

# The Labor Development Group

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## **ENGAGING ASSOCIATES & UNLEASHING PRODUCTIVITY:**

### **Getting More With Less**

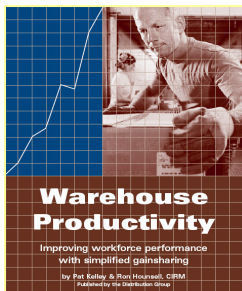
for

### **Will County Transportation & Logistics Council**

May 15, 2007

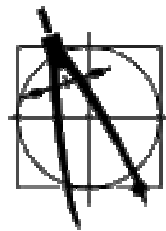
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# QUANTUM PHYSICS

THE  
SPACE/TIME  
CONTINUUM

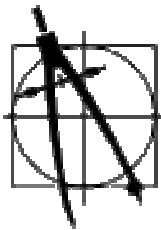


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# SPACE/TIME CONTINUUM

HOURLY ASSOCIATES  
OCCUPY A COMPLETELY  
DIFFERENT DIMENSION  
OF TIME



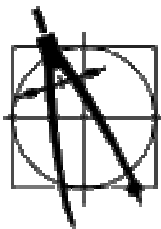
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# INDUSTRY TRENDS

- The primary driver of logistics change remains cost
- In 2006, only 38% of companies in the survey were able to reduce costs
- Personnel retention is also among management's most pressing ongoing problems - ranked 4th

Wm. Drumm, CEO, Establish Inc., 9/2006



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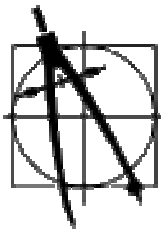
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# INDUSTRY TRENDS

- COSTS ARE UP FOR THE FIRST TIME SINCE 2001
- LOGISTICS COST AS A % TO SALES = 9.1% IN 2006
- WAREHOUSING COST AS A % TO SALES = 1.52%
- LABOR = 55% OF THAT COST \*

Wm. Drumm, CEO, Establish Inc., 9/2006

NOTE: This DB includes manufacturing operations. For traditional DC operations, 65% is probably more accurate.



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# RECENT SURVEYS

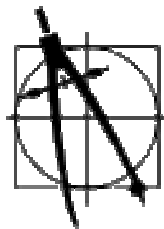
75% COULD DO MORE \*

50% JUST GET BY \*

19% ARE ACTIVELY DISENGAGED \*

40% OF HOURLY EMPLOYEES SEE THEMSELVES  
AS SIGNIFICANTLY UNDERPAID  
(UP FROM 18% IN 2005) \*\*

\* Gallup \*\* Pew Research



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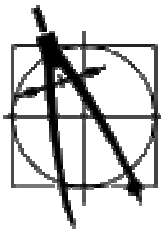
# **BOREDOM FACTOR**

**\$300 BILLION**

APATHY PENALTY  
PER YEAR

YOUR COMPANY'S SHARE:

**\$??? MILLION**



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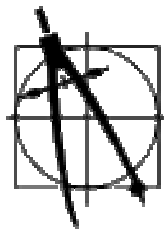
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# HAVEN'T WE ALREADY DONE THIS?

- ENGINEERED LABOR STANDARDS
- TRADITIONAL GAINSHARING
- KAIZEN

ALL IMPOSED FROM OUTSIDE

ALL ESTABLISH A MINIMUM EXPECTATION



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# ENGAGING ASSOCIATES

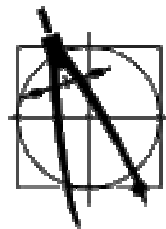
IT'S

ALL

ABOUT

**INDIVIDUAL**

**MOTIVATION!**



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# **SIMPLIFIED GAINSHARING COMPONENTS**

IT'S SIMPLE

PLUG & PLAY

INDIVIDUAL INCENTIVE

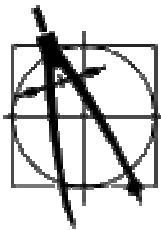
SLIDING SCALE, NO CAPS

HOURLY WAGE, NOT A LUMP SUM

FORMULA:

ONE-THIRD TO THE ASSOCIATE,

TWO-THIRDS TO COMPANY



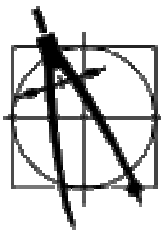
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# **SIMPLIFIED GAINSHARING COMPONENTS**

**\$16** LOADED PER HR

**5% GAIN** = 80 CENTS SAVING  
= 25 CENTS GAINSHARE  
(31.25% TO THE ASSOCIATE)



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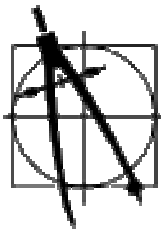
# **SIMPLIFIED GAINSHARING COMPONENTS**

**\$16** LOADED PER HR

BANSHEES WILL DOUBLE RATE

= **\$4** GAINSHARE FOR A **\$32** PERFORMANCE

(25% TO THE ASSOCIATE)



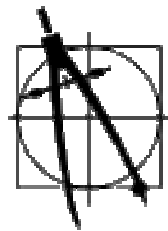
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# **SIMPLIFIED GAINSHARING COMPONENTS**

WHAT IS THE TOP OF HUMAN POTENTIAL

PETE THE PIPE GUY

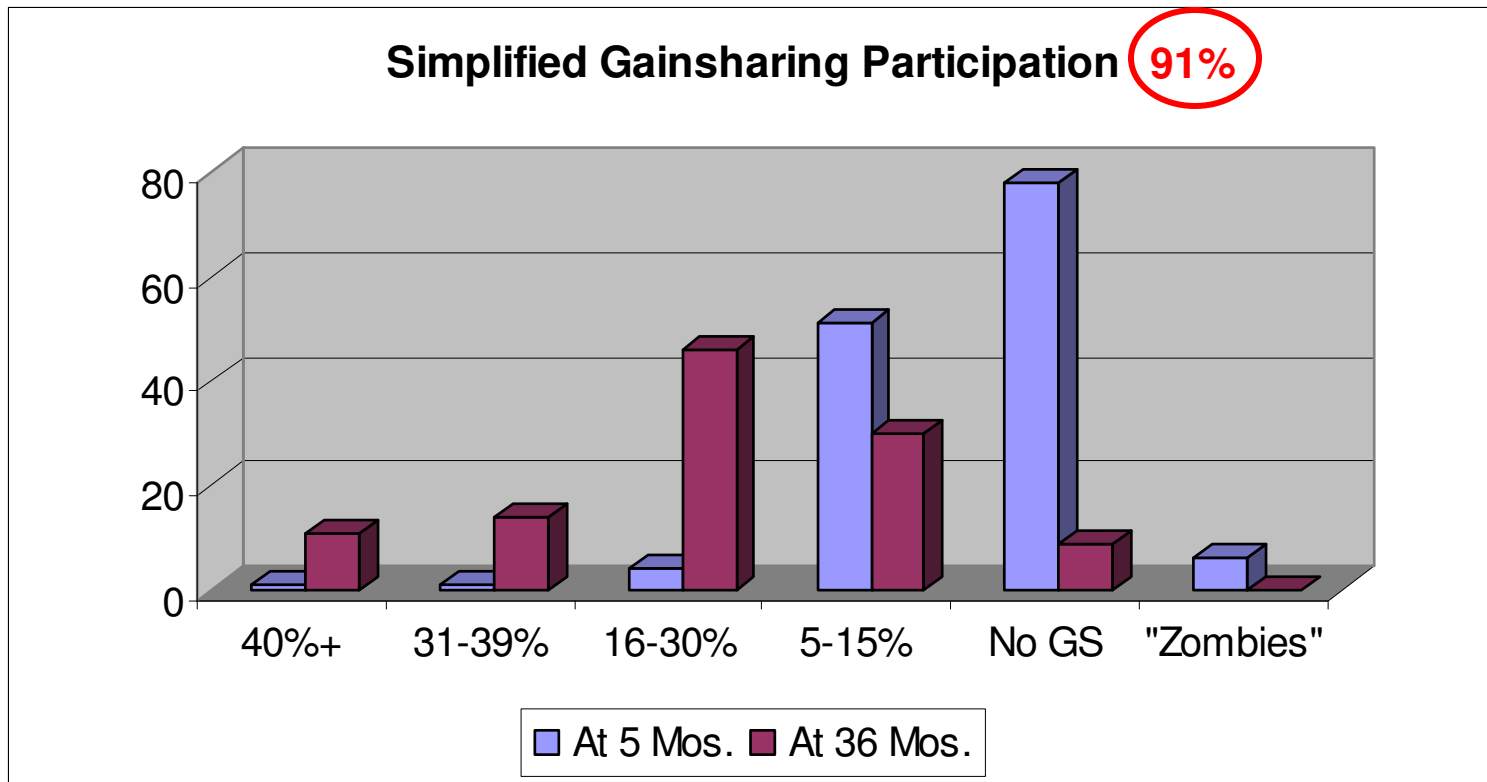


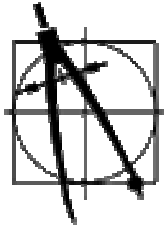
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# FANTASY WORKFORCE

PARTICIPATION	40%+	31%-39%	16%-30%	5%-15%	None	Z	Total
FIVE MONTHS AFTER INSTALLATION	1	1	4	51	78	6	141
THREE YEARS AFTER INSTALLATION	11	14	36	30	9	0	100
NET CHANGE	10	13	32	-21	-69	-6	-41





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## **REAL LIFE EXPERIENCE**

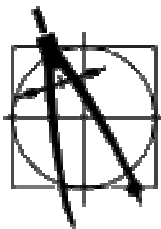
FORMAL GAINSHARING INSTALLS - 25 DCS

SIMPLIFIED GAINSHARING INSTALLS - 19 DCS

ACROSS 5 DISTRIBUTION NETWORKS

# TYPICAL SG RESULTS

<b>Participation</b>	<b>Percent FTEs</b>
<b>Month 1</b>	<b>5 - 10</b>
<b>Month 3</b>	<b>20 - 30</b>
<b>Month 12</b>	<b>50 - 60</b>
<b>Month 18</b>	<b>60 - 65</b>

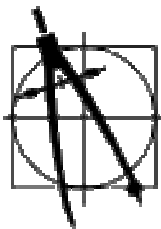


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# BLIND SAMPLE MONTH – DC IN 2<sup>ND</sup> YEAR

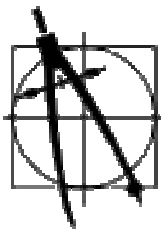
CLASS	GAINSHARES	HRS SAVED	\$\$\$SAVED	\$\$\$ TO COMPANY
ORDERFILLING	\$7,440.00	1,528	\$26,286.49	
RECEIVING	\$2,520.00	504	\$8,670.41	
STOCK PUTAWAY	\$4,160.00	776	\$13,349.68	
SHIPPING	\$6,840.00	1,368	\$23,533.98	
NON PROD	\$2,988.80	1,148	\$19,749.27	
OFFICE	\$1,227.20	245	\$4,214.78	
QUALITY	\$4,960.00	--	\$23,250.00	
<b>TOTALS</b>	<b>\$30,136.00</b> (25.3%)	<b>5,569</b>	<b>\$119,054.61</b>	<b>NET: \$88,918.61 (74.7%)</b>



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# BLIND SAMPLE DC – ANNUALIZED

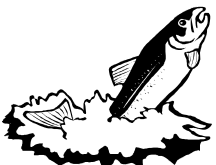
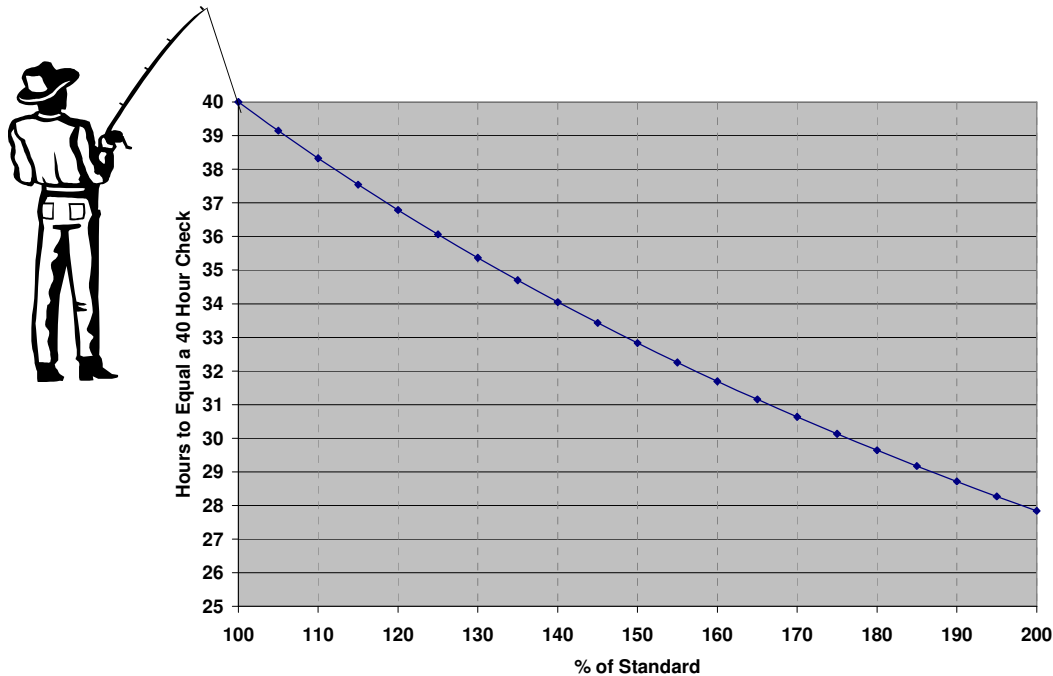
GAINSHARES	HRS SAVED	\$\$\$SAVED	\$\$\$ TO COMPANY
\$361,632.00 (25.3%)	66,828  32.13 FTEs	\$1,428,855.32	NET: \$1,067,223.32 (74.7%)



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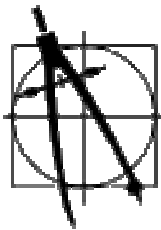
# DRIVE OUT HOURS

- APPROVE ONLY PROJECTS WITH CLEAR ROI
- USE FREE TIME
- TAKE ADVANTAGE OF ATTRITION



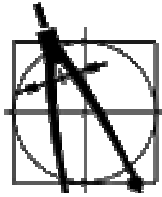
# **SIMPLIFIED GAINSHARING COMPONENTS**

BUYOUT  
MECHANISM



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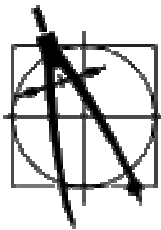
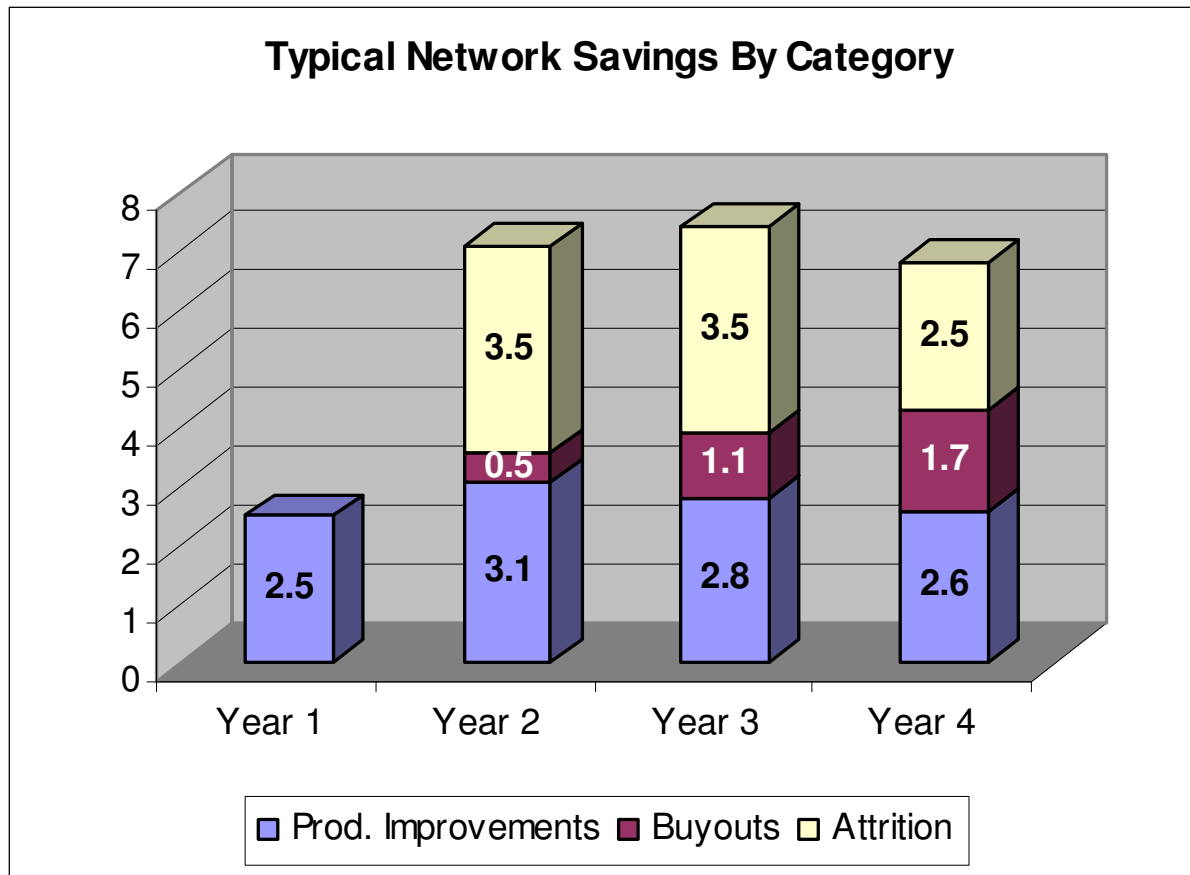
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## RESULTS PROJECTIONS

DEPT	# FTEs	Loaded Wage	Annual Payroll *	Guarantee	PROJECTED		
					Year 1	Year 2	Year 3
				<b>65.00%</b> <b>\$2,500</b>	<b>60.00%</b> <b>\$3,500</b>	<b>70.00%</b> <b>\$4,000</b>	<b>75.00%</b> <b>\$4,500</b>
Receiving	9	\$13.00	\$243,360	\$14,625	\$18,900	\$25,200	\$30,375
Putaway	5	\$13.00	\$135,200	\$8,125	\$10,500	\$14,000	\$16,875
Replenishment	4	\$13.00	\$108,160	\$6,500	\$8,400	\$11,200	\$13,500
Orderfilling	25	\$13.00	\$676,000	\$40,625	\$52,500	\$70,000	\$84,375
Shipping	11	\$13.00	\$297,440	\$17,875	\$23,100	\$30,800	\$37,125
Indirect	0	\$13.00	\$0	\$0	\$0	\$0	\$0
SUBTOTAL	54		\$1,460,160	\$87,750	\$113,400	\$151,200	\$182,250
Clerical	10	\$13.00	\$270,400	\$16,250	\$207,900	\$277,200	\$334,125
<b>T. HEADCOUNT</b>	<b>64</b>						
			\$1,730,560				
TOTAL SAVINGS				\$104,000	\$321,300	\$428,400	\$516,375
PERCENT TO CURRENT PAYROLL					18.57%	24.75%	29.84%
* ANNUAL PAYROLL CALCULATION INCLUDES NO OVERTIME.							

# PROJECTED RESULTS

(1,000 FTEs, \$000,000)



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# SIMPLIFIED GAINSHARING

SINCE THE INSTALLATIONS BEGAN IN 2000:

## PRODUCTIVITY

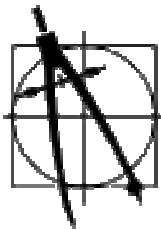
619 THRUPUT IMPROVED TO 1,056 RUN RATE **(+71%)**

## QUALITY

.81 IMPROVED TO .49 **(+40%)**

## TURNOVER

46.2% IMPROVED TO 6.1% **(+87%)**

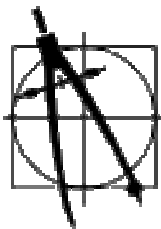
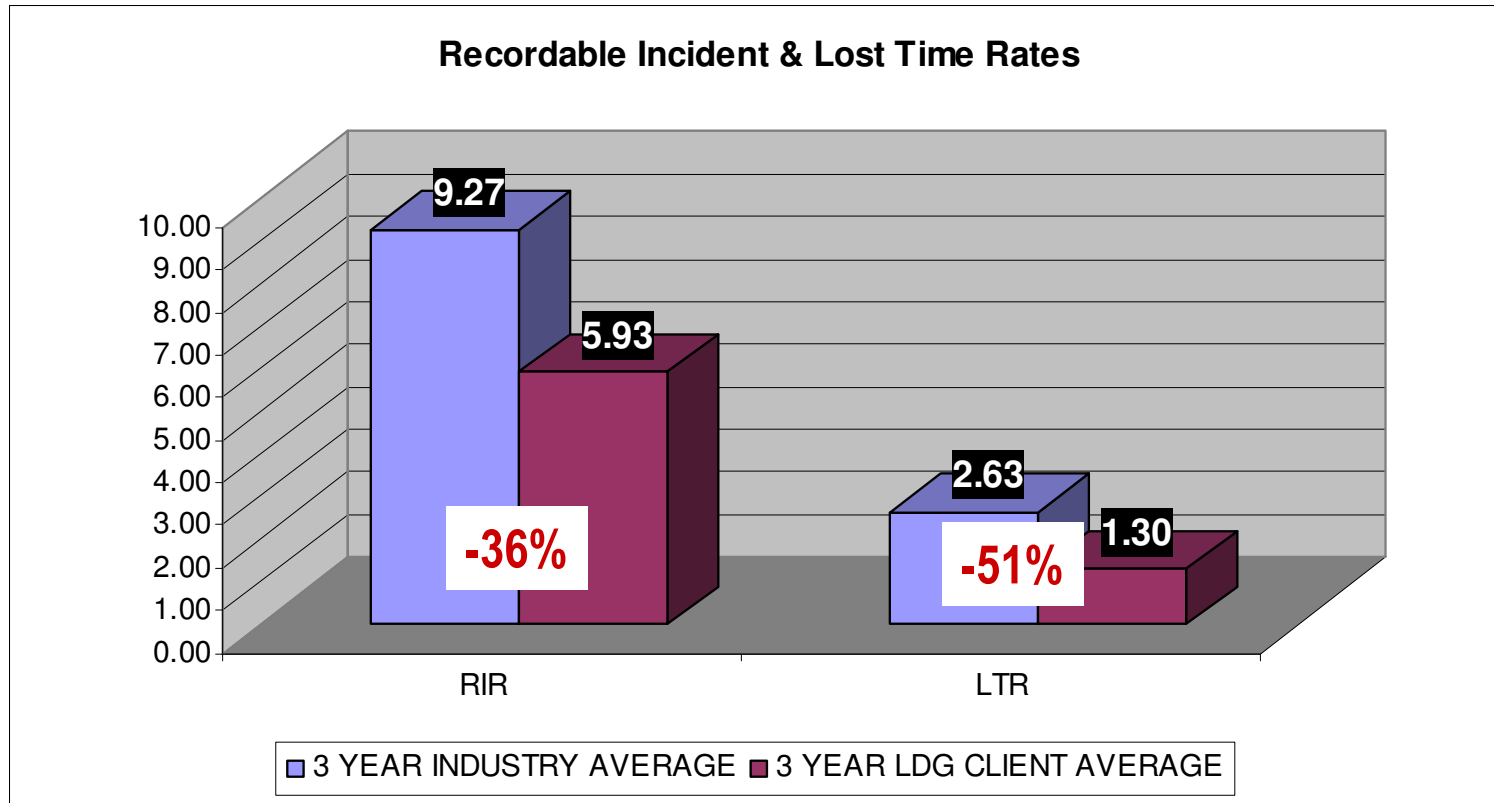


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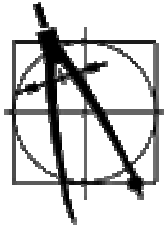
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# SIMPLIFIED GAINSHARING SAFETY

-  
3  
6



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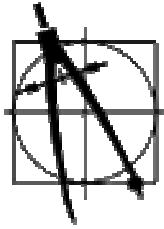


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## **A CAUTIONARY TALE**

- Strong local manager
- Motivated work force
- Good reporting system
- 18 months of improvement under ELS
- Good corporate support

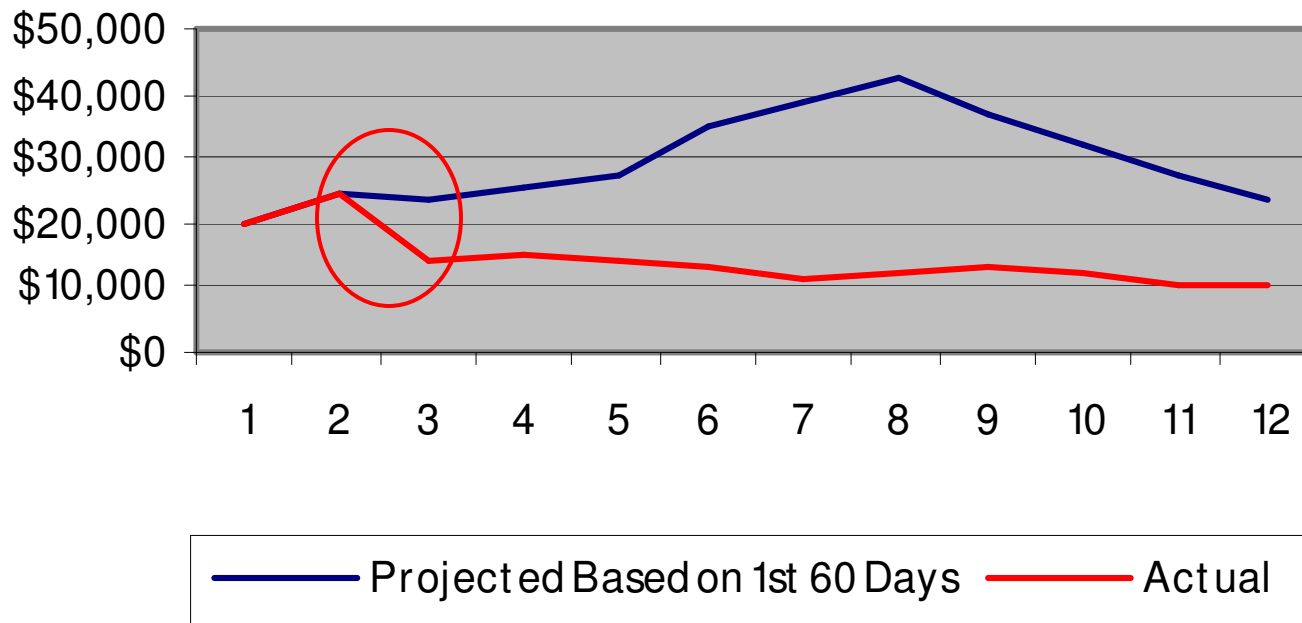


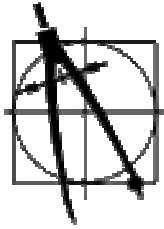
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## A CAUTIONARY TALE

### Net Savings Comparison

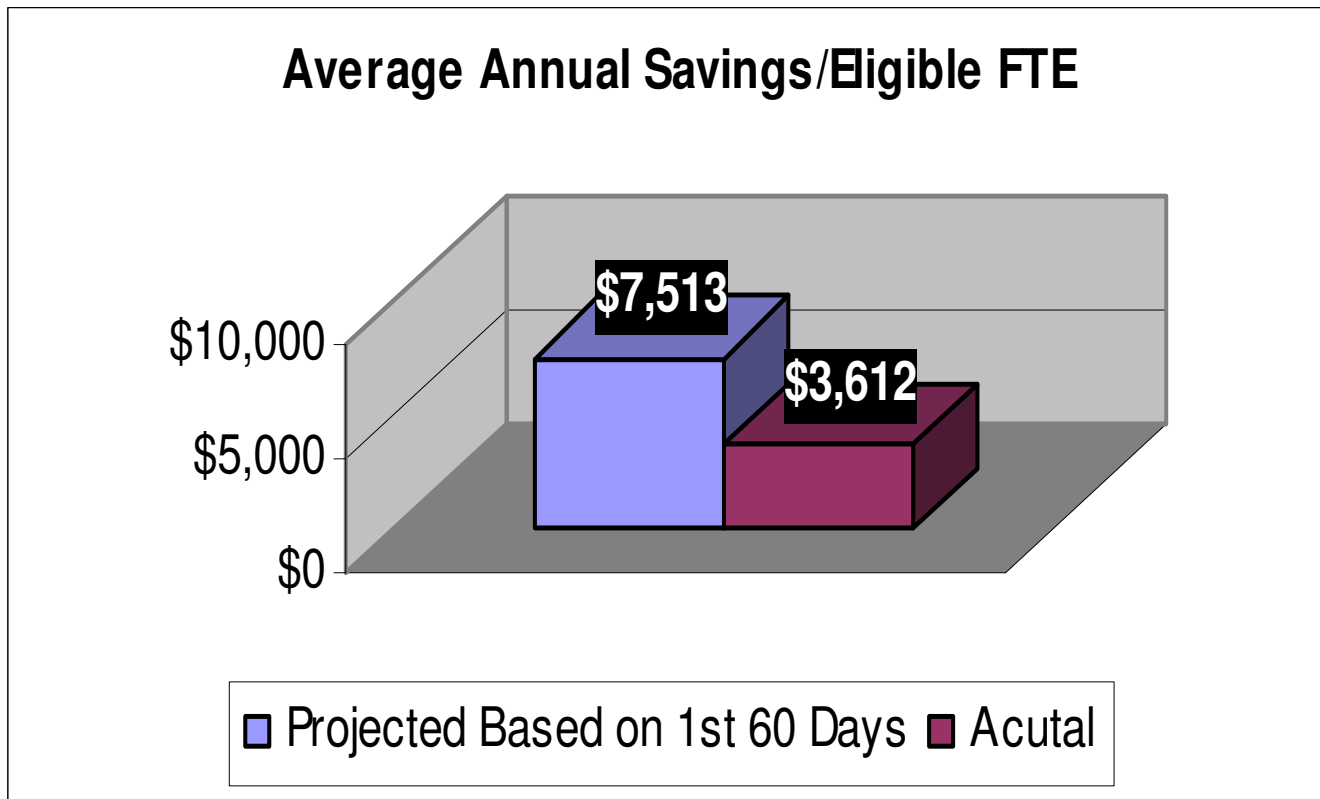


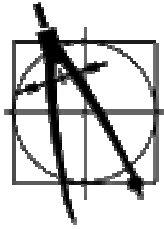


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## A CAUTIONARY TALE

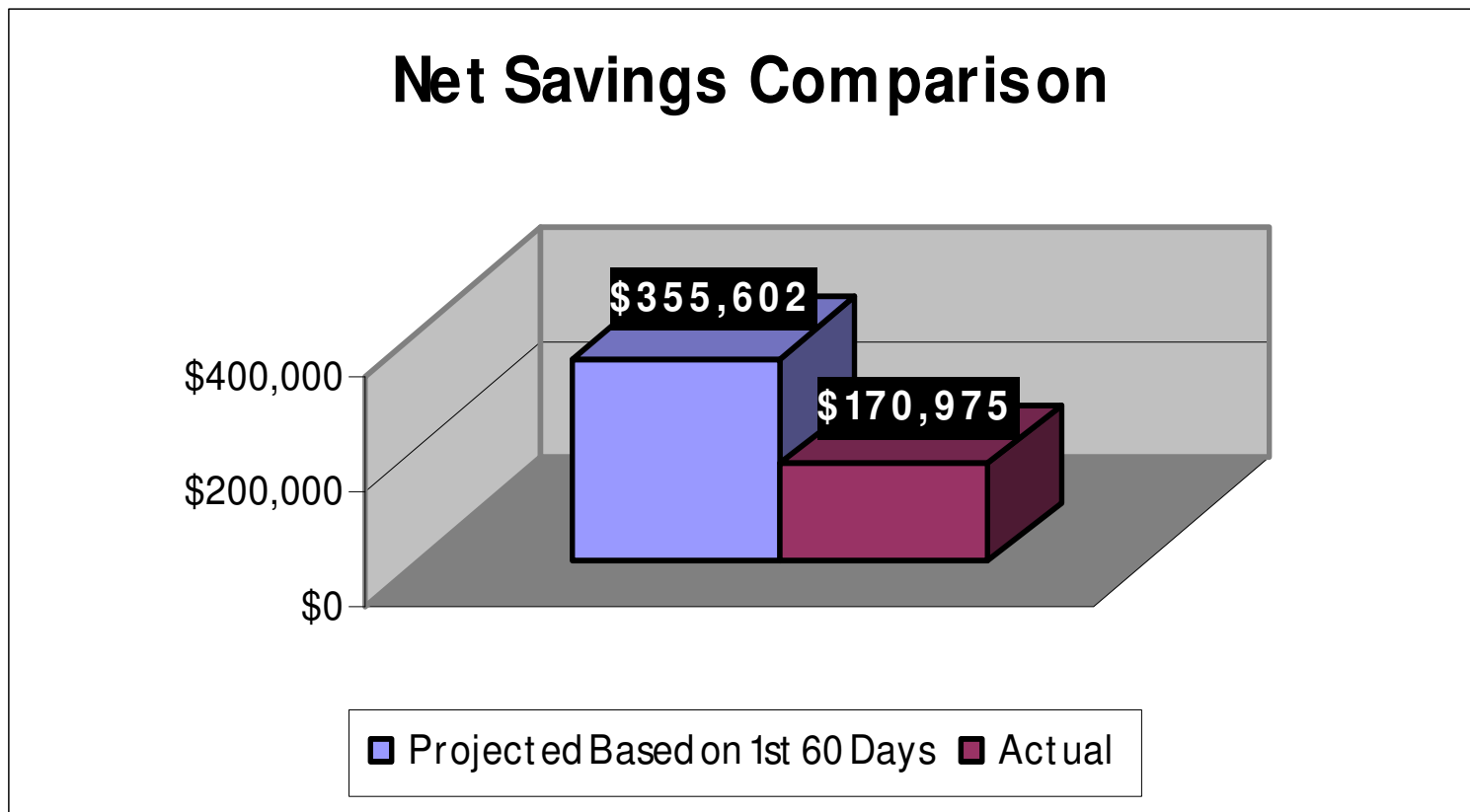




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## **A CAUTIONARY TALE**



# WHY DO THIS?

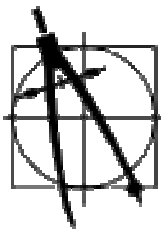
Strategic – Competitive advantage, customer satisfaction, growth in market share, company image

Tactical - Recruiting, retention

Political - Recognition, unions, risk

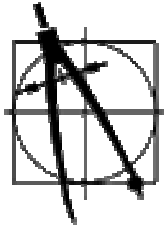
Financial - ROI, budgets, productivity, savings

Cultural - Innovation, quality of work life, communications, consensus building



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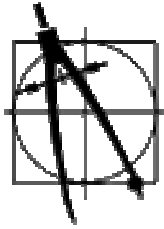


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## **A PROVEN METHODOLOGY**

- Environments as large as 70,000 SKUs and 300+ associates
- Facilities of all sizes across the country
- Union & non-union operations
- Aggregate savings ca. \$5,000/FTE/year on average, millions in total



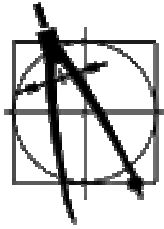
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## **BUYOUTS**

### **THE KEY TO LONG TERM VALUE**

- Support achievement of the strongest work force possible
- Take advantage of the nuances – partly an art form
- Move standards upward over time with full associates' concurrence



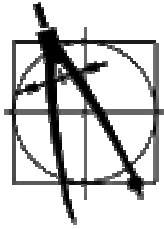
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## **TRAINING**

### **SUPERVISORS, MANAGERS, CORPORATE SPONSOR**

- Provide guidance to get from \$2,500/FTE to \$ ???
- Assure that benefits are maximized over time



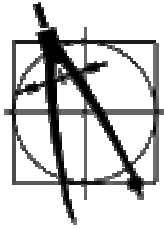
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## **OTHER FINANCIAL VALUE**

### **An Excellent ROI**

- Low capital investment
- Payback in months

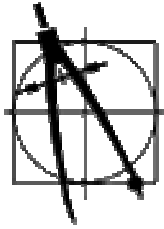


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## **COMMON SG EXPERIENCES**

- Work force morale improves
- Quality of work life & job satisfaction increases
- The number of program participants above “0” or “100%” grows (i.e. greater productivity)
- The portion of the work force participating in the program is larger
- More associates are tracked individually, rather than as part of a team
- Work quality rises
- Turnover falls
- Safety improves
- Supervisors have more time to manage



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**THANK YOU**

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