

# Effective Strategies for Managing & Reducing Overtime



U.S. Department  
of Labor Overtime Rule

**\$35,000**

Most employees making up to  
this amount are entitled to  
overtime pay.

## Effective Strategies for Managing and Reducing Overtime

Overtime is not all bad. It can be a cost-effective way to flex your workforce and increase your capacity to meet demand as necessary. However, too much overtime can become an ineffective and expensive fix for problems that, if left unchecked, can reduce your competitiveness and impact profits.

Although currently delayed, the Department of Labor ruling that extends the scope of overtime pay under the Fair Labor Standards Act (FLSA) is certain to put a new sense of urgency on minimizing the use of overtime.

The first step in reducing unnecessary overtime expense is recognizing the causes of overtime. 50% or more of overtime is due to lack of labor planning, failure to meet performance expectations and lack of real-time visibility to work progress. In too many cases, managers do not have sufficient insight and control of labor productivity, utilization and scheduling, causing overtime hours quickly and unknowingly escalate.

Whatever the cause, unplanned overtime presents the opportunity to leverage labor management technology to improve planning, boost workforce performance and gain better visibility to operations. Here are six strategies to offset the need for overtime.

### Negative Effects of High Overtime Levels

Besides the costs incurred, excessive overtime can lead to:

- *Increased health problems*
- *Increased absenteeism due to health issues and fatigue*
- *Rising turnover rates due to poor work-life balance*
- *Increased safety risks – primarily due to fatigue*
- *Decreased productivity – often due to reduced quality of work*

“ **How much is too much?** According to some studies, Employee output falls sharply after a 50-hour work-week, and falls off a cliff after 55 hours—so much so that someone who puts in 70 hours produces nothing more with those extra 15 hours. <sup>1</sup> ”



### Gain Real-Time Visibility to Performance

A Labor Management System (LMS) can be instrumental in overtime reduction by simplifying and automating performance tracking and analysis. These systems provide greater visibility into your labor operations, enabling you to better understand where and why you're experiencing delays, bottlenecks or employee performance issues. Performance data can be updated continually to give you a real-time picture of productivity and utilization, as well as show negative trends that can result in overtime.



**ProTrack Incentive Module** lets you easily track metrics for productivity, utilization, quality and safety, and simplifies the administration of a self-funding incentive program. TZA can give you recommendations on the best incentive plan to help you control overtime and support your overall operational objectives.

### Get Leaner

Applying Lean principles to your operations and workforce can help offset the need for overtime. It also harnesses the power of your organization's best knowledge base – your people – to continuously identify ways to improve productivity and quality while reducing costs and lead times.

By eliminating wasteful processes and non-value-add activities, a Lean labor management strategy can help you improve associates' job satisfaction while also trimming overtime, which results in both improved morale and cost savings.

### Emphasize Cross-Training

For some manufacturers and distributors, only a small percentage of their workforce is able to handle certain tasks. As a result, a few workers may end up getting a lot of overtime – whether they want it or not.

As part of a labor management program, you establish best practices and preferred standard operating procedures (SOP). These define how a job can be done in the least amount of time with the least effort, without compromising quality or safety.

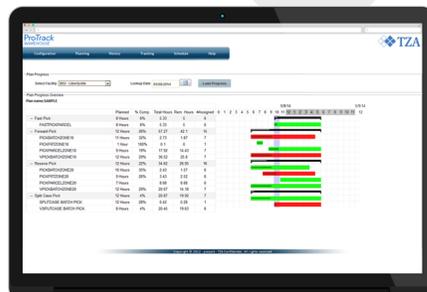
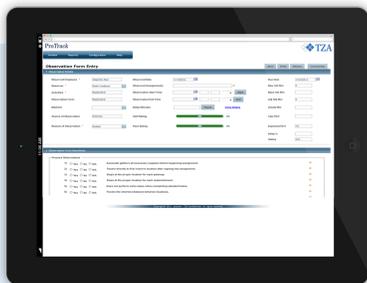
Establishing SOPs will provide a detailed guide for training – and cross-training – employees. Once associates are trained to handle multiple jobs, it becomes easier to reassign workload when needed.

## Coach for Higher Performance

A study by Bersin by Deloitte<sup>2</sup> shows that organizations with strong support for coaching had 39% stronger employee performance. With consistent, effective coaching, associates are able to perform at their best, which leads to increased job satisfaction and higher employee retention. As your team starts to perform at a higher level, more work gets done on time and the need for overtime lessens.

Your LMS should support a continuous coaching process by giving managers and supervisors the tools to easily configure observation checklists, perform on-floor observations to assess skills and pace, and track the status of assigned coaching tasks.

**ProTrack Observations & Coaching Module** provides supervisors the tools they need to develop an effective feedback loop with associates to drive continuous improvement. You can create custom observation forms, perform on-floor observations using a mobile device, and track the status of assigned coaching tasks to ensure completion.



**ProTrack Labor Planning** gives you the ability to accurately determine work requirements by work area and intelligently assign the most qualified available resources—resulting in a 5% to 10% boost in labor productivity.

## Match Staffing Levels to Demand

Staffing the right number of associates with the right skills to meet demand requires an effective labor planning system. For many companies, inefficient labor planning is the main cause of excessive overtime. Manual scheduling and spreadsheets do not allow organizations to quickly adjust to fluctuating demands and will often leave some employees idle and others with too much work.

By using labor planning software to schedule your workforce, it's possible to dramatically reduce overtime and improve the efficiency and utilization of your employees. Plus, your labor planning system should allow you to define the skills and experience levels required for each activity so the most qualified employees are used in the right spots.

**Incentive Programs Boost Warehouse Productivity**

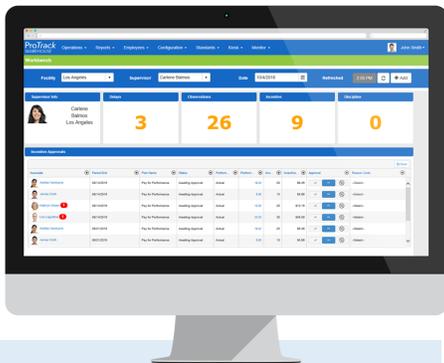
**63.4%**  
increased productivity by 15% to 30%



**13.4%**  
increased productivity by more than 30%

**Pay More to Pay Less**

Rewarding higher performance with an hourly incentive (or other non-monetary recognition or perks) will motivate your associates to work at a higher level. This increased throughput can eliminate the need to add extra hours to the work schedule. You could also develop a program that rewards supervisors for effectively curbing overtime in their department.



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**Cost Comparison: Overtime vs. Incentives**

Assume there are 50 workers in your warehouse, each making \$15 an hour and making 20 picks per hour. At this productivity level, they make 8,000 picks at a cost of \$6,000.00 per day (ignoring benefits).

But business is booming, and you need your team to make 10,000 picks each day. Should you pay for overtime at 1.5 times the hourly rate or offer an incentive to increase current output to meet demand?

If each employee works 2 extra hours per day, your daily overtime pay will total \$2,250.

But with an incentive of an extra dollar an hour for making 25 hourly picks, you'll reach your 10,000 pick goal at an added daily cost of only \$400.

Over the course of a year, those savings can really add up...to \$92,500 in our example.

Overtime Cost	Incentive Cost
50 associates	50 associates
x \$15 per hour	x \$15 per hour
x 8 hours	x 8 hours
+ 2 hours overtime	+ \$1 hourly incentive
<b>= \$2,250 cost per day</b>	<b>= \$400 cost per day</b>

## Are You Using Right Tools and Strategies to Identify and Eliminate the Causes of Overtime?

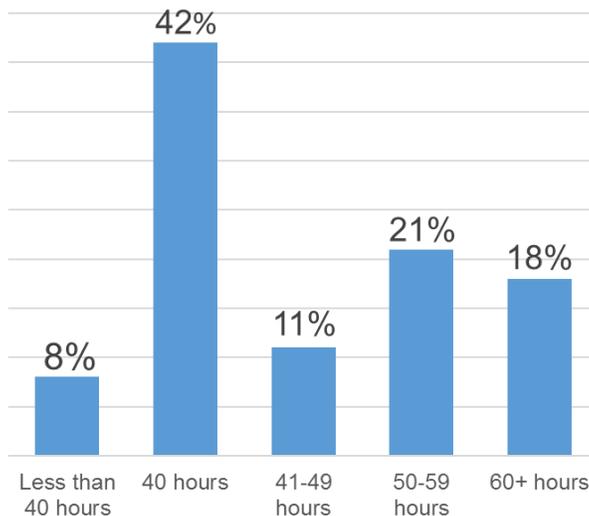
There are many ways to manage and reduce overtime effectively, but any successful strategy starts with understanding the reasons for the overage. Harnessing the analytical power of labor management tools gives you insightful operational data that allow you to determine the root causes of overtime, develop the right strategy and successfully implement it across your organization

Having the ability to review and share associate performance metrics, track progress against goals, and monitor and adjust staffing are all essential elements to controlling overtime – and only using it when necessary and cost-effective.

Visit [www.tza.com](http://www.tza.com) to learn more about *ProTrack* Labor Management Software and how you can leverage it to improve how you measure, manage and motivate your workforce.

To see a full demonstration of *ProTrack* software, please contact us at 800-229-3450 or [info@tza.com](mailto:info@tza.com).

Average Hours Worked by Full-Time U.S. Workers<sup>4</sup>



1. Joseph Berk, Consultant and Faculty Member at California State Polytechnic University "Cost Reduction and Optimization for Manufacturing and Industrial Companies"  
 2. "Business Benefits of Coaching" Bersin by Deloitte, <http://www.bersin.com/news/details.aspx?id=15040>  
 3. Supply Chain Digest, "Does Incentive Pay in the Warehouse Work?"  
 4. Gallup Work and Education Survey

# About TZA

At TZA, we focus on helping our clients improve workforce 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** to plan, monitor and measure labor performance
- **Labor Management Services** to educate, engage and empower managers and associates

