

OPTIMISING STORE OPERATIONS

A NEW APPROACH TO REMOVE SILOS AND REDUCE COMPLEXITY



OPTIMISING STORE OPERATIONS

Retailers in every sector have already squeezed stores with optimisation programmes, but we think many have missed the role played by central functions in helping stores become more efficient. By making the fundamental parts of stores' day-to-day operations simpler and faster, head office has a key role to play in creating front-line efficiencies, improving customer experience, and improving staff morale. In this article, we explain in more detail why this needs to be done and use case studies to share best practice.

The need for cost-efficient retail operations has never been higher, with low-cost internet and discounter competition affecting most retail sectors and markets in one way or another.

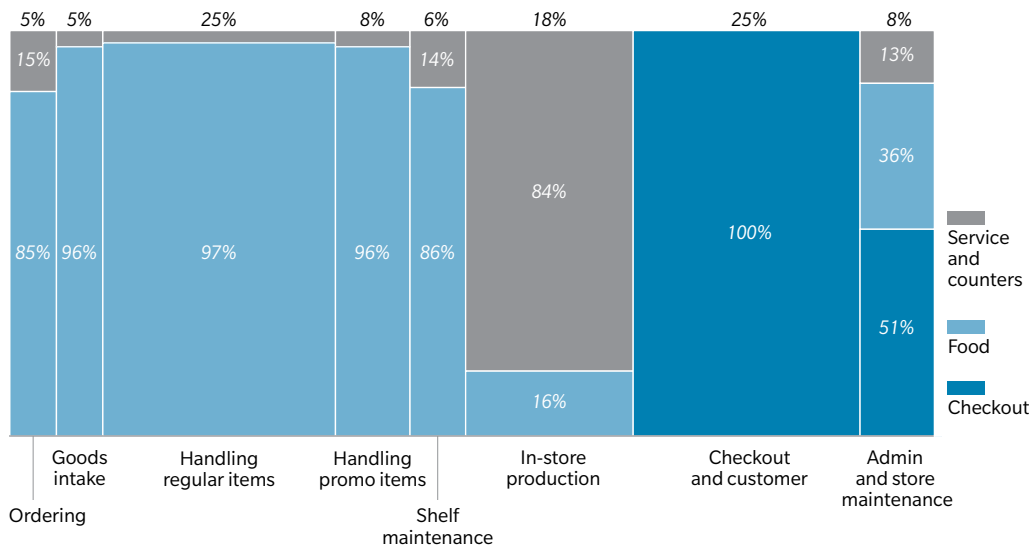
Most often, retailers try to deliver cost savings by looking at purchasing, category management, logistics, and operations separately. In the stores, head office squeezes labour budgets and hopes that store managers will find local solutions to keep on delivering. In fact, the result is often degraded customer service and disgruntled and demotivated employees, or else activity-based labour scheduling and budgeting is introduced that often cannot cope with the diversity of the store network and employee base.

We think there is a better way to achieve savings: by breaking down department silos and taking a store-centric approach to simplifying tasks and reducing costs. The heart of this approach involves taking the perspective of the customer and the staff on the front line, and asking what head office and other departments can do to simplify their lives and, consequently, take cost out of the operations. In our experience, there is potential for a typical €10 BN retailer to unlock €100 MM in additional efficiencies within a period of six to twelve months. The beauty of this approach is that customer outcomes and staff morale can often be improved at the same time.

HOW TO DESIGN COST-SAVING SOLUTIONS AROUND STORE NEEDS

To design and deliver store-centric cost savings, central departments must first do their homework and take the stores' perspective, looking at what causes hassles to customers and staff, and aiming to address them head on.

Exhibit 1: Staff activities by department











Source: Oliver Wyman analysis

The first step is often to get a clear understanding of how staff time is indeed spent in stores, as shown in Exhibit 1. Transparency can be hard to come by; therefore the starting point is an intense period spent on the shop floor fully engaging with the front-line challenges. This process should also develop key hypotheses on potential improvements. It might involve asking:

- What are the most annoying time wasters?
- How many hours are allocated in particular processes within a certain department?
- What further measures of optimisation could be achieved?

Exhibit 2 shows some examples of typical hassles and solutions that are often unearthed by this type of process.

Exhibit 2: Solving in-store hassles






HASSLE	EXPLANATION	SOLUTION
<p>Long distances walked by staff</p> 	<p>Distances walked by staff in stores are unnecessarily long, for example during replenishment or updating price labels on the shelf.</p>	<p>Shorten replenishment distances by positioning containers in the warehouse in the same order as the standard store layout. Allow flexibility for stores to create customised routes for various tasks, such as price label updates. See Case Study 1.</p>
<p>Waiting times at tills</p> 	<p>Checkout processes lack efficiency due to system mistakes, frequent calls for store manager overrides, or products with barcodes that are difficult to scan – also resulting in waiting times and unsatisfied customers.</p>	<p>Comprehensively check the scanning efficiency of products in terms of barcode performance and placement, check tills regarding efficiency: regulations, technical infrastructure, and qualification of cashiers. See Case Study 2.</p>
<p>Poor on-shelf availability</p> 	<p>Out-of-stocks are often caused because automatic or semi-automatic ordering systems are too complex and ordering tools for staff are not helpful; hence sales may not be backed by sufficient supplies.</p>	<p>Screen most common reasons for out-of-stocks and check forecasting systems and inventory tools for weaknesses – if possible adjust system parameters and simplify tools. See Case Study 3.</p>
<p>Complex promotions</p> 	<p>Weekly handling of promotions is often a major driver of store complexity. Promotional stock is often ordered several weeks in advance and forecasting systems (if available for promotions on a store level at all) are far from perfect.</p>	<p>Forecasting of promotions should be solved centrally using advanced algorithms to give stores accurate forecasts for promo items.</p>
<p>Reporting overkill</p> 	<p>Reports and KPIs lack usability, are time consuming to look at, and are rarely or not at all used to drive improvements. Often they are redundant.</p>	<p>Implement a simplified cross-silo point of view on your reporting structure. See Case Study 4.</p>
<p>Poor logistics</p> 	<p>Delivery is not within the promised time window or is missing items, and packing within containers is often poor.</p>	<p>Implement strict service level agreements that give stores more certainty in operational planning and higher delivery standards. This may increase costs in the supply chain but the savings in store will more than compensate.</p>
<p>Manual labour scheduling</p> 	<p>Store managers plan their staffing “on the back of an envelope”. Often, labour-planning tools are not user friendly or too theoretical.</p>	<p>Collect local best practices from stores and develop a pragmatic user-friendly labour-scheduling tool, linked to individual store needs and taking into account activity-based labour requirements.</p>
<p>Training programmes not fit for purpose</p> 	<p>Training for store staff contains lots of theory and guideline sessions and lacks practical coaching and training of best practice processes and tips and tricks.</p>	<p>Engage store staff in designing training programmes. Ideally training should take place on the shop floor and be based on real-life examples and best practices. Make sure that HR and central sales departments collaborate regularly with stores in order to have best practices and tips and tricks included and up-to-date.</p>

It is crucial to follow a detailed systematic process to identify, prioritise, develop, and implement opportunities, such as that shown in Exhibit 3.

Following this process, the results can usually be seen and measured within 6–12 months. Typical outcomes include:

- 10–20% fewer staff hours required due to higher labour efficiency and fewer time wasters in the stores
- An increase in on-shelf availability and sales by up to 5%
- Improved customer experience
- Lower total costs along the supply chain
- Reinvigorated staff engagement with the business.

Exhibit 3: A step-by-step guide to addressing store inefficiencies

-  Understand the status quo and collect and validate a long list of suggestions for improvements in stores
-  Prioritise the list in terms of an overall optimum, for example being careful when weighting issues with higher costs in particular departments, but lower costs across the whole business
-  Institutionalise collaboration across different teams and functions
-  Begin to implement the improvements and monitor: establish KPIs and clearly designate responsibility
-  Measure the progress of each improvement initiative

CONCLUDING REMARKS

We believe that retailers can unlock substantial cost savings by identifying and removing barriers to front-line efficiency created at a corporate level or by a lack of cross-silo working. Impressive results can be delivered with this approach within a period of six to twelve months. 10–20% store staff time can be saved or assigned to other activities, such as improving customer experience; on-shelf availability could increase by up to 5%, significantly reducing the volume of lost sales. In addition, when store staff and customers are listened to and where employees' hassles are solved, there will also be a tangible uplift in employee satisfaction. Over time, this will drive further business improvements.

CASE STUDY 1

REDUCING THE TIME AND EFFORT SPENT ON REPLENISHMENT

THE CHALLENGE

A retailer analysed the time and distance from the stockroom to shelves that needed frequent restocking. It found that staff were spending up to 25% of their time carrying out replenishment activities.

THE SOLUTION

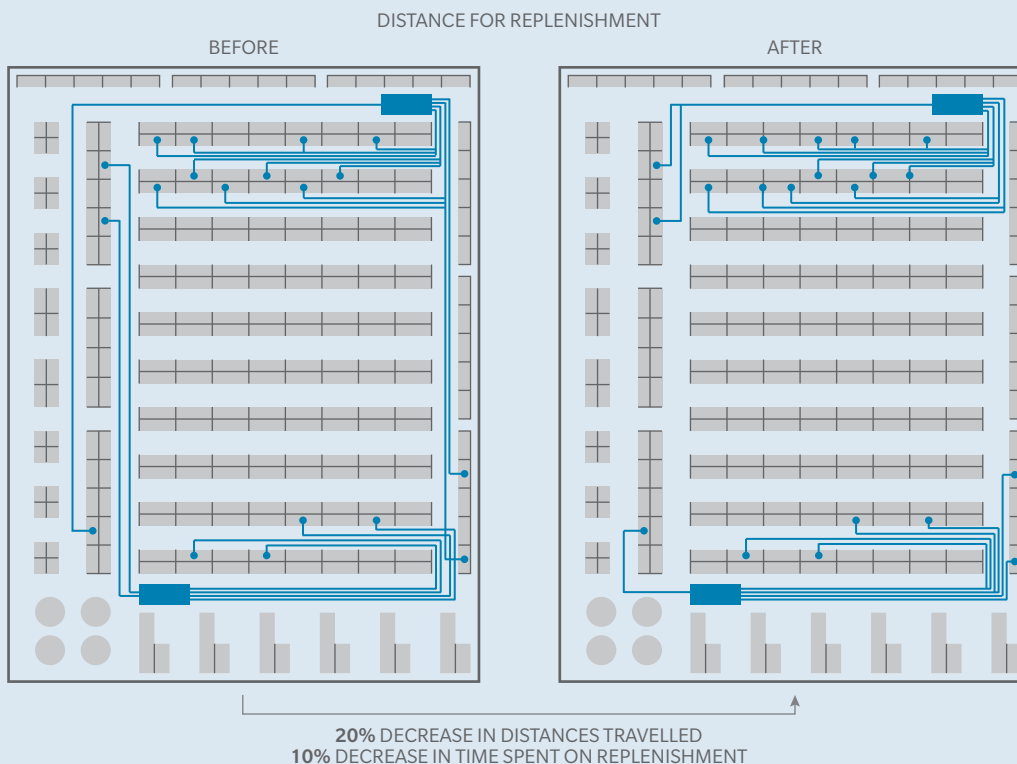
The logistics team and store managers collaborated to find the best way of optimising both the picking effort in the store room and the replenishment distances on the shop floor (Exhibit 4).

The business reorganised its warehouses by aligning the order of products to a typical store layout. To do so, it defined clusters of products located close to each other in stores and ensured they were placed in the same picking area in the warehouse.

THE OUTCOME

The results included a 20% drop in distances covered by staff during replenishment and almost a 10% decline in time spent on replenishment activities per week per store. Regular tracking of product clusters ensured new listings and seasonal changes in the range could be easily reflected.

Exhibit 4: Reducing distances travelled when replenishing stock



CASE STUDY 2

REDUCING WAITING TIMES AT TILLS

THE CHALLENGE

Most retailers have checkout systems with security measures to avoid misuse and theft. These measures can require frequent manager overrides and supervision, extending the time customers spend waiting at tills.

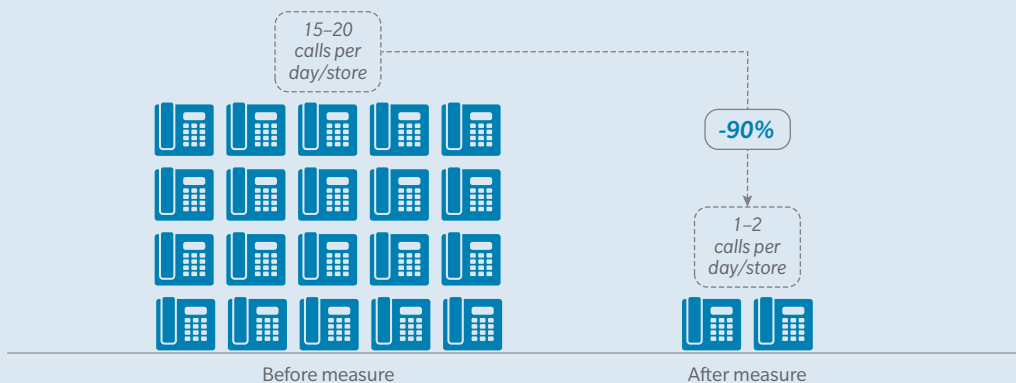
THE SOLUTION

We recommend listing all the checkout activities that require a store manager and recording how often they occurred and how long they take to deal with. Till regulations issued by head office were then updated so only those really needed were kept. For example, some override alerts were removed and the head office guidelines for minimal values for change held at each checkout were revised.

THE OUTCOME

As shown in Exhibit 5, by adjusting these regulations – while at the same time keeping the risk of misuse flat – we achieved 90% fewer checkout calls for store managers. At this retailer, this was equivalent to 5–10 hours of manager and cashier time per week and, importantly, shorter waiting times for customers of a similar amount.

Exhibit 5: Updating central regulations reduces checkout inefficiencies



Source: Oliver Wyman analysis

CASE STUDY 3

REDUCING THE NUMBER OF OUT-OF-STOCKS

THE CHALLENGE

High product availability is a key driver of satisfied customers and prevents a loss of sales (Exhibit 6). The reasons for out-of-stocks can be many and varied. At one particular retailer, while 60% of out-of-stocks were caused by the stores themselves (for example, by problems with replenishment, manual order management, or shelf maintenance), 40% of all out-of-stocks had their origin in head office processes (Exhibit 7).

THE SOLUTION

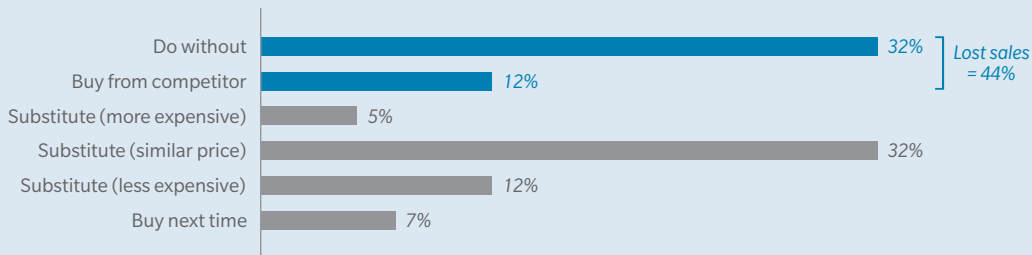
Head office made adjustments to the product forecasting systems, optimised delivery frequencies, and delivered better tools for inventory management. In-store training complemented the improvements and allowed all employees with an influence on availability to role-play the most critical scenarios and to learn new tips and tricks to avoid out-of-stocks.

THE OUTCOME

On-shelf availability increased by several percentage points, especially during critical periods such as before national holidays or events. The improvements made to the automatic forecasting systems resulted in fewer manual interventions being required. Overall, the process for restocking and replenishing became much leaner.

Exhibit 6: How customers respond to out-of-stocks

SHARE OF TOTAL



Source: Oliver Wyman analysis

Exhibit 7: Why do products go out of stock?



Source: Oliver Wyman analysis

CASE STUDY 4

USING DATA TO MAKE BETTER DECISIONS

THE CHALLENGE

For most retailers, using huge amounts of data to generate a host of reports is not a challenge but getting the right set of useful insights can be. In many instances, the KPIs and reports sit within silos. We've even seen cases where reports from two departments were thought to show the same KPI but it transpired that each had been generated using different calculations. Siloed reporting does not reflect the impact of decisions on other departments – such as decisions taken in sales that affect logistics – and so the business is unable to drive improvements across silos.

We saw one example, shown in Exhibit 8, where the modification of store planograms by category managers did not reflect in-store effort required to reorganise all the shelves.

THE SOLUTION

We tested a radical way to improve matters: shutting down all existing reports to start from scratch. The aim was report simplification and harmonisation.

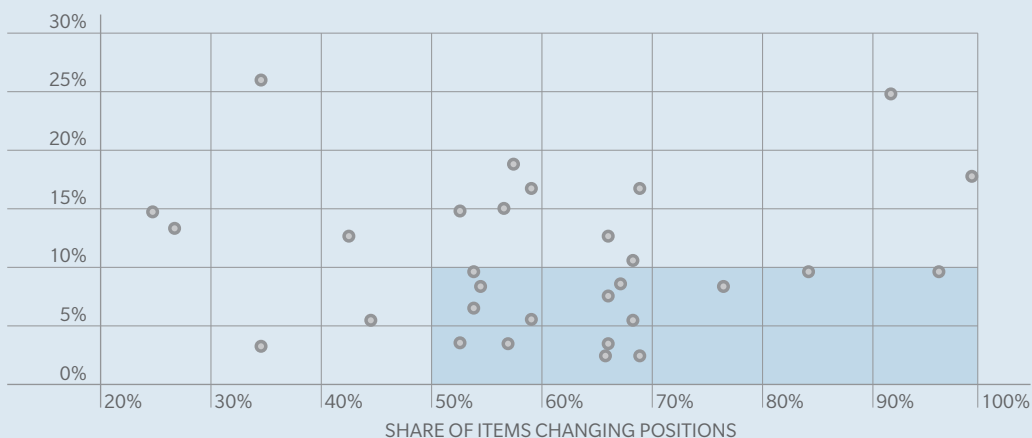
In the case of the planogram changes, we introduced a KPI that illustrated to the category managers in head office the true cost of category changes in-store: 50% of planogram changes moved more than 50% of items, but included fewer than 10% new products.

THE OUTCOME

The result was a giant leap towards greater transparency in decision-making processes. For category managers, the KPI helped them to change their practices: very few listings or delistings caused a large portion of products to have their shelf positions changed, and any modifications that were needed were bundled together to limit inefficient modifications in the stores.

Exhibit 8: Identifying inefficient category modifications made over a three-month period

SHARE OF NEW ITEMS



Note: Each point = 1 planogram change

FURTHER READING



THE BIG SQUEEZE

REDESIGNING STORE LABOUR

At some point, wringing more and more from every unit of labour starts to affect customers' experience in store, and many retailers have already pushed it as far as they can. So how should they now respond to the continuing, relentless pressure to bring down labour costs?



CUTTING COGS

GOING BEYOND SUPPLIER NEGOTIATIONS

It is no secret that cutting costs can be an effective way to protect profit margins when sales growth is hard to come by. Retailers squeeze suppliers, with a goal of being as aggressive as possible. But is there another way? One that could yield more substantial reductions in spend?



GETTING AVAILABILITY RIGHT

BRINGING OUT-OF-STOCKS UNDER CONTROL

Keeping products on the shelves and available to customers is a vital part of the retail business. Increasing inventory or in-store labour isn't the only way to drive down out-of-stocks: significant gains can be achieved at much lower cost by improving the way on-shelf availability is measured and managed.

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialised expertise in strategy, operations, risk management, and organisation transformation.

In the Retail practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: an obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands-on approach to making change happen is truly unique – and over the last 20 years, we've built our business by helping retailers build theirs.

www.oliverwyman.com

CONTACTS

JAMES BACOS

Global Retail Practice Leader
james.bacos@oliverwyman.com
+49 89 939 49 441

PAUL BESWICK

North American Retail Practice Leader
paul.beswick@oliverwyman.com
+1 617 424 3259

BERNARD DEMEURE

French and Iberian Retail Practice Leader
bernard.demeure@oliverwyman.com
+33 1 4502 3209

NICK HARRISON

European Retail Practice Co-Leader
nick.harrison@oliverwyman.com
+44 20 7852 7773

SIRKO SIEMSEN

European Retail Practice Co-Leader
sirko.siemssen@oliverwyman.com
+49 89 939 49 574

Copyright © 2015 Oliver Wyman. All rights reserved.

