TBM

Has the Labor Shortage Put Your Company in a Tough Spot?

For now, it appears that the tight labor market isn't going away. TBM's Dan Sullivan has some ideas on how to combat the labor shortage with a vigilant focus on productivity improvement.

The labor shortage isn’t going away any time soon. It’s time to find a strategic solution.

When I first started at TBM many years ago, we always asked clients adopting lean manufacturing practices to commit to not laying off any people because of their lean initiatives. There’s no faster way to kill employee engagement and bring your continuous improvement efforts to a screeching halt.

Today, such a commitment is rarely necessary. With the unemployment rate hovering around 3% or lower in many areas of the United States, manufacturing companies are struggling to find and hire good people. If productivity improvements free up employees in one department, they can be redeployed to other open positions.

In this economic environment ongoing productivity improvements are not optional, they're essential. It's the best way for manufacturers to counter the costs of higher employee turnover and rising hourly labor rates.

Get Out in Front of the Problem

Our clients have facilities in urban, suburban and rural communities. No matter where they are located, everyone I talk to says they are having a hard time finding and keeping employees. People will move to another job for an extra $0.25 per hour, which isn't hard to get. Many companies are having to run production lines at less than the rated capacity because they can't man them fully. One of our clients estimated that it costs $7,000 per hire to replace an entry-level factory worker factoring in recruiting, onboarding and training. Do you know how much it costs your company?

I haven't heard any predictions that the labor shortage is going away anytime soon. That's why, like any other threat to business growth and vitality, manufacturing leaders must recognize this reality and develop a strategy for addressing the problem.

We are working with a number of clients to tackle their labor shortage challenges head on. At one company, where revenues are growing 6-7% annually, leaders want to reduce the size of their workforce by 15-20% over the next three years. Doing so will reduce hiring challenges and negate the impact of hourly labor rate increases on the company's financial performance. They expect to achieve half of the labor reduction target from automation and the other half from process improvements. The faster they hit the goal, the sooner the company will realize the financial benefits.

Target Labor Hot Spots

Our challenge is to identify the biggest opportunities to improve productivity and help their domestic network of manufacturing and distribution sites achieve them. Here's how we do that.

I've never met a plant manager who didn't think their production processes were special and unlike anything anywhere else. In a large company like this one, with so many facilities, that's patently not the case. Products, pack quantities and customers may be different. But when there are a more than 100 production lines and work cells, the underlying processes from production through shipment are often very similar.

We start by looking for labor “hot spots” in each facility. It’s like taking a thermal image where the highest concentrations of people are bright orange and red. We then focus automation initiatives and process improvements where the changes can be replicated on similar lines at other facilities, magnifying the productivity benefits.

We are about one-third of the way through this project and we’ve identified where we can get two-thirds of the productivity improvement target. Many of the productivity gains are related to workflow, standard staffing, play calling for different SKU sets, equipment utilization, and improving how we manage variations in the production schedule. We’ve found places where one person can tend multiple machines, which can reduce labor inputs five to ten percent. For example, instead of having six people operating one machine and four people on another, we’ve now consolidated the team to eight people on two machines with some operators supporting both lines.

Ongoing Productivity Improvements Are Not Optional. They're Essential.

That’s just one way that we are helping our clients tackle the labor shortage by strategically driving productivity improvements. As I wrote in the beginning, ongoing productivity improvements are not optional, they’re essential. The benefits of figuring out how to do more with fewer people multiply in a tight labor market. What’s your strategy for improving productivity to offset rising costs and not let labor issues hinder growth?

Dan Sullivan, Executive Vice President

Dan Sullivan is Executive Vice President and serves on the TBM Board of Directors. He leads the firm's North American consulting operations. He is a coach at heart and is passionate about operational excellence, cultural change and results.