



Overcoming Long-term Labor Shortages

Manufacturers are struggling to fill open positions.

Across all industries in the U.S., there are two job openings for every job seeker at the end of 2022. As recently as 2012, there were three job seekers for every job opening. Labor used to be easier to find.

This is not a short-term challenge brought on by the pandemic. Due to longer-term trends in demographics and the labor force participation rate, labor availability has been shrinking for the past 15 years and is **expected to remain tight for at least 10 more years!** From 1970-2010, the working age population in the U.S. grew at least 1-2 million people per year. Since 2010, that increase has averaged less than one million annually, and for the next several years, the average increase will be less than 500,000 people.

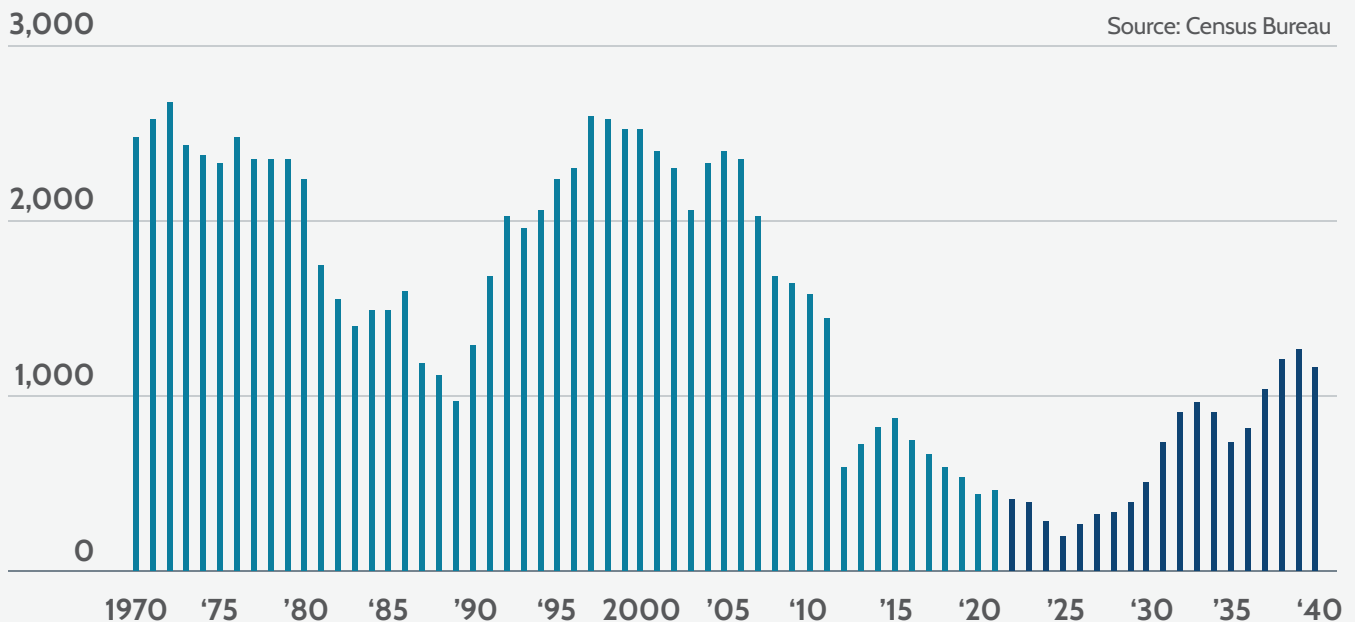
To attract and retain more workers, manufacturers have been steadily increasing their wages, resulting in higher costs and inflation. But this strategy (and other company-wide HR initiatives) has had little impact because there are not enough workers available and not every worker is motivated by money.

Manufacturers can't sit on the sidelines and hope for the labor market to recover. Those who execute on a strategy now to overcome these labor challenges can grow and remain competitive.

Labor Shortage

Annual growth of working-age population (thousands)

■ Historic Data ■ Census projections



Reduce Employee Turnover

With job openings harder to backfill, retaining employees has become critical. According to Gallup, the cost of replacing an individual employee can range from one-half to two times the employee's annual salary. So, a 100-person manufacturing company providing an average salary of \$50,000 with a 20% turnover rate could have turnover and replacement costs of approximately \$500K to \$2M per year.

High turnover is fixable. Gallup research has also revealed that about half of all voluntarily exiting employees say their manager or organization could have done something to prevent them from leaving.

Manufacturers need to provide fair wages to attract and retain employees, but rarely is money a primary reason for voluntary separation. Each employee has unique needs. When a manager or organization learns those needs and helps fulfill them, the employee is much more likely to stay.

Although the needs each employee has can vary considerably, most fall into these four categories:

- **Competence** – The need to be good at what they do.
- **Autonomy** – The need to have a say in how the work gets done.
- **Purpose** – The need to do something meaningful in their job or life
- **Balance** – The need to have balance across work, family, friends, etc.

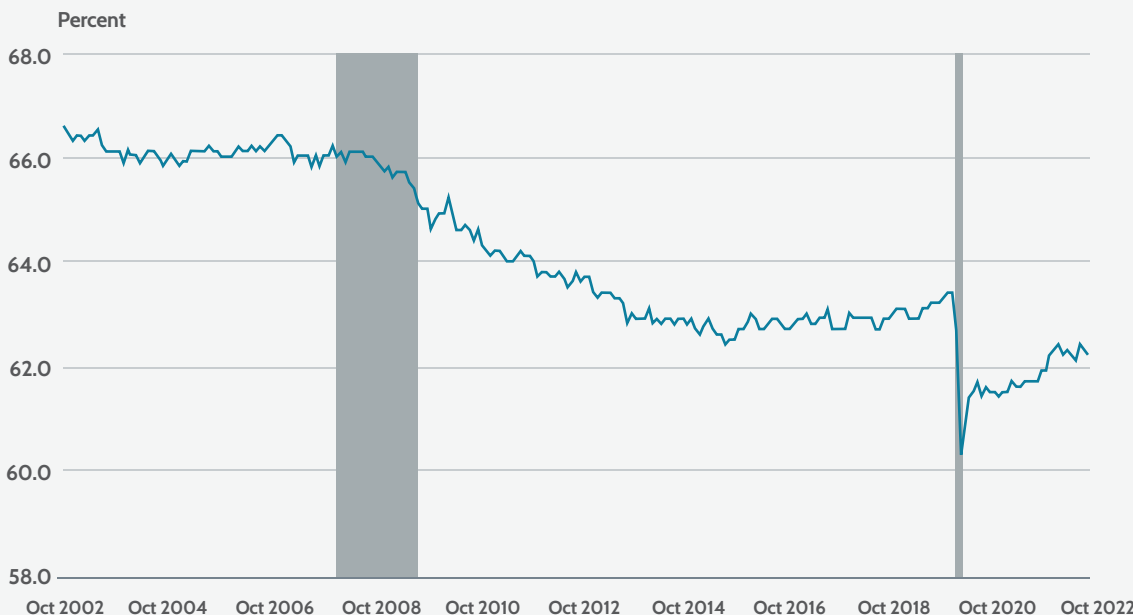
ACTION:

Develop Leaders and Managers.

Not only do manufacturers need to develop leaders to retain them, but those same leaders need to develop the skills to have meaningful conversations, learn and fulfill needs, and create a development plan for each employee to reduce turnover. Most manufacturers either do not provide leadership training, or they try to do so using cheap and ineffective methods (seminars, online training courses, books, etc.)

When you consider the high cost of turnover and the negative impact of unfilled open positions, the ROI for effective leadership development is significant. Strong leadership skills also increase employee engagement and motivation.

Civilian Labor Force Participation Rate, Seasonally Adjusted



Shaded area represents recession, as determined by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics

Increase Labor Productivity

In most manufacturing operations, there are significant labor hours lost on wasteful activities. Rework, inefficient processes, material handling, searching, and other “hidden factory” issues can cause double-digit losses in productivity.

With a relatively small investment in time and training, a manufacturing team can significantly increase labor productivity through process improvement efforts. If a 100-person manufacturing company improves labor productivity by 10%, that company would free up 10 employees to help grow the business or eliminate the need to fill 10 openings.

Additionally, labor productivity can be increased by strategically implementing technology and automation. Labor costs have increased significantly since the pandemic while automation solutions have become more cost effective. What once was too expensive might now provide the ROI needed to invest.

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ACTION:

Eliminate Wasteful Activities.

Manufacturers can teach their team members to identify and eliminate waste and challenge their teams to make process improvements. If internal expertise is not present, manufacturers can consider using outside advisors or coaches to help them identify waste-elimination opportunities and to train their staff in Lean and continuous improvement.

ACTION:

Consider Automation and Technology.

When properly implemented, technology can be used to increase factory productivity. However, many manufacturers mistakenly implement large software systems or other complicated technology that hurts productivity. Technology and automation work best when used for repetitive tasks or to support difficult employee tasks, but only after waste has been eliminated and processes are stable.

Finally, a manufacturer with a critical job opening that is difficult to fill can consider utilizing interim, short-term staffing solutions.

OpX Solutions is a team of experienced and trusted advisors who help manufacturers overcome labor shortages and other growth challenges. For help with these recommended actions, or to inquire about our other manufacturing support services, visit our website at OpXSolutionsllc.com, or contact us at info@OpXSolutionsllc.com.

References: <https://www.bls.gov/charts/job-openings-and-labor-turnover/unemp-per-job-opening.htm>
<https://www.bls.gov/news.release/pdf/ecopro.pdf>
<https://www.gallup.com/workplace/247391/fixable-problem-costs-businesses-trillion.aspx>



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