



Chainlink Workbook 3

Intermediary integration

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Introduction

According to some estimates, building materials distributed through intermediaries equate to approximately 65% of all materials sold into the construction industry and it could be argued that this statistic alone justifies the involvement of intermediaries in the Accelerating Change reform agenda. With their influence and control in the market it is clear that intermediaries are in a position to generate or stimulate substantial efficiency and value improvements when fully integrated into the construction supply chain and few doubt that they have a crucial role to play in the supply chains of tomorrow. While the employment of intermediaries has traditionally been for many organisations more of a tactical rather than a strategic move, the advent of fully integrated supply chains will make their inclusion (or not) one of the core strategic decisions. This module provides guidance on the benefits available from using intermediaries and how they might be achieved and improved in practice. Note that, for the purpose of this module an 'intermediary' may be a merchant, a stockist or a distributor.

This module explains the added-value that can accrue from the inclusion of intermediaries as part of fully integrated supply chains and focuses on both 'upstream' supply chain relationships between intermediaries and manufacturers and 'downstream' relationships between Intermediaries and construction procurement teams. It is acknowledged that intermediaries by definition are already integrated to some extent in the construction supply chain and that most enjoy long-term relationships with suppliers and customers. However, this module gives guidance on how these relationships can be taken forward to a strategic level and how, within the context of more integrated supply chains, these relationships can be redefined, strengthened and maintained to the benefit of all concerned.

The benefits

1. To manufacturers

Manufacturers may find that the optimum route to market is via some form of intermediary stockist for the following reasons:

- Improved logistics. Manufacturers can leave physical distribution to the experts and focus on production, their core business.
- Superior product availability – nationally, regionally and locally.
- The breaking of bulk and its repackaging into manageable units.
- Reduced credit risk to the manufacturer.

- Improved market access (especially for SMEs) - intermediaries can provide cost-efficient national distribution.
- Market knowledge. The intermediary is likely to have a good general understanding of the market, coupled with local knowledge.
- Administrative benefits. The use of intermediaries will almost certainly reduce the number of transactions. Other administrative benefits might include the provision of electronic trading options and the realisation of collaborative promotional campaigns, etc.
- Access to the intermediary's often closer relationship with contractors and subcontractors and their local knowledge of construction projects/personnel. Note that, in a properly constituted supply chain, manufacturers will be able to use intermediaries without losing touch with the market. It can make it easier for contractors to obtain the goods (intermediaries may have longer trading hours and open weekends).
- In a properly constituted supply chain, manufacturers can use intermediaries without losing touch with the market.

2. To construction procurement teams/end users/designers

The construction procurement teams of contractors and subcontractors might employ intermediaries because it:

- facilitates quick and easy procurement, perhaps with no minimum order size. Buyers will often have established accounts with Intermediaries
- provides a one-stop-shop for buying disparate requirements and reduces administration. Single source procurement can have substantial advantages in the maintenance/FM sector where frequent, small, and disparate orders may be the norm
- reduces the number of suppliers and can provide improved terms
- can provide SMEs with a means of indirect access to the technical and other resources of major manufacturers. In a properly constituted supply chain, purchasers should be able to use intermediaries without losing support from manufacturers
- can be the most cost-effective procurement solution. Intermediaries can have enormous buying power and this can lead to additional benefits that are passed to the customer, such as volume rebates, special delivery arrangements etc
- suits different purchasing modes (cash/credit card/credit account)
- eases the implementation of just-in-time deliveries for improved site productivity, better security and greater safety
- offers a high standard of service such as the provision of special service arrangements on certain projects. For instance, an intermediary may be prepared to set up a temporary branch on a large site or set up an outlet to supply an individual customer

Relevance

1. Intermediaries (merchants, stockists, distributors, etc) seeking to develop strategic relationships within integrated supply chains.
2. Manufacturers that are seeking to incorporate intermediaries in their strategic supply arrangements.
3. 'New generation' construction procurement teams (including contractors, clients, facilities managers, etc) that might benefit from the value-adding combination of logistical, procurement and supply chain management expertise that is available from progressive intermediaries.

Using this Toolkit module

The guidance shown in the table appears in approximate chronological order. However, users must adopt a pragmatic approach to its application with respect to their particular organisation. It should also be considered that the time required to enact the activities and processes shown will vary from organisation to organisation and must be left to the judgement of the user. Note also that some of the guidance offered applies to the intermediary itself, some to its suppliers/customers and some to both.

Each key step in the development of a formal partnering relationship between the various supply chain parties is identified in the 'Process' column. The 'Culture and Activities' column then provides a summary of the necessary ethos and actions required for their implementation. The adjacent 'Tools and Techniques' column provides recommendations, Toolkit cross-references and links to external supporting information.

Note: Users of this Toolkit module are encouraged to explore the other sections of this Toolkit to determine their position in the overall construction supply spectrum, to better understand the benefits and workings of the integration concept and to gain an appreciation of the need for collective supply chain focus to ensure a satisfactory end result.

Workbook

Step	Process	Culture and activities	Tools and techniques
3.1	<p>Material suppliers and customers must determine the value of incorporating an intermediary in the supply chain from both a tactical and strategic perspective.</p> <p>Intermediaries must decide if they are prepared to play a more collaborative role within strategic supply chains.</p> <p>By pursuing strategic supply chain partnerships, intermediaries have the potential to move from their traditionally low-level distribution role to a strategic one where they plan, manage and support complex supply chain systems as part of multi-tier, integrated construction solutions.</p>	<p>Material suppliers and customers must determine:</p> <ul style="list-style-type: none"> • Is this form of partnering/ integration appropriate? (it does not have to be your only route to market) • Is it a good fit with your corporate strategy? • Will it provide your company with a competitive advantage? • For which of your products/ services/systems is it appropriate? • The medium-long-term implications of entering strategic partnering relationships with intermediaries <p>Intermediaries must determine: Whether they are prepared to make the cultural, operational and financial commitment to working in close interaction with suppliers and customers as part of integrated supply chains. This will necessitate creating the necessary trust with partners and might, for example, involve:</p> <ol style="list-style-type: none"> i. entering new areas of service ii. developing expertise in specialist fields of relevance such as common quality standards and communication systems iii. taking a more pro-active involvement in product design and specification. 	<p><i>Manufacturers</i></p> <p>As a manufacturer, an intermediary is worth considering when you have a standard (non-customised) product but lack:</p> <ul style="list-style-type: none"> • sales channels/outlets • marketing skills • logistic resources. <p>i. Determine your market share and research the potential for growth. If you have a high and profitable market share without using an intermediary you probably do not need one. (See COMPASS self selection guide – Manufacturer which will help you decide if partnering/integration with an intermediary is right for your business).</p> <p>ii. Conduct cost/risk/benefit analyses to determine whether an Intermediary can add value to your business and to the rest of the supply chain.</p> <p>Tip: It may be beneficial to conduct this using independent external expertise.</p> <p>iii. Review your organisational structure</p> <p>Where a manufacturer adds an intermediary into the supply chain, it will often call for an organisational and structural review of the manufacturer's business.</p> <p><i>Construction procurement teams/professionals</i></p> <p>Contractors, subcontractors,</p>

designers and end-users have traditionally made extensive use of intermediaries since they offer the only realistic method of sourcing a wide variety of products in the volumes/timescales that are required. In the emerging construction landscape, however, intermediaries will have the potential to play a much more pivotal supply chain co-ordination role. Construction procurement teams must therefore consider the usage of intermediaries when developing their procurement strategy and, where appropriate, seek to integrate them as early as possible.

Conduct cost/risk/benefit analyses to determine whether an intermediary might add tactical and strategic value to the procurement and supply chain process.

Tip: It may be beneficial to conduct this using independent external expertise.

(see **COMPASS Self Selection Guide** – CPT).

<p>3.2 Core principles/ cultural requirements for partnering with intermediaries</p>	<p><i>Construction procurement team</i></p> <p>Most contractors and subcontractors use intermediaries, but few realise the potential capabilities of the intermediary as part of an integrated procurement chain. This partly due to the fact that true supply chain integration is still in its infancy and partly because, historically, the relationship has tended to be governed by price rather than value.</p> <p>It is imperative the construction procurement team not only demands 'best value' from their intermediary partners, but also insists on engaging only with intermediaries that can demonstrate their commitment to true supply chain integration and the principles that underlie it. Only by doing so can the collaborative benefits outlined in this Toolkit be realised.</p> <p><i>Manufacturer</i></p>	<p>The Construction Manufacturers Partnering Association (COMPASS), through its member activities and its Charter scheme provides a mechanism for establishing a cultural framework for the pursuit of supply chain integration. Membership of COMPASS is available to all participants in the construction supply chain.</p> <p>It is advisable to set up an in-house steering committee to oversee the change in culture required. Expect a significant change in culture to take at least 12 months to drive through the business.</p> <p>Each company must put in</p>
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It is important the company personnel pull together to achieve the partnering objectives. Change management will be necessary if the manufacturer has not used an intermediary network before and must not be underestimated. Failure to deal with this aspect may have negative repercussions on the business.

In all cases, to ensure the full benefits from integration are realised, a clearly defined strategy must be established that sets out the aims, objectives and long-term goals of the relationship and generates:

- constructive communications between all parties
- an environment of continuous learning and improvement
- mutual trust amongst all participants
- genuine commitment from top management of the partnering organisations
- a partnering vision throughout the supply chain
- understanding and commitment to integrated working throughout the supply chain, providing benefits to all parties.

place an education/training programme designed to explain the rationale behind the partnering programme and instil the necessary cultural values. It may be necessary to engage the expertise of external consultants or agencies to realise this. For details of suitable organisations refer to the A-Z section on the **Construction Best Practice website**.

Tip: Chief Executive of the company concerned, or other individual with the authority to commit the organisation and lead the necessary cultural change, to set up and lead a series of in-house seminar/workshops covering the rationale behind the partnering model, the objectives and the cultural/organisational changes necessary. These to be positive, interactive, informative sessions with the aim of securing 100% staff commitment to the partnering philosophy.

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3.3 Planning stage (detailed review of operational changes needed to achieve this state)

Having made the decision to use intermediaries, both manufacturers and construction procurement teams must:

- identify the products/systems covered by the arrangements
- consider any re-organisation necessary to facilitate and progress partnering principles
- examine the marketing implications – cost, competitor reaction, customer perceptions
- review the implications and determine strategy for the target market and project type:

(i) Public and Private sector/utility construction and term maintenance/ Facility Management, etc.

(ii) New Build /Refurbishment/ re-active maintenance.

Manufacturers

As a manufacturer seeking to establish a partnering relationship with an Intermediary you need all available marketing analysis information to hand & should complete a SWOT analysis covering the following issues.

Product analysis

- Product type sold.
- Market sector at which product is aimed.
- Product life cycle.
- Breath of product range.
- Product R&D.

(iii) PFI/PPP/Design and Build/traditional tendered contracts

Review the number of intermediaries required:

(i) Do you want a choice?

(ii) Can the intermediary offer the required service?

(iii) Will an exclusive Intermediary offer advantages or disadvantages?

(iv) Flexibility to expand or reduce the number of intermediaries.

Define the desired functional characteristics of the ideal intermediary partner:

e.g.

- technical/service attributes
- management strength
- cultural 'fit'
- operational efficiency
- strategic sourcing expertise and supplier contacts
- transportation/storage facilities
- inventory management competence
- IT capabilities
- customer focus
- staff quality including training and development
- receptivity to innovation and ideas
- long-term planning perspective
- flexibility and focus
- market penetration/strengths
- value-added services (e.g. hire services, processing, fabrication, etc.)
- financial strength
- marketing resources and expertise

- Competitor alternatives.
- Trends.
- Market share.
- Customer profile analysis.
- Size.
- Location.
- Order size (small orders are tailor made for intermediary).
- Service requirements.
- Number of customers.
- Market sector targeted by customer.
- Risk.

Competitor analysis

- What are they doing?
- Will using an intermediary give my business a competitive edge?

Construction procurement teams

As a contractor, subcontractor, designer or end-user you may already have experience of sourcing through Intermediary channels. However, if you are now setting up, or participating in, fully integrated supply chains you will need to satisfy yourself that your existing or prospective intermediary partners have the requisite skills, resources, cultural philosophy and commitment to meet the challenges presented.

Consider what contractual arrangements you will want to have in place with your intermediary partners. In many cases this will take the form of a partnering charter. Many partners find that the real value in drawing up this document rests in the process itself and that it forms a visible expression of mutual

commitment to the aims and aspirations of the relationship. A 'Service Level Agreement' defining the expected standards of service may form part of, or run parallel, to the Charter document.

A typical partnering charter might include:

- mission statement
- objectives including target cost, time and quality criteria
- dispute resolution
- agreed procedures and processes
- agreed measures of progress
- structure for monitoring and review
- contractual arrangements.

For an example of a summary Partnering Charter showing a mission statement and mutual objectives suitable for display purposes see **Strategic Partnering Charter**

For further guidance on the content of such an agreement see **Module 4: Supply chain framework module.**

3.4 Selecting intermediary partners

When selecting intermediary partners manufacturers and construction procurement teams must review and select candidates with respect to the criteria mentioned in the **introduction** above.

Note that manufacturers and construction procurement teams may have to sell the business case for integrated supply chains to prospective partners, e.g. strategic advantage, profit opportunities, increase sales, margin, exclusivity, support, long-term relationship, cost savings, etc.

Whether you are a manufacturer or a construction procurement team, the selection of the right intermediary partner(s) is absolutely fundamental to the success of the exercise. While it may be prove possible to retrospectively embed and cultivate the necessary cultural characteristics in an otherwise suitable intermediary partner, there is no guarantee this will happen. Mistakes at this stage might prove commercially disastrous.

Tip: If you are unfamiliar with intermediaries and intermediary distribution it might prove advantageous to invite prospective intermediary partners to introductory, no obligation seminars or one-to-one meetings to discuss the possibilities and gauge their abilities and commitment. Assess candidate using a rigorous quality-based selection system covering both quantitative and qualitative criteria. See **Resources** for partner selection guidance.

3.5 Address relational/ process interface issues

In most construction procurement scenarios, transactional and process-related improvements offer huge scope for cost/efficiency gains. In some cases involving intermediaries, where mutually beneficial relationships are well established, the necessary systems and procedures are already in place. In new partnering relationships these must be developed but have the advantage of being able to embrace the latest technological developments and build on existing experience.

Intermediaries have been quick to embrace Information Technology, allowing suppliers and customers to reduce their supplier base and providing the opportunity to develop:

- e-business
- consolidated invoicing
- on-line ordering
- paperless transactions
- supplier base reduction
- EDI invoicing/inventory management
- automatic stock replenishment
- consignment stocking deals.

For details on how to achieve savings through transactional efficiency see **Module 1: Customer/ supplier procurement integration**

Tip: The construction procurement team should ensure their intermediary offers them a personal contact (account manager), who works along with them to develop and monitor the Partnering and Service Level Agreements between the two parties.

3.6 Agreeing measurable objectives (determination of Key Performance Indicators)

Establish short- medium- and long-term targets distinguishing between global supply chain objectives and company-specific objectives that are mutually agreed, measurable and realistic.

Targets might include:

- turnover

Adopt the COMPASS Key Performance Indicators or similar as a straightforward means of monitoring and measuring continuous improvement. Note that the COMPASS KPIs meet the market monitoring requirements of ISO 9000:

- stock Levels
- cost and profitability
- technical and quality
- commercial
- cultural
- service levels, response times and complaint handling
- waste reduction
- safety
- staff training goals
- reduced environmental impacts
- meeting of client objectives
- clear, measurable, value-for-money benefits for all parties

Intermediaries should be able to offer specific KPI data to their customers:

- deliveries supplied in full and on time
- credit note analysis
- response time for enquiries
- response time for answering telephones
- number of visits to site per month.

2000, saving unnecessary duplication of work.

Ensure that all parties are an integral part of the benchmarking process, measuring as well as being measured.

Publicise the benchmark results and discuss with your partners. Use these results to strive for continuous improvements in the process.

Tip: Hold regular operational-level workshops to review progress against KPI objectives and obtain feedback on lessons learned. In addition, ensure, through regular communications such as face-to-face meetings, conferences and newsletters, that everyone involved in the manufacturing organisation and its distribution network are fully aware of the KPIs and their significance.

For information on generic construction KPIs see the **KPI Zone website**.

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3.7 Management and communications throughout the supply chain (controls that will ensure this partnership is working for you)

Manufacturers and construction procurement teams must ensure the intermediary plays its full part in an integrated supply chain and the full benefits are realised.

Ensure that an open management process is in place to engender trust, commitment, enthusiasm and network 'ownership'.

Establish a mechanism for driving the partnering relationship and the maintenance of good communication throughout all links in the supply chain. The aim is to oversee the integration strategy with your partners, and to guide and monitor implementation.

Ensure cultural transformation through ongoing training programmes aimed at different levels of staff within the participating companies.

Risk management

Establishing partnering relationships is not about risk transferral; it is about risk

It is vitally important that regular review meetings between the intermediary and its supply chain partners take place.

Tip: Manufacturers and construction procurement teams should establish, or facilitate the establishment of a joint review team to review compliance with both the Partnering Charter and the Service Level Agreement. This will also assess progress against the agreed objectives and KPIs, determine new objectives and resolve contentious issues as they arise.

Prepare a joint training programme in accordance with the commercial, technical and cultural aspects of the programme

management and removal. At this stage, the parties to the relationship should set out the basis for sharing risks. The correct management, monitoring and measurement systems will ensure that risk is identified, minimised and shared equitably.

and in line with the agreed KPIs. It is essential that a mutual understanding of each partner's business and technical capabilities developed.

Tip: Hold regular, at least annual, network conferences to foster team spirit and trust, share knowledge, exchange information, educate and motivate.

Tip: Encourage network social and team-building events.

Tip: Give consideration to an awards scheme to honour best performance; celebrate success and foster competition amongst the intermediary network.

Tip: Consider introducing a self-financing incentive scheme tied to:

i. achievement of business targets, and

ii. exceeding KPI targets.

Continuously review and audit supply chain performance. Don't compromise on quality or commitment. If an intermediary consistently fails to deliver against its agreed objectives then:

a. reconsider the objectives to determine their validity/attainability. Adjust if necessary

b. discuss the requirements with the intermediary in question with a view to rectification

c. if all else fails, terminate the relationship in accordance with the termination terms contained within the contractual agreement or Partnering Charter.

<p>3.8</p>	<p>STEPS FORWARD</p> <p>Product co-development and innovation</p>	<p><i>Product development</i></p> <p>There is a lot to be gained in terms of cost savings, speed to market, efficient resource allocation and effective risk sharing by pooling expertise in the</p>	<p>As the link between the Manufacturer and the rest of the supply chain, intermediaries can play an important role in product</p>
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generation of creative yet workable solutions. A mature supply chain will develop the trust, confidence, mutual respect and interdependence to allow collaborative improvements to processes as well as product development programmes, e.g:

- packaging
- storage requirements
- training
- market sector targeting
- value-added processing.

development programmes.

Tip: Consider regular development workshops with the aim of reducing waste, improving quality, simplifying interfaces and producing value-engineered solutions.

Start small and concentrate on easy-to-implement and cost-efficient product/process enhancements rather than long-term R&D programmes.

Design for installability, manufacturability, sustainability, rationalisation, standardisation, simplification and safety

3.9 Collaborative marketing

Manufacturers in particular can collaborate with intermediaries in promoting their combined 'competitive advantages' to clients and the rest of the supply chain.

In an integrated supply chain scenario, the intermediary can beneficially join forces with its supply chain partners in jointly promoting the benefits of the integrated team to clients, lead contractors and others.

Collaborative marketing is a key benefit that can be developed with any intermediary outlet. Indeed this aspect will often be a deciding issue at the strategy stage.

Joint promotional programmes might include:

- literature
- trade shows
- exhibitions
- open days
- training events
- dedicated display zones
- product demonstrations and trials
- presentations
- incentive/loyalty schemes
- joint Sales calls
- mail shots
- trade Counter display
- trade Journals
- promotions
- cross reference between websites
- use of CD-ROM and other digital media for the dissemination of up-to-date

3.10 Refine, improve and develop

Continually apply the lessons learned from feedback, reviews, successes and failures. Improve, improve, and improve! Integrated supply chains are an evolutionary species!

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