

# ■ Making KPIs work for your operation

***Kirsten Tisdale discusses the use of KPIs in logistics operations.***

## Introduction

Many companies have introduced key performance indicators (KPIs) to help improve efficiency.

KPIs should monitor aspects of the operation's performance that impact on the overall well-being of the business. KPIs are implemented to:

- demonstrate performance to customers, board members or shareholders
- flag up problems that are not immediately obvious in day-to-day operations
- drive the business forward to meet particular objectives
- carry out internal and external comparisons
- understand the impact that various factors have on the business.

KPIs will probably be a mix of financial and productivity measures, service-related indicators, risk areas and external factors.

## Consider the bigger picture

Before getting immersed in detail, it is useful to consider the bigger picture:

- What aspects are visitors from customer organisations and other departments concerned about? What do they ask about when they visit or are in contact with the operation?
- Who is the real customer that you wish to service? Is it one or more external organisations, or their individual customers? Is it other departments within the same business, or a mixture of all of these?
- Is there a company mission statement? To what extent does the logistics operation "live" these visions and contribute to achieving them?

- What did the most recent communication to shareholders or city analysts say about performance, direction and targets?

You should then consider what needs monitoring in each area.

## Financial considerations

Turnover, cost and productivity-related indicators are relatively easy to identify. Analysis of the major cost elements in a business can be carried out and the internal and external factors that affect them identified.

Volatility should also be considered as well as scale. Property-related costs may be significant, but there may be little that can be influenced in the course of day-to-day business. Even if this analysis has been carried out in the past, it should be reviewed periodically as the relative size of cost elements can change.

It is also useful to consider the administrative aspects of finance. It could be more important to a company with cashflow issues to monitor whether information for billing purposes is submitted in a timely manner than whether a small amount of money is saved — this can be particularly true when the customer and service provider have different accounting periods.

## Service-related KPIs

Service-related KPIs are less obvious. The objective of establishing indicators in this area should be to turn qualitative issues into something that can be quantified.

What makes a particular element of the operation count as a success? Is the customer's perception of success the same as that of the operator?

A major home delivery operation run by a third party contractor for a big high street name has many more "end-customer interface" performance

indicators in warehouse and transport operations — because that is what is important to the customer. It doesn't matter how quick and efficient the fulfilment if the driver is rude or unhelpful to the customer.

In a multi-user operation, where does the profit come from? It may be that just five out of 80 customers represent over half of its revenue. In this case it would be appropriate to have a particular indicator relating to performance for those five, in addition to an overall service indicator. It may be appropriate to include one or two indicators that are not key in themselves, but that help to monitor the general health of the figures being collected. This will ensure that KPIs don't start to have an adverse effect through manipulation.

## Other indicators

Some businesses also like to monitor areas that are not directly commercially-related, but which could affect perception of the company or customer's brand, for example, statutory compliance or environmental factors.

Internal and external risk should be identified and early warning mechanisms set up wherever possible. A major supplier delivering late once or twice may be annoying and costly, but if a pattern starts to form it could be indicative of much more serious issues than just road congestion. What KPIs do you oblige your suppliers to monitor and provide information on?

If the objective is to benchmark one part of the business against another, consideration needs to be given to this prior to starting the exercise. This is important if the objective is to benchmark against external sources such as competitors or other industries. You should understand how the data has been collated and the figures calculated.

## A co-ordinated approach

KPIs should then be cascaded down the organisation. Staff incentives should be examined, along with schemes contributing to the overall performance of the organisation. Warehouse and transport operations should be analysed to make sure that they are working towards similar objectives.

KPIs should make the business easier to manage. However, they invariably generate a need for additional data collection and monitoring. It is important not to turn implementing KPIs into an industry of its own.

## Interpreting KPIs

It is essential to understand what the indicators mean. Are they telling the full story? A supplier carrying out cross-dock distribution on behalf of a number of major retailers reports on the average time from goods in to goods out, but neglects the longest dwell time.

With any indicator, consider whether it is appropriate to examine a moving (or seasonally-adjusted) average, rather than looking at the individual figure on a week-by-week basis. Pictures, graphs and spreadsheets are a good way to present the information. It shouldn't be necessary to pore over figures unless investigating what lies behind a deviation from acceptable performance.

KPIs should quickly become an integral part of the whole company's business. Robust and productive KPIs are essential for successful use of management information and the development of indicators of trend and performance. □

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