



WHITEPAPER

Seven Key Considerations When Selecting a Labor Management System

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The selection of a labor management system (LMS) has become a top priority for many supply chain professionals who want to eke out more from their existing assets and human capital. In a landscape that is becoming increasingly littered with solutions, using the right LMS selection criteria is critical to navigating the terrain.

Requirements such as the use of engineered labor standards (ELS) to capture work content, team-based standards, and daily and weekly individual performance reporting are somewhat obvious. To make the best decision, however, it is necessary to look beyond such basic functionality to other measures that will impact both the short- and long-term success of the implementation. The following seven criteria should be examined during the LMS selection process.

1. Robust and Adaptable Reporting

Once it has gone live, the vast majority of user interaction with an LMS is through reporting and analytics. No matter how many base reports an LMS offers, there will always be a need for reports that are not available out of the box. As businesses grow and evolve, reporting needs change, resulting in a continued reliance on non-dedicated information technology (IT) resources or on the LMS vendor to create new reports.

The better LMS solutions on the market today offer enterprise-wide labor reporting and analytics based on a robust business intelligence platform. This environment allows operations to use pre-built reports as well as easily create custom reports through modification or by starting from scratch. Additionally, the better solutions support filtering, sorting, and exporting data in useful formats such as PDF and Excel. They also provide powerful graphing and charting capabilities that simplify root-cause analysis.

LMS solutions with these enhanced reporting capabilities reduce total cost of ownership because they support change and growth without customization. They allow the system to evolve with the business.

2. Functional Flexibility to Manage the Entire Workforce

One of the most significant value drivers for a workforce performance management program supported by an LMS is productivity improvement – often 30% to 50% or more in the first year alone. Therefore, the more individuals participating in the program, the faster the return on investment (ROI). In a typical distribution operation, the indirect labor force comprises between 5% and 15% of the total workforce. This often includes quality assurance, maintenance, housekeeping, clerical, and supervisory/lead resources.

LMS solutions that support reflective performance calculations and incentives allow operations to measure and incent resources that support an operation, but whose work is not easy to quantify from a production standpoint. A reflective performance calculation derives the performance of an

individual based on the performance of the group of resources he or she is supporting. For example, it might be difficult to measure the individual performance of the maintenance resources that service forklift trucks in a facility. In this situation, a reflective performance calculation could be used to base the maintenance crew's performance on the performance of the forklift operators. The assumption here is that the better the lift trucks operate the better the lift truck operators will perform.

Reflective functionality should be flexible enough to cover close to 100% of the associates within an operation – from clerical workers to maintenance workers. The LMS vendor should be able to easily identify ways in which its solution can flex to maximize the number of direct and indirect resources that can be measured. Furthermore, the solution should be able to calculate incentives in multiple ways for those indirect resources.

3. Focus on Continuous Improvement

Implementing an LMS does not yield any benefit unless the information it provides is acted upon consistently and in a timely manner. Realizing this, best-in-class LMS vendors have built functionality into their solutions that proactively alerts supervisors to underperforming workers and equips the supervisors with tools to help them coach the workers effectively. Some solutions go as far as to allow management to monitor the coaching effectiveness of its supervisors and hold them accountable for interacting with the right resources.

A strong and well-maintained coaching program significantly improves the results of an LMS implementation and promotes associates' continuous improvement. This functionality allows the system to do the upfront work of identifying areas that require attention, which helps keep the program fresh. Consequently, supervisors spend more time working to improve their operations rather than trying to figure out what needs to be improved.

The intent is to transition the operation from a production culture, which is simply focused on throughput, to a performance culture, which emphasizes important factors such as quality and safety, in addition to the key elements that drive throughput.

4. Insurance through Measuring Factored Performance

A common concern associated with the move to an LMS is that while productivity may increase significantly, those gains could come at the expense of other measures, such as quality, especially when incentives are involved. This concern is certainly justified, and should compel supply chain professionals to identify LMS solutions that can take into consideration factors other than productivity when calculating performance and associated incentives.

Quality and accuracy are the most common factors measured, but the LMS should be able to handle other key factors such as safety, damage, percent of time on-standard, and absenteeism. The best and most flexible solutions use mathematical formulas to assign a weight to each factor and calculate performance based on as many factors as desired. This functionality allows management to reward associates with high levels of production only when they are, for example, 99.5% accurate. As a result, management can use the LMS to strike the optimum balance between throughput and other key metrics that matter to their operation.

5. Experience with Integration

Time and production data are the two most critical inputs to an LMS. Some Tier 1 LMS solutions offer the flexibility to manually enter these data directly into the LMS, or take an interface feed from existing systems that already collect this data. Businesses that decide to take the interface route should thoroughly investigate each vendor's approach to integration, their experience integrating with the specific systems already in place, and their familiarity with those systems' functionality.

The LMS vendor should have experience integrating with packaged and homegrown systems. Furthermore, the vendor should understand these other systems from a functional perspective so it can help identify the appropriate data to pull into the LMS.

LMS solutions that offer a built-in interface mapping tool can significantly reduce the pain associated with developing custom interfaces. Ideally, the mapping tool should be able to connect to source databases from multiple systems, extract data, transform that data to meet the requirements of the LMS, and then import the data to the LMS. Additionally, the tool should support the extraction and transformation of data from the LMS into other systems, such as payroll.

6. Desire and Willingness to Partner

Best-of-breed software solutions offer a high degree of configuration flexibility. However, when it comes to requirements that are not met by the base solution, not all vendors take the same tack. The most common approach is to modify the base system at the client's cost. This approach makes sense in situations in which the new functionality is viewed as a major competitive advantage, though this is typically not the case. More often, modifications are requested to make the LMS easier to use in a client-specific environment.

Client-funded modifications are costly in the short term from an initial investment standpoint and in the long term from an upgrade and maintenance perspective. Identifying vendors that regularly partner with clients to co-develop new functionality is essential. This approach ensures that the vendor has a vested interest in developing the highest quality, most robust and flexible functionality to support the client's business requirements. At the same time, co-development defers some of the short-term cost for the client and eliminates concern about additional maintenance fees and upgrade issues down the road.

An LMS vendor's willingness to partner will impact contract negotiations, joint design and development efforts, and long-term support arrangements. As a result, it is very important to look for a vendor who is willing to co-develop its LMS with its clients.

7. Proven Ability to Provide Results

Of the dozens of LMS vendors in the marketplace, only a handful truly have the experience and knowledge required to ensure success with the software implementation and ongoing performance management initiative. Installing and configuring the software is the easy part. Understanding that an LMS implementation is part of a broader performance management program, and acting as a trusted advisor to achieve success, sets the best vendors apart from the pack. Vendors should be able to clearly articulate how effectively their solutions fit the unique culture and goals of the business, and how their programs will be rolled out successfully.

Top-tier vendors use resources that are well versed in change management and performance improvement fundamentals. These resources draw upon previous experiences with similar operations to drive best practices. They have a vested interest in the project and work hand-in-hand with the client to ensure the continued success of the program. A strong list of referencable clients that can testify to the quality of the software and implementation resources is a must.

Seeing the Forest for the Trees

Compared to the LMS marketplace, other supply chain software markets are relatively mature. For example, the markets for warehouse management systems (WMS) and transportation management systems (TMS) have developed to the point of industry standardization of terminology and clearly defined functionality. This facilitates comparing different vendors' solutions. In the LMS market, however, terminology and functionality are relatively undefined and ambiguous. As a result, there are often radical differences among offerings by even the top-tier LMS vendors.

The ultimate goal of an LMS is to help the management team measure and motivate its workforce. Strategic management tools such as extensive, user-friendly reporting and analytics and associate coaching capabilities will provide much greater value to the business than gimmicks, which can often hurt worker performance rather than help it. When evaluating LMS solutions, it is extremely important to focus on the forest rather than the trees. Businesses should look beyond each LMS vendor's semantics and gee whiz features, and strive to understand how the LMS will provide real value and empower the management team to lead a lean workforce more effectively.

About KSA

Kurt Salmon Associates (KSA) is the premier global management consulting firm focused on supply chain management. We work closely with our clients to create accelerated value through our tailored solutions for business growth, margin management, inventory efficiency, productivity improvement, and technology effectiveness.

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