

# 1.09 Executive White Paper

## Time, Money, and the Customer Experience Solutions for balancing labor savings and customer satisfaction at retail

*This White Paper, prepared by Vestcom International, Inc., offers insight into labor management processes and highlights practical strategies being implemented by grocery, drug, and mass market retailers to reduce labor costs, operate more efficiently, and meet customer demands without compromise.*

# Executive White Paper

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## 1.1 Operating costs vs. the customer experience

In any business today there is continuous pressure to improve financial performance. So it should be no surprise that retailers of all sizes are looking for ways to control operating costs. With statistics showing store labor expense ranking second only to the actual cost of inventory, retail store labor management becomes mission critical. But to attract new customers as well as keep current customers coming back, retailers must also address the issue of creating a positive in-store shopping experience, which can encompass everything from the look of the store, to food safety and education, to the pricing in the shelves. This creates a point of issue where the need to optimize labor while simultaneously improving the customer experience can easily be at odds.

## 1.2 Challenges retailers face today

The high cost of labor demands that routine tasks like stocking, setting, and resetting be accomplished efficiently and correctly. Most retailers operate on slim margins, particularly in periods of general economic slowdown when shoppers tend to buy less and, when they buy, tend to spend less. Whether a shopper spends \$10 or \$100 in a visit, the fixed costs for running a store remain the same. Retailers find themselves squeezed to streamline operations wherever they can while maintaining a pleasant ambiance and positive shopping experience for consumers.

Prices can change with weekly promotions and some of the shelves can be reset entirely a half-dozen times in a year to accommodate seasonal products. In addition, as CPGs sharpen their marketing focus on capturing the shopper's attention at the point-of-sale—that is, at the shelf—the need for setting and resetting retail shelf space only intensifies. Set-ups must become more fluid to accommodate special presentations and displays, or else the aisles can become jammed with what may appear to shoppers as randomly placed posters, tags, signs, talkers, jumpers, wobblers, ceiling hangers, floor graphics, aisle violators, and pop-ups. These create an impression of clutter and may even annoy shoppers rather than persuade them to buy.

The high cost of labor demands that routine tasks like stocking, setting, and resetting in-store be accomplished as efficiently as possible and, ideally, that they're correct the first time.

**1.3 Standard labor processes can fall short**

In its 2007 Grocery Trends survey, the Food Marketing Institute (FMI) reported a median U.S. supermarket store size of 47,500 square feet is typically laid out with 2,200 linear feet of shelf space. That's close to a half-mile of shelving. Though that distance may be a relatively easy walk, retail store managers must ensure that every inch of that space is stocked with 30,000 to 40,000 different products, that these shelves are labeled correctly, and that accurate, current prices for each product are posted. And this isn't a one-time task.

In North America, leading shelving provider Madix, Inc., estimates more than 764 million shelves are now actively used in supermarkets today. More than 10 million shelves are added every year. And at any given time a significant portion of that shelf space is being reset. That's a lot of shelf space, all requiring planograms and product sets.

Planograms provide a useful visual guide for planning, but ultimately the stocker determines exactly how much space each product gets (or how much product fits on the shelf). The stocker also ensures the same products in different size packages are placed correctly, and that a nutritionally-fortified product isn't confused with another with a similar brand name. In a second, separate operation, the stocker repeats his route along the shelves, this time applying shelf labels, pricing information, and any promotional materials—all of which must be matched to each other and to the product itself. Retailers have used a number of methods to communicate to clerks and stockers exactly how every shelf should be set-up, reset, or stocked, but the job has proven to be unavoidably time-consuming and prone to error.

### 2.1 Establishing best practices

Developing an effective labor strategy based on new technologies can empower retailers to easily rethink and fine-tune the entire store experience. Adopting new procedures can facilitate management decisions about specific operating processes that will enable their associates to work more efficiently.

### 2.2 Meet the customer at the shelf

Every customer values excellent service, product availability, and convenience. The easier it is for a shopper to make an informed decision, the greater the chances the customer will remain loyal. Competition at retail is fierce, which makes customer service and satisfaction paramount. How then does a retailer compete? Certainly not on price alone. Providing customers with a shopping experience that stays with them after they leave the store (based on friendliness, helpfulness, clarity, and ease) can foster customer loyalty that is priceless. It is also important for retailers to consider rethinking the roles their employees play as part of a push for higher customer care in-store.

A retail chain with an annual revenue of \$500 million will, on average, lose \$10.5 million a year, effectively losing about 68 cents on every transaction.

### 2.3 Adopting new operating procedures

More effective store procedures can have a huge impact on productivity and subsequent labor expense. Retailers, who are revamping existing methods in an effort to lower the cost of labor while strengthening the customer experience, are the frontrunners who are shaping the new retail environment. Superior in-store execution is fast becoming the standard for maintaining a competitive advantage. If a product is not available on the shelf when your customer wants to buy it, you not only miss a sales opportunity, you also risk a negative shopping experience. Although studies show that increasing product availability on the store shelf can boost retail sales exponentially, out-of-stocks remains one issue that has long been problematic to retailers.

A recent study by OgilvyAction reports that 13 percent of shoppers leave a store without purchasing a product they planned to. Much of this is due to out-of-stocks. In fact, IHL Group recently determined that out-of-stocks cost retail grocers 2.1% of total revenue. Think of it: A retail chain with an annual revenue of \$500 million will, on average, lose \$10.5 million a year, effectively losing about 68 cents on every transaction, all because of a problem that is easily solved.

A response to this can be as simple as a targeted shelf tag or shelf strip. Information gathered from multiple files, integrating real time pricing and planogram information, can be digitally printed on shelf price labels, or on strips of heavy paper stock (simplex or duplex) two to five feet in length. Labels are printed and shipped in store-specific planogram order, saving time for price/scan coordinators –32 hours per week or more in our tests.

**Tests show:  
Labels save 32  
hours per week  
and more. Shelf  
strips can cut  
time and labor  
costs in half.**

Shelf strips, once printed and shipped to the store, easily slide into place in the shelf channel to indicate pricing and/or stock placement at precise, preset intervals on the shelf. Shelf strips provide store personnel with a clear roadmap for planogram set-up as well as quick and easy identification of out-of-stock items. Shelf strips ensure that out-of-stocks remain visible, and are therefore re-ordered instead of removed from the set. In addition to improved sales—and increased customer satisfaction—through reducing out-of-stocks, shelf strips help retailers save time and labor costs by as much as 50 percent.

The addition of digital product images on the strips, indicating what product goes where on the shelf, has exponentially increased the efficiency of shelf strips for new store set and reset purposes. Including the product image reduces the time needed to read the strip, and minimizes the concerns for non-English speaking personnel.

**3.1 Digitally-printed shelf price labels save labor**

Digital color price labels, printed in planogram order, are quickly taking the place of standard monochrome labels. The reasons are clear: planogram-order tags save a significant amount of labor by allowing price/scan coordinators to work down an aisle without having to hunt for products. While there is a nominal increase in the cost for digital color, the difference disappears within the significant labor savings that result.

**3.2 Shelf Strips coupled with UPLs deliver superior execution**

Several years ago, one of the nation's fastest growing mass merchandisers wanted to develop an efficient and time-saving concept for a temporary shelf strip that would indicate where a product should go in stocking new stores. Initially, the retailer planned to remove the strip and replace it with conventional price tags. However, the concept worked so well, the mass merchandiser made the decision to adopt Vestcom's Shelf Strips that would also include initial Unit Price Labels (UPLs).

Shelf Strips provide a substrate of heavy paper stock measuring two, three, or four feet in length and from 7/8" to 1" high to fit behind the bracket on the edge of a shelf. Printed as a single piece, Shelf Strips display individual UPLs mounted on a plain, colored, or decorated background. Because Shelf Strips are digitally imaged and printed, they can easily be customized with artwork and copy that matches ad circulars, highlights additional product information, or reflects store branding.

The benefits are immediately apparent. Because Shelf Strips include planogram set-up data as well as pricing information, the stocking employee refers to specific and precise guidelines ensuring set-up and resets are done properly the first time around. These tasks can now be done in a single operation, which translates into a significant reduction in the labor hours required.

**3.3 Reducing store set-up time results in dramatic labor-saving benefits**

A large pharmacy chain with more than 5,000 retail locations nationwide was expanding rapidly into new markets, on average opening one new store every 17 hours. To keep pace with such positive growth, the drug store sought a solution to reduce its new store set-up time. Stocking a new retail store can be a labor-intensive operation. Before the first item goes into place, the

proper location for the product and the number of facings to set must be determined. Price tags are then sent out to the aisle and the tags must be matched with the correct products. Starting from bare shelves, the process typically required two to three weeks, and the new store would “borrow” employees from another established store to assist in set-up.

As expected, Shelf Strips simplified and streamlined the procedure... and this experience fostered further developments.

While the drug store’s first application for Shelf Strips was for new store set-up, it became apparent that over time, pricing changes for individual products would render the original strips obsolete. A practical and cost-effective solution called “Revisions” was developed. Revisions are regularly updated Shelf Strips that incorporate official changes to the planogram. They reflect minor changes to a shelf and are grouped together, replacing, for example, a new 4’ section of a 24’ shelf. Revisions contain new pricing and placements, and are printed, sorted by category and store, and sent out directly to each store.

The chain drug store has seen unprecedented returns on its investment in Shelf Strips. According to the retailer’s own analysis, Shelf Strips cut an average of two to three days from new store set-up time, as well as reducing reset time and labor expenditure by 25 percent to 40 percent. With more than 5,300 locations today, the pharmacy estimates that Shelf Strips and Revisions save the company an astonishing 5.8 million labor hours per year.

### 4.1 Finding the right retail solutions partner

A checklist for key attributes in seeking a partner to assist in implementing a strategy that both reduces labor expense and enhances the customer experience includes:

- Operational cost-consciousness
- Experience
- First-hand knowledge of retail
- Technology innovation
- Flexibility
- Customer focus
- Excellence in execution

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Retailers who have embraced the initiative to find the right information, tools, and opportunities to both control labor expense and impress customers are the ones poised for success. Finding a solutions partner to support these strategies is key to that advantage. The right assistance will guarantee the ability to capitalize on employee capabilities, better manage inventory, and deliver more powerful solutions for your customers. Transforming ideas into action will challenge your operation to aggressively optimize labor while improving the customer experience. The time to start is now.

### 4.2 Labor savings calculators

Vestcom has gathered significant data on digital label costs and benefits. On average, we found savings of 20 minutes of labor for every 100 tags. To illustrate further, a retail chain with 200 stores, 3,000 price changes per week, and an average hourly cost to hang tags of \$15.00 would realize \$1.5 million in annual labor savings; this includes the slight price increase for the digital label print.

Vestcom has also performed extensive testing with Shelf Strips to determine the labor savings possible. Through a partnership with Driveline Holdings, a leading national end-to-end retail services company servicing over 70,000 retail channels, Vestcom has confirmed the available savings using Shelf Strips for resets.

In a test comprising over 700,000 reset hours across multiple banners, the average savings using the Shelf Strips program was over 27 percent, with achievable savings as high as 46 percent. Assuming a labor rate of \$8 per hour, 27 percent equates to \$1.44 per linear reset foot, versus a cost of less than 20¢ per foot for strips. As labor costs increase, so do available savings.

Testing was conducted in a matched-panel format, comparing like stores and sets, with and without the Shelf Strips program. Average hours per linear foot were tracked, with a high of .87 hours per foot, and a mean average of .65 hours per foot, without the strips. Using Shelf Strips, the average hour per linear foot dropped to .47, for a reduction of 27.7 percent from the mean.

In any economy, putting effective labor management processes into place is a priority. In today's business climate it is even more critical for retailers to operate more efficiently when it comes to this area of spend. Vestcom helps retailers of all sizes develop solutions that balance both labor savings and customer satisfaction. To find out how Vestcom solutions can save your retail operation time and money, please contact us for a no-obligation analysis and quote.