



What to measure in Supply Chain?

'Measure' what you want to improve.
Identify KPIs for coordination and effectiveness.
Keep it simple and intuitive.

It is crucial that the measurement of Supply Chain performance indicators are synchronized with the overall supply chain strategy. Often the measurement of performance indicators begins at a functional level and with the formation of supply chain these do not change much. The organizations continue to measure the same old performance indicators while implement the new initiatives in the supply chain for better coordination. A number of early supply chain adopters have recently been left bewildered by their failure to demonstrate what they have achieved. The explanation may lie in the failure of these companies to measure what they ought to measure.

Supply chain performance indicators are classified in two clearly defined but closely interrelated categories - **functional indicators and end-to-end supply chain indicators**. One measures the effectiveness of the function and second measures how well these functions are coordinated. While they are measured separately, they must not be considered in isolation. The choice of functional indicators depends upon industry vertical. Traditionally organizations measure functional indicators and hence have a good understanding of them. With the advent of supply chain and focus on overall coordination and effectiveness, some of the functional indicators come out to be conflicting and counter productive. These need to be removed e.g. a company trying to improve its customer service cannot have 'reduction in machine change overs' as an indicator.

The end-to-end measures are more generic in nature and can be classified in 3 sub-categories:



Measure what you want to improve

More Resources: Case Studies

- [Supply Chain Health Assessment](#)
- [Supply Chain Benchmarking](#)
- [Supply Chain Restructuring](#)

About DecisionCraft Analytics

We provide decision-making solutions to improve operational efficiency and business responsiveness. Our consulting services employ our strengths in industry knowledge, conceptual rigor, and information technologies. Developed using concepts from decision theory; our solutions use robust optimization, simulation, and statistical engines adapted to our client's focus areas

Assets related

- **Cash to Cash Cycle time:** Inventory days of Supply + Days of Sales outstanding - average payment period for materials (time it takes for a dollar to flow back into a company after it has been spent for raw materials)
- **Inventory days of Supply:** Total gross value of inventory at standard cost before reserves for excess and obsolescence divided by COGS and multiplied by 365 days
- **Asset turns:** Total Net product revenue divided by Total net assets

Costs related

- **Cost of Goods Sold:** The cost related with buying raw materials and producing finished goods. This cost includes direct costs (labor, materials) and indirect costs (overhead)
- **Supply Chain Management cost:** The costs associated with the supply chain including execution, administration and planning
- **Value added productivity:** Total product revenue less material purchases divided by total employment in full time equivalents
- **Warranty cost:** Warranty costs include materials, labor and problem diagnosis for product defect

Customer Service related

- **Fill rates:** The percentage of ship from dock orders shipped within 24 hours of order receipt. For services, this metric is the proportion for services that are filled so that the service is completed within 24 hours
- **Perfect Order fulfillment:** The percentage of orders that are delivered complete, on time, with complete documentation and in perfect condition
- **Delivery performance to Customer commit date:** The percentage of orders that are fulfilled on or before the original scheduled or committed date
- **Responsiveness lead-time:** The average elapsed time, including all delays, to receive a customer order and transform resources into goods and services, through to the point of customer receipt. (assuming zero inventories in the system)
- **Production flexibility:** Number of days required to achieve an unplanned sustainable 20% increase in deliveries

Some key take-aways

- Know what to measure and what targets to set as critical first steps in improving SC performance

DecisionCraft Products

Application Integrator

Automates operations of asset management companies by integrating business rules and regulations

Data Organizer

Integrates data from diverse sources on to one destination database

Logistics Planner

Synchronizes supply with demand to minimize distribution costs

qcCharts™

Enhances process capability of critical processes through interactive data visualization

Supply Chain Simulator

Determines optimum inventory policy such as reorder points and maximum stock based on fill rates

Travel Route Opimizer

Optimizes travel routes and automates travel planning process

- Learn the balanced approach to measuring Total Supply Chain performance for recognition and reporting on results
- Identify what and how to appraise and sell top management on the value proposition from implementing SC improvement initiative

Next Issue: [E-Manufacturing](#)

Previous Issue: [Real Options](#)
