

Balanced Labor Model



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INTRODUCTION

The economy is shrinking, profit margins have evaporated, jobs are disappearing and consumers both big and small are keeping their powder dry. How can an organization survive this perfect storm of economic conditions?

A consensus is growing among many different organizations across a variety of industries that, in these trying economic times, effective management of labor will be the most important factor in financial and operational success.

In most industries, labor ranks as either the highest or one of the highest single costs of doing business. According to Forrester Research, the average North American retailer spends between 10% and 15% of its total sales on labor. In the health care sector, labour costs can account for 50 per cent or more of total operating costs.

The labor cost crunch has transformed some industries. North American manufacturers have watched helplessly as billions of dollars in work has migrated off shore to countries with lower labor standards and wages. In the automobile and financial services sector, years of unfettered wage and benefit increases have proven unsustainable. The result is that organizations across a wide array of sectors are forced to cut deep to the bone in a desperate bid to stay afloat.

A 2008 study by the American Health Association found more than half of all hospitals surveyed had already made, or were considering, significant staff reductions, hiring freezes and an overall reduction in administrative costs to deal with the current economic storm.

But is cutting jobs really the best approach? Best-of-breed organizations learned in prior recessions that staff reductions in and of themselves do not translate into operational efficiencies. In fact, chopping bodies can actually impair long-term competitive advantages. More importantly, the trauma of downsizing more often than not diverts attention away from more constructive avenues for boosting the return on the labor dollars spent.

In many instances, managing labor through an economic crisis is about doing things smarter, not cutting indiscriminately.

Unfortunately, managing labor costs is a poorly understood discipline for many organizations and sectors. This is especially odd given the fact that many sectors have excelled at implementing leading-edge technology to manage other aspects of their business.

Manufacturers have for decades used complex financial models and software to forecast fluctuations in foreign exchange rates and the price of raw materials. Retailers invest millions of dollars annually to build and implement sophisticated supply management systems, inventory controls and product pricing. In these scenarios, successful organizations are demonstrating the critical importance of understanding the ever-changing relationship between supply and demand.

Why not take the same approach with labor?

Your workforce is an asset — no different really than raw materials or an effective supply chain. As such, managing a workforce requires an organization



to understand the laws of supply and demand in order to maximize return on investment (ROI). Unfortunately, few organizations take the time to analyze the competing forces of supply and demand in their workforce with the same vigor as they do in other areas.

It would be heresy in the retail sector to operate without systems in place to coordinate inventory levels with forecasted levels of customer demand. However, it is rare to apply those same principles to workforce management. In Axsium's experience, it is not uncommon to see organizations with tens or even hundreds of thousands of employees that are unable to predict the fluctuating demand for labor. As a result, they have no idea how to manage supply. These critical functions can be achieved through the implementation of sophisticated Workforce Management (WFM) solutions that include optimized policies, practices and software applications. Unfortunately, many organizations view these solutions as tactical, not strategic, imperatives. In large part this is due to how organizations view their employees.

Few organizations manage their workforces like they manage other mission-critical assets because, quite frankly, employees are living, breathing entities that can respond negatively to excessive controls and over management. Inventory, on the other hand, cannot go on strike or employ work-to-rule campaigns.

While the "human factor" should be considered when plotting the management of labor, it should not be a deterrent. Regardless of industry, there are proven WFM tools and best practices that can eliminate the mystery and guesswork that often afflicts labor-cost management.

THE RELATIONSHIP BETWEEN LABOR SUPPLY AND DEMAND

As is the case with any supply-demand equation, the price and quantity of labor are determined by the intersection of the demand and supply curves (Figure 1). From a labor perspective, the price (P^*) depicted on the vertical access refers to the total cost of labor for a given time period, such as a weekly labor budget. The quantity (Q^*) shown on the horizontal axis represents the total number of hours of work required to match the specified level of demand. When supply and demand are balanced, the intersection of the two curves represents a state of equilibrium.

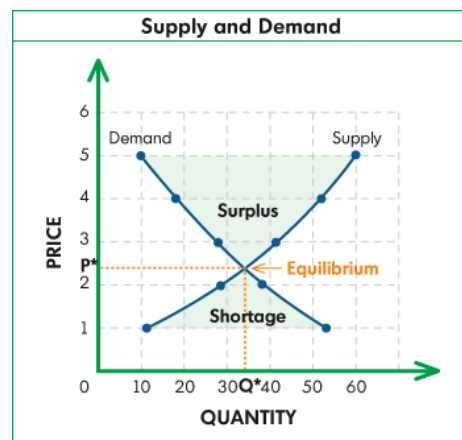


Figure 1 –Labor Supply and Demand

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From a practical WFM perspective, a lack of equilibrium occurs when demand changes unexpectedly without a corresponding change in supply. This is represented by a shift in the demand curve up and to the right (Figure 2). Decreases in demand involve a shifting of the demand curve down and to the left.

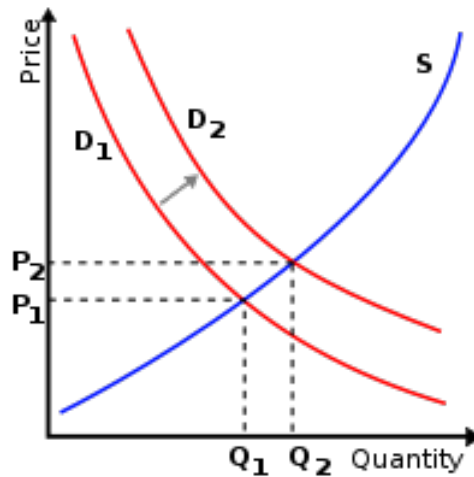


Figure 2 – Increase in Demand

For most organizations, changes in demand are rarely met with any sophisticated or profound changes in labor supply. In these cases, there are simply no WFM tools in place to assist with this task. When labor supply exceeds labor demand, unnecessary labor costs are incurred. When supply falls short of demand, production levels, customer service and sales can suffer.

In an ideal world, these organizations would have the ability to manipulate supply at the same rate as changes in demand, therefore maintaining equilibrium. For most organizations, especially those in retail and healthcare where demand can change on a daily or hourly basis, the ability to respond to fluctuations is just not possible within their current WFM infrastructures.

THE BALANCED LABOR MODEL

How can an organization deal with changes in labor supply and demand to achieve a more consistent state of equilibrium? From a WFM perspective, above-average labor management performance is produced by an analysis of what drives labor demand and how to respond proactively from a supply perspective. This can be achieved through the implementation of the Balanced Labor Model (BLM).



Balanced Labor Model

At a macro level, the concept of a BLM seems relatively straightforward. However, the BLM is built on the capacity of an organization to:

- Identify ALL variable and fixed drivers of labor costs
- Forecast fluctuations in labor drivers that cause demand changes
- Ensure labor supply is elastic enough to meet those fluctuations

In industries like manufacturing, total labor demand may not fluctuate significantly in the short term. In this scenario, a manufacturer may require a full-time, inelastic workforce. This means the supply of labor is firm on a daily, weekly or hourly basis. However, there will be changes in the tasks assigned to employees and/or the type of products produced. These require careful planning to ensure labor is deployed in the most efficient manner possible.

In other industries, most notably retail and healthcare, short-term labor demand fluctuations can be quite dramatic. Retailers must account for fluctuations in customer traffic, and the impact of sales, special events, promotions and even the weather in order to predict the total number and mix of associates required for any one day.

In the healthcare sector, acuity drives labor demand. The same numbers of patients can produce dramatically different demands for nursing levels depending on the acuity of those patients. Healthcare providers that do not chart the impact of acuity on labor demand constantly battle understaffing.

While the variables that impact labor supply and demand vary from industry to industry, the BLM can be applied to any industry. BLM envisions the ideal WFM infrastructure, where demand for labor is in perfect balance with the supply across any measurement of time — monthly, weekly, daily or even hourly.

Consider the case of a retailer operating with a WFM infrastructure that is constantly out of balance. This organization may have very little structure or standardization of the roles, job descriptions, tasks or activities required to operate a single store week in and week out. District or regional managers in such an environment will have extensive discretion with regards to defining schedules and staffing assignments. At the store level, scheduling of associates is done with little or no consideration for daily or hourly fluctuations in sales volume and customer traffic, or the impact of sales and other promotions.

The only centralized control over labor deployment is a staffing budget for the week. This has been pushed down by head office with strict not-to-exceed instructions. As a result, the store manager is given abundant latitude to determine when and where associates work. Tasks such as receiving shipments of new inventory, stocking shelves and preparing for promotions are assigned in a reactive manner whenever a body frees up or a delivery arrives at the loading dock. These tasks are never factored into the weekly staffing schedule. Even worse, scheduled leave and employee availability is tracked manually as are the actual hours worked by each associate. This typically results in an incomplete picture of who was available and who was actually working.

The cumulative result is a retailer with a labor supply that is completely out of balance with the customer and non-customer-driven demand for labor. This is a retail organization where stores are regularly overstaffed or understaffed (Figure 3), sometimes chronically so.

Balanced Labor Model



Figure 3 – Overstaffing and Understaffing in Retail

How would this retailer operate under a BLM infrastructure? At the store level, managers would use historical and current sales data to predict, well in advance, staffing levels with sales patterns and store traffic. Often, this can be done in 15-minute intervals. This data would then feed into an automated labor forecasting and scheduling software application so that managers know exactly how many sales associates, cashiers and managers to have on hand at different times of the day and week. But sales and customer traffic are only one part of the demand equation.

In addition to providing better service for the customer, this WFM infrastructure can help identify the extra staff needed to stock shelves, receive shipments, manage sales and promotions, and maintain the physical premises. This is only possible when labor is viewed at an activity or task level to create a comprehensive understanding of labor demand.

Demand is really only one half of the information needed to build a BLM infrastructure. To complete the picture, the retailer must also have a complete understanding of the available supply of labor for the period in question. That means knowing in advance what skill sets are available, when associates can and cannot work and how much they must be paid. In its aggregate, this information will allow the retailer to identify exactly which associates are available and when, so that they can be matched with the forecasted demand.

With a complete picture of both supply and demand, the retailer can eliminate most over staffing and under staffing occurrences. (Figure 4)

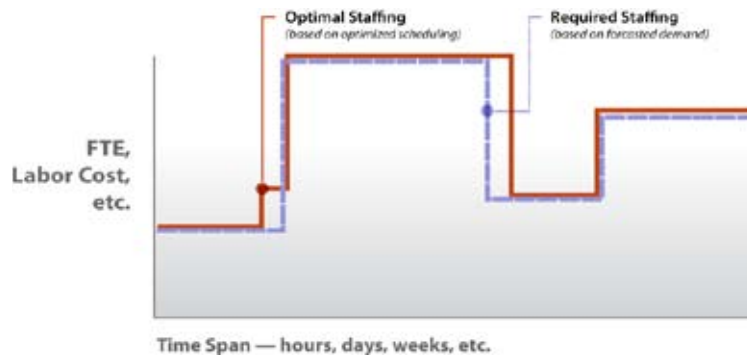


Figure 4 – The Balanced Labor Model Achieved

THE BENEFITS OF THE BALANCED LABOR MODEL

Within the context of the previous case study, there are a myriad of additional benefits that can accrue from a properly implemented BLM, including:

Advantages	Benefits
Improve levels of customer service	<ul style="list-style-type: none"> • Increased sales conversion rates (retail) • Improved patient care (healthcare)
Improved sales execution	<ul style="list-style-type: none"> • Increased sales per labor hour • Reduced cost of sales • Reduced sales cycle time
Enhance productivity	<ul style="list-style-type: none"> • Reduced labor cost per unit output (manufacturing) • Increased sales per labor hour (retail) • Increased patient throughput (healthcare)
Minimize overtime and premium pay	<ul style="list-style-type: none"> • Reduced overall cost of labor per transaction/dollar sales/unit output
Improve communications and field-head office alignment	<ul style="list-style-type: none"> • Reduced communication and administration costs • Eliminated friction or conflict between head office and the field • Improved customer experience
Improve employee engagement and job satisfaction	<ul style="list-style-type: none"> • Reduced voluntary turnover • Reduced unplanned absenteeism • Increased retention rates
Increase reliability and predictability of WFM processes (e.g. scheduling, time off requests, payroll processing)	<ul style="list-style-type: none"> • Improved employee job satisfaction • Reduced associated administrative burden and cost • Reduced costs of paid leave
Improve ability to respond to absenteeism and other unplanned events	<ul style="list-style-type: none"> • Reduced lost sales opportunities; reduce overtime/premium costs • Improved management job satisfaction

IMPLEMENTING THE BALANCED LABOR MODEL THROUGH ENTERPRISE WORKFORCE MANAGEMENT

To successfully implement a Balance Labor Model, the WFM infrastructure must be comprised of:

1. Enterprise WFM software and hardware that automates and optimizes time and attendance, labor forecasting and scheduling, leave/absence management, task (execution) management and employee/manager self-service.
2. Best practice-based WFM policies, practices and processes that govern the deployment, tracking and compensation of employees so that they align with the BLM concept.

There must be equal emphasis placed on both technology and operational best practices to achieve a BLM capable of delivering long-term, sustainable benefits. In addition, there must be attention to the distinct components necessary to understand labor demand and supply.

Predicting Labor Demand

The individual components required to forecast labor demand include:

1. **Standardized Organizational Structure:** Facility or location profiles must be completed. In the retail sector, groupings can be according to store format, size, and/or brand. In Manufacturing, the grouping can take into account the type of product, size, and nature of the raw materials used. Since each type of facility/location requires a unique BLM, grouping facilities into standard categories is absolutely essential if there is any hope of breaking down the organization into a manageable number of BLMs. The goal should be to forge a limited number of distinct location profiles to ensure optimal implementation.
2. **Detailed Understanding of Labor Drivers:** The factors that affect labor requirements include:
 - Customer Driven: Often referred to as variable labor drivers, this can include, depending on the industry, factors such as sales, foot traffic, transactions processed, orders, back orders, and patient acuity levels.
 - Non-customer Driven: Often referred to as non-variable for fixed labor drivers, this can include location size, average number of shipments received, shelves restocked, number of production lines, and number of patient beds.
3. **Productivity Measures and Labor Standards:** This is the information needed to translate labor drivers into labor demand. For example, a retailer knows that on average one of its stores processes 120 transactions between 11 AM and 12 PM on Saturday, and that the average cashier can process 30 transactions per hour. As a result, the retailer knows that four cashiers must be assigned to work during that window to achieve BLM equilibrium. *(A cautionary note on the development of labor standards: many organizations have a tendency to “over engineer” labor standards data. This produces estimates of the time required to perform very detailed, discrete tasks. This can be as specific as the number of seconds required to change the sheets on a bed, or the time required to fold a sweater and place it on a shelf. While such detailed data can be useful in a business process re-engineering exercises, less detailed data that requires less investment to gather is usually more than sufficient to develop and support a BLM.)*
4. **Enterprise WFM Software:** Leading-edge software can translate labor-driven data into forecasts of labor demand that can then be used to generate schedules and ensure budgets are met.

Understanding Labor Supply

Identifying the available supply of labor and matching it to demand across different time spans requires the following technical and operational infrastructure:

1. **Proper Mix of Full and Part-Time Personnel:** The right “staffing mix” will vary depending on the location type or profile. It will also be affected by seasonal fluctuations. Achieving adequate elasticity in labor supply is one of the most critical components of achieving a BLM. This will require efforts to change the full and part-time staffing mix.

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2. Centrally Managed Inventory of Skills: With the right systems in place, employers can match their employees with tasks based on skills. This ensures that an employee assigned to a specific task is the right person to get the job done.
3. Automated Leave and Absence Management: Automated processes are critical for the effective management of paid and non-paid time. Failure to proactively manage requests and approval of leave, and tracking of absences, can significantly increase the overall cost of labor.
4. Automated Tracking of Employee Availability: In businesses where a large percentage of employees are part-timers, this is especially important.
5. Standardization of Roles and Job Descriptions: Large organizations with dozens, hundreds or even thousands of locations and facilities must have standardized roles and job descriptions. Although this seems to be a simple concept, many organizations simply do not take the time to articulate exactly what their employees should be doing. As a result, any attempt to implement just one part of an enterprise WFM software suite will produce less-than-optimal results.
6. Enterprise Time and Attendance Software: Enterprise time and attendance software solution which automatically tracks time worked in comparison to schedule and calculates gross pay. While not typically viewed in the context of understanding labor supply, a centralized time and attendance solution will house the data needed to understand the behavior of labor across the entire enterprise.

Summary

Building a Balanced Labor Model is an evolutionary process. Organizations not currently supported by an enterprise Workforce Management solution will find that achieving a state of balance or equilibrium between labor supply and demand cannot be achieved with a single software implementation. The components needed to build the BLM are like blocks in a wall; each must be laid in its proper place to ensure stability and sustainability. Conversely, the system will never achieve its goals if individual building blocks are left out. Ultimately, the goal is to produce a system that generates sufficient benefit to become self-funding. And that is the beauty of the BLM. As a fully integrated, methodically constructed whole, it generates significantly more benefits than the sum of its parts.

FOR MORE INFORMATION

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