

Turning Time Into Money

How retailers can bolster productivity by enhancing their store operating model

2018 was a difficult year for Britain’s high streets. Consumer confidence and customer footfall has been steadily declining, sales contracted by c.£4bn compared to the previous year and costs, particularly labour costs are growing. Retailers are having to do more and more to attract customers on tighter and tighter budgets. As a result, store productivity has never been more important. Retailers need to understand how current end-to-end operations are performing, identify opportunities to save money and in turn learn where re-investment will benefit customers and colleagues the most.

Introduction

Over the past 10 years stores have fundamentally changed to meet changing customer demand. New technology, customer journeys and store formats have changed the way stores operate.

Yet with each development, the overall impact on how the store is run and staffed is not always considered. As a result many retailers recognise that the way their stores operate is out-of-date and they are not always able to identify the root cause. This is true regardless of whether a retailer has sophisticated planning tools or take a more basic approach. Retailers are experiencing out-of-sync store operations and staff that are unavailable to meet customer demand.

At the same time, retailers are having to make their stores more attractive to customers to fend off stiff competition from online and disruptor brands. This comes at a cost and retailers with out-of-date operating models find it much harder to identify productivity opportunities and often resort to cutting store hours to achieve savings, risking the long term performance of the business.

There is real opportunity to be had for retailers who step back and assess their full store operating model end-to-end. By looking across store operations, labour deployment and team structures, retailers will be able to identify improvements and drive in-store productivity and performance. They will then be in a position to make informed re-investment decisions that benefit both their customers and their colleagues.

Getting started

To get started on the journey, retailers need to develop a holistic view of their existing operations by format. This includes looking across the 3 components of the store operation to gain a central view of what should happen verses what actually happens and why. This will allow retailers to identify where opportunities lie to streamline operations, improve the customer journey and set their stores up for future profitable growth.

3 Components of a store operating model:



Store Operations

Understand process variability, remove waste across all store operations and focus on processes that improve customer experience



Labour Deployment

Get the right people in the right place at the right time



Team Structures

Implement the right store and field structures that support colleagues in the right way

Why is productivity important?



Store closure were up 186% between 2017 and 2018

Footfall has fallen for 13 months in a row between Dec 17 and Dec 18



The 4.9% rise in the National Living Wage taking place this year could increase cost to serve by up to 2%

Sales volumes have contracted by 0.9%, c. £4bn YoY



Lack of service as a result of staff cuts or ineffective deployment mechanisms result in a 6% loss of all possible sales worth c.£20bn

Small improvements in processes such as replenishment can improve store profits by 4%



Typical initiatives:

Store Operations:

- ✓ Standardise colleague approach to up and cross-sell
- ✓ Identify the root cause of waste task
- ✓ Seek automation of instore processes

Labour Deployment:

- ✓ Redistribute hours based on relevant drivers
- ✓ Build a mechanism to fund additional hours to stores with greater opportunity
- ✓ Reduce idle time

Team Structures:

- ✓ Carve out time for managers to manage their teams
- ✓ Ensure clarity of roles and deploy based on this
- ✓ Pay for managers to manage and colleagues to operate and sell

By taking this approach, we have typically seen retailers reduce labour costs by 4-7% and grow revenue by 6% through better conversion and colleagues being in the right place at the right time with product available for purchase. Colleague satisfaction also improved, with staff being less stressed better supported and as a result, the stores better run.

From this base, and with a better understanding of both colleagues and customers, retailers can move forward to make the fundamental changes they need to attract more business.

What to Invest in?

We are seeing a polarisation across the market of how retailers engage with customers and use their physical space both to attract more customers and to drive store productivity. Retailers are either trying to differentiate their store experiences from an online experiences through outstanding customer service or they are trying to simulate their digital offering in physical locations:

Invest In Customer Service

- Make more colleagues available to customers
- Invest in tools that support cross and up sell
- Intercept the customer at key decision points
- Focus on driving additional sales

Focus On Digital

- Provide the right level of information for customers to make their own purchase decisions
- Invest in technology that speeds up the customer journey
- Focus on reducing cost to serve

Who's is doing what?

LUSH
FRESH HANDMADE COSMETICS

Lush is combining a customer service led approach with a truly personalised experience, offering 'build your own bath bombs', customisable products and individual diagnostics to understand what customers actually want. The net result is delighted customers and higher sales.

John Lewis

John Lewis opened its new store in London's Westfield, White City and is offering a host of colleague-led services including an 'experience desk', which acts as a concierge hub for what can be enjoyed in store including a home design advice service, cookery masterclasses and travel advice

ZARA

Zara's flagship store in Stratford not only boasts self-checkout facilities, it also has a dedicated online area for the purchase and collection of online orders featuring two automated online order collection points able to handle 2,400 orders simultaneously.

DINERAMA

Innovation in foodservice is also occurring. Street Feast's Dinerama allows customers to scan a QR code on their table and then order food via apple pay. The QR code is unique to the diner's location so customer no longer have to queue or complete long app based order forms.

Typical retailer: High end apparel and general merchandise

Typical retailer: Mid-low end general merchandise and eCommerce-led

Which path to take?

Retailers with a digital savvy customer base and whose path to purchase is fairly straight forward will benefit most from opting for a 'focus on digital' approach. Commodity and utility categories such as every-day grocery, mid-low end general merchandising and even train ticket vendors are opting more and more for this approach.

Those retailers with a more complex customer journey, for example multiple fulfilment channels, multiple services or a product for which a customer would benefit from advice or personal recommendation will benefit from providing better customer service.

However investment choice should not be binary. Many retailers may find that one approach is right for one channel, format or customer journey and the other is right for another.

Conclusion

Incremental changes over the years have left many retailers with out-of-date store operating models and inconsistent processes across their store estate.

Although 2019 is set to be another difficult year for Britain's high streets, at PatelMiller we believe there is real financial benefit to be had by those who step back and look at the full store operating model end-to-end.

These retailers will start by understanding and measuring their existing operations and identifying the levers that when pulled, will have the biggest impact on their customers, operations and colleagues.

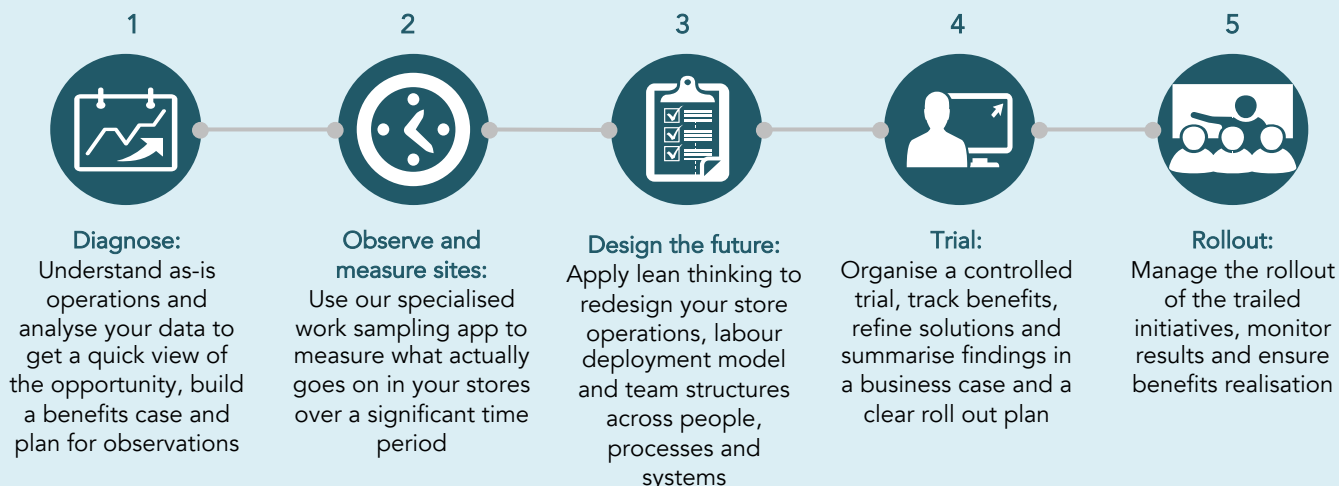
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Once savings are achieved retailers can use their more thorough understanding of their customers and colleagues to make informed re-investment decisions.

Ultimately, success will come to retailers who are laser focused on how and where to drive out cost and how and where to re-invest these savings to continuously entice and delight customers on every shopping trip.

Our Unique Approach

We look across all 3 components of your store operating model and follow our tried and tested 5 step approach, combining detailed site observations and lean methodology to drive significant financial benefit, whilst upskilling your retail team to continue to deliver opportunity in the future.



About PatelMiller

PatelMiller is a specialist retail consultancy. We combine the tools, methods and analytics of a business consultancy, with the pragmatism of a retailer, to ensure that potential benefits are quickly realised. Our team gained their skills from working for leading consulting firms and the world's best retailers – and we are now blending these skills together in our own unique way.

Our services include:

Strategy and Analytics - Creating a challenging vision for your business whilst using your data to ensure you are making the right decisions

Lean Operations- Improving how your business runs across organisation, processes and technology – including applying lean six sigma to drive improvements

Programmes and Change - Structuring change programmes in an insightful and practical way and managing them to give you confidence in delivery

Our people have worked with businesses including Holland & Barrett, Argos, Dunelm, feelunique.com, John Lewis, M&S, Monsoon Accessorize, Morrisons, Nisa, White Stuff, BT and Thomas Cook.

Find out more:

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Rachel Goldberg
Senior Manager

Rachel has over 12 years of retail and manufacturing experience having worked across consulting and industry in the supply chain, logistics and store operations space.



Sarah Barlow
Consultant

Sarah has experience in the delivery of large transformation programmes across consumer business and technology companies, specialising in data analytics and operating models.