

Retail Workforce Management

Achieving Competitive Advantage
in a Difficult Economy

Executive summary

Is your organization focused on finding ways to manage through the downturn? If so, you're not alone. Declining economic conditions and rising unemployment have resulted in a seismic shift in consumer behavior, slamming the brakes on demand and producing the toughest operating environment for retailers in more than 35 years.

Consumers are increasingly taking a cautionary stance, spending less and saving more while waiting for the economy to bottom out. While some off-price and deep-discount operators are benefiting from consumers "trading down," the rest of the industry is in for a rough ride — and with U.S. consumer confidence at an all-time low (January 2009), there is no end in sight.

It's not just shoppers who are looking for ways to tighten their belts. Retailers, of course, are in the same boat, and the most obvious place to start looking for savings is the largest controllable expense — labor costs. But, while fast and effective, indiscriminate cost-cutting can do more harm than good, alienating both customers and employees. Alternatively, many retailers are using the current environment as an opportunity to drive operational excellence — and, by doing so, position themselves for growth when the recovery takes place.

In any industry, operational excellence revolves around several key business outcomes, including productivity, cost control, and quality of service. Retail is no exception. For retailers, all these outcomes are highly, if not entirely, dependent on the quality of the workforce and how it is managed. In fact, in a recent survey and benchmark report on the retail workforce by Retail Systems Research, when asked about the "role our workforce plays in enabling customer service," 78 percent of respondents replied that it has increased over the past three years. Yet for many retailers, workforce management remains a manual and decentralized process that limits the quality and consistency of customer service and hinders organizational visibility and control of labor costs and compliance.

Operational challenges can vary across retail segments and store formats. Where SMB retailers may need to focus on process automation, big-box retailers will get

more value from workforce optimization, and specialty retailers from increasing standardization, visibility, and control. Irrespective of store format, effective workforce management provides many opportunities for retailers to drive operational excellence. Areas of potential impact include:

Store productivity: Under normal conditions, the combination of sales growth and cost reduction is a magic bullet. When costs decrease as a percentage of sales, profitability increases and provides fuel for further investment. But what cannot be seen cannot be measured or improved, especially in a difficult economic climate. A standardized approach to workforce management, including integrated budgeting and analytics, improves organizational visibility and control of managing labor costs to sales.

The customer experience: Consumers have more choices than ever. And, in this economy, many are choosing to not shop at all. As increasing numbers of store closings and liquidations change the competitive landscape, customer service will be the key differentiator as to which retailer gets consumers' remaining discretionary dollars. According to AMR Research,¹ on average, only 2.3 negative experiences by a specific customer will result in the loss of that customer. Demand-driven labor scheduling optimizes alignment of the workforce with customer demand, resulting in better — and more consistent — service levels and measurable increases in conversion rates. Now more than ever, customers need a reason to not take their business elsewhere.

ONLY 2.3 NEGATIVE EXPERIENCES BY A SPECIFIC CUSTOMER WILL RESULT IN THE LOSS OF THAT CUSTOMER.

Workforce quality: Retail's seemingly endless revolving door impacts every store's bottom line. This is in terms of both the dollars involved in recruiting, training, and managing new hires, and sales lost to inexperienced workers or understaffing.

¹ "Retailers Focus on Operational Excellence," AMR Research, Robert Garf, May 1, 2008.

For retailers, one of the few benefits of a recession is a reduction in employee turnover. But while the downturn may reduce the need to hire, increased levels of unemployment drive the total number of applicants, making it even harder for managers to make good hiring decisions.

An automated selection and hiring solution can improve workforce quality by screening large numbers of applications for employees who are most likely to succeed in the retail environment. It allows hiring managers to quickly identify the best candidates and get them through the hiring process and out onto the sales floor in a timely fashion.

Labor-law compliance: The risks of noncompliance are significant and growing. Many retailers are making headlines stemming from government investigations, union grievances, legal action by employees, and costly fines. Although the actions of individual managers can figure prominently, the common denominator across most labor-law compliance cases is poor record keeping. A holistic workforce management process can automate and document error-prone administrative processes, including timekeeping, work-rule enforcement, attendance tracking, and leave management. Beyond risk avoidance, a compliant workplace helps ensure fairness and drives employee satisfaction.

THE COMMON DENOMINATOR ACROSS MOST LABOR-LAW COMPLIANCE CASES IS POOR RECORD KEEPING.

Retail workforce management solutions have evolved considerably from the days of loosely coupled point solutions for labor scheduling and time and attendance. When it comes to selecting technology that will help your organization achieve operational excellence, careful consideration should be given to the following areas:

Sales and labor budgeting: Accurate sales and labor planning requires a balance between store-level needs and corporate objectives. Effective labor budgeting tools help coordinate the two and allow managers to work within realistic constraints with full visibility of customer demand, corporate expectations, and actual performance.

Employee selection and hiring: The quality of your workforce has a direct correlation with the quality of your customer service. To win on both fronts, look to automate and standardize the hiring process while screening applicants against predefined criteria for best job fit.

Forecasting and scheduling optimization: From basket size to product mix and traffic patterns, many factors go into accurately predicting customer demand and determining optimal staffing needs. Advanced forecasting tools give store managers insight into their business; from there, an optimized scheduling solution can create best-fit store schedules based on employee skills, availability, and work rules.

Time and attendance: Often seen as a burdensome administrative duty in a manager's day, time and attendance is an important but costly process that takes away from customer-facing duties. Automating time and attendance cuts down on payroll errors and increases staff productivity. Absence management applications provide further efficiencies by automating the tracking and administration of attendance and leave policies.

Labor analytics: Retail performance depends on a manager's ability to make sound and timely decisions on the use of store labor spend. A labor analytics solution enables on-demand access to store productivity and other labor data. Choose a product that can give you real-time reads on how the workforce is performing against your key performance indicators.

This paper outlines the challenges faced by retailers from various industry segments and illustrates opportunities to drive operational excellence — and achieve competitive advantage — through a fully integrated workforce management process.

You will learn how to effectively control labor costs, simplify compliance, and drive store productivity, allowing you to be better-equipped to weather current economic conditions and capitalize on opportunities that will come with better days.

**Managing the retail workforce:
Fit comes first**

Not all retail organizations are created equal. Variations in industry segment, geography, product and service offerings, chain size, and retail formats have a major impact on store operations. And this is especially true when it comes to effectively managing the workforce. Examining the extreme cases of this diversity illustrates some of the challenges unique to managing the retail workforce and identifies opportunities to drive operational excellence.

**SMB: Process automation cuts back
on manual errors**

Small-format retailers, mostly in specialty, with a relatively small number of stores (< 75) tend to rely on manual processes for managing their store-level workforce. Scheduling, time and attendance, and HR procedures are often partially or completely manual. Retailers in this quadrant often describe their manual scheduling process as “experience-based,” because it relies so heavily on the individual capabilities of each store manager. The problem with any manual process is that it is inherently inefficient and error-prone — with the probability for error increasing proportionately with the frequency and complexity of the process. This makes process automation the primary area of focus for SMB retailers.

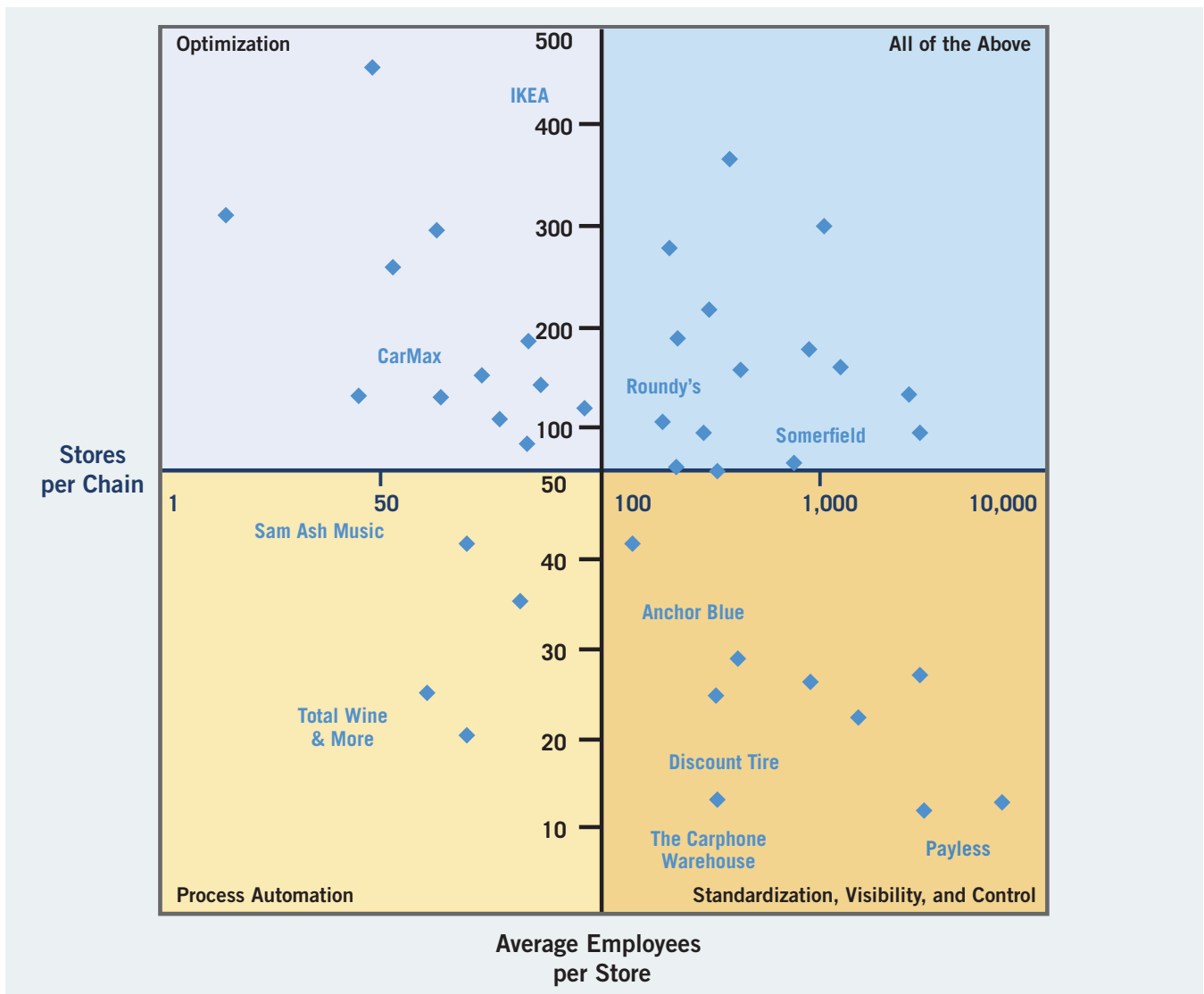


FIGURE 1: From small format to big box and everything in between, there are varying needs but universal benefits to a workforce management solution.

IN A NUCLEUS RESEARCH REPORT, 86 PERCENT OF COMPANIES REALIZED SAVINGS BY REDUCING THEIR PAYROLL ERROR RATES.

Automation of workforce management eliminates manual errors that often exceed 2 percent of payroll. In fact, Nucleus Research found that 86 percent of companies surveyed realized savings by reducing their payroll error rates.² Additional benefits include a more efficient scheduling process and a reduced risk of noncompliance with labor laws.

Big box/small chain: Optimization helps align labor to demand

Organizations with a small number of stores (< 75) but many employees (> 100) are an extreme case. For these big-box retailers, the sheer number of associates makes process automation essential. Moreover, as the average number of employees per store, number of jobs/tasks, and percentage of part-time staff increase, so does the complexity of the scheduling problem. In this instance, maintaining visibility and control of store productivity across a limited number of stores remains relatively simple; achieving optimal utilization of each store's staff is a much bigger problem.

Optimization of forecasting and scheduling helps to address this problem by enabling retailers to improve alignment of the workforce with customer demand. The potential impact on store productivity is significant. Accurately scheduling to workload needs with 15-minute granularity and leveraging employees across multiple jobs, departments, and stores increases operating efficiencies. In addition, better service drives sales through higher conversion rates and average transaction size. Each contributes to productivity gains that can range from 0.5 to 2 percent of sales.

Small box/big chain: Standardization, visibility, and control yield results in line with expectations

The opposite extreme is retailers with many stores (> 250) but only a few employees per store (< 20). Labor scheduling for these large specialty retailers is a much different problem. For a store manager with only five to 10 employees, optimizing alignment of the workforce with customer demand may not be rocket science. However, for the executive responsible for store operations, it is an administrative nightmare to ensure consistent coverage, staff to budget and compliance, and maintain visibility and control of store productivity across a store base of hundreds or even thousands of locations.

The challenges often begin with the sales and labor planning process, which is usually an annual top-down process that allocates planned labor spend across the chain. Arriving at the right overall labor number is usually not the problem. The difficulty is in carving up the pie based on store attributes such as size, layout, weekly sales, units per customer, product mix, and average hourly rate. Each store's true or optimal labor need will vary (irrespective of how productivity is expressed, e.g., SPLH, payroll percentage, etc.). The risk, of course, is that some stores end up with more labor than required, while other stores end up needing to do the same or more work with less labor. In this case, overall organizational productivity may be acceptable, but store performance and customer experience are uneven. Further problems are encountered by retailers that can't get a timely read on sales and labor productivity, effectively flying blind until last week's (or in some cases last month's) productivity report finally hits the wire.

In opposition, integrated workforce management, including budgeting, scheduling, and analytics, enables retailers to improve operations at both the corporate and store level. By leveraging store-specific historical trends, labor standards, and other store profile data, sales and labor budgeting provides an accurate bottom-up plan for allocation of overall sales and labor spend targets. This budget, in turn, enables better performance management at the store level by providing a realistic constraint for schedule optimization and a "real world" baseline for daily productivity reporting. For specialty

² "ROI Evaluation Report, Kronos Workforce Timekeeper," Nucleus Research, July 2006.

EVEN FOR COMPANIES THAT HAD AN ERROR RATE OF 0.5 PERCENT OR LESS OF TOTAL PAYROLL, THE ANNUAL SAVINGS OFTEN EXCEEDED \$1 MILLION.

retailers, integration to in-store traffic counting systems provides an opportunity to improve management of customer conversion rates. By combining data feeds from traffic counters and point of sale, an advanced labor scheduling solution can increase schedule effectiveness by forecasting (and scheduling) demand for sales staff based on the opportunity to serve all incoming customers rather than just those who ultimately purchase at a point of sale. This results in increased conversion rates from 2 percent to 5 percent.

Large-scale operations: Full-scale benefits realized with a complete solution

For all other retailers, those with a large number of stores and many employees per store, it's a question not of picking and choosing one benefit over another,

but of requiring all of the above. From process automation to workforce optimization to the need for chainwide visibility and control, this retail format would see the largest returns from a fully integrated workforce management system.

A LARGE GROCERY RETAILER WITH 920 STORES AND 38,000 EMPLOYEES MEASURED A \$39 MILLION REDUCTION IN LABOR COSTS.

Increasing visibility throughout the workforce management process

Gone are the days of workforce management being just about employees punching in and out. In fact, there is a growing body of evidence (see Figure 2) showing that workforce management is no longer strictly a matter of cost control and labor law compliance. Increasingly, it is a critical element of any strategy that seeks to deliver business value by improving the quality and consistency of the customer experience at the store level. End-to-end solutions that cover the entire workforce

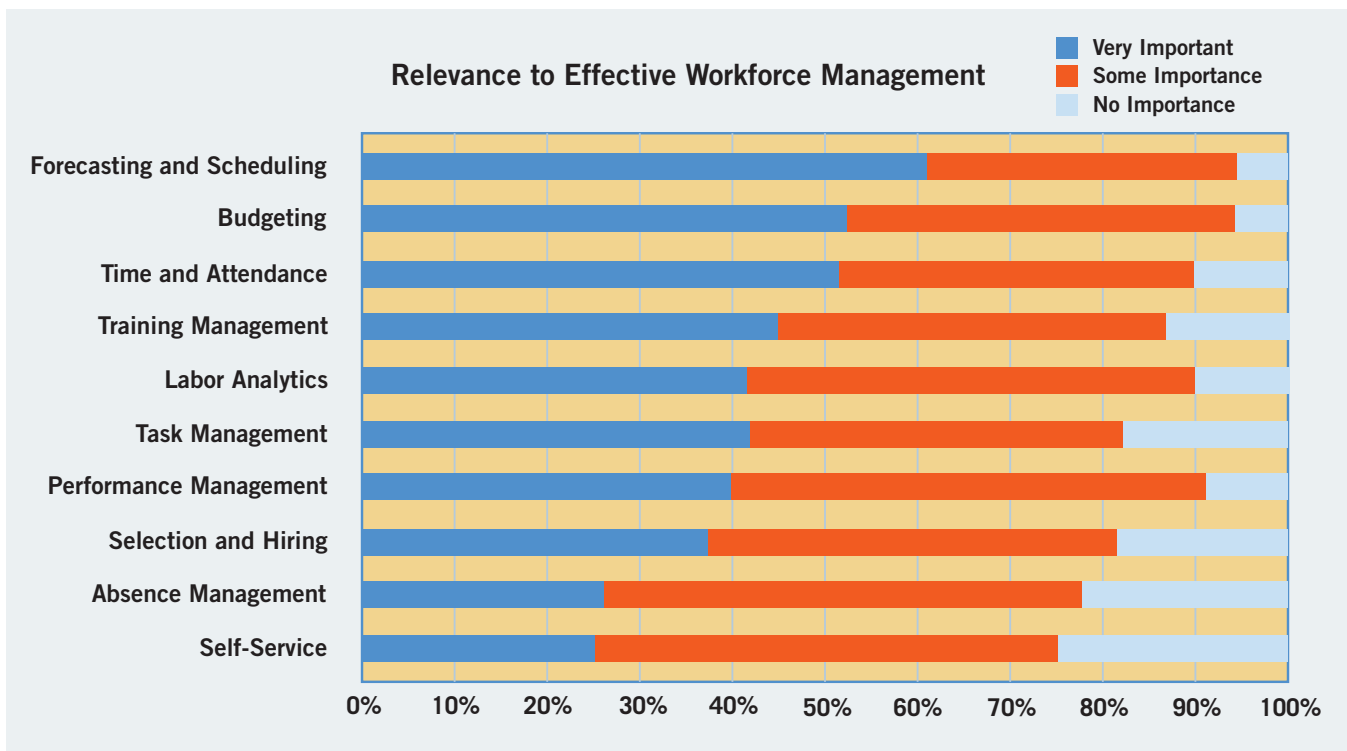


FIGURE 2: “The State of the Retail Workforce” Benchmark Report, Nikki Baird, Managing Partner, RSR, Nov. 5, 2007

management process, from labor budget creation to sales and labor productivity analysis, are the key to a workforce that learns faster, stays longer, and provides superior customer service.

At the core of the workforce management process is one basic requirement: Store managers must gain sufficient visibility into the needs and status of their constantly changing business to make the right decisions about use of their labor resources. Regardless of the methods used in stores today, whether they are manual, partially automated, or fully automated, a look at the workforce management process can identify opportunities for improvement at every step.

Sales and labor budgeting: If it's not planned properly, it probably won't happen

Even the most sophisticated “customer-centric” workforce management process is not always in sync with the corporate planning process. One common flaw is a lack of alignment between standards-based, store-level labor forecasting and top-down corporate labor budgeting. The fine-tuned system of metrics that accurately determines everything from Monday stocking hours to Saturday cashier requirements is all too frequently not consulted when corporate finance gears up for the annual budget cycle. This disconnect can have a dramatic impact when corporate management signs off on a set of financial objectives while store management is scheduling to defined productivity standards. Standardization of the budgeting and scheduling process across a single productivity platform solves two problems: It eliminates the expectation gap between various levels of management, and it improves the overall accuracy of the enterprise workforce budget.

Relevance to effective workforce management

Effective labor budgeting tools coordinate information from corporate finance and operations, including sales and payroll targets, promotional plans, and operating calendars. This collaborative approach helps achieve acceptance across the organization and align corporate planning with store execution. Engaging in this type of collaboration helps keep service and productivity levels high, as managers don't need to cut staff to adhere to an unrealistic budget or add staff due to unforeseen demand. The store team stays focused on creating a differentiated customer experience and driving sales.

Staffing your front line: Now is not the time to make a bad hire

The front-line hiring decision has become more difficult and costly in today's economy because of a larger and deeper applicant pool, while at the same time the negative impact of making a bad hire just got worse. Today more than ever, companies must put their best employees in front of their customers, because the wrong decision will negatively affect customer service. To do this, hiring managers (aka store managers) need automated selection and hiring tools to help them make more informed hiring decisions. The challenge today is less about finding applicants and more about selecting them from an expanded applicant pool.

Automating and standardizing the decision-making process for new hires — and thereby hiring the right employees for the right jobs — leads to higher levels of employee satisfaction, productivity, and retention, resulting in significant cost savings and ultimately a better customer experience.

A POWERHOUSE ELECTRONICS RETAILER WITH MORE THAN 1,200 STORES REALIZED \$2.5 MILLION IN COST SAVINGS IN THE FIRST YEAR OF AUTOMATING ITS RECRUITMENT PROCESS.

An athletic shoe retailer with more than 700 stores and 13,000 employees saw continuous year-over-year improvement in critical metrics after using selection tools integrated with an automated front-line hiring solution. Key improvements were that the average days of service for a store employee went up more than 5 percent in a one-year period and the company achieved close to a 10 percent improvement in retention enterprisewide while increasing its sales per associate by 20 percent.

Collecting candidates' desired work schedules as part of the hiring process will enable hiring supervisors to filter and search a list of candidates who have passed the initial screening and are willing to work hard-to-fill shifts.

Once a hiring decision has been made, using electronic on-boarding will reduce errors associated with new hire paperwork and allow new employees to immediately

begin work or be scheduled to work. The end result is a workforce that performs better and stays longer.

Optimization of workforce acquisition can be achieved through solutions that standardize and automate the recruiting process. Retailers can objectively evaluate each applicant's qualifications and availability against defined criteria — looking for people who fit best in the environment, employees who perform better and stay longer. This drives overall workforce quality, resulting in higher service levels and better customer satisfaction.

Forecasting: Align the workforce to customer demand

Does demand for customer service in your stores vary by location, season, and time of day? The baseline for any effective productivity strategy is a thorough understanding of the individual workforce drivers that impact store productivity. From daily fixed activities to labor-intensive corporate initiatives to the peaks and lulls of customer traffic in each store, these drivers impact the optimal labor required to ensure store readiness and customer satisfaction.

Accurately predicting store sales and labor is possible but requires detailed analysis of each store's historical trends and other data, including store format, hours of operation, minimum coverage, and labor standards. Any variances across or within operating environments, like self-checkout versus full-service cashiering, further complicate the determination of labor.

Advanced forecasting applications automate the process of tracking and analyzing historical trends and events to accurately forecast store sales and other workload drivers. This forecast is translated into workload requirements by applying appropriate standards and profile data for each store. The beauty of this approach is that it is responsive to actual customer demand on a store-by-store basis and it self-corrects by reacting to changes over time.

Scheduling: Happier employees mean happier customers

The importance of an employee-considered schedule cannot be underestimated. After all, how effective are you when you don't want to be at work? Having a person in the right place at the right time is a great start. But if an associate had hoped not to be there in the first place, the probability of obtaining acceptable service levels for the shift — if the employee shows up at all — is sharply diminished.

Of the many factors that can potentially impact employee productivity, perhaps the most commonly overlooked are employee work/life preferences. Employee requests for time off used to be a relatively simple matter. However, such requests are now quite frequently complicated by the need for many associates to work in multiple jobs, departments, and/or locations. Implementing automated processes that allow each employee to request preferred workweek scenarios for total hours scheduled, availability, and job assignments sends a strong message to the workforce: "Your satisfaction matters to us. It's critical to the satisfaction of our customers and important to the success of our business."

Many retailers perceive scheduling as the greatest opportunity for savings, yet it can be the hardest area to objectively quantify, since scheduling is so dependent on the current state of each store's labor environment. In an effort to ensure adequate coverage and meet such necessary requirements as employee availability, legal shift durations, break placements, and shift start/end times, retailers often end up costing their operations by overscheduling.

Overscheduling occurs when any part of an employee schedule results in excess capacity. While there can be many causes for this, including inaccurate labor forecasting and habitual manual scheduling practices, the two most frequent causes are 30-minute scheduling granularity and an inability to optimize employees across multiple departments.

Scheduling granularity is the level of detail at which employees are scheduled. With almost all manual and many automated systems, 30-minute granularity — each shift starting or ending at :00 or :30 — is the norm. Although the potential payback here can easily exceed 1 percent of labor costs, taking scheduling to the 15-minute level provides additional opportunities for better workforce utilization.

SCHEDULING: LET'S LOOK AT THE NUMBERS

For a store that operates from 9 a.m. to 10 p.m., in a 30-minute scheduling environment there are only 26 possible start and end times for shifts and breaks. If the duration of a legal shift is between four and eight hours, the nine possible legal shifts yield a total of 135 potential shifts from which a schedule can be created. In a 15-minute environment, these constraints increase to 52 possible start/end times, 17 legal shifts, and 297 potential shifts. The finer level of granularity exponentially increases scheduling flexibility. The result is a schedule that uses fewer hours and more closely matches business and customer demand — essentially providing maximum service at minimum cost.

In many retail environments, employees are capable of working multiple jobs. This is great for store productivity because it allows retailers to cover more of their operating needs with fewer employees, but realizing the benefit is not always a simple matter. Employees who work multiple jobs often work in different departments for managers who write separate schedules. An employee may end up scheduled for a minimum shift in both departments when a combined shift across both departments would have been more efficient. Tools that automate 15-minute scheduling of employees across multiple jobs, departments, and locations take the guesswork out of labor scheduling and enable true optimization of the workforce.

Time and attendance: Closing the productivity loop

As much as you depend on your managers to maintain store operations and service levels, their value to the organization ultimately depends on their ability to make good business decisions — which depends on the availability of accurate labor data. Time and attendance has long been viewed as just part of the payroll process. But by leveraging the time clock and calculation of hours worked, retailers can automate and streamline repetitive processes and improve visibility

into productivity. This can result in reduced costs, increased productivity, and empowered managers who are able to make better decisions.

For example, managers know that as difficult as it is to manually create next week's store schedule, it's even harder to manage the one on the wall. When an employee calls in and says he can't make it, a manager using a manual scheduling system has much to do: update the schedule to indicate the call-in; update the timecard to record the absence; and, most important, find a replacement to ensure proper coverage. When scheduling and timekeeping are integrated, the manager's responsibilities are consolidated into a single edit. An automated system helps ensure that the schedule and the employee's timecard are always in sync. The same system can simplify the manager's dilemma by identifying the best replacement based on skill, availability, and actual hours worked. This results in an appropriate level of customer service and zero negative customer impact.

The payment of unauthorized work time, or payroll inflation, remains a primary source of unproductive labor costs and is another issue that can benefit from the integration of timekeeping and scheduling. Payroll inflation occurs for a simple reason: It's against the law to pay an employee for fewer hours than are recorded on his or her timecard. Since employee punch transactions are typically rounded to the nearest tenth- or eighth -hour, employees who clock in a little too early or clock out a little too late effectively add hours to their paychecks. The problem is eliminated when timekeeping and scheduling systems are integrated. This way, the terminal collecting actual employee punches "knows" the time each employee is scheduled to begin and end a shift and will restrict any punch that falls outside the shift.

The benefits of restricting clock punches are substantial. There is a high degree of accountability for any discrepancy in the amount of hours actually worked versus those forecast or scheduled. Typically all punches that fall outside of punch-rounding rules are restricted and require the intervention of a manager to resolve. For large retailers, enforcing schedules at the clock can amount to significant annual savings. In fact, for a large retail chain, the payback from punch restrictions often provides full project ROI in less than one year.

An additional benefit of this functionality is the ability to strictly enforce labor laws that apply to minors. Potential violation of labor laws related to minor employees has been a major problem for retailers over the past several years. Restricting punches at the clock helps ensure that no minor employees are working more than their allowable hours.

FOR A LARGE RETAIL CHAIN, THE PAYBACK FROM PUNCH RESTRICTIONS OFTEN PROVIDES FULL PROJECT ROI IN LESS THAN ONE YEAR.

Analytics: Putting real-time information in the hands of decision-makers

The retail environment is dynamic, and store managers need to react to myriad changes in their environment every day, such as weather and promotions. Each day these managers make decisions based on the knowledge they have at their fingertips, as well as their experience and intuition. Productivity metrics, such as “percent effective,” measure the actual labor used compared to earned labor (what labor standards would dictate as the actual level of business achieved). The ability to view this metric at the store and department level allows managers to identify and resolve productivity issues. For example, while the store may be performing well overall, a manager notices that the media department’s productivity is lower than expected. She goes to the floor and notices that customers in the electronics department are regularly crossing over and asking for help. The media associate is then spending time trying to help customers or searching for an available electronics associate, reducing his ability to service customers in his own department.

When real-time performance metrics are incorporated right into the application, the benefits are dramatic. Managers can see into labor performance, drill down to find the root cause of a success or an issue, then move into the current schedule and make adjustments for the rest of the week. This lightning response improves customer service while accurately matching labor costs to sales volume.

Conclusion

Direct employee wage costs will always represent a retailer’s largest controllable expense. This reality is only magnified by challenging market conditions or during an economic lull. The underlying irony is that in-store production needs do not contract proportionally with declining sales, nor does customer demand for service decrease as department staffing is scaled back.

Establishing a sustainable, productivity-focused workforce management process across the enterprise drives operational excellence a for retailers of all formats regardless of current market conditions.



TIME & ATTENDANCE

SCHEDULING

ABSENCE MANAGEMENT

HR & PAYROLL

HIRING

LABOR ANALYTICS

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