

MEMO

To: Buying & Merchandising Director

From: Consultant

Subject: Effectiveness of Control for Supply Chain Mangement

This memo provides a review of Smartwear's existing control for its supply chain contract. The second part of the memo provides recommendation that can be undertaken to improve the overall control.

Review on IC

Poor cost control

Currently the buying department do not make any price comparison with the industry average, this may result in Smartwear over-paying for its supply. The contract structure is such a way that it allows the supplier to increase the prices based on inflation rate, this will result in Smartwear cost of purchase to rise on a yearly basis. Supply contracts are awarded for a period of between three and five years which is too long given that there is no yearly review this may result in rising cost.

Recommendations:

Smartwear should have negotiated for a shorter contract duration such as a year contract that will allow them to renegotiate with the supplier on a yearly basis to keep the cost in-check.

Complacent attitude of buyer

Currently there is no reported incidence of unfulfilled PO or quality issues, this however has led to a complacent attitude on the buyer side. To overcome this, Smartwear will need to have a policy whereby there is a need to review the quality of all purchases periodically.

CSR

Recently there is a breach of the supply contract that goes unidentified by the buyers mainly because the buyer is more interested in the cost of purchase rather than the CSR goal. As a result, Smartwear will not be able to achieve its own organisation goal with regards to the CSR commitment.

Recommend to spot check to the supplier and issue the spot check report to the supplier with warning issued. Terminate the contract with the suppliers if the conditions persist. Besides that, Smartwear can also incorporate CSR objectives as part of the buyer responsibility and not just solely on cost factor. This will allow the buyer to consider both cost & CSR in its purchase.

Reporting

Smartwear did not clearly define the type of event that must be reported to the management leaving it to the operational employees to identify which issues only needed to be reported. Thus, some issues may go unreported although it may have serious implication on Smartwear. Further there is no formalised regular reporting provided thus all report is only on an ad hoc basis, this may result in lack of monitoring been carried out on the supplier.

Smartwear should indicate more specific on what kind of issues need to be reported such as quality issues, pricing issues or working conditions issues so that buying department can report according. Smartwear can make a standard reporting requirement and also make it mandatory for procurement team to submit the report every 6 months.