



Reducing Labor Costs and Optimizing Your Workforce in the Recovery Economy



Christine Sharratt
Regional Account Director
TZA

- ❖ 6 years of labor performance and human resources experience
- ❖ General manager of a major industrial staffing firm
- ❖ Currently responsible for TZA Managed Services client success
- ❖ TZA delivers management consulting, engineering, technology, managed services and human capital solutions to assist companies in achieving a high performance workforce, world-class customer service and a least-cost operating position.



Dean Duffy
Executive Vice President, Operations
FOCUS Products Group LLC.

- ❖ Joined Focus Products in 2009, as vice president of Global Supply Chain, with responsibilities for all four divisions
- ❖ More than 15 years of experience with companies such as Cooper Industries, Newell-Rubbermaid, Maurice Sporting Goods, and Tommy Armour Golf
- ❖ Background includes operations management, engineering, materials management, production planning, distribution, transportation, global procurement & sourcing, quality control, and product development

Today's Agenda

- ❖ Moving from Recession to Recovery in Distribution
- ❖ Achieving High Performance: What are the Options?
- ❖ Weighing the Benefits and Risks
- ❖ Reaching Your Recovery or Post-Recession Goals
- ❖ Considering Managed Services: Focus Products Group Case Study

How the Recession has Impacted Distribution

❖ Pre-Recession: Life was Good

- ✧ Add staff was easy
- ✧ When you needed equipment...you got it
- ✧ Few issues with overtime

❖ During the Recession: Hitting the Brakes

- ✧ Bare bones operating mentality
- ✧ Tighter budgets and limited spending
- ✧ Changes in customer order patterns
- ✧ “Do more with less” has become the norm

Moving Toward Recovery?

Recovery or
Double Dip?



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Economists: U.S. economic recovery to accelerate in the second half

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Economic | LED Economi

decline in consumer spending, economists say the United States and high unemployment is only temporary, 2011 unstoppable half of U.S. economic rebound.

2011 in the first quarter U.S. gross domestic product grew 2.3%, growth of 0.4%, chain 1.8% discount rate. For, according to a survey of 67 economists, after a slow first-quarter growth, the world's largest economies, U.S. economic growth

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Fears Grow Over Double-Dip Recession

One fund manager calls it a horror show, others are predicting the Federal Reserve will have to extend its unconventional measures and stocks across the world are falling heavily.

The data from the world's largest economy has fallen so sharply that investors have been caught off guard, raising fears over a double-dip recession.



It was a big fall in ISM Manufacturing PMI data on Wednesday that triggered the fall in stocks and saw money pour into Treasuries, pushing the yield on the 10-year note below three

Moving Toward Recovery?

❖ The Reality in Distribution:

- ❖ Short staffed or supplementing staff with temporary workers
- ❖ When you can hire, tough competition for quality workers
- ❖ Healthcare/fringe benefits costs rising
- ❖ Need better tools but cannot invest
- ❖ Unrealistic ROI expectation (RBI)
- ❖ Union activity is extremely aggressive

What are we seeing happening?

3 Workforce Strategies

DIY

**3PL
Outsourcing**

**Staffing
Firms**

Do It Yourself

❖ Benefits

- ❖ Leverage existing assets
- ❖ No loss of knowledge
- ❖ Maintain full control over operation

❖ Risks

- ❖ Status quo while competition improves technology, efficiencies
- ❖ Fixed vs. variable cost structures
- ❖ Often uses staffing for flexible workforce
- ❖ Need to avoid co-employment issues

Staffing Firms

❖ Benefits

- ❖ Leverage existing assets and maintain internal operating knowledge
- ❖ Flexibility
- ❖ Reduced fringe costs
- ❖ Quick response to staffing needs

❖ Risks

- ❖ Short term solution without any operational value add
- ❖ Co-employment issues
- ❖ Turnover; training, efficiency, quality

❖ Benefits

- ❖ Leverage the buying power, credit rating or capital of major organizations
- ❖ Access to improved technology and the intellectual property developed from working with many clients
- ❖ More flexibility and potentially more variable costs
- ❖ Allows organization to focus on core competencies

❖ Risks

- ❖ Knowledge transfer and loss of control
- ❖ Often expensive: typical ROI is over a 3 to 5 year term

Post Recession Goal

Counter the demand to
“Do more with less” by achieving a
high performance workforce.

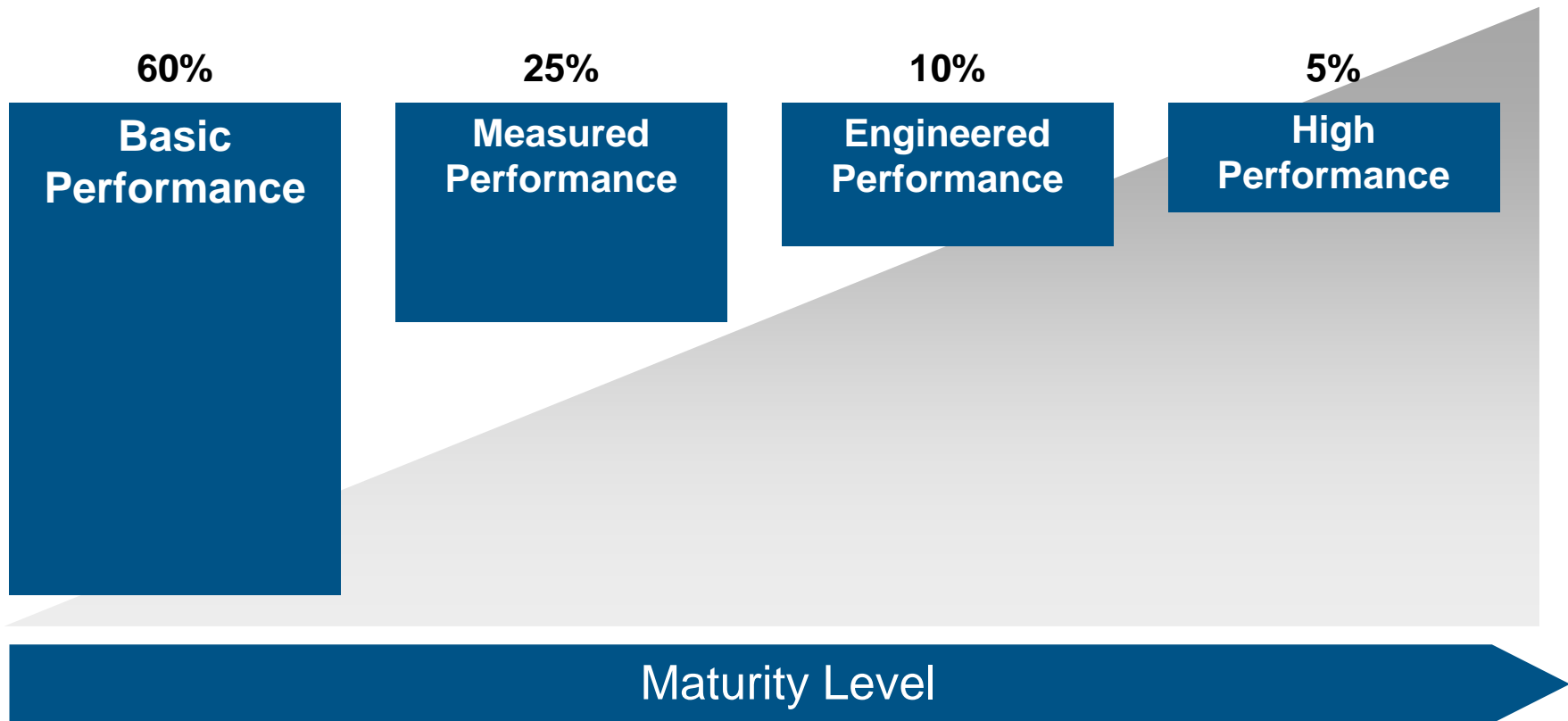
What is possible based on what
TZA has seen in marketplace...

Operational Maturity and Savings

| | <i>Quality of Supervision</i> | | |
|--|-------------------------------|-------------------------------|----------------------------|
| | Basic (Tasking) | Average (Feedback) | Good (Coaching) |
| LMS/ELS & Individual Incentives | -10% | +10% | +25% |
| LMS w/Engineered Labor Standards | -15% | -0% | +5% |
| LMS w/ Reasonable Expectancy (Designed) | -30% | -15% | -10% |
| Historical (Past performance) | -40% | -25% | -15% |
| Norms (No standards) | -50% | -40% | -30% |

Observed Workforce Maturity

Company Distribution by Workforce Productivity



What is a High Performance Workforce?

- ❖ A workforce and operation that:
 - Eliminates barriers through the use of LEAN techniques, best practices and well defined, continuous improvement programs
 - Uses dynamic, engineered work standards
 - Has formal education and organizational development programs at all levels of the operation
 - Utilizes well defined and self funded incentive and discipline programs to promote a performance based culture
 - Leverages labor management technology and executive dashboard reporting



Focus Products Strategy for Achieving A High Performance Workforce



Case Study: Focus Products Group

- ❖ Distributor of kitchen, foodservice and bath products
- ❖ Growth-oriented company
- ❖ \$150 million revenue
- ❖ DC is 150,000 square feet
- ❖ 50 – 70 associates depending on season



Focus Products Story

- ❖ DIY
- ❖ What they did
- ❖ Searched for LMP
- ❖ Settled on Managed Services





Key Reasons Focus Took the Managed Services Approach

- ❖ A High Performance Workforce typically costs 15%–30% less in payroll expense than less mature operations
- ❖ Turnover is significantly reduced through better employee expectations, performance based culture and incentive based pay programs
- ❖ Better quality and safety are achieved through training, accountability and retention programs



Advantages of the Managed Services Approach

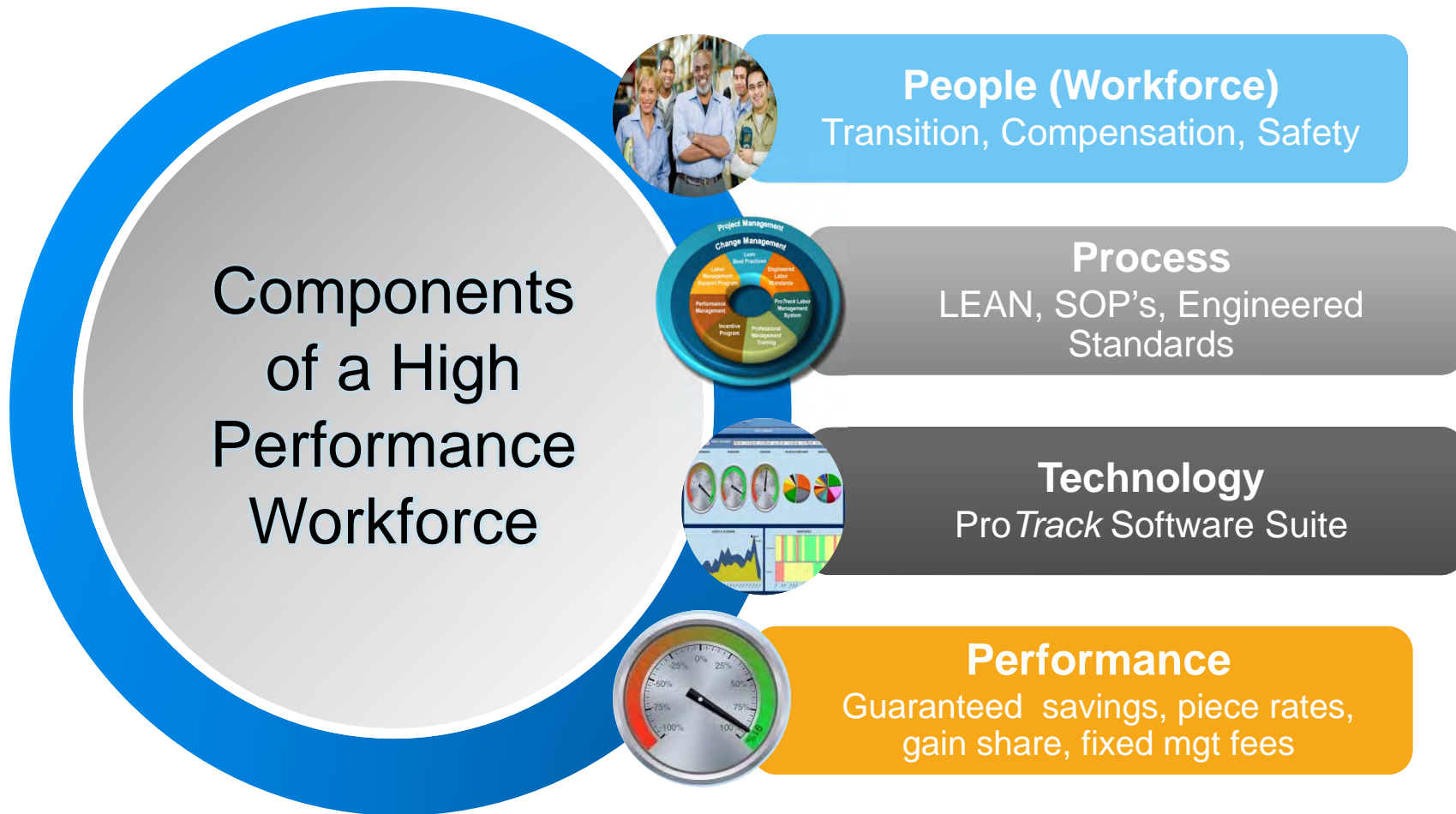
- ❖ 3 – 9 month ROI
- ❖ Low risk
- ❖ Knowledge transfer risk reduction
- ❖ Asset utilization
- ❖ State of the art labor tracking and planning technology
- ❖ Onsite change management partner

Current Project Results

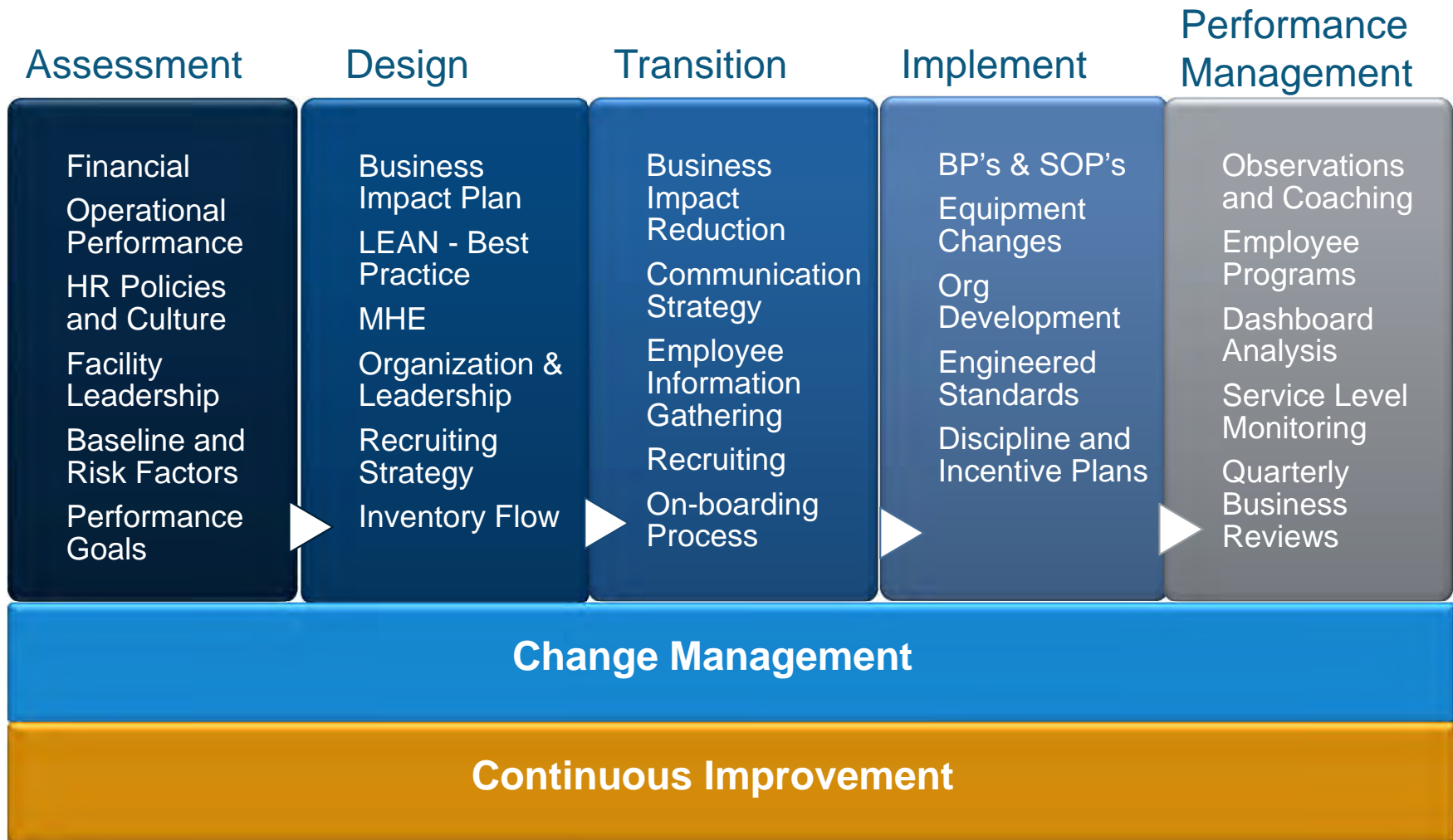
- ❖ Workforce transition on 4/4
- ❖ Less than 3% turnover during the transition
- ❖ 14% headcount reduction
- ❖ Overtime hours are down approximately 60%
- ❖ Positive cultural impacts



Managed Services at Focus



Focus Managed Services Implementation





Comparing Workforce Solutions

| | Staffing Firms | 3PL | Managed Services |
|-----------------------------------|----------------|-------------|------------------|
| Human Resources | | | |
| Recruiting | Yes | Yes | Yes |
| Benefits Admin | Yes | Yes | Yes |
| Safety Programs | No | Yes | Yes |
| On-site management | No | Yes | Yes |
| Organizational Development | No | Limited | Yes |
| Performance Operations | | | |
| Best Practices | No | Yes | Yes |
| Engineered Processes | No | Limited | Yes |
| Dynamic Performance Standards | No | Limited | Yes |
| Labor Management System Software | No | No | Yes |
| Performance Dashboard | No | No | Yes |
| Incentive and Discipline Programs | No | Limited | Yes |
| Operational Accountability | No | Yes | Yes |
| Guaranteed Piece Rates | No | Limited | Yes |
| Guaranteed Service Levels | No | Yes | Yes |
| Continuous Improvement | | | |
| Workforce Training | No | Yes | Yes |
| Strategic Planning | No | Yes | Yes |
| Network Design | No | Yes | Yes |
| Facility Design and Layout | No | Yes | Yes |
| Slotting | No | Limited | Yes |
| Asset Management | | | |
| Warehouse own / lease | No | Yes | No |
| Equipment Purchase | No | Yes | No |
| Value | | | |
| Savings Potential vs. DIY | -25% | -15% to 10% | 15% to 30% |
| Timeline to Savings | N/A | 18+ months | 2 to 4 months |



Information & Resources

- Learn more about TZA Managed Services: www.tza.com/managed_services.aspx
- Learn more about Focus Products Group: www.focuspg.com
- Download “3 Strategies for Improving Workforce Productivity” white paper: <http://bit.ly/vPb32x>
- View “Building A High Performance Workforce in Distribution” on-demand webinar: <http://bit.ly/qq1YCf>