WAGE INCENTIVES IN WHOLESALE GROCERY WAREHOUSES

by
Richard A. Edwards
University of Georgia
Athens, Georgia

The concerned manager of today is faced with the very real problem of increasing productivity and lowering unit cost. The solutions are usually categorized as to automation or the use of soundly applied industrial engineering techniques centered around a well run incentive system.

In the vast majority of cases, pure economics make the decision rather easy. Let us remember that roughly 86 percent of all plants in the United States have less than 100 employees. In Georgia a large independent wholesale grocer would have total employment of around 40 and sales of roughly 15 million in dry groceries. The large companies engage in more automation than this size operation can justify.

The best hope of any wholesaler to reduce his labor cost is to install a wage incentive system. An incentive system is essentially a motivational tool as it provides goals for the workers, and it assures an equitable distribution of wages so that those that work hardest receive the most pay.

I assume that we are all familiar with the industrial engineering terminology that expresses normal work performance at 100 percent. In an industry which has no performance standards, the operators will generally operate in the 65 to 70 percent range.

In many organizations, if not in most, the employee operating in a wage incentive plan will easily exceed the 100 percent level by 25 percent. A wage incentive plan could reduce unit labor and still result in high wages for the labor force.

These gains are achieved to a large part not by the employees physically actually working faster, but much more is achieved through a better operating organization through efforts of a trained and enlightened supervisory group - less personal time in the washroom or long breaks, less non-productive down time, etc. The system will encourage the changes.

There are many types of incentive plans, but the most logical is the direct incentive, minimum hourly guarantee. With this plan each employee acts as an individual contractor, each day and each assignment is measured against performance standards. By exceeding these standards, the employee's earnings rise above the minimum guarantee. (For each percent gained over standard, he receives the same percent above his hourly base rate).

Any incentive plan is most effective when each worker is on an individual incentive. Group incentives should be avoided if at all possible. Individual incentives are easier to control and are more satisfactory to the worker. The common complaint heard about group incentives is one worker is working very hard, and another is laying down on the job.

Individual plans should be of no problem to wholesalers as most jobs are performed as individuals. Order selectors in dry groceries, frozen, dairy, and health

and beauty aids are all examples of individual jobs which could be placed on incentive. Others are truck loaders, rail car and truck unloaders.

Well, how does one set up a wage incentive plan? A comprehensive plan would call for intensive time studies from which reliable rates are established. This means people trained in this area or consultants. Another method of setting standards is to go back over historical data to determine what output per man hour has been in the past. Using this as a guide, one can set the 100 percent level.

The least effective way would be to set them by "gut feeling". You know Joe is doing this much, but you feel he could do this much if he tried.

I always recommend setting rates in the order just given; time studies, historical data, and intuition.

Once you have established the standards comes the hard part, how do you make it work? The prime criteria to a successful program is that upper management be totally committed to the system. Upper management must make necessary effort to be informed about the system. It must also be a matter of policy that line supervision be at all times properly informed and trained to oversee and support the system.

Management must have the ability to communicate the plan. The fear of the unfinished can hamper the program. Management must also work with those who have problems adjusting to the new pace. Adjustment problems are often easily overcome by having training allowances which allow employees to achieve a bonus during the period of adjustment. Training allowances also are a large plus factor in selling the plan to new employees.

The last point is to continually update and maintain the system. If all incentive plans which had been abandoned were analyzed, I'm sure the majority cause of failure would have been lack of updating. If the job changes, the standard must change. It must work both ways if the job is more difficult, the 100 percent level must decrease. If the job content decreases and the standard is not increased, then stand by, because erosion has set in and the operators read this as an invitation to inflate earnings.

One problem I have not touched on and one I'm sure everyone has thought about is union resistance to work standards. Dr. Gordon Bloom in his book, "Productivity in the Food Industry," is very frank about this question. He had no solution to the problem, and I don't either. My only comment is that perhaps management should be approaching the question on a long range basis. A highly effective union bargaining technique is to ask for programs today that they really hope to get ten years from now. Prime examples are the UAW's 30 and out retirement plan and the recently approved limited overtime provision.

Management must start today to make inroads to achieve improved work standards they need for the future.

Here you have it; the opportunities are here. For those of you who are associated with firms incorporating incentives, I think you would agree that it is a motivator and succeeds in increasing productivity. Also for those of you who tried and discarded incentives, I hope I have stimulated you enough to review the program and see what went wrong and determine if resurrection is feasible.

****