

Metrics that speak to the c-suite



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Getting everyone working in concert is difficult. “c objectives,” says Andrew Pateman, a manager at the cult enough when you’re just trying to do it inside the Balanced Scorecard Collaborative in Lincoln, Mass. That’s four walls of a single organization. But trying to pinpoint why it’s important for supply chain the source of a performance managers to know what the breakdown or making decisions answers to the big strategic ques about the tradeoffs between, say, tions are before they settle on any inventory levels and customer How do you ensure that speci? measures. For example: service are exponentially harder everyone has the same when it’s outside organizations • What are the most critical that are performing critical activipriorities—and is speaking improvements you’re looking to ties that your company used to make in your supply chain? the same language? handle itself. • What one accomplishment over How do you ensure not only the next six to 12 months would that everyone—including interdo the most in terms of helping nal departments and outside you bring about the desired outcome? artners—has the same priorities but, more fundamentally, that they’re speaking the same language? The Once the strategy is set, a company can choose metrics answer lies in large part in the effective and strategic use that best re? ect its speci? c objectives. Regardless of how of performance metrics. Companies that can both pinthey ? ne-tune their measures, however, all companies point the key supply chain indicators that drive the overshoould track supply chain performance along four basic all success of their business and develop effective means dimensions: of tracking those indicators gain a substantial competi1.

Service—how completely the chain responds to every aspect of a customer’s request. The work starts with ensuring that all the critical indicators are included in the metrics portfolio your company chooses to monitor. But the hallmark of a truly and cash. effective measurement system is that it speaks to the 3. Efficiency—the chain’s ability to keep costs down. needs of both senior corporate executives and managers up and down the supply chain. The key, in other words, is 4.

Speed—how fast the chain executes a customer order. to understand which aspects of supply chain performance are most important to the C-suite and to translate performance, the metrics you choose should also take them into more detailed, tactical measures that lowerthree levels of operation into account: level managers can use to fine-tune their interventions. Copyright © 2005 by Harvard Business School Publishing Corporation. All rights reserved. 3 121 Metrics That Speak to the C-Suite (continued) 1.

The unit or functional level. Function-based measures evaluate the performance of a single department or function—for example, the logistics function’s warehouse-picking accuracy. 2. The process or cross-unit level. An order-to-cash metric and a new-product-concept-to-first-sale metric both track the performance of work that cuts across individual departments. 3. The cross-enterprise level. Example: the vendor-managed inventory measure that Procter & Gamble uses to track not only the stock on hand in its own warehouses but also the inventory level its downstream partners maintain. nced in terms of incorporating all the dimensions and levels of supply chain <https://assignbuster.com/metrics-that-speak-to-the-c-suite/>

metrics, but they also respond to senior-level managers' need to monitor the factors that external stakeholders—customers (current and potential), Wall Street analysts, and venture capital firms—take into consideration when evaluating the organization. The metrics are as follows: 1. Total supply chain cost. Senior executives care a lot about this measure—typically expressed as the cost of fulfillment as a percentage of revenue or cost of fulfillment per case ordered—because it directly affects the company's P&L statement.

Many companies include only the costs associated with logistics and transportation in determining it. To get a more realistic sense of the total cost, add in the materials and manufacturing costs, as well as inventory carrying costs (interest cost, storage cost, and costs associated with damage, loss, and obsolescence). Function-based measures help supply chain managers pinpoint the source of problems in a chain's overall performance. It's a mistake, however, to rely solely on such measures because they tend to promote silo behavior: the optimization of a particular unit's performance at the expense of that of the entire organization.

Service level. Optimization or even the overall chain. "A measure of how well you're meeting customers' requests is perhaps the most crucial metric of all, because they focus on outcomes you're meeting customers' because if you're not serving your customers, that's going to have serious consequences on your profitability," says Bain & Co. consultant Miles Cook, who leads the efforts that lie outside your

com? rm's global supply chain practice. pany. By the early 1980s, for The ? ll rate, for example, measexample, General Motors' service parts operation's ures how close the chain is coming to meeting 100% of improvements in the management of its inventory, ? eet, customers' orders. " C-level executives watch this like a and routing schedules had enabled it to render extraordinihawk," says Cook. " They see it as an indicator of how much nary service to its immediate customers, the GM dealers. usiness the company is losing because its chain didn't But GM's service to end consumers was noticeably infehave the item in stock when the customer requested it. " rior to most of the competition. The problem, writes StanWhereas the ? ll rate measures the supply chain's accuford University professor Warren H. Hausman in a 2000 racy, another important customer-service metric, cycle white paper, " was that the GM dealers' inventory-control time, measures its speed: how long it takes from the time a systems were out of control.

GM's supply chain problem customer places an order to when that order is actually was primarily at the dealerships; the wrong parts were delivered to the customer's doorstep. Many senior execustocked, and the information system on inventory and tives also track this measure because of its impact on asset parts usage was largely out of date. " utilization, observes Accenture consultant Matt Wylie. The Getting a handle on the problem required the creation shorter the cycle time, the fewer dollars that must be tied of integrated performance measures that were crossup in safety stock— inventory kept on hand to accommoenterprise in nature. ate unexpected spikes in demand. The key metrics for senior executives to track The experts and practitioners Supply Chain Strategy consulted recommended that top

executives pay attention to four overarching metrics. Not only are these measures balanced, but they also speak to the c-suite. 3. Inventory. The value of a company's inventory is listed on the balance sheet. It's part of the calculation of the return on capital, which, in turn, is one of the factors determining the company's stock price. 4 | supply chain strategy 122 Metrics That Speak to the C-Suite (continued)

Maintaining inventories at appropriate levels is thus one of the principal ways a company makes itself more appealing to investors. The number of days' worth of inventory on hand, a function-based measure, is the most commonly used expression of inventory because it dovetails with the inventory rate metric. " But given that the value of inventory in many industries can rapidly decline over a short time frame, and also that the Sarbanes-Oxley Act now requires companies to make a stricter accounting of their liabilities, many executives are also asking for a total inventory metric," says Andrew Gort, a principal at Toronto-based Andrew

Gort & Associates. This cross-enterprise measure includes raw materials, work-in-progress, and work-in-transit located elsewhere in the chain for which the company is responsible. An electronics manufacturer facing retailer consolidation and increasing customer requirements saw its high-level customer service metric begin to drop. A root-cause analysis revealed that the reasons behind many of the late shipments were not product related. Even when there was sufficient inventory on hand to meet the customer order, shipments were delayed because of problems with warehouse processing, transportation planning and execution, and customer receipt processing. The creation of individual measures for each of these processes helped the manufacturer figure out the precise steps it needed to

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take to solve the problems. Within three months, the high-level customer service metric had improved significantly. 4. Cash conversion. This is a measure of the amount of time between when a company buys inventory to begin fulfilling a customer order and when it receives payment for that order.

This metric gives you a sense of the tradeoffs you're having to make in your terms of trade—for example, agreeing to pay suppliers more quickly in order to get finished product flowing through the chain sooner so that you can hit a delivery date. This measure is especially critical to senior executives trying to guide companies through downturns or start-up situations, when cash is tight. In addition, you might need to work with your purchasing department to ensure it's negotiating the shortest possible lead times with suppliers and holding them accountable for on-time delivery.

Increasingly, however, target setting and incentive creation take the form of contract negotiations with outside partners—who control some of the most important disaggregated metrics. “Perhaps the biggest mistake you can make is not to think about the whole picture,” says Scott Ellis, director of the strategic planning and modeling group at Hewlett-Packard. For example, if you're an appliance retailer that outsources the installation of its products, you can't focus simply on improving the time from when the order is placed to when it leaves your warehouse. The end user doesn't care about his order-to-ship metric. What he wants to know is when the product will be installed in his home. So even though you don't directly control the installation, it's in your best interest to find out whether the installer is completing her work in the time frame promised.