Labor Management Primer for RETAIL*partners*

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OVERVIEW

In theory... Independent Grocers should have an advantage over their big chain counterparts from keeping costs in line. It's easy to see that a chain, with absentee ownership and management, won't be nearly as concerned about keeping its eye on the cost factors as an Independent whose owner is in the store every day. Typically, there is less waste and sharper day-to-day decision making in the typical Independent grocery operation. But there are exceptions.

Management of labor costs is one such area. Chains, with their high reliance on unionized clerks, took this issue to heart years ago, and most are on their second or third generation of labor management software. A recent survey, however, found that Independents were far less likely to have installed and used labor management tools, far less likely to understand the benefits. But they're going to have to get going in this area, or the chains will move in with a lower cost base and lower labor per transaction -- union clerks or no union clerks.

The lack of technology applied to scheduling in a typical Independent grocery store is all the more surprising given the technology they have often bought into for other purposes. FM shelf verification, pharmacy, video and DSD have all been applied in the mix to increase efficiency, but the single largest cost item, Labor, has typically been left alone to ancient and very expensive methods, (with equally ancient and very expensive results).

Some statistics that are going around these days:

- More than 50% of a grocer's expenses go into labor,
- Typically, 10% to a whopping 55% of all scheduled labor is there "just in case",
- Most grocers continue to believe that it is impossible to lower labor costs without damaging customer service. (Not only is this false, but in fact just the opposite can be true.)
- Grocers continue to believe that the primary benefit of a computerized labor scheduling system will be the time savings for producing a readable schedule. (Of course, the major benefit is a more efficient schedule with fewer labor hours in it.)

THE SCHEDULING TRAP: DESCENDANT SCHEDULES

Pity the poor person who has to put together next week's schedule. Whether a head cashier, manager, assistant manager or owner, the story is the same: this task is a major pain, and there's no time to do it. Still, every week it has to be done, so time is found somehow to ***put together the schedule the easiest way possible***. That means, almost always, you take last week's schedule and just copy it over for next week. Maybe there are a few vacations, a new bagger, whatever. But in general, the new schedule is the same as the old schedule. In fact these "descendant schedules" more often than not have a heritage going back years. What's in them besides intuition and a reliance upon luck?

- Favoritism,
- Personal schedule accommodations at cross purposes with true workload and profitability,
- Set shifts held over from months and years past,
- Extra hours at the wrong times of day,
- Large amounts of "fat" due to believed, but not demonstrated, shopper demand,
- In general, a strong connection with employee demand.

And what's worse, they ***don't*** have:

- Any reflection of shopper demand,
- Any reflection of changes in labor requirements.

THE SCHEDULING TRAP II: WORKLOAD BASED ON SALES

Everywhere you go, you find store managers basing checker schedules upon anticipated sales. A typical example is that a heavy day like Saturday accounts for 25% of weekly dollar sales; therefore, Saturday is given 25% of the weekly labor budget. Unfortunately, that 25% number will be way off from the true labor requirement.

It's not that you don't need more checker hours on Saturday than you do on Thursday -- you do. Its the ***amount*** of the extra where you have to be precise, or the grocer will waste money. And the amount of labor you need isn't proportional to the dollar difference -- it's proportional to (1) the number of items and (2) the number of transactions.

The fact is that Saturday business typically provides greater average cost per item, and much larger average transactions. This means that using sales dollars as a guide to labor requirements would dramatically overestimate the necessary labor hours compared to another day of the week. Since there are fewer items per sales dollar, and there are fewer tendering cycles per dollar, you don't need as nearly much labor per dollar on a Saturday as you do on a Thursday.

Of course, most grocers know that Saturday is different, but the prevailing wisdom is that the differences won't result in a big difference -- "it's close enough..." is what you hear. The fact is, it's ***not*** close enough.

Take a straightforward case where Saturday has 60% higher sales than Thursday, at typical scenario. Using "that's close enough" thinking, you would allocate 60% more labor to Saturday than Thursday. But if you calculate through an example where Saturday has a 50% increase in the average transaction amount and a 6% difference in the average item price, you will find that you ***need only about 20% more labor hours for Saturday!***

And what's worse, the reverse is also true. Some days of the week have much lower average prices and smaller transactions per shopper. These days need much ***more*** labor per dollar. So what happens? The overworked manager, applying ancient rules of thumb, will end up scheduling lots of fat on Saturdays but then the work force is much too thin during other days of the week: lines build up and customer service suffers.

Of course, it's not just days of the week. Different hours of the day vary greatly in the number of average transaction size and average item price. Imagine the lunch hour, for example, or the "5:00 Rush" and compare those periods to the times of the day where people are typically doing their full weekly shopping. All this calls for intelligent and precise scheduling, but it's beyond the capability of a typical manager to manually sort all the possibilities out.

THE SCHEDULING TRAP III: POS PROJECTIONS

When Labor Management became a hot topic about ten years ago, some POS manufacturers put simplistic applications into the POS software.[1] These add-ons use short sales histories to predict labor requirements.

The problem is that they tend to perpetuate poor scheduling: based upon past labor hours/dollars ratios, they predict the amount needed in the future. Plus, of course, no allowances are made for baggers, changes in weekly shopper patterns, or queues, and the sales and item histories available to these systems are very short.

In summary, most POS labor packages simply perpetuate the bad scheduling in place prior to installation, and worse, they reinforce management's belief that the schedule is already optimized and that further improvement is impossible.

WHAT LABOR MANAGEMENT TOOLS CAN DO

Intelligent use of labor management tools will:

- ***Increase customer service***. The grocer will have the necessary number of checkers and baggers available all day long, every day of the week so that shoppers feel that they don't waste time in lines. The store will begin to accrue an image of excellent management and service.
- ***Increase employee satisfaction***. During "fat" periods, there isn't enough to do and checkers are put on boring or unpleasant tasks just to keep busy. Time drags. Then, during underscheduled periods, they face unhappy shoppers and face-to-face performance stress. Labor management tools can automatically factor in employee preferences on work hours, easily accommodate special requests, and give priority to senior employees if desired. All union rules on breaks and meals can be automatically included. Such a well-managed store leads to *esprit de corps* and employee satisfaction.
- ***Decrease labor costs***. Remember, 10% to 55% of all store labor by typical "descendent scheduling" is wasted.
- ***Increase profitability --*** not only from decreased labor costs, but lower turnover, too. Don't discount the benefits of shopper satisfaction from better customer service.
- ***Let the independent grocer stay in business***. The big chains have learned these lessons, and for all their inefficiencies and slowness, they've got labor scheduling down to an art. The independent simply can't afford to have higher labor costs, since it limits their ability to price competitively. On the other side of the coin, the independent can't afford to risk poor service from chronic underscheduling either, since service is often the independent's strongest competitive position.

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[1] This does ***not*** include the Datachecker S18 Labor Management application, which is extremely sophisticated and precise.

THINGS THE STORE IS LIKELY TO LEARN

Once Labor Scheduling has been implemented, stores typically find some major sources of saving.

- ***They will stop scheduling for peaks.*** There are always rush periods in the store but these periods are usually brief -- the "spike" is soon over and the store is left with more checkers than needed. Ideally, you'd like to call in part-timers for 15 minutes, but with "min-shift" rules you can't really do that. Instead, you need two extra checkers for the noon rush, and you end up with two expensive workers with nothing to do from 10:00 to Noon, then again from 12:15 to 2:00 when you can finally let them go home: the toll is 7.5 hours of wasted labor cost. In an independent grocery store, the best approach is to use "smoothing" techniques, where you schedule labor for the basic period, then put managers, assistant managers, accountants, and even stock clerks to work in the lanes for the brief periods where you need more help. This looks obvious, but it's seldom done.
- ***"Just-in-case" scheduling will go out the window.*** Here is another major savings. A scheduling manager, facing a weekend or holiday without scheduling tools, will almost always schedule more help "just in case" which is seldom needed. Of course, front end managers are (understandably) afraid of the long lines and angry customers which result from underscheduling, but they almost always overcompensate and schedule way too much help. So, you have unhappy employees working extra shifts and being paid holiday time or overtime, which just magnifies the wasted labor dollars. Good computerized schedulers look at history, including the same period last year, adjust for holidays, adjust for general shifts in volume, and order up the right amount of labor for the time period.
- ***They don't have enough baggers.*** Low-cost, part-time baggers are an important tool in keeping down labor costs, but they are almost always underused. Baggers are typically underscheduled due to the "just-in-case" phenomenon described above. What happens is that front end managers, paranoid about being overrun with shoppers, schedule more checkers in the mistaken belief that the fastest way to get through peak periods is to open another lane. In fact, the best way to survive a "spike" is to equip every checker with a bagger. Throughput will jump dramatically in every lane where a bagger is in place. Thinking about the issue, it's obvious: a cashier who's bagging isn't ringing groceries, and throughput has come to a halt. Also, the amount bagging time approaches ringing time, and four checkers and four baggers are a lot cheaper than eight checkers.[2] There's also typically more flexibility in scheduling bagger hours.

Of course, baggers have a big impact on customer service, too. Stores using baggers get the average customer through the transaction up to 40 seconds faster ***on average***, day in and day out. That counts express orders and no-bag orders, too. For an individual customer with a big order, a bagger will save the shopper 2 or 3 minutes or even more. That's a lot when you're waiting in line.

- ***They don't have enough express lanes.*** Typically the number of customers who would qualify for express lanes is far greater than imagined -- the percentage is underestimated across the entire industry. Of course, it varies store by store, day by day, and hour by hour, but 30% - 60% of customer count is express lane material.

What happens is that the express lanes get backed up and shoppers just migrate over to regular lanes with shorter lines. Management looks at the short queues in the express lane and thinks that there are enough express lanes. As shoppers, we know that's simply not true.

[2] A typical checker earns $4 - $8 more than a bagger.

Adding express lanes to the optimum balance can greatly increase front end throughput. Furthermore, coordinating the baggers with planned express lane openings and closings will smooth out rush periods in a hurry.

- ***Checkers will provide more consistent performance.*** Although it is important to allow for the increased efficiency of experienced checkers, and the lower performance of checker trainees, stores must escape the trap of scheduling by performance. Somehow, front end managers always end up having lower performance checkers scheduled for slack periods, and high-performance clerks working the heavy periods. Why? For the same reason that "a task will always fill the amount of time allotted to it". The 9:00 AM checker has grown accustomed to the leisurely pace, and it is soon institutionalized into the checker schedule. On the other end of the scale, the 5:30 PM checker has the opposite performance mindset. Determining a good typical performance and scheduling labor on that basis will reduce costs overall.
- ***The fixed-length shift mindset will go away.*** One of the reasons for labor waste is the near-fanatical mindset that shifts have to be 4 or 6 hours for part-timers. But the fact is that the workload is variable, so the labor needs to be variable too. Standard round numbers, of course, are easier to deal with than a 5.25 hour shift if you are doing schedules in your head. In fact, even with the knowledge that just 5.25 hours are needed from one person, front end managers will almost always round that up to 6 hours. Of course, that means 45 minutes of labor they don't need but they will pay for anyway.
- ***The "No Break" mindset will go away.*** Similar the fixed-length shift problem, another typical trap is the idea of scheduling to avoid breaks. Of course, it's a benefit if you can avoid paying for unnecessary breaks, but often the cure is often worse than the disease. Say, for example, work rules require a second break for shifts over 5 hours. With the iron law, "don't schedule with two breaks" ringing in their heads, front end managers will schedule a checker for a 5-hour shift even though that checker is needed for 6.25 hours -- just to avoid a second break. Now, they're short 1.25 hours, and have to schedule someone else in for a minimum shift which is ***longer*** than 1.25 hours, wasting labor. What's worse, of course, is that the new shift includes a break! Scheduling the original checker for the proper hours and giving the second break would have been by far the best thing to do.
- ***"Call-ins" will be reduced.*** It's amazing to see a typical store schedule with 50, 100 or even 150 extra hours of labor scheduled just to compensate for employees who don't show up for work. To avoid an understaffed catastrophe, this "fat" is systematically added to the schedule. This problem has been getting worse as stores have been forced to lower their hiring standards and can't afford to fire unreliable staff. Of course, this is a vicious cycle, since once it is obvious that there aren't any penalties for taking a Saturday afternoon at the beach, it will happen more and more until the schedule is completely out of control. This phenomenon is worse than typical fat in the schedule, since it has a totally random impact upon customer service.

  Rigid labor schedules are part of the problem. If the store management is able to be flexible and grant requests for shifts and time off, employees are less likely to take the time unannounced. Labor management and scheduling software can help by factoring in some of these requests. On the other hand, it is clear that having done this, the front end manager has to stand firm and exact some kind of penalty for missed shifts. Companies which have instituted both the "carrot" and the "stick", however, report success. And it's a big deal on the profit side: right there, you can eliminate that 50 - 150 hours per week of labor you won't need to schedule.
- ***The average transaction amount per shopper will be reduced.*** The first response is typically, "Oh-oh, something went wrong." Of course, just the opposite is true. Again and again, stores have found that if you have the right number of express lanes staffed with the right number of checkers, grocery stores will pull shoppers away from higher-priced convenience outlets. The grocery store has better prices, better selection and better

atmosphere, and if you can get in and get out, shoppers will always choose it. The volume of this convenience transfer business is so great that the average transaction size will decrease visibly. Of course, the grocer will enjoy a ***lot*** more transactions.

CONCLUSION

ICL does not offer a stand-alone Labor Management system. RPS/Supermarket's excellent data storage, access and interface methods make it an ideal system from which to base an integrated Labor Management package, however, and so we intend to remain customer-driven on this item. There are a number of companies who offer leading labor management application packages, among them the following, and you may want to contact some of these for information. I would also like to thank Dale Whetzel of JRS, whose expertise and ideas were particularly valuable in publishing this bulletin.

CompuSked 201 Columbia Turnpike Florham Park, NJ 07932 201-593-8320	TCI 5 Park Plaza, Suite 300 Irvine, CA 92714 Attn: Don Mueller (800) 621-7452
IMB - People Planner 18 Hurley Street Cambridge, MA 02141 Attn: Frank Perlmutter (617) 864-1115	Tom Brown & Company 2421 West Pratt Blvd Suite 1241 Chicago, IL 60645 Attn: Mark Schukas (312) 267-4555
Jacobs Retail Systems 2052 Knightsbridge Drive Cincinnati, OH 45244 Attn: J. Dale Whetzel (513) 231-4657	Uniquest 10475 Fortune Parkway Suite 210 Jacksonville, FL 32256 Attn: Henry Broadwell (800) 488-9773

So what's the point of this discussion? You, as the Reseller, fill the position of your independent grocers' technology consultant. The stronger, better managed, and more profitable your grocers are, the more likely they will be around to purchase the next generation of in-store technology from you. As the focus of Reseller profitability shifts from hardware maintenance to professional services, your expertise in implementing and maintaining key applications such as Labor Management will become critical to the successful **RETAIL*partner***.

To your success,

Tony

Tony van Seventer
Manager: Supermarket Systems