WHITE PAPER

Absence Management: The Last Easy Money for Retailers

How effective absence management and workforce planning can foster financial gain

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On average, **13% of labor hours** are being wasted.

INTRODUCTION AND EXECUTIVE SUMMARY

One of the many challenges facing retailers today is their ability to adapt quickly to a rapidly changing market. Consumer shopping habits and advances in technology are altering the balance between online and in-store transactions, forcing retailers to rebalance their business operating strategies.

Online sales may be growing quickly, but retail stores will continue to play an important role in the future. What we won't see, however, are stores that pay little attention to how they are staffed and run. The marketplace of today — and the future — has no place for retailers that fail to attract, motivate, retain, and utilize their people resources effectively. Customers demand an experience that embellishes the process of acquiring goods or services. Retailers operating with little consideration for their people will continue to fuel the headlines heralding the demise of Main Street as shoppers take their business elsewhere. The standards by which retailers plan, recruit, train, deploy, and manage their employees, in order to deliver the experience customers demand, have already changed.

To survive in retail, increasing store revenues and maintaining margin must remain the focus in order to offset the higher costs associated with doing business through other channels. This means maximizing conversion rates and controlling costs. Fundamental to meeting these objectives is building and managing an effective workforce while being cognizant of the realities of the marketplace and employees. Operational practices focused on command and control have given way to practices of consult and consider.

Labor not only represents one of the largest cost items for most retailers, it's also the greatest asset for driving sales revenues, margin, and customer satisfaction. Nothing up-sells, accessorizes, or attaches like interaction with an engaged and enthusiastic human being. For these reasons, controlling labor costs and optimizing the productivity and performance of your people are critical.

The Workforce Institute™ at Kronos conducted a global survey into the effects of absence on retail performance in 2018. The Global Retail Absence Survey analyzes the responses of 800 retail managers across multiple global regions and exposes a worrying statistic: On average, 13 percent of labor hours are being wasted. Given that profit margins of less than 5 percent are not uncommon, and labor costs could be up to 15 percent of sales revenue (and are constantly rising), the ineffective use of 13 percent of your labor budget, which could easily impact your bottom line by 2 percent, is an issue no finance or operations directors can afford to ignore.

Unplanned absences are impacting **up to 7%** of a retailer's labor budget.

WHERE ARE LABOR HOURS BEING WASTED?

More than half of the respondents (52 percent) to this global study said managing unplanned absences is one of their organization's biggest workforce management challenges.

According to the survey, on average, 7 percent of labor hours are ***scheduled but not worked.*** This means unplanned absences are impacting up to 7 percent of a retailer's labor budget, with scheduled labor hours not being worked as needed. Additionally, survey findings show that absence rates are typically at their highest during times of peak demand, such as weekends, exacerbating the issue of missed revenue opportunity.

Generally, the issue of absenteeism forces retail managers to act either proactively, by adding an "absentee factor" to their schedules, or reactively, by extending shifts or trying to call in resources, to ensure needs-based coverage.

As a measure of reaction, the survey shows an average of 6 percent of labor hours each month are ***worked but not scheduled,*** which might be another way of saying *worked but not needed.* This means staff members are performing unplanned tasks, which are likely, in most cases, to be of much lower yield, meaning they are not customer-facing or revenue-generating. Too often, these additional labor hours are addressing the "failure costs" of *scheduled but not worked,* such as clean-up, restocking abandoned goods, chasing inventory issues, etc. According to survey respondents, 20 percent of U.S. retail managers say it's a "significant challenge" to deal with administrative issues (such as tracking overtime to avoid compliance issues) caused by employees working hours additional to their scheduled hours. Together, the 7 percent scheduled but not worked figure and 6 percent worked but not scheduled figure mean that for every 10 hours of labor budgeted, over one hour is wasted through the misalignment with planned requirement, a rather sobering thought.

But where there's an issue, there's an opportunity. In this case, it's an opportunity to improve retail performance by reducing absenteeism through greater utilization of workforce management tools, unlocking *the last easy money for retailers.*

A HIGH-PERFORMANCE WORKFORCE STARTS WITH AN EFFECTIVE STAFFING PLAN

To meet customer demand effectively, retailers need a pool of flexible, skilled, and productive staff able collectively to cover all shift permutations. This means knowing how many staff members, with which skills and on what contract terms, you need to recruit and retain. Your staffing mix will include full-time, part-time, and possibly fully flexible people, each performing a variety of roles. The objective always is to have a mix of people that enables you to meet demand in the most cost-efficient and productive way possible.

Regional demographics will affect staffing plans. Store format, availability of local talent, customer demand, and regional legislation will each affect your full-time and part-time mix, contract lengths, wage structure, and incentives packages. Creating an appropriate blend of these factors is necessary to enable the hiring, deployment, and retention of an effective and flexible workforce.

From a staffing and management perspective, the term *flexibility* bears an important consideration. Historically, the interpretation of flexibility from the perspectives of employers and employees is very different.

Employers often consider flexibility to mean they have the ability to deploy staff where and when needed to meet demand, often employing staff on low-hours contracts and short shifts, and giving little advance notice of work schedules. Contrary to this, employees interpret flexibility as consistently working hours that meet their personal work/life requirements. And, let's remember, people working in retail do so for the flexibility the industry offers.

Retailers imposing their interpretation of flexibility on the management of their staff usually find that **cost savings in scheduled labor hours are quickly eroded by higher rates of absence and staff turnover.**

Retailers imposing their interpretation of flexibility on the management of their staff usually find that cost savings in scheduled labor hours are quickly eroded by higher rates of absence and staff turnover. The only way to deliver sustainable success is to develop a staffing and operating model that takes into collective consideration the needs of the workforce, the customers, and the business.

When recruiting staff, employers must discuss with candidates their preferred working hours and total availability. Employees who work schedules that are considerate of their preferred hours will be happier, have fewer instances of absence, be more productive, and have longer tenure.

Ensuring that managers have the flexibility to deploy staff effectively to cover the peaks and troughs of demand means employees should provide preferred hours of availability that are higher than their contracted hours. Many retailers find it's not unreasonable to ask employees to provide preferred hours that are multiples of their contracted weekly hours. Setting these multiples thoughtfully can help ensure that flexibility does not erode over time without recourse. Doing so gives the employer the flexibility to cover demand effectively but also ensures that candidates receive all their contracted hours at a time preferable to their work/life balance.

Knowing the "total availability" of candidates and employees is information that organizations also should request. Covering the exceptional peaks in seasonal demand, such as Christmas, Black Friday, etc., are the instances during the year when overtime can justifiably be offered to employees and candidates. Discussing this openly sets a clear expectation for the employer and employee of coverage expectations during the year and revenue-earning potential.

PLANNING FOR SUCCESS

As shoppers, we are a fickle bunch — changing at a whim where, when, and how we shop — influenced by factors such as the weather, events, advertising, and seasonality. For retailers, maximizing revenue potential means second-guessing consumer demand and scheduling the right number of staff, with the right skills, in the right place, at the right time.

According to 56 percent of survey respondents, building work schedules that accurately align with the demands of customers, the business, and employees is one of the most difficult, complex, or time-consuming issues. The majority of respondents admitted to doing a bad job of scheduling staff, regularly finding themselves with either too few or too many staff during the peaks and troughs of demand. In fact, 55 percent of global respondents said that approximately 25 percent of all employee schedules are changed after they are formally agreed to; one in five respondents said half of all employee schedules are changed after they have been formally agreed upon. The impact of poor scheduling is cost inflation, higher rates of staff turnover, and poor customer service.

Fortunately, modern workforce management solutions can simplify the forecasting and labor scheduling process. Accurate demand forecasts are built using historical data, known events, and clever algorithms, aided now by new machine learning and artificial intelligence techniques to enhance accuracy. Automated scheduling solutions are able to optimize the deployment of workers, quickly building schedules that take into consideration myriad factors that would overwhelm any manual scheduling techniques (such as spreadsheets).

Business performance is always closely aligned with how well you are able to stick to your plan. The same is true for workforce planning. If the schedules worked align with your customer demand forecasts, your performance will be good. Unfortunately, the corrosive effects of absenteeism can knock plans off course and erode performance potential. How you minimize and manage absences is critical to staying on plan.

THE HIDDEN COST OF ABSENCE

… 13% of labor hours were not deployed as planned, indicating that alignment with customer demand has been compromised.

The wider business impact of absenteeism is often hidden by the pure financial cost of labor. In the survey, respondents indicated that an average of 7 percent of labor hours are *scheduled but not worked* and 6 percent are *worked but not scheduled.* Financially, assuming that employee contract terms dictate that employers pay only for hours worked, the cost of labor deployed is -1 percent of the planned labor budget (6 percent worked minus the 7 percent budgeted). On paper, this appears to be a financially positive labor cost savings; in reality, this means 13 percent of labor hours were not deployed as planned, indicating that alignment with customer demand has been compromised. Consequently, the 1 percent reduction in labor hours could easily translate into the 2 percent impact on bottom-line performance.

Managing the impact of absenteeism

No sales assistant wants to face a crowd alone. When store doors open, the last thing any manager or sales assistant wants is to face a long line of unhappy shoppers — the result of associates being absent.

Absence takes many forms, including planned and unplanned. In the case of unplanned absence, life has a tendency of getting in the way. Even the most engaged and diligent workers will suffer short-notice issues that mean they are unable to work their shifts. Let's remember that people working in retail often are doing so for the flexibility the job offers around home commitments.

As a manager or workforce planner, having the ability to foresee and plan for absence is critical. For these reasons, most corporate absence policies dictate that a notice period of several weeks must be provided for various forms of absence, meaning short-notice absences will contravene policy. But the vast majority of employees who cannot honor their scheduled commitments will try to take some action to minimize the impact on their coworkers and employer. When, however, employees are unable to arrange alternative cover, the typical response is to call in sick. A survey by the Chartered Institute for Personnel and Development[1] showed most employers believe up to 20 percent of sickness absence is not genuine.

For these reasons, functionality that empowers employees to manage their own absences and swap shifts with eligible and available coworkers via mobile self-service tools is now considered essential rather than just nice to have.

According to The Workforce Institute's Global Retail Absence Survey, managers generally receive just one to three hours' notice of an employee's absence (Figure 1). The fact that an employee has bothered to notify a manager of an absence is good, but most managers would prefer to receive notification that their employees have swapped shifts with a coworker, rather than managers needing to react to a sudden illness.

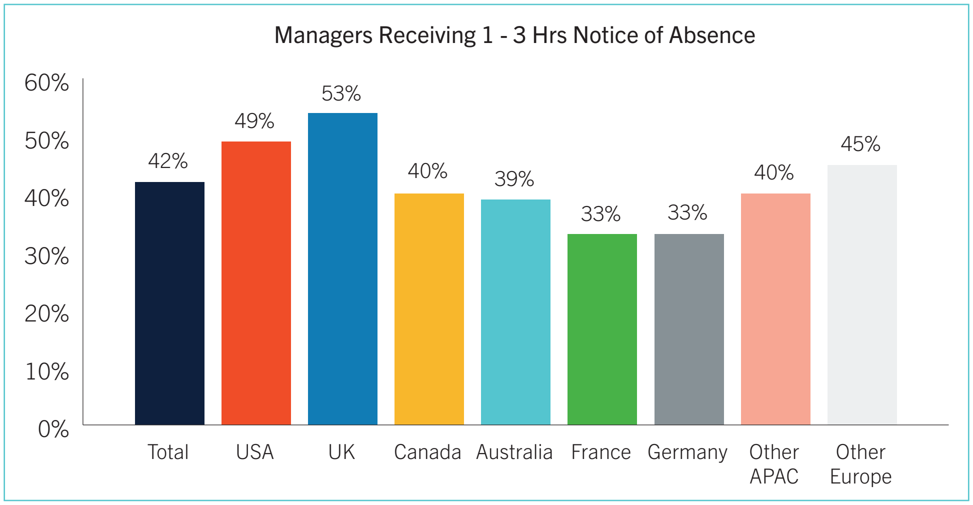

Figure 1
Managers are generally given one to three hours' notice when an employee is not going to turn up for work.

[1] CIPD, *Absence Management: Annual Survey Report 2016* (accessed October 9, 2018), at 16, found at https://www.cipd.co.uk/Images/absence-management_2016_tcm18-16360.pdf.

The results show **34%** of global respondents said managing shift swapping is **one of their biggest workforce management challenges.**

Respondents to the survey indicated that shift swapping is happening to some degree in the majority of retail organizations; however, the processes and solutions applied vary significantly. The results show 34 percent of global respondents said managing shift swapping is one of their biggest workforce management challenges. Just 16 percent use mobile solutions and 21 percent use self-service terminals, both of which require manager intervention or approval. Over a third (35 percent) use a manual system that requires no manager approval.

Overall, the survey showed varying degrees of retail manager oversight is required in the shift-swapping process (Figure 2):

- 24 percent of respondents encourage shift swapping with no manager oversight, as long as shifts are properly covered
- 44 percent require final manager approval
- 28 percent maintain complete oversight of the process, including dictating who can swap shifts with whom

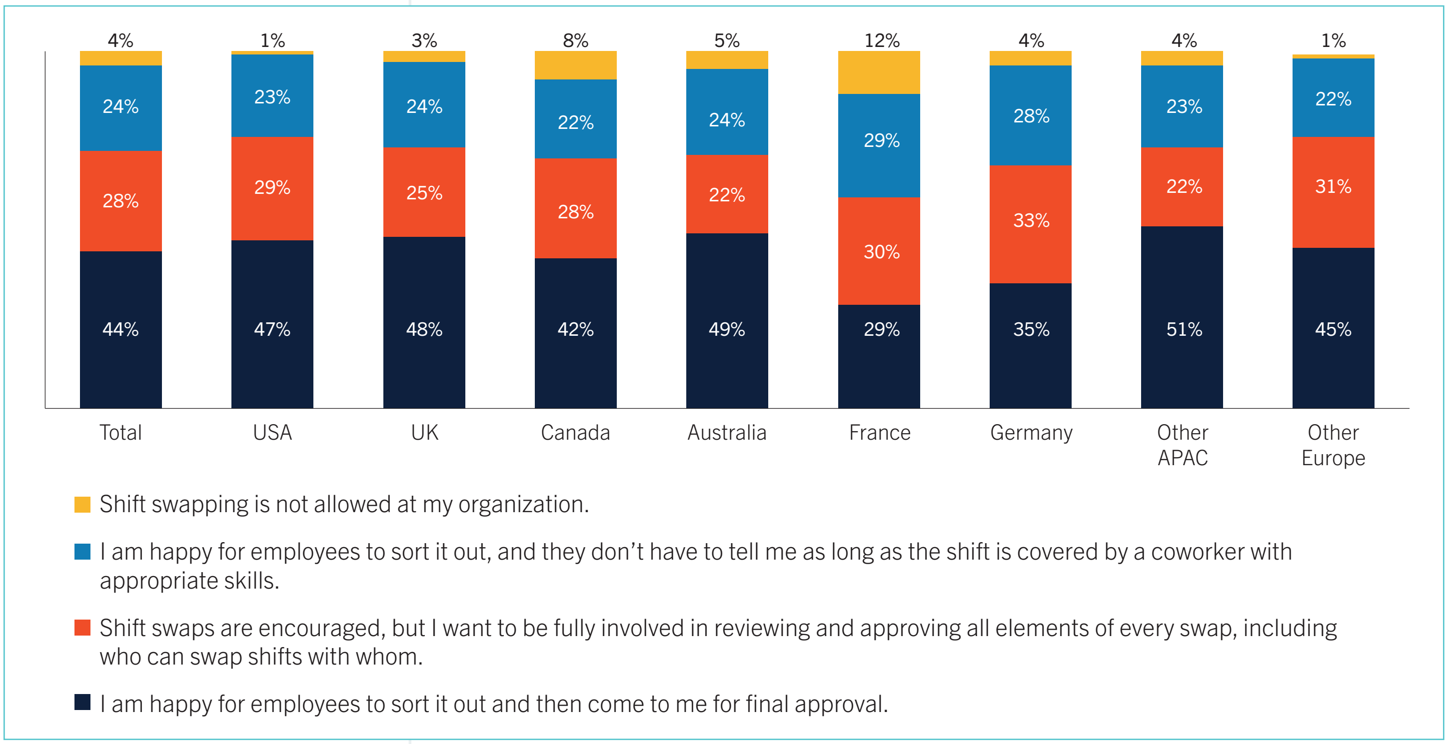

Figure 2:
Shift-swapping acceptance and manager involvement vary by country.

Providing an automated method to enable shift swapping not only reduces the stress and administrative burden on managers, it also gives employees greater control of their working lives, making them feel more empowered and engaged in the process. And through the reduction of last-minute absences, the costs associated with overstaffing and overscheduling can be reduced significantly, while associated improvements can be seen in productivity and customer service.

Culturally, many managers may find it hard to embrace self-service shift swapping, worried that schedule quality and store performance may suffer. However, advances in workforce management technology, including the use of artificial intelligence and machine learning, have improved the automation capability and accuracy of decision making, meaning managers can look forward to less administration and more time spent supporting employees on the sales floor.

Planning for absences

But not all unplanned absences can be avoided. To counter the impact of absence, most managers will resort to overstaffing (deploying more people than necessary to meet demand) or overscheduling (extending the lengths of shifts to cover for unplanned absences).

The survey shows that 87 percent of global organizations overschedule or schedule additional labor to cover unplanned absences, including nine out of 10 organizations (89 percent) in the U.S.

Managers who understand that more staff means greater levels of customer service and potential revenue improvements will recognize that planning strategically to cover unplanned absences can result in better performance. Unfortunately, managers often have insufficient access to accurate absence data to enable the strategic deployment of additional labor hours.

… data analysis by Kronos shows a direct correlation between employee engagement and absenteeism, with **high rates of absence correlating to poor levels of engagement.**

Labor analytics is now a powerful tool for providing real-time guidance for managers. Not only can analytics be used to show where and when absences will occur, it also is able to show visual correlations between disparate data sets and factors that are causing absences, enabling remedial action to be taken. For example, data analysis by Kronos shows a direct correlation between employee engagement and absenteeism, with high rates of absence correlating to poor levels of engagement. Similarly, using labor analytics, Kronos customers are uncovering correlations between operational decisions and spikes in unplanned absence.

The approach organizations take to manage absence can have profound implications on cost control and business performance. But absence should not be seen by staff as having no negative social consequence or as an opportunity to receive premium pay. Some of the golden rules of managing absence in retail are shared by some of our clients:

- Think carefully before backfilling hours:
  - When employees are absent, trying to recruit a replacement in sufficient time to cover a shift is often a fruitless exercise; the replacement person will rarely arrive in time to cover the demand. Instead, try to shift tasks to cover the essentials with the workforce you have.

- Do not allow people to make up their hours:
  - You planned the original hours to cover a specific period of demand; therefore, it's unlikely you will need the made-up hours.
- Don't make absence an opportunity for premium pay:
  - Unscheduled absences must carry a consequence, not be a benefit to employees.

QUANTIFYING THE BENEFITS OF ABSENCE MANAGEMENT

When questioned about the potential labor cost savings that better absence management could deliver, respondents said, globally, they would expect a new absence and shift-swapping solution to reduce their labor costs by 2.6 percent. In the U.S., this figure was 2.8 percent, with one in 10 respondents estimating the cost reduction could be as high as 5 percent (Figure 3). The average percentage decrease in unapproved absence rates that respondents believe could be achieved through the implementation of a system was 18 percent.

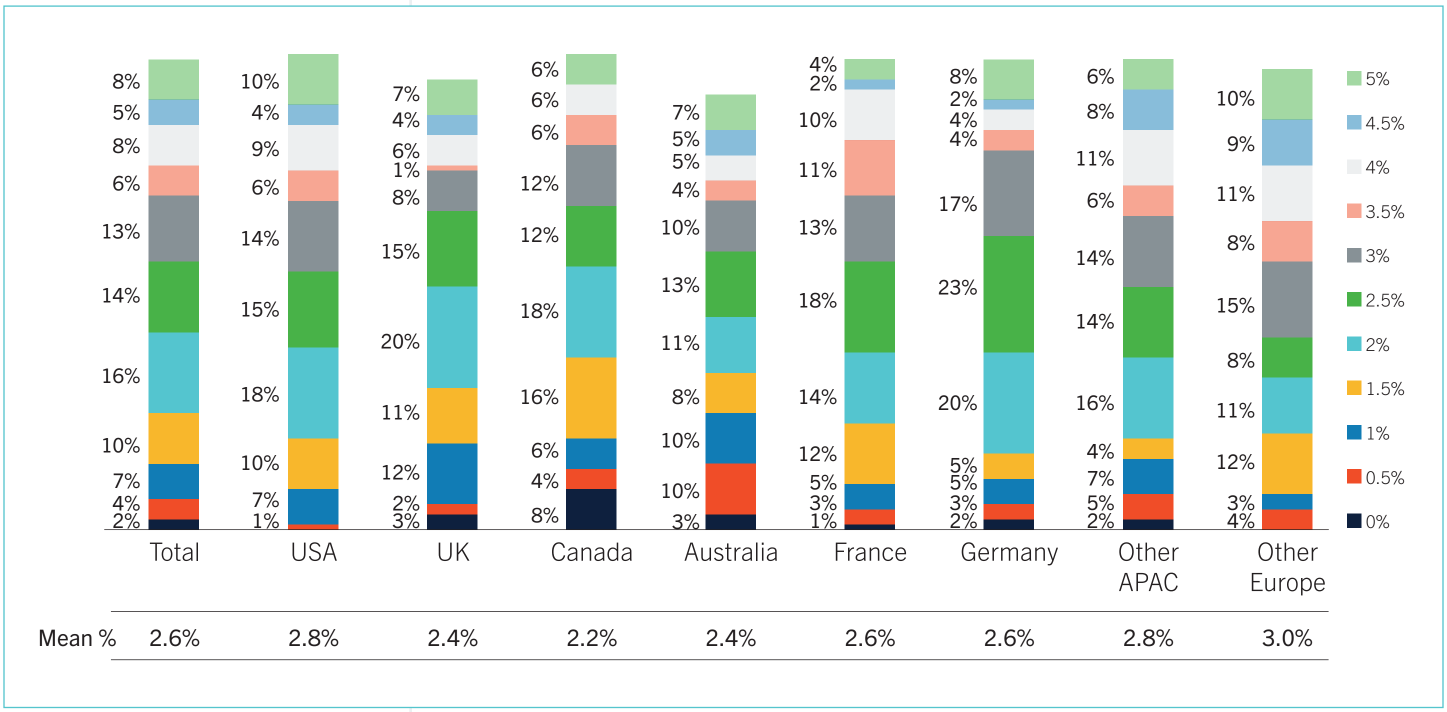

Figure 3:
Percent reduction in labor costs if a new absence/ shift-swapping solution was put in place.

These figures are broadly in line with the research published by many leading analyst groups on the effects of absence and the benefits that workforce management solutions can deliver. Some examples of study findings include:

Brandon Hall Group — Unlocking the Total Value of Workforce Management in the UK[2]

- Organizations that automate both time and attendance and scheduling processes, when compared with those with manual processes or only one process automated, reported:
  - 35 percent greater reductions in HR transactions
  - 38 percent less unplanned overtime
- Organizations that indicated strong alignment between workforce and business planning processes also demonstrated 61 percent greater year-over-year improvement in revenue growth and more than twice the improvement in customer satisfaction growth
- Organizations using employee self-service reported a significantly lower year-over-year increase in voluntary turnover, nearly three times the year-over-year improvement in customer satisfaction, and 79 percent greater year-over-year improvement in revenue

SHRM — Total Financial Impact of Employee Absences Across the United States, China, Australia, Europe, India and Mexico 2014[3]

- The total cost of paid time off as a percentage of payroll, when accounting for both direct and indirect costs, ranged from 20.9 percent to 22.1 percent in the United States, 32.8 percent to 34.0 percent in Australia, and 36.3 percent to 38.3 percent in Europe
- Overtime, another driver of the direct costs of employee absences, was used to cover 20 percent to 47 percent of employee absences in 2013, with the lowest rate among responding organizations in China and the highest rate among responding organizations in the United States
- Average productivity loss due to replacement workers, an indirect cost of employee absence, ranged from 19.9 percent in Australia to 31.1 percent in the United States

Aberdeen Group — Next Generation Workforce Management: The ROI for Accurate Scheduling[4]

- Organizations with 90 percent or better scheduling accuracy:
  - Are 44 percent more likely to use automated scheduling solutions
  - Incur 41 percent less unplanned overtime
  - See a 10 percent increase in revenue per FTE
  - Experience a 15 percent improvement in customer satisfaction

[2] Mollie Lombardi, Brandon Hall Group, *Unlocking the Total Value of Workforce Management Technology in the UK* (June 2015), at 8, 10, 13, found at https://www.kronos.co.uk/resources/unlocking-total-value-workforce-management-technology?fs=200&at=g.

[3] Society for Human Resource Management, *Total Financial Impact of Employee Absences Across the United States, China, Australia, Europe, India and Mexico* (accessed October 9, 2018), at 3, found at https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/Total%20Financial%20Impact%20of%20Employee%20Absences%20Report.pdf.

[4] Aberdeen Group, *Next Generation Workforce Management: The ROI for Accurate Scheduling* (July 2012), at 2, found at https://www.shiftboard.com/wp-content/uploads/2018/04/Aberdeen-ROI-of-Accurate-Scheduling.pdf.

Of global respondents surveyed, **78% state the concept of employee engagement is important** in their organization.

ENGAGING STAFF TO MINIMIZE ABSENCE AND IMPROVE PERFORMANCE

The importance of employee engagement can no longer be ignored in the pursuit of generating revenue and taking market share.

Of global respondents surveyed, 78 percent state the concept of employee engagement is important in their organization. And more than half (57 percent) of respondents believe that poor employee engagement has a big negative impact on unplanned employee absences; this figure is highest in the U.S. (63 percent), U.K. (63 percent), and Germany (61 percent).

From a workforce management and planning perspective, the greatest ways to engage staff include:

- **Pay staff accurately** and timely for the work performed
- **Consider employees' preferred working time** and hours when building work schedules
- **Publish schedules** as far in advance as possible, enabling staff to plan their home lives around work
- **Empower staff** to take greater control of their working lives with self-service capabilities for time-off requests, shift swaps, accrual balance visibility, requests to cover shifts, etc.

The time and attendance modules of workforce management solutions are able to accurately capture worked hours, enabling the payroll process to be automated, thereby ensuring that workers receive accurate and timely pay.

Accurate forecasting and scheduling delivered by workforce management solutions mean the right number of staff members are deployed, at the right time and place, to meet customer demand. When a business is staffed appropriately and employees are working their preferred shifts and hours, they are more apt to feel engaged and be productive.

With respect to publishing schedules in advance, the survey showed globally that schedules are generally posted for employees one to two weeks in advance, but this period is shorter in the U.S., where 44 percent of respondents said schedules are posted up to one week in advance (Figure 4). In regions such as Germany and southern Europe, legislation and worker councils dictate that schedules must be published at least four weeks in advance and sometimes up to three months in advance.

Early publication of schedules is important for enabling a positive work/life balance for staff, but this can lead to more schedule edits needing to be made as late-stage changes to demand or labor issues occur. For these reasons, mobile self-service functionality to enable shift swaps and shift bidding is essential.

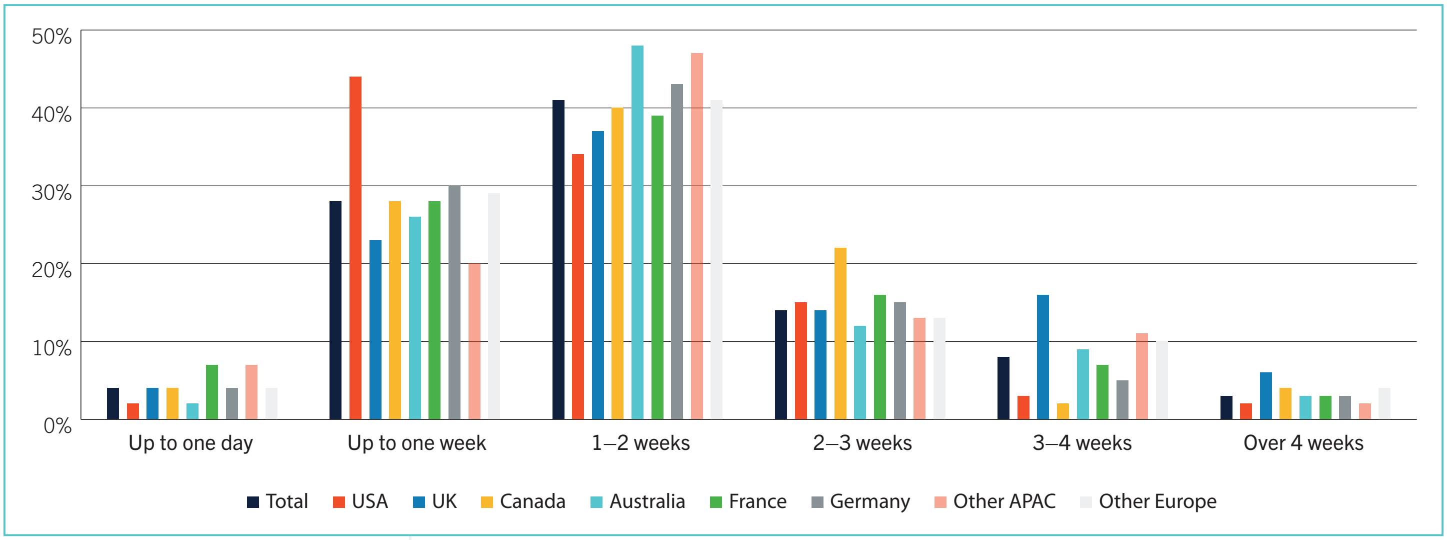

Figure 4:
Timing of when schedules are published for employees.

Mobile technology is improving not just the lives of employees. Managers are also being empowered by having the ability to perform their workforce-related tasks wherever and whenever they choose, meaning more of their time can be spent on the sales floor with employees and customers.

Leading retailers understand the importance of leveling the workload for the whole team across the demand cycle, building a working environment and culture conducive to attracting, retaining, and engaging the best employees the market has to offer. Utilizing tools and technology that facilitate and simplify this process is essential.

IN SUMMARY

Frontline jobs in retail will continue to decrease as customer demands change and technological advancements for shopping force the migration of roles to the digital back office. But the frontline roles that remain will be of higher value, diversity, and complexity. As a result, managing the workforce effectively to control costs, maximize productivity, ensure compliance, and engage workers must be a primary consideration for retailers.

To maximize your labor performance, consider the following points:

- **Start accurate labor planning** with an accurate demand forecast:
  - Utilize the forecasting and budgeting functionality in workforce management solutions to convert historical data and known events into accurate demand forecasts. New AI and machine-learning technology is enabling wider environmental factors to be considered, thereby improving forecast accuracy.
- **Build a staffing plan** cognizant of the needs of local store and regional demographics:
  - Take the time to understand the regional factors that will affect your recruitment, deployment, and retention plans.

- **Schedule staff members based on their preferred hours** of availability:
  - This will help engage staff, reduce unplanned absences, improve productivity, and control costs.
- **Publish schedules** as far in advance as possible to engage workers:
  - But you must provide self-service shift-swapping technology to empower employees to manage last-minute changes to their schedules, reducing the need to resort to calling in sick.
- **Use labor analytics** to mitigate absence:
  - Provide insight into the causes and correlations of absence, enabling managers to take proactive action to mitigate and reduce the impact of absence.
- **Follow the golden rules** of absence management:
  - Think carefully before backfilling absences.
  - Do not allow people to make up their hours.
  - Don't make absence an opportunity for premium pay.

ABOUT THE AUTHOR

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With more than 19 years of experience in the IT software sector, Neil is responsible for driving business growth through retail industry and customer insight around workforce management processes and practices across the EMEA region.

ABOUT THE WORKFORCE INSTITUTE AT KRONOS

The Workforce Institute at Kronos provides research and education on critical workplace issues facing organizations around the globe. By bringing together thought leaders, The Workforce Institute at Kronos is uniquely positioned to empower organizations with the knowledge and information they need to manage their workforce effectively and provide a voice for employees on important workplace issues. A hallmark of The Workforce Institute's research is balancing the needs and desires of diverse employee populations with the needs of organizations. For additional information, visit workforceinstitute.org.

SURVEY METHODOLOGY

Research for the Global Retail Absence Survey was conducted on behalf of Kronos Incorporated by Coleman Parkes Research, an independent U.K.-based research company. Survey data was collected between June and July 2018 from 800 respondents using an online quantitative methodology. Survey participants were sourced from multiple global markets, including Australia, Canada, France, Germany, the United Kingdom, the U.S., and other EU and APAC countries. Survey participants included retail managers, store managers, and head of store operations from retail organizations with more than 1,000 employees across a variety of retail industries.