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The Truth About Overtime in Distribution

How to use overtime to benefit employees, customers, and the bottom line

Introduction

It's time to recognize that overtime is not the bogeyman it's been made out to be. Particularly for logistics and distribution companies, where demand is seasonal and variable, overtime can be a valuable tool. One that helps you meet customer demand and expectations, provides employees with fair access to additional compensation, and best of all, doesn't cost as much as you think it does. In fact, overtime can translate into lower prices and shorter lead times. Instead of overtime being a bad thing, it can be an effective business strategy that helps you achieve your goals.

The strategic, planned use of overtime can help you operate more efficiently and safely, meet productivity goals, increase employee engagement, and limit turnover. Conversely, minimizing the use of overtime can actually result in decreased service levels and inflated costs — especially with highly seasonal or variable demand.

An unprecedented challenge

Factor in a pandemic and vaccine rollouts and the challenges for the logistics and distribution industry have never been greater. Starting last year, the spike in demand from consumers who were staying home, whether due to lockdown orders or because they were uncomfortable with crowded public spaces, led to unprecedented shortages and difficulties in meeting demand. E-commerce skyrocketed, with a recent survey by McKinsey & Co. reporting that the pandemic collapsed into three months a process of adopting e-commerce that otherwise would have taken 10 years.[1]

The 2020 holiday season provides another powerful proof point that digital shopping is on the rise. Mastercard reports that e-commerce sales experienced an incredible gain of 47.2% during the recent holiday season.[2] Figures from Adobe Analytics, which analyzed one trillion visits to U.S. retail sites, found that U.S. online sales reached $188.2 billion during November and December, for an annual increase of 32.2%, which is an all-time high.[3] These numbers are sure to only increase with the continued adoption of online shopping.

'The most important job in FedEx history'

With the approval of COVID-19 vaccines, the special requirements and safety protocols for handling, sorting, storing, and distributing this cargo contributed to perhaps the largest logistical challenge in human history. From temperature-controlled solutions to near real-time monitoring, distribution companies have created both new equipment and new processes to ensure the rapid, secure, and medically safe distribution of this precious cargo. This incredibly complex task and the longer working hours it demands require employers to balance employee schedules and keep a close eye on overtime to ensure timely, safe vaccine distribution.

"We've got the latest and greatest in advanced tracking on every package," said FedEx Regional President of the Americas Richard Smith. "We affix a SenseAware ID tag to every box when our couriers pick it up so we have eyes on these packages at all times as they move through our system. This is the most important job in FedEx history."[4]

Customer expectations have changed — permanently

What does all of this mean for distribution? Overtime is here to stay — and you can use it strategically to run your business efficiently while at the same time being fair and equitable to employees who want overtime hours. And that will allow you to improve customer service, combat pay inflation and time theft, increase employee satisfaction, and compete more effectively in today's fast-paced logistics market.

The source of one of the biggest shifts in customer expectations is often called the "Amazon Effect," which describes the evolution and disruption of the retail market from increased e-commerce. For distribution, the Amazon Effect has meant a radical reshaping of how quickly customers expect to receive their goods, with same-day and next-day delivery fast becoming norms. This effect extends beyond Amazon to any company that needs to ship a product. During periods of seasonal and variable demand, hiring can skyrocket. For the 2020 holiday season, Amazon announced plans to hire an additional 100,000 workers,[5] while the Postal Service hired more than 50,000 workers.[6]

> **If you have seasonal or variable demand, the fair and balanced use of overtime lets you ensure on-time delivery while keeping costs down. Overtime is not the problem. In fact, it is probably the solution.**[7]
>
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How to put overtime to work for you

In this complex operating environment, overtime can help you balance the needs of your customers and your employees. How? By helping you meet customers' expectations — no matter the demand — and giving employees the overtime they want — fairly, safely, and with minimal administrative headaches on your end.

The fear of using overtime has led to a widespread belief in the overtime lie: the idea that overtime is unreasonably expensive and that keeping overtime rates low means your business is functioning effectively. In reality, underusing overtime has the opposite effect of increasing costs by forcing you to overstaff and overstock. You end up shouldering higher headcount and inventory costs in order to be ready to handle last-minute spikes in volume.

The strategic use of overtime, within reasonable limits and with clear visibility into how it is being used, allows you to flex up to meet variable and seasonal demand. You can carry only the headcount you need during low-volume periods and flex with overtime hours to meet customer needs during high-volume periods. Because employees are already onboarded and trained and benefits are already paid in the first 40 hours, the incremental costs associated with overtime are low.

The cost of new employees can add up

It's much more expensive to hire and train a new employee than it is to use overtime, which has the added benefit of ensuring that a trained employee is handling the work. Studies show that the average cost of replacing a warehouse employee can be $7,000, or about 25% of a typical warehouse worker's salary.[8] But factor in lost productivity and other indirect impacts, and some experts estimate the real cost to be 150% of salary.[9] In either scenario, turnover can be a major drain on profits.

Retaining experienced employees should be a key focus of logistics organizations, which already face turnover rates of 33%.[10] Providing overtime to employees who qualify for the work and want the added hours can be a powerful ally in your efforts to reduce costly turnover. By giving overtime to your best workers, you can prevent them from looking elsewhere for employment and from taking second jobs that can complicate scheduling and resource planning.

How to use overtime effectively — according to your workers

When it comes to overtime, choice matters. It can be helpful to think of your workforce in three segments: one group wants to work fewer than 40 hours, another wants to work only 40 hours, and the third wants as much overtime as you can give them. The challenge is to increase retention by offering overtime to the employees who want it and not requiring it from the employees who are content to work their regular schedules. At the same time, you want to ensure overtime isn't being hoarded by a small group of employees, that new employees get a chance for extra hours, and that no employees are working too many hours in a day or a week, putting themselves and the company at risk of safety violations. Even your most dedicated employees have limits, and it's your responsibility to recognize them. Fatigued workers are more likely to be late or absent, putting pressure on productivity goals.

Workforce management tools make a difference

Managing all the complexities around overtime isn't possible without an automated solution in place. Attempting to manually track overtime through spreadsheets makes you vulnerable to expensive overtime disputes that can end up costing you valuable time, employee frustration, and even financial penalties. By automating overtime management, you can align employee schedules with the company's needs, creating a best-fit schedule for your workforce. When you match employee availability, skill sets, and preferences with your business demand, you reduce unplanned overtime and maximize productivity by focusing on optimizing the use of regular hours first. Managers and supervisors can easily track constantly shifting schedules and ensure that their most skilled pickers/packers, kitters, dock workers, drivers, etc. have a balanced schedule for the month. With a clear picture of schedules and overtime, you can ensure that extra hours are distributed equitably.

Use overtime policies to become an 'employer of choice'

You might not think that overtime can help you become an employer of choice in the highly competitive logistics and distribution segment. But getting overtime right can go a long way toward building a happier, safer, and more engaged workforce — one that recognizes your efforts to fairly distribute overtime hours and rewards you with the increased productivity levels you need to satisfy your customers.

Sound overtime management starts with clear policies that lay out when and how overtime will be used. An automated solution allows you to manage the policies that govern overtime use, including cumulative overtime balances, seniority, job qualifications, offers, refusals, and more. You can track overtime offered and refused and total hours over extended time frames. A scheduler "call list" automatically applies overtime equity rules, so you can ensure hours are being offered to the right person who is next in line for overtime.

An automated solution also lets you maintain accurate employee records. Automatically sort through employees based on predefined criteria, including employee availability, skills, certifications, company policies, union rules, and more, to assign the right person for each position.

Ensuring overtime is a shared benefit

Another benefit of an automated solution is that it allows you to identify patterns in how overtime is being used at your company. It's not uncommon for 20% of your workers to be doing 80% of the overtime. Not only does this put them at risk of fatigue and accidents, but it also unfairly hoards overtime from employees who want it. Comprehensive overtime policies can ensure that it's distributed fairly so, for example, newer employees aren't being kept from overtime by seniority rules.

You should also keep an eye on overtime limits; studies have shown that a 10% increase in overtime leads to a 2.4% decrease in productivity. An overtime cap will improve employees' productivity by limiting worker fatigue, which reduces the frequency of lateness and absences but still allows them to pick up extra hours, preserving employee satisfaction.

Be proactive, not reactive

Real-time alerts via mobile or tablet notify managers when employees are approaching overtime limits so they can act quickly, before problems arise and profit margins are affected. Employees can be notified of extra hours on their mobile phone or smartwatch, making it easy to accept or reject shifts. Hours can be balanced throughout the week so that "favorite" employees aren't receiving extra hours. Alerts and reporting help you uncover time theft and avoid buddy-punching by preventing employees from altering their time in/out or taking long lunches or extended breaks.

An intelligent solution

Workforce management solutions that use artificial intelligence (AI) and machine learning (ML) allow you to be even more effective with overtime. Using existing labor data, you can better understand the patterns of how overtime has been used in the past. In response, the solution can offer hours to employees who are likely to want and accept them. You can schedule employees for their favorite days of the week, times of the day, and even for hours when coworkers they're friendly with are also working. Just one more way to improve the employee experience while you reduce turnover.

Labor forecasting and scheduling solutions can help organizations accurately align labor scheduling to demand, helping ensure optimal labor coverage for each shift, every day. Demand forecasting with ML has been shown to improve forecasting accuracy by 20%, resulting in cost savings from better alignment of labor allocation and optimized overtime. With access to accurate labor forecasting data, managers can better plan for their labor needs, including calculating current staffing needs, predicting future hiring requirements, analyzing compensation and overtime, and meeting shifting market conditions and changing seasonal demands.

Getting to the truth about overtime

The effective use of overtime can create large amounts of flexibility when done correctly. Inventory levels can be kept low without affecting customer service through an on-demand environment. Overtime-savvy management teams can implement labor strategies that allow additional work to be completed on short notice. The workforce can flex up to handle these spikes, leading to improved customer service and shorter delivery times. Instead of overtime being a bad thing, it becomes an effective business tool to help you achieve your goals.

About UKG

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