Chapter 31
Performance Measurement: Measuring Retail Supply Chain Performance

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ABSTRACT

The purpose of this chapter is to study what supply chain managers of a retail supply chain measure. In other words aim here to identify the key indicators for measuring retail supply chain performance. A qualitative approach is adopted. Published literature from refereed journals on supply chain performance measurement has been considered. Besides the need for organizations to adopt a holistic approach, firms remain focused on traditional financial measures (gross profit margin, Interest coverage, and debt and equity ratios). The chapter identifies key indicators for performance measurement and classifies them into four major categories: transport optimization, information technology optimization, inventory optimization and resource optimization. These key indicators are arranged precisely for retail industry. From a supply chain perspective, the non financial measures such as on-time delivery, training of employees, warehouse layout, etc. are also important aspects of measuring supply chain performance. Further research can be carried out to validate the relevance and applicability of identified indicators. The study can be further conducted to measure the interrelationships between the KPIs and their impact on financial performance of the firm. In this chapter the author attempts to identify the performance indicators specifically for retail supply chain. The identified measures are further categorized based on its operations.

INTRODUCTION

With increasing competition and advancement in technologies, firms have been experiencing significant changes in the way of doing businesses. The term Supply Chain Management [SCM] was originally introduced by consultants in the early 1980s, and has subsequently gained tremendous attention. Since then, this paradigm has undergone huge developments nationally and internationally. It is important for companies to know what they are doing and where they can reach, and measurement is the first step that

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leads to control and eventually to improvement. Thus, with the evolution of new concepts in managing supply chain, there has been a revolution in supply chain management practices. Researchers and practitioners have realized that dependence on financial indicators could be a hindrance in achieving competitive advantage. The bigger challenge for the managers is to identify and develop suitable performance measures and metrics to make right decision that would contribute to an improved organizational competitiveness.

Performance measurement has been defined and redefined over the years. It has its roots in early accounting system in the late Thirteenth century, when traders used it to settle their transactions. As pointed by (Johnson, 1981), even pre-industrial organizations maintained a good account of external transactions and stock without high level techniques, such as, cost accounting. Furthermore (Lebas, 1995) went to the extent of saying that there is no existence of businesses without a performance measurement system, because it is obvious for businesses to collect feedback from employees to manage/improvise the businesses (Sinclair & Zairi, 1995). In late 1980s, after emergence of world economy and globalization of trade, the focus shifted from productivity to quality, time, cost, flexibility and customer satisfaction (Kaplan, 1984; Slack, 1983; Hayes & Abernathy, 1980). This is when the traditional measures were criticized and considered inappropriate for measuring an overall business performance. In fact, (Johnson & Kaplan, 1987) were first to suggest a shift from cost accounting based performance measurement approach to a more integrated performance measurement approach. Performance measurement has become an important area of research and it has gained importance in the business because of the drastic changes in way of doing various operational activities. A performance measurement system plays a significant role in managing a business as it provides the information necessary for making the right decision at right time (Gunasekaran & Kobu, 2007). Both practitioners and research scientists have noted a number of problems regarding measurement activities during the past decade. The problems reported suggest that measurement activities are fragmented both within and across organizations. Good performance measures and metrics will facilitate a more open and transparent communication among the channel partners of supply chain leading to its continuous improvement. As per Kaplan (1990), "No measures, no improvement", the purpose of this study is not to come out with a long list of performance measures and metrics, but to present a list of KPIs categorized in different functional groups with respect to retail supply chain.

Thus the focus is on identifying the relevant performance measures for organized retail environment. "Organized retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses" (Parliament of India, Rajya Sabha, 2009).

Retailing has undergone an intense transformation during the last few decades. The Indian retail industry is marked with huge growth potential. However, in spite of the recent developments in the retail sector and its immense contribution to the economy, it continues to be the least evolved industry in India when compared to rest of the world (IJMBS, 2013) . Moreover, Indian retail scenario has been distinguished from developed nations on the following three features:

- Fragmented and multi layered retail distribution market,
- Many retailers of various sizes at many locations vying to serve the final consumer,
- Many buyers for the grower and manufacturer, thus, preventing any retailer from establishing a monopoly and dictating price and credit terms to the growers and manufacturers (Guruswamy, Sharma, & Jos, 2007).