Managers of big retail stores have an opportunity to boost profits by maintaining or increasing staffing levels even when sales are slipping. That idea will probably sound strange to store managers, who tend to cut staff hours if there’s a dip in sales. Such cuts make perfect sense to the companies’ executives, given that big retailers place great weight on hitting prescribed targets for payroll as a percentage of sales. Moreover, reducing payroll often has no immediate discernible effect on other major factors in managers’ evaluations—typically, things like whether the store’s appearance is attractive and the bathrooms are clean. So managers get very used to the idea that if sales drop, payroll must drop too.

But my research shows that increased staffing levels are associated with better execution behind the scenes in places like the back room and that stores with better execution in some of those out-of-the-way areas have higher profits.

I analyzed four years’ worth of data from more than 250 stores of a large U.S. specialty retailer and interviewed more than 50 of the chain’s employees, from frontline workers to the CEO. My findings at this company dovetailed with my previous extensive research on executing tasks in retail stores. I discovered that staffing levels tend to have the most pronounced effect
on tasks that don’t count for much in managers’ evaluations. At the retailer, I looked at data relating to two such tasks: the percentage of items that were supposed to be on display but lingered in the back room and the percentage of poorly selling or obsolete goods that were supposed to be returned to the distribution center but remained in the stores.

I found that increasing levels of staffing improves performance of both. Furthermore, a one-standard-deviation performance improvement in the tasks was associated with increases in store profit margins—approximately 4% for replenishment and about 3% for returns to the distribution center.

By contrast, increasing labor had no effect on overall maintenance of the store environment—stores continued to look good and bathrooms continued to be cleaned, no matter what the staffing level. The implication is that managers who cut staff in proportion to sales run the risk of hurting execution and thus financial performance.

How is a store manager to know how many hours of labor are needed to run the place well? Employee tardiness and absenteeism, variations in workers’ speed and skill, and the vagaries of customer demand add up to a dizzying level of uncertainty for managers trying to staff their stores. But one approach managers can use is to track the performance of the tasks that are most likely to suffer from insufficient labor. For example, the company I researched could use the percentage of products not returned to the distribution center as a canary-in-the-mine early warning of understaffing. Another approach is to match the size of the staff to the estimated total workload. Forward-looking retail chains are beginning to use computerized scheduling systems to do just that. Such systems offer a promising alternative to corporate policies that place too great an emphasis on payroll as a fraction of sales.

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