The 7 Deadly Sins of Warehouse Labor Management

Operations Labor Mistakes and How to Fix Them

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NOT MEASURING PERFORMANCE BY INDIVIDUAL EMPLOYEE

"Measuring performance by shift, department, or facility, is demoralizing to the top performers, who don't feel recognized for their efforts. And bottom performers can blend in with everyone else."

The Sin: This is when a warehouse operation is either measuring teams rather than individuals, or is making subjective or inconsistent performance evaluations. Performance measures by shift, department, or facility can be demoralizing to the top performers, who don't feel recognized for their efforts. And bottom performers blend in with everyone else.

The Example: Consider the case of one large retailer Easy Metrics worked with a few years back. They were running 100 employees per shift, and measuring performance and paying bonuses by shift. Management was trying to increase productivity, only to find out that their top performers were holding back because they were carrying everyone else on their shoulders. Supervisors didn't have enough visibility on individuals, and were blindly yelling at groups of people to work faster.

How not measuring individual performance can cost you: If the average person is performing at 100%, the bottom performer is probably at 50%, and the top performers can be at 200% or more. If you can get your bottom performers to perform at 100% (the average) through training or restaffing, you can get a 10%+ increase in productivity at your facility. Without the data and visibility, you are losing money for each hour worked by your bottom performers.

How not measuring individual performance cost them: By measuring and incentivizing group performance, they averaged 73 cases per hour. After switching to individual performance incentives, cases per hour increased to 225 per hour, an increase of over 200%. Labor costs dropped by $2M per year and average pay per hour increased by 40% just by measuring and rewarding individual performance.

The Fix: Through the Easy Metrics Labor Management System, the retailer gained visibility on the performance of each individual employee. The supervisors were able to identify and train the bottom performers, and incentivize & recognize the top performers. Since the measurements were fair and individual, shift employees looked for optimal ways to work and be more efficient. Individuals on their processes were turned into mini-entrepreneurs.

The results:

- Tripled output
- Reduced headcount
- Happier, engaged workforce
- Saved $2M annual labor
- Reduced overtime
- Increased employee pay
- Improved recruiting

2

NOT MEASURING COST IN ADDITION TO PERFORMANCE

"Even with a productive workforce, your equipment choices can kill you on labor costs."

The Sin: This sin happens when a warehouse sees employee performance and tracks it against a labor standard, but doesn't see how much it costs to perform each task. Productivity and labor standards can only get you so far. Without having the cost associated with each process, you lose a critical part of visibility and your ability to drive profits.

The Example: An Easy Metrics customer was using 4 pieces of material handling equipment. At the time, they were using a high reach truck, a regular lift truck, a double pallet jack, and a single pallet jack. All the equipment types had the same labor standards assigned to them. The trouble was, they weren't measuring the cost of each process by equipment type and their employees were using the more expensive reach trucks for jobs that could have been performed using pallet jacks.

How not measuring the cost of each individual task can cost you: Labor standards do not look at cost. The reality is that the profitability of the business is driven by controlling costs. You can have an optimal labor standard, but that cost still could be much higher than doing that task a different way. If your cost is $1 per unit, and you are charging your customer $0.50 per unit, you can't make up the losses with increased volume.

How not measuring the cost of each individual task cost the company: This customer was wasting money on labor and equipment without even knowing it. Although their employees were consistently meeting labor standards, what they didn't know hurt them. The employees argued that they were more productive when using the expensive equipment, but the data showed otherwise. As soon as we looked at the pick process cost by equipment type, we found that the high reach truck was costing $0.48 per case, and the double pallet jack was costing $0.18 per case in labor. Even when taking into consideration the different cost structure when picking by pallet or by case, the less expensive double pallet jacks were 13% more productive. As far as equipment cost, the high reach truck cost almost 3x as much as the double pallet jack, revealing the pallet jack as the hands-down winner in equipment choice for the majority of picks.

The Fix: Adding cost visibility to labor standards provided a whole different level of insight for process optimization. The customer ended up reducing the need for two high reach trucks because they had more efficient equipment to do those picks. They saved $70,000 per year at one facility – by simply making the equipment choice driven by cost visibility.

3

NOT TAKING ACTION DAILY

"If you aren't looking at data frequently enough, you won't see the improvements or change in behavior from the employees."

The Sin: This sin happens when things get too busy in the warehouse, and management looks at performance data, but not frequently enough. You wouldn't brush your teeth once per week, or per month. Some things just need to be done every day. It only takes a few minutes, but the payoff is creating a lasting culture of productivity.

The Example: A busy food processor was manually compiling their employee performance data on spreadsheets, but there was over a one month lag between work performed and spreadsheet reports. By the time the managers had the data in-hand, they couldn't remember what was going in in the operation at the time the data was collected. With 150 employees, it's difficult to remember what happened one week ago, let alone 1 month ago. This made it difficult to address problems when they occurred.

How not taking daily action can cost you: If supervisors and employees don't know how they are performing, with current information, it is a challenge to improve productivity, identify who needs training, and create a cultural shift towards an engaged workforce. If you aren't looking at data frequently enough, you won't see the improvements or change in behavior from your workforce. As Peter Drucker said "We manage what we measure."

How not taking daily action cost them: In this case, the operation struggled with what to do with the information. They couldn't remember who was responsible for what, or what was going on in the facility due to the time delay. Having no current visibility cost them in wasting money on inefficient labor, and having a general lack of employee engagement.

The Fix: They enacted cultural change in their workforce by reporting to employees daily, and intraday, how they were doing. Managers, now armed with this information, were able to address issues as they happened. Now everyday, they can see how each employee performed, how the facility performed, and what their costs were. Productivity improved by over 20%, and management had clear, daily insight into the profitability of the operation and how the impact of work flow variances affected costs.

4

NOT HAVING A CULTURE THAT VALUES PRODUCTIVITY

"Starting from the top, the chain of command must commit to improving the productivity of the business. You aren't going to get it starting from the bottom."

The Sin: It's a warehouse sin when employees aren't excited about being productive. It can happen when results aren't publicly displayed for all employees to see. But frequently it happens when buy-in hasn't happened along the entire chain, creating a weak link. If the culture doesn't value or recognize employees for their output, you may be doomed to a culture of clockpunchers counting down the minutes until they get to leave every day.

The Example: Take the case of the distribution arm of one large Asian equipment manufacturer. They were measuring employee productivity, and had all the labor management visibility tools to do so. They already implemented the software and had the daily reports on productivity. However, because management was rewarded based on the number of employees that work for them, they were not interested in productivity at all. Because more people on their team means higher salaries for managers. You get what you incentivize.

How not having a culture that values productivity can cost you: Any environment that is incentivized to bill more hours or have more employees will be much less effective and less productive, causing labor costs to spiral out of control. This results in upsetting your customers with higher prices and leaving you vulnerable to competition.

How not having a culture that values productivity cost them: In this case, the operation was massively inefficient. Based on benchmarks from similar operations, their labor costs were 2-3x as much on a per-unit basis for picking and other warehouse processes. Their labor costs were out of line.

The Fix: So how do you create a culture of productivity? You do it with performance measurements, and reporting the results to the employees. Rewarding employees for a job well done - whether soft rewards or hard money rewards - makes a big impact on the bottom line.

Before implementing a Labor Management System, it's important to get buy-in from the General Manager, management, and supervisors. Then you need to put in motion a plan to value employees for something other than time.

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NOT CAPTURING 100% OF EMPLOYEE TIME

"Productivity gains can be wiped out when those gained hours spill over into indirect."

The Sin: Relying on WMS data alone is a sin. Not tracking indirect and missing time could wipe out any productivity gains you manage to achieve.

The Example: A very large telecommunications company's reverse logistics center was focusing on their direct labor cost. They were capturing some of their indirect work, but not all of it. They were missing visibility into 30% of their labor spend. The trouble was that all of the time saved from enhanced productivity shifted to indirect processes. An employee would finish up a job quickly then move over to indirect where there wasn't enough visibility.

How not capturing 100% of employee time can cost you: If you have no visibility on 30-50% of your labor costs, you can guarantee that it won't be optimized, and potential profits will go out the door. A 100 person operation might have 25% indirect time. That adds up to $1M in unmeasured work over a year.

How not capturing 100% of employee time cost them: A large cross docking operation was optimizing direct labor really well. The employees were being incentivized to improve their productivity on each container, but weren't optimizing the indirect time. **Their costs began to spill over into nonbills:** going from $25 per container to $55 per container. So the cost savings on direct labor were being lost on indirect labor. Examples of indirect hours would be battery changes, cleanup, maintenance, and other non productive time.

The Fix: Easy Metrics was able to integrate multiple data sources - WMS, time clocks, tablets and even spreadsheets to give this operation granular visibility on 100% of employee time. When it was revealed that indirect time was over budget, management created a baseline non-bill cost metric per container and then incentivized supervisors for holding non-bill labor below that cost metric. The results were that non-bills went from $55 per container to $12, saving $860,000 per year.

6

NOT TAKING CORRECTIVE ACTION

"Consistently in warehouse environments: Bottom performers cost you 2x as much per unit as the average performer, and 3x as much per unit as the top performer."

The Sin: It's a sin to get an immediate bump in productivity from a Labor Management System, but not take corrective action on the bottom performers. If productivity goes up, but volume doesn't, you will need fewer employees. It is a sin to keep a bloated staff - unless you have other productive work for them to do (or your business is growing and you anticipate having more work for them to do).

The Example: And established business with a non-rotating (not temp) workforce saw immediate productivity gains by implementing labor management system software. The top performers were doing an outstanding job of raising productivity levels for the entire group. With the daily reporting, it was easy for management to see the distribution of performance. However, because much of the workforce was entrenched (some being 10+ years with the company) management would not eliminate the bottom performers who were consistently below standard despite training and coaching.

How not taking corrective action can cost you: If the average top performer is at 150% and the bottom is at 50%, the bottom is costing you 2x as much per unit as the average, and 3x as much per unit as the top. This unnecessarily increases your unit costs and affects profitability.

How not taking corrective action cost them: In this case, the operation struggled with what to do with the entrenched employees, and chose to do nothing. Within 3 months, their productivity gains stalled because the gains of the top performers were offset by the cost of the bottom performers. Additionally, top performers were getting paid the same as the bottom performers, which left them questioning the value of the productivity gains.

The Fix: First, you need a way to determine fair and objective performance standards. Once the data on individual employees is there, you can identify the bottom employees. Always praise in public and criticize in private. With the bottom performers you can train them, counsel them, or move them to work that is more suitable to their strengths. At some point, you might need to reduce labor, and difficult decisions will need to be made. However, the payoff is in lower per-unit costs, which can be passed on to your customers or the profitability to the business.

7

NOT MAINTAINING YOUR LABOR STANDARDS

"Labor standards can be updated in 5 minutes with the push of a button, or with Industrial Engineers. Either way, keeping the standards up-to-date is vital."

The Sin: Expecting labor standards to stay static is a sin. The only thing that is constant is change, and if you do not plan for change, you will become obsolete. A new customer, a different product mix, a change in process, or new equipment can make your existing labor standards irrelevant.

The Example: A manufacturer came to us after spending over $1M on a traditional LMS. Without realizing it, they found their system became obsolete as the operation changed gradually over 2 years. The additional investment in ongoing consulting and re-calibration of their labor standards was more than they budgeted for when they purchased it. The labor savings they initially experienced slowly disappeared because they were not able to maintain their labor standards.

How it can cost you: Once the employees and management have lost confidence in the standards, the entire LMS becomes worthless. An LMS must be dynamic. Processes and product flow change over time, and the system must change with it. Many companies think that once they spend the up front investment in the LMS, the work is done. Unfortunately that is not the case. As work flow changes, the LMS must change with it. If it does not, not only will productivity decrease, but the entire investment into the LMS will be wasted.

How not maintaining labor standards cost them: By not budgeting into their model the realistic cost of updating their standards, this manufacturer ended up throwing away their old LMS (which they paid more than $1M for). Had they understood the cost and necessity of maintaining labor standards, they could have chosen a better LMS that met their needs - one that made updating standards easy and well within budget.

The Fix: Building into your process, the consistent recalibration of your performance standards as well as a process to identify when the standards become problematic, i.e. employees performing at 30% then at 180% for example on the same process. When budgeting for the maintenance of your standard, your options include:

1. Having an in-house Industrial Engineer
2. Hiring IE consultants
3. Choosing an LMS that uses Big Data correlation modeling to update standards with the push of a button, using your own data to calibrate the labor standard automatically. In this case, the manufacturer chose to get rid of the traditional LMS, replace it with Easy Metrics, and enjoy ongoing, dynamic up-to-date labor standards.

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This collection of real-life operational challenges was the result of 20 years managing complex, labor-intensive distribution outsourcing operations. We created Easy Metrics for our customers to tackle these challenges.

Easy Metrics is a cloud based system that helps companies get visibility into exactly where their labor dollars are being spent and reveals where to focus to reduce waste and improve operational efficiencies.

- **Fast and easy to implement**
- **Easy to maintain - even when processes change**
- **Usable - actionable data to drive productivity**
- **Time to value - minimal upfront costs,seamless integration**

About Easy Metrics

Easy Metrics fuels operational excellence in distribution operations.

Operations and finance leaders use Easy Metrics' API integration platform and machine learning to analyze, plan, and forecast their labor spend so they can drive operational speed and efficiency, price their products and services profitably, and drive employee engagement.

With Easy Metrics, they translate raw operations data from multiple data sources into their costs by: activity, process, facility, people, and equipment. They use actionable reports across their network, to optimize labor spend, cut waste, plan facility investments, and drive labor strategies that ultimately fuel the growth of their business.

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