

When it comes to collaboration, many companies talk a good game, but few really put it into practice. Although the benefits of supply chain collaboration have been widely publicized, companies still confront a lack of support and sometimes outright resistance within their own ranks.

Much of the time, the problem is cultural. "To gain advantages, you have to *think* collaboratively," says Dwight Klappich, an analyst with the Meta Group of Stamford, Conn. "That's harder than a lot of people think, [but without it] the organization will do what's best for the or-

curate forecasts, reduced distribution costs and higher sales.

Industry groups quickly took up the cause. In late 1998, the Voluntary Interindustry Commerce Standards Association (VICS) began to champion the business practice of collaborative planning, forecasting and replenishment—or CPFR, as it's become known. A number of leading retailers introduced pilots and programs with key suppliers, and many reported positive re-



Want real collaboration? **Change your measures**

ganization and not [its] partner."

That's why most experts believe that a change in corporate culture is needed before companies can realistically expect to work collaboratively with their supply chain trading partners. And changing the culture will almost certainly require a change in performance measures. Without the right metrics and incentives in place, there's almost no chance the necessary changes will take hold.

Off to a Slow Start

Industry experts and consultants began touting the value of collaboration a decade ago, about the time that Corporate America started embracing the concept of supply chain management. If companies in a specific channel worked closely with one another, the thinking went, they could reduce the overall inventory held by all parties and ensure that the right product was sitting on the shelves when the consumer walked into the store. As a result, all of the parties would benefit from more ac-

sults. Ace Hardware, for instance, saw its forecast accuracy rise from 80 to 90 percent and its freight costs as a percentage of product costs drop from 7.0 to 2.5 percent as a result of a CPFR program. (To read more about Ace Hardware's CPFR pilot project, see "Why Ace is becoming the place..." *Logistics Management*, March 2002, page 32.)

Despite its impressive track record, supply chain collaboration has been slow to catch on. Klappich reports that when his market research firm conducted a CPFR study last year, it found that barely a handful of companies were engaged in collaboration.

In some cases, technology has been the obstacle. But for most companies, the biggest barriers can be found within their own four walls. "Overall, the most significant barriers to collaboration are not technical, but obstacles from within the organization," says Dawn Russell, an assistant professor of business logistics at Penn State's Smeal College of Business Administration.

To promote supply chain collaboration, companies need to change the way they measure performance. And that means changing corporate culture, too.

By **JAMES A. COOKE**,
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Collaboration, *continued*

"Within an organization, you have people issues, political issues and policy issues."

Unfortunately, the majority of companies today suffer from the "silo" complex. "You still have insular "silo" organizations with sales in one silo, manufacturing in another silo and logistics in another," explains Ken Walker, a consultant with the consulting firm Kurt Salmon Associates of Atlanta. In a typical silo organization, the people within each department are rewarded for meeting departmental objectives—a logistics manager, for example, might re-

ceive an annual bonus for keeping transportation costs down—not for contributing to overall efficiency.

The leaves a manager with absolutely no incentive to cooperate in a program that would reduce overall supply chain costs but would increase his department's expenses. In fact, he would actually be penalized for participating in, say, a project whereby the company upped the frequency of its shipments in order to reduce inventory in the overall supply chain and keep retail shelves stocked. "The risk that is necessary to create supply chain collaboration is not rewarded by the individual departments' goals and compensation

programs," says Thomas L. Freese, a principal in the consulting firm Freese & Associates in Chagrin Falls, Ohio. "If I'm responsible for transportation and my main business objective is to cut costs, I would be penalized for collaborating."

What Gets Measured Gets Managed

For this reason among others, most supply chain management experts agree that collaboration calls for a drastic change in corporate culture, including the creation of a whole new reward structure that fosters teamwork. Companies must change their measurement systems so that they drive performance through

A new metric system

OBJECTIVE	RESULTS MEASURES	PROCESS MEASURES	STRATEGIC MEASURES
High reliability	<ul style="list-style-type: none"> · Fill rates by customer, commodity · Shipments available for customer pickup per request · Errors by line item, activity · Cycle count accuracy 	<ul style="list-style-type: none"> · On-time delivery measured against customer request and vendor commitment · Order cycle time variability · Order processing accuracy · Forecasting accuracy · Planning accuracy · Manufacturing schedule adherence · Stockouts against forecast 	<ul style="list-style-type: none"> · Perfect order fulfillment (the right order in the right quantity in the right place at the right time, defect free) · Overall customer satisfaction
High degree of flexibility and responsiveness	<ul style="list-style-type: none"> · Order fulfillment leadtime by customer, commodity · Fill rates by customer, commodity · Percentage of "expedite" requests by customer · Capacity load and utilization 	<ul style="list-style-type: none"> · Backlog and back orders · Aggregate cycle times by activity* · Order cycle time · Leadtime from order receipt to manufacturer complete 	<ul style="list-style-type: none"> · Upstream production flexibility · Forecasting-to-planning cycle time · Percentage of expedited requests fulfilled · Order fulfillment leadtime
Low costs	<ul style="list-style-type: none"> · Cost per line per order, per activity, per shift · Load factors such as lines per order and quantity per line · Freight costs per pound by mode and destination 	<ul style="list-style-type: none"> · Logistics costs (order management + distribution + freight) as a percentage of sales · Freight costs as a percentage of sales, by customer · Distribution costs as a percentage of sales · Inventory shrinkage and obsolescence as a percentage of sales · Labor productivity analysis · Over, shortage, damage as a percentage of sales · Returns as a percentage of sales 	<ul style="list-style-type: none"> · Total supply chain management cost as a percentage of sales · Total delivered cost
High asset utilization	<ul style="list-style-type: none"> · Inventory turnover · Days of inventory · Return on investment · Return on assets 	<ul style="list-style-type: none"> · Days of inventory in entire supply · Safety stocks held by customer · Dedicated inventories by customer · Local support inventories 	<ul style="list-style-type: none"> · Cash-to-cash cycle time · Net asset turnover · Return on net assets

* Includes all fulfillment activities leading up to and including delivery, such as order processing, materials deployment, fabrication, distribution and transportation

Source: *Supply Chain Visions*

Consultant Kate Vitasek recommends establishing balanced metrics that include process or strategic measures to measure collaborative objectives. Shown above are examples of how to apply these three types of metrics—results, process and strategic—to common logistics objectives in order to promote teamwork.

Collaboration, *continued*

accountability and compensation, says consultant Jamie Hintlian. "Without metrics that are designed to govern and influence behavior, the whole program will ultimately fail," says Hintlian, who's based in Accenture's Boston office.

Kate Vitasek, managing director of the consulting firm Supply Chain Visions of Bellevue, Wash., adds that companies need to tie collaborative goals to "process" and "strategic" metrics rather than the "results" measures typically found in today's businesses. Because results metrics monitor the activities and performance of an individual department, they don't support cross-functional objectives. For instance, if a warehouse manager is compensated on meeting fill rate, a typical results measure, he might well be tempted to hold up the outbound trucks a few hours to make his shipment commitments. But that could mean the trading partner receives its deliveries late and is hit with added labor costs when its shipping docks became clogged with trucks—no one's idea of a collaborative success story.

Process metrics, on the other hand, span corporate boundaries. These measures, which are customer focused, take into account how one company's activities affect another's. For example, instead of measuring fill rates by customer, a company would look at on-time deliveries to fulfill a customer's request. "You are measuring yourself against the customer's requirement," says Vitasek, "not your internal goal."

Beyond process metrics are strategic measures, metrics designed to assess whether multiple partners acting in concert have met overall supply chain goals. Here a company would look at perfect order fulfillment or whether the trading partners delivered the right item undamaged to the right place at the right time with the correct documentation. (See the chart on page 38 for more examples of process and strategic metrics.) Noting that most companies have results metrics already in place, Vitasek recommends that companies next adopt process metrics and then incorporate strategic metrics into their operations.

At the moment, though, no one's made much progress on overhauling metrics. Leading-edge companies are just starting to consider process measures. Hintlian reports that one of his current assignments involves setting up process metrics for a pharmaceutical company and one of its distributors. The two companies together are developing a scorecard that concentrates on the area of inventory assessment. In turn, those metrics will set performance level objectives for the company departments, and ultimately, for the individuals who are working in those departments.

To align supply with demand, the manufacturer and distributor are establishing inventory management agreements—IMAs—to share channel inventory movement information. For example, the agreement would detail the

days of sale items on hand (DSO) and acceptable ranges for DSO in the customer's pipeline. The agreement, says Hintlian, also would include incentives for meeting certain inventory targets that better reflect a supply-demand balance as well as penalties for not meeting these objectives.

Setting overall objectives is important, but managers cannot overlook incentive systems. Establishing financial rewards for individuals who meet process and strategic goals will be critical to driving organizational change. "There's an old cliché—what gets measured gets done," observes Walker. "In all but the most progressive organizations, the measurements don't relate to the broader interest."

To achieve collaboration, Vitasek recommends that companies tie a small but increasing percentage of their middle- and upper-level managers' incentive compensation to a measure that they cannot control themselves. That is, their bonuses would be partly determined by their ability to achieve goals that require them to cooperate and work well with their peers.

Only when managers have a new reward system in place will internal barriers to collaboration begin to crumble. "The internal barriers require fairly significant changes," says Hintlian. "That means changing job descriptions, objectives, incentives and reward systems. These things don't happen overnight."

A New Attitude at the Top

Because most publicly held companies are accountable to investors for their financial performance, executives concentrate far more on their own balance sheets than on their trading partners' financial health. "The overwhelming majority of companies look at themselves as a node in the supply chain," says Foster Finley, a vice president at the consulting firm A.T. Kearney Inc. of Plano, Texas. "They look at their own earnings statement and think about maximizing that. The more progressive players recognize that if they are able to get somewhere and drive out costs, they have to think about multiple tiers, some of which are outside their control."

But before cultural change can occur, upper management must accept the idea that no company is an island unto itself when it comes to the supply chain. They will have to be persuaded that collaboration produces a win-win situation, improving profits and reducing losses for all involved. "The first thing is to get senior leadership on board," says Joseph C. Andraski, a senior vice president at OMI International Inc. in Neshanic Station, N.J. A pioneer and leader in the CPFR movement, Andraski says that corporate management must change its traditional adversarial view toward its partners. "I'm convinced that most organizations know what to do," he says. "They just need to be prodded to think outside the box." **L**

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