

Benchmarking 3PLs'



Every 3PL organisation has set targets in the form of service level agreements to achieve. But if they seek to achieve these targets, they need to have a good understanding of the same. Therefore, key results area (KRA) setting and key performance indicator (KPI) measurement needs to be part of the organisations' performance appraisal & management system. These will help organisations achieve their targets of meeting committed cost, service quality and delivery schedules.

IT is necessary to know the 'target' before you aim. Without knowing what you are aiming for, all efforts will, most probably, be futile. It will be just like searching for a needle in a haystack. This general guideline applies to 3PL operations as well and is relevant to all the functions and at the every level within a 3PL set up.

SETTING TARGETS THE SLA WAY

For a 3PL, the target is set by the client in the form of service level agreements (SLAs). The client specifies the service standards and deliverables expected from the operations managed by the 3PL. Evolved SLAs may have provisions for incentives and penalties.

Once the SLAs are agreed upon, the drill down exercise of finding the way up begins. If SLAs are the pinnacle, then the key performance indicators (KPIs) are the steps leading to it. In such a scenario, a top-down approach will work well as the focus then remains on the client's expectations. In a 3PL, the operations function does the front ending with the client and is responsible for achieving the SLAs. But for operations to perform successfully, it will need

support from other internal functions like HR, maintenance, finance & administration, etc. In a small 3PL set up, all these functions generally get bundled under operations. Thus, internally, operations will be the client to all service functions, each of which will have key results areas (KRAs) identified to it. The KRAs identified to the functions should directly or indirectly help operations in meeting the committed cost, quality & schedules, i.e., cost of operation (on which the price to the client is based), quality of services and schedules of deliverables. The process of analysing, if the KRAs were achieved, is done through a system of prescribing KPIs and then periodically measuring and interpreting the same. Thus, in a

nutshell, KRAs lead to KPIs and then KPIs to SLAs. The same is pictorially explained in Figure 1.

Let us now look into how the system works through the following example with sample SLA, KPI, KRA and one support function of HR.

- *SLA of Client A:* On time delivery to their outlet at 96 per cent
- *KPI to operations function to meet the above SLA:* On time delivery at 98 per cent
- *KRA of operations function:* Meeting SLAs of clients 100 per cent, every time
- *KPI for HR:* Driver absenteeism at three per cent
- *KRA for HR:* Providing adequate manpower resource to operations.

The above example takes into consideration the timely availability of drivers as one of the key requirements for achieving the SLA of on time delivery. It also recognises the responsibility of providing drivers rests with HR function and sets a standard of three per cent driver absenteeism, beyond which it will hurt the operations.

CRITICALITY OF KPIs

To the client

However good a product may be, an efficient supply chain is a must to make

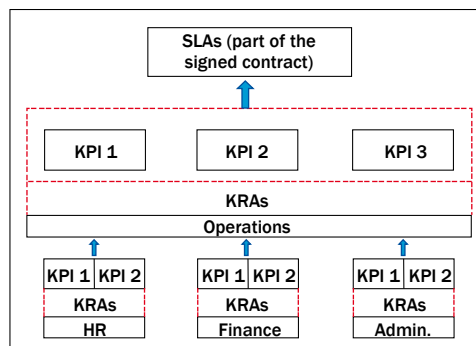


Figure 1: KRA-KPI leading to SLA in a 3PL model

it a success. The degree of criticality of the supply chain varies with factors like product, market, customer, etc. There are examples of great products bombing at the marketplace because of a deficient supply chain. Every business recognises this and takes steps to build a strong supply chain. Outsourcing the function to a specialist 3PL is one of the steps.

Outsourcing does not take away the responsibility of ensuring the expected performance of the supply chain. At the same time, it is important to minimise the direct day-to-day involvement, otherwise the purpose of outsourcing will get defeated. It is here where the relevance of KPIs comes in. The client defines and specifies the key performance expectations as a part of the contractual obligation with the 3PL service provider. The method of data collection, format and frequency of reporting KPIs and reviewing the same is also part of the arrangement. Generally, clients would like to see the performance dash board. Through the periodical review of performance indicators, clients come to know the exact health of the supply chain operations. Wherever necessary, deep diving may be resorted to and course correction plans chartered.

To the 3PL

- What is the basis by which a 3PL player can claim that his operations are in best shape or otherwise?
- What is the performance trend? How to be proactive before the client calls up?
- How to identify operational controls areas?
- How will he highlight his performance to the client and claim incentive?
- How will he justifiably reject the debit passed on by the client?
- What is the way to identify weak spots in the operations and effectively address it?
- How to identify performers in the system?
- What marketing tool to use to

develop new businesses?

- Could the Operations Head have access to one statement which gives him all critical information?

There is only one answer to all the above questions – a well-structured KPI reporting and review system. This shows the criticality of KPIs to a 3PL. Thus, an evolved KPI system is a must for progressive 3PL service providers.

CRITERIA FOR SELECTING KPIs

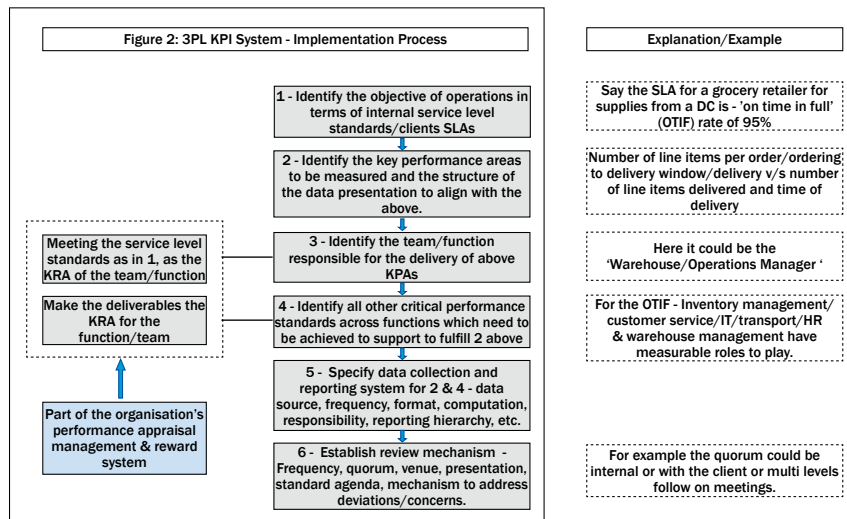
The following guidelines will help in identifying the KPIs:

- It should be well defined. The objective and benefit of the data should be understood.

handled per dock per shift’ could be a KPI in a situation where dock is a bottleneck in the operations.

INCULCATING A KPI-DRIVEN APPROACH

First on the list to inculcate a KPI-driven approach is that the 3PL organisation needs to be service/customer-centric in its approach to business. The entire organisation, irrespective of the function or role, should be aware of how their action or inaction will impact the deliverables to the client. Once the commercials on the contract are agreed and finalised, the focus needs to be then fully on



- It should be simple to compute and explain. It is important that the person responsible for the KPI should be able to understand and calculate the same. For e.g., in transportation, the ‘km per litre’ of fuel is one of the important KPIs. This comes under the control of the driver and he could very well work out the same without any support.
- The KPI should be assigned to a function or a group or to a person.
- The KPIs should be aligned to the end objective i.e. cost, service quality and schedule of deliverables or with the SLAs. Simple data like – number of docks in the warehouse, cannot be a KPI. ‘Number of vehicles

the operations and SLAs. The spirit should be that ‘we need the customer more than they need us’.

Everyone in the system should have access and knowledge of the KPIs trend – like we say, ‘information on their fingertips’. Visibility should be created on achievements through display, communications, rewards, etc. There should be excitement and encouragement. Review meetings should happen as planned and need to be conducted seriously. Commitment on action plans need to be fulfilled and frequent defaulters need to be pulled up. Performers need to be rewarded. ■

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