

Making Workforce Incentives Work:

12  
TIPS

# for Building a Pay for Performance Program



## Making Workforce Incentives Work

As the impact of labor shortages in the manufacturing and distribution industries continues to grow, the use of incentive programs is almost certain to escalate as employers search for ways to boost both labor performance and employee retention.

According to the latest survey results from PayScale, for the third consecutive year companies reported “retaining top employees” as their primary compensation objective. And “attracting new talent” was a close second.<sup>1</sup> These goals are echoed by senior business leaders surveyed by Deloitte, where 78% rated employee retention and engagement as urgent or important.<sup>2</sup>

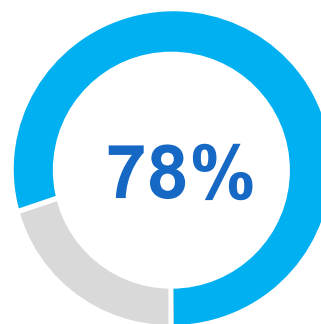
Even with a shrinking talent pool, most manufacturers, distributors and retailers are not ready to dramatically hike base pay rates. A better approach to retaining employees would be to implement incentives in a pay-for-performance model. This is a balanced response to the need to be competitive in the job market while staying focused on the operational and financial goals of the business.

## Build Your Incentive Program on a Solid Foundation

An incentive program will achieve the best results if it is part of an overall productivity initiative. The program should be built on a foundation of best practices and engineered labor standards, and be supported by a labor management system to accurately measure and analyze performance metrics.

With that foundation, you can expect an incentive program to increase overall productivity 10% to 15% above current levels. But recognize that these gains are not without potential issues and obstacles that must be considered while developing your incentive strategy.

The following pages offer 12 tips, based on our 30+ years of developing labor management programs and incentive plans, to get your program off to the right start.



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All employees should feel they play an important part in your operations.



## 12 Tips for Building a Successful Incentive Program

1

### **Incentives aren't a simple fix.**

An incentive program won't be a quick fix to productivity issues. But incentives, combined with targeted training, coaching and communications, will encourage correct behaviors that will lead to better performance.

2

### **Make incentives attainable.**

If you make program goals too easy, they aren't much of an incentive. Make the goals too difficult, and your associates won't engage. If there are pickers who are 10% faster than the average worker, realize that they will reach incentive levels faster. That's a good thing. You want them happy—and working for you rather than your competitor.

3

### **Incentives must be measurable.**

Everything hinges on accurate measurements, so create metrics for measuring success that can't be gamed or worked around.

4

### **Incentives must be fair.**

Your program shouldn't create an advantage for one group over another. For example, consider if the incentives created to boost picking productivity might negatively impact your associates in shipping.

5


### **Look at all aspects of performance.**

Adding requirements to the program around safety, product damage or shipping errors will help eliminate the idea that incentives are solely based on doing more work or working faster.

6

### **Make incentives as inclusive as possible.**

If possible, reward everyone from receiving to processing to shipping. Failing to do so will almost certainly cause dissatisfaction. All employees should feel that they play an important part in your operations and can earn extra by working smarter.



Why don't we...

Let's try...

Encourage and reinforce best practices—and be open to suggestions for improving productivity.

7

**Reward top performers, target the mid-tier, and encourage under-achievers.**

It's a given: high performing associates will regularly meet incentive goals. These are the people you want to reward and retain. Many of your mid-tier workers will up their game to hit incentive pay outs (and this tends to be where the largest performance gains are achieved). Low performing workers may or may not ever reach the goals, but the incentive program will clearly show the difference between their performance and the desired goals.

8

**Identify and promote better processes.**

Your workforce will pay attention to how the better performers are hitting their goals and start to pick up the same behaviors and methods. You want to encourage this and reinforce best practices for each activity. Meet with your team and discuss how incentives can be met—and be open to suggestions for improving productivity.

9

**Communicate your plan and the results.**

On-going communications to participants is a must for keeping interest in the program high. To make an impact, results should be shared publicly. Let everyone see who is reaching their rewards goals and why. You'll be recognizing your top achievers, while creating a little healthy competition and peer pressure within the team.

10

**Ensure incentives reflect changes in your operations.**

Review incentives frequently to ensure they continue to meet your goals and realize that you may need to make adjustments for new processes or operational changes. Make it clear to employees that incentives are subject to change and be sure to communicate the reasons behind any program revisions to all participants.

11

**Incentive programs should be self-funding.**

Self-funding or gain-sharing programs provide any incentive payouts from the savings generated by improved performance. If an incentive plan does not pay for itself, then you've only created a new expense.

12

**Money isn't the only incentive.**

There's no question that money is a strong motivator, but different people are motivated differently. You should also consider things like a close-to-the-entrance parking space, first call on preferred shifts, a team lunch, or added time off.



Automotive parts retailer boosts performance by 22% with new incentive program

## Case Study: The Right Incentives at the Right Time

An automotive parts retailer had an existing team-based incentive program in their distribution centers that was very popular with employees, but was not delivering continuing performance improvements and did not incorporate goals for utilization, safety or quality.

In addition, the program wasn't motivating top performers to boost their efforts once they reached their performance goal, and other workers were coasting just above the minimum performance level and collecting the same dollars as top performers.

The retailer engaged TZA to evaluate workforce performance and the incentive program to see if there were additional productivity gains and cost savings available. TZA determined that adjustments in existing labor standards and a move to an individual-based incentive approach, with a quality qualifier, could boost productivity and utilization.

After implementing the new program, the units per hour across the DCs increased by 22%, along with a significant reduction in errors. Plus, these improved results occurred at a lower overall incentive payout.

Just as important, supervisors and associates were fully engaged in the new program. Observations and coaching were used extensively to reinforce the new standards, and employees embraced being responsible for their own success.

Increased  
units per hour

Decreased  
number of  
errors

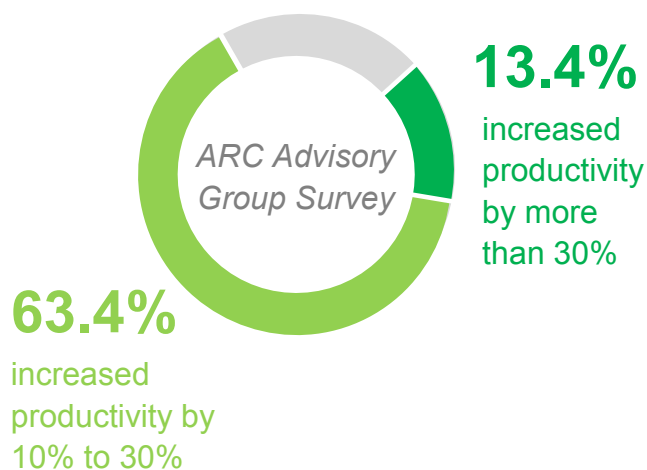
Increased  
utilization

## TZA Can Help You Design & Implement Your Incentive Program

According to a survey conducted by the ARC Advisory Group, 77% of respondents made productivity gains of 10% or more in their warehouses after implementing incentive programs.<sup>3</sup> We've seen the same result in our 30+ years of experience designing and implementing labor management programs.

TZA can give you recommendations on the best incentive plan to achieve your operational goals. Our *ProTrack* Labor Management software will help you configure your incentive program and track incentive metrics for productivity, utilization, quality, cost, etc. to align your team with the goals of your organization.

### Productivity Improvement from Incentive Programs



1. Low, Tim; Nicole Marsano, et al. "2015 Compensation Best Practices Report." PayScale. 2015.  
2. Bersin, Josh. "It's Time to Rethink The 'Employee Engagement' Issue." Forbes. April 10 2014.  
3. Supply Chain Digest. "Does Incentive Pay in the Warehouse Work?" Incentive Programs for Warehousing & Manufacturing, Cisco-Eagle  
How to Implement Motivation & Retention Strategies in the Warehouse, WERC

# About TZA

At TZA, we focus on helping our clients improve operational performance, reduce costs and drive continuous improvement across their supply chain. We provide them with the technology and services to achieve higher standards of productivity, utilization, quality, safety and customer service:

- **ProTrack Labor Management Software:** plan, monitor and measure labor performance
- **Labor Management Services:** educate, engage and empower managers and associates
- **Supply Chain Consulting Services:** optimize processes, equipment and facilities to ensure operational efficiency

