Stratum Key Performance Indicators (KPIs)

KPIs: Why Do We Need Them?

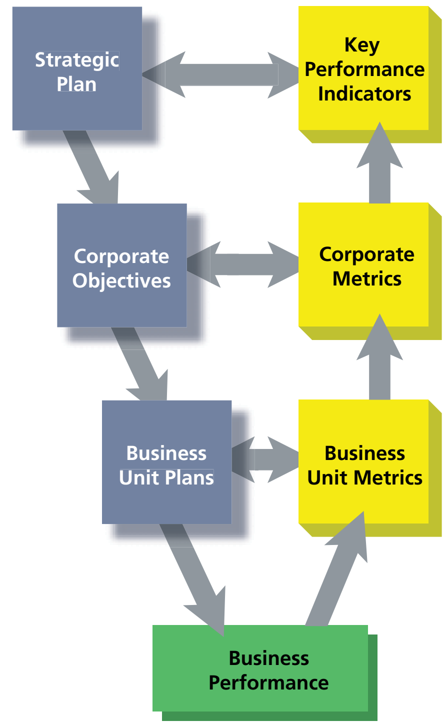
In today's business setting, executives and line of business managers are constantly bombarded with information about the business and the marketplace. They do not always understand what key business issues should be managed and how to effectively manage them. Nor do they have the time to review and prioritize every piece of information that crosses their desks, let alone, do so in a timely fashion. Lacking these key fundamentals, they are at risk of missing or not reacting quickly enough to critical business issues that may negatively impact the business. Key Performance Indicators (KPIs) give executives and managers the ability to focus on what matters most to the business. KPIs are financial and non-financial measures that explain what has happened. They assist managers in identifying an organization's strengths and weaknesses and provide a starting point for the performance improvement process by demonstrating whether a business is in line with its strategic objectives. Key performance initiatives also enable a Balanced Scorecard to measure and drive strategic change.

What Should KPIs Address?

To be effective in improving business performance, key performance indicators must:

- Address all aspects of performance results in these areas: customer satisfaction, product and service performance, financial and marketplace performance, supplier and partner results, operational performance, and performance relative to competitors
- Support strategic goals and describe the targeted performance in measurable terms
- Be deployed to the organizational level which has the authority, resources, and knowledge to take the necessary action
- Not be overwhelming to manage (they should not require full-time employees to monitor them)

Stratum KPIs include numerous financial and non-financial measures for monitoring business performance. The nonfinancial measures offer four clear advantages over measurement systems based on financial data alone. First of these is a closer link to long-term organizational strategies. Financial evaluation systems generally focus on annual or short-term performance against accounting yardsticks. They do not deal with progress relative to customer requirements or competitors, nor other nonfinancial objectives that may be important in achieving profitability, competitive strength and longer-term strategic goals. Second, critics of traditional measures argue that drivers of success in many industries are "intangible assets" such as intellectual capital and customer loyalty, rather than the "hard assets" found on balance sheets.



Although it is difficult to quantify intangible assets in financial terms, non-financial data can provide indirect, quantitative indicators of a firm's intangible assets. Third, non-financial measures can be better indicators of future financial performance. Even when the ultimate goal is maximizing financial performance, current financial measures may not capture long-term benefits from decisions made now.

Finally, the choice of measures should be based on providing information about managerial actions. Managers must be aware of how much success is due to their actions or they will not have the signals they need to maximize their effect on performance. Because many non-financial measures are less susceptible to external noise than accounting measures, their use may improve managers' performance by providing more precise evaluation of their actions.

Stratum: Tracking Valuable KPIs for Supply Chain Businesses

Stratum includes more than 500 pre-defined sets of measurements, 65 of which cover the management processes of Plan, Source, Make and Deliver as defined by the Supply Chain Council's Supply Chain Operations Reference-model (SCOR). The SCOR model serves as the standard process reference model for communicating supply chain management practices across companies. SCOR provides a common supply chain framework, standard terminology, common metrics with associated benchmarks, and best practices.

Silvon has found extreme value in the SCOR model because it can be used to build integrated supply chains and supports the underlying purpose of Stratum to serve as the infrastructure required by our customers not only to plan and analyze their own business performance, but also to collaborate and share performance measurements with suppliers, manufacturers and customers to improve overall supply chain performance.

The following are examples of the KPI metrics included in Stratum for the (4) SCOR process areas:

PLAN: Cash-to-Cash Cycle Time, Inventory Carrying Cost, Inventory Days of Supply, Supply Chain Finance Costs

SOURCE: Percent Defective, Percent Of Parts Delivered To Point Of Use, Percentage of Orders Scheduled to Customer Request

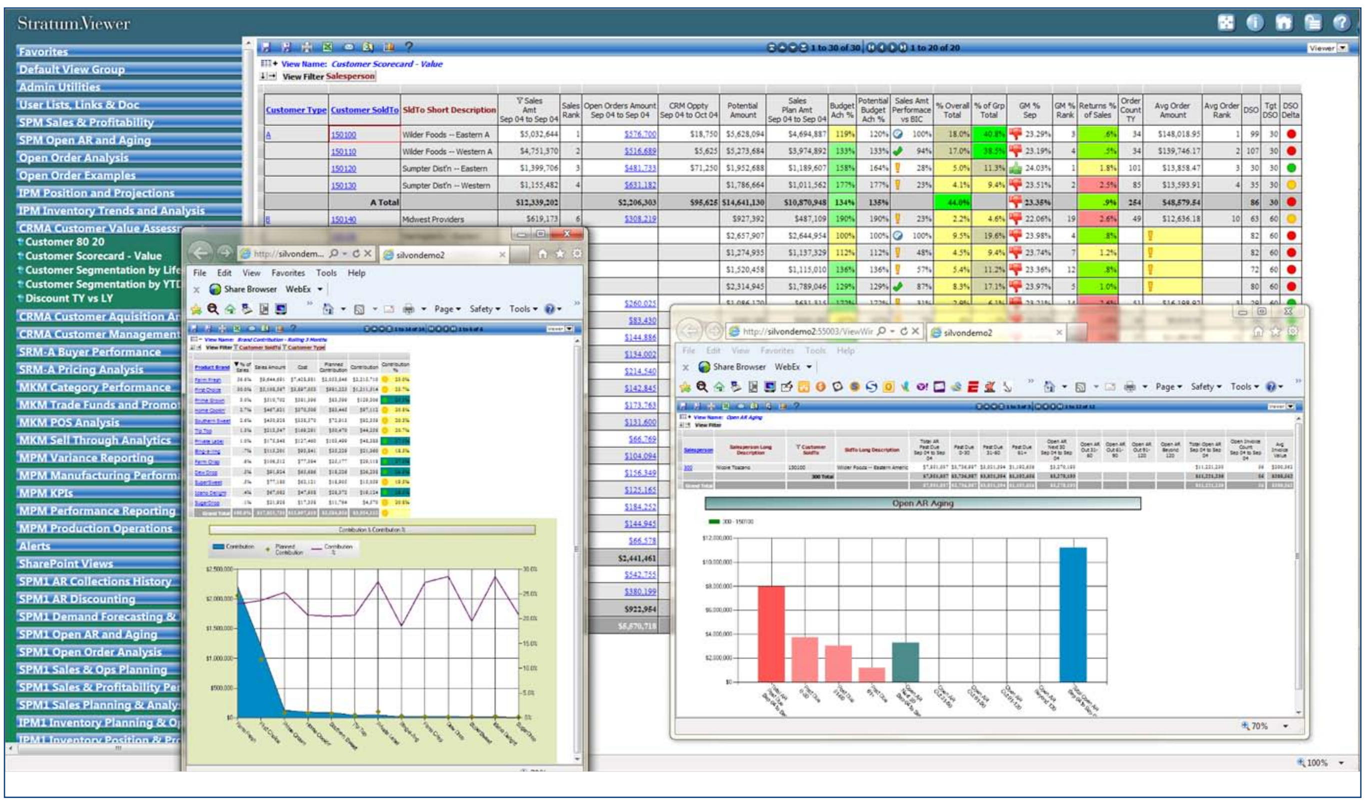
MAKE: Indirect to Direct Labor Headcount Ratio, Inventory Accuracy, Inventory Cycle Counting Accuracy, Value-Added Employee Productivity

DELIVER: Days Sales Outstanding, Delivery Performance to Customer Request Date, Delivery Performance to Scheduled Commit Date, Perfect Order Fulfillment, Transportation Costs

How KPIs Are Analyzed Using Stratum

There are a number of different ways that Stratum can be used to analyze KPIs. The most beneficial are:

- Through trending or viewing how the KPI has changed over time. This is the easiest way to identify improvement and is made possible by using Stratum to capture and store historical measures, which can be analyzed over time and compared to current measures.
- Through proactive monitoring where unacceptable performance is 'pushed' to the appropriate 'owner' of the KPI. For example, if fill rates are intended to be at least 95% and on a certain day for a certain customer that rule is broken, the account manager responsible for the customer could be notified immediately and respond right away to alleviate any potential issues that may arise. To accomplish this, Exception Management functionality allows users to define acceptable ranges for each metric and to select the mechanism(s) desired for broadcasting unacceptable KPI measures.
- Through the use of scorecards that capture multiple KPIs across various divisions, business units, etc. and provide a comparison across those business levels.



Driving The Intelligent Enterprise

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