

## Distribution at a Pivot Point: ADDRESSING THE LABOR PROBLEM

Today's businesses are being challenged like never before due to increasing customer expectations and margin strain. Companies now must compete on a cost and service level with market disruptors that have immense capital resources and unprecedented agility. More than ever, the supply chain is a strategic differentiator. How the business views and leverages its network and distribution resources has tremendous impact on outcomes and must be aligned with the strategic goals of the company.

The precipitous rise of eCommerce is re-shaping how companies do business. Distribution networks with legacy infrastructure are being asked to expand their capabilities and redesign their operations. Supply chain managers who suddenly find themselves sitting at the table with C-suite executives are being asked to find solutions that compete with disruptors like Amazon, eCommerce start-ups, and industry giants jockeying for market share.

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Just as more labor is needed to meet swelling demand, historically low unemployment paired with shifting workplace values have created a labor shortage across all levels of the industry. In short, there is not an adequate supply of traditional labor to support scaling operations. Instead, companies will need to reimagine their operations—and labor—in a drastic way to address this shortage.

### **The Story Behind the Shortage**

The number of transportation and warehousing jobs has nearly doubled in the past ten years<sup>1</sup>, and in 2018 and 2019, more than 400,000 workers were needed to keep pace with demand.<sup>2</sup> This widening labor gap is compounded by several economic and cultural factors. These include:

- **Historically Low Unemployment:** In the United States, the unemployment rate currently sits at about 3.6%.<sup>3</sup> Especially in hub markets that multiple distribution centers call home the available workforce is limited.
- **Labor Costs are Increasing:** Warehouse jobs paying \$9 to \$12 per hour are finding it harder to attract reliable, quality talent. In fact, the average wage for the average warehouse and trucking worker has risen to \$22 per hour.<sup>4</sup> This, combined with high turnover rates, is putting a strain on labor costs.
- **Changing Workplace Values:** There are about to be four different generations in the workforce simultaneously, all with distinct work and life values. DCs are struggling to attract and accommodate younger generations as Boomers begin to retire.

The labor gap goes beyond floor workers, too. DCs are also searching for and looking to retain talent in strategic positions, such as managerial and supervisor roles. To begin addressing the growing labor problem, companies should first look internally at their current labor workflows. Through process re-engineering, employee incentives and alternative labor pools, companies can partially narrow the labor gap.

<sup>1</sup> Bureau of Labor Statistics

<sup>2</sup> CBRE

<sup>3</sup> As of May 2019

<sup>4</sup> Bureau of Labor Statistics



### ***Re-engineering Current Processes***

As the role and expectations of DCs shift, so should the processes in place at a DC. By re-engineering current operations, companies can find new, potentially more efficient ways to accomplish DC tasks. Adding automation and streamlining processes for fewer touches and reduced travel allowed a major retailer to increase productivity by 39% and to reduce the amount of seasonal labor required for peak seasons by 33%.

### ***Creating Employee Incentives***

Companies should also look for ways to retain their current workforce and attract new help. In general, this entails making the DC a more appealing place to work—adding cafes or higher quality food options, offering daycare for kids and pets, fitness equipment and other benefits or amenities. Making the DC a convenient and pleasant place to work makes it harder to leave and will decrease turnover rates.

DCs may have to think creatively and act flexibly to integrate employee incentives. For instance, one specialty retailer employs a mobile app that allows workers to check in when they're available to work and sign up for shifts. Through this Uber-like model, the DC can then match up available workers with open shifts. This use case is only possible with flexibility on the managerial or supervisory level.

### ***Seeking Alternative Labor Pools***

As the traditional labor pool dwindles, companies should also consider looking outside the typical employee profile for workers such as retirees, stay-at-home moms, workers with disabilities and part-time workers. Of course, non-traditional workers may require non-traditional accommodations to work efficiently in the DC. For example, retirees may require a more ergonomic workspace and tasks that involve lifting heavy objects are probably out of the question. Similarly, stay-at-home moms may require more flexible hours built around the schedule of their kids' schools.

These operational tweaks made for new workers have the hidden benefit of forcing DCs to reassess their operations to simplify activities, which could uncover more efficient strategies. This in turn can reduce training time and potentially provide a quicker return on investment.



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Andrew Breckenridge is a supply chain executive with over 25 years' experience helping companies worldwide enable growth and support competitive advantage. As Executive Vice President, Andrew is focused on leveraging the strength of Fortna's experience in delivering successful business transformation engagements for its clients.

**The Fortna Solution**

At Fortna, we've honed the process of optimizing labor. We conduct extensive, on-the-floor assessments so we can help you streamline processes and implement labor standards and systems. Our team will also work with you to develop incentive structures so your workers stay motivated. We know that change management is critical to the success of labor efforts. We will help guide your team through the cultural change needed for success.

Reimagining labor is one step in the right direction. However, the kind of fulfillment cycle speed necessary to compete with Amazon's recently announced next-day shipping promise is hard to achieve without some level of automation. See our next article, "Building the Business Case for Automation," to learn more.

**About Fortna**

For over 70 years, Fortna has partnered with the world's top brands to transform their distribution operations into a competitive advantage. Fortna helps Clients make and keep bold promises to their customers—fast, accurate and cost-effective fulfillment consistently at every touchpoint, across every channel. Fortna's expertise spans distribution strategy, distribution center operations, material handling automation, supply chain systems and warehouse execution software systems. We built our firm on a promise—we develop a solid business case for change and hold ourselves accountable for results. For more, visit [www.fortna.com](http://www.fortna.com).