

Strategy 2: Implement a labor management system for greater efficiency

In a down economy, using your labor more efficiently is critical to controlling costs.

By **Bob Trebilcock**, Executive Editor -- *Modern Materials Handling*, March 17, 2009

When it comes to reducing your overhead in a down economy, the first place most people look is labor. Warehouses, factories, equipment and software are largely fixed costs, especially if you've already acquired or leased them. Labor, on the other hand, is flexible: A company can add or subtract from head count to reduce its operating costs.

But reducing head count doesn't solve the problem if you can't still get the orders that you have out the door. Increasingly, companies are turning to **labor management system (LMS)** to find the right balance between the amount of work that has to get out the door and the number of employees required to do that most efficiently.

These applications, which optimize the way associates perform their tasks, deliver results. "A site using labor management is 20% to 30% more effective than a non-LMS site," says Charles Zosel, vice president of **Tom Zosel Associates (TZA)**.

Labor management systems deliver benefits in at least four ways.

1) Productivity improvement: 20%-to-30% improvements are common with labor management.

2) Continuous improvement: The productivity gains from a labor management system provide the foundation for continuous improvement going forward. What's more, if you know the amount of labor required for your current processes, you can better evaluate new technologies and processes that might improve your operations.

3) Accountability: By collecting real-time data about your employees' performance, you can hold employees accountable for their work.

4) Activity-based costing: For third-party logistics providers or distributors offering value-added services to their customers, a labor management system captures actual costs that can be used for billing, or to determine what it costs to serve specific customers.

While a labor management software system is an important component, it is only one piece of the labor management puzzle. In fact, there are several best practices that go into a successful labor management initiative.

Labor standards: Before implementing a software system, a company creates a preferred method for performing each task in a warehouse, and how long it takes to perform each of the components of that task. That process is known as an engineered labor standard.

Use the software to plan labor: Once labor standards are in place, the labor management software interacts in real time with warehouse management and **warehouse control systems** to collect data on what employees are doing, how many locations they have visited, what inventory they have handled, what equipment they have used and what paths they traveled.

"The system takes all that information and calculates how long it should take to do something," says Peter Schnorbach, senior director of product management at **Manhattan Associates**. With those calculations, a labor management system can now look at a group of orders to be fulfilled and make extensive calculations to determine how much labor it will take to fill those orders in the optimal way.

Monitor and report on performance: Once a shift is underway, the system will monitor not just the performance of individual workers, it will also monitor the overall performance of the facility according to the work that is planned for that day. "The system can send an alert to a supervisor or warehouse manager if you're not hitting your plan, or if you're going into overtime so that you can make the necessary adjustments," says TZA's Zosel.

Enabling continuous improvement: Implementing a labor management software system is not a once and done event. Without continual monitoring and fine-tuning, the initial improvements will trail off over time. For that reason, labor management systems include functionality that enables enhanced performance of associates as well as the overall facility. **Coaching and mentoring**, for example, set the stage for continuous improvement. Along with tracking the productivity of associates, the system can identify for management those who are working below the standard, either during a shift or on an on-going basis. "Instead of simply disciplining your associates, the system enables your front line supervisors to become mentors," says Jim Le Tart, director of marketing for **RedPrairie's** labor management product. "Once you know who's not working up to par, you can investigate to see if there's an equipment problem or whether that employee needs training in preferred methods. Whatever the case, you can now take the

necessary steps to rectify the problem.” As a follow up tool, the system can also track whether an associate’s performance has improved as a result of coaching.

Simulate the impact of changes to materials handling systems: Finally, forward-thinking organizations are using labor management to simulate the impact of changes to materials handling systems and processes, like a new conveyor, a sortation system or pick line, on labor.

As a side benefit, the improvements in the productivity of your workforce earned during a down economy will continue to pay dividends as business improves and your facility once again ramps up for growth.

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