LAWSON™

Seven Steps to Delivering Perfect Orders

White Paper for Distributors in Industrial Supply Sector

Table of Contents

Introduction

Like you, your customers want to do business with someone who can reliably deliver what they want, when they want it and how they want it. Your success depends on your ability to do this well, and to do it profitably. However, this isn't always an easy feat; given that the business processes that go into delivering perfect orders cut across many functions within a company. This means that there are lots of places where orders can go wrong – starting with inaccurate replenishment and stocking strategies through to order entry mistakes or problems with delivery schedules.

The complicated nature of the industrial supply chain – with its product diversity, global supply chains and multiple stocking points – doesn't make it easier. But whether you are a broad line distributor or specialist in janitorial and sanitation for example, improving your ability to deliver perfect orders isn't just important, it's vital.

This paper explores why you should focus on the perfect order, how to measure it, and your route to reliably supplying your customers with what they want, when they want it.

The perfect order – why so important?

Improving your ability to deliver the perfect order has clear benefits, the most obvious of which is increased customer satisfaction: a happy customer is a loyal customer. And in the current economy, retaining your most profitable customers – and making the most out of your relationship with them – has become more important than ever.

However, the gains you make through consistently meeting, or even exceeding, your customers' expectations go beyond having a list of happy customers. It can also translate into increased sales, increased market share and ultimately top-line revenue growth.

Benchmarking studies conducted by Debra Hofman, of AMR Research, show a link between improved perfect order performance and overall corporate results. She found that a three percent improvement in the perfect order score correlates with a one percent increase in profit margin while a two percent jump in the perfect order score shows a ten-cent increase in earnings per share. While it's hard to establish a direct correlation, Hofman notes, "a company has to be good at a lot of things in order to be good at the perfect order. If they score high, chances are they're doing many things well."[1]

Companies with high perfect order rates also tend to carry fewer inventories, have shorter order to cash cycles, and suffer less from stock outs. At Procter and Gamble the "perfect order" concept has driven major organizational change. The company began to measure their perfect order rate in 1992 and since then, they have seen substantial gains in the form of reduced supply chain costs and increased market share.[2] Ralph W. Drayer, former Vice President of Customer Service/Logistics at Procter and Gamble, comments "I can honestly say that it (the focus on the perfect order metric) changed everything at P&G. We really started focusing on the customer versus internal measures, built a much more reliable and cost efficient supply chain and created a platform for much deeper collaboration with key customers."[3]

And yet despite the very obvious benefits of getting the order right, many companies consistently fail to do so.

If you look at it from the other angle, then not getting the order right has some very real implications in the form of unpaid invoices, lost sales, and in the worst case – lost customers. The unnecessary costs that companies incur when they ship wrong orders include the expense of handling returns and shipping replacement product, the cost of resolving refunds and offering price deductions, not to mention the labor costs that go into putting a wrong order right – both at the warehouse and in the back office. As part of their perfect order initiative, Proctor and Gamble estimated that each incorrect order shipped cost the company an average of $200. [2]

And if you supply the major OEMs, or if delayed delivery of your products is holding up production in an automotive plant for example, then you could also be looking at penalties for late deliveries or stock outs.

With margins as tight as they are in the industrial supply sector, is there really room for this?

What is the perfect order?

There are many ways to measure how well you serve your customers. Customer satisfaction surveys, analysis of sales data, tracking of individual performance indicators like shipped on time etc. But at the end of the day, what really matters is how effective you are at reliably supplying your customers with what they want. The perfect order metric measures your ability to do this. It gives a big-picture view of how good you are at serving your customers – from your customers' perspective. It also gives a good indication of how well your supply chain is performing since your ability to create the perfect order hinges on how well you anticipate and respond to demand.

The Supply Chain Council defines perfect order fulfillment as the percentage of orders:

- delivered on time to the request date and/or commit date;
- in full;
- with no quality issues;
- and with the correct and matching invoice, PO, and receipt.

The Perfect Order Index is one way of determining your ability to meet the above. Rather than monitoring the individual components separately, it multiplies them together to give a comprehensive view of how well you serve your customers. Because at the end of the day, if one element is not met, then the order is not as it should be, and the customer is not satisfied. Tracking the Perfect Order Index gives a better measure of customer satisfaction than measuring the components individually.

The benchmarks used to measure the above, how you define and track them, and the level to which you track them, will vary from company to company. But both the Perfect Order Index and the lower level metrics serve two purposes. Firstly, the metrics show how well you perform. And secondly, when used with business intelligence or analytical tools, the metrics help you understand the issues that lie beneath your perfect order score and highlight opportunities for improvement.

For example, while it's nice to know that you deliver on time 95 times out of 100, what you really need to understand is why you didn't make it 5 percent of the time. Was the SKU not available in that branch or distribution center? Did late supplier deliveries cause a knock-on delay? Were there issues with a third party logistics provider? And more importantly, is there a pattern emerging?

Looking at your perfect order process in this way allows you to identify problem areas in your supply chain and highlight opportunities for improvement. In effect, tracking the metric is a way to drive continuous improvement. This is particularly important for the industrial distribution sector where you are dealing with large inventory networks, diverse product types and a mix of sales channels and customer categories.

So how do you achieve the perfect order?

The processes involved in delivering the perfect order include all stages of the order-to-cash cycle: from capturing the order, through sourcing, stocking and fulfillment to the collection of the receivable. To improve your perfect order rate, you need to improve these business processes. And since the processes involved in delivering the perfect order cut across many functions within your business, visibility along the cycle and across these functions is key to success.

Many distributors struggle with delivering the perfect order because they are burdened with disparate systems and integration challenges. This makes it difficult to have a coordinated view of the order management process across internal divisions and the extended supply chain. And it is just this visibility that is key to a successful perfect order process. Increase your visibility, and you increase your odds of being able to deliver the perfect order.

You also need to empower the people who execute these processes day to day with the information they need to make informed decisions – and the ability to act on them. For example, if you're running low on product, your warehouse personnel should be able to prioritize those orders from your most important customers.

Seven steps to perfect orders

The first step towards putting a perfect order process in place is to decide what to measure and how to measure it. You can then begin tracking your performance, which allows you to highlight problem areas and identify opportunities for improvement. Next you need to look closely at the value of those improvements – which will bring greatest benefit to your organization and at what cost? A clear understanding of the value of any potential improvement is necessary to be able to make informed decisions on the trade-offs between delivering the perfect order and the costs involved. For example, if you've been focusing hard on delivering on time – with the result that you've incurred extra costs for expedited shipping, then you should take a good look at your distribution channel and your transportation network to see how you can balance delivery performance and profitability.

Next you need to agree on which areas to improve and in which order. And once improvements have been implemented, you need to track your progress and adjust the process on an ongoing basis.

Seven steps to perfect orders

1. Decide what to measure
2. Define how to measure it
3. Track performance
4. Highlight opportunities for improvement
5. Determine the value of those improvements
6. Prioritize what to do and in what order
7. Track and adjust

Business modeling tools like Lawson Opportunity Analyzer help you to benchmark performance, identify your smartest opportunities for improvement and determine the value of any potential gain. The path to improvements can then be mapped by looking at the business processes involved and the best practices that should be implemented to get there.

Example

The CFO is concerned about invoice management for certain types of project linked orders. One pain can be that that project orders are a challenge in terms of getting timely delivery information and proof of quantities delivered. This results in claims from customers due to discrepancies. The claims might state that the customer was invoiced for more product than was actually delivered, and it can often be difficult to prove otherwise.

An effective **key performance indicator** (KPI) for this area is the percentage of customer claims versus net sales revenue. The **business processes** that impact this KPI are outbound warehouse activities and customer site activities. One of the **best practices** to improve these business processes is the use of mobile delivery management techniques including proof-of-delivery (POD).

The **financial gains** can be calculated as follows: a company invoices $60,000,000 annually for on site deliveries and 3 percent of this total is in dispute and claimed by customers as not delivered. With best practice mobile delivery techniques, management estimates that 50 percent of these claims could be proven to be actually delivered – this translates into a bottom line increase of $900,000 per year.

This gain can then be considered against the cost of implementing the best practice.

The following are examples of best practices that support the perfect order.

Best practice in order capture

Success in order capture means being able to take an order accurately the first time, every time in exactly the way the customer wants. This includes being open to all channels – over the counter sales, fax, phone, e-commerce sales, EDI, and in person at the customer. It also means being able to handle last minute completions and order changes. Being open to multiple channels puts customers in control over how they want to make their purchase, which increases customer loyalty.

Buying pattern analysis and automated verification of scheduled orders should be in place, and when a customer hasn't called off an order as expected, your customer service representative should receive an automatic prompt to contact that customer (proactive outbound calling). You should also have the ability to manage customer-specific pricing, promotions, discounts and commercial deals.

Trade counter personnel should have ready access to all the information they need to do their job or answer any questions the buyer may have. They need to be able to look up pricing and promotions, discuss order status, volumes, etc. – and then quickly input order information on the spot. When your sales team has visibility into what you have available then you can increase sales volumes, while having a tight link to promotional information enables cross- and up-selling opportunities.

Best practice in order promising

A customer often makes a buying decision based on availability and delivery time. Your ability to promise accurately and then deliver on those promises is key here. Best practice includes automated order promising with confirmed delivery dates and times. Available-to-promise and capable-to-promise functionality with automatic checks are essential in order to consistently and reliably supply your customers. In complex situations, supply models can be used to present delivery options for example direct from supplier, from local DC, or multiple legs.

If any part of a customer order is not available as requested from inventory, then you need to be able to confirm a future delivery or propose a suitable substitute. In this way you can avoid losing orders and make better use of the inventory on hand. With accurate order promising, your customers can have confidence in your reliability as a supplier.

Best practice in order fulfillment

For an order to be perfect, your customer should receive 100 percent of what they ordered, packaged the way they expect, with the right labeling – including any regulatory documents if applicable. Order fulfillment best practices cover warehouse activities such as automated scheduling of the putaway to optimize picking, automatic pick-face replenishment, flexible pick, pack and dispatch methods and wave picking. Customer unique allocation rules should be in place to meet specific requirements, and to enable the building of store- or cross dock-ready mixed pallets for example. Warehouse mobility solutions should be in place and even voice picking if volumes justify. The warehouse staff should also have visibility into outbound freight schedules and branch replenishment needs to optimize scheduling. Your product range may involve other process challenges such as shelf life control, serialization, final configuration, sawing or other activities which need to be automated.

Best practice in order delivery

Customers should be able to specify when, where and how they want to receive a delivery. Because same or next day delivery is standard for many distributors, the ability to plan by the hour or even by the minute can be crucial.

Transportation may require a mix of own fleet scheduling for more local deliveries, and integration with 3rd party carriers for long haul or extra capacity deliveries. You should also have the ability to re-plan and re-optimize based on real-time supply chain events.

Best practice at the customer site includes mobile delivery management techniques including proof of delivery and the ability to handle returns.

Although not related to delivering the perfect order, the ability to keep track of returnable containers with barcodes or RFID can mean significant cost savings in a process area that is typically manually managed.

Best practice in documentation

Best practice in documentation means being able to invoice accurately in the way the customer wants it with zero errors. This could be an over the counter priced delivery note, an invoice on proof of delivery, daily, monthly or chain invoicing. It also means delivery layout, invoice layout and delivery method as requested by the customer. It includes automated customer-specific pricing, discount and promotion management. Billing systems should also be able to support multi-channel returns across the entire value chain in order to resolve disputes quickly.

Summary

Delivering what your customers want, how they want it and when they want it, is no longer an added bonus – it is expected and even essential in today's customer-driven economy.

Focus on your perfect order performance and you will see benefits that extend well beyond a loyal customer base. You can also expect to see operational efficiencies, increased sales and market share, and ultimately bottom line growth. You'll also improve collaboration with your trading partners at both ends of your supply chain.

Visibility across your extended supply chain is key to achieving high perfect order rates. Increase your visibility and you increase your odds of being able to deliver the perfect order. Timely, accurate and easy to understand information in the hands of the people who execute order processes is also crucial.

Lawson Software, its distribution industry experts and tools like Opportunity Analyzer can help you on your path to delivering perfect orders and in doing so, strengthen your reputation as a reliable supplier.

Sources

1. From "3PLs Help Clients Define and Deliver The Perfect Order," Jean V. Murphy, Global Logistics & Supply Chain Strategies, August 01, 2007

2. From "Supply Chain Redesign: Transforming Supply Chains into Integrated Value Systems," Robert B. Handfield, Ernest L. Nichols, Financial Times Prentice Hall Books, 2002

3. From "Is the Perfect Order the Perfect Supply Chain Metric?," Supply Chain Digest, March 12, 2009 *http://www.scdigest.com/assets/FirstThoughts/09-03-12.php?cid=2327&ctype=content*

LAWSON™

Dis-10-135-1-en

Headquarters: **USA**
380 St. Peter Street
St. Paul, MN 55102-1302
Tel +1 651 767 7000
info@lawson.com

Regional Offices:

Americas
Brazil, Chile, Canada, Mexico, Honduras, United States, Venezuela

United States
Tel +1 651 767 7000
infous@lawson.com

Asia
China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, Vietnam

Singapore
Tel +65 6788 8769
Fax +65 6788 8757
infoasia@lawson.com

Australia & Oceania
Australia, New Zealand

Australia
Tel +61 2 9468 8900
Fax +61 2 9468 9199
infoanz@lawson.com

Northern Europe
Denmark, Estonia, Finland, Norway, Sweden

Sweden
Tel +46 8 5552 5000
Fax +46 8 5552 5999
infonordic@lawson.com

Northwestern Europe
Belgium, The Netherlands, Ireland, South Africa, United Kingdom

United Kingdom
Tel +44 1344 360273
Fax +44 1344 868351
infonw@lawson.com

Central Europe
Austria, Czech Republic, Germany, Hungary, Poland, Slovakia, Switzerland

Germany
Tel +49 2103 89060
Fax +49 2103 8906 199
infoce@lawson.com

Southern Europe
France, Israel, Italy, Portugal, Spain

France
Tel +33 1 34 20 80 00
Fax +33 1 40 39 25 07
infoso@lawson.com

www.lawson.com

About Lawson

Lawson provides software and service solutions to 4,000 customers in the manufacturing, distribution, maintenance and service sector industries across 40 countries. Lawson solutions include enterprise performance management, supply chain management, enterprise resource planning, customer relationship management, manufacturing resource planning, enterprise asset management and industry-tailored applications. Lawson solutions help customers simplify their businesses or organizations by streamlining processes, reducing costs and enhancing business or operational performance. Lawson is headquartered in St. Paul, Minn., U.S., and has offices around the world. Visit Lawson online at www.lawson.com.

Why Lawson? Because simpler is better.