OLIVER WYMAN

THE BIG SQUEEZE: REDESIGNING STORE LABOUR

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With wages and related costs rising faster than inflation, retailers must continually wring more from every unit of labour. In the past, many have successfully slashed labour costs, either through brute-force cuts or more subtle changes – for example by decreasing the time allocated for certain tasks. But at some point this starts to affect customers' experience in store, and many retailers have already pushed it as far as they can. So how should they now respond to the continuing, relentless pressure to bring down labour costs?

We have seen executives meet this challenge in different ways, but the common theme has been a shift in mindset from *cutting* to *redesigning* labour. Rather than the store or the budget, the *customer* has been the focus of their decisions – instead of asking simply "how can I cut labour costs?", they have asked "what do my customers truly value, and how can I allocate labour to provide it?" At the same time, they have moved from looking at stores in isolation, to considering the whole of the value chain – asking "which decisions being made elsewhere impose unnecessary costs on the stores?"

Of course, the stores can't make these changes on their own – redesigning store labour takes close collaboration with trading, logistics, real estate, and in some cases suppliers. It also requires building new central insight capabilities, to provide better support to the stores. Even so, this doesn't necessarily imply a complicated, multi-year programme, and some relatively simple strategies have quickly delivered real value for a very modest effort.

This short article presents a set of case studies showing some of the ways retailers can redesign store labour. They illustrate three different approaches, each requiring a different level of commitment and resource:

- **Understanding what's really happening in the stores** by exploiting data and insights
- **Taking an end-to-end cost perspective** when making trading decisions
- **Redesigning labour from the ground up,** with a fully cross-functional approach

UNDERSTANDING WHAT'S *REALLY* HAPPENING IN THE STORES

To schedule and manage staff effectively, stores need targeted insights underpinned by robust analytics. This allows labour to be reduced "surgically", cutting cost while protecting the customer experience. The analysis needn't be complicated – in fact it's the kind of analysis store managers would do themselves, if they had time. The key is to keep it simple, crack the analysis centrally, then provide it to stores in an easy-to-use format.

CASE STUDY 1: EFFECTIVE CHECKOUT STAFFING

By comparing cashier hours with customer demand, a US grocery retailer made an important discovery: although there were occasional periods of understaffing, checkouts were usually overstaffed. This offered an opportunity for reducing labour, but the retailer needed more detailed information to avoid doing anything that might damage the customer experience.

In the past, their labour scheduling tool relied heavily on store colleagues to provide the right inputs (such as staff availability and reference weeks for forecasts) while managers needed to make manual changes to stay within their budget. As a result, the final schedule usually bore little resemblance to what the tool initially recommended.

To help managers make more informed staffing decisions, the retailer provided the stores with new reports that clearly highlighted any half-hour period with consistent under or overstaffing (see Exhibit 1). This enabled store managers to both reduce their overall cashier hours and shorten customer lines.

To achieve those gains, however, the retailer needed to overcome another obstacle. Even when managers knew they were overstaffed, they often hesitated to address the issue because of confusion about union rules, fear of conflict with staff, or other HR concerns. To address this, the retailer provided managers with appropriate training – when dealing with challenging discussions with staff, for example, they were taught to focus on the reasons the scheduling changes were necessary, using the reports as an objective source of facts for that difficult conversation.

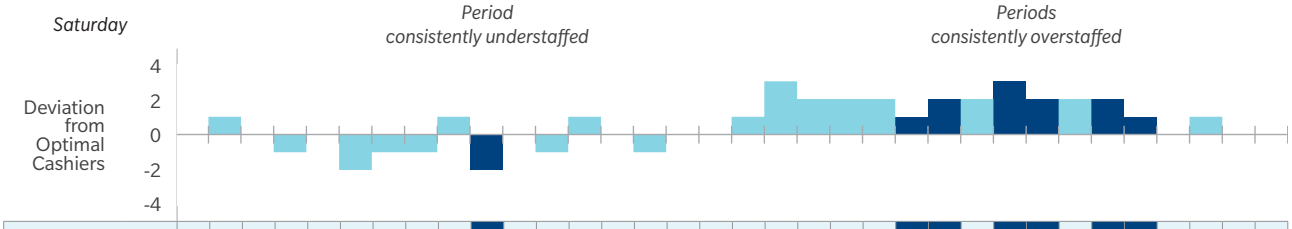
The results were impressive: the retailer reduced its labour costs by 10% while also decreasing understaffing by 10%.

A key factor in the success of this programme was achieving the right balance between corporate command-and-control and local authority. The head office could simply have prescribed the scheduling, based on the insights generated by the new reports; instead, it merely provided recommendations, leaving the store managers to make the final decisions. That local authority was important because managers possessed local knowledge that couldn't be built into tools, and more importantly they were accountable for store labour.

CHECKPOINT

- Do you get lots of customer complaints at peak periods of the day?
- Do your scheduling or replenishment systems involve many manual over-rides?

EXHIBIT 1: EXAMPLE CASHIER SCHEDULING REPORT



Time	7		8		9		10		11		12		1		2		3		4		5		6		7		8		9		10		11	
Open Lanes	2	3	4	4	6	7	8	9	9	9	9	9	9	11	9	10	11	10	11	11	11	10	8	10	9	9	6	6	6	5	3	3	2	2
Optimal	2	2	4	5	6	9	9	10	8	11	9	10	8	11	10	10	11	9	8	9	9	8	7	8	7	6	4	4	4	4	3	2	2	2
Deviation from Optimal	0	1	0	-1	0	-2	-1	-1	1	-2	0	-1	1	0	-1	0	0	1	3	2	2	2	1	2	2	3	2	2	2	1	0	1	0	0

TAKING AN END-TO-END COST PERSPECTIVE

At every step of the process of getting a product into customers' hands – from moving it from the store room, to opening the packaging, to stacking it on the shelf – decisions made in trading affect costs in the stores. Our experience is that whenever traders and stores work together and take an end-to-end perspective, it reveals significant opportunities to reduce cost. The same is true of choices made in logistics.

CASE STUDY 2: EFFICIENT PACKAGING AND RANGE MANAGEMENT

To reduce product and packing inefficiencies, a European retailer embarked on a major initiative involving its stores, trading, and suppliers, redesigning its processes from an end-to-end perspective.

First, the retailer redesigned case quantities. It began by reviewing the shelf space allocated to each product, alongside its rate of sale and case size. This analysis found that the planograms and rates of sale were usually well aligned with each other, but not always with case sizes: for example, a planogram might be configured for only 12 units of a product that came in a case size of 24, meaning time was wasted returning at least half of the units to the storeroom. Armed with this knowledge, traders worked with suppliers to design more appropriate case sizes – and in situations where suppliers demanded higher prices for the new packaging, the traders had the data they needed to understand the cost trade-offs involved.

Second, the retailer improved its process for revising its product assortment. When traders are disconnected from store operations, they typically view assortment changes simply in terms of better choices for customers or more funding from suppliers. The reality, of course, is that introducing even a few new products can require a complete rebuild of an entire shelf in every store, consuming many labour hours. At this retailer, category managers were given a KPI for "store reset hours", making the impact of new product introductions transparent to them, and helping ensure that the full cost could be properly weighed against the benefits. As a result, future product introductions were delayed until a seasonal reset was scheduled (so minimising additional costs), unless they were for major product launches and suppliers funded the reset costs.

The combination of these changes saved the retailer more than 8% of replenishment hours.

CHECKPOINT

- Are your buyers accountable for the costs they add to stores?
- Do your buyers challenge suppliers on pallet configuration, case sizes or packaging design?
- Does the timing of new product introductions get determined by suppliers or buyers?

REDESIGNING LABOUR FROM THE GROUND UP

Some retailers already provide their stores with rich data and insights, and may also have optimised decisions from an end-to-end cost perspective. The next step in cutting labour costs is even more ambitious, requiring a fundamental re-think of what stores do, step by step. It involves starting with the absolute minimum number of hours required to man a store, then adding labour back in task by task, with the trading, supply chain, and real estate functions providing end-to-end input throughout.

CASE STUDY 3: A PROTOTYPE FOR A LEAN STORE

To design a new store prototype, a North American retailer assembled a cross-functional team with experts on real estate, store layout, equipment, trading, and operations. The goal was to design the layout and labour model *together* to make the new store as efficient as possible while limiting any adverse effects on customers. This meant starting with the absolute minimum labour required to operate a store and then selectively including tasks based on their value to the customer.

As is often the case, the zero-based approach revealed a surprising number of tasks that could simply be eliminated, or at least reduced in frequency. Changing the freezer type, for example, made defrosting unnecessary. Eliminating the sale of gift cards removed that time-consuming process at checkout, with minimal impact on sales. Installing fewer urinals reduced the cleaning required. And so on.

But the biggest savings came from the redesign of certain tasks. For example, the checkout process was overhauled (see Exhibit 2). First, the retailer installed new equipment with faster belts and a shorter distance for cashiers to reach for products. It also introduced a new, faster scanning technique, which was only made possible by working with traders and suppliers to improve the barcode coverage on the products. Finally, the retailer implemented better cashier performance tracking so that it could reliably monitor best practices.

The key success factor here was effective collaboration across the trading, supply chain, store operations, and real-estate functions. Indeed, at least two of those "silos" were involved in virtually every major improvement, including the new packaging with increased barcode coverage; cases that were easier to shelve; and better delivery methods, fixtures, layouts, and dock designs.

The redesign's impact was dramatic: the new store was 30% leaner, while protecting the aspects of the store experience that customers truly value.

Furthermore, most of the new elements (beyond the layout and fixtures) could be applied to existing stores. The return on investment calculations for such changes showed positive returns after just one to two years, with the stores becoming an estimated 20% leaner as well.

EXHIBIT 2: OVERHAULING THE CHECKOUT PROCESS

CUSTOMER QUEUES	One queue per checkout or single queue for all checkouts?
CUSTOMER PUTS ITEMS ON BELT	How many customers is the belt long enough for?
BELT MOVES ITEMS FORWARD	How fast is the belt? Is it slowing down the cashier?
CASHIER REACHES FOR PRODUCT	How far does the cashier have to reach?
CASHIER SCANS PRODUCT	Do items always scan the first time?
CASHIER PLACES PRODUCT AT END STAGE	Who bags the products?

CHECKPOINT

- Do you know the value to customers of each task that takes place in your stores?
- How long has it been since store processes were reviewed by a truly cross-functional team, involving trading, supply chain, store operations, store design and real-estate?

CONCLUSION

Managing store labour cost is something every retailer needs to do all the time – and it never gets any easier. But once you've cut out all the obvious "fat" from your store labour allocations, it's vital that further reductions don't worsen the store experience and alienate customers.

Some retailers take a centralised "command and control" approach to store labour, with hours earned strictly in proportion to sales, while others rely on store managers to make the right decisions and manage their local P&L. In either case, taking a holistic view across the whole value chain can unlock savings that stores can't access on their own – by redesigning the store labour model, rather than relying on cuts alone.

In our experience, there are different ways of achieving this: exploiting data and insight to better understand how the stores are operating; taking an end-to-end perspective to ensure that the stores aren't saddled with the cost of decisions taken elsewhere; or comprehensively redesigning the entire store labour model. As the case studies show, each presents a real opportunity to drive down cost and improve financial performance – without hurting your customers.

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialised expertise in strategy, operations, risk management, and organisation transformation.

In the Retail practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: an obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands-on approach to making change happen is truly unique – and over the last 20 years, we've built our business by helping retailers and consumer goods manufacturers build theirs.

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