Integrate Metrics Along Processes, Across Functions and With Customers to Reach Stage 3 Maturity

Published 15 May 2020 - ID G00466180 - 20 min read

By Analysts Simon Bailey

Initiatives: Supply Chain Customer Fulfillment and Collaboration

As customer fulfillment matures from Stage 2 to Stage 3, metrics must also change to support an integrated, cross-functional approach. Supply chain leaders responsible for customer fulfillment need to use metrics that support integration and customer centricity.

Overview

Key Challenges

- Siloed metrics for order capture, order management, stock allocation, cash application and claims processing lead to a failure to optimize end to end (E2E) performance.

- Companies at lower stages of maturity lack the cross-functional metrics to steer them toward a unified approach to customer fulfillment.

- Low maturity companies measure themselves with internally focused metrics that do not adequately capture the customer experience (CX).

Recommendations

To reach integrated Stage 3 maturity, supply chain leaders responsible for customer fulfillment should:

- Remove silos along the order-to-cash process by implementing end-to-end metrics, which then serve to unite teams responsible for each step of the process with common goals.

- Create alignment across different supply chain departmental teams and across functions such as finance and commercial teams by aligning on a unified set of metrics.

- Build the foundations of a customer-centric supply chain by introducing metrics like Net Promoter Score (NPS) that represent the voice of the customer.

Introduction

Companies at Stage 2 customer fulfillment maturity tend to focus on their own costs and an internal view of service. Metrics like cost per order are used as process metrics, and the measures of customer service reflect a company’s performance against the quantity they committed to
deliver rather than what the customer actually ordered. Metrics tend to be at the shipment level rather than order or process level. Measurement focuses on service to the next step in the chain, rather than giving an end-to-end view, and emphasizes internal productivity, cost to deliver and inventory.

At Stage 3 customer fulfillment maturity, companies have developed integrated metrics that are different than Stage 2. The three key differences are that Stage 3 metrics help to integrate steps along the end-to-end order-to-cash process; they integrate across functions; and they integrate with customers. The resultant end-to-end metrics are aligned across functions and focused on what matters to customers, as represented in Figure 1.

Figure 1. Integration — End-to-End, Cross-Functional and Customer-Centric

The first shift brings together the steps along the order-to-cash process, so that companies abandon metrics that lead to optimization of the individual steps at the expense of the whole process. This is important, regardless of which function is responsible for each step of the process as it provides an end-to-end integration. The second shift unites functions such as supply chain, sales and finance — this gives a cross-functional integration on areas such as pricing claims and days sales outstanding (DSO). The third shift is when companies seek external input beyond simple delivery performance by implementing overall relationship metrics to understand levels of customer satisfaction and ease of doing business. This is the first step in the journey toward intercompany integration, which really takes off at Stage 4 maturity as companies focus on collaboration.

This research helps supply chain leaders mature from Stage 2 to Stage 3 customer fulfillment metrics. We will use the examples from Table 1 as we explore the transition from siloed to end-to-end measures, from functional to cross-functional working and from an internal to customer-centric mindset.
Table 1 summarizes some examples of metrics used at Stage 2 and Stage 3 to measure a range of performance in areas such as cost and efficiency, price and delivery, and service and customer experience.

<table>
<thead>
<tr>
<th>Stage</th>
<th>Siloed to End to End</th>
<th>Functional to Cross-Functional</th>
<th>Internal to Customer-Centric</th>
</tr>
</thead>
<tbody>
<tr>
<td>↓</td>
<td>Cost ↓</td>
<td>Efficiency ↓</td>
<td>Price ↓</td>
</tr>
<tr>
<td>2</td>
<td>Orders per FTE</td>
<td>Percentage EDI Orders</td>
<td>Deductions</td>
</tr>
<tr>
<td>3</td>
<td>Order-to-Cash Cycle Time</td>
<td>Percentage No-Touch Orders</td>
<td>Customer Price File Accuracy</td>
</tr>
</tbody>
</table>

Source: Gartner

Analysis

Integrate Metrics Used Along the Order-to-Cash Process

Stage 1 companies tend to operate in a more siloed fashion. They have not yet established or even envisaged end-to-end processes. By Stage 2 maturity, companies have begun to define end-to-end processes such as procure to pay (P2P), hire to retire (H2R), record to report (R2R) and order to cash (O2C), but have not fully transitioned to operating in an E2E way.

At Stage 3 this E2E transition is embedded and supported by a new set of metrics that underpin these processes. Companies stop trading off between siloed metrics and start to use end-to-end metrics that optimize the entire process. The scope of an end-to-end order-to-cash process varies by industry. Many companies extend beyond order to cash and include quote as a step in their process, especially those where a complex make to order (rather than make to stock) or mass customization option is offered. But for simplicity sake, we will explore a simplified representation of an end-to-end order-to-cash process, as shown in Figure 2, from order capture channels to cash application.

Figure 2. Simplified Order-to-Cash Process
The steps in the process are the same for Stage 2 and Stage 3 companies, but the metrics change. We see the evolution from Stage 2 siloed and often conflicting metrics to the metrics of Stage 3, which are agreed on by all parties to bring integration and alignment along the end-to-end process. So, for example, the team driving order capture may be focused on driving revenue but pay less attention to the quality of order entry. This passes work to the next team that is focused on order cleansing. This team, in turn, focuses on the number of processed orders, but pays less attention to whether each order is released before the agreed cutoff times for order shipment, which pushes that team to have to expedite deliveries. In trying to get deliveries out of the door, that team may fail to manage the POD process so that the next team needs to chase paperwork in order to collect the cash. If you are looking for examples to mature from Stage 2 siloed metrics to Stage 3 metrics, then use these two metrics — order-to-cash cycle time and percentage no-touch orders — to drive optimization along the end-to-end order-to-cash process.

Drive Productivity by Moving From Order-per-FTE to Order-to-Cash Cycle Time Metrics

Let's consider the order cleansing and processing step. If customer fulfillment managers are only interested in their own team's productivity, they often put in place an order per full-time equivalent (FTE) metric. This measures how quickly orders are processed with the focus on productivity. However, order-per-FTE targets may encourage teams to pay less attention to issues that impact downstream steps, such as processing orders from the customer with incorrect cases per layer or layers per pallet. The result is that, when it comes to order shipment, that team finds an order with 370 cases for a pallet configuration of six layers of 60 cases. It leads to excess picking, inefficiency in warehouse and transportation, and potentially other issues that slow up the invoice process and lead to damages or rejections. A little more time spent in the team cleansing orders would save a lot of effort downstream.

As an alternative, a Stage 3 maturity company would move to an end-to-end metric, such as order-to-cash cycle time. Order-to-cash cycle time refers to the time in days that it takes a company to process an order from order receipt to the point when cash associated with the order is recorded in the general ledger, having been collected from the customer. To make the transition to end-to-end metrics, one needs to work to break down departmental silos. The metrics themselves can be a key enabler of this.
With aligned metrics, team managers can put in place aligned goals and lead their teams to think about how their individual actions help or hinder the achievement of the overall optimized goals along the end-to-end order-to-cash process.

**Drive Efficiency by Moving From Percentage EDI Orders to Percentage No-Touch Orders Metrics**

Stage 2 companies may recognize the extra effort that certain order capture channels entail. They, therefore, put in place metrics to drive improvements in the percentage of EDI orders to make order capture more efficient. Improving the automation levels in this way may reduce the transcription errors in the order capture subprocess. However, it does nothing to reduce billing blocks, improve customer master data accuracy or adhere to trade terms such as order lead time. These factors may well lead even an automated order to require intervention. Therefore, a metric that is preferred at Stage 3 is zero-touch orders.

By creating a seamless interaction with their customers, companies can move to a higher percentage of zero-touch or no-touch orders, which are orders that flow through the entire order-to-cash process without human intervention.

By increasing the percentage of zero-touch orders, companies can improve efficiency and further decrease order-to-cash cycle time, while benefiting from improved cash flow via reducing days sales outstanding. It also releases resources from repetitive manual interventions and allows employees to focus on more value-adding activities that improve the customer experience.

In the 2018 Gartner Customer Fulfillment and Collaboration Survey, 71% of companies surveyed indicated that they measure order touches, with an average of 48% of orders being processed with no touches. Companies believe they need to touch orders for a wide range of reasons, from credit holds to order validation steps, but many of these should be challenged and eliminated. Follow this four-step process to reduce the number of touches:

1. Classify the top-level reason for each order touch.

2. Create a touch loss tree, such as the one shown in Figure 3.

3. Identify the Level 2 root causes showing the specific reason for each type of touch.

4. Determine if each order touch is truly necessary, and if so, accept it (for now) or put in place a countermeasure to eliminate it or automate it, and so reduce the reliance on manual intervention.
Develop a Root Cause Loss Tree and Find Actions to Eliminate Some of the Manual Touches

Key take-aways:

- Think end to end not siloed.
- Work along the process, and put in place metrics that encourage end-to-end optimization.
- Drive productivity by moving from order per FTE to order-to-cash cycle time metrics.
- Drive efficiency by moving from percentage EDI order to percentage no-touch order metrics.

Integrate Metrics Used Across Different Functions

One reason that Stage 2 companies tend to have metrics that measure individual steps of the process is because those steps fall under the responsibility of different departments or even
different functions. Let’s explore the simplified O2C process shown in more detail in Figure 2.

Stage 2 companies will have developed functional scale and efficiency, bringing more alignment than at Stage 1, but it may well be that activities are siloed:

- Sales may have responsibility for order capture.
- Customer service might have order cleansing.
- Planning may be responsible for stock allocation.
- Order shipment and delivery are overseen by the logistics team.
- Finance will likely manage invoicing, collections and cash application.

In lower maturity companies, managers often push their own functional priorities. The transition from Stage 2 to Stage 3 maturity becomes not only about integration along the end-to-end process, but also about integration across functional boundaries.

Many companies seek to reorganize in a bid to remove functional boundaries. The “ownership” of the end-to-end order-to-cash process is often placed under the leadership of a new department called customer fulfillment, which reports into supply chain. This merges customer service and the customer-facing part of logistics together into one team and takes over the management of order capture from sales and the invoicing and cash application steps from finance. But customer fulfillment teams will still need to work extensively with other supply chain departments, like planning and manufacturing, and other functions like sales and finance, as shown in Figure 4.

**Figure 4. Organization Collaboration Is Essential for a Well-Running Order-to-Cash Process**

![Organization Collaboration Diagram](image)
Stage 3 companies can support this cross-departmental and cross-functional collaboration by investing in system integration, so CRM and customer fulfillment systems both draw from one source of master data and work seamlessly with enterprise supply chain system. They also need to make standard operational data, such as order and shipment tracking, customer logistics preferences, and metric data, such as analytics dashboards, available to other parts of the organization. Specifically, from a metrics point of view, sharing metrics and associated targets across functions can help cement this integrated approach as shown in the following the examples.

**Drive Price Accuracy by Moving From Deductions to Customer Price File Accuracy Metrics**

Sales teams are often rewarded for “landing the sale.” Stage 2 companies tend to do this once the product ships, but at Stage 3, sales leaders are brought into the end-to-end process and don’t count a sale until the cash is collected. This more holistic leadership encourages the sales team to focus on the things they can do to improve the efficiency of the order-to-cash process.

At Stage 2, companies often use a deductions metric to measure the value of all outstanding payments from customers. They may be expressed as an absolute amount or as the number of days sales outstanding that the amount equates to. (For example, $200 million in outstanding payments for a company with sales of $5 million per day has a DSO of 40 days.) One of the most common drivers of overdue payments is when the customer disagrees with the price charged on the invoice and refuses to pay the price discrepancy or may choose to withhold payment for the entire order.

Stage 2 companies with siloed metrics task their claims processing teams with reducing DSO — this could be compared to mopping up water when a bath is overflowing. A Stage 3 company focuses on getting the process right the first time, in our analogy, turning off the water. The water coming from the tap, in this case, is due to customer price claims leading to deductions, and so turning off the tap is achieved by a cross-functional effort to improve customer price file accuracy.

Customer invoicing is a crucial part of the sales process. It is usually the sales team that agrees to the price, and where a promotional discount is put in place, it will be the sales team that agrees to the terms, length and scope of the discount. Lack of clarity in this price agreement process, slow or missing entries into ERP systems or errors in updating the price file lead to customer price file inaccuracy. When the customer invoice arrives at the customer, it will show not only the amount but also the price of each item sold. If the sale is not recognized until all deductions and claims are resolved, this tends to focus the sales teams’ minds on getting customer price file accuracy right the first time.

**Drive Delivery by Moving From On-Time Shipment to On-Time Delivery Metrics**

Similarly, warehouse teams can be focused on getting the product out of the door and not on whether the product is actually arriving to the customer on time. If it does not arrive on time, there can be repercussions such as the customer rejecting the shipment due to the delivery slot missed or the depot closing. Once again, this can lead to a failure to land the sale.
Targets for on-time delivery should be used as a shared metric between customer fulfillment teams and across logistics, planning and manufacturing teams. This moves teams away from their own functional and department silos and stimulates cross-functional efforts to serve the customer. It is part of an overall journey toward using perfect order metrics that is explained in more detail in Figure 5 in the next section.

Key take-aways:

- Think cross-functionally, not just functionally.
- Work across functional boundaries by putting in place metrics that unite them to a common end.
- Drive price accuracy by moving from deductions to customer price file accuracy metrics.
- Drive delivery by moving from on-time shipment to on-time delivery metrics.

Integrate Metrics Used Between Your Organization and Customers

Once a company has put in place the metrics to support end-to-end integration along the order-to-cash process and cross-functional integration, the last focus needs to be on integration with customers. This involves working to understand what your customers actually want and need. Customer centricity is more of a Stage 4 and 5 maturity area for customer fulfillment. But at Stage 3, we start to see companies developing this mindset and putting in place metrics that are more informed by the customers’ points of view.

Two examples are given below, with the first looking at how fill rate is measured and the second showing examples of customer experience metrics — Net Promoter Score and Customer Effort Score (CES).

Drive Service by Moving From Internal Case Fill to Customer Fill Rate Metrics

As can be seen in Figure 5, the journey toward a perfect order metric is a long one. Most Stage 1 and 2 maturity companies start with metrics in the lower half of the figure. They are looking at both service fill rate and on time from an inside-out perspective — i.e., from their own perspective. As companies move from left to right, we see the transition from Stage 1 and Stage 2 internal metrics to Stage 3 maturity companies in the middle who have typically switched to more customer-centric accepted on time and customer fill rate metrics.

Figure 5. On-Time and In-Full Metrics Mature From Internal to Customer-Centric Metrics
When your orders are inaccurate, your operation is forced to waste time, resources and capital correcting the order for your customer. Beyond this, low order accuracy can damage the reputation of your order fulfillment operation and lower customer trust, ultimately making it more difficult for you to both retain your existing customers and attract new customers. For these very sound reasons, most Stage 2 companies will have one or more order error rate measure in each of their process silos:

- Order capture and cleansing — order entry error rate
- Order shipment — order picking error rate
- Invoicing — order invoice error rate

However, these are all internally focused metrics. Of course, customers want to know that, when they order something, they’ll get what they wanted, but the amount of time you spent correcting an error while you were processing it is not their primary concern. So, what is? The answer to that question is to ask your customers about their primary concerns — and for that, we have to establish a voice of the customer (VoC) program. Stage 3 maturity companies typically start on this activity and develop it much further as they move into Stage 4. The VoC programs include gathering information through surveys, panels and other forms of feedback. They are developed much more at Stage 4 with the addition of customer journey mapping and customer journey analytics tools and technologies. (See “Supply Chain Customer Centricity Part 1: Leadership Alignment and Capability Development,” “Supply Chain Customer Centricity Part 2: Leverage Personas and Journey Mapping to Understand and Design the CX” and “Supply Chain Customer Centricity Part 3: Using Customer Journey Analytics to Enhance CX” for more details.)

The aim as you move from Stage 2 to Stage 3 is to simply identify desired customer insights and tie those to metrics that indicate success of your CX program. The most common early stage CX success metric is Net Promoter Score. NPS is a standardized question, “How likely is it that you would recommend our company to a friend or colleague?” Respondents choose from an 11-point
scale (0 to 10). The percentage of promoters (who answered 9 or 10) minus the percentage of detractors (0 to 7) gives you the result. The neutrals (who answer 7 and 8) are not considered in the calculation.

There are lots of other ways of gathering VoC insights. These broadly relate to how a customer views the company as a whole — relationship metrics — or how they felt about a given touchpoint interaction — transactional metrics.

An example of a transactional metric is Customer Effort Score (CES). This measures the effort put in by the customer during a given interaction. (See “How CES, NPS, and CSAT Correlate to B2B End-User Loyalty.”)

The two are compared in Figure 6.

**Figure 6. Relationship and Transactional Customer Experience Metric Examples**

A relationship metric like NPS should be conducted less frequently. It is used to assess a customer's overall perception of a company rather than a specific impression based on one transaction, whereas transactional metrics measure a given touchpoint and should be used straight after a specific interaction. Imagine a cab company. It might send regular customers an email once every six months to check that the customer is happy with the overall relationship with the company. It might also use an app to check after every ride that the client had a good experience on that journey.

Key take-aways:

- Start to develop a customer-centric mindset to balance internal focus.
- Work with customers to understand their needs and put in place metrics to measure CX.
Drive service by moving from internal case fill to customer fill rate metrics.

Drive CX by moving from order error rate to Net Promoter Score metrics.

Evidence

1 The 2017 Gartner State of the Customer Experience Function Survey included 33 companies from across multiple industry sectors.

2 The 2018 Gartner Customer Fulfillment and Collaboration Survey: The purpose of this study was to understand the current state of customer fulfillment and collaboration strategies, development and capabilities, and the impact of digital business on these strategies. The research was conducted using a mixed methodology (online/computer-assisted telephone interviewing [CATI]) from May 2018 through July 2018 among 312 respondents in North America (68%), EMEA (17%) and Asia/Pacific (15%), across a variety of manufacturing industries. The industry mix included industrial manufacturing (57 respondents), chemical (59 respondents), high tech (82 respondents), consumer products (60 respondents) and life sciences (54 respondents).

Participants were required to have decision-making authority for their companies’ customer fulfillment and collaboration strategy, including order-to-delivery processes, order management, order management technologies, vendor-managed inventory, customer collaboration, order-to-delivery metrics, and supply chain order-to-delivery strategies.

The survey was developed collaboratively by a team of Gartner analysts that follows the supply chain, and was reviewed, tested and administered by Gartner’s Research Data and Analytics (RDA) team.

Disclaimer: Results this study do not represent global findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.

Recommended by the Author

Use Gartner's Maturity Model to Improve Customer Fulfillment

Toolkit: Evolving On Time In Full From Internal to External Definition of Perfect Order

Supply Chain Customer Centricity Part 1: Leadership Alignment and Capability Development

Supply Chain Customer Centricity Part 2: Leverage Personas and Journey Mapping to Understand and Design the CX

Supply Chain Customer Centricity Part 3: Using Customer Journey Analytics to Enhance CX

How CES, NPS, and CSAT Correlate to B2B End-User Loyalty

Recommended For You

Tool: Intellectual Property Protection Checklist