

## Maintaining and Maximizing on Your Labor Performance Management Program

So, you've just finished your major Labor Management System (LMS) implementation. Your facility is now up and running with engineered labor standards for a majority of your distribution tasks, including the new value added services (VAS) tasks your facility is providing to your customers.

While you can and should enjoy a sense of accomplishment, now comes the real work of ensuring your investment pays for itself in a timely manner and the LMS program becomes engrained in your company's culture.

After the formal engineering work is completed, there are three main tasks that should become a part of the guiding principles of your new LMS program. They are:

- Employee Observations & Training
- Standardized Reporting
- Labor Standards Audits

### Employee Observation and Training

The most effective LMS programs are based on eliminating non-value added processes, establishing documented methods for each process, training the managers, supervisors, and employees in the new processes, and developing engineered standards based on the documented method.

The employee methods training can occur using a variety of formats including classroom discussions, watching video of experienced employees performing the methods, and actual one-one-one observations with a supervisor or

manager observing employees performing the task in the working environment.

Formal observations allow the managers or supervisors to document the employee's actions in actual working conditions. Following the observation, the employee can then be coached on how to perform tasks according to documented Preferred Methods or Best Practices, followed by a scheduled training.

Setting up a facility-wide observation schedule by employee can be as simple as using a spreadsheet and scheduling the employees on a periodic basis. Calendar programs such as Microsoft Outlook are also an option. Some Tier-1 LMS systems have employee observation management functionality offered as part of their base software package. This functionality is a key differentiator and is often overlooked during the original implementation period.

Method observations should also be performed because of two other important factors: identifying labor productivity issues (often known as warehouse barriers) and new methods being used by the employees in the facility.



Barriers to productivity can occur at any time within the working environment and may be different than what was observed during the original engineering studies. These barriers will need to be eliminated to ensure the integrity of the LMS program remains intact. If the barrier cannot be eliminated, then the methods and standards will need to be updated. New methods may be required following changes within the warehouse such as, the introduction of new technology, new material handling equipment, or an incentive-based pay system, whereby the employee earns more pay due to increased performance against the engineered standard.

### Standardized Reporting

All packaged LMS solutions provide standardized reporting capabilities that should be thoroughly reviewed and configured for your facility's needs. Some vendors provide a configuration template, like a web-based application, allowing the end-user to develop personalized "favorite" labor reports. Other vendors provide a series of base labor reports that can usually be easily adapted to meet the needs of the facility.

Typical base labor reporting functionality includes summary and detail-level, labor-specific reporting capabilities. Common summary reporting data elements include such items as: facility, area, task, employee, supervisor and date.

Detail level reports allow management to review individual transactions over the course of a day. A detail report can often highlight trends such as how long it takes the employees to start their day from the time they clocked into work, or employees extending their scheduled breaks or lunch period.

For client multi-site implementations, it is important to be able to compare facilities' performance against one another. This can be accomplished by establishing for a standard labor report across each site and executing

**The important concept to remember is to initially establish a few reports that provide the data to review your facilities operations on a daily basis. Supervisors should be able to quickly review a few key summary reports and determine if a detailed report is necessary. If the reporting package provides for graphical presentations of the data, make sure they are utilized as early as possible.**

them over the same time periods. Some LMS vendors also provide multi-site reporting through the usage of a data cube tool. The data from each facility within a network is rolled up into a single software application. These applications often utilize standard LMS metrics, such as facility performance, cost per unit, or cost per labor hour, for site comparisons to occur.

These applications may also allow for establishing thresholds to ensure tolerance

within accepted levels for the metrics in question. As metrics begin to trend negatively, alerts can be sent to notify the appropriate personnel to identify the issue so corrective action can be taken in a variety of formats including email, phone messaging, and texting.

As the LMS program matures, additional reports can be added that incorporate new data elements or are requested by the operations team as they become more familiar and comfortable with the LMS program.

### Labor Standards Audits

Whether your facility is a union or non-union facility or has an incentive based pay-system in place, periodic labor standard audits of the entire facility should be performed to ensure the overall accuracy of the labor standards program. Auditing will help to ensure the standards are correct, the LMS savings are being sustained, and/or to ensure

an incentive-based compensation system is correctly computing the employees pay based on their skill and effort level relative to the standards in place.

For facilities that employ discrete labor standards utilizing calculated travel distances and product cube and weight considerations, a comprehensive standards auditing program should occur, at a minimum, every 18 to 24 months. For facilities that use Key Volume Indicators (KVI's) such as SKU's (items), units, aisles, and/or containers (pallets, totes, etc.), to establish the engineered standards, the comprehensive audit should be conducted on a more frequent basis, such as every 12 months, due to the nature of the averaging that occurs in the development of KVI-based engineered standards.

In order to determine what to audit and how much time should be spent, companies should review a labor report such as the "Summary by Job Code." By analyzing the jobs with the highest amount of labor hours, the jobs can be ranked in order of importance to ensure the audit focuses on the tasks that will provide potential payback on your time spent auditing the standards.

For example, if Task "A" has an overall performance of 120% and 200 annual direct labor hours versus Task "B" which has a lower overall performance of 116%, but has 2000

annual direct labor hours, the audit focus should begin with Task "B" due to the larger potential Return on Investment (ROI) before Task "A", even though Task "A" has a higher overall performance.

Another way to determine if your labor standards require auditing is to conduct a standard deviation of the individual task performance for each user. A report such as "Summary by Job Code and Employee" would be used to determine the standard deviation. As a rule of thumb, for job codes that have a standard deviation of +/- 30% or higher over a two to four week period, an audit is highly recommended for the jobs in question.

Even if you haven't reached the recommended time frame since the previous audit period or the standard deviation rule of thumb does not apply, a labor standards audit may be necessary, but more focused in nature. By reviewing the overall performance of each task on a shorter recurring basis, such as a month, individual jobs may need to be audited and updated. As a rule of thumb, if the overall performance of a task is greater than +/- 30% over a four week period (i.e. <70% or >130%), chances are that something has changed since the last engineered studies were performed, such as a new method being utilized by the employees or a new process step required that was not originally accounted for. If this is the case, a few

observations should uncover potential reasons for the high or low performance and if further studies are required.

When auditing, a good rule of thumb is to conduct a minimum of eight to twelve hours of auditing for each job to be observed. During the auditing period, be sure to conduct the audit observations throughout the day, so potential barriers and variance can be documented and attributed to the time of day or shift. Also, be sure to watch different employees during the audits. By watching different employees, methods can be compared, along with the skill and effort level observed, to ensure your methods and standards apply to the entire workforce.

## Summary

Properly maintained Labor Performance Management systems can continue to deliver benefits in the form of increased productivity, reduced operating costs, and improved employee morale for several years, provided the program is kept in the forefront of the organization and continually updated as changes occur. Focusing on employee training, diligently reviewing your Performance reports on a daily basis, and periodically auditing labor standards are three keys to ensure the long-term success of your LMS program.

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