

What changes are retailers making to their HR strategies and operational practices to adapt to the recession?

Introduction

The middle of 2008 saw a dramatic sea change in the HR practices of many UK retailers. Driven by the need to cut their cost bases as market conditions took a turn for the worse, numerous retail businesses took decisive action to streamline their operations and reduce staff numbers and costs, both through natural wastage and enforced redundancy programmes.

As a result, the new jobs market in retail had drastically declined by October 2008, both in head offices and on the shop floor.

However, there are now signs of significant change. In line with the drop-off in demand for goods not being as bad as had originally been feared, retailers are now re-evaluating their HR strategies.

There are signs that they are taking on or replacing more staff, rather than continuing to shed employees, particularly at head office and middle management level rather than at the junior end of retail employment.

For many large retailers the streamlining operation is now complete and the stronger businesses are more focussed on creating initiatives to retain staff and attract the best young blood, without further reductions in headcount and with an understanding of how they can motivate their staff and create flexibility where it is needed.

In order to inform the discussion the RTT invited Clare Kemsley, managing director of recruitment consultancy Hays Retail to address the panel for the White Paper topic debate.

Retailers face a number of challenges in this new-found task of attracting and retaining key staff:

- There is a perception that the sector's "people reputation" is poor. Despite retail being the second largest employer in the UK (employing 11% of the UK workforce,

some 2.8 million people as of March 2009 according to the British Retail Consortium) its people policies and standing as a key industry sector are not consistent with its size.

- The Hays Retail Salary Survey (2008) revealed that 53% of employees questioned did not consider there was scope for career progression within their organisation. "Churn" (staff moving from employer to employer) is synonymous with the retail sector and there is often perceived to be a lack of career progression within organisations, meaning employees move jobs regularly in order to increase their experience and pay, and move up the career ladder.
- There is a lack of consistency across the industry as a whole. Although there is benchmarking of employees within individual companies, the diversity of retailers due to the size of the business or part of the sector in which it operates makes it difficult to do this more widely, as happens in other industries through professional qualifications. This means there is little benchmarking that says "this individual is a good store manager" and is at a better, worse or similar level to their peers.
- The high profile of the sector, with several High Street names announcing job losses which often make front page news, has led to a decline in the number of entry level candidates applying for positions in retail in the current environment, which is contrary to other industry sectors where the number of candidates per vacancy has risen significantly. However, demand for graduate placements in retail remains strong.
- There is a risk of too much cost cutting affecting customer service. However, the sector as a whole is now responding positively to the current environment, with many retailers seizing the opportunity to use the recession as an opportunity to remove under-performers, upskill their more effective employees and build better teams for the future.
- There are many tactics and strategies available to retailers to enable them to do this and it is interesting to note that retailers are not avoiding recruitment of permanent staff in favour of temporary resource. Instead the focus is on using permanent employees more effectively.

What changes did retailers initially make to their HR and operational strategies as an initial reaction to the recession?

Until the middle of 2008, retail employment levels remained relatively robust, albeit at a lower level than the long term average. This was despite the impending recession which

was beginning to feed through to retail sales, as illustrated by the BRC–KPMG Retail Sales Monitor, which started to record negative like–for–like growth in March last year.

However, as the graph above illustrates, a sea change occurred after the middle of 2008. Retail employment fell slightly in the second and third quarters, then contracted significantly in the fourth quarter of the year.

The RTT discussed a number of the changes which were happening at this time, with cost cutting being the key driver for these measures. They included:

- Reviewing the levels of head office and shop floor personnel. National statistics show that employment has fallen more heavily in the retail sector than in the economy as a whole in the current recession: a decline of 2.6 percent year–on–year compared with a 1.4 percent fall in employment across the UK economy, as of the end of the first quarter of 2009. Retail insolvencies and the related job losses will have had some impact on this figure too;
- "De–layering" management organisation structures;
- Reducing graduate trainee intake. According to The Graduate Market in 2009 (published by High Fliers Research, June 2009) graduate vacancies in the sector have reduced by 29.5 percent compared with retailers' original recruitment targets published in September 2008. However, graduate applications to retail have increased (Source: Hays Retail).

What changes are retailers making now to HR and operations practices?

After the initial focus on streamlining businesses through cost–cutting, retailers' concerns about their cost bases began to ease. New currency hedging arrangements were more favourable than some retailers had originally expected and the RTT Retail Health Index in July 2009 indicated that costs are now having a positive or neutral affect on the sector's health.

The RTT agreed that there has been a shift away from cost reduction strategies to changes aimed at adding value. In some cases, this is a continuation of the best practice which retailers had been developing in their HR and operations in a more buoyant economy.

Many of these strategies are being quietly developed and implemented, particularly by the stronger performers which are waiting for the opportunity to capitalise on an upturn when it happens, and want to continue to attract and retain the best talent. Tim Denison of Synovate said: "Changes in HR and operational practices are happening, but as something of

a 'silent reformation' which retailers are reluctant to publicise, so that they can continue to maintain their competitive advantage."

The RTT highlighted a number of ways in which retailers' strategies are changing:

Recruitment policies

- Recruiting permanent staff – rather than temporary – and making better use of experience and home-grown skills;
- Offering permanent staff key hour working times (e.g. lunchtimes on weekdays).

Flexible working

- Introducing flexible working arrangements and part-paid sabbaticals rather than implementing redundancy programmes, allowing them to manage costs and preserve the talent they need;
- "Annualisation" of working time – i.e. hiring staff to work an allotted number of hours throughout the course of the year. This means working a higher number of hours during the peaks in season and less time at quieter times. This measure removes some of the need to recruit seasonal staff during busy periods such as Christmas.

Succession planning

- Developing better succession planning, which is becoming a priority for retailers keen to ensure their teams are fit for purpose, particularly in the future;
- More emphasis on internal rather than external replacement and a desire to create and maintain a pool of talent.

Training and career development

- "Upskilling" the workforce, by selecting and training employees who have the greatest potential to contribute to sales;
- Creating a more structured career path to ensure staff have the necessary skills;
- Developing training initiatives (by retailers and the industry as a whole rather than by the Government).

Managing shop floor employees

- Managing employment costs through proactive management of hours that staff are working in stores;
- Refining shop floor staff rosters to ensure there is minimal over-staffing, while ensuring there are sufficient assistants to match levels of service to customer demand.

Remuneration

- Re-evaluating the benefits of commission-based remuneration, which some retailers are reintroducing;
- Developing more competitive reward packages and pension schemes to encourage loyalty.

Operations

- Substituting operational technology for labour, such as shelf-ready packaging to minimise the time staff need to spend on tasks;
- Moving functions and tasks which are usually carried out by employees to customers, such as use of self service checkouts;
- Developing alternative channels with lower labour costs, such as online sales.

Ongoing changes to HR strategies in retail

The RTT acknowledged that not all changes to HR strategies in retail have been initiated or motivated by the recession and have been evolving and contributing to the overall improvement of the sector's HR reputation for some time. The group discussed the following:

Graduate training schemes

The RTT agreed that graduate training schemes are an area where retailers lead the way. According to The Times Top 100 Graduate Employers 2008, there are nine retailers in the list of organisations which offer the best opportunities for those leaving university.

Although there has been some scaling back of vacancies (as outlined above) retail continues to be attractive to graduates. According to High Fliers, applications for graduate positions in retail in 2009 have increased by 20.4 percent with an average of 86.9 applications per vacancy, almost double the average for all graduate posts (44.9 applications per vacancy).

Other training schemes

BAA's Retail Academy is an education and training organisation based at Heathrow Airport and offers retail and catering employees based there the opportunity to study for apprenticeships, NVQs and a foundation degree in retail operations and people management.

The Fashion Retail Academy (FRA) opened in September 2006 with the aim of nurturing and developing the skills required to work in fashion retail. It is funded by a public-private partnership – with sponsorship from Arcadia Group, Marks & Spencer, Next and Tesco – and is one of the first of the Government's Skills Academies.

What are the benefits of changing HR practices?



As well as the desired effect of enhancing value for consumers and the competitive advantage this provides in the challenging retail market, the RTT highlighted a number of other benefits that changing HR practices can provide.

For example, the introduction of more flexibility in working patterns can benefit the retailer and employee alike by creating a leaner, more adaptable workforce as outlined above (see flexible working above).

The retailers which are continuing to recruit also have the opportunity to hire the best individuals from the employment pool. Vicky Redwood of Capital Economics said: "There is an opportunity for stronger retailers to pick up good staff from failing competitors and for talented individuals from other sectors to be redeployed to the sector."

At the same time, greater attention to the selection of candidates can help make retail more customer-focused, while hiring shop floor staff that have the potential to contribute most to service and sales can create value for retailers.

The RTT also agreed that enhanced motivation, by ensuring the right people are in the right roles, contributes to conversion rates and helps to enhance retailers' brands. Businesses with staff who embody its culture and brand from the head office to the shop floor are the ones who – on the whole – are performing better. Employees can help to bring brands to life which consumers then "buy into" and, through good service, establish a point of difference between the strong and weak performers.

What are the risks of failing to get HR and operational policies right?

In addition to potentially missing out on the benefits as outlined above, the RTT points out that declining levels of service can have a detrimental effect on a retailer's reputation. According to John Dawson of the Universities of Edinburgh and Stirling: "The shape of retail's employment structure means the broad base of the pyramid looks like an obvious place to cut costs, but this method of cost reduction can come at the expense of service and productivity."

There is also the potential loss of future leaders. If the "recruitment tap" is turned off, even over a short space of time, it is possible to lose a whole layer of management in years to come. The war for talent remains – and will do so in the future – so the career offer has to be compulsive and compelling. "All too often the biggest challenges facing retail employers is finding and then retaining talented individuals in the labour market," adds Richard Lowe of Barclays Retail & Wholesale Sectors.

Conclusions

The RTT agreed that although the current changes have resulted in a slightly leaner retail workforce, it will be a more motivated, professional, loyal and higher quality one. In turn, this will encourage a greater number of high calibre people into the industry in the future, ultimately leading to all-round improvements in retail for employees, businesses and consumers. These changes are a real chance for retailers to bury the past and attract the best.

The current economic environment has provided the opportunity for the retail industry to learn and experiment with HR structures, adding to what had already been in progress before the recession, which in turn presents an opportunity to make the business stronger. However, this is a "silent reformation" which retailers aren't keen to shout about because it forms an important part of their competitive advantage.

Helen Dickinson of KPMG comments: "In some ways the sector puts itself at a disadvantage. This is because retailers recognise that how they use their people can create competitive advantage – and hence are unwilling to share best practice – and it is not benefiting from knowledge that could be gleaned from other industries."

At the same time the lack of standard qualifications across retail is also detrimental. Government policy in this area is ineffectual and needs to be improved.

Despite these issues, the current environment provides the opportunity for businesses whose people strategy was "not fit for purpose" to raise their game. As the slowdown in retail has been less pronounced than in some sectors, such as construction and the automotive industry, it has the benefit of having the flexibility to be able to do this.

The current climate is forcing the retail sector to catch up. The RTT believes that the responses of many retailers are already improving the overall reputation of the sector as an "employer of choice". Those who embrace this opportunity to motivate, train and upskill employees will be the winners of the future.

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Note to Editors:

The RTT panellists rely on their depth of personal experience, sector knowledge and review an exhaustive bank of industry and government datasets including the following:

Members of the RTT are:



- Nick Bubb – Independent Retail Analyst
- Dr. Tim Denison – Ipsos Retail Performance
- Jonathan De Mello – Harper Dennis Hobbs
- Martin Hayward – Hayward Strategy and Futures
- Maureen Hinton – Conlumino
- James Knightley – ING
- Richard Lowe – Barclays Retail & Wholesale Sectors
- David McCorquodale – KPMG
- Martin Newman – Practicology
- Mike Watkins – Nielsen

The intellectual property within the RTT is jointly owned by KPMG (www.kpmg.co.uk) and Ipsos Retail Performance (www.ipsos-retailperformance.com).

First mentions of the Retail Think Tank should be as follows: the KPMG/Ipsos Retail Think Tank. The abbreviations Retail Think Tank and RTT are acceptable thereafter.

The RTT was founded in February 2006. It now meets quarterly to provide authoritative ‘thought leadership’ on matters affecting the retail industry. All outputs are consensual and arrived at by simple majority vote and moderated discussion. Quotes are individually credited. The Retail Think Tank has been created because it is widely accepted that there are so many mixed messages from different data sources that it is difficult to establish with any certainty the true health and status of the sector. The aim of the RTT is to provide the authoritative, credible and most trusted window on what is really happening in retail and to develop thought leadership on the key areas influencing the future of retailing in the UK. Its executive members have been rigorously selected from non-aligned disciplines to highlight issues, propose solutions, learn from the past, signpost the road ahead and put retail into its rightful context within the British social/economic matrix.

Definitions: The RTT assesses the state of health of the UK retail sector by considering the factors which influence its three key drivers.

1. Demand – Demand for retail goods and services. From a retro-perspective, retail sales, volumes and prices are the primary indicators. When considering future prospects, economic factors such as interest rates, employment levels and house prices as well as others such as consumer confidence, footfall and preferences are used

2. Margin (Gross) – Sales less cost of sales; the buying margin less markdowns and shrinkage. Cost of sales include product purchase costs, associated costs of indirect taxes and duty and discounts

3. Costs – All other costs associated with the retail operations, including freight and logistics, marketing, property and people

The Retail Health Index – how is it assessed?

Every quarter each member of the RTT makes quantitative assessments of the impact on retail health of demand, margins and costs for the quarter just completed and a forecast of the quarter ahead. These scores are submitted individually, collated and aggregated in time for the RTT's quarterly meeting. The individual judgements on what to score are ultimately a combination of objective and subjective ones, drawing upon a wide range of hard datasets and softer qualitative material available to each member. The framework follows the example of The Bank of England Agents' scoring system on economic intelligence provided to the Monetary Policy Committee.

The aggregate scores are combined to form the **Retail Health Index ('RHI')** which is reviewed at that meeting and occasionally revised after debate if members feel it appropriate. The RHI tracks quarter on quarter changes in the health of the UK retail sector and as such provides a useful and unique measured indicator of retail health. The index 'base' of 100 was set on 1 April 2006. Each quarter, it assesses whether the state of health has improved or deteriorated since the previous quarter. An improvement will lead to a higher RHI score than that recorded in the previous quarter, and with a deterioration leading to a lower score. The larger the index movement, the more marked the shift in the state of health. The RHI has two main benefits. Firstly, it aims to quantify the knowledge of the RTT members in a systematic way. Secondly, it assesses the overall state of health of the UK retail sector for which there is no official data.

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