

Our supply chain

We need to build consistent, transparent and innovative relationships with our suppliers if we are to continue operating one of the most efficient national lotteries in the world.

We aim to work in partnership with all our key suppliers. We want partnerships based on a commitment to each other's success, a realistic understanding of one another's priorities, and a mutual commitment to operate with fairness and integrity.

We have a relatively small number of suppliers with significant turnover, almost all of whom are based in the UK. In fact just 170 suppliers account for 80% of our purchases, and only six of those are based overseas. These businesses supply goods and services varying from data communications and consumables, to media and marketing services.

Our supply chain commitments are set out in our formal [purchasing and tendering policy](#) which covers all purchases of goods and services on behalf of Camelot. This policy also formally commits us to operating at all times in line with the highest levels of social, ethical and environmental standards.

We don't want any supplier to become too reliant on our business. As a general principle, we believe that we should not account for more than 20% of an individual supplier's turnover. But we have to show some flexibility as many of our suppliers are small and medium-sized businesses for whom the Camelot account is of vital importance. Our target is that our purchases should be more than 20% of turnover for no more than 10% of our suppliers. In 2004/05 this applied to just 7% of suppliers, the same as the previous year.

Percentage of suppliers where Camelot's business accounts for more than 20% of their annual turnover (%)

Target	2004/05	2003/04	2002/03	2001/02
Less than 10 days	7	7	7	3

Contracts and payments

We believe that consistently paying invoices on time is a critical measure of a responsible and trustworthy company that is clearly committed to open and honest partnerships in the supply chain.

We aim to pay invoices on time, regret any lapsed days beyond the due date, and work hard for a continuous reduction in the average number of lapsed days. We are pleased that in 2004/05 we achieved a reduction once again. The last three years have seen a reduction from 18 excess days to eight days.

Average lapsed days beyond due date	
2004/05	8
2003/04	10
2002/03	18

One of our supply chain commitments for 2004/05 was **to increase the effectiveness of account managers' reviews** of supplier contracts, helping to ensure that both parties derive as much value as possible from the relationship.

As procurement is decentralised, we ensured that account managers are equipped with the necessary skills to build relationships with their suppliers. We have provided our account managers with guidelines on how to conduct effective contract reviews and we believe that the

positive upward trend of the supplier relationship survey results shows the improvement in levels of engagement. See [Engaging with suppliers](#). We plan to continue to further develop the skills of our account managers to better engage with our suppliers.






Engaging with suppliers

We see excellent relationship management as the key to continuous improvement. Our annual supplier relationship survey and regular face-to-face meetings are at the heart of our supplier engagement programme.

The annual survey was conducted in February 2005 and generated 105 replies - a response rate of 21%, similar to the previous survey and representing 61% of our total spend.

The survey revealed an overall satisfaction level above target - 97% of respondents said they were "satisfied with your overall relationship with Camelot", up from 94% in the previous survey. They felt that we are committed to maintaining and improving successful supplier engagement, with 98% agreeing "Camelot is open and honest with your company", up from 94% in the previous survey. This year we have also introduced new measures: See [Consulting and responding](#), nearly 96% were "satisfied with Camelot's ability to listen to you" and 92% were "satisfied with Camelot's response to your suggestions".

Percentage of satisfaction with the overall relationship with Camelot (%)

Target	 80
2004/05	 97
2003/04	 94
2002/03	 94
2001/02	 78

In 2005/06 we will continue to innovate in supplier engagement. For example, we are planning to send our supplier relationship survey electronically as that may be more convenient for suppliers. We hope this will increase the response rate. We will also work with account managers to develop their engagement skills and their approach to active supplier development. We also aim to maximise the value from the relationship and shift further responsibility to each account manager for successful supplier relationship management. For example, we are planning to produce a leaflet for account managers explaining our purchasing and tendering policy and processes, and explaining our approach to relationship management.

The survey results showed a downturn in suppliers' satisfaction with Camelot's tendering process, tendering feedback, and the quality of information being provided on tendering success and expectations. Only 82% of respondents were 'satisfied with Camelot's tendering process', compared to 99% last year. Satisfaction with information on tendering success and expectations fell from 96% to 90%, and there was a decline of eight points to 90% on satisfaction with feedback at each stage of the tendering process. In total, 10% of the suppliers that completed the survey have expressed dissatisfaction about our tendering process. All of these suppliers were those

that lost some business from us during the year. In 2005/06, we will work with them to learn how we can improve.

We made a commitment to **seek opportunities for more effective working across the value chain.** We feel that through further engagement with our suppliers, as illustrated in the case study in this section, we have achieved this commitment.

Sustainable supply chain

We seek to promote social responsibility and good environmental performance throughout our supply chain.

This not only improves our social and environmental impact, but also helps us to assess and manage risks in the supply chain.

In our supplier relationship survey, we asked whether our commitment to social and environmental issues has had an impact on the way suppliers operated - both internally and with their own suppliers. 16% of the 105 respondents said they had changed their operations and 13% responded that it had affected the way they operated with their own suppliers.

We have identified the following high-risk areas, based on a social, ethical and environmental risk assessment of our supply chain, and the products and services that we purchase:

- Telecommunications and electronic equipment
- Company car fleet
- Distribution and freight services
- Marketing support and desktop material

We developed a self-assessment questionnaire in co-operation with [Ethical Supply Chain Limited](#) based on human rights, International Labour Organisation standards, and sound environmental practices. We sent this to 24 suppliers representing 29% of our total spend in the industry groups which we have a significant relationship and a high turnover with.

We have also met our commitment **to support closely those suppliers asked to meet minimum qualifying criteria**. We worked closely with them on completing the self-assessment, explaining our approach and providing practical examples.

We're delighted that all 24 suppliers responded to this questionnaire. The evaluation has helped to improve our understanding of our impacts through the supply chain. It also made our suppliers more conscious of the importance of sound social, ethical and environmental behaviour in their businesses. The findings confirm there are no major issues in our supply chain.

We have provided individual feedback to all the suppliers and, as an additional incentive to improve performance, we have also ranked suppliers according to their scores. This element of competition is designed to demonstrate the scope for improvement and to encourage better scores next time around. See [case study](#).

As a result of the social and environmental evaluation and in line with our commitment for 2004/05, **we have introduced minimum qualifying criteria, based on social and environmental risks, for those of our suppliers that fall into the high-spend and high-risk categories.** We will continue to provide close support for all suppliers asked to meet these qualifying criteria, and continue to evaluate new suppliers in this category (See [Environmental impact](#)). We also plan to consider including a clause in new contracts to cover social and environmental risks.

Next steps

In 2004/05 we met our commitments to introduce minimum social and environmental criteria, support suppliers and improve account review effectiveness, and we sought opportunities to work across the value chain.

In 2005/06 we will:

- Work with dissatisfied suppliers and learn from their experiences
- Further develop the skills of our account managers to engage with our suppliers
- Consider including a clause in new contracts to cover social, environmental and ethical issues

Case study: Effective partnering



We believe that building effective partnerships with our suppliers is essential to The National Lottery's success.

Vivid Retail, a West Midlands supplier, provides retailers with the distinctive National Lottery playstation point-of-sale material.

Its Managing Director, **Sam Hill**, explains: "Although Vivid specialises in the delivery of major point-of-purchase projects, the AAC Group, of which we are part, offers a range of services including acrylic fabrication, vacuum forming, plastic injection moulding and a metal working arm. Our relationship with Camelot is an example of how this expertise can be brought together for a single client. Not only are the playstations assembled by Vivid but, as a group, we also manufacture the majority of the components, including the distinctive blue hoods."

Sam says: "We've worked with Camelot for about four years, including the prototyping stages for the playstation. Our initial challenge was delivering around 28,000 playstations, but since then we've also been working on a maintenance and replacement programme."

Relations between the two companies have always been good, but Sam feels that they have undergone a significant improvement in the past year or so.

"Camelot has been placing an increasing emphasis on its impact both on its supply chain and on the environment. Unlike many other companies, they really are interested in making the partnership between customer and supplier work, rather than just focusing on narrower issues such as cost and delivery times."

Vivid took part in Camelot's social, ethical and environmental evaluation in 2004/05 which was, in

Sam's view, a very useful exercise. "Just filling in the questionnaire caused us to think long and hard about the way we do business," he says. "I was very pleased with our position in the Camelot rankings which confirmed that we are a good and responsible supplier. Indeed, we found it a useful sense-check which showed that we still have work to do to become best in class. It made me much more conscious of our own environmental impact and performance."

"Inevitably, there is a degree of churn in the playstation network - some units get damaged, new retailers are recruited or are de-selected, and so forth. But, rather than just discarding them or tolerating sub-standard playstations in the network, Camelot has worked with us to develop a spares and refurbishment strategy that is immediately cost-effective and environmentally responsible. All faulty or surplus playstations are returned to Vivid for assessment where appropriate sub-components are either replaced or refurbished if economically viable. We maintain a bank of 1,200 spares - that's 1,200 of every component from pens to hoods so that the weekly network churn can be accommodated.

"And if we do decide that a playstation has to be broken up, we aim to do it in a responsible way. We recycle some of the components ourselves, and ensure that the rest are correctly disposed of. Once again, our ranking in the Camelot survey was an important reminder of the high environmental standards we are expected to maintain as a supplier."

Shouhdi Elgebeily, Camelot's Retail Planning Manager, managed the relationship with Vivid.

Shouhdi says: "Our relationship with Vivid demonstrates the benefits of moving away from the older, 'telling' client-supplier relationship and towards genuine partnerships. There's no point in clients just laying down the law, demanding this and demanding that. We've learned that it's really important to recognise good suppliers and to work with them to help them improve their processes and margins which in turn benefits Camelot and the brand overall.

"You could argue that it needn't be any concern of ours how Vivid chooses to manage the spares programme for the playstation refurbishment programme. But their warehousing of stock does involve us in up-front costs. And it enables them to work with maximum efficiency, which is good for us because turnaround times are kept to a minimum and we can keep the playstations working as hard as possible."

And **Shouhdi** is convinced that it really is a two-way process. "Vivid people are inspired to do their best for us. They really care about our products and the National Lottery brand. One example of how a good relationship works is that one of the playstation components that we use is particularly expensive. Driven by mutual cost-saving opportunities, Vivid and Camelot have been researching cheaper materials with the same look and feel. Successful partnerships don't get much more mutually beneficial than that."

In memory of Shouhdi Elgebeily 1978-2005