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# 10 Tips To Manage Labor More Effectively In Your DC

Track 2 Session 6



Supply Chain  **Forward.**

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# Abstract

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- ▶ **Many of the processes in the distribution industry are painfully manual. Particularly in this economy, we are tasked with striving for greater levels of productivity, yet are often ill-equipped to do so. This session asks; What tools do you use to manage labor? How much does turnover cost you? What are your expectations and productivity standards? How do you give employees feedback? How much will incentives increase productivity? What continual improvement processes have you initiated which produce results? Are you getting your best effort from each of your managers? This session will deliver 10 tips to generate increased productivity from your valuable labor resource.**

# Agenda

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- ▶ **Trends in labor**
- ▶ **10 Tips to managing labor more effectively**
- ▶ **Key Takeaways**
- ▶ **Questions**



# Situation

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- ▶ **Fulfillment processes largely manual**
- ▶ **Only largest companies justify advanced automation**
- ▶ **Total cost of back end order fulfillment =**
  - ◆ **Direct and indirect labor**
  - ◆ **Occupancy**
  - ◆ **Shipping supplies**
  - ◆ **Transportation**
- ▶ **Labor = 60%-65% excluding transportation costs- distorts comparisons**

# Labor Rates and Benefits Increase

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- ▶ **Labor rates \$7.00/hour range 5 years ago**
- ▶ **Many businesses today \$12.00 to \$13.00 in some markets**
- ▶ **Average may be 10% to 15% increase in 5 years**
- ▶ **Plus 20% benefit rate**
- ▶ **Overall productivity remained flat over a 5 to 10 year period**
- ▶ **Factoring in increasing labor rates, productivity declined**

# Labor Rates and Productivity

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- ▶ **Fully Loaded Cost Per Order**
- ▶ **26% growth orders**

Year	Labor Rate	Cost Per Order
2004	\$10.40	\$4.04
2005	\$10.62	\$3.88
2006	\$11.65	\$5.29
2007	\$12.00	\$5.43
2008	\$12.38	\$5.58

# Employee Turnover

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- ▶ **Employee turnover, many centers, 15%-25% or higher**



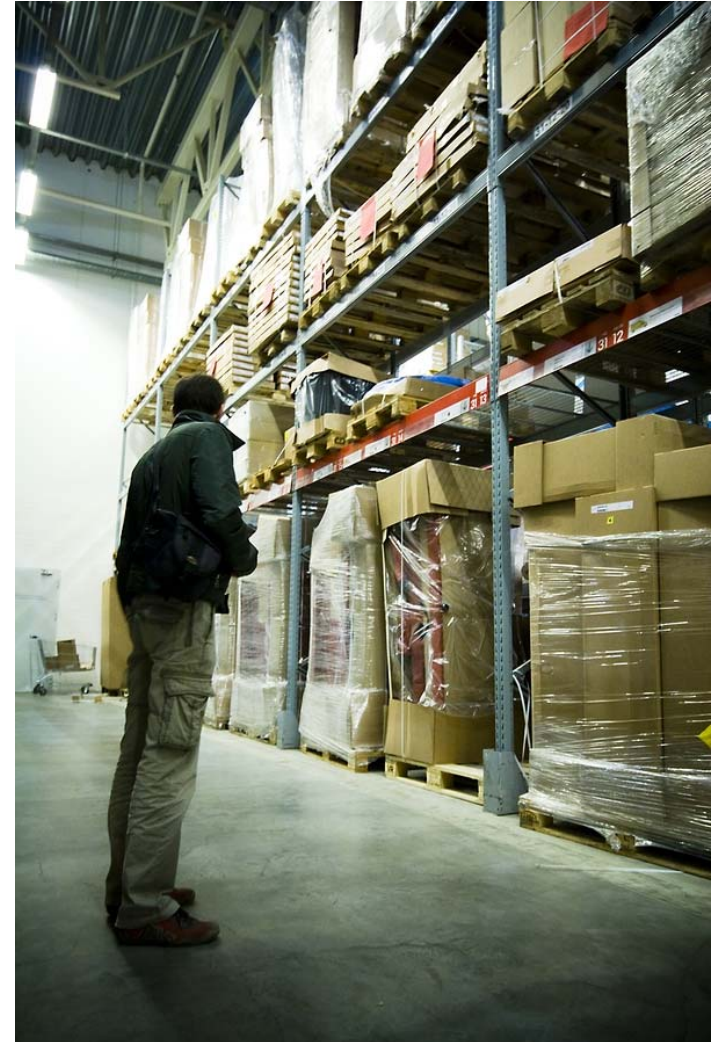
# Business Mantra

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- ▶ **Get basics right**
- ▶ **Get more from resources you have**
- ▶ **10 ways to improve productivity by managing DC labor more effectively**

# #1 Issue: Will New Employee Work Out?

- ▶ **Hire right. How many times new employees quit immediately?**
- ▶ **You can't tell how well you've hired until the new employee starts working**



# #1 Solutions: Improve Odds With New Employees

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- ▶ **Let them try job after limited instruction**
- ▶ **Identify profile of successful employee**
- ▶ **Pre-employment testing to assess whether people can do the work**
- ▶ **Good chance of fitting into your culture**
- ▶ **Use a “buddy system” with a seasoned employee**
- ▶ **Effective training program by function**
- ▶ **Will cross training improve production and give you flexibility in staff utilization?**

## #2 Issue: High Employee Turnover Costly

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- ▶ **Turnover costs range from \$3,000 to \$10,000 - people time, training, testing and the ramp-up to full productivity**
- ▶ **Does not include expenses for agencies, ads, etc., which must be added on**
- ▶ **Set up a system to track and calculate employee turnover monthly**
- ▶ **Establish an exit interview process to learn more about why people leave**

# #2 Solutions: Measure Turnover and Do Something About It - Solutions

## ► Turnover Report

Quarter					Year to Date				
	Start Count	New Hires	Total	Emp. Lost	Net	Turn-over	Total After New Hires	Total Lost	Turn-Over
July	100	10	110	17	93	15.45%	110	17	15.45%
Aug									
Sept.									

# #2 Solutions: Measure Turnover and Do Something About It – Solutions

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- ▶ **Look at the turnover by months and years of service**
- ▶ **Are you seeing turnover with long-term employees? New hires?**
- ▶ **Calculate the cost of recruiting, training and losing an employee and get management to understand the reasons and the costs**
- ▶ **From there establish a plan of action for change**

# #3 Issues: Are Employees Living Up to Your Expectations?

- ▶ **Employees have clear understanding of productivity and customer service standards?**
- ▶ **Measure key productivity and service levels? Old IE axiom: You can't improve something you haven't measured**



# #3 Solutions: Set Standards or Expectations

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- ▶ **Production goals by department and individual**
- ▶ **Engineered standards versus benchmark goals or expectations**
- ▶ **Engineered standards are expensive**
- ▶ **Setting expectations based on benchmarking**

# #3 Solutions: Set Standards or Expectations

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- ▶ **Study your operation and set up internal production standards**
- ▶ **Don't just use someone else's standards**
- ▶ **Most important benchmark: measure your production against yourself**
- ▶ **Increase “height of the bar” over time**

# #4 Issue: Am I Productive, Boss?

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- ▶ How often: “I didn’t know I wasn’t doing the job?”



# #4 Solutions: Give Employees Feedback

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- ▶ **Without feedback setting standards will not work**
- ▶ **People want to feel they are part of the bigger company picture**
- ▶ **Deserve accurate, timely, scheduled feedback**
- ▶ **Actual against plan**
- ▶ **Consequences and accountability**



Lines	Parcels
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20,326	6,631
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### FY 07 Accuracy



# OVERSTOCK CYCLE COUNT VARIANCE



**GOAL:** 99.8%

**CURRENT:** 99.88%

**LOCATIONS**

7,579

Last Update / Count

11/29/07

# #5 Issues: Spending Right Hours and Costs By Function?

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- ▶ **How do you control labor budgeted to a function?**
- ▶ **Trying to have the correct labor available and in line with the projected flow of orders or transactions**
- ▶ **Sales or Marketing forecasts available to operations?**

# #5 Solutions: Develop Labor Budget by Function

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- ▶ **Labor budget - number of hours needed by function based on the order and work flow and standards**
- ▶ **Planned by month, week and day if possible**
- ▶ **Projected transaction or order flow from sales or marketing**
- ▶ **Convert transaction volumes expected to units of work**

# #5 Solutions: Develop Labor Budget by Function

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- ▶ **Identify and plan variable and fixed labor required**
- ▶ **Use of carryover**
- ▶ **Sum weekly**
- ▶ **Get experience and history, try daily**
- ▶ **Methodology improve customer service and keep overtime to minimum**

# Labor Budget

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Dept.	Units	Ratio	Work Units	Units per MH	Hours	Wage Rate	Dollars
<i>Total</i>	387099				6919.8		63640.39

# #6 Issue: How to Gain More Production?

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- ▶ **How to motivate employees to increase production levels?**



# #6 Solutions: Provide Incentives

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- ▶ **More companies are using incentives to increase production**
- ▶ **Financial Incentives**
  - ◆ **Incentives require engineered standards to be fair and to keep productivity increasing**
  - ◆ **If they are not continually evaluated and updated, chances are that you'll end up paying an incentive for production that you have gained over time"**
  - ◆ **Change process or system, change incentives**
  - ◆ **Need time to manage incentive**
  - ◆ **Net increase in production**

# #6 Solutions: Provide Incentives

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## ▶ **Non-Financial Incentives**

- ◆ **Mercedes for a month, at door parking spot for a month, pizza parties, newsletter recognition, etc. They work**
- ◆ **Combines and reinforces feedback of performance**

# #7 Issue: Get Behind During Seasonal Peaks

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- ▶ **What problems do you have meeting peak demands?**
- ▶ **Consumer direct commerce may have a peak to average week ratio for customer orders of 14:1. 60% of more of the sales and profits may come in 2 months**
- ▶ **Do you have other seasonal peak demand (e.g. back to school)?**

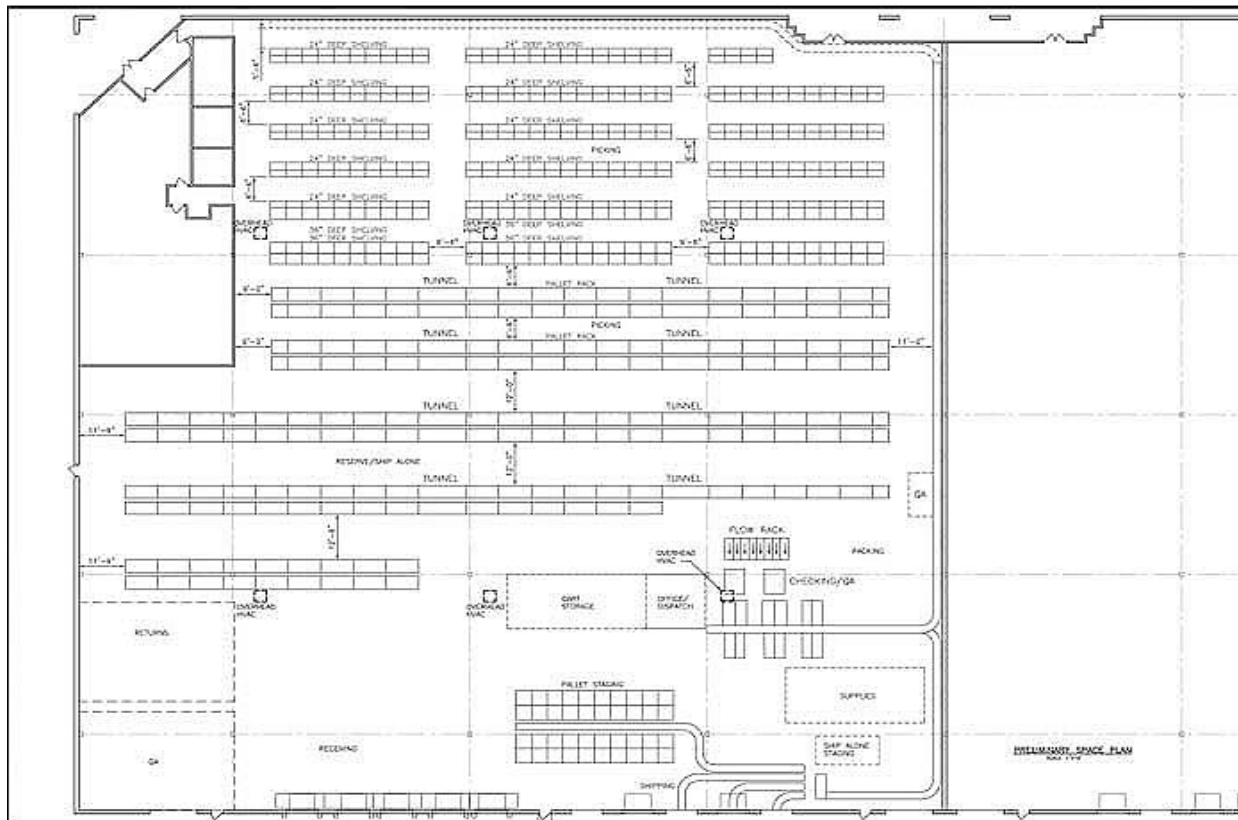
# #7 Solutions: Deal with Seasonal Spikes

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- ▶ **Invest in bringing people in early enough to train and get up to speed**
- ▶ **Stay in contact off-season with part timers who have worked the peaks for you**
- ▶ **Use temporary help agencies to meet the peak requirements**
- ▶ **Consider using bonuses smartly:**
  - ◆ **Rehiring bonus**
  - ◆ **Stay the season bonus**
  - ◆ **Refer-a-friend bonus**

# #8 Issue: Does Your Layout and Process Cost Labor Dollars? – Issues

- ▶ How much does layout and process affect your labor?



# #8 Solutions: Streamline Functions

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- ▶ **Involve the departments in the process of change**
- ▶ **Eliminate touching product, eliminate costs**
- ▶ **Warehouse Assessment**
- ▶ **Study flow and process**
- ▶ **Attack where the process uses most labor**
- ▶ **Direct commerce —picking, packing and returns processing**
- ▶ **In picking, 60% of the pickers' time is in walking**

# How Poor Layout Affects Labor

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- ▶ **Lack of logical order flow**
- ▶ **Lack of space for function**
- ▶ **Lack of appropriate automation**
- ▶ **Limited dock doors**
- ▶ **Congestion**
- ▶ **No hot pick**
- ▶ **Capacity utilization**

# #9 Issue: How Good Are You as a Manager?

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- ▶ **Big area of improvement?**
- ▶ **Do we do enough with our subordinates?**
- ▶ **“Find new manager mentality”**
- ▶ **“Train you replacement mentality”**

# #9 Solution: Look at What More You Can Do as a Manager - Solutions

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- ▶ **Our leadership and managerial capabilities**
- ▶ **What motivates staff members to excel?**
- ▶ **Have you delegated and empowered your staff to achieve success?**
- ▶ **Are your team members the most capable and talented people you can afford?**
- ▶ **Any staff too weak to enable you to succeed?**
- ▶ **How effectively and objectively do you evaluate the performance and develop team members?**

# #10 Issue: Good At Ideas – But You Don't Seem to Implement Everything?

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- ▶ **“We come up with good ideas, we implement a few and never revisit....”**
- ▶ **How many consultant studies don't get implemented?**
- ▶ **Change isn't a one time thing**

# #10 Solution: Set Up a Continual Improvement Process

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- ▶ **Write the ideas down, plan them out, follow up and revisit formally**
- ▶ **Like any process, changes to managing labor should be reviewed annually**
- ▶ **Streamlining labor functions is not a one-time activity**
- ▶ **Set up a continual improvement process**

# Key Takeaways

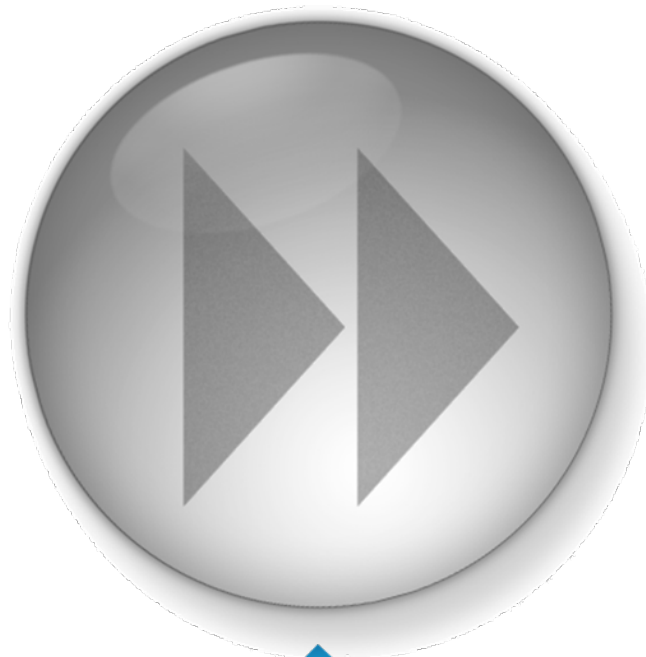
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- ▶ **Business changes**
- ▶ **Competition changes**
- ▶ **Systems, technology changes**
- ▶ **How much has your approach to managing people changed?**

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Questions?