



Warehouse labour management comes of age

If you run warehouses yet don't employ labour management then I suggest that the time is right to start thinking very hard about it because you're missing out on a huge opportunity to get the best out of an increasingly expensive resource. Even if you do use labour management please also read on, you may already be converted to the cause but I'm prepared to bet that for most of you there is still more you can do to bring productivity up to a new level. The time is right and the tools are all here to make a productivity step change in your warehouses and distribution centres.

In this article, I'll be looking at what is happening in the labour market, I'll be describing what a new generation labour management system will do and I'll be disclosing the results of a survey among labour management decision takers.

I'll finish by asking for your own thoughts, ideas and experiences.

Why is the time right?

In the last decade, manufacturing activity has steadily been exported overseas to reduce labour costs. Government statistics show that in the period 1998 to 2004 manufacturing employment fell by 33%, while in the same period, storage and warehousing employment more than doubled. While manufacturing has been steadily taken offshore, we in logistics have been building more warehouses here in the UK to satisfy the ever more complex demands of the supply chain. It's work that can't be exported to low cost economies and the cost of it is going up.

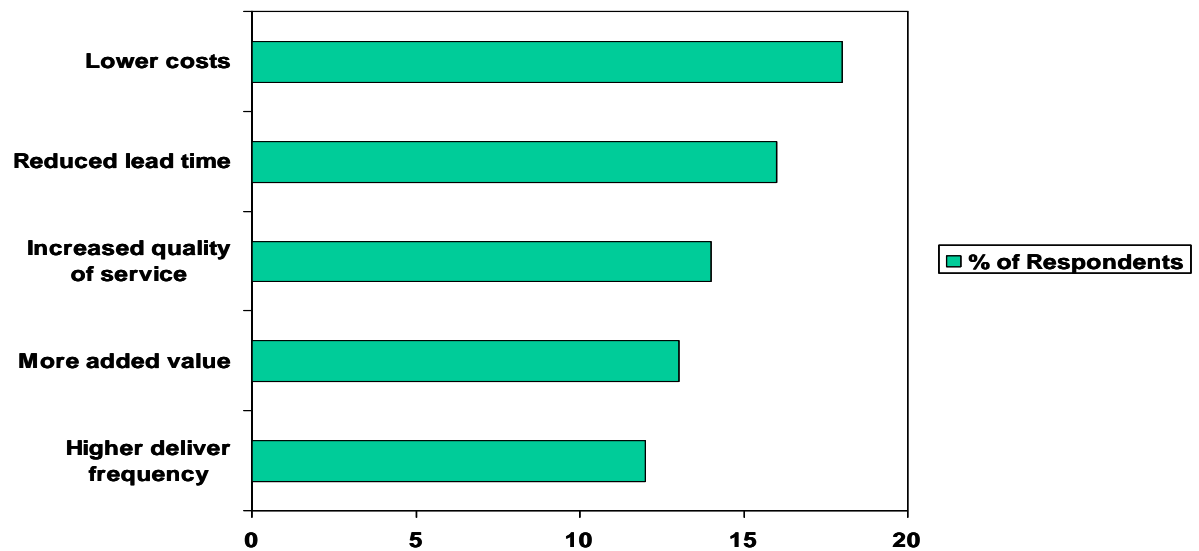
And at the same time as the number of employees is going up, costs per employee are also rising faster than other sectors. The same government statistics show manufacturing employment costs per employee rising by 27% over six years, while storage and warehousing employment costs are up by 45%.

(Source :- www.statistics.gov.uk/abi)

What is driving up warehouse costs?

Taken as a whole; transport, storage and communication employment (the government sector that storage and warehousing belongs to) has risen by 12%, so the increase in warehouse employment can't be explained by economic growth alone.

Top 5 expected changes to customer requirements in next 5 years



Source: European Logistics Association

Just in time supply has helped reduce inventory costs but it can drive up warehouse costs as we strive to be more responsive, work to shorter lead times, cope with higher peaks and lower troughs.

Store friendly presentation and direct to shelf supply have pushed costs back up the retail supply chain, increasing handling and picking costs in warehouses. What's more, every new season seems to increase product variety adding still more to operating costs.

We've helped take stock out of the supply chain by accepting smaller, more frequent delivery quantities.

Shorter lead times, more frequent deliveries and next day deliveries, create more work and more volatility.

There's a growing demand for value added services; packaging, labelling and promotional display builds being typical. And there's the growth in reverse logistics; customer returns, recycled packaging and product for rework, all adding to warehouse costs.

Then there's the growing cost per employee to explain. As well as government legislation and taxation adding to the wage bill, we have been concentrating our distribution centres in strategic locations, competing with each other for the same employees and driving up the cost. Even when we fill the gaps with temporary labour, we find the cost rising due to legislation and competition.

Research by the European Logistics Association has uncovered what customers will be looking for in the future:

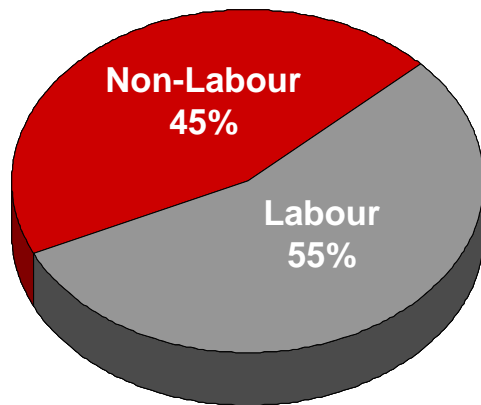
- Lower costs
- Reduced lead time
- Increased service

- More added value
- Higher delivery frequency

So there are no signs that the upward pressures are going to be relieved. It's equally clear that our customers expect costs to come down in the future while continuing to demand ever-higher levels of service.

You could say that we warehouse operators have been victims of our own success. We've worked hard to help reduce inventory costs and worked equally hard to improve customer service. We want to be responsive, accurate and timely. We understand the need to take deliveries in smaller quantities, to get goods onto the shelves or into the hands of our customers more quickly and more conveniently. But it costs and the extra costs are labour costs.

Labour accounts for at least 55% of DC costs and we've seen that all the pressures and trends are upwards.



**Typical Breakdown
of DC Costs**

And we are not necessarily finding it easy to recruit the extra people we need. According to the European Logistics Association, companies are finding:

- It's difficult to find the skills
- The job image isn't good
- Pay is unattractive
- Working hours are unsocial
- Conditions are not attractive

The net result of all this is that we are employing more staff and paying more per head as we compete with each other for what can be a scarce and choosy resource.

What is labour management?

It's important to have a clear understanding of what we mean by labour management.

True labour management measures individual performances against engineered standard times applied through a labour management system that interfaces with the warehouse management and, often, time and attendance systems. The resultant performances are routinely reported, ideally in real time and used by the organisation to improve productivity. Labour management should also underpin process improvement, workload planning and in some cases, incentive schemes.

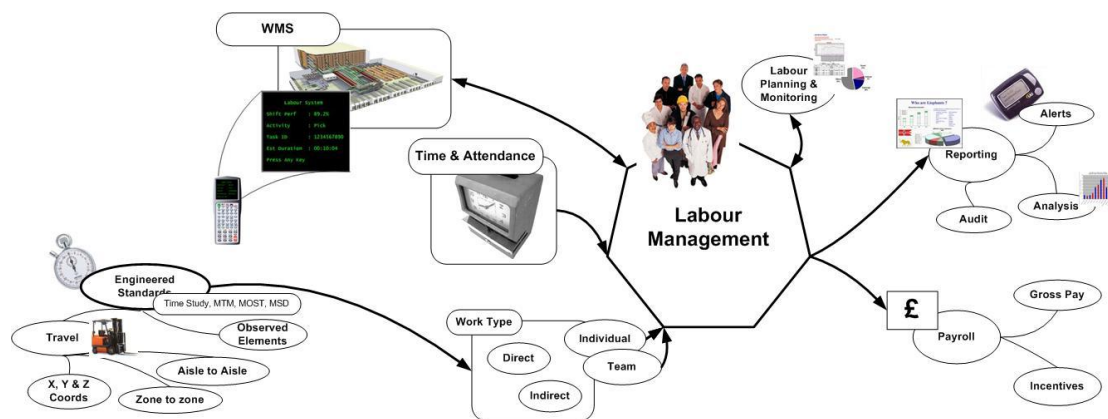
But how many reach the ideal I've just described? Many fall short because labour management systems simply haven't been good enough to support them.

The new generation of labour management systems

One of the biggest issues with the labour management systems of old was the fact that they never really satisfied the individual requirements of a particular enterprise. Prohibitive customisation costs left users relying on cumbersome paperwork systems that compromised productivity improvement and forced in significant clerical costs. Additionally these original systems left reporting 'black holes' and offered loopholes that canny operators could exploit.

What the modern systems now offer is the ability to track employees from the moment they arrive on site to when they leave and they account for all activities as employees move between jobs and functions. To do this, they integrate with the warehouse management system and time and attendance system. They can accept data on unmeasured work, indirect work and other diversions from productive work, such as training and staff briefings. In this way they build a complete picture of the working day without leaving black holes.

The systems hold a database of elemental times for all measured jobs that can be applied flexibly to the appropriate units of throughput. Element times are derived using accepted industrial engineering methods, including time study, MTM and other synthetic time systems. The labour management system must be configured to apply these discrete elements correctly, taking into account variables such as travel distance, location type, equipment used and product characteristics. In this way, performance is measured against a standard time uniquely tailored to the particular assignment the operator is performing. This gets away from the unfairness of average times and avoids the need for perennial maintenance of values due to changing conditions. A good system will even recalculate a task time after the event, taking into account any deviations such as zero pick, location revisits and so on. Systems can manage individual and team working as well as indirect jobs to achieve the maximum coverage of measured work and thus deliver the maximum benefit.



The labour management system will ideally communicate task time and performance to the operator in real time; the ability to measure individuals and give instant feedback is a cornerstone of performance improvement. Reports should be visible throughout the day at all levels from individual to warehouse overall. Busy managers can set up system alerts so they are made aware for example, when progress falls behind plan.

The system will support labour planning, monitoring and resource balancing. It will interface with payroll for bonus payments. It will enable simulation of slotting decisions in conjunction with a slotting tool.

In short it will be a complete system for managing labour.

What labour management users and decision takers are saying

I went out and spoke in depth to decision makers in the industry to get their ideas, aspirations and intentions on labour management. The objective was to fill out the bare

statistics with real experiences and considered views from the people who will ultimately take the decisions on labour management. The first thing I found was an extraordinary willingness to give me their time and to debate this topic openly. They care about this, they've thought about it and many of them intend to do something about it.

I need more of you to come forward to enlarge the sample and make it more representative, so I'm asking you to go to the web address at the end of this article and add your views too.

The majority of respondents are either positively in favour or at least open minded about installing labour management. For some organisations however, there is a folk memory of the bad old days of adversarial industrial relations and there is a hesitancy to adopt anything that looks like a control system for fear of reviving those days. I have to say that none of my respondents personally felt this way but a couple of them reported it as a barrier within their organisation.

Many couldn't justify a labour management system on the grounds of complexity and cost and have settled for simple units per hour measures instead, some of them taking it down to individual operator level, others content to report only group performances. These applications rarely go beyond picking and put away, but since these two jobs will account for 75% of warehouse labour its an understandable limitation.

But the harbingers of change are there. More than half of them are actively looking at new generation LM systems, one is actually in the process of installing, so aspiration is turning into action.

Paying for performance

There is quite a lot of previous experience with incentive schemes among the respondents and many of them recognise that a good scheme will give a real boost to performance. There does appear to be though, some prejudice in organisations against incentives.

Others are quite prepared to move to incentives once they have exhausted the potential of individual targeting and motivation. One respondent favoured incentives for temporary workers, arguing that it helped with both performance and staff retention.

There is clearly a lot to debate on this subject. If there is a live case study out there, please let me know.

What can they expect to get from labour management

Case studies suggest that productivity improvements of between 10% and 30% can be achieved and none of the respondents would dispute this range of outcomes. The expectation generally is a saving of around 20%. Those already working hard to manage performance expect a little less.

What is notable is the confidence of all the respondents that significant performance improvement will be achieved. Those that already pursue some form of labour management are unanimous in saying that performance would fall back considerably without it.

Installing and operating labour management

Respondents that are close to implementation agree that what is required is a thoughtful approach to combining information, people and technology to create a high performance workforce.

Make no mistake, success in labour management is not automatic and furthermore, while the system is important, it's good management that delivers the result.

The way in which you manage the change and install the system will influence the results you get for a long time to come. Make sure you get off on the right foot with a vision, a plan and a new way of thinking in your management team.

If you target and manage correctly, your employees will look after their own performance, obstacles will surface quickly and instead of herding their staff, supervisors will become problem solvers. They will spend their time on training and coaching, planning and tracking. They will be selective in who they give their attention to and let the rest get on with the job knowing they can soon spot any slippage.

Listen to this quote from a former 'bad boy' in one of my warehouses:-

'Life's much better now, I know exactly what I've got to do and the supervisor isn't on my back all the time. To be honest, it's easier meeting the targets than it was trying to look busy every time he showed up.'

A coming of age

I said at the very head of this article that labour management has come of age and I base this on three factors:-

Firstly, there is now a very mature view of performance management generally, evident in all my interviews. A new generation of managers and employees alike are well attuned to ideas of performance and competitiveness.

Secondly, there is a developing recognition that the warehouse is the hub of the supply chain. Our businesses expect more from us, so we get more attention and more scrutiny. Having delivered on service we are now expected to deliver on productivity.

And last, there has been a sea change in the quality and functionality of labour management systems – they now actually do what they always claimed to do but disappointingly never quite managed to deliver, that is, they are now complete and flexible systems for recording, measuring and reporting performance.

When I came to carry out this research I noted the very limited uptake of labour management in the UK and frankly I expected to encounter either resistance or apathy in many of the people I spoke to.

I found quite the opposite. They displayed a universal acceptance of the principle and a clear enthusiasm that was as welcome as it was unexpected. Many are ready now to make a decision others are still wrestling with issues of resources, paybacks and priorities. We may be at the tipping point, poised for a flood of installations. What happens next isn't down to me, it's down to you.

Let me know what you think

Please go to the Key Performance website and tell me about your experiences, ideas and plans.

About the author

Mike Dymond MILT is principal of Key Performance Improvement and has been improving performance in logistics for over thirty years as industrial engineer, operations manager, general manager and most recently, consultant.

About Key Performance Improvement

Key Performance is dedicated to helping clients improve workforce performance in warehouses and distribution centres. It works with clients to select, install and configure labour management systems and helps them unlock performance through process improvement, change management and team coaching.

To contact us with your views and comments please go to www.keyperf.co.uk