

HOURS OF WORK IMPROVEMENT GUIDE

Executive Summary & How to Use this Guide

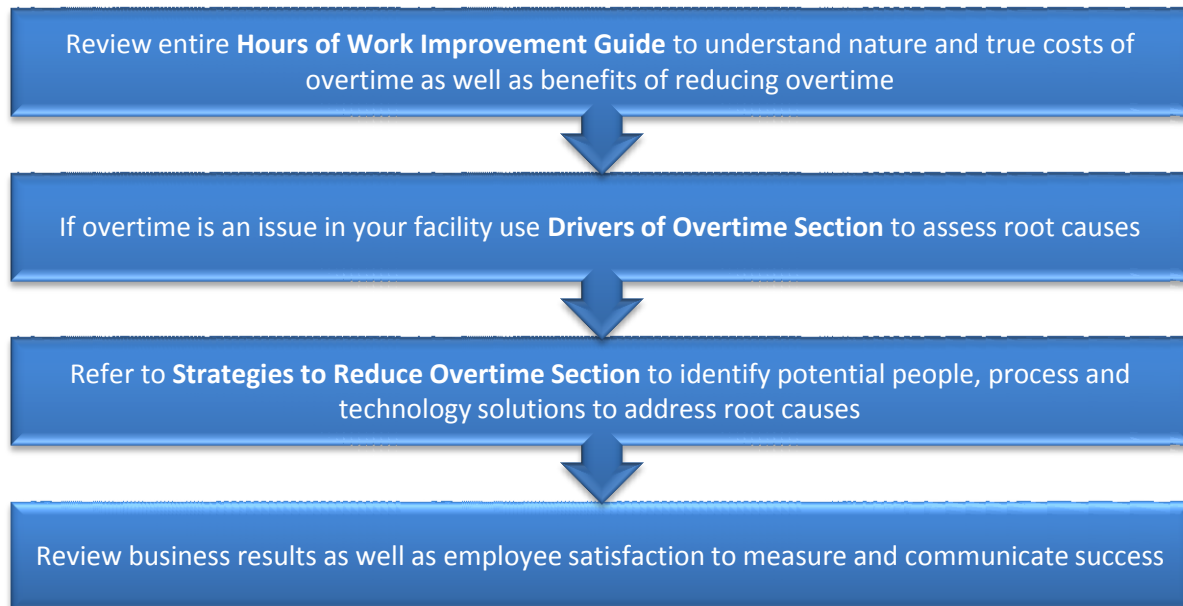
The Coca-Cola Company (TCCC) is committed to ensuring that our entire supply chain, including Bottlers, co-packers, direct & authorized suppliers, is in compliance with local laws & the values reflected in our Workplace Rights Policy (WRP) & Supplier Guiding Principles (SGP). Compliance with local work hours and overtime laws is a fundamental component of WRP and SGP. In addition to legal violations, excessive overtime in the workplace can lead to serious operational consequences as well as disrupt employee work life balance. Reducing overtime may significantly increase employee morale, decrease quality incidents and reduce overtime labor costs thereby improving business results and fostering a Great Place to Work. We have found that once management understand the true costs related to overtime they often choose to address the issue proactively and the results of doing so, as discussed below, can be dramatic.

Overtime can be a complex and challenging issue that will not be solved overnight. This guide is intended to share our learning to date and be a resource to help facility management identify and address the root causes of overtime.

The guide includes the following:

- An overview of the overtime issue
- Practical strategies to reduce overtime
- Real case study examples to help facilities drive continuous improvement

Below is an example of how you may wish to use this tool:



If you have additional questions please contact your regional Workplace Accountability Manager or email workplacereights@na.ko.com

Background

Social compliance auditors have identified excessive work hours as one of the most common legal violations in workplaces worldwide. Workplace assessments conducted by a leading third party audit agency, showed that of nearly 28,000 workplaces audited, as many as 1 in 4 had violations related to overtime or rest days. This data is consistent with internal findings for the Coca-Cola system which show that almost 33% of the bottling operations and 24% of the suppliers audited had similar violations. This rate rises to nearly 1 in 2 workplaces in some developing countries. In many of these cases, the employees are also not being given one day off in seven during peak season, to which they are legally entitled.

The following risks have been identified by social auditors in conjunction with excessive overtime:

1. Reduced worker productivity or motivation
2. Reduced employee engagement
3. Increase in absenteeism or missed work due to illness or injury
4. Extra cost incurred by paying premium overtime wages
5. Increased benefits costs associated with worker illness or injury
6. Risks to product integrity and quality
7. Potential for higher employees turnover
8. Legal and reputational risk

All of these elements together represent the true costs of excessive overtime.

Excessive overtime is a common and often systemic issue, however it is not insurmountable. There are numerous drivers to hours of work but most are controllable; some in the short term and some over a longer period of time. Solutions to work hour violations will be different from plant to plant depending on staffing, capital availability and resources. In some cases the issue may be as simple as establishing proper record keeping in order to demonstrate legal compliance. However, in other cases, resolving a work hours problem is complex and involves management making tradeoffs. Therefore there is a need to understand the nature of the issue in your operations.

Drivers of Overtime

Based on an analysis of assessment data, overtime and rest day violations are inter-related and are symptoms of other business challenges. No single cause was identified to explain the presence of excess hours. However, some key drivers have been identified, including:

- Lack of sufficient manpower to provide needed coverage. Lack of manpower needed to cover critical or high skill operations, especially during periods of peak demand, vacation, or absences (related to illnesses or other causes)
- Lack of sufficient machinery, trucks, or other equipment needed to cover peak demand periods.
- Equipment availability issues – due to maintenance problems, etc
- Lack of balance in the production process – i.e. a process step forming a bottleneck that creates a systemic need for excess hours for that process or in downstream processes
- Improper scheduling practices causing uneven demands, lack of available materials, or production of wrong products
- Employee interest in earning extra income
- Poor record keeping practices due to lack of management awareness concerning hours of work requirements
- Lack of regular management oversight and approval for the overtime that is being worked
- Staffing based on convenience rather than need.
- Poor sales forecasting by customers and in planned promotions to drive sales by Bottlers

Drivers of Improvement

No one solution has been identified to eliminate hours of work violations. However, some of the key drivers that have been identified include:

- Map out production flow and identify “bottlenecks”
- Increases manpower to cover peak periods, vacations, other absences, etc.
- Cross training to increase manpower available for critical skills
- Implementation of absence controls
- Adjustments to shift patterns, production floor layout, to help reduce bottlenecks
- Increases in inventory to help level demands

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- Education of managers and associates concerning the legal restrictions and costs of overtime
- Implementation of monitoring and approval processes

Bottlers and suppliers that were able to reduce overtime noted the following:

- The reduction in overtime occurred over a period of time, not immediately
- The reduction appears to have been driven and/or supported by a senior operating leader's decision that overtime could and should be reduced or eliminated
- Once initiated management seems to drive far beyond the overtime reductions that would be required to resolve excess overtime and rest day violations, suggesting that a significant cost/benefit has been identified

Outcomes of Reducing Overtime:

When management has tackled the issue of excessive overtime the results have been significant. Below are a few examples highlighting the progress made in two countries:

- An average **reduction of 86%** on hours of work across Country A system
- Near complete **elimination of overtime** in one Country A plant
- A **95% cost reduction** in one plant in Country B, and
- An average **cost reduction of 50%** across 22 plants in Country B in just one year.

In the process of addressing the root causes of overtime, **work hour and rest day violations are also being resolved**. Please refer to Appendix for detailed case studies and outcomes.

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Strategies to Reduce Overtime:

Managers can use this section simply to get ideas on how to reduce overtime or use it as a tool by inserting an “X” by each tactic once reviewed and completed as applicable

Focus Area: PEOPLE

Strategy	Tactics	Mark “X” if complete
<ul style="list-style-type: none"> Build cross functional awareness and commitment to manage OT 	<ul style="list-style-type: none"> Determine impacts of each function and their processes to manage Build local business case to set and achieve targets Build understanding that all functions play a role / have responsibilities 	
<ul style="list-style-type: none"> Properly educate and communicate with employees / unions 	<ul style="list-style-type: none"> Ensure work hour requirements are part of employee contracts and handbooks. Promote as an improved and healthy work life balance Share OT findings with employees. When explained against law or targets, people understand that change needs to happen. 	
<ul style="list-style-type: none"> Build employee engagement 	<ul style="list-style-type: none"> Ensure OT is voluntary Encourage employee involvement to achieve targets – suggestions on processes / practices and grievances Understand impact on employees and develop strategies to re-invest part of savings to offset (transition, one time payments, review of base rates) invest in employees through training to create cross training and increased skills for employee promotion and work flexibility Post results for employees to see improvement Ensure employees understand value proposition to them and to the plant Measure and track employee feeling in engagement surveys 	

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Focus Area: PROCESS

Strategy	Tactics	Mark "X" if complete
<ul style="list-style-type: none"> Ensure legal requirements are understood and built into deployment processes (scheduling, shift plans, crew plans , route planning etc.) 	<ul style="list-style-type: none"> Understand / disseminate current legal requirements, including special restrictions for young workers or other situations as well as ensuring at least one day off in seven Determine work processes that direct time planning and incorporate Understand government waivers that can be available and apply for/ maintain as needed 	
<ul style="list-style-type: none"> Assess current situation 	<ul style="list-style-type: none"> Survey, self audit, conduct workplace assessment, review internal data Segment data to core activities (distribution, production / warehouse and administration) Determine impacts/costs (quality, productivity, grievances, absenteeism, injury rate, head count, contractors, cost) 	
<ul style="list-style-type: none"> Assess timekeeping methods and reconciliation 	<ul style="list-style-type: none"> Ensure time records reflect actual work hours (for instance workers should not clock-out and then be required to stay for a production meeting or, conversely, workers should not clock-in 20 minutes prior to start time and then proceed to have an unpaid meal) Ensure timekeeping identifies regular and OT hours Replace master method with specific tracking Reconcile any differences with employee sign off Incorporate formal advance OT approval by person 	
<ul style="list-style-type: none"> Track and manage OT to a plan 	<ul style="list-style-type: none"> Track Hours, OT Hours, Quality, Productivity, Injury data on OT versus regular time, absenteeism, contractor hours, unplanned stoppages Establish OT budget and plan with monthly tracking to reconcile variances Establish management routines / review data and improvements Establish advanced approval routines to senior plant leadership 	

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	<ul style="list-style-type: none"> • Determine short term contractor needs through transition period (if any) • Determine how to allocate available overtime permanent versus contract workers • Review shift start and hand over times and time use on change overs • Benchmark results between plants to identify improved practices • Bank non-critical work to free up resources for peak activity and provide tasks in downtime • Use the standard cost system or Bill of materials system to ease tracking 	
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Focus Area: TECHNOLOGY

Strategy	Tactics	Mark "X" if complete
<ul style="list-style-type: none"> • Ensure timekeeping technologies track and report on paid time with employee acknowledgement 	<ul style="list-style-type: none"> • Go beyond basic in / out security based systems • Ensure both employee and manager approval • Formal reconciliation of any differences between employee and manager 	
<ul style="list-style-type: none"> • Track and assess OT impact of unplanned stoppages / breakdowns – both plant and fleet 	<ul style="list-style-type: none"> • Focus areas, preventative maintenance – include OT costs and impacts in fix or buy planning • Determine impacts in run up or start operations after line shut down 	
<ul style="list-style-type: none"> • Integrate hour requirements into route planning 	<ul style="list-style-type: none"> • Ensure a factor in "Roadshow" technology • Maximize in store work / breaks in high traffic times in route planning • Consider double shifting fleet where viable (major metropolitan areas) 	
<ul style="list-style-type: none"> • Ensure IT systems provide suitable reporting 	<ul style="list-style-type: none"> • Track hours to plan and analyze variances • Track related impacts / causes such as unplanned stoppages, 	

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	<p>change-overs, absenteeism, accident rates, quality (defects / losses) etc.</p> <ul style="list-style-type: none"> Identify and ensure commissioned employees are working within time requirements 	
<ul style="list-style-type: none"> Include work hour requirements into sales operation planning (or DRP / MRP) planning tools 	<ul style="list-style-type: none"> Minimize change-overs, in window schedule changes, extra product handling Integrate FIFO rules into promotion planning Manage inventory counts around available regular time labor 	

APPENDIX A

CASE STUDIES

Country A

Initial assessments at bottling plants in Country A highlighted overtime and rest day violations in a number of plants. As a result, a working group was established to evaluate why the violations were occurring and what actions could be taken to resolve them.

The working group identified the following issues:

- Lack of coverage for absences and vacations
- Lack of manpower to cover critical jobs
- Disruptions due to external factors, traffic, etc.
- Poor forecasting of demands
- Equipment breakdowns and poor maintenance planning

They identified that 80% of their overtime was the result of manpower availability issues, most of which were controllable through improved scheduling, cross-training, or the hiring of additional staff.

Management demonstrated commitment and following actions were taken to address the issues:

- Adjusting manpower plans to allow for coverage of employees on vacation – hiring staff to meet those requirements
- Cross-training staff to provide coverage for bottleneck operations and avoid such operations from impacting production capacity
- Building attendance into the operations performance bonus so that employees get incentive bonus based on attendance
- Negotiating changes to when certain holidays are observed, and moving them out of peak season
- Systemic Production Planning, to avoid running lines on public holidays
- Projected preventive maintenance in the off season

In one test plant, which had been working to reduce overtime since 2005, the working team found that overtime had been reduced by over 90%. The team took what had been learned from that plant and developed a summary approach that was shared with the HR managers for all of the plants. The result has been significant reductions in overtime across almost all of the plants. For example, in the Northern Region there was a 2/3 reduction in overtime costs across the 9 plants between 2007 and 2008.

Country B Root Cause Analysis Project

Global Workplace Rights, working with the local Business Unit in Country B, initiated a root cause analysis project in 2008 to identify why overtime and rest day violations were occurring, how they could be corrected, and to try to develop a recommendation for use across all bottlers. The project was completed on manufacturing areas.

Data was gathered from a questionnaire and a number of bottler visits to scope the issue. The data identified a wide range of causes for overtime:

- Industrial Operations and Sales
 - ✓ Production capacity does not support non-seasonal and seasonal demand
 - ✓ Productivity decreases because of the time spent on maintenance and setups
 - ✓ Production and Sales do not always work together to balance sales to production capacity and capability
 - ✓ Low accuracy of the sales plan(monthly / weekly) with many changes and impact on production plan
 - ✓ Concentration of sales in the second half of the month generating monthly seasonality
 - ✓ There is no planning (special contingency plan) to support expected strong seasonal demand
 - ✓ Excessive number of exchanges of line (SKU's) with equipment setups and consequent loss of production time
 - ✓ Production plans have a lot of changes
 - ✓ Sales and production plans do not consider the stock at distributors and distribution centers
 - ✓ The stock does not work as buffer (the production works on demand and not under orders/on the job)
 - ✓ Annual strong seasonal demand could not be met by the current model of shifts, manpower and equipment
 - ✓ Shifts do not provide sufficient manpower to meet weekly demands
 - ✓ Strong physical activities in production area during long hours increasing fatigue and occupational diseases and decrease productivity impacting the team's productivity

- Maintenance
 - ✓ Constant corrective maintenance on the line because of equipment obsolescence
 - ✓ Preventive maintenance plan cannot be implemented because of lack of equipment availability

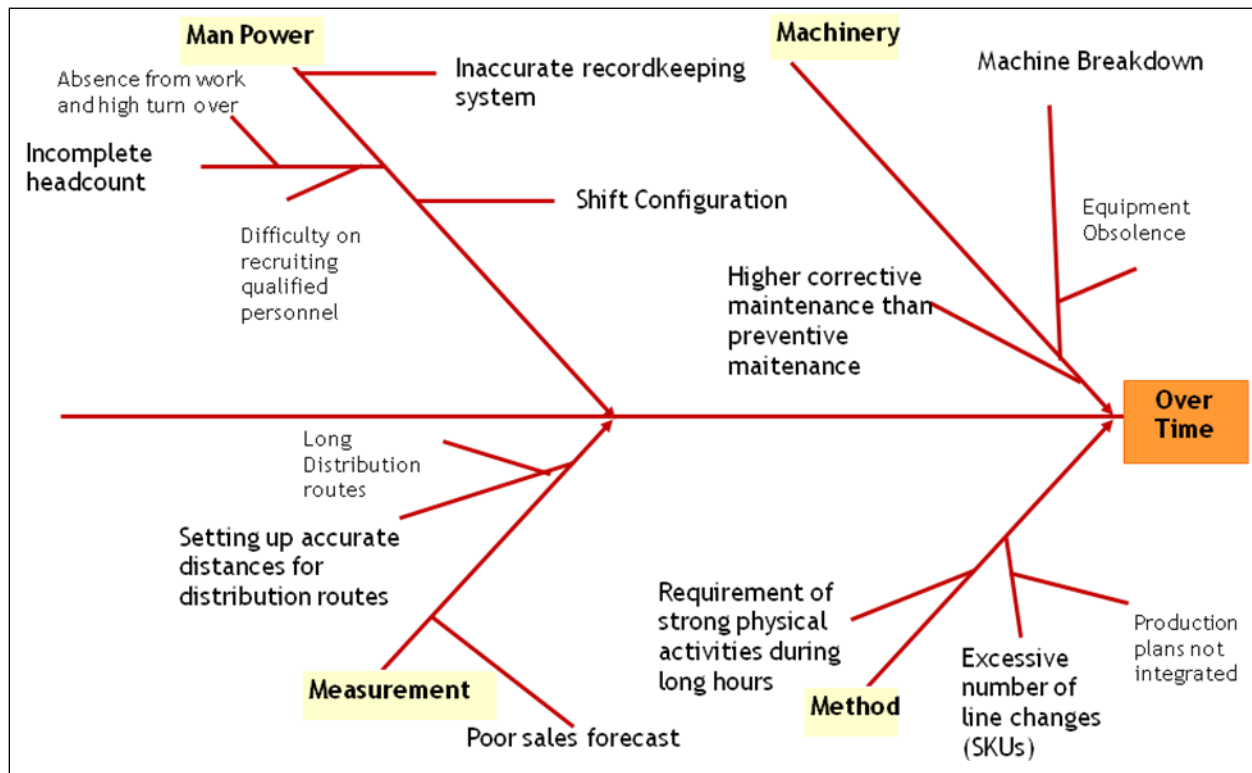
- Human Resources and Management
 - ✓ Manpower / head count (planned in budget) is not complete
 - ✓ Difficulty in recruiting because local manpower is not qualified
 - ✓ Shift configurations need changes to legal patterns
 - ✓ Configuration of shifts with amount of labor insufficient for weekly seasonal demand
 - ✓ High turn over
 - ✓ There are employees that do not register their time sheet/work records
 - ✓ Accounting and finance activities concentrated at the end of the month

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❑ Distribution and Logistics

- ✓ Commissioned employees have extra hours but are not counted (long shifts occur in the distribution in excess of two hours, although they are supported by union agreements)
- ✓ Fleet of trucks insufficient or opportunities to run trucks in shifts are not fully seized
- ✓ Long Distribution Routes have employees working long hours (poor driving can damage to the image and reputation of the company)
- ✓ Strong physical activities in distribution area during long hours increase worker fatigue and illness, and decrease productivity
- ✓ Concentration of deliveries in the second half of the month generating monthly seasonality
- ✓ Low accuracy of time of travel and attendance (customer service)
- ✓ Set the system of routes for distribution using the average of time of travel and attendance creates distortions

Cause & Effect (Fish bone) diagram – Overtime



The study also identified that significant amounts of money are being spent on overtime as a result of these drivers, some of which are easy to control and other which will be more difficult.

Bottlers were committed to communicate on a quarterly basis the hours of work per month compared to the previous year, as well as the economic impact.

Results from information received from 11 Bottling groups have identified that Bottlers, that have implemented appropriate actions on each facility, have represented a significant improvement:

Impact on more than 34000 employees

Net result – 86% reduction in Overtime and USD\$ 3.8 MM annual system savings

Main actions implemented to reduce hours of work are:

- 55% hired more full time staff
- 36% hired subcontracted workforce / outsource
- 64% improved their production planning systems
- 54% improved their distribution routes

Impact on the business:

- 73% reported financial saving (cost avoidance to pay overtime premiums)
- 36% reported improved quality
- 55% reported improved Occupational & Safety performance (fewer injuries)
- 18% reported reduction on employee turn over
- 55% reported reduction on audit fees and or fines, claims from Labor Ministry
- 63% reported increase on their productivity
- 45% reported employee engagement (mainly driven by the reduction on income)

How the savings were used:

- 36% used savings to hire full time staff
- 27% increased employees' salaries
- 45% provided additional training to their employees
- 73% reported some financial savings for the company

Country B

One plant in Country B underwent an initial assessment in September 2007. The assessment identified violations of overtime and rest day regulations, and found that adequate break time was not being provided to the workforce. Plant leadership undertook an analysis of why they were working excess hours and identified the following issues:

- They did not have the right number of people in the right places at the right times to allow the workload to be completed during a normal day.
- They did not have adequate inventories in place to smooth production and allow short term disruptions to be managed without the requirement of extra working time.
- Supervisors had no way of knowing when an individual employee was in excess of or going to exceed legal allowances

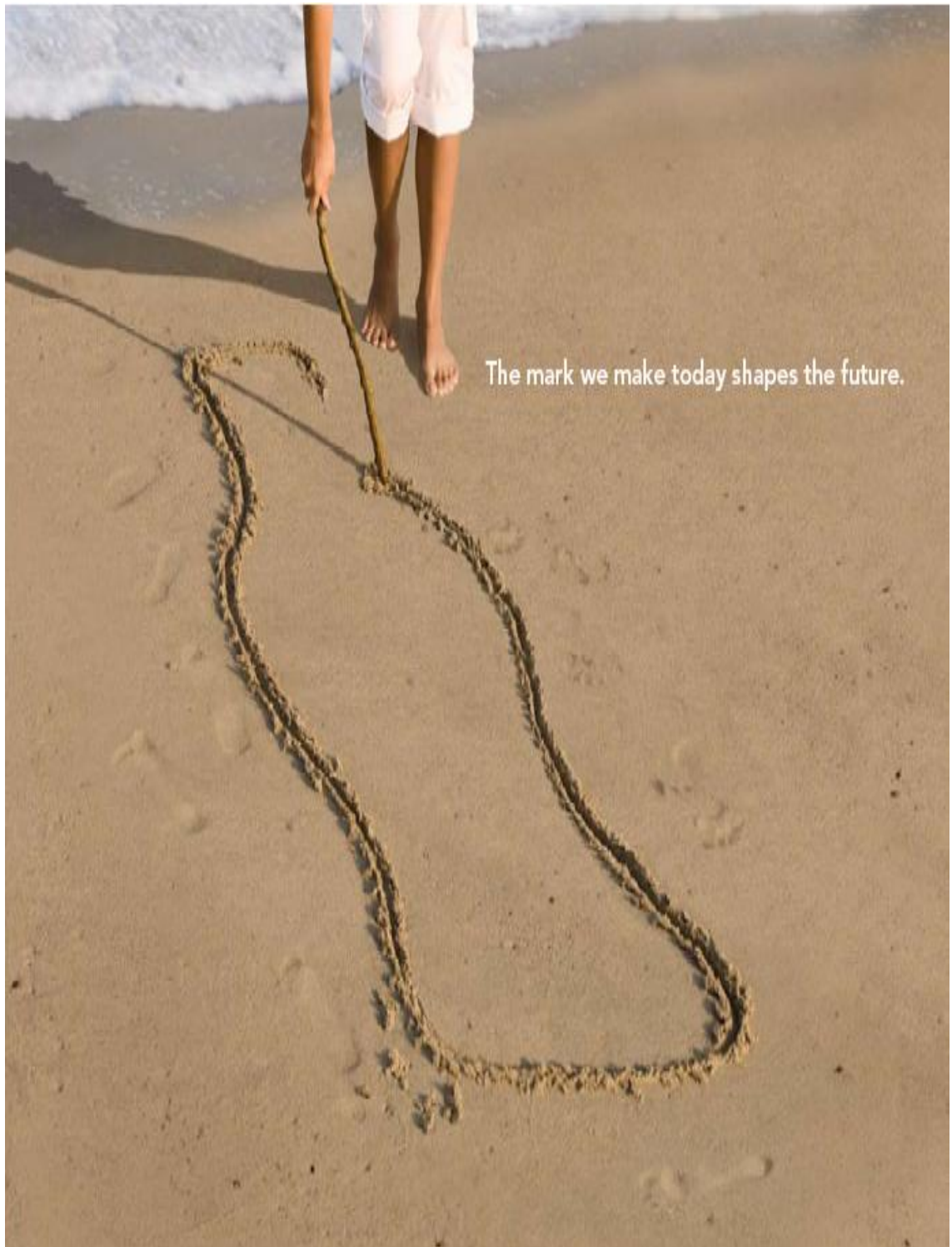
The plant took the following actions to fix the issue:

- They added inventory to cover more disruptions
- They added staffing in places where analysis showed they were short
- They changed shift structures to allow increased coverage at non-overtime cost to complete regularly required tasks that were previously being completed on overtime
- They changed their scheduling software so that it highlights if an employee will exceed legal allowances when a supervisor tries to schedule an individual

As a part of the discussion the plant also decided that they were working too much overtime and there was an opportunity to reduce their costs in addition to coming into compliance with local laws. As a result, they also initiated a regular review of overtime used during leadership meetings. Finally, the general manager reserved the approval right on all requests to work overtime – and refused all without a reason he accepted as valid.

The result was a 98% reduction in the hours of overtime worked between January 2007 and December 2007.

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The mark we make today shapes the future.