

Do More With Less: How to Thrive in a Challenging Labor Market

Investing in the Workforce With a Performance Management Program Enables Fulfillment Operations to Not Just Survive, but Thrive During the Labor Shortage



Table of contents

- 1 [Do More With Less: How to Thrive in a Challenging Labor Market](#)
- 1 [The State of the Operational Workforce and Market Influences](#)
- 2 [Finding the Right Approach to Optimize the Workforce](#)
- 3 [A Motivated Workforce Is a Productive Workforce](#)
- 3 [Coaching Sessions Build the Foundation for Success](#)
- 4 [For Managers, Knowledge Equals Efficiency](#)
- 4 [Long-term Value](#)
- 5 [The Numbers Add Up](#)
- 5 [Faster Implementation Means Greater Financial Return](#)
- 6 [Optimize Labor to Face the Challenges of Tomorrow](#)
- 6 [Fast ROI: Apparel Retailer Boosts Direct Labor Productivity](#)
- 7 [National Retailer Experiences Significant First-year Labor Savings](#)

Do More With Less: How to Thrive in a Challenging Labor Market

Investing in the Workforce With a Performance Management Program Enables Fulfillment Operations to Not Just Survive, but Thrive During the Labor Shortage

The State of the Operational Workforce and Market Influences

The MHI U.S. Material Handling and Logistics road map indicates a shrinking pool of qualified labor due to the retirement of baby boomers and a lack of skilled younger workers to replace them. Turnover is also a major pain point, as MHI estimates the annual turnover rate for material handling and logistics positions at 25 percent. To compound the problem, these critical operational positions typically feature on-the-job education and training, placing a premium on experience. As older employees retire, their legacy knowledge goes with them, causing increased competition for capable labor and pressuring management to find solutions that bridge the gap between required skills and the actual proficiency of available workers.

However, while the skilled labor pool shrinks, there is no corresponding reduction in demand, especially with the rise of omnichannel retail and the associated increase in direct-to-consumer orders. This forces distribution centers (DCs) originally designed for store replenishment to deconsolidate case and pallet loads to serve individual e-commerce orders, resulting in more labor-intensive fulfillment operations.



Combined with the push to continually increase service standards with shorter order cycle times and higher accuracy rates, labor assumes a critically important role in fulfillment operations that drive customer satisfaction and earn repeat business.

Demand for labor is driving higher base wages in the U.S., with [several large retailers announcing pay increases](#) and [several states raising base pay above the federal minimum](#). As increased labor costs become an established piece of the contemporary distribution puzzle, businesses strive for improved employee performance and measurable returns on workforce investment.

Finding the Right Approach to Optimize the Workforce

To efficiently serve demand, fulfillment operations aim to maximize per-capita productivity, reduce overall cost per unit and increase units per hour. But how can they translate this from a fantastic ideal to the reality of their daily operations?

Some develop their own in-house tools in an effort to gain visibility into labor and improve workforce productivity and efficiency. These systems typically use manually populated spreadsheets to catalog basic labor tracking metrics and uncover opportunities for improvement. However, most in-house tools possess significant limitations, including restricted functionality, reporting and analysis that result in productivity plateaus. These systems also carry the risk of reporting errors and generate high overhead costs due to manual data entry by management personnel.

Another approach to meet throughput demands is to simply add extra labor. While additional workers can increase capacity, the current shortage of qualified labor makes this an especially risky strategy. Adding too many workers can easily become counterproductive, causing bottlenecks and preventing maximum full per-capita productivity. As order volumes and employees increase, the law of diminishing marginal utility eventually takes over and excessive manpower no longer offers an effective means to increase throughput. At this point, budget can be better spent on identifying the most effective way to use labor, rather than simply allocating more.

For operations with more than 50 employees working the floor, labor management software (LMS) can deliver significant performance gains beyond basic in-house tools and additional staff. With automated functionality, in-depth



reporting and thorough analysis, it frees management to look beyond simple labor tracking to new levels of productivity that eclipse the capabilities of alternative solutions.

A Motivated Workforce Is a Productive Workforce

Increased competition for a smaller pool of qualified labor means increased threat of workforce instability and turnover. High turnover rates trigger a costly cycle of training and retraining that inhibits the effectiveness of workforce investment and limits the growth of individual employees. Therefore, providing an attractive, rewarding work experience is key.

An effective LMS implementation simplifies communication of strategic goals, expectations and actual operational metrics. This infuses transparency into worker performance evaluation by enabling employees to understand their achievements in relation to corporate objectives. This transparency eliminates discontent due to perceptions of unfairness or allegations of favoritism while boosting worker confidence, ultimately reducing turnover and improving labor performance.



LMS also fuels career development that aligns with business goals and improves overall employee engagement. With engineered labor standards, employees work toward clearly defined, realistic targets with the confidence that their actions yield both personal and operational benefits. This approach produces consistent individual development that results in benefits for the entire operation, with overall throughput improving with incremental individual gains.

Coaching Sessions Build the Foundation for Success

Any performance management program requires buy-in throughout the organization to realize maximum benefit. Coaching modules available in many industry-leading LMS platforms provide opportunities for employees to show just how productive they can be and enable supervisors to provide real-time training input on the floor. Supervisors and workers must agree that productivity goals are realistic and clearly understand the steps required to generate necessary improvement.

Consider a supervisor who identifies an underperforming resource and takes remedial action to correct procedural inefficiencies. After coaching, the worker uses proper procedures and improves from 50 to 75 percent of productivity standard. Management effectively added another half labor resource through the investment of just a couple of coaching sessions, yielding a foundation for fast, realistic and easily communicated return on investment.



Coaching sessions also enable supervisors to observe the most productive employees and identify process improvements to implement with the rest of the workforce. Firsthand observation also leads to early identification of high- and low-performing employees, enabling remedial attention or reassignment to positions that better utilize their talents.

For Managers, Knowledge Equals Efficiency

LMS automatically tracks labor and provides extensive reporting and analysis to release supervisors from the time-consuming burden of manual reporting. This frees management to discover new opportunities for consistent, year-over-year improvement and make more informed decisions that maximize available labor. As DCs look for the most efficient way to utilize scarce labor, a robust LMS can look beyond a single facility and leverage the entire distribution network to help identify best practices.

Understanding the relationship among labor yields, processes and facility output creates a virtuous cycle of more efficient staffing allocations. Accounting for anticipated order volume, expected employee performance and past temp worker performance enables smarter allocations that protect operations from risking insufficient staff to serve demand while avoiding excess labor expenditure.

Long-term Value

In contrast to less robust, in-house systems that plateau after one or two years, a well-engineered LMS program yields continuous benefit over a multiyear cycle. As a program matures, operations can take advantage of more detailed data and analysis to get ahead of trends and use training, coaching and even multilevel bonuses to reap additional improvement.

As operations extract productivity and efficiency gains from individual locations, they can compare multiple facilities within their distribution network according to overall output, individual processes and labor performance. Even if some facilities have different names for the same process, an LMS with robust reporting and analytics can execute apples-to-apples comparisons by equating different names with the same function. For example, the same process may be known as “receiving” in a manual facility, but be called “induction” in an automated DC. On the ground, these multisite analytics encourage healthy competition against other locations across the country, rather than potentially damaging competition among co-workers in the same facility.

The Numbers Add Up

Investment in LMS pays off through its direct effect on labor and improved operational efficiency. Increased employee productivity, reduced turnover and leaner staffing cut labor costs while increasing throughput, effectively allowing operations to do more with less.

Several key order fulfillment metrics increase with employee performance, driving increased customer satisfaction and repeat business. More productive and efficient employees reduce cost per unit and increase units per hour to not only improve service cycle times but also increase operational capacity.



Faster Implementation Means Greater Financial Return

As fulfillment operations institute new software-driven initiatives, limited availability of in-house IT resources often forms a barrier to swift adoption. Several LMS tools can yield similar performance gains, so speed to implementation can be a key differentiator — the sooner a tool generates benefit, the sooner it pays for itself and turns into profit. Enhanced integration support from an LMS vendor can minimize involvement from in-house IT resources and produce faster startup that translates to a significant financial advantage.

Consider two LMS programs, each expected to generate a \$20,000 benefit each month. One vendor does not provide integration support, and due to the previous commitments of in-house IT resources, the customer cannot begin the program for seven months. However, a second LMS vendor offers robust IT integration support and can get the program up and running in just one month. As a result, the second vendor offers \$120,000 in additional benefit over the course of the first six months, just because of superior speed to implementation.

Optimize Labor to Face the Challenges of Tomorrow

For an industry in flux, the flexibility of LMS positions it to solve today's labor challenges and adapt to emerging issues. Labor is the most flexible fulfillment tool in the distribution arsenal, and LMS offers the most efficient means to tailor the workforce to meet operational challenges. Whether onboarding new employees, updating experienced workers or incentivizing process improvements, LMS offers an effective platform to drive a culture of individual accountability and continuous improvement.



Fast ROI: Apparel Retailer Boosts Direct Labor Productivity

Goal: Improve labor productivity and correct the disjointed fulfillment workflow of an apparel retailer.

Challenges: Previous efforts to institute engineered labor standards failed due to lack of employee involvement and training. This time, the retailer sought to preserve its collaborative culture that emphasizes associate input and teamwork. Furthermore, management was hesitant to release unnecessary temporary workers, a substantial portion of direct labor costs, due to incomplete understanding of workforce performance and fulfillment capabilities.

Solution: The retailer implemented LMS to manage data collection, performance calculations and reporting. The LMS vendor also developed and implemented labor standards to more accurately track individuals and provide a foundation for performance-based incentives.

Results: Within the first six months of the program, direct labor productivity improved by 59 percent for a cost savings of \$1.3 million. The retailer experienced an initial yearly savings of \$2.8 million.



National Retailer Experiences Significant First-year Labor Savings

Goal: Reduce operating costs and increase productivity to capture latent value from a home accessory and apparel retailer's distribution network.

Challenges: Three key distribution centers faced rising operating costs and dwindling productivity. To improve DC performance with cost-effective, efficient product flow, the retailer sought to optimize its labor force in a way that complemented key cultural values of teamwork, resilience and accountability.

Solution: The retailer enlisted a consulting firm to find a solution and ultimately implemented a performance improvement methodology

in an industry-leading LMS. This moved the distribution network from a production to performance mindset to improve accuracy, quality, asset utilization and morale.

Results: In the first year of the program, the three DCs experienced first year net labor savings of \$4.5 million. In addition to direct financial benefits from improved productivity and accuracy, the program also helped improve asset utilization, enabling the company to defer capital expenditures on staff-related assets such as lift trucks and workstations.

Honeywell Intelligated

+1 866.936.7300

info@intelligated.com

www.intelligated.com

Follow us on Twitter: <https://twitter.com/intelligated>

Learn more on YouTube: [Honeywell Intelligated](#)

DMWWP | REV1.12.18

© 2018 Honeywell International Inc.

