



GOOD JOBS IN RETAIL A TOOLKIT



How to move to a Living Wage
and maximise the benefits

Acknowledgments

This toolkit was written and developed by Tess Lanning and Luke Murphy for the Living Wage Foundation, with support from EE, IKEA, BrewDog, Hobbs, Paperchase and KPMG.

It is kindly supported by the Department for Work and Pensions and the UK Commission for Employment and Skills as part of the UK Futures Programme – a series of productivity challenges testing innovative solutions with businesses to identify ‘what works’ in addressing workforce development problems.

The Living Wage Foundation would like to thank Emma Morton, David Shears, Robin Winstanley, Rose Stott, Rona Cook, Anna Parfitt, Jacqueline Rouse, Rachel Bowman, Simon Luscombe, Paul Jamieson, Peter Scraton and Sam Dodds for their advice and input. We would also like to thank Professor Zeynep Ton for enabling us to draw on her ground-breaking research on the operational strategies that underpin a ‘Good Jobs Strategy’ in retail and for her invaluable support during the project.



Introduction

It is often assumed that higher wages in labour-intensive service sectors are ‘bad for business’. But the decision by leading retail and hospitality employers to go beyond statutory requirements to pay their staff the Living Wage has confounded the traditional view of how to succeed in these sectors.

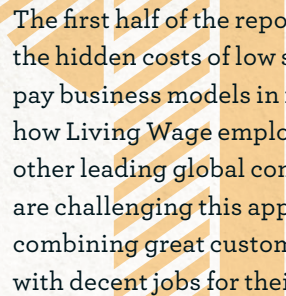
From fast-growing UK-born companies such as the brewery and bar chain BrewDog, to the global low-cost furniture giant IKEA, accredited Living Wage employers are demonstrating that the companies best placed to succeed in the 21st century will be those that put the customer-staff relationship at the heart of their business model.

In an era where customer service is increasingly important, many retailers are looking at how to best invest in and engage their employees.

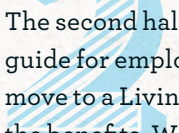
This Good Jobs Toolkit provides a practical ‘how-to’ guide, drawing out lessons from leading Living Wage employers and other global retailers about how to provide value for customers and investors, while also creating jobs that are better paid, more stable and more meaningful for employees.



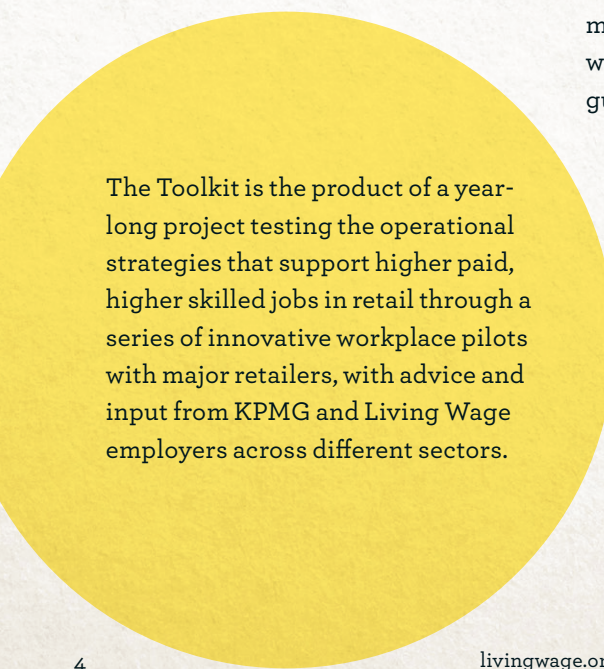
Structure of the report



The first half of the report examines the hidden costs of low skill, low pay business models in retail, and how Living Wage employers and other leading global companies are challenging this approach by combining great customer service with decent jobs for their staff.



The second half provides a practical guide for employers that want to move to a Living Wage and maximise the benefits. We offer advice on how to make the case for a Living Wage, ensure it helps you to achieve your long term business objectives, and manage change effectively. If you want to go straight to the practical guide, turn to page 21.



The Toolkit is the product of a year-long project testing the operational strategies that support higher paid, higher skilled jobs in retail through a series of innovative workplace pilots with major retailers, with advice and input from KPMG and Living Wage employers across different sectors.

The Living Wage Campaign

The campaign for a Living Wage began in 2001. Communities in East London came together to discuss what changes would improve their lives. Parents spoke of the hardship they faced living on poverty wages. At the time the National Minimum Wage was just £3.70 an hour, and many of them were working two jobs and still struggling to make ends meet.

The Government's new minimum wage rate for over 25 year olds – badged a 'national living wage' – was a huge win for the 15-year campaign to tackle in-work poverty. However, the new wage floor came in at £7.20 in 2016 and is due to rise to over £9 by 2020, based on a target to reach 60 per cent of median earnings.

This is lower than the voluntary Living Wage rates, which are independently-calculated based on what people need to meet the basic cost of living, cover all workers over 18, and include a separate rate to reflect the higher living costs in the capital. In 2016 these were set at £8.25 and £9.40 in London.

By mid-2016, there were over 2,500 accredited Living Wage employers, including nearly a third of the FTSE-100. More than 100,000 employees have seen their wages increase as a direct result of the campaign and well over a million employees are covered by Living Wage accreditation agreements.

The Living Wage rates are updated in November each year based on the best available evidence about the trends affecting people's living standards. The methodology is overseen by the Living Wage Commission – an independent body drawn from leading Living Wage accredited employers, trade unions, civil society and experts.



1 *A case for change: spotlight on retail*

The retail and wholesale sector contributes £180 billion to the UK's economic outputⁱ and employs nearly five million people, making it the country's biggest employer.ⁱⁱ Yet the sector is facing a challenging business environment. Established players are feeling the pressure from lower-cost entrants. The rise of online shopping has also driven up operational costs and led to a fall in the number of people entering physical stores.

In a sector that operates with tight profit margins, this highly competitive context has led to an ongoing drive to control costs. Labour is the biggest and most tangible cost to retailers. Efforts to improve competitiveness therefore often focus on reducing staff costs – with measures to limit the cost of employee pay and benefits, minimise investment in training and match staffing levels and contracts to patterns of customer traffic as closely as possible.

As a result, low wages, chaotic schedules and a lack of training and progression opportunities are often seen as an inevitable feature of jobs in the sector. 1.5 million people in wholesale and retail are low paid – making up nearly a third of all low paid people in the UK.ⁱⁱⁱ

The use of short-hours contracts is common^{iv}, and research estimates that 40 per cent of wholesale and retail employers provide no training for their staff.^v

IN A SECTOR THAT OPERATES WITH TIGHT PROFIT MARGINS, EFFORTS TO IMPROVE COMPETITIVENESS OFTEN FOCUS ON REDUCING STAFF COSTS

These problems have got worse in recent years, as many retailers responded to the downturn with cuts to staff training budgets, real terms reductions in pay, and a move to more part time and agency staff.

A report in 2015 commissioned by the Joseph Rowntree Foundation found that low paid workers in the service sectors described their jobs as stressful, unfulfilling and precarious. Most of the retail workers interviewed for the research had experienced cutbacks in hours and many were not paid for breaks or overtime.^{vi}

The hidden costs of bad jobs

This is not just bad for employees. Many employers are also concerned about the sustainability of this strategy, which is associated with high levels of staff turnover, absenteeism and loss of stock to theft and error ('shrinkage').

The negative image of the sector and lack of progression opportunities mean that retailers often struggle to attract or retain recruits with the right skills and attitude. Low levels of training exacerbate problems such as poor customer service, a lack of product knowledge, and weak problem-solving, organisational planning, leadership and strategic management skills.^{vii}

These problems have indirect and direct costs to employers.

Operational complexity has grown at the same time as many retailers have reduced investment in staff, driven by bigger product ranges, more complex service offers and frequent promotions. There is increasing recognition that this complexity has increased costs and can exacerbate stock management problems and poor customer service.^{viii}

MANY EMPLOYERS ARE CONCERNED ABOUT THE SUSTAINABILITY OF LOW WAGE STRATEGIES, WHICH DRIVE HIGH STAFF TURNOVER, ABSENTEEISM AND SHRINKAGE

Low price retailers in particular are often seen as synonymous with demotivated, overworked and undertrained employees, long check-out queues and disorganised stock management. In extreme cases these problems can seriously undermine business performance, particularly for those that get into a vicious downward cycle.

A vicious cycle?

When sales and profits are falling, managers often reduce labour costs, with staff hours and training budgets the first to see cuts. This delivers short term savings. But in the longer term understaffed stores with poorly trained, demotivated staff are often associated with operational problems that undermine store sales and profits.

A study conducted by the leading MIT operations expert Professor Zeynep Ton at global bookstore Borders at the peak of its success found that high employee turnover and understaffed stores were systematically hitting business performance. A combination of high workload and complex, badly-designed operating processes resulted in misplaced products and a failure to replenish stock. One in six customers who approached a salesperson for help could not find what they were looking for, despite it being in stock, because it was in the wrong place.

The study estimated that profits would have been 25 per cent higher at Borders had there been none of these so-called "phantom stock-outs". Over time this problem seriously undermined the company's ability to respond to changing customer tastes by integrating its store and online operations through a click-and-collect service.^{ix} Borders was one of the first casualties of the rise of online retailing, and eventually filed for bankruptcy in 2011.

These operational problems are live issues in the UK. Loss of stock due to crime, waste and error costs British retailers more than 1.3 per cent of sales.^x One survey found that over a third of customers had left a shop empty handed in the previous month due to poor stock management, costing retailers £1bn a month in lost sales. The study found that some customers, particularly young people, would stop shopping with retailers permanently if they repeatedly fail to provide what they are looking for.^{xi}

This situation is frustrating for customers and can lead them to shop elsewhere. Customer satisfaction with the UK retail industry declined sharply between 2010 and 2015, and the Institute of Customer Service raised concerns that some organisations were focusing on short term improvements in market share at the expense of the longer term investments in workforce skills, engagement and technology required to drive customer loyalty and sales in a highly competitive environment.^{xii} Despite a small improvement in 2015, customer satisfaction remains below 2010 levels. The biggest areas of complaint are speed and responsiveness, complaints handling, and staff behaviour and attitude.^{xiii}

The prevalence of low skill, low wage business models across the labour-intensive service sectors also has negative implications for the economy and the country, and is attracting increasing concern from business leaders and policymakers.

The CBI has highlighted that wholesale and retail and other low paying sectors such as transport, administration and leisure account for almost a third of the UK's productivity gap with the US.^{xiv} Research by the British Retail Consortium found that more than half of retail employees feel overqualified for the work that they do, and nearly a fifth do not feel motivated to give their best at work.^{xv} This finding is echoed by surveys of wholesale and retail employers in the UK, a third of which report that they have staff with skills and qualifications that are not being used in their job roles.^{xvi}

These studies suggest that there is huge unfulfilled potential within the UK retail workforce, and that the country is not reaping the economic benefits that should follow from a higher skilled population.

STUDIES SUGGEST THAT THERE IS HUGE UNFULFILLED POTENTIAL WITHIN THE UK RETAIL WORKFORCE, AND THAT THE COUNTRY IS NOT REAPING THE ECONOMIC BENEFITS THAT SHOULD FOLLOW FROM A HIGHER SKILLED POPULATION

The introduction of the new higher minimum wage for over 25 year olds, labelled a 'national living wage', has brought these issues to a head, with the Government arguing that employers must pay more to offset planned reductions in state spending on working tax credits. While some retailers have warned that higher wages will lead to reduced dividends, downward pressure on job quality and widespread job losses, others hope that it could help to slow the race to the bottom and tackle long-standing problems of high turnover, low skills and weak productivity.

The prospect of sharp increases in the minimum wage over the next five years is forcing all retailers to look even more closely at how to increase productivity and reduce costs.

The key question is how they will choose to respond.

The alternative: taking the 'high-road' to business success

The decision by leading retail and hospitality employers to go beyond basic legal compliance and pay their staff the higher, independently-calculated Living Wage rates demonstrates that low pay is not an inevitable feature of these sectors. Set at £8.25 and £9.40 in London, full time workers paid the Living Wage earn £2,000 a year more than those on the minimum wage, and £4,000 in the capital.

LIVING WAGE EMPLOYERS
SEE THE WAGE INCREASE
AS AN INVESTMENT,
NOT A COST

Living Wage employers see the wage increase as an investment, not a cost. For these companies, a modern workforce – well-paid and motivated to perform to the best of its ability – is the key to good service. This drives customer loyalty, which, in turn, drives sales and profits.

The relationship between higher wages and lower staff turnover is long-established^{xvii}, and organisations that pay the Living Wage across different sectors have reported improvements in staff loyalty, engagement and quality of work, reductions in staff turnover and absenteeism, and a stronger corporate reputation.

The business case for a Living Wage

Several studies have looked at the impact of the Living Wage in London, where the campaign began. A study by London Economics found that more than 80 per cent of London Living Wage employers reported enhanced staff performance. The majority said it had improved staff recruitment and retention, and 70 per cent reported improved consumer awareness of their commitment to being an ethical employer.^{xviii}

MORE THAN 80 PER CENT
OF LONDON LIVING
WAGE EMPLOYERS
REPORT ENHANCED STAFF
PERFORMANCE

Similarly, researchers at Queen Mary University found that London Living Wage employers experienced a 25 per cent reduction in labour turnover on average. Greater staff stability had also led to higher productivity

and better relationships between in-house and sub-contracted staff, while Living Wage accreditation was seen as having reinforced their reputation as good employers.^{xix}

Studies in other regions^{xx} and countries^{xxi} have found similar improvements in recruitment, staff retention and firm reputation as a result of successful campaigns for a living wage. These studies are supported by a wide body of evidence showing that engaged employees that feel valued and have time and resources to perform their jobs to the best of their ability are more productive, more loyal, more resilient under pressure, and less likely to take sick leave or other absences.^{xxii}

Organisations that maximise the benefits of paying a Living Wage take a holistic approach, combining the investment in staff pay with wider changes that result in permanent improvements in staff performance, productivity and customer service. This is sometimes underpinned by a move over time to flatter, more collaborative team structures that support both a higher entry rate of pay and longer and more stable contracts. Investments in training enable them to build a more skilled workforce that requires less supervision and can be deployed more flexibly across different job roles.

INVESTMENTS IN TRAINING
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In this way, the Living Wage can act as a catalyst for meaningful changes across the business.

When the brewery and bar operator BrewDog became a Living Wage employer in October 2014, they also abolished zero-hours contracts and introduced more stable hours, with the most common new contract set at 32 hours a week. The company simplified its pay structures, introduced greater pay transparency and increased managerial pay, so that more than 180 staff got a pay rise overall. BrewDog also improved its training and development programme, capitalising on the expectation that its staff would want to stay longer with the business.

In just a year these interventions had led to a 50 per cent increase in staff satisfaction with their pay, a 40 per cent reduction in staff turnover on the company's retail sites and an increase in the proportion of management roles filled by internal promotions from less than 50 per cent to 80 per cent.

"All of our managers have been astounded with the impact on their teams... [The staff] feel that they're part of something bigger and they can more easily see how they're impacting on the business. They build better relationships with our customers. We get better customer feedback. The returns that you get on it are just phenomenal."

Rona Cook, People Business Partner, BrewDog

"[We] definitely take more pride in our work. To rent in Aberdeen I might have to have another job or work an enormous amount of hours so it lets me focus on working here and being really passionate about craft beer in my job and not worrying about just working for money."

Robyn, Former bar staff and now Duty Manager, BrewDog

Case study: *how to go* **Living Wage** –IKEA

IKEA became an accredited Living Wage employer in April 2016. As well as increasing their entry-level pay rate to the Living Wage, IKEA increased pay for all employees up to the first tier of management. Overall more than 6,700 people got a pay rise. The low-price furniture retailer also put in place a plan to move all sub-contracted staff working on their premises onto a Living Wage within two years.

At IKEA, the Living Wage is one part of a long-term business strategy to improve customer service and sales, including a plan to tackle underemployment and make better use of staff skills and abilities.

This includes plans to:

Improve job security:

IKEA is introducing new rights to ensure their employees have the hours and flexibility they need for a healthy work-life balance. This includes the rights to a weekend off a month and a contract that reflects the hours they work on a regular basis. In the longer term they plan to reduce the reliance on temporary staff and offer more hours to those that want them.

Improve operational flexibility:

IKEA is improving operational efficiency and customer service through changes to scheduling, enabling them to better manage fluctuations in demand over the year, and multi-skilling to support more collaborative team structures where jobs are more varied and staff are trained to carry out a range of activities according to store needs.

“Introducing the living wage is not only the right thing to do for our co-workers; it also makes good business sense. This is a long-term investment in our people based on our values and our belief that a team with good compensation and working conditions is in a position to provide a great experience to our customers.”

Gillian Drakeford, Country Manager, IKEA

Managing these changes is no small task. IKEA has a turnover of more than £1.5bn and employs 9,000 people across 18 large stores, which operate on a decentralized model. A team was set up to oversee the process of change, enabling them to take a joined-up approach and adapt goals and strategy as necessary. The team engaged with all parts of the organization to develop and test the proposals. This involved presenting the rationale for change and business objectives to all stores across the country, creating active spaces for staff to talk about their concerns and ideas, as well as consulting with their elected employee forum, the National Co-worker Committee, and recognised trade union, USDAW.

The company is clear that the investment will make them money overall. Together the changes aim to improve employee satisfaction – including a target to save up to £10million by reducing staff turnover to less than 10 per cent – and lead to more helpful, knowledgeable staff. This in turn is expected to improve customer satisfaction and business turnover. They reflect IKEA’s culture and values, which see good leadership at all levels of the organization as being the key to success, underpinned by fair standards of employment.

The ingredients that underpin a 'Good Jobs Strategy' in retail: wider evidence

The approaches taken by Living Wage employers are echoed in the wider evidence about how leading service sector companies succeed by combining great customer service with good jobs. MIT management professor Zeynep Ton has examined the choices that enable some of the world's most successful retailers to deliver low prices and offer decent pay and benefits, stable, predictable schedules, and opportunities to train and progress.^{xxiii}

Ton looks at companies operating in comparable labour markets to the UK, including the highly successful US retailers QuikTrip, Trader Joe's and Costco.

Her findings suggest that four operational choices underpin their ability to follow a 'Good Jobs Strategy':

Standardise and empower:

First, these companies **standardise** all routine tasks to ensure efficiency, safety and consistency between stores, but also **empower** their employees to use discretion when it comes to decisions that will affect customer satisfaction, and draw on their insights to continuously improve operational processes and product range and quality over time.

Cross-train:

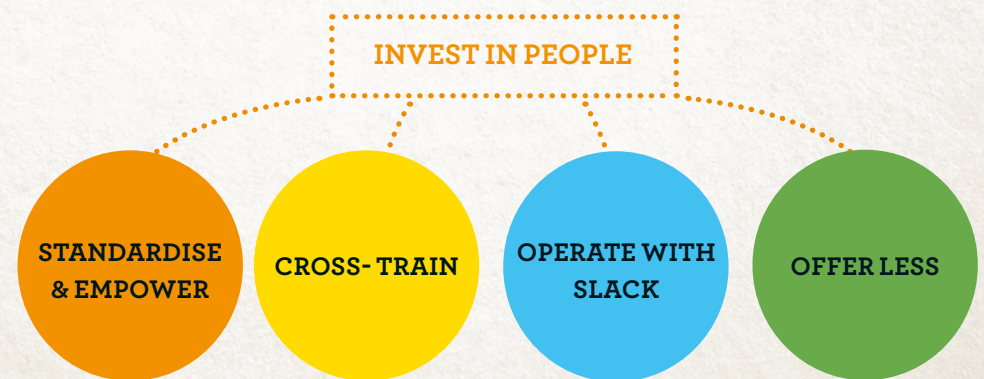
Second, they **cross-train** their staff to enable them to be deployed flexibly. This ensures they are productive over a shift and supports longer and more stable schedules, rather than flex staff up and down to 'chase' patterns of consumer traffic. In busy periods, their roles are customer-facing, but in quieter periods, they might arrange products, restock, conduct inventory checks and stock orders, and take part in continuous improvement processes.


Operate with slack:

Third, they **operate with slack** – deliberately operating with slightly more staff than required – to enable them to improve customer service, reduce operational errors, and engage staff in efforts to improve products and services over time.

Offer less:


Finally, these companies **offer less** than their competitors. They focus their offer on the priorities of their customers, reducing operational costs in their stores, distribution centres and supply chains by offering fewer promotions, reduced packaging, smaller product ranges or shorter opening hours than their competitors. It is often assumed that 'more is less' in retail, but offering less can increase customer satisfaction – as long as the products and services are good quality, fairly priced, and staff have the skills, knowledge and time to be able to help customers find the best product for their needs.





The lesson from these retailers is the importance of combining strong investment in the workforce with operational excellence. They are extremely efficient, cutting costs everywhere except when it comes to their employees. Decent wages and benefits enable them to attract staff with the values and judgement to use discretion effectively. Training ensures employees understand company priorities, know their products, and have the skills to deliver high standards of customer service. Managers are expected to motivate and treat staff fairly in order to get the best results.



Ton cites the fast-food chain In-N-Out Burger in the American southwest, which sells high quality burgers at lower prices than McDonalds, and pays their staff more. They do this by offering a far more limited menu. This makes sales more predictable, and reduces waste. The savings are used to invest more in employees, which in turn underpins high quality and consistent customer service.



The companies Ton examines are characterised by their ability to deliver value to their customers, employees and investors at the same time. They outperform their competitors on key metrics including sales per square foot, labour productivity, inventory turns and shrinkage. They are also better able to respond to changes in customer tastes, new regulations and new technology. Ton concludes that:

“Model retailers... design and manage their operations in a way that makes their employees more productive, reduces the costs of doing business, and puts employees at the centre of the company’s success.”

These companies, like Living Wage employers, know that this success is not possible on a minimum wage model.



Moving to a Living Wage: *a guide for employers*

This report has set out the case for change in retail and explored how employers can and do offer better paid, better skilled jobs in this and other low paid sectors. For employers interested in putting this into practice, the rest of the report provides a practical guide for how you might do this.

Paying the Living Wage can lead to transformational change if it is implemented as part of a wider plan to meet organisational objectives. While pay is the primary consideration, each organisation will have a different set of operational challenges and opportunities that this investment can support to progress.

It is worth investing time upfront to build an effective vision and strategy for change. The plan should be holistic and collaborative, made together with all key stakeholders in the organisation, starting with frontline employees. This will help them to understand their role in achieving your objectives and ensure the solutions are grounded in the reality of the business.

PAYING THE LIVING WAGE CAN LEAD TO TRANSFORMATIONAL CHANGE IF IT IS IMPLEMENTED AS PART OF A WIDER PLAN TO MEET ORGANISATIONAL OBJECTIVES

We have broken this down into a series of steps to help you understand where you are today, where you want to be, and how to get there. This includes advice on how to make the case for change, maximise the benefits of a better paid workforce, and manage and monitor change effectively, supported by evidence from leading global retailers and Living Wage employers to stimulate your thinking. We suggest you work out a timetable for each of the phases and get 'buy-in' from senior stakeholders at the outset.

How to pay the living wage and maximise the benefits: *An overview*

1

WHY SHOULD I PAY THE LIVING WAGE?

Understanding the case for change in your business

2

HOW CAN THE LIVING WAGE HELP ME ACHIEVE MY LONG TERM BUSINESS OBJECTIVES?

Identifying a vision for change that meets the challenges you face

3

HOW CAN I MAXIMISE THE BENEFITS OF PAYING THE LIVING WAGE?

Building a strategy to improve job quality and business performance

4

HOW DO I GET FROM WHERE I AM NOW TO WHERE I WANT TO BE?

Managing change effectively

5

HOW DO I KNOW IT'S WORKING?

Monitoring and evaluation

Phase 1: Why should I pay the Living Wage?



UNDERSTANDING THE CASE FOR CHANGE IN YOUR BUSINESS

Operational inefficiency, poor customer service and low productivity are common problems in the service sector. We know that high levels of staff turnover and absenteeism contribute to these problems, and that higher wages, more regular contracts and opportunities to train and progress at work can make a difference. This is often a factor in an employer's decision to pay the Living Wage.

Understanding the case for change in your business requires a clear analysis of where you are today, including what your employees and customers think of you, the costs and drivers of any problems you face, and how these are affecting your ability to succeed. This information will help you to create a burning platform for change to convince key stakeholders of the need to take action.

Key questions:

- What are the main challenges facing your business at the moment?
- What is the cost of absence and staff turnover to the business?
- What other 'bad' costs do you have – such as high customer returns or inventory shrink – that are important to you today?
- How do they affect the customer experience and productivity across the business?
- What are the main drivers of these problems?

Tips and recommendations

ANALYSE THE PROBLEM

How good your data is at the moment will affect the time you need for Phase 1. If you do not currently gather the relevant data, spend up to 12 weeks monitoring it across the business or, for larger organisations, over 10 per cent of your sites. For example, you might examine how rates of staff turnover and absence are correlated with store performance. Talk to staff across the business to understand the issues that affect your performance, and analyse exit interviews to get a clear sense of why people leave. An independent assessment can also be useful and enable staff to be open about the challenges they face.

MAP YOUR STAKEHOLDERS

Map the internal and external stakeholders you need to influence, using named individuals rather than general groups. Identify which of these are likely to be allies, which are neutral onlookers, and those most likely to block change, and the relative influence of each of these on your goals. Focus your efforts on those who will help you to make the case for change – for example by identifying allies within key teams such as finance. Rely on these

people to convince the waverers, and do not waste energy trying to convince adversaries.

SET-UP A DEDICATED TEAM TO OVERSEE CHANGE

A dedicated team is essential to successful change management. The team should be set up after the case for change is established, but before the vision and strategy for change have been developed.^{xxiv} You should draw on a range of expertise, including the human resources, finance and operations teams. Sustainable change relies on building champions across the business, so consider how to involve junior and frontline staff with useful insights and an ability to influence other employees, as well as top and middle managers.

“Allow yourself plenty of time. Don't just look at how [the Living Wage is] going to affect you for the first year. Look five years into the future. Combine it with an overall look at how you're treating your staff... If you've got deeper staff engagement problems, it's highly likely that you've got other things going on as well. The impact of [paying the Living Wage] will be lessened if you don't fix those at the same time.”

Rona Cook, People Business Partner at BrewDog UK

Analysing the case for change

USEFUL DATA

- Key Performance Indicators including productivity measures
- Rates of attrition and absenteeism for staff on different contracts and pay rates
 - Staff surveys and exit interviews
- Customer feedback and satisfaction scores
 - Customer returns
 - Ratio of staff costs to sales
 - Sales and profit margin
 - Inventory shrinkage

Phase 2: *How can the Living Wage help me achieve my long term business objectives?*



IDENTIFYING A VISION FOR CHANGE THAT MEETS THE CHALLENGES YOU FACE

The move to a Living Wage should be delivered as one part of a plan to achieve your long term organisational goals. Identify the broad outcomes and measurable outputs – such as higher customer satisfaction, reduced staff turnover or an improved cost to sales ratio – that are important to business success, including any costs that need to be met.

The key question is how you choose to achieve these goals. Living Wage employers choose to put an engaged, well-paid workforce at the heart of their competitive model, based on their values as ethical and responsible businesses. Success is driven by a clear vision of how to satisfy customers, employees and investors at the same time.

Start by looking at what your organisational values mean for how you want people, including your customers, employees and subcontracted staff, to be treated. These questions are important to determine before deciding the specific operational changes you want to make.

Key questions:

- What are your main business goals and objectives at the moment?
- Where do you want the business to be in five years' time?
- What is the cost of getting from where you are now to where you want to be?
- How do you want your customers, employees and subcontracted staff to be treated, and how do you want them to perceive you?
- Which values and behaviours does this require across the business?

Tips and recommendations

SETTING THE GOALS FOR SUCCESS:

Organise a group discussion with the executive team and owners/investors to discuss your organisational values and what the way you treat people says about you as a business. It can be useful to engage an external organisation to facilitate this and help you to build consensus for how you would like to operate in terms of employee conditions, how this could support you commercially over the long term, and the goals for success. We suggest that aiming to improve customer satisfaction, employee satisfaction and productivity – in that order – will help to ensure that decisions are taken in a way that supports improvements in job quality and business performance at the same time, not one at the expense of the other.

ALIGNING YOUR VISION AND VALUES WITH OPERATIONAL TARGETS:

How people are measured has a significant impact on their behaviour, especially at supervisor level, so make sure that staff targets reflect how you want things to be done (the behaviours) as well as what you want to achieve (the KPIs). This will ensure that staff behaviour and decisions at all levels reflect your values and brand as ethical employers, from how strategic decisions are made at the top to how people operate on the shop floor. A holistic set of targets can also help to drive innovation, for example by asking managers to improve performance on key metrics such as your cost to sales ratio, conversion rate and customer service scores, while also increasing staff satisfaction and loyalty.

Phase 3: *How can I maximise the benefits of paying a Living Wage?*



BUILDING A STRATEGY TO IMPROVE JOB QUALITY AND BUSINESS PERFORMANCE

Once you have a clear idea of where you are now, where you want to be, and the cost of moving to a Living Wage and any other changes you are making, you are ready to build a strategy for change.

To absorb the costs and maximise the benefits, many Living Wage employers make wider changes to ensure the investment translates into sustainable improvements in customer service, operational efficiency and productivity. There is no one-size-fits-all blueprint for this. It will require you to identify the specific activities that affect the outputs and broader outcomes you desire.

This section sets out four questions that it might be useful to consider, based on lessons from Living Wage employers and Zeynep Ton's work on the operational and people choices that support a 'Good Jobs Strategy' in retail (see page 18). It focuses on how to manage, train and engage staff in ways that support operational excellence and high standards of customer service.

Whatever changes you make, they should meet and be aligned to the business objectives you identified in Phase 2. The proposals should be developed and tested through a collaborative process that connects with all parts of the organisation, including your employees, customers and other stakeholders.

Are you as efficient and responsive as you could be?

High workload and poorly designed operating procedures are common in the service sector. Standardised tasks and processes can maximise efficiency and consistency across stores, enabling you to reduce costs and improve customer service.

The most resilient and agile businesses also engage their employees in efforts to continuously improve products, services and processes and empower them to use discretion when it comes to decisions that affect customer satisfaction.

STANDARDISE
& EMPOWER

Key questions:

- How often do you review and update operational processes to ensure they are efficient?
- How do you consult your workforce to come up with solutions together?
- Are there areas where allowing employees to use more discretion could improve customer satisfaction or enable you to better respond to local conditions?

Tips and recommendations:

INCREASE EFFICIENCY THROUGH GREATER STANDARDISATION

Identify the time your staff spend on back-office tasks such as stock management, cleaning or administration, and the workload generated by non-essential tasks such as a high frequency of display changes or excessive packaging. Ask your employees to make recommendations that improve efficiency and meet customer priorities. For example, you could ask a group of your best site managers to interview customers in stores about what they value and

would like to see change, and work with employees to define standards that meet these.

CAPTURE AND INCORPORATE STAFF INSIGHTS

Create a formal process for employees to propose improvements to standards, products and services over time. Encourage problem-solving approaches, and consider setting up dedicated central or regional teams to capture staff ideas, test them, and roll out those that are shown to improve store performance, customer satisfaction or sales.

EMPOWER STAFF TO USE THEIR DISCRETION FOR TASKS THAT COULD AFFECT CUSTOMER SATISFACTION

Customer satisfaction often depends on how employees deal with their problems or complaints. Evaluate your recruitment, training and performance management systems to ensure staff decisions reflect your values and priorities. For example, you could profile your top 10 performing managers – including the way they motivate and manage staff – and use this to inform recruitment and performance management criteria for all managers and supervisors.

Are you getting the best out of your workforce?

Many retailers feel that there is a trade off between the need to meet fluctuations in customer demand through high use of part time and flexible contracts, and high staff turnover – with many employees leaving to find work that offers longer and more stable contracts.

However, some retailers choose to offer more full time and stable shift patterns by cross-training their staff. This enables sales staff to take on more responsibility and to vary their role according to store needs. It supports broader, more interesting jobs and improvements in staff loyalty, operational efficiency and productivity.

CROSS-TRAIN

Key questions:

- How do you currently deal with fluctuations in consumer demand?
- Could you change how you organise work across the team to support more hours for employees?
- Could you give more responsibility to your team to rely less on managers and create a more collaborative team structure?

you to offer more flexible senior roles. Ask store managers to identify at least one way in which their team structure could be improved to better share workload and enable flexible deployment of staff.

MAKE BETTER USE OF STAFF SKILLS

In many cases your staff may already have skills that you are not making the most of. Conduct an audit to establish the existing skills and qualifications in your workforce, how these could be better utilised to improve performance, the effectiveness of your current training programme, and any gaps. Encourage innovation and learning among your staff by involving them in efforts to solve problems and improve efficiency, service and productivity.

Tips and recommendations:

BUILD FLEXIBLE TEAMS, NOT FLEXIBLE CONTRACTS

Help stores to build a team that they can deploy productively across a shift. Small amounts of cross-training – such as cashing up, carrying out administrative tasks or managing stock – can enable flatter team structures and more stable scheduling patterns. This can reduce the amount of supervision the team requires, potentially supporting higher levels of pay, freeing managers to spend more time with customers and staff, and enabling

YOUR STAFF MAY ALREADY HAVE SKILLS THAT YOU ARE NOT MAKING THE MOST OF

Do your staff have time to perform to the best of their ability?

Operational excellence and high standards of customer service depend on staff having enough time to carry out the necessary back-office tasks and engage effectively with customers.

Research shows that erring on the side of over- rather than understaffing can reduce operational errors such as misplaced products, which are harder to measure than staff costs but can be damaging in the long term, and enable staff to gather useful information to inform company decisions about stock, display and packaging.

OPERATE WITH SLACK

Key questions:

- Are your stores frequently either over- or understaffed?
- What impact does this have on staff loyalty, consumer service and operational efficiency?
- How much time would staff need to perform all tasks to the best of their ability, engage with customers, and identify scope for operational improvements?

ENSURE FLEXIBILITY WORKS FOR EMPLOYEES AS WELL AS THE BUSINESS

Encourage responsible staff planning across your business by introducing fair standards of employment – such as a weekend off a month; a requirement for shifts to be given well in advance; and stable contracts that reflect the hours employees work on a regular basis.

Tips and recommendations:

GIVE STAFF TIME TO SUCCEED

Rather than the standard approach of using sales data to drive staffing allocation, calculate store workload based on estimates of how long it should take staff to complete their operational tasks such as cleaning, restocking and ordering; engage with customers; and take part in continuous improvement processes. Sales data are also not always an accurate predictor of consumer traffic, so make sure you understand the times people are coming into the store to browse, as well as when they buy.

AIM TO REDUCE THE NUMBER OF CASUAL STAFF YOU RELY ON, AND AVOID SHORT- AND ZERO-HOURS CONTRACTS UNLESS EMPLOYEES REQUEST THEM

Aim to reduce the number of casual staff you rely on, and avoid short- and zero-hours contracts unless employees request them. Examine whether head office decisions, such as frequent stock or display changes at short notice, exacerbate insecurity at store level.

Are you offering too much?

Many retailers have increased operational complexity at the same time as investment in staff has declined, leading to high operational costs and errors.

A simplified product or service offer that is focused on the priorities of the target market can reduce supply chain and warehousing costs, wastage and workload – enabling you to absorb the cost of paying a Living Wage and make additional productive investments in your business.

OFFER LESS

Key questions:

- How complex is your supply chain, and what are the cost implications of this?
- How do you know that your current offer reflects the priorities of your target market?
- Could you make customer choice more predictable and save money by simplifying your offer – for example by reducing the number of products, promotions or packaging – without compromising your core offer?

Tips and recommendations

UNDERSTAND AND REVIEW WHAT YOUR CUSTOMERS WANT

Engage with your customers or clients to identify their priorities and the extent to which this reflects your current product and service offer. Analyse customer satisfaction data and ask frontline staff to gather feedback in stores. If you decide to simplify your current offer, ensure that staff have the knowledge and skills to explain the rationale and advise customers on the best alternatives for their needs.

Case study: tackling underemployment at EE

The mobile phone operator EE operates within a highly competitive industry, which is undergoing rapid change and facing increasing customer expectations. To differentiate themselves, EE have sought to improve customer service by investing in staff skills and engagement.

One of the barriers to achieving these goals is the high staff turnover rates among EE's core retail staff. In mid-2015, over 60 per cent of employees working less than 25 hours a week were leaving within the first 12 months of joining. The negative impacts of high attrition include the cost of changing staff; lower productivity; understaffing; recruitment costs; and the loss of knowledge and skills. The extensive use of short hour contracts was regarded to be the main driver of high staff turnover.

To tackle this problem, in December 2015 EE offered all retail staff who wanted it an uplift in their basic working hours. This was supported by earlier changes to standardise the company's recruitment process for stores across all regions; reform KPIs to incentivise greater focus on customer service; and introduce a new three-week induction and buddy process for all new starters, scrapping the probationary rate of pay and introducing a softer launch into targets.

The Living Wage Foundation has been working with EE to monitor the impact of these changes. In total, 650 employees from 330 stores chose to increase their working week by an average of 9.2 hours. In earnings terms this is about £4,500 extra a year. After six months, the rate of staff turnover among this group was 25 per cent lower than the rest of the retail population. EE also expects to see improvements in customer service and sales as their workforce becomes more stable and experienced.

"The main benefit is that if we uplift people's hours – we've done a lot up to 35 hours rather than the 25 [we offered before] – it gives the people that stability. EE wants to look after them. They'll stay, get the stability, they can have a career. They can get a mortgage and they're happier. A happier workforce delivers more."

David Botfield, Resource & Capacity Planning Manager, EE

Phase 4:

How do I get from where I am now to where I want to be?



MANAGING CHANGE EFFECTIVELY

Change that is imposed, even positive change, can result in grievances if the process is not well-managed. Many people may find the changes you make difficult – from the managers that have to implement them to employees or contractors that are used to doing things in a certain way. While your practical plan can be imposed very quickly, getting people to do things differently takes much longer.

People need help to accept the loss of their old role and the move to a new beginning. At the start, it is important to acknowledge their concerns and be clear about their role in achieving your objectives. As the changes start to take effect, feedback and ‘quick wins’ can help people to stay motivated.

Once the changes are in place, you can sustain enthusiasm by recognising achievements and maintaining effective communication. Signs of unmanaged change include prolonged evidence of stress, fear and anxiety.^{xxv}

Key Questions

- How will you communicate your goals to staff, including the benefits for them?
- How will you involve staff in identifying the solutions?
- At what stages will they be consulted?
- Who is most likely to resist the changes you are making?
- How will you help them to do things differently?
- How will you ensure your managers are able to engage staff and maintain momentum?

the Change Curve



Tips and recommendations:

ANALYSE THE CONTEXT FOR CHANGE

Understanding the specific context for change in your business is crucial for success. Doing too much too soon could risk your chance of success. Your strategy should take into account the extent to which your organisation and employees have the capability, power and capacity to deliver the changes you want to see, and make a judgement about the appropriate time, scope and depth of change to reflect this situation. You should also identify the aspects of your current culture and working practices that you do not want to lose.^{xxvi}

COMMUNICATE, COMMUNICATE, COMMUNICATE

The implementation of your strategy must be underpinned by a strong strategic narrative and visible leadership. Consider how to articulate the desired outcomes of paying the Living Wage and any other changes for both staff and the business.

Do not just communicate the plan once or rely on information to trickle down through management channels. Aim to sustain communication in all team meetings and through all channels of communication throughout the process. Use consistent branding and wording to avoid confusion.

INVOLVE STAFF IN THE SOLUTIONS

A common pitfall is for changes to stay in head office, and not be embedded or understood across the organisation. Employees should be seen as part of the solution, not the problem. They should be involved early and at all stages. Invite them to engage with proposals and scenarios, rather than concrete plans, and acknowledge any concerns they have. Make use of staff unions and employee forums. If you do not have these already, consider setting one or both up to help you communicate to staff and formally consult on your plans.

Phase 5: How do I know it's working?



MONITORING AND EVALUATION

You are now ready to implement your changes. Build in time for reflection and learning, and be prepared for some of your objectives or strategies to change as you incorporate feedback. Logging the changes you make and monitoring how effective they are against your overall business objectives will enable you to evaluate what works. Many employers find it useful to trial new approaches before rolling them out across the organisation.

Single data measures are of little use as you will not be able to explain the source of problems or understand how to unlock the value employees can create for your business.^{xxvii} Retailers seeking to follow a good jobs strategy should reflect a broad focus on employee satisfaction, customer satisfaction and productivity.^{xxviii} The measurable outputs reflecting these goals can be used in performance management procedures to align staff targets with your objectives.

OUTCOMES

Improved customer satisfaction

- Net Promoter Scores
- Mystery shopping results
- Customer returns
- Conversion rate

Improved employee satisfaction

- Staff engagement survey score
- Staff turnover rates
- Absenteeism
- Average length of employment
- Glassdoor reviews

Improved business performance

- Sales (per day / per head / per store)
- Total revenue per worked hour
- Average transaction value
- Gross Profit
- Cost to sales ratio

MEASURABLE OUTPUTS

POSSIBLE INTERVENTIONS

- Operational design
- Staff communication and consultation
- Recruitment
- Performance management
- Training
- Work organisation
- Job design
- Workforce planning
- Pay and benefits
- Employment standards

Conclusion

Since the introduction of the higher minimum wage for over 25 year olds in April 2016, the national debate has centred on the extent to which shops, bars and restaurants across the country will respond with cuts to jobs, hours and staff benefits – potentially making job quality worse in the sectors where workers should benefit the most from the increase.^{xxix}

Almost six million people are still paid less than the Living Wage, and the Institute for Fiscal Studies has warned that benefit and tax credit reforms are likely to wipe out any income growth working families may otherwise have seen from the higher minimum wage and employment growth, with child poverty set to grow by 2020.^{xxx}

In this context it is more important than ever for more employers to pay their staff the Living Wage – particularly in sectors such as retail and hospitality where problems of low pay and insecurity are most acute.

This Toolkit shows how by developing, investing in and engaging staff more effectively, it is possible to offer good jobs and succeed in these sectors.

Wider support is available from the Living Wage Foundation. We can help you assess and evaluate the scope for improvement in your business, support you to build a strategy for change, and guide you through the Living Wage accreditation process.

Get in touch if you are interested in becoming a Living Wage employer or would like more information about how we can help you engage your staff to benefit your business. We are also keen to hear your experiences as you implement the good jobs strategy.

Good luck!

Contact the Living Wage Foundation:
<http://www.livingwage.org.uk/contact>

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