



Distribution Center MANAGEMENT

Managing people, materials and costs in the warehouse or DC

HR Issues

New guide offers motivation plan to improve warehouse productivity

A new book on *Warehouse Productivity* shows how you can use a pay-for-performance plan known as Simplified Gainsharing to increase productivity and quality while creating substantial savings for the company.

The basis of the program is this: Workers are measured individually against a performance standard. Once the employee reaches a certain productivity level over that baseline during the course of a month, say 10 percent above standard, he

Improving quality in a pay-for-performance system

Some managers worry that paying employees based on productivity will encourage them to work so fast that it will lead to increased errors and poor accuracy. But the Simplified Gainsharing plan outlined in *Warehouse Productivity* addresses this concern in several ways.

First, in order to be more productive, employees have to concentrate more. By concentrating more, many will automatically increase their focus on quality.

To ensure that quality doesn't suffer, the authors recommend implementing a quality qualifier. When employees fall below a specified quality threshold, they become ineligible for any gainshare raises for the month. "Set the quality qualifier at a low enough level that it doesn't knock any reasonable worker out of achieving a gainshare raise, but not so low that you would create quality problems for yourself," advise the authors.

But to really drive quality improvements, the authors recommend a "super quality gainshare."

There are two basic ways to do this. The first is to set up a quality scale so that the better the performance, the higher the gainshare the employee earns. For example, if your pickers average one error for every 200 lines picked, you may set the minimum quality gainshare level at one mistake per every 500 lines picked, or a 0.2 percent error rate. Pickers that reach that accuracy level for a month

receive a \$0.25 raise the following month. Create a scale that increases gainshare raises for every 0.05 percent improvement in the error rate after that (see chart below). You may want to include a larger gainshare increase as the employee nears a zero error rate as an added reward.

The second approach is to set the quality goal at an exemplary high level, such as 0.1 percent error rate.

If the picker reaches this goal for one month, he receives a \$0.50 gainshare the following month. If he reaches it two months in a row, he receives a \$1.00 gainshare raise, and after three months, he can earn a maximum of \$1.50 per hour in quality bonus.

Quality gainshare hourly bonus for error rate

0.20%	25 cents
0.15%	50 cents
0.10%	75 cents
0.05%	\$1.25
0.00%	\$1.50

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earns an extra \$0.25 per hour for the next month. In addition, for every additional five-percent productivity improvement over the initial bonus level, the employee earns another \$0.25 per hour.

The plan works because the money generated by the increased productivity is split between the company and the employee. The company gets approximately two thirds of the savings, while the other third is paid to the employee in the bonus, making it fair to both sides.

Simplicity and instant gratification

Pat Kelley, one of the book's coauthors and director of logistics for True Value Hardware, says that most motivation and bonus plans have two main flaws. The first is complexity. The programs are too complicated, and no one can get excited about something they don't understand.

"The main benefit of this approach is that it's simplified. The reason this works so well is that it's

readily understood by all the participants, both managers and blue-collar people," says Kelley.

The second problem is that most blue-collar workers aren't motivated by deferred gratification. Managers and executives can focus on the yearly bonus or the 401(k) program, but for blue-collar workers, these aren't compelling factors. By paying out bonuses as a raise the following month, employees can almost immediately see the results of their efforts.

"What would it mean to a company if the blue-collar workforce were as passionate about profits as managers and executives?" asks Kelley. "I believe Simplified Gainsharing is a method to do exactly that with your blue-collar workforce." He says this program will work because it's a free-enterprise system that rewards achievement.

Warehouse Productivity, published by the Distribution Group, is now available. For more information, visit www.Distribution-Group.com or call 800-232-4317. **DCM**

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