Benchmarking the Perfect Order

A Comparative Analysis of the Perfect Order in the Retail Industry

2008 Report

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Introduction

In today's competitive retail environment, the success of the retailer-supplier relationship is crucial to improving margins for retailers. However, our current study of perfect order in the retail industry, commissioned by the Vendor Compliance Federation (VCF), reinforces what retailers have been saying for years, that suppliers are still not providing retailers with a reliable and consistent source of supply.

The retailers and their suppliers in the Study have made some improvement in the Perfect Order Metrics from the 2005 study. This study – the first of its kind to analyze real retail shipment data of critical quantities and to be able to perform a follow up with the same retailers – shows just how far suppliers need to go to perfect a perfect order to retailers.

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What is a Perfect Order?

A perfect order is characterized as being *on time, complete, damage free and having correct documentation*. While retailers often look for a variety of performance attributes – almost all retailers agree these four are the most critical for suppliers to deliver on and almost all retailers have the four perfect order criteria in their routing guides.

Why the focus on the Perfect Order? Traditionally, many suppliers have focused on *On Time Shipment* and *Fill Rate* as the primary measures of evaluating their order fulfillment performance. This is still the case, in the Warehouse Education Research Council (WERC) 2007 DC Measures survey, *On Time Shipments* and *Order and Line Fill Rates* were in the top 10 metrics used by distribution centers. In fact, 86% reported the use of the *On Time Shipment metric*, making it the number one metric in the survey. However, retailers know that fill rate/on time shipments offer only a snapshot of overall performance.

Just because an order ships on time does not mean that the order was received when requested and just because the line fill rate is high does not mean that the retailer received complete orders. High on time shipment metrics and fill rate metrics do not always translate into retailer satisfaction. Most retailers have addressed this by creating comprehensive routing guides that outline a variety of "compliance" guidelines with regards to the orders they receive from suppliers.

Measuring the Perfect Order

What makes the perfect order concept unique is not the focus on the Top 4 Key Performance Indicators, but rather the fact that the metric highlights the total impact of an incorrect order in a single metric. The approach is similar to the traditional approach manufacturers have used for years to measure First Pass Yield in a factory where each production process is measured and total "yield" or fallout of the entire process is calculated as an index.

The Perfect Order Index (POI) is established by multiplying each component of the perfect order to one another. For example, if a firm is experiencing a measure of 95% across all 4 metrics of the perfect order (on time, complete, damage free and correct documentation), the resulting perfect order index would be 81.4%. See Table 1 for an example.

A Perfect Order is characterized as being on time, complete, damage free, and having accurate documentation. The Perfect Order Index (POI) is a measure of these four performance attributes. The POI strives to capture the needs of the customer from their perspective and is a better measure of customer satisfaction than order fill rate alone.

Table 1: Example of the Perfect Order Index

The Perfect Order Index (POI)								
% on Time	X	% Complete	X	% Damage Free	X	% Accurate Documentation	=	POI
95%	X	95%	X	95%	X	95%	=	81.4%

The traditional approach to looking at each Key Performance Indicators (KPI) separately often lulls organizations into a false sense of good performance. For example, your order might have arrived on time 99% of the time – but if it was not a complete order the customer is still impacted. By focusing on a more holistic approach, a company can calculate the total effect of a supplier's logistics. If the measure had fallen to 90% for each component, the perfect order index would have dropped significantly to 65.6%.

The focus of the retailer-supplier relationship should be on all of the attributes of the perfect order; suppliers should work toward meeting retailer POI objectives and retailers should be committed to measuring all aspects of a perfect order to accurately assess end-customer satisfaction.

About the Study

VCF, an organization comprised of retailers and suppliers, is focused on vendor performance improvement through strengthening trading partner communications, chartered Traverse Systems, a leading provider of vendor compliance optimization solutions, Supply Chain Visions, a consulting firm specializing in performance management, and Georgia Southern University to benchmark how suppliers were actually performing against the four critical Perfect Order attributes.

In 2005, we surveyed a group of top retailers in their use of the Perfect Order Index. We were able to analyze shipment data using a year's worth of data to better understand the actual perfect order performance. The study was repeated in 2007 using the same group of retailers. Two of the retailers had significant changes to their businesses through mergers and acquisitions. We found that the data from these retailers did not allow us to make comparisons between 2005 and 2007. As a result, we removed these two from the comparisons and used the remaining retailers.

The study included 12 months worth of data based on the retail 4-5-4 accounting calendar used by many retailers for prior period comparisons related to sales and same store sales figures (not generally updated by Holiday shifts). Fiscal Periods for the 2005 study were September 2004 to August 2005 and for the 2007 study September 2006 to August 2007. The 2007 study included 4,563 suppliers, 171,788 purchase orders, 2,727,775 purchase order lines, and 481,582,697 units. See Table 2 for details.

Table 2	2005	2007
Total number of suppliers in study	5,356	4,563
Total number of orders (POs) in study	181,900	171,788
Total number of UPCs (lines) in study	2,785,683	2,727,775
Total number of units in study	426,592,021	481,582,697

The Results: Perfect Order Performance

The study tracked the suppliers' performance in relation to the components of the perfect order. The result? Suppliers performed better in 2007 than in 2005, however Perfect Order Performance was a still a disappointing 27.2%, despite the fact that this is a 40.4% improvement over 2005 (see Table 3).

By utilizing a perfect order index score, it is easy to see that suppliers have not performed well relative to retailer requirements in 2007, but the results do show a significant improvement over 2005 for the retailers in the study.

The average on time order delivery across all suppliers was a 51.1%, an improvement of 9.0% over 2005. Complete orders were 59.9%, an improvement of 17.8% over 2005. The percentage of suppliers who achieved correct documentation was 88.8% improving 9.3% over 2005. Again, we were unable to attain consistent data on orders received damage free across our sample size and have used a 100% performance "placeholder", assuming that all suppliers are perfect in this area for calculating the POI. (See Figure 1)

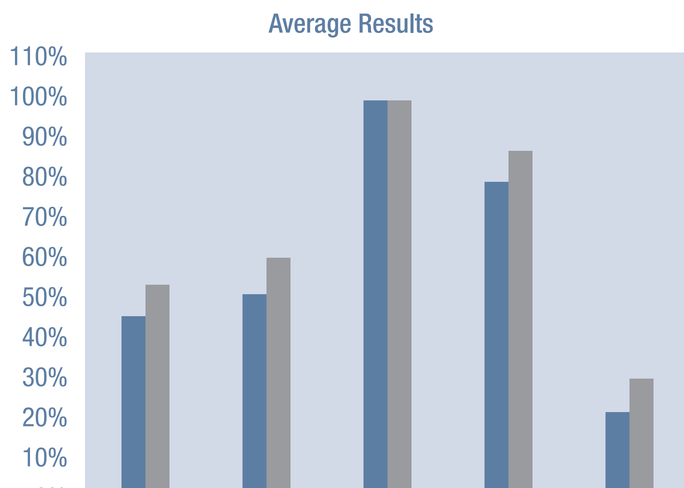
Such low performance on each of the measurement categories supports the common belief among retailer's that imperfect orders are common and that this poor performance has a negative impact on the retailer's ability to meet the needs of its end customer.

Table 3

	% On Time Delivery	% Complete	% Damage Free *	% Accurate Docs	POI
2007 Average Sample	51.1%	59.9%	100.0%	88.8%	27.2%
2005 Average Sample	46.9%	50.9%	100.0%	81.3%	19.4%
Percent Change	*9.0%*	*17.8%*	*0.0%*	*9.3%*	*40.0%*

*A % Damage Free baseline of 100% was adopted due to data unavailability/inconsistencies.

Figure 1



	% On Time Delivery	% Complete	% Damage Free*	% Accurate Docs	POI
2005 Average	46.9%	50.9%	100.0%	81.3%	19.4%
2007 Average	51.1%	59.9%	100.0%	88.8%	27.2%

*A % Damage Free baseline of 100% was adopted due to data unavailability/inconsistencies.

On Time Delivery

First and foremost, orders should arrive to the customer on time. The study found that only 51.7% of supplier orders achieved on time delivery over the course of the 12 month sample. But what is driving this disconnect? We believe there are two primary factors for poor performance in this area.

First, many suppliers and retailers are not on the same page with what it means to be 'on time'. One reason for this disconnect is that many companies do not measure "on time" the same way. A spring 2007 study published by the Warehouse Education Research Council highlights just how confusing this problem is for many suppliers. The study – which surveyed US based warehouses and distribution centers - asked respondents to indicate how exactly their customers defined On Time Delivery.

Specifically, most responses indicate customers feel that On Time Delivery means product delivered on the requested day, 40.5%, or on the agreed upon day, 23.7%. While getting product on time with regards to a specific day is the most common definition, a full 22.4% define On Time Delivery as the being related to a more specific appointment time (ranging from within 1 hour of the appointment time to within 15 minutes of the appointment time). Table 4 below shows a breakdown of the top responses of what it means to have On Time Delivery.

Adding to the confusion, most respondents indicated that their customers have different performance requirements for on time and as a result they are tracking multiple performance measures. This often causes misunderstandings when metrics are reviewed with customers or when the customer applies a charge back as the result of poor delivery performance.

What is clear from our studies is that the goal of meeting an individual customer's service level definition for On Time Delivery can be difficult, due to the lack of appropriate and agreed upon standards and definitions across the industry. While there may be different definitions of "on time" – the retailers interviewed in the VCF study felt that a perfect order should be tracked to be "on time" *to the date and time requested by the customer* (product delivered when the customer asked-not when a company can ship).

Insights into the second cause for on time delivery can be learned by listening to the suppliers. We believe that the principle reason that delivery has not received the attention it is due owes to the fact that it is simply too hard to measure and to track at the order level and the agreed to performance level. A supplier can be fairly certain about when a product left their dock – but once the shipment is out of their hands, and in the care of the transportation provider, suppliers often lose visibility.

While leading transportation providers have made great strides in providing Proof of Delivery, and the systems used by suppliers have ever improving capabilities to upload and use this information, actively tracking on time delivery to a specified pre-agreed time at the customer and order level can be time consuming – or even impossible – for some suppliers depending on the carriers and systems they use.

"First and foremost, orders should arrive to the customer on time. The study found that only 51.7% of supplier orders achieved on time delivery over the course of the 12 month sample."

Table 4: Various on Time Delivery Definitions

Definitions and Performance for On Time Delivery Measure

Customer Stated Measure of On Time	%
+15 minutes from the appointment time	4.1
+30 minuted from the appointment time	8.5
+1 hour from the appointment time	8.9
-1 hour to +0 hours from the appointment time*	.9
On the requested day	*40.5*
On the agreed upon day	*23.7*
Other measure not listed above	13.4

*This is the definition of on time delivery as defined by the Grocer's Manufacturing Association and Food Marketing Institute. This is a new definition and is highly targeted to the grocery retail industry. As such we believe that this is the reason so few companies measure on time delivery this way.

Source: WERC Watch - DC Measures 2007

Complete Orders

Second – orders should be complete. In other words, all products and lines should have a 100% fill rate without any substitutions. Performance against complete orders was slightly better than on-time delivery – with the average across the sample falling at 59.9% for the entire sample of shipment data. On-time delivery showed the greatest improvement over 2005, improving by 17.8%. While it might be easy to blame the transportation provider for misses in on-time delivery – suppliers have far more control over complete orders. It is for this reason that we believe suppliers were able to make the greatest performance improvements.

Why the focus on a complete order? Two reasons. First, if the supplier only ships 9 out of the 10 products on the order it means the customer may miss a sale. The most stringent definition of "complete" is to have 100% unit fill rate for 100% of the unique lines/products on the PO. However, some retailers – especially those that specialize in fashion apparel and seasonal goods – do allow for their suppliers to split an order.

One leading retailer told us that *"Fill rate is measured at the* **style level.** *We expect a 90% fill rate for replenishments and an 80% fill rate for new products. If our suppliers don't meet these minimums they are penalized. Fill rate by style is part of our perfect order metric."*

The reason? They would rather have their suppliers ship some of their product to meet a partial order to ensure that product is available on the store shelf.

The second reason retailers are beginning to focus more on complete orders is due to cost. Anytime an order has to be split it means that the retailer will have to re-open that PO and go through the receiving and accounts payable activities for a second (or third or fourth) time. A partial shipment may also require intervention by the procurement department, expediting or checking on the balance of the order. What this means is added distribution costs because in essence the retailer has duplicate costs every time they have to go through the receiving costs process again.

Damage Free

Third, orders must be delivered damage free to the customer. This damage free policy extends from product manufacturing to product distribution as well as mode of transportation to the end-customer. As mentioned above, we were unable to attain this data consistently across our sample size and, as such, have used a 100% performance "placeholder", assuming that all suppliers are perfect in this area for calculating the POI.

In our research, we see a push by retailers to get better, shipment level information on transit related damage. This is especially true when the retailer is controlling the inbound freight with a limited number of carriers. But this data only tells a part of the story on damage and it is difficult to reconcile damage claims to the supplier and the specific supplier shipment or purchase order.

Accurate Documentation

Lastly, retailers expect and want accurate documentation. Where on time and complete relates to the physical flow of goods, accurate documentation is about the information flow. Better information used more effectively provides the lever for retailers to drive down supply chain costs. While many industries think about accurate documentation in the simple terms of having an accurate invoice, retailers are much more demanding. In particular, retailers want an accurate Advanced Ship Notice (ASN) which correctly outlines the items shipped, correct quantity, correct terms and the correct price.

By having an accurate ASN, they can prepare their operations for the shipment in advance to deploy cost saving techniques such as cross-docking, automated receiving, etc. If there are problems (i.e. unexpected items, qty issues) the ASN allows the retailer time to react before the merchandise physically arrives at their site.

We have seen an increased emphasis by retailers in getting ASN programs in place and in increasing the number of electronic transactions in general.

We found in 2005 that having correct ASNs was the area where suppliers performed best – this year was no exception, with 88.8% of suppliers having accurate ASNs for all of their shipments for the timeframe sampled. Suppliers are meeting the stringent systems specifications for submitting ASNs.

While the study only measured performance against accurate ASN's, the retailers interviewed felt that having accurate documentation extended beyond ASNs to include accurate labeling and invoicing.

In a recent VCF and GXS whitepaper, (*Business 4 Business - ASN and Data Accuracy Drive Higher Order Functionality and Redefinition of Retail B2B Communications,* NOVEMBER 2007) the authors put forth four metrics that might augment other accurate documentation metrics that feed the Perfect Order model.

These four metrics look at the key elements of the ASN forming a Perfect ASN index.

- Percent of Correct ASNs Received
- Percent of PO Changes Sent
- Percent of Total EDI PO volume
- Percent of Total EDI Transaction Volume

As EDI transactions become the norm between retailers and suppliers, it becomes even more important to understand the performance of data exchanges between partners. For example, the Business 4 Business study uncovered that retailers change their POs to a supplier an average of 4.4 times and that not all the changes go through the EDI path, instead being made using emails, faxes or other less structured methods. The accuracy of PO changes will impact the supplier's ability to ship complete and on time orders. Retailers may be lowering their perfect order performance by their poor communication.

> "Better information used more effectively provides the lever for retailers to drive down supply chain costs."

Why Perfect Orders are Important

Imperfect orders are road blocks or cause difficulty to perfect orders. Think of an imperfect order as an accident on the freeway during rush hour. Even though most of the cars are not involved in the accident they are impacted by the accident in terms of the increased amount of time required to get to where they are going. The accident may even set off other accidents as traffic slows and inattentive drivers (likened to a further imperfect order) cause additional problems. Imperfect orders in the retail environment cause similar back-ups to perfect orders and, like the accident on the freeway, draw resources away form other work. Imperfect orders cost retailers time and money.

Is it Possible to be Perfect?

A key part of the study was to benchmark what was "best practice" with regards to the perfect order. As such, the study examined those suppliers who were considered to have the best perfect order practices (top 20% of the sample of suppliers) to determine their average component and POI score.

Best in class suppliers do perform better in each component of the perfect order, from 10% to 27% better than the average supplier in the study. These suppliers will benefit from lower operating costs and improved service levels with the retailer. (See Table 5)

Additionally the results show significant improvement over 2005, in other words, the best suppliers continue to get better but the average POI score of 66.8% in 2007 is still not perfect performance (see Figure 2). This POI score still remains at a level that most, if not all, retailers would consider unacceptable.

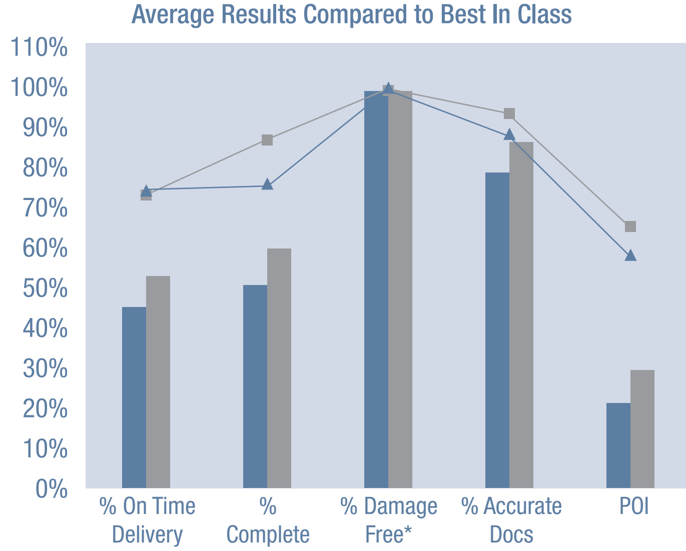
Table 5:

	% On Time Delivery	% Complete	% Damage Free*	% Accurate Docs
2007 Average of Vendors	51.1%	59.9%	100.0%	88.8%
2007 Average of Best-In-Class Vendors	76.7%	87.5%	100.0%	99.4%
Difference in Performance	25.6%	27.6%		10.6%

*A % Damage Free baseline of 100% was adopted due to data unavailability.

Figure 2

Average Results Compared to Best In Class



	% On Time Delivery	% Complete	% Damage Free*	% Accurate Docs	POI
2005 Average	46.9%	50.9%	100.0%	81.3%	19.4%
2007 Average	51.1%	59.9%	100.0%	88.8%	27.2%
2005 Best in Class	78.8%	78.6	100.0%	94.8%	58.8%
2007 Best in Class	76.7%	87.5%	100.0%	99.4%	66.8

*A % Damage Free baseline of 100% was adopted due to data unavailability/inconsistencies.

These results would seem to indicate that it is impossible for a vendor to be "perfect" in meeting the retailer's expectations for each component of the perfect order. However, a closer look at the data in the study shows that this is not true.

If you consider the best vendor results by each component metric, the study shows that a 100% performance score can be achieved for each element of the perfect order (see Table 6).

Table 6:

Number of Perfect Suppliers by Component Metric

	% On Time Delivery	% Complete	% Damage Free*	% Accurate Docs
2005 Perfect Vendors	498	394	0	291
2005 Percent Perfect	*9.3%*	*7.4%*	*100.0%*	*5.4%*
2007 Perfect Vendors	490	513	0	511
2007 Percent Perfect	*10.7%*	*11.2%*	*100%*	*11.2%*
Percent Change	-2%	30%		76%

***A % Damage Free baseline of 100% was adopted due to data unavailability.**

490 suppliers or 10.7% achieved perfect on-time orders, 513 suppliers or 11.2% achieved perfect complete orders and 511 suppliers or 11.2% achieved perfect documentation. Both complete orders and orders with correct documentation increased the number of perfect suppliers over 2005, by 30% and 76% respectively.

As you can see, there are a number of vendors who are able to achieve "perfect" status by component score. But what about achieving the ultimate goal of being a perfect supplier across ALL attributes of the perfect order? Is it possible?

The answer is YES. In fact 149 of suppliers in the study, or just over 3% of the suppliers, achieved perfect order status, which is a 51% improvement over 2005. Offering encouragement to retailers and suppliers alike, who are implementing a perfect order strategy (See Table 7 and Figure 3).

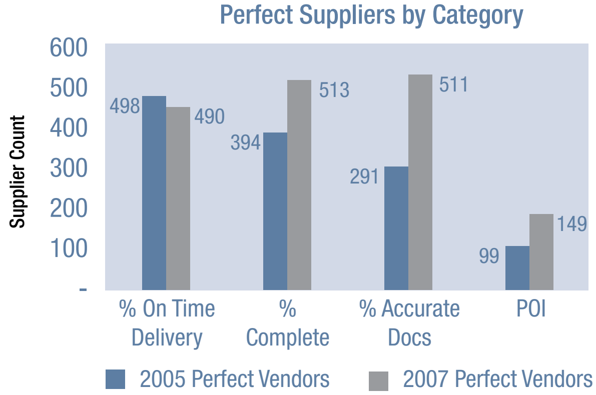
Table 7:

Number of Perfect Suppliers

	POI
2005 Perfect Vendors	99
2005 Percent Perfect	*1.8%*
2007 Perfect Vendors	149
2007 Percent Perfect	*3.3%*
Percent Change	51%

Figure 3

Perfect Suppliers by Category



51% increase in the number of perfect suppliers.

30% increase in suppliers with perfect complete orders.

76% increase in suppliers with perfect documentation.

While the majority of these suppliers managed fewer and less complex orders, the feat ***is*** achievable. But what sets apart a supplier that is perfect? Do they do things differently? Have they invested huge sums of money in their infrastructure?

Below are some secrets of the trade that the researchers have observed through working with suppliers.

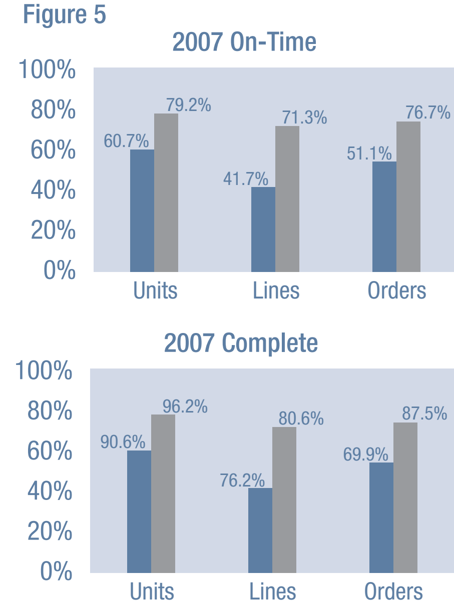
- Understand performance from the customer's perspective.
- Work with transportation providers that provide Proof of Delivery. If you don't know that your carrier is not delivering on time, then how can you work with them to improve their performance?
- Be zealous about performance management. Align metrics within your organization to the attributes of the perfect order.
- Communicate the importance of your perfect order strategy through out your organization consistently and frequently.

A Detailed Look at On-Time & Complete

Units, lines or orders, which is the most important one to measure? On-time delivery and complete order performance can be measured at the order level, the line level or the unit level. Each will derive different performance results. (See Figure 5) The level that you capture the information should reflect what is important to the retailer as you endeavor to meet your customer commitments.

Retail distribution centers may be more concerned with complete orders and on time at the order level, where orders may support daily store replenishments, and incomplete/late orders result in stock outs and additional costs in the distribution center. Where direct to store replenishment from the supplier may view line fill rates as a better measure of late or incomplete deliveries. We are definitely seeing a trend towards more companies focusing on order fill rates – particularly among business to business shipments where split shipments drive multiple and increased handling.

Figure 5



Retailer Perspective

In our research we have found that, while retailers may not always calculate the POI, most of the leading retailers do measure each of the key attributes. The use of the Perfect Order Index among Retailers – as well as many other leading companies – continues to increase. In the WERC 2007 DC Measures survey POI was ranked in the top 20 most used metrics out of the 45 key operational distribution and fulfillment metrics.

A quick review of vendor routing guides of several leading retailers indicates that these companies are also addressing the attributes of the perfect order in their vendor requirements. Many include theses attributes as part of their vendor compliance programs and may list one of more of these items in their charge back or deductions list. However, performance is more than enforcing compliance through charge backs. The most successful retailers are working with suppliers in more strategic ways. These retailers are:

- Developing and expanding supplier scorecards and performance management programs, setting performance expectations through collaborative communication.
- Aligning suppliers with strategic objectives and goals, developing a common customer focused vision.
- Consolidating the supply base, focusing on high performing suppliers.

Scorecards & Performance Management Programs

In our various research initiatives we have seen an increase in the number of retailers that are implementing supplier scorecard programs in parallel with compliance programs. This is supported by a June 2007 VCF survey of retailers that found 78% of retailers who did not have supplier scorecards in place indicated that they had plans to introduce them within the next two years. Based on the survey, Traverse Systems recommends retailers establish monthly scorecards with their suppliers as part of their supplier compliance and performance management programs.

Retailers commonly cite several common goals of these programs:

- To focus suppliers on the fundamental metrics that help drive desired outcomes and ultimately customer performance.
- To establish a set of commonly understood and agreed to metrics.
- To set and track to targets that are appropriate for the business model the supplier operates under.
- To reduce the number of metrics used to track supplier performance to a few meaningful process metrics.
- To improve communication between the supplier and the retailer.
- To establish formal lines of communication for collaborative improvement projects.

One large electronics retailer had this to say about their scorecard project, "Scorecards drive an interactive and collaborative dialog around performance… something we never had when we focused solely on compliance…" Retailers are recognizing that a robust supplier performance management program with scorecards reinforces what matters most and leads to lower costs and improved customer service.

> "78% of retailers who did not have supplier scorecards in place indicated that they had plans to introduce them within the next two years."

Aligning Suppliers to Strategic Objects

In a successful supplier/retailer partnership, each party must clearly understand its partners' goals, business and customer requirements. The alignment of goals and objectives allows the partnering companies to explain who they are, what they value, why the partnership is important, and what future organization plans and strategies they have set.

A number of retailers have developed standard supplier training and development programs, bringing in key suppliers once a year to discuss goals and objectives in a workshop format. Other retailers have partnered with third parties such as the VCF to facilitate the training of suppliers on how to support the retailer. Clearly communicating goals and objectives helps to build mutual trust by establishing roles, defining mutual expectations, addressing the "rules of engagement," and identifying performance measures and resulting outcomes.

Consolidating the Supply Base

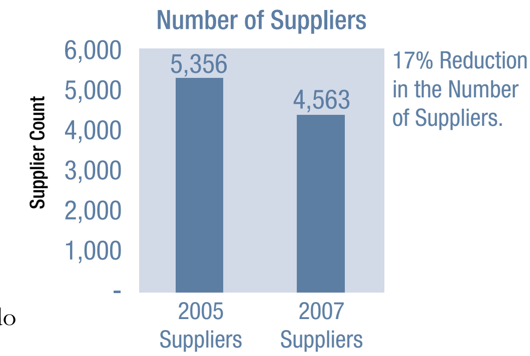
An interesting finding in the data was a double digit reduction in the number of suppliers used by the retailers in the study from 2005 to 2007. In fact – the retailers that participated in the study averaged a 17% reduction in the number of suppliers used in the two year period. (See Figure 4)

Discussions with retailers validated that the reduced number of vendors is by design and that many retailers are making conscious efforts to reduce the number of suppliers they work with.

One of the retailers that participated in the study told us that, "We are aggressively trying to reduce the number of suppliers we use so we have more leverage over supply and better control over performance."

Supplier consolidation is driven in part by how well the supplier performs and the need to have a smaller base of suppliers to manage, the retailer went on to tell us that "As far as aggressively looking at suppliers to cut, the buyers look at margin as well as performance data to make vendor cut decisions." Supplier consolidation and selecting the best performing suppliers to do business with is one method that Retailers are using to improve the perfect order.

Figure 4



Vendor Perspective

The study has shown that there are suppliers who can achieve perfect order performance. These suppliers understand performance from the customer's perspective, understanding how their performance impacts their customer's.

Best in class suppliers are also applying a number of best practices to help them consistently achieve high performance. Let's review each of the four performance attributes against what our research has shown as supplier best practices. Applying these best practices will support suppliers in achieving the perfect order.

Orders should arrive, on-time to the customer.

- Open communication with customers to keep them updated on order status, jointly to establish metrics and requirements.
- Utilize carriers that track shipments, offer electronic proof of delivery and have the ability to integrate tracking information their system. Delivery performance is tracked at the order level.
- Manage the flow of orders in the warehouse using an integrated WMS.
- Optimize warehouse lay-outs to minimize travel time and non-value steps.
- Establish with their customers what constitutes on-time performance, they measure it and report it.

Orders should be complete.

- Have receiving and storage processes that guarantee product is correct and put-away where it belongs so that it can be used for orders.
- Cross docking is used to expedite received product to open orders.
- Use system stored customer data to manage partial and short ship rules and back-order processing.

Orders should be delivered damage free.

- Document and fully understand customer packing and shipping requirements. Requirements are documented in the system and during order processing.
- Have processes in place to verify all products are free of damage and that internal transport of product does not cause damage.
- Utilize carriers that have solid records for undamaged shipments and that have processes in place to measure and report carrier performance.

Orders should have accurate documentation.

- Customer data is in a single database.
- Use system generated customer specific labels and documents to ensure orders are shipped with correct documents.
- Use a "scan and pack" method to generate carton labels and the ASN transmission, to ensure that the carton contents match the ASN preventing concealed errors.
- Send accurate system generated ASNs to customers.

Suppliers adopting good operating practices will have higher levels of performance and enjoy lower operating costs with higher margins.

> "Best in class suppliers are also applying a number of best practices to help them consistently achieve high performance."

Adopting a Perfect Order Philosophy Within Your Organization

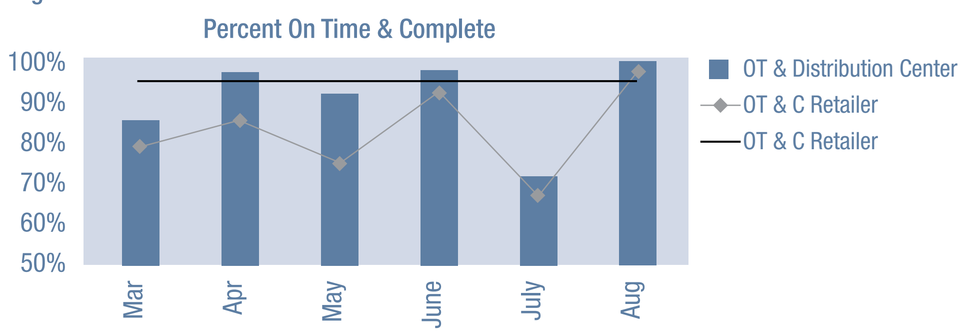
As a retailer, how can you apply a perfect order philosophy to your relationship with your suppliers? To start the process, here are six recommended steps:

- Find out what metrics are currently being employed within your organization.
- Determine the definition of the metrics you will use with your suppliers and communicate across the organization.
- Determine how often the metric will be calculated (by week, month, customer, etc). Metrics must be timely and retailers must communicate metrics effectively in order for the metrics to have an impact.
- Identify where the data will come from and how the data will ne gathered to support the metrics.
- Put someone in charge who will be responsible for the measure.
- Develop a collaborative relationship between the retailer and the supplier.
- Set a realistic goal.

It is important to note that a collaborative relationship between the retailer and the supplier is critical to success. Traverse Systems has found that retailers who have begun this process of supplier measurement have shared the data they have collected internally with their suppliers in order to emphasize the importance of working together to achieve a perfect order index objective.

One way to share this data with the supplier is to "map" the service level performance the retailer is reporting versus what the supplier is reporting to determine "gaps" in performance. Many times the reason for these "gaps" is that the supplier's calculation and definition of the performance differs from the retailer's calculation and definition (see Figure 6).

Figure 6



By “mapping” the performance, retailers will be able to identify “tangible gaps” as opposed to “perceived gaps.”

Utilizing companies such as Traverse Systems to automate key processes for perfect order measurement can assist retailers in focusing on those metrics that are most central to their perfect order viewpoint.

In today’s customer driven environment, suppliers and retailers should be concerned with the fundamental question of “Did the customer get the product they wanted, when they wanted it and how they wanted it?” Adopting a perfect order strategy as a retailer and creating a perfect order expectation with your vendors will positively impact future customer satisfaction levels as well as help you retain existing customers and gain new ones.

About the Sponsors

VCF

VCF, in association with Trade Promotion Management Associates (TPMA), is an advocate for retail-supplier trading synchronization and champions initiatives to increase strategic industry-wide productivity, profitability and growth. While still possessing the core values of its large membership, VCF marks a transition to serve more touch points in perfecting retailer-supplier execution to shorten cycle times and drive overall velocity in the supply chain. Visit www.vcfww.com.

Traverse Systems

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About the Researchers

Kate Vitasek, Founder & Managing Partner, Supply Chain Visions

Kate Vitasek is a thought leader in the Supply Chain Management and the Founder/ Managing Partner of Supply Chain Visions, a consulting practice that specializes in supply chain strategy and education. She is a well-recognized authority on performance management and metrics implementation and was recognized as a “Rainmaker” by DC Velocity Magazine for her efforts in helping to build the logistics and supply chain profession.

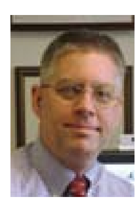
Ms. Vitasek has given over 100 speeches at industry groups and universities on the topic of Supply Chain Management and Performance Management.

Karl Manrodt, Ph.D, Associate Professor in the Department of Management, Marketing & Logistics, Georgia Southern University

A renown logistics expert, Dr. Karl Manrodt is a member of DC Velocity magazine’s editorial advisory board and a past program chair for the Council of Supply Chain Management Professionals. His researches in conjunction with these organizations are some of the most authoritative reports in the supply chain field.

Dr. Manrodt’s research has appeared in such leading academic and practitioner journals as the Transportation Journal, the International Journal of Physical Distribution & Materials Management, and the Journal of Business Logistics. His books Include Keeping Score: Measuring the Business Value of Logistics in the Supply Chain (1999) and Customer Responsive Management: The Flexible Advantage (1992).

Kate Vitasek, Founder & Managing Partner, Supply Chain Visions



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