2017: YEAR OF CHANGE

Lee Rector

INSIGHT GROUP TECHNOLOGIES 2910 South Sheridan Way Oakville Ontario

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In 2017, across the globe, governments and municipalities are mandating increased minimum wages for employees in all sectors which will prove a catalyst for warehouse and production operations to force change. These government mandated changes are going to place a large amount of stress on supply chain where the increases are to be double digits. Already in the U.S. 21 states have implemented these increases as of Jan 1, 2017, and in states such as Arizona, Washington and Maine where the increases are in excess of 15%, radical changes are going to be needed to run profitable operations. Additionally, at least 5 other states are running by federal minimum wage guidelines and the charge to increase the current standard of $7.25/hr. to close to $10.00 has begun in earnest.

The USA is not the only country to be placed under such pressure, both Canada and Mexico are seeing wage increases averaging around 7%, which again will affect all types of operations across the borders. In Europe and Asia, we are seeing additional increases in traditionally low cost markets such as Thailand (4%), Indonesia (8%), Cambodia (9%), and late last year 9% in China.

*Denotes change was made in late 2016

2017 Increase by Region			
Region	**Increase**	**Region**	**Increase**
USA		**Canada**	
Alaska	**1%**	Alberta	**11%**
Arizona	**24%**	British Columbia	**4%**
Arkansas	**6%**	New Brunswick	**3%**
California	**5%**	Newfoundland	**5%**
Colorado	**12%**	Ontario	**7%**
Connecticut	**5%**	Mexico	**10%**
Florida	**1%**	**Asia**	
Hawaii	**9%**	Thailand	**3%**
Maine	**20%**	Indonesia	**8%**
Maryland	**6%**	Cambodia	**9%**
Massachusetts	**10%**	Vietnam	**7%**
Michigan	**5%**	Japan	**3%**
Missouri	**1%**	China*	**9%**
Montana	**1%**	**Europe**	
New Jersey	**1%**	Germany	**4%**
New York	**8%**	Spain	**8%**
Ohio	**1%**	Slovakia	**7%**
Oregon	**5%**	Czech Rep*	**10%**
South Dakota	**1%**	UK	**4%**
Vermont	**4%**	Russia*	**15%**
Washington	**16%**	Netherlands	**1%**

Table 1

The challenge now will be for the operations to do more with less, though the clock started ticking more than 2 weeks ago at the beginning of the new year. With little room for capital injection, the typical warehouse operation must look at the way labor is planned, and the operation is planned to drive out these costs. Typically a new slotting plan in the operation may drive out a large portion of that increased cost, but running just a standard A,B,C analysis and Excel sheet won't get you there.

Small investments now in 3rd party planning tools are going to increase their ROI, based on increased spend and rapid implementation of recommended or planned changes. No longer will an operation have the luxury of a 12-week implementation plan, or limited Time and Motion study from an engineering group. Tools that provide ease of use and rapid implementation are going to be key for operations to effectively lower the cost of labor and increase their overall performance.

Table 1 – United States Data USA Today

The benefit of planning tools also provides the operation flexibility and transfer of knowledge from a single employee to another, and allowing for standardization across multiple operations in the same organization. Having one individual with all the knowledge and plans put the organization at risk, of

1) the plan being ineffective and

2) the individual leaving the operation.

For those clients engaged in a fixed cost or closed book contracts with 3PL providers the challenge will become twofold. Firstly, the 3PL provider will not want to cover the local increase in wages through their existing model, as it will directly erode their profitability. Secondly, the negotiations around how much should be absorbed by the client will not be just a simple percentage increase of the fixed cost contract.

Clients should use this period of negotiations to evaluate your 3PL partner, and not to just blindly invest in your partner’s inefficiencies, regardless of where they are operating. Audit your partner’s performance, not only against the costs in the contract, but their performance on the floor and the quality of the service they are providing.

Now is a time of great opportunity to make changes in your operations, to reduce costs and increase productivity, with the backing of administration and the HR departments.

			Years			Cost Difference		
# of empolyees in warehouse(s)	Current and Future Salary	Current Annual Cost	1	3	5	1	3	5
10	$ 7.50	$ 156,000	$ 156,000	$ 468,000	$ 780,000	$ -	$ -	$ -
	$ 10.00	$ 208,000	$ 208,000	$ 624,000	$ 1,040,000	$ 52,000	$ 156,000	$ 260,000
	$ 15.00	$ 312,000	$ 312,000	$ 936,000	$ 1,560,000	$ 156,000	$ 468,000	$ 780,000
50	$ 7.50	$ 780,000	$ 780,000	$2,340,000	$ 3,900,000	$ -	$ -	$ -
	$ 10.00	$ 1,040,000	$1,040,000	$3,120,000	$ 5,200,000	$ 260,000	$ 780,000	$ 1,300,000
	$ 15.00	$ 1,560,000	$1,560,000	$4,680,000	$ 7,800,000	$ 780,000	$2,340,000	$ 3,900,000
100	$ 7.50	$ 1,560,000	$1,560,000	$4,680,000	$ 7,800,000	$ -	$ -	$ -
	$ 10.00	$ 2,080,000	$2,080,000	$6,240,000	$10,400,000	$ 520,000	$1,560,000	$ 2,600,000
	$ 15.00	$ 3,120,000	$3,120,000	$9,360,000	$15,600,000	$1,560,000	$4,680,000	$ 7,800,000

Sources United States Data – US Today

Canada – Canada Revune Agency

Asia - Trading Economics.com

EU - Deutsche Welle

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