

Gartner for Supply Chain

Strengthening Supply Chain Performance Improvement Initiatives

The Gartner Hierarchy of Supply Chain Metrics helps you identify improvement opportunities and make better business trade-offs.



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Introduction

Supply chain leaders constantly seek opportunities to improve supply chain performance — in part by leveraging benchmark data to evaluate improvements that other leading organizations have achieved. Through our interactions with hundreds of organizations, we find many supply chains struggling to improve their performance. These organizations share several similar characteristics, including:

- Operating in functional silos across the supply chain
- Low end-to-end supply chain maturity
- Misaligned supply networks

Our research shows that the success of a benchmarking project is about getting the right data, analyzing it logically and leveraging it as one of many inputs to drive investments in supply chain improvement initiatives. A common mistake of benchmarking is often taking the best-in-class values and setting these as internal goals. This research elaborates on the benefits gained for all industries through a systematic approach to transforming benchmark data into information and information into insights.

“We avoided consulting costs of \$50K because Gartner’s Hierarchy of Supply Chain Metrics provides both the data we need and strategic recommendations.”

Supply Chain Leader



“Gartner’s Hierarchy of Supply Chain Metrics not only helped confirm what I already knew, but helped me uncover some blind spots I hadn’t considered.”

Vice President, Supply Chain Management, Consumer Products

Benchmarking End-to-End Supply Chain Performance

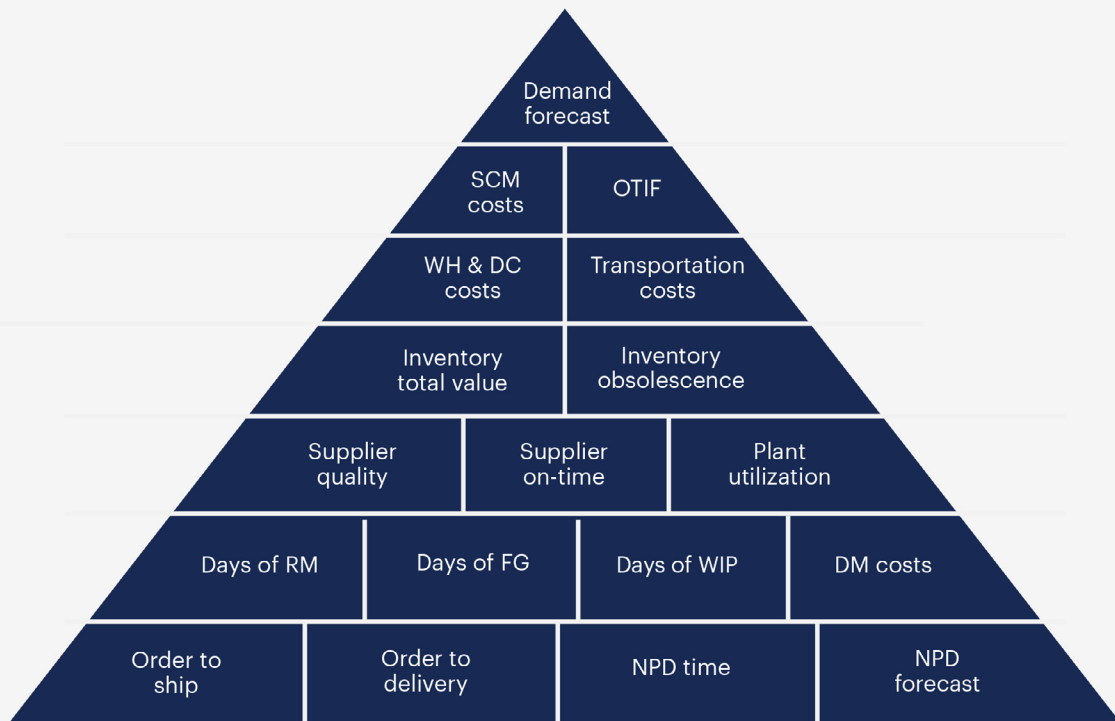
Benchmarking is a widely practiced, yet often misunderstood, technique.

The most common misunderstanding is that benchmarking identifies performance gaps that, once addressed, will enhance an organization's competitive advantage.

In contrast, leading supply chain organizations use benchmarking as a data point for establishing best practices. They leverage benchmarks in conjunction with an in-depth understanding of their own capabilities, customer requirements and business priorities to develop the full potential of their supply chains. In leading organizations, success is defined by alignment of performance with business needs and priorities versus a strict comparison to quantitative benchmark data.

The Gartner framework for supply chain benchmarking leverages a hierarchy of metrics (Figure 1), slightly modified to facilitate calculation and collection, to provide supply chain leaders with a holistic comparison of end-to-end supply chain performance.

Figure 1: The Hierarchy of Supply Chain Metrics



Source: Gartner

Building supply chain excellence is a balancing act. Supply chain leaders must constantly make choices (or trade-offs) to optimize performance. However, making the right trade-offs requires insight into how interdependencies impact outcomes.

It is the relationship between benchmarked metrics (Table 1) — versus the comparison of each metric in isolation — that makes the Gartner framework for supply chain benchmarking useful.

The first step is to collect benchmark data and assess it against results existing in the specific industry database.

The next step is to identify opportunities for improving performance. It's typical when benchmarking to focus on lower relative performance on one or more metrics. However, it is important to recognize that many of the metrics tracked for supply chain are interdependent on others; for example, forecast error, finished goods inventory and perfect order; supplier on-time, supplier quality and inventory levels; and forecast error, plant utilization and inventory levels.

Once the gaps in outcomes and interdependencies are revealed, supply chain leaders should start exploring appropriate initiatives to realize measurable improvements.

Table 1: Key metrics in Hierarchy of Supply Chain Metrics Benchmarking Assessment

Category	Metric (Measurement Unit)
Customer fulfillment	<ul style="list-style-type: none"> Order entry/material release to shipment (days) Order to delivery (days)
Perfect order	<ul style="list-style-type: none"> Orders delivered on time, in full (OTIF) (%)
Inventory management	<ul style="list-style-type: none"> Days of raw materials and components held (days) Days of work in process (days) Days of finished goods (days) Value of total inventory (% of sales)
Source and make	<ul style="list-style-type: none"> Direct material costs (% of sales) Supplier receipts — on time (%) Supplier receipts — passing quality (%) Plant utilization (%)
Demand planning	<ul style="list-style-type: none"> Demand forecast error (%)
New product development	<ul style="list-style-type: none"> Concept to shipment (months) New product introduction forecast error (%)
Supply chain management costs	<ul style="list-style-type: none"> Transportation costs (% of sales) Warehouse and distribution center (DC) costs (% of sales) Inventory obsolescence (% of inventory value)

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