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The Case for Improved In-Store Labor Standards



Introduction

1.1. Labor Standards and Labor Hour Models are in a State of Flux

The retail industry is constantly changing due to rapidly evolving customer expectations, technology innovation and extreme competition. While some of the transitions have been graceful and smooth, there are others where retailers are yet to set a structured set of operational standards in the stores. One such area is related to labor standards and labor hour models where retailers are desperately seeking standardized processes.

Effective labor standards and related standard operating procedures (SOPs) in the stores drive accurate labor planning for all tasks, performance evaluation, insights for operational improvements, cost minimization, and above all, documenting the best methods. Unfortunately, most retailers fail to comply with all or most of them. A recent EKN survey¹ rightly pointed out the current state of disarray within labor standards and labor hour models. In fact, 6 out of 10 retailers² are either 'moderately' or 'not satisfied' with their current labor hour models. There is a clear imbalance between the present and desired standards which leaves the retailers grappling for the standards that best suit their purposes in the stores at a specific point of time. Retailers have revealed the skewed nature of store labor task allocation that often hampers their productivity levels and sales.

6 out of 10 
retailers² are either 'moderately' or 'not' satisfied with their current labor hour models

- Store labor is spending 'less than desired time' on training, customer service, loss prevention and omnichannel functions. This is a cause of concern for many retailers as customer satisfaction and a trained workforce adds significant value to the in-store customer experience.
- On the other hand, store labor is spending 'more than desired time' in inventory/freight management, associate breaks and employee-to-employee interaction. Though one cannot disagree with the fact that operational functions, associate interaction and breaks are required, at the same time, it points to the fact that associates are under-utilized for customer service and sales.

Surprisingly, unbalanced time allocation towards labor tasks is identical for both large and mid-sized retailers³ where less than desired time is spent on training and customer service and more importance laid on inventory management. Though efficient inventory management is the back-bone of seamless day-to-day store operations, nevertheless more than desired time allocation towards such activities deviates from the main purpose of store labor, customer service and selling-related tasks that adds to the store topline, bottom-line and customer loyalty.

¹ EKN Labor Standards survey, 2016; ² EKN Workforce Management Survey, 2015; ³ Large Retailers: Revenue more than \$ 1 billion; Mid-sized Retailers: Revenue less than \$ 1 billion

Amount of time spent by store workforce under various store-related activities

Mid-size retailers	Just right amount of time	Less than desired time	More than desired time
	Front-end management (cashier/POS)	Workforce training	Inventory/freight management
	Promotions	Sales/customer service	Special projects
	Signage	Other omnichannel functions	Store customer shipping/ fulfillment
	Back office functions	Fitting rooms	Planograms/store or floor set
	Facilities management	Loss prevention/shrink	Associate breaks

Large retailers	Just right amount of time	Less than desired time	More than desired time
	Facilities management	Workforce training	Inventory/freight management
	Associate breaks	Loss prevention/shrink	Associate interaction with other associates
	Planograms/store or floor set	Sales/customer service	Pricing
	Signage	Special projects	Back office functions
	Store customer shipping/ fulfillment	Other omnichannel functions	Fitting rooms

Why Labor Standards are Lopsided?

2.1. Disruptive Forces that are Compelling Retailers to Re-engineer Labor Standards

Areas demanding re-engineering

So, what's happening behind the scenes? What are the disruptive forces that retailers are in the process of re-considering? Why do retailers, all of a sudden, feel the urgent need to re-think their labor standards? To have a better understanding of the trends, it's important that we take a deeper look into them.

The 3 primary areas that require re-engineering of current labor standards in retail industry are labor turnover, workforce skills and big data in the store.

- 48% of retailers⁴ are currently feeling the pains of **labor turnover**. The average retail turnover rate of 66%⁵ has a huge impact on the business. In fact, to replace a \$10/hour employee, it costs \$3400 on average which includes cost of training, on-boarding and loss of productivity.
- A whopping 43% of retailers⁶ contend that **workforce skills and talent maturity** is an integral part of the business and requires immediate re-engineering of labor standards. This is re-iterated when 7 in 10 business executives⁷ stated that an employee's decision to continue with a company is influenced by job-related training and development.
- With the advent of omnichannel retailing, the importance of various data sources has been felt like never before. Not only is store performance and employee data (i.e. employee sales/ hour, availability, overtime data etc.) used for forward-looking activities such as store planning, inventory management, merchandising and increasing sales but also managing and optimizing associate scheduling and thereby the output. In fact, 35% of retailers believe that **big data** in the stores can be leveraged to regulate labor schedules and increase overall store efficiencies and balancing operational and customer service tasks.

Areas that are most disruptive and require re-engineering of current labor standards



2.2. Presence of numerous labor standards complicating the process of re-engineering

The retail industry is currently lacking formal processes to manage large number of labor standards that each retailer operates. Surprisingly, the average number of labor standards used by a retailer at the store level is 1660! However, many such standards are not formalized and in some cases they lack proper structure, and in fact, for many retailers there is complete absence of any standardization process or guidelines. 6 in 10 retailers use up to 1000 labor standards to generate store-level labor hours for tasks⁸.

Average number of labor standards used by a retailer at the store level is 1660



- Interestingly, a fifth of retailers deploy labor standards ranging from 1000 to 5000, and over previous years there has been an increase in the number of retailers (16%) who adhere to more than 5000 labor standards. Moreover, 11% of retailers use between 2000 to 4999 standards.
- As good as 60% of retailers apply segment variations in labor standards by 'geography', 'region' and 'store clusters' primarily for localization.

The obvious question that follows is, does having these multiple standards culminate into efficient in-store processes? Have retailers identified an optimal number of standards that can be considered as 'standard' which will increase the efficiency of store execution? The answer is 'no'. For more than 80% of retailers, two major pain points associated with store labor standards are consistent execution of standards across stores and meeting high customer expectations.

- 44% of retailers identified the pressing need for a reliable implementation of standards across stores.
- 38% revealed that standard workforce processes would enable them to keep pace with the high customer expectations.

⁸ All data in this point relates to EKN Labor Standards and Labor Model Excellence in Retail survey, 2016

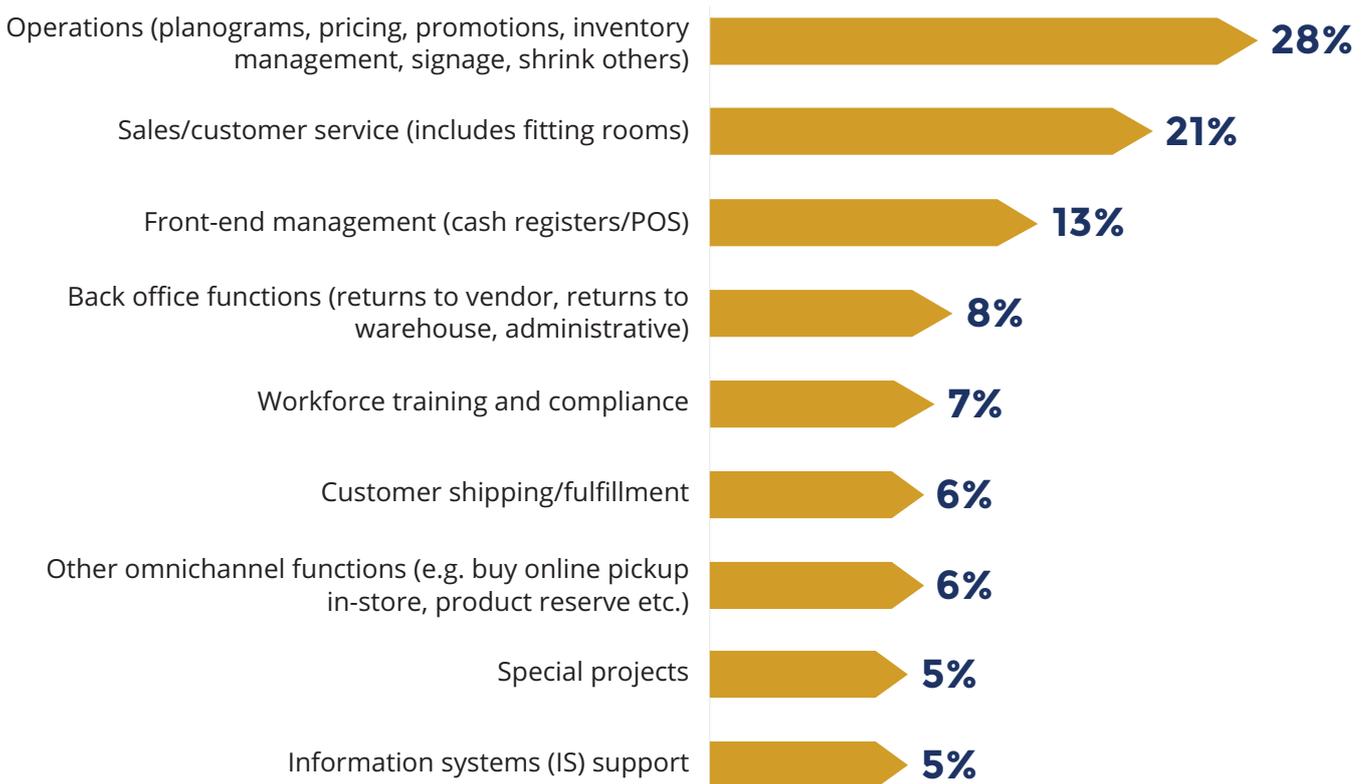
Current & Future Capabilities

3.1. Retailers have stuck to prioritizing operations in the process management chain

In midst of tremendous competition, retailers have prioritized store operational tasks (e.g. merchandising, inventory management, planograms, promotions/ads, price changes, fulfillment etc.) over all other processes time and again. However, the sudden upsurge in e-commerce and mobile commerce sales in the last few years has put pressure on retailers to lay additional focus on improving lagging store sales and customer service. The opposite is reflected in their store labor budget allocation which finds utmost importance in operations pertaining to planograms, pricing, promotions, inventory management and signage followed by customer service and front-end management⁹.

- Close to a third of retailers are single-mindedly focused on prioritizing labor budget towards operational tasks.
- Next in the ranking order of importance is customer service (including fitting rooms) and front-end management tasks (e.g. cash registers/POS, returns at the service desk) where a third of retailers allot their labor budget.
- Omnichannel processes have gained in prominence as far as store labor standards are concerned. Tasks such as customer shipping/fulfillment and buy online pick-up in store (BOPUS) have caused retailers to allocate as much as 12% of their labor budget and hours towards omnichannel activities.
- Unfortunately, less than 10% of retailers allocate labor budget towards workforce training and compliance which, if increased, would be a valuable addition to customer satisfaction goals.

Classification of store value chain areas per store labor budget



⁹ All data in this point relates to EKN Labor Standards and Labor Model Excellence in Retail survey, 2016

3.2. Aligning labor standards with the changing norms have taken a back-seat for the retailers

The retail industry has been continuously experiencing changes brought about by innovation, competition and sheer customer demand. Hence, being agile, watchful and picking up on trends early is an important trait of the industry. A successful retailer is adept in aligning with trends to remain on the growth-curve. However, all these traits have fallen apart in terms of labor standards. A limited number of retailers take the pain of monitoring and upgrading their standards as and when required with a major chunk doing so on an ad-hoc basis¹⁰.

- When it comes to constant monitoring and updating of labor standards, only 37% of retailers have been successful in doing so.



1 in 3 retailers monitor and upgrade labor standards

- More than 50% of retailers plan and evaluate their labor standards for upgrades either on a quarterly to annual basis.
- As good as 11% do not have a regular updating cycle for labor standards but undertake it when felt 'out of sync'.

In this regard, it is interesting to note that more than 40% of large retailers are involved in 'continuous' updates as against 29% of mid-sized retailers. The number, however, inverses in case of 'frequent' to 'regular' updates where close to 60% of mid-sized retailers take up such updates as against 48% of large retailers.

3.3. Retailers believe in 'sharing of best practices' when it comes to building capabilities for execution of labor standards

To ensure proper execution of labor standards in the stores, retailers resort to sharing best practices and monitoring the implementation of labor models across stores for ensuring standardization of tasks that support operational and sales processes. A deeper analysis of retailers by size reveals the following¹¹:



60% share best practices to improve consistent execution across stores

- 60% of retailers choose to share best practices among stores. This is more apparent for mid-sized retailers (71%) as they are still in the process of identifying the optimal labor standards and best practices.
- On the other hand, large retailers (57%) simply follow a set of scalable processes via best practices sharing and compliance checks thereby ensuring proper execution by monitoring of the implementation process.
- The other important capability building that 59% of retailers' follow is creating standard operating procedures and documenting the processes. In this area, mid-sized retailers (64%) once again score over large retailers (54%) as the former are still in the 'learning' phase.
- Two other top capabilities that retailers follow are consistent monitoring of labor laws (51%) and proper deployment of labor training methodologies (44%).

^{10,11} All data in this point relates to EKN Labor Standards and Labor Model Excellence in Retail survey, 2016

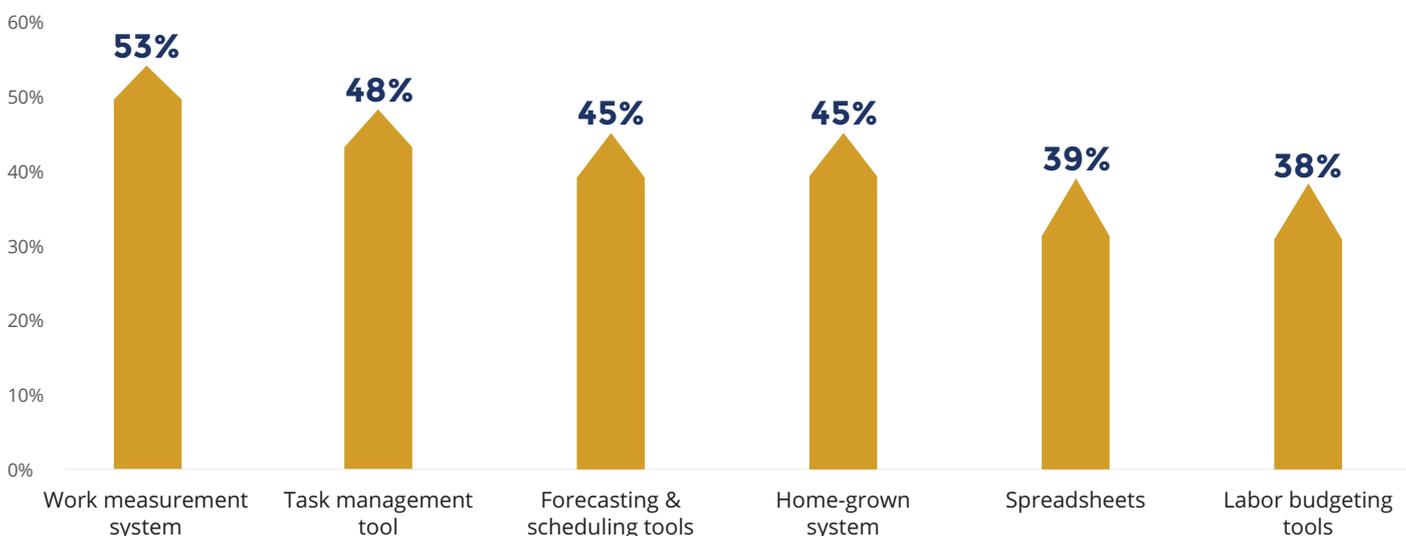
Technology Enablers: The Present & Future

4.1. Adoption of future technology capabilities

Having realized the importance of technology in managing a fair set of labor standards, retailers are willing to invest in building future technology capabilities. Such capabilities include labor budgeting tools, labor forecasting and other workforce management systems. However, retailers have placed more confidence in work measurement systems and task management tools that help with judicious use and application of labor standards. Retailers are considering the following systems related strategic decisions in the next 12-24 months:

- More than 50% of retailers plan to use a work measurement system by 2018. This is partly due to the fact that store tasks take much more time to complete due to unpredictable customer service or operational activities that occur in the stores every day. Most retailers use store activity-based models to plan tasks and labor standards where in the time taken to complete tasks is fixed for certain standard tasks like the time it takes to open and close the stores. There is however, variability built into the plans for other types of operational tasks such as pricing changes, setting up a new ad and others. Such tasks can change every day due to unpredictable store conditions, sales trend or customer traffic movements.
- Moreover, store tasks are becoming more complex as standard store customer service processes such as sales, exchange and returns are more omnichannel-centric today than ever before. For instance, 1 in 2 retailers will fulfill online orders by performing customer deliveries directly from the store by 2018¹². This will eventually help in streamlining inventory operations as well as enhanced emphasis on balanced store task allocation.
- Almost half the retailers (48%) plan to use task management tools as it helps in day-to-day smooth functioning of a store and corporate retail HQ processes through proper task allocation, collaboration and knowledge-sharing.
- Equally important technology capabilities that 45% of retailers look forward to use in future are 'forecasting and scheduling tools'.

Planned technology adoption (2018) for effective retail labor management



¹² EKN Executing Omnichannel Profitably Survey, 2016, EKN Future of stores report, 2015

Hence, it is clear that more and more retailers do intend to use technological capabilities in the near future to enable a more holistic, productive and complete store environment. This requires retailers to invest in:



Retailers should invest in developing right workforce standards, simplifying task management processes and efficient work-allocation between full-time and part-time workforce

- Developing the right workforce standards that address the varied complexities in a store and are critical for effective store execution. Standards should take into consideration the 'actual time' required to complete a task versus the time taken by associates/managers in an ideal scenario.
- Simplifying task management processes so that there is a balance between customer services, sales and operational tasks. Most importantly, store should have facilities to schedule tasks as per a changing sales trend, operational change or customer need.
- Enabling efficient part-time and full-time workforce allocation within a store and also in-between stores as a shared resource to ensure smooth execution in the stores at all times.

ROI from store labor standards

5.1. Is it worthwhile investing in labor standards management system: An analysis of the ROI

An effective labor standards management system, which includes both technology and process to develop, maintain and deploy a labor model, can create wonders in-store in the form of increase in sales via increased customer satisfaction and engagement rate. A retailer's investment in enhancing labor standards, task management, workforce management and work measurement systems can be termed as effective if these investments get translated into improvements in store performance metrics. Fortunately, retailers have experienced noteworthy performance improvements on a year-over-year basis in the major store metrics used to measure store efficiencies. The use of effective labor standards models has led to a 5% increase in customer satisfaction followed by a 4% increase in sales per hour.

8 metrics 
have seen year-over-year improvement due to effective labor standards

- Retailers stated a year-over-year improvement in customer satisfaction, 'sales per hour' and customer engagement rate due to the effective use of labor standards in their stores.
- On other fronts, such as task compliance, labor budget attainment and labor cost to sales, performance has improved by an impressive 2.1%, 2.8% and 2.4% respectively due to effective use of labor standards.

Year-over-Year performance change in store metrics due to effective labor standards

Metrics	Average year-on-year % change
 Customer satisfaction	4.5%
 Sales per hour	3.5%
 Customer engagement rate	3.2%
 Labor budget attainment	2.8%
 Labor cost to sales	2.4%
 Task compliance %	2.1%
 Labor turnover	1.4%
 Overtime (OT) attainment	1.3%

Conclusion

6.1. Connecting the dots and securing the future

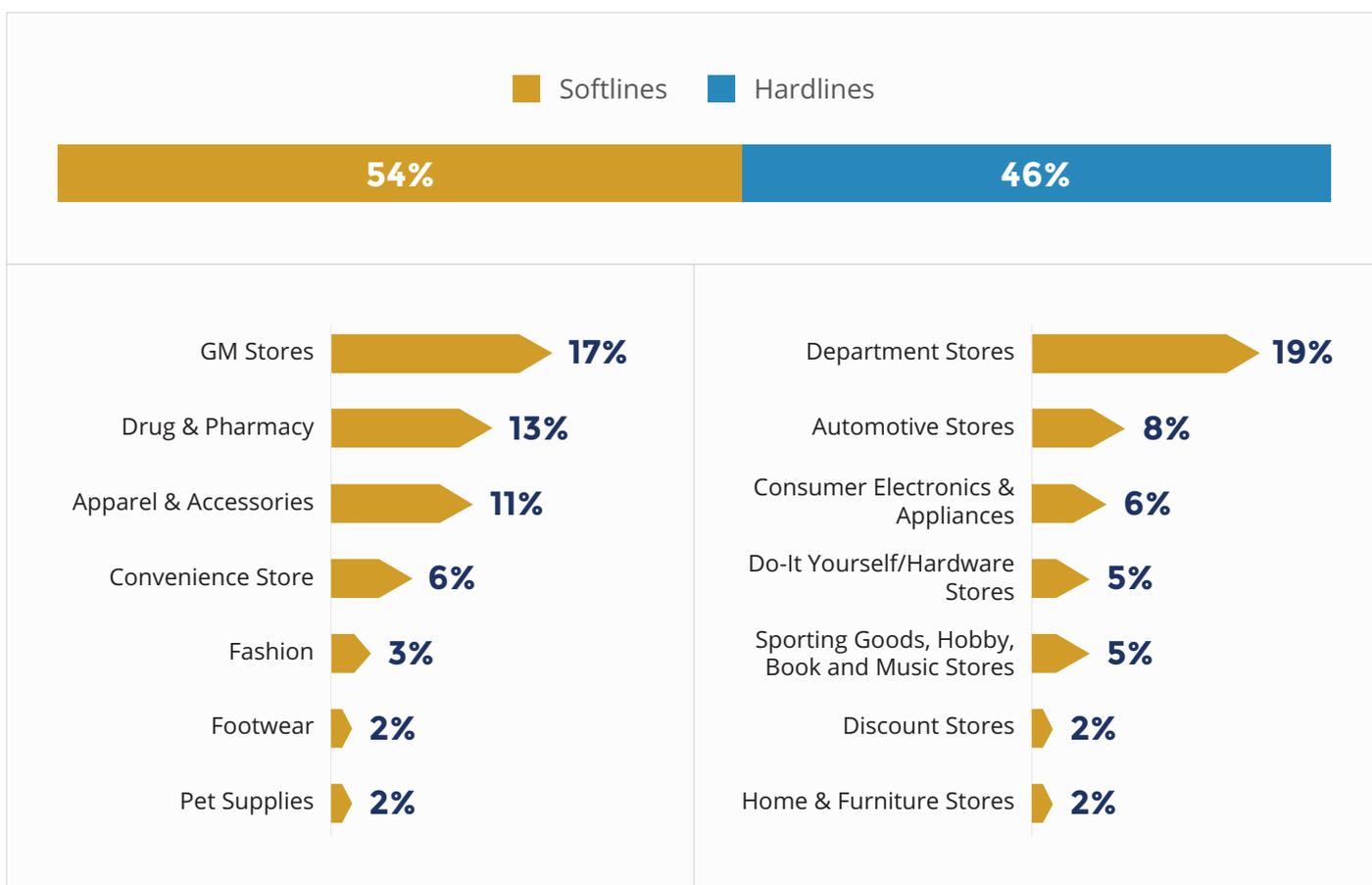
Deployment and the continuous updating of labor standards in stores is solving many of the major challenges faced by retailers in the stores. EKN data shows that such implementations have resulted in increased customer satisfaction and customer engagement rate, besides driving several operational efficiencies in the stores. The pain-points faced by the retailers pertaining to customer satisfaction, operational efficiencies and labor productivity can be addressed by properly implementing labor standards, task management and work measurement models.

Appendix

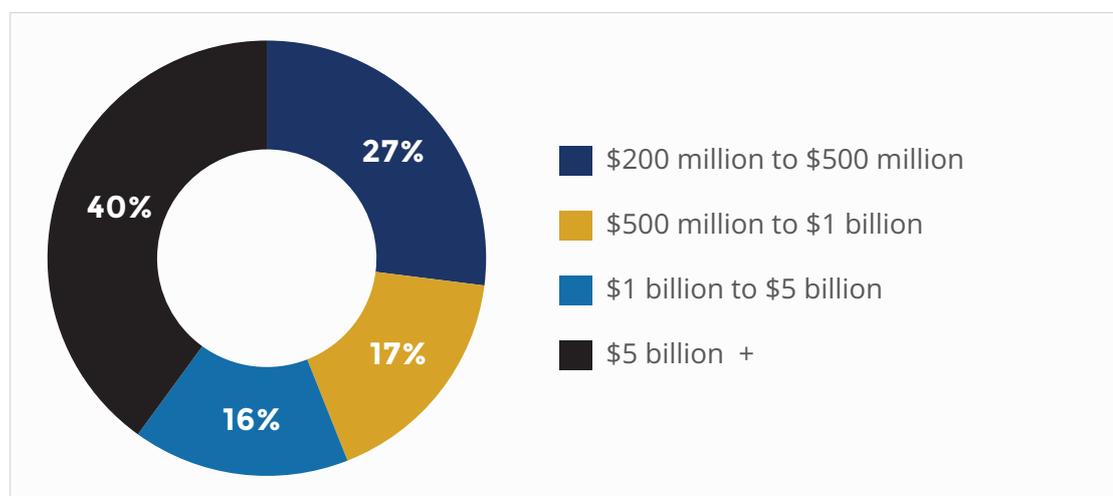
EKN 2016 Labor Standards and Labor Model Excellence in Retail Survey Demographics

For this EKN survey, 63 retailers were surveyed across the US. Given below are the primary retail segments and other pertinent demographic details.

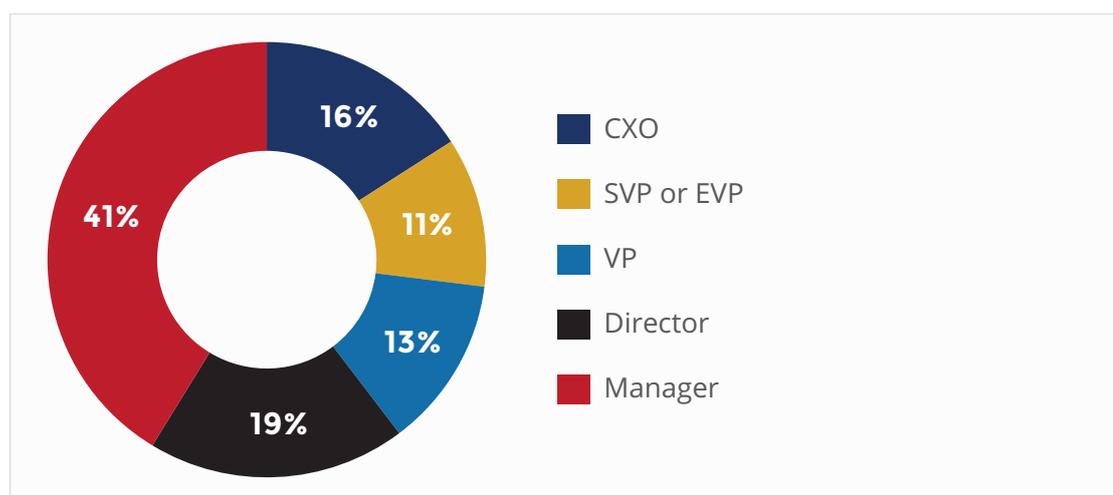
Primary Retail Segments



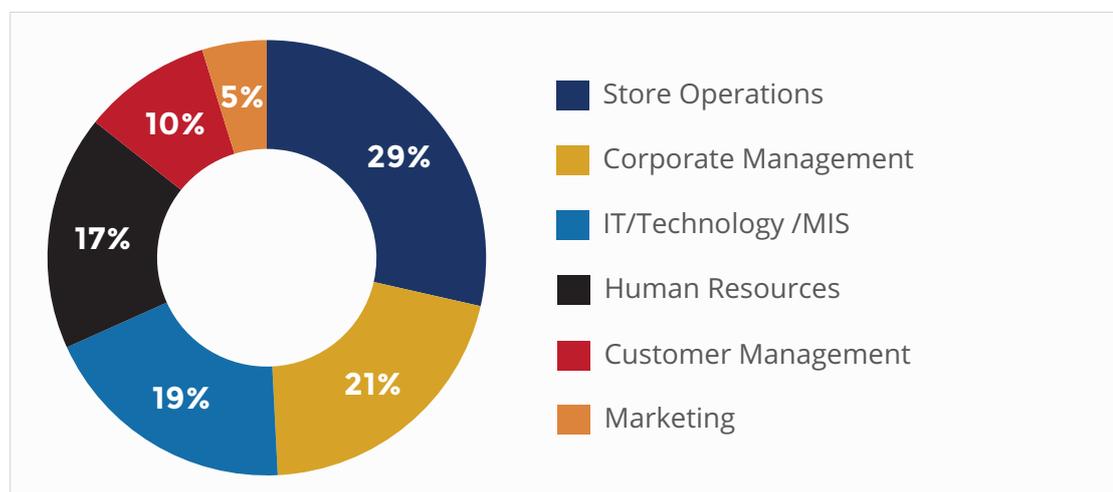
Retailer Annual Revenue Breakdown



Designation/Title of the Retailer Respondent



Business Function of the Retailer Respondent



About EKN

Our research agenda is developed using inputs from the end user community and the end user community extensively reviews the research before it is published. This ensures that we inject a healthy dose of pragmatism into the research and recommendations. This includes input of what research topics to pursue, incorporating heavy practitioner input – via interviews etc., and ensuring that the blend of research takeaways are oriented towards a real-world, practical application of insights with community sign-off. For more information, visit www.eknresearch.com.

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