



# Getting Started with ACES in Fulfillment Operations

Making the Rubber Meet the Road

aces™



**Every company with fulfillment operations faces the same challenge-satisfying customer demand and doing it in a manner that creates a positive, if not superior, customer experience.** At the very same time, you must do it without exorbitant expenditures on transportation, inventory or order handling. Now, more than ever, it is imperative that you measure your fulfillment operations the way your customers see them to know how you are doing and more importantly, where you need to improve.

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The ACES metrics model is designed to help you accomplish just that – creating a superior service model. ACES goes far beyond perfect order metrics. And our experience shows that when you shift focus to better customer experience, you will find that drives down costs and improves quality, as well.

### **The Roadmap to ACES - ACES Principles**

To get started on the road to ACES in fulfillment operations you must first understand some ACES principles. This will help you understand the targets and frame your approach. ACES works because it considers the fulfillment process in three dimensions: Costs, Customer Wait Time (CwT), and Quality. Costs, CwT and Quality issues are the negative forces of the fulfillment process and must be constantly measured, evaluated, and attacked. Attacking Costs, CwT, and Quality issues is in the best interest of the customer and therefore supports repeat business which is in the best interest of company.

- Customer Wait Time – CwT begins at the instant when an order is placed, whether it's a mouse click an online customer makes confirming his order or the click a call center agent makes to complete it. It ends when your shipment is received by the customer.
- Costs - Fulfillment costs measure the efficiency of transportation delivery methods, order handling and inventory. Determining costs usually involves standard budgetary reporting. Optimizing inventory and transportation costs, however, often involves modeling tradeoffs between inventory and transportation delivery service options and negotiating with suppliers.
- Quality - Quality issues are those events, process failures, promise failures, and / or process interruptions which keep the customer from being totally satisfied. This includes returns and exchanges, damages (regardless of fault), and late orders (etc.)

## **The ACES Implementation Roadmap**

### **Step1: Model Your Order Flow in the 3 Dimensions:**

This exercise can be an eye opener. You don't need a ton of data, but it is important to model the actual flow of the order lifecycle across all of its steps and business functions. Remember, fulfillment includes all activities from the moment the customer places an order until the customer is satisfied.

**Be sure to include:**

- Order Capture
- Order Processing (IT, Batching, Document production)
- Order Management (Exception handling, etc)
- Inventory (Availability and carrying costs)
- Order Fill (Pick, Pack and Ship)
- Delivery and/or Transportation
- Make good, exchanges, returns, post delivery issue handling and resolution

**Step 2: Establish Base Line Measures for Each Dimension**

Customer (wait) Time (CwT) is the consistent standard for measuring, modeling, and managing time consumed in the fulfillment process (or processes) from the customer's perspective. This is important because once CwT is a primary focus for your organization, it aligns your company with the customer - from the pickers and packers, to operations managers, to the strategists, maybe even marketing and the senior executives. – For most operations and certainly as a starting point, measure to the whole day (keep it simple). However, adopt the unit of measure appropriate to the customer.

**Clearly, each stumble may increase Customer Wait Time and backorders may actually double fulfillment processing cost.**

**When you are examining CwT elements don't forget to look at:**

- Order Capture - File prep, batching
- IT - System maintenance
- Admin - Credit or credit card clearance, exception management (back orders, incorrect addresses, fraud)
- Inventory - Short picks, stock in transit
- Operations – Pick, pack, and ship production cycles, last order cut-off time, on-time fill rate
- Hand-off to Carrier - All orders after XX p.m. don't ship

Costs, on the other hand are a function of process design, asset base, and headcount among many other elements. It is important to recognize all costs that are part of the fulfillment activity.

**Be sure to include:**

- Total cost of inventory; cost of holding inventory
- Payroll
- Actual freight costs – especially premium and expedited shipments
- Warehouse overhead
- Order handling overhead – including allocated IT costs, and manual order handling
- Cost of damage scrap and rework

Lastly, quality must be examined by process step and functional area. You are looking to find where process flaws, poor processes, inadequate information or tools are preventing an order from flowing through uninterrupted and in perfect form. Clearly, each stumble may increase

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**Things to look for:**

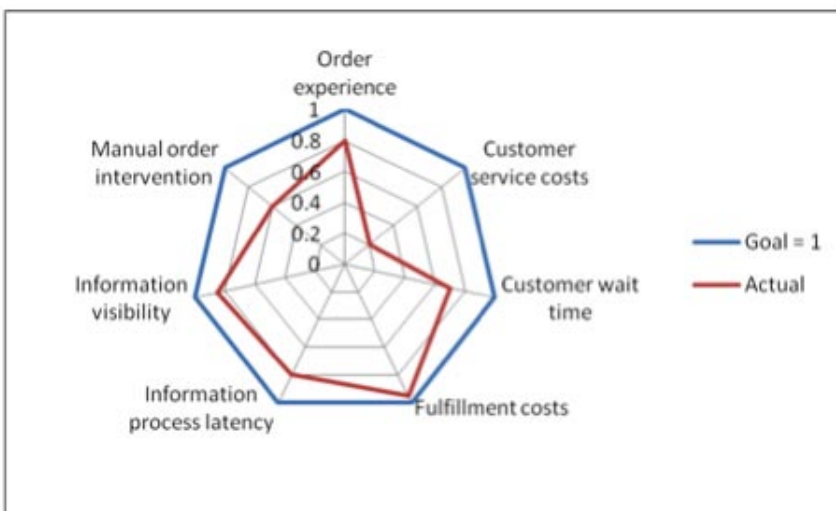
- Inaccurate orders – including SKU data, address, and pricing errors
- Pick/pack errors
- Missed shipment windows
- Returned orders

**Step 3: Set the ACES Target Level for Each Dimension**

Set the appropriate, demanding, competitive ACES TARGET LEVEL for your organization to measure and to drive the performance and progress of the fulfillment process. Bear in mind that over time you should continually revisit and tighten these targets until the fulfillment process becomes a competitive differentiator for your organization. The question that acts as the starting point is: What is the very best service that you (or your competitors) could possibly deliver?

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- **For CwT** - It's probably 1 or 2 days carrier service and same day processing in the distribution center. This becomes your CwT target.
- **For Cost** - The most variable fulfillment cost is freight charges. Bear in mind that more expensive is not necessarily better. For example, 80%+ of the most expensive service (early a.m. delivery) is wasted. Often times, no one there to accept the package or the package was not needed that early. And the converse is true, better is not necessarily more expensive. Next day can be achieved with ground/zone 2 pricing.
- **For Quality** – Needless to say, quality issues must be driven to zero. Although it might not be your initial goal, always consider that an order with a quality issue generally adds new costs which are 4 to 8 time more than an order without an issue and almost always impact CwT. It takes internal and customer time to resolve all those faux pas. Not to mention, the impact it may have on repeat business.



**Step 4: Ongoing Improvement: Measure and Challenge the Entire Fulfillment Process**

Once it is in place, the ACES model compares actual performance to goals, highlighting strengths and shortfalls. Our experience shows that a spider diagram like the one below can help summarize and communicate fulfillment performance to the entire organization.

Using the spider diagram, the entire management team can monitor at a glance what customers experience as the organization takes and fulfills

their orders. ACES spider diagrams direct attention to the right performance areas and pinpoint where to drill down into the details.

**The ACES model is an effective way to quantify your strategies for achieving customer experience superiority and measure progress against your goals. It is also an effective tool in making your goals reality.**

For more information about ACES, contact Vince Fabrizio at **1.800.430.1312 x-260**

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