

# Demand-Driven Workforce Management



## Gaining a Competitive Advantage from Your Most Strategic Asset

Retailers have reaped significant rewards by automating the way they manage their supply chains and point of sale. Similar opportunities exist in automating and optimizing the way they manage another key asset — the workforce. In the following pages we examine the forces driving retailers to optimize their workforce, and how a demand-driven workforce can help retailers improve store performance. The secret is in balancing the multiple layers of demand — corporate, production, customer, and employee — that impact their stores. A demand-driven workforce is the key to gaining a competitive advantage by reducing labor costs, improving customer service, and increasing employee satisfaction.

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# The Battle for Customer Loyalty

To improve customer service while still protecting their margins, retailers are learning to deploy both products and their workforce where they are most needed.

Today's retail environment is shaped by a number of strong and closely related trends. One is price competition. Sometimes decried as the "Wal-Mart Effect," the practice of near-constant discounting has become so pervasive that retailers find it increasingly difficult to differentiate on price. It is also increasingly difficult to gain an edge through unique product offerings, since today's customer has such easy access to a wide selection of goods across an increasing number of channels.

With price and product more or less taken off the table, the remaining opportunity for differentiation lies in customer service. Increasingly, retailers are striving to create a superior store experience for consumers in order to increase sales and customer loyalty. They must do so, however, without increasing their overall labor costs. The discounting trend, abetted by a sluggish economy, has depressed overall profitability; the rising cost of employee health care and increasing reliance on part-time labor (which has its own costs) doesn't help, either.

## Demand-driven retailing

In order to achieve better service while controlling costs, retailers have begun seeking ways to more closely align their resource allocations with market demand. Some resource allocations, such as real estate and equipment, are fixed and commodity-oriented. Two major retail assets, however — inventory and labor — are variable, and in the case of labor, highly strategic. In recent years retailers have focused technology investments in areas that impact these assets in order to become more demand-driven:

**Supply chain management:** Retailers are implementing standardized procedures, automation, and real-time data communications throughout the supply chain, from manufacturers, suppliers and distribution centers all the way to store-level intake. The resulting enhanced responsiveness to fluctuations in demand promises an ample, attractive product selection while controlling — and, in many cases, reducing — overall inventory cost.

**Point of sale (POS) systems:** These systems provide real-time inventory control, automatically adjust pricing for discounts and sales, speed up transactions, accumulate customer information, and generate management reports. The data is then leveraged by supply-chain management systems and other parts of the operation, enabling retailers to better align their stores with customer requirements.

**Demand-Driven Workforce Management:** Labor is a retailer's single-largest controllable expense, and the workforce is the retailer's face to the customer. It is through the employees that customer service, revenue, and brand differentiation are delivered. Better aligning the deployment of this asset with actual business needs enables a retailer to improve customer service during times of peak demand, thus enhancing the customer experience, and control overall labor expenditure by precisely forecasting and scheduling to meet demand.



The rate of adoption of Demand-Driven Workforce Management in the retail industry has lagged well behind those of supply-chain management and POS systems. The fact that its advantages have not yet been widely exploited creates a significant opportunity for retailers to gain a competitive edge — one that early adopters are already experiencing.

These retailers are already leveraging the workforce to derive increased value from their other demand-driven technology investments. Supply chain systems that move products more effectively from factory to distribution center to stores only deliver value to customers if the proper workforce is in place to unload the trucks, enter the products into inventory, update pricing, and move products from the stock room to the shelves.

Additionally, the workforce is a source of return on investment for a POS system beyond its normal role of feeding supply chain, customer relationship management, and merchandising applications. The mass of data collected by POS systems can be leveraged to more accurately and effectively deploy labor, reducing labor costs while increasing sales, productivity, and customer satisfaction.

# The Cost of Workforce Misalignment

While supply-chain management and POS systems are smarter than ever, inefficient workforce management is still too often the rule.

The workforce management processes employed by most retailers today are usually only semi-automated, making it difficult to obtain timely, coherent actionable data. Typically, schedules are created by store managers on paper or with simple programs. At the end of the week, employee time is calculated at the POS terminal or on paper timesheets for re-entry into a corporate payroll system.

This process is labor-intensive and inefficient. Store managers must balance dozens of variables and work rules, wade through reams of paper forms, and manually compare and calculate employee time. A great deal of time and effort are required to create an imperfect schedule and approve timecards each week.

This process also results in consistently inefficient staffing. Because schedules are difficult to create in a manual system, and because accurate, detailed forecasts are rarely available, schedules tend to mimic the schedule of the week before. Such schedules, because they don't reflect weekly, daily, and hourly fluctuations in demand, result in inflated costs and reduced service levels.

## Resulting problems

Managing the workforce without demand-driven technology in place creates problems that adversely affect customer service and overall store performance:

**Over/under scheduling:** Without an accurate forecast of the demand volume that dictates labor requirements and a scheduling solution to assign the right employees to meet that demand, store-level staffing is prone to periods of unexpected over- and under-staffing — too many associates on the floor at slack times and too few at times of peak demand. Under-staffing, or deploying associates in the wrong areas of the store, has a negative impact on customer service and sales. Over-staffing, on the other hand, represents labor costs in excess of those justified by demand. Costs that do not accompany an increase in sales have a direct impact on profit margins.

**Payroll error and inflation:** Payroll error has the same impact. Semi-automated systems include numerous points of manual data entry, opening payroll to human error. For some organizations, this factor has amounted to between 0.5 percent and 5 percent of total payroll<sup>1</sup> — a loss potentially exacerbated by payroll inflation, which paper systems are prone to. Store employees may inflate their hours on paper

timecards — sometimes by simply rounding up or down. Even semi-automated systems are susceptible if employees are not closely monitored for punching in early or late.

**Overwhelmed store managers:** Just as costly, though harder to quantify, is the burden placed on store managers. Though store managers represent a retailer's most experienced and knowledgeable face to the customer, manual scheduling and time management keeps them off the sales floor and in the back office. It also exposes the company to possible legal action: In the struggle to create and maintain a schedule, managers may lose track of potential labor law violations, thus opening the store to the possibility of liability or union grievances.

**Frustrated employees:** There is also a burden on employees. When store managers find that they can't effectively balance all of the scheduling variables in their heads, often the needs of the employees are sacrificed. When employees aren't scheduled around their availability, preferred jobs, preferred hours, and time-off requests, employee satisfaction suffers. Under-scheduling employees and failing to factor in skills during job assignments further reduce employee satisfaction. The result is lower productivity, higher turnover, and disgruntled employees portraying the face of your business to your customers.

In short, a retailer with a manual or semi-automated system is flying blind. Without a measurable, definitive approach to scheduling, workforce deployment tends to be motivated by an arbitrary percentage-of-sales number rather than by true demand. A lack of fingertip control over workforce costs and allocation, coupled with a lack of efficient real-time measures against actual business levels, means store managers can neither monitor changes in demand effectively nor react to these changes in a timely manner.

This puts store managers in a position of having to shave labor hours at the end of the month to stay under budget — even if customer demand is high. It also encourages managers to pad schedules even when demand is low, so as not to lose budget dollars in future months. Across the organization, this results in inconsistent delivery of service, higher operating costs, and degradation of the brand image.

## Automate, Optimize, and Standardize Workforce Processes

**Demand-Driven Workforce Management eliminates inefficiencies and reduces variability in service and labor costs.**

Workforce misalignment is associated with a host of problems in retail stores, from under- and over-staffing to payroll inaccuracies to liability exposure. This is not anyone's fault: These problems are not the result of carelessness or ineptitude on the part of management or employees. They are inherent when slow, rigid, data-poor systems are used to carry out a complex and dynamic business function.

These problems can be solved — and all but eliminated — by changing the way the workforce is managed. Demand-Driven Workforce Management is a methodology that enables store managers to align the workforce more closely with store-level demand. Beyond customer demand, this includes meeting the needs of all parts of the organization: minimizing costs, staying under budget, completing corporate tasks, reflecting employee work/life balance, and complying with labor laws, to name a few.

Demand-Driven Workforce Management also eliminates the duplication of effort (and potential for error) caused by manual or separate scheduling and timekeeping systems, and it provides accurate, real-time data on employee performance and utilization as the schedule period progresses.

Demand-Driven Workforce Management pushes retailers to improve store operations in three steps:

**Automate manual processes:** Retailers must begin by automating the processes that expose their stores to inefficiencies and error. Building a demand-driven workforce requires automating methods of collecting, managing, and tracking employee time and attendance. Once an organization can accurately measure and control its labor assets, it can optimize the allocation of those assets.

**Optimize the workforce based on demand:** The next step is to optimize employee schedules and deployment around all forms of demand that impact store execution: corporate (budget, compliance, promotions), customer (POS volume, traffic), production (department readiness, supply chain deliveries) and employee (availability, preferences, skills).

**Demand-Driven Workforce Management is a methodology that enables store managers to align the workforce more closely with store-level demand.**

**Standardize across all locations:** To fully leverage the benefits of automation and optimization, a retailer must apply this technology, along with best practices, across all stores (web-based technology is essential for facilitating this standardization). Standardizing procedures, labor standards, and productivity reporting will reduce variability in labor performance from store to store and increase store performance across the organization.

To effectively accomplish these goals and to achieve the benefits of Demand-Driven Workforce Management, retailers must invest in technology that automates, optimizes, and standardizes the workforce management process end to end. For retail store managers and labor planners, this process includes budgeting, forecasting, scheduling, time and attendance, and performance intelligence.



# Demand-Driven Workforce Technology

Demand-driven workforce technology allows you to balance the needs of your business, customers, and employees.

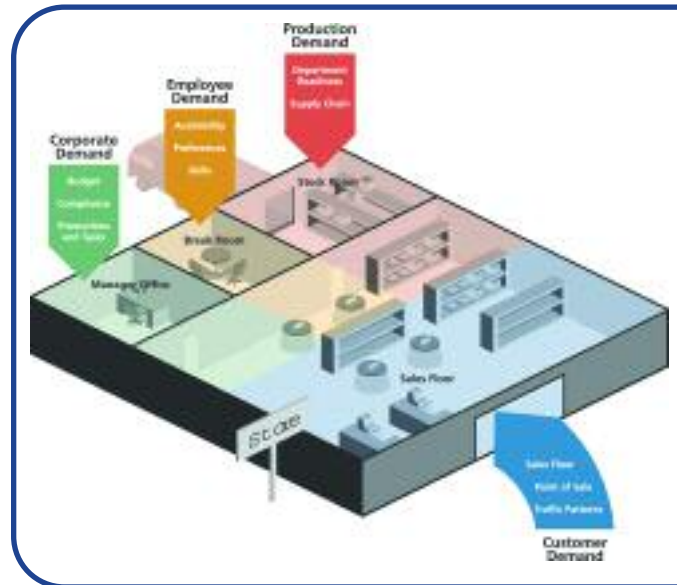
Creating and maintaining a demand-driven workforce requires technology that automates, optimizes, and standardizes key workforce processes in order to meet the needs of your business, customers, and employees. Only through technology that seamlessly integrates and centralizes these processes will retailers realize the promise of aligning the workforce with demand. The key processes that a Demand-Driven Workforce Management solution must include are:

**Budgeting:** At both the corporate and store level, the system must have the ability to synchronize long-term labor planning and budget allocation with store-level forecasts and labor requirements. When corporate-mandated budgets don't reflect store-level reality, the resulting disconnect causes customer service and profitability to suffer.

**Forecasting:** At the store level, demand-driven workforce allocation must begin with an accurate forecast of customer demand. Leveraging historical POS data, traffic counters, and other store data, the most effective forecasting tools apply advanced forecasting algorithms and centrally managed labor standards to create an accurate labor forecast at 15-minute intervals throughout the day. An effective forecast also factors in events (e.g., holidays and promotions) and store profile information, such as hours of operations, store size, equipment, and layout. The result is a labor forecast that truly reflects both store-level needs and desired customer-service levels.

**Optimized scheduling:** Budget and forecast data are combined to create a schedule that meets the needs of the business, customers, and employees. However, in creating the optimal schedule, stores must balance all of the different sources of demand that impact the workforce. In a retail environment, these sources can be categorized as follows:

- **Corporate demand:** Corporate pressure on the stores is driven by two main objectives: to achieve (or exceed) budgeted sales and labor performance goals, and to ensure a consistent store experience by executing on all programs and policies. An optimal schedule must minimize costs and stay within budget, comply with all applicable work rules and labor laws, and take into account the labor required to execute corporate-driven tasks and promotions. Whether hanging signage for a "Back to School" sale or sending a minor home before 9 p.m., corporate demand cannot be ignored.



- **Customer demand:** Delivering a positive customer experience means having the right staff in place from the moment customers walk in the door to the moment they check out. But this means going beyond simply allocating labor as a percentage of total store sales dollars. Schedules must be based on forecasts of customer volume that truly drive labor requirements (e.g., the number of customers, units, cash/credit transactions, etc.). After all, stocking (and helping a customer find) a \$50 shirt does not require half as much labor when the same shirt is marked down 50 percent. Likewise, staffing must take into account variations in customer traffic throughout the store and throughout the day. If customers are forced to wait for assistance in the fitting room, having ample staff tending the cash registers will not provide the customer experience that guarantees repeat business.

- **Production demand:** Effective store execution requires more than just employee-customer interaction. It means ensuring that shelves are stocked, stores are clean, and orders are ready. Production demand encompasses all activities that must be performed to make the store ready for business. In some departments, production requirements can be quite intensive, such as the bakery and deli/casess areas of a grocery store or the stockroom of a department store. Regardless of your business, all retailers need to allocate a certain amount of labor to meet deliveries from distribution centers, enter stock into inventory, and make the store ready for business.

# Demand-Driven Workforce Technology

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- **Employee demand:** In addition to general skills, work rules, and availability, employees also have work/life preferences that significantly affect their level of satisfaction with their schedules (and their employer) in any given week. They also make requests for time off, have to deal with emergencies, and present a host of other scheduling requirements. The best solution accounts for each employee's specific skill set and work/life preferences — optimizing deployment of the workforce to meet customer and employee needs.

**Time and attendance:** Store managers must accurately track employee time in order to manage labor costs. Automating the time and attendance collection process and arming store managers with exception-based reporting helps eliminate errors, reduce unproductive time, and improve visibility into real-time labor costs. Furthermore, tight integration between the schedule and time and attendance data help managers proactively manage time worked outside of scheduled hours. Only with continued management against real-time labor data can retailers maintain an optimal schedule as each week progresses.

**Performance intelligence:** The system should provide a clear analysis of store performance in terms of productivity and labor utilization at the corporate, regional, and store-management level. In the case of the store manager, perhaps the single greatest benefit is the ability to control scheduled and actual labor costs as a percentage of sales based on real-time POS data. Real-time data availability enables corporate and regional management to monitor performance against budget and deal with exceptional situations as they occur, rather than after the fact.

**Employee self-service:** A demand-driven workforce solution must accommodate employee demand as well as provide self-service capabilities to make time-off requests and view online schedules, timecards, and accrual balances. Empowering employees with information gives them a sense of ownership and raises morale — not a trivial issue in an industry that has an annual employee turnover rate of approximately 70 percent and is increasingly dependent on customer service for survival.

## Selecting the Right Vendor

The implementation of a Demand-Driven Workforce Management system requires a certain investment in technology. As retailers evaluate the vendors in the market and their offerings, certain essential considerations should be kept in mind:

**Proven technology:** Look for solutions that are proven to work and deliver value in live retail environments. Many vendors can pitch the vision; be sure to perform the due diligence to ensure the system can handle the scale and complexity of your organization.

**Retail experience:** Has the vendor installed similar systems in a retail environment? Were the implementations successful and fully deployed in all stores?

**Long-term viability:** A strategic system acquisition is a long-term investment, not a one-time purchase. You need to feel comfortable that your vendor will be there for you in the long term to meet emerging and ongoing business needs. Look for a company with a large and diverse customer base and a proven history of successful implementations and financial stability.

**Level of service:** What kind of help is the vendor going to give you in installing, integrating, and maintaining the system?

Are its service personnel experienced in retail store operations and enterprise workforce management deployments? If something does go wrong, what assurance do you have that they will quickly get you up and running again? When you select a vendor, you are in essence selecting a strategic partner. Look for a partner who will be responsive to your needs.

**Strategic understanding:** The vendor you select must have a strategic understanding of your business: its current state and your visions for store operations and the customer experience. The vendor you choose should also display a strategic understanding of the overall retail industry and its current business and IT trends.

In selecting a workforce management vendor, you are entering into a long-term partnership. As technology evolves and the scale and complexity of your business change, your vendor must be able to deliver the consistent development and support that your organization needs. Just as in selecting supply chain management or POS systems, do not take your workforce management vendor selection lightly. This partner, if chosen well, can contribute a great deal to your company's operational effectiveness, and help you maintain a sustainable competitive advantage for years to come.

## The Bottom Line: Improved Store Performance

The benefits of Demand-Driven Workforce Management include better customer service, higher margins, and an edge over the competition.

A demand-driven workforce opens the opportunity for retailers to take market share from competitors through better customer service and to enjoy higher operating margins. Specific benefits include:

**Reduced labor costs:** Demand-Driven Workforce Management not only enables store managers to deal with peak customer traffic, it also allows them to anticipate — and schedule appropriately for — periods of lighter traffic and demand. Additionally, this approach helps eliminate payroll error and overpayment. Data currently available suggest that Demand-Driven Workforce Management can drive an average reduction in payroll of 1.2 percent, with system payback within six months.<sup>2</sup>

**Improved customer experience:** The underlying power behind Demand-Driven Workforce Management is that customer demand and traffic can be anticipated and prepared for. When there is heavy traffic, retailers can have adequate staff to handle it. This is significant to consumers: A 2005 NRF report revealed that 47 percent of surveyed customers rated store staffing “extremely important” as a component of customer service.<sup>3</sup> And customer service has a direct impact on sales through higher conversion rates, larger average basket sizes, and an increase in customer loyalty.

**Higher employee satisfaction:** Demand-Driven Workforce Management gives rise to improved morale among employees, based on greater control over, and participation in, their schedules and leave. This is both an internal and external benefit. Internally, a “happy ship” tends to run more efficiently and more cost-effectively. Externally, satisfied employees reflect their positive attitude outward to customers, further improving the customer experience.

**Improved store manager productivity:** A reduced administrative burden on store managers has internal and external dimensions as well. Because it frees store managers to focus on operating the store, they will operate it more efficiently. Externally, they are able to play a greater role in interacting with their customers and associates, another facet of improved customer experience.



**Increased visibility:** The availability of real-time sales and labor data enables managers from the department level all the way to the corporate level to manage their investment in labor more effectively and strategically — in most cases for the first time. It also provides greater decision support and control over compliance with local, state, federal, union, and corporate work rules.

**Higher ROI on supply chain and POS investments:** Integrating workforce deployment with supply chain and POS systems delivers the execution component needed to obtain the full ROI on these investments.

## About STORES

STORES is the magazine of the National Retail Federation (NRF), the world's largest retail trade association. STORES reports on the broad spectrum of strategic issues facing senior retail executives, including retail technology, supply chain and logistics, credit and payment systems, loss prevention, human resources, online retailing, communications, marketing, merchandising, and other vital store operations. Learn more about STORES at [www.stores.org](http://www.stores.org).



## About Kronos Incorporated

Kronos® is the most trusted name in workforce management. Kronos helps organizations staff, develop, deploy, track, and reward their workforce, resulting in reduced costs, increased productivity, better decision making, improved employee satisfaction, and alignment with organizational objectives. More than 20 million people use a Kronos solution every day. Learn more about Kronos' high-impact enterprise solutions at [www.kronos.com](http://www.kronos.com).

For more information on reducing your organization's labor costs, improving customer satisfaction, and increasing employee satisfaction through Demand-Driven Workforce Management, visit us at [www.kronos.com/FYO/Retail.htm](http://www.kronos.com/FYO/Retail.htm).



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- 1 "ROI Evaluation Report: Kronos Workforce Timekeeper," Nucleus Research (sponsored by Kronos), 2002.
- 2 "ROI Evaluation Report: Kronos Workforce Timekeeper," Nucleus Research (sponsored by Kronos), 2002.
- 3 NRF Foundation/American Express 2004 customer service survey.