Staffing Firms Fail Logistics Group in Client Satisfaction

I W L A

International Warehouse Logistics Association

powered by Allegiance Staffing

In a recent client satisfaction survey sent to 950 IWLA logistics professionals, the staffing industry took one on the chin. The survey utilized the Net Promoter Score method that has proven to be an accurate indicator of client satisfaction. The net promoter score for the logistics industry was a -24. Yes, that is a minus 24. As a point of reference, in a recent NPS survey, Apple scored the highest in the PC world with a score of 72 -- nearly 100 points higher.

This is a troublesome result considering how vital an effective staffing solution is to the profitability of most logistics operations. Labor is the major variable in operation costs, and due to the up-and-down nature of the industry, logistics firms have to rely on a solid staffing partner to succeed.

What is the Net Promoter Score?

The NPS is a method of evaluating and measuring client satisfaction by asking one simple question of the participants of the survey: “On a scale of 1 to 10, one being never and 10 being definitely, how likely are you to recommend your current provider to someone else?” Human nature dictates that one would not recommend someone or something that didn’t provide high quality for fear of losing credibility with the person to whom one made the recommendation. Therefore the net promoter score has proven to be a true indicator of high quality service due to the fact that people would risk their own reputation to make that recommendation.

How is it calculated?

After the completion of the surveys, the scores are divided into three categories. Scores of 9 and 10 are considered positive and are promoters. Scores of 7 and 8 are considered neutral reflecting neither negative nor positive and looked at as courtesy scores. Normally 7 and 8 represent a service that is not good enough to highly recommend or negative enough to be dismissed in other words... mediocre. Scores of 1-6 are considered negative and are detractors.

After the scores have been compiled into the three categories, each category total is calculated as a percentage of the total respondents. The 7 and 8’s are removed, the 1-6’s are subtracted from the 9 and 10’s and the answer is the NPS (net promoter score).

Local vs. Corporate Evaluations Yield Quite Different Net Promoter Scores

Additionally a substantial gap appeared between the score of decisions made locally versus decisions made at corporate. Vendor selections made at the local level generated a net promoter score of -45 compared to vendor selections made at corporate generated a net promoter score of 14, better to be sure but nothing close to award-winning levels.

What is the reason for this overall poor showing of such a strategic part of logistics business? Why is there such a huge gap of perceived client satisfaction between the field and corporate?

On the surface the survey result leads one to believe that decisions made at the corporate level deliver a higher level of client satisfaction... this is not necessarily the case. Because the survey was conducted with complete anonymity we cannot go back and specifically ask individuals for their opinions. However we can draw on past experience to come to some conclusions as to why such a vital part of the logistics industry's success is failing so miserably.

We believe that the low NPS of not only this survey but also other recent surveys are due to the conflicting motivations of the two buying groups: corporate and field locations. This is fairly easy to conclude when one examines these motivations. Local facility management is, in most cases, reviewed and compensated according to their actual productivity and profitability. Corporate staff tends to be reviewed and compensated on cost savings that in some cases are nothing more than projections versus actual outcomes. We have interviewed procurement specialists from several national and global companies and asked "Did anyone ever conduct an end-of-the-year cost analysis to see if the 5% price reduction was truly realized?" Answer "NO. There are always reasons for the individual line item to go up. Regardless, if we didn't get the price down the cost would have increased." Really?

That might be true when talking about packaging or pallets or tires... but people? With over 27 years in the staffing industry, we have one simple question that always identifies the source of high cost and low satisfaction: "If you had better people could you use fewer people?" Invariably the answer is "Yes." This is where the opportunity for substantial cost savings resides, not in markup reduction.

There is no provable correlation between low markup and reduced cost when all the factors of TCO are included. If one doesn't include headcount, unscheduled overtime, rework, scrap, and returns as attributable to labor quality and as a component of labor cost one doesn't get a true picture of cost.

There *is* a provable correlation between low quality and higher cost. Take the case of a major national food company that leveraged its spend to reduce cost and awarded a contract to a major global brand name staffing company. This decision was based solely on markup and never included the opinions of field operations. In fact, the field wasn't even aware that the vetting process was taking place. At one location the annual spend was approximately $3 million, and that facility was recognized as one of the most profitable and efficient plants in the country. For the last two years that facility had a regional staffing company that had cut their turnover 50% and reduced their W/C incident rate 80% by providing a high quality screening process and a professional onsite management team. The company that they replaced two years ago was just awarded the new contract based on markup! In the first two weeks of the new contract, the client experienced an average daily staff shortage of 35%. According to different department heads this forced lines to be shut down, overtime to be worked and an estimated loss of $40,000. The response from the manager for the new staffing provider to one department head was, "You are not my highest priority." Summary: for a projected savings of $150,000 annually, this location experienced a loss of $40,000 in the first two weeks. Can you see how there can be a large opinion gap between corporate and the field?

Examples of this are everywhere. Everyone is aware of the stories in the news about law suits and strikes related to wage and hour laws and poor working conditions (Inland Empire, Chicago area). Follow the trail. Where were the choices made on vendor selection? Most likely in a corporate environment based solely on markup versus quality and efficiency. The companies selected had to make a profit so corners are cut and compliance is compromised and now there is a news story.

The low satisfaction ratings displayed at the local level is an accurate description of decisions that were made at the local level. They are admitting their mistakes and also voicing their frustration with a service industry that continually over promises and under delivers. Local management lives with its choices every day, as well as mandated choices made at the corporate level. The higher satisfaction of corporate choices are potentially tainted by the perception of good decision-making without having to experience the downstream effect of those decisions. These results are not unlike results of previous client satisfaction surveys taken to determine service levels of MSPs (managed service providers) and VMSs (vendor management systems). Those survey results also showed the gap between field operations and corporate staff.

2010 VMS
Overall NPS 7
Industrial and Logistics -30
VP Higher 54
Manager -12

2010 MSP
Overall NPS: 2
Industrial and Logistics -8
VP Higher 47
Manager -17

Notes: 2010 only time survey was segregated by closely defined verticals (industrial/logistics)

2011 – 2013 VMS
Overall NPS: 24 - 8
Corp. Manager: 8
Hiring Manager: -36

2011 - 2013 MSP
Overall NPS: 27 - 19
Corp. Manager: 19
Hiring Manager: -1

Notes: Surveys conducted by Staffing Industry Analysts

What is the solution?

A balanced approach that satisfies all the underlying demands of each stakeholder.

To meet the needs of corporate does not mean the field has to give up quality, accountability and performance. In most cases the needs are quite simple:

- Transfer and mitigate as much risk as possible without exposing the company
- Lower the administrative costs
- Increase efficiency to lower cost and increase profit
- Leverage the spend to maximum value without reducing quality

Create a vetting process that forces any potential vendor to address all these critical factors with proof of past and current performance in each of these areas.

Risk transfer:

- Establish realistic insurance requirements for workers' comp and liability
- Create Indemnification provisions that are fair and will attract the right providers
- Make any provider supply proof that they are in compliance with: OSHA, EEOC, Wage and Hour, INS

Reduce administrative cost:

- Not just Accounts Payable but time spent in HR managing temp staff, operations dealing with time keeping and attendance issues, risk management dealing with temp injuries that can be avoided. These are all part of the labor solution you are buying.

Increase efficiency:

- Poll each field operation and get their opinions about current suppliers.
- How is their quality, responsiveness, consistency?
- They should be able to provide basic numbers of fill rate, turnover, time to fill, safety record, billing accuracy.
- Are there opportunities to reduce headcount and reduce overtime?
- Are pay rates competitive to the market?
- Are they an asset or a liability to that facility?
- Do they have the ability to service other locations?

Spend leverage:

- Identify the vendor or vendors that will meet all your requirements (based on the NPS scores there won't be many). Consolidate where you can by eliminating ineffective suppliers.
- Develop a partner agreement based on open and clear performance standards that are regularly reviewed.

Results

- Corporate is protected with high quality suppliers, with valid insurance and proven systems that are in compliance with the increasing demand of government regulation.
- Admin costs are reduced by reducing number of suppliers, decreasing the time wasted by all departments dealing with ineffective suppliers.
- Your new supplier or suppliers have been selected on a very clear set of standards with a method of accountability and expectations... instead of markup.
- Efficiency opportunities have been identified and a plan is in place to take advantage of them.
- You will become your staffing partner's "highest priority."

This will deliver real tangible cost savings that are repeatable and scalable. If all parties don't participate equally in the process, the selection will revert back to motivations instead of outcomes. You will be left with what you have now...a NPS score of -24!

What do you have to lose? It can only get better!

For further information contact:

Tom Landry
President
tlandry@allegiancestaffing.com
281-355-9222

Charlie Galland
Director of Major Account Development
cgalland@allegiancestaffing.com
281-355-9222

Headquarters
5726 Root Road
Spring, Texas 77389
allegiancestaffing.com

MEMBER OF
American Staffing Association

I W L A
International Warehouse Logistics Association