

Incentive Planning for Distribution Centers

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Warehouse productivity is more important than ever



From hand sanitizer to bread flour, the COVID-19 pandemic challenged the world's supply chain in many ways. Distribution centers faced increased demand from their customers as consumers on lockdown stocked up on groceries and supplies.

29%

Increase in grocery sales for March 2020 over prior year.

— *Supermarket News*

New safety protocols had to be implemented to keep employees safe. Distribution centers sought to hire and retain workers in difficult job markets, and a workforce already in short supply tightened further as workers went out on sick leave or were afraid to come into work.

The pandemic accelerated labor-related issues that distribution centers were already facing, foremost among them driving increased performance from

existing staff. Companies are seeking ways to eliminate bias in performance evaluations and instead tie pay and promotions to performance data. All these challenges are driving companies to invest more in employee performance software/systems and build human resources staff, especially in warehousing and industrial settings.



Incentive programs can help employers gain an edge in the war for talent.



Labor is expensive and in short supply

Distribution centers continually look for ways to maximize productivity and increase profitability. This can include optimizing workflows, automating processes, and reducing waste. The increase in e-commerce, about 10% annually, has driven a 59% increase in the total number of warehouse employees needed over the last decade. In fact, in September 2020, *Supply Chain Dive* reported that warehouse employment has surpassed its pre-pandemic level to reach the highest level ever recorded, with 1.25 million workers in the warehouse and storage sector, according to preliminary numbers from the Bureau of Labor Statistics. Demand for workers is outpacing supply.

37.7%

**2020's average turnover rate
for foodservice warehouse
employees.**

— IFDA

On the pay front, labor is one of a distributor's biggest expenses – 48.9% as a percentage of gross margin, according to the International Foodservice Distributors Association (IFDA). The average base hourly rate is \$14.05 per hour as of January 2021, according to Payscale.com. Labor cost pressure is increasing as Congress considers an increase in the minimum wage to \$15 per hour and Amazon recently announced an increase to \$17 per hour.

The typical non-management warehouse worker compensation is based on hourly wages. But hourly wage labor has been criticized as fostering an adherence to method and process and contributes to a culture in which

employees are all treated the same, rather than a culture of creativity and action. As a result, employees are often motivated to accomplish only what is minimally acceptable for their job.

20%

**Warehouse workers who
describe themselves as “actively
disengaged” from their work.**

50%

**Doing just enough
work to get by.**
— Gallup poll

What you can measure, you can improve.

Incentivized motivation could be the answer. Since the advent of data-driven labor management programs, production-level employees have become ripe for incentive programs, and using them makes practical sense to optimize staff efficiency. Warehouses incent based on factors that matter most to their operation, among them productivity, attendance, errors, total picks, overtime/second shift bonuses, and others.

A properly structured incentive pay for performance plan can bring the biggest percent improvement in labor productivity. But plans are often structured poorly, employees have no idea of how the incentive is calculated or how much they earn per pick, and over time, the incentive program becomes outdated and needs to be updated. Manual tracking on spreadsheets proves to be both cumbersome and time-consuming, and there is no holistic view of an employee's contributions on a regular basis. Management is understandably hesitant to touch the plan and years go by with no updates. The plans become costly and do not achieve the desired result.

A more strategic, digital, elegant solution to productivity is in order. ProCat has developed a performance bundle comprised of three software modules that overlay productivity tools with business intelligence to engage employees and incentivize behavior while providing real time visibility for management.

- **PickRight** ensures over 99.9% order picking accuracy
- **IncentRight** allows companies the flexibility to develop an incentive program that drives productivity.

- **ManageRight** builds on the PickRight and IncentRight solutions to communicate timely and relevant information to pickers and managers with powerful graphics displayed throughout the warehouse.

These three software modules work in concert to deliver messaging that consistently encourages optimal performance by pickers and shift supervisors.

The business case for pay-for-performance plans

Incentive plans, or pay-for-performance plans, are one strategy that distribution centers can use to solve several business challenges:

1. **Optimize employee performance.** Productivity gains and improved efficiency with existing resources ultimately makes the plan a profit center rather than a cost center.
2. **Improve job satisfaction.** A pay-for-performance plan creates engagement among the workforce and can become an important part of the fabric of your organizational culture – and happy employees are better employees.
3. **Retain employees and reduce turnover.** Retaining employees is a top priority and 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.
4. **Attract new talent in a tight labor market.** Offering added benefits can make your organization more attractive to potential new hires.

5. **Align worker motivation with management objectives.** When employees believe in a pay-for-performance plan, it can have enormous impact on the overall production and culture of the organization. Employees will be more likely to communicate issues that impede their productivity, and addressing their concerns will reinforce employee engagement.
6. **Gain insight into workflow.** The planning process forces you to break down existing procedures and metrics, gaining granular insights, identifying weaknesses and areas in need of improvement, and potentially sparking innovation.





What to incentivize

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.

Your best strategy is to identify those measurable operations in your enterprise that also impact your bottom line. Consider:

Pick Rate — The number of picks accomplished by an employee in a certain 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 additional metrics. Some warehouses use 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 a crucial metric to track when you consider the operational cost of returns and reputation. Error rates often work in inverse of throughput: the faster one works, the more mistakes one makes.

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, such as following safety protocols.

Attendance — Reward programs for employees achieving employer attendance expectations can help reduce the number of employees calling out for work and the resultant impact on costs and scheduling.

While these factors all contribute to maximizing employee performance, the most effective incentive plans focus solely on driving employee productivity.



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

Steve Douglas, President/CEO,
Douglas Companies,
Conway, Arkansas

Planning an incentive program

If not approached strategically and carefully, a pay-for-performance plan can be a waste of money. Working through your individual cost-accounting projections prior to implementation is the key to a winning incentive program.

1. **Establish your baseline.** Learn what your facility's traditional performance has been so you can set more achievable but beneficial goals. Use actionable data from labor management systems or reporting from barcode picking systems such as PickRight.
2. **Survey what motivates your employees.** Money isn't the only incentive you can offer. Lifestyle benefits such extra time off, getting to leave early, or other rewards are valuable incentives, especially among millennials, and can also help attract and retain employees.

3. **Remove bias.** By setting performance goals, managers can remove bias from the annual review process.
4. **Set guidelines.** Decide whether incentives will be based on individual or group performance, or a combination. 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.
5. **Decide how simple or intricate your plan should be.** One strategy might be to start with the simplest: cash reward for meeting a goal. Then move up to a multi-level approach to boost performance even more. One approach is known as "gainsharing," where workers who exceed expectations are given an increase in hourly pay rate for the next month. The increase in overhead is covered by the gains in productivity.



Hardware Chain Distribution Center as reported in InboundLogistics.com

Elements of a successful incentive program

As you plan and test 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

Offer goals that are attainable, but not too easy. If you make the goals too difficult, workers will dismiss the plan and you've lost the chance to improve performance. If you make the goals too easy and they're met almost automatically, you're likely selling yourself short on productivity gains and reducing the potential financial upside of pay-for-performance.

Unintended consequences

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 that increase in speed doesn't result in higher error rates. On the flip side, if you incentivize lower error rates, make sure that doesn't slow your picking process below where you need it. Barcode scanning systems, such as PickRight, help ensure accuracy and speed.

Inclusivity

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

Transparency

Incentives should be clearly defined and explained, and results should be tracked and posted to ensure maximum effect. When employees can see who is and is not reaching goals, it discourages underperformance. It also creates trust in the overall incentive because there are no questions about how some person or group is earning a bonus while others are not. Often employees have no idea of how incentives are calculated.



Elements of a successful incentive program



2 hours to 10 minutes

“Before using IncentRight, it would take me about two hours per week to manage my incentive program. With IncentRight, it now takes me 10 minutes per week. Pickers like it better because they understand how their incentive pay is being calculated. It has been a big improvement for our company.”

Chris Hampton, Operations Manager,
Gummer Wholesale,
Heath, Ohio

Multiple levels

A good pay-for-performance plan 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 consistent rewards will help make them stay. The average employees – those neither over- nor underachieving – will now have reason to take their performance to the next level. This is where 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 plan, you should also be able to measure the plan’s impact. You should know if the incentives have directly led to gains, such as 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, whether in direct gains or efficiency savings. This helps justify the cost of 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. Changes such as implementing a new order processing software, increasing automation or a significant change in staffing, can cause a ripple effect in process benchmarks. As a result, incentive goals will need to be adjusted accordingly

Pays for itself

At the end of the day, a good pay-for-performance plan 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 plan to be a cost center, a reassessment is likely necessary.

A robust program such as IncentRight can help you incorporate all these elements with modeling tools to forecast results and reporting tools to help you keep your plan up to date.



How **INCENTRIGHT** Works

As an extension module built onto the [PickRight solution](#), IncentRight uses real data to help you create an incentive program that drives increased employee productivity. Since IncentRight uses the PickRight platform, achieving high accuracy through barcode scanning 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.

10-20%

**increase in productivity experienced
by IncentRight customers**

Completely customizable, IncentRight can be configured to fit your goals and make tracking easy. Benchmarks and milestones are driven by the organization. It allows incentive pay per area of the warehouse and the order picker can be measured on either picks or order lines.

Only two key management judgements are needed for the IncentRight calculations:

- (1) your targeted pick rate and
- (2) your incentive amount for achieving a targeted pick rate.

IncentRight helps you estimate the financial impact of an incentive program with modeling tools and forecast results. It has a reporting suite built in to help management and payroll departments, including summary reporting for payroll processing and blended hourly rate (base + incentive) for payroll compliance.

Employee motivation built in.

IncentRight is very easy for management to use because it's communicated visually. Easy to understand reports that clearly outline incentive pay detail can be distributed with paychecks. A second summary-level report for management shows the incentives that everyone has earned and can be provided to payroll departments.

Best practices recommend that companies try IncentRight for a few weeks to get comfortable with the data inputs into the modeling software, before finalizing an employee incentive program.

An open and shut case study for measurable performance tracking

Customer: Chris Hampton, Operations Manager, Gummer Wholesale

Situation: A large convenience store distributor with 40 warehouse employees, Gummer was using a manual incentive plan managed in Excel, which required approximately two hours each week to determine incentives for employees. Because the system was based on numerous components, employees never knew what incentive they were earning each pay period.

Solution: In 2020, Gummer Wholesale added the IncentRight module to their PickRight platform, reducing the time required to manage the incentive program from two hours each pay period to ten minutes. The company customized targets and incentive rates by area. Employees received an additional incentive level of pay based on percent of target.

Result: After implementing IncentRight, their overall picking productivity increased between 15 and 20%. The resulting savings meant the program completely paid for itself in less than three months.

Biggest advantages for employees: "IncentRight will give them information to improve and lets the employee know exactly where they stand. Employee feedback has been very positive."

Advantages for management: "It's a lot easier to track performance with IncentRight. I see not just the good employees but the bad as well, so we can identify people who are having issues earlier. Then we can either address problems and retrain them, or work on replacing them. IncentRight also motivates workers to make us aware of anything affecting PickRight more quickly - a stopping issue, an inventory issue, sliding issue - because it affects their pay directly."



"It's a very easy to use program. Data entry, rate changes, and payroll are all lot simpler. IncentRight puts it all in one nice package. I also appreciate the ability to share the information about how the incentive is calculated with employees."

Chris Hampton, Operations Manager, Gummer Wholesale

About ProCat Distribution Technologies

ProCat Distribution Technologies helps small to medium size distribution centers implement barcode scanning technology into their operations. ProCat has developed a suite of 14 modular software solutions that improve accuracy and productivity in every part of a warehouse. PickRight, ProCat's order picking solution, has proven to achieve 99.99% order accuracy and a 90% reduction in customer claims. PickRight is able to interface with any ERP and does not require any changes to your current WMS.



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