



PEOPLE

PROCESS

TECHNOLOGY

Logistics INSIDER

This is the second in a series of three white papers that discuss proven strategies and best practices for optimizing three key elements of success — People, Process, and Technology — to address critical challenges and drive competitive advantage in today's logistics industry. Keep reading to gain valuable insights into the "Process" trends and issues that are top of mind for managers across the logistics sector.

Five Tips for Improving Operational Performance in Today's Supply Chain

A Kronos White Paper

Introduction

Confronted with shrinking profit margins, capacity concerns, and rising customer expectations, today's logistics organizations are looking for ways to provide better service at a lower cost. Volatility across the supply chain is forcing warehouses, distribution centers, and third-party logistics (3PL) providers of all sizes to look for new and innovative ways to trim costs, improve efficiencies, and boost customer satisfaction for increased profitability and competitive advantage. Achieving these goals, however, requires that HR (human resources), operations, and IT professionals work together to optimize and coordinate the critical elements of operational success: people, process, and technology.

While the supply chain is powered by people, your processes dictate what your people do as well as how and when they do it. That's why, to sustain profitability and growth, it's imperative that you implement processes specifically designed to meet the needs of your customers. In addition, to keep pace with industry changes and evolving customer requirements, you need a systematic way to measure performance, identify areas for improvement, and make sure your processes remain properly aligned. Only then can you make informed decisions to optimize processes across your operations.

This white paper presents five best-practice recommendations for setting metrics, measuring performance, and continually improving operational processes to stay competitive in today's dynamic logistics market.

Tip #1: Let the overall business strategy guide your performance improvement program.

Whether you're implementing a performance improvement program for the first time or re-evaluating your existing measures, let the overall business strategy be your guide. In the logistics and distribution center space today, customer service continues to be a top strategic business focus. In a 2015 DC Measures survey conducted by the Warehouse Education and Research Council (WERC), over 40 percent of respondents reported Customer Service as the overall business strategy for their unit or division — more than Cost Leadership, Product/Market Innovation, or Mix (i.e., Be All Things to All People).¹ This represents a 6 percent increase from the previous year,² indicating a growing emphasis on customer service by companies across the industry.

Once you understand how your business chooses to compete — whether on service, innovation, cost, or all of the above — you can align your organization's goals, set metrics to measure performance against those goals, and use that data to drive process improvements.

In WERC's 2015 DC Measures Survey, over 40% of respondents reported **Customer Service as the overall business strategy** for their unit or division — more than Cost Leadership, Product/Market Innovation, or Mix.

¹ Karl Mandrot, Joseph Tillman, and Donnie Williams, *WERC Watch: DC Measures 2015*, Warehouse Education and Research Council (Spring 2015), Figure 5, at 4 (Sponsored by Kronos, Yenco and Yale).

² *Ibid.*, at 4.

This cascading approach can extend all the way to your workforce management processes. HR, managers, and employees can work together to set performance goals for departments and individuals that align with the overall business strategy. That way, all members of the workforce understand what they're supposed to do, how they'll be evaluated, and how their work contributes to the success of the business.

Tip #2:

Decide what operational processes you want to track, and put metrics in place to measure performance.

You can't improve what you don't track and measure. Then again, it's simply not practical to measure every single aspect of your operations. That's why it's so important to figure out which metrics matter the most. This relates back to business strategy; you should focus on measuring performance metrics that align with strategic priorities.

The right set of metrics help keep your organization focused on delivering sustainable value and high quality for the customer, as well as on optimizing efficiency and cost savings. In the 2015 WERC survey, participants identified the top metrics they use for measuring performance. Overall, they still favor the same metrics they've been using since WERC started conducting the survey five years ago. The five most popular measures used in 2015 were:

1. **On-time Shipments — Customer**
2. **Internal Order Cycle Time in Hours — Customer**
3. **Dock-to-Stock Cycle Time — Inbound Operations**
4. **Total Order Cycle Time in Hours — Customer**
5. **Order Picking Accuracy, Percent by Order — Quality³**

Three of the top five were customer-based measures, and although Order Picking Accuracy is categorized as a quality-based measure, it nonetheless directly impacts customer satisfaction. Widespread use of customer-oriented metrics makes good sense given that Customer Service earned the top ranking for business strategy among survey participants.⁴

In the logistics industry, labor typically accounts for 50 percent of operating costs, and nearly two-thirds of that labor is directly responsible for driving revenue and customer service.⁵ By mapping labor data to key performance indicators (KPIs) like those reported in the WERC survey, you can better understand what it really costs to service a particular customer or fill a specific type of order. These financial insights can help you pinpoint areas for improved cost-efficiency and generate more competitive, yet profitable bids.

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³ Ibid., at 5.

⁴ Ibid., at 4.

⁵ Society for Human Resource Management (SHRM), *SHRM Customized Benchmarking Service* (Unpublished data), 2014.

Tip #3:

Establish and manage strategic partnerships to deliver maximum service and value to customers.

For many logistics organizations, establishing supply chain partnerships can help maximize service and value. But which partnerships make good business sense? Measuring performance across key metrics enables you to more accurately determine which processes you're able to carry out efficiently and cost-effectively, and which might be better executed by a supply chain partner.

Forming the right partnerships, however, is just the beginning. Over the long haul, collaboration and trust are essential to ensuring that the partnership remains mutually beneficial. Partners are well-served by sharing information about their short-term and long-term plans and how they are performing against established goals. This kind of communication and transparency enables partners to work together more effectively and quickly resolve problems before they impact customer service and, ultimately, profits.

Just as bonuses and other rewards can help increase workforce engagement and productivity, incentives can also be an effective tool for improving partner performance. According to J. Paul Dittmann, Ph.D., executive director of the Global Supply Chain Institute at the University of Tennessee, about one-third of all 3PL contracts have gain sharing arrangements. Most gain sharing relationships are based on a 50/50 sharing of cost savings, while some have an incentive payout if KPIs are met.⁶ To make this work, both parties have to agree on the incentive program's performance requirements and the method used to measure KPIs.

By taking a collaborative approach to performance improvement, logistics organizations and their supply chain partners can refine processes and increase cost efficiencies to deliver the high-quality, high-value customer service that creates competitive advantage.

Tip #4:

Benchmark your performance on a regular basis to gauge how you compare to best-in-class logistics organizations.

Benchmarking is a helpful tool for maximizing the effectiveness of your performance improvement program. By comparing the cost, cycle time, productivity, and/or quality of a specific process or method to market-level or best-in-class standards, you can get confirmation that your processes are working well or identify critical gaps that may be hurting your competitive edge.

About one-third of 3PL contracts have gain sharing agreements — incentive programs that can be effective tools for **improving supply chain partner performance.**

⁶ Patrick Burnson, *Global Logistics: Optimizing 3PL Partnerships*, Logistics Management, (November 1, 2012), found at http://www.logisticsmgmt.com/article/global_logistics_optimizing_3pl_partnerships/D2.

WERC's 2015 DC Measures survey, for example, provides valuable insights for participants and the industry as a whole. In previous years, the survey showed that the gap in performance between best-in-class performers (highest quintile performance classification) and major opportunity performers (lowest quintile performance classification) continued to narrow. This year's survey, however, revealed that the pace at which these gaps are narrowing has slowed, with best-in-class performers outpacing the major opportunity performers who failed to maintain the improvements gained in last year's study.⁷ These findings can serve as an urgent wake-up call to major opportunity performers that it may be time to implement operational process changes to accelerate their journey to best-in-class performance.

Tip #5:
Resist complacency and stay the course to drive continuous performance improvements.

Even if your organization maintains its focus on business strategy, dutifully measures performance on key metrics, and sees steady-state results or improvement gains, it's important to stay the course and avoid settling for "good enough." Although operational performance tracking, measurement, and analysis add to your management workload, they are well worth the effort. As the WERC 2015 DC Measures survey confirmed, best-in-class performers just keep getting better and better. Results showed that best-in-class performers maintained their performance on 29 of the 44 metrics compared with only 21 of the 44 for major opportunity performers.⁸

Staying the course also requires ongoing evaluation of your metrics to help ensure their continued alignment with your business strategy, particularly if customer service is a top focus. As your customers' requirements and expectations evolve, it's crucial that your processes — and performance — keep pace. You may be measuring some KPIs that simply don't matter anymore and failing to measure others that have become key drivers of customer satisfaction. By making sure you have the right metrics in place based on what's happening in the marketplace, you'll be in a better position to drive continuous improvement and stay one step ahead of the competition.

Optimize Performance Through Benchmarking:

Benchmarking helps organizations identify critical performance gaps and gain valuable insights for improving operational processes.

When it comes to performance measurement and improvement, stay the course and **avoid settling for "good enough."**

⁷ Karl Mandrot, Joseph Tillman, and Donnie Williams, at 5.

⁸ Ibid., at 5.

Conclusion

Process is an important component of any company strategy, but it plays an especially critical role in the logistics industry. But with so many ways to measure effectiveness and productivity, disconnects can emerge between the metrics you're tracking and the goals your organization is trying to achieve. By establishing metrics that align with the overall business strategy, coordinating goals and measurements with partners, benchmarking against best-in-class industry players, and staying the course, you can identify critical performance gaps and take steps to drive continuous improvements for competitive advantage and bottom-line results.

Read the other two white papers in this three-part series, [*Best Practices for Workforce Optimization in Today's Supply Chain*](#) and [*Top Technology Trends in Supply Chain Labor Management*](#), to learn the latest strategies and proven best practices for leveraging people, process, and technology to address top industry challenges and achieve better business results. Or [view the Logistics Insider webisode series](#) to gain valuable insights and thought leadership from leading industry experts.

