The productivity CONUNDRUM

Retailers are in agreement that boosting productivity is the greatest strategic challenge facing the sector in 2016, but achieving this goal is easier said than done. **Nick Hughes** reports

The UK has a productivity problem. Recent ONS statistics show the gap between Britain's productivity and that of the other leading western economies is at its widest since records began in 1991. Only Japan of the G7 group of industrial nations gets less 'bang for its buck' from its workforce than the UK.

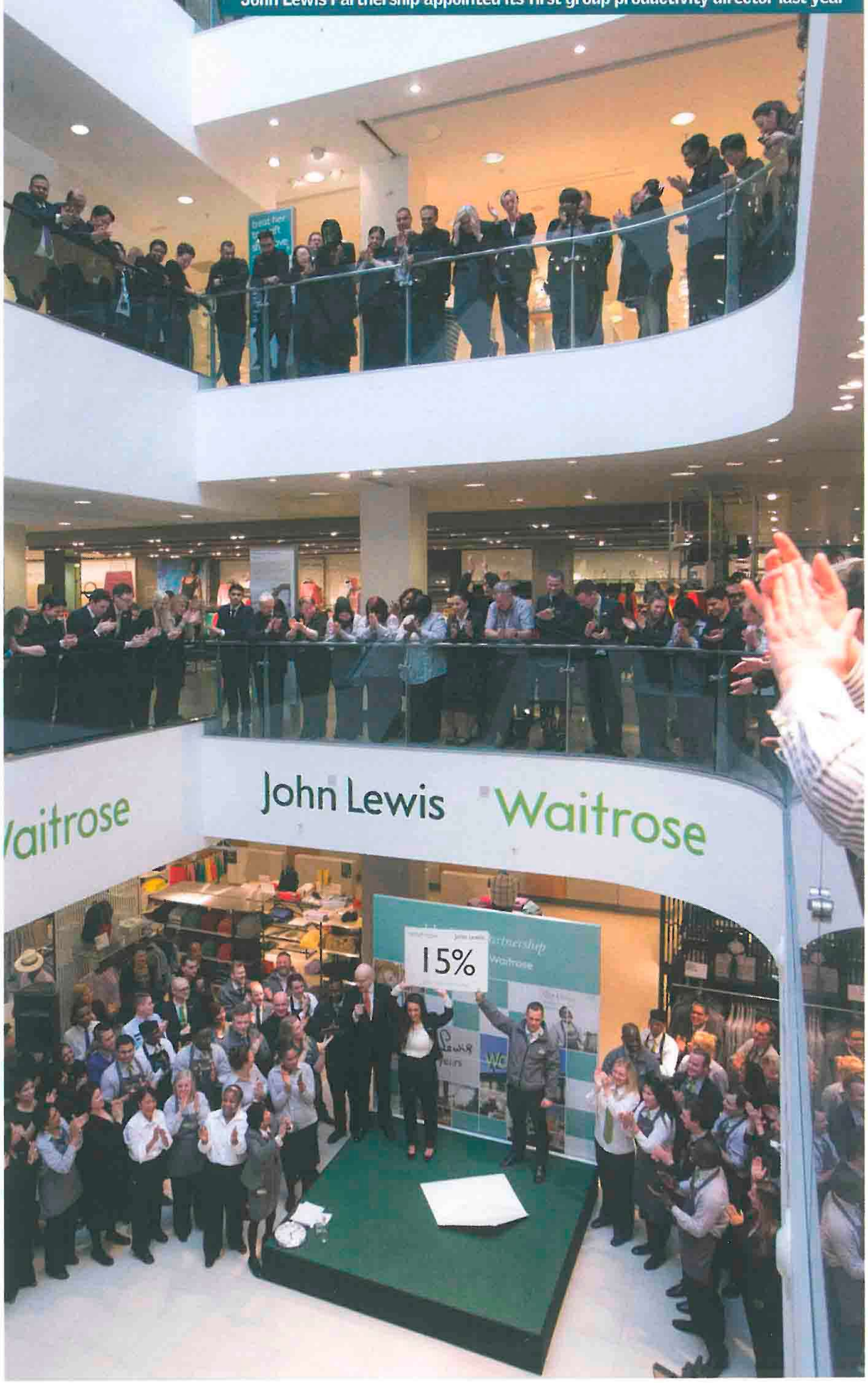
The issue is troubling those at the heart of government. In 2015, the UK Government launched a plan titled 'Fixing the Foundations' after business secretary Sajid Javid declared boosting productivity to be "the economic challenge of our age". The report identified retail as one of five sectors – along with financial services, ICT, professional services and wholesale – that make up 40% of the economy but have accounted for around 65% of the productivity shortfall. Retail, in other words, is part of the productivity problem.

Retail leaders appear to be getting the message. Productivity was recently identified as the most critical strategic consideration of 2016 by *Retail Week*'s advisory board of CEOs, and some notable businesses are putting productivity front and centre of their growth plans.

But why has it moved up the boardroom agenda now and how can retailers adapt their models to maximise their productive potential?

The renewed focus on productivity – most commonly measured by the amount produced for every hour worked – is partly the result of a perfect storm of static demand in the retail sector and increasing wages through the introduction of the national living wage. As Madeleine Thomson, UK leader of industry retail and consumer and partner at PwC, notes: "If retailers are to have the costs of their lowest-paid staff increase by at least 30% then more attention needs to be placed to ensure these roles drive as much value as possible."

It also reflects the changing face of retail and a desire by retailers to better understand where resources are being employed most effectively in a multichannel setting. "How we shop is dramatically changing and our service expectations are continuing to grow at pace," says James McGregor, partner at Retail Remedy.



John Lewis Partnership appointed its first group productivity director last year

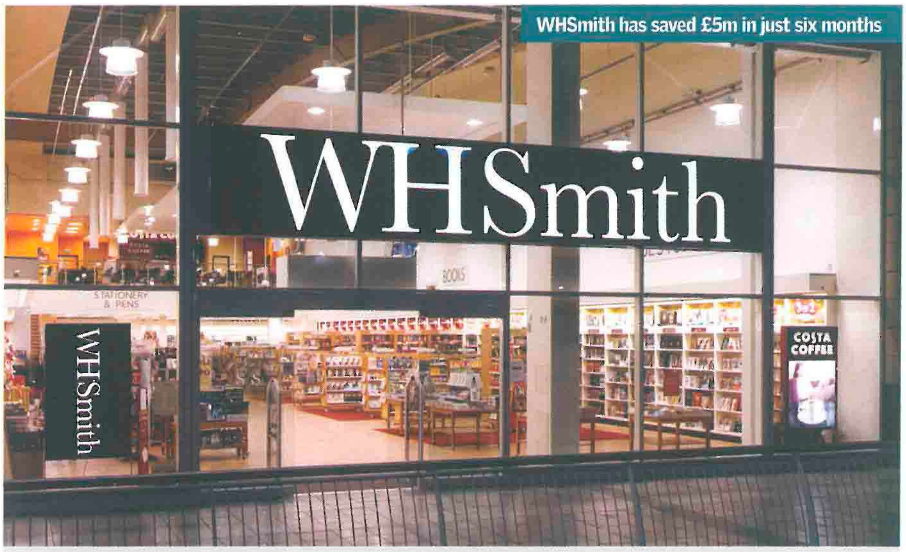
"The sales densities achieved from in-store propositions continue to decline as multichannel grows. Delivering the £9 living wage by 2020 without increasing your cost base is daunting."

Some retailers, particularly grocers, are tackling the conundrum by stripping out unproductive head office roles, with the likes of Tesco, Morrisons and Asda cutting management headcount in recent years and, in the case of Tesco, reallocating senior staff to the shopfloor.

Meanwhile, Asos recently revealed a fall in costs at its Barnsley depot due to productivity targets being met, and that its returns facility also hit new productivity highs.

MADELEINE THOMSON, PWC

"More attention needs to be placed to ensure roles drive as much value as possible"



WHSmith has saved £5m in just six months

WHSmith focuses on supply chain gains

WHSmith is one retailer placing a strategic importance on improving productivity in its supply chain. It says it achieved cost savings of £5m in the first half of its current financial year thanks in part to productivity improvements at its distribution centres. Specifically, WHSmith says these gains have been achieved through:

- Greater use of automation to increase pick productivity, including voice-picking technology.
- Investment in warehouse infrastructure – for example, new conveyers.
- Investment in double-decker trailers, which are able to carry more stock from warehouses to stores.

John Lewis Partnership links productivity to long-term prospects

Above and beyond all of its peers, it is the John Lewis Partnership that, publicly at least, is leading the charge in placing productivity at the heart of its business model.

In September 2015, JLP appointed Andrew Murphy as its first group productivity director, tasked with implementing plans that will support the partnership's productivity improvements, financial strategy and future organisational structure, and with finding efficiencies across both the John Lewis and Waitrose brands.

Murphy's influence is clear in JLP's new business plan, which lists productivity as one of '4Ps' – the others being performance, pay and progression – that it says are pivotal to the partnership's long-term financial health.

"Partners are our competitive advantage and our longer-term financial health relies on productivity," says Murphy. "The two are intrinsically linked. Productivity works in harmony with performance, pay and progression to form our '4Ps', positioning us ready for the future trends we see in the workplace."

Productivity goals

Some of the ways in which JLP will seek to achieve its productivity goals are typical of the organisation's spirit of inclusivity and innovation. It wants to inspire partners to get involved in continuous improvement initiatives and embrace new technologies to enhance productivities. But there is also a hard-nosed business edge to many of its ambitions. JLP admits that it will need fewer partners in the future, but those partners will be more productive and hence will be paid more.

Partners will be expected to work in different areas of the business at different times and to learn new skills that add value. It also plans to review its approach to sickness absence and align working hours with shopper patterns by shifting to more part-time and longer-hours work patterns.

Changing shopping patterns

The recognition that shopping patterns are changing is key for retailers looking to tackle the issue of productivity, not least in how they measure it.

Gone are the days when a retailer could measure a store's productivity by dividing its turnover by the number of staff. The shift to multichannel shopping means the contribution of labour to revenue and profitability cannot be simplified in such a way.

As such, productivity measures need updating in line with changing customer behaviours, says PwC UK leader of industry retail and consumer and partner Madeleine Thomson. "Channel profitability is dangerous to measure in isolation and should not be used to guide investment decisions as many purchases will be researched online, viewed in store and purchased in either. It's the sum of the parts that counts."

Measuring productivity

JLP says it measures productivity by the sales and profit it makes per partner, with the implication being that the location and role of an individual employee are less important than the total value generated by its workforce as a whole.

Viewing the business as a whole requires a cultural leap that many retailers find difficult to take. "The biggest challenge we find when working with retailers on productivity and process improvement initiatives is not finding ways to improve productivity, but managing the implementation and adoption at a senior level," says Retail Remedy partner James McGregor. "Business functions' sales channels are still working in silos and have a tendency to empire-build, failing to see the bigger picture. Overcoming inconsistencies through clear and transparent communication are part of a productivity director's remit."

It's only through understanding where resources are being deployed most effectively that retailers will be able to solve the productivity conundrum, and in the process help the UK shed its tag as the idle man of the developed world.