



INSIGHTS

Using Customer Scorecards to Improve Performance and Build Relationships with Retailers

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Executive Summary

Satisfying the many requests of retailers can be challenging. Demands for improvement often come from a variety of sources, including buyers, distribution center managers, and category managers. So, how can a consumer products vendor be seen as a team player? After interviewing many major retailers, Clarkston Consulting found that retailers are receptive to working with vendors to create scorecards that measure performance.

This paper will outline how scorecards can be used by managers, discuss some ideas around what retailers really want from their vendors, provide an overview on scorecards, and emphasize the role of technology in the scorecard development process. It will also provide a case study example of work that Clarkston performed for a consumer products vendor as well as give recommendations for best practices in building a scorecard.

An Introduction to Scorecards for Managers

Management is a difficult and complex function. It requires accurate and timely information delivered to an individual with the right experience and knowledge to make good decisions. Managers who lack the informa-

tion to make informed decisions are at a significant disadvantage. For example, even though most retailers are looking for on-time delivery and specific order fill rates, these terms don't always mean exactly the same thing to everyone. Retailers may also take measurements at different times of the day, week, or month. Further, not all retailers enable vendors to download performance data. This means that using retailer scorecards to manage performance requires a good understanding of how every retailer operates across all accounts.

By understanding what is important to retail accounts and why, a vendor can build its own scorecard to measure performance from the retail customer's perspective. The key is not in duplicating the metrics of each account, but rather in building a set of measures that represent the customer's metrics while also considering the demands of the vendor's business.

Additionally, the contents of the vendor's scorecard don't need to be identical to the retailer's, but there should be similarities. This not only provides management with the information they need to drive sustainable performance improvements, but also supports the transition from a reactive organization that focuses on point-in-time issues, to proactively changing business practices to eliminate the flaws in business processes that cause

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issues. Becoming more proactive in improving performance and cost on a continuous basis is what retailers are looking for from vendors.

Wisdom from Retailers: Two Critical Success Factors

So what do retailers really want from their vendors? The overwhelming sentiment on this subject from retailers is that while speed is good, consistency is better. For instance, if the retailer knows that the delivery lead-time for a vendor takes 10 days, then they can manage 10 days in advance. However, it needs to be 10 days every time and neither early nor late is acceptable, and either can result in compliance fees. Once a vendor achieves consistency they should start working on decreasing cycle times.

Retailers are also looking for an answer to the question, “What are you doing about the problems we are experiencing?” Every vendor has room for improvement, and hearing what changes are underway, receiving regular updates, and seeing targeted improvements that are reflected in the scorecard build confidence. As vendors communicate with retailers, it gives retailers a sense that vendors understand their own issues as well as those issues that impact the account. Sharing this information also helps to build a partnership that benefits all parties. These characteristics are some of the unwritten criteria for achieving “preferred vendor,” or “vendor of the year” status.

The Scorecard’s Ultimate Objective

While the ability to measure one’s self is an important benefit of implementing a scorecard, the most valuable return from a scorecard investment comes from improved communication both inside and outside the organization. Using the scorecard to facilitate educated, intelligent, and mutually beneficial communication can tear down old walls and bridge established chasms.

The scorecard also gives the management team and sales force information, which enables them to approach an account knowing their company’s strengths and weaknesses. It removes the surprise often associated with account visits when sales thinks they are doing okay, but the account is dissatisfied. To prevent dissatisfied customers, the sales team should review both the company and the retail account scorecards regularly and help the retailer understand why both are important. This understanding can be achieved through just a few simple discussions, and can be especially beneficial if members of the retail account are involved in the scorecard development effort.

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Building these relationships can also open doors for more sophisticated relationships with retailers. With tools like Collaborative Planning, Forecasting and Replenishment (CPFR), a customer scorecard can act as the springboard for collaboration to improve relationships and open communication channels.

Scorecards are About the Business, Not Technology

One mistake often made on scorecard projects is the focus on technology. An application is selected, built-in metrics are utilized, and reports get generated. The fallacy is that no two companies are identical, and as such, a metric may not mean the same thing or be calculated the same way. For example, on-time delivery does not mean the same thing to all retailers. For some retailers, on-time delivery might mean that the vendor's products are on the premises although it may be in a truck on a back lot. Other retailers may consider on-time delivery as the products are on the shelves in the distribution center and are ready to be sent out to stores upon request. A discrepancy like this one can take hours or even days to sort through, but it is an important issue for vendors to understand and consider when developing their own metrics. The scorecard must show similar values and trends, therefore the metrics on the scorecard need to capture and report this information in a similar way.

The key to developing a successful scorecard is getting everyone involved to use and consider it as a regular part of doing business.

The best way to capture the right information is through process changes, not just technology implementations. Management, logistics, and account teams should develop a regular routine of measuring, reporting, reviewing, planning, and executing based on the scorecard metrics. Based on this review process, the account teams are responsible for communicating any initiatives with the retailers.

The key to developing a successful scorecard is getting everyone involved to use and consider it as a regular part of doing business. Encouraging employees to use the scorecard can certainly be facilitated by technology, but it cannot be created by technology.

Project Example: Building a Customer Scorecard

To help illustrate the customer scorecard concept, this section describes a recent project lead by Clarkston Consulting for a consumer projects manufacturer. The example exposes the business issue, describes the project, and reports the benefits realized almost immediately.

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The Business Issue

The management team at a consumer products manufacturer needed to understand how its customers (retailers) measured performance. Although management thought they were performing well, the sales force seemed to spend an inordinate amount of time responding to customer complaints, and compliance fees were on an upward trend. The management team felt that its existing performance measures may be too internally focused, and they weren't having much success using the many on-line scorecards provided by their major retail customers. They needed a performance management approach they could understand.

The Project

Clarkston Consulting worked with the management team to develop a customer scorecard that contained metrics pertinent to the vendor's key accounts, as well as those internal measures needed by management to make decisions on what to change to drive improvements. The development project included: Accompanying the vendor to five key retail accounts in North America to gain a better understanding of what was important to these customers and to identify their key business drivers.

- Identifying the internal processes that directly contributed to performance levels to define the best method of measurement for their business.
- Development of a customer scorecard to measure performance, including the customer's perspective and internal information needed by management.
- Working with management to identify opportunities for improvement and planning initiatives.
- Defining and implementing new management processes.

The Benefits

As a result, the sales force has better performance information, which has improved relationships with key accounts. Sales have also increased due to reduced out of stocks. Other retailer requirements such as Advanced Ship Notice (ASN) frequency and timing have also been improved which, in turn, have helped reduce vendor compliance fees.

Retailers have expressed satisfaction with the changes resulting from the customer scorecard program, and many have said that they now view the company as "progressive thinking." The program has revitalized the relationships with many of the manufacturer's accounts, and has positioned them well for future projects such as UCCnet and Collaborative Planning, Forecasting and Replenishment.

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Recommendations for Building A Successful Scorecard

Building a scorecard is easy. Building a scorecard that provides valuable information that actually gets used and creates excitement, urgency, and focus is not. Here are some guidelines to get started and remain focused:

- Build metrics that are pertinent to customers.
- Build a set of metrics that are meaningful to and actionable by management.
- Create demand for the information in management ranks by changing the way management does its job.
- Making the scorecard an integral responsibility for management.
- Create demand for the information in the account teams by building the program around a few key accounts and heavily publicizing its benefits.
- Ensure that account teams actively participate in the development of the scorecard to create a feeling of ownership.
- Carefully align improvement projects with specific metrics on the scorecard and set target performance levels.
- Regularly review both the scorecard and the improvement projects with the account teams. The account teams are the ones who will convey this information to their accounts.
- Use the scorecard and improvement project information as an anchor point in meetings with retailers.
- Grow the program into additional accounts. Leverage every success. Acknowledge and learn from every mistake.

About Clarkston Consulting

Clarkston Consulting is a leading management and technology consulting firm that provides strategic business solutions for clients within the life sciences and consumer products industries worldwide. These market leaders turn to Clarkston to help them bridge the gap between strategy and execution to sustain a competitive advantage. Clarkston is a sought-after business partner because of its recognized industry thought-leadership and superior client relationships, as measured by The Conference Board's survey on client satisfaction. For more information, visit www.clarkstonconsulting.com/whitepapers.



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