



MEASURING VALUE:

Who should measure your performance?

Most logistics managers (and their superiors) measure their distribution operation's worth strictly by the numbers ... by how effective they've been at holding down transportation costs or how much they've decreased headcount in their warehouses.

But a number of academics and practitioners are challenging that traditional method of determining a logistics operation's value. They contend that it should be measured not by numbers on the balance sheet but by how well it meets the demands of a company's customers and suppliers.

Defining Your Terms

Tradition holds that the logistics manager's job is to oversee warehousing and transportation operations with the aim of keeping down costs and thus, maximizing corporate profits. And certainly, directors and chief executives historically have judged the logistics department on its ability to meet corporate objectives for operational efficiency.

Indeed, 1999 research on logistics measurement programs by Dr. James S. Keebler of St. Cloud (Minn.) State University and some of his colleagues bore this out. Although a majority of the 350 companies surveyed said they

had metrics in place to measure logistics performance, few were measuring performance with customers and suppliers. Twenty-one percent of the companies that participated in the study didn't capture any kind of measure of on-time delivery. Thirty-eight percent did not measure order-cycle time. Forty-eight percent did not track invoice accuracy.

On top of that, the study found that even when companies did measure on-time performance, the supplier and customer rarely defined that metric jointly. Many times, a single trading partner determined what constituted "on-time performance" or "accurate invoicing." (See Figure 1.) That in itself casts doubts on the measurements' effectiveness. As Keebler notes, suppliers cannot satisfy their customers' expectations if the two parties have never even defined those expectations.

Although a company may be meeting its own internal targets for performance, it could well be falling short of meeting customers' expectations. For example, if a logistics manager holds up some LTL shipments for consolidation to minimize costs, says Keebler, those products might not arrive at the customer's facility on time.

Taking this type of myopic view of

Customers—not accountants—may be best able to determine how your logistics operation stacks up.

BY JAMES AARON COOKE,
Senior Technology Editor

logistics performance can prove dangerous in an age of high customer expectations. If delivery and service play a crucial role in vendor selection, then the company risks losing the buyer's business if it can't meet expectations. Keebler and others argue that corporations need to take a broader, external view of their logistics processes. "A lot of people are looking at functional activities, like transportation, customer service, and warehousing, and they suboptimize what they're doing," says David A. Durtsche, a consultant with El Segundo, Calif.-based Computer Sciences Corp. "They need to take more of a process orientation."

What Customers Want

But how do you determine what a customer considers valuable where logistics service is concerned? In a book titled *Keeping Score: Measuring the*

Logistics value, *continued*

Business Value of Logistics in the Supply Chain, co-authors Keebler, Durtsche, Karl B. Manrodt, and D. Michael Ledyard make the case that companies should focus on three key processes in logistics: forecasting or planning, fulfillment, and sourcing or procurement. "By focusing on these areas, you'll understand your value to your customer," Durtsche says, "and what value your customer provides to you."

To do this, a company must quantify those three processes, Durtsche says. Specifically, it must ascertain what its customers want and, in turn, define its expectations of suppliers. Armed with that determination, it can judge how its logistics operation meets customers' needs. On the flip side, it can rank its own suppliers on whether they're meeting its performance requirements.

If measurement of these three processes appears to be an overwhelming task, then the authors rec-

ommend that a company start with just one. Because fulfillment directly links to customers and suppliers, Keebler advises companies to start there.

Getting the Big Picture

To date, several companies have launched initiatives that measure fulfillment performance via these types of metrics. One is Modus Media International, a \$700 million manufacturer of computer software and manuals based in Westwood, Mass. The privately held company, which began as the documentation services group of publishing company R.R. Donnelly and Sons, today primarily manufactures the diskettes sold by software companies, assembles software packages, and handles customer service for such clients as Microsoft, Intuit, and Sun Microsystems.

Modus Media began measuring its logistics operations in 1996 after Sun Microsystems complained that its performance was not meeting Sun's standards for on-time delivery and order fulfillment. Modus Media's managers, however, believed that they were exceeding Sun's performance goals, although they couldn't prove it.

In response to the complaint, Modus Media's managers developed criteria that were aligned with those used by the company's major customers. To do this, they went to individual clients and negotiated in detail the criteria that would be used for evaluation. The company also tied the external measurements directly to each functional unit. "We start with a 'statement of work'—let's say, 'Microsoft wants us to answer a call in 20 seconds [in the customer-service center]," says

Kate Vitasek, vice president, operations services. "We have an individual department like a call center measured on those metrics, so it's linked down to the lowest level of accountability."

As a result of those efforts, Modus Media was able to demonstrate to Sun that it was meeting its goals. The company was also able to demonstrate that the problems were occurring elsewhere in the supply chain. This is not uncommon, says Vitasek. "A lot of customers have vendor scorecards, but they don't look at the entire supply chain," she notes. " Oftentimes we ship stuff right out to a distributor and it just sits there."

Modus Media believes that its insistence on external measurement has enabled it to justify its value to customers. In addition, the measurement process has redirected its logistics managers to focus on improving relationships with major customers, thus boosting the company's profitability. "They homed in on strategy and linked that strategy at the highest level," notes Karl B. Manrodt, an assistant professor of logistics at Georgia Southern University. "Then they operationally defined the strategy to the lowest level so any employee can figure out how it [affects] the corporate goals."

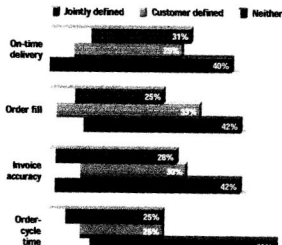
The Perfect Order

Another company that has used scorecarding successfully is Welch Foods Inc. of Concord, Mass. "We do it to identify issues with key customers," says Donald F. Biggs, director of customer logistics. He notes, for instance, that if invoice accuracy falls below a predetermined level, it triggers his company to take corrective action.

With its top customers, Welch employs a metric called "The Perfect Order," which it defines as "the right quantity of the right product delivered on time, in damage-free condition, with an accurate invoice." "It's used as a monitoring and control device with key customers," says Biggs.

Using this metric has helped Welch improve service to customers. For ex-

Who's doing the measuring?



Source: CSC/University of Tennessee Logistics Survey 1998

Who defines the metric by which a company's performance will be measured? Sometimes supplier and customer determine the standard jointly; but in nearly half the cases studied by CSC and the University of Tennessee, no one defined the measure at all.

Logistics value, *continued*

ample, Biggs reports that his company changed its pallet configuration for one client, a grocery chain, to expedite product handling. "We aligned the pallet patterns and heights so the pallets could be brought in and put away without being restacked," he explains. "Most people can't put away products delivered on time because the docks are congested. So we [reconfigured] the pallet pattern based on what they want so they can take it off the truck and put it right away."

Biggs says the external metrics can prove to a customer just how valuable a company's logistics services can be. "Manufacturers are using logistics to change relationships with key customers," he observes. "If you start to address business issues, you provide greater value to your customer and you improve service. You change the nature of the relationship, and that relationship becomes more profitable for both of you."

Uphill Climb Ahead

Although a handful of companies today are using external metrics to assess value, most are not. Indeed, there's considerable reluctance to do so, say the book's authors. Some companies believe that task is too complex. Others worry that measures may not jibe with the corporate strategy or that customer demands will become too onerous. "There's a fearfulness that customers will make demands that can't be met," says Keebler.

The largest impediment to adopting externally focused measurements may be the current reward system. As a rule, logistics managers are paid to meet internal objectives rather than external ones. "[People] will do what they are rewarded to do," says Manrodt. "[With external measures,] there is frequently no alignment with compensation."

As trading partners embrace the concept of supply chain management, however, manufacturers may be forced into using external metrics to

measure their logistics department's performance. "The value is always determined by the people who buy the goods," says Keebler. "If logistics managers look within the business's four walls for validation, they are not making the supply chain connection. Customers ... are always the correct judges of performance." **1**

Editor's Note: Keeping Score: Measuring the Business Value of Logistics in the Supply Chain was published in 1999 by the Council of Logistics Management (CLM). Written by James S. Keebler, David A. Durtsche, Karl B. Manrodt, and D. Michael Ledyard, the 310-page book can be obtained from CLM for \$40 (\$70 for non-members), with an added charge of \$15 for orders outside the United States. To obtain a copy, contact the Publications Department, CLM, 2805 Butterfield Road, #200, Oak Brook, IL 60523. Phone: (630) 574-0985. Fax: (630) 574-0989. Web site: www.clm1.org.