

## ***The Challenge of Staffing Your Warehouse***

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*Editor's Note: A number of published sources inspired this article: Out of Our Minds — Learning to be Creative a 2001 book by Ken Robinson; Aberdeen group's "Contract Labor Benchmark Report" by J. Basili, C. J. Dwyer and S. Bharadwaj; a 2007 white paper by Prof. Robert B. Handfield of North Carolina State University, "Strategic Labor Management in a Mass Customized World," and, an article by Mary Aichlmayr, in the October, 2007 issue of Material Handling Management, titled "The Secret Workforce." KBA*

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### ***The Battle For Skilled People***

In the United States, as in much of the Western world, the gap between the availability of and the need for skilled labor is massive. The most acute shortages are supervision and other jobs requiring leadership and creativity.

A crisis in public education compounds the problem. Author Ken Robinson asserted that in the United Kingdom, 20% of the adults are functionally illiterate. At the same time, 21st century warehouse workers are expected to be computer literate. A lack of computer skills can result in serious consequences.

### ***The National Scene***

Before the 1980's, most logistics companies were organized by international unions, such as the Teamsters. At that time, a transition began to a union-free environment. The following events stimulated the dramatic change:

- Deregulation of common carriers.
- The breaking of the PATCO strike.

The common carrier industry had been regulated by the federal government ever since the passage of the Interstate Commerce Act, during the 1880's. Hailed as the first consumerist legislation in the history of the United States, by the 1970's the ICC was under attack by Ralph Nader and others, as an oligopoly that created protective pricing for the carriers, unreasonable wages for workers, and guaranteed jobs for government bureaucrats and lawyers.

Since deregulation, prices for transport have declined and carriers have been under increased pressure to control their costs.

The 1981 strike of the Professional Air Traffic Controllers (PATCO), was the most significant labor dispute of the 20th century. Ronald Reagan won the 1980 election with support from organized labor, including the Teamsters, who hoped that he would reverse the move toward

deregulation initiated during the Carter administration. Reagan, former president of the Screen Actors Guild, was believed to be a friend to unions; however, he took a firm stand against PATCO's illegal strike and used military traffic controllers to maintain control while replacing the strikers. The long-standing alliance between union leaders and the federal government was over. The changing climate at the National Labor Relations Board enabled non-union companies to remain union free. The competitive environment in motor and air freight increased the difficulty of survival for unionized carriers. New union-free carriers expanded rapidly, while older union carriers died on the vine.

The majority of present day logistics service providers are union free, and nearly all want to remain that way.

### ***Increased Labor Requirements***

The search for skilled warehousing employees is aggravated by an increase in the amount of touch labor needed in many warehouses. Mechanization has reduced the amount of labor needed for conventional materials handling, but far more labor is required in those distribution centers that provide fulfillment services than was needed for bulk warehousing.

In addition to handling smaller, more difficult shipments than in the past, warehouse operators now are asked to provide a wide variety of value added services, including price marking, repackaging, package filling and even final assembly of the product. Additional labor is needed to support those services.

In order to provide competitive customer service and to fully utilize real estate assets, an increasing number of distribution centers are operating on a multi-shift basis, with many running on a 24/7 schedule. These schedule changes have resulted in a need for more labor per square foot of warehouse space than in the past.

### ***Using Contract Labor***

In a study of staffing services users by the Aberdeen Group, the benefit most frequently mentioned was flexibility to add to and reduce the workforce. In the warehousing industry, flexibility has always been a high priority, because distribution centers are called upon to meet wide variations of demand. While the cost of contract labor is significant, respondents ranked it sixth, and then considered only benefit costs.

The staffing service must maintain a margin between the price of labor and the selling price. That margin, or markup, covers not only profit, but the cost of recruiting, benefits, and withholding taxes. The markup used by most temporary labor staffing agencies, is 28 to 40%.

In the study, ability to provide the best match of skills to requisitions was ranked highest as the criterion for choosing staffing services. In other words, quality was more important than price.

The second most important criterion was compliance tracking, which includes background checks, compliance to federal labor standards, legal status for immigrant workers, and ongoing drug testing.

Nearly all users of contract labor reported a savings, with most ranging from 5 - 8%. Some reported a savings of more than 19%.

### ***The “Temp To Perm” Benefit***

The fifth most popular benefit found in using contract labor was the right to hire outstanding temporary workers as full-time employees. The majority of companies using staffing services have negotiated the right to hire workers, usually by paying a placement fee to the labor provider. In effect, the “temp to perm” tactic greatly reduces the risk of hiring an undesirable worker, because management is able to measure the quality of each worker before deciding whether or not to hire.

### ***A Hidden Source of Workers***

Millions of potentially productive and loyal workers are overlooked as part of the labor force, because they have a disability. Yet, these disabilities do not disqualify them from performing some jobs needed in distribution centers. Blind, deaf or mentally handicapped individuals often can learn repetitive tasks, such as packaging, kit-ting, or light assembly.

While direct recruitment of handicapped workers is possible, social agencies such as Goodwill Industries operate sheltered workshops, and provide staffing services for the handicapped.

### ***The Piecework Option***

Some workers are paid according to the number of units that they produce. This was common practice in the garment industry a century ago, and, in developing countries, such as India, piecework compensation is found frequently in warehousing. In the trucking industry, many long haul truck drivers are paid by the mile, which, in effect, is piecework.

In the warehouse, an early use of piecework was the hiring of specialists for loading or unloading, commonly known as lumpers. The lumper was frequently hired by a truck driver wanting to avoid the work involved in handling floor loaded (unpalletized) cargo, or by warehouse management, for the same reason. Any cargo that cannot be palletized efficiently, such as tires, is likely to be loaded or unloaded by lumpers. These people always are paid piecework.

A new use of piecework is offered by some staffing services. These workers go beyond the loading and unloading of cargo, filling nearly every job in the warehouse. Piecework rates are established for put-away, order pick-

ing, cross docking, re-warehousing, cycle counting and virtually every other task performed in the distribution center. The staffing service pays workers on a piecework basis, and charges the client on the same basis, plus a suitable markup.

If the piecework rate is too low, a diligent worker cannot make a good living and will not stay on the job. If the rate is too high, neither the staffing service nor the warehouse operator can be competitive. Ideally, the piecework rate enables a very productive worker to earn an above average income, and the price allows the warehouse operator to get the work done for less than the cost of hiring full-time staff.

However, the engineering work must be flexible as well as precise. Changes in product, alterations of average order size, or new shipping requirements will change the labor content in any warehouse. When conditions change, the piecework rate may require adjustment.

### ***Supervision and Piecework***

A key role for the warehouse supervisor is to monitor labor productivity. With piecework, the responsibility for productivity is transferred from management to worker, and there is no need for the supervisor to act as “straw boss.” Conventional warehouse productivity measurement may no longer be necessary.

No staffing service that we interviewed was willing to take responsibility for inventory control. Responsibility for quality is limited, and, to some extent, the worker who is paid for output may become more interested in speed than in quality performance. The job of supervisors changes when piecework pay is utilized. Some users of piecework compensation report that picking errors decreased after the service was installed.

### ***Hedging the Risk***

The wholesale distributor or logistics service provider who installs a piecework system, removes one of the biggest risks in warehousing, the possibility that the rate budgeted for materials handling will be lower than the actual cost of getting the job done. In effect, the risk is transferred from the warehouse operator to the staffing service and its workers.

While some risks are hedged, new ones are created. For example, if there is pilferage or mysterious disappearance, the staffing service will not assume liability. House-keeping is a quality barometer, and workers who are paid on piecework may not maintain a neat workplace.

### ***The Future of Staffing***

Changes in demographics dictate corresponding changes in the workforce. Managers will find it increasingly difficult to attract and retain high-quality, hourly workers for their warehouses. Staffing services offer one potential solution, and hiring handicapped labor, with or without a staffing service, is another option.

Finally, the use of piecework through a staffing service offers unique advantages by hedging the risk of poor productivity, and/or inaccurate engineering and pricing.

# ***KEN'S COMMENTS***

## ***Do You Have A Talent Factory***



In a survey of human resources executives from 40 companies around the world, we learned that nearly all have an insufficient pipeline of high potential employees to fill key roles. We frequently ask senior managers if they have, in-house, the manager who will operate their next distribution center. Relatively few respond positively, asserting that it is too expensive to have future site managers on the payroll. In assessing your growth capability, consider these questions:

- Do you know what skills your company needs to execute its growth objectives?
- Do you have a process for identifying the next generation of leaders?
- Do you have a development program, or high potential leaders?
- Do you hold your managers accountable for identifying and developing undiscovered talent among their direct reports?

Many executives claim that people are their most important assets, yet, they neglect the development process.



## ***Disability Development***

It is obvious that certain disabilities are not incompatible with productive work in a warehouse. We visited a shoe distribution facility in which the services of employees who are deaf mutes were utilized for order selection. These individuals were perfectly capable of doing everything involved in picking orders. The only special precaution needed was to make certain that lift truck operators

were particularly careful, since the individuals could not hear the approaching trucks. Recently, we read that Walgreens is building distribution centers in South Carolina and Canada that were designed to set aside one third of the jobs for disabled workers.

Developments of this kind are not an act of charity: Even when the labor market is not full, disabled people are an excellent source of reliable and productive workers. Furthermore, these employees are likely to stay with the company, rather than seek other employment. Depending on the nature of the disability, there are many warehouse jobs that can be effectively handled. If you are finding it difficult to locate dependable workers, it's time to take a look at this alternative.



## ***Saving Money Versus Building Business***

Sadly, the history of the logistics industries is a story about cutting costs. When transportation was regulated by the federal government, the primary emphasis in all logistics management was a search for lower prices.

This should have changed as transportation gradually was deregulated after 1980, but old habits are difficult to change. Fortunately, the progressive people in the logistics business recognize that supply-chain management is more than saving money: It is about building business. A logistics service provider with an innovative service can help customers offer services that were not previously available, resulting in new sales, as well as attractive pricing. When the sole emphasis is price, any product or service becomes a commodity. Commodity buyers usually award contracts to the lowest bidder. We admire those logistics service providers who recognize that quality is more important than price, that innovation is more important than mere availability, and that continuous improvement is a necessary part of 21st-century corporate culture.

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# ***WAREHOUSING TIPS***

## ***Planning for Disaster***

Not long ago, we accepted the responsibility to moderate a wholesaler/distributor panel of executives who had suffered a variety of disasters, ranging from hurricane Katrina to fire and flood. The single refrain repeated by every participant was the regret that their company had not planned for an emergency in advance. Each of these people now has an emergency plan in place, and they urged members of the audience to develop one for themselves.

One sample emergency plan contains the following sections:

- The plan to stay in business includes an alternate location, if the primary one is not accessible.

Primary and secondary emergency contacts are provided, as well.

- Listed in the disaster preparedness plan are the people who participate on the emergency planning team, and a prioritized list of critical operations.
- Included in the business continuity plan, are lists of suppliers and contractors together with alternate sources.
- The same plan has another page that provides a detailed evacuation plan, as well as a shelter-in-place plan.
- On a communications page, ways of contacting co-workers, and the process for protecting computer hardware and software backups, are outlined.
- Finally, employee emergency contact information is listed.



# WAREHOUSING DIGEST

*The best of other warehousing literature is reviewed and summarized to help you save time keeping current.*

## The Chief Strategy Officer

By R. T. S. Breene, P. F. Nunes, & W. F. Shill, *Harvard Business Review*, October 2007, pg 84.

One of the nagging challenges in strategy development, is getting people to adhere to the strategic rules that have been developed. Does anybody in your organization have the authority to say, "What we've been doing isn't in line with the company's strategy, and we need to fix that?" While every CEO has the ability to do so, most are unwilling to spend their time enforcing the rules. The chief strategy officer must be a person who is trusted deeply by the CEO, but also a master of multitasking. That person is a doer, not just a thinker; an influencer, but not a dictator. Above all, the CSO must be perceived as objective.

## Solve The Succession Crisis

By Joseph L. Bower, *Harvard Business Review*, November 2007, pg. 91.

In a recent poll of large US companies, it was revealed that 60% of the respondents have no succession plan for the chief executive officer. As a result, when replacement of the CEO is necessary, they are forced to look outside the company. Those companies that manage it well, recognize that succession is a process, not an event. The article includes a list of questions that should be asked by any executive who intends to become a company leader. Some of the questions are asked at recruitment, while others should be asked after starting the job. For example: "Why are you being hired?" Is it just the job for today, or is there a career path?

## Dousing the Flames

WERCsheet, July/August 2007, pg. 6.

This review of fire safety issues is based on interviews with experts from insurance and risk management professionals. Even storage of low risk materials, such as metal parts, creates a hazard because of cardboard packaging. Steel structures will begin to lose strength, and possibly collapse at 600°C, a temperature that can be reached within 10 minutes of a fire taking hold. Common fire risks include:

- Use of solid shelving in storage racks.
- Changes in commodities stored.
- Changes in storage containers.
- Changes in layout.
- Bulk storage of empty pallets.

The importance of competent inspection was emphasized. Major insurance companies employ fire protection engineers who perform such inspections. Another source is the Society of Fire Protection Engineers ([www.sfpe.org](http://www.sfpe.org)).

## Lean To A Fault?

By Steven A. Melnyk, *Supply Chain Quarterly*, Q3 2007, pg. 29.

At a time when "lean" has become a favorite business buzzword, Professor Melnyk has the courage to suggest that, carried to extremes, lean can be hazardous to a corporation's health. He suggested that slack, as well as lean, should be part of a healthy corporation. Slack is needed for innovation, to compensate for failures, and to reap the benefits of a very successful product introduction. He fears that emphasis on lean will stifle necessary innovation.

## Selecting Warehouse Software (second edition)

By Phillip Obal, ©2007, 203 pages spiral-bound, available at [www.idii.com](http://www.idii.com).

This publication continues to be the best available source of information about warehouse software. The second edition is an improvement over the first with a 55 page addition, and new material including diagrams and pictures in every chapter. A chapter about implementation has been added. Warehouse operators who are considering the purchase of new software need to study this book.

## Don't Get Mad – Get Even (Tempered)

By Mark Taylor, *Parcel*, September 2007, pg. 34.

This thought-provoking article is focused on the challenge of anger management. The best tactic may be to "call a timeout." Author Stephen Covey advises people to "begin with the end in mind," and believes that the ideal outcome must be one in which problems are resolved with dignity and respect.

## Three Avenues to Cost Reduction

By Patrick Penfield, *Supply Chain Management Review*, November 2007, page 30.

The author, a professor at Syracuse University, illustrated how all cost-cutting can be divided into three areas:

- Material cost reduction.
- Process cost reduction.
- Overhead cost reduction.

Descriptions and examples are provided to show how each type of cost reduction is handled in the supply chain. For example, the author suggested that overhead costs could be controlled by using temporary workers and reducing the full-time employee workforce, with its higher benefits cost.