Incentive-Based Pay for Supply Chain Associates:
“You Get What You Pay For”

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McCormick Place South | Chicago
March 23-26, 2015
promatshow.com

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• Incentive-Based Payment Programs
  – How do they work?
  – What are the benefits?
  – Considerations for implementation
Key Questions:

• Your work force: Are you getting what you’re paying for?
• What is the right compensation model?
  – Hourly wage
  – Group incentives
  – Individual incentives
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
How Do Incentive-Based Programs 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 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, POS, T&A, etc.)
Why Consider Incentive-Based Payment?

- 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
Why Consider Incentive-Based Payment?

- **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 $**
  - Hours, Percent of Standard, Delay Time, Units/Hour, Cost/Mile, Cost/Stop: what does this mean in $?
  - Work elements, delays, breaks, and productivity are easily represented in actual dollar values
Case Study:

- **The Problem**: a large wholesale grocer was facing a labor crisis
  - Rising labor costs
  - Falling productivity
  - High turnover

- **The Plan**: implement an incentive-based compensation program
• 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
Components of Incentive-Based Programs

• **Event Pay**
  - Applies to events that have a specific value: start of shift, paid breaks, end of shift, etc.

• **Unit Pay**
  - Applies to the production or key volume indicators of work: size of order, travel distance, equipment used, 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”
<table>
<thead>
<tr>
<th>Individual</th>
<th>Team</th>
<th>Business Unit</th>
<th>Company</th>
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<tbody>
<tr>
<td>Merit Pay</td>
<td>Bonuses</td>
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<td>Awards</td>
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<td>Piece-Rate or ABC</td>
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# Team Incentives: Pros & Cons

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<th>Pros</th>
<th>Cons</th>
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<tr>
<td>Fosters group cohesiveness</td>
<td>Free-ride effect</td>
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<td>Facilitates flexible workforce</td>
<td>Intergroup competition leads to decline in overall performance</td>
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<td>Reliably measures team performance</td>
<td>Social pressures can limit performance</td>
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<td>Encourages employee input</td>
<td>Protects low performers</td>
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<td>Increases cooperation through common goals</td>
<td>Management vs. labor conflict</td>
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<td>Subject to fewer measurements</td>
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## Individual Incentives: Pros & Cons

<table>
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<th>Cons</th>
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<tbody>
<tr>
<td>Individuals are goal-oriented</td>
<td>Tying pay to goals may promote a narrow focus</td>
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<td>Financial incentives can shape goals</td>
<td>Individual plans may work against corporate goals</td>
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<td>Plans can fit the culture</td>
<td>May promote inflexibility</td>
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<td>Performance reward is easily repeated</td>
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Plan Types

• **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)**
Considerations:

- Employee payout %
- Deficit reserve
- Maintenance of program
• **Non-ABC Job Pay**
  – Activities that do not have Engineered Labor Standards: 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

• 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

Complete Operational Excellence Program

Incentives Forecasts Planning

Tracking & Reporting Software

Labor Management Program

Best Practices

Change Management

Engineered Labor Standards

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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.
Q&A
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