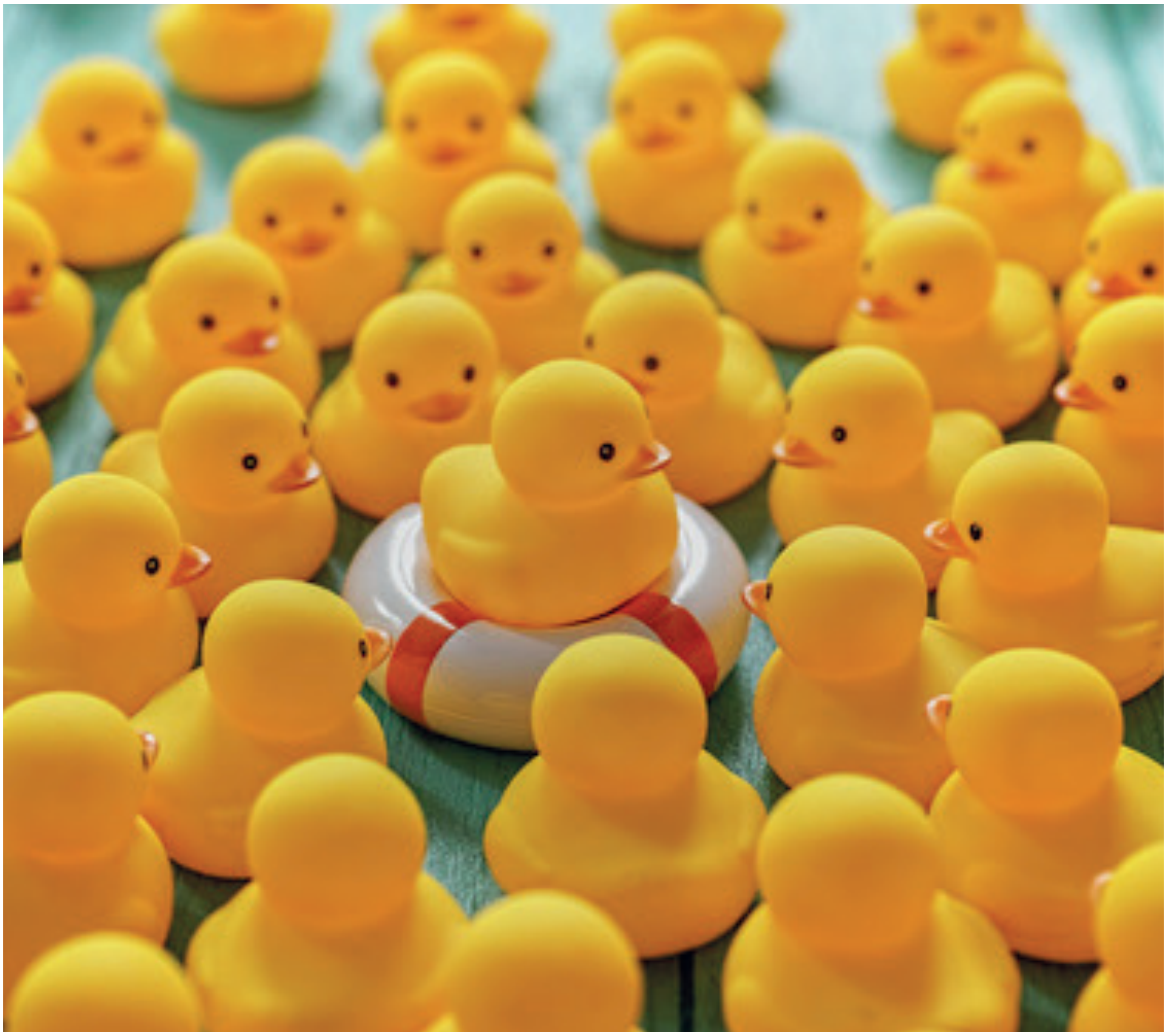
SAVING THE STORE

Unleashing the Power of Human Capital



The Power of Human Capital

This "Saving the Store" series of white papers from The O Alliance, a leader in creating Seamless Circular Commerce, examines how physical store retailers can apply innovative technology solutions to leapfrog competitors in today's world of digital retail. The focus of each paper in the series is on new capabilities which will increase store four-wall productivity and allow brick-and-mortar retail stores to remain relevant.

This paper explores the power of mobilizing the front line of a retail organization and how utilizing new training technologies can enhance productivity, thereby leveling the playing field with e-commerce.

The O Alliance

The O Alliance is a new consulting model that leverages a network of transformational practitioners with expertise in all of the critical areas — digital/technology, operations, change management, marketing and talent — that will unlock value and empower a retailer. Designed to align a retailer's organizational practices with today's digitally savvy consumer, The O Alliance's holistic approach delivers customer-focused strategy and solution-driven execution that creates a circular shopping ecosystem.

For more information visit www.theoalliance.com

Would one-third of potential customers rather wash dishes than visit a retail store? Yes, according to a recent study of 6,000 consumers surveyed by Capgemini[1]. And perhaps more alarming — all respondents to this survey said they were dissatisfied with the in-store shopping experience. What can be done to turn around this disconnect between consumer expectations and the physical retail store? Can stores even be saved?

Every day we hear about another faltering retailer. As of mid-June 2017, the number of store closings year-to-date (5,300) was triple what it was in the same period last year, making it the second worst year on record at the six-month mark, according to *CNN/Money*[2]. The worst year ever for store closings was 2008, said the media outlet, when Credit Suisse counted 6,163 closings, "but 2017 is poised to easily surpass that."

Store Closures in a "Death Spiral"

About 2,000 store closings had been announced within just a six-week period ending June 3, 2017, according to *Business Insider*[4], and are expected to reach more than 8,600 before year-end.

As of June 3, 2017

With these closings come tsunamis of retail job layoffs. In the five months following October 2016, 89,000 jobs had been lost in general merchandise retail alone, according to the *New York Times*[3]. The closing of retail stores and the elimination of thousand of entry-level and middle management jobs now qualifies as more than a business shift: It is about survival.

Online retail proliferation, and Amazon in particular, often is blamed for bleeding out the traditional brick-and-mortar store. Those retailers still gasping for air could be crushed by the imminent rise in minimum wage to $15 an hour. Yet as retailers scale back store count and staffing, consumers keep demanding better in-store experiences, which include more knowledgeable, engaged and professional in-store sales associates. Can this dichotomy between economic realities and customer expectations be bridged?

To Save America's Retail Stores: Challenge the Logic

Consider a different lens on one of the key expense lines on a retail profit and loss statement: **Human talent**. This could be more than simply a cost to be controlled. It could be one of the most powerful retail productivity tools in the equation. Could the effective deployment of human talent be an *offensive* weapon in the war to save the stores of America? Now look again at $15-an-hour wages. What is the best *defense* against this rising cost? Retailers *will* be paying labor escalation and all companies will be impacted equally by changes in minimum wage regulation. Yet those retailers interested in saving their stores will behave and invest differently than those that continue a cost cutting downward spiral. One major difference will be how the CEOs and leaders think, act and invest in human capital: Winners will unleash the power of their organizations by generating the most productivity from those associates about to cost them more money.

$150 Billion Retail Dollars Left on the Table

Oddly, many do not challenge this logic. Retailers continue to scale back their store staffs amidst consumers' demand for more knowledgeable, engaged and professional sales associates. "U.S. retail stores left about $150 billion in potential revenue on the table in 2016 by failing to offer shoppers the personalized experiences they want," reported *TimeTrade*[5].

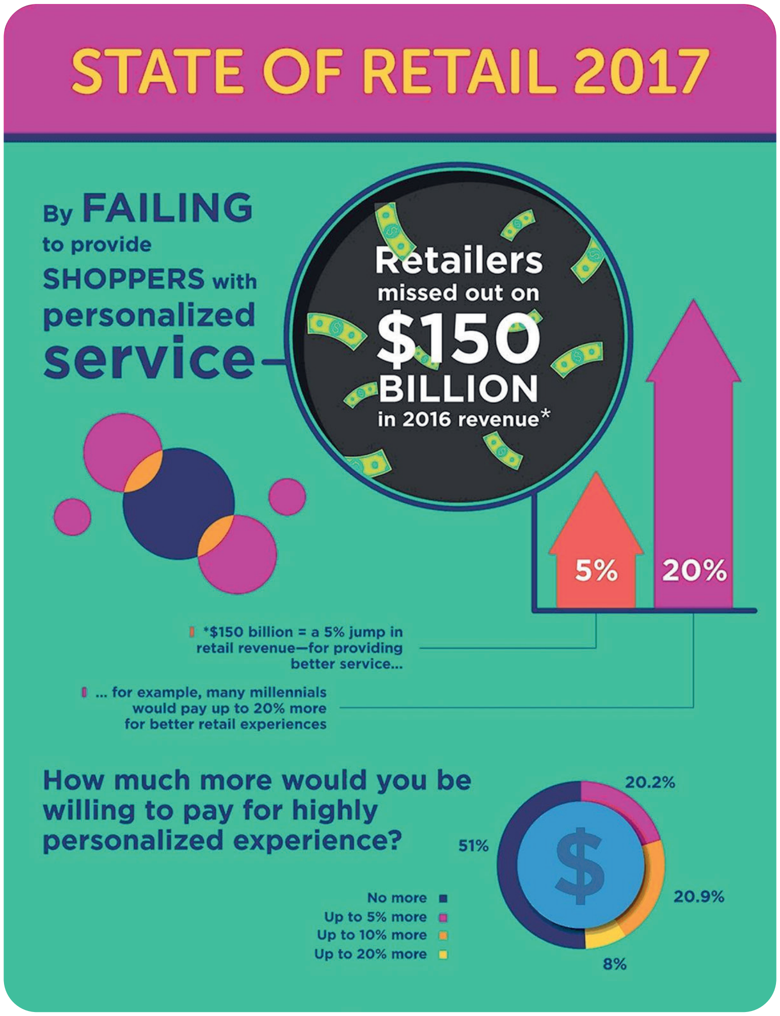
In the survey of 2,000 consumers, TimeTrade also found that:

- Retailers would increase their revenues 5% with better, more personalized customer experiences;
- The elusive millennials (almost half of whom still do 75% of their shopping in stores vs. online) would pay up to 20% more for an excellent store experience;
- Prompt service (47.3%), personalized experiences (26.2%) and smart recommendations (17.2%) are among what consumers value most when shopping in stores;
- 88% said they are "somewhat likely" or "extremely likely" to purchase when helped by a knowledgeable associate; and
- 71% said they sometimes or always abandon dressing rooms and leave stores if they can't find help.

Why ignore the data? “Winners of the future will be those that are transforming the customer experience through new technologies, digitizing operations, and putting in place the right people capabilities,” according to TimeTrade. In addition, retailers must ensure they do not just match fast-changing consumer expectations, but have the agility and vision to stay ahead of what consumers want from the physical store.

Gary Ambrosino, CEO of TimeTrade, stated in the report that “retailers’ revenue projections and stock prices are under pressure as the landscape continues to change. A renewed focus on providing shoppers with a better, more personal in-store experience would go a long way toward stemming the tide of defection to competitors and online sellers.”

Though in-store shopping is far from dead, “it does have to change to keep up with trends,” he stated. “The key to success for brick-and-mortar retailers is to fully utilize their existing staff and relentlessly focus on providing personalized service to every customer. We know consumers are willing to pay for better service. It’s a big opportunity for traditional retailers to up their game across the board and capture that additional revenue, instead of letting those dollars go elsewhere,” Ambrosino said.



Retailers Wave Goodbye to $150 Billion

TimeTrade: Retailers Missed Out on $150 Billion in 2016 Revenue By Failing to Provide Shoppers with Personalized Service.
(Photo: BusinessWire)

It's Time to Focus on Return on Human Capital

Even though retail executives surveyed by TimeTrade consistently say their stores do provide personalized shopping experiences, about half of customer respondents (49%) say they "never" or only "sometimes" receive those experiences — a major disparity. What are retailers missing?

When it comes to unlocking the value of human capital, most CEOs are far removed from their invaluable front line. They often rely primarily on human resources or training departments to manage personnel issues. Busy HR executives are often charged with recruitment, reducing turnover, avoiding costly company litigation, meeting federal mandates and keeping a lid on healthcare costs. But few, if any, HR professionals are measured on unlocking Return on Human Capital (ROHC). This is done by creating greater associate productivity, significance and career development.

Few leaders have risen to the challenge of making their workforce part of the arsenal against online cannibalization. Instead, where is most capital spending focused? Many retailers are trying to sustain a *technology arms race* against Amazon, attempting to demonstrate satisfactory Return on Invested Capital (ROIC) models to rationalize capital spending on new technologies and growth strategies. Hundreds of millions of dollars have been spent on beacons, magic mirrors, innovation labs, international expansion and other ROIC disappointments, which still have the customer unsatisfied with in-store experiences.

As these and other efforts to save the store have failed to deliver on customer expectations — is it finally time to do something bold, contrarian, more compelling and actually quite simple? Invest in people.

Many may not see the most promising ROI right in front of them: ***The value of the human interface***. Since store associates are viewed as a cost, not an investment with a potential return, the store workforce becomes a low priority in calculating performance improvements. Yet, in the eyes of customers, the relationship with a knowledgeable store associate offers some of the highest potential returns.

Most Store Technologies Miss the Mark

In a *Forbes* article titled: ***Retailers are Prioritizing the Wrong Digital Technologies in Brick and Mortar Stores***[6], Lily Varon, a channel strategy analyst at Forrester, emphasized that most store systems fail to achieve the results intended. The best approach is to "provide store associates with the right tools they need to win, serve, retain and delight today's empowered customers."

Varon noted that retailers are inundated with promising technologies to revolutionize the in-store shopping experience for consumers. “The problem? Our research shows that most of these experiences today miss the mark and may actually make the customer experience more complex or confusing.”

She pointed to a long-term prospect for technologies in retail stores, which addresses customer experiences.

Of the 16 experience technologies evaluated, Varon reported that only one — consumer mobile engagement technologies — demonstrated significant business value. She said retailers are scrambling to revolutionize the in-store shopping experience with digital technologies, but the resulting experiences are still often unnecessary, unintuitive, or just plain uncomfortable.

“Focusing on customers and their needs is the key to successful in-store technologies,” Varon stated. “In the Age of the Customer, retailers must streamline processes and provide their store associates with the right tools they need to win, serve, retain and delight today’s empowered customers.”

Human Capital Holds Greatest Organizational Value, Now and in Future

Engaged employees must factor into your vision for store success — and salvation. The mind shift from a cost line-item to an investment with an expected return — ROHC — is the starting point to see human talent as the greatest value creator available to an organization.

Powerful numbers: For every $1 invested in human capital, an estimated $11.39 is added to the GDP, according to a study from Korn Ferry[7], an organizational advisory company. Worldwide, the study revealed, the U.S. holds the human capital of greatest value, at $244 trillion, while physical capital (including tangible assets such as technology, real estate and inventory) is valued at $62 trillion.

“Although organizations often put technology in the spotlight in the future of work, it is human capital that holds the greatest value for organizations now and in the future,” said Jean-Marc Laouchez, global managing director, solutions, for Korn Ferry Hay Group, in the study results. “The return on human capital — value versus cost — should give a clear signal to CEOs: Investing in people can generate value for the organization over time that significantly exceeds the initial financial outlay. People, as assets, appreciate. This distinguishes them from physical assets, which operate at a limited maximum output and which typically depreciate over time.”

Investment in the Sales Associates is "Absolutely Critical"

Greg Buzek, founder and president of IHL Group, a global advisory firm specializing in technology for the retail industry, states that it is "absolutely critical that retailers invest in their people at the store level to improve the customer experience. The data show it: Retailers that are growing faster than the industry average rate embrace training and improving associate tools at a rate 185% higher than average retailers and nearly 300% higher than retailers that are stagnant or declining."

People used to have to shop in a store; now they have to want to. Indeed, the days of "stack'm high and watch'm fly" are over. When consumers do go to a physical store, "the decision often is based on where the best experience will be provided," said Buzek. "If retailers are not willing to invest in that experience — of which knowledgeable and relationship-building employees is a key part of the equation — they will be left behind and likely go out of business."

He continued, "There's a reason why Apple, Chick-Fil-A, Publix (making five times the profit of the average supermarket), The Container Store, Trader Joe's and Wegmans, among others, are succeeding: They all invest much much more in training their employees, which results in lower turnover, higher productivity, better customer experiences and higher profits."

Speaking of The Container Store.... It gets 3x the Productivity at 2x the Payroll Cost

The Container Store adheres to an employee-first culture, which results in getting three times the productivity from its employees, according to Kip Tindell, the firm's chairman and co-founder, in his book titled ***Uncontainable***.

This "1+3" philosophy — one great person equals three good people in terms of business productivity — is one of seven Foundation Principles guiding the company to success.

In an excerpt from ***Uncontainable***[8], Tindell wrote:

"Since we're getting at least three times the usual quality and productivity from our employees (it's a purposeful understatement — you can actually get much, much more than three times the productivity at certain endeavors), we can afford to have the courage to pay the people closest to the customer — our salespeople — 50 to 100 percent higher than the retail average, to communicate with them breathlessly, and to provide excellent benefits, hundreds of hours of training, and a happy place to go to work every day."

This strategy of investment in human capital provides real defensive tactics to wage rate increases and real offensive to customers' rising expectations.

"It's a not just a win-win. It's a win-win-win. The employee wins because she's getting paid twice as much and gets to work alongside other great people. The company wins because it's getting three times the productivity at two times the payroll cost. And, most important, our customers win," according to Tindell.

Here's Who Else "Gets It"

Unlike retailers who adhered to the model of cutting store personnel and who eventually filed for bankruptcy — including Gymboree, rue21, Payless ShoeSource, Gander Mountain, Wet Seal and The Limited, all just this year — other retailers, besides The Container Store, "get it" and are investing in their front line personnel. They include bareMinerals, Tiffany & Co., Kate Spade New York and Wal-Mart.

In investigating how these firms have outperformed other retailers during this massive shift in customer expectations, a common theme of ROHC expectations and a human talent technology investment practice surfaced. The first three of these retailers use a video-based mobile training app called INCITE from Multimedia Plus. INCITE is an interactive, highly branded, private broadcast network that helps companies instantly and seamlessly distribute instant-on video training modules and communications to store associates, allows granular targeting of every worker, and provides real-time metrics to field and corporate managers.

> **bareMinerals:** bareMinerals, and its parent company, Shiseido Company, Ltd., are focused on repositioning the brand in order to unlock performance and strengthen the business over the long term, said Kevin Stapp, the enlightened vice president of HR at Shiseido. As part of that effort, the company made a significant investment in revitalizing the way bareMinerals trains and communicates with its sales associates.
>
> "There are a number of ways bareMinerals is tracking the ROI of this mobile training investment, including measuring store performance and the link between the INCITE app and associate learning engagement, which is clearly apparent," said Stapp.
>
> "Speaking directly to retail and specifically the beauty segment, we see an increasingly difficult marketplace, and a number of approaches retailers are taking to get more competitive," he reported. "There's a range of reactions to the current competitive landscape, and in many cases I see retailers steering away from investing in the front line and instead focusing on bottom line costs. But in order to be true to our brand culture — which is providing customers with an exceptional, high-touch experiences — our C-suite is committed to enhancing those experiences by putting the customer first, in part with a training initiative that allows our sales associates to be more relevant as well as more productive."

Stapp stated that if a retailer has great people who are engaged and happy, their positive attitudes translate to the customer, and that drives better customer experiences, sales and ultimately profitability: "It's a simple equation that works. It all comes down to what you believe is core to your brand culture and value. If your business model involves delighting your customers and creating stellar in-store experiences, it has to involve an investment in the front line."

He added, "We also have seen and done studies that showed a direct correlation between our best stores and the culture of learning and growth that took place there. That motivated us to pilot then roll out the INCITE app. The results — strong learning engagement and an increase in productivity — were at the heart of our C-suite's decision to invest in this platform."

Tiffany & Co.: Tiffany recognizes that its company is only as strong as its employees. "We realize each employee's knowledge and skills are an important source of organizational capability and competitive advantage," said Rhonda Edelman, senior director of global education for the high-end jewelry and gift retailer. Senior leadership at Tiffany & Co. is a longtime proponent of employee training, she said, and seeks to offer training not only to allow employees to perform their jobs better but also to grow both professionally and personally.

Tiffany & Co. is delivering INCITE to its thousands of sales associates in 313 showcase stores in 28 countries, with training and messaging translated into ten different languages. Individual engagement is verified and addressed by INCITE-equipped regional, district and store managers around the world, to reward and support personal growth as needed.

"Retail is a tough business and we need creative ways to deliver training to make sure our highly committed retail sales force is getting what it needs to be successful," Edelman reported. "Mobile technology and INCITE allow that, and also enable our sales professionals to remain on the floor as much as possible, which is consistent with our customer-centric approach."

Kate Spade New York: Kate Spade New York believes in empowering its teams to build long-lasting relationships with their guests by being culturally curious, and providing more than just sellable statements. One of the ways Kate Spade New York is enhancing its store culture is through an investment in front line training.

"We have always believed in hiring right and providing extensive training, but as we opened more stores and continued to see an increase in both foot traffic and additional product categories, we knew we needed to move away from traditional training," declared Suzanne Sulin, senior director of global learning and organizational development for the fashion retailer. "We then launched the video-based INCITE communications app and it forever changed the way we train our teams. INCITE's high-impact, bite-sized learning with accompanying assessments has helped us build fleet-wide consistency, confidence and compliance in our North American stores. The investment has been a game changer."

Wal-Mart: Perhaps Wal-Mart best exemplifies the convergence of unlocking human capital as part of its strategy to remain relevant in the age of Amazon. Along with reports of the recent investment in Jet.com and other online retailers, dozens of news stories also point to Wal-Mart's raise in hourly sales associate pay and investment in dozens of training centers designed to guide hundreds of thousands of employees in better serving its customers. The result is a "better caliber of workers" and "better-paid, better-trained workers [who] are creating a better in-store experience for Wal-Mart shoppers," according to a recent article in *Forbes*[9].

"Before adding its dedicated training centers, Wal-Mart did not provide its employees a clear structure for achieving management status," reported *Forbes*. "It's not surprising, then, if a lot of workers were less motivated. Since investing in the centers, Wal-Mart has begun attracting a higher standard of worker....Which reinforces the overall 'its pays to pay' strategy." *Forbes* stated that the associate pay raise and the network of training centers cost Wal-Mart about $2.7 billion.

More than 275,000 associates are scheduled to have completed training in retail work skills by the end of 2017. Early indicators for a payback on this investment in human interface look positive. Since opening dedicated training centers in 2016, comparable store sales at Wal-Mart U.S. have shown dramatic improvement, bucking other retailers' trends. For the 2nd Quarter 2017, Wal-Mart U.S. reported a 1.8% increase in comp sales and traffic increases of 1.3%, marking the 12th consecutive quarter with positive comp sales. And this store growth is in addition to recent strong e-commerce growth. Additionally, Wal-Mart is doubling down on training technology, testing innovations such as virtual reality (VR) simulators to enable Wal-Mart associates to experience and learn how to best respond to real work-life issues. All demonstrate Wal-Mart's understanding of the value of investing in human talent to maximize shareholder value.

Investing in Human Capital is part of the "Circle of Commerce"

Is it possible that one of the most powerful offsets to digital commerce transference is actually the hourly, front line store associate? Could these successful retailers have all identified and mobilized on one of the vital components required to save the store — engaged, service oriented and informed associates? By fully embracing the power of the human interface, these retailers are exemplifying unlocking a solution that is right in front of every retailer. Even Wal-Mart, the master of self-service and rollback prices, is investing in store associates as part of its arsenal of competitive tools. While most retailers could not afford the elaborate training centers of Wal-Mart, virtually all can afford some of the newest mobile technologies. And these small investments in technology tools designed to level the playing field between customer expectation and employee knowledge appear to pay back, providing demonstrated ROHC.

Perhaps the obvious, low-tech nature of the human interface seems too simple to address complex issues created by sophisticated algorithms, artificial intelligence, hyper-logistics and predictive analytics. A bit David vs. Goliath. But in a customer-centric retail ecosystem, there is a place for stores that provide excellent customer experiences, with friendly associates, knowledgeable product specialists and service-oriented staff. One look at the magnitude of store conversion versus online conversion should be enough to convince any retail executive that even modest improvements can validate and provide return.

The barriers to grasping the opportunity of ROHC often lie in a retailer's history, culture and transactional business model. What is missing from this view is something Amazon and other online retailers have always known —the circular nature of commerce. By not having the human interface as part of the sales process, online retailers have necessarily mastered data capture, content, customer acquisition insights and customer life value, and understand prediction and optimization engines to drive performance. Yet online businesses have to be satisfied with conversion rates a fraction of the old-fashioned store. Virtually all e-commerce sites are a poor substitute for genuine relationships and personalization provided by a well-trained associate.

By exploiting a disadvantage of every website, brick-and-mortar retailers could have a powerful antidote to e-commerce, and multi-channel retailers can improve profitability dramatically by stopping eroding store sales. ***And it just could save your stores from extinction***.

About The O Alliance

The O Alliance is a new consulting model that leverages a network of transformational practitioners with expertise in all critical areas — including digital/technology, operations, change management, marketing and talent — that unlock value and empower a retailer. Designed to align a retailer's organizational practices with today's digitally savvy consumer, The O Alliance's holistic approach delivers a customer-focused strategy and solution-driven execution that creates a circular shopping ecosystem.

The O Alliance's proprietary **Seamless Circular Commerce** model, and its organization alignment process, "The O Method™," places all customer behaviors and preferences at the center of commerce creation. The **Circle of One** is at the heart of this proprietary process, which replaces — rather, *disrupts* — outdated organizational structures, information siloes and omnichannel attitudes to maximize the value of customer data. "The O Method™" condenses massive amounts of customer-centric retail data currency into commerce creators across the entire retail ecosystem: Information is leveraged from myriad domains to drive lifetime customer value and increase wallet share. With customers at the core, all retail processes and customer touch points are seamlessly interrelated.

Customer-centric **Seamless Circular Commerce** allows retailers to create deeply personalized customer experiences that drive organization revenues and profitability.

TheOAlliance

For more information, please contact us at:

The O Alliance
115 E. 23rd Street, Suite 315
New York, NY 10010
352-233-4454
www.theoalliance.com
Info@theoalliance.com

Footnotes:

1
https://www.capgemini.com/news/future-of-bricks-and-mortar-stores-in-question-as-a-third-of-consumers-would-rather-wash-the

2
http://money.cnn.com/2017/06/23/news/companies/store-closings/index.html

3
https://www.nytimes.com/2017/04/15/business/retail-industry.html?mwrsm=Facebook&_r=0

4
http://www.businessinsider.com/the-tsunami-of-store-closures-is-doubling-in-size-2017-6?IR=T&utm_source=Triggermail&utm_medium=email&utm_campaign=BIIWeekenderBII Marketing6.3.2017&utm_term=BII%20Marketing%20-%20Engaged%2C%20Active%2C%20Passive%2C%20Disengaged

5
https://www.timetrade.com/about/news-events/news-item/timetrade-survey-retailers-missed-150-billion-2016-revenue-byfailing-provide-shoppers-personalized-service/

6
https://www.forbes.com/sites/forrester/2016/09/08/retailers-are-prioritizing-the-wrong-digital-technologies-in-brick-and-mortar-stores/#6171c137e5bd
https:/lwww.theoalliance.com/

7
https://www.kornferry.com/press/korn-ferry-economic-analysis-human-capital-nearly-2-5-times-more-valuable-to-global-economy-than-physical-assets-such-as-technology-real-estate-and-inventory

8
https://books.google.com/books?id=alWqCgAAQBAJ&pg=PT19&lpg=PT19&dq=you+can+actually+get+much,+much+more+than+three+times+the+productivity+at+certain+endeavors&source=bl&ots=aCcMUsrDio&sig=Tm94ewjuCmbQ8ck8flS8wMmQRmU&hl=en&sa=X&ved=0ahUKEwip67Ww54bVAhXIVz4KHWniBsYQ6AElKzAB#v=onepage&q=you%20can%20actually%20get%20much%2C%20much%20more%20than%20three%20times%20the%20productivity%20at%20certain%20endeavors&f=false

9
https://www.forbes.com/sites/bryanpearson/2016/11/01/5-priceless-ways-walmarts-investment-in-workers-is-paying-off/#bcb27b645d57