



## Shop for tomorrow's workforce

Retail productivity

October 2017

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# Executive summary

Retailers are facing challenges and opportunities caused by disruptive technologies. In order to succeed in this environment, we believe they need to act now to prepare for the business of the future.

The world of work is changing. New technologies such as robotic process automation (RPA) and artificial intelligence (AI) have emerged with the potential to automate many tasks which could transform retail in the next ten years, both by replacing jobs and augmenting the ability of the human workforce to perform certain tasks.

Retailers need to look at the problem holistically. There is much to be gained by both increasing the productivity of the current workforce, and incorporating new types of contingent workers. Every retailer is looking at how they can make their existing workforce more productive, but only some are looking at using automation as a solution.

Retailers' profits are under pressure at a time when they need to incorporate a number of different sales channels and a growing number of fulfilment options. These pressures are leading to a greater focus on productivity, the workforce and the future role that technology could play in either replacing or augmenting human labour.

A tight labour market could increase competition for workers at a time when costs are already rising and productivity growth is beginning to slow.

The move to an omnichannel model requires significant investment not only in e-commerce and communication platforms but also in back-office systems and ways of working. In many head offices it has created duplication of roles with similar or overlapping work carried out by different teams. The ability to serve customer needs is therefore increasingly constrained by functional structures that create siloes and lack the flexibility to respond quickly to changes.

Both technology and different approaches to teams (e.g. networked teams) can help to break down these organisational barriers so that employees can begin to transform the way that tasks are carried out.

We conclude by making our recommendations for reimagining retail in three key areas.

- 1. Work and the workforce:** How much work and who/what will deliver it? Retailers cannot clearly define what the future workforce should look like until they have a comprehensive view of how work is currently being done. Only then can they decide the right balance of human and robot resources to deliver the service their customers require.
- 2. Performance and productivity:** How will your workforce drive greater value? Retailers need to focus their investment and resources on three key capabilities to drive significant improvement in productivity across the business: the customer experience, the workforce experience and analytics.
- 3. Organisation and business model:** How will you need to be structured in a digital world? There is an immediate need for retailers to begin to reorganise their businesses around a networked team structure, breaking down the existing functional silos and sharing insight across the business.

# Retail: disrupted

As retailers continue to adapt to changes in consumer behaviour and digital disruption, one key question remains unanswered: how will the workforce need to respond?

The next 3 years will be a defining period for UK retail and will determine who will be the winners and losers in the longer term. We believe that it is no longer enough to compartmentalise retail businesses into units such as supply chain, merchandising, pricing, logistics and customer experience. Retailers need to rethink both their organisation and their workforce to survive in a new world where the rules of work have changed.

## Humans *and* robots

The retail industry has changed dramatically over the last ten years. As the share of online sales has increased, many retailers have found that they have excess retail space resulting in the closure of 40,000 stores since 2006, according to the British Retail Consortium (BRC).<sup>1</sup>

With their businesses changing, the work they expect their employees to do will also need to change. For example, new delivery models will require a different kind of organisation to support them and technology will undoubtedly play an important role in driving efficiency and reducing costs. However, will it be used to replace or augment the human workforce?

There are two sides to this debate. There are those who believe that many jobs will be lost as the tasks that constitute those jobs are automated. Others argue that while some jobs will disappear new jobs will emerge as historically technology has proved to be a net creator of employment.<sup>2</sup>

While many retailers are looking at how they can automate tasks, using technology like robotic process automation (RPA) and artificial intelligence (AI), every retailer is looking at how they can make their existing workforce more productive.

The composition of the workforce is also changing: by 2020 millennials will make up more than half of all workers, and by 2025 they will comprise 75% of the workforce. Deloitte research has shown that millennials have very different requirements and expectations from work and their careers than previous generations – requirements and expectations that employers will need to accommodate.

## Addressing the retail profitability challenge

As highlighted in Deloitte's The Retail Profitability Challenge, margins are shrinking and a perfect storm of cost pressures, combined with declining consumer confidence and digital disruption are challenging profitability.<sup>3</sup> In the report we argued that there are three ways retail businesses should respond to the challenges they face: create real engagement with customers, adopt greater 'speciation' and focus on innovation. Each requires changes in the way that retail work is carried out and therefore has an impact on the workforce.

## Changing consumer expectations

Deloitte research shows that across the shopping journey, from finding inspiration to completing a transaction or sharing the experience with others, consumers have many paths to purchase.<sup>4</sup>

Our research also highlighted that consumers were now making more product purchases online (48%) than in-store (45%). As a result retailers are being forced to focus their efforts and investments on developing the capabilities to sell across channels while transforming their operating model to serve a market of 'one' and offer customers more opportunities to personalise their experience.

For the retail workforce the shift in the focus from selling a product to delivering an experience requires some adjustment to traditional roles as well as the use of technology to enable more personalisation to improve the customer experience.

### The changing employee experience

For most UK retailers omnichannel – where the focus is on delivering a seamless consumer experience regardless of which shopping channel they choose – remains an aspiration as they struggle to implement the required changes to systems and infrastructure.

The move to an omnichannel model requires significant investment not only in e-commerce and communication platforms but also in back-office systems and ways of working. In many head offices, it has created duplication of roles with similar or overlapping work carried out by different teams. The ability to serve customer needs is increasingly constrained by functional organisation structures that create siloes and lack the flexibility to respond quickly to changes. Both technology and different approaches to teams (e.g. networked teams) can help to break down these organisational barriers so that employees can begin to transform the way that tasks are carried out.

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### Managing the change

Retailers can use disruptive technology and manage the change required to reinvent retail from both the customer and employee perspectives. There are three key questions that retailers need to answer:



**Work and the workforce:** How much work and who/what will deliver it?



**Performance and productivity:** How will your workforce drive greater value?



**Organisation and business model:** How will you need to be structured in a digital world?

# The changing world of retail work

A tight labour market could increase competition for workers at a time when costs are already rising and productivity growth is beginning to slow.

## UK retail in context

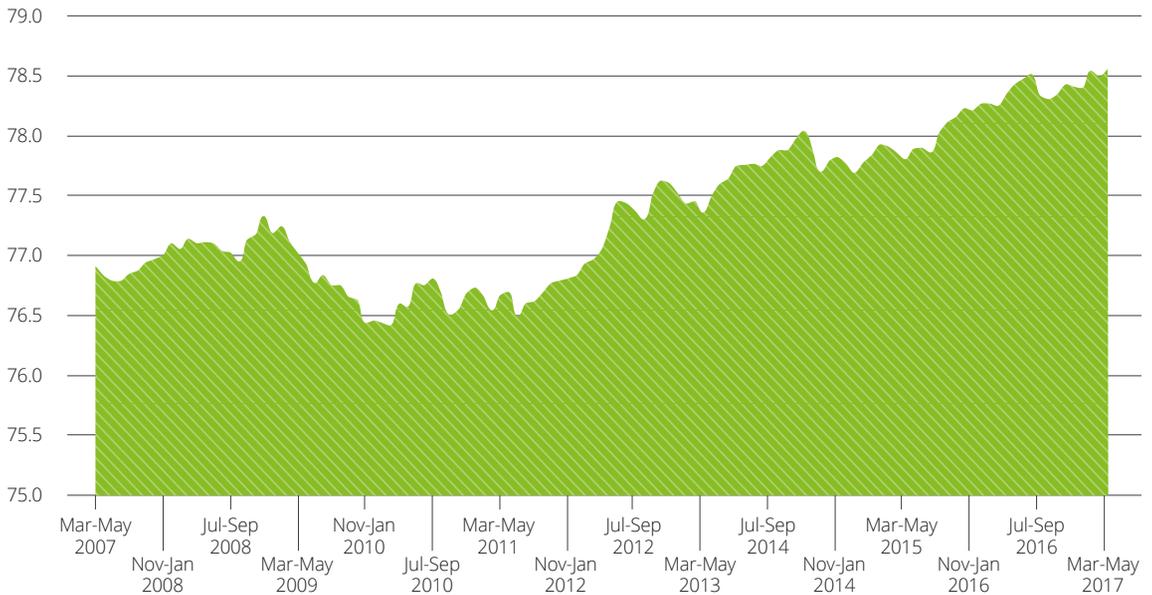
In 2016, UK retail sales stood at £340 billion for an industry that employs nine per cent of the UK workforce (3.2 million jobs) and contributes £93 billion of Gross Value Added (GVA) to the UK economy. UK retail is a broad and diverse industry that includes many small independent businesses along with some of the UK's largest and most prestigious brands.

However, the sector remains highly fragmented, with a large number of small businesses; in fact our analysis has shown that the top 100 UK retailers employ 47% of all retail workers and operate only 24% of stores.

## The battle for talent

With the employment rate at a recent high (see Figure 1) and vacancies on the rise (see Figure 2) a tight labour market is making it increasingly hard for retailers to find the right skills.

Figure 1. Employment rate



Source: Deloitte/ONS

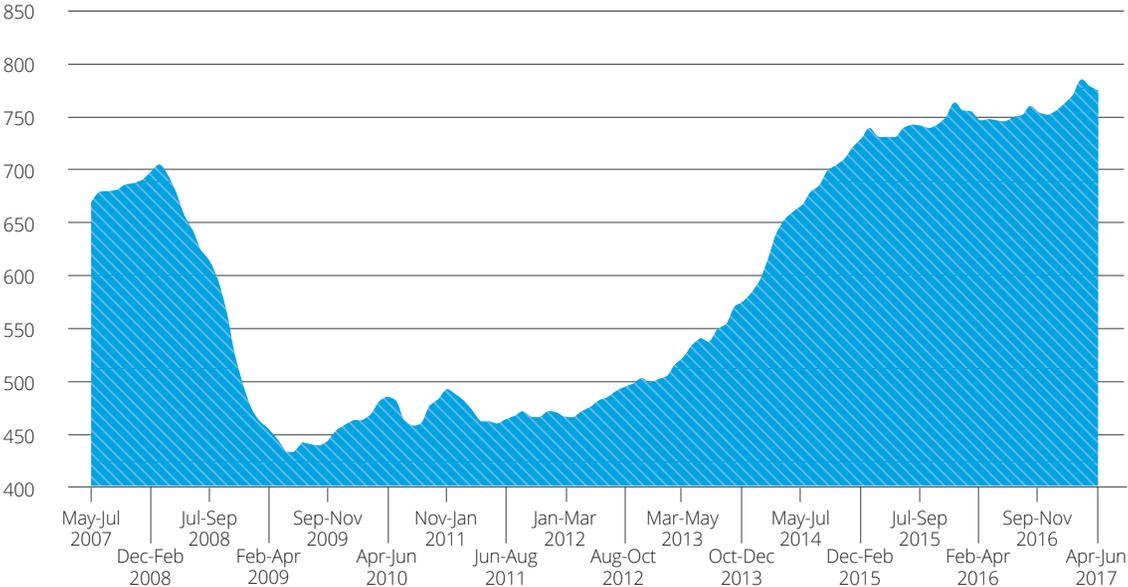
Retailers are also concerned that any restrictions on freedom of movement resulting from the ongoing Brexit negotiations would be likely to reduce the pool of available workers further and put more upwards pressure on staff costs.

Rising staff costs are already forcing many retailers to look very closely at how they currently operate and explore if there are any ways to reduce costs or improve efficiency and productivity. In the last 18 months, UK retailers have announced more than 8,000 job losses across a number of store-based and back-office roles, with more than 5,000 of those in the first half of 2017.<sup>5</sup>

To some extent job losses at traditional store-based or multichannel retailers are offset by the expansion of online retailers.<sup>6</sup> However, with the UK retail sector being predicted to lose 900,000 jobs by 2025, the size of the workforce is likely to reduce in size.<sup>7</sup>

Costs are rising at a faster rate than sales which is focusing retailers' attention on increasing productivity.

**Figure 2. The battle for talent**  
Number of vacancies in the UK



Source: Deloitte/ONS

**Increasing productivity**

Costs are rising at a faster rate than sales which is focusing retailers' attention on increasing productivity; however, productivity in the retail sector is already relatively high and has been growing (see Figure 3).

Productivity in the retail sector has increased over the last three years, often outperforming the UK economy as a whole. However, growth has slowed in the last two quarters, reflecting increasingly challenging conditions in the overall market.

With pressure from weakening demand and new competitors it is unlikely that retailers will be able to raise prices and inflate their way out of the squeeze on profits.

Critics of the focus on productivity such as former Sainsbury's CEO Justin King argue that a focus on productivity will inevitably lead to a focus on job cuts:

*"...one of the consequences of productivity is less people producing the same output. Companies will invest in more productivity and as a consequence there will be less jobs".<sup>8</sup>*

**Augmenting humans**

In 2015, Deloitte commissioned a study by leading academics at Oxford University on the impact that technology would have on jobs in the UK economy. The findings suggest that the retail sector has the highest proportion of jobs at risk from automation.<sup>9</sup> Automation will impact all areas of the business.

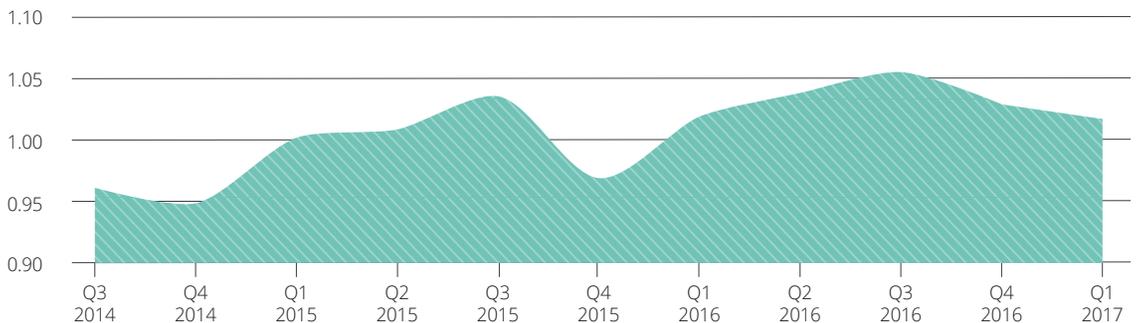
For example, improvements in cognitive capability and robotic dexterity, combined with a fall in the cost of hardware and implementation, mean that robots are now increasingly used to organise and prepare stock for shipment.<sup>10</sup> Some retailers have adopted technology in warehouses very effectively, optimising automation and machine-human collaboration.

Store-based retailers have embraced digital technology and analytics to help increase efficiency, reduce labour costs and increase profitability by improving the proportion of sales at full price. Self-service checkouts have been widely adopted and have significantly reduced the need for cashiers in stores.

Many businesses in the retail sector collect large amounts of customer data through loyalty schemes and other sources which they use to help them understand shopper preferences and behaviour. These consumer insights help them make better decisions on store locations, stock allocation, staff levels as well as enabling them to deliver automated and personalised promotions and marketing campaigns.

Another area of investment activity has been robotic process automation (RPA). Initially focused on back-office tasks in the finance and HR functions, retailers are becoming more sophisticated in their use of RPA and AI in engaging with consumers. Deloitte's point of view is that in the long term AI will enable work to be reconstructed and reconceptualised, but for now the focus seems to be on automating current processes to make incremental gains in efficiency.<sup>11</sup>

**Figure 3. Retail productivity**  
GVA per hour for retail trade



Source: Deloitte/ONS

# Future-proofing retail

The changing nature of work requires retailers to consider what their future workforce will look like and how they can use technology to capitalise on the opportunities this change will bring.

Retailers' profits are under pressure at a time when they need to incorporate a number of different sales channels and a growing number of fulfilment options. This is inevitably leading to a greater focus on productivity and the workforce, and the future role that technology could play in either replacing or augmenting human labour.

## Work and workforce

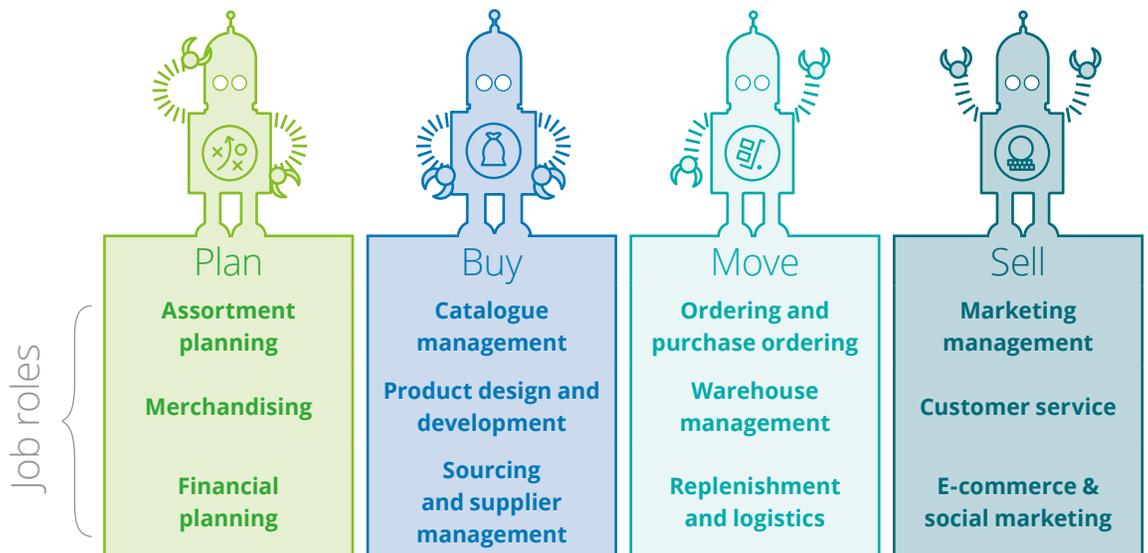
Roles in the retail sector have a significant chance of becoming automated by 2025. This includes both internal roles as well as wider roles within the retail operating model across all the major functions.

Defining how much work and who/what will deliver this is going to be critical to enable retailers to change and evolve their workforce in the right way. For example, retail sales assistants' roles have a 93% chance of automation and retail cashiers and checkout operators have a 97% chance of automation, according to Deloitte's own analysis, as more orders and payments are made online, even in-store.<sup>12</sup>

Merchandisers' roles have a 51% chance of being automated as AI will play an increasingly important role – alongside human insight in planning in-store design and managing stock allocations as well as tracking price changes.

Defining how much work and who/what will deliver this is going to be critical to enable retailers to change and evolve their workforce in the right way.

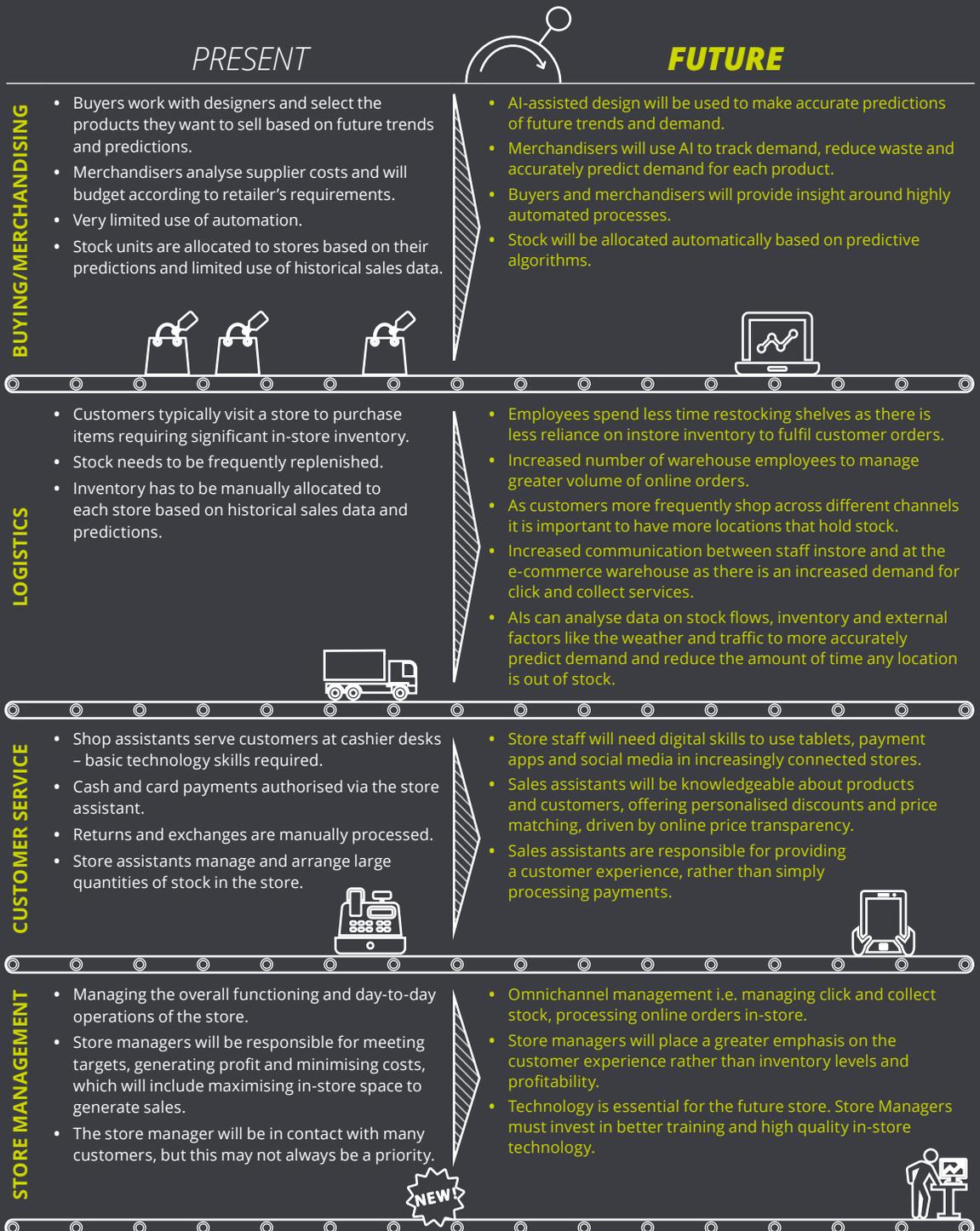
**Figure 4. Key retail functions and job areas**



Source: Deloitte

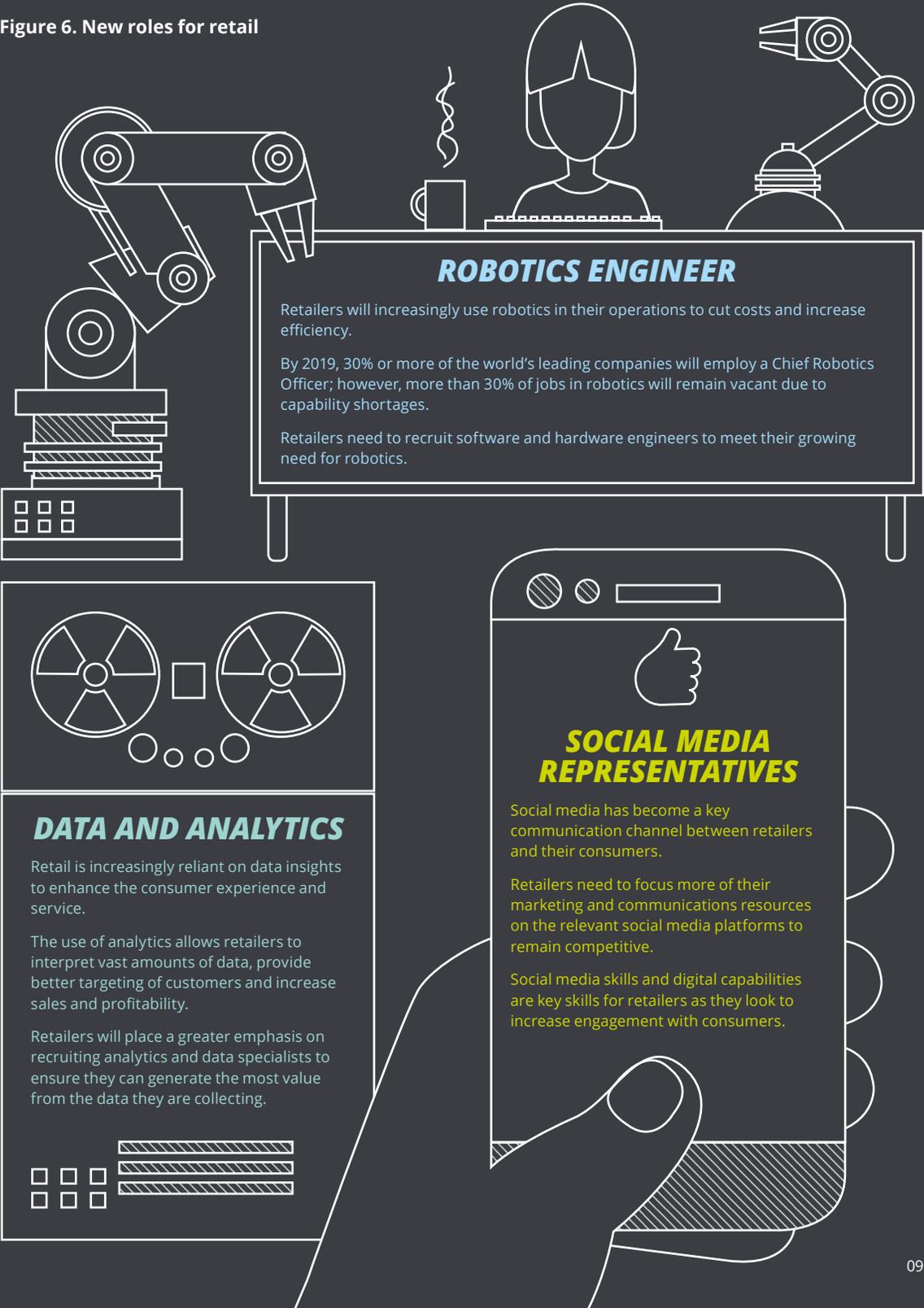
The following tables illustrate how some key roles within retail businesses are likely to change in the future and highlights some of the new roles that will need to be created.

**Figure 5. Four examples of how roles in retail will change**



Many roles will change in the future retail workforce: some will disappear as a result of automation while others will be created.

Figure 6. New roles for retail



## Performance and productivity

As the make-up of the workforce changes to reflect these new roles, it will be increasingly important that the retail workforce focus their attention on the right areas, feel committed to the brand they represent, and that they have the tools and insights they need to do valuable work.

With this in mind we believe that retailers need to use digital capabilities to move them into the new, future era of business. This transformation requires understanding the customer, as well as the operations needed to connect the customer and business. Retailers should focus on defining and delivering three key capability areas:

**1. Define customer experience:** Understanding and delivering against the brand's 'customer promise' across the entire value chain, as well as designing products, services, experiences and offers to fulfil that promise.

## 2. Rethink the workforce experience:

The emphasis here is on the changing nature of how talent is sourced, deployed and supported. Creating a positive employee brand and workforce experience will be key to attracting and retaining the best talent; this needs to be recognised by the business and cannot be seen by leadership teams as "nice to have". Furthermore, as the reliance on contingent and on-demand specialists grows (those not actually employed permanently), having the right workforce experience will become even more critical to having a strong internal culture and workforce for these individuals to slot into.

**3. Use analytics:** There needs to be an organisational shift from reporting history towards predicting outcomes and prescribing action. Retailers need to establish clear ownership for data, and identify how the data generated across the business ecosystem can be used to inform decision making and shape future outcomes.

## The gig economy



Research from the Chartered Institute of Personnel & Development (CIPD) suggests that 1.3 million workers or 4% of the UK workforce is employed in the gig economy. The flexible workforce is set to expand significantly, according to the CIPD as 12% of those who currently do not participate in the gig economy said they are thinking about trying it in the next 12 months. Only a relatively small proportion – 14% – of those working in the gig economy said that they were doing so because they could not find a permanent job.

The flexible workforce has a key role to play in the retail sector not only in retail operations but also in delivery and fulfilment. A number of third party logistics companies such as Yodel and Hermes operate large workforces of self-employed flexible workers (8,000 and 10,500 respectively). Retailers have also embraced these services to help mitigate the rising cost of the range of flexible fulfilment options they provide.

An example of a service designed for the flexible workforce is Amazon Flex. Amazon Flex offers a service which it describes as a way "for Delivery Partners to turn free time into supplementary income". It gives them the opportunity to sign up for blocks of time and collect parcels from Amazon delivery stations and deliver to consumers in their homes. Drivers can earn up to £12-£15 per hour although much depends on the location of the delivery drops and traffic conditions. All drivers need to join the service is a vehicle and an android or iOS phone and some free time. The crowdsourcing of delivery staff has been a key enabler of Amazon's two-hour delivery and Amazon Prime Now services.<sup>13</sup>

In 2016, there were 76,000 people working on zero hours contracts in the wholesale and retail industry representing 8.4% of the workforce, up 9,000 on the previous year.<sup>14</sup>

### Organisation and business model

Finally in order to respond to this changing world, we believe that there is an immediate need for retailers to begin to reorganise the business (or parts of the business) around the concept of 'networked teams' which are autonomous, self-directing units that work to achieve an agreed business objective or 'mission'. Networked teams are made up of multidisciplinary experts from across all functions and operate free from the constraints of specific organisational guidelines.

Developing such a model would also mean that retailers need to adopt more responsive organisational characteristics. These include:

- **Be nimble, agile and flexible:** manifested by not having rigid organisational structures and being able to adapt to changes with minimal disruption. Competition no longer just comes from other large, well-known retailers and relative size no longer guarantees success. Strategic objectives may need to change quickly, and retail organisations need to be able to realign their people resources as quickly.
- **Be disruptive:** successful retailers will not just react passively to changes in the market; they will drive innovation, spot the gaps in the market and create game-changing products or experiences to fill this space. This requires a culture of challenging the status quo, launching new products and offerings often, and learning quickly from customer responses.
- **Being insight driven:** from cell phone GPS signals to social media posts and abandoned online purchases, big data provides valuable information which retailers must harness. Using their analytical capabilities to make sense of this wealth of data, retail organisations must change the way they do business towards making real-time, fact-based decisions.

- **Operate an open system organisation:** comprised of a mix of fixed and structurally flexible organisational components and designed to deliver for customers. In practice this could mean bringing together an ecosystem of suppliers, other retailers and non-retail businesses working in partnership to deliver what customers need and want.
- **Encourage continuous learning:** the need to acquire knowledge and skills constantly becomes integral to responding successfully to ever-changing environments and an increasingly diverse workforce.
- **Adapt to change:** continuous innovation and less structured organisational designs will mean that businesses are continually changing and at a more rapid pace than today. Retailers need to recognise this and encourage the adoption of positive attitudes towards change, as well as support the workforce in this new way of working.

Networked teams are made up of multidisciplinary experts from across all functions and operate free from the constraints of specific organisational guidelines.

### Creating the future retail workforce – a to-do list

In summary, for retailers to overcome the challenges they face and capitalise on the opportunities that disruption is creating, we believe they need to start preparing now for the business of the future. The world of work is changing. New technologies such as RPA and AI have emerged with the potential to automate many tasks which could transform retail in the next ten years, both by replacing some jobs and by augmenting the ability of the human workforce to perform others. However, retailers need to look at the problem holistically, there is still much to be gained by increasing the productivity of the current workforce, and incorporating new types of contingent workers. Below are our recommendations for reimagining the retail workforce.



**Work and the workforce:** How much work and who/what will deliver it? Retailers cannot clearly define what the future workforce should look like until they have a comprehensive view of how work is currently being done. Only then can they decide the right balance of human and robot resources to deliver the service their customers require.



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