

White Paper

Hidden Cost Reduction in Distribution Centers and Manufacturing: Predictive Hiring for Material Handlers and Production Workers

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*Despite the potential of dramatically improved processes and technology for material handling and logistics....much of the work in the industry will continue to be done by a human workforce in 2025.*¹

Although the latest advancements and innovations such as material handling and manufacturing equipment, inventory management technologies, and automatic identification systems promise significant cost reductions and efficiency improvements, many have fallen short of attaining their goals. Similarly, many efforts to increase labor force effectiveness such as creating a high performing culture, cross-training, and pay-for-performance attained initially positive results, but experienced diminished effectiveness over time. Why is this?

Close inspection of the advancements and innovations reveals that many of them are incomplete because they do not address the impact of Material Handler and Production Worker turnover on efforts to reduce costs and improve efficiency. Turnover costs are commonly estimated at 50% of the employee's annual salary; and result from both direct expenditures (ex., recruiting, reference checking, drug testing) and indirect expenses (ex., poor performance before

turnover, lost co-worker and Supervisor time and productivity, customer dissatisfaction, new-hire ramp-up time). Also overlooked is the opportunity to replace workers who turnover (often 30%-50% of the workforce) with new hires that are best suited to work with the new technologies and equipment. Both of these represent ways to reap greater cost savings and efficiency improvements from the advancements and innovations.

To address those issues, this paper recommends including Predictive Hiring for Material Handlers and Production Workers as a more complete approach to implementing advancements and innovations in Distribution Centers and Manufacturing.

Predictive Hiring is 3x more effective than traditional hiring approaches and yields impressive results:

- 12% Material Handler turnover rate
 - 60% reduction in Production Worker turnover
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Decades of research have shown Predictive Hiring tools to be 3x more effective than traditional hiring approaches at accurately identifying the best job candidates for a wide variety of jobs.² That advantage stems from the systematic ways in which Predictive Hiring tools are developed (ex., via job analysis and content validation) and the standardized procedures used to implement them (ex., pre-determined scoring benchmarks and ‘rank order banding’ to distinguish between top/middle/bottom tier candidates).

A further benefit is that Predictive Hiring is implemented without disruption to current workforce productivity because only job candidates are impacted. As a result, it can be put into practice independent of any new technology or equipment to help improve the workforce.

Applying Predictive Hiring to Material Handlers and Production Workers

Predictive Hiring identifies the ‘raw materials’ needed to be the most effective employee. Just as every manufacturing process begins with the best possible raw materials to produce the best product, Material Handlers and Production Workers must have the requisite raw materials needed to be successful. Without addressing this fundamental issue, the full potential of a Distribution Center or Manufacturing process will not be realized. Worker raw materials fall into two categories, *will do* and *can do*. In short, *will do* refers to having a good attitude and *can do* means having minimal amounts of required skills and abilities (ex., comprehension). When Supervisors and Managers are asked which incumbent workers they would like to ‘clone’ with future new hires, they

always point to *will do* as most important; but also say some *can do* is essential.

Different company cultures and job requirements mean different mixes of *will do* and *can do* are needed, and the blend has to represent the company’s specific needs. Based on proprietary research, Klawnsky Consulting established the model below as a starting point for Material Handler hiring processes. The 3:1 ratio between *attitude* and *ability* is used to fine-tune the hiring process so that it emphasizes the most important worker qualities.



Increasing Accuracy of Hiring Decisions

The primary reason why traditional Material Handler and Production Worker interviews don’t accurately identify candidates with enough *will do* is they begin with a faulty assumption—that the interviewer will ‘just know’ or can trust ‘gut feelings’ about candidates. This is a romantic notion that may work well when dating a potential spouse, but falls short when used to identify the best job candidates. That said, experience and judgment (especially from Supervisors and Managers) shouldn’t be avoided in the hiring process. Rather, those judgments should be delayed until the end of the process at which time they will become *informed* judgments and opinions because they take into account critical information gathered from the systematic and standardized Predictive Hiring

interview. Without taking this crucial step of delaying judgment until the end of the process, bias will always be a problem. This point is worth repeating—we all have biases (such as liking candidates who have similar background and work experiences as we do) and they are the biggest threat to accurately identifying candidates who will be the best employees. So it's critical to let all aspects of the hiring process play out before taking into account judgments and opinions.

In contrast to *will do*, skills and abilities in the *can do* category are more easily identified and measured because they are more objective. A short basic skills test or assessment is usually used to determine if job candidates have the required amount of *can do* in areas such as comprehension, math, or technical knowledge. Unsuccessful candidates are typically encouraged to re-apply after a minimum waiting period.

Predictive Hiring Starts with Effective Recruiting

A frequently cited challenge related to Material Handler and Production Worker hiring is dealing with the Millennial workforce. One secret to hiring Millennials is to steer clear of the stereotype that they want everything to be quick and easy. That may be true for their entertainment, but when it comes to looking for employment the best candidates are not in a rush. In fact, they want to be challenged and informed during the hiring process and are willing to spend extra time learning about the job and company culture because it helps them decide if they are a good match for the position. That means that as many as 25% of candidates are willing to walk away from a job

opportunity if they don't think there's a good match.³

It also follows that Millennials want to be treated professionally and fairly during all aspects of the recruiting and hiring process; if not, they will use social media to let their friends know about it.

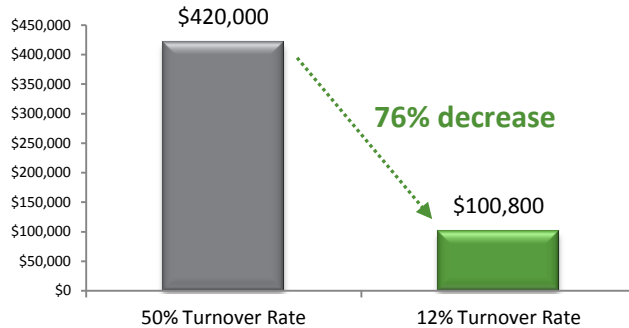
Predictive Hiring achieves greater success rates because it avoids these types of stereotypes and instead focuses on key cause-effect relationships proven to identify the best candidates.

A hidden payoff from combining effective recruiting with Predictive Hiring is reduced recruiting demands. It's a simple equation, lower turnover means less recruiting (especially important given current and future labor shortages). Predictive Hiring allows companies to rank candidates (top/middle/bottom tiers) and track the quality of candidates obtained from various recruiting sources; followed by allocating budgets to sources that yield the best candidates. Companies can also compare the costs of hiring lower tier candidates to fill immediate needs with the benefits of delaying job offers until additional recruiting for higher tier candidates can be accomplished.

Reducing Turnover Costs

Predictive Hiring yields dramatically improved results compared to traditional hiring approaches. For example, a 12% average Material Handler turnover rate was attained for eight years by using an interview and short test (by comparison, 30%-50% turnover is commonly reported). That low turnover rate translated into a 76% decrease in annual turnover costs (see chart on next page).

Reducing Costs with Predictive Hiring



Turnover cost = \$12,000 (50% of Material Handler annual salary)
 Average of 70 Material Handlers at DC
 12% average annual turnover from 2008-2014

In another case, Production Worker turnover decreased 60% (dropped from 50% to 20%) six months after implementing an interview and job simulation; a savings of \$19,000 per turnover at the plant.

Addressing Legal Requirements

Complying with legal standards for hiring processes is essential for avoiding costly lawsuits; but more than that, it's a critical step in the process of accurately identifying the best candidates. Predictive Hiring utilizes legally compliant professional practices such as conducting a job analysis, validating the interview, and training interviewers. Taking those up-front steps ensures the most critical *will do* and *can do* aspects of the job are represented in the hiring process, and that all interviewers are 'calibrated' regarding how to identify them. With that information in hand, it is much easier for interviewers to recognize the best candidates and differentiate them from those who only have a good resume or are only good at interviewing.

Putting It All Together

What makes Predictive Hiring so effective is that it provides customized solutions that both align with company values and fit specific job requirements; thereby helping to achieve the full potential of the Distribution Center or Manufacturing facility. Although 'off-the-shelf' hiring tools are readily available from various publishers and Internet sources, they are by necessity 'generic' in nature because they were designed to apply to many types of jobs and companies; and therefore fail to meet the specific needs of any individual company.

Predictive Hiring for all Distribution Center and Manufacturing positions should include a *structured interview* with two interviewers and interviewer training/retraining (without retraining, interviewers often become more lenient over time). In addition to the interview, Material Handler hiring should include a *basic skills test*; Production Worker hiring a *job simulation* or *work sample*; Maintenance hiring a *technical test* and *technical interview*; and Supervisor hiring/promotion a *role play* to simulate common employee interactions. Additional hiring tools should be included only if they serve to significantly increase the accuracy of hiring decisions.

Companies interested in experiencing results similar to those presented in this paper should consider utilizing both effective recruiting techniques and Predictive Hiring tools to help reach their goals.

¹ Material Handling and Logistics U.S. Roadmap, January 2014.

² Schmidt & Hunter (1998). *The Validity and Utility of Selection Methods in Personnel Psychology: Practical and Theoretical Implications of 85 Years of Research Findings*.

³ Saville and Holdsworth sources.

About Klawsky Consulting

Klawsky Consulting helps companies identify untapped cost savings and efficiencies by changing the way Supply Chain builds their workforce. By using proven Predictive Hiring tools and methodologies to identify job candidates who will succeed in each company's unique culture, workforce effectiveness is increased without disruption to current productivity levels; and with shorter payback periods than almost any other Supply Chain solution. For over 25 years we have worked in tandem with Fortune 500 clients to realize the full potential of their most important resource—their people.

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Maximize your most important resource - *your people.*

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