The KPIs of a Logistics Service Level Agreement: A White Paper

By Chuck Intrieri

As originally posted on http://cerasis.com
Suggested Service Level Agreement (SLA) with Key Performance Indicators (KPIs) for the Third Party Logistics (3PL) Provider

Negotiation of this SLA/KPI will be necessary with the chosen 3PL Provider

Key Performance Indicators - KPIs/Metrics: for our Service Level Agreement (SLA) (The Service Level we require from the 3PL to adhere to the customer’s account with the chosen 3PL:

- Partnership goal: Go beyond the Customer Service Expectations:
  - Turn around in one (1) day to get to our customers: 99.5%
  - No missed shipments to our customers/penalize 3PL............99.5%
  - No shortages in shipments to our customers: If there are shortages: Ship shortage at 3PL’s costs ................................99.5%
  - WE will implement a “Voice of the Customer” (V.O.C.) mechanism to obtain customer feedback on your services. This data will be reported to the 3PL.
  - Order Fill Rate: 99.5%
  - Order Accuracy: 99.5%
  - Orders will be processed and moved outbound daily, customers will be contacted to arrange delivery upon arrival of product in destination station.

- Cost Reduction by 3PL: 5% per quarter to begin partnership:
  - Mixing/Warehousing/Product Efficiency
  - LEAN initiatives
  - Use Value Analysis Techniques/3PL Cross-functional team brainstorming
  - Use Your Expertise i.e. Remote shipping lanes, but fastest route to ACS’ customers.
  - Carrier Selection and rate negotiation for our food with your leverage: GOAL: TL (Truckload) for best carrier rates for us.
  - There is always a better way to do anything!
  - Fulfillment benefits
  - Truck Load (TL) or Less Than Truckload (LTL) Optimization using the 3PL’s Transportation Management System (TMS) or Quarterly Business Review (QBR) of TMS Optimization.
  - 3PL Cost Reduction Fulfillment Benefits

- Asset Inventory Records Accuracy:
  (Inventory Records Accuracy via Daily Cycle Counting): Accuracy.................98-100%

3PL Productivity increase throughout their facility/processes: 10% per Quarter

LIABILITY INSURANCE:
The 3PL to quote their liability insurance rate to us for us to decide if they want the 3PL’s liability Insurance, or their own liability Insurance.

**Quality Specifications:**

- The 3PL must meet all necessary FDA, AIB, ASI, and ISO requirements and be certified to protect us. ASI and FDA audits are necessary processes.
- **FDA-FSMA requires that your Food Facility be RE-registered by December 31, 2012. Is it re-registered?**
- Standard Operating Procedures in a 3PL Food Grade Warehouse for receiving, storage and value added services apply to this SLA/KPI.
- The Food Safety Modernization Act requires food facilities to evaluate hazards, implement preventable controls and create food safety plans
- The International Warehouse Logistics Association (IWLA) applies to this SLA/KPI. Standard Operating Procedures (SOPs) in a 3PL Food Grade Warehouse apply.

**Safety:**

The 3PL must be a current Occupational Safety and Health Association (OSHA) approved facility for the state they reside in. All current OSHA bulletins should be posted in the entire 3PL where applicable, and OSHA checklists and audits should be available for our review, if requested.

**Loss & Damage:**

- When unloading our Food from ACS’ Suppliers, please check for complete shipments bill of lading versus actual receipts and advise Avenir: penalty negotiation
- **Damage checks**: report any damages to our goods with photos and a detailed report
- **RMA/RGA Process**: Initiated by 3PL : 3PL creates RMA and sends to us with a Suppliers Returns Department: (name) approves of RMA; (Name) gives 3PL representative the RMA number; (Name) records this transaction into the data base of Pending Returns; (Name) gives the RMA to the our USA Warehouse in anticipation of the return of the RMA product; **Please put the RMA number on the carton and all paperwork so it is easy to identify the RMA upon receipt at The Food Supplier when Product/RMA is received.**
- **Avoid contaminated frozen food products by insuring the use of clean containers/boxes.**
- The proper temperature of the frozen food must not change on/loading receiving/unloading the frozen food from a reefer truck or reefer container.

**I.T.: Program Management**

1. We are to be integrated to the chosen 3PLs WMS system using a portal with a password to be given to us by the 3PL
2. No downtime on system, available 24 hours per day: 100%
3. Our IT manager will work with the chosen 3PL’s I.T. person (name) to answer any I.T. questions.
4. Our IT Manager will advise what reports we will require and what menus/transactions will be required out of your WMS system. IT will want to be involved in any Transportation Management System (TMS) discussions.
5. You’re WMS or other system availability must be used to track ACS shipments 24 hours per day. ACS requires complete visibility to their shipments globally.
6. A short piloting education session may be necessary to educate our users on how to your WMS or any other tracking software.

Managing Inventory/Inventory Turn:
- 5% Reduction on Inventory management levels as we grow the first year
- Overall inventory reduction 5 %/quarter working in concert: Our company and 3PL collaboration
- Goal: 15 turns of our inventory per year working in concert with the chosen 3PL

Invoices/Billing: single monthly invoice – no errors – no addition to prices negotiated.

Negotiate any requested fuel surcharge increases: 3PL to consider remote lanes instead of automatic fuel surcharges. Fuel surcharge increase proposals will NOT be automatic. They will be negotiated with us on each 3PL request.

Terms of payment from our Suppliers need to be negotiated: ½%-10-30; 1% 10-30; 2%-10-30 terms on invoices

Supplier Orders to 3PL:

Our Suppliers will send an order file to the 3PL and the 3PL will upload this into their Warehouse Management System (WMS). This will be received by your 3PL account management team (Name of responsible person(s) to be determined by 3PL) but will be needed for us to know the person accountable/responsible for their order management. KPI: No missed orders; 100% accuracy in order entry; Immediate Return Confirmation (real-time) of all orders to us

Any Supplier order sent to the 3PL by our Suppliers by 2PM of that day must be shipped out the same day (Confirmation required): KPI: 100% fulfillment.

LTL/TL Carrier KPIs: No damage: 99%; No reconsignment fee; best rate possible with 3PL leverage: $ 148 per single pallet as a goal; No mistakes in National Motor Freight Classification (NMFC) paragraph codes that are put on freight bills. These paragraphs/codes in the NMFC will be audited 100% for correctness for ACS to ensure no errors are made to our account.

If TL/LTL is a separate contract, ACS requires an addition of a Quarterly Business Review (QBR) with the 3PL to review Transportation Management System (TMS) Optimization and potential Cost Reduction. We must discuss transit tables and pricing and freight to be comingled with other 3PL deliveries

Temp tags must be used in your TL reefer trucks to manage Food temperatures. Please advise the type of temp tag you will use. We will require GPS in your TLs to our customers.
Cargo theft is a real challenge. How will you assure us that you will prevent any food/equipment theft problem?

Food Transportation Safety Hazards—specification sheets are available and apply to this SLA/KPI.

A Change Process Clause has to be negotiated wherein we can re-negotiate these KPIs and Price Levels after ACTUAL experience with the chosen 3PL: KPI: 30 days; 60 days: re-negotiate KPIs/Prices.

- **Pricing Goal:** Prices to “cost-plus”, “Management Fee” and or Gain Sharing pricing after ACTUAL shipment volume and our profile is experienced by the chosen 3PL, and we have experienced working with the chosen 3PL. We will negotiate prices, as a continuous improvement process, with agreed upon time frames: 30 days, first price review; 60 days next review; 90 day review next phase. Pick, pack and ship prices, as well as all accessorial prices, to be negotiated and reviewed monthly at first and quarterly in the future.

**SLA/KPI Review Time:** every 30 days KPIs are reviewed. Constant negotiating review times are a necessity. Eventually quarterly review will be implemented.

A cancellation/modification clause must be negotiated and implemented for both parties: 30 day review. Cancellation reviews to continue every 30 days thereafter.

An ESCAPE CLAUSE must be negotiated. If either party wants to cancel the contract, a negotiated Escape Clause must be in place for both parties.

**NEGOTIATION PROCESS:**
There will be a contract review/negotiation once the 3PL submits the contract, an SLA/KPI negotiation, Price negotiation (goal stated above) after we submits their Company Profile provided by the 3PL, escape and cancelation/modification clause negotiation, SLA/KPI review time discussion (30-60 day reviews) and our lawyer will review the contract with advise from The ACS Consultant and ACS team with the chosen 3PL’s legal staff before signing the partnership/warehouse contract. Penalty/credits to be negotiated for missed KPIs in this document.

A visitation to the chosen 3PL facility by our team will take place before the chosen 3PL contract is signed.

**OVERALL GOAL:**

We and the chosen 3PL partner will work in genuine collaboration and trust to learn each other’s business missions, focus and goals. Eventually the 3PL can be embedded in our culture offering their expertise in Warehousing and Transportation efficiencies once they have experience with our actual shipments, and working with the team. We will have a better understanding of the internal 3PL provider workings after many actual shipments are received at the 3PL and at our customers. Occasional face-to-face meetings will be necessary to measure how the partnership is progressing. Going beyond customer expectations is critical to us.

Chuck Intrieri, cmintrieri@yahoo.com
714-389-2238
As originally published at http://cerasis.com