

## KEY PERFORMANCE INDICATORS

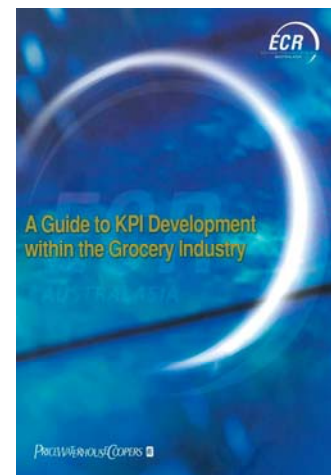
The ECR Australasia Board has commissioned this *Factsheet* for circulation to assist in the development of best ECR Practice.

A recent survey by ECRA identified low levels of adoption within the grocery industry for companies developing Key Performance Indicators (KPI) scorecards with their trading partners. This *Factsheet* provides an opportunity to assist companies in developing, establishing and benefiting from scorecards with their trading partners.

## INTRODUCTION

*A Guide to KPI Development within the Grocery Industry* was published in 2000 with the aim of understanding the benefits of developing KPI's with trading partners and establishing an industry scorecard. The guide provided details on KPI's for immediate and future implementation as well as definitions and formula.

KPI's measure business performance and provide a focal point for standardisation, collaboration and coordination: they are quantifiable metrics which reflect the performance of an organisation in achieving its goals and objectives.

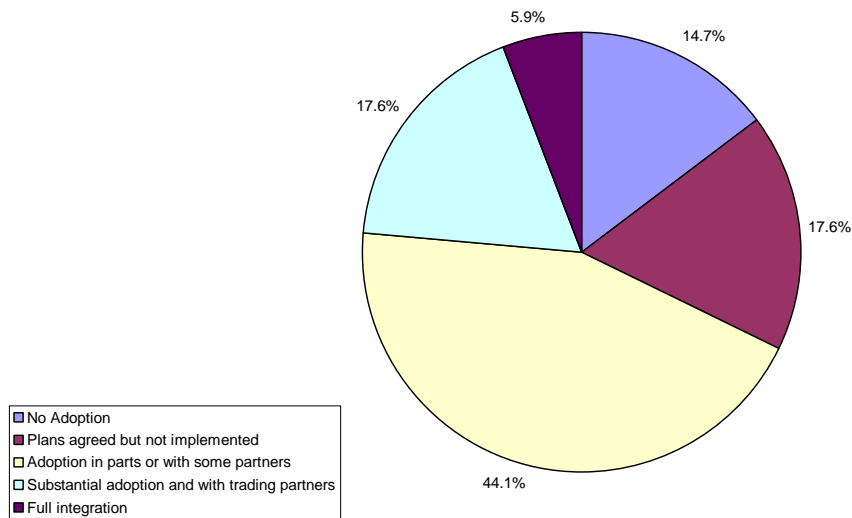


Scorecards are defined as “the identification, definition and quantification of a set of KPI's that focus and drive desired behaviour to accord with what is being consistently measured both within and between trading partners.” It is a management system designed to help organisations clarify their vision and strategy and translate them into action.

The activity of tracking business performance against standards or targets requires the measurement of current performance; this can assist in determining bottlenecks and inefficiencies in the supply chain and identify areas for improvement. Managing performance in supply chains means integrating suppliers, manufacturers, distributors and retailers so product can be produced and distributed in the right quantities, at the right times, in the most economic way, while satisfying the needs of the customer.

A recent survey (*Managing the Effectiveness of ECRA, 2005*) revealed a low percentage of respondents had developed KPI scorecards with their trading partners (5.9%). Where scorecards had been developed with trading partners, only 9.1% of the respondents had regular opportunities to review KPI data with their trading partners.

Has your company developed KPI scorecards with your trading partners?



## THE BENEFITS

There are three primary reasons why KPI's should be used to augment traditional financial reporting:

- the needs of consumers can be best expressed in terms of KPI's
- the desired results from ECR (and other management initiatives) can be best expressed as KPI's
- the KPI's provide a means to predict and resolve potential problems before they are reflected in financial results.

The benefits of developing scorecards are substantial with the potential to achieve the ECR objectives of increased sales, reduced operating costs and working capital investment while improving customer service and consumer value. These benefits are possible due to:

- improved visibility and focus on the key factors to achieve desired objectives
- formation of joint, cross-discipline working parties
- fact based discussion and decision making
- constructive and incentivised work environment.

The success of any performance management program is contingent on selecting the correct KPI's.

## KPI SELECTION

Selecting and defining KPI's that are critical business drivers, balance short and long term goals and lead to enterprise rather than localised optimisation is a difficult task. It is critical that the KPI's measure activities that monitor the business process and are not defined in functional or siloed terms but as cross-business standards.

The Strategic Alignment Pyramid (K. Bauer, 2004) provides a representation of the steps involved in ensuring the selected KPI's align with company vision and are cascaded through an organisation.



To assist the FMCG industry, ECRA in consultation with a wide range of industry stakeholders, identified and documented a series of KPI's into an industry dictionary.

The KPI framework revolves around operational measures which can be used to monitor and drive decisions on a regular basis between trading partners. The ECRA guide recognised the necessity to focus on operational measures related to the following three domains: demand management, supply management and enabling technologies. KPI's in each of these areas recommended for use by Australasian trading partners include:

#### Demand Management

- New product success rate
- Forecast demand error

#### Supply Management

- Inventory holdings
- Full trucks
- Case fill service levels

#### Enabling Technologies

- Quality bar coding
- Data integrity rate

These KPI's, and extensions of them, are used internally by many suppliers and retailers.

## ESTABLISHING TRADING PARTNER SCORECARDS

While KPI's are being used by individual companies to drive internal performance, the objective of the ECRA project was to foster common KPI's which could be the basis of use jointly by trading partners.

The ECRA guide outlined the steps that companies should follow to establish relevant and effective scorecards between trading partners. The steps provide a framework, whilst affording flexibility to allow for differing trading partner relationships. They include:

- senior management acceptance of the benefits and implications of scorecard strategy
- operational understanding of data sets, sourcing of data and identifying gaps
- decisions on costs and benefits of accessing data by trading partners
- combined implementation scorecards around agreed goals and targets for each KPI
- assessment of automated data collection and scorecard presentation
- post audit review of process, results and learnings for future collaboration.

## THE GLOBAL SCORECARD

Another opportunity for companies to benchmark their activities across similar domains and to highlight specific improvement opportunities is through the web based Global Scorecard Capability Assessment Tool. The Global Scorecard is operated by Global Commerce Initiative (GCI) which brings manufacturers and retailers together on a worldwide parity basis to simplify and enhance global commerce and improve consumer value in the overall retail supply chain. It was used to gather the data on which the ECRA Australian Grocery Industry Tracking Study 2002 was based.

The Scorecard comes in three forms:

- an entry level scorecard
- an intermediate level scorecard
- the full Global ECR scorecard

The purpose of the scorecards is to allow companies to make an assessment of their current ECR capability, compare themselves to best practice and to others in the industry, and to set improvement targets with associated actions.

The scorecards have been designed to be applicable to a wide range of companies, including:

- retailers
- wholesalers
- manufacturers and suppliers
- raw materials suppliers
- packaging suppliers
- transport and logistics services providers

The scorecards can either be used as an internal development tool within a company or as a framework for driving joint improvements and action plans between trading partners. As an internal development tool, companies can use the scorecards to make comparisons between different divisions or different countries within multi-national corporations, set internal improvement targets and monitor progress against internally set goals. As a joint development framework, the scorecards allow trading partners to review their current joint business processes and capabilities, to reach a common agreement on the desired level of attainment and to set joint action plans.

Further information on Global Scorecards is available at [www.globalscorecard.net](http://www.globalscorecard.net)

## FURTHER HELP AND ADVICE

Further information is available in the ECR publication *A Guide to KPI Development within the Grocery Industry*.

### **Efficient Consumer Response Australasia**

c/o Australian Food and Grocery Council (AFGC)

Locked Bag 1,

Kingston ACT 2604

Ph 61 2 6273 1466

Fax 61 2 6273 1477

[www.ecraustralasia.org.au](http://www.ecraustralasia.org.au)

### **New Zealand Food and Grocery Council**

Level 6

Microsoft House

3-11 Hunter St

Wellington NZ

Ph (64) 4473 9223

Fax (64) 4496 6550

[www.fgc.org.nz](http://www.fgc.org.nz)