ADVANTAGE CONSULTING GROUP LTD.

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Problem: HOW TO GET MORE OUT OF YOUR SUPERVISORS THROUGH INCENTIVES

A few years ago I was having a meeting with the CEO of a large coop Grocery Distribution center in Texas. Our company had completed a time study and developed engineered labor standards that this client has installed for its selection and fork lift workers. Based on the performance levels measured by this system, the company had implemented an incentive system for the workers.

These steps had raised the worker productivity average from 70% to over 110%.

The CEO wanted to know why, with this huge jump in productivity that enabled him to reduce the workforce for selection and forks; he wasn't saving nearly as much money as he thought he should be saving.

I took the challenge of determining why the company was not seeing the savings that they expected.

The first thing I checked was the direct labor costs, the people who were on standard. While the cost per employee had risen slightly due to wage increases and incentives, this did not equate to the overall labor costs the company was now seeing.

I then asked for a breakdown of every employee in the warehouse from the director of operations on down to the Janitors.

The investigation revealed that the number of workers in the direct labor pool had decreased, and the labor saving in this area was in line with what was expected. It was also determined that the number of support (maintenance) personnel had risen over this same period of time.

After further discussions with the supervisors, and examination of reports, it was determined that the supervisors were not eliminating positions to offset the increased productivity. They were instead moving these people to maintenance jobs. Basically, any labor cost savings in the operations area were being eaten up by maintenance costs.

Not only was the company not improving its labor costs, it was putting sub-standard workers into clean up positions in a food environment.

It became apparent that some sort of operational guidelines needed to be developed to determine the optimum number of employees needed to run a warehouse operation.

Working with the supervisors, we studied the operational throughput of the warehouse, and devised a ratio of how many employees it takes to keep throughput at the optimum level.

Together we developed guidelines for the following operational activities:

- Number of cases per hour (Number of cases shipped by department divided by all hours) = Throughput.
- Error %
- Damage in dollars and overtime.
- Housekeeping standards.

Each operational factor was broken down into ranges, and each range was assigned a point value.

Data was gathered in two-week periods, and the information was fed into a computer program developed to calculate the score for each supervisor and manager.

If the department was able to achieve the required point total the supervisors were awarded incentives based of their base pay.

Over a period of a year the throughput of the facility improved by over 20 cases per hour. The error rate went down. The facility had less janitors and was cleaner and damage was significantly reduced.

Through these efforts, the CEO achieved the cost savings he had expected, plus other cost savings due to lower damage costs. The unexpected benefit is a cleaner facility.

This plan goes beyond simple headcount control. If the supervisor/manager attempted to slash payroll without considering the outcome, the operational factors would of left the department with a low operating score. No incentive level would be achieved. By adding the incentives, management has a reason to consider how their cuts affect the overall operation.