



Distribution Center MANAGEMENT

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Managing people, materials and costs in the warehouse or DC

From the Golden Zone

Ten tips to manage your DC labor more effectively

By Curt Barry

Labor generally makes up 60 to 65 percent of the total cost of back-end order fulfillment (not including shipping). While hourly labor rates have increased 10 to 15 percent in the past five years, overall DC productivity has remained flat, so the cost per unit worked has increased. High turnover (15 to 25 percent or more in many centers) adds even more cost. With many businesses struggling, it's imperative to get more from the resources you have. These 10 tips for managing DC labor more effectively can help.

1. Hire right. Have you had new employees quit because they didn't understand what the job entailed? No matter how someone comes across in an interview, you can't tell how well you've hired until he starts working. Here are a few ways to help him understand the job:

- Give a prospective employee some limited instruction and let him try the work.
- Find tests that assess people's ability to do the work and fit into your culture.
- Use a seasoned employee as a "buddy" to get the new employee off to the best start.

2. Track turnover. Set up a system to track and calculate employee turnover monthly. Develop a turnover report showing the number who were hired, started training, left while in training or once they graduated, were long-term employees, or were new hires. Establish an exit interview process to learn more about why people leave. Calculate the cost of recruiting, training, and los-

ing an employee. Communicate reasons and costs to management, and establish a plan of action for change.

3. Set standards. Set productivity goals both by department and by individual. Most companies can gain understanding from setting expectations based on benchmarking with other companies. But don't just use someone else's standards, as they probably will not fit your operation. The most important benchmark exercise is to measure your production against yourself, seasonally, by month and week. Increase the "height of the bar" over time and you'll generally see overall productivity increase. The most difficult part is getting accurate data; as the old axiom says, you can't improve something you haven't measured.

4. Budget labor by function. A labor budget shows the number of hours needed by function, based on orders and work flow. For each of the various flows, identify major activities — orders, receipts, returns, etc. — planned by month, week, and day if possible. The goal is to convert the transaction volumes expected to units of work. For example, in receiving, it will mean estimating pallets and cases by the week and preferably by the day. In picking, it means extending the number of orders by day into the units per order. Identify and plan variable and fixed labor required

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to meet these volumes. While we know there is play in these volume estimates, using this methodology will help you plan for improved customer service and keep overtime to a minimum. In addition, cross-functional training could improve production and give you flexibility in staff utilization.

5. Give feedback to employees. Employees want to feel they are part of the bigger company picture, and deserve accurate feedback about their production. One of our clients displays monthly graphs for the past year in its logistics management offices, showing actual against plan metrics such as total error rate, cost of a transaction, and reported savings. In that DC, current production is displayed on terminals and boards, and management acknowledges not only department records for various departmental functions, but individual recordholders for such activities as packing.

6. Provide incentives. More and more companies are using incentives to increase production. But you must constantly monitor and update such standards. As a large multi-brand catalog client we work with told us, “Incentives require engineered standards to be fair and to keep productivity increasing. If they are not continually evaluated, chances are that you’ll end up paying an incentive for productivity that you have gained over time.” Many companies are successfully using nonfinancial incentives to recognize high productivity. [Editor’s note: See page 4 for details on a cost-saving early bird incentive program.]

7. Manage seasonal spikes. With customers buying closer to the peak each year yet expecting on-time delivery, the peaks are compressed dramatically. Stay in contact off-season with part-timers who have worked the peaks for you. And consider using bonuses such as a rehiring bonus, stay-the-season bonus, and refer-a-friend bonus.

8. Streamline functions. Three areas — picking, packing, and returns processing — make up 60 to 80 percent of the labor cost in most direct DCs. Look at each of these areas to determine how to reduce the work required. For

example, 60 to 70 percent of pickers’ time is spent walking, so slot 5 to 10 percent of product that is fast-moving in closer proximity (“hot pick” zones) to reduce pick time. Picking methods like cart/bin, pick-to-light, or voice pick may also help. Ergonomically engineered pack stations, or low-tech solutions such as box builders or envelope inserters, can increase or speed up production. And simplified steps or a team approach can speed up returns processing.

9. Continual improvement. Streamlining labor functions is not a one-time activity. You will need to set up a continual improvement process — a set of activities designed to bring gradual but steady improvement through constant review — to reduce and simplify the steps and number of times you touch product. Each time you touch product, you add cost.

10. What more can you do as a manager? Each of us needs to look at our leadership and managerial capabilities and ask:

- What motivates staff members to excel beyond normal expected performance?
- Have you delegated and empowered your staff to achieve success?
- Are your team members the most capable and talented people you can afford to hire?
- Are any of the staff too weak to enable you to achieve the success you were hired to achieve?
- How effectively and objectively do you evaluate the performance and development of your team members?

One of our multichannel clients summed it up best: “Managing labor is a game of reducing a few pennies here and there on an organized basis to reduce the cost per order overall. At the same time, we need to take into account how we can motivate and increase productivity fairly to achieve our company’s goals.”

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