

WERC Sheet®

The Metric System

**Performance metrics alone are no guarantee of results—
to really improve, you've got to
apply the information you collect.**

When you take a road trip, chances are you carefully study a map for the best way to get from point A to point B. You try to stick to the planned route—otherwise, you're just wasting time and energy.

The same approach can be applied to your DC operations, as long as you have the right data and apply it correctly. What is the best way for developing a roadmap for your DC? The answer is simple, Metrics, according to Kate Vitasek, managing partner at Bellevue, Wash.-based Supply Chain Visions. "Metrics give you a wealth of information to make smarter decisions," she says. "Without metrics, you're running without the total picture."

Metrics, says Vitasek, can take data and turn it into information for better decision making. Too often, however, companies fall short with their metrics programs. "It's very common for a company to think it has metrics in place, when really, it just has data."

And even when companies do have metrics, they often fail to take action with the information. "If you don't have the will to change, there's no point in collecting information," says Vitasek. "The key is to take action with metrics—that's how change happens."

Metrics applied

One company that has put metrics to use with big results is Modus Media International, a Massachusetts-based global outsourcing company. The company provides packaging, manufacturing, end-user and retail fulfillment services with a focus on technology clients.

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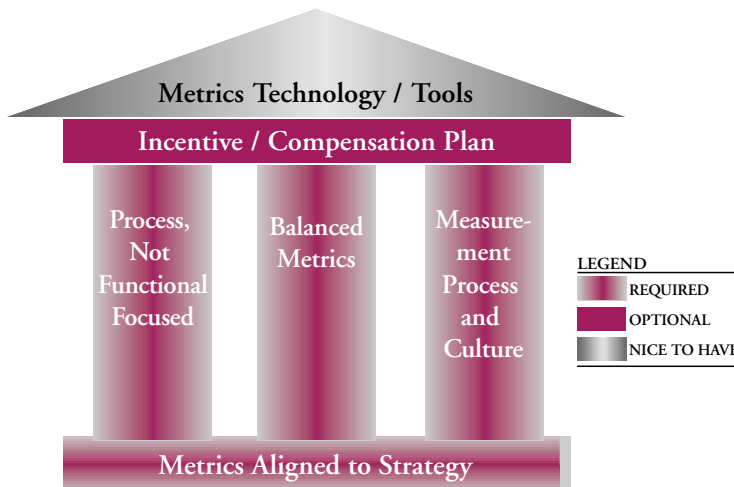
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Building Blocks of Successful Performance Management

Many companies do not realize the full benefit of their performance metrics because they often do not have all of the required building blocks in place.

Performance metrics alone are no guarantee of improved business results.



For the past 10 years, Modus has been building a metrics-focused culture. The company has been so successful that it was recently rated as “best in class” in the *Performance Measurement Group’s* 2003 assessment of the electronic equipment industry.

According to Mark Kelly, general manager, “We chose a metric program because we found that supply chain spanning metrics demonstrate adherence to contractual commitment and they stretch our servicing goals. This is important in reinforcing value with our clients.”

Within the DC, Modus has implemented several types of metrics. They include the following:

Client-oriented metrics

- **Inventory Serviceability**—a measure of inventory availability relative to targets set through Modus’ supply chain conditioning and execution methodology. This best-in-class methodology won a technology award for balancing volume and variability in setting inventory targets from the Supply Chain Council in 2002.

Internally-oriented metrics

- **Inventory Turns by Client**—How many times a year the inventory is consumed.
- **Excess and Obsolete Percent to Total Inventory by Client**—Total excess dollars compared to total active inventory. (Excess = remaining on-hand after demand and target safety stock)
- **Inventory Accuracy**—Measurement between the cycle counted physical- and system-on-hand quantity of inventory.

According to Vitasek, metrics programs usually involve two different broad categories of metrics—results and process metrics. Results metrics show the results of a process. An example would be to measure fill rates. “This shows how effective a company is at meeting a customer request for an item,” explains Vitasek.

Taking the metric a step further is measuring a process, which spans more than one function. For instance, a company might measure on-time to request plus the fill rate. This takes into account order entry, manufacturing and distribution. “Measuring just the fill rate would only give you information on whether or not an item has shipped, but nothing more,” says Vitasek. “But by using a process metric and looking at multiple functions, you can improve how different functions work together.”

Modus has been successful with its metrics program because it has implemented measurable processes. Its inventory serviceability metric, for instance, measures inventory throughout the supply chain process, rather than at just one point. This paints a broad picture for the company to study. However, Modus is unique, according to Vitasek. “Most companies fall into the trap of measuring functions only,” she says.

While you want to measure processes, you also want to keep the number of metrics you measure to a reasonable number. “At the senior management level, keep it to no more than 10 metrics at a time,” says Vitasek. “At an active level,

“
We’ve achieved outstanding levels of client satisfaction, steady revenue growth, four years of consistent improvement in cost of sales in the warehouse, and concurrent results in profitability.

”

-Mark Kelly

you should be measuring no more than three processes at once.”

Steps to success

To avoid making the mistake of measuring functions only, Vitasek recommends that companies use a five-step method for developing metrics.

- 1. Company objective**—Companies need to determine their goals and strategies. Without these you end up with competing, sub-optimal metrics.
- 2. Development of a validating value-add (VVA) statement**—Start with your strategy and then pick a VVA. Turn this into “we will support the company by performing and measuring x metric.” For instance, you might use a statement like “our team adds value by maintaining 98.36 percent or better on-time and in-full shipments.”
- 3. Metric trend**—Measure against your VVAs. Summarize data so that the results are obvious. Make it easy to see if goals are being met, and include historical data to track trends.
- 4. Pareto of reasons**—If you are not meeting your goals, use a Pareto chart to focus your efforts. This data will



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Metrics Drive Behaviors

| | Bad | Better | BEST |
|----------------------------------|---|---|--|
| Metric | 99% fill rate for a distribution center | 97% on time to customer request in 5 days | 95% perfect order fulfillment in 5 days |
| Kinds of Behavior Created | -Expedited orders to manufacturing -Airfreight shipments -Large inventories on hand to prevent out-of-stocks | -Cross functional view to work with OM and Manufacturing -Large inventories on hand to prevent out-of-stocks | -Cross functional view to work with OM and Manufacturing and Transportation -Overall order accuracy and quality—including invoicing |
| Does Not Consider | -Did it arrive when the customer wanted? -How much did it cost to fill the order -Cycle time up or down the supply chain (tail) -Customer complaints (quality or accuracy) | -How much did it cost to fill the order? -Customer complaints (quality or accuracy) | -How much did it cost to fill the order? |

help point you in the right direction. Often, that direction will turn out to be another group. Don't be afraid to ask 'Why?' five times if needed.

5. Take action—All of your hard work means nothing if you don't do something with it. Taking action will help drive change to improve performance. By sharing your VVA data, you can mitigate emotions and finger pointing. Explore all actions to solve the problem.

Vitasek also recommends reviewing your metrics once a week to see how you did against your goals and objectives. "Have weekly and monthly meetings to share feedback with employees. Employees, by nature, want to do a good job, but they need to know their accomplishments as well as areas they need to improve."

In addition to reviews, for metrics to work, it is essential to involve the majority of your organization. "You should put together a cross-functional team that includes people from *all* levels of the company to see what metrics they can come up with. Management is always surprised

by how well their employees know the business."

At Modus, Kelly says that "just about everybody" was, and still is, involved in the process. Each had his own role to play; among them:

- **General manager**—performs a monthly review of key process indicators through sales and operations planning cycles, and champions the alignment of internal metrics with client goals.

- **Business manager**—Contributes specific definitions of business goals by clients.
- **Supply chain operations manager**—Supplies metric definitions and managerial responsibility for specific metric alignment with client business goals.
- **Warehouse manager**—Provides process definition to achieve metrics. Documents and controls processes by the ISO 9001-2000 standard.
- **Cycle count specialists**—Provide inventory accuracy process reporting.
- **Inventory pickers**—Team participation in Kaizen efforts driving process improvements.

At Modus, the use of metrics has proved successful. "We've achieved outstanding levels of client satisfaction, steady revenue growth, four years of consistent improvement in cost of sales in the warehouse, and concurrent results in profitability," says Kelly.

The key to success at Modus and other companies, says Vitasek, is using the information collected from metrics. "If you make the effort to collect metrics, make the commitment to turn them into actionable information," she says. "Then you can move from information collection to improved performance." 📌

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