

Cost-Per-Unit vs. Hourly Pay Models:

THE UNFILTERED TRUTH

For many operations leaders, optimizing labor costs and performance keeps them up at night. Every decision you make about how to pay your employees will either keep things running smoothly or leave you with some serious burns. In the world of manufacturing, warehouse, and logistics, two of the most common choices are the Cost-Per-Unit (CPU) model and the Hourly Pay model. They each have their place in the grand scheme of operational efficiency but let's take the gloves off and compare them.

PREDICTABLE COSTS: NO SURPRISES, PLEASE

Under the Hourly Pay model, the cost is like a box of chocolates — you never know what you're going to get. Maybe you're on a roll with productivity, or maybe someone is pulling the ol' "slow down to keep my hours up" trick. It's frustrating. The costs can spike without you even realizing it.

On the flip side, with a Cost-Per-Unit model you only pay for the work performed. You know exactly how much you're going to pay based on what gets produced. It's like having a crystal ball for labor costs. You can forecast expenses with precision.

INCREASED THROUGHPUT PERFORMANCE: GOTTA MOVE FAST

With the Cost-Per-Unit model, you're rewarding productivity. The faster your team works, the more they earn. This leads to increased throughput performance, where speed, quality, and quantity all get a nice boost.

HOURLY PAY?

Sure, your workers will show up. But their incentive to push for peak performance is a little fuzzy. They get paid the same whether they're sprinting or strolling.



PRODUCTION ACCOUNTABILITY: WE TAKE IT ON

With Cost-Per-Unit, your provider is 100% accountable for labor costs and takes ownership of output and results. The output is directly tied to the workforce's compensation and workers become more accountable because they are responsible for their own results. This leads to higher quality work and fewer delays.

Compare this to hourly pay. With traditional staffing providers, you are 100% accountable for labor costs and workers are less likely to be held accountable for performance. There's no real link between their time spent and the results they produce.



FOCUS ON WHAT MATTERS: LET THE EXPERTS DO THEIR THING

With the Cost-Per-Unit model, your operational team doesn't have to watch over every worker. You've got a predictable labor cost, and production accountability is already in place. This lets your team focus on other aspects of the operations — things like innovation, customer experience, or expanding the business.

The Hourly Pay model? Well, let's just say you're more likely to spend your time managing people, trying to get them to work faster, trying to smooth over inefficiencies, and scrambling to hit targets.

REDUCING TURNOVER: KEEP 'EM AROUND

The CPU model incentivizes workers to stay. They're not only getting paid based on their output, but they also see the clear link between their performance and earnings. As they get better at their jobs, they earn more, and they stay motivated to stick around.

Hourly pay doesn't give workers much to latch onto. They're paid by the hour and there's no real connection to performance. So, when they get a better offer, they bail. And you're left with high turnover and the added expense of constantly recruiting and training new people.

The Bottom Line: Choose Wisely

Ultimately, the right choice depends on a company's specific operational goals, workforce dynamics, and financial objectives. By considering the unique strengths of each model, businesses can make more informed decisions that align with their long-term growth strategies.