

PAY-FOR-PERFORMANCE PLANS FOR WAREHOUSE WORKERS



Incentive programs, also known as pay-for-performance plans, have become increasingly common in warehousing and industrial settings, thanks in large part to advances in labor management platforms that allow the measurable tracking of employee performance. Especially at a time when warehouse labor is in short supply, organizations that take advantage of effective pay-for-performance plans can gain an edge in the war for talent, along with other important benefits like improved efficiency, productivity and employee engagement.

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At its core, the concept of hourly labor suggests that an individual trade his or her work in exchange for an hourly wage. The hourly wage has been the primary labor arrangement in the United States since the industrial revolution.

A criticism of hourly wage labor has been that it fosters adherence to method and process and contributes to a culture whereby employees are treated the same rather than a culture of creativity and action, and thus employees are often motivated to accomplish only what is minimally acceptable for their job.

Some professions, however, have developed on the basis of incentives. Salespeople, for example, are often paid via commission, and therefore have built-in incentive to produce more. Likewise, service industry employees, such as waiters or servers, are driven to performance by the incentive of greater tips and gratuities.

The idea of incentivized motivation for other employees isn't new. Bonus structures have been around for ages and often have a profitability component to them, but some jobs simply don't fit well into traditional bonus programs. Warehousing and industrial enterprises are one example. Offering bonuses tied to profit to production-level employees can have little impact on their productivity because most factors that influence profitability remain outside control of those workers.

However, when it comes to industry and warehousing, what you can measure, you can improve. Especially since the advent of data-driven labor management programs, production-level employees have become ripe for incentive programs, and using them makes practical sense in an era where dynamic retail is rewriting the distribution playbook.

Smartly developed pay-for-performance programs (PPP) can provide multiple benefits to both employee and employer, including cost savings, quality increases, reduced error rates and higher worker satisfaction – which has become of paramount importance in a labor market staring down a shortage of warehousing workers.

In this paper, we will first examine the current labor situation in warehousing. Then, we'll explore what can be incentivized for warehouse employees before discussing important first steps to planning a pay-for-performance plan, followed by central elements that characterize a good pay-for-performance. Finally, we'll conclude with the all-important benefits that come from implementing a quality, effective warehousing incentive plan.



“When my company implemented our pay-for-performance plan, productivity improved by 17%.”

Steve Douglas
Douglas Distributing
Conway, Arkansas

WAREHOUSING LABOR

The changing nature of retail is having a profound effect on warehousing and logistics. Traditionally, consumers did most of the work themselves. They drove to the store, walked the aisles, chose their merchandise, carried it to the checkout, loaded the purchased items into the car and transported it back home.

E-commerce has changed that. Increasingly, a consumer goes online, chooses merchandise and expects it to arrive at the doorstep within days (or hours, in some cases). What once was a task for the consumer has become a job for the warehouse, where order pickers (or sometimes now a robot) receive the order, pick it from a shelf, package it and ship it.

Online sales account for 10 percent of all retail, and e-commerce continues to increase about 10 percent each year. As a result, the number of warehousing employees has risen 59 percent since 2008, which is drastically more than the 5.4 percent growth rate across all industries.

It's understandable, then, that the demand for warehousing staff is now outpacing supply. Headlines such as, "Midwest facing a skilled-worker shortage as warehousing boom continues," and "Warehouse recruiters get creative as labor crunch tightens," have illustrated the growing concern.

This shortage will likely increase costs for distribution and fulfillment centers. Commercial real-estate brokerage, CBRE Group Inc., estimates that warehouses in the U.S. will require an additional 452,000 workers by the end of 2019. Luring those workers will be difficult, as will be retaining employees tempted to jump to better paying jobs. CBRE further estimates that increasing the hourly wage \$1 for a warehouse of 500 employees translates to more than \$1 million in additional labor costs each year.

Despite the boom in warehouse jobs, wages barely increased over the same period. As wages



in warehousing are finally starting to see growth, many workers are leaving for better paying jobs. Sixty-one percent said they took another job strictly for a raise. Nearly a third of those said they got a raise by \$2 per hour or more. Adding to the issues facing warehousing employers is that many of the employees who leave aren't providing an opportunity for employers to match offers, but are simply quitting and leaving.

Food and convenience distribution is not immune to these trends. In fact, changing consumer habits are similarly disrupting these specialty facilities. Diners are increasingly asking for a wider array of fresh food offerings, and sometimes even information about sourcing of the products they're buying. Supermarkets and convenience stores are adding space for fresh items in their perimeters, changing the way food shippers do business. And when it comes to food distribution – especially fresh foods – efficiency and speed are key.

So, it should come as little surprise that a survey of warehouse managers found their two toughest challenges would be finding/keeping qualified and dependable workers and increasing productivity. In the long run, retaining staff is more cost effective than turnover and hiring new employees. Fortunately, pay-for-performance plans can help address both management concerns of gaining/keeping workers and increasing productivity.

WHAT CAN BE INCENTIVIZED?

The good news for warehouse enterprises is just about anything that can be measured can be incentivized. Today's digital environments allow distribution centers to collect and analyze data like never before in order to make important business decisions. Therefore, identify measurable operations that also impact the bottom line, such as:

THROUGHPUT This is simply the number of picks accomplished by an employee in a period of time, such as by hour, day or week. Throughput is generally measured by picks per hour, but can be measured by pieces shipped, dollar volume or various other metrics. Companies often utilize engineered standards to establish expected throughput levels. Engineered standards typically consider factors such as travel distance, number of orders, number of line items per order, etc.

ERROR RATE Accuracy is always an important metric to track. Error rates often work indirectly with throughput (i.e. the faster one works, the more mistakes are made).

SAFETY Long an important aspect of industrial hygiene, safety metrics help maintain a working environment that reduces likelihood of injury or illness. While traditionally this has been "days without an accident," safety metrics can be more granular and tied to behaviors that contribute to accident-free productivity.

ATTENDANCE Reward programs for employees achieving employer attendance expectations can help to reduce the number of employees calling out for work and the associated costs and scheduling repercussions.

INITIAL STEPS TO A PAY-FOR-PERFORMANCE PLAN

If not approached strategically and carefully, a pay-for-performance can result in little more than throwing away money. Prior to implementing a plan, it's important to work through cost-accounting projections. In order to do so, you'll need benchmarks to understand where to set the plan goals. Understand what your facility's traditional performance has been before establishing where it needs to go. These benchmarks are made easier with actionable data from labor management systems.

Once you establish baselines for productivity, it's time to understand what drives your employees. Money is always the first thought, but it isn't the only incentive you can offer. Additional time off, getting to leave early, or other rewards can be valuable incentives.

It's also important to determine if the rewards will be based on individual performance, group performance or some combination of both. Individual-based programs can be difficult in smaller operations where employees may wear multiple proverbial hats. One person might be picking items for part of the day, restocking at another time and packing at yet another time. In these scenarios, department or group-based frameworks typically work better.

Incentive plans can range in simplicity, as from a cash reward for meeting a goal to intricate, multi-level approaches. One example is known as "gainsharing." In this framework, workers who exceed expectations are given an increase in hourly pay rate for the ensuing month. The increase in overhead is covered by the gains in productivity. In a case-scenario using gainsharing, one hardware store paid out \$361,000 in incentive pay, but the productivity gains amounted to more than \$1 million – clearly a win for both employees and company.

WHAT CHARACTERIZES A GOOD PAY-FOR-PERFORMANCE PLAN?

As you plan out and test run your pay-for-performance, it's important to ensure your framework encompasses some key characteristics that allow the plan to be effective for both company and employees.

BALANCE

A good pay-for-performance must offer goals that are attainable, but not too easily so. If you make the goals too difficult, workers will dismiss the plan and you've lost the plot of incentivizing them. If you make the goals too easy to attain, it becomes almost automatic that the goals are met and you're likely selling yourself short on productivity gains, thus reducing the potential financial upside of the pay-for-performance.

UNINTENDED CONSEQUENCES

When establishing goals, it's vital to make sure reaching one goal doesn't come at the expense of another. For example, if you aim to increase pick rate, make sure those speed demands don't result in poorer error rates. Or, the flip side, that if you incentivize lower error rates it doesn't slow your picking process below where you need it. You can't sacrifice one aspect of production to improve another, or the net gain doesn't reflect the overall point of the plan.

Similarly, the incentives must be fair across departments. If you create picking process incentives that burden the shipping department, you've created a conflict of interest. It's imperative to fully understand what kind of impacts incentives will have in the bigger picture.

INCLUSIVITY

A good incentive plan offers opportunities to the entire workforce, from order processing to shipping. Leaving out any group can cause dissention. Whether it's individual or group incentives, a pay-for-performance should make everyone feel they can be rewarded for doing smarter, more effective work.

TRANSPARENCY

While it may sound obvious, incentives should be clearly defined and explained. Furthermore, results should be tracked and posted to reach maximum effect. When employees can see who is and is not reaching goals, it discourages underperformance. It also creates trust in the overall pay-for-performance because there are no discrepancies about how some person or group is earning a bonus while others are not.

WORKING AT MULTIPLE LEVELS

A good pay-for-performance spurs productivity in all workers, not just the best. Steady high performers may reach their goals at every interval – and that's fine. These are the employees you most want to retain, and their consistent rewards will help make them stay. The average employees – those neither over- nor underachieving, will have reason to take their performance to the next level. It's within this group that the best gains can be had. Underperforming workers may never reach the goal(s), but the incentives help them understand the gap between their performance and what is expected or can be accomplished.

MEASURABILITY

While having measurable metrics is important to structuring a pay-for-performance, you should also be able to measure the plan's impact. You should know if the pay-for-performance has directly led to gains, like an increase of x amount of orders shipped per time period. You should also be able to determine the financial impact of increased performance from the workers, be that in direct gains or efficiency savings. This helps justify the pay-for-performance to upper management and explicitly spells out its value.

FLEXIBILITY

Incentive plans must have flexibility, especially when technology is having such an impact on the warehouse. Implementing a new order processing software, increasing automation or significant change in staffing – any number of elements can cause a ripple effect in process benchmarks. As a result, incentive goals may need to be adjusted accordingly.

PAYS FOR ITSELF

At the end of the day, a good pay-for-performance shouldn't come at a cost to the company, rather it should pay for itself through productivity gains. If you find your pay-for-performance to be a cost center, a total reassessment is likely necessary.



BENEFITS OF A PAY-FOR-PERFORMANCE PLAN

When employees believe in a pay-for-performance, it can have enormous impact on the overall production and culture of the organization. Some of the obvious benefits are the very reasons for starting an incentive plan, such as increasing productivity with existing resources. This improved efficiency ultimately makes the plan a profit center rather than a cost center. But the benefits of a warehouse pay-for-performance plan extend further.

Retaining employees has become a foremost priority for warehouse and distribution centers in today's tight labor market. When even small gains in salary can be the difference between a worker staying or leaving, incentive programs provide employees opportunity for wage (and other) gains without changing jobs, and it comes at less cost to the organization than attracting and hiring new labor. The pay-for-performance also creates engagement among the workforce and can become an important part of the fabric of the organizational culture – and happy employees are better employees.

Beyond the obvious benefits are additional pluses for a warehouse implementing a pay-for-performance. The planning process itself forces you to break down existing procedures and metrics, gaining granular insight of your facility's workflow. While breaking down and investigating these processes, you can identify weaknesses and areas in need of improvement, potentially sparking innovation.

CONCLUSION

As advances in labor management programs have given warehouses greater ability to measure individual and group performances, an increasing number have turned to pay-for-performance plans to reward productivity. It couldn't come at a better time, as the war for skilled warehouse and distribution workers escalates. Incentive programs can play a key role in worker attraction and retention. However, effective pay-for-performance plans must be carefully crafted and built on measurable data and metrics. Companies that get it right (and their employees) will reap the rewards.

PROCAT DISTRIBUTION TECHNOLOGIES

ProCat Distribution Technologies provides hands-free barcode scanning solutions for distribution centers. ProCat's feature-rich solutions increase accuracy and productivity in key warehouse functions such as order picking, receiving, truck loading, replenishment, and cycle counting. In addition, ProCat offers a pay-for-performance solution called IncentRight.



IncentRight is a simple and straight forward system to incent workers and achieve additional productivity gains. Management can expect a potential 10-20% increase in productivity. IncentRight is designed to allow incentive pay per area of the warehouse. With IncentRight, the order picker can be measured on either picks or order lines. Two key management judgements are needed for the IncentRight calculations: (1) the targeted pick rate and (2) the incentive amount for achieving a targeted pick rate. ProCat encourages companies try IncentRight for a few weeks to get comfortable with the data inputs into the modeling software, before finalizing an employee incentive program.

IncentRight is an extension of ProCat's PickRight solution, so companies must have PickRight before they can take advantage of IncentRight. PickRight results in order picking accuracy rates of 99.9%. Since IncentRight uses the PickRight platform, achieving high accuracy is already addressed as part of the pay-for-performance solution. As a result, the IncentRight system was designed to drive increases in throughput or productivity. IncentRight is very easy for employees to understand. As they are working, employees are able to see on their wrist worn display, how they are tracking versus their targeted goals. Also, employees very clearly know what they are getting paid for with a report that can be distributed with employees' paychecks. A second report is designed to show management the incentives that everyone has earned. IncentRight by ProCat will increase employee productivity in any warehouse that is using PickRight order picking technology.

ProCat solutions are being used in over 200 warehouses nationwide.
For more information about IncentRight, PickRight or other ProCat solutions,
contact ProCat at 866-776-2285 or visit www.procatdt.com

