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Industry Best Practices and Benchmarking

What is the Perfect Order and is it Attainable?

A recent study of the retail industry commissioned by the Retail Compliance Council and conducted by Supply Chain Visions, Georgia Southern University and Compliance Networks indicated

that vendors are falling significantly short of providing retailers with a reliable and consistent source of supply, but that - in certain rare cases - best performing vendors do achieve a 100% performance score.

At a session of the Vendor Compliance Federation's National Conference last month, Kate Vitasek, managing director of Supply Chain Visions, presented the results of the survey, which utilized shipment data from April 2004 to August 2005. The data included 7,026 suppliers, 268,366 POs/orders to five major retailers (picked by Compliance Net-

works), and about 4.9 million UPCs/lines representing about one million units.

The perfect order, Vitasek said, is characterized as being on time, complete, damage-free and with correct

ing performance.

But, Vitasek noted, it only provides a snapshot of overall performance and doesn't indicate whether or not compliance violations occurred.

She said what makes the perfect order concept unique is not the focus on the four indicators, but that the metric highlights the total impact of an incorrect order.

The Perfect Order Index (POI) is established by

multiplying each component of the perfect order to one another. For example, if a company achieves a measure of 95% across all four metrics, the perfect order index would be 81.4% (see Table 1). If the vendor achieved 90% for each component, the index would drop to 65.6%.

Vitasek said that vendors are often

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Table 1
Example of Perfect Order Index

On Time	X	Complete	X	Damage Free	X	Accurate Invoicing	=	POI
95%	X	95%	X	95%	X	95%	=	81.4%

(accurate ASN). While other performance attributes can be included, she said most retailers agree that the above-noted four are most critical.

Vitasek said the focus on the perfect order is to provide a complete picture of supply chain performance. Traditionally, many suppliers have regarded on time performance as the key metric in evaluat-

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lulled into a false sense of solid performance when examining indicators separately. If a company's on time performance is very high, but the number of complete shipments is inadequate, the retail customer is still impacted greatly and compliance chargebacks can still be high. By taking a holistic approach via the POI, a supplier can gain a more complete picture of its capabilities.

The study noted above tracked the performance of the 7,026 suppliers in relation to the components of the perfect order. The resulting POI (see Table 2) was a disappointing 22.9%.

Supplier performance was particularly poor in the areas of on time delivery (51.7%) and complete orders (47.7%). On the positive side, 92.7% of suppliers achieved correct documentation (ASNs), which Vitasek said was a surprise. Since the study was unable to capture data consistently regarding damage free goods, a 100% compliance figure was used for calculating the POI.

On Time Delivery

Vitasek pointed out two primary factors that impacted the poor on time performance of vendors in the study.

For one, she said, many suppliers and retailers are not on the same page when it comes to measuring "on time."

Citing a recent survey by the Warehouse Education Research Council, she said the definition of on time can vary greatly. The survey of U.S. warehouses and DCs revealed that nearly 70% of the respondents said their customers had varying definitions of on time. Most responses (42.7) noted that customers regard on time delivery as product delivered on the requested day. But, 41% define on time delivery as being more specific (such as within 15 minutes of appointed time).

These discrepancies indicate that agreed upon standards and definitions of

on time need to be put in place between trading partners. Vitasek noted that the retailers taking part in the Retail Compliance Council study believe that on time represents the date/time requested by the customer.

% On Time Delivery	% Complete	% Damage Free*	% Correct ASNs	POI
Orders	Orders	Unit	Orders	
51.7%	47.7%	100%	92.7%	22.9%

*Damage Free baseline of 100% was adopted due to data unavailability

The second factor is that vendors often have difficulty measuring on time performance because they often lose visibility once the merchandise leaves their docks. Although transportation providers are making progress in improving Proof of Delivery, tracking on time delivery to an agreed-upon time can be burdensome for some suppliers.

Complete Orders

Vitasek said it was a surprise that complete order performance was even worse than on time delivery. And, unlike on time delivery where vendors can pass some of the blame along to carriers, this defect falls directly on them.

	% On Time Delivery	% Complete	% Damage Free*	% Correct ASNs	POI
	Orders	Orders	Unit	Orders	
Average POI for Sample	51.7%	47.7%	100%	92.7%	22.9%
Best Practice Average for Sample (Avg. of the top 20%)	83.6%	76.3%	100%	97.8%	62.4%
Best Vendor Results	100%	100%	100%	100%	100%
Perfect Vendors in each category	668	489		1,431	
% of Perfect Vendors within Sample	9.5%	7%		20.4%	

*Damage Free baseline of 100% was adopted due to data unavailability

There are cases, the study notes, when some retailers - especially apparel and seasonal goods retailers - allow suppliers to split orders so they can get at least some of the merchandise on the store shelves.

Nevertheless, retailers are constantly looking for ways to control costs, which increases the significance of having complete orders. If orders have to be split, the retailer must re-open the PO and go through the receiving activities again, which adds to distribution costs.

Accurate Documentation

Increasingly, retailers want an accurate ASN which outlines items ordered, quantity, terms and price. ASNs are becoming more and more critical because

receiving them prior to shipments enables retailers to prepare their operations for the merchandise in advance. This allows them to employ cost savings processes such as cross-docking, automated receiving, etc.

Vitasek said this is one area of the study where suppliers outperformed

expectations. However,

the study indicated that while it only measured performance against accurate ASNs, the retail respondents said having accurate documentation extended beyond ASNs to include accurate labeling and in-voicing.

Is Order Perfection Possible?

The study benchmarked "best practice" suppliers (the top 20% of the 7,026 suppliers) to determine their average POI score. The results, Vitasek said, are modest, but the average POI score of 62.4% is still at a level unacceptable to retailers.

However, she said a closer look at the data reveals that it is still possible for ven-

dors to be "perfect" in meeting retailer expectations for each component of the POI.

As seen in Table 3, there were a number of vendors who were able to achieve "perfect" status by component and POI score. In fact, 135 suppliers achieved perfect status across all attributes of the perfect order, an encouraging sign to companies seeking to implement perfect order strategies within their operations.

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While Vitasek noted that the majority of suppliers attaining "perfect" status have fewer and less complex orders than many other suppliers, they all had certain skills that have served them well. They understand performance from the customer's perspective, they work with carriers that provide Proof of Delivery and they communicate the significance of the perfect order strategy throughout their organizations consistently and frequently.

Retailer Perspective

While the PO is not currently a widely-used metric, Vitasek said retailers are beginning to understand the perfect order philosophy and the importance of incorporating each attribute within their processes. Most retailers measure each of the components of the POI, even if they don't calculate the POI. She said a number of retailers are beginning to look at their suppliers using the perfect order perspective since it helps them focus on the entire supply chain.

The study cites auto parts chain Pep Boys-Manny, Moe & Jack, which has been measuring components of the perfect order for years. "We had to measure performance before we could manage it," said David Schneider, director of engineering

and logistics for Pep Boys. To push suppliers to meet its performance goals, the company instituted a compliance fee program. The company estimates that it carries \$2 million to \$3 million in excess safety stock within its DC network to compensate for not having product on time and complete.

In the study, Home Depot provides the costs incurred when the order is not perfect. For example, when a product without a UPC or with an invalid UPC arrives at the register, customer service is impacted in the following areas:

- Transactions are delayed three minutes and 32 seconds.
- Two additional customers are impacted.
- \$.79 shrink per No Mark occurrence.
- \$.57 shrink per NOF occurrence.
- Issues are incorrectly resolved 28% of the time.
- Sales floor associate is involved 39% of the time.

Stage Stores is another chain that is adopting the perfect order philosophy. Gough Grubs, senior vice president of distribution and logistics, said, "We are in the process of collecting information on all of the features of the perfect order to assist us in capturing an internal measure for vendor profitability." The company has begun an education initiative with its vendors to emphasize the significance of the perfect order and their responsibility

in meeting the company's objectives. Stage Stores has developed a Vendor Set-Up form in conjunction with its perfect order viewpoint to help suppliers understand its business requirements.

Vendor Perspective

The study noted that one software vendor previously relied on fill-rate as its only measure of customer satisfaction. But, after customers complained of sub-par performance, the vendor formed a team to investigate. It soon discovered a disconnect in how on time performance was being measured. The vendor often tracked *on time shipments*, while retailers tracked *on time delivery*. This prompted the supplier to change the definition to expected delivery time, which enabled it to significantly boost compliance.

Another manufacturer, Moen, Inc. has begun to move toward the perfect order concept, the study notes. Previously, it used line fill-rate to measure its performance.

But, due to its customers' changing needs and their shift to the perfect order concept, Moen has included areas of measurement that are developed in collaboration with its supply chain partners. The company is currently including components of the perfect order when measuring performance and the collected data is being shared throughout its organization.

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