

The Perfect Order—A Customer Focused Measure

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A successful business, by definition, continually strives to meet and exceed the needs of customers by adding value to each step in the supply chain. This has led many companies to try to increase customer satisfaction in an effort to retain and attract customers. As companies drill down into their customer satisfaction metrics, they are discovering that they lack sound operational measures with a true connection to hard, quantifiable data that accurately reflects customer satisfaction.

Many suppliers have relied solely on fill rates as a measure of delivery performance and have worked hard to get their fill rates up—often into the high 90th percentile—only to find that customers are still not happy. How can this be? The answer is simple: Just because a supplier shipped a product on time does not mean that it got to the customer when he/she wanted it, that the customer received what he/she wanted, or that the order was delivered as desired. In essence, fill rate is just one part of the overall customer satisfaction equation. Companies now have a new, superior option for understanding customer satisfaction from a customer-centric point of view. This is the “perfect order” philosophy.

Why the focus on the perfect order? Although companies often track a variety of delivery performance attributes with suppliers, almost all would agree that orders must be on time, complete, and damage free and must have accurate documentation. That is the perfect order. These four attributes are the most critical for suppliers to deliver on.

What makes the perfect order concept unique is not just the focus on the top four key performance indicators (KPIs), but rather the fact that it encapsulates the total impact of an incorrect order in a single metric. The approach is similar to one that manufacturers have used for years to measure first pass yield in a production factory, where each production process is measured and total “yield” or fallout of the entire process is calculated as an index. The Perfect Order Index (POI) is established by multiplying each component of the perfect order with the other three.

The Perfect Order Index (POI)

$$\% \text{ On Time} \times \% \text{ Complete} \times \% \text{ Damage Free} \times \% \text{ Accurate Documentation} = \text{POI}$$

A “perfect order” is one that is on time, complete, damage free, and accompanied by accurate documentation. The Perfect Order Index (POI) is a measure of these four performance attributes. The POI strives to capture the needs of customers from their perspective and is a better measure of customer satisfaction than order fill rate alone.

For example, if a firm is experiencing a 95-percent result across all four metrics that comprise the perfect order (i.e., on time, complete, damage free, and accurate documentation), the resulting Perfect Order Index would be 81.4 percent, clearly below the 95 percent for each metric alone. The traditional approach of looking at each KPI separately often lulls organizations into a false sense of good performance. To expand on the example: If the measure fell to 90 percent for each component, the perfect order index would drop significantly—from 81.4 percent to 65.6 percent. Focusing on all four attributes of the perfect order allows organizations to more accurately assess end-customer satisfaction. Through this more holistic approach, the total effect of a supplier’s logistics can be measured.

But what sets apart a supplier as perfect? Do such leading players do things differently? Have they invested huge sums of money in their infrastructure? Below are some trade secrets that researchers have observed while working with suppliers. Top performing suppliers:

- Understand performance from the customer’s perspective.
- Work with transportation providers that offer proof of delivery. If you don’t know that your carrier is not delivering on time, then how can you work with the carrier to improve its performance?
- Are zealous about performance management, aligning metrics within their organizations to the attributes of the perfect order.
- Communicate the importance of the perfect order strategy throughout the organization, consistently and frequently.

It is also important to note that top-performing suppliers form collaborative relationships with their customers to emphasize the importance of working together to achieve a Perfect Order Index objective.

How can companies apply a perfect order philosophy to their supplier relationships? The good news is that many companies are already collecting data on the individual components of a perfect order. To start the process, here are six recommended steps:

- find out what metrics are currently being employed within your organization and by your suppliers;
- define the metrics related to the four perfect order measures and communicate those standardized definitions across your organization and to your suppliers;
- determine how often the perfect order metric will be calculated (by day, week or month);
- put someone in charge who will be responsible for the perfect order measure;
- develop a collaborative relationship between the company and suppliers; and
- set a realistic goal for implementation.

Many companies, whether suppliers or customers, are embracing the perfect order philosophy. These organizations are committed to incorporating each attribute into their business processes in order to arrive at a more complete measure of supplier performance and customer satisfaction.

Summary

Customer satisfaction is the paramount goal of any successful business. Traditional metrics for gauging this satisfaction often prove inadequate and misleading. Many operational metrics—such as traditional fill rate—simply are not designed to link customer requirements to quantifiable operational measures. Suppliers have fallen into the “fill rate trap” and often believe they are achieving high service levels when, in fact, they are not. However, many leading companies are starting to look at their suppliers from the perfect order point of view. This method helps them look across an entire supply chain in order to better understand the impact of poor performance.

What really matters in today's customer-driven economy is not how well a supplier ships, but rather, “Did customers get what they wanted, when they wanted it, how they wanted it?” Achieving the perfect order is not out of reach!

About the Authors



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Kate Vitasek's approaches to performance management have been widely published; she has authored more than 50 articles that have appeared in publications such as *Journal of Business Logistics*, *Supply Chain Management Review*, *Inside Supply Management*, *Aviation Week*, *Distribution Business Management Journal*, *The Manufacturer*, and *APICS Performance Advantage*.

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