Supply Chain Metrics:
The Next Generation

SERVICE IMPACT BRIEF

Successful businesses are rethinking their supply chain metrics. In fact, survival in the “the new reality” may require design, development, and implementation of a new generation of supply chain metrics. Managers require metrics to demonstrate performance improvements and the value created across the entire supply chain. However, the metrics currently used in most enterprises cannot capture performance across multiple companies and are typically not translated into financial performance.

Historically, the basic elements of a supply chain – procurement, warehousing, transportation, fulfillment, and information systems – have been measured and evaluated separately. For example:

- Defects per million (DPM)
- % on time delivery
- Fill rates
- Inventory turns
- Cost/mile
- Profitability
- Returns rates

What’s the problem? Single measures of performance cannot capture performance differences between suppliers, customers or supply chains. The internal focus of these metrics often drives management in a direction that may maximize local efficiency, but runs counter to improving supply chain effectiveness. Internal metrics do not extend management’s “line of sight” beyond the boundaries of the enterprise. Each customer and supplier has unique characteristics that drive costs and performance differently. As managers attempt to collaborate across multiple enterprises, supply chain metrics are essential for evaluating and aligning performance.

In addition, different enterprises and supply chains will employ different strategies to achieve a competitive advantage. For example, some may focus on a differentiation strategy and will adopt metrics focusing on speed, flexibility, and the ability to permit mass customization. Other supply chains may compete on a cost-based strategy; and key metrics would focus on cost minimization and efficiency. Each supply chain in which an enterprise participates may require a different set of metrics to reflect differences in strategy, objectives, and trading partners.

Today, businesses must sense and quickly respond to changing stimuli in “the new reality” – which includes such key elements as:

- Soaring fuel costs
- Driver and other labor shortages
- Capacity constraints
- Highway and port congestion
- Crumbling infrastructure.

<u>But in addition</u>, rapidly increasing global trade is accelerating the rate of change and adding complexity to our operations. Organizations from all industries are experiencing the impact of outsourcing, reconfiguration of their global supply chain network, increased security requirements, and shifting economic realities.

And, to make the challenges even greater, our focus on lean logistics and supply chain optimization makes it easy to overlook the risks that are inherent therein and/or those that are introduced or magnified in an effort to achieve cost efficiencies.

A combination of integrated supply chain and supporting corporate measures are necessary for developing the linkages and measuring the performance within the supply chain. For example, an order fulfillment process connecting suppliers, manufacturers, distributors, and end users might focus on integrated supply chain process measures such as:

- High availability
- Fresh product
- Low landed cost
- No loss or damage
- Quick delivery
- Complete visibility throughout the supply chain.

As trading partners share information, exchange knowledge, and integrate their processes, it will become extremely difficult to use internally-focused measures to evaluate performance.

Integrated supply chain measures provide the capabilities to measure performance across enterprises while supporting corporate measures which enable managers to determine and align the performance within individual firms. The combination of integrated and supporting measures provides the capability to quantify the impact of each firm's actions on the overall supply chain. Once the performance measurements are established, managers can intelligently identify the most cost-effective "levers" across the supply chain for achieving a desired service level.

CONCLUSION

Successful supply chain management ultimately comes down to the ability to create more value for the end user than for the competition. The configuration of enterprises, processes, and activities comprising the supply chain drives the level of value created. Complexity and the interdependent nature of the supply chain makes inter-enterprise performance measurements extremely difficult; however, managers who act first to develop inter-enterprise measurements and align their performance with supply chain objectives will achieve a sustainable competitive advantage their competitors will find difficult to emulate.

HOW CGN HELPS

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