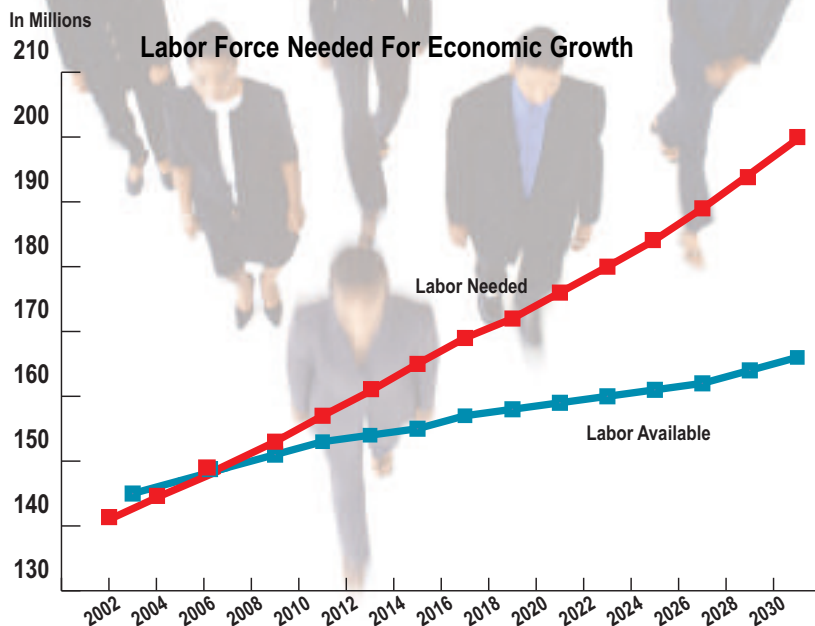


A Case For:

# Planning For The Looming Labor Shortage

## A SUPPLY CHAIN PERSPECTIVE



Source: Employment Policy Foundation analysis and projections of Census, Bureau of Labor Statistics, and Bureau of Economic Analysis data

According to the U.S. Bureau of Labor Statistics, the U.S. civilian noninstitutional population is expected to increase by 23.9 million over the 2004-14 period, but the civilian labor force is projected to increase by only 14.7 million, 10% over the same period.

According to the Harvard Business School Press “*Workforce Crisis - How to Beat the Coming Shortage of Skills and Talent*”, we will have too few young workforce entrants to replace the labor, skills and talent of boomer retirees. The more immediate loss of skills and experience is already threatening the performance of many corporations. Since the generation after the boomers is much smaller, companies can no longer rely upon a relative profusion of younger workers. Even when they successfully hire and retain young workers, they are still trading experience for inexperience.

### HOW WILL THE SUPPLY CHAIN INDUSTRY BE EFFECTED BY THIS LABOR TREND?

According to the Bureau, the Warehousing and Storage sector has job needs which are projected to grow 24.8% between the year 2004 and the year 2014. This poses a 15% shortfall over projected 10% increase of the civilian labor force.

Some of the primary challenges to those managing supply chain operations include:







- **STAFFING** – A shortfall of skilled labor to perform manual material handling functions such as material movement, order fulfillment and truck loading/unloading.
- **COMPETITIVENESS** – The increased demand has created wage pressures which lead to competitive disadvantage in the global market.
- **CUSTOMER SERVICE** – Issues of reduced skill development and increased turnover are yielding a reduction of order fill quality and accuracy.
- **INDIRECT COSTS** – Skyrocketing healthcare costs in concert with increased employee injury claims due to higher demand has further ballooned the net workforce cost in supply chain operations.
- **ROI** – Invaluable, but indirect functions such as asset maintenance are being eliminated or reduced at great long-term risk to the enterprise.

### WHAT OPTIONS EXIST TO SURVIVE THE SYMPTOMS OF THIS LABOR TREND?

The options to overcome these challenges while remaining profitable are few. Following are some of the alternatives in supply chain management:

1. **Increasing Productivity** – US productivity rates are at a record high. Much of this gain has been the result of sheer human effort and sacrifice as companies have cautiously restored revenues following the 2001-2003 recession. This well appears tapped as productivity growth has flattened in 2006.
2. **Leveraging Technology** – An effective approach to squeezing yet more output from our constrained workforce is to provide tools that allow labor to be more effective in roles requiring cognizance and eliminate non-value-added efforts.



TECHNOLOGY	PRODUCTIVITY GAINS	EXAMPLE
<b>Workforce Management Software</b>	<ul style="list-style-type: none"> <li>Optimized real-time redirection of warehouse employees based on workflow.</li> <li>RF/Voice interface reduces lost time and provides discrete performance measures.</li> </ul>	
<b>Automated Storage &amp; Retrieval</b>	<ul style="list-style-type: none"> <li>Eliminates low-thought repetitive functions.</li> <li>Eliminates ergonomic, safety issues that can impact order quality and cost.</li> </ul>	
<b>Automated Truck Loading</b>	<ul style="list-style-type: none"> <li>Replaces high labor/expense fork truck functions.</li> <li>Reduces product damage and lifting issues.</li> </ul>	
<b>Palletizers</b>	<ul style="list-style-type: none"> <li>Eliminates twisting and lifting injuries, repetitive motion.</li> <li>Adds speed and accuracy to pallet building without labor.</li> </ul>	
<b>Order Fulfillment Technology</b>	<ul style="list-style-type: none"> <li>Computer driven mixed order dispensing eliminates labor and associated human error.</li> <li>Super-human logic facilitates store-ready sequencing.</li> </ul>	
<b>Automated Transportation</b>	<ul style="list-style-type: none"> <li>Manual equipment operators such as fork truck drivers are limited to only added value functions.</li> <li>High speed sortation eliminates man-made gaps in order processing.</li> </ul>	

**3. Outsourcing** – Focusing on core competencies and moving low-value-added production functions to groups that can leverage large economies of scale is an approach to not eliminating but offloading labor issues. Unless such functions are taken off of our shores, this does not eliminate the net manpower needed, but it does concentrate the demands with those who have perfected the art. For example:

- **3rd Party Logistics** – When appropriate and the business model demands basic logistic requirements, 3PL operations can reduce your staffing burden by inviting you to be part of their “logistic co-op” where intermingled inventories are serviced by a managed workforce. Ideal in some chains and for exception handling such as returns processing, this option can suffer from a lack of control by the owner and operational flexibility is often at risk.
- **In-House Outsourcing** – The best of both worlds is often the use of a skilled, outside-managed workforce in your facility performing the functions to your demands without the burden of labor management. In this scenario, you are buying logistics, inventory movement, added value processing, equipment uptime, order fulfillment . . . NOT just headcount. Partners in this market sign on to levels of performance that tie to their compensation. This gain sharing results in high levels of commitment and satisfaction.

FUNCTION	REASON TO OUTSOURCE		
	COST SAVINGS	PERIODIC NEED	EXPERTISE
Landscaping Service	■		
Janitorial Service	■		
Facilities Maintenance		■	
HVAC		■	
Fork Truck Maintenance		■	
ASRS/AGV Maintenance			■
Operations Management			■
Information Technology			■

## A SINGLE SOURCE SOLUTION FOR **IN-HOUSE MAINTENANCE OUTSOURCING**

Turning non-core business tasks over to HK Systems can bring piece of mind and lower associated risks. Though your business model may not tolerate the outsourcing of supply chain functions, maintaining the ROI of your supply chain assets may be a winning strategy. Skilled, agile maintenance providers combat labor challenges with pooled talent on demand. HK Systems recommends the following key considerations:

- Clearly define success and associated metrics
- Consider key knowledge positions such as technicians or engineers
- Think ROI and continuous improvement, not headcount
- Work with your provider to allow for seasonal staff fluctuations

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