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Incentive Pay in the Warehouse

ARC INSIGHTS
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ARC surveyed over 200 logistics professionals on how they were using incentive programs in the warehouse.

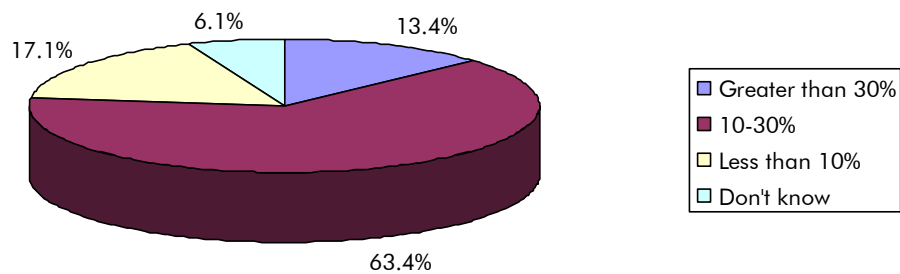
Incentive programs for the warehouse, implemented in a variety of ways, have resulted in striking gains in productivity! Over 63 percent of respondents achieved productivity gains of between 10 and 30 percent over a two year period. Another 13 percent achieved productivity gains of over 30 percent in that time period.

These programs have also resulted in other benefits such as increased employee satisfaction which leads to improved retention. The great majority of logistics managers are satisfied with their programs.

ARC emailed over 3000 supply chain or warehousing professionals. These logisticians had a wide variety of logistics managerial titles ranging from warehouse manager up to CEO (for warehouse companies). We asked them to take a survey on "Incentive Pay in the Warehouse." Respondents were promised that they would receive a copy of the White Paper that resulted from this research. 201 people responded by taking the Internet-based survey.

Improvements in Warehouse Productivity Based on Incentive Programs

77% of those using incentives improved their productivity by more than 10%



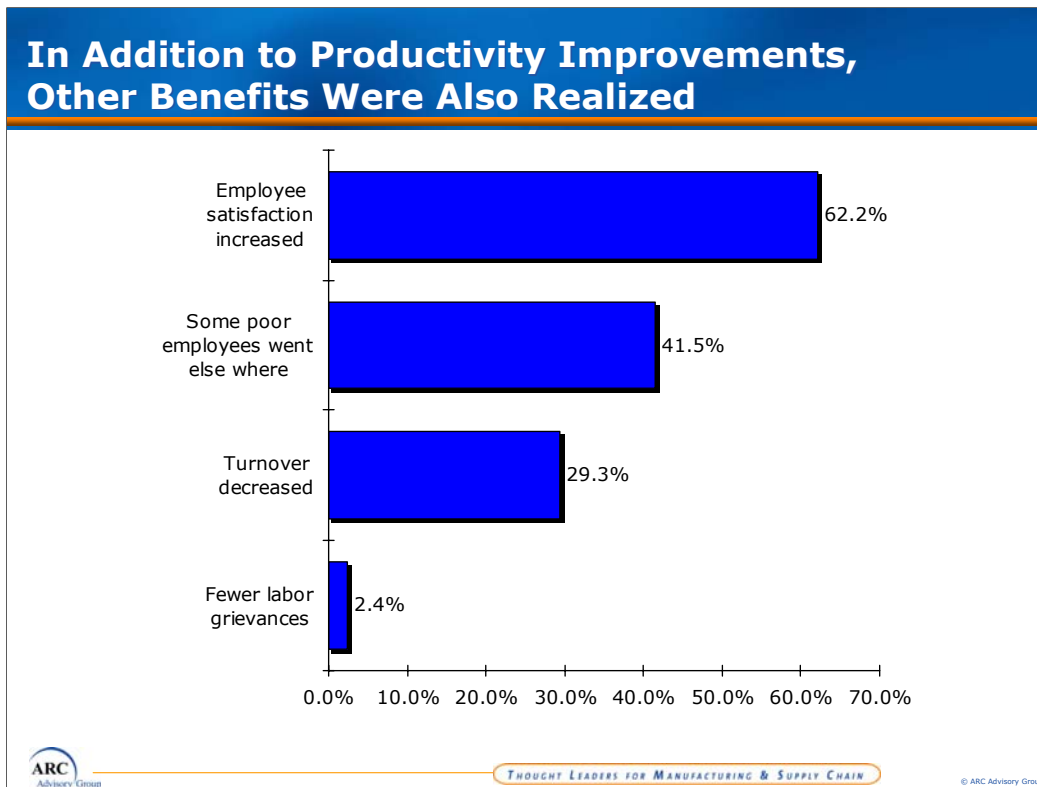
Over 13% had Productivity Gains of over 30%!



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Not surprisingly, respondents were happy with their programs. 87 percent of respondents were highly or moderately satisfied with their programs. 37 percent were highly satisfied.



71 percent of respondents reported that there were no negative consequences to these programs.

Among the minority of respondents that did report problems, two main negative consequences were reported. 7 percent reported higher turnover. (However, higher turnover, if it involves losing less productive workers, is not necessarily a bad thing). Further, 5 percent reported more labor grievances or other problems with a unionized work force.

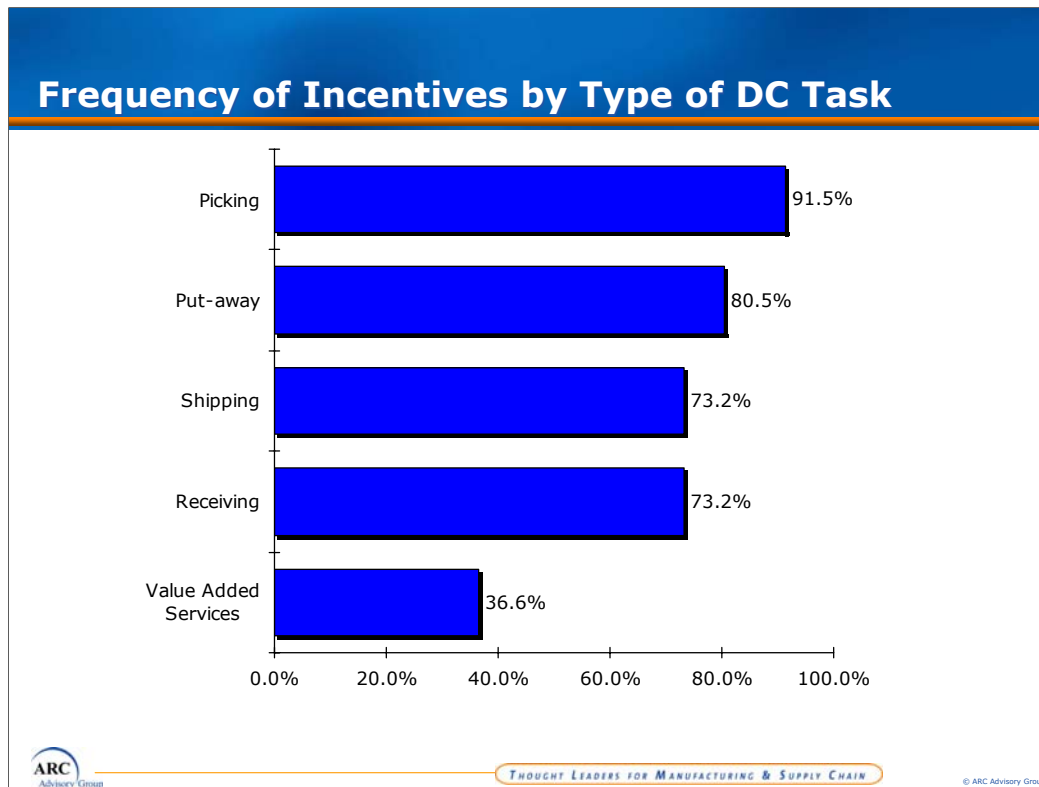
Incentives Can Be Implemented in Various Ways

- ◆ **Incentives can be based on team or individual targets.**
- ◆ **Incentives can involve money or time off.**
- ◆ **Who is covered by the program can depend upon the task (i.e., put-away vs. picking).**
- ◆ **Incentives can be based on stretch targets, by using historical data, or targets can be based upon granular labor standards.**



There are three main methods of setting targets.

1. Stretch targets can be based on an understanding of the performance of the warehouse as a whole, a team, or an individual over some period of time. Then a target in excess of that base period's performance is set. Often, stretch targets are derived from higher level performance improvement objectives. For example, an executive in charge of logistics at his company may be tasked with reducing logistics costs by 5 percent. This executive, in turn, would take that corporate goal and create more granular targets for the groups and individuals under his control.
2. Targets can be set by looking at warehouse performance data and calculating average performance. This calculation would typically utilize WMS data that is downloaded into an analytics package.
3. Finally, targets can be based upon granular labor standards. Granular targets can be set in two ways, through time and motion studies or discrete motion analysis. The time study method has an industrial engineer tracking the time workers take to perform their tasks. Discrete motion analysis is based on larger scientific studies that have been conducted. The derived times were obtained by observing a large number of workers across a wide variety of industries performing their activities.



Incentives were very commonly applied to picking, put-away, shipping and receiving tasks, but were less commonly used for Value Added Service (VAS) tasks. Success is associated with a broader use of productivity targets across tasks such as picking, put-away, and receiving. In many incentive programs, incentives are not developed for all tasks. Tasks that can be performed in a standard manner, time after time, are well suited for granular labor standards, for example. Value Added Service and shipping tasks are less likely to have a standard, repeatable process because of the inherent process variability of these tasks

A related question was “What percentage of your warehouse's associates does the incentive pay program cover?” Most programs covered greater than 75 percent of associates.



An incentive program that is based upon a real-time Labor Management System employing granular labor standards offers a potent form of Real-time Performance Management (RPM). ARC is a strong proponent of Real-time Performance Management principles. Real-time Performance Management principles involve targets set based on an understanding of the optimum potential of a set of assets, an appropriate balancing of goals, the provision of dynamic feedback to associates on their productivity and the quality of their work, and the provision of ongoing feedback and training to associates not performing at an acceptable performance level. Rewards should be applied closely in time with the behaviors that an organization wishes to encourage. Rewards provided infrequently will prove less effective.

A company invests in assets - like people - to execute on their business plan. The assets and process are designed to have the capacity to do a certain amount of work. If this capacity is not used, it is wasted and lost forever. Detecting such waste requires a dedication to comparing performance against the work that should have been performed.



A Labor Management System (LMS) is required to implement an incentive program based on granular labor standards. Performance targets based upon granular labor standards has to consider the specific characteristics of a given piece of work, recognizing the exact travel distance required, the movements required for the task (e.g., that an order pick from the chest-high “golden zone” will be incrementally faster than a similar pick from the lowest row of racking), the number of pieces, the size and weight of the items, and the speeds of fork lifts, pallet jacks or other equipment used. The Labor Management software dynamically calculates specific goal times for each task based on this granular analysis of the labor involved. Actual performance is reported against these goal times by individual operator, specific activity work area, or customer. Feedback can be real-time to an operator via a radio frequency terminal or can be made available at various intervals throughout the day. Dynamic performance management systems will out perform static systems. Being able to see performance against target on an ongoing basis and seeing high performance reflected in increased pay during the next pay period provides a superior way to motivate a workforce than more static forms of performance management.

Goal times are determined by the calculation engine based on how fast an operator *using the best method* to achieve a task, and *moving at normal speeds*, should take to complete it. Because the calculation is based on best methods, workers below these levels should not be assumed to be lazy. Instead a manager should observe their work and train them in best methods.

Recommendations

- ◆ **Base incentives on targets for individual employees!**
- ◆ **Base targets on granular labor standards!**
- ◆ **Link payment of productivity incentives to a requirement that employees maintain a predefined level of quality and safety!**
- ◆ **Bring the great majority of employees up to targeted standards first. In a 2nd phase, use incentives to reward employees willing to exceed expected work levels!**



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This Insight is based upon a much more detailed White Paper. If you would like a copy of that White Paper please contact your account manager or the author.

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