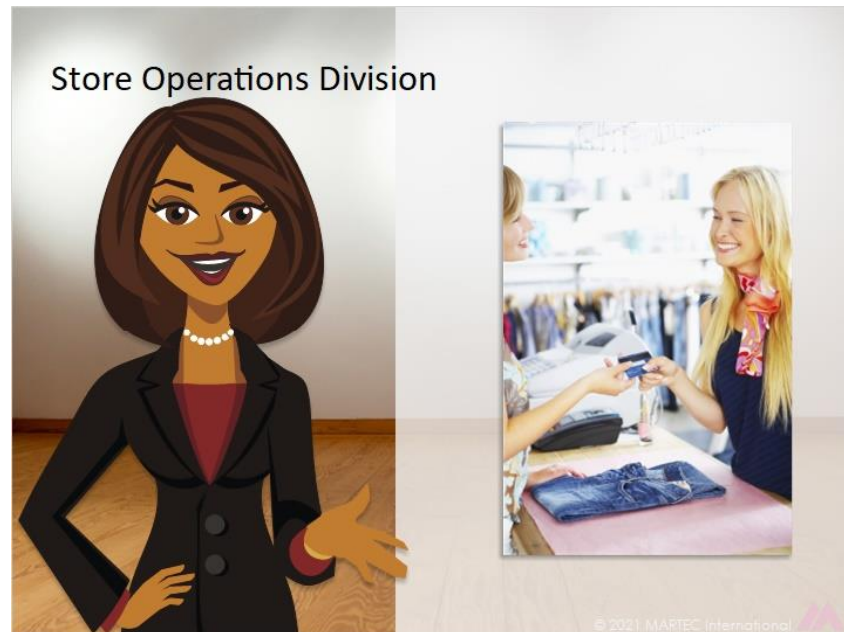




Introduction to Store Operations Module Summary

The Store Operations Division is key to the success of the company. It owns and manages most of the assets and has the largest costs within the company. This module looks at the key processes and responsibilities of the Store Operations division.



Inventory is the largest asset, the largest cost of doing business, and most of it resides in the stores. The second largest cost in retail is labor, of which the largest portion, around 90%, is store personnel. Real estate is the third largest cost to retail and most of that is store space.

The stores are the visible face to customers. In some companies the stores are the sole outlet for merchandise and customer contact, but most now have an e-commerce channel. Some also have wholesale and franchising. The retailer's relationship with customers is forged in the stores.

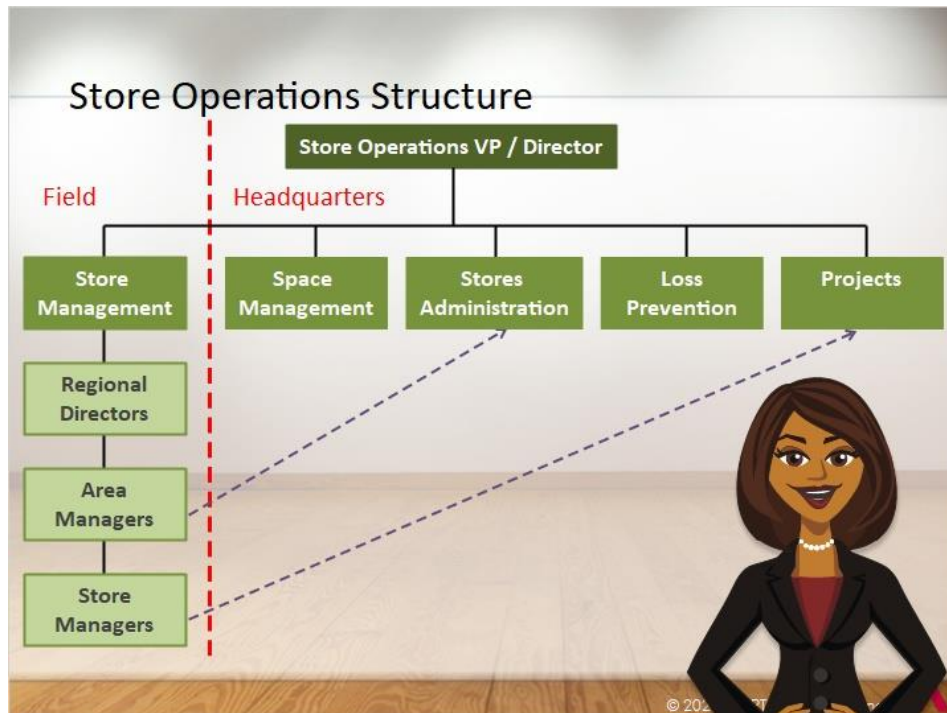
Store Operation's performance in the implementation of the company's strategy is crucial to the success of the enterprise

The Store Operations Division or 'Retail Operations' has two major responsibilities:

1. At the strategic level - the development of store operations policy.
2. At the tactical level - the day-to-day running of the stores.

Store Operations is responsible for selling the merchandise to consumers, keeping the inventory safe and providing customer service. In the chart below, the left-hand column is the field organization, and the rest of the chart is the headquarters element.





Store managers often start their careers as trainee managers, especially if they are graduate entrants. Some are store supervisors who have demonstrated potential. They get promoted to run a small store, often known as a C grade store. If they do that well, they get promoted to run a B store. Those B store managers identified as having career potential may get transferred to headquarters, initially into a projects department. The aim is to widen their experience through working on specific projects.

After a year or two of this, they will probably be moved back to the field to an A store. After several years in an A store, they may be moved back to headquarters to one of the HQ departments to perform a Stores Administration role or to run a bigger project (such as manage a major new store build). In this case, they will probably move to run the new store when it is operational. Or they might be moved back to the field as an Area Manager. Later they might be moved back to headquarters to a more senior management role and later be promoted to a Regional Director.

There are several headquarters functions, shown to the right of the red dotted line. One may do planograms, though this more often sits in the Buying Office. If Store Operations does not do the planograms, it will likely have a team that manages the overall allocation and deployment of selling space across the chain, liaising closely with the Buying Office to optimize space performance. This liaison is critical, because the Buying Office builds the assortments to optimize the use of the space.

There will be a Stores Administration function. This team will define the policies and procedures for all the operations that take place in a store. They will also publish a store operations manual, which these days might be a web portal, accessible from any web-enabled terminal in the store or the company. As an example, this team will create policies for cashing up the registers at the end of the trading day, producing an overs and shorts analysis, defining the process for handling a customer refund, etc.

Loss prevention will exist at two levels. There will be a headquarters function that sets loss prevention best practice, performs a wide variety of analysis to identify suspicious circumstances

and handle investigations of those circumstances. They will decide whether to prosecute anyone they catch, in line with company policy. They will also be responsible for advising on burglar alarms for offices, stores, and warehouses, recommending camera and other security systems and evaluating the need for merchandise tagging. They may have store detectives and sometimes uniformed security guards in stores, or they will likely have regional operatives that can be sent store to store to make spot checks, deal with issues and so on.

There will usually be a specific projects department at headquarters made up of various levels of store people, transferred in to widen their experience. They may, for example, be the stores representative on a POS project, or participate in a labor scheduling project. They could be assigned to implement a new fixturing solution for a tricky department like lighting, say, or they could be part of a team designing and building a new store. In a large organization like a chain retailer, there will always be a list of projects to be attended to. For those trying to identify people in the projects department the bad news is that there are a variety of names that the team could be called and there is no industry standardization in this case.

If you are a technology vendor selling to retailers, it is worth contacting the Projects Department if you can. Whenever a retailer is getting ready to produce a request for a proposal RFP), the Projects Department will very probably have at least one person on their team as part of the user side of the project. They will know which RFPs are to be issued well before they are ready for publication.

KPIs

One of the ways to improve overall business is to increase the amount each customer spends during each shopping trip. Average transaction, or basket size, is the metric that measures this. It can be calculated by company, store, or individual customer (if a CRM system in place). This number can be influenced by store promotions, in stock position, customer service and store merchandising.

Conversion Rate is another indicator to examine regarding improving results. This is an important indicator; it identifies the number of consumers who enter the store and make a purchase. Many stores use manual or electronic counting devices to analyze traffic patterns. The conversion percentage is the number of transactions divided by the number of persons entering store times 100. Many operational factors affect this: in-stock position, customer service, merchandising, store maintenance, etc.

Sales per full time equivalent (FTE) is a measure of labor productivity and is calculated as $\$ \text{ Net Sales} / \text{Number of Full Time Equivalent Employees}$.

The number of full-time equivalent employees per week is defined as:

$\text{Total Labor Hours} / \text{Number of Hours Worked per Week by a full-time employee.}$

This metric can serve several purposes. First, it can help a retailer to control labor expense by relating it to the important sales figures. Second, it can be used as a planning or scheduling tool, so that labor can be scheduled when the need is the highest - during times of peak sales. Third, it can be used as a sales productivity standard for store associates, such as salespeople or cashiers. Any action that increases sales and/or decreases labor will improve this metric.



Key Processes

Space Management



Space Management

- Store space productivity is key to success
 - Many departments are involved in planning space usage
 - Store Operations executes, maintains and audits compliance
- The goal is to generate the highest sales possible from the smallest amount of space that meets customer service and merchandising objectives
- Food stores, with tight margins, rely on sophisticated systems to tailor 'planograms'

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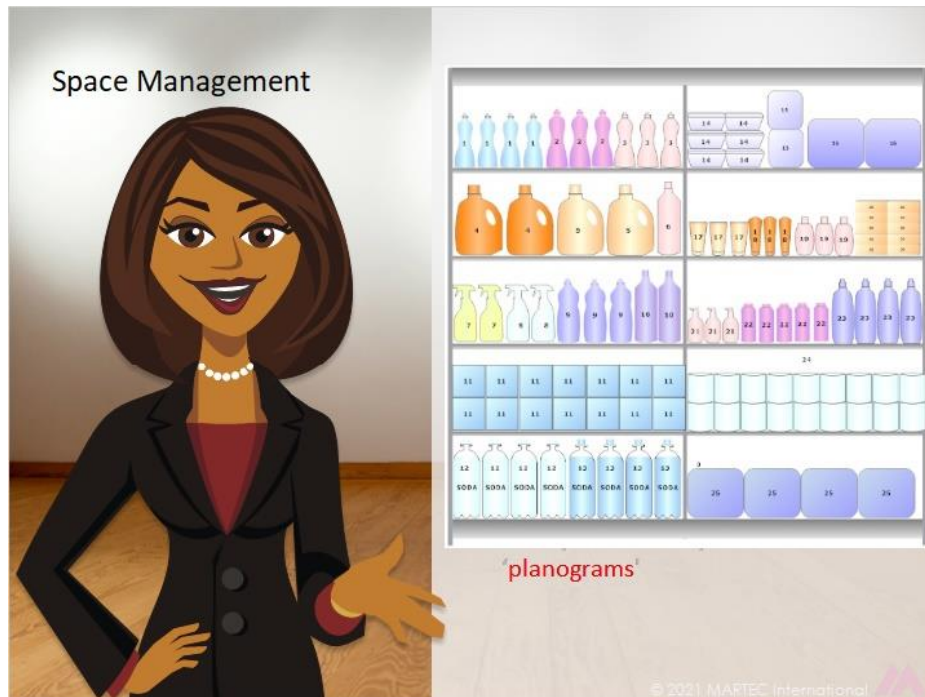
Space is the third highest cost of doing business for the retailer. Therefore, the entire company is involved in making sure all space is productive. The stores, being the largest and most important part of space, are given the most attention.

The goal is always to generate the most sales from the least space possible, always with the understanding that customer service and merchandising objectives must be met.

How space planning is done will vary from one company to another, but the space planning people will have input from buying and merchandising with help from Visual Merchandising and regional and district managers.

The execution and maintenance of the space usage plans, often referred to as planograms are handled by store management.

Planograms are maps of store layouts and fixtures sent to stores to define layouts. These are developed by ever more sophisticated software to define the most effective product placement.



Store Administration & Physical Plant Maintenance

As shoppers, we have all consciously, or unconsciously, recognized a retailer's standards for the administration and maintenance of the stores:

- A clean smelling supermarket (or not),
- A smart looking shop front and interior (or not).

Store managers meet the standards or better them, and their managers review compliance.

Large stores require dedicated operations managers to supervise the functions:

- Maintenance
- Cleanliness
- Stock handling
- Equipment upkeep
- In-store IT
- Loss Prevention.

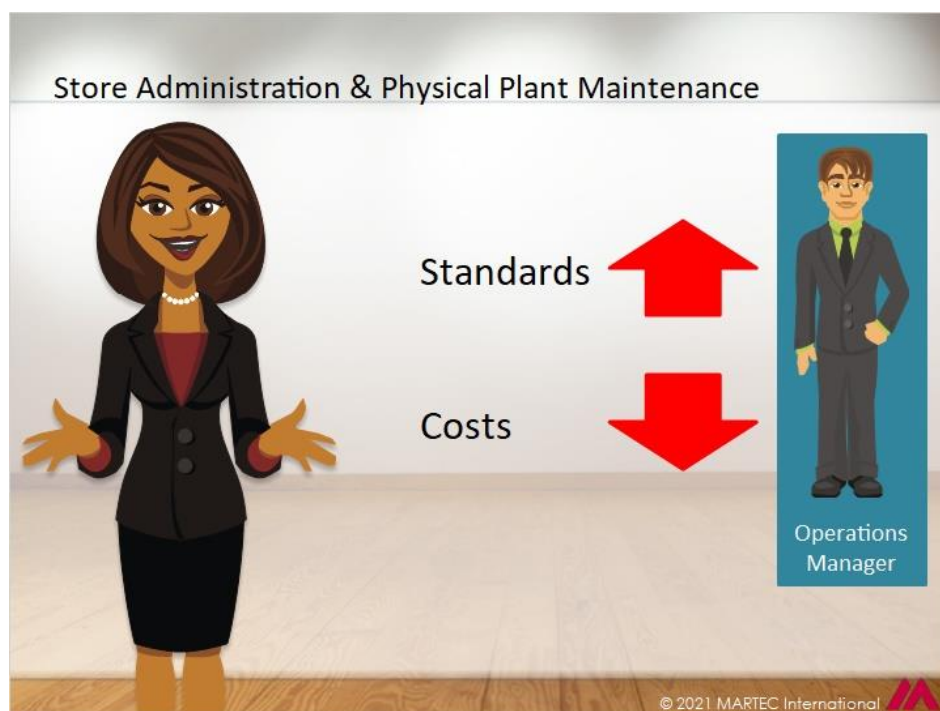
A primary goal is to meet or exceed company standards in these areas while incurring the least cost possible.

Efficient operations of refrigeration and freezer units is a significant concern for grocers. These units can account for between 40 and 75% of a store's total energy usage depending on location. Energy costs are about 4% of a grocery retailer's expense budget. Savings found in energy consumption can be a significant contributor to profitability for grocers and convenience stores.



Most major malls provide their stores with heating, ventilation, and air conditioning (HVAC) and other basic building services.

The larger companies have in-house maintenance personnel.



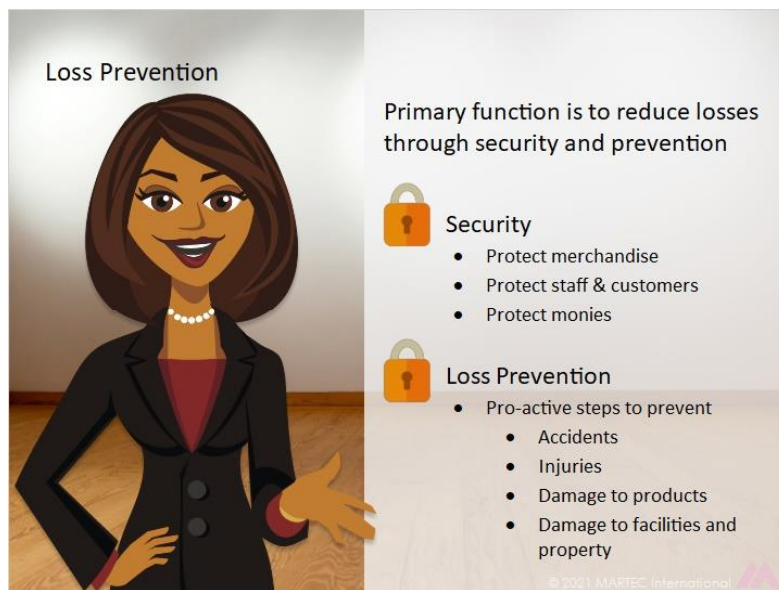
Store Operations and Human Resources

Retailing is a labor-intensive industry. The average department store employs anywhere from 150 to 500 associates. A supermarket might employ 100-200. Many of these will be part time in the US and UK. In other countries like Germany, many will be full time.

In the U.S., retail supports 1 in 4 of the population although only about 25% work for retailers (still about 10m people). The others work in the supply chain. Managing this large group of employees, predominately in the Store Operations area, is a huge challenge for retail managers. The chart below shows all the main areas that Store Operations will get involved in to maximize the effectiveness of the stores team and minimize costs without impacting customer service.



Loss Prevention



Retail loss averages about 2% sales measured at selling price. Given the differing gross margins, this could be 1% to 1.5% at cost.

Successful retailers use the Loss Prevention Department and Store Security primarily to reduce costs and increase profits, thereby gaining a possible advantage against competitors. Shortage (or shrinkage in Europe) is the term retailers use to define the unintended loss of inventory from causes other than sales. Loss Prevention and Store Security are concerned with losses through theft which primarily occur because of employee theft and theft by the public.

Specialty, general merchandise, food, and drug retailers face many of the same challenges in shortage and their attempts to limit it. Many retailers view Loss Prevention and Store Security as passive areas in which action is taken reactively when an event occurs. However, best practice retailers have their Loss Prevention and Store Security people plan and implement processes and systems that assist in the recognition and avoidance of the problems before they happen.

Other key responsibilities for Loss Prevention include ensuring a safe store environment for employees and customers. Loss Prevention is charged with tracking incident reports. These reports record any employee or customer accident that may result in an injury, loss of property or could possibly result in litigation. They must secure the store by working with Store Operations to correct any potential structural problems (broken pavement, torn carpet, broken door handles, etc.), design flaws (e.g., slippery floors, sharp edged fixtures, fire hazards, etc.) and potential hazards (such as spills, food, pallets on the sales floor, broken fixtures, etc.).

Products sold by retailers that have exceeded their expiration date or shelf life could be harmful to customers and expose the retailer to the possibility of legal action and fines.

Training the store staff on proper security methods, emergency procedures and proper cash handling is another role for the loss prevention staff. Best practice loss prevention is just that, preventative measures to reduce shortage, legal liabilities, and lost time accidents.

Summary

Summary (1)

01

Store operations is crucial to the success of a retail business because it manages the most significant retail assets of inventory, labor and space

02

The VP of Store Operations is responsible for the field based store management team as well as the headquarters based teams for space management, stores admin, loss prevention and projects

03

The KPIs a store operations team is measured on include sales, conversion rates, shrinkage, availability and labor costs

04

The Store Ops departments develop the Store Ops policy and ensures it is executed in all stores. This is the hard part and covers all the day to day aspects of running a store. Store Ops must execute and maintain the planograms defined by the space management department and maximize the use of space in-store



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Summary (2)

05

Store Ops is responsible for the administration and physical plant maintenance of the stores - Mall operators normally carry out this function for the retailers in their mall, otherwise retailers use internal or external resources

06

Store Ops is responsible for improving security and reducing shrinkage in stores

07

Store management is responsible for recruiting, hiring and terminating store staff and making sure labor costs are minimized without impacting customer service



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