Point of View

Manning the Unmanned Aisles of Retail

Multiplying Retailer Points of Presence for Competitive Differentiation

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E-commerce growth is chipping away at in-store sales: In-store foot traffic is down and most physical stores saw modest sales gains during the 2011 holiday season compared to the e-commerce average growth rate of 13.5 percent.[1] Much of this impact is being driven by consumers' acceptance of and expectations about the use of technology to shop—and by the explosion of new mobile devices with which to do it. During the 2011 holiday season, 80 percent of consumers shopped with their smartphones while 70 percent used their tablets for the same purpose, spending more money in the process.[2] According to a recent study of 16.2 billion visits to the websites of more than 150 retailers in 2011, "tablet visitors spend over 50% more per purchase than visitors who use smartphones, and over 20% more than visitors who use desktop/laptop computers." The study also found that "tablet visitors are three times more likely to make a purchase than smartphone visitors, and nearly as likely to purchase as desktop/laptop visitors." [3]

Furthermore, growth in sophisticated mobile applications is increasing, making shopping—and buying—smarter, easier, and quicker. In 2011, the percentage of retailers offering mobile apps grew 278 percent over the previous year.[4] And, future sales are expected to go just one way: up. eMarketer predicts that mobile sales will jump to US$11.6 billion by the end of 2012—a 73.1 percent spike over 2010—and quadruple by 2015.[5] While mobile apps clearly aid consumers with in-store purchases, newer apps that enable consumers to compare prices are accelerating online sales. Mobile apps that use image-recognition software to identify products and then link to competitive e-commerce sites now make it easy for consumers to "showroom"—shoppers go to a store to see a product in-person, and possibly to speak with an associate, only to buy the product elsewhere, and almost always at a less-expensive price.

The shift toward buying via virtual channels—m-commerce (mobile) and e-commerce—is increasing in several categories such as electronics, but the pace of innovation in solutions such as virtual storefronts (such as the Tesco Home Plus Subway store in South Korea) is driving consumers to these channels even faster. Consequently, store foot traffic is impacted and generally will continue to decline.

Having adequate staff is essential—consumer interaction with store associates often is cited as the differentiator in both the store experience and customer loyalty. While retailers can

[1] "2011 Post-Holiday Recap," Google, January 2012; Forrester, June 2012.
[2] Ibid.
[3] "The Impact of Tablet Visitors on Retail Websites," Adobe Digital Index, Adobe Systems, 2011.
[4] "Acquity Group Mobile Audit Reports 210% Increase in Retailers' Deployment of Mobile Sites over Past Year," Acquity Group LLC, 2011, http://www.acquitygroup.com/News-And-Ideas/News/Acquity-Group-Mobile-Audit-Reports-210--Increase-i/
[5] "M-Commerce Sales Shoot Up as More Consumers Buy via Mobile," eMarketer Digital Intelligence, December 1, 2011, http://www.emarketer.com/Article.aspx?R=1008714

easily control labor costs by reducing headcount and/or moving to part-time staff, such actions are just a "quick fix" to cost-cutting measures and are almost always detrimental to both sales and employee morale. This strategy leads to two of the largest complaints from consumers: 1) finding an associate, and 2) having that associate possess the right knowledge.

So how do retailers improve the way that they engage with consumers as business flows among channels—such as retail store, online, mobile store, and telephone sales—for long-term sustainable growth?

Breaking the Bonds of Retail Labor

The lines between physical and virtual retailing have blurred. Consumers are everywhere—at home, at the office, in the store, online, and on the go—and are interacting through social and e-commerce sites. Furthermore, merchandise is available virtually everywhere via m-commerce, f-commerce (Facebook), and e-commerce. Labor, however, is not. Instead, it is tethered to the physical store, where declining foot traffic impacts the store's ability to build customer loyalty and sales. Labor is also a major physical asset of stores, along with real estate and merchandise.

This situation presents a great challenge: controlling operational expense. Labor is the second-largest retail expense after inventory. In the United States alone, labor costs rose steadily since 2007, resulting in a 40 percent increase in the minimum wage over the past five years.[6]

Store labor models tend to focus on the in-store experience, leaving the "aisles" of other retail channels unmanned or manned with additional labor that is locked ("siloed") in discrete locations. Retailers are more concerned with manning the aisles of physical stores than those of virtual channels. Why? In-store conversion rates have traditionally been higher. Therefore, store labor models are designed to ensure that experts are in the physical aisles, but not those of other channels. In response, retailers are starting to man the virtual aisles with online chat capabilities to proactively or reactively greet consumers browsing their sites. However, the virtual aisles are also "staffed" by employees with net-new or siloed expertise.

Breaking this approach by re-optimizing labor across channels—where and when the consumer needs it—is the new and much-needed labor model for retailers who wish to emerge with a commanding lead in retail transformation. Retailers require a flexible way of applying labor where it is needed on a minute-by-minute basis to manage both consumer interactions and the way retailers transition to an ever-growing virtual marketplace.

Re-optimizing labor across channels, however, presents significant challenges. In the current retail model, store channels operate independently. Retailers' increased focus on consumer experience has caused some convergence among channels when it comes to inventorying, pricing and delivering products, and processing returns. While this is a step in the right direction, labor continues to operate in a silo and, in the case of the physical store, is tightly tethered to store sales. Same-store sales are the preeminent metric for store managers; with more sales come more labor hours. As a result, store managers are reluctant to share that

[6] United States Department of Labor, 2011.

labor with another store or channel. Therefore, metrics should also be optimized across channels.

Similarly, retailers must embrace a different mind-set when thinking about labor roles. Today, store managers apply talent where it is needed, regardless of the associate's role. For example, a higher-paid expert may stock shelves if necessary. Going forward, retailers must adopt new ways of scaling associates across channels where they can be most productive.

Retailers *are* implementing numerous point solutions such as kiosks and mobile apps to meet customer needs, but these solutions often meet a niche market and do not scale adequately to show a return on investment. Furthermore, store managers oftentimes do not understand technology or fully embrace how it can improve labor performance. The value of technology—especially customer-facing solutions—to both customers and staff is often untapped because store managers are busy focusing on daily store operations and do not have enough time to conduct new pilots. And, because most in-store pilots fail to scale, managers often sit on the sidelines and are not willing to give a pilot a chance unless there is proof that it will work. This situation becomes problematic because the pilot's success often depends on acceptance by the store manager and staff.

New Labor Model Can Unleash Retail Talent

Retailers have an opportunity to untether their knowledgeable labor force and multiply their points of presence exponentially. Once labor is untethered, it can be reconnected and delivered to consumers via a variety of endpoints. Today's endpoints could be a smartphone, tablet, kiosk, video call, or high-end immersive video experience predicated on the size and complexity of the sale; tomorrow's could be a hologram or a robot. In the end, it does not matter whether a knowledgeable store associate is in the aisle physically or virtually, as long as either option is within convenient reach of the consumer. What matters is whether the endpoints that connect them provide a high-quality interaction to help build relationships and drive sales and customer loyalty. Unleashing labor to achieve these goals requires:

1. **A strategic mind shift in how retailers can better orchestrate store labor to serve the consumer.** This starts with a vision and roadmap that take advantage of all labor assets and multiply their points of presence regardless of location: associate's home, physical store, contact center, third-party location, and so on.
2. **A better understanding of how consumers want to interact.** Which endpoint is most appropriate for connecting the consumer to the product, solution, or service? Knowing this will enable retailers to determine how to route the right tasks to the right people. In-store help is just one way to reach the customer; another is via an online expert. For example, a customer who is "wandering the online aisle" looking at digital cameras might seek help via an online chat. The knowledgeable associate responds to the request and helps the customer navigate the many complex choices. This associate, however, is not in a siloed channel, but rather is "plugged into" the retailer's entire labor pool and is accessible based on skills and availability.
3. **An architecture that will support more sophisticated call-routing paths and endpoints consistent with the retailer's value proposition and opportunities,** such as capturing early revenue for a hot new solution, finding scarce labor, increasing

online sales faster than normal via solutions that support the ever-increasing onslaught of consumer devices, supporting new formats such as pop-up stores/kiosks, and so on. Third-party labor is another opportunity for manning "unmanned aisles." Constructing the architecture begins with identifying and prioritizing the opportunities.

4. **Core competencies around contact centers or customer interaction centers,** and growing those competencies aggressively for differentiation.

Figure 1 illustrates an innovative, scalable labor model with various endpoints.

Figure 1. Labor Model Scales Retail Expertise Across Customer-Facing Channels.

Source: Cisco IBSG, 2012

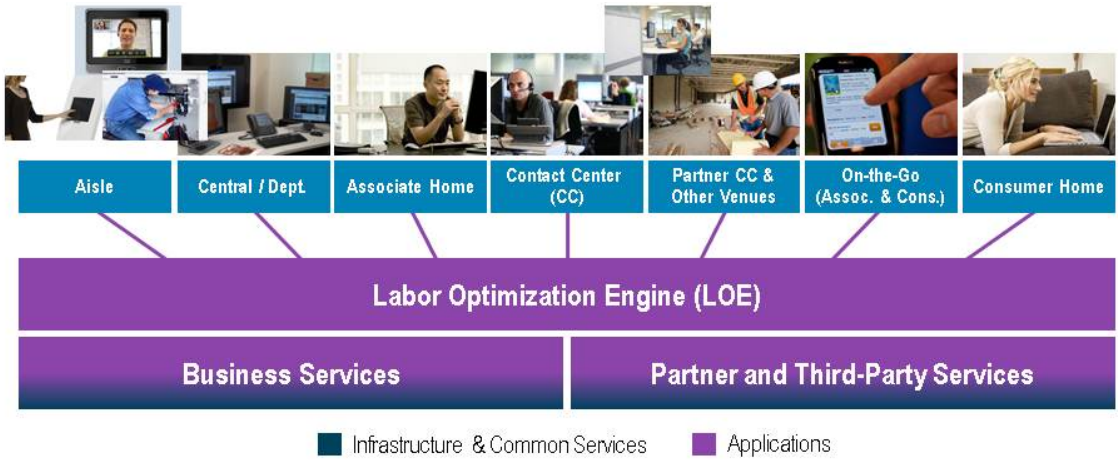
Connecting Consumers and Retail Experts

The architecture supporting this vision should proactively connect consumers on demand to experts in a tiered structure similar to that of modern call centers. In addition, it must use context-aware technology and provide collaboration and expert tools to create an effective, efficient, high-touch experience regardless of location.

An extensible labor optimization engine (LOE) that fits modularly with existing systems can help retailers architect for these requirements (see Figure 2, next page).

The architecture integrates with business systems such as customer care, content management, and analytics, as well as with partner and third-party services such as hosted collaboration, cloud analytics, and social media, to provide rich context to consumer interactions.

Figure 2. Extensible LOE Architecture Enables an Optimized, Virtual Labor Model.



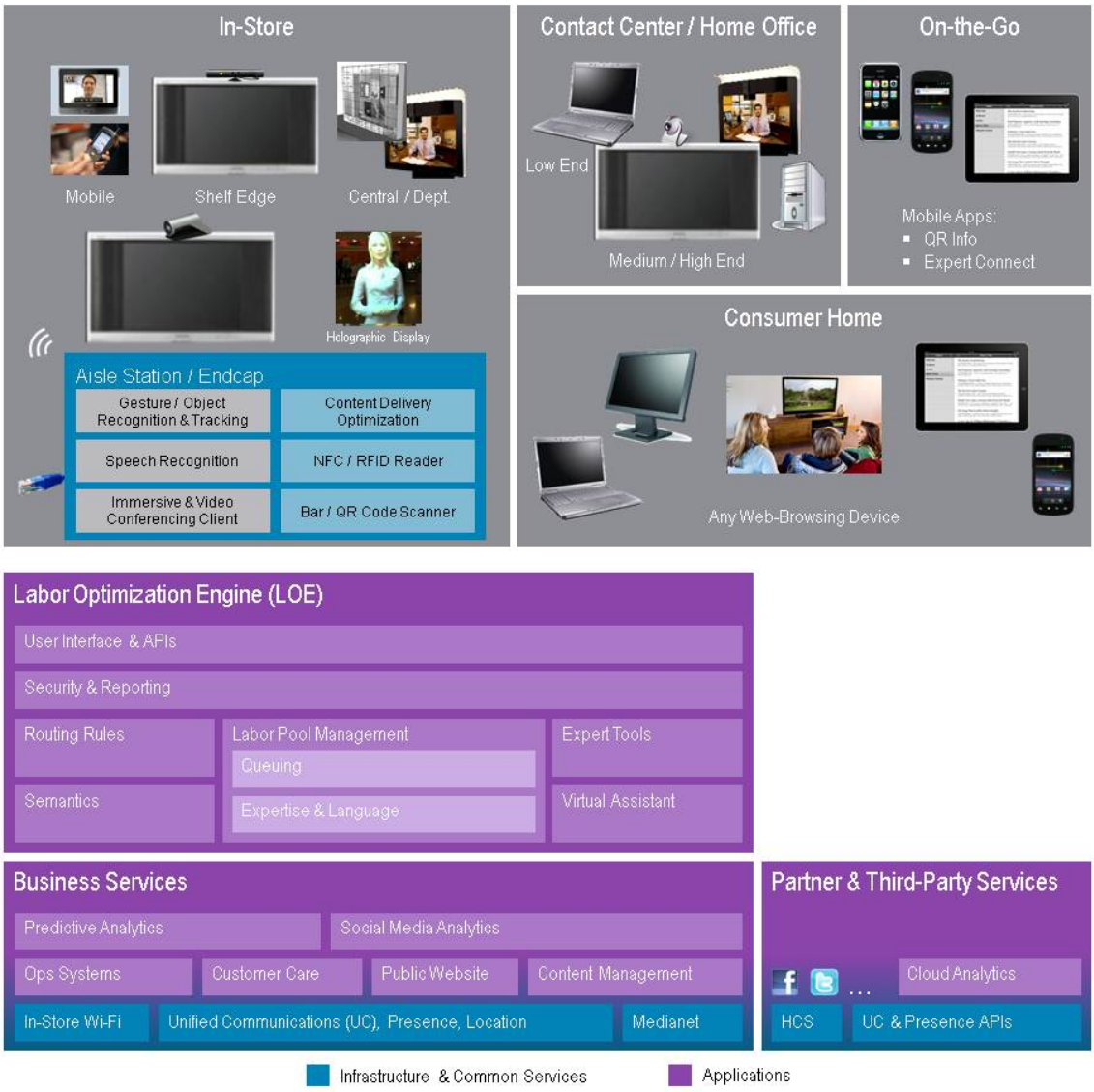
Source: Cisco IBSG, 2012

More specifically, the LOE provides routing rules to proactively assign the best associate or expert to the required task, and expert tools such as references, problem solvers, or product configurators to enable the labor force to provide the smartest and most impressive service possible. In addition, the LOE uses semantics to understand consumers more precisely and pinpoint the services they need.

The capabilities of the LOE are made available to any user on any device through secure user interfaces and APIs. For example, an associate could log into a virtual labor portal that accesses the LOE to generate a task list and broker collaboration with consumers. Likewise, public websites could capture consumer needs and then access the LOE to connect consumers with the right virtual help; this enables the LOE to support virtualized labor in environments ranging from the store, contact center, and consumer homes to mobile devices.

Figure 3 (next page) depicts the complete architecture stack supporting this new labor model. At the top of the stack are endpoints for use by either the associate or end consumer. The middle and bottom show the LOE building blocks required to flexibly place labor where it is needed, integrate business and third-party services, and enable switching or upgrades to endpoints (upgrades are faster and cheaper only if the endpoint is replaced, not the supporting structure).

Figure 3. LOE Architecture Supports Employees/Consumers Anywhere, on Any Device.

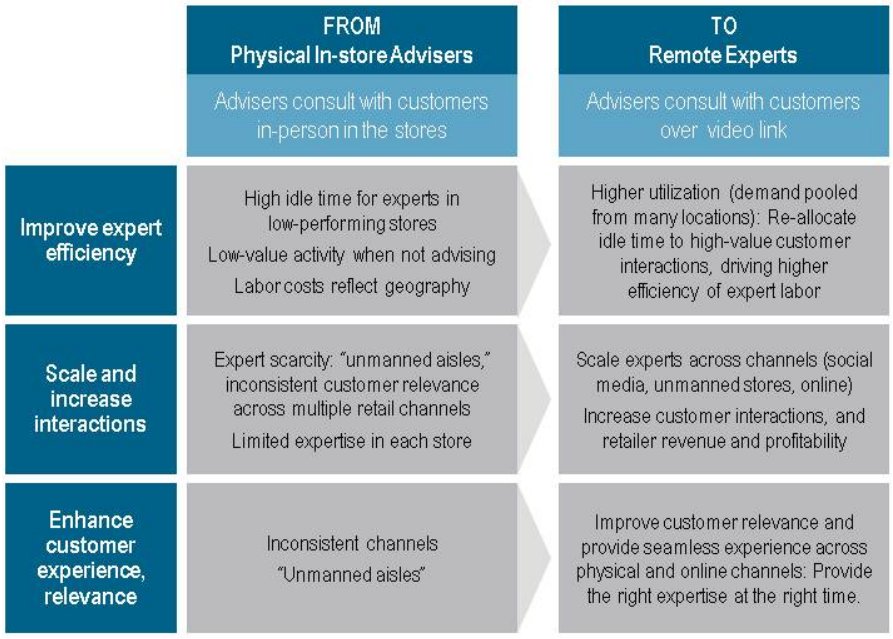


Source: Cisco IBSG, 2012

Benefits of Optimized Labor

The LOE model and architecture benefit the store, associate, and customer: The store can scale its best labor, reducing overall labor costs without suboptimal labor reductions, as well as enhance its ability to "man the aisles" with knowledge associates, thereby improving store sales, profits, staff productivity/efficiency, and customer loyalty. By re-optimizing labor, retailers can flexibly manage the flow of commerce across channels, moving their talented labor where it needs to be—on demand. Moreover, the retailer can now easily incorporate third parties such as suppliers and consultants to serve a need, such as providing product-installation advice, resolving issues faster, and so on. The value of the LOE archtitecture is shown in Figure 4 (next page).

Figure 4. Benefits of LOE Arcitecture: from Physical Store to Remote Channels.



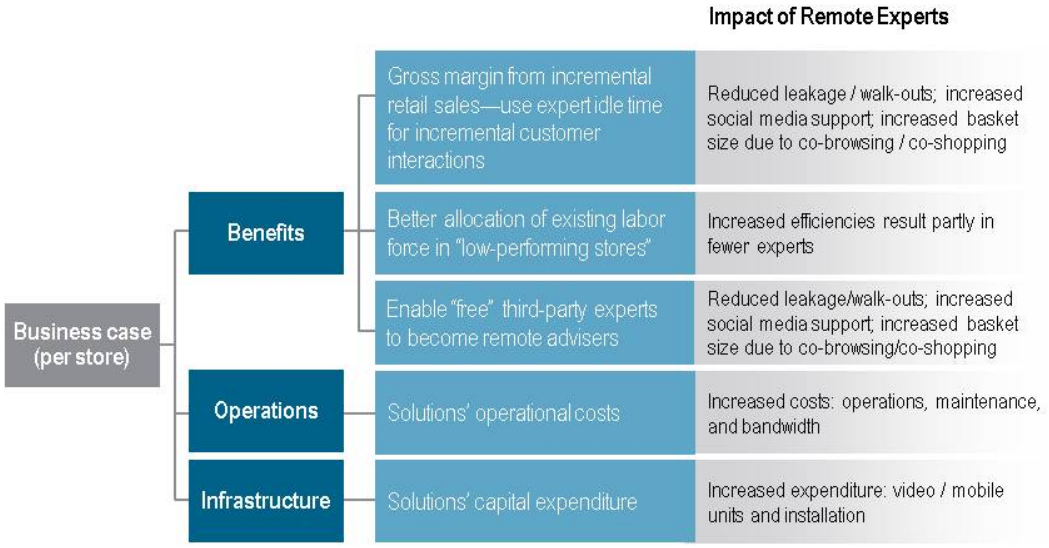
Source: Cisco IBSG, 2012

As the social enterprise emerges, this architecture provides a "stage" that extends beyond the physical store from which knowledgeable associates can create a following that will enhance their recognition, as well as that of the company. This is particularly important as consumers continue to use social media such as blogs, Twitter, Facebook, and other online communities to express or rate their consumer experience. Ultimately, such recognition can be used to establish a premium "fee structure" for access to certain experts.

Such a transformation for retailers presents compelling benefits, driven both by the opportunity to capture, engage, and convert customers in every channel, and by labor-model efficiencies. The Cisco® Internet Buisness Solutions Group (IBSG) created a simple framework that summarizes the financial impact associated with the proposed architecture (see Figure 5, next page).

The ability to scale experts enables retailers to increase their interactions with customers: what appears as "idle time" in the current labor model can be used more effectively, resulting in multiple benefits. For example, some retailers have the ability to see if a customer is dwelling on their website. Given this, an associate can proactively reach out to that customer and ask if he or she needs help. The associate can take it one step further and co-shop with the customer by looking at the same webpages. With better accces to content and expertise, customers are less likely to walk away and more likely to find the right solution that meets their needs, thereby increasing basket size and reducing product returns.

Figure 5. Value Case for LOE.



Sources: Thomson Reuters for retail companies' annual reports, 2012; Trefis financial analysis, 2012; Cisco IBSG economic analysis and customer interviews, 2010–2012.

Cisco IBSG conducted an economic analysis based on a "composite" of a retailer operating 500 large stores and selling big-ticket items.[7] Key assumptions for this analysis were:

- Annual revenue per store: $36 million
- 14 percent of the stores were considered "low-performing"
- Employees per store: 130, including three experts per store
- Number of customers per store: 34,000; average basket size per customer: $118; annual store visits per customer: nine
- Current leakage rate (customer store visits that result in lost opportunities because customers were not adequately served): 15 percent

In most stores, experts have limited idle time and usually dedicate this time to low-value secondary activities. In low-performing stores, however, idle time may represent up to 50 percent of the experts' time. The LOE architecture would enable retailers to use experts more efficiently and reallocate their idle time to performing more value-added activities, resulting in increased sales.

The analysis assumed the following:

- 10 percent of experts allocated to helping customers in the store, thereby decreasing leakage
- 30 percent allocated to social media dialogue
- 10 percent allocated to co-browsing and co-shopping
- 20 percent fewer experts
- Percentage of idle time not reallocated: 30 percent

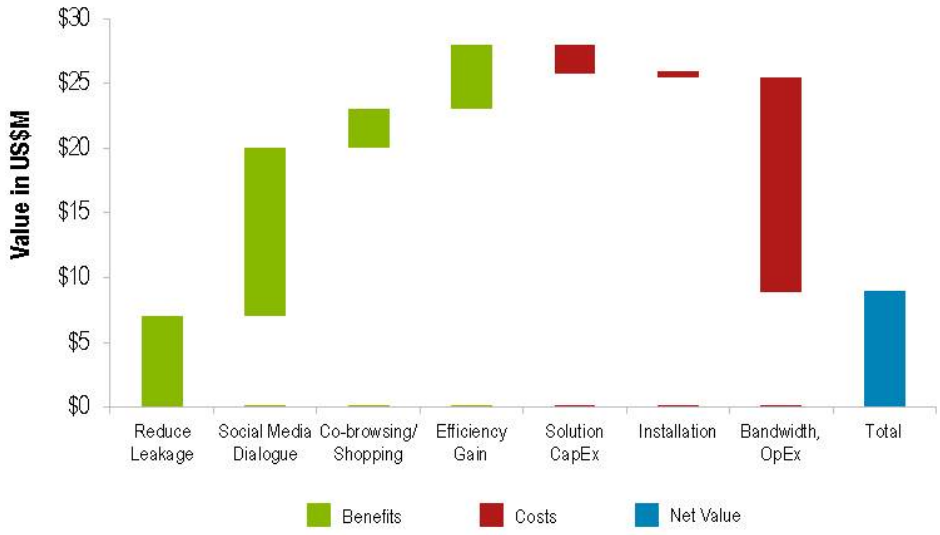
[7] This example is applicable in retail segments such as automotive, electronics, technology, furniture and fixtures, home improvement, and specialty retail and department stores.

Cisco IBSG also assumed the following conversion rates to actual sales based on increased customer interactions:

- 30 percent conversion from responding to underserved inquiries
- 5 percent conversion from social media dialogue
- 20 percent conversion from co-browsing and co-shopping

The financial results of the analysis were compelling, even under conservative cost assumptions: payback for the LOE investment was achieved in 18 months, with a high internal rate of return. Figure 6 details the benefits and costs over a five-year period.

Figure 6. LOE Financial Value Framework.



Source: Cisco IBSG, 2012

Next Steps

Multiplying retail points of presence by unleashing labor from the physical store and spreading it across channels to provide increased consumer access to products, information, and specialists—anytime, anywhere—is critical to the transformation of brick-and-mortar retailers.

An innovative, scalable labor-optimization model is the foundation for success. Before embarking on a new labor model, retailers should ask themselves the following questions:

1. Do I have highly paid experts in the store? Are they hard to find?
2. Which stores have low productivity?
3. Are store sales migrating to my virtual channels or those of my competitors at a significant rate?
4. Is customer satisfaction or revenue low for certain products, services, or solutions?
5. Is there an opportunity to scale labor in new ways such as kiosks or pop-up stores?

The answers to these questions will help retailers know where and when to begin building an LOE architecture and frameworks that will enable them to easily match the right labor to the right consumer—either physically or virtually.

More Information

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