

Retail Practice

# Closing the skills gap in retail with people analytics

Retailers that embrace people analytics are poised to streamline their onboarding process, retain strong employees, and ultimately maximize productivity.

*by Patrick Simon, Caroline Tufft, and Pierpaolo Zampella*



**Retail is ripe for automation.** More than 50 percent of all activities in retail can be automated with current technology. This means that the skills retailers will require for success in the future will differ from the skills that were required for success in the past. In addition, shopper needs and interaction preferences are evolving. Existing trends, such as the growth of online sales and the need for touchless service in brick-and-mortar stores, are accelerated by the COVID-19 pandemic.

To stabilize revenues and set up companies for future growth, retailers should invest in people analytics now. With people analytics, retailers will be better able to identify the skills that will fuel future growth, as well as to assess the readiness of their workforces for meeting tomorrow's challenges.

### **The case for change**

According to a study by the McKinsey Global Institute (MGI), 52 percent of all activities in retail can be automated with existing technology (Exhibit 1). Automation of many aspects of the retail experience is already live in the United States, where Amazon uses various sensors and deep-learning algorithms to track shoppers as they make their way through the store and to detect when products are taken from a shelf. The company's Just Walk Out technology keeps track of a shopper's choices and charges the

total to the associated Amazon account once the shopper has left the store.<sup>1</sup>

Consumer advocates might think shoppers dislike this development, but the opposite is true. In a recent survey, 72 percent of consumers said accelerated checkout is their favorite retail innovation.<sup>2</sup> Checkout-free shopping is not only convenient but also a way of limiting contact to reduce the spread of COVID-19. However, since some shoppers prefer traditional cash registers, we expect there will be a period of transition during which different checkout technologies coexist.

While technology is changing the way brick-and-mortar stores operate, consumers are also increasing their share of online shopping, even in categories in which share growth had started to stagnate, such as groceries. In a recent McKinsey survey, grocery was the top category in terms of expected online growth.<sup>3</sup>

These and other changes have been unfolding so quickly that the evolution of the skills of the retail workforce is not keeping pace with the evolution of the capabilities needed by retailers to defend market share and achieve growth. In many formats, for example, cashiers may soon become obsolete. MGI predicts that hours spent performing physical and manual tasks in retail will decrease from 24

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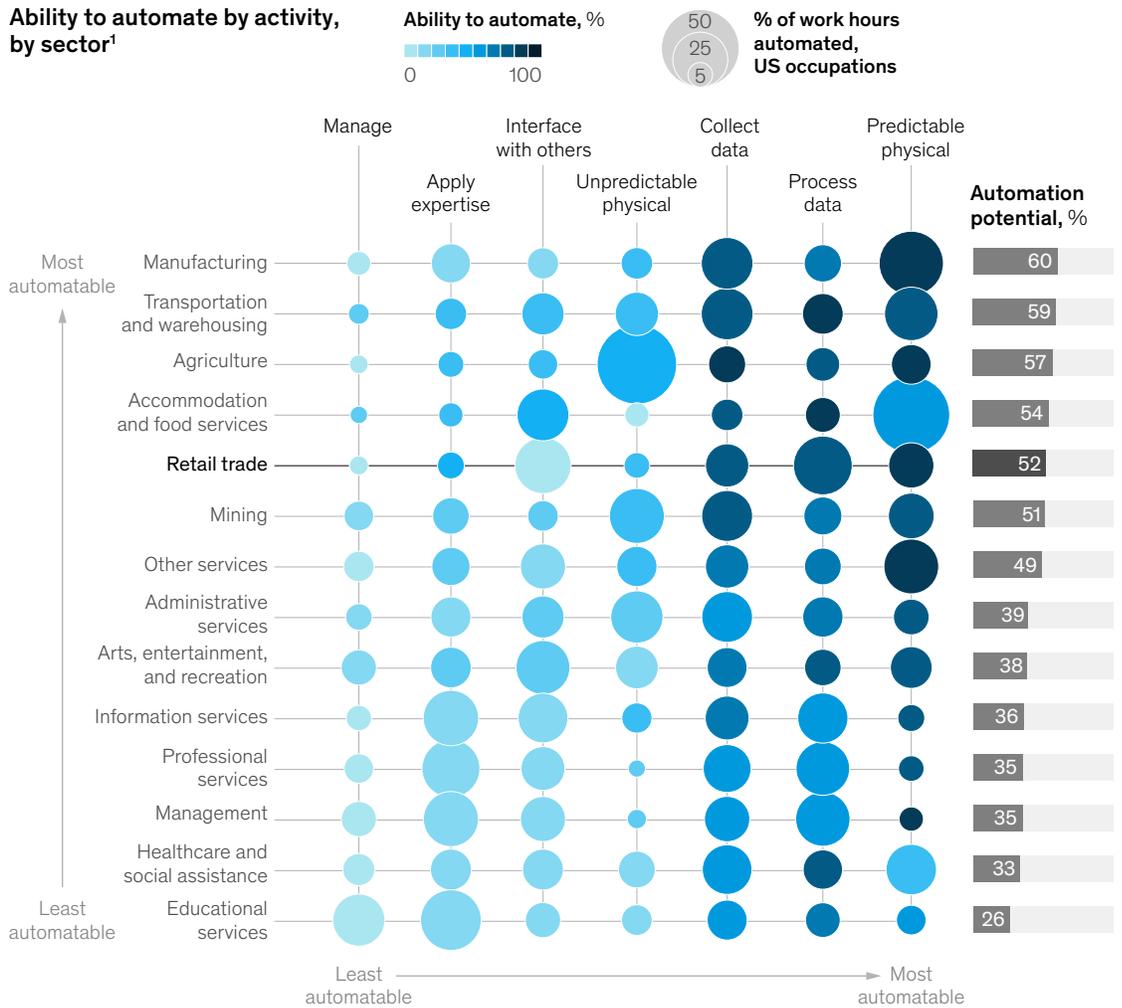
<sup>1</sup> "Amazon Go," Amazon, March 20, 2020, amazon.com.

<sup>2</sup> Andria Cheng, "Amazon Go looks to expand as checkout-free shopping starts to catch on across the retail landscape," *Forbes*, November 21, 2019, forbes.com.

<sup>3</sup> "Global surveys of consumer sentiment during the coronavirus crisis," accessed March 30, 2020, McKinsey.com; McKinsey Marketing and Sales COVID-19 US Consumer Pulse Survey, conducted March 20–22, 2020.

Exhibit 1

## Over half of the work in retail could be automated.



<sup>1</sup>Based on demonstrated technology.  
Source: McKinsey Global Institute

percent (2016) to 18 percent (2030) and that hours spent performing basic cognitive skills will decrease from 27 percent (2016) to 24 percent (2030). In contrast, hours spent on tasks that require interpersonal and technological skills will increase dramatically.<sup>4</sup> Retailers hoping to fill these gaps by hiring new people will find that certain profiles are in ever-shorter supply. In 2019, 83 percent of US employers struggled to find workers with the right skills.<sup>5</sup>

### Practices of pioneers

To strengthen their competitive position in trying times and prepare their companies for future growth, leading retailers across the world are investing in data and analytics. One of the functions where many players expect the highest return on such investments is people management. Best-practice players start by performing a comprehensive people diagnostic: How will trends such as automation,

<sup>4</sup> James Manyika, "Technology, jobs, and the future of work," McKinsey Global Institute, May 2017, McKinsey.com.

<sup>5</sup> Dominic Rushe, "There's a war for people': Strong jobs market belies a shortage of skilled workers," *Guardian*, September 16, 2019, theguardian.com.

# For brick-and-mortar retailers, it is critical to examine roles within the store and determine how they drive value for the organization.

the evolution of customer preferences, and labor shortages affect our business? Which capabilities—in areas such as manual skills, interpersonal skills, and technological skills—do we need to drive growth? Which capabilities do we currently have?

For brick-and-mortar retailers, it is critical to examine roles within the store and determine how they drive value for the organization. Typically, some frontline roles drive much more value than others. Examples of high-value roles include team leaders, customer-facing sales associates, and experts who float across departments to disseminate knowledge and coach employees on new tools or approaches. Retailers should determine what these roles are and which skills are required for employees to excel in them.

In most cases, retailers find that there is a gap between the capabilities they need to succeed and the capabilities they have, be it in terms of skills or capacity. Leading players address these issues by making informed decisions about how to close the gap and by applying state-of-the-art analytics in three areas:

- **Build.** In which areas can we maximize the value we get from current employees?
- **Buy.** What is the best way to get the talent we need—for example, by refining our recruiting strategy with analytics?

- **Borrow.** In which areas should we rely on contractors or temporary workers to drive excellence?

## **Build: Maximizing the value from current employees**

In a new McKinsey Global Survey on future workforce needs, nearly nine of ten executives and managers say their organizations either face skill gaps already or expect gaps to develop within the next five years. Although most respondents say their organizations consider it a priority to address skill shortages, few say their organizations understand how to equip themselves with the workforce skills they will need most.<sup>6</sup>

While many executives acknowledge the value people analytics can bring to inform reskilling efforts, they are concerned about the investment required to implement people analytics at their companies and the disruption it may bring. But in our experience, taking advantage of people analytics is an investment that yields returns. It can enable many retailers to maximize productivity without changing the existing labor model. For example, analytics can help streamline the onboarding process, identify the top performers in a given role, help individuals get better at their jobs through e-enabled coaching, and increase the retention of the strongest people through targeted investments in capability development and performance-based compensation (Exhibit 2).

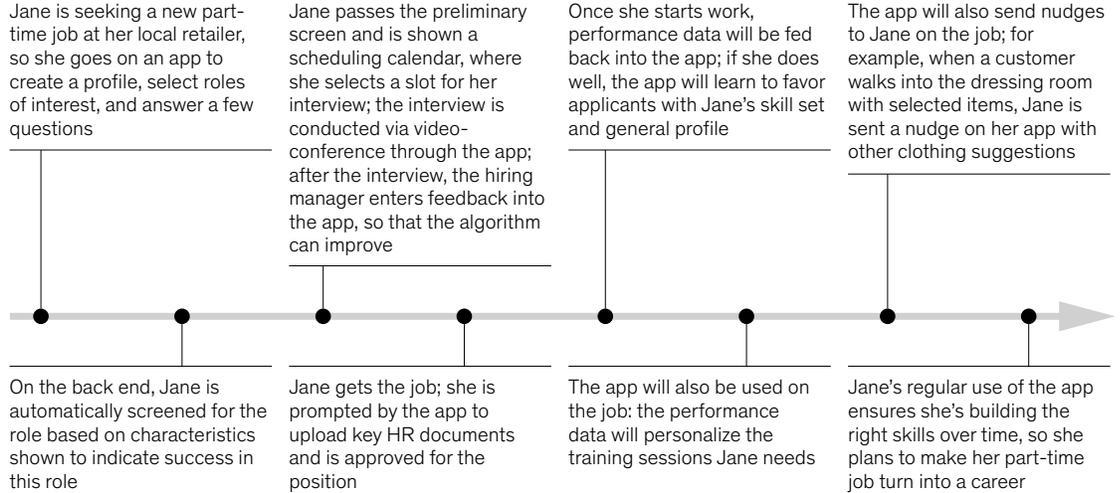
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<sup>6</sup> "Beyond hiring: How companies are reskilling to address talent gaps," February 2020, McKinsey.com.

Exhibit 2

## People analytics helps to staff up stores and maximize productivity.

### Illustrative journey



As roles evolve, it is crucial to invest in building new capabilities, especially in areas that will drive future growth, such as interpersonal and technological skills (Exhibit 3). The store of the future will be not only the focal point of a technologically enhanced shopper experience but also a hub for data gathering and data-driven decision making. Applications range from smart price tags to targeted in-store promotions displayed on smart shopping carts or pushed to the mobile phones of registered shoppers. Skilled labor is a key prerequisite for maximizing the value generated by such innovations.

Upskilling does not always have to take the shape of formal training. For example, targeted interventions that rely on behavioral science can unlock creativity, drive innovation, and enhance employee performance. Applications in retail span various roles:

- **Tips for sales associates.** Selling tips can be sent to the mobile devices of associates on the sales floor, based on their employee profile and store dynamics.

- **Prompts for checkout staff.** The cash register can display prompts during a customer checkout, using scripts that promote high customer satisfaction.
- **Notifications for store managers.** Managers can be sent notifications with real-time staffing recommendations, based on the time of day and customer traffic.

These are just a few examples of hundreds of interventions that leading retailers employ to influence the behavior of employees and increase overall productivity.<sup>7</sup>

### Buy: Cultivating a proactive approach to recruitment

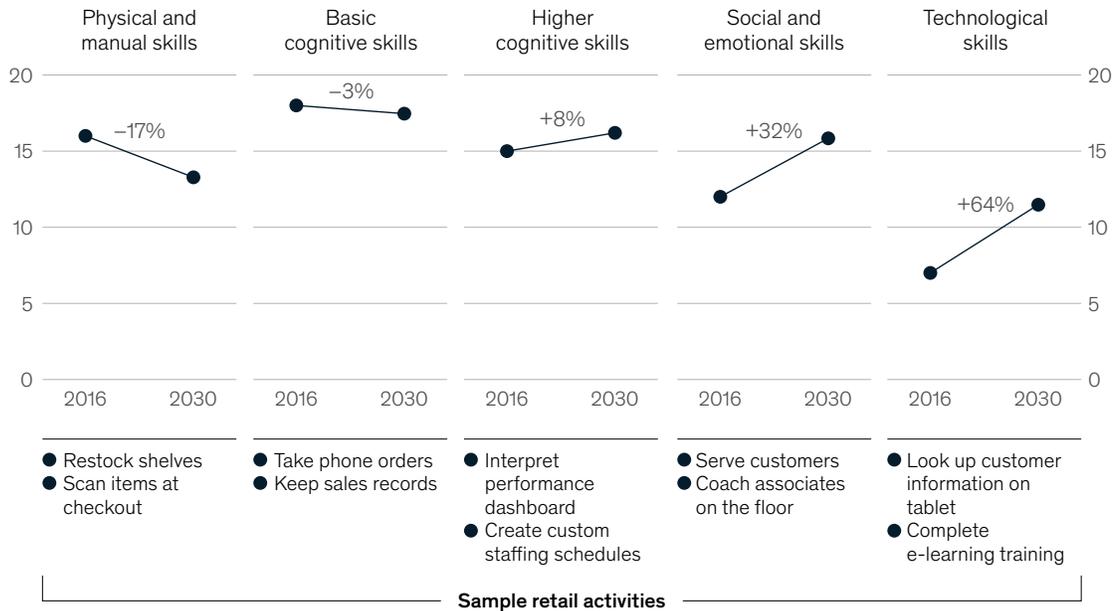
Not all skill gaps can be filled by coaching and training current employees. As existing roles evolve and new roles emerge, retailers must also adapt their strategy in the war for talent. Analytics can help retailers determine which capabilities they need and improve their chances of bringing the best candidates on board.

<sup>7</sup> Alexander DiLeonardo, David Mendelsohn, Nikil Selvam, and Alexandra Wood, "Personalizing change management in the smartphone era," *McKinsey Quarterly*, May 2020, McKinsey.com.

Exhibit 3

**Social and technological skills are becoming more important in retail.**

**Retail hours worked, by activity, US and Western Europe,<sup>1</sup> billions**



<sup>1</sup>Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, and United Kingdom. Source: McKinsey Global Institute

For example, a US retailer tapped into a wide range of sources, including in-store observations, focus groups, and psychometric assessments, to collect data across the entire talent value chain. This included employee characteristics, such as experience and personality traits, and business-performance indicators, such as speed of service and customer-satisfaction scores. In a second step, the company used machine learning to identify four types of employees and to determine how each type affected store performance. Based on these insights, the company proceeded to approach promising job candidates directly. Using publicly available data, such as LinkedIn profiles and résumés posted on job-search portals such as Monster and Stepstone, the retailer made tailored offers to the best job seekers, even if the individuals had not applied to the company or even considered a career in retail.

To drive efficiency, the retailer developed an app that allows it to screen potential employees, gather feedback, collect credentials, schedule interviews, and track candidates as they move through the pipeline. This approach has delivered several benefits:

- a higher share of suitable candidates in the pipeline
- a 60 percent faster process from first contact to hire
- an 80 percent reduction in paperwork
- higher retention rates

But a technology-enabled hiring approach is not only a proven driver of efficiency. It also increases a retailer's chances of reaching and engaging digital natives. For them, mobile devices and apps are natural ways to connect with others, and they perceive the simple process of uploading their résumé to a mobile app as much less cumbersome than attaching a PDF to an email, let alone filing a physical application by mail.

**Borrow: Taking advantage of the gig economy**

Retailers seeking to hire certain specialists will find that not all profiles are readily available in the labor market, and many high potentials who possess skills in sought-after areas are drawn to technology firms or start-ups rather than to traditional brick-and-mortar retailers. The good news is that not all skills are required permanently.

To meet shorter-term needs for special skills, retailers may be able to benefit from various flexible staffing solutions:

- *One-off efforts.* Many retailers need people with specialized skills to complete specific tasks on a project basis, such as building a customer segmentation, conducting an analysis of network productivity, setting up an online channel, or implementing data-driven pricing- and promotion-management systems. The specialists needed to drive such efforts can be hired as freelancers.
- *Ecosystems.* Some companies choose to collaborate with specialized players up or down the value chain to augment their core competence. For example, McDonalds has partnered with various asset-light food-delivery start-ups, such as Uber Eats, to create McDelivery.<sup>8</sup> In a similar spirit, many brick-and-mortar retailers form alliances with online fulfillment providers, a trend that has been precipitated by the COVID-19 pandemic.
- *Employee sharing.* The COVID-19 pandemic has accelerated the shift from offline to online channels, and that has created extreme and opposing repercussions for many retailers. For some types of retailers, such as apparel players, the shift to online has led to the shuttering of stores. Other retailers, such as grocers, have seen unprecedented surges in demand and are having a hard time finding the people they need to cope with the onslaught of customers. In this situation, one retailer's surplus can help remedy another retailer's shortage.
- *Borrowing before you buy.* Another way of filling an urgent capability or capacity gap is to rely on temps, interns, and trainees—temporary staff members with an optional path to permanent employment. These types of contracts can be a great recruiting tool for retailers.

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<sup>8</sup> "Beyond hiring: How companies are reskilling to address talent gaps," February 2020, McKinsey.com.

## Outlook: Transforming the retail labor model

Once retailers have taken initial steps to close the talent gap, they should go about transforming the retail labor model more comprehensively, focusing on win–win areas in which analytics and technology drive both customer satisfaction and business success. Best-practice players employ design thinking to reinvent retail with state-of-the-art technology. Design thinking is a school of thought that reverses the traditional approach to product development and process definition. It starts with an unmet customer need or an unresolved customer pain point rather than with an idea or a blueprint. In many cases, analytics and technology are injected into the retailer’s operating model to speed up processes, improve service, and create a more compelling overall experience.

Pioneers of people analytics report improvements on several fronts. Let’s hear from an executive at a US quick-service restaurant chain: “Four months into a pilot, the results are encouraging. Customer-satisfaction scores have increased by more than 100 percent. Speed of service as measured by the time between order and transaction completion has improved by 30 seconds. Attrition of new joiners has decreased substantially, and sales are up by 5 percent.”

Across sectors, analytics and technology can improve store productivity by 10 to 20 percent.<sup>9</sup> Specifically, people analytics is a catalyst that will help retailers transform their talent pipeline. This will not only improve training and hiring efficiency but also result in higher retention, better employee performance, and higher customer satisfaction. Most important, retailers that invest in people analytics and related technologies now will emerge from the current crisis with a head start on their competitors.

### Related reading

“Using people analytics to drive business performance: A case study”

“An inside look at the McKinsey store revitalizing brick-and-mortar business”

“A transformation in store”

“Global surveys of consumer sentiment during the coronavirus crisis”

“A new AI-powered network is helping workers displaced by the coronavirus crisis”

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<sup>9</sup> *New at McKinsey*, “An inside look at the McKinsey store revitalizing brick-and-mortar business,” blog entry, November 12, 2019, McKinsey.com.

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