How to Develop an Effective Retail Labor Performance Management Program

Expert insights to help retailers proactively manage their store labor investment

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Introduction

One of the greatest challenges for brick-and-mortar retailers is the continuous management of their annual labor investment. In recent years, wages were expected to cost U.S. retailers about 15% of total sales, and as more states raise the minimum wage, this percentage could continue to climb. This means, for example, if a retailer that operates 100 stores — each with an average weekly revenue of $100,000 — invests 15% of sales in direct store labor, the company will spend about $78 million in wages annually. Given that store wages are among a retailer's largest operating expenses, effective labor management can have a significant impact on the bottom line.

The problem is that many retailers still struggle to control their substantial labor spend, which can result in major budget overruns and smaller profit margins. Many lack a formal, disciplined, and centralized approach — backed by automated technology — to help store management teams proactively manage labor utilization and costs. This paper discusses how to develop an effective retail labor performance management program that provides visibility into the right metrics with the right frequency to help guide resource deployment and drive return on the store labor investment.

The retail labor cost challenge

Why are store labor costs so difficult to manage? A primary reason is that they are managed unlike any other expense on the profit and loss (P&L) statement. For example, if a retail company plans to invest in a new location, the corporate real estate and finance teams work out the lease expenses months in advance of the store opening. The lease payment is a fixed and predictable expense that is locked in based on the terms of the contract. While cost of goods sold is a bit more variable, the company's buyers and supply chain experts negotiate per-unit costs and set the pricing strategy using proven processes and methods, which makes it easier to predict expected gross margin with reasonable accuracy.

The process for managing store labor expenses, on the other hand, is largely decentralized. A retailer's significant investment in wages may be planned centrally, but it is executed and controlled locally by store managers across many locations. As a result, the retail company's overall adherence to labor budgets hinges on the ability of individual store managers to operate their stores within targeted labor hours and dollars.

Whereas lease payments occur on a fixed schedule and the cost of goods is paid at the time of delivery, store labor expenses are continuous; they are incurred every minute workers are on the clock — from open to close, day in and day out — throughout the year. The store labor investment is critical for successful execution of customer experience, operational, merchandising, and marketing plans, and retailers expect a return on this investment in the form of increased foot traffic, higher sales volume, and customer loyalty.

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What makes managing store labor costs so hard?

From major department stores to smaller specialty chains, traditional retailers face common challenges when it comes to managing the store labor investment. Identifying and understanding these issues is an important first step in designing an effective labor performance management program.

Lack of data or limited access

Retail support center managers require access to performance data in order to provide meaningful reports to field managers. Many retailers, however, still lack ready access to labor data — typically because they are relying on manual processes or disparate systems for managing store labor. In other cases, the data is available, but managers have yet to take advantage of the myriad labor metrics included in their workforce management system. If store support centers are unable to continually update field managers through reports or, even better, real-time dashboards, senior operations leaders will not have clear visibility into performance until a period P&L is produced, at which point it's too late to make needed course corrections.

The wrong measure of success

When tracking performance, most retailers focus on labor hours, labor dollars, percentage of sales, and some productivity metric such as sales per labor hour or item per labor hour. To be truly effective, however, a labor performance management program needs to measure performance against the expected outcomes of the labor investment. For example, if 5% growth year over year is an expected outcome for scheduling additional labor hours at a given store, then the retailer needs to include year-over-year sales growth as a success measure in the program. Similarly, if a retailer is making a labor investment to improve the customer experience (CX), then the program should incorporate a CX success metric such as a customer satisfaction score.

Leading versus lagging metrics

Reporting on past performance by tracking lagging indicators is a necessity for any business, but it is not enough to enable proactive labor management. Visibility into leading indicators enables retailers to better control future performance. For example, schedule cost is an extremely useful metric for managing future labor spend. After all, scheduling to budget sets a store up for success. In addition, metrics like schedule effectiveness help managers ensure that labor is aligned with customer traffic flow to optimize sales and service.

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Reporting that is too complex

While analytics and business intelligence tools continue to simplify delivery of performance management metrics, some retailers are still drowning in a sea of reports. Relying on spreadsheets — distributed via email — makes it difficult to keep up with the latest metrics and gain insights while there is still time to take action and influence outcomes. In some cases, store managers receive dozens of weekly reports, each containing different performance data, which forces them to spend hours searching for the right information to manage their business.

High risk of error

Not only are store managers inundated with reports, but many of the reports they receive are created manually, which increases the likelihood of errors This means managers may be making decisions based on inaccurate information resulting from a typo in a spreadsheet or an incomplete data pull from the enterprise data warehouse. By automating the labor performance management process, retailers can reduce the risk of reporting errors, establish trust in the information, and boost decision-making confidence.

No single source of truth

A single source of data is critical for the success of a labor performance management program because it provides one reliable version of the truth. Too often, retailers distribute multiple reports to the field, each of which shows a different value for what appears to be the same metric. One report may show that a store had 35,000 the previous week, and another report may show 37,500 in sales. These inconsistencies could result from:

- Data being pulled from disparate systems
- Lack of a well-understood definition of what each metric is measuring

For a large grocery chain, for example, the weekly store sales metric might include all food and nonfood sales but exclude pharmacy sales. With a single source of data and a clear definition of each metric, retailers can count on consistent values across all reports to guide decision making.

Shifting criteria for success

Nothing confuses retail field managers more than dynamic criteria for success. Imagine if store managers receive an executive directive in January to manage labor to a percentage-of-sales target, but then in May they receive a new mandate to not exceed a fixed number of labor hours. This leaves managers confused as to which metric they should use to manage their stores. For labor performance management to work, the criteria for success must remain consistent for effective planning and execution at the store level.

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Managing to inverse metrics

In some cases, retail labor performance management programs are inadvertently designed to fail. This frequently occurs, for example, when store managers are asked to manage to labor hours and to their targeted percentage of sales. If a store manager is given a target range of 8% to 9% for labor as a percentage of sales and a labor hours not to exceed target, the manager could fail to achieve the percentage of sales target while hitting the labor hours target.

On the other hand, if sales exceed the target but the store manager is limited to a maximum number of labor hours, the percentage of sales could easily drop below the 8% minimum target. If achieving both metrics proves to be an impossible task, individual store managers will take it upon themselves to decide which metric to follow, resulting in inconsistent goals that put overall business performance at risk.

Too little accountability

The famous 1954 Peter Drucker quote, “What gets measured gets managed,” still holds true today. However, measurement is useless if leaders ignore the metrics. A successful labor performance management program ensures that leaders at all levels are focusing on the same metrics. If a retail CEO walks into a company store with a tablet, the CEO should be looking at the same dashboard the store manager sees every morning at opening. Furthermore, those in the chain of command need to continually enforce labor performance tracking. Just by asking the store manager how the store is performing on key metrics, the CEO is signaling that performance measurement matters and corporate leaders are watching.

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Best practices for labor performance management

From major department stores to smaller specialty chains, traditional retailers face common challenges when it comes to managing the store labor investment. Identifying and understanding these issues is an important first step in designing an effective labor performance management program.

UKG™ analytics can support these best practices by enabling retailers to analyze labor hours, costs, and sales. These analyses provide corporate leaders with a holistic view of store operations, while facilitating constructive, data-driven labor performance reviews with store managers. Even more important, they deliver proactive insights that enable stores to take corrective action while there's still time to make a difference. For example, these insights can inform store managers when scheduled labor hours exceed budget or forecast so they can make adjustments to keep results in line with expectations. Similarly, the ability to identify performance trends at the top line can help corporate decision makers determine which stores need more — or less labor — to maximize the impact of the available budget.

1. Manage to the labor hour budget as a general rule

When asked which metric they rely on most to control labor in stores — hours, budget, or a percentage of sales — most retailers will answer, "All three, depending on our trading performance." While that may seem like a practical approach, it is important to recognize the pros and cons of managing to each metric and to reevaluate labor performance management strategies accordingly.

The labor as a percentage of sales metric is a flexible way to guide hiring, head count, and scheduling, especially when trading performance is strong, as it allows store managers to align labor with growing customer demand as sales increase. The challenge comes when traffic and sales slow down unexpectedly and store managers are unable to contract labor enough to hit their target. Store managers might then try managing to an hour's labor budget, but then they run into the aforementioned problem of inverse metrics (see page 5), which can be confusing and potentially counterproductive for hitting targets.

Other retailers focus heavily on the sales per labor hour (SPLH) metric. While this is a useful indicator, placing too much emphasis on this figure can cause store managers to lose sight of the bigger picture. Too often, if SPLH falls below expectations, store managers will take immediate steps to reduce labor — rather than looking for ways to increase sales — which typically proves counterproductive to meeting overall business goals.

The best practice is really what has been proven to work for your organization; however, using an hour's budget as a guiding metric has been shown to be a transparent and consistently effective way to manage labor at the local store level, while allowing the corporate office to do the balancing around labor dollars.

A well-designed labor performance management program supports the four key pillars of retail success, with an emphasis on process.

Quality people following effective processes will delight customers and drive sales and profits.

2. Understand how you are using the labor budget you already have

Store managers will seldom say they have too much labor. In fact, they typically want more labor — not less — to avoid understaffing that could hurt sales. This is understandable, since retailers lose customers quickly when store associates aren't readily available to help. But before hiring new associates or scheduling more labor hours, store managers should take a closer look at how they are using the labor budget they already have. This can be done by carefully analyzing schedule adherence and schedule effectiveness to identify opportunities for improvement.

Schedule adherence

Schedule adherence, sometimes referred to as schedule compliance, is a measure of how well a store is keeping to the established schedule. It provides valuable insight into:

- Hours scheduled and worked
- Hours worked but not scheduled
- Hours scheduled but not worked

When retail operations staff members generate forecast-driven schedules, the last thing they want is for those schedules to be ignored at the store level. Failure to keep an eye on schedule adherence often results in missed sales targets or labor overspend that easily could have been avoided. Diligent tracking of schedule compliance allows managers to identify problematic patterns and take action — from updating employee availability to coaching individual associates — to keep results on track (see Figure 1).

Figure 1. Schedule Adherence-Store

Schedule effectiveness

Given the impact of scheduling on both costs and customer experience, managers need to analyze store coverage by hour to determine when they are overstaffing or understaffing. Using analytics, retailers can compare the current schedule to forecasted labor hours by week (see Figure 2). Some analytics solutions even allow retailers to drill down by specific time of day, with data summarized as either percentage or number of hours over or under target. This insight enables store managers to spot trends and make staffing adjustments in order to avoid overspending the labor budget or missing sales targets due to inaccurate coverage.

Figure 2. Forecast vs. Schedule by Week

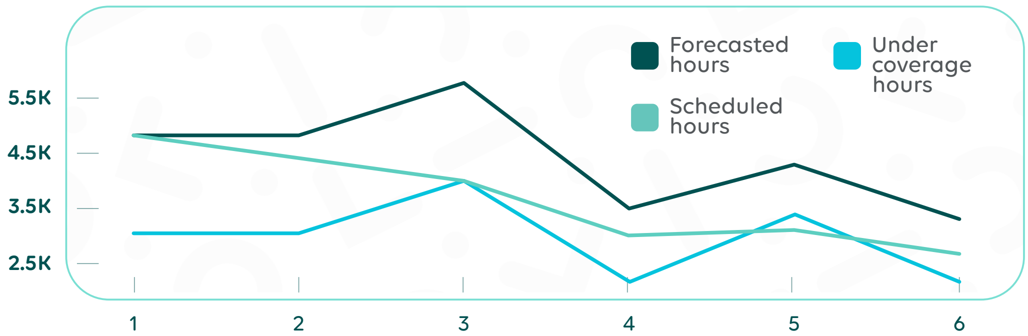
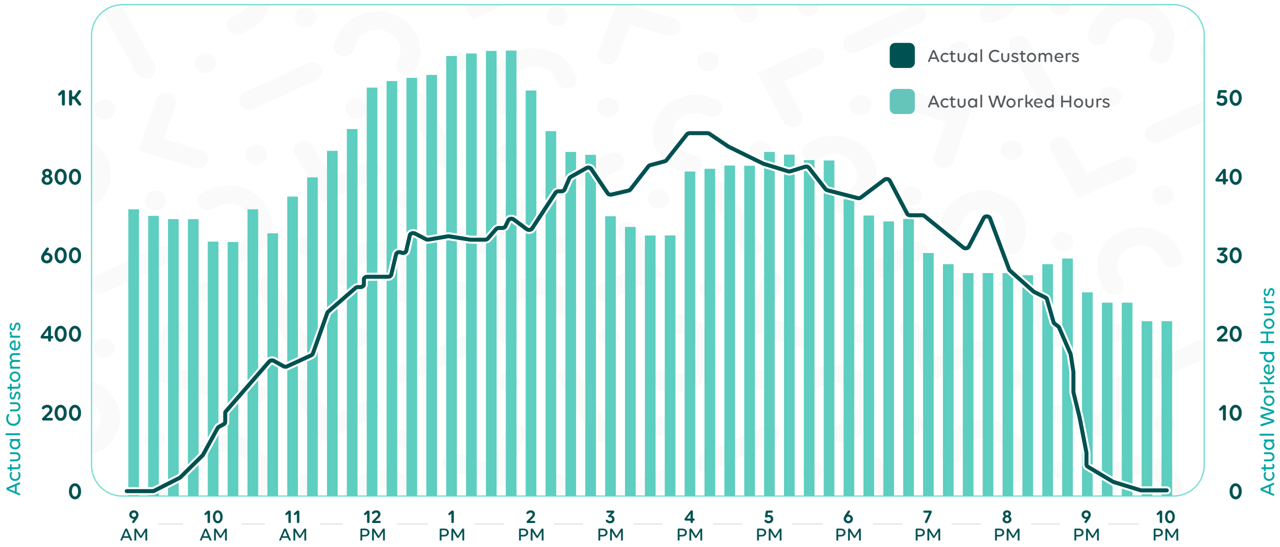


Figure 3. Traffic vs. Hours



Retailers can also leverage analytics to compare customer traffic flow to actual hours worked in 15-minute increments (see Figure 3). This analysis helps managers pinpoint opportunities to deploy labor more effectively to meet fluctuating demand during the day.

The ability to identify outliers quickly and easily ***can save valuable time and effort.***

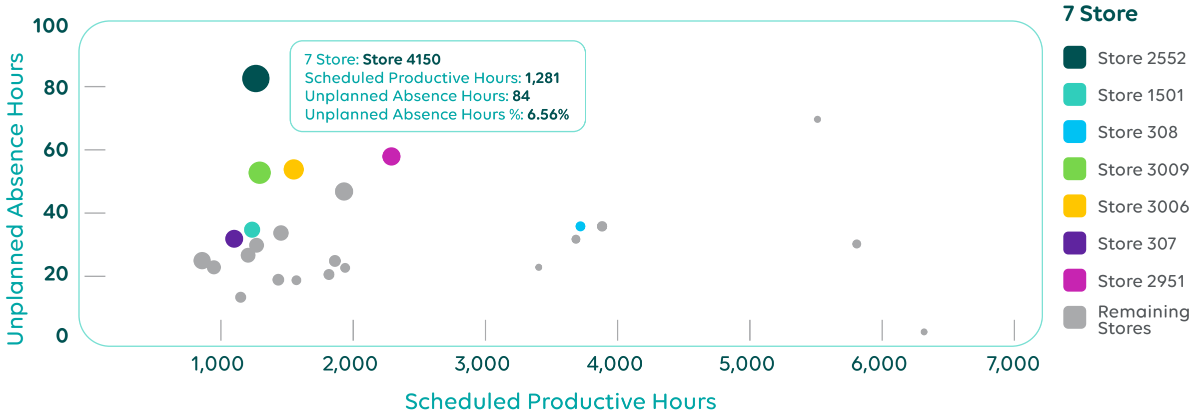
3. Gain better insight into unplanned absences

Visibility into unplanned absences can also go a long way toward more effective labor performance management. Managers can plan schedules around planned time off, but when associates call in sick or just don't show up for work, managers have to scramble to fill shifts, often having little choice but to pay overtime.

With the ability to track unplanned absenteeism and its impact on costs and service, retail managers can take steps to address the problem at the source. For example, if analysis uncovers repeat offenders, managers can coach those associates and, if necessary, put them on a performance improvement plan with the help of human resources. If unplanned absences are consistently high at a particular store, regional or district managers may need to work with the local manager to address the issue and identify patterns of absence or trends with particular employees. Most companies have good absence management policies in place, such as return-to-work interviews, but problems can arise when store managers are not using the tools available to them to help enforce those policies.

In today's retail environment, the store operations function has to deal with many competing priorities — from recruiting, training, and safety to sales performance, compliance, and shrinkage. As a result, the ability to quickly and easily identify outliers — stores that deviate widely from the norm — can save valuable time and effort. Many workforce analytics solutions provide data visualizations (see Figure 4 for an unplanned absence example) that empower operations managers to spot outliers at a glance — without having to mine countless spreadsheets — so they can take immediate corrective action.

Figure 4. Unplanned as a Percentage of Scheduled Productive Hours



What a good job looks like (WAGJLL)

Setting the WAGJLL standard for retail labor performance management starts with breaking out and grouping metrics in the three key areas of labor hours, scheduling, and performance. Retailers should keep reporting formats and data consistent at all levels — from the vice president of operations to the local store manager — to ensure the entire organization is making decisions based on a single version of the truth.

Labor hours

Managing labor hours is all about making things happen (a proactive approach) rather than wondering what happened (a reactive approach). However, in order to take control and make proactive decisions, retailers need visibility into:

- Which stores work within the budget and forecast — and which do not
- Which stores overspend their labor budget, and whether this drives sales and conversions
- Which stores underutilize their labor budget, and how this affects performance

Workforce analytics allow retailers to correlate labor and performance metrics for meaningful insights that empower them to better control outcomes.

Scheduling

Scheduling metrics help measure compliance across the organization and assess its impact at the regional, district, and store levels. In addition, scheduling metrics can be used to gain insight into deployment effectiveness and sales performance, helping retailers understand how much bang they are getting for their labor bucks.

Performance

Retailers should start with sales versus budget and sales versus forecast for foundational understanding of the relationship between labor and performance. They can gain further insights by adding in metrics such as:

- Average transaction value
- Items per transaction
- Conversion rate
- Customer-to-staff ratio

Retailers should design a labor performance management program that offers the flexibility to introduce new metrics — such as omnichannel performance indicators — or remove those that are no longer useful or relevant. The goal is to include metrics that enable proactive management and guide data-driven decisions that further critical goals and objectives.

*A labor performance management program should **offer the flexibility to introduce new metrics or remove those that are no longer useful or relevant.***

Conclusion

An effective retail labor management program can help retail organizations collect and interpret key data — starting with the corporate top line and drilling down through regions, districts, stores, and even individual departments — to determine how the business is doing and what it can do to improve results. UKG analytics tools can help speed and simplify this process by providing up-to-date metrics tracking and clear data visualizations that make it easy to view trends over time and spot positive and negative outliers at a glance. These tools empower retailers with proactive insights that enable them to optimize their labor spend and improve business performance.

Partnering for success

If your retail organization is looking to design and execute an effective labor performance management program, UKG Advisory Services can help. Our team of retail-focused advisers brings years of domain expertise and workforce management experience to your engagement to help you achieve your goals. We stand by you as you experience transforming goals and industry landscapes, helping assess your workforce management approach; uncover areas for improvement; and develop a best-fit plan to support your organization today, next month, and in the future.

For more industry insights, please visit our resource page. Bookmark it for easy access to the latest content from UKG Advisory Services experts.

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About the authors

David Spofford, analytics management consultant, has more than 30 years of leadership experience in retail and business operations, ranging from high-street stores to big-box retail formats in both assisted-service and self-service environments, for Financial Times Stock Exchange 100 companies. Since joining UKG in 2016, he has worked with customers in a variety of verticals across the U.S. and Europe to support analytics implementations. In his advisory role, David's primary objective is to help customers drive value and gain leverage from analytics in a business environment.

Steve Strohecker, workforce management strategist, has been working in retail for 15 years. Steve was the director of labor and workforce management for two Fortune 500 retailers and has consulted on labor and workforce management both in the U.S. and abroad. He holds a B.S. in industrial engineering and an MBA in corporate finance and investment management from Penn State University.

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