

# REDUCE STORE LABOUR COSTS and IMPROVE CUSTOMER SERVICE

Kurt Salmon Associates have helped leading retailers to reduce labour costs by 7.5 percent and improve customer service and customer loyalty by 20 percent.

## Return on equity

Protecting or increasing return on equity in retail is dependent upon increasing revenue, improving asset utilisation or reducing costs. In times when like for like growth - or even new space or channel growth - is difficult, the focus is on cost reduction.



With store labour typically accounting for 7 percent of sales in grocery through to 13 percent of sales in department stores, it is a usual target for cutbacks. However - to paraphrase Sir Stuart Rose (at the Retail Week conference in March) - whilst cutting out the fat, ensure you don't sever an artery. Ill thought out reductions in store hours frequently come straight out of service, resulting in a downward spiral - poorer service, lower sales and lost market share.

## Quick and sustainable results

**"This was an excellent example of a very successful consulting project, using a joint team from KSA and Sainsbury's. The project really drove accurate measurement which has paved the way Sainsbury's manages its in store operating processes, which in turn enables much greater control of an annual store labour budget."**

**Retail Operations Director, Sainsbury's**

Kurt Salmon Associates have recently helped retailers to identify substantial, quick and sustainable store labour cost reductions at the same time as identifying improvements that can be made to customer service. Typical client results are :

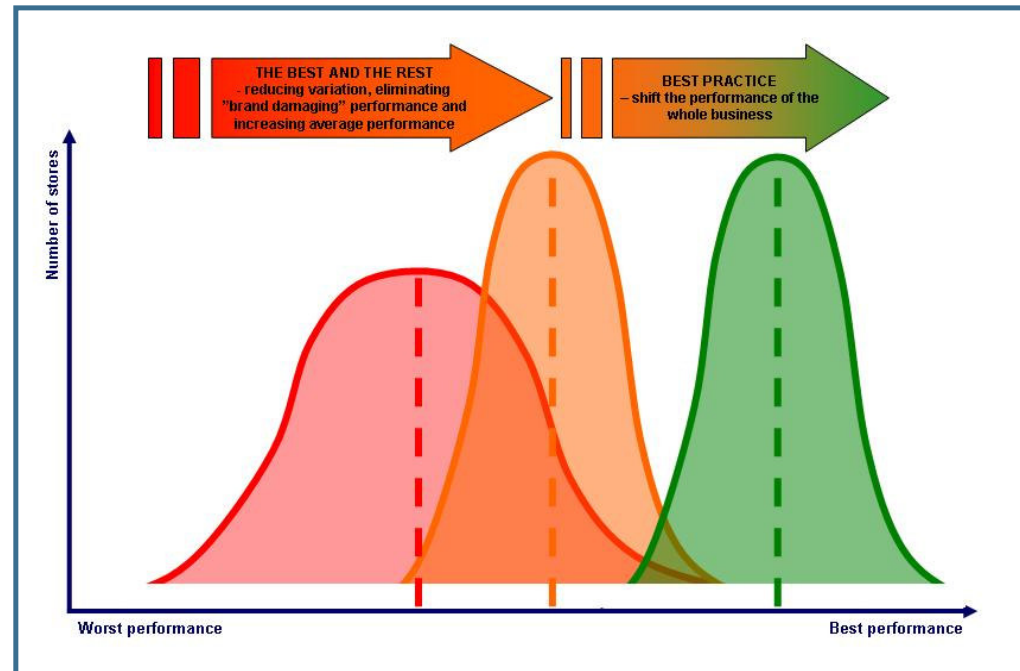
- a saving of 7.5 percent in store labour costs - at a top UK grocery chain - and Kurt Salmon estimates that generally a reduction in labour cost equivalent to one percent of sales can result in an increase in net operating margin of 10 percent plus;
- an increase of 20 percent in customer loyalty - based on a survey question asking about probability of shopping again at the client;
- an increase in add on sales from 35 percent to 78 percent of purchases;
- an increase in availability of a fresh food category from 20 percent to 90 percent for a large European convenience store retailer - in 10 weeks;
- improved productivity of sales support teams by 30 to 50 percent and improved on floor management presence from 43 to 60 percent of store opening hours - at a large US department store;
- a dramatic reduction in merchandise speed to floor (from 8-48 hours to 2-8 hours), and therefore increase to on-shelf availability.

## The best and the rest

The performance of a group of stores against any metric (e.g. staff costs as a percentage of sales, wastage or add-on sales) will always be represented by a bell curve.

Quick results are achieved by reducing the variability of performance between "the best and the rest" of stores - without major process development and change management. Kurt Salmon's in depth retail understanding, combined with some innovative tools, measures performance and gives guidance on the actions to be taken.

Kurt Salmon guarantee results from this low investment, quick return approach.



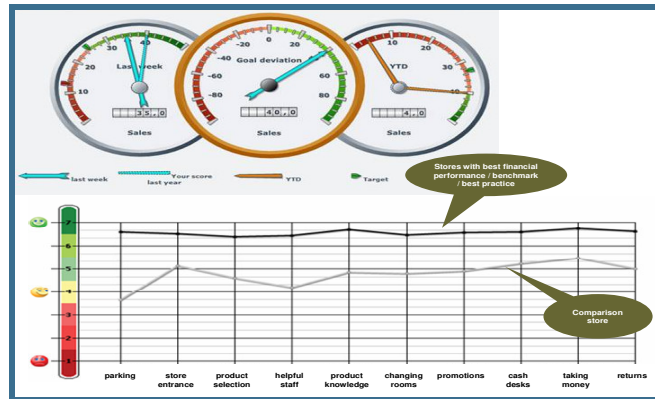
A significant proportion of the variability in store performance is within the control of each individual store. Typically, 75 percent of the store portfolio performs at an "acceptable" level but below their potential and below the best. Line managers will apportion disproportionate resource and time to the bottom and top performing stores, and there are too many stores in the average performing group to apportion adequate management time for improvement.

The bell curve of performance is shifted by :

- helping a store team recognise where it is on the curve;
- forcing the teams to accept they can improve and take responsibility for the improvement;
- illustrating what the best looks like;
- giving store specific road maps to achieve the improvement.

This unique approach uses some simple but very effective ways to :

- measure and communicate performance variation;



- linking together improvement activities and customer service;
- show specific actions to take to increase performance;
- follow up improvements made;

- reward good or penalise poor performance.

The technology is easily adaptable to large and small store chains and those with centralised and decentralised management philosophies and has been used successfully across many metrics including staff cost as percent of sales; average basket size; customer loyalty and on-shelf availability.

## Best practice

Having removed the variability between stores or departments in achieving current best practice, further improvements can be driven from identifying and implementing improvements in best practices for all stores. Key enablers for this approach often include labour standards and labour scheduling.

Some retailers do not have standard processes, have never identified or formally quantified best practice and do not have measures of how long tasks should take to be performed. For others that do have measures, store operations have changed over time and the detail in the labour standard has not adapted accordingly and is subsequently out of date.

When measured, typically 40 percent of staff hours are focused on back office tasks, with as much as 55 percent of staff hours spent on other non customer-facing activities.

By examining optimum processes and quantifying labour standards, tasks can be eliminated altogether and inefficiencies across a retail chain or within individual stores can be identified and eliminated.

The team regularly finds 10 percent of effort that can be quickly removed – generally directly leading to 7.5 percent reduction in wage costs – or redirected to under funded customer facing activities.

Kurt Salmon work with retailers to :

- develop clear, documented and validated definition of all store processes, proven through real-world pilots

across the estate, providing an objective and agreed baseline for measuring, modelling and planning activities;

- recognise different requirements for different store formats and store characteristics (e.g. delivery curfews or customer demographics);
- achieve engagement of the business at all levels – including involvement of senior management teams in understanding and validating the approach;
- identify those accountable for delivering the benefits and maintaining and refreshing the standards;
- construct implementation and change plans that drive the maximum and quickest return on investment.

## Different cultures

Most retailers would say they operate a centralised or decentralised way of managing store operations. In reality the approaches taken are always unique.

Managing the performance of the "best and the rest" and identifying better practices are both techniques that can and should be adapted to reflect the unique characteristics of every retailer. But equally each approach drives value in every retailer – so a unique culture or management style is no barrier to achieving the benefits.

Kurt Salmon adapt their approach to different businesses but always engage and develop individuals to enable them to continue to improve their performance for themselves, long after the consultants have left.

**"KSA are uniquely positioned as the Operational Strategy experts delivering great value to Carrefour as we consolidate our channels to market and our Supply Chain."**

**CEO Carrefour, France**