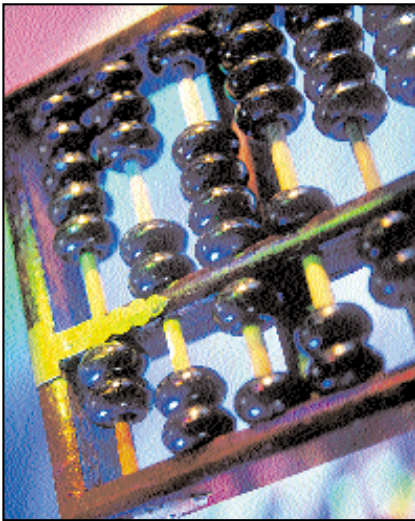


Calculating

Benchmarking and the measurement of key performance indicators can certainly help reduce the still high churn rate that take place between 3PLs and their customers. **David Warrilow** explains why.



Quarterly review meetings between customers (eg manufacturers) and third-party logistics providers (3PLs) tend to be fraught with problems, and these usually arise because of conflicting service level data. So what can be done to reduce the level of churn that results, and often leads to many customers and their logistics partner splitting up after just three years? Even after attempting a remarriage, a parting of the ways normally occurs.

It is all about good relationships, and these have to be based on trust and mutual understanding. That means honesty and openness. No wonder divorce is so popular. In transport, there is often a breakdown of what happens in the real world and what goes on in people's minds. It is the old problem of reality versus expectation. The result is loss of faith and subsequent ill feeling between the two parties.

Business relationships often mirror the personal. In both, the financial impacts can be huge. Businesses say they want good, strong relationships, but seem to go out of their way to hinder them. The result can be seen at quarterly review meetings between 3PLs and their customers, when the 3PL lays its performance figures on the table and the customer objects.

The big issue – and the cause of friction between the two groups – is the difference between the service level being reported and the

actual service that is experienced. In many instances, the 3PL will report a 98% success rate, apparently unaware of customer complaints about late or incorrect deliveries. Service level agreements (SLAs) are left in pieces, for reality on the ground can tell a very different story from what the 3PL in the office is saying.

However, where metrics are in place, and where these are triggered by physically driven reporting criteria – and not by a logical, or office-based, conclusion – better system transparency can be achieved. Indeed, freight can be received and processed at a piece level and events computer-generated, thus making reporting of them clear, unambiguous and honest.

Typically, though, after three years of wrangling, the customer walks away and tries another 3PL, which, like the first, will promise great performance to win business – but fail to deliver unless it has metrics in place.

There is a huge need for maturity in the supply chain process, but this will not happen without the use of reliable performance metrics. The 3PL must be able to show that the performance figures it is using are reliable and objective. The 3PL must also end the practice of assuming that freight is at a specific location on a specific day and time just because a piece of paper – a result of someone's 'logic' – says so.

Both parties can work together to monitor and improve the process to the advantage of all concerned. When the process has been improved and the maturity model locked in place, the result is not only figures that match up, but shorter delivery times and lower costs.

Accurate service measures, reduced costs and improved customer satisfaction all result from better process monitoring. The best monitoring and agreed key performance indicators come from genuine event recording using unambiguous time stamps.

The fault is not all with the 3PL sector though. Maturity also comes from shippers committing longer-term to the 3PL sector, but at the same time reducing the number of partners used. In turn, 3PLs should invest in the processes and technology that will enable them to improve service levels and keep the customer on-side.

The shippers might have their faults, but also legitimate concerns. In *Eyefortransport's Outsourcing Logistics Report* survey, in December 2005, 51% of shipper respondents said they had problems monitoring and evaluating their 3PLs performance.

In addition, the survey revealed a clash of culture between shipper and 3PL firms as being of particular significance. Furthermore, so-called latent information asymmetry or information divergence was seen as a threat to business relationships and growth potential.

This last point – threat to business – is as crucial as any, due to the current (and likely future) status of the global logistics industry. Ongoing outsourcing of manufacturing activity to low-cost countries has elevated the importance of the supply/delivery chain – hence, the role of the 3PL.

Within this picture, air is taking over from ocean for many high-value goods, freight is being consolidated for the longest leg, cross-dock in the import gateway must be achieved in minimum time, and outbound shipments must be consolidated wherever possible.

Process maturity – and, with it, better 3PL relationships – will not happen without reliable key performance metrics being introduced. Good metrics are fundamental to successful relationships, and how an event is measured is as important as what is measured. Processes can only be improved if they can be quantified, leading to sound service levels that can be the basis for a long-term relationship.

The ingredients for a successful relationship are:

- SLAs are central to the relationship
- key performance indicators (KPIs) are accurate and unbiased
- quarterly reviews are positive
- partners ask: 'What can I do to help you?'

Performance metrics are the only way to get you there, and can contribute to a much lower churn rate. Manufacturers are beginning to demand them, and one leading 3PL is taking action.



David Warrilow

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