

Effective Strategies for Managing & Reducing Overtime



**New U.S. Department
of Labor Overtime Rule**

\$47,476

The DOL more than doubled the salary threshold, requiring employers to give overtime pay to most workers who make up to this annual amount.

Effective Strategies for Managing and Reducing Overtime

All overtime is not bad. Overtime can be a cost effective way to flex your workforce and increase your capacity, when needed, to meet demand.

On the other hand, too much overtime can become an ineffective, expensive fix for problems that, if left undiscovered and unchecked, can reduce your competitiveness. Although currently delayed, the Department of Labor ruling (see details above) that extends the scope of overtime pay under the Fair Labor 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, so overtime hours start to 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. Review the following strategies to learn six ways you can offset the need for overtime.

Negative Effects of High Overtime Levels

Besides the costs incurred, excessive overtime can lead to:

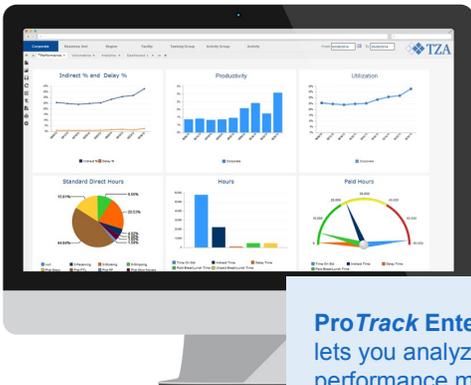
- Increased absenteeism from health issues and fatigue
- Rising turnover rates, due to poor work/life balance
- Increased health problems
- Increased safety risks, primarily due to fatigue
- Decreased productivity, often due to reduced quality of work

“ **How much is too much?** There’s no hard answer. If it goes much over 3% to 5% of the total hours worked for extended periods, it is not effective. People become tired, they make mistakes, productivity deteriorates. ¹ ”



Gain Real Time Visibility to Performance

Your labor management system can be instrumental in overtime reduction by simplifying and automating performance tracking and analysis. With an LMS, you can see and 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 time to spot negative trends that can result in overtime.



ProTrack Enterprise Dashboard lets you analyze real-time performance metrics by location, department or activity. You can easily view critical results and trends to ensure all areas are performing to goal to minimize the need for overtime.

Get Leaner

Applying Lean principles to your operations and workforce can play an important role in offsetting the need for overtime. It also harnesses the power of your organization’s best knowledge base—your people—to continuously find ways to improve productivity, lower costs, improve quality and reduce lead times.

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

Emphasize Cross-Training

Some manufacturers and distributors may get into a bind because only a small percentage of their workforce is able to handle certain types of tasks. So a few workers may end up getting a lot of overtime—whether they want it or not.

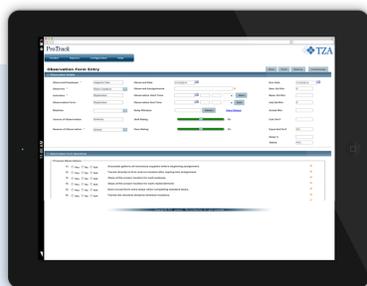
As part of a labor management program, you establish best practices, preferred methods and standard operating procedures. These standards define how a job can be done in the least time with the least effort, without compromising quality or safety, so you have a detailed guide for training—and cross training—your associates.

Once associates are trained to handle multiple jobs, it becomes easier to reassign workload when faced with an unforeseen increase in demand or unexpected staff shortage.

Coach for Higher Performance

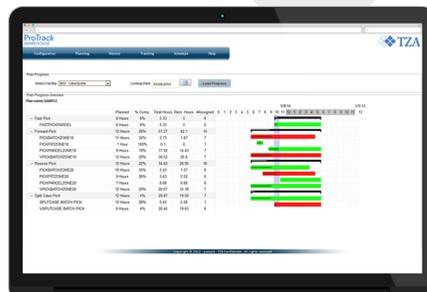
A study by Bersin by Deloitte² shows that organizations with strong support for coaching had 39% stronger employee performance. With consistent, effective coaching, associates are able to perform at their best, which leads to increased job satisfaction and higher employee retention. As your team starts to perform at a higher level, more work gets done on time and the need for overtime lessens.

Your labor management system 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 provide 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 can't adjust quickly to fluctuating work 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 to fill a vacancy or moved to a new assignment.

Incentive Programs Boost Warehouse Productivity



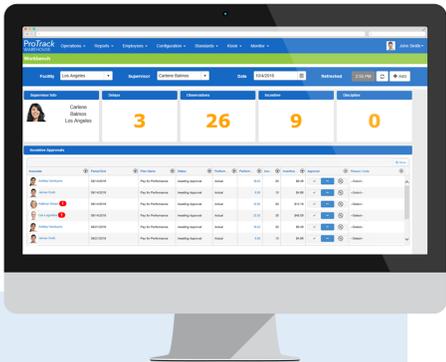
63.4%
increased productivity by 10% to 30%

13.4%
increased productivity by more than 30%

ARC Advisory Group Survey of Warehouse Managers ³

Pay More to Pay Less

Incenting higher performance in the form of an hourly incentive (as well as 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.



ProTrack Incentive Module lets you easily track metrics for productivity, utilization, quality and safety and simplify 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.

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
= \$2,250 cost per day	= \$400 cost per day

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

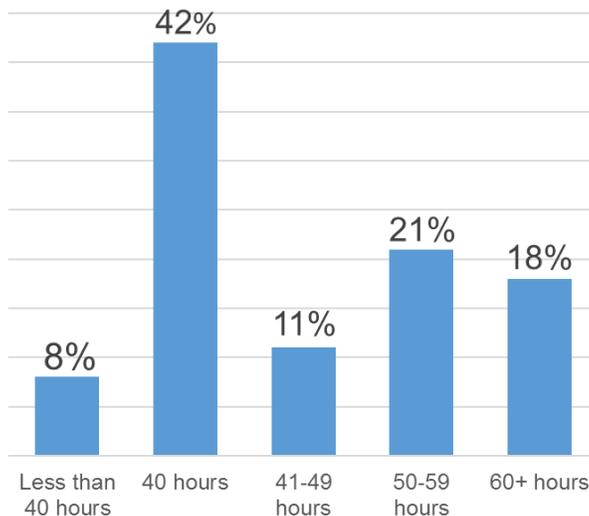
As outlined here, there are many possible strategies to manage and reduce overtime effectively, but it starts with understanding the reasons for overtime. Harnessing the analytical power of labor management tools gives you the data-driven insight into your operation to drill down and determine the actual root causes of overtime.

As we have shown, 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 our website at www.tza.com to learn more about *ProTrack* Labor Management Software and how you can leverage it to manage and reduce overtime by improving how you measure, manage and motivate your workforce.

To see a full demonstration of *ProTrack* software, please contact us at 800-229-34550 or info@tza.com.

Average Hours Worked by Full-Time U.S. Workers⁴



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