viewpoint

The Four Keys to Operational Performance

Getting the Most from Your Labor Dollars

If you were to categorize your distribution or manufacturing operations, how would they rank? Are they "world-class" or "middle-class"? In the world of high labor costs, increasing customer demand and tight budgets, the need for efficient production and timely order fulfillment is more important than ever. Here is a primer on what to ask – and do – as you focus on improvement.

The process starts with asking the right questions. Your answers will point the way to getting the most from your labor dollars.

1. Are your associates self motivated, requiring minimal supervision?
2. Are your associates fairly compensated for their level of effort?
3. Are you able to track performance at the individual level?
4. Are your supervisors able to manage proactively?
5. Is your facility operating at maximum throughput?
6. Are you meeting customer service goals?
7. Are you able to retain quality associates?

If you answered "no" to any of these questions, you could improve your manufacturing or distribution operations by focusing on the "Four Keys" presented here.

Many of today's most successful distribution operations have implemented operational improvements throughout their facility and are reaping the rewards of higher throughput and lower labor cost.

The "Four Keys to Operational Performance"

1. Operations Improvement

Streamline, simplify and standardize. Operations are the foundation of efficient distribution or manufacturing – and a solid foundation is essential. Inefficient product flow and non-value-added activities need to be eliminated.

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Over-complication is very common in today's distribution centers and is due to systematization and mechanization.

Operating procedures must be easily understood by the associates, and all associates must be trained in the best methods to perform their tasks. In addition, it is important to collaborate with line managers and associates to identify "best practices" for your operations. In many cases, a lot of good ideas within the organization never surface because input is not solicited or valued.

2. Productivity Tracking

What is tracked – gets done. Most companies track departmental or facility-wide productivity and cost. However, this does not allow you to effectively manage labor or provide timely feedback to associates on their performance. Visibility of production and time recording at the individual level is imperative to effective labor management.

Tracking productivity can be done in a variety of ways, but advances in technology have led to a new generation of automated productivity tracking software tools. These tools can be easily interfaced with a WMS to track productivity and calculate individual associate performance.

When you know exactly who is, and more importantly, who is not – performing up to standard, the manager can intervene to provide training or discipline as required. Another benefit of accurate productivity tracking is that the information can be used to plan and balance staffing by operational area, making best use of available labor assets – daily.

3. Engineered Standards

Everyone needs a goal. Engineered standards developed through time and motion studies are an objective tool to measure individual performance. While UPH goals are better than not having goals, unless your product mix is consistent, they tend to be judged as "unfair" by associates. If the goals aren't considered realistic, associates become discouraged.

Engineered standards are the best way to provide accurate and fair goals for associates as standards take multiple production variables (e.g., unit, carton, and pallet) into consideration. As product mix changes, the standard adjusts accordingly. Also, standards allow you to set one performance goal facility-wide – 100 percent performance. This is much simpler to track than UPH goals, where there may be several in each operational area.

4. Performance Incentive Programs

(Rewards and Pay-for-Performance) There are several ways to reward performance. Motivation is the key to high performance levels, since human nature is such that people tend to only put forth maximum effort if there is something "in it for me." Incentive programs are a way to motivate associates by rewarding them for their effort and performance. Incentive programs range from non-monetary "rewards" to "pay-for-performance" programs.

Rewards may include recognition clubs, raffles, merchandise giveaways, and lunches. Pay-for-performance incentives reward associates with a hourly performance bonus for exceeding performance standards. As productivity increases, the company (lower labor cost) and the associates (increased earnings) share in the success – a "win-win" situation.

By focusing on the "Four Keys," the following benefits are realized.

- Reduced labor costs through increased productivity (30 percent to 50 percent in most situations)
- Increased visibility of associate performance
- Increased facility throughput, extending capacity
- Increased associate retention and morale
- Improved management skills and effectiveness
- Enabled a self-directed workforce through metrics and accountability
- Improved service levels

You can improve your operational performance by implementing these four keys. The potential labor savings are significant, but do not underestimate the positive impact on your organization from increased management effectiveness to improved associate morale and retention. A positive, empowered workforce is priceless.

For more information, contact enVista at 877-684-7700 or at inforequest@envistacorp.com.

enVista | 11711 N. Meridian St, Suite 415 | Indianapolis, IN 46032 | 877.684.7700 | www.envistacorp.com

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