Five Questions Every Growing Online Retailer Must Answer

Part 5: How can we improve DC workforce performance?

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The explosive growth of online retailing has created opportunities for many companies. Companies come from different backgrounds, but as they grow and distribution pressures increase sooner or later the following questions need to be answered by all growing online retailers:

1. Should we outsource fulfillment or invest in distribution as a core competency?
2. How do we ensure our distribution network maximizes service and flexibility while minimizing operating costs, capital investment and risk?
3. When should we automate and to what level?
4. How can we accelerate fulfillment within our DC?
5. **How can we improve DC workforce performance?**

In this series we'll explore answers to these questions and others as they relate to growing e-tailers and offer perspective on how companies like yours can enable growth and competitive advantage through distribution.

Part 5: How can we improve DC workforce performance?

Competitive pressures keep constant focus on improving distribution performance and reducing costs. After you have the foundation of your network in place and have chosen the right level of automation, how do you continue to drive cost out of your operation? Controlling labor costs is an on-going activity, but what are the areas we should be focused on?

Q: When is it time to consider a workforce optimization project?

A: The distribution operations at many companies can unravel over time. This is particularly true with fast growing, successful companies who are too busy executing to worry about efficiency and effectiveness. They find that many of the basic components of organizational design and structure are lacking. Job descriptions don't exist. Organization charts have holes. Procedural documentation is lacking. Associate to management staffing ratios are high. Policies are not documented or communicated. Training and orientation programs are inconsistent. These may be indicators that it's time to go back to the basics – to formally assess and redesign your operations. The best way to start is by getting input from a variety of company stakeholders, including operations, human resources and finance (for policies regarding pay). Review your policies, procedures and organization structure. Develop standards and roll out the refreshed model with thorough communication and training.

Q: How do we measure workforce performance effectively?

A: One of the best ways to more effectively measure workforce performance is to implement Labor Management Software. For many companies, productivity tracking is still done with a spreadsheet and

consists of basic metrics like departmental and facility-wide units-per-hour, cost-per-unit, and direct/indirect labor hours. While these metrics are adequate for measuring overall performance, they do not track individual performance or effectiveness, nor do they allow for individual feedback. This level of visibility is imperative to effectively manage labor. And accurate tracking at the individual level can be used to plan and balance staffing by operational area, making best use of available labor assets throughout the course of the day.

In the past, collecting the data to track individual performance required self-declared time and production tracking via time cards, production sheets and reports. But advances in technology have reduced the administrative burden and automated the collection of data. Most WMS vendors offer Labor Management Software (LMS) modules that are integrated into their WMS or an ERP.

Q: What are some steps we can take to improve overall workforce performance?

1. **Simplify and Standardize Your Work Processes.** Sound processes are the foundation of efficient distribution. Inefficient work methods and non-value-added activities need to be minimized or eliminated. Use whatever method you choose (TQM, Lean, Six Sigma) to re-evaluate and improve your processes. Then communicate these "best practices" to associates in a way that they will be adopted. To increase ownership, consider conducting brainstorming sessions with associates, supervisors and managers to solicit their ideas. Also document processes and conduct training to reinforce and educate.

2. **Invest in Training.** It takes 30 days to establish a habit. Granted, many DC operations are simple and straightforward (e.g., unloading and loading); but good training also includes the sequence of tasks, the technology to support the task, and the best method of performing the task. "Best methods" should be developed by your top performers and shared with all. Consider cross-training associates to more effectively share labor talent across the facility. And keep in mind that associates will need to occasionally work in the operations for which they are cross-trained or they will lose proficiency.

3. **Publish Labor Standards.** Everyone needs a goal. Engineered, multi-variable labor standards are an objective tool to measure individual or team-based performance and are necessary to accurately reflect work content in distribution operations. When setting performance goals, it is important that they are perceived by the associates as being realistic, fair and accurate, or they can negatively impact morale, productivity and retention. There are several methods of developing standards, including time and motion studies, MOST™ and master standard data (MSD). There are pros and cons to each method, but the output is the same—standard allowed minutes (SAMs). SAMs are a time measurement for the tasks that are being performed—the standard goal time for the operation. By developing accurate standards based on work content, you can fairly measure associates based on what they should accomplish each day.

Q: How do we make sure our people are on-board with the changes and that the changes stick?

A: **Get your Managers to Lead**. Most managers are trained to manage administrative tasks and to solve problems that occur. But many managers are not well-equipped to LEAD their people. Instead, they spend their time tracking the status of orders and waves, attending meetings and answering email messages – all from the convenience of their office. "Floor presence" is essential, as is spending time mentoring, motivating and coaching associates. Goal-setting and performance review are reserved for the annual review process. For managers to lead effectively, they need to have daily contact with their people. They need to be knowledgeable of their operations at a detailed level. They need to be vested in their associates' performance and to remove roadblocks to high performance. They need to be trained in "soft skills," such as coaching techniques and change management. And they need to have their performance linked to their people's performance.

Reward your People. People will respond when there's "something in it for me." But to create a high performance environment, you will need several forms of motivation as not all people are influenced in the same way. The three main forms of motivation include recognition, rewards and incentives—and they are most effective when used together. Recognition programs can be public or personal, but require personal interaction between management and associate. This can include a "pat on the back" or being honored at a town hall meeting. Reward programs can be individual or team-based and are usually characterized by giveaways, raffles, tickets, or company sponsored lunches. Incentive programs, also known as "pay-for-performance," motivate associates by paying them a bonus based on their performance against a standard. Incentive programs are typically self-funding in that the labor savings generated by the increase in productivity is shared with associates. It is very common that the labor savings exceeds the incentive payments, creating a positive cash flow situation.

Summary

If you are seeking ways to improve workforce performance, you must simplify and standardize your processes, improve and publish labor standards, and invest in training your associates in the highest standards. Good leadership combined with a solid rewards program will ensure that the improvements stick. And consider an investment in labor management software to measure the impact of these efforts effectively. Fortna can help. We offer 60 years of experience in designing and implementing distribution operations with benchmarking data and analysis tools to guide you.

How can we help?

Fortna helps companies assess their operations, develop a strategy and roadmap for future success and build a business case for investment. If you want to learn more, please ask to speak to one of our Associates.

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Don't miss these other articles in this series:

- *Should we outsource fulfillment or invest in distribution as a core competency?*
- *How do we ensure our distribution network maximizes service and flexibility while minimizing operating costs, capital investment and risk?*
- *When should we automate and to what level?*
- *How can we accelerate fulfillment within our DC?*

And from our Insights Library:

- *Seven Steps to Improving Your DC Workforce Performance*
- *Two + Two = Three? Expanding your Production Schedule May Not Produce the Results you Expect*

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For over 60 years, Fortna has partnered with the world's top brands – companies like J.Crew, Gordmans and Vitamin Shoppe – helping them improve their distribution operations and transform their businesses. Companies with complex distribution operations trust Fortna to help them meet customer promises and competitive challenges profitably. We are a professional services firm built on a promise – we develop a solid business case for change and hold ourselves accountable to those results. Our expertise spans supply chain strategy, distribution center operations, material handling, supply chain systems, organizational excellence and warehouse control software.