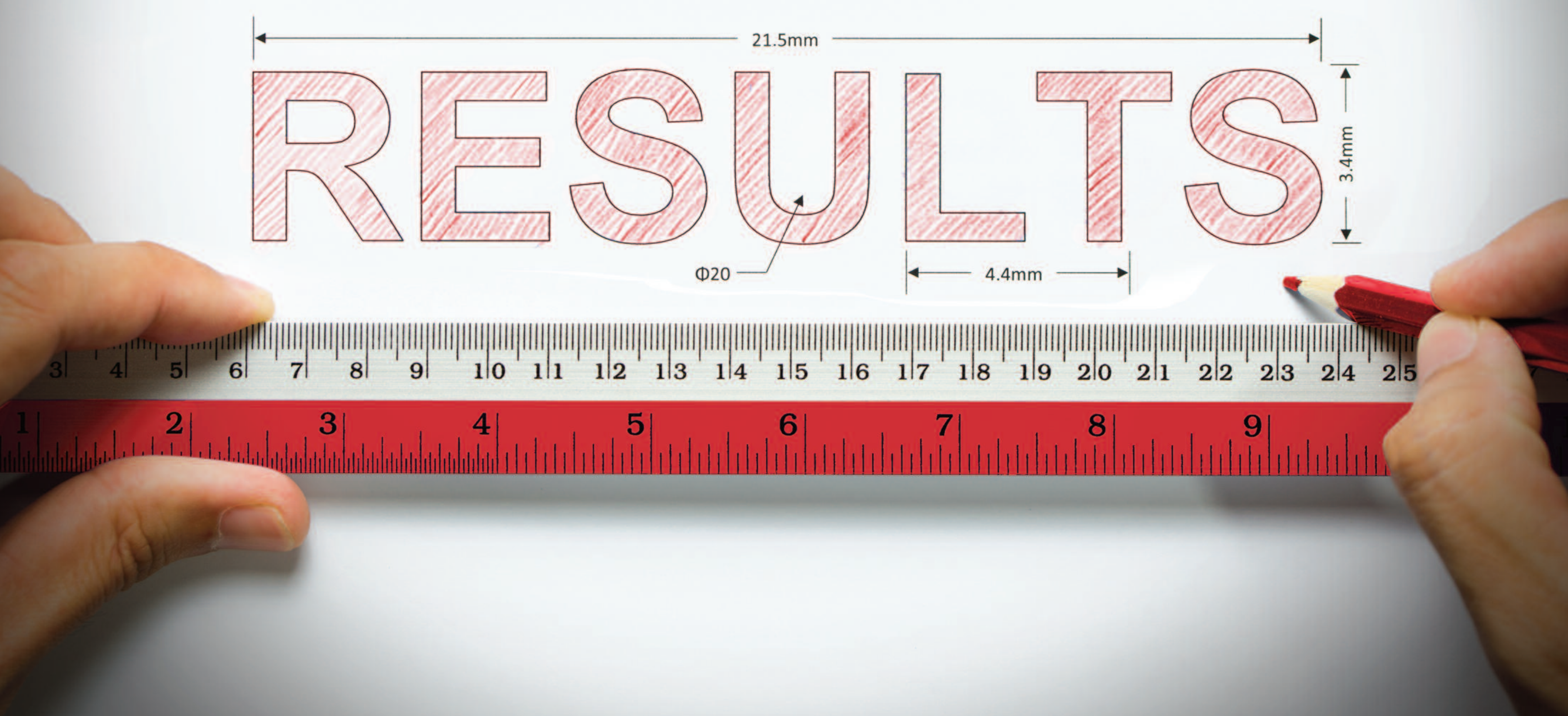
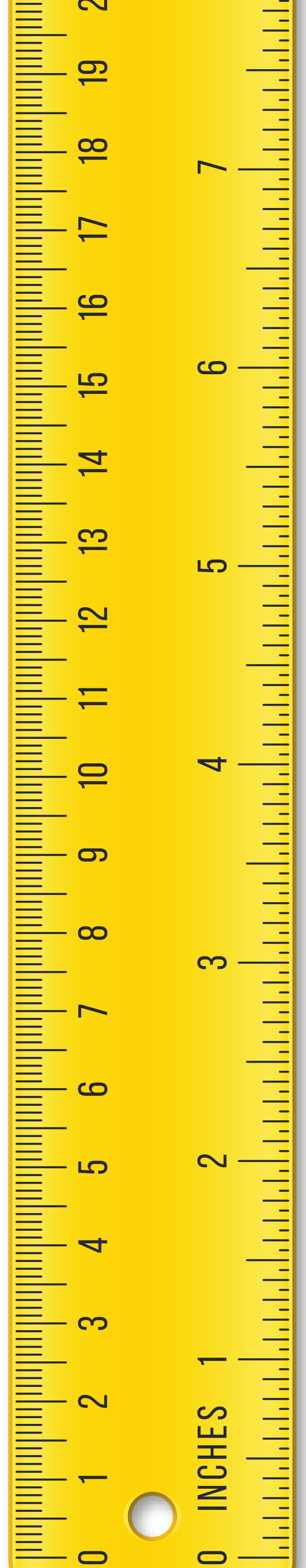
KPIs for Warehouse Fulfillment Operations:

10 Tips For Setting Objectives and Measuring Performance



INCLUDE KPIs IN YOUR RFP



1 Many companies hastily decide upon KPIs just before the work starts, and sometimes after.

Big mistake.

When outsourcing fulfillment services to a third-party logistics provider (3PL), it's best to include KPIs in your Request For Proposal.

The more clearly you can articulate your desired performance levels up front, the better aligned you'll be with 3PL partners – about expectations and what it will take to deliver to that standard.

Does this mean that you're stuck with these KPIs ad infinitum?

Absolutely not. In fact, once you've chosen your 3PL, one of your first action items should be to schedule a working KPI discussion to hash out the final particulars.

What it *does* mean, however, is that you've invested time to get your relationship started off on the right foot – with clear, objective expectations.

SEEK INPUT FROM YOUR 3PL PARTNER

2 Many companies believe allowing 3PL providers to weigh in on what kinds of KPIs they should use is like asking a den of foxes how to guard a henhouse. But think about it: If you were weighing the pros and cons of two different medical procedures, wouldn't you ask your doctors what they'd choose for themselves?

Your 3PL eats, sleeps, and breathes fulfillment in a way that your company doesn't. It can provide you with suggestions about performance metrics that are truly mission-critical versus those that are merely window dressing. (See sidebar for some essential fulfillment KPIs.)

Just as important, your 3PL can provide some helpful reality checks on the quality and service levels that are actually impactful and achievable based on your volumes, timeline, and budget.

Four Fulfillment KPIs That Really Pull Their Weight – And Why

- **Receiving efficiency (dock-to-stock time).** As long as product is sitting in a DC's receiving area instead of picking locations, it's not readily available to be picked, packed and shipped out in a timely fashion. This will create bottlenecks further down the processing line. How much time should your 3PL take to receive, process, and put incoming product away once it has arrived at the fulfillment center?

- **Inventory integrity.** What's the acceptable variance between the inventory that your system and records say you have at your fulfillment center, versus the physical inventory you actually have? Too much of a variance suggests problems with everything from receiving accuracy to order fulfillment accuracy, resulting in excess costs and unhappy customers.

- **Shipping accuracy.** In a perfect world, customers would get a perfect delivery every time. In the real world, errors occasionally happen, even to the best of companies. What percentage of mistakes – deliveries to the wrong address, deliveries that are damaged, wrong items or item count – is your company willing to accept?

- **On-time shipping.** What percentage of orders do you expect your fulfillment center to ship by your designated cut-off time?

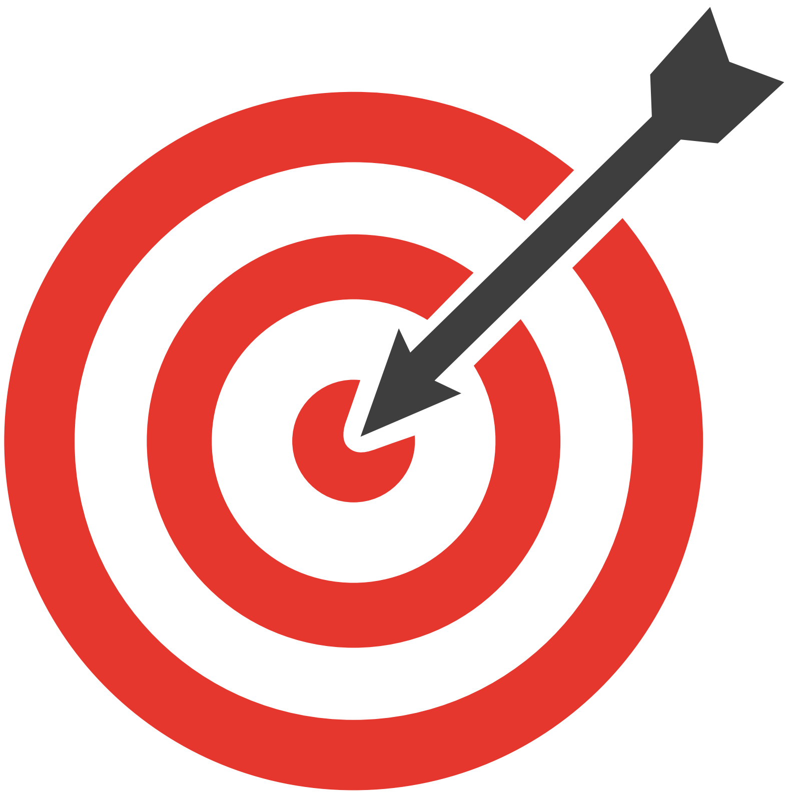
KEEP IT SIMPLE

3 When preparing for your KPI journey, it's best to pack light.

Reporting and monitoring too many metrics, early in the relationship, may deflect your 3PL's attention away from actual execution and be far too cumbersome for your staff to review and make sense of.

For the best results, focus on a few strategic metrics that matter most to your company and customers, bearing in mind you can always add more KPIs as your program and relationship mature. If you can't answer the "So what?" question about why a KPI has been included, that's probably a good indicator it doesn't belong.

Make sure your metrics are simple to calculate. If your KPIs require people to take time out from productive activities to gather data and then calculate metrics using spreadsheets, they are probably too complex. Fortunately, software exists to process complex data sets and render them in an easy-to-understand format. If you can't develop KPIs that are quick and easy to measure, invest in the right software technology to do the legwork – or lean on a 3PL to provide insightful data analytics.



SET REALISTIC KPIs

4 Good KPIs require reliable, real-world inputs. When these don't exist, for whatever reason, it's best to wait before formulating KPIs.

Common barriers to setting realistic KPIs include:

- **Little to no previous benchmarking.** During a company's early years of growth, tangible information about its average order pick rates, inventory accuracy, and shipping velocity can be difficult to come by, especially if there's been no formal information gathering process in place.
- **A significant business change.** Sometimes a company's fulfillment particulars have changed so drastically or quickly (perhaps business has recently doubled or tripled, or the delivery window has been shortened), the old rules and KPIs no longer apply.
- **Unrealistic thinking.** It's perfectly reasonable for companies to ask their 3PLs to bring significant performance improvements to the table. However, it's impractical to set goals so ambitious that even a team of Supermen would have difficulty achieving them.

If you know your company's fulfillment data is outdated or incomplete, avoid the temptation to simply pull numbers out of thin air – or off the Internet – to create your KPIs.

Just come clean and tell your 3PL. It may be able to recommend workable numbers based on its own expertise. Or you both may determine that it makes more sense to take a few months to work together to gather more meaningful reference points before signing a definitive Service Level Agreement (SLA).

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HAVE THE TOUGH DISCUSSIONS AT THE START

5 Shippers that expect 100% perfect orders all the time are unrealistic. Mistakes, while hopefully rare, are a reality in fulfillment. But companies often don't deal up front with the issue of what will happen when such mistakes occur.

Because of this lack of planning, small failures escalate into larger ones and there is a lot of finger pointing. The right approach is to sit down with your 3PL fulfillment partner BEFORE orders start flowing and ask the tough questions related to every type of potential failure.

No one wants to think about worst-case scenarios at the start of a relationship, during the honeymoon phase. But it's far better to deal with these questions before the fact than while issues are happening.

You will never reach 100% perfect order nirvana, but having clear alignment about how to deal with mistakes when they arise results in fast action to fix problems and a better relationship with your provider based on open, honest, transparent communication.

Who owns it?

What actions will be taken to remediate the problem?

Who is financially liable?

UNDERSTAND THE REAL-WORLD IMPLICATIONS

6 Much like some job applicants, some KPIs have an uncanny way of looking better on paper than they do in reality – especially if they're communicated solely in terms of percentages.

For example, let's say your company, which currently ships 100,000 items per year, has decided that 98.5 percent shipping accuracy is a reasonable KPI. It sounds great in theory, because it means 98,500 of your customers will get exactly what they ordered. However it also means that 1,500 customers won't and that, according to some statistics on eCommerce shipping mistakes, you'll wind up paying $43.23 per error or $64,845 each year to correct these issues. Based on these numbers, is that KPI really the one you want to hang your hat on? Or does a more aggressive metric make more sense, even if it costs more to achieve?

Don't wait until problems – like dissatisfied customers or cost overruns – surface before paying close attention to the actual meaning behind your KPIs. The best time to address this issue is when you are finalizing the SLA. Unless you understand the real-world implication of each and every metric you measure, they'll have little business value

MONITOR KPIs IN REAL TIME

7 In today's highly competitive e-commerce sector, few things are more frustrating than hearing some variation of the sentence, "If only we'd known about this issue sooner." Heading problems 'off at the pass' is a big part of what KPI management is all about.

But that can't happen if businesses don't require their 3PLs to update and refresh KPI data while tasks are being performed, or very soon after, and to make that data promptly available.

Let's say, for example, that you have a 24-hour inventory receipt requirement. If items are getting scanned and time-stamped when they arrive at the warehouse and those scans are uploading to the 3PL's system and captured in daily reports, you can quickly recognize when products start to take an extra day to become available. As a result, you can schedule a quick conversation with your 3PL team to discuss this trend and what is required to get performance levels back in range.

Make sure you're holding your 3PL accountable for consistently updating KPIs in real time, using data from warehouse and transportation management systems or manually updating data in a timely way. Just as important, someone should be eyeballing this data to red flag any potential issues before they become problems.

When it comes to KPIs, some 3PL providers don't have the capacity, capability, or impetus to share KPI data with customers. To avoid this trap, look for a 3PL that readily and proactively shares performance data or makes the data easily accessible.

Make sure you're holding your 3PL accountable for consistently updating KPIs in real time.

DON'T IGNORE KPIs UNTIL PROBLEMS OCCUR

8 The business world is full of ironies. One of the most head-scratching is the fact that many online sellers will put a huge amount of time and energy into crafting a KPI program up front only to let that program run itself from that point on. That is, until a problem arises.

When customer service issues DO surface, here's what happens. The shipper calls its 3PL on the carpet and rails about service quality; the provider then pulls out KPI reports for the first time in months and explains that performance is at or above goal.

It's a standoff.

The 3PL uses the KPIs as a defense to justify solid performance, while the shipper is simply ticked off because customers are complaining. No winners here.

To avoid such situations, review performance regularly against these established KPI benchmarks. By monitoring KPIs, even when business is running smoothly, you'll be able to identify fluctuations, determine if they are moving in the "wrong direction," and then take quick action to address the situation.

Sure, it's tempting to do the management by exception thing because it saves time – "Okay, things are running well so there's no need to dig into the metrics." But ongoing monitoring allows you to ward off problems before they occur. It also removes some of the emotional response that is inevitable if you're only looking at KPIs when problems occur.

UNDERSTAND YOUR 3PL's INTERNAL KPIs

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Here's some "inside baseball" for you.

3PLs have their own set of metrics that suggest how well their operations are running. Don't be afraid to ask about these internal metrics, either from existing or would-be providers – because performance in these areas will impact your business.

Here are a few key 3PL internal metrics, and why you should care.

Staff turnover	It takes time to train a new associate and get them to maximum productivity. If your 3PL struggles to keep staff, fallout will include more mistakes and lower throughput.
Recordable Incident Rate (RIR)	This metric indicates the prevalence of OSHA recordable safety incidents in an operation. A safe facility is obviously a more productive one.
Innovation	The best 3PLs actively solicit ideas from associates to improve cost and service, and then measure the dollar impact of ideas that are implemented. 3PLs that promote innovation and run active continuous improvement programs are likely to be your best partners.

TAKE KPIs OUT OF THE BLACK BOX

10 KPI metrics (shipping accuracy, on time delivery, etc) appear as tiny numbers on a busy spreadsheet. And too often that's where it ends. No attempt is made to make the numbers more meaningful to the associates who do the work.

For associates, mistakes that make up numbers on a spreadsheet they never see won't get their attention. Mistakes that materially impact the profitability of the company or the client begin to have more relevance.

That's why it's so important to partner with your 3PL to make sure your KPI program has visibility and relevance for the associates picking and packing orders. The best fulfillment 3PLs will post KPIs prominently in the work area and note performance relative to goal (Are we "green" or "red?"). But that's just the start. Simply posting KPIs, without any context or explanation, could create a fulfillment team that is indifferent.

You can overcome this challenge by communicating to associates how meeting and beating KPIs contributes to the company's profitability and progress.

If you use an outside fulfillment partner, look for opportunities to talk directly to the people on the warehouse floor. For example, invest in workshops and/or brown-bag lunch meetings once a quarter, where you update your 3PL "team" on your business. They will appreciate getting direct insights from the end customer on the importance and impact of their work. Use the meeting to explain the negative consequences of mistakes. But, more importantly, communicate how the fulfillment team is instrumental in helping your company achieve its sales and customer service goals.

Associates are less likely to achieve performance objectives if they don't understand the KPIs or their value/meaning.

USE KPIs TO MAXIMIZE 3PL COLLABORATION AND SUCCESS

When you follow the suggestions outlined in this article, the perception about KPIs changes – from a hammer used as leverage against a 3PL to a positive tool promoting excellence through collaboration.

A robust KPI management program for product fulfillment can:

- Ensure that online sellers and their 3PLs are completely aligned about fulfillment priorities and expectations
- Provide early warning about areas of activity that need to be corrected now in order to avoid serious service lapses later
- Inspire 3PLs to bring their A-game to every aspect of the operation

In the process, KPIs can pave the way to healthier, happier, outsourced logistics relationships and transform your fulfillment and shipping operations into a competitive lever. Any way you measure it, that's a step in the right direction.