Building
Tomorrow's Enterprise

White Paper

Performance Management (PM), the key for a successful C-Commerce relationship

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PM provides unambiguous criteria, setting the precedent as to what's important across the value chain

Background

Collaborative Commerce, C-Commerce, is not a new concept. As a matter of fact commerce began this way. In the early days there were no ways to preserve merchandise from spoiling and as soon as the "Supplier" (a strong hunter caveman) delivered the "Goods" (a freshly killed mammoth) to the "Retailer" (the cave's cook), the animal would be prepared and served to the hungry cavemen.

Historically, matching the needs of the consumer with the goods being supplied has been very important. Imagine if the hunter had taken days to kill the mammoth, probably the whole cave would have died of hunger. Though we have had centuries of evolution, this fundamental concept has not changed. As suppliers become even more disconnected from the consumers, it is up to the retailers to provide the suppliers with the information they need to produce and deliver what is needed, and deliver it on-time without forcing the retailer to keep an expensive inventory on-hand.

Providing Business Intelligence capabilities to the suppliers is imperative for the retailers to enable C-Commerce across the value chain. However, while providing access to sales and other information is a requisite to enable collaboration, it is certainly not enough. This article will elaborate why a strong Performance Management discipline is the key to a successful C-Commerce relationship.

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Defining Performance Management and its role in C-Commerce

Defining it is part of our nature to like and dislike things, let's take for example a set of stores, some you will love to shop at, others strictly out of limits for you. Have you ever thought what makes a store different from another? What makes you avoid particular ones, while you will go out of your way for others?

We have our criteria to determine what is good and what is bad, unconsciously we make a value assessment based on previous experiences, our personality and the environment that we are exposed to. Essentially we define metrics or performance indicators about what is important for us and then assign value thresholds (e.g. red (do not go there), yellow (go there if there is nothing better to do) or green (go out of your way to get there)

This judgment of value permeates everything that we do, and C-Commerce is no exception. In order to keep two parties in agreement, they should both understand what is acceptable for each other and what's not. Essentially a set of performance metrics is defined and a discussion is established to set the parameters for the thresholds.

C-Commerce requires that all parties involved collaborate very closely and share information that allows them to understand and infer the other parties' needs. Providing Business Intelligence capabilities enables information to flow freely, so the whole chain can work single mindedly to achieve the objectives with minimum delays/issues. However every single entity across the chain has internally different criteria for operation that at some times might be in conflict with the others. Let's take the example of a factory that had to temporarily close one of their production lines for maintenance. Now in order to deliver the orders on time they have to pay overtime to their workers, which would decrease the profit. A decision has to be taken, either to pay the workers overtime, or short the orders. If you ask the factory management, they probably will advise to short the orders, but if the retailers are consulted they will probably ask for the product on-time as they have already committed a huge advertising campaign in place. Situations like this and others more complex will present themselves again and again, if there are no well defined performance indicators among the parties that are a part of the relationship. In the long run, each of the parties would probably get frustrated with each other and the relationship will severed.

Performance Management provides unambiguous criteria by which the parties will be measured and thus sets the precedent as to what is important.

See Figure 1, a retailer has identified three major criteria to measure the vendors: Order accuracy, On-Time delivery and Product Quality. Thresholds have been set to identify what value ranges are permissible for each of the metrics. Commitments have been established to operate in green all the time. Yellow or red accrues economic sanctions for the vendors.

Vendor	Order Accuracy		On-Time delivery		Product Quality	
MiaCake	90%		70%		A	
ArgToys	90%		90%		B	
Candy&M	70%		98%		C	

Figure 1 – Sample Vendor Scorecard

In Figure 2, the supplier will also measure the retailers it serves with a different set of metrics that enables it to be more productive and efficient: How are they ordering vs. what they committed to order, how much lead time are they providing, and how much merchandise is being returned. If the retailers fail to comply some of the discounts might be waived.

Retailer	Commited Quantity		Order Lead Time		Returns	
N-G-G Grocery	90%		1.5 days		2%	
MiaMart	90%		3 days		5%	
Save & Party	70%		7 days		10%	

Figure 2 – Sample Retailer Scorecard

Conclussion

Performance Management provides the parties involved in C-Commerce with the means to set the right expectations across the value chain. Furthermore it enables them to measure how they are performing against this criterion in an objective fashion; effectively becoming the key for a successful C-Commerce relationship.

References

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