



The
Science
of
EDGE
THE KNOWLEDGE TO MASTER THE NEW SUPPLY CHAIN

Incentive-Based Payment Programs Powered by LMS

Track 3 Session 3

Brian Ehlenberg

- Director, Labor Optimization
- 4SIGHT Supply Chain Group
- Brian.Ehlenberg@go4sight.com
- 678-207-8652
- www.go4sight.com

Agenda

- **Activity-Based Compensation (ABC):
an Overview**
 - How they work
 - When to implement
 - Impact on productivity
 - Considerations for implementation
 - Key Takeaways
 - Conference Cloud
 - Questions

The Key Questions

- **Your work force: are you getting what you're paying for?**
- **What is the right compensation model?**
 - Hourly wage
 - Group incentives
 - Activity-based compensation



ABC: A Case Study

- **The Problem:** a large wholesale grocer was facing a labor crisis
 - Rising labor costs
 - Falling productivity
 - High turnover
- **The Plan:** implement an Activity-Based Compensation program



ABC: A Case Study

• The Results:

- 25% increase in productivity
 - 98 pickers doing the work of 120
 - Fewer miss-picks
- > \$1,000,000 in annual savings
 - \$450,000 in reduced labor
 - \$650,000 in equipment maintenance, administration & overtime
- Employee turnover reduced to 5%
- Reduction in accidents



Traditional Pay Programs

- **Hourly Wage**

- Tenure, annual increases, other escalators

- **Piece-rate / Miles & Stops**

- Unit based pay programs based on budgets

- **Corporate-Level Bonus Programs**

- Not to be confused with gain-share

Why Consider ABC?

- **Company's overall performance depends on the performance of individuals and groups**
- **Individuals and groups differ in level and quality of contribution to the company**
- **Company should reward employees based on their relative performance to attract, retain and motivate high performers**



How Does ABC work?



- **A method of paying based on value-added activities**
- **Values for each activity are calculated using Engineered Labor Standards, coupled with activity-based compensation matrix and each employee / position wage rate**
- **Integration of pay calculation system into existing technologies to capture the activities completed during the pay-period (WMS, On-board TMS, Point of Sale, Time & Attendance, etc.)**

What Makes Up ABC?

- **Event Pay**

- Applies to events that have a specific value: start of shift, paid breaks, end of shift, pre and post-vehicle inspections

- **Unit Pay**

- Applies to the production or key volume indicators of work: size of order, travel distance, equipment used, etc. May also include a “Gain Share” for safety, quality, etc.

- **Delay Pay**

- Applies to activities such as meetings, clean-up, battery changes, store delivery delays, etc.
- Paid at the normal wage rate, but not applied if doing event or unit pay and is not eligible for “Gain Share”

Benefits of ABC

- **Drives Employee Behavior Adjustments**
 - Focus on completing value-added activities
 - Greater awareness of lost-time
 - Become self-managing
 - Improved morale
- **Motivates workforce to talk, think and act based on dollars**
 - Hours, Percent of Standard, Delay Time, Units/Hour, Cost/Mile, Cost/Stop: what's this in \$?
 - Work elements, delays, breaks, and productivity are easily represented in actual dollar values
- **Changes focus from “*How long am I at work?*” to “*How much work can I complete today?*”**

Types of Performance Pay Programs

Micro-Level

Macro-Level

INDIVIDUAL	TEAM	BUSINESS UNIT	COMPANY
Merit Pay	Bonuses	Gain Sharing	Profit Sharing
Bonuses	Awards	Bonuses	Stock Plans
Awards		Awards	
Piece-Rate or ABC			

Gain Share Programs (partial)

- **Scanlon Plan (oldest)**

- Based on historical ratio of labor costs to sales value of production

- **Rucker Plan**

- Based on ratio of labor costs to production value (actual net sales +/- inventory changes, minus purchased materials and services)

- **Improshare Plan**

- Measures changes in relationship between outputs and the time (input) to produce them

- **Custom Plans (numerous)**

Gain Share Examples

Improshare Plan

Rucker Plan

Sc

Example of the Rucker Plan	
1.	Value of services
2.	Less outside purchases (materials, supplies, etc.)
3.	Value added
4.	Rucker standard (30% of #3)
5.	Actual labor costs
6.	Bonus pool
7.	Company share (50%)
8.	Employee share (less 20%)

Figure 2

An Example of a Scanlon Plan Bonus Calculation			
1.	Sales		\$100,000
2.	Inventory change		+10,000
3.	Value of production		110,000
4.	Allowed payroll costs (40% of 3)	44,000	
Derived from historical data			
<u>Total annual payroll = \$2 million = 40%</u>			
Net sales		\$5 million	
5.	Less actual labor		35,000
6.	Bonus pool		9,000
7.	Company share 25%		2,250
8.	Deficit reserve 25%		2,250
9.	Employee share 50%		4,500
10.	Bonus % of actual payroll (\$4,500/35,000)		12.8%

Figure 3

- Deficit reserve
- Maintenance of program

Team Incentives: Pros & Cons

Pros	Cons
Fosters group cohesiveness	Free-ride effect
Facilitates flexible workforce	Intergroup competition leads to decline in overall performance
Reliably measuring team performance	Social pressures can limit performance
Elicit employee input	Protects low performers
Increase cooperation through common goal	Management to labor conflict
Subject to fewer measurements	

Individual Incentives: Pros & Cons

Pros	Cons
Individual are goal-oriented	Tying pay to goals may promote a narrow focus
Financial incentives can shape goals	Individual plans may work against corporate goals
Plans can fit the culture within the organization	May promote inflexibility
Performance reward is easily repeated	

Which Plan To Use?

Individual

Contributions of individuals is accurately identified

Job demands autonomy

Group

Difficult to single out who did what

Tasks & objectives foster entrepreneurship in self-managed groups

Corporate-wide

Company is small to mid-size, technology not widely used

Does not operate multiple facilities with varying performance

Demand for products / services is stable

Additional Types of ABC

- **Non-ABC Job Pay**

- Activities that do not have Engineered Labor Standard: returns, inventory counting, etc.

- **Fixed Delays and Breaks**

- Assignment of specific time to certain event pay variables: battery changes, pre-shift/trip inspections

- **Overtime Pay**

- Typically ABC will increase by the same overtime factor that is required by state and federal regulation

- **Safety Net / Deficit Pay**

- This may be an earnings protection put in place when earnings for a pay period fall below an employee's goal earnings
- Deficit funding and payment is applied as part of the proportion of the % of payout

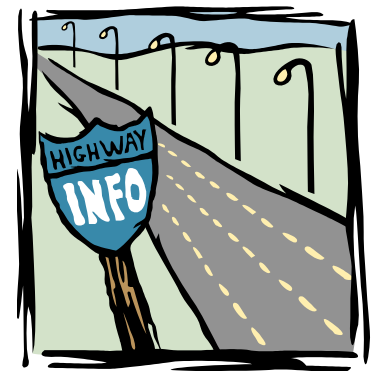
Gain Share as Part of ABC

- To include Safety and Quality at a higher level than individuals, these components are often handled as a gain share for teams, facilities, or the company
- Additional incentives are paid for above baseline performance in areas such as:
 - Lost time injuries, miss-picks/shortages, vehicular accidents/tickets, on-time arrival, etc.
- Often part of the Deficit / Safety Net funding



A Roadmap to Incentives

- **Establish the “right way” to perform activities through best practices and preferred methods**
- **Communicate programs and leadership training for front-line supervisors/managers to ensure culture alignment**
- **Develop Engineered Labor Standards to establish performance baseline (average)**



A Roadmap to Incentives

- **Design and implement the right systems & technology**
- **Effectively use preferred methods and coaching to get workforce to baseline**
- **Create ABC and incentive programs to reward performance above baseline and overcome plateau-effect**



Flywheel of Success

- Focus on the value-stream
- Over-communicate
- Build the leadership skills of front-line management
- The order of the steps is as important as the steps themselves



Challenges to Incentive Programs

- **“Doing only what you get paid for” attitude**
- **Lack of cooperation between employees and groups**
- **Lack of employee control**
- **Difficulty in measuring true performance**
- **Lack of communication creates resistance to change, credibility issues, and stress in workforce**

You Get What You Pay For

- You cannot manage what you do not measure
- But at the same time, you cannot manage all that you measure
- Understand what motivates the workforce
 - Pay is the largest driver of motivation
 - Other drivers include: direct financial benefits, indirect financial benefits, schedules, job security, feedback/coaching, status/recognition, sense of duty/purpose, etc.

Application Matrix

- 1. Decide to Pay for Performance**
- 2. Choose an LMS Application**
- 3. Develop Engineer Labor Standards**
- 4. Implement Coaching and Feedback Program**
- 5. Enable Activity Based Compensation**

Key Takeaways

- **Clearly define your goals and objectives**
 - Establish a metric used to measure success
 - Track your progress
- **Communication (Strategic Message, the same at all levels)**
- **There are no short cuts**
 - Find a tool
 - Engineered Labor Standards, ELS
 - Pay for Performance

Conference Cloud

Additional Resources

- <http://www.inboundlogistics.com/cms/article/putting-labor-management-systems-to-work/>
- <http://blog.go4sight.com/2013/03/what-do-all-successful-labor-management.html>
- <http://blog.go4sight.com/2013/06/leveraging-technology-improving-dc.html>
- <http://www.qualitydigest.com/jul/gainshre.html>

The
Science
of **EDGE**

THE KNOWLEDGE TO MASTER THE NEW SUPPLY CHAIN

Questions



Material Handling & Logistics
CONFERENCE
SPONSORED BY DEMATIC

Win an iWatch!

Evaluate this session online!

www.mhlc.com/eval

Every evaluation provides us with valuable insight for future conference sessions. Each submission increases your chances of winning an iWatch.

