



Five Practices Damaging Operational Performance in Today's Supply Chain

Best-practice recommendations to drive continuous improvement and competitive advantage



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 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.

This white paper presents five operational practices that are damaging to logistics organizations and offers solutions for staying competitive in today's dynamic logistics market.

Damaging operational practice #1:

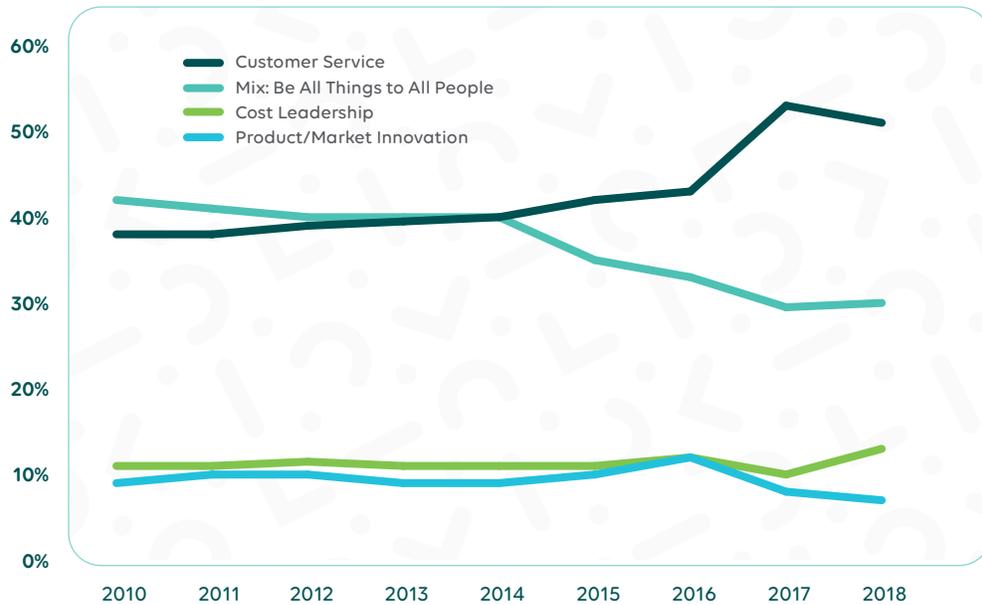
Never Letting Anything But Your Overall Business Strategy Guide Performance Improvements

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. With so many different teams and a multitude of initiatives and managers, it's not surprising when a number of different performance improvement programs emerge. Oftentimes, these initiatives can have contradicting goals. Take, for example, one team that's focusing on cost cutting and another that's focusing on a specific market condition in their local area, while the overall business strategy is all about driving world-class customer service.

In the logistics and distribution center space today, customer service continues to be a top strategic business focus. In a 2018 DC Measures survey conducted by the Warehouse Education and Research Council (WERC), over 50% 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).² This represents a more than 25% increase from 2015,³ indicating a growing emphasis on customer service by companies across the industry.

*In WERC's 2018 DC Measures survey, over 50% of respondents reported **Customer Service as the overall business strategy** for their unit or division — more than Cost Leadership, Product/Market Innovation, or Mix.*

Figure 1: Respondents by business and operational strategy¹



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.

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.



Damaging operational practice #2: Measuring Every Single Aspect of Your Operations

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 helps 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 2018 WERC survey, participants identified the top metrics they use for measuring performance. The five most popular measures used were:

Table 1: Top 5 metrics for 2018

1	Average Warehouse Capacity Used		Capacity
2	Order Picking Accuracy		Quality
3	Peak Warehouse Capacity Used		Capacity
4	Contract Employees to Total Workforce		Employee
5	On-time Shipments		Customer ⁴

The results show that capacity and quality are taking priority. This should not come as a surprise since providing quality is a cornerstone of good customer service. Widespread use of customer-oriented metrics makes good sense given that Customer Service earned the top ranking for business strategy among survey participants.⁵

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Damaging operational practice #3:

Not Having a Dedicated Effort for Developing the Right Partner Network

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.

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.

Damaging operational practice #4:

Ignoring the Performance of Your Industry Peers

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.

WERC's 2018 DC Measures survey, for example, provides valuable insights for participants and the industry as a whole. The 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 (see Table 1).

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

Damaging operational practice #5: Accepting Good as “Good Enough”

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 2018 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 14 of the 34 metrics compared with only seven of the 34 for major opportunity performers.⁶



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.

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.

References:

1. Karl Mandrot, Joseph Tillman, and Donnie Williams, *WERC DC Measures 2018 Snapshot in Time*, Warehouse Education and Research Council (2018), Figure 3, at 3.
2. *Ibid.*, Table 1, at 1.
3. *Ibid.*, at 4.
4. *Ibid.*, at 4.
5. *Ibid.*, at 3.
6. *Ibid.*, at 1.



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