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THE BUZZ

Got Cost-Control?

If you're not measuring the right key performance indicators properly, your department could soon be in trouble.

Many retailers are looking to cut costs and improve efficiencies in their frozen and dairy departments, but don't have a good handle on measuring and tracking key performance indicators (KPIs).



Philip Moorcroft

That's the word from Philip Moorcroft, CEO of MGPS (www.mgps.com), a Toronto-based consulting firm specializing in reducing non-core expenses.

He says these expenses not only generate no revenue, they tend to be over-priced and hidden. Worse, they can be a significant component of your overall costs.

"It is critical that key performance indicators are accurate, monitored regularly and tied to dollars," Moorcroft says. To understand the monetary value of every aspect of the supply chain, he adds, you need to regularly monitor KPIs ranging from the temperature of frozen foods to the percentage of spoils to the number of days in stock.

"Here's a caveat: Measurement is only as good as it is useful," he warns. "Most organizations have performance measures but not all of them are actually important. If they are not benchmarked against competitors and/or against internal targets as well as to historical values, they are useless. Additionally, if they are not tied back to a dollar value, their importance is limited."

Theoretically, all KPIs can have a monetary value attached to them, but this is not always practical or

necessary, according to Moorcroft. "Nevertheless, the more KPIs have monetary values attached, the more important they are to measuring financial impact," he says.

He suggests measuring a variety of factors as a percentage of revenue, including:

- Measurements on a per unit basis, such as spoilage per product as a percentage of the total, and hence the cost.
- Cost of goods sold, on a product basis.
- Transportation costs, based on weight/space, etc., on a per product basis.
- Employee hours, calculated per product.

"Not all KPIs can be easily tied to a monetary value and it is not necessary to do so (for example, temperature consistency, time to delivery) but all KPIs, to be effective, will have an impact upon the bottom line," says Moorcroft.

"Results for aggressively implementing KPIs will depend on a number of factors including whether or not KPIs are currently used; how accurate they are; the current state of the organizations; how well managed they are; how they are tracked, etc. Regardless, without accurate, effective KPIs, real improvements on an operating and financial basis will be difficult," he notes.

To establish internal benchmarks and targets, accurate measurements must first be made. "The more they are tied to monetary values, the better one can set targets," Moorcroft explains. "Arbitrary targets can be set (reduce time to delivery by 10%, etc.) but the more they are tied to

financial goals, the better," he says.

If your department is doing poorly, he says, your first targets should focus on improving financial performance. Regular monitoring of KPIs is critical, since this allows you to develop an historical performance chart you can use to track trends.

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Benchmarking internally (as well as among divisions) will enable you to accurately measure changes and compare results with other members of your team. With key benchmarks and trends, you'll be able to target weaknesses and get rid of underperformers, Moorcroft notes.

And what are some examples of things not to measure? You're probably not wise to try to measure "customer satisfaction," he warns. "While customer retention is essential, focusing on this may not meet objectives, unless the 'satisfaction' is directly related to other KPIs such as in-stock rates, customer loyalty (as measured by frequent-shopper programs), average basket size, etc. Basically, the focus should be on hard data as opposed to soft data." ■