

# The Top 10 Fallacies of Logistics Labor Management

Labor Management represents perhaps the lowest hanging fruit for companies interested in reducing supply chain and distribution costs. With its accelerated, ROI, a Labor Management System (LMS) delivers a rapid, deterministic payback that can improve distribution center labor productivity 10-30 percent, as well as provide a long list of other benefits.

While many great companies in the retail, food, consumer goods, and third party logistics segments of the market have successfully implemented labor management systems and achieved these benefits, many others have not. Given the clear economic and operational benefits of LMS, the failure to implement advanced labor management appears to be related to a number of misconceptions surrounding LMS process, technology and impact.

The top 10 of these fallacies are described below.

## **Fallacy #1: I'm already getting labor management from my current WMS or ERP system**

While leading best-of-breed WMS systems (such as McHugh's DLx™ Warehouse) drive enhanced distribution center productivity, they do not deliver the depth of labor management capabilities a true LMS can provide. These advanced LMS capabilities generate another whole level of benefits that achieve rapid ROI, often increasing labor productivity by 10-20 percent over that obtained from a WMS alone. While many WMS systems have basic labor "productivity trackers," they do not provide the depth of functionality of a true LMS in such areas as support for discrete standards, labor planning, robust labor reporting and the ability to determine "cost to serve" specific customers.

## **Fallacy #2: Labor management embodies an old, unenlightened way of thinking about employee relations**

Achieving increased labor productivity, improved quality and enhanced employee retention will always be in style. But beyond these hard dollar benefits, a comprehensive LMS also supports a positive, modern approach to employee relations.

Advanced labor management emphasizes such elements as management/supervisor engagement in operator work to ensure safety and remove the barriers to productivity, detailed training on the best method to perform a job, and consistent feedback and counseling to employees to ensure their success. The most successful approach to LMS is to actively involve shop floor operators in the development of processes and standards. Well-designed and implemented labor management systems result in a more positive work environment that will be the model for tomorrow's high performance distribution

companies. Therefore, any notion that they are relics of an unenlightened past is a misconception.

### **Fallacy #3: Implementing an LMS will reduce morale and increase employee turnover**

McHugh's experience in implementing over 100 labor management systems across many industries indicates that the reverse is true: implementing a quality LMS almost invariably improves morale and reduces employee turnover. This is because all employees, including DC operators, like to understand how they are performing in their jobs, and to have feedback based on fair and objective standards. They also want to understand the right way to perform specific tasks. Labor management directly addresses both these employee issues. Labor management also provides the foundation for implementation of fair and accurate incentive programs, which increase employee satisfaction and retention.

### **Fallacy #4: Labor management benefits are primarily for the DC manager**

While the DC manager and his/her operation will benefit significantly from LMS through improved productivity, lower costs, improved quality and better employee retention, labor management can provide a broad set of benefits that support many organizational objectives. The entire logistics and supply chain organization benefits from lower operating costs and improved quality, which drives shareholder value. Many companies are identifying improved labor management as the next area for logistics to make a significant "contribution" to the company's bottom line. Customers benefit from improved quality and more consistent delivery. The CFO benefits not only from higher profitability, but also from an improved return on assets through greater throughput at individual facilities. Both finance and marketing benefit from the ability of LMS to support activity-based costing and calculation of logistics "cost to serve" for different customers, markets and value-added processes.

### **Fallacy #5: Adding Labor Management to a WMS implementation will increase complexity, and therefore risk.**

Actually, the reverse is generally true. Almost invariably, companies that implement warehouse management systems wish they had invested more in training. Labor management's focus on development of preferred methods for warehouse activities and reporting mechanisms to ensure operators are adhering to these methods, improves overall training dramatically and reduces variability in operator approach to the job. This removes a major hurdle to overall WMS implementation success, thus reducing risk.

### **Fallacy #6: LMS software doesn't add a lot of value – developing and implementing engineered standards actually drives most of the benefits**

Many companies have embarked on engineered standards for distribution, only to find that their investment in this process delivered less than expected results. Those that do achieve benefits from the standards process often find the momentum and results realized deteriorate over time, through gradual neglect of the key standards or their champion moving to a new position. To maximize benefits, companies must adopt a comprehensive labor management system that incorporates preferred methods for specific tasks, engineered standards, and LMS software to support dynamic goal calculation, labor planning, and robust reporting. The results achieved will be more substantial and sustainable than those from standards work alone.

### **Fallacy #7: We have high quality DC supervision – a new “system” won't provide much incremental benefit**

Even the most well managed distribution facilities can benefit substantially from an LMS. The foundation of labor management is precise, discrete goal time calculation and detailed feedback and reporting, capabilities that require robust technology support. These capabilities will drive significant productivity, quality and employee retention gains even for the most well supervised crew. The reality is that an LMS leverages quality supervision and allows supervisors to concentrate on critical management issues due to the order and consistency found in LMS environments. An LMS also provides supervisors with a set of technology tools that make their jobs easier, gives them greater management control, and the information they need to improve their areas or departments.

### **Fallacy #8: Labor management requires too much time for data collection and administration**

Companies that have implemented warehouse management and/or radio frequency (RF) systems already have the data collection infrastructure required to support an LMS. Those without these systems can still benefit from LMS through a variety of collection methods, such as PC-based data entry, that impose minimal new overhead burden that is more than offset by the significant improvement in overall productivity. Likewise, the minimal additional administrative requirements are more than offset by both the reduction in management time required to collect and analyze labor statistics and the benefits of real-time access to information on productivity barriers and incipient problems that can quickly degrade productivity.

### **Fallacy #9: Labor management is unnecessary in an incentive environment**

The distribution incentive systems of most companies are built on unit-based productivity measures (picks, lines, cases, etc.) that are based on historical averages. Much less often,

they include travel distance as a factor in the incentive calculations. This approach is inherently unfair to employees and reduces the pay-for-performance benefits of incentive systems.

Advanced labor management offers many critical benefits beyond what can be accomplished with the majority of these incentive systems. Discrete standards precisely determine the specific goal times of each task based on its actual work characteristics (distance, weight, equipment, etc.) thus ensuring fair and accurate incentive calculation for both the company and employee. Furthermore, development of preferred methods ensures standards are based on the correct way to perform the “incentivized” work. Advanced labor management is essential for those companies considering an incentive program. Even those companies that have implemented incentives will make significant productivity gains and achieve a more fair and manageable system through LMS.

### **Fallacy #10: Labor management won't work in a union environment**

Labor management systems have a long and successful history of implementation in union distribution shops across many different union organizations. Unions have accepted the fundamental basis of preferred methods for warehouse tasks, and desire the fair and accurate reporting labor management software provides. In disciplinary cases, unions often will not even contest the basis of the standards or employee productivity reporting, instead focusing on perceived company-imposed barriers to achieving the standards, such as lack of training. Many unions have actively participated in successful LMS implementations.

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