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HOW METRICS-DRIVEN PERFORMANCE SHOULD WORK

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In recent weeks, we have demonstrated by example that the approach adopted by companies embarking on business process outsourcing often lacks the appropriate level of preparedness. Many expect a "quick fix", based solely on cost savings and promised capability. After implementation, business models of the customer and service provider conflict, supply chains are left to operate unsynchronised, and costs creep up on both sides. While companies may continue to operate profitably, unrealised benefits are not addressed. It can take a crisis to force a critical reassessment of performance.

To comprehend the importance of business models and the proficiency (or lack) of supporting supply chains, one has only needed to pick up a newspaper in recent years. For example, in the United States the Sarbanes-Oxley Act was introduced to improve the visibility and transparency of corporate financial performance but did little to ensure the efficacy of businesses. Accordingly, while it is always difficult to assess the true performance of others across the supply chain, it is quite practical, for a start, to ensure that you make the right decisions in your own company. This can be accomplished by:

- adopting a top-down, metrics-driven performance programme;

- establishing goals to drive performance;

- measuring performance to those goals at discrete intervals, and

- driving closed-loop corrective action.

To establish successful metrics and institute goal-driven performance:

- Functional heads must understand operational performance: cost of sales-operating expenditure = operational profit;

- The responsibilities and deliverables of each function must be made current and quantifiable, and

- Each responsibility must be equated to material impact on performance.

Functional heads, surprisingly, are often not truly aware of the crucial role they play in company performance, the need for collaboration across functions, or the detrimental effects of functional "silos".

Indeed, they are very often not clear of operational responsibilities in fundamental business terms such as cash, cost, delivery, and quality; the latter covering customer experience, product quality, and supplier performance.

The planning function is unique among supply chain management functions in that its performance represents the combined efforts of all functions. If collaboration is not effective or individual functional performance is a concern, a well-managed planning function will lead response to early warning signs. Conversely, a planning function should operate like "command central", driving performance across functions to meet operational goals.

The primary function of planning is to balance availability to forecast with the effective use of cash. A well-functioning planning team will also keep a close eye on Bookings, Billings and Backlog (BBB). Planning performance can materially affect profit-and-loss results as well as the company balance sheet.

A simple and very useful planning performance metric is "availability to forecast", prorated to include billings and backlog. To make this effective, though, there must be cross-functional agreement on time elements (daily, weekly or monthly), levels of granularity (product, platform, customer, region), units of measure (units or dollars), and goals or performance parameters.

The next stage is to define the reporting format of the metrics and decide the regularity of reviews. Well-defined metrics can serve many purposes, including: quantifying performance (BBB), facilitating post-mortems, driving corrective actions, and highlighting exceptions and driving actions during a fiscal period.

Excess inventory and order backlogs are symptoms of poorly performing supply chains. Inventory excesses are a drain on cash and can create significant overhead. These excesses can be classified by functional responsibility, such as sales decrease forecasts late in the planning cycle and latency in the response of the specific supply chain functions.

Order backlogs, too, can be attributed to a specific cause, such as the sales function underestimating consumption or miscalculating the mix, misaligned supply chains did not react appropriately, unassimilated lead-time changes, suppliers did not place orders on time, and contractually agreed buffers were not maintained or were not appropriate.

Each challenge should be examined for root causes and corrective actions agreed, assigned and resolved. In this way, common or repeat occurrences decrease and overall performance improves. If challenges remain concentrated within specific functions over time, escalation is called for.

The planning function can be transformed into a beacon of supply chain excellence by driving metrics and goal-driven performance concepts. Fact-based supply chain performance results not only in better utilisation of cash but also a radical reduction of the overall supply chain cost footprint.

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