Seven Keys to Improving Foodservice Distribution Productivity

Reducing Labor Cost and Increasing Performance to Drive Margin Improvement

Achieve Supply Chain Excellence

TZA Workforce Performance Series

How Labor Productivity Can Impact Margins in Foodservice Distribution

Faced with a slow economy, industry consolidation, rising commodity costs and changing consumer tastes, foodservice distributors are finding themselves caught in a squeeze play between buyers and suppliers. The last few years have seen constrained budgets for major investments in new distribution facilities and material handling equipment, putting further strains on distribution operations.

Not surprisingly, many companies are looking for solutions that enable them to achieve greater throughput from existing facilities without major investments in automation.

While foodservice distribution is becoming more challenging and complex, corporate executives expect the logistics organization to make additional contributions to the bottom line by continually eliminating costs, yet often limiting capital for operational improvements.

In the face of these challenges, foodservice distribution executives are aggressively looking for alternatives that can help them drive out costs and increase throughput.

At the same time, customer service requirements continue to accelerate, with shorter cycle times and more challenging value-added service requirements. Compliance mandates and regulatory requirements only add to this pressure, requiring that many companies perform additional steps to order fulfillment processes.

The good news is that labor productivity improvements can substantially reduce fulfillment cost while increasing throughput and customer service. Better still, these results can be achieved with low risk and at moderate levels of investment that usually provide a return on investment in less than one year. In fact, productivity improvements in the range of 15% to 30% are possible–and commonly achieved.

Corporate executives now expect their logistics organization to make additional contributions to the bottom line by continually eliminating costs.

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Labor Productivity Initiatives Have Proven ROI

Labor costs represent half or more of a foodservice distributor's total spending. So applying labor management strategies can help achieve significant short-term savings and margin improvements. But productivity improvement should involve the intelligent application of three components:

- **Engineering** to determine the optimal operating methods and procedures and to develop appropriate performance standards.
- **Labor reporting software** to enable improved workforce planning and drive increased productivity through individual measurement of employees against fair, accurate standards, as well as other capabilities, such as workforce planning and tracking quality and costs.
- **Performance management** to ensure that the potential gains from productivity improvement initiatives are realized during and after implementation. This is achieved through appropriate training of supervisors and operators, and management of the cultural, operational, and supervisory changes required for a successful productivity program.

Despite the fact that productivity improvement initiatives have proven themselves in hundreds of companies, including many of the world's logistics leaders, many companies are still unfamiliar with the key underlying principles of these successful initiatives.

This report identifies and explains the seven most important keys to improving distribution productivity. These insights have been developed as a result of TZA's more than 25 years of successful experience helping foodservice distributors with productivity programs, enabling them to save millions of dollars in operating costs.

By adhering to these seven principles as part of a productivity program, companies can reduce distribution costs, increase throughput, and gain competitive advantage through performance and service leadership.

The Seven Keys to Productivity Improvement

1. Start With Individual Accountability

Overall productivity in the DC is ultimately based on the accumulation of individual performance across operators and tasks. Yet, very few companies do a good job measuring individual performance. Either they do not truly capture or use individual performance data at all, or they rely on static measures (such as order lines picked) that fail to take into account the specific attributes of the work individual operators perform.

Seven Keys to Labor Productivity Improvements
Start with individual accountability
Build standards based on the right methods and procedures
Maximize results by combining engineering and software
Focus management's attention on the details
Train operators and supervisors for success
Use incentives...but plan and execute them correctly
Utilize formal change management team and techniques

Productivity improvement starts with the notion of individual measurement and accountability. This involves both the use of measurement tools to accurately track performance at the operator level, and incorporate discrete, engineered standards that consider the specific characteristics of each individual task performed to measure operator performance against the fair and accurate goal times for that piece of work. Individual performance on each specific task is then combined to provide measurement and accountability across the appropriate time intervals (shift, week, month, etc.) for each employee.

This notion of individual measurement and accountability also applies as you move up through layers of management, especially for front line supervisors and warehouse managers.

Bottom Line: Companies that fail to measure and improve performance at the individual level will struggle to achieve meaningful productivity gains.

2. Build Standards Based on the Right Methods and Procedures

Standards based on sub-optimal distribution methods and procedures will miss significant opportunities for productivity gains. Yet many companies attempt to build standards on existing processes and methods without first

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carefully evaluating whether they are appropriate or could be improved.

To achieve maximum productivity gains, companies should look at three levels of analysis, engineering and improvement:

- Overall DC processes and material flows
- The specific methods used to perform each task
- Development of discrete standards for each task based upon the correct methods

Productivity improvement gains are enhanced if companies take time to first evaluate existing procedures and methods.

Even many experienced distribution professionals do not thoroughly understand the role and importance of improved methods. In most distribution centers, operators have not received training in the correct way to perform specific tasks, which results in different operators performing the same tasks in many different – and rarely the most productive – ways.

In reality, for each task there is a set of methods that provide the most efficient way to perform the task, while maintaining safety and quality. Fair and accurate standards, and related production rate calculations, can only be created if they are first based on the right set of methods.

Additionally, the ability to precisely forecast work requirements and to make a sound work plan for the shift or day against available resources, assumes that everyone understands and is able to apply the agreed methods and procedures for which they have been trained.

Bottom Line: Productivity improvement gains are substantially enhanced if companies first evaluate and improve existing procedures and methods.

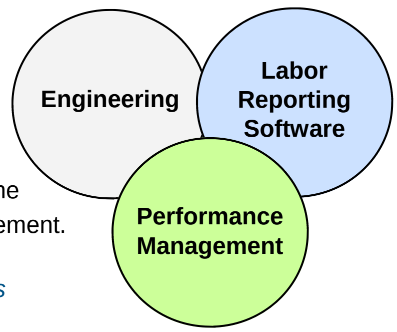
3. Productivity Can Be Improved Through Either Software or Engineering, but Results are Maximized When Both Are Utilized

As noted above, there are three key components to a productivity solution: engineering, labor reporting software, and management execution. Both engineering (the development of improved procedures and methods) and labor reporting software can drive improved distribution productivity by themselves. For example, companies can often gain 5% to 10% simply by re-engineering existing tasks with the correct methods.

Labor reporting software deployed without engineering support can also deliver improvement through use of such capabilities as resource planning, tracking of individual performance, quality tracking, support for incentive pay systems, and other functions.

However, performing the upfront engineering work to develop the right methods, using those methods as the foundation to build discrete standards, and then combining that work with labor reporting software that can dynamically calculate performance expectations based on those standards, clearly offers the largest opportunity for productivity improvement.

3 Essential Components of Labor Productivity Improvement



Bottom Line: Combining all three elements of a total productivity solution will lead to performance gains at the upper end of the potential range, often 20% to 30% improvement or more.

4. Focus Management's Attention on the Details

While clearly attainable, significant productivity gains are won and lost in the "trenches." This means that multiple levels of management must focus on the details of the program for it to deliver maximum success. Simply stated, while the right strategies and planning for improved productivity are important, successful program execution is what ultimately delivers the results.

Upper management's understanding and support is critical. Executives must focus their attention on the tremendous opportunity productivity programs represent. They must also provide the support needed for the project to succeed based on an appropriate understanding of the project scope, its success requirements, and ultimate goals. Lower level managers quickly perceive whether executives are knowledgeable about such project details, and regard that understanding as a key indicator of their interest and support.

It is also critically important that warehouse managers and front line supervisors understand not only the "what" of the productivity initiative (goals, program elements) but specifically how this transformation will happen and results will be achieved. This is essential for effective communication with the workforce and to gain their support and participation.

In a distribution environment, with the same basic tasks performed repeatedly over the course of a month or year, even very small gains (such as savings a few seconds on each order pick) can generate substantial total productivity gains.

Upper management's understanding, interest and support are critical to the success of any productivity program.

This focus on detail must be maintained in the actual on-going use of the system to achieve and sustain maximum improvement. Managers and supervisors need to learn to react quickly to the detail-level early warning signs of potential problems – employees struggling with performance pace or quality, the same recurring errors across several different employees, uncharacteristic delay patterns and so on – and act quickly through observations and counseling to pin down the problems and fix them.

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Bottom Line: Having each level of management comfortable with the details appropriate for their level of involvement can mean the difference between mediocre and outstanding results.

5. Train Operators and Supervisors for Success

There is a growing recognition of the essential role of high quality training in any supply chain improvement initiative. This is especially true in productivity programs, where training of operators and supervisors is fundamental to the very concept of the solution, both in conjunction with implementation of the system and on an on-going basis as it is used.

Initially, operators need to receive training on both the correct methods for each task, and to demonstrate their ability to execute each task at an acceptable level of skill and performance. Operators also require training in how to use the feedback they receive from labor reporting software, both regarding overall performance (each day/week) and in some cases in a near real-time mode (this set of tasks). As few companies have experience in training in both methods and use of this type of feedback, it is usually advisable to partner with firms that have deep experience in both.

Supervisors must also be trained in how to identify and manage individual performance issues. To sustain productivity levels, management needs accurate data and timely feedback on overall and individual performance. But most managers and supervisors will have developed their approaches primarily based on visual observation of employee activity, and generally non-timely data –if data is available at all–in terms of performance.

Using the new information tools from labor reporting software will usually require a new skill set that again is helped by working with a company with experience in how to train supervisors in productivity management, reporting and concepts.

The productivity solution should provide supervisors with a highly coordinated feedback mechanism capable of identifying operators who require training in specific areas. This system-generated feedback, combined with visual observation, will lead supervisors to recommend what type of additional training (e.g. how to properly apply the method) or coaching is needed to close the performance gap.

This focused approach to training has several benefits, which include not only maximum productivity improvement but also high levels of worker satisfaction with the program, and development of a process by which new operators (full time or temporary/seasonal) are much more easily integrated quickly and productively into the operation.

Bottom Line: Operator and supervisor training in methods and how to use the reporting data to close performance gaps not only drives improved productivity gains but also increases worker satisfaction and retention.

6. Incentives Can Work – But Only if Done Well

In an effort to increase distribution productivity, many companies gravitate towards operator incentives to increase individual performance. While incentives can often be a key part of an overall productivity program, it is critical that they are well planned and executed to avoid problems that outweigh the potential advantages.

It is essential that incentive programs first be built upon a solid foundation of procedures, methods and standards. It is virtually impossible to develop an incentive program that works for both the company and employees without this foundation – as many companies who tried have subsequently discovered.

When built upon the right foundation, well-executed incentive programs can increase overall productivity 10% to 15% above the significant gains achieved through methods, standards and labor planning software.

However, recognize that these gains are not without potential issues that must be considered before an incentive program is developed, including:

- Incentive programs can increase overall workforce management challenges.
- It is difficult and painful to later eliminate an incentive program – it soon becomes perceived as a “right” by employees.

Incentives should be considered as part of an overall productivity program, but the impact on the organization needs to be carefully evaluated.

- Incentives often do not translate well across work zones and job tasks.
- Incentives can cause conflicts among different work groups (pickers versus replenishers, day shift versus night shift, etc.).

Incentive programs are not to be embarked upon lightly, or as a simple fix to an overall productivity problem. They clearly have their place in distribution, but at the appropriate point in the productivity improvement lifecycle, and only then after the full impact of the incentive program is thoroughly understood.

Bottom Line: While incentives should be considered as part of an overall productivity program, their permanent impact on the organization and operators means they need to be carefully evaluated and executed with care.

7. Utilize Formal Change Management Teams and Techniques

Organizational change doesn't just happen. There is a proven approach to "executing the change" in productivity initiatives that enables realization of the improvement potential. Establishing formal teams is an important element of this process.

The change starts with a clear definition of roles between executives, managers, supervisors, operators, and any third party providers. Formal teams should be created in the areas of Communication, Learning, and Rewards. These teams must each address the current culture, past history of change initiatives, and any previous or expected resistance. The teams must clearly understand the organization's current status relative to the project goals and "future state" of operations. Teams should always include floor level personnel in addition to managers and supervisors.

The team's progress toward clearly defined goals must be reviewed in formal, scheduled ways–often daily.

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Too often, the potential gains of any initiative are not achieved due to a failure of change management. This is especially true in an area such as distribution productivity, which has an impact from the executive suite to the warehouse floor.

Bottom Line: Change management is critical to achieving productivity potential, and there are proven approaches to ensure the change is executed successfully.

Capitalize on Productivity Gains to Drive Margin Improvement

In an era of increased logistics pressure on foodservice distributors and significant need in most organizations to reduce or control costs while maintaining or improving customer service, productivity improvement programs often represent the highest payback, least risk opportunity to achieve these challenging goals.

Productivity improvement programs often represent the highest payback, lowest risk opportunity to address margin pressures.

Productivity improvement programs have proven their results in many companies, consistently delivering performance gains of 10% to 30%, and sometimes more. As described in this report, maximum results are attained from the intelligent application of three inter-related components:

- Engineering of procedures, methods and standards
- Labor reporting software
- Performance management

You should look for solution partners that have expertise, capabilities and experience in all three areas.

While the implementation of a productivity program is not trivial in scope, it is important to understand that the gains from these initiatives far outweigh the costs, and that "pains" associated with productivity initiatives are generally much lower than virtually every other logistics investment.

Remembering the seven keys to success will help to ensure your organization achieves the substantial results that performance improvement productivity programs consistently provide.

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3880 Salem Lake Drive, Long Grove, IL 60047

847.540.6543 | www.tza.com