RESEARCH REPORT

AUGUST 2014

LABOR management strategies *in* the warehouse



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LABOR management strategies in the warehouse

An in-depth look at how organizations are tackling the ongoing and expensive challenge of labor management in the distribution center.



As the typical warehouse's largest operating expense, labor costs can eat up anywhere from 50 to 70 percent of the average company's warehousing budget. Managing and reducing labor-related expenses, while at the same time maintaining solid customer service levels, improving efficiency, and increasing warehouse productivity, is a balance that most logistics managers struggle to maintain.

In this report, we'll explore the results of the recent *Labor Management Strategies in the Warehouse* survey conducted by Peerless Research Group (PRG) on behalf of *Logistics Management*. We'll examine:

- How companies are managing labor productivity within the four walls of their warehouses
- The benefits that come from employing solid labor management practices
- The role that third-party logistics (3PL) providers play in this critical process.

Respondents were from small and large companies and represented a wide swath of industries covering most manufacturing segments, wholesale and retail trade, and warehousing services.

Who's Watching Your Labor Force?

When asked about the toughest challenges they face relating to the management of a workforce for warehouse/distribution center(DC) operations, their largest hurdles are:

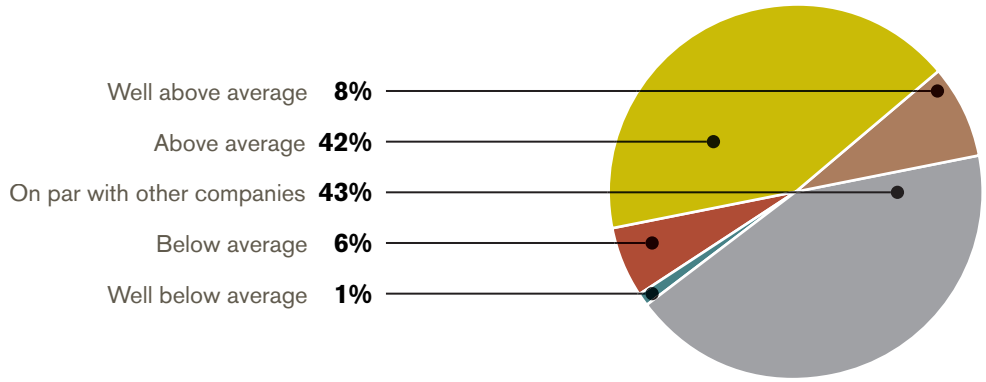
1. Finding and keeping qualified/skilled/dependable workers (62 percent)
2. Increasing workforce productivity (57 percent)
3. Controlling labor costs (45 percent)

Respondents are clearly worried about a potential shortage of available warehouse labor. The turnover rate for warehouse workers, according to the Bureau of Labor Statistics, is 36 percent. The Material Handling Industry reports that the logistics industry will be looking to fill about 1.4 million jobs, or roughly 270,000 per year, by 2018.

When asked to assess the productivity levels of their DC workforces, most are satisfied. Almost half rated their productivity levels either "above average" (42 percent) or at least "on par" with other companies (43 percent).

This data suggests that companies are tracking their productivity and understand the production level of their facilities. But our research suggests they may not have as good a handle on individual worker productivity and how one worker compares with another. If they can't measure and monitor at the associate level, it limits companies' ability to leverage individualized performance management and rewards systems.

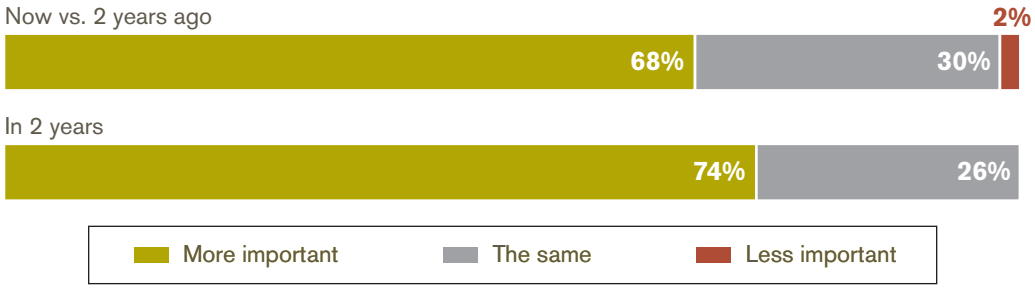
Evaluating an operation's workforce productivity



Source: Peerless Media Reseach (PRG)

Compared to two years ago, the importance of managing an efficient logistics workforce is now more important for many operations (68 percent), and is expected to become even more important two years from now for the majority of those we surveyed (74 percent).

Importance of managing an efficient logistics workforce



Source: Peerless Media Reseach (PRG)

When asked what DC workforce management practices/issues they would like to change or improve over the next 24 months, the key areas targeted will be:

- Identifying and improving productivity gaps (58 percent)
- Refining real-time labor productivity and visibility (36 percent)
- Implementing or upgrading labor analytics/software/tools (27 percent)
- Tracking incidents and overall safety (24 percent)
- Automation of labor management processes that are currently handled manually (24 percent)

Shippers Speak Up

With more attention being paid to the need for better budgeting, productivity, and efficiency within the four walls of the DC, shippers are testing out a variety of labor management strategies. Aside from the usage of a labor management system (LMS) and application, labor management strategies used to improve productivity and reduce labor costs include:

- Lean manufacturing strategies/Six Sigma
- Aerospace industry quality management system
- Activity-based management
- Flexible workforces with variable hours

"We're implementing lean manufacturing and demand flow methodologies."

—General Manager, Medical Devices, $500M - $1B in annual revenues

"We are analyzing the size of the tasks being created by our WM system in an effort to reduce overall travel. Also, we're ensuring that associates get back on task quickly after completing their previous task."

—Logistics Director, Retail $500M - $1B

One respondent said that implementing a LMS allowed the company to employ an incentive (pay for performance) system in its operations based directly on associate performance against a productivity standard. "*This not only improves the units per hour from a managerial perspective, it also enhances associate morale,*" he said.

FAST FACT

"18 percent of shippers use a formal labor management system."

Labor Management Systems Usage

Most operations now rely on a mix of manual as well as automated methods to manage their workforces. Those most commonly used include:

- Time recording/time clocks
- Time and attendance software
- Scheduling, and labor activities tracking

Yet, when asked to assess the effectiveness of those methods, most suggest there's a need for improvement. While one out of four shippers (26 percent) assert that their systems are very effective, two out of three (64 percent) said they are only somewhat effective, and 11 percent claim their current applications are ineffective.

When it comes to labor management systems usage, roughly one out of five shippers (18 percent) currently have such a system in place, while another 26 percent use non-LMS technology software to manage labor productivity. Interestingly, more than one-half (56 percent) do not employ software. Among those not currently using a LMS, one in four (23 percent) say they are planning to implement or evaluate such systems within the next two years, while most of these firms say they have no plans at the present time.

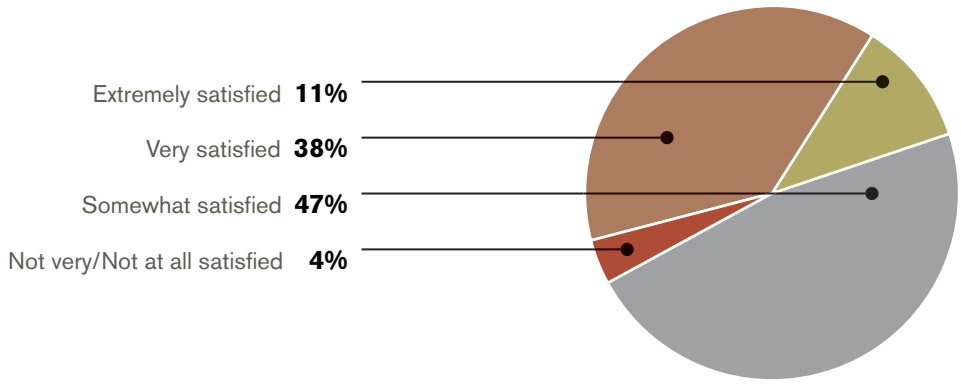
The momentum is toward use of labor management software to manage logistics workforces. Our research indicates a clear link between technology and productivity improvements. So, why do over half the respondents continue to use manual methods?

Those not considering a LMS cite the following reasons for non-adoption:

- No need at the present time
- Manual procedures fit current needs
- Other IT tasks are considered a priority
- Cost

While the current LMS usage numbers are fairly low, the results that such systems produce for the companies using them are both clear and impressive. Of those firms currently using LMS, about one half (49 percent) are highly satisfied with the results delivered by their solution. Additionally, 47 percent are somewhat satisfied.

Level of satisfaction with LMS application



Source: Peerless Media Reseach (PRG)

Like many other supply chain applications, LMS is slowly making its way into the cloud. According to our survey, 33 percent of the companies are either using or planning to implement a cloud-based LMS solution.

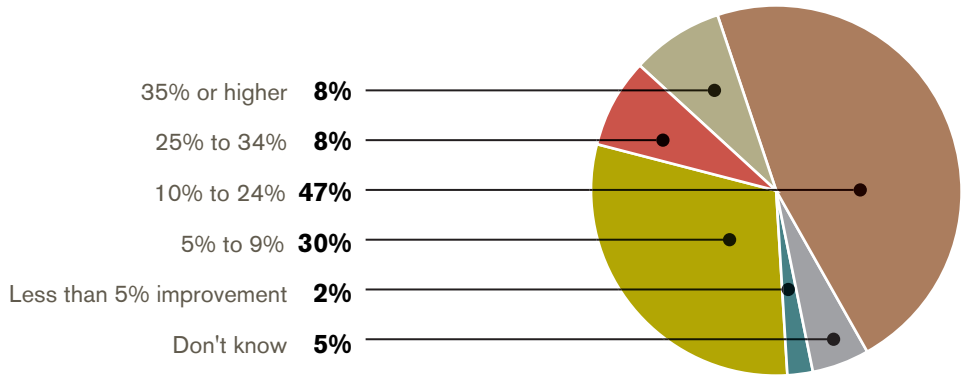
Survey responses suggest that usage of a LMS solution yields significant benefits:

1. Ability to objectively measure associate performance (72 percent)
2. Reduction in labor costs (57 percent)
3. Visibility over performance throughout the day (50 percent)
4. The capacity to monitor progress against a production plan (50 percent)

Of those firms that have implemented LMS, nearly all have seen significant productivity improvements as a result.

These kinds of productivity gains suggest there would be a solid ROI from investment in a LMS system. For example, in an environment with 50 warehouse workers, a 10 percent productivity hike would save around $190,000 annually, equating to a 1 to 2 year payback period.

Extent to which productivity has improved as a result of a LMS implementation



Source: Peerless Media Reseach (PRG)

When implementing LMS, the vast majority of companies (83 percent) developed and implemented engineered labor standards and preferred methods for performing a task (i.e., using time and motion studies), while 17 percent did not follow this practice.

Is Outsourcing the Answer?

According to our survey, two-thirds of shippers (62 percent) use company-operated DCs, while one-fourth (24 percent) employ a mix of company-owned and 3PL-operated DCs; ten percent use company-owned DCs, but are considering outsourcing certain DC operations; and another 3 percent use only 3PL operations.

In identifying the benefits of using a 3PL to manage labor within a DC, companies look to realize:

- Reduced direct (i.e. salary, benefits, etc.) and indirect (i.e. recruiting, training, etc.) labor costs
- Continuous improvements in productivity and quality
- Reduced human and equipment assets

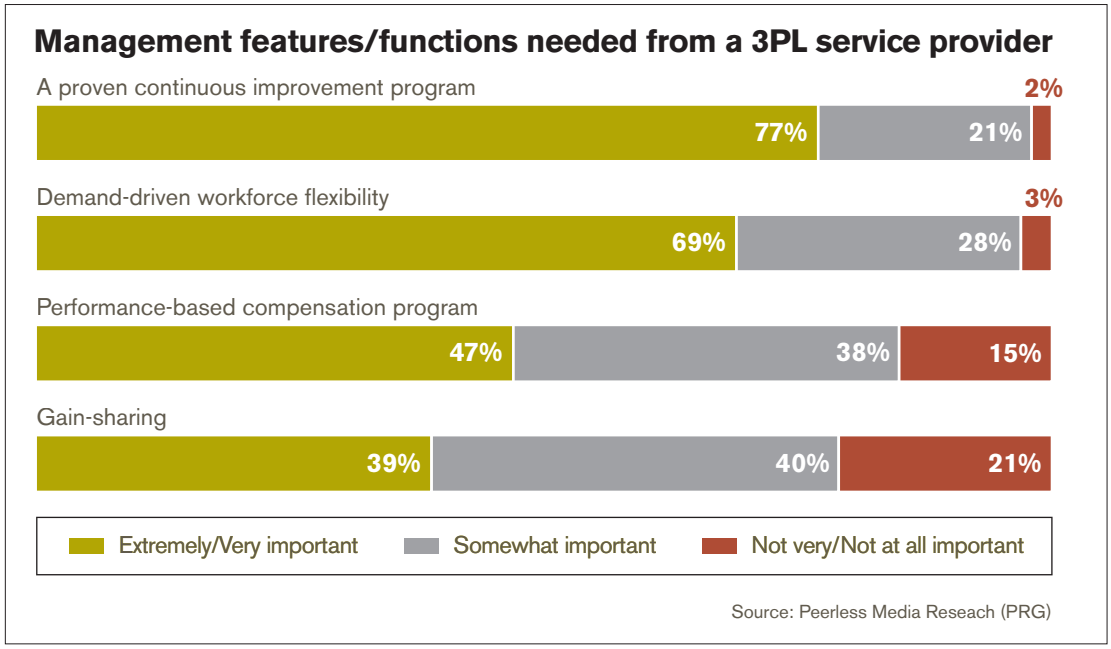
Even with these benefits within reach, some companies are reluctant to outsource labor management to third parties. The top reasons cited include:

1. Fear of losing control—prefer to keep labor management in house (63 percent)
2. Feel they can do it cheaper themselves (48 percent)
3. Concerns about a possible lack of knowledge about their specific products or work environments (45 percent)

"We are better able to monitor and measure activities with an LMS. We use temp labor during peak periods and OT when needed."

—Logistics Director, Food and Beverage, $100M - $250M

The chart below indicates the features companies seek from a 3PL labor solution.



When asked if their companies had implemented pay-for-performance in their operations (based on associate performance against productivity, safety, and customer KPIs), the majority of respondents (71 percent) said they had not, while 29 percent had.

Supply Chain Value

When respondents were asked how the management of logistics labor can be improved to deliver the greatest value to the supply chain, several themes emerged:

- **The need to improve training and education of associates.** This was the most prominent theme. There was a sense that investing more time and effort in improved hiring and training would create more productive individuals making fewer mistakes.

"We should aim to have fewer, but better educated and trained people."

—Division Manager, Chemical Company, $50M - $99M

"We need better methods of recruiting/training new hires."

—Operations Manager, Paper Company, <$50M

- **Implementation of advanced technologies as well as adopting more automation.** Solutions such as GPS systems and more real-time reports/metrics contribute to streamlined operations and cost savings.

"Experience and training drives management to success slowly, but exceedingly fast with the assistance of a logistics and labor management system."

—Vice President/Distribution, $1B+

- **Better labor forecasting, planning and scheduling.** Maximizing productivity is one thing, but if poor forecasting makes it difficult to schedule the right labor to meet demand, productivity becomes secondary.
- **Accountability.** Respondents talked about the need for better ways to give real-time information to associates about their performance. Some discussed the ability to link associate productivity to the actual profitability of the account or the facility, so workers could see their role in a broader context.

"We need to tie recognition more closely to facility performance. This would help associates to see the impact they can have on the company's bottom line."

—Logistics Director, Retail, $500M - $1B

Summary

With labor cost pressures and management challenges not expected to wane anytime soon, companies that employ good internal strategies and/or turn to reliable third parties to handle their labor management will come out the clear winners over the next few years. In return, those companies will see a mix of direct and indirect benefits ranging from cost reductions and workforce productivity to improved customer satisfaction and more streamlined supply chain operations.

Methodology

This research was conducted by **Peerless Research Group (PRG)** on behalf of *Logistics Management* for **Kane Is Able.** This study was executed in May, 2014, and was administered over the internet among subscribers to *Logistics Management* magazine.

Respondents were qualified for being involved in decisions related to the management of distribution center (DC) operations.

The findings are based on information collected among 252 top logistics and supply chain managers employed in manufacturing industries such as food and beverage, automotives, metals, computers and electronics, pharmaceuticals, and industrial machinery. Respondents are predominantly executive management (33 percent), logistics and operations management (28 percent), warehousing management (15 percent), and purchasing management (9 percent).

About Kane Is Able

KANE is a nationwide logistics provider whose innovative workforce management practices help consumer product companies and their retail customers drive down direct and indirect labor costs. KANE's focus is people logistics—recruiting, training and incenting the people required to operate high-performance logistics operations.

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