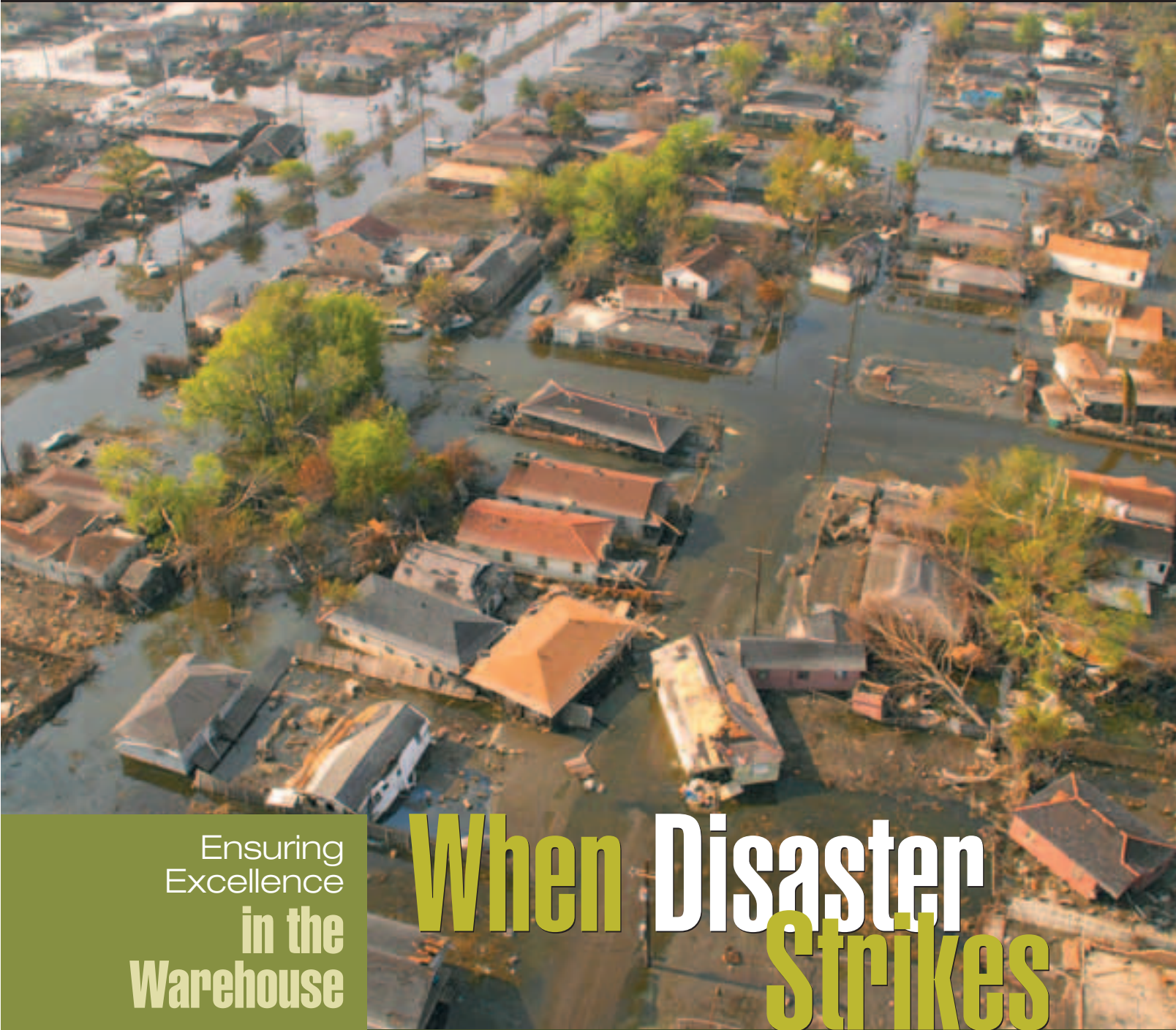


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by Charles Zosel

Ensuring Labor Productivity Through PIP

In an era of increased competition and the need by most organizations to reduce or control costs while maintaining or improving customer service, productivity improvement process (PIP) can represent a high payback/low risk opportunity to achieve these challenging goals.

Although PIP has proven its worth in many companies, consistently delivering performance gains of 10-35 percent, a significant portion of the warehouse-based logistics industry is still relatively unfamiliar with the concepts and tools. In fact, only four of the 10 largest 3PLs by square footage have implemented or are currently implementing PIP.

However, more and more, Requests for Proposals require PIP to even be considered in the bid. Also,

the number of manufacturers and distributors using third-party warehouses are introducing the use of PIP (especially in pass-along cost environments) for the firms that manage the facility. Therefore, warehouse-based logistics firms that can demonstrate a strong track record of managing facilities through the use of PIP will find themselves in a much stronger position when making a pitch to a prospective client.

Why PIP?

As stated above, operations using this process are typically 10-35 percent more productive than non-PIP warehouses. For example, one of the nation's largest food manufacturers saved 28.5 percent in annual labor costs after implementing PIP at one

of its distribution sites (a pass-through cost facility). In this case, the food manufacturer paid for the PIP, while the 3PL used the tools to get the results. What happened next wasn't surprising – that same 3PL purchased a PIP to roll out across its public and cost per case warehouses.

The PIP process ideally involves the intelligent application of three components:

- **Engineering** to determine optimal operating methods and procedures and to develop appropriate rates of performance;
- **Labor reporting software** that enables improved workforce planning and drives improved productivity through individual measurement of employees against fair, accurate standards to track logistics quality and costs;
- **Execution management** to ensure that the potential gains from such initiatives are realized. This is achieved through training and management of the cultural, operational and supervisory changes required for a successful productivity program.

Labor savings come from the following:

- Better scheduling and planning
- Improved workforce utilization
- Reduction of hours (overtime, staffing levels, etc.)
- Visibility into the distribution operation at the task level
- Employee measurement against the standard operating procedure
- Improved processes (reduced steps)
- Shortened learning curve for new associates



- The management team can leverage the tool to drive hours out of the facility
- A better and more consistent bid, which mitigates the risk of a financial loss

For a PIP to be successful, it must be installed and engrained in a company's culture. The following are six keys to a successful PIP, honed over a 20+ year period.

1. Start with individual accountability – Overall productivity in the distribution center is ultimately based on the accumulation of *individual* performance across operators and tasks. Yet, very few companies do a good job measuring individual performance. Either they do not capture or use individual performance data at all, or they rely on static measures (such as order lines picked) that fail to take into account the specific attributes of the work individual operators perform.

Productivity improvement starts with the notion of individual measurement and accountability. This involves both the use of measurement tools to accurately track performance at the operator level, and to incorporate discrete, engineered standards that consider the specific characteristics of each task performed to measure operator performance against fair and accurate goal times. Individual performance on each task is then combined to provide measurement and accountability across the appropriate time intervals (shift, week, month) for each employee.

This notion of individual measurement and accountability also applies as you move up through the layers of management, especially for frontline supervisors and warehouse managers.

2. Build standards based on the appropriate methods and procedures – Standards that are based on sub-optimal distribution methods and procedures will miss significant opportunities for productivity gains. This may sound obvious, yet many companies attempt to build standards on existing processes and methods without first carefully evaluating whether they are appropriate or could be improved.

To achieve maximum productivity gains, companies should look at three levels of analysis, engineering and improvement: overall DC processes and material flows; defining one way to do a task; and analyzing “micro-motions” of highly repetitive functions

In most distribution centers, operators have not received training in the correct way to perform specific tasks. This results in different operators performing the same tasks in many different – and usually unproductive – ways.

In reality, for each task there is a set of methods that provide the most efficient way to perform the task while maintaining safety and quality.

3. Maximize productivity by combining software with engineering – As noted above, there are three key components to a productivity solution: engineering, labor reporting software and management execution. Both engineering (the development of improved procedures and methods) and labor reporting software can drive improved productivity individually (somewhere in the realm of 5-10 percent).

However, performing the upfront engineering work to develop the right methods, using those methods as the foundation to build discrete standards and then combining that

work with labor reporting software, clearly offers the largest opportunity for productivity improvement.

4. Focus management's attention on the details – While clearly attainable, significant productivity gains are won and lost in the “trenches.” This means that multiple levels of management must focus on the details of the program for it to deliver maximum success.

Upper management's understanding and support is critical. Executives must focus their attention on the tremendous opportunity productivity programs represent and provide the support needed for the project to succeed. Lower level managers quickly perceive whether executives are knowledgeable about such project details, and they regard that understanding as a key indicator of their interest and support.

It is also critically important that warehouse managers and frontline supervisors understand not only the “what” of the productivity initiative (goals, program elements), but specifically *how* this transformation will happen and results will be achieved. This is essential for effective communication with the workforce that will gain their support and participation. In a distribution environment, with the same basic tasks performed repeatedly over the course of a month or year, even very small gains (such as shaving a few seconds on each order pick) can generate substantial total productivity gains.

This focus on detail must be maintained throughout the use of the system to achieve and sustain maximum improvement. Managers and supervisors need to learn to react quickly to early warning signs of potential problems and act

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quickly to pin down the problems and fix them.

5. Train operators and supervisors for success – There is a growing recognition of the essential role of high-quality training in any supply chain improvement initiative. This is especially true in productivity programs, where training of operators and supervisors is fundamental to the very concept of the solution, both in conjunction with implementation of the system, and on an on-going basis.

Initially, operators need to receive training on both the correct methods for each task, and to demonstrate their ability to execute each task at an acceptable level of skill and performance. Operators also require training in how to use the feedback they receive from labor reporting software, both regarding overall performance (each day/week) and in some cases in a near real-time mode.

Supervisors must also be trained to identify and manage individual performance issues. To sustain productivity levels, management needs accurate data and timely feedback on overall and individual performance. But most managers and supervisors will have primarily developed their approaches based on visual observation of employee activity, and generally non-timely data – if data is available at all. Using the new information tools from labor reporting software will usually require a new skill set.

6. Incentives can work, but only if done well – In an effort to increase distribution productivity, many companies gravitate toward operator incentives to increase individual performance. While incentives can often be a key part of an overall productivity program, it is critical that they be well planned and executed

to avoid problems that outweigh the potential advantages.

It is essential that incentive programs first be built upon a solid foundation of procedures, methods and standards. It is virtually impossible to develop an incentive program that works for both the company and employees without this foundation.

When built upon the right foundation, well-executed incentive programs can increase overall productivity 10-15 percent above the significant gains achieved through methods, standards and labor planning and reporting software. However, these gains are not without potential issues that must be considered before an incentive program is developed. These include:

- Incentive programs can increase overall workforce management challenges
- It is difficult and painful to later eliminate an incentive program – it soon becomes perceived as a “right” by employees
- Incentives often do not translate well across work zones and job tasks
- Incentives can cause conflicts among different work groups

Incentive programs are not to be embarked upon lightly, or as a simple fix to an overall productivity problem. They clearly have their place, but at the appropriate point in the productivity improvement lifecycle. ★

Charles Zosel is vice president of Tom Zosel Associates. He has implemented engineered labor standards and labor reporting systems in over 220 facilities across more than 25 industries. He can be reached at info@tzaconsulting.com. Or meet Charles in person at the company's exhibit booth at IWLA's Annual Conference in Las Vegas March 19-22 (#307).