Keeping Score With the Customer

BY RICK CARMAN

CUSTOMER SERVICE SHOULD BE THE KEY CORPORATE MEASURE.

Key Performance Indicators (KPI's) are the measures that businesses put in place to track their progress against both short-term goals and strategic plans. Much has already been written about individual measurement of key business processes and overall business performance. However, to grow and nurture the business as a whole, successful organizations also implement measurements that are forward facing, i.e., focused on the customer.

Even intra-company or intra-department measurements must focus on improving execution to meet the requirements as defined by your customers. These measurements can provide businesses with the yardstick that indicates whether activities are meeting the needs of customers. This often provides an "early warning" long before the profit impact of not meeting customer requirements manifests itself in the company financial statements.

The selection process and considerations for establishing your KPI's need to integrate functional responsibility with the marketplace drivers of your business. What are the few vital measures of your functional areas that complement not only the organizational goals, but also those of your customers? We have identified three approaches to consider when developing your specific KPI's in order to bring about changed behavior and improved service levels:

- *Measures to Motivate*
- *Measures to Align*
- *Measures to Improve*

Measures to Motivate

Do not underestimate the power of measurement to motivate employees, departments, and organizations to modify behavior consistent with strategy and goals. The sole act of measurement for a process will improve the performance of the process merely by the attention paid to it by management and employees. In other words, your selected KPI will motivate individuals to examine their contribution, take corrective actions, and impact on the selected metric.

For example, a consumer fulfillment operation established a KPI for the packing department based on cases per man-hour. After several weeks, the facility manager noticed packers placing extra stickers into a box by their workstations at the completion of each pack. The packers explained that the company measurements were only at the department/shift level and they wanted to better understand their own cases per man-hour. This is an example of a measurement generating the motivation to understand an individual contribution against a higher goal of the organization.

If not selected carefully, the measurement can sometimes motivate behavior detrimental to the enterprise's objec-

ABOUT THE AUTHOR Rick Carman is a Director in our Northbrook, Illinois office. Rick works with clients on process engineering and customer service projects. Prior to joining Dechert-Hampe, Rick held senior supply chain management and customer service positions with Corning Glass.

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tives. This was the experience of a large consumer products company that absorbed a branded import operation. The retained general manager of the import operation was measured only on top line sales. After a year, sales had increased significantly. Unfortunately, product quality and margin were significantly lower than previous years. There was a warehouse full of defective merchandise and many sales had occurred at cost. The results were great for the top line, but the company never saw a return on its investment.

Measures to Align

The misalignment of measurements within an organization may be the single largest contribution to not achieving higher company goals. Many times, measurements are consistent with the span of control of the function but may sub-optimize the enterprise objectives. To assure alignment, KPI's need to be based on customer requirements established at the company level first, then filtered down through organizational departments to areas in which employees have "line of sight" on the impact of their performance on the objective.

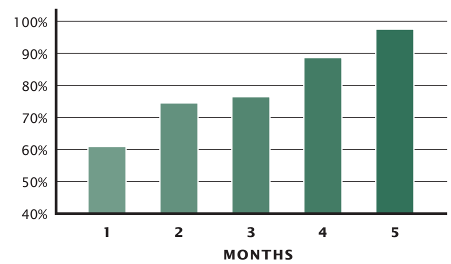
For example, customers of a consumer products company indicated that service levels were poor, while internal measures by the operations group indicated customer service levels in the mid-90 percent range. However, these internal measures forgave missed shipments based either on the lack of order visibility from order entry or missed appointments by the scheduled trucker. The operations group was ignoring the fact that ultimately, the customer defines service level, and on time shipments were actually under 60%.

The company in this example ended up changing its service measures to match the expectation of their customers. Root causes of under-performance were investigated and corrective action taken. Customer service measures improved significantly with service levels climbing to 95% within five months as illustrated in **Figure 1**. Furthermore, these measures exceeded the 98.5% on-time fill rate target once control of outbound logistics was gained through a planned modification of freight terms.

The contributions to the alignment came from throughout the organization. For example, the root cause analysis found that pricing was so complex that delays to order visibility were the rule. In response to this information, the sales department reduced the complexity of pricing and established measurements supporting price simplification. Similarly, plant managers were originally being measured against an inventory target that was unrealistic compared to service levels goals, lead times and forecast accuracy. The plant managers have now migrated to a service-based measure, and the forecasting department has been charged with accuracy improvements to support inventory and service goals.

This case illustrates the point that the alignment of measurements with customer expectations is critical. For this organization, alignment against the service objective led to changes in measurements at the functional level. The resultant measurements, reflecting service as viewed by the customer, motivated the organization to take corrective actions to improve service to levels that met the customer rather than internal expectations.

Figure 1:
EFFECT OF CUSTOMER - CENTRIC KPI'S: ONTIME SHIPMENTS



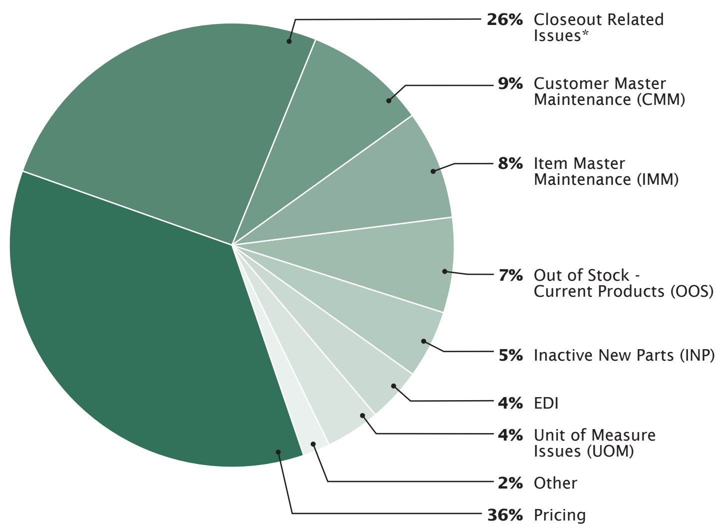
Measures to Improve

Business processes, regardless of their simplicity or complexity, need constant refinement to reflect changing requirements, new technology or the needs of the business. Following is a clear example of using measurement to improve a business process.

A company's order entry department had no metric on compliance to a "same-day order entry" service level objective. The operations group complained of not seeing many orders until the requested ship date. Measurements showed that orders entered into the system the same day as received were as low as 50% of total orders received, and that most orders required some issue resolution before entry. Corrective action to improve operation's order visibility, and thus service to the customer, included the tracking of the reasons for any order that was not entered into the system the day it was received. Root cause analysis found that over 60% of the order entry delays were due to either pricing or closeout issues (**Figure 2**).

The company then took action in several areas. First, the sales department was charged with developing and implementing a pricing simplification methodology. This not only eased the order entry complexity, but also lowered deductions and became a field sales asset by removing pricing ambiguity. Next, the supply chain group was charged with developing and implementing improved procedures for close- out items. This made pricing decisions, availability, and product reservation very clear and easy to execute. Customer service then implemented several "decision trees" that empowered the order entry associates to make a majority of the decisions related to pricing discrepancies and minimum order volumes. These had previously required higher level approvals. Finally, a new KPI of "orders entered into the system the same day as receipt" was developed and measured by the customer service department. This represented a major behavior change by customer service personnel in taking responsibility for order visibility, although the department did not own all the individual issues. Policy was stated as "any order received before 3 p.m. would be in the order entry system the same day" and performance against this measure improved to over 95% compliance within two months.

Figure 2:
ORDER ENTRY REASON FOR DELAY



**closeout issues include items on the closeout list, invalid commission code flags*

Key Performance Indicators

Another consumer products manufacturer also experienced many of the problems cited above. For this particular business, it was found that line fill (the percentage of units ordered that shipped on time) was a contributing factor in several significant issues of the business. Poor line fill led to empty retail shelves and share decline because consumers had branded alternatives available. Retailers were reluctant to take new product listings due to missed promises on previous items. On-time shipment performance was reduced as orders were held pending receipt of product, and order entry errors and delays led to higher deductions from customers with resultant profit impact.

Improving customer service was a critical success factor for the enterprise because poor execution in meeting customer requirements had created a risk to the business. Share was declining, new products were weak, and profits were off. Each of these metrics was important to the business, but customer service became the key corporate measure.

Key Performance Indicators (KPI's) are powerful tools because they influence behavior. The establishment of the highest level key performance measures for the business, when adequately supported by corresponding drill-down measurements, will motivate, align and improve the processes that drive activities. Executives must assure that measures and rewards throughout the organization support not only the critical success factors of the business plan, but the expectations of customers and consumers as well. V

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