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Time is Right for Labor Management in Distribution

Cost Pressures, DC Consolidation, Potential Card Check all Issues that May be Helped by LMS

SCDigest Editorial Staff

Labor Management Systems, which combine labor planning and reporting software with engineered standards and "best methods" for doing each task in a distribution center, have grown tremendously in popularity over the past several years. In that time, adoption of LMS has rapidly moved from its primary roots in the grocery and food service industries first to other segments of retail and then also to 3PLs, consumer goods manufacturers, parts distribution, and many more industries.

LMS typically delivers a solid and very consistent increase in DC productivity and corresponding reduction in DC labors costs – sometimes as much as 30% at the high end, and commonly in the 10-20% improvement range.

Several factors in the current environment are making the opportunity to adopt labor management even more attractive than the usual benefits. These include:

Extreme Pressure to Reduce Logistics Costs: While that cost-reduction pressure is always there at some level, the current economic situation has companies scrambling to reduce costs with a greater sense of urgency than perhaps ever before. Labor management can deliver costs savings quickly and predictably.

DC Consolidation: Many companies have reacted to the slowdown by consolidating distribution facilities, often resulting in bigger operations and in some cases creating a level of operational confusion. The consolidation may push the size of the DC workforce above the level where LMS usually makes sense (from as low as 30 to almost 100, depending on whom you ask), and labor management can actually help bring order to a somewhat chaotic operation.

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Potential Card Check Legislation: The strong likelihood that some form of so-called "card check" law that would make it much easier for distribution center employees to unionize has companies looking at a variety of strategies to potentially stopping a union from forming in the first place, or minimizing the impact on costs and throughput if it does. (See **Is Your Distribution Management Team Preparing for Card Check Law Potential?**)

Labor management can play a key role in either scenario.

"By putting in a labor management system now, particularly one that includes incentive pay, associates may be much less interested in organizing," said **John Pearce**, a consultant at Cornerstone Solutions, on a recent videocast from Supply Chain Digest and The Supply Chain Television Channel. "They may be concerned that if they decide to unionize, they may risk losing that incentive pay." (To view the complete broadcast, please go to: **The Time is Right for Labor Management Systems**.)

Time is Right for Labor Management in Distribution (Con't)

Functional Operation	Average FTE's Used Currently	Observed Utilization	Observed Methods	Observed Pace	Observed Pump Performance (UxMxP)	Target Performance Standards & Incentives	Potential Gains	Future FTE's Required
Receiving	7	82.30%	86.40%	82.70%	58.80%	95.00%	61.50%	4.3
Putaway	7	87.80%	90.30%	88.90%	70.40%	95.00%	34.90%	5.2
Carton Picking	4	85.50%	87.30%	90.50%	67.50%	95.00%	40.80%	2.8
Piece Picking	3	82.00%	85.20%	79.30%	55.40%	95.00%	71.50%	1.7
Loading	1	91.00%	90.00%	93.00%	76.20%	95.00%	24.70%	0.8
Total Direct Labor, One Shift	**22**	**85.00%**	**87.80%**	**86.10%**	**64.40%**	**95.00%**	**47.50%**	**14.9**
Total Direct Labor, Three Shifts	**66**	**85.00%**	**87.80%**	**86.10%**	**64.40%**	**95.00%**	**47.50%**	**44.7**

Source: Cornerstone Solutions

Understanding the Savings Potential Using the PUMP Approach

PUMP is an acronym for Performance = Utilization X Methods X Pace. In other words, total productivity can be determined and estimated by an assessment of the percent of utilization of DC associates, the effectiveness of the "methods" used doing DC tasks, and the speed or pace of associate efforts.

The graphic below, also taken from the videocast, shows how the technique can be used to estimate the potential ROI from an LMS implementation.

Using the PUMP approach, the formula is multiplicative – Utilization times Method Effectiveness times the Pace means, correctly, that what look like relatively modest misses from 100% in each area turn out to create substantial misses overall. For example, 80% effectiveness in all three areas, which doesn't sound too bad, would mean a total productivity rate of just 51% versus a 100% potential.

As shown in the chart, this approach, based on floor level analysis, can enable companies to get a very clear view of the LMS potential. In this generic but typical example, the PUMP analysis shows that with very conservative estimates in terms of potential improvement, the estimate is that the need for full time equivalent employees in the DC would change from 66 currently to just 44.7 - nearly a 33% decrease.