

THE RETAIL DEATH SPIRAL

An article from the Retail Industry Series by Bernie Wolford

Pilots call it the death spiral. The plane goes into a spin. The nose drifts toward the ground. The wings lose their aerodynamic lift. All initial, knee-jerk reactions to correct the attitude of the plane and restore lift actually contribute to the continued uncontrolled descent--the death spiral.

A similar phenomenon frequently occurs in retailing. It may be found in both large and small companies. It can be devastating. For many, during post-mortem review, their very failure as a retailer can actually be traced to this early-stage business cancer.

Here's a typical autopsy: Softening sales, or projections for same, start the process. Typically the starting point for budgeting labor dollars is expressed as a simple percentage of sales. If, for example, labor cost is budgeted at 7.0% of sales and our sales are forecast to be one hundred thousand dollars, simple math provides a labor budget of seven thousand dollars. If our average hourly labor rate is seven dollars per hour, our store (or department) manager will schedule 700 labor hours for the week.

A softening sales trend, let's say a forecast of eighty thousand dollars per week produces a mathematic labor budget of five thousand, six hundred dollars. At our ten dollars per hour average labor rate, the resulting weekly labor hours are 560. To maintain our labor budget the store (or department) in our example must reduce weekly labor hours by 140.

The manager reduces staffing, and (perhaps), due to less customer service and/or lapses in moving fresh merchandise to the floor, etc., the prophecy is fulfilled--the store (or department) achieves considerably less sales. Customers, perceptive to reduced levels of staffing and deteriorating stock maintenance, begin to "vote with their feet" and shop elsewhere--leading to a lowering of sales projections, further reduction to staffing, reduced customer service. The cycle in now is place--the retail death spiral.

To make the point, our story transpires within a short time period. In the real world the changes are much more subtle, occurring over a longer time period, but, unmistakably, with the same result. Why? Because the problems with many retail labor staffing models are systemic.

The first indictment is brought against "dollar-based" staffing models. If we are totally wedded to planning labor staffing exclusively by using a percentage of sales, we have launched the labor ship in this unfortunate direction. If we are predicting a softening of sales, blindly adjusting labor costs as a percentage of sales, we will reduce labor. Yes, I know my next point is radical: What if we did not reduce staffing? Would the sales reduction still have occurred?--a question, not an answer, by the way.

So, what can be done to avoid this problem? First is the recognition that "activities" produce a need for labor hours, not a mathematical equation. The correct number of hours for any store, any department, and any given period of time may or may not be the same number as those hours determined from the traditional "labor as a percentage of sales" calculation. A gradual evolution away from the labor percentage approach into an activity-driven approach is the first step in breaking the cyclical nature of the retail death spiral.

Now, what if the activity-based approach actually produces more hours for a department? First, this is good news to learn. Think about it: it means we are currently understaffed. Things we need to do are not getting accomplished. Short cuts are being taken. Must we add hours and increase labor costs? Not necessarily. When this occurs, it is time to closely examine how the activities are

being performed: Can "best practices" reduce the time it requires to perform certain tasks? Can we transfer certain activities to other departments (perhaps to one for which activity-based staffing analysis showed over-staffing?)

Once the transition from dollar-based staffing to activity-based staffing begins, management receives a fresh look at the relationship between labor hours and those activities the hours are intended to support. Decision-making improves immediately. Improvement programs can be directed to the department of greatest need. Confidence improves that sufficient labor hours are being invested to achieve desired goals. Conversely, we can identify costly over-spending on labor hours.

The Retail Death Spiral can be avoided.