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**2015**

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March 23-26, 2015  
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# Incentive-Based Pay for Supply Chain Associates:

*“You Get What  
You Pay For”*

Sponsored by:



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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
  - 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”

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### Micro-Level

### Macro-Level

Individual	Team	Business Unit	Company
Merit Pay	Bonuses	Gain Sharing	Profit Sharing
Bonuses	Awards	Bonuses	Stock Plans
Awards		Awards	
Piece-Rate or ABC			



## Team Incentives: Pros & Cons

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



## Individual Incentives: Pros & Cons

Pros	Cons
Individuals are goal-oriented	Tying pay to goals may promote a narrow focus
Financial incentives can shape goals	Individual plans may work against corporate goals
Plans can fit the culture	May promote inflexibility
Performance reward is easily repeated	



## 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)**

## Improshare Plan

Monthly Bonus Calculation	
Starter kite: 16 hours x 100 kites x 0.833 BPF =	1,333
Enterprise kite: 32 hours x 50 kites x 0.833 BPF =	1,333
Standard hours:	2,666
Actual hours:	2,000
Gained hours:	666
Bonus payout (50% of 666, or 333/2,000) =	16.7%

Figure 1

## Scanlon Plan

An Example of a Scanlon Plan Bonus Calculation	
1. Sales	\$100,000
2. Inventory change	+10,000
3. Value of production	110,000
4. Allowed payroll costs (40% of 3)	44,000
Derived from historical data	
Total annual payroll = \$2 million = 40%	
Net sales \$5 million	
5. Less actual labor	35,000
6. Bonus pool	9,000
7. Company share 25%	2,250
8. Deficit reserve 25%	2,250
9. Employee share 50%	4,500
10. Bonus % of actual payroll (\$4,500/35,000)	12.8%

Figure 3

## Rucker Plan

Example of the Rucker Bonus Calculation for a Small Service Company	
1. Value of services	\$100,000
2. Less outside purchases (materials, supplies, energy, etc.)	<u>55,000</u>
3. Value added	45,000
4. Rucker standard (30% of #3)	13,500
5. Actual labor costs	10,000
6. Bonus pool	3,500
7. Company share (50%)	1,750
8. Employee share (less 20% for deficit reserve)	1,750

Figure 2

## 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



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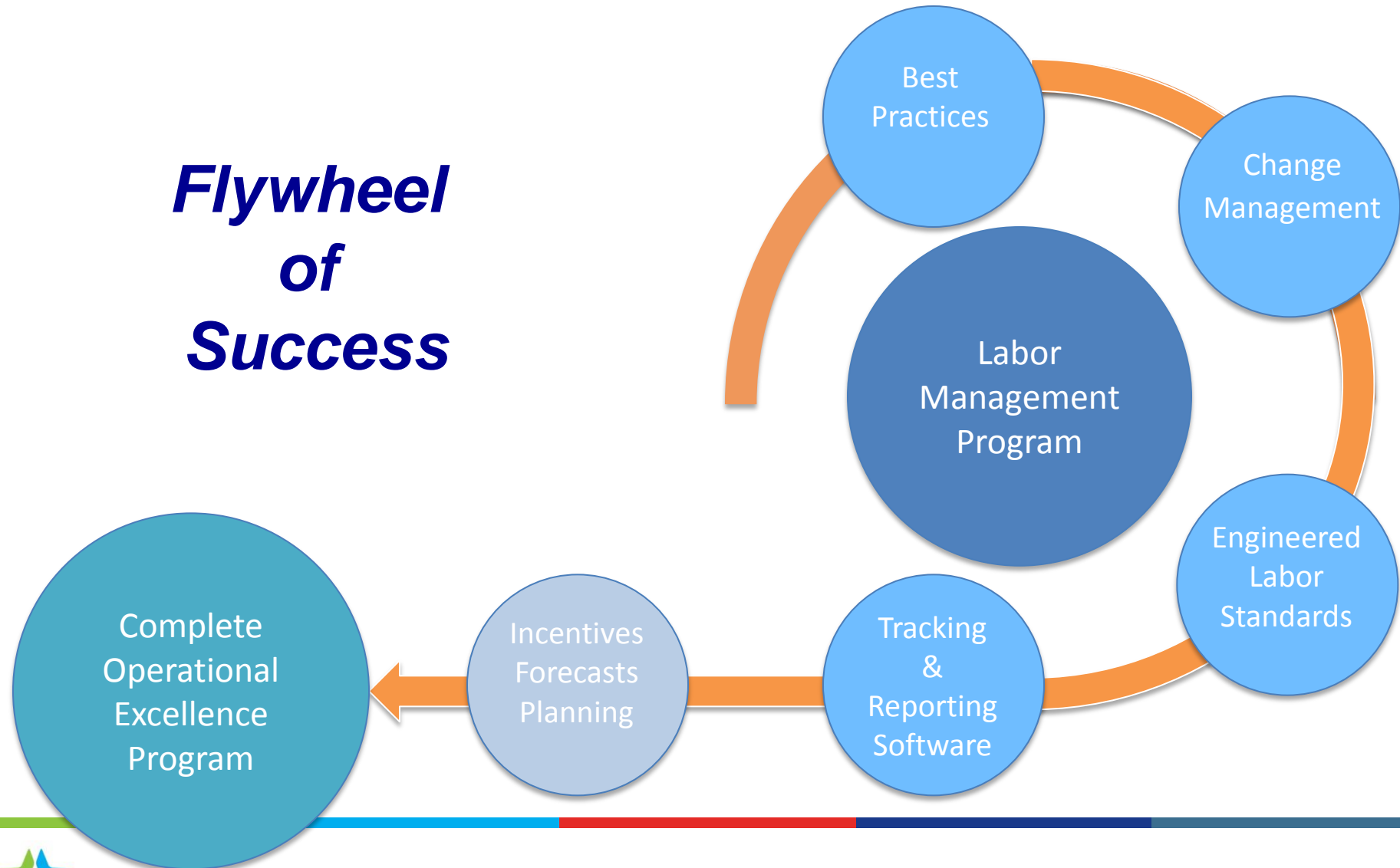


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## Challenges to Incentive Programs

- “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.

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# Q&A



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