



Why We Pay Our People Well (and Why It Saves Us Money)

By Ivan Zytynski, Managing Director



The picking and packing jobs that are the core roles in a 3PL warehouse work are, traditionally, quite low paid. At between £21,000-£26,000 the average wages for picking and packing is significantly below the overall UK average full-time wage of £39,000. Some of this is explained by the fact that demographically 3PL has a younger than average workforce, but a lot of the lower wages are explained by how the industry views workers and what they do.

If we take a certain view of what warehouse people do, then it becomes obvious why wages are low. If warehouse workers are viewed, basically, as machines that move objects around then the job is simple, repetitive, basic and so would not command a good wage. Pretty much anyone can do it if trained well and people are easy to replace, as such the law of supply and demand means that wages will be low. This seems to be the prevailing view across the industry, and this is why wages are suppressed.

I take a different view of what our pickers and packers do. I don't see our people as primarily just "moving things around". I don't view warehouse and 3PL work as mindless and repetitive and basic. I view this work as the vital last link in our customers' supply chain. The link that, if we mess up, means all our customers' marketing, purchasing, production and selling is for nothing. It is a critical role that is incredibly important to get right. I also view it as a role that requires real thought and, above all, people who care. Our people need to care enough about what they are doing to spot when things don't look right and then act on it. It is far more than just moving things around.



Viewed from this lens the 3PL warehouse worker is no longer a mindless drone. They are, instead elevated to being the person responsible for making sure the whole supply chain does not fall at the last hurdle. They are responsible for making sure that our customer's customer gets their goods on time and are happy. Reframing 3PL work from this perspective it becomes clear that we need to attract and keep motivated, caring and intelligent people rather than mindless drones. And those types of people need to be paid well.

So, what do we pay?

Well, I'm not going to reveal exact wages here - that wouldn't be appropriate - but let's just say that our 3PL workers are paid significantly more than the £21,000-£26,000 industry average. But good wages are just the start. If the "mindless drone" view persists then it becomes acceptable to work 3PL workers very hard, squeeze every drop of productivity out of them, and then, when they have had enough and quit, simply replace them with the next drone. The well-documented harsh conditions in parts of the logistics sector are a direct symptom of this view of workers. People become cogs in a machine that can be replaced when they break.

If instead one takes the view that 3PL workers need to be creative, and actually care about what they do, we need to have a culture that promotes that attitude. This starts with high wages but extends to good working conditions, a good work life balance, good career progression, and good relationships with management. We need our people to enjoy coming to work so that they have the energy and motivation to care for our customers.

The benefits to our business

What this means is that when we hire, we normally get our pick of applicants, we tend to get lots of people that want to work here and we pick the best. What this also means is that our people stay. Average tenure for a picker and packer is under a year in the industry. With us our average tenure is nearly 4 years so nearly 4 times the industry average. That's a number we are proud of.



But at what cost!

But surely our costs are much higher so how can we compete? So, are our prices just higher to reflect our higher wage bill? Well, no. Whilst it's true that we are not a low-cost provider neither are we particularly expensive either. So, how is that possible given that wages are the highest overhead in any 3PL business? The truth is that well paid staff generate significant cost savings in other areas.

1 - Lower cost of hiring

Firstly, and most obviously, there are reduced costs of hiring. As noted above our staff retention is about 4 times the industry average. The estimated cost of hiring someone in terms of job advertising, administration, onboarding and training for a warehouse worker is about £2,500. Very roughly the industrial average tenure is about 1 year so each worker effectively costs an additional £2,500 per year in terms of the hiring costs. For us, with an average 4-year tenure, this cost of hiring per year is £625/person. So, a differential of £1,875 per year per employee. Just on hiring costs alone we are saving £1,875 per employee per year.

2 - Lower marketing costs

Then, less obviously, there are reduced marketing costs. We don't spend a lot of money on marketing our cost of acquisition per customer is significantly lower than the industry average. The industry on average spends about £3,500 per new customer acquired. Last year ours was just under £2,500. Many of our new customers come to us through word of mouth, and the typical story is they have heard about the great service we offer. This service is directly because we have good people that form strong relationships with our customer. So strong that they are happy to recommend us to their peers. This saves us a small fortune in marketing costs each year. In effect each of our well-motivated and well-paid people are also doing marketing for our business.

3 - Lower management overhead

With a "people as drones" business model the drones need to be controlled, supervised and monitored closely. As we have well paid highly motivated people, they simply don't need much monitoring and managing. We don't have issues with absenteeism or other personnel issues that plague HR departments. Our people are empowered to make decisions, and they are motivated to do so, so they don't need a team of people monitoring them and standing over them and signing off every minor decision. Similarly, we don't need a beefy HR department to manage all the swirl caused by unhappy employees.

4 - Reduced customer churn

I think our high pay/high care culture also reduces our customer churn. Our customers form strong relationships with our people over time. These human relationships allow us to solve problems and resolve disputes in a more human way and, as such, we very rarely lose customers to the competition once they are on board with us. Once customers are with us, they stay customers for a long time. Now sometimes they outgrow us or sometimes, sadly, their businesses fail but they almost never move to another provider due to thinking they will get a better deal. This improved customer retention is another reason why our cost of acquisition is so low.

Pay more to save more

Put these things together and the higher wages we pay start to look like a shrewd investment, they might even, somewhat paradoxically, reduce our costs overall. That's right, paying people more can reduce your overall costs even in labour intensive industries like 3PL.

Cheap versus good value

Look at it this way: in pretty much anything we purchase there is a difference between value and price. Cheap does not necessarily mean good value - this is true for cars, for clothes, for equipment and for pretty much anything.

One of my favourite quotes on this topic is from John Ruskin:

"There is scarcely anything in the world that some man cannot make a little worse and sell a little more cheaply. The person who buys on price alone is this man's lawful prey."



John Ruskin

Buying the cheapest of anything is almost never the best idea, there is probably a reason why it's cheap. Buy cheap buy twice. Anyone in business knows this to be true. So, it boggles my mind that so many businesses forget this when it comes to the single most valuable resource they buy, their people! Minimum wage means minimum effort, loyalty and care.

The flip side

There is a flipside to this though. We pay well but we do expect a lot from our people. Now, I don't mean we work our people to the bone with long hours and no breaks, we most definitely don't do that. But we expect people to be engaged, enthusiastic, and to contribute ideas. We don't pay drone wages and so we expect people to not be drones! Our people need to talk to customers, help them, and care about them.

If someone wants to just plod along and do the bare minimum, then they won't fit in with us and there are plenty of minimum wage jobs out there where they can do that. The great thing is that those who don't fit in are generally found out quickly by their peers, it's very rarely management that have to spot slackers, their colleagues will let them know they are not holding up their end of the sofa. Our people care and they don't tolerate people who would take advantage of our company. This culture of care acts like a self-policing, immune system for our business rejecting potential bad apples quite quickly.

Ethics

Above I've outlined the business case for paying well - and I think it's a strong one. But I'd be less than honest if I pretended there wasn't a personal dimension to this too. I'll keep it brief because nobody likes a lecture: I just don't believe that the right way to run a business is to pay people as little as you can get away with. That's my view, and I'm not going to push it on anyone. What I will say is this: if you run a business purely from a spreadsheet, you will often make poor decisions by missing the value that never appears in the initial numbers. That value does show up eventually - in lost customers, high staff turnover and bloated middle management overheads - but often only once it's too late to do much about it.

The human factors - relationships, trust, motivation - are precisely the things that spreadsheets struggle to capture. I suspect the 3PL sector has fallen into exactly this trap: the perceived wisdom is that you need to cut wages to the minimum to stay competitive, and the industry average salary data rather supports that fear. If that's the wisdom, I'm perfectly happy to be counted among the unwise.

