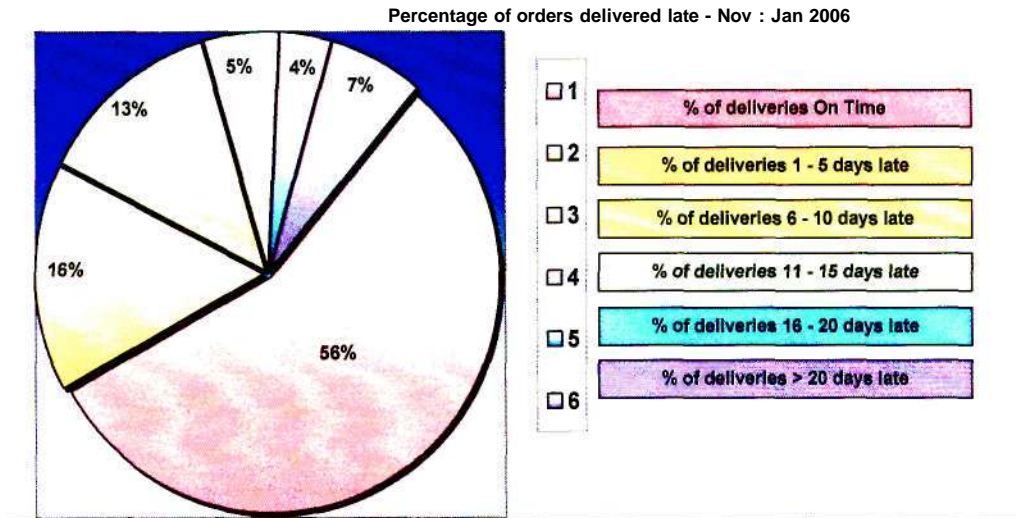
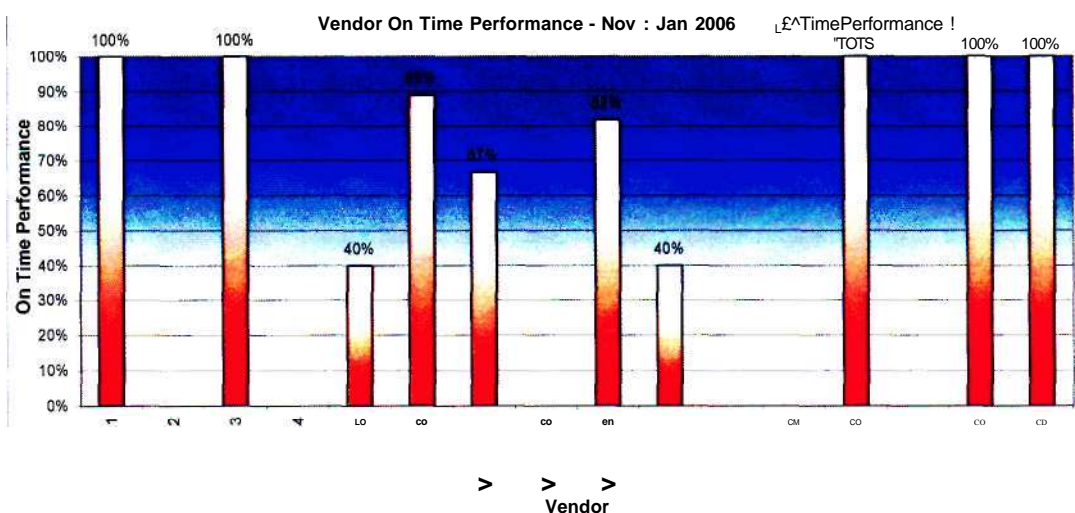


Chart 18 below states that 50% of the South African vendors that supplied EU buyers in this quarter, managed to achieve their requirements, and fulfill the obligations in terms of the vendor buying agreement (VBA).

Chart 18: Vendor On-Time Performance - November: January 2006

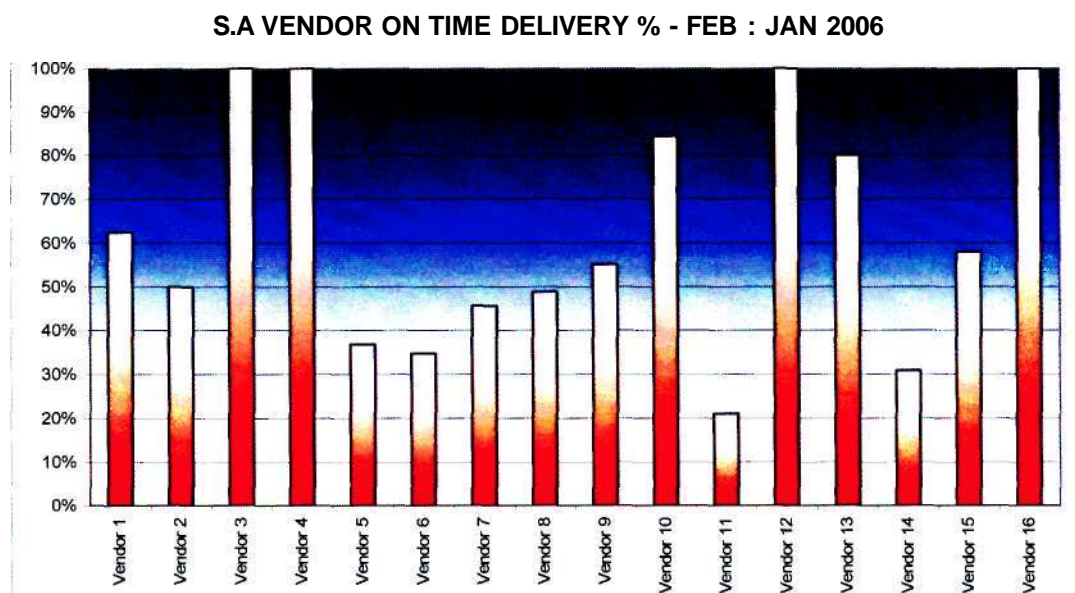




#### 4.5.5 2006 Year end supply results

The results achieved during the four quarters have been poor again. Four South African vendors managed to achieve the desired result of 100% on-time deliveries for the financial year end 2006.

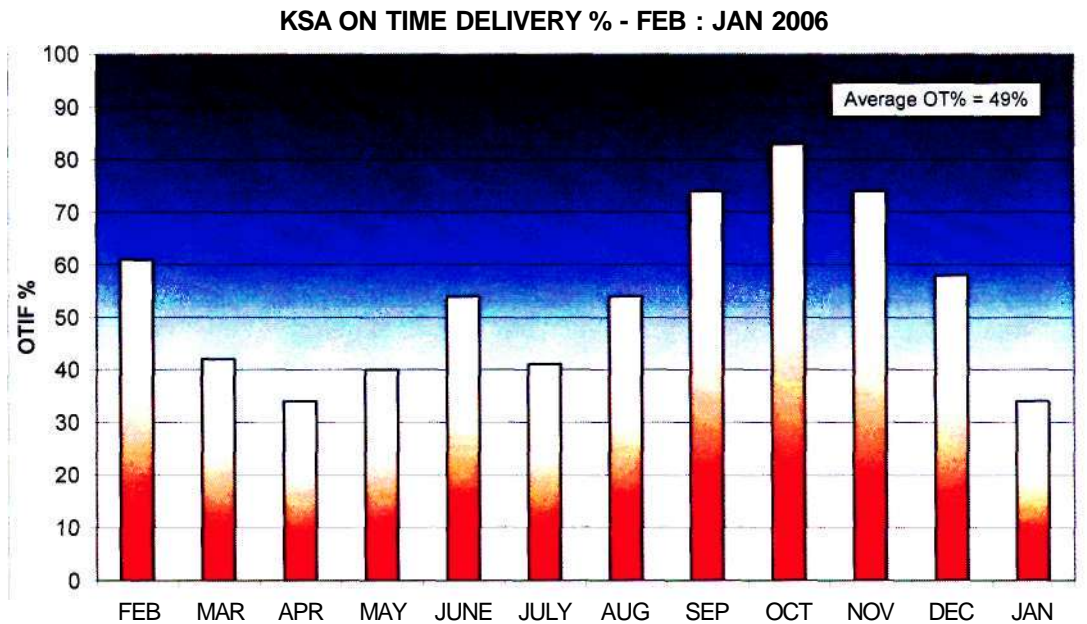
Chart 19: South African Vendor On-Time Delivery % - February: January 2006



Seven South African vendors managed to supply less than 50% of what the EU buyers required, and what they agreed to. One vendor barely managed to achieve an on-time delivery result of 20% for the entire twelve months.

Chart 20 presented below suggests there has been no improvement whatsoever with regards to South African vendors ability to supply products on the agreed LRD's. Even sourcing fewer products from these vendors' has not in anyway helped the situation in South Africa.

Chart 20: KSA On-Time Delivery % - February: January 2006



The average on time delivery of South African vendors has dramatically decreased from 64% for the year ended 2005, to that of 49% at the year end in 2006. Furthermore, the number of shipments by South African vendors decreased by approximately 122%. During the first year of KSA's operations, these vendors supplied 2932 shipments, whereas in KSA's second year of operation, the vendors only supplied 1320 shipments. Four vendors also ceased to trade with the EU buyers for unknown reasons.

**4.5.6 2006 Kingfisher year end supply conclusion**

2006 saw South African vendors perform significantly worse than the year before. Although considerably fewer products were shipped, the supply chain performance



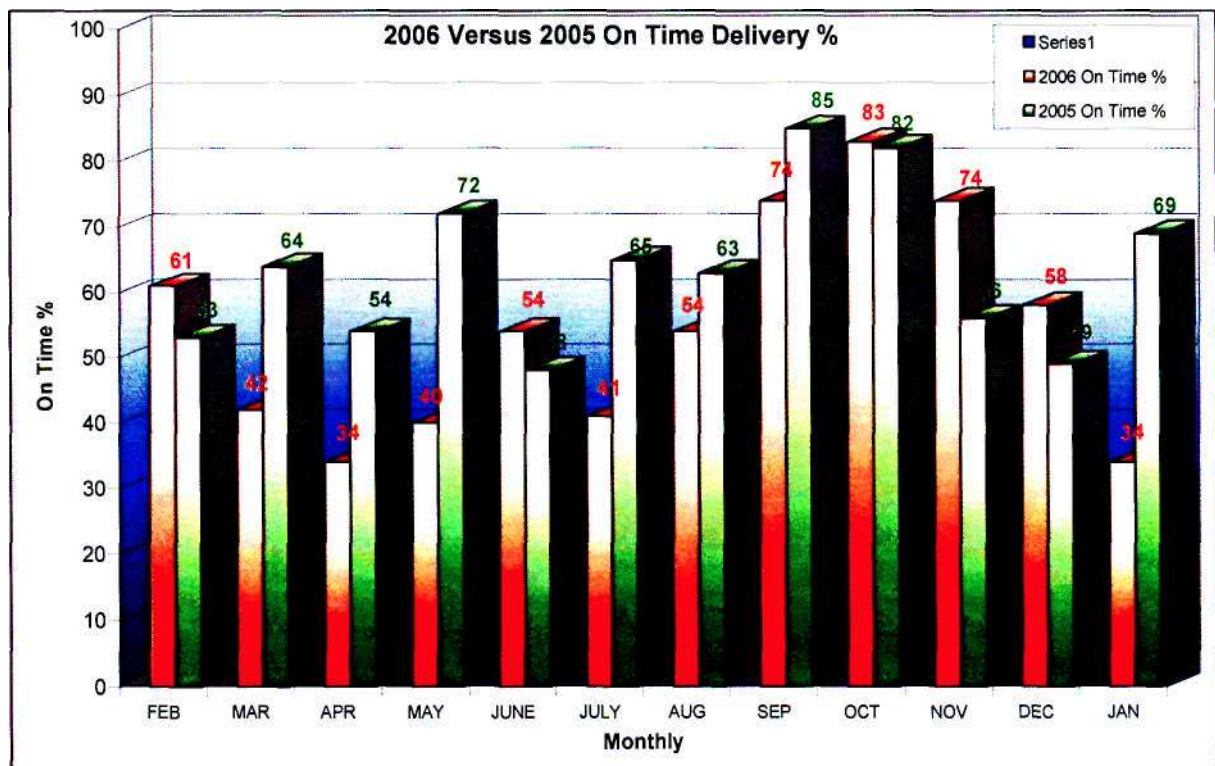
reflects a shocking result of an average of only 49% of PO's being delivered on the agreed LRD.

#### 4.6 KSA 2006 versus 2005 supply analysis

As determined above, the on-time delivery performance by South African vendors got noticeably worse as time progressed. During KSA's first year of operations, the South African vendors collectively managed to achieve an average on time delivery to EU buyers of an inadequate 64%. KSA's second year of trading saw a significantly poorer result with the on-time delivery from all the vendors amounting to an average of 49%.

Chart 21 below compares the two years of the South African vendor performance with regards to delivering products to EU buyers on-time.

Chart 21: 2006 versus 2005 On-Time Delivery %



*An analysis of late shipments from South African vendors to EU buyers 70*

## **5. DISCUSSIONS AND RECOMMENDATIONS**

### **5.1 Introductory remarks**

This chapter reviews and debates the research questions and the resulting subject matter with reference to the literature review in Chapter two and the results in Chapter four. The main theme of the research is to determine whether or not South African vendors supply EU buyers with the orders they have requested.

This chapter debates this topic to arrive at a conceivable conclusion to the question.

Management information systems and modern technology have allowed this research to be conducted, and is the basis of the Kingfisher Supply Chain Management tool. The data that was used from the KSA database could be questioned, but as the information is widely used across the Kingfisher Group and is the actual information used in the decision making, it is held to be of an acceptable standard for this dissertation.

The literature review also found that Supply Chain Management is a key determinant in the marketing process, by facilitating in the process of giving customers what they want, when they want it.

### **5.2 The lessons that were learned from the study**

This paper set out to ascertain whether or not South African vendors provide EU buyers with the products they requested, when they requested them. The research gathered over the two years has proved that South African vendors are unreliable.

The results of the study present Kingfisher Sourcing Offices with recommendations on how to improve their business operations, and provide certain recommendations on how to do so.

## **Recommendations:**

- S To clarify the Kingfisher vendor manual with vendors
- S To ensure a signed Vendor Buying Agreement is in place with vendors
- S To systematically analyse possible South African vendors through their:
  - Financial capability
  - Supply chain capacity
  - Management structure
  - Product offering mix

### **5.3 The strategies and objectives**

This research found that South African vendors do not adhere to the Kingfisher VBA and supply products on the required delivery date. Kingfisher Sourcing Africa's (KSA) South African vendors are thus considered unreliable and do not meet the requirements of Kingfisher's supplier criteria as determined by the vendor manual.

KSA objectives are to source products from reliable South African vendors who meet the Kingfisher's requirements. KSA also need to financially sustain their operation and support the reason for their presence in South Africa.

Although it is the Kingfisher Group's strategy to have Kingfisher Sourcing Offices across the globe, they need to ensure they're profitable and are proven reliable suppliers to their EU retail chains.

### **5.4 Recommendations**

The main recommendation is for KSA to ensure the following points are established, and that they are adhered to, should they intend to successfully source and supply products from South African vendors to EU buyers.

#### **5.4.1 To clarify the Kingfisher vendor manual with vendors**

KSA needs to ensure that South African vendors fully understand the terms and conditions outlined in the Kingfisher vendor manual. It is recommended that the KSA General Manager visits and presents all the necessary information pertaining to terms and conditions with which the Kingfisher Group trade. This must be presented to both existing and potential vendors.

This should facilitate the South African vendors' understanding of how the Kingfisher Group trades and operates. Additionally, vendors will be able to ask questions which they might not be clear on. The understanding and adhering to of this manual is imperative to the success or failure of KSA.

#### **5.4.2 Vendor Buying Agreement is in place with vendors**

KSA needs to have a signed copy of the Vendor Buying Agreement (VBA) in place with all the vendors they source products from. The VBA must clearly specify the requirements and responsibilities of all the parties, including the following attributes pertaining to the products the South African vendor will supply:

- > Lead times
- > Product to be supplied
- > Prices
- > Product codes

KSA must ensure that they have a signed copy of the above details pertaining to the products the South African vendors supply to the EU buyers.

### **5.4.3 To systematically analyse possible South African vendors**

KSA needs to carefully evaluate the South African vendors they source products from to ensure they meet the Group's supply requirements.

#### **5.4.3.1 Financial capability:**

KSA needs to determine whether or not the South African vendors' are in a financial position to sustain themselves and successfully trade with the Kingfisher Group. It is recommended that the KSA General Manager evaluates the South African vendors' Annual Financial Statements (AFS). Taking the following into consideration:

- > Income Statement
- > Balance Sheet
- > Cash Flow Statement

The South African vendors' Income Statement (I.S) needs to be evaluated to determine whether or not they have sufficient turnover to ensure they are a going concern. The vendors' Balance Sheet (B.S) needs to be analysed in attempt to establish whether or not they are covered by debt and they are relatively liquid. A cash flow analysis is required to determine whether or not the vendor has positive cash flow and to ensure the vendor will not go bankrupt in the not too distant future.

Evaluating the vendors' order book will determine if they have sufficient business to sustain their current operation. Additionally, it is important to determine what percentage of the vendors' business directly relates to KSA.

#### **5.4.3.2 Supply chain capacity**

KSA need to determine whether or not the South African vendor will be a reliable supplier. It is recommended that KSA evaluate the South African vendors on time performance of their other customers. Furthermore, KSA need to carefully evaluate the vendors' suppliers, and their on time delivery / reliability results.

KSA need to ensure the South African vendor can meet their order requirements, thus KSA must establish the vendors capacity with regards to the volume the vendor can supply.

#### **5.4.3.3 Management structure**

KSA needs to understand the South African vendors' management structure in an attempt to determine the vendors' strategy and objectives. It is recommended that KSA receive information from the vendors' executives regarding their strategy and business objectives. This information should be analysed in conjunction with the vendors' AFS to establish whether or not they are meeting their objectives.

The recommendations mentioned above support one another in an attempt to establish whether or not a South African vendor is reliable and sustainable. KSA needs to source products from South African vendors which meet the above criteria, should they intend to successfully supply EU buyers.

#### **5.4.3.4 Product offering mix**

KSA predominantly supply EU buyers with timber products. It is recommended that KSA source various other commodities and that they do not restrict themselves to only timber products.

KSA need to determine which DIY products South African vendors manufacture competitively compared to the rest of the world, and successfully source and supply to EU buyers.

### **5.5 The future of Kingfisher in South Africa**

Based on the results gathered and analysed in Chapter four, the future of KSA does not seem very good. Should KSA intend to continue to trade within the Kingfisher Group, they need to successfully source competitive products from South African vendors, and supply these products to EU buyers on time.

### **5.6 Concluding remarks**

This chapter has debated the findings found in Chapter Four and has established the key problem areas associated with the South African vendors' ability to deliver products on the agreed dates to EU buyers.

## **6. FINAL CONCLUSION**

Having investigated the reliability of South African vendors through their supply performance since the 1<sup>st</sup> of February 2004 until the 31<sup>st</sup> of January 2006 to EU buyers within the Kingfisher Group, it can be concluded that South African vendors are unreliable suppliers.

The process whereby EU buyers and South African vendors agree to lead times, products, prices, and delivery dates does not hold much weight with the South African vendor.

The existence of KSA is in serious doubt as they have continuously failed to supply EU buyers on the agreed delivery dates. Furthermore, the trend from the KSA financial year end 31<sup>st</sup> January 2005 to the year end 31<sup>st</sup> January 2006 has proven that the South African vendor performance has declined from an average on-time delivery of 64% to 49% respectively.



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# Trading with Kingfisher

## **Sourcing Brief**

The trading process starts with the sourcing brief from the OpCos. This is an outline of the product which the OpCo wants to source. It will outline the function and purpose for use along with any specific requirements the OpCo may have.

## **Vendor Discovery**

According to the sourcing brief, merchandisers/product sourcing managers start searching for suitable suppliers within KSO's known supplier base and possibly new supply sources. They may or may not be direct factories, in which case the decision to use them depends on value-added services offered by the Vendor.

## **Vendor Quotes & Samples**

If suitable candidates are identified, quotes and samples will be asked from them. This process entails plenty of screening and negotiation by its nature.

## **Cost Modelling & Selection**

After receiving all recommended quotes and samples from the KSO, the OpCo will select the product offer through:

- Sample review based on criteria identified in the brief, and
- Modelling the true landed costs via a Cost Modelling tool.

## **Factory Assessment**

Before supplying to KSO, all factories must pass the Factory Assessment. This assessment focuses mainly on:

- The Quality Standard
- The Environmental and Ethical Standard
- Supply chain capability and Finance

This Factory Assessment process is divided into two stages.

### **\ Factory Assessment (1st stage) - Pre-audit**

A pre-audit questionnaire is sent to the factory.

Sometimes, an initial factory visit will be conducted by the merchandiser/product sourcing manager and/or QA technologist. A factory visit report is completed for future reference should they wish to pursue a full audit.

### **Factory Assessment (2nd stage) - Factory audit**

An in-depth onsite audit will be carried out. All areas of the factory premises and its documentation will be checked as per the factory audit process.

### **Factory Assessment - Corrective Actions and Improvement Plan**

If the factory fails the assessment, QA will work out and agree an improvement plan with the factory. It is known as CAIP, Corrective Actions and Improvement Plan.

The corrective actions and improvements will be monitored for completion.

### **Vendor Buying Agreement**

If a new supplier is selected, a Vendor Buying Agreement must be signed between the Vendor and KSO according to the OpCo's policy. This agreement is reviewed annually.

### **\* Product Approval**

All products must be assessed and approved by KSO. There are three "sealed sample" stages.



### **Product Approval (1st stage) - Bronze Seal**

Bronze Seal is usually a buying sample, which has been given a preliminary assessment by KSO's QA.

\* **Product Approval (2nd stage) - Silver Seal**

Silver Seal must be as close as possible to the actual manufactured product. It is referred to as the pre-production sample.



**Product Approval (3rd stage) - Gold Seal**

Gold Seal is ideally a completed sample in final shipment packaging. All production should follow this agreed sample.

This is a sample taken from the first actual production run.



**Raise Order**

Once the factory is approved and the demands are forecasted in the OpCo, the OpCo can raise an order to the Vendor through KSO. The KSO manages all aspects of the delivery with the Vendor on behalf of the OpCo, and is the Vendor's main point of contact.



**Raise Letter of Credit**

Payment terms have already been agreed in the VBA between the supplier and the OpCo.

A Letter of Credit is sometimes used to secure receipt of goods in required conditions before payment is made to the beneficiary. Many Vendors also prefer Letters of Credit to obtain short-term finance from the bank to fund purchases of raw materials etc.



**Packaging, artwork, barcodes, instructions**

The packaging artwork, barcode and instruction manual should be provided and finalized during the silver seal stage ready for mass printing in the production stage.



## **Production**

The factory can start production, after

- Receipt of official orders,
- Passing the Factory Audit, and
- Passing the Product Approval process up to the silver seal sample stage.

The Vendor also makes inspection booking and containers booking with the assigned inspection agent, and freight forwarder respectively.

## « **Inspection**

All shipments are required to pass inspection and be issued an inspection certificate.

Inspection is carried out in the factory during or after the production period. Samples from the production line will be inspected as per the Accepted Quality Level (AQL) required referencing the Gold Seal sample.



## **Shipment**

Once the production is finished, the goods will be delivered according to the shipment agreement with the third party logistics company.

# **1**

## **Resolving Issues**

If the product is not compliant in quality or logistic arrangement, compensation may be rendered in the settlement.

Kingfisher has a 3 stage process for resolving any issues.

# KINGfisher

## VENDOR BUYING AGREEMENT

for illustration only

Page 1 of 4

COMMENCEMENT DATE: [ ]

INITIAL TERM: [ 12 ] months

<b>Between :-</b>	
Sourcing Agent	"Kingfisher*   ^J
<b>Ami -OpCo":-</b>	
Kingfisher OpCo 1	T
Kingfisher OpCo 2	•»
Kingfisher OpCo 3	» j
Kingfisher OpCo 4	[ v
Kingfisher OpCo 5	*
Kingfisher OpCo 6	• 1
Kingfisher OpCo 7	%
Kingfisher OpCo 8	• J
<b>And:-</b>	
(-TheVendocT	
whose registered office is at: [ ]	

<b>VENDOR DETAILS</b>	
Trading Name:-	[ ]
Address:	Sales Contact Name: [ i ]
	Sales Telephone No: [ 1 ]
	Sales Fax No: j
	Sales Mobile No:   1
Postcode:	Lead KAL Category: 1 [ 1 ]
Main Switchboard number: [ ]	Other KAL Category 1:   1
E-mail address:	Other KAL Category 2: [ 1 ]
Web Site details:	Other KAL Category 3:   1
Company Reg.No. [ ]	Other KAL Category 4: ( [ 1 ]



for illustration only



# VENDOR BUYING AGREEMENT

Page 2 of 4

OO-Jan-00 for 12 months

## PAYMENT OF ACCOUNT. AND TREATMENT OF FINANCIAL CONTRIBUTIONS

Payment Method .....

Payment Terms  Paid weefcH documents greater than 50 dat« |

Currency USDolar |

**NB. Kingfisher's** policy is to pay Vendors on Kingfisher's standard payment terms and to receive payments in US Dollars. No Vendor may change the currency in which Kingfisher is paid without prior agreement by the Kingfisher OSO Finance Manager.

## VOLUME REBATE AND ALL OTHER FINANCIAL CONTRIBUTIONS (For Appendices attached)

Where a Vendor agrees to pay Kingfisher volume rebate or other financial contributions, Kingfisher will make deductions from any amounts falling due to a Vendor in line with agreed payment terms and payment frequency as follows.

Payment Method

Payee Kingfisher

Currency uSDoJaT

Frequency .....

## SERVICE LEVELS

Minimum service standards and performance levers are contained in the Kingfisher Service Requirements section of the Kingfisher Vendor's Manual

Maamum Lead Time (Days) [ ..... ]

### Product Retains:

All products **rejected** by Kingfisher and/or returned by customers as faulty will be processed on the following basis:-

for illustration only

# KING/ SHER

## VENDOR BUYING AGREEMENT

Page 3 of 4

00-Jan-Ou (or 12 months

### VARIATIONS TO THE VENDOR MANUAL STANDARD PROVISIONS AND I OR KINGFISHER'S TERMS AND CONDITIONS OF PURCHASE:

#### OTHER VARIATIONS:

*Of fitr variations fit compieted&&> this page, and the terms andconditievispagemustiesKinedif theMDCommeresM andtke relevant Oreetor of Tratt&xtt*

Variations to the VBA standard provisions andtor Kingfisher's Terms and Conditions of Purchase signed (or and on behalf of)

#### Signed lot t on behalf ol:

	Vendor	OpCo	I	Kingfisher
Name				
Position		Buier	Regional Category Manager	General Manager
Signature				
Dace				
Position	MD - Group Commercial			
Signature				
Date				

for illustration only

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## VENDOR BUYING AGREEMENT

Page 4 of 4

### TERMS

- 1 This agreement is subject to Kingfisher's Terms and Conditions for the purchase of goods and services which require the Vendor to comply with the Kingfisher Vendor manual, a copy of which has been provided to the vendor and of which the Vendor acknowledges receipt
- 2 The agreement shall be effective from 1st January of each calendar year for an initial term of 12 months and thereafter unless or until superseded by a new agreement, or terminated by the OpCo on two months written notice (or by the Vendor on four months written notice following the expiry of the initial term). In the case of non-compliance with Kingfisher's Terms and Conditions for the purchase of goods and services and/or the Kingfisher Vendor Manual termination may be immediate
- 3 No variation to the standard provisions of this VBA and/or to Kingfisher's Terms and Conditions for the Purchase of goods and services and/or the Kingfisher Vendor Manual will be authorised or binding on the OpCo other than those agreed in writing and signed by a Main Board Director, of the OpCo. unless specifically stated elsewhere in this agreement
- 4 Cost prices for this agreement are those agreed with Kingfisher. A full product listing, with agreed invoice cost prices, should be submitted when returning the signed copy of this vendor buying agreement. Cost prices cannot be varied unless agreed in writing with Kingfisher. A revised product listing, with agreed cost prices, should be submitted in advance of any subsequent year of this agreement
- 5 By signing this Vendor Buying Agreement, the Vendor confirms that insurance for product liability and public liability are in force, and will remain in force, for the duration of the Agreement, to the value required by the OpCo, in Kingfisher's Terms and Conditions for the purchase of goods and services and the Kingfisher Vendor manual
- 6 In the case of conflict the documents referred to in this Agreement take precedence in the following order:
  - 1 This Vendor Buying Agreement
  - 2 The Kingfisher Terms and Conditions for the purchase of goods and services.
  - 3 The Kingfisher Vendor Manual

Signed (ot & on behalf of:				
	Vendor	OpCo	1	Kingfisher
Name				
Position		Buyer	Regional Category Manager	General Manager
Signature				
Date				
Position	MD-Group Commercial			
Signature				
Date				





# KING/"SHER for illustration only

## VENDOR BUYING AGREEMENT

Appendix 3

### OTHER CONTRIBUTIONS

OQ-Jan-M

for 12 months

*Contribution Towards Kingfisher's Advertising and Marketing Costs.-*

	<i>t</i> <b>Rate X</b>
Advertising	1
Comments if applicable	

	» <b>Rate X</b>
Brochures/Catalogues/Pos	1
Comments if applicable	

	• <b>Rate X</b>
Other marketing costs	1
Comments if applicable	

*Other Contributions or Advances - \$ and for X on turnover*

	* <b>Rate X</b>
	1
Comments if applicable	

	1
Comments if applicable	

	1
Comments if applicable	

	1
Comments if applicable	

*Cost Price Reduction (CPT) - t and/or X on turnover*

	% <b>Rate X</b>
<i>Current or first gear</i>	1
Comments if applicable	

*$\frac{T\% \text{ of } T_k > \text{ of previous years CPR}}{I}$*

Comments if applicable	I	I
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## Fixed Compensation

### Introduction

The purpose of this Vendor Manual is to clearly state Kingfisher's requirement of its Vendors. If the Vendor Manual is complied with at all times, then the product development process and import supply chain will run efficiently.

If the policies and procedures contained in this manual are not be adhered to, then costs and delays will be added to the supply chain which has a direct impact on the business of Kingfisher and its operating companies.

Compensation will be claimed from the Vendors who do not comply with:

- The OpCos' terms and conditions of supply contained in this manual,
- TheVBA
- Any Supplementary Vendor Buying Agreements made.

Vendors should read the OpCos' terms and conditions carefully as these explain various liabilities, indemnities, remedies and penalties. If there is a conflict between this manual, and the OpCos' terms and conditions, the Standard Terms and Conditions of Purchase will prevail.

Nothing in this Vendor Manual acts as a waiver of Kingfisher, its OpCo, or KSO's right to seek other compensation or remedies as may be provided in the Standard Terms and Conditions of Purchase for Goods and Services or may be available to them by law.

It is not the intention of Kingfisher or its OpCos to penalize non-complaint Vendors, but to seek financial recovery of costs which will be incurred as a result of their non-compliance. It is our policy to continuously work with our Vendors to help them comply with our requirements at all times.

For the avoidance of doubt, the provisions relating to compensation and remedies in this Vendor Manual are without prejudice to the provisions of the OpCos' Standard Terms and Conditions of Purchase.

### >\*, Fixed compensation

KSO, as agent for its OpCos, reserves the right to take alternative or additional action to the Fixed compensation table set out below including the right to terminate (also referred to as de-listing).

### Notification and payment of Fixed Compensation

Written notification of all Fixed Compensation claims will be sent to the Vendor. The compensation amount involved will be automatically deducted from the next payment.

If no payments are due to the Vendor, then Vendors must pay any outstanding Fixed Compensation claims within 7 days of written notification from KSO. Vendors disputing any claims should do so in accordance with the disputes process. See U Disputes.

### Force majeure

#### On this page

Introduction
Fixed compensate
Notification and p Compensation
Force majeure
Imports Fixed Coi
1. Quality relat
2. Logistics rel;

Kingfisher or its OpCos will not seek compensation in the event of non-compliance resulting from extraordinary events provided that the nature and extent of such extraordinary events are reported promptly in accordance with clause 20 of the Standard Terms and Conditions of Purchase for Goods and Services (See D Kingfisher Group Overseas Terms and Conditions).

➤: Imports Fixed Compensation schedule

1. Quality related compensations

The table is shown in USD. In some countries this will be the equivalent in either GBP (£) or Euros.

Subject	Criteria	Compensation to be claimed
Product recall/Public safety notice	Quality Issue/Product failure	<ul style="list-style-type: none"> <li>Loss of profit = profit margin x [(average weekly sales over month prior to product recall - actual weekly sales) x number of weeks]</li> <li>All costs and expenses including disposal</li> </ul>
Stock requiring Rework at Distribution Centre	Quality Issue Labelling Issue Barcode/Packaging Issue Transit packaging Issue	<ul style="list-style-type: none"> <li>US\$750 + VAT minimum rework charge</li> <li>US\$30+ VAT per hour labour charge</li> <li>US\$50 + VAT per hour management fee</li> <li>Transport and Internal costs</li> </ul> <p>All stock not uplifted or resolved within 1 week of notification of rejection will incur demurrage costs of US\$10 per pallet per week (not including loss of sales/admin charges.) Plus any additional charges relating to specific issue.</p> <p>OpCos have discretion to undertake rework and attribute costs back to Vendors, prior to advising costs involved.</p>
Withdrawal from Sale	Quality/Safety	<ul style="list-style-type: none"> <li>Loss of profit = profit margin x [(average weekly sales over month prior to withdrawal from sale - actual weekly sales) x number of weeks]</li> <li>All costs and expenses including disposal and administration costs of between US\$7,500 and US\$30,000 depending on the scope of the withdrawal</li> </ul>



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		concerned and costs incurred in amending promotional campaigns, catalogues and brochures.
Returns to Vendor	Failure to Uplift	<ul style="list-style-type: none"> <li>• Cost of goods disposed</li> <li>• Cost of disposal - plus after 1 week at DC - storage costs of US\$40 per pallet</li> <li>• Admin charge of US\$750</li> </ul>
Safety certification	Failure to update as per safety policy	<ul style="list-style-type: none"> <li>• US\$1,500 per product line</li> </ul>
Packaging product instructions	Changes made without notification to commercial team that impact on sales/supply chain or changes that impact store merchandising	<ul style="list-style-type: none"> <li>• All costs and expenses</li> <li>• Full cost of re-merchandising all stores</li> </ul>
Packaging Product Instructions	Incorrect/ unusable instructions	<ul style="list-style-type: none"> <li>• US\$750 per product line</li> <li>• Rework costs and loss of profit</li> </ul>
Transit packaging - all distribution routes	Load presentation fails to meet specified standards	<ul style="list-style-type: none"> <li>• US\$1500 per delivery</li> <li>• Plus discretion to refuse delivery</li> </ul>
Transit labelling - all distribution routes	Load presentation fails to meet specified standards	<ul style="list-style-type: none"> <li>• US\$1500 per delivery</li> <li>• Plus discretion to refuse delivery</li> </ul>
Barcodes	Barcode failure	<ul style="list-style-type: none"> <li>• US\$1,500 per product line</li> <li>• Rework costs and loss of profit</li> </ul>
SAP Input Forms	SAP input forms received are incomplete, inaccurate or misleading	<ul style="list-style-type: none"> <li>• US\$100 admin charge per incorrect form received</li> <li>• Additional losses, costs and expenses</li> </ul>
Discontinued stock	Production stopped with less than 3 months notice	<ul style="list-style-type: none"> <li>• Loss of profit = profit margin x [(average weekly sales over month prior to discontinuation - actual weekly sales) x number of weeks]</li> </ul>
Events /Catalogues/Special orders	Failure to supply initial allocation /failure to supply 100/95% of forecast	<ul style="list-style-type: none"> <li>• Profit margin of goods ordered and not supplied</li> <li>• Plus costs and any associated expenses incurred in printing catalogues, promotional and advertising materials updating website.</li> </ul>
Unauthorised Shipment without approval from	Merchandise shipped without seeking approval	<ul style="list-style-type: none"> <li>• US\$1,000 per Purchase Order (PO)</li> </ul>

Kingfisher Quality Assurance (KSO QA)	from KSO QA (KSA only or without an authorised skip lot)	<ul style="list-style-type: none"> <li>• Plus transportation costs</li> <li>• Plus any other cost incurred</li> </ul>
Failure to meet the necessary 'Grade' required	Factory failed to receive a satisfactory 'Grade' specified in U Vendor Assessment Process	<ul style="list-style-type: none"> <li>• US\$1,000</li> <li>• Plus any necessary follow-up Assessment cost</li> </ul>
Contravening of any 'Critical Failure Point' on Re-assessment	Factory failed to meet all the 9 Critical Failure Points listed in D Vendor/Factory Assessment documentation	<ul style="list-style-type: none"> <li>• US\$1,000</li> <li>• Plus any necessary follow-up Assessment cost</li> </ul>
Missing inspection	Merchandise is not ready for inspection against the appointed inspection date, or Late Cancellation of a confirmed booking (with less than 1 working day prior notice)	<ul style="list-style-type: none"> <li>• Related Inspection Charges and any QC inspector charge out rates (KSA)</li> </ul>
Re-Fri penalty	Merchandise failed to meet the inspection and required for re-inspection	<ul style="list-style-type: none"> <li>• Related Inspection Charges and any QC inspector charge out rates</li> </ul>
<b>Subject</b>	<b>Criteria</b>	<b>Compensation to be claimed</b>

## 2. Logistics related compensation

The table is shown in USD. In some countries this will be the equivalent in either GBP (£) or Euros.

<b>Subject</b>	<b>Criteria</b>	<b>Compensation to be claimed</b>
Late Shipment	Failure to deliver the merchandises to the Port Of Loading (POL) to meet the Latest Receipt Date (LRD) stated on the Purchase Order (PO)	1-7 days late - 3% of FOB value of merchandise  8-14 days late - 5% of FOB value of merchandise  More than 14 days late -10% of FOB value of merchandise
Late document fee (FOB shipment)	<b>Sea Shipment</b> Failure to submit documents within 5 working days (Monday to Friday, excluding Public	US\$ 500 per Purchase Order (PO) for documents submitted between 6 and 9 working days after the departure of vessel

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	Holidays) after the departure of vessel	<ul style="list-style-type: none"> <li>• US\$1,000 per Purchase Order (PO) for documents submitted from the 10th working day and onwards after the departure of vessel</li> <li>• Plus any additional costs incurred at destination due to delay in custom clearance</li> </ul>
	<p><b>Air Shipment</b> Failure to submit documents within 1 working day (Monday to Friday, excluding Public Holidays) after the departure of flight</p>	<ul style="list-style-type: none"> <li>• US\$ 500 per Purchase Order (PO) for documents submitted between 2 to 4 working days after the departure of flight</li> <li>• US\$1,000 per Purchase Order (PO) for documents submitted from the 5th working day and onwards after the departure of flight</li> <li>• Plus any additional costs incurred at destination due to delay in custom clearance</li> </ul>
Late Document Fee (CIF shipment)	<p><b>Sea Shipment</b> Failure to submit documents within 5 working days (Monday to Friday, excluding Public Holidays) after the departure of vessel</p>	<ul style="list-style-type: none"> <li>• US\$ 500 per Purchase Order (PO) for documents submitted between 6 and 9 working days after the departure of vessel</li> <li>• US\$1,000 per Purchase Order (PO) for documents submitted from the 10th working day and onwards after the departure of vessel</li> <li>• Plus any additional costs incurred at destination due to delay in custom clearance</li> </ul>
	<p><b>Air Shipment</b> Failure to submit documents within 1 working day (Monday to Friday, excluding Public Holidays) after the departure of flight</p>	<ul style="list-style-type: none"> <li>• US\$ 500 per Purchase Order (PO) for documents submitted between 2 to 4 working days after the departure of flight</li> <li>• US\$1,000 per Purchase Order (PO) for documents submitted from the 5th working day and onwards after the departure of flight</li> <li>• Plus any additional costs incurred at destination due to delay in custom clearance</li> </ul>
Late booking cancellation	Fail to submit cancellation notice to 3PL origin office 2 working days prior to <u>CY Closing</u>	<ul style="list-style-type: none"> <li>• US\$100 per confirmed shipping order</li> </ul>
Shipping port	Change of actual Port of Loading (POL) against the original POL stated on the Purchase Order (PO)	<ul style="list-style-type: none"> <li>• Any additional ocean freight incurred</li> </ul>

Fumigation	Improper fumigation carried in Port of Loading (POL)	US\$1,000 per delivery  Plus - any additional haulage, delivery and other charges such as Testing Fees incurred  <u>Plus - any potential safety claims</u>
Container Utilization	Loaded cbm in Full Container Load (FCL) did not meet with the minimum cbm requirement listed in EJ Container <u>Booking</u>	US\$100 per cbm loss
Presentation	Full Container Load (FCL) was not properly, securely loaded to avoid cargo shifting in transit and <u>collapsing on arrival</u>	US\$1,000 per container  Plus cost of damaged stock  Plus - any potential safety claims
International Third Party Logistics Service Provider	Free on Board booking in Port of Loading was not placed with the appointed 3PL	<ul style="list-style-type: none"> <li>• US\$1,000 per Purchase Order (PO)</li> <li>• Any additional charges such as <u>overtime storage charges incurred</u></li> </ul>
Air Freight	Airfreight shipment was made without prior approval from operating <u>company/KSO</u>	<ul style="list-style-type: none"> <li>• US\$1,000 per Purchase Order (PO)</li> <li>• Plus airfreight charges</li> </ul>
Lead time variance	Lead time failure at any OpCo	10% of order value per day per lead time
Events	Failure to supply initial allocation On Time In Full	Profit margin of merchandise ordered and not supplied
Events	Failure to supply 100% of forecast	<ul style="list-style-type: none"> <li>• Profit margin of merchandise <u>ordered and not supplied</u></li> </ul>
Events	Failure to supply ranged events lines in full.	<ul style="list-style-type: none"> <li>• Profit margin of merchandise ordered and not supplied</li> </ul>
Rebates	Failure to meet specified timescales for reporting sales <u>information</u>	<ul style="list-style-type: none"> <li>• US\$1500 per missed deadline</li> </ul>
<b><u>Subject</u></b>	<b><u>Criteria</u></b>	<b><u>Compensation to be claimed</u></b>

Disputes