WHITEPAPER:

MANAGING AND OPTIMIZING MODERN LABOR FOR RETAIL SUCCESS

MOVISTA

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EXECUTIVE SUMMARY

State of Retail Labor

While seamless retail store execution depends on store planning and the ability to offer great products and shopping experiences, optimum labor-hour utilization is arguably the most critical element for driving consistent execution, sales uplift, and customer satisfaction.

The primary driver for re-inventing in-store labor models is the steady rise in online transactions in the store.

The U.S. retail industry directly employs 3.3 million salespersons, 3.3 million cashiers and 3.1 million first-line supervisors constituting 6.3% of the U.S. labor force. More than half of them fall between the ages of 16 to 34. Additionally, brand manufacturers, wholesale distributors and other industry segments such as third-party service providers hire and operate an additional 4 million.[1]

Many retailers use B2B salespersons who act as order takers, stock experts, brand ambassadors, and merchandisers. This additional workforce helps retailers improve store execution through selling and non-selling activities, such as merchandising, inventory management, and pricing. Most stores have vendor or brand reps visit at least once a month.

There are several megatrends in the retail industry that pose hard questions for the three players in the labor pool: retailers, brands, and third-party service providers.

- E-commerce growth
- Shortage of talent
- Wage rate pressures

How will these players adapt their respective store labor strategies to address these trends? In an expanding retail economy, the combined labor power of these players is undeniably valuable to them and the end consumer. However, labor management, sales goals, and other operational\inventory inter-dependencies between these players can introduce obstacles to profitability and growth.

These challenges are affected by:
- Misalignment of store goals, such as time spent on selling activities vs. non-selling operational tasks
- Increased sales
- Monitoring and visibility of store task execution
- Labor cost reduction in the face of a growing number of store tasks
- Customer perception of depleted employee availability and knowledge

To further complicate the picture, labor in retail stores is fast becoming a shared effort between the three players. While the retailer manages store labor utilization, they increasingly require and receive support from brands and partners.

However, this shared effort is neither deeply collaborative nor integrated, creating shared liabilities that often offset the benefits. Miscommunication and lack of coordination between parties degrade sales volume, profit margins, and the customer experience (CX). And as current trends continue, the effect of the disjointed workforce will accelerate the impact on the industry.

What if stores, brands, and partners could leverage emerging technologies, such AI, mobility, and the cloud, to capitalize on the current megatrends? Can the currently disjointed workforce unite by gaining a common view of all retail execution?

MEGATRENDS RE-SHAPING LABOR MANAGEMENT IN THE STORE

The Expansion of E-commerce

Buy online, pickup in-store (BOPIS) already had momentum in 2019, with 66 percent of retailers offering the service. In 2020, that number jumped up to

76% 2020

And curbside pickup, which was at a near nonexistent level of 4 percent in 2019, has grown to

58% 2020[2]

As a result, retailers are allocating more labor hours, training, and space for in-store fulfillment of call-in or online orders.

The rise of e-commerce, accelerated by COVID-19, has changed the way retailers operate, strategize, and execute. While inventory, allocation, and customer engagement still form the most important elements of a retailer's strategy, labor management is a critical component of optimizing execution.

For example, in 2018, Target began retooling their infrastructure for rapid delivery of e-commerce orders, essentially using their brick-and-mortar stores as hyper-local fulfillment centers. Analysts were skeptical, but Target's strategy paid off in the 2020 pandemic. Their e-commerce sales increased 282 percent year-on-year, and they fulfill 80 percent of those orders from the stores, reducing their fulfillment cost per unit by 25 percent. [3]

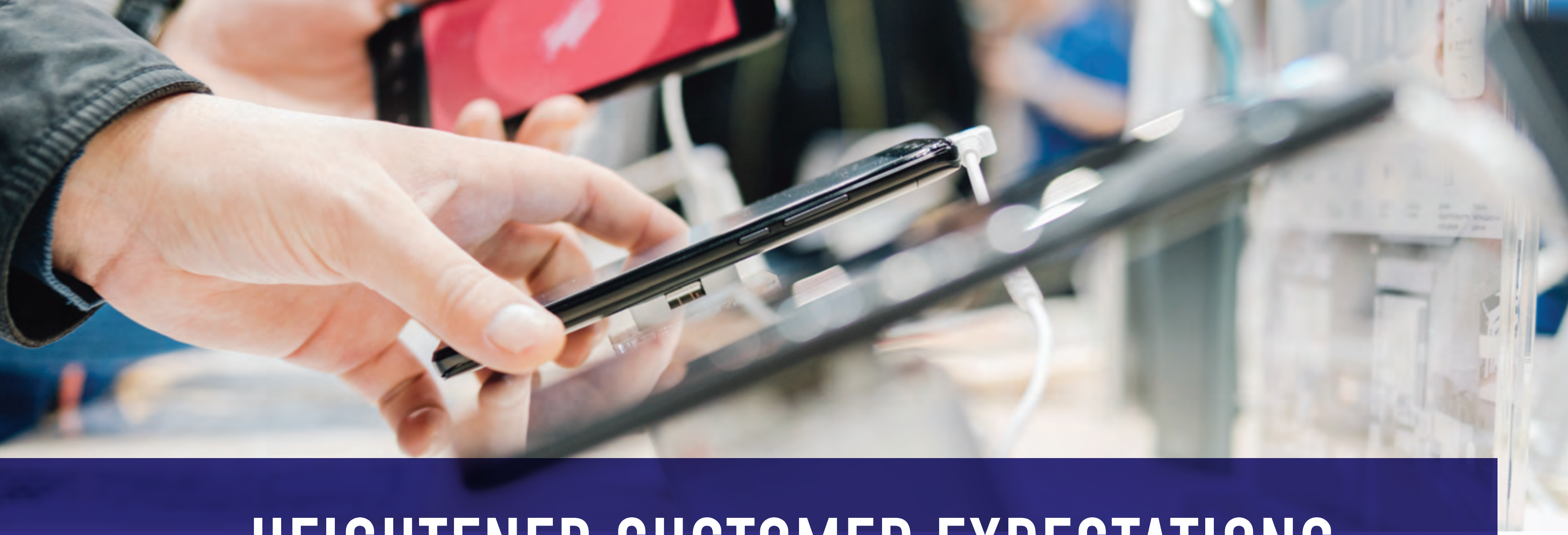
The e-commerce boom changes current labor models and assortment sets, introducing volume expansion and increased range complexity. It also puts pressure on store employees to spend time on additional non-selling tasks, such as breaking down freight, setting new planograms, or stocking shelves. There is a sizable risk that these tasks will be done at the expense of at least some sales and customer service.

As retailers scramble to optimize their processes, they will have to rethink and redesign their labor management processes in stores, warehouses and distribution centers. Use cases such as BOPIS, direct-to-store deliveries, and fulfill-from-store are driving greater need for collaborative labor planning and allocation between retailers, brands, and third-party service providers.

In the past decade, online sales as a percentage of total retail sales have grown, starting from 5.6% in 2010 and increasing roughly 1% per year until 2020, when it shot up to 21.3%, a 5.5 percentage point increase year-on-year.[4] In 2019, the ratio of in-store to online purchases was 60/40, but in 2020, COVID-19 flipped that to 40/60, and that trend is expected to continue.[5]

CASE STUDY

In September, 2020, Hy-Vee, a Midwestern supermarket chain, opened DSW Designer Shoe Warehouse outlets in six of its grocery stores in Minnesota. In a kind of reverse BOPIS model, shoppers can browse through 100 of the top trending shoes, try them on, and order immediately using a QR code. They have the option to ship them directly to their home or to an in-store locker for pickup on a future visit. The shop-in-shops are located in the front of the grocery store. In lieu of charging rent, Hy-Vee collects a percentage of the shoe sales. [6]



HEIGHTENED CUSTOMER EXPECTATIONS

In the wake of the accelerating rise of e-commerce, retailers are experiencing backpressure in their brick-and-mortar stores. Online customers have become accustomed to a zero-friction, intuitive, personalized, streamlined shopping experience. They expect access to instantaneous knowledge about size and color options, product availability, inventory levels, shipping dates, and more. And after experiencing the convenience of BOPIS and curbside pickup, they have been alerted to the possibility of elevated in-person shopping experiences.

This trend increases the pressure on retailers to expand their focus on innovation to encompass the physical store. The good news is that investing in brick-and-mortar CX pays off during good times and bad. A 2020 McKinsey study found that during and after the 2008 recession, retailers who prioritized CX saw a shallower downturn, rebounded more rapidly, and achieved three times the total shareholder returns in the long run compared with the market average.[7] In a recent Dimension Data study, of retailers who improved their CX, 92 percent increased customer loyalty, 84 percent increased revenue, and 79 percent experienced cost savings. [8]

RESULTS OF:
CUSTOMER FOCUSED RETAILERS

92%
INCREASED CUSTOMER LOYALTY

84%
INCREASED REVENUE[8]

In 2019, Sephora saw the e-commerce writing on the wall. It brought its direct-to-consumer line of beauty products into brick-and-mortar stores to draw online customers into the store where they can try them out and purchase affordable samples. They also packaged mini versions of trending products into kits, giving their customers more flexibility at a lower price.

However, delivering on improved in-store experiences requires additional labor; labor that might be outside of a retailer's standard requirements, for example when a convenience store expands to stock fresh food and must comply with food-handling and storage regulations.

THE RISE OF ELASTIC LABOR

A shortage of skilled labor and talent has been a consistent pain point for retailers across all business functions. This is a major problem in a sector that relies heavily on its employees for successful seasonal and non-seasonal store execution, sales uplift, and customer satisfaction.

Powered by the maturity of the internet, the market has stepped up to address this issue through the rise of elastic labor. Retail is no stranger to the concept, regularly engaging a contingent labor force in the form of part-time employees, seasonal workers, brand reps, and third-party labor providers. Even so, many retailers have failed to develop a systematic framework for engaging, tracking, managing, and paying elastic labor. Some workers might be provided for, and paid by, an agency. Others might be on the payroll as part time. And others might be contractors who invoice through accounts payable.

In addition, the pressure on the minimum wage continues to mount with the momentum of inevitability. In 2020, the median hourly rate for retail store employees was $14.87/hour.[9] Tightening up of the labor market and new minimum-wage floors coming into effect are putting pressure on retailers to hike pay.

In June 2020, Target raised its minimum wage for employees at stores and distribution centers to $15 per hour, a $2 per hour increase.[10] In March 2021, Costco increased their minimum starting wage from $15 per hour to $16 per hour.[11]

This scenario is yet another reminder for retail companies to explore deeper shared task allocation and collaborative labor utilization with brand partners and third parties. This means that retailers, brands and third-party service providers will need to offset the added labor expense with greater productive labor utilization in terms of adding incremental sales, customer loyalty, and service levels in the store.

CASE STUDY

A couple of telecom players are turning the traditional retail phone store experience on its head. Gone is the "take a number and wander around the store with zero seating until we're ready for you" model.

In Seattle, AT&T has turned the phone store into a hangout. A custom app allows you to shop at your own pace, pay for your purchases, and pick them up from a secure locker built into the wall. But wait, there's more. You can also just relax, order coffee and food, work, or even host an event, projecting your presentation on in-store screens.

Meanwhile, in London, Samsung has created a technology playground with gaming lounges, co-working spaces, DJ booths, and an event space. A personalization bar lets you design your own product.[12]

BUSINESS PAINS ASSOCIATED WITH STORE EXECUTION:

Stark Differences Between Retailers, Brands, and Third-Party Service Companies

At the intersection of retailers, brand reps and third-party service providers, you will find the lifeblood of commerce—inventory. All three players live or die by the movement of inventory from the source, through the store, to the customer. Anything that interrupts this flow, even temporarily, affects the customer experience and ultimately, revenue.

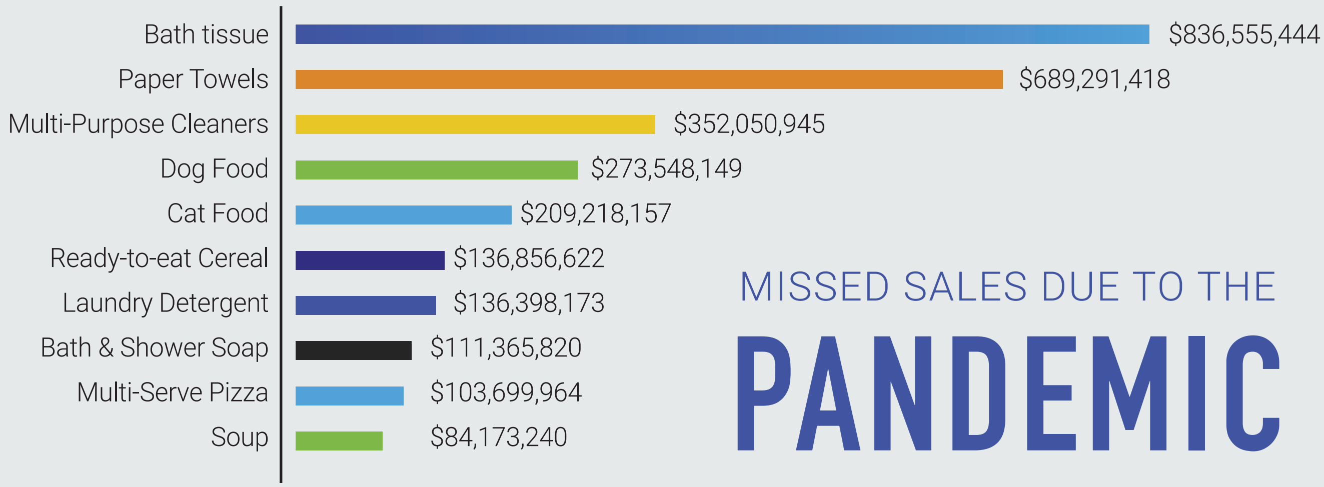
However, despite the fact that shoppers place on-shelf availability (OSA) in the top three reasons for choosing a store, at any given time, on average, one out of every 12 items on their shopping lists and one out of every 10 promotional items are not on the shelf.[13]

Even after years of good-faith efforts by manufacturers and retailers, the out-of-stock rate has held steady at an average of eight percent. Out-of-stock promoted items often rise above 10 percent. That represents a revenue loss of 8 to 10 percent or more.[14]

"AND WE KNOW THAT WHEN EVERYBODY IS RESPONSIBLE, NOBODY IS RESPONSIBLE."

One of the reasons for this persistent problem is a lack of clarity in managing the overlapping labor forces between the three players, especially regarding who is responsible for the inventory. When surveyed regarding who owns inventory, some retailers say supply chain managers, others say category managers or buyers, and still others say merchandising.

MISSED SALES DUE TO THE PANDEMIC



SOURCE: [15] 2021 NeilsenIQ On Shelf Availability Barometer, based on a subset of US retailers and categories, including household care, health and beauty, pet food, and selected grocery

RETAILERS

Improperly allocated labor leads to issues with on-shelf availability, which results in lost sales. Conversely, holding inventory comes with high costs for retailers. The pain of lost sales and unsold inventory is shared by brands.

BRANDS

In addition to lost sales, labor inefficiencies can lead to increases in returns when reps incorrectly increase inventory because of poor in-store inventory execution.

3RD PARTY LABOR PROVIDERS

When inventory is not available, this group can't execute in-store plans provided by the brands, which results in disputes with their brand clients, and in some cases, increased costs due to paying their clients back for work not done.

In the worst-case scenario of the 2020 pandemic, between May 2020 and February 2021 the losses from the top 10 out-of-stock categories cost retailers more than

$3 BILLION

IN SALES.[15]

It's clear that inefficiently managing store labor results in a shared pain between retailers, brands, and third-party service companies: inventory issues. But when there are inventory issues, the cost implications affect each differently.

While all three parties want to deliver in-store results, without a better shared labor model between them, they all experience the same pain of inefficient in-store labor management resulting in inventory issues. Such as in soccer, the retail chain works best when all players remain connected, focused, and act with their shared goal in mind.

For all parties to be successful, they must improve the way they work collaboratively to reduce the costly results of inventory issues. However, of the three, retailers are most affected by inventory issues. Therefore, retailers are the best positioned and should feel the most motivated to source solutions to managing store labor across the retail ecosystem.

BUSINESS PAINS MAKE WAY FOR STRATEGIC DRIVERS AND CAPABILITY IMPROVEMENTS

A 2018 study showed that, despite the allure of e-commerce, 56 percent of millennials shopped at least once a week in brick-and-mortar stores.[16] This statistic represents pent up demand that will benefit those who focus on in-store CX. As retailing evolves to become even more customer-centric, stores must focus on creating highly localized and personalized experiences, and that trend has significant implications for workforce management.

According to Gartner, it is predicted that, "By 2023, up to 40 percent of Tier 1 retailers will leverage intelligent automation among their store workforce to improve business outcomes through better customer experience and associate engagement." [17]

As the demands of customers mix with the challenges of e-commerce and labor shortages, retailers turn to technology to better manage their existing labor sources. The consequences of pursuing business-as-usual will lead to losses for stores, brands, and third-party labor, resulting in store closures, in which all parties lose business. As each segment manages labor independently of each other, they will face different challenges.

Negotiations over price or activity-based costs, promotional support, and marketing budgets are common between retailers and third-party service providers and brands. However, the ability to efficiently allocate and manage store labor has become increasingly difficult. Store labor models must evolve to make way for variable demand and increased flow of in-store and online commerce activities. Traditional store sales and operations are now affected by factors that no longer reside within the retailer's control. By partnering creatively with brands and third-party labor suppliers, retailers can maximize customer satisfaction while simultaneously improving the efficiency of non-sales and sales-related task execution.

Increasing focus on dynamic customer service, guided selling, and localized merchandising are the key drivers for developing a collaborative labor model. As retailing evolves its focus from product-centric to customer-centric, the leaders will create highly localized and personalized experiences and assortments based on customer microsegments to meet the needs of specific stores and digital sales channels. The pace at which retail is changing implies that a siloed approach will not work as retail implements customer-centric strategies.

Third-party service companies and brands can improve their performance when retailers proactively share key information, such as consumer traffic patterns and dwell time within aisles, which helps third-party service companies and brands better execute selling and sampling strategies. These companies can also adjust product displays, in-store personalized marketing, and in-store merchandising to better serve consumers, retailers, and their own interests.

COLLABORATION ON BUILDING BUSINESS PROCESS AND TECHNOLOGY CAPABILITIES

Ancient wisdom tells us that a cord of three strands is not easily broken. Collaborating with like-minded parties brings the strength of each to bear on the market, benefiting all involved. In retail, this means that sharing data creates a synergy that forms a significant competitive advantage.

THE FUTURE OF SUCCESS IN RETAIL IS BASED ON

SHARED VISIBILITY AND DATA DEMOCRATIZATION,

specifically internal and external shared visibility of business processes provided to every user in the value chain.

Because retailers are the central location for all in-store work, they are best positioned to enable a more successful in-store labor model through the adoption of technology and better processes. Considering that the retailer's business is dependent upon their store locations, they are even more motivated to implement innovation. Of the three, retailers are the best positioned partner to successfully lead this joint venture. It must be driven from the center or not at all.

Key capabilities for engagement between stores, brands, and labor service providers include:

- Scheduling based on seasonal and non-seasonal employee task needs and customer traffic
- Frequent training to associates on new customer service and productivity tools
- Self-service workforce management tools
- Data sharing of labor allocation and performance metrics

Retailers can and should strategically leverage brand representatives and third-party teams to enable them to focus on what each does best.

In a tactical move to better collaborate with omnichannel sales and marketing programs in stores, retailers and brands can dynamically coordinate field campaigns with retail HQ departments, such as marketing, merchandising, customer service, and store field marketing, using B2B web collaboration tools. Brand and third-party representatives can communicate with retail HQ, stores, and other partners via real-time messaging, social media, or mobile messaging platforms to dynamically change task assignments and re-assign store visit schedules depending on store cluster needs and customer traffic trends. However, the collaboration can't stop there.

Ultimately, retailers and their partners must automate scheduling, training, task management, and other field employee functions across all devices. Using dynamic, cloud-based automation to share data about programs between retailers, brands, and third parties before, during, and after campaigns for store and field marketing is a critical factor for success.

CONCLUSION

Historically, retailers, brands, and third-party service providers have operated as inter-related but independent entities, each naturally focused on profitability based on their own interpretation of market drivers in a model of self-interest. As such, the industry has lacked the infrastructure to embrace a holistic and truly collaborative relationship between the three players.

With the best of intentions to engage in good faith, given the state of technology, past efforts focused on transaction data, in-store merchandising, and replenishment. The primary reason their efforts failed to drive mutual success was the lack of shared collaborative technologies.

Technology has finally caught up. Retailers, brands, and third-party companies can now deliver omnichannel success in the store via collaborative labor management and allocation based on seasonality and foot traffic, enabling inventory optimization and boosting sales.

The way forward for brick-and-mortar stores is using their resources to deliver personalized engagement of customers at the level of their felt needs. This strategy requires a symbiotic relationship between selling and non-selling employee tasks.

Both brands and retailers must recalibrate their labor task expenditure, allocation, and return-on-labor investment by store. Going forward, stores must focus on aligning shared labor and complementary tasks between internal resources and their brand partners.

The cord of three strands can join retailers, brand reps, and third-party labor to usher in a new age of mutually beneficial relationship of trust and profitability.

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