



## Retail Industry Focus

MERCER



MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

July, 2008

### Efficient and Cost-Effective HR Operations

#### The business challenge

Retail margins are notoriously slim, but in today's difficult economic environment, many retailers are watching their margins become anorexic. The primary factors driving this added margin pressure include declining sales accompanied by the increasing cost of goods (higher manufacturing and transportation costs resulting from rising fuel prices; the declining value of the dollar making goods manufactured abroad more expensive).

Retailers continually look for potential cost reductions in all parts of their business. However, today this search has risen to the level of strategic imperative: According to the National Retail Foundation's survey, **Retail Horizons: Benchmarks for 2007, Forecasts for 2008**, "Cost reduction/cost containment" was identified as the #2 company-wide strategic initiative among retailers, and the #5 human capital-specific strategic initiative – and this survey was completed months before the impact of rapidly rising fuel prices was fully felt.

The demand to "do more with less" is also nothing new for retail HR departments. What is new is the heightened sense of urgency and the need to be more creative about the cost-containment decisions. The old methods of crisis-driven cost-containment – reducing headcount across-the-board, increasing the proportion of part-time employees, deferring strategic initiatives – are rapidly becoming untenable.

Economists point out that, as painful as they may be, economic downturns present companies with the opportunity to make strategic investments that correct operational inefficiencies. Appropriate targeted operational changes enable HR to accomplish necessary routine tasks more efficiently – with resulting cost savings – and to be able to reallocate time and resources to address emerging strategic issues.

The critical question, though, is how does a smart and savvy retailer identify those "appropriate targeted operational changes"?

#### Making informed decisions

For retailers to make informed decisions about their HR operations, they must have a clear understanding of how things are being done today and where inefficiencies may exist. While many HR leaders have an intuitive sense for where in their departments inefficiencies likely lie, most recognize that data-driven evidence is crucial in today's environment in order to "get it right the first time". Moreover, solid evidence is important for building consensus with other functional executives in support of any proposed organizational changes.

One of the most effective ways to develop solid evidence is by using an activity-based costing approach:

- Evaluate whether staff are performing tasks appropriate to their job and skill levels;
- Determine how much time, money and people resources are spent performing each HR activity – both by HR staff and by store/operations managers;
- Identify where redundancies and fragmentations exist that impair productivity;
- Benchmark HR operations and service delivery against best-in-class models.

Armed with this evidence, it is then possible to identify areas for operational efficiency by:

- Analyzing the impact of changes in process, technology and/or staff;
- Prioritizing process redesign, new technology investments and sourcing decisions to achieve the greatest return on investment;
- Modeling potential changes in HR organization and service delivery design.

### Evidence-based decision-making: A retail case study

A Mercer retail client wanted store and district managers to spend more time “on the floor” driving sales and improving customer service. But it appeared that the demands of certain internal responsibilities were a barrier to this goal. The following case study describes how evidence-based decisions reduced the barriers to better sales and service:

Situation	Challenge
<p>A rapidly-growing consumer electronics retailer with over 5,000 locations across the U.S. needed to grow and transform its HR function to accomplish its workforce strategy of delivering great customer service.</p> <p>An activity-based costing survey of store and district managers as well as corporate HR staff was used to gain an understanding of current operations. The survey was brief and took minutes to complete. Then, sophisticated analytics were used to accurately determine the time and cost of performing various HR tasks.</p> <p>The major findings were: (1) managers were spending about 25% of their time on staffing related activities, and (2) the lack of integrated technology and access between corporate HR, districts and stores added significant fragmentation to workload.</p>	<p>Many HR activities were routinely performed by store and district managers, which took time away from serving customers; however, no one had a clear grasp of just how much time was being spent by managers on these activities.</p> <p>These insights resulted in development of a three-year roadmap to guide investments to support improved customer service:</p> <ul style="list-style-type: none"> <li>○ Implementation of appropriate technologies to reduce applications;</li> <li>○ Provision of universal store manager training on the hiring and interviewing processes, designed to improve the quality of hires and reduce both turnover and time spent in the hiring process;</li> <li>○ Implementation of an outsourced telephone pre-qualification process, ensuring managers interview only qualified candidates.</li> </ul>

This case study illustrates the key concepts of evidence-based decision-making presented above. Instead of assuming they understood why managers were not spending more time in support of sales and customer service, this retailer sought evidence that would support the business case for investments and organizational change:

- **Tasks performed at appropriate job and skill levels:** Managers did not have the necessary skills to make effective hiring decisions; in addition, managers spent time interviewing candidates who were not pre-screened, a task that could be performed by someone at a different skill level, with the help of appropriate technology;
- **Allocation of time, money and people resources:** Managers were spending nearly one-quarter of their time on the hiring process. It was determined that professional staffers or better tools would reduce the amount of time managers have to spend and would also lead to better hires and decreased turnover – and a corresponding reduction in the amount of time spent on hiring replacement staff;
- **Identifying redundancies and fragmentations:** It is a particular feature of retailing that operations are geographically dispersed. So, it is not uncommon for there to be redundancies and fragmentations among the technologies used by stores and those used at headquarters. In the case study, we found that the stores lacked the computer systems and applications to support managers in the recruitment process – technologies that were available at headquarters;
- **Benchmarking to best-in-class:** Compared to similar organizations, managers were spending too much of their time with staffing, taking them away from revenue-generating activities.

## Who we are

Mercer's retail industry team is focused on consulting to retail organizations on critical human capital issues that drive their business success. Ask your local Mercer consultant how you can put the power of Mercer's retail industry team to work for you.

For more information about the tools used in the case study above, please visit:

[www.mercer.com/operationsscanner](http://www.mercer.com/operationsscanner).