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Raising questions about the effectiveness of distributor service scorecards and resulting "penalty fees"

Chasing the Wind

How Distributor Scorecards Might Drive Unintended Consequences

Last month, the newly expanded Foodservice Supply Chain Share Group held a great meeting in Chicago. We covered a wide range of topics, and the members shared their experiences, successes, and frustrations in dealing with common foodservice issues.

One subject which is a concern for all foodservice manufacturers is the preponderance of distributor service scorecards, and the fear that they are creating unintended and negative consequences for all involved.

Perhaps worst of all, there are countless hours being burned each month with reviewing, responding, and reconciling instead of improving service!

Years ago, a few distributors began publishing service standards for their suppliers, which spell out expected performance levels in the areas of:

- Order Flll Rate
- On-time Delivery
- Invoice Accuracy
- Shelf Life Remaining

....and a variety of other metrics specific to each distributor

This was an effort to document clear expectations for supply chain partners, and was certainly well-intended.

After a while, some of these distributors began publishing monthly or quarterly scorecards for their suppliers, showing specific performance against the targets on an order-by-order basis. Again, a right-minded attempt to deal with data-driven facts rather than anecdotes and generalizations.

By this time, many additional distributors had jumped on board and began publishing their own service standards and scorecards; the Supply Chain Share Group counted at least 12 major distributors who are currently using this approach - and why not?

Then, perhaps inevitably, many of these distributors began to impose fees (or "fines," in manufacturer terminology) for each incidence of a manufacturer's failure to meet their service targets. One can imagine that this was driven by a desire to push the cost of service problems back to the manufacturers.

On the surface, all of this appears to be good business practice.

- The customer produces clearly articulated expectations
- There is regular reporting on results
- It uses data and facts, not murky complaints
- It creates financial incentives to drive improved performance

So, what's the problem???

For one, manufacturers already have their own standards, targets, metrics and measures by which to manage service performance. Chances are, any given distributor's performance criteria, targets and metrics will be different from those of any given manufacturers. For instance, "On-time Delivery" can be measured to the minute; +/- 30 minutes; +/- one hour; for the first stop only; based on original requested delivery or revised delivery date; based on original appointment, etc.. "Fill Rate" can be measured by the entire order, by the line item, by the original PO or a revised PO, etc..

Then we have the fact that scorecard reports from distributors often don't match with the manufacturer's internal data for the same shipments. We hear stories of manufacturers being charged for late deliveries when the order had been picked up by the distributor. And distributors who acknowledge that their data is faulty, but continue to report and assess penalty fees anyway. While these may be limited incidents, when inaccuracies, errors, and mismatches lead to undeserved penalty fees, it casts a shadow over the entire exercise.

Manufacturers also remark on the folly of attempting to manage to 12 (or even 2 or 3) different targets. If a manufacturer is managing inventory to achieve a 99.5% fill rate overall, he's now being asked customer-by-customer to manage to 98.7%, 98.9%, 99.5%, 99.8%, and 99.9%. Same for On-time Delivery and every other metric. Is it possible to do this effectively? Doubtful. Is it practical? No way.

Perhaps worst of all, there are countless hours being burned each month with reviewing, responding, and reconciling instead of improving service! And that goes for the distributors as well.

I have no hard data, but manufacturers seem to suggest that the advent of service scorecards and fees has **not** had a positive impact on service levels. It would be interesting to hear from the distributors to learn whether they feel the programs **are** working.

So, what's the solution???

In Foodservice Utopia, the distributors and manufacturers would get together and agree on industry-standard service criteria, targets, and measurement methods. We'd all be working toward the same goals, with a much better chance of achieving them than we have under the current system.

But we don't live in Foodservice Utopia - in fact our industry is littered with failed attempts to standardize, simplify and streamline the work that goes on between distributors and manufacturers. And the reality is that every distributor wants his suppliers to provide him with service that's at least 1/10% better than they provide to his competitors. So one could argue that standardizing service level targets is not only unlikely, it's uncompetitive.

Perhaps it would be better if these measures and metrics were *negotiated,* rather than *dictated.* That way, a manufacturer might have a chance at standardizing most metrics across most customers, thus giving himself a better chance to meet expectations. Under this scenario, the use of fees would seem to be more palatable as well.

It's a tough nut to crack - if you have insights or ideas you'd like to share please click here. I'll publish them (anonymously, of course) in a future issue.

Before we leave this topic....

More and more manufacturers are establishing surcharges or service fees for distributor orders that drive inefficiencies and high costs. Examples include:

- Less-than-Minimum Orders
- Short Lead Time Orders
- Special Pallet Handling or Labeling
- Short Production Runs

While I believe this is a good practice, it got me thinking *"how is this any different from distributor scorecards and penalty fees?"* And I think the answer is this:

To a large degree, the distributor is able to control his order behavior, while a manufacturer's service performance can always be impacted by factors which are beyond his control. Further, distributors have always been able to accommodate an array of order policies (minimums, lead times, etc.) across their supplier community, while manufacturers have not historically been asked to adhere to a variety of service metrics. Of course, there are exceptions where a distributor needs to place a "policy-breaking" order due to circumstances beyond his control, but the manufacturer always has the option to waive his surcharge in these cases.

That's what I think - what do you think? Tell Dave

Grumpy Old Man Moment

Last month, a summer road trip provided the "opportunity" to dine at a lot of traditional fast food (or QSR) establishments. At virtually every stop, we came away shaking our heads at the lack of attention being paid to foodservice fundamentals, routinely experiencing:

- unclean tables, floors, and overflowing trash bins
- service counters with trash, dirty towels and cleaning supplies on them
- ridiculously slow service
- at a nearly empty Coney joint in suburban Detroit, 3 servers standing in the back talking with a manager

for 5 minutes until I got up and asked if someone could take our order

I'm tempted to name names, but it's not necessary - you know who these companies are.

We're all aware of how the QSR segment is taking a pounding from Fast Casual and other segments, as well as the general weakness in foodservice. And all of the chains are investing millions in menu innovation, store redesigns, and promotional tie-ins with the latest movies.

For my money, none of it will matter if we can't get:

- eye contact and a smile from the person behind the counter
- a dining area that's clean and appealing
- the sense that our presence in the store is appreciated, not viewed as an intrusion

In our lifetimes, McDonald's and the others revolutionized foodservice by replacing the "greasy spoon" with clean, efficient, friendly surroundings and service. It's ironic and a shame to see that most (but not all) of these giants have devolved into regularly disappointing those who still visit their stores. And I'm betting that they could all fix "the basics" for pennies on the dollar compared to their existing initiatives.

Thanks for reading!

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