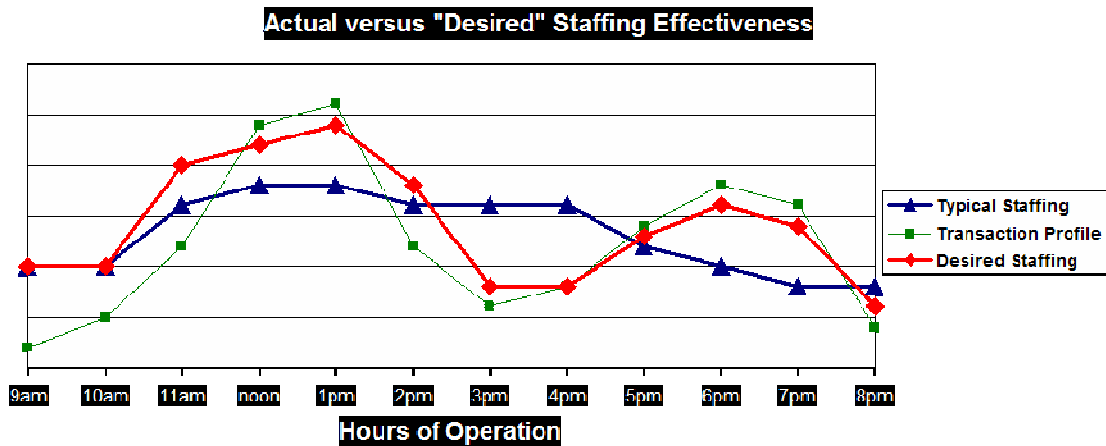




Providing the Retail Community with Strategic, Analytical, and Operational Consulting Assistance

The Retail Store Labor Management Improvement Process

With continuous pressure on retailers to improve their financial performance, it is natural that they will aggressively look for ways to control operating costs. Store labor expense, typically second only to the *actual cost of inventory*, is a natural target for additional scrutiny. CEOs continually challenge their organization to squeeze out excess labor and find ways to operate more efficiently. Less-than-optimal store labor effectiveness can result from this process, like that depicted in the chart below, if the wrong approach is utilized. This unbalanced scenario is more typical than the industry wants to admit and both labor cost and customer service are often compromised.



The store organization, typically in conjunction with the IT group, is tasked with improving this situation by developing an effective process to optimize labor, while either maintaining or, ideally, improving customer service.

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This process can either become a capital expense or an investment with a huge ROI

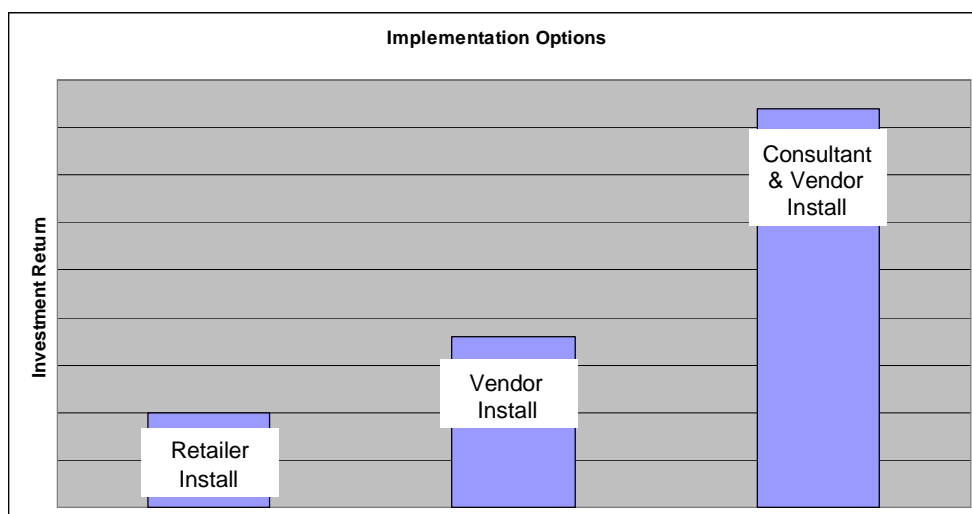
“We were disappointed, we spent millions on the scheduling software and it didn’t work” is a stated frustration of many retailers. Yet, the fact remains that questioning the validity of a modern-day high-end labor scheduling package is akin to asking if Microsoft Excel calculations can be trusted. The software works, but how it is configured and employed directly impacts the value of the scheduling solution it produces.

The truth is that over 75% of all large scheduling system installs fall short of the retailer’s expectations. In many cases these installs have created serious issues, serious enough in some instances, that they require an abandonment of the automated scheduling process altogether - and a return to a previous, less efficient, scheduling process. The key to a successful implementation is utilizing experienced assistance.

Scheduling software vendors are very helpful in assisting a retailer to understand what can be achieved. They also have trained staff to assist in the installation process. This assistance can be invaluable and will help a retailer to achieve improvement in their labor cost and service offering. While very valuable, utilizing the skills of an experienced store operations consulting team to supplement the vendor assistance will produce optimal results for the retail organization.

Properly preparing for and installing a labor scheduling solution with fresh, accurate labor standards based upon revised best practice operating procedures will generate the optimal labor solution. This recommended approach will typically generate labor savings and revenue gains that offset the cost of the software and related consulting expense. Installing the software alone typically generates an admirable, albeit smaller return, offsetting the software expense over a much longer period.

The following graphic reflects these options and their corresponding return.



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The two most common (and serious) errors made in adopting a new scheduling process

While assisting retailers to improve their labor management processes over the last 25 years, two significant error trends have been noted. These are as follows:

A) Not establishing contemporary store operating “best practices” and calculating labor standards that reflect them. Labor standards set without reviewing and improving current (less effective) operating procedures will only serve to solidify current inefficiencies in the organization. The end result of this situation is a scheduling solution that recommends unnecessary hours be scheduled to perform less than optimal tasks.

Labor schedules set to reflect new, efficient operating procedures generate scheduling solutions that require fewer hours. Schedules are leaner, less costly, permit optimized service coverage, and generate a higher return.

B) Underestimating the configuration complexity of the software and training needs of the field users. Current high-end scheduling packages are very robust. They need to be in order to accommodate the myriad of labor scheduling scenarios that exist in retail. Configuring one of these products, by the un-trained, is not recommended. It is also not recommended that a retail team try to employ one of the complex packages without experienced assistance. Surprisingly, some retail organizations attempt installs without the slightest inkling of how the software switches (options) will vary their scheduling solution, creating serious confusion.

Training the field organization (both field management and the store associates) on how to utilize the software takes time and energy, and needs to be done completely. Retailers are notorious for issuing written instructions or a video to the field for major initiatives with little additional assistance. This communication technique almost always fails. A well rounded training process that is sufficient to teach the field personnel how to properly utilize the new scheduling tool is a must.

Adoption of new operating procedures and a new, or revised, scheduling process require a well organized training curriculum that properly communicates the necessary information in a shaped learning environment.

We recommend consulting assistance to develop the most effective method of training, content and actual delivery process until the organization has irrefutable evidence that the training curriculum and delivery methodology is producing desired behaviors that are observable.

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Our recommendation to any retailer embarking upon a new (or revamping an existing) automated labor scheduling effort is to get assistance from experienced consultants who know how to guide them through the entire process. History has proven that their assistance will literally mean the difference between a major software expense or a smoothly functioning labor management solution that provides a huge ROI garnered through lower labor expense and improved sales from better service coverage.

Key steps in the development of a comprehensive labor management improvement process include:

In order to maximize the likelihood of a successful labor management solution, the following component steps are recommended:

- Development of an effective overall labor strategy before any further steps are taken to insure the proper steps are identified and responsibilities are assigned.
- Scheduling software selection from a reputable, proven vendor who offers a product that matches the scale of your need. Surprisingly, too robust a product can be more troublesome than too little.
- Store operations best practice identification and testing need to happen before labor standards are set and/or the chosen software configured. If more effective store procedures are identified and new standards set to reflect them, productivity gains can be rolled out to the chain as the new scheduling algorithm is adopted. Done properly a significant ROI can be realized. If existing procedures and standards are utilized the software will calculate schedules that reflect current levels of productivity and limited or no additional savings may result.
- Labor standards development needs to be done by an experienced team that can reflect realistic and (model store) proven best practices that reflect varying formats, configurations, sizes, geography, and even field management capabilities and labor type.
- Scheduling software configuration and testing should be accomplished by the vendor working side-by-side with an experienced consulting team who has re-established operating procedures and the related standards. These two teams will, together, establish an optimal software configuration for your stores (by type, etc).

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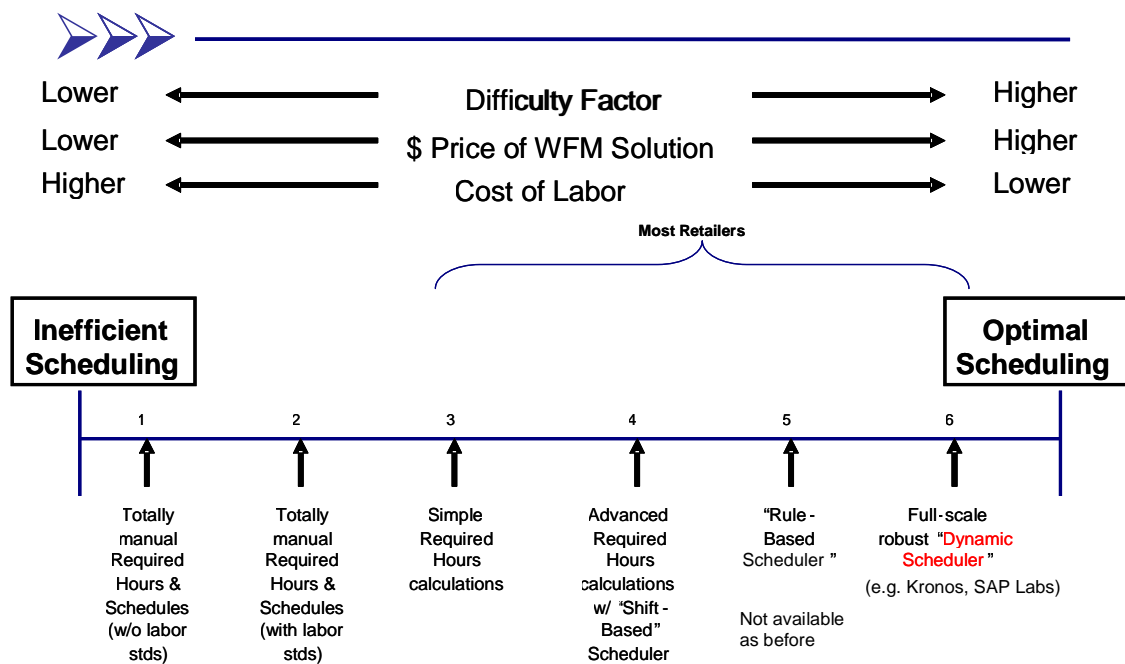
Current version scheduling software is quite robust and very few retailers have accomplished a reasonable configuration without assistance.

- An IT department interface must be established to insure a smooth flow of data and the means to insure reliability in the scheduling tool. Centralized configuration control (typically at corporate) often creates a valuable block to minimize troublesome tampering with the calculation variables at store level.
- Store process documentation needs to be completed and include proper communication of new procedures expected from the store teams once the new scheduling algorithm is put in place. If new labor standards are imposed on the stores that reflect new procedures, without those new procedures actually being utilized, the stores will most likely be assigned fewer hours than needed to operate until more effective procedures are adopted.
- Model store testing and refinement needs to occur to test the new procedures, standards and software in a live, stable, representative environment. This step permits the identification of any issues prior to actually rolling the new procedures and staffing algorithm out to the entire chain. It's much easier to refine and adjust a few stores than the whole chain. This testing step in the stores also permits the training program to boast that these new procedures are fully tested and applicable to that specific chain's unique needs.
- Training program development and testing is a critical component in educating field management and the store associates so that the scheduling tool can be properly utilized. Many retailers assign too few resources to this important function with disappointing results. The training component requires a complete new training curriculum be developed to train the stores on new operating procedures and use of the software.
- A total chain (cascade) rollout should only be attempted once all of the previous steps listed are complete. It is estimated that almost 75% of all previous retail scheduling rollouts are considered poor, if not a complete failure. The rollout is often given too little consideration and the stores are sometimes expected to adopt new procedures and complex software on their own. The best insurance for a healthy and successful rollout is to have outside assistance from a team who has experience with this specific challenge.

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The search for a labor management software package that will fit the retailer's needs and is within the budget involves a broad spectrum of potential solutions for software assistance. This spectrum of options involves very basic solutions through the most complex, thin-client, dynamic calculation engine driven software models.

The range of labor management software options available is depicted below:



Note that a common error committed during the comparison is thinking the software will be the “entire answer to the labor management challenge”, when it really is only a component of the complete solution. Retailers need to utilize not only an effective software solution, but also one that the store associates are able to understand and use effectively. Many retailers purchase packages that include unnecessary and complicated features and the users in the stores may not fully understand how to create an accurate and efficient schedule.

It has been noted that the majority of the retail labor scheduling installs to-date generate too many manual schedule edits, which erode the scheduling solution. A surprising percentage of retailers that attempt a labor management improvement process without assistance end up either scaling it back or quietly abandoning it - because they overbought and/or didn't adequately address all of the key steps and variables necessary.

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The key variables in the labor management process that contribute most to significant scheduling error rates include: inefficient store procedures, inaccurate labor standards used in the calculations, poor scheduling software configuration/setup, ineffective field training (both associates and management) and poor overall operational compliance.

The chart below depicts findings we often encounter:

<u>Variable</u>	<u>Typical Perceived % Effectiveness</u>	<u>Typical Actual % Effectiveness</u>
Procedures	95%	80%
Labor Standards	90%	75%
Software Setup	95%	75%
Field Training	100%	70%
Compliance	95%	85%
Net Effectiveness	77%	27%

Note: While the 27% seems artificially low, compare that percentage to the approximate amount of time that the desired staffing pattern and the actual staffing patterns coincide in the first graphic on page one. It is the “cumulative effect” of these factors (multipliers) that significantly impact staffing accuracy.

In order to implement a more accurate solution that will identify optimal staffing patterns and generate schedules that reduce both understaffing/overstaffing situations, we recommend a properly guided labor management program designed to address all of the key components of this effort.

A checklist for these key components includes:

- √ An effective and realistic **labor management strategy**
- √ Development, testing and refinement of **best practice operational procedures**
- √ Creation of **work standards to reflect the best practices adopted**
- √ Proper **software configuration** and setup
- √ An effective **field management/associate training program**
- √ **Rollout guidance (limited to refine as needed, then full-chain)**
- √ **An audit and support process** to insure compliance with new procedures

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Significant experience in this arena has taught us that the (proven) steps recommended in this document are more complex than most retail organizations may realize. Each involves unique and often unforeseen challenges that few retailers are prepared to adequately address.

Given these complexities, we recommend that senior management give strong consideration to using experienced consulting assistance to guide their organization through the process of optimizing their labor. Proper assistance will not only speed the completion of the process, but most certainly increase the likelihood of a more effective labor management solution that will yield lower labor expense and a better basis upon which to develop an improved service offering.

The team from Atlanta Retail Consulting is well positioned and properly experienced to help your organization effectively deal with your labor management challenge. We are skilled at assisting retailers to develop and implement a much more refined labor management improvement program that will generate a much higher ROI.

We invite you to contact us for a no obligation discussion concerning your labor management challenge and how we might be able to assist you.