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Realistic Solutions For Success

What are the Critical Characteristics of a Good Labor Management System (LMS)?

First, the system should be flexible. It should not require an operation to make changes to daily work practices to accommodate the system. It should allow each operation to use its own unique organizational structure, terminology, work determinant names, work function names, etc. This ensures that the system provides meaningful data and reports and is a useful tool, not just a burden.

Second, the system should allow customizable reporting. There will likely be managers on numerous levels using the LMS data for a multitude of reasons. Budgeting, staffing projections, cost accounting, and daily operational management, may all require different types and levels of reporting detail.

Third, the LMS should be easy to use and easy to maintain. A good system will allow information to be imported from other systems, such as Time Clock, HR, Warehouse Management and Laboratory Management. It should also allow manual data entry and be user-friendly.

Fourth, a good LMS should generate timely, and significant information that allows management to do their jobs better, more easily, and more effectively. Many software packages on the market look great and give a good first impression, but when it comes down to it, many of them do not really provide any significant added value to an operation. Most systems force users to adopt their nomenclature, require users to download data for custom reporting or even charge a premium to make adjustments for such things as Unit of Measure (UOM) or terminology.

A fundamental management reality is that you can't manage what you can't measure. With a LMS you CAN measure the performance for individuals, departments, shifts, facilities, managers, etc. People prefer to be measured against tangible, objective measurements (such as Engineered Standards) rather than a historical or subjective measurement that can change from day to day.

If an operation has self-paced individuals performing routine, manual tasks, and if management would like to improve their ability to manage and optimize their operations, a Labor Measurement System could be an impactful and important tool that fosters individual accountability. Implementing the right LMS, supported by management's buy-in, will typically achieve a reduction in labor cost of 5% - 10% by merely providing consistent performance feedback and staffing appropriately.

A LMS, when implemented in conjunction with the other components of a Productivity Improvement Program (Best Practices, Performance Measurements, Accountability and Performance Coaching), can help management make dramatic improvements in performance levels. For example, typical Distribution Center savings are between 30% and 40%

Other Considerations

Coaching: A LMS can set up alerts for managers to identify individuals who may need assistance in achieving performance expectations and schedule a coaching session designed to help them improve their performance. Since a "rising tide lifts all ships" an effective coaching program can increase an operation's overall performance by improving the performance of those who are not meeting expectations, and foster improved relationships between associates and managers.

Forecasting/Labor Planning: An effective LMS will be able to provide management with information necessary to forecast the labor required to address anticipated growth related or seasonal volume increases and/or potential

decreases. The system should provide the ability to change volume, performance and utilization levels to accommodate volume changes so that you have the right amount of labor to get the job done.

- Volume:
  - Be able to adjust historical data:
    - For a specified period of time
    - By a specified amount or on a percentage basis
  - Be able to specify a projected volume
- Performance & Utilization: When hiring untrained associates to address a volume increase, the forecasting functionality should enable you to change the overall expected performance and utilization levels. Such changes would take into consideration that untrained associates will not likely perform at the same level as experienced associates and therefore provide you with a better estimate of the resource requirements to handle the volume change.

Cost-to-Serve: A LMS can provide information that can be used to determine the Cost-to-Serve. It has the data for every transaction, employee, customer and function, which when combined with employee wage data, can provide cost-to-serve for any aspect of an operation. Such an analysis can be used to determine opportunities to invest in to improve performance, evaluate pricing and determine the profitability profile of customers.

Pay for Performance (PFP): A LMS, in conjunction with fair and accurate performance measures, makes it possible to bridge the wage gap and increase recruiting and retention by offering an incentive or pay for performance program to engage associates, achieve higher levels of productivity and reward them accordingly. A PFP program "incentivizes" individual and team efficiency and productivity and encourages a culture of continuous improvement from which both associates and the company can benefit.

A properly structured program directly and proportionately rewards associates for their performance for the individual work they do and over which they have control. Another hallmark of a successful program is that it is self-funding. The savings realized through improved performance are shared by the company and the associates. Argent can help develop and implement an effective PFP program.

CAUTION: A PFP program should be implemented only after the following:

- Associates have been trained to use, and are using, Best Practices,
- Fair and accurate performance measures (preferably Engineered Standards) have been developed and implemented, and
- Managers have been trained to effectively use the LMS to monitor performance and manage the PFP program.

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