

# THE WAREHOUSE POOL PLAN



**Logistics Management Consultants**

**Newsletter No. 64**

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Tired of conventional Bonus Schemes? Frustrated by endless disputes and meetings? Don't despair, the answer is at hand! Distribution Management 2000 ( Formerly Drew Management & Associates ), specialist consultants to the distribution trade, have developed a system to counter the bonus scheme blues.

Over the years DMA have been involved in many types of bonus incentive schemes, from piece rate to Performance based, and have monitored the evolution of the various types of scheme with more than a passing interest. The main problem with most conventional bonus schemes is that as they are Performance based, it is possible, over a period of time, to reach the maximum in terms of bonus earnings, while at the same time reducing actual output as time standards slacken. If your scheme does not have a maximum, then beware!

Once the maximum is reached then no further progress is possible, or at the very least it is extremely difficult. There is no incentive for the operators to renegotiate the time standards as they are enjoying maximum earnings. The only solutions available to the companies concerned are a restudy of the time standards, added incentives outside the existing bonus table, "red circle" payments, or lump sum compensation payments. All of these solutions are acceptable the first time the problem appears, but they become increasingly difficult to apply as the problem recurs. It is also true that the workforce are often willing to discuss the issue ad nauseam if the dreaded "average bonus" is applied. In some cases the workforce simply refuse to budge from the existing status quo and resist all attempts to change. This is sometimes the case even when it is obvious to all concerned that the time standards have reached the end of their natural life.

Having encountered the problem over the years, DMA now propose a radically different type of payment system "designed", as they see it, to continue the natural evolution of bonus schemes. This system of payment is a development of DMA's highly successful Standard Hour Plan for drivers. The essence of the Standard Hour Plan is that you get paid for the amount of work you do, rather than the time spent doing it. DMA have now taken this concept off the road and into the warehouse.

For the warehouse this new payment scheme is known as the "Pool Plan". Just like conventional bonus schemes, the Pool Plan requires, as its basis, detailed work measurement. This measurement is used to establish accurate time standards. At this point the direction of the Pool Plan becomes radically different from the traditional Performance calculation with bonus paid on top of basic pay. For the Pool Plan, the time standards are used to evaluate the work content and all payments, basic, bonus and overtime, are made from here. Put simply, an amount, known as the Standard Hour Rate, is paid for each calculated hour's work. No more payments are made! The total Pool is split evenly amongst the workforce pro rata to their clock hours.

To illustrate how the Pool Plan works, consider a typical grocery warehouse with a throughput of, say, 26,000 cases per week. The work content would be assessed as follows:

<u>Operation</u>	<u>Throughput ( Cases )</u>	<u>Standard Hours Produced</u>
Goods In & Replenishment	26,000	102.6
Assembly	26,000	168.7
Despatch	26,000	40.6

Total for Week :- 311.9 Gross earnings for the week are then calculated simply by multiplying the weekly Standard Hours produced by the wage rate per Standard Hour. If this rate were, say, £8, then the value of the 'Pool' for that week would be calculated as follows:

$$311.9 \times \text{E}8 = \text{Euro } 1559.50$$

which would then be distributed according to the number of hours worked by each member of the group.

From the Company's point of view this approach has several advantages:

1. Payment is based on work content. More work equals more pay, less work equals less pay.
2. Payment is not Performance based.
3. There is no advantage to the workforce in extending the working day as there is only one rate of pay (i.e. no overtime premium).
4. An additional incentive may be introduced - Job and Finish.
5. Everyone earns the same hourly rate so that IR problems are virtually eliminated.
6. No 'average payments' are made - any 'extras' are built in to the Standard Hour Rate at the outset.
7. Changes to the Plan are more easily achieved, as it is group or team based.
8. Since the staff earn no more by slowing down, true Performances are more obvious.
9. Significant savings are usually possible through increased efficiency due to teamwork, i.e. to save time, the workforce have a vested interest in helping each other!
10. The workforce are more interested in taking on more work as more work equals more money!

DMA believe that this type of payment plan will solve many of the problems associated with current bonus schemes, and will be particularly effective in warehouses where existing bonus schemes have been running for some time. Where it has already been applied, both management and employees have benefited.

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**DMA** are specialist consultants to the distributive trades. They are extensively concerned with productivity improvement projects covering both warehouse and transport operations. For further information please contact: Patrick Madigan at [dma2000.com](http://dma2000.com) or Tel. 00 353(0)1 8402 799 0r 00 353 (0) 872 41 42 43 or 00 44 (0) 798 567 9346