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METRIC SELECTION IN CRITICAL TO SUCCESSS

WHITEPAPER

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How can we stimulate ideas that can help us better understand what our real goals are, and develop the proper group of measures or metrics that can assist us in reaching and exceeding these goals? This article has a definite slant toward supply chain operations and logistics, but these principles apply equally well in the manufacturing environment.

To stimulate self-analysis, I would like to share some actual comments that I have heard from front line associates, supervisors, facility managers, engineers and senior Vice President's. In no way is this condemnation of the people who said these or the companies that they work for. I will be surprised if most of us do not relate to what is being said, possibly having made a similar statement, ourselves, at some time, for what we perceived as the right answer or as a profound declaration.

During my 35 years in industrial engineering, operations management and consulting, I have been blessed to have worked with some really strong thinkers and some great people. I ask a lot of questions, and I have worked very hard to become a better listener and to better understand the logic behind what is being verbalized, but my excited response or my silence and body language signal how much I agree with or question what is being said. I have been privy to some of the best "buzzword and TLA (three letter acronym)" people of all time, but just when I think I may have heard all of the bold statements or confessions, I hear something else that I ask the person to repeat for my clarification. As we say in the consulting business, "Let he, who is without baggage, throw the first carry-on."

"We seem to be doing a good job", as defined by the below self-assessments:

- *Our costs are "in line" with our cost per unit (CPU) objective.*
- *Our customer complaints are "under control" since we added a full-time person to follow up on chargebacks.*
- *Inventory levels are growing only because our sales volume is growing.*
- *Our labor pool is strong since we shifted to an emphasis on using temporary staffing for both normal and peak seasons.*
- *We are shipping orders on time.*
- *We have gotten "much better" at handling the inbound surges and complexities that come at us.*

- *The employees are all busy as I walk through the facility.*
- *We are sending people home early instead of working overtime.*
- *I am not getting as many calls from the home office as I did last month.*

As an eternal optimist, I can appreciate having at least one numeric measure that makes me feel good about the job that we are doing in our company.

Let's challenge one of the assessments listed above to see if we, indeed, have a good metric that helps achieve our company's goals and objectives.

Statement: Our costs are "in line" with our cost per unit (CPU) objective.

<u>Challenge:</u>

If we are, in fact, meeting our CPU objective, I should feel good, right? Well, do we have the right CPU goal? How did we establish it? Is it a historical number based on the best we have ever achieved, an average over the last 6 months or are we using a benchmark CPU from our competitors in the industry? Are we measuring our CPU over the proper time to allow for the dynamics of volume and time constraints?

The CPU metric is a very common one, used by a lot of different companies, and it can help us reach our ultimate objective if we choose the right CPU goal and track the actual number consistently and accurately. Benchmarking against our competitors is a good idea, but we must be careful that the same operations and cost structure are used in calculating the metric and therefore provide a fair comparison.

Some companies define this cost measure differently by breaking out a simple 4 wall cost and dividing it by the number of units that are processed through the facility. This measurement is a simply calculated metric, where we would all get the same answer, as the degree of difficulty is greatly reduced. Simple metrics are a good thing, but this measurement can easily provide an incomplete picture of our contribution toward our company's success.

For instance, we did in fact lower our 4-wall cost per unit, and that's OK for starters, but did we not shift some of the cost out of the facility by using a 3PL (third party logistics) company to receive and deconsolidate these same units ahead of our receiving them into our company facility? This 3PL expense is tracked in a different bucket that does not show in my 4-wall cost. We operations people are "all about" having different buckets that are not visibly linked to us. You add my 4-wall cost to your 3PL bucket, and guess what, "the company's cost per unit has actually gone up."

Good metrics must have solid components. They must give us a complete picture but also provide a means of digging down for granularity. Even with an acceptable 4 wall cost per unit, as mentioned above, what prevents me from having some departments that are really strong performers and some departments who are along for the ride and are improperly staffed and managed?

That's right, not only should I have metrics that contribute to my company's goals and objectives, but my managers should have metrics that contribute to my goals and objectives. Otherwise, I am waiting to see what happens, and what happens is bound to disappoint me at times, translating into disappointment up the food chain as well.

Already, we are starting to see the dynamics that come with different layers of metrics. Good, solid metrics fortify other good metrics. Having a metric to give us feedback is important, but how do we improve our performance and move the metric in the direction that we would like it to go? We must understand the components that make up and drive the metric in the proper direction.

So, we have a single good metric that certainly can show that we are missing, meeting or consistently achieving our metric target. Is this singular metric enough? There are probably additional metrics that can help us better reach our company goals and objectives.

Oh, yeah, that's right. The metrics, that we are tracking, must contribute to the achievement of our company's goal. Measuring our own performance too narrowly can afford us the ability to hit our own personal goals and objectives, but what if the company goal is not being met, while we are posting our own stellar numbers? Our costs may not actually be in line with our CPU objective, as we had previously stated. Our facility cost per unit is in line with the facility CPU objective, but it is only part of our corporate cost per unit.

Maybe we are not doing quite as good of a job as we thought. Let's hold off on patting ourselves on the back, at this point.

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