TZA Labor Management Solutions

2021

The Year of the Labor Management System

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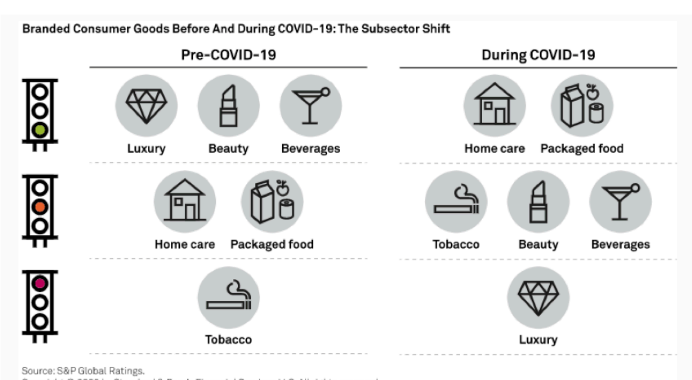
As the war for talent rages on, we're answering your most pressing questions on the competitive labor market, employee retention, and how Labor Management Systems can help.

2020 is behind us at last. It was a year of ups and downs that found some businesses soaring and others ducking for cover.

Companies that distribute items deemed essential saw their businesses explode, and struggled to handle the volume increases. Those that distribute items considered non-essential had to find creative ways to keep the lights on.



COVID-19 has led to a sharp turn of fortunes across the different segments of the consumer goods sector.

A Year of Consumption Shifts

In 2020, a large chunk of consumption shifted from outside to inside the home under coronavirus lockdowns and social distancing. Certain consumer product segments were pushed to the fore, especially those viewed as essential, such as packaged foods and home care items. Online retailers, like Amazon, were among the biggest winners of the pandemic, as people grew cautious about leaving their homes. Big-box stores, such as Walmart, Target and Costco, also experienced success, as shoppers flocked to stores where they could get all their shopping done in one go or take advantage of curbside pickup. According to CNN, in the first three quarters of the year, "sales increased 7% at Walmart, 12% at Costco, and 19% at Target." [1]

As the pandemic winds down, S&P Global Ratings projects that demand for staple goods will continue to grow at a robust pace, while luxury goods and prestige beauty will struggle. "Before the pandemic, staples had suffered from low growth, and some global brands were battling to stay relevant in the eyes of consumers. At the same time, luxury goods and prestige beauty grew rapidly, fueled by an upswing in global travel and demand from Chinese consumers, both at home and abroad." [2]

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20-40%

turnover range.

Winners and Losers Both Need to Step Up Their Labor Management

Whether your organization saw demand explode or recede, one thing rings true from a distribution perspective: there's a need for improved labor management.

According to Evan Danner, CEO at TZA, "In cases where volume was exploding, companies were challenged to determine how many people they needed, when they needed them, and how to make their people as productive as possible. They did whatever they could do to just keep up." As a result, these companies experienced many of the things that often come with inadequate labor management – excessive overtime, a decline in productivity, and an increase in turnover – but at a much higher level.

On the flip side, non-essential type businesses that struggled in 2020 had to reduce their staff and maximize their remaining resources' productivity levels. With labor costs accounting for 50% to 65% of a distribution facilities' operating budget, these organizations had to get creative and do more with less.

But it isn't just exploding or imploding demand that is driving the need for improved labor management – it's the continued struggle to find labor. According to Danner, "For the last five to ten years now, there hasn't been a lot of available labor on the market. Successfully recruiting labor, and more importantly retaining that labor, will continue to be a major focus for organizations in 2021."

State of the Labor Market

Despite overall higher than normal unemployment levels in 2020, warehouses and distribution centers continued to face a shortage of qualified workers as the number of opportunities in the sector grew. In fact, according to the Bureau of Labor Statistics, warehouse employment reached the highest level ever recorded with 1.4 million workers in the warehouse and storage sector in December. [3]

As demand continues to shift and labor shortages rage on, employee retention is becoming more important than ever before. Because, according to Danner, "When one person leaves, you can't just hire another one tomorrow. It's been the case for years, and it's a trend that is here to stay."

If you're wondering if you have retention issues and what you can do to address them, the following Q&A dives into frequently asked questions regarding the competitive labor market, employee retention, and how Labor Management Systems can help.

Q: How do I know if I have a turnover problem?

Employee turnover is a given in any business. But a high employee turnover rate can signal trouble. Why? Because employees who are satisfied with their jobs generally don't give them up.

TZA is currently seeing that a significant number of companies are in the 20-40% turnover range, a number that's quite concerning when you dive into the details. If you have 200 people and an annual turnover rate of 40%, you're turning over 80 employees a year, or roughly seven people a month.

> If you're experiencing over **40%** turnover, you need to seriously begin looking to solve that problem.

That number itself is alarming, but when you consider the repercussions, things get even scarier.

- **Being short-handed drives more overtime.**
- **More overtime leads to employee burnout.**
- **Employee burnout leads to more turnover.**

It's a vicious cycle that's hard to escape.

Our advice? If you're experiencing over 10% turnover, you need to seriously begin looking to solve that problem.

Q: We know we have a turnover problem, what's next?

Once you identify that you have a turnover problem, the first thing you need to do is identify what is causing the problem.

In TZA's experience, turnover is driven by three main issues:

#1 Non-competitive wages:

According to the Bureau of Labor Statistics, the average earnings of production and nonsupervisory employees working in the warehouse and storage sector ranged from $17.80 in September 2020 to $18.31 in December 2020.[4] With wages in this range, it doesn't take a large increase to drive an employee to hop to a new position. The ability to earn 25 to 50 cents more an hour can make a big difference.

#2 Overtime

Employees will only put up with so much overtime before you start seeing them walk out the door. Many operations are running excess overtime because they're struggling to hire, and they can't get their productivity levels where they need to be. If you're requiring an employee to work more than 10% overtime a week, it will only be a matter of time before that person considers leaving your organization.

#3 Management Communication:

According to ARC, "The best-run warehouses all subject managers to 360-degree reviews, train managers in how to give effective feedback, and provide employees with feedback frequently and fairly." [5] In operations that don't engage in these practices, we often hear, "I don't like my manager." Or, "My manager never communicates with me." The result can, again, drive high levels of turnover.

Q: Once I identify what's causing my employee retention issues, what can I do?

Once you determine the root cause of turnover, you can begin taking action to address those issues.

- When it comes to establishing competitive wages, consider implementing an employee incentive program that enables your associates to earn more while reducing your overall cost per unit.

- If you're struggling with too much overtime, focus on improving labor planning practices to make sure that you have the right number of resources in the right place at the right time.

TODAY, an LMS is becoming as necessary as a Warehouse Management System.

- If you need to increase manager/employee engagement to build the right culture, start identifying the people that are doing really well and acknowledging them and identifying the people that aren't doing so well and coaching them. You might also begin incorporating gamification and production boards into your operations.

But to do any or all of these things, you need a Labor Management System (LMS).

Q: Aren't Labor Management Systems for larger operations with 100+ employees?

There was a time when labor management systems were primarily used to monitor the performance and the cost of labor and larger organizations tended to be the ones deploying them. Today, an LMS is becoming as necessary as a Warehouse Management System. According to Danner, "When you have as much as 60% of your operating cost tied to labor, you really need to invest in a solution to help you optimize performance and stay competitive."

In Logistic Management, Dwight Klappich, VP Analyst at Gartner, states that an LMS "has historically been tasked with helping shippers squeeze as much effort as possible from their existing workforces, identify their best workers, and single out their low-performers—and then subsequently replace them." [6] But today, according to Danner, all that is changing. "LMSs are now using more sophisticated business intelligence capabilities to examine more than performance and utilization measures in order to provide deeper operational and business insights that enable facilities to improve overall performance."

Q: How exactly are Labor Management Systems being used to tackle problems causing retention issues?

Today's LMSs are being used to:

Create Competitive Wages

When it comes to increasing wages, most companies with a wage problem can't just increase their wages significantly. If they could do that, they probably would have already done it. What these companies need is a self-funding incentive program that encourages associates to operate above the minimum expected performance level.

Building a successful incentive program requires a few things.

#1 Standard Operating Procedures (SOPs)

You have to have fair expectations in place. If your standards aren't right, you'll never get an incentive program off the ground. Your associates must believe that your standards were properly developed and that they are attainable. To do this, you must establish an SOP for each of the direct activities in your building. SOPs ensure that there's one way to do a task and that everybody does that task in the same way.

Proper labor planning and the ability to make real-time adjustments to labor assignments throughout the day can reduce overtime by as much as 25%

#2 Engineered Labor Standards

Once you have your SOPs in place, you need multi-determinant engineered labor standards to support a program that is fair to both the employee and the company. Multi-determinant standards use more than one variable to calculate a performance expectation and therefore automatically adjust as work content changes. For example, a standard for picking may use the following:

- Number of lines
- Number of cases
- Number of eaches/inner packs
- Total cube
- Total weight
- Dynamic travel calculation based on specific pick location

#3 A Labor Management System

With SOPs in place and engineered labor standards built, you need an LMS to accurately calculate your standards and report on each individuals' achievements. However, today's LMSs are much more than calculation engines. Tier 1 LMSs also provide managers with the tools they need to better plan and adjust their day, help associates increase their performance, and analyze operational gaps.

A lot of people try to do incentive systems without an LMS or engineered labor standards. This often results in standards that are way below the minimum expectancy level, which isn't ideal. Associates wind up significantly beating the expected performance level, and organizations are left paying much more than the work is really worth.

But…if you deploy the right combination of SOPs, engineered labor standards, and an LMS, your employees will earn more and you'll be able to compensate for that wage increase with an overall reduction in labor cost. It's really a win-win situation.

Reduce Overtime

In an environment that has constant fluctuating demands, labor planning is the backbone of an effective operation. For many companies, inefficient labor planning and a lack of visibility into real-time progress is the main cause of excessive overtime. Manual scheduling with spreadsheets does not allow organizations to accurately model and plan labor.

An LMS delivers the functionality you need to correctly calculate the number of associates needed in a given period to meet your specific volume. Additionally, more sophisticated LMSs can automatically schedule specific individuals based on their skills, performance level within the area, seniority, and/or home department, which will assure your plan is not only cost efficient, but executable. Proper labor planning and the ability to make real-time adjustments to labor assignments throughout the day can reduce overtime by as much as 25%.

The shortage of available labor in the supply chain industry isn't going to change any time soon.

Improve Culture & Management

Beyond increased pay and reduced overtime, associates want to work in a supportive environment. Creating the right culture starts with your management team engaging with your hourly associates on a consistent basis. This sounds easy, but is often hard to do when most days there is more to do than time to do it. An LMS provides supervisors the tools they need to develop an effective feedback loop with associates to build better relationships and drive continuous improvement.

With an LMS you can create scheduled engagements. This results in more consistent interactions that show associates that you care about them and their contribution to the company. An LMS will also automatically identify any associates that need additional coaching and schedule a coaching engagement for the appropriate floor manager.

An LMS also supports the use of Production Boards on the floor which provide critical operational metrics and recognition messaging throughout the day to the associate team. In our experience, this is a great way to recognize high achievers and create some friendly competition at the department level. According to Andy Paulson, Senior Director, Customer Success at TZA, "Tangibly letting people see how they're doing is really important. Associates want to understand where they are and if they are or aren't contributing to the operation for the day. Either way, knowing their individual performance can be a big motivator."

Q: It sounds like a Labor Management System could really help my organization with employee retention. How do we get started?

Before you move forward with any solution, you need to identify the root cause of your turnover. The following are few questions to keep in mind as you assess your operation:

- Are your wages competitive in your specific market?
- Are you scheduling excessive overtime?
- Do you have a formal engagement program?
- Do you have a positive work environment/culture?
- Do you have a formal recognition program?
- Do you have an effective onboarding approach?

You will recognize patterns pretty quickly, and from there, you can begin to design and implement an LMS solution to directly address your issues.

Bottom line, the shortage of available labor in the supply chain industry isn't going to change any time soon. If you're experiencing over 10% turnover, now is a good time to focus on employee retention.

If you're interested in more information on employee retention and how Labor Management Systems can help, check out: our blog, our library, or get in touch.

Sources:

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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:

- Pro*Track* Labor Management Software to plan, monitor and measure labor performance
- Labor Management Services to educate, engage and empower managers and associates

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