# Conversion from Contractor to Employee Delivery Model

September 26, 2024

*Presented by*
Kevin Daly, EVP & Chief Operating Officer

# About the Company

- Founded in 1981
- Corporate Office based in Hunt Valley, MD
- Provides home delivery in 7 states
- 300k daily / 365k Sunday
- Serves 35 + clients; over 45 titles
- Operates 35 distribution centers & satellites
- Distribution, routing and management platform is DART - developed and owned exclusively by PCF

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# Backstory

## 2019

- NJ Department of Labor (DOL) audit of 2015-2018
- Determined Delivery Service Providers (DSPs) misclassified as Independent Contractors
- PCF responded with *Letter Agreement* and support from similar audit in 2011
- Case went dormant, likely due to Covid

## 2021

- Case activity resumed

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# Backstory

## 2022

### March

- Updated NJ clients
- Work with New Jersey Press Association (NJPA) began
- Submitted carve-out bill to NJ State Assembly's Labor Committee, modeled on enacted NY legislation.
- Bill was killed due to opposition

### August

- NJ Supreme Court affirmed DOL finding: *East Bay Drywall* case
- Decision provided DOL sole discretion in determining employee vs independent status

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# Backstory

## 2022

### October

- Under the gun to litigate before Administrative Law Judge OR settle with NJ DOL

### November

- Settled with the commitment for conversion to a complete employee-based delivery model
- Negotiated a sixteen-month conversion window for the nine affected distribution centers

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# Planning the Conversion

1. **Assembled cross-functional team of leaders to plan**

- ✓ Operations
- ✓ Communications
- ✓ Human Resources
- ✓ Finance
- ✓ Information Technology

2. **Significant changes & development required**:

- ❑ systems
- ❑ compensation methods
- ❑ recruiting/hiring practices
- ❑ benefits
- ❑ scheduling
- ❑ staffing & management tools

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# Planning the Conversion

3. **Developed a comprehensive & measured communication strategy to keep field employees & DSPs informed**

4. **Committed to a test & learn, phased approach**

5. **Planned slow and steady conversion to minimize disruption & risk**

***All DSP model → hybrid → all EE model***

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# Test & Learn Measured Approach

## April 2023

- One/first distribution center targeted to:
  - ❑ Test drive the conversion plan & its components
  - ❑ Closely monitored & learned from results
  - ❑ Modified processes, tools & materials as necessary

## July 2023 – July 2024

- Once stabilized, rolled out next distribution center
- As experience & confidence grew, conversions accelerated
- Final NJ delivery by a contractor was July 28, 2024

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# Key Learnings Applied

**Early roll-outs produced learnings that were incorporated into subsequent conversions**

- ✓ Full focus & relentless attention on recruitment is required
- ✓ Situations of one DSP with multiple routes must be addressed
- ✓ Covering routes with multiple delivery employees working < 7-days
- ✓ Managing & scheduling an exponentially larger workforce
- ✓ Changing mindset & behaviors from contractor to employee
- ✓ Strategy to address attendance/call out issues

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# High Level Roadmap

1. Delivery Network Improvement (DNI) completed in each Distribution Center prior to conversion
2. Prepared individualized analysis comparing compensation under both DSP vs EE models
3. Distributed introductory material to staff & DSPs
4. Conducted in-person town hall meetings
5. Scheduled on-site HR support to walk each DSP through Delivery Worker (DW) application & hiring process
6. Rolled out & trained DWs on the DART mobile app

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# Impact of Conversion

- **Costs rose 32-35%; are now 100% fixed**
  - ✓ Delivery compensation
  - ✓ Benefits: Medical & 401k
  - ✓ General business insurance
  - ✓ Recruiting costs
  - ✓ Coverage costs
- **Additions to Staff**
  - Human Resources (3)
  - Recruiting (3)
  - Operations/IT (4)
- **Routes went from 1,344 to 636**

  *Fewer multiple route situations*
- **Open Route % from 6%+ to ≈2%**

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# Matters to Solve Post Conversion

- Adjusting fixed route compensation for erosion
- Handling PTO requests & call outs
- Addressing service & attendance issues consistently
- Maintaining a sufficient applicant pipeline
- Continuous on-boarding & training
- Compliance with proper use of DART mobile application
- Ensuring minimum wage & overtime compliance
- Coaching managers to lead in new environment

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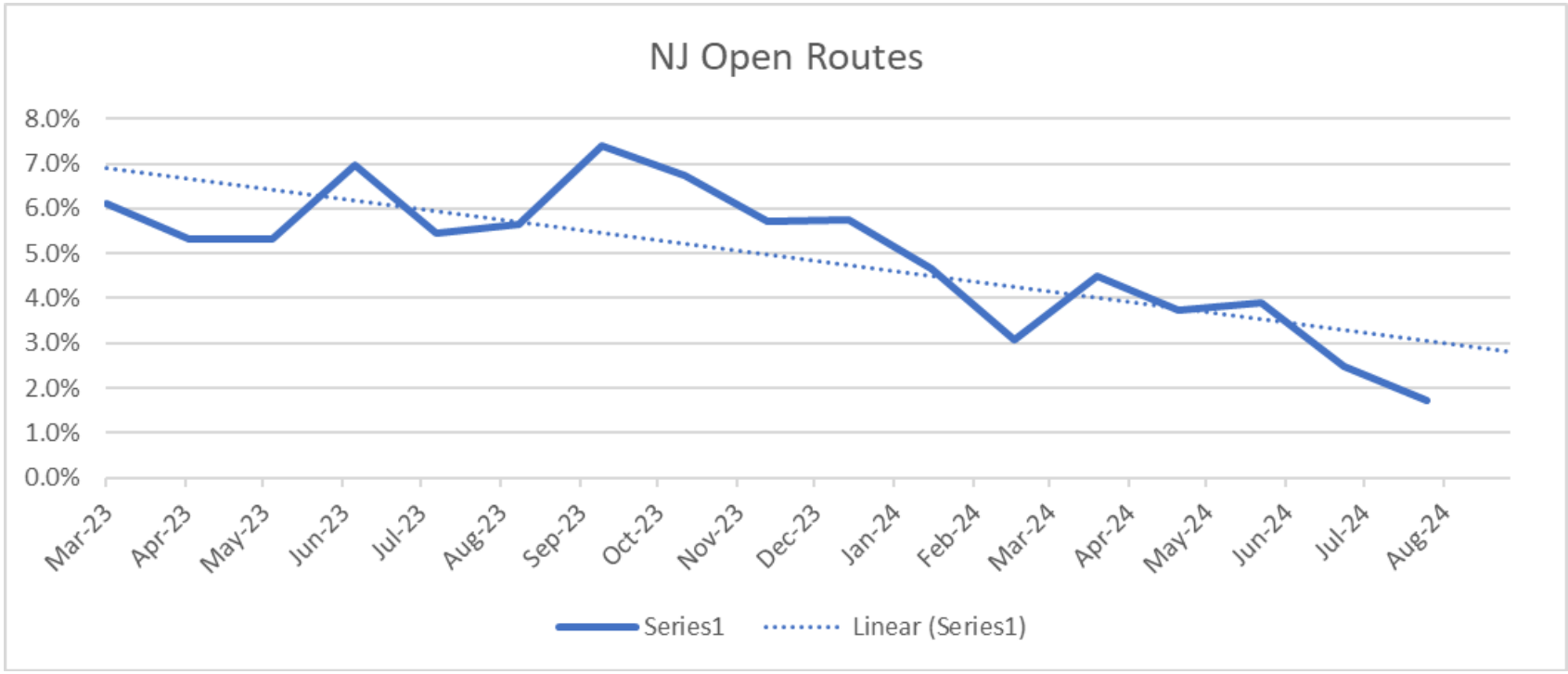
# Open Route Trends

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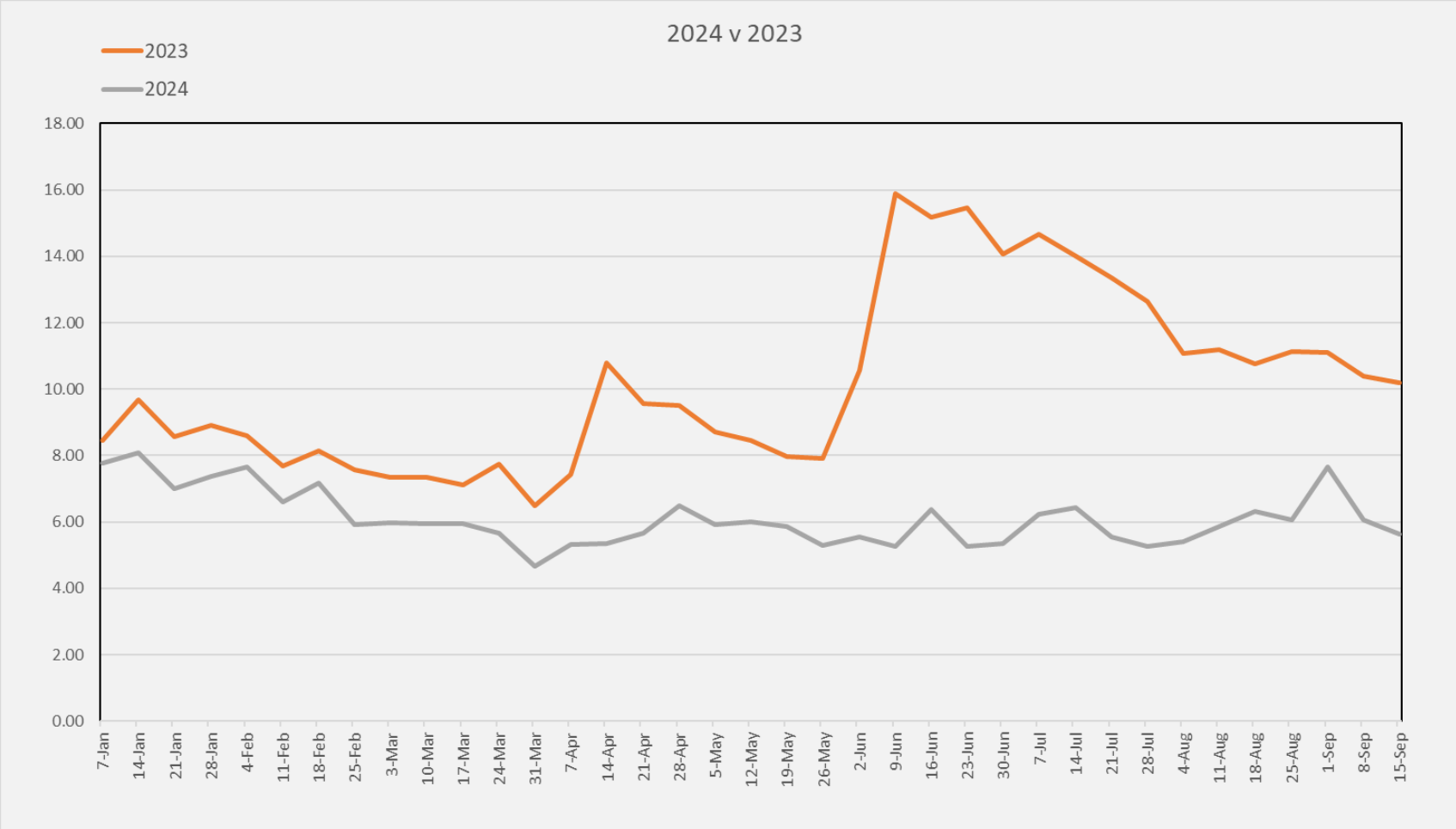
# Service Trends

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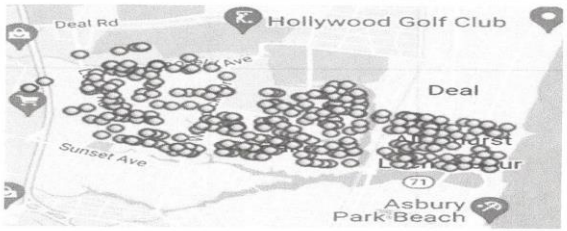
# Internal Candidate

**Route Number: 40107712A**

**Primary City: ASBURY PARK**




| | As a DSP | As an Employee |
|---|---|---|
| Estimated Daily Hours | 3.53 hours | 3.53 hours |
| Estimated Miles per Day | 37 | 37 |
| Mon- Sat Average Delivery Count | 273 | 273 |
| Sunday Average Delivery Count | 307 | 307 |
| 7 day Weekly Compensation | $395.64 | $594 |

| MON | TUE | WED | THU | FRI | SAT | SUN | TOTAL* |
|---|---|---|---|---|---|---|---|
| $73.00 | $72.00 | $71.99 | $74.00 | $79.00 | $103.00 | $86.00 | $558.99 |

* **Includes: $5 a day equipment fee and 0.25 cents per mile driven daily, &**
**Op-In incentive for carrying preferred vehicle insurance: $5/day**
**7 Day commitment includes $35 additional compensation each week 7 days are worked.**

| Contractor Deductions: | Employee Deductions: |
|---|---|
| Deductions for complaint penalties, facility fees, bag supplies, bond fees and tip fees reduce weekly compensation | **No deductions** for complaint penalties, facility fees, bag supplies, bond fees or tip fees |
| **NO** Mileage or Equipment Reimbursement | Both Mileage and Equipment Reimbursement |
| **Tax Deductions *** | **Tax Deductions **** |
| Self-Employment FICA Tax at 12.40% | Individual FICA Tax at 6.20% |
| Self-Employment Medicare Tax at 2.90% | Individual Medicare Tax at 1.45% |
| Federal Income Tax at 15-30% | Federal Income Tax at 15-30% |
| NJ State Income Tax at 1-12% | NJ State Income Tax at 1-12% |
| | NJ State Unemployment Insurance at 0.43% |
| | NJ State Family Leave Insurance at 0.06% |
| * Typically filed along with your individual tax returns for both Federal and State. | ** Withheld weekly from your paycheck. Employer also contributes 6.20% to FICA and 1.45% to Medicare. |

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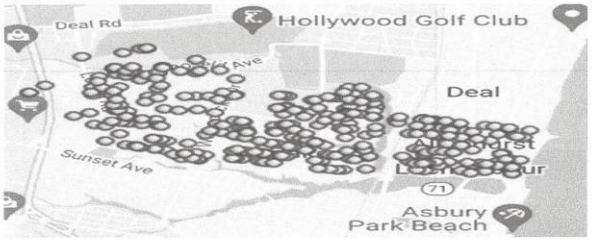
# External Candidate

| Route Number: 40107712A |
|---|
| Primary City: ASBURY PARK |

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What questions do you have?

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# Thank you!