

METRICS

Best Practices

Results of our annual survey unveiled

— By Rob Martinez —

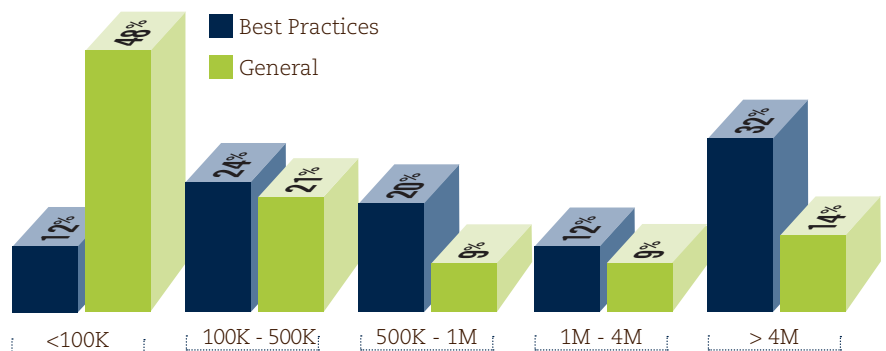
Shipware Systems Corp, in conjunction with PARCEL, recently conducted a best practices survey on “Distribution Center Metrics.” Three hundred and sixty-eight PARCEL readers completed the survey representing a balanced mix of business sizes and industries. The results offer insights and strategies for improvement throughout the supply chain.

Metrics and key performance indicators (KPIs) have long been utilized by logistics professionals for inventory and warehouse management. The use of metrics is critical in any improvement process. If a process is not measured, it can't be managed or improved.

Metrics are widely used in conjunction with benchmarking as a means to compare results with peer organizations. Shortcomings present opportunities for improvement, while leading the peer group validates your current operation as best-in-class.

There are many additional benefits of adopting metrics within logistics. Metrics establish credible operational standards to drive performance expectations. Benchmarks become an opportunity to challenge the team to achieve new benchmarks.

What is your annual volume of outbound parcels?



The foundation of metrics is not only operations-based, but also finance-based. Metrics can be used either as justification for continued investment or to quantify savings (or lower operating costs, higher throughput, etc.) already achieved.

Each of the survey questions and response choices was developed with specific industry standards in mind. Multiple choice responses fell along qualitative lines, which, when compared to standards, allowed responses to be classified as either laggard or leading.

As a result, a “best practices” group emerged around several common characteristics:

- ▶ Understanding of advanced supply chain concepts
- ▶ Greater collaboration between internal departments
- ▶ Enhanced financial performance as a main objective
- ▶ More likely to promote external benchmarking studies

The survey demonstrates a correlation between the use of metrics and the size of the operation. Sixty-four percent of the best practices group ships at least half a million packages annually, which is twice as many as the general group (Chart 1).

By as much as a three to one margin, the best practices group employs Perfect Order and Fill Rate measurements (Charts 2 & 3).

The Perfect Order Measure calculates the error-free rate of each stage of a Purchase Order from the time an order is placed until the time the order is received, and 100% of the best practices group indicated a perfect order rate of 96% or higher.

Fill Rate calculates the service level between two parties and is usually a measure of shipping performance expressed as a percentage of the total order. Eighty percent of the best practices group enjoys fill rates of 98% or higher.

Several survey questions were selected to identify how well distinct parts of the organization collaborate to address inter-related supply chain issues. As an example, we asked logistics professionals about customer retention, traditionally a sales/marketing function. Fully 75% of the best practices group measure customer retention, versus only 47% of all survey respondents (Chart 4).

Of course, customer retention and logistics are highly related, but fewer than half of all survey respondents measure it (at least from the operations perspective).

There were enormous differences between the two groups on inventory management. Almost the entire best practices group (92%) knew exactly where all products were in the warehouse, versus less than half of the general population (Chart 5). One hundred percent of the best practices group measures availability and replenishment for all products, versus about half (52%) of all survey respondents (Chart 6).

Chart 3

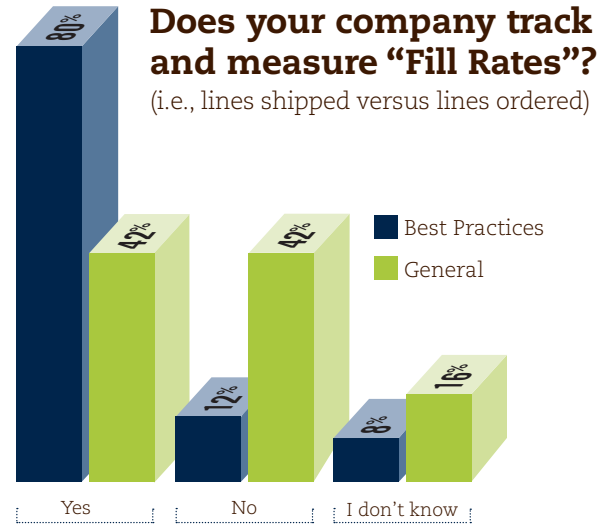


Chart 4

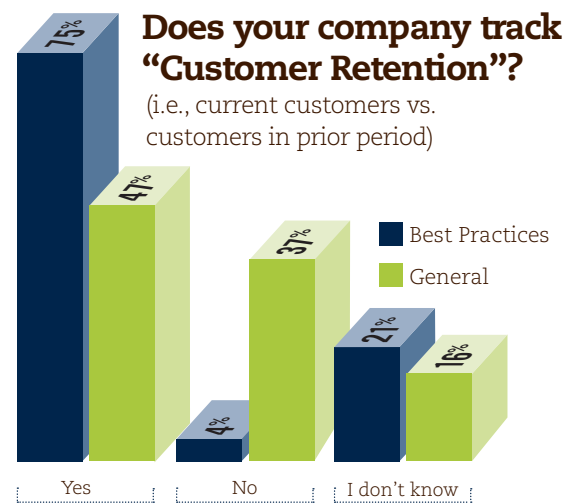


Chart 5

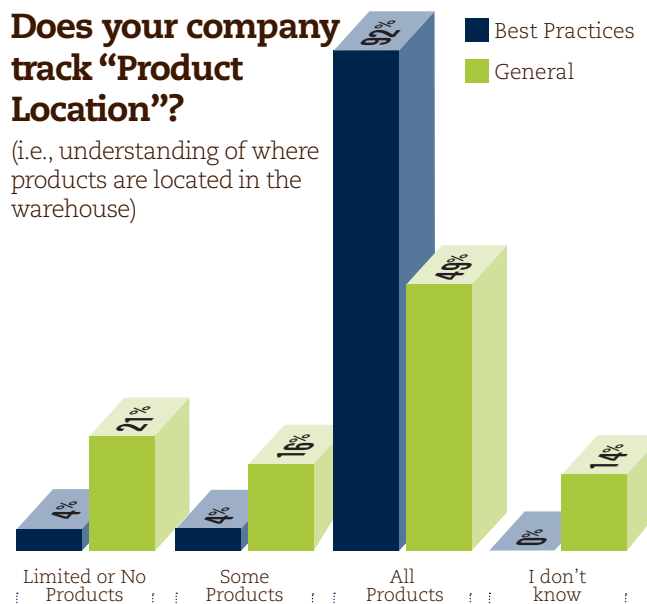
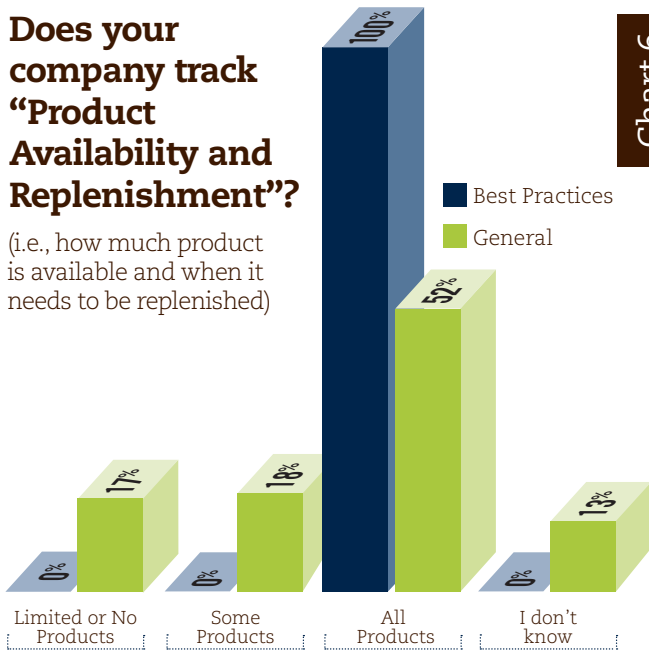


Chart 2



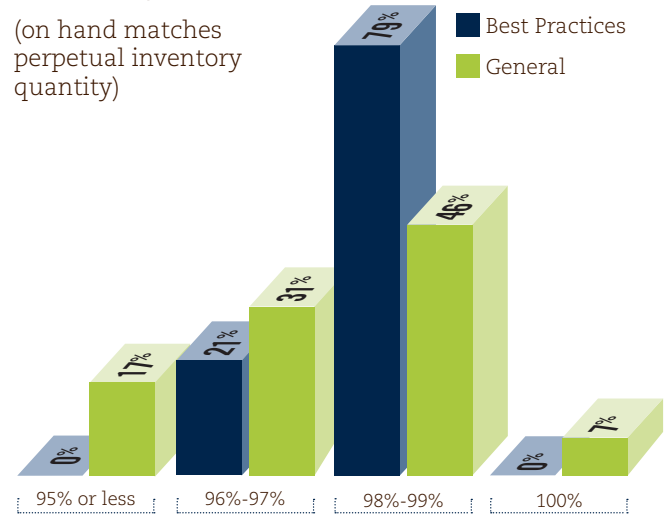
Does your company track “Product Availability and Replenishment”?

(i.e., how much product is available and when it needs to be replenished)



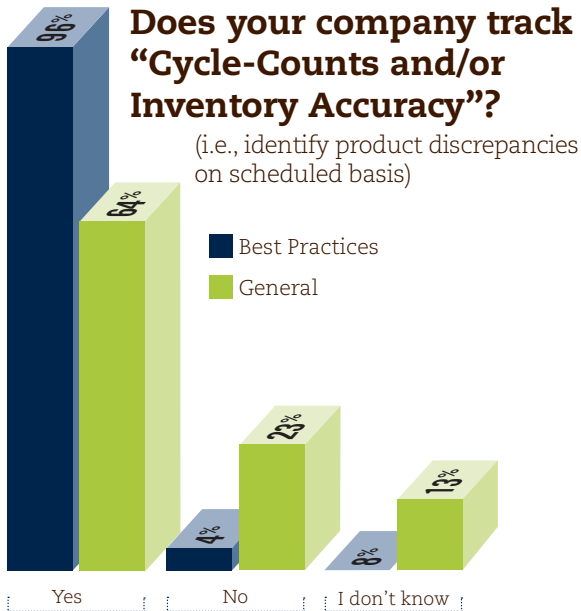
If yes, what is your Inventory Accuracy Rate?

(on hand matches perpetual inventory quantity)



Does your company track “Cycle-Counts and/or Inventory Accuracy”?

(i.e., identify product discrepancies on scheduled basis)



Does your company track “Inventory Turnover”?



While about two-thirds of the general group track inventory accuracy versus 98% of the best practices group (Chart 7), actual inventory accuracy reported varied significantly: Seventy-nine percent of the best practices group reported accuracy of 98% or higher, versus 53% for those 36% of the general group that track the metric (Chart 8).

Only about half of all survey respondents (52%) track inventory turnover compared with 84% of the best practices group (Chart 9).

While optimal inventory turnover varies between industries, low inventory turnover can lead to overstocking or obsolescence, and it can indicate deficiencies in product line or marketing. High turnover lends itself to product shortages, which may lead to a loss in business.

For many companies, the goal is to increase inventory turns to reduce holding cost, increase net income and reduce obsolescence.

In general, companies that measure cost impact and draw comparisons of financial measurements like gross sales made the best practices list.

One hundred percent of the best practices group measures warehouse costs as a percentage of gross sales, as compared to only 52% in the general group (Chart 10).

The very act of tracking these numbers leads toward continuous improvement. Companies that use financial metrics as part of logistics management enjoy lower costs. Eighty-three percent of the best practices group reported warehouse costs of less than three percent of gross sales. Of the 52% of the general group that

Do you track "Total Warehouse Costs"?

(i.e., labor, employee benefits, supplies, operating equipment and maintenance, rent, utilities, depreciation, etc. as a percentage of sales)



Chart 10

If yes, what are your Total Warehouse Costs as a percentage of sales?

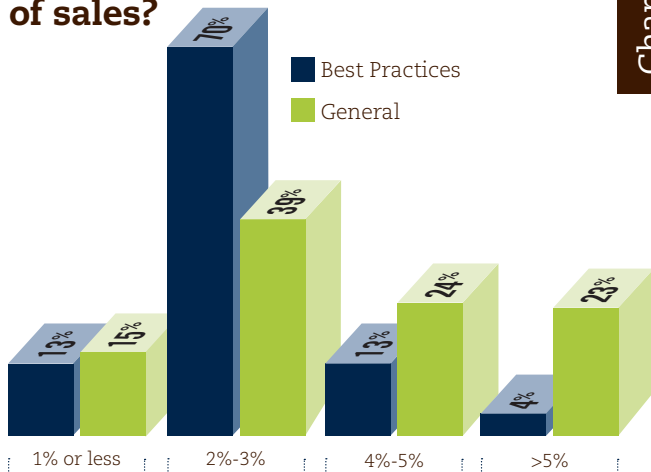


Chart 11

tracks warehouse costs as percentage of sales, only 54% reported costs of less than three percent of sales (Chart 11).

Charts 12 and 13 demonstrate that best practices respondents track inventory costs as a percentage of sales by nearly a two to one basis (76% versus 44%) and enjoy lower inventory costs. Eighty-nine percent of the best practices group enjoy inventory costs of three percent of sales or less, versus only 54% of the general group that tracks the metric.

The next two survey questions addressed freight costs as a percentage of sales. Eighty-three percent of best practices group formally tracks this measurement versus only 38% of the general group (Chart 14).

Only 20% of the best practices group reported freight costs as a percentage of sales in excess of five percent, versus 41% of the general group that tracks the measure (Chart 15).

Does your company track "Inventory Costs"?

(i.e., total inventory and carrying costs as a percentage of sales)

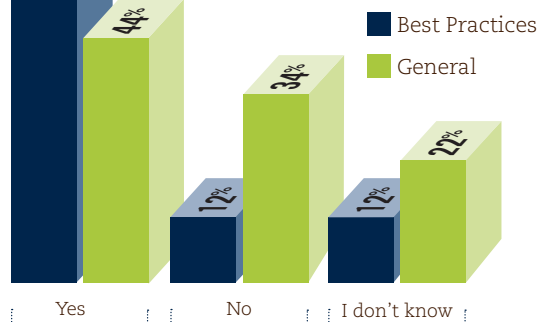


Chart 12

If yes, what are your Inventory Costs as a percentage of sales?

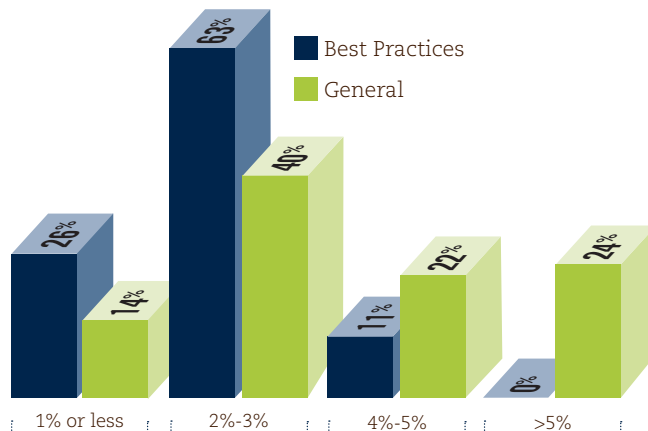


Chart 13

Does your company track "Freight Costs as a Percentage of Net Sales"?

(i.e., total transportation costs as a percentage of net sales)

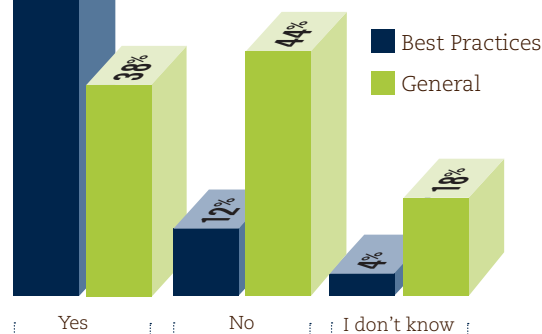


Chart 14

UPS and FedEx Recently Announced Soaring Profits and then Promptly Decided to “Reward” Their Loyal Customers with Yet Another Rate Increase!

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Other measurements — accessorial charges (Charts 16-17) and total logistics costs as a percentage of sales (Charts 18-19) — were consistent with the survey results mentioned previously. The companies with well-defined metrics enjoy lower costs than those that do not track these metrics.

One hundred percent of the companies in the best practices group have developed metrics to track warehouse employee productivity, versus only 44% of all survey respondents (Chart 20).

ROB MARTINEZ, MQC, CMDSS, is President & CEO of Shipware Systems Group, a value-added audit, information systems, benchmarking and consulting firm that helps volume shippers reduce costs 10-30%. He welcomes questions and comments, and can be reached at 858-538-3359 or rob@shipware.com.

For the full survey, go to The Experts section on www.PARCELindustry.com.

If yes, what are your Freight Costs as a percentage of net sales?

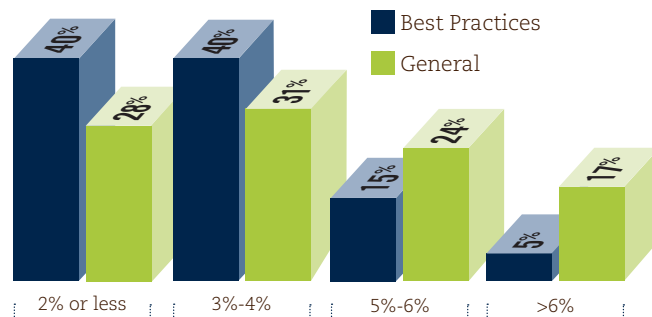


Chart 15

Does your company track “Accessorial Charges as a % of Total Freight”?

(i.e., total accessorial/surcharges like fuel, demurrage, redelivery, residential and other extra services as a % of total freight costs)

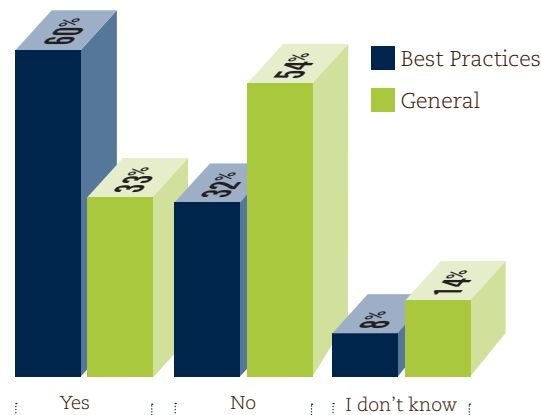
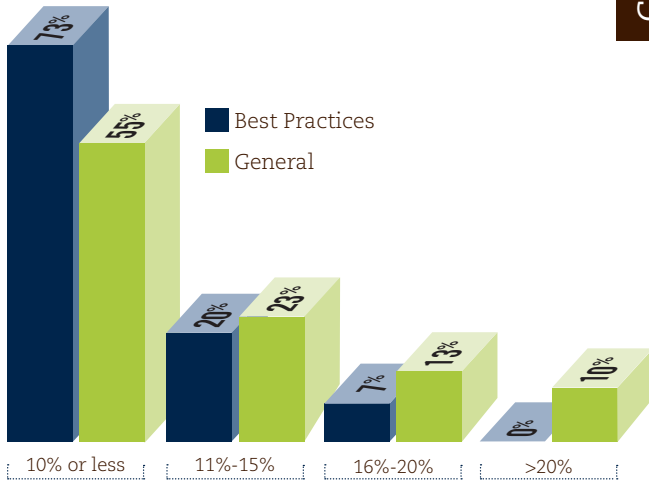


Chart 16

If yes, what are your Accessorial Expenses as a percentage of total freight costs?

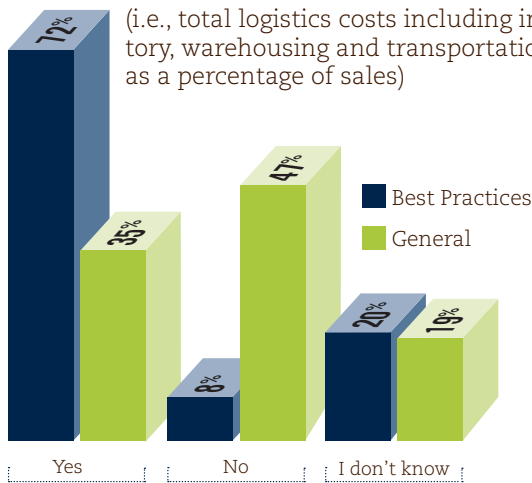
Chart 17



Does your company track "Total Logistics Costs"?

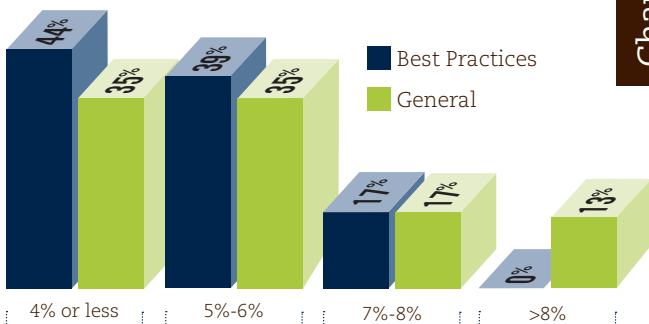
Chart 18

(i.e., total logistics costs including inventory, warehousing and transportation as a percentage of sales)



If yes, what are your Total Logistics Costs as a percentage of sales?

Chart 19



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Chart 20

Does your company track “Warehouse Employee Productivity”?

(i.e., sales & lines shipped by warehouse employee/hour)



Surprisingly, less than half of respondents track and measure landed shipping costs per order, compared to 100% of the best practices group (Chart 21). Tracking “landed” shipments costs can be a challenge since many charges occur on the backend. Companies that charge back to customers or internal departments are encouraged to include this metric as part of your logistics management.

Another clear distinction between the two groups was the use of benchmarking with peer companies. Eighty percent of the best practices group benchmarks versus only 50% of the rest of the survey respondents (Chart 22).

In conclusion, companies that manage logistics using metrics have a significant advantage and enjoy lower operating costs compared to those that do not.

Metrics provide logistics professionals a basis for improvement. Used in conjunction with industry standards and/or benchmarks, metrics help organizations identify opportunities for improvement or validate current processes.

Survey results demonstrate wide gaps between both what is being measured (i.e. the metric itself) and the actual results.

Organizations looking to mirror best practices and develop more robust metrics are encouraged to employ a company-wide approach to supply chain management by utilizing a multi-departmental metrics approach throughout the enterprise (sales, transportation, warehouse operations, finance/accounting, customer service, etc.).

To make the most of these metrics, the organizational benefit needs to be clearly understood.

As an example, the survey asked logistics professionals if they measure customer retention. While there was a nearly a two-to-one gap between the best practices group and all survey respondents, the question organizations need to ask is: “Do we understand how our role in logistics contributes to

customer retention, and do we understand the benefit of high customer retention to our logistics department?”

Finally, several key metrics separated the best practices group from the rest of the field including: perfect order; fill rates; product location and replenishment; employee productivity; and benchmarking.

Chart 21

Does your company track and measure “Shipping Costs per Order”?

(i.e., fully landed shipping costs per order)



Check which functions you, at least in part, benchmark to other companies’ standards? (check all that apply)

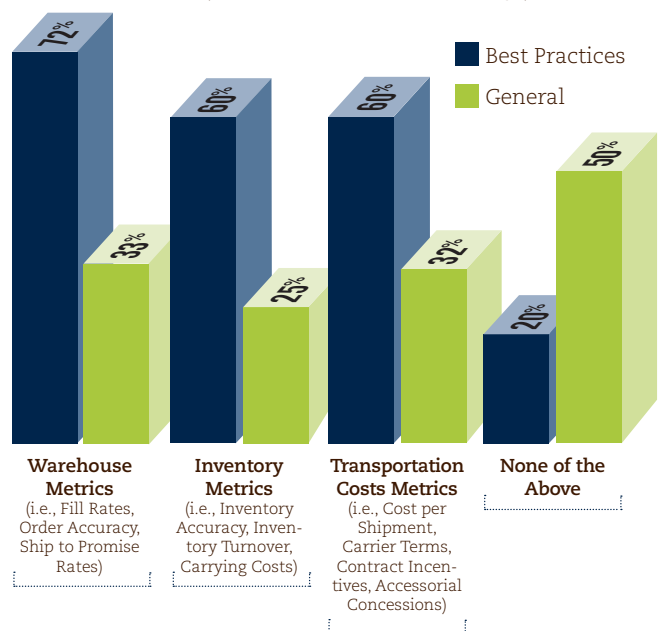


Chart 22