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Filling The Store Labor Productivity Gap

by George Lawrie
for Business Process & Applications Professionals



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How Can Retailers Deploy Technologies That Boost Store Labor Productivity?

by **George Lawrie**

with Boris Evelson, Paul Hamerman, and Varun Sedov

EXECUTIVE SUMMARY

Labor costs run at between 10% and 13.5% of retailers' revenues, but store labor workload is soaring to accommodate more product introductions and promotions. At the same time, store associates must cope with much better informed consumers, shorter product life cycles, and more complex store assortments. Retail business process and applications professionals must focus attention on store labor productivity, whether in standardizing the planning and execution of store and merchandise resets in grocery, or in advising a consumer on the most suitable cosmetic for her tropical beach vacation. Deploying store labor productivity tools that improve planogram or floor set compliance can substantially reduce stock-outs and increase inventory turns and margins. Clienteling apps can develop the customer intimacy that specialty retail needs to compete with large format interlopers.

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Forrester interviewed 12 vendor and user companies, including Accenture, Deloitte, JDA Software, National Retail Federation, Oracle, RedPrairie, Reflexis, REI, Retailigent Solutions, SAP, Waterstone's, and WorkPlace Systems.

Related Research Documents

"Improving Retail Promotion Execution"
December 19, 2007

"The Voice Of the Store Manager"
June 20, 2006

RETAIL TASKS PILE UP

Store labor costs run between 10% and 13.5% of the typical retailer's revenues, but failing a boost in productivity, they are set to rise dramatically as a result of changes in labor supply and the increasing volume of store tasks.¹ On the one hand, retailers are feeling the squeeze as labor costs rise in North America, while a dramatically aging European population provides fewer entry-level employees. Yet, as a result of range extension, the increasing variety of items in stores, shorter product lives, and an explosion of promotions, stores are busier than ever.²

A Blizzard Of Store Tasks Engulfs Store Operations

Like snowflakes on a highway, tasks, delegated from headquarters, settle ever more thickly on the smooth schedule that store operations establishes to ensure that stores have sufficient associates to manage expected customer traffic and expected merchandise deliveries. In addition to scheduling regular tasks, store operations juggles to accommodate:

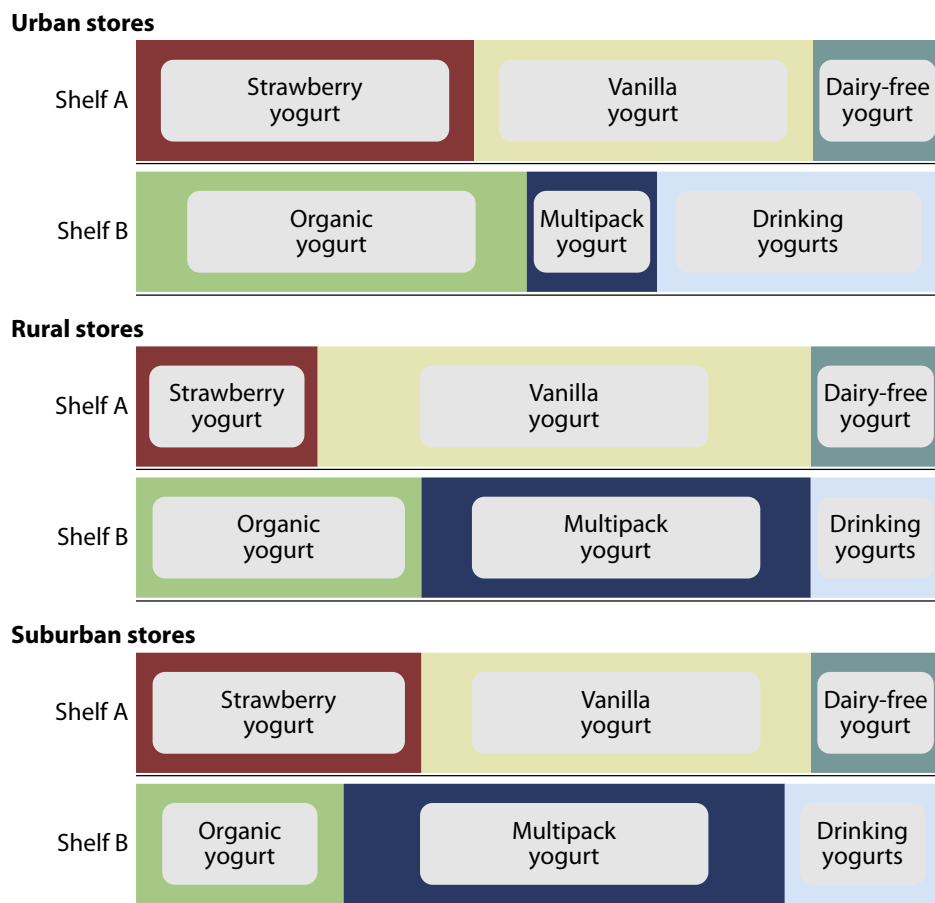
- **New product introductions.** New product introductions (NPIs) are a vital ingredient to preserving and growing market share and brand value for both retailers and consumer packaged goods (CPG) manufacturers. In 2003, there were almost 34,000 new CPG introductions in North America alone.³ In 2008, almost 123,000 new universal product codes (UPCs) generated \$21 billion in new sales for North American retailers — excluding Wal-Mart.⁴

Although both retailers and CPG manufacturers desperately need NPI lift effect, especially during a recession, each new introduction requires careful planning by retail category managers to run down inventory of superseded items, allocate the right amount of space in the right place in each store in a chain, taking into account the timing of the introduction and the likely impact on sales of other merchandise. Each plan requires precise and detailed communication to store operations and meticulous execution of hundreds of tasks in thousands of stores. In a thousand-store chain, 123,000 NPIs generate as many as 700 million intricate tasks for store associates to execute.

- **Promotions.** In 2003, Forrester found that trade promotion spend across the world for highly promoted categories might account for 14% of a CPG manufacturers' gross revenues. But with more products fighting for shelf space and a share of recession-hit incomes, by 2008 this had grown in some countries to 20% across all CPG categories.⁵ For retail operations, each promotion requires many of the same tasks as an NPI. Store operations must choreograph the intricate ballet, running down old inventory, building new displays with precisely the right facings in exactly the right location in each different banner or store type, while coordinating the stage props of printing and flyer distribution and in-store material display. Merchandising departments must simultaneously orchestrate the propagation of promotional pricing and other data to store point of sale (POS), eCommerce, and other customer-facing channels.

- Store resets.** As retailers like Target or Sainsbury's strive to deliver more compelling and entertaining experiences for their targeted customers, they have more frequently changed the fixtures and decor that form the backdrop to the store stage. A demanding challenge, they have to marshal the store associates as stagehands frequently to reset the merchandise in the store as they seek, for example, to squeeze in a private-label line or to accommodate a broader range of fresh food while shrinking the home care category. Retailers' drive for more consumer-centric assortments drives immense complexity requiring store operations to execute different planograms and floor sets for many more store clusters as retail strategists seek to tune the merchandise assortment and the shopping experience to target consumers.⁶ For example, store operations has the responsibility to execute the planogram that scientifically determines how many facings of multi-packs there should be in suburban stores serving families than in stores that serve city singles (see Figure 1).

Figure 1 Planogram Complexity

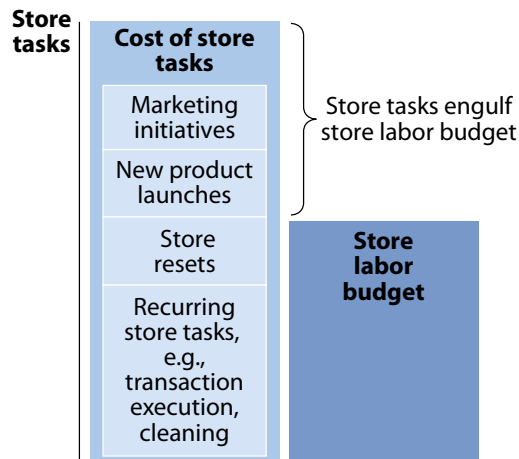


Operations Limitations Put Smart Strategies In The Deep Freeze

As the volume and complexity of store tasks increases, driven by the requirements of fragmenting markets and increasingly specialized competition, specialty retailers, general merchants, and grocers in particular face the need to do much more with static or falling store labor budgets. Even with a strategy for survival and growth expressed in terms of compelling assortments and attractive pricing they face implementation frustration, managing so many complex tasks delegated to stores. Until they can figure out how to effectively use the labor they have now, they will continue to suffer from:

- **Soaring labor costs.** The big worry for retailers is that tasks are loaded on to the store without visibility of the amount of labor required to execute them. Store managers have to use discretionary budget, either to hire casual labor, or to pay overtime. Alternatively, store operations might subcontract store tasks to suppliers or to specialist brokers or agencies like Acosta or PromoPower (see Figure 2).
- **Dwindling market share.** Every bungled NPI with new merchandise reaching the right store shelf too late or placed in the wrong aisle results in potential loss. New product introductions lift store revenues, but only if correctly executed.
- **Feeble margins.** Retailers like H&M risk the need to markdown and damage their margins if they miscoordinate the display of promotional inventory with the prebooked advertising slots. Coordinating floor sets with advertising is even more of a headache for frequently promoted but bulky or assembled labor-intensive merchandise like furniture. Furthermore, retailers in some categories depend for solvency on trade promotion funds and often face financial penalties if they fail to display merchandise in accordance with the trade promotion agreement.⁷

Figure 2 Store Tasks Engulf Store Operations Budget



- **Sluggish inventory turns.** Greater variety of merchandise and more store-specific displays increase the number and variety of floor sets and planograms designed to help targeted consumers to rapidly fulfill their shopping trip missions. Increased planogram variety increases the complexity of store tasks and reduces the probability that tasks will be executed exactly as planned.⁸ This in turn leads to increases in stock-outs and, because inventory is wrongly located and therefore not selling through, to falling inventory turns.⁹ One of Forrester's interviewees expressed the opinion that a 10% increase in store planogram or floor set compliance can reduce incidence of out-of-stock by as much as 10 basis points — from 8% to 7%, for example.

USE PROCESS AND TECHNOLOGY TO DIG YOURSELF OUT

Retailer store operations faces a blizzard of tasks as a result of the increase in new product introductions and CPG-led promotions and the rise of marketing initiatives to target specific consumer segments with compelling merchandise assortments, pricing, and promotional offers. Smart retailers should wrap up warm against the storm by deploying new techniques and tools both to understand the labor requirements of their chosen strategies and tactics and to empower more-effective store associates to know precisely what tasks to execute and when and how to do them in each store. To keep their colleagues sheltered from the icy blast of retail, business process and applications (BPA) professionals should start by:

- **Understanding the drivers of store labor productivity.** Grocers, discounters, and general merchandisers like Kroger or Aldi use the display space to sell. For them, the driver of labor productivity is effective execution of planograms.

Specialty retailers use knowledgeable sales associates to do the selling. In general, consumers value expert help when making “considered purchases” such as sports equipment or consumer electronics. For these categories, the display is less important than the expertise of the sales associate in understanding the consumer's mission and intelligently matching to it available data on merchandise characteristics, inventory availability, and peer buying habits.

- **Capitalizing on standards data.** Retailers constantly monitor labor costs as a percentage of revenues. But by applying projected volume and activity drivers to labor standards data, from firms like Accenture or from self-generating models like that in the Reflexis store labor application, retailers should predict the labor cost impact in advance of policy changes under consideration. For example, retailers should use a store labor cost model or standards to analyze in advance the impact on labor required for receiving if they change the frequency of deliveries. Equally, they should understand in advance the cost impact of changing checkout operator rosters if they deploy promotions that switch store traffic from Saturdays to Tuesdays.

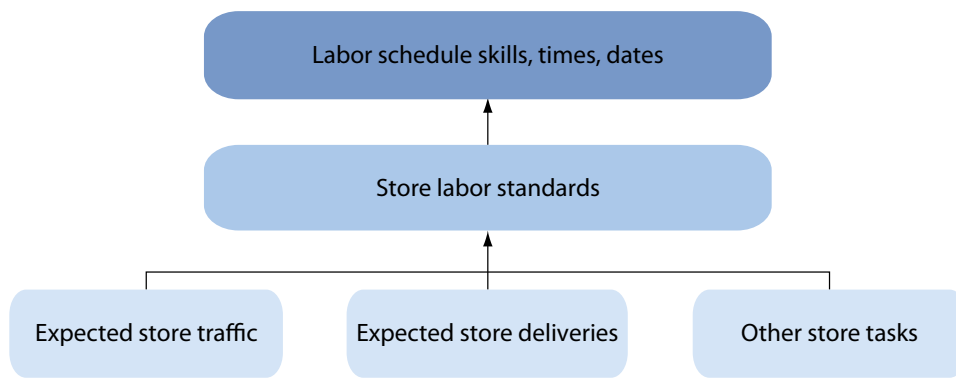
To benefit from pooled industry knowledge, retailers should work with firms like WorkPlace Systems or Accenture. Continuing the work of H.B. Maynard, Accenture has distilled the experience of hundreds of retailers ranging from small regional chains with a hundred or so

stores to giant chains with a thousand or more, to develop comprehensive labor standards for execution time of thousands of store tasks, covering everything from unloading pallets to ringing up a sale or authorizing a return. Firms that use store execution management solutions like Reflexis can generate their own standards based on historical activity.

- **Developing and maintaining their own variants to standards.** Retail BP&A professionals should work with a chief operating officer to establish their own expertise to manage the update and tailoring of labor standards to the peculiarities of their own business. Standards for self-stacking in a single floor store may be, for example, too stringent for a multistory retailer.
- **Integrating standards to the merchandise and promotion planning process.** Retail BP&A professionals should help their line-of-business colleagues to understand the powerful possibilities of modeling future promotions or new introductions against the existing labor budget as well as space and working capital constraints. They should be sure that the sales and operations planning process takes account of the implications for store labor of any planned activities.¹⁰
- **Deploying task management processes.** Retail BP&A professionals should formalize the delegation of high-level tasks to stores using simple portal tools like SharePoint Portal. For more sophisticated and precision control over business-critical planogram or floor set compliance, retail pros need to deploy applications like RedPrairie's Execution Management Solution or Reflexis Retail Execution Platform that take from the store associate the worry and the waiting of figuring out just how to build a display of new merchandise. These apps also record the time taken for each task and therefore progressively improve the accuracy of the labor standards as well as providing pointers for development and training.
- **Managing the flow of tasks to stores.** Retail BP&A professionals should work with line-of-business colleagues to establish workflow control to prevent too many different interested parties in headquarters marketing or merchandising from sending too many conflicting tasks to the stores. Retail BP&A professionals should recommend to line-of-business colleagues that a senior individual with field experience might review tasks before delegating them to stores.
- **Using tasks and traffic to drive labor schedules.** Retail BP&A professionals should use detailed standards and statistical history to drive labor scheduling so that labor is neither too thinly stretched to meet the objective nor too abundant for prudent economy. The very best scheduling will also accommodate the employees' preferences and personal obligations all the more easily once peaks and troughs in labor demand can be forecast (see Figure 3).
- **Empowering sales behavior.** Retail BP&A professionals in specialty and other consultative selling retail subverticals must make progress around enabling store associates to see in near real time the buying history of an identified customer together with system-driven hints about which available or imminently available merchandise might be of most interest to the consumer.

Some clienteling capability is available in some established POS apps from firms like JDA Software and Tomax.¹¹ Retail BP&A professionals with more challenging requirements should consider looking at specialists like Retaligent that enable sale associates at firms like Emporio Armani to not only to advise clients in the context of their past purchases and current needs but also to view inventory availability and merchandise attributes, as well as schedule follow-up activities. Firms like SAS and Infor provide yet broader offer optimization. Retail BP&A professionals in luxury or high personal selling retail segments should deploy technologies to move to increasingly personal tiers of sales interaction (see Figure 4).

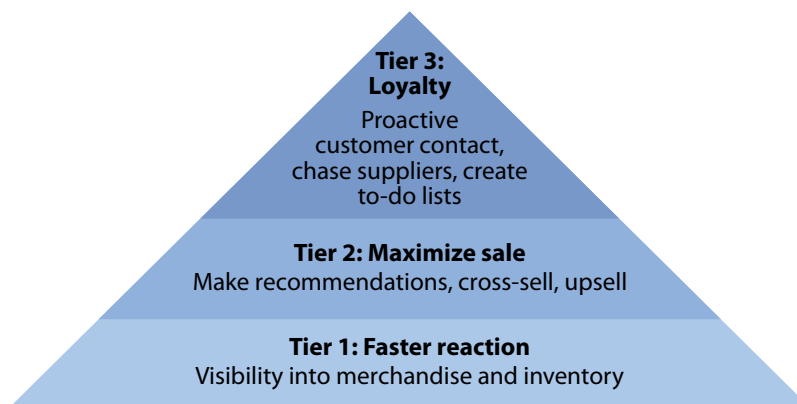
Figure 3 Traffic, Tasks, And Labor Standards Drive Labor Scheduling In Stores



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Source: Forrester Research, Inc.

Figure 4 Levels Of Sales Interaction



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Source: Forrester Research, Inc.

Assess The Scope For Labor Productivity Improvements

Retail BP&A professionals should collect statistics on competitors' labor-cost-to-revenue ratios. In the case of advice or personal selling, the route to higher productivity is likely to be in delivering to the associates more access to data about merchandise, inventory, and the customer's purchase history, together with structured scripts that will help to solve the consumers' problem. In the case of retail BP&A professionals in grocery, hard goods, or other formats where the display is designed to do the selling, they must measure the degree of standardization of delegated store tasks and the productivity impact in terms of labor-cost-to-revenue ratios of low levels of standardization.

Retail BP&A professionals should use the competitive benchmarks to build the case for store labor productivity projects such as clienteling in specialty retail or labor operations and planogram compliance in grocery or hard goods. As the trend to consumer centricity and store-specific assortments drives an explosion of planograms, BP&A professionals should build the business case for deploying tools like Oracle's AVT assets to cope with massively increased planning and execution volume.

Use Engineered Labor Standards To Drive Low-Touch Logistics From Factory To Store Shelf

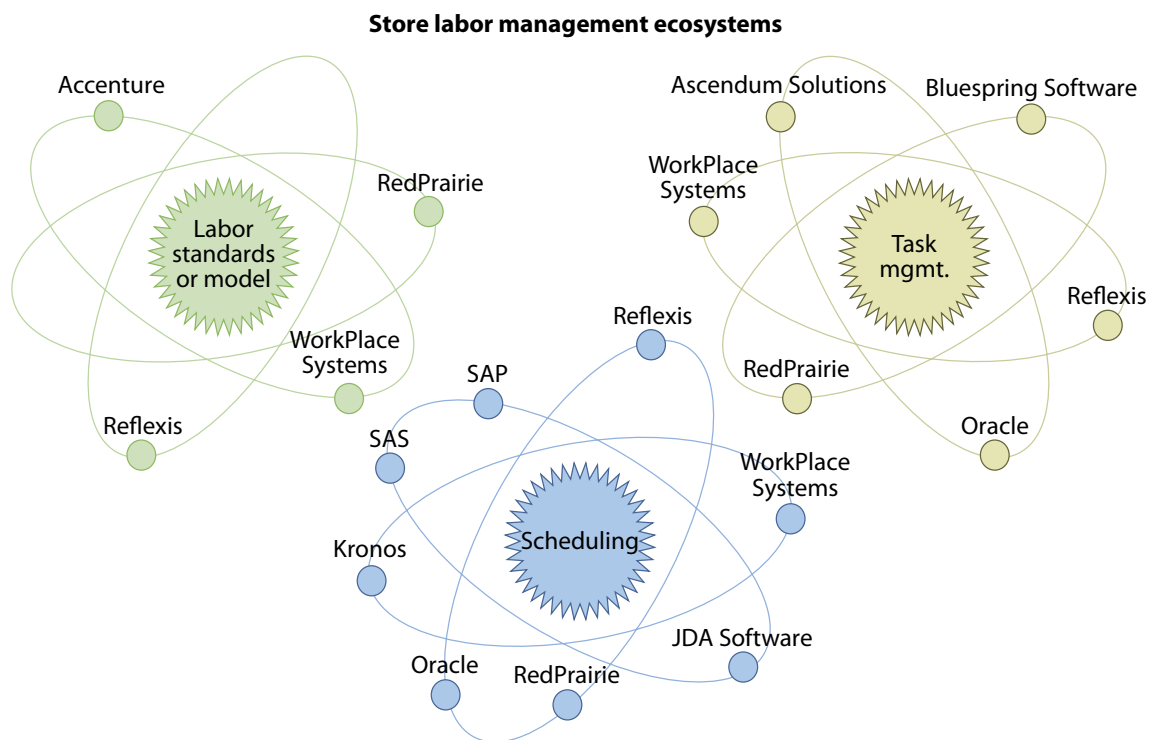
Retail BP&A professionals have accomplished marvels in the past decade in adapting the supply network to changing patterns of business and driving out cost through standardization and automation. But there are still some who have stubbornly resisted the embrace of technology. Now that labor standards are available even for the most intricate of the myriad store tasks that constitute setting up a promotion, and now that effective task management technologies are available in the store, the time is finally ripe for retail IT to:

- **Develop the business case for store labor productivity.** Retail BP&A professionals should start to collect objective evidence about the number of tasks delegated to stores and the relative changes in different components of wage costs such as overtime or shift premium, where applicable. They should start measuring planogram and floor set compliance and collect data about the incidences of mis-synchronization between store task execution and promotional spend on advertising or flyer distribution. These data sets provide a basis for calculating the size of the prize to be had from improving store task delegation and execution.
- **Use smart techniques to overcome store bandwidth restrictions.** Outside North America, retailers face fewer network limitations, but in the US, most retailers link stores with a relatively slow network — at say 56 kbps — that can accommodate for short bursts heavier traffic — at 256 kbps, for example. However, smart retailers will minimize the network impact by choosing store task apps and processes like those from RedPrairie or Reflexis that keep the store application footprint light by caching (storing) filters, images, and user preferences at the store-based PC browser to reduce network traffic “chatter” and providing configurable control over attachments like PDFs. RedPrairie has clients running with low bandwidth including VSAT.¹² Reflexis started delivering store task apps in 2001 when networks were even less sophisticated and deployed smart applications that substitute text for images and use very small browser page size — less than 100 kb.

Retail BP&A professionals should also look for configurability options, so that they can set file sizes for download based on network bandwidth availability. Of course with multiprotocol label-switching networks, they could set a class of service to prioritize store tasks appropriately.¹³ Some apps and processes like Reflexis use local storage or a document server for attachments where there are severe limitations on file downloads. In this case, files download overnight and vendors like Reflexis resolve the URL to access the local, rather than a central, remote document server.

- Understand prospective technology partners.** The vendors that retail BP&A professionals should consider include for task management include Ascendum Solutions, Bluespring Software's Store Task Manager, Oracle Retail Store Manager Workbench, Reflexis, RedPrairie's Execution Management Solution, and WorkPlace Systems WorkPlace Retail Task Management. Suppliers of engineered labor standards for retail include the Accenture acquisition of the H.B. Maynard practice, Reflexis, RedPrairie, and WorkPlace Systems. Suppliers of labor scheduling for retail include JDA Software Workforce Management, Kronos Workforce Scheduler for Retail, Oracle Workforce Scheduling, Reflexis, RedPrairie Workforce Management, SAP, SAS, and WorkPlace Systems (see Figure 5).

Figure 5 Last-50-Yard Technologies



RECOMMENDATIONS

MAP OUT THE ROUTE TO LABOR PRODUCTIVITY

Retail BP&A professionals should take the lead to work with colleagues across functions like store operations, marketing, and merchandising to:

- **Prioritize, based on retail type, sales-led, or merchandise-led technology initiatives.**
In practice, it will be simple to determine whether planogram or floor set compliance or clienteling is the most important to a retailer. In general, sales-led retailers in furniture, luxury, or cosmetics, for example, pay their associates commission, and these are the most likely to benefit from clienteling. Retailers that focus more on the appearance of displays, and that participate most with manufacturers in trade promotions programs, are more likely to invest in automating store task management.
- **Acquire and customize labor standards for common tasks.** Retail BP&A professionals are in a good position to help their colleagues to understand that labor standards apply to retail operations and convey the same benefits as they do in manufacturing or logistics. Retail BP&A professionals should invest in acquiring existing labor standard data and customizing it for their own operations.
- **Integrate labor standards with volume and event data to drive the labor schedule.**
Retail BP&A professionals need to ensure that the portfolio of apps that plan trade volume and “events” such as deliveries — often in demand management and in merchandising — jointly drive labor scheduling by applying labor standards for activities such as ringing up a sale or stacking a shelf.
- **Implement integrated planning.** To make best use of labor, retail BP&A professionals need to help their colleagues to follow the example of consumer packaged goods manufacturers and drive a sales and operations planning process that takes explicit account, by using the labor standards, of the workload involved in executing store resets and promotions.¹⁴
- **Expose line-of-business colleagues to labor standards success stories.** Individuals with a manufacturing or engineering background are comfortable with the idea of labor standards. Distribution managers have become increasingly familiar with them as warehouse operations have become more standardized and industrialized partly as a result of the intense competition in third- and fourth-party logistics offerings to retailers. But retailer store operations may need some strong evidence from what it considers peer organizations before it believes that its retail operations could ever be standardized. Retail BP&A professionals should start collecting them now.

ENDNOTES

- ¹ With the global economy in financial meltdown, retail CIOs face complex IT choices. Should they continue process improvement initiatives, upgrade their best-of-breed portfolio, or implement a standardized suite? All of these involve significant demands on a retailer's funds and people. To help, Forrester developed a framework diagnostic for retailers to identify low-hanging fruit and self-funding IT initiatives that are adapted to their market positioning and financial situation and capable of generating returns for shareholders in six months or less. See the April 1, 2009, "[Retail Technology Investment Priorities](#)" report.
- ² While 15 respondents agreed that corporate gives stores too much work, 20 of the 24 respondents reported that stores have more work than they used to, with four reporting no change. But labor budgets have not necessarily kept up — 10 respondents reported increased workload and either flat or decreasing labor budgets, and only one respondent said that workload stayed flat while the labor budget increased. See the June 20, 2006, "[The Voice Of The Store Manager](#)" report.
- ³ In 2003, a record number of new products entered the CPG marketplace: 33,700 new items in the US alone, up from about 32,000 in each of the previous two years. See the June 11, 2004, "[Grading Trade Promotion Solutions](#)" report.
- ⁴ Despite the slowing economy, new product introductions in 2008 remained steady compared with 2007. According to a new Nielsen report, 122,743 new UPCs were sold through US grocery, drug, and mass merchandiser channels, excluding Wal-Mart. Source: "New Products Generate \$21 Billion In Sales In 2008", The Nielsen Company, January 30, 2009 (<http://blog.nielsen.com/nielsenwire/consumer/new-products-generate-21-billion-in-sales-in-2008/>).
- ⁵ A massive £8 billion is spent each year in the UK on trade promotions (price promotions) by packaged-goods suppliers. What's more, it's estimated that trade spend typically accounts for 20% of the total profit-and-loss in UK packaged-goods businesses. Yet the whole area of trade promotions remains largely underscrutinized, and this is costing suppliers millions of pounds. Source: "Taking back the power", Marketing Week, October 23, 2008 (<http://www.marketingweek.co.uk/cgi-bin/item.cgi?id=63022&d=259&h=263>).
- ⁶ Smart retailers are now shifting toward consumer-centric merchandising to drive merchandising decisions from market segmentation insights. Consumer-centric merchandising — with its demands for greater integration, more data-intensive analysis and optimization, and more complex execution — threatens to overwhelm current systems. See the May 15, 2007, "[Consumer Centricity Takes Merchandising Into New Territory](#)" report.
- ⁷ Retailers continue to struggle with promotion execution and face hefty financial consequences, including skyrocketing administrative costs, misspent funds, and sales cannibalization. See the December 19, 2007, "[Improving Retail Promotion Execution](#)" report.
- ⁸ Retailers refer to planogram compliance as a measure of the extent to which the executed display in stores matches the plan laid out by retail strategists at headquarters.

- ⁹ Retailers face increasing pressure to develop consumer-centric merchandise assortments. Merchandising applications allow retailers to accurately forecast demand and capture inventory levels. In our survey, more than 80% of 35 global retailers expected significant or the most benefit from using packaged applications by reducing the incidence of “out of stock”, helping to drive customer service improvements. Often, inadequate retail store execution and inaccurate store inventory are the main cause of stock-outs at the shelf. See the February 3, 2009, “Planning Your Merchandising Makeover” report.
- ¹⁰ Our interviewees told us that their sales and operations planning (S&OP) meetings used layered forecasts, together with the embedded explanatory notes, to drive enterprisewide forecasts. They resolve conflicts at a level of management responsible for achieving both profit-and-loss targets like margin and balance sheet targets like stock turn. Regular scheduled S&OP and inventory review meetings ensure the availability of senior decision-makers to arbitrate any conflicts over use of scarce resources or inventory and drive commitment to an agreed forecast. See the September 13, 2007, “Best Practices: Demand Management” report.
- ¹¹ JDA Point-of-Sale sits within the vendor’s retail enterprise suite. Overall, the product provides powerful features, such as clienteling, promotions, and returns, which are valuable to specialty retailers, the vendor’s largest client base. See the September 21, 2006, “The Forrester Wave™: POS Software, Q3 2006” report.
- ¹² Very small aperture terminal (VSAT) satellite service. Source: Satellite Signals (http://www.satsig.net/vsat_top.htm)
- ¹³ In the US, enterprises are steadily moving off legacy WAN services like frame relay (FR) and asynchronous transfer mode (ATM) and onto IP-based services like multiprotocol label-switching (MPLS). See the January 30, 2009, “Inquiry Spotlight: MPLS In The United States, Q1 2009” report.
- ¹⁴ Mastering demand management requires forecasting improvements and the data and tools to determine how best to build inventory for future consumption. ConAgra Food’s demand management process illustrates best practices in implementing an integrated sales operations and inventory planning process. The result? ConAgra eliminated five days of inventory from the supply network, grew revenues by 2% annually by improving in-store availability from 97% to 99.5%, and improved return on capital by 12% by reducing forecast error from its peak of 40%. See the September 13, 2007, “Case Study: ConAgra Sales Operations And Inventory Planning” report.

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