

State of the Industry Research Series :

2016

Changing the Retail Labor Model for a New Retail Environment

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INTRODUCTION

The existing labor model in retail is being turned on its head. The rapidly changing retail environment is creating new challenges for retailers and consumer goods manufacturers that have an impact on their labor needs. Omnichannel sales growth has led to a number of in-store challenges – increased competition accessible via a smartphone in a shopper’s hand, inventory and fulfillment challenges, need for merchandising alignment with the online experience and a much more demanding consumer. Ever increasing customer expectations for more knowledgeable sales associates and a better shopping experience are putting added pressure on both retailers and manufacturers to improve the customer experience.

All of the above factors are leading to strains on operational effectiveness, management of rising labor costs and thinning of profit margins, which are forcing companies to re-evaluate how to increase the efficiency of their field or store labor. **6 in 10 retailers are dissatisfied with their current labor model in the store**¹. This poses significant problems for retail sales and operations management.

In this report, we will reveal findings from our latest retail labor survey², cite recent other EKN and several other industry studies that reinforce these changes in retail, and establish the need for a change in the labor model. The following pages help identify the biggest retail store labor need areas, how those needs can best be met, and how outsourcing can play a role in meeting them.

STORES CONTINUE TO BE THE HUB OF OMNICHANNEL COMMERCE

While online retail has a number of positives to show, physical stores still power retail sales and are expected to continue doing so into the foreseeable future. Yes, the percentage of sales by e-commerce is growing; however, it is still and will continue to be dwarfed by retail sales in physical stores. Currently 90% of the \$3.7 trillion in retail sales in the U.S. is from physical stores³. By 2024, those figures are expected to be 85% of \$7 trillion. That’s over \$4 trillion more in sales, and 60% more in dollar growth, in physical stores than online.

It’s no wonder some of the top online retailers like Amazon, Athleta, Birchbox, Bonobos, Boston Proper, Rent The Runway and Warby Parker are opening physical stores.

While some of the reasons stores continue to dominate have to do with shipping and return issues for online retailers, much of it is because people still like to shop in stores. In fact, 8 out of 10 consumers prefer to shop in stores⁴. They do so for the entertainment value of shopping, social interaction and superior inventory levels (to receive product quickly).



8 in 10

consumers prefer to shop in stores

THE CHANGING RETAIL ENVIRONMENT

The shift to an omnichannel retail world has led to a number of challenges that put a strain on the current labor structure. In fact, growing omnichannel needs in the store are cited as the #1 in-store labor challenge according to 7 in 10 retailers and half of manufacturers⁵. Stores are no longer competing with just other stores down the road. They are now competing with what shoppers can find on their smartphones. Digital devices influence 8 out of every 10 purchases. **It's important to also note that 90% of those purchases still happen in stores⁶**. But the increased competition is leading to thinning profit margins and a greater need for increased efficiencies and better engagement with a store's customers.

Omnichannel has also changed the expectations of consumers, who now expect to be able to find products and information quickly, have little patience for aisle surfing and expect their shopping trip to be entertaining.

An 'engaged' shopping experience depends in large part on the ability of store associates to deliver on consumer expectations. However, most consumers are dissatisfied with the quality of service in stores. 60% of consumers feel they know more about a product they're looking for than the store associates⁷.

Moreover, 1 in 3 consumers feel they can find information faster on their smartphone than asking a store associate for help. At the same time, 1 in 2 store sales associates believe that the shopper today is better connected to product information than they are⁸. This can result in a negative consumer experience and lead to lost sales.

Additionally, **68% of shoppers who do not find sales associates helpful will not make a purchase⁹. On the other hand, 92% of consumers who find a sales associate helpful will make a purchase and 97% of those will buy as much or more than planned¹⁰**. According to EKN's US Millennials Shopping Preferences survey, consumers will spend over 31% more with a retailer if they have a great shopping experience.

Another big challenge due to the rise of omnichannel is inventory management. As mentioned earlier in this report, consumers now expect to be able to find products quickly. In fact, the #1 factor that frustrates the "Omnishopper" the most is not pricing – it's inventory¹¹. While out-of-stocks cost more than \$630 billion in annual lost sales globally¹², only 4 in 10 retailers consistently manage inventory performance and turnover metrics in the store¹³. In fact, the foremost goal for any retailer is to make it easier for consumers to find what they're looking for, as well as to find complementary products across categories and channels.



8 out of 10

purchases are influenced
by digital devices



1 in 3 consumers feel they
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associate for help

⁵ 2016 EKN Retail Labor Model Study; ⁶ 2015 MasterCard Omnishopper Report; ⁷ Retailer's Guide To Webrooming, Merchant Solutions, May 2014; ⁸ 2014 Motorola Solutions Shopping Study, Feb 2014; ⁹ 2014 Sales Associate Interaction Study, Tulip Retail; ¹⁰ 2014 Sales Associate Interaction Study, Tulip Retail; ¹¹ 2015 MasterCard Omnishopper Report; ¹² 2015 IHL Retailers & The Ghost Economy report; ¹³ EKN 2nd Annual Future of Stores Survey, 2014

Not only are retailers facing inventory challenges in their stores, in large part due to the rise of omnichannel, they are also adjusting to merchandising and assortment challenges in this new digital age. EKN data has shown that stores are being remodeled and reset in the following areas:

- Smaller and highly updated (fixtures, technology, digital etc.) store formats;
- Store within store or digital kiosks;
- Installation and maintenance of digital displays;
- In-store mobility (consumer mobile devices and employee/associate-operated devices)
- Consumers or shoppers requiring more knowledgeable and brand passionate sales associates (concierges and assisted or guided selling)

There is also strong evidence of the maturation of omnichannel continuity in merchandising across channels. According to 2015 EKN data¹⁴, 1 in 2 retailers possess fully centralized merchandising with common/integrated functions across channels. This helps both retailers and brands ensure that consumers have the same visual, assortment and brand experience online as in the store.

THE IMPACT ON LABOR

The merging of channels and integration of physical and digital in the store are adding pressure on 'already stretched' store associates to complete several additional tasks without losing focus on their primary tasks – servicing in-store customers and increasing in-store sales.

As stated earlier, the foremost labor challenge in-store is figuring out ways to overcome growing omnichannel needs. The disruption in stores is happening as omnichannel-related store tasks that associates and managers are required to complete every day are increasing without subsequent improvements in labor hours or trained labor availability. In addition, labor productivity, training, change management and efficiency expectations have also risen as a result of increasing online and mobile purchases by consumers processed in-store. As consumers expect even more knowledge and service from store associates, they are now required to be knowledge experts and expected to fulfill online orders from the store.

According to EKN's 2015 3rd Annual Future of Stores study, **84% of surveyed retailers will increase online orders fulfilled from stores in 2016**. Moreover, 68% of companies indicate they are currently executing in-store pick-up of online orders placed through other channels to compete for consumer mindshare and convenience¹⁵. This will jump close to 90% in the next 2 years.

Retailers are grappling with how to ensure customer-facing activity isn't further eroded when back-office functions such as fulfillment are on the rise. There is a pressing need to allocate more labor hours, training and space for in-store fulfillment of online orders. In addition, they must assess their store footprints and potentially retrofit certain stores to accommodate store fulfillment. At the same time, close to 6 in 10 retailers are planning to add new SKUs per store by 2016 and more than 1 in 2 are planning to increase store assortments¹⁶.



68% **online**
PICKUP CENTER

of companies indicate they are currently executing in-store pick-up of online orders placed through other channels to compete for consumer mindshare and convenience

¹⁴ EKN Merchandising Study, 2015 ^{15,16} EKN 3rd Annual Future of Stores Benchmark, 2015

EKN's 2016 Retail Labor Model Study confirms results from earlier EKN studies that the impact of omnichannel needs in the store is creating the biggest disruption for store and field labor management. As previously stated, **7 in 10 retailers and 5 in 10 manufacturers consider it their top labor related issue**¹⁷. The disruption is happening as omnichannel-related store tasks that associates and managers are required to complete every day are increasing without subsequent improvements in labor hours or trained labor availability.

In addition, labor productivity and efficiency expectations have also risen as a result of increasing online and mobile purchases by consumers processed in-store. While consumers expect even more knowledge and service from store associates, limited talent pools and increased competition for revenue have made store operations more difficult.

Despite these omnichannel-related labor challenges and the added pressure to deliver sales against increased competition, retailers are still upside down in their allocation of time to sales and customer service when compared with operational tasks in the store. **70% of labor hours allocated to stores are operations-related (i.e. merchandising, inventory, assembly etc.)**¹⁹. It is concerning that less than one-third of their time is actually spent on their top objectives – customer service and sales.

Such a labor model is not sustainable and will need to evolve if retailers want to retain customers, grow their omnichannel businesses and increase profitability. It seems they agree as only 40% of retailers are satisfied with their current labor hour models²⁰.

7 in 10  **retailers**
&
1 in 2  **manufacturers**

cited growing omnichannel needs in the store as the #1 in-store labor challenge



THE LABOR MODEL AS WE KNOW IT IS EVOLVING

So what are retailers and their consumer goods partners doing to address this labor distribution and not only survive but thrive in the changed retail environment?

While seamless retail store execution depends on store planning and the ability to offer great products and shopping experience, a consumer-centric labor model and optimum labor hour utilization is arguably the most critical strategic element in stores' arsenal for driving consistent execution, sales uplift and consumer satisfaction.

Both retailers and brands are looking beyond traditional sources of full-time equivalent (FTE) style labor and towards outsourced labor as a solution. With high FTE labor turnover combined with the difficulty in finding and training talent, and the high costs of labor and benefits, the outsourced labor model is one of the ways in which retailers and consumer goods companies can more efficiently balance their core business and operational tasks. Outsourcing will keep current in-store sales people doing the core sales and customer service jobs that are needed to maximize sales from in-store customers, while outsourced staffing can handle specific operational and sales assist tasks.

^{17, 18} 2016 EKN Retail Labor Model Study; ¹⁹ EKN Merchandising Study, 2015; ²⁰ EKN Managing and Engaging Modern Labor for Omni-Channel Success Study, 2015

Tasks identified as key areas for outsourced labor by both retailers and manufacturers in this study include omnichannel order pick-up/fulfillment, seasonal support, installation/assembly, retail promotions execution, merchandising, and sales associate training²¹.

These key identified areas for outsourced labor are in alignment with the retail industry changes we have referenced earlier. The growth of omnichannel has led to an increased need for online order fulfillment and inventory management. The growth of digital retail enhancements has led to an increased need for store remodels and installation of digital displays, as well as an ongoing need for regular maintenance of these displays.

The heightened expectations of consumers to be engaged during their shopping trips and get all the information they need to make an informed purchase decision has led to an increased need for better trained sales associates, assisted sales, product demos and in-store promotion events/experiences. There is also a greater need to align what consumers experience in-store with what they experience online and via their mobile devices. And, there is a need to merchandise stores in a way that makes it easier for shoppers to quickly find what they need, and what complements that purchase.

Areas Where Outsourced Labor can Help



Omnichannel order pick-up/fulfillment



Seasonal support



Installation & assembly



Product demos and promotion



Merchandising

Why use outsourced labor for this evolution?

The top reasons cited are to reduce labor and benefit costs, handle rising omnichannel tasks, achieve scalability/coverage and handle business spikes²².

Top 2 reasons for outsourcing in-store labor/field employees

Retailers



Ability to lower labor cost



Handle rising omnichannel tasks in store

Manufacturers



Increase scalability/labor coverage



Ability to lower labor cost

(Figures are calculated based on responses received from retailers and manufacturers)

Source: 2016 EKN Retail Labor Model Study

Yes, retailers and manufacturers are looking to outsourced labor to help them not only manage their growing labor needs more efficiently and productively, but more cost-effectively as well. This, in turn, allows them to focus their internal labor on engaging their shoppers more and increasing customer satisfaction and sales in the face of greater competition and consumer expectations.

^{21,22} 2016 EKN Retail Labor Model Study

Given the strong reasons for outsourcing retail service labor, we are seeing strength in plans for utilization of it in the next two years, as indicated by the numbers below.

At the same time, the numbers also indicate some areas where an increase in outsourced retail service labor can possibly make a big impact in the amount of time retailers are spending on operational tasks, such as merchandising.

Field/store labor outsourcing plan: current vs. future

	Currently Outsource	Don't Currently But Plan to Outsource within 12-24 months	No Plans
 Installation and assembly	77%	13%	10%
 Seasonal labor support	73%	23%	3%
 Omnichannel task (order pick-up/fulfillment, return)	68%	22%	10%
 Audits	58%	23%	17%
 Product demo and promotion	35%	35%	30%
 Field management system	27%	47%	27%
 Assisted sales	27%	35%	37%
 Merchandising	17%	43%	38%

(Figures are percentage of total respondents)

Source: 2016 EKN Retail Labor Model Study

WHAT AN OUTSOURCED LABOR MODEL NEEDS TO SUCCEED

Flipping the 70/30 operational/sales labor hour allocation ratio and turning over retail services to third party workers is not an easy transition for companies. EKN data in the two charts on the next page highlight some of the key concerns for retailers and consumer goods manufacturers as well as some of the key attributes third party providers must have.

Lack of clarity around outsourced labor schedules is by far the biggest reason not to outsource labor, indicated by 70% of retailers and manufacturers. That makes it imperative for outsourced labor companies to work closely with both retail and manufacturer customers to plan programs well in advance and provide an exceptional retail service operations system to manage and communicate programs and provide real-time customer visibility.

The second biggest concern is a lack of alignment by outsourced labor with retailer or manufacturer brand values. This indicates there is an opportunity for outsourced labor companies to improve their understanding and communication of brand values to their retail service labor forces. This can be done via online training and may go so far as to require brand certification before work is commenced.

A third concern is a lack of ownership and accountability. This is where the right incentive plans can play an important role. The right plan can incent for ownership and accountability with rewards for certain achievements including longevity (often times the longer someone is working on a brand, the more ownership they feel towards the brand).

Top 3 reasons for not outsourcing in-store labor

Retailers



Manufacturers



(Figures are calculated based on responses received from retailers and manufacturers)

Source: 2016 EKN Retail Labor Model Study

KEY ATTRIBUTES FOR A QUALITY 3RD PARTY LABOR PROVIDER.



(Figures are percentage of total respondents)

Source: 2016 EKN Retail Labor Model Study

On the flipside, the top three attributes retailers and manufacturers are looking for in an outsourced labor provider are consistency of services, the ability to provide business solutions, and affordability. With nearly half seeking consistency of services, it's extremely important for third party labor providers to have a great labor operations management system. It is imperative that retailers and manufacturers partner with third party labor providers who provide more consistency with clearly articulated tasks and efficient schedule management (e.g., the display is available when someone is sent to the store to setup a display). From the client perspective, significant contributing factors to consistency are consistency of work, as this directly translates to consistency of labor, and reasonable lead times.

Something that would help in providing consistent service, as well as in providing business solutions, is for third party labor providers to be an integral part of the planning process. Our analysis indicates that outsourced companies need to become more than cost-based people providers. They need to be efficient solution providers. They need to provide efficiency in terms of service levels and cost; solutions in terms of solving manufacturer and retail challenges. The more a third party labor provider understands challenges and opportunities of a retailer or manufacturer brand, the more they are able to provide innovative solutions that will help everyone thrive in this rapidly changing retail environment.

CONCLUSION

The retail industry is undergoing tremendous change that is putting strain on both retailers and manufacturers. Competition now comes not only from the store down the street, but also from the smartphone in a customers' hand. And, the way consumers shop has drastically changed: they desire complete and comprehensive omnichannel stores, they demand a more knowledgeable retail sales associate and a more engaged retail experience, and they expect full, easy-to-find inventory.

Labor hours are increasing to handle fulfillment, inventory management, store remodels and optimized merchandising for the new omnichannel retail environment. Retailers and consumer goods manufacturers must be able to handle these new omnichannel demands in an efficient, cost effective and productive manner. They must adapt to the demands of omnichannel retail to survive and thrive.

The store culture and fabric is made up of many things but labor is one of the most critical for customer engagement and operational efficiency. Retailers and manufacturers need to find a new path to address these increased omnichannel tasks with improved labor hours, trained labor availability and a more equitable distribution of labor hours between operations and customer service.

The strategic use of outsourced labor is a viable path and must drive optimum value to both retailers and manufacturers. Outsourced labor providers must also be able to provide business solutions, be transparent and provide real-time clarity in scheduling and reporting, be educated in and committed to brand values, and provide superior consistency of service and accountability for their work. Outsourced labor needs to work with brands and retailers to ideate, plan and provide solutions to these growing needs and issues associated with them.

RECOMMENDATIONS

ST Short Term (0-6 months)

MT Medium Term (6-12 months)

LT Long Term (1-2 years)

ST Short Term (0-6 months)

- Perform an audit to assess importance and performance of store operational and sales tasks, ability to sufficiently handle online fulfillment, product knowledge and search capabilities, product availability, continuity of merchandising, labor allocation, turnover and associated costs
- Assess existing store formats relative to today's consumer and technical capabilities
- Identify the top opportunities for store format changes to impact overall sales
- Identify the top opportunity areas requiring a change in store labor management including task management/execution, labor hour allocation and performance management
- Identify current and impending field or store-level sales and merchandising tasks that require higher labor cost to sales, increased levels of associate training and change management

MT Medium Term (6-12 months)

- Based on the aforementioned short-term strategies, assess a third party labor provider's ability to contribute more efficiently towards omnichannel, sales and merchandising tasks in stores that require proportionately higher training, and labor cost to sales per associate per store
- Identify operational, sales and customer service areas of store labor collaboration with third party service providers. When planned and executed effectively, such collaboration can create a balanced and cost-effective framework for localized store sales and operations task collaboration and schedule effectiveness
- Seek best practices from internal teams (e.g. other stores, HR), manufacturers and from third party service providers relative to this type of outsourcing and incorporate feasible items into the overall plans
- Evaluate a robust system for measuring, reporting and taking corrective action on retail store execution plans, merchandising and store-level omnichannel programs data

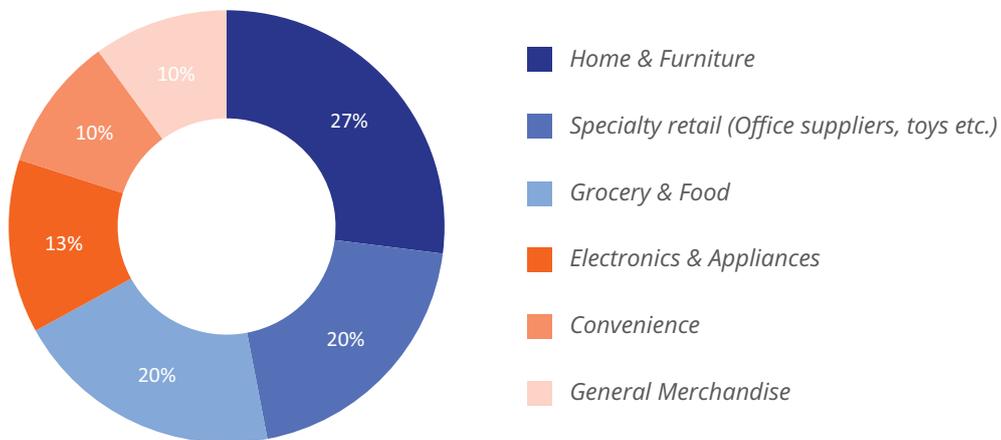
LT Long Term (1-2 years)

- Develop and share a labor effectiveness and task best practices library for all stores. Help coordinate adoption of best practices for task and labor management
- Using store execution data and POS data, highlight future areas where the combination of outsourced and insourced labor can positively impact store efficiencies- in-stock, sales, and customer satisfaction or net promoter scores

SURVEY DEMOGRAPHICS

Distribution by format

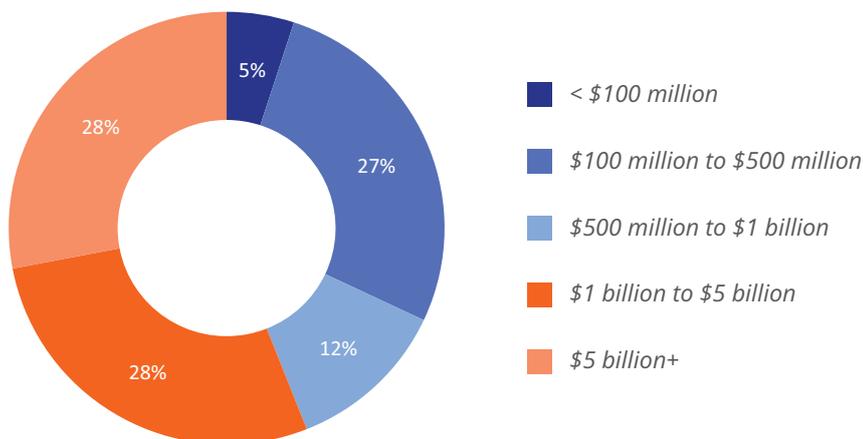
(Figures are percentage of total respondents)



Source: 2016 EKN Retail Labor Model Study

Distribution by annual revenue

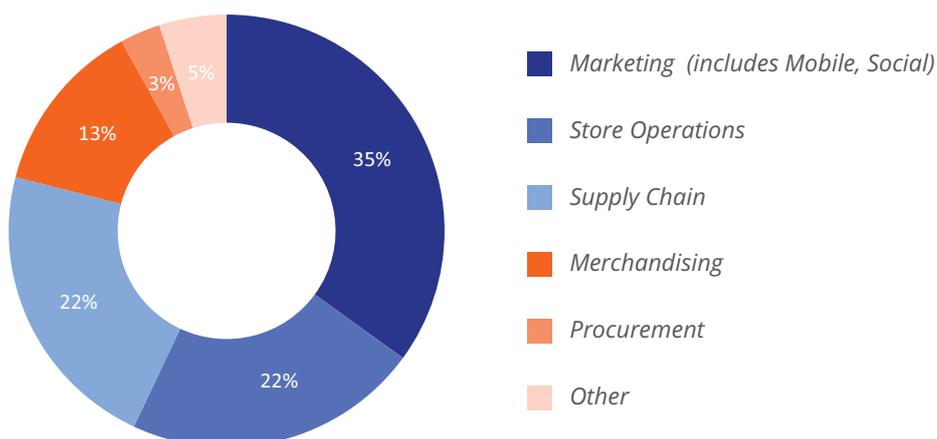
(Figures are percentage of total respondents)



Source: 2016 EKN Retail Labor Model Study

Distribution by business function

(Figures are percentage of total respondents)



Source: 2016 EKN Retail Labor Model Study

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

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