The Economics of Labor and Supply Chain Disruptions

The Flexe Institute surveyed logistics service providers about current labor constraints and strategies to overcome hiring and retention challenges.

Flexe Institute

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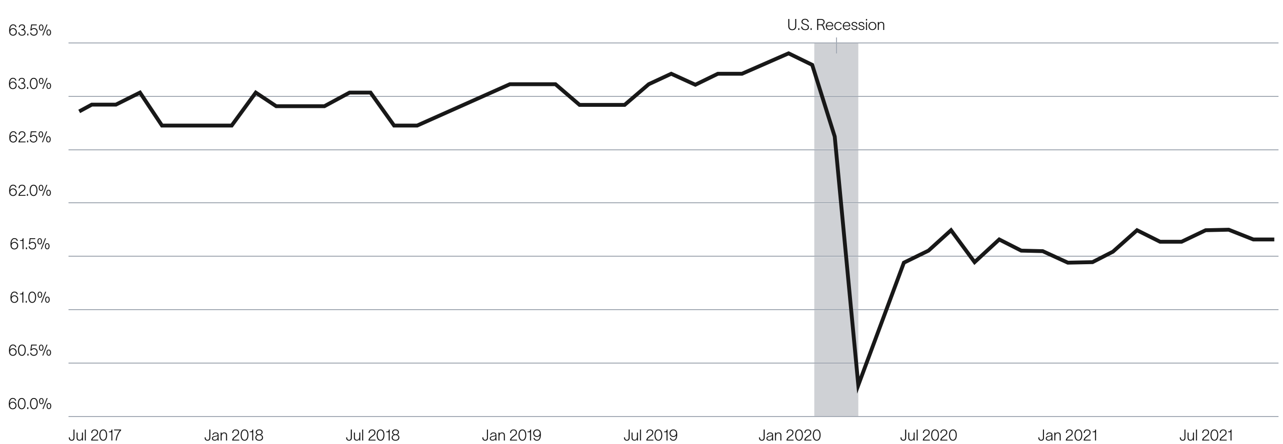
Supply chain disruptions are common: Inclement weather, manufacturing issues, seasonal demand imbalances, and evolving buying behaviors can all affect the market. But COVID-19 is different. It continues to impact every industry, every link in the supply chain, and now, everyday consumers.

Supply chain disruptions are nightly news. But beyond the headlines about the ports, out-of-stocks, or delayed deliveries, there is a systemic issue bubbling below the surface—labor.

When businesses shut down in response to the pandemic, employment fell substantially. Approximately 25 million Americans found themselves out of work in the spring of 2020. Among those, only 15.6 million were back to work by the summer of 2021, 1.7 million remained unemployed, and 7.1 million left the workforce permanently.[1]

Labor force participation rate



To get a clearer picture of current labor market conditions within the logistics industry, the Flexe Institute surveyed more than 170 logistics professionals who have visibility into hiring and retention. Here are the key takeaways from the survey:

+ 71% of logistics companies experience difficulty in hiring
+ 61% find it more difficult to hire today than in 2020
+ 84% expect to increase their staff to meet higher demand
+ 76% implemented, or plan to implement, eCommerce capabilities, which requires more labor

The Flexe Institute survey asked supply chain professionals about:

+ Hiring and retention dynamics
+ Compensation and benefits
+ Meeting current customer demands
+ Available warehouse and distribution-center capacity
+ Expansion opportunities and future company initiatives

Section 01

A competitive labor market leads to worker shortages

71% of survey respondents say **competition in the labor market is high**

61% say **it's more difficult to hire now** than it was a year ago

Every industry, irrespective of focus, feels the effects of the labor shortage. However, those in supply chain are under particular pressure. Not only do employers face a diluted labor pool, but COVID-19's bullwhip effect created massive production delays and inventory fluctuations. As the economy slowly reopens, businesses are still trying to catch up, but without enough labor, the bottlenecks continue.

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Labor constraints impact every link in the supply chain. To produce raw materials and finished goods, you need people. To move and process goods, you need people. To deliver them, you need people. And right now, the supply chain lacks the appropriate amount of people to manage higher volumes and throughput while also absorbing the shock of ongoing disruption.

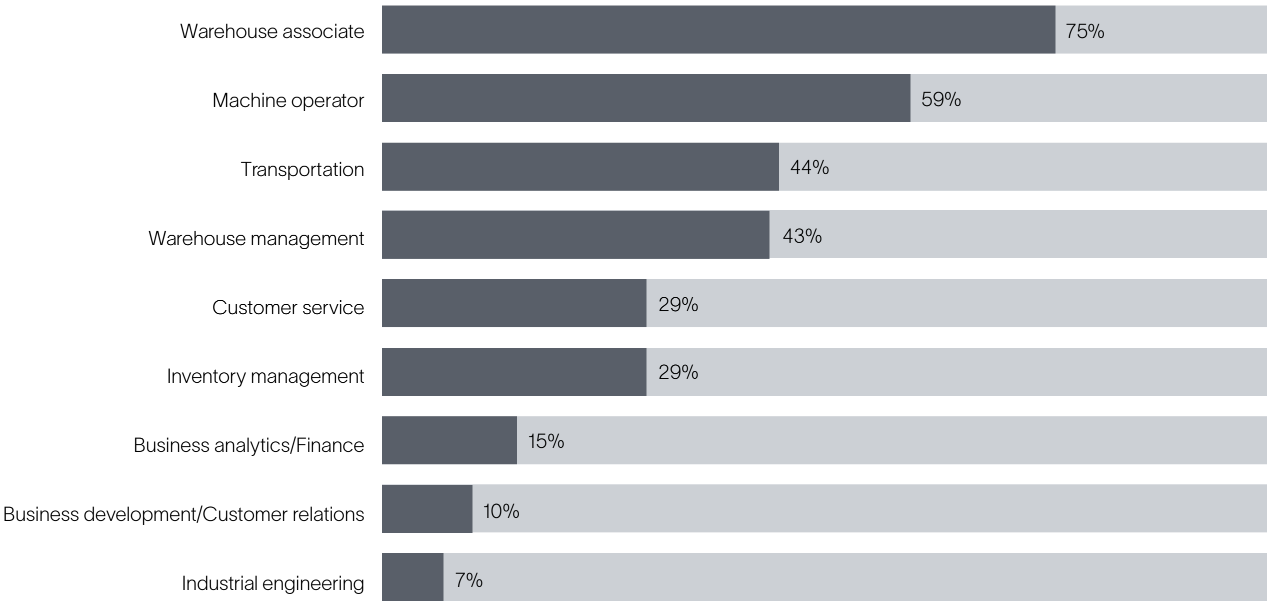
Confirmed by the Flexe Institute's survey, labor shortages are hitting the logistics industry hard. Almost three-quarters (71%) of survey respondents say competition in the labor market is high, and 61% agree it's more difficult to hire workers now than it was a year ago—even in the middle of the pandemic.

The ultra-competitive job market doesn't help. Respondents say the positions most difficult to hire are frontline workers: Warehouse associates, machine operators, transportation, and warehouse management. This is due in part to the labor-intensive nature of the positions and the necessary certifications for industry roles.[2]

Respondents also report the largest hiring challenges stem from a lack of qualified applicants (46%), and the physically demanding nature of the jobs (44%). It's more difficult to hire these vital, more labor-intensive roles as workers seek higher-paying, less-manual positions. According to the Bureau of Labor Statistics, 7.8% of logistics industry jobs remain unfilled—one of the highest by sector.[3]

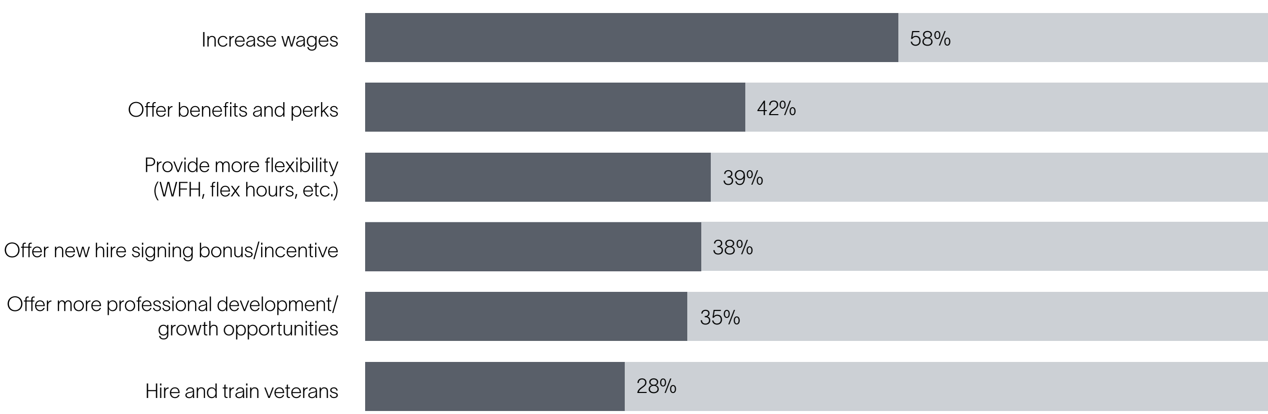
Most challenging logistics positions to fill

Survey question: Which positions are most difficult to fill?

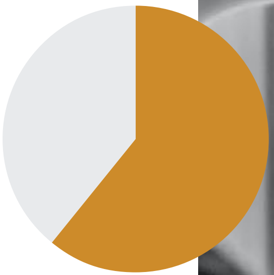


Actions taken to increase hiring rates

Survey question: What actions does your company take to attract talent?



61% of respondents say **hiring peak-season labor is difficult**



The unique challenges of peak season

Securing peak-season labor isn't easy in a competitive market, especially when you consider the amount of training bulk-hiring requires. On average, it takes new warehouse workers one month to get up-to-speed on job duties—a considerable amount of time for a temporary position, especially in a labor market with high attrition rates.[4]

Even though the majority (75%) of respondents say they had enough labor in 2020 to meet business requirements, most overcame staffing challenges through incentives and wage increases. For example, some Amazon warehouses pay $3,000 in sign-on bonuses, and Walmart recently increased seasonal pay to more than $20/hour for associates.[5,6] Compensation incentives are demonstrative of labor-market competition and how current dynamics drive positive wage inflation for employees.

For the 2021 holiday peak, 84% of respondents said headcount will increase. Forty-five percent expect a 20+% increase. Sixty-eight percent are optimistic about filling the necessary positions. Survey respondents expect to use staffing or temp agencies to find workers, and others (22%) turn to automation to reduce the need for human capital.

Section 02

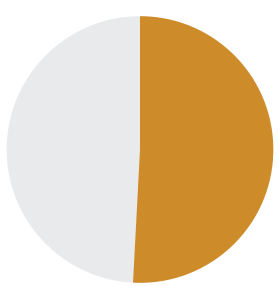
Retention is key in a competitive job market

Hiring isn't the only challenge in today's labor market; retention rates are down, too. Ongoing supply chain disruptions, combined with the burnout of many essential and frontline logistics workers, impact employers' abilities to retain labor.[7] More than half (51%) of survey respondents say labor retention is a challenge and more difficult to manage now than in 2020.

According to respondents, the current industry turnover rate hovers at 31%. Employees most frequently leave their positions (45%) because they find better roles elsewhere or are wary of physically demanding jobs (42%). The majority (54%) of organizations foresee retention problems continuing.

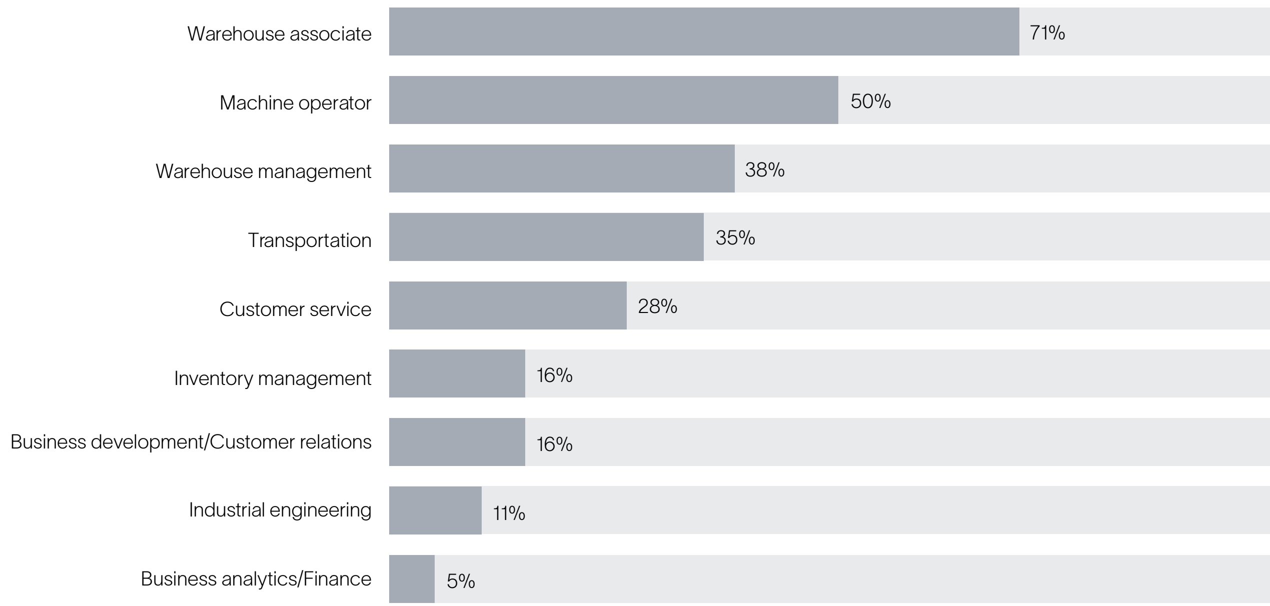
To retain employees, most employers turn to wage increases, but this isn't sustainable. Organizations must have solutions that make demanding jobs easier for workers. Nearly half (46%) of respondents are considering automation or other technology to increase efficiency.

51% of companies say **labor retention is a challenge**



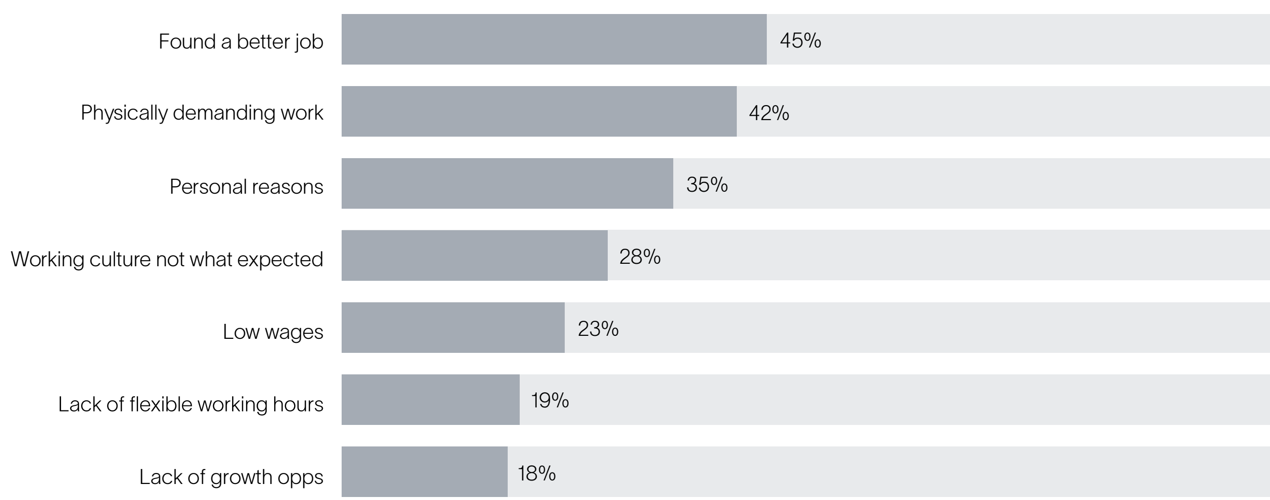
Most challenging logistics positions to retain

Survey question: Which positions are most difficult to retain?



Reasons for employee attrition

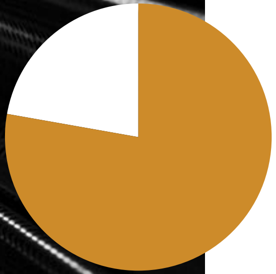
Survey question: If known, what are the primary reasons for employee attrition?



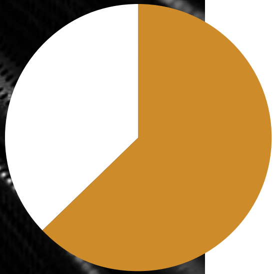
The cost to retain workers

To attract experienced workers, higher pay is a go-to solution. Among companies (78%) that increased wages since 2020, 60% say increases exceeded 10%, which surpasses standard cost-of-living increases.[8] Given current market trends, 63% of organizations anticipate wages to further increase into 2022.

The two-largest business impacts to accommodate wage increases are passing charges onto customers and reducing margins. According to recent data from the Logistics Managers' Index, warehousing prices rose nearly 10 points year-over-year.[9] To combat the cost of rising wages, organizations need more flexible labor solutions that enable market adaptability.



78% of **companies increased wages** since 2020



63% believe **wages will continue to increase**

Section 03

Prediction: Expect disruptions to continue

Today's market is one of record demand, intersecting with an extreme labor shortage. The majority (73%) of respondents expect hiring challenges to continue. Warehouse workers are in high demand and hard to find, leaving employers struggling to keep up with business demands. Analysts and industry professionals expect current disruptions to continue.

> *"Today's market is one of record demand, intersecting with an extreme labor shortage.*

The Federal Reserve of St. Louis forecasts that by June 2022, less than half of those who exited the workforce will return to employment.[10] If the model proves correct, that means the dearth in the talent pool will remain. Those estimates equate to adding only half of the workers needed to fill the current employment deficit.

eCommerce fulfillment demands more labor

eCommerce-labor requirements far exceed brick-and-mortar fulfillment. As eCommerce grows in popularity, retailers and brands must have more frontline workers. In fact, 76% of survey respondents recently implemented eCommerce or will extend their business's eCommerce-fulfillment capabilities. According to CBRE, every additional $1 billion of eCommerce sales requires an additional 1 million square feet of new warehouse and distribution space.[11] More eCommerce space is needed to manage results as labor requirements in logistics continue to grow.

73% of logistics professionals say **hiring challenges will persist**

What logistics service providers can do

Improving wages and benefits aren't enough to hire and retain a workforce robust enough to handle today's unprecedented supply chain disruptions. Logistics companies that want to survive and grow market share must find solutions to work more efficiently with fewer workers.

As the supply chain industry evolves to meet changing consumer demands, insights and data are increasingly important. Logistics organizations must understand what's happening today, what will happen tomorrow, and the best solutions to solve these problems. Visibility into labor issues and how they affect key supply chain processes are vital for thriving in today's modern market.

Key considerations to move forward in today's climate:

+ **Don't overreact** — Capex and infrastructure investments require careful considerations, and alternatives exist to long-term fixed solutions. Handle long-term planning with the appropriate scrutiny, especially given the uncertainty around current market conditions and supply chain disruptions.
+ **Consider other labor options** — The most difficult positions to hire and retain are frontline workers. Supply chain leaders can leverage innovative new logistics partnerships and technologies that focus specifically on applications that leverage the open labor marketplace.
+ **Build repeatability into strategy** — The future is impossible to predict, especially today. However, a program-based logistics approach gives retailers and brands a fast, scalable way to manage new initiatives and negotiate their way around the labor shortage. Look to the right logistics partnerships to build and refine a flexible supply chain solution that is repeatable.
+ **Weigh technology investments before committing** — Many businesses turn to warehouse automation and robotics. Before making large investments, carefully scrutinize the payback period inclusive of long-term maintenance to justify the investment. New automation and robotics are always hitting the market and the price of this technology is consistently deflationary, meaning some deferral of automation could pay dividends down the road.

About the Flexe Institute

The Flexe Institute examines industry trends, current events, data, and problem sets that retailers, brands, and logistics providers face in today's climate. From raw materials and manufacturing, to warehousing and fulfillment, to last-mile delivery, the Institute explores how a program-based approach gives retailers and brands optionality, operational readiness, and supply chain resilience—even in the most volatile markets. Jordan Lawrence, Flexe's Director of Logistics Strategy, is the Head of the Flexe Institute.

www.flexe.com/institute

About Jordan Lawrence, Head of the Flexe Institute

Jordan Lawrence is Flexe's Director of Logistics Strategy. He brings 13 years of deep industry expertise—spanning manufacturing-process engineering, ERP & WMS implementation, and domestic and international transportation. Previously, Jordan was Director of Strategic Accounts, and prior to Flexe, he was Principle Consultant at NetSuite. Jordan has a Bachelor of Arts in Marketing and Business from East Carolina University.

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