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Description

Packaging raw material supplier accreditation processes in a global environment

Abstract

The paper describes how SABMiller approaches the approval of packaging material suppliers globally. As one of the world's leading brewers, SABMiller operates in over 75 countries across six continents and procures its packaging raw materials from all over the world. We recognise the contribution of our packaging material suppliers in our core manufacturing value stream and their contribution to our ability to brew and package brands of the highest quality which remain the first choice of our consumers.

Through our globalisation journey and procurement evolution, SABMiller has established a centralised global procurement capability to leverage scale and expertise in support of breweries around the world.

The paper elaborates on carefully constructed business processes, governance mechanisms, oversight and decision making rule sets, with a particular focus on the technical aspects of supplier accreditation and specifically the technical audit of suppliers' production facilities.

For packaging materials, the supplier accreditation process forms the basis of an evolving global framework through which we engage an increasingly consolidated global supplier base. The process is applied consistently across emerging markets and developed economies and assesses supplier capability against consistent technical requirements contained in material standards, specifications and audit templates.

This principle-based integrated approach to the technical and commercial accreditation of packaging material suppliers improves our management of risk and ensures a relentless emphasis on quality and continuous improvement throughout the supply chain.

Introduction

This case study is one company's story which highlights some challenges, learnings and practices that may find broader application. It is a story about a deliberate shift towards a more integrated and interdependent global supplier management system.

SABMiller has grown through acquisition and today has brewing interests and distribution agreements across six continents with a portfolio of over 200 brands.

The strategic investment to establish a central SABMiller global procurement function in Switzerland in 2010 paved the way for a better definition of procurement strategies across all categories.

The development and implementation of a coherent global supplier management system was simplified by weaving together best practices from various parts of our globally dispersed business operations.

Implementing a globally consistent supplier approval process is a challenging task because the stages of development and level of experience amongst countries and suppliers are so varied.

This paper touches on a few key topics, lessons learnt and some issues that will help ensure that the benefits of this approach are fully realised.

Supplier management

Supplier management in recent years has become a specific area of focus for world class manufacturers. Economic pressures and wider global adoption of liberal economic ideologies and trade policies have led to increased world trade, globalisation and industry consolidation and longer supply chains.

Corporations are held accountable for their actions and often those of their suppliers, by consumers, governments, retailers, Non-Government Organisations (NGOs) and other stakeholders not only for the quality and safety of their products, but also their environmental consciousness and sustainable development efforts. This is further amplified by increasing consumer awareness and consciousness, rapid social media and telecommunications.

Supplier management has evolved to become an essential part of corporations' risk management, corporate governance and reputation management and within such a multi-faceted supplier relationship, the intention and requirements for supplier accreditation need to be clearly defined.

SABMiller supplier accreditation

The intended purpose of supplier accreditation within SABMiller is to promote strategic agendas (e.g. carbon reduction), ensure due diligence and ethical sourcing, to improve our risk management and to ensure a relentless emphasis on consumer-focused quality and continuous improvement throughout the supply chain.

From a technical perspective, our own experience from various internal pockets of excellence and regional supplier management systems shows that best practices include:

1. Remain consumer focused (The consumer does not distinguish between the parts that make the whole when assessing product quality).
2. Take suppliers' quality seriously and hold suppliers accountable.
3. Establish strategic supplier engagement processes for joint capability development and to identify unmet customer needs
4. Audit the supplier to assess performance, identify risks and improvement opportunities.
5. Demand resolute focus on quality-at-source process management.
6. Integrate the audit into a comprehensive supplier performance management programme with a clear goal on continuous improvement.
7. Enforce disciplined resolution of Material Quality Incidents (MQI's) and corrective action processes including root cause analysis.
8. Agree clear performance requirements and measure key performance indicators (KPI's).

The challenge is not limited to the implementation of these practices, but also to the integration, implementing and consistent application on a global scale. Perpetuating the previous regional model was, however, no longer feasible:

ISSUES WITH PREVIOUS REGIONAL MODEL OF ACCREDITATION

- Suppliers faced with variables accreditation process and content by country and Hub.
- Countries and Hubs missing synergy opportunities on auditing content and specification requirements.
- Poor transparency across the business on actual supplier quality.
- Unclear concession process and re-audit schedule.
- Variable internal auditors' credentials.

GLOBAL ACCREDITATION PROGRAMME OBJECTIVE:

- One SABMiller way to accredit suppliers.
- Centralised data base on audit status, re-audit cycles.
- Consistent auditor credentials.
- Accreditation principles agreed globally.
- Clarity on roles and responsibilities, cost ownership and concession processes.

Traditionally, international businesses vary their practices, country by country because of different cultures, levels of economic development and legal, political and economic systems. To develop and implement a unified global approach on supplier accreditation requires clear decisions on how best to coordinate globally dispersed activities and to find a fit-for-purpose balance between local optimisation and global standardisation without imposing bureaucracy. An ambition to achieve global consistency in our technical approach to all suppliers is, however, considered viable based on a number of factors:

- Noticeable strengthening of science and technology capabilities of developing countries.
- Globalisation and industry consolidation driven by structural industry conditions which constitute entry barriers such as capital cost, demand and economies of scale resulting in an increasingly consolidated global supplier base.
- Growth in developing economies driving capital investment and new technology introduction.
- A noticeable convergence of industry standards is bringing about greater consistency across emerging markets and developed economies.

The primary design choices which directed the overall solution development were business process ownership, multi-disciplinary scope, the system development approach and prioritisation.

Business process ownership

Outsourced industry certification options are available and many FMCG companies act in accordance with these standards and dictate that their suppliers adhere to these standards.

Since the 1980's there has been a convergence of industry quality standards, especially since the European Commission resolution in May 1985 which endorsed the move towards European standards to remove trade barriers.

The ISO 9000 standards have particular relevance to contractual situations and have been widely adopted globally. The International Register of Certified Auditors (IRCA) was formed in 1984 as part of the UK government's enterprise initiative. Over one million auditors have been awarded IRCA certification since 1984 and more than 150 countries are represented on the IRCA register today.

SABMiller expects suppliers to seek external certification of their quality management system, but we do not prescribe the certification body; neither do we accept independent certification of a quality management system as sufficient means of technical accreditation.

Our suppliers' capability is not limited to their quality management system but also depends on other pertinent factors such as the technology and materials that they purchase and their management practices.

Internal ownership and a bespoke supplier accreditation process gives us the flexibility to assess a supplier in a much broader way, against internally defined criteria.

An internal process strengthens local supplier engagement and is intended to build subject matter expertise and a strong foundation for jointly identifying and exploiting value engineering prospects and quality improvement opportunities. A deliberate focus on supplier development and continuous improvement is partly why an internal process is considered suitable.

Regional internal auditors who know about local conditions, but operate in a global framework are able to generate and disseminate knowledge at international, national and local levels.

Multi-disciplinary scope and audit content

Through the commercial accreditation of a packaging material supplier, category teams assess operational capacity, ethics and adherence to the SABMiller responsible sourcing principles, sustainable development aspects as well as financial and legal features. Category teams are responsible for the commercial accreditation and on-going assessment of suppliers.

Quality issues in lean supply chains can quickly cause stock outs or result in other unwanted costs from rework, sorting, freight or recall. Defective material may also have a damaging impact on production capacity, brand image and even company reputation. The technical auditor is expected to proactively identify shortcomings and systemic risks that may result in such quality issues, as well as identifying opportunities for continuous improvement.

The supplier audit process, content and criteria are important risk-management factors in the supply chain. A full technical audit of the supplier includes structured assessments of achieved quality levels as demonstrated through statistical compliance to material specifications, a review of key performance indicators (KPI's) as an indication of the overall effectiveness of the supplier, a shop floor verification of practices and compliance and a focused risk assessment.

The content of the technical audit is intended to promote continuous improvement. The audit criteria provide a continuous improvement roadmap for suppliers to obtain and preserve accredited supplier status and through the continual improvement against the underlying audit criteria.

Development approach

Within the emerging field of Governance, Risk and Compliance (GRC), there are vendors who provide comprehensive enterprise system solutions to supplier auditing and corrective action management.

We have, however, chosen a bottom-up approach to firstly develop the content and then the business process, followed by an enablement phase. This is aligned with the principle of retaining and enhancing regional best practices and integrating them into a globally cohesive solution.

Prioritisation

The rigour of the technical accreditation process for packaging material suppliers depends on the material's level of direct contact with beer. For all

packaging material in direct contact with beer, a globally consistent structured audit is required, with standardised audit criteria. These are bottles, cans, can ends, crowns, closures and PET preforms.

Non-contact packaging materials like labels, trays and shrink film tend to pose less risk in terms of product preservation, consumer safety and reputational impact. These industries generally have lower capital investment barriers and are characterised by regional supply with less globalisation and industry consolidation. Regional technical accreditation solutions and criteria are therefore preferred.

The global solution

The globally aligned sequential process ensures functional ownership of the various steps:

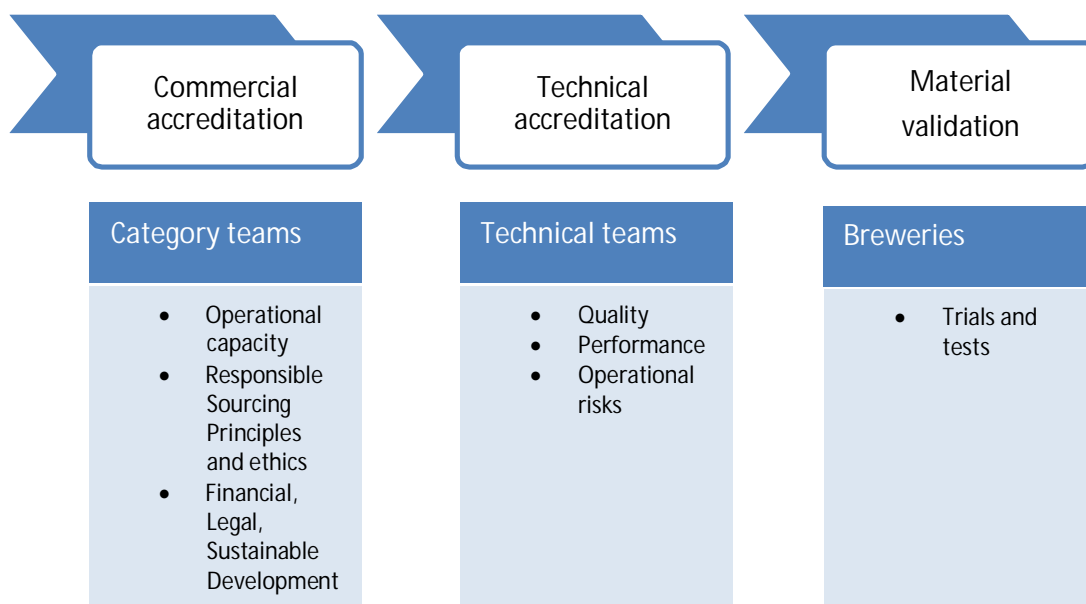


Figure 1 – global process

Key principles of the globally aligned supplier accreditation system

1. Source only from suppliers which have been accredited by SABMiller
2. Supply from an unaccredited supplier plant is by exception only, through a management authorised permit
3. Adhere to a unified global approach and present a standardised way of working to our supplier base
4. Retain functional ownership of content and approach for commercial accreditation and technical accreditation.

5. Local business units remain the first line of contact with the supplier on quality and service aspects

Technical audit

Technical auditors follow a very structured process to assess quality, supplier performance and operational risks associated with all packaging materials in direct contact with beer. The technical supplier accreditation audit is structured into four parts, each ordered around well-defined assessment criteria:

1. CRITICAL TO QUALITY:

Compliance to agreed specifications is the most basic measure of quality and forms the foundation of assessing a supplier's demonstrated process capability.

A detailed statistical analysis of critical to quality variables and attributes is performed on production data to assess process capability and compliance to specification.

2. KEY PERFORMANCE INDICATORS

A trend analysis and management review of Key Performance Indicators point toward the overall effective management of the operation.

3. WALK-THROUGH

A shop-floor audit of processes and practices against lean manufacturing principles assesses the supplier's ability to manage quality at source through statistical process control.

This shop floor audit also serves as an opportunity for verification of procedural compliance and observing process related risks.

4. FOCUSED RISK ASSESSMENT

The audit team highlights all risks observed and identified during the audit for corrective actions. The audit also includes a review of known risk areas associated with the manufacturing and distribution processes of the relevant material.

Audit templates for each packaging material that is in contact with beer have been developed to reflect the detail relevant to a particular material. For example the audit template for glass reflect the critical to quality variables and attributes, relevant KPI's and walk through indicators as well as known risks associated with the glass bottle production process for the auditor to assess.

There is a global administration process for audit scheduling and planning, but audits are conducted by trained SABMiller auditors based within the various regions. Business process ownership at national and regional level is a key success factor in achieving decentralised standardisation and supply chain discipline.

Within SABMiller auditing is a responsibility not a role. There is an increasing reliance on the ability of these individuals across the globe to achieve sustainable improvement in product quality and productivity. The audit is however only an event – a snap shot at a point in time. Supplier accreditation is part of a broader supplier performance management process

Supplier performance measurement

Incoming inspection sampling for packaging material is ineffective and reactive. Quality must be managed at source by the supplier and SABMiller does not sample incoming material to measure delivered quality. Suppliers' quality performance reporting is done only on material quality incidents, the severity and impact of these incidents and the incident resolution.

	Description
Level 4	Consolidated reporting and supplier scorecard format (on trial)
Level 3	Consolidation of Supplier's performance at individual site level
Level 2	Detection and logging of material quality incident (MQI) and management thereof.
Level 1	No formal incoming goods inspection for packaging materials
Level 0	Infrequent detailed evaluation of supplier capability through audits and supplier accreditation

Table 1 – levels of performance measurement

The following quality KPIs summarise the supplier's monthly performance:

1. Number of reported material quality incidents (MQI's)
2. Million pieces delivered between incidents
3. Number of Class 1 incidents
4. Number of Class 2 incidents
5. Packaging downtime
6. Claims Total
7. Number of un-resolved incidents
8. Number of un-resolved claims

To ensure consistent interpretation and application across industries, countries and continents, the business processes related to supplier accreditation and performance management have been codified and formalised as a group standard, further supported by:

- Formal auditor training, certification and development.
- Clear regional ownership and accountabilities
- Peer review and knowledge transfer
- Group material standards
- Global audit templates, procedures, manuals and handbooks
- Global scorecards and Key Performance Indicators (on trial)
- A clearly defined resolution processes for material quality incidents (MQI) including root cause analysis.

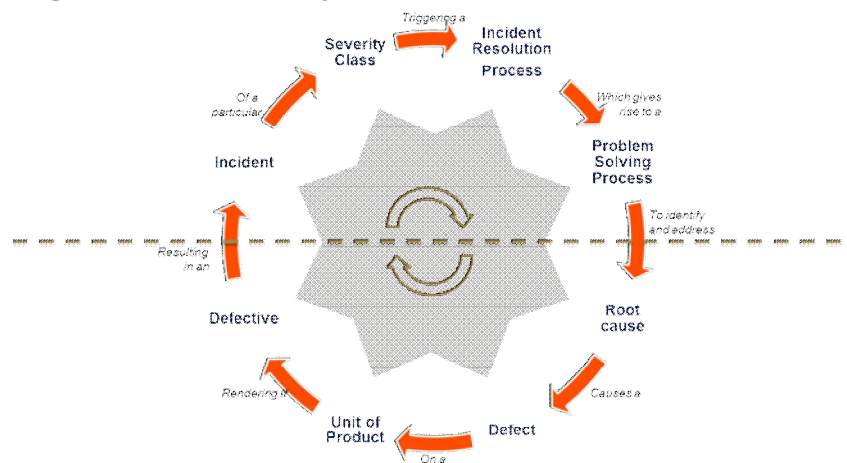


Figure 2 – Material Quality Incident (MQI) Cycle

What next

Further development of the evolving global framework is planned and integration into broader processes and systems.

A global audit automation software system is currently in development for implementation in the next financial year. This will further ensure consistency while reducing the administrative load on auditors. This will also allow quick incorporation and dissemination of new knowledge through central configuration of audit criteria.

Once the overall system is embedded and stabilised it will serve as a global platform for future process enhancements and possible inclusion of Global Food Safety Initiatives (GFSI) requirements for packaging material in contact with beer.

Conclusions

Our reputation is critical to our success and our suppliers, as our chosen business partners, are to some extent also custodians of our reputation.

In today's demanding global environment companies are more and more dependent on their suppliers. Our supplier accreditation program reflects and reinforces our appreciation for the contribution of our suppliers in our ability to brew and package brands of the highest quality.

The globally aligned SABMiller supplier accreditation process ensures functional ownership and regional execution to reduce risk, manage quality and drive improvement.

Acknowledgements

Special thanks go to all the SABMiller auditors around the world who audit our suppliers using this process and in return build on it, ensuring that the process remains relevant and rich in content.

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