



CORNERSTONE WHITEPAPER SERIES

Talent Management Technology Strategies for the Retail Industry in 2010



Cornerstone OnDemand
Whitepaper Series

Contents

Executive Summary.....	2
The Current Situation.....	3
Key Retail Business Trends	4
How Retail Should Approach Talent Management in 2010.....	5
Integrated Talent Management for Retail.....	6
Case Study.....	9
Conclusion.....	10

Executive Summary

As 2010 begins, the U.S. retail industry must prepare a talent strategy that is not geared entirely for recession or recovery, but something in between. A smaller talent pool, the workplace demands of Generation Y, education shortfalls and the decrease in interest in retail as career path will offer significant challenges for business leaders who are crafting talent strategies. However, the industry will continue to experience slowing sales growth as it struggles with fallout from the crash of the housing market, the tight credit market and high unemployment, as well as rising wholesale prices and increasing industry consolidation.

The main challenge for retail talent leaders in 2010 will be to chart a course that addresses both the short-term needs for businesses navigating a difficult economy and the long-term talent requirements of businesses striving for growth and future success. In 2010, these leaders should develop strategies that will help their organizations:

- Improve retention
- Focus on employee development
- Reduce time to competence
- Prevent a talent gap from becoming a leadership gap
- Link compensation to performance
- Improve efficiency and compliance
- Make technology an essential part of the solution

An integrated talent management technology solution that is deployed with an effective strategy can offer significant advantages for retailers. First, businesses approach talent management from an integrated perspective in the real world, not as separate, stand-alone elements. But another, more important advantage for businesses is the impact on the bottom line: research from leading industry analysts shows that businesses with an integrated approach generate 26 percent more revenue than those that do not.¹

¹ Bersin & Associates 2009 Talent Management Factbook.

The Current Situation

After an extended economic recession, the long-term talent concerns for the retail industry have taken a backseat as many businesses have focused on survival. Key indicators at the end of 2009 bring new optimism to retail sales, possibly signaling the beginning of a new period of growth. That means the industry won't see the wave of bankruptcy filings seen in 2008 and early 2009 as stores have been able to refinance their debt.²

Another bright spot for retail has been turnover. In an industry that has commonly experienced annual turnover rates near or above 60 percent, the rising unemployment rates in 2008 and 2009 have meant lower turnover rates in retail. Annual turnover for 2008 was 54.9 percent – the lowest rate of the 2000s – and 2009 was on track to be even lower.³ Unfortunately, don't expect this trend to last. As unemployment rates begin to come down, turnover rates will increase again.

For retailers, the cost of turnover is remarkable, even with the current lower rates. According to the National Retail Federation, one in five American workers is in retail – 24 million workers who are employed in 1.6 million retail establishments in the United States. Based on 2008 turnover numbers, that equals almost 13.2 million positions turning over annually. Although the U.S. Department of Labor estimates turnover cost to be one-third of annual salary, one major retailer – Best Buy – has figured the cost of turnover as high as 250 percent – the equivalent of \$102,000 per position.⁴ Regardless of how it is evaluated, turnover costs for the industry run into the billions of dollars every year.

Although many retailers have accepted this turnover as a cost of doing business, this approach is unsustainable in the future. According to global management consulting firm Accenture, a talent gap looms for the retail industry, created by:

- **A smaller talent pool:** In the United States, the birthrate has fallen from 16.7 births per thousand in 1990 to 14.2 in 2007. This trend combined with the impending retirement of the Baby Boomers has made talent sourcing more difficult for retailers. As a result, one-third of retailers told Accenture in a recent survey that they are already feeling the effects of the graying population.⁵
- **The demands of Generation Y:** The typical U.S. retail employee is still in the 16- to 24-year-old range. These Gen Y employees expect more feedback and a high-level of technology in their work.⁶
- **Education shortfalls:** A recent survey from the Corporate Executive Board found that the average quality of candidates has decreased by 10 percent since 2004. Furthermore, surveys of college and high school graduates

² Fitch Ratings Offers Cautious 2010 Retail Outlook. The Associated Press. November 16, 2009.

<http://finance.yahoo.com/news/Fitch-Ratings-offers-cautious-apf-1742914125.html?x=0&.v=1>

³ U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey for Retail Trade, non-seasonally adjusted numbers.

⁴ Rethinking The Time Clock. Business 2.0 Magazine, April 4, 2007.

http://money.cnn.com/magazines/business2/business2_archive/2007/03/01/8401022/index.htm

⁵ Donnelly, Chris. Driving High Performance in the Retail Industry Through Strategic Talent Management. Accenture.

⁶ Ibid.

have identified a number of education deficiencies, especially in communication and leadership skills.⁷

- **Decreasing interest in retail as a career path:** Accenture's research indicates that university graduates are expressing a diminished interest in retail as a career choice with only 12 percent of graduates in 2008 listing it as a top career choice in the eight countries they surveyed.⁸

Key Retail Business Trends: What is the Talent Connection?

As the retail sector struggles to deal with slowing sales growth from the crash of the housing market, the tight credit market and rising unemployment, other industry trends will also present significant challenges. Some of the most significant trends include:

- **Rising wholesale prices:** Retailers are being forced to either increase prices or take lower margins. Higher commodity and transportation costs have driven manufacturing prices to record levels in several segments, affecting retailers with food or gas sales.⁹
- **Increasing industry concentration:** The recession hurts retailers of all sizes, and now because of mergers and bankruptcies, there are fewer players in many retail segments. Slow sales have forced many companies to grow through acquisition rather than expansion. Purchasing and supply chain efficiencies allow large retailers to sustain low prices at the expense of small retailers.¹⁰
- **Growing theft from employees:** Shrinkage because of employee theft is always an issue in retail, but as loss prevention programs have been affected by cutbacks, retail shrinkage increased to 1.51 percent of retail sales in 2008, compared to 1.44 percent in 2007, according to the National Retail Security Survey.¹¹
- **Lagging holiday sales:** Traditionally, retailers depend on strong holiday sales, but many suffered a second consecutive down year. Holiday shopping sales were projected to fall 1 percent in 2009 compared to 2008, according to the National Retail Federation.^{12 13}

Although these issues may be driven by the state of the economy, an environment marked by tight margins and cost controls only magnifies the need for talent to perform at the highest levels. Retailers must be able to identify, develop, engage and retain skilled team members in the face of these trends. The retailers that will have a significant advantage against competitors are the ones that have comprehensive talent management strategies and technology support.

⁷ Ibid.

⁸ Ibid.

⁹ First Research Retail Sector Profile, December 2009

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Christmas Spending Forecast Reverts to Record 2008 Lows. Gallup. November 16, 2009.

<http://www.gallup.com/poll/124283/Christmas-Spending-Forecast-Reverts-Record-2008-Lows.aspx?version=print>

How Retail Should Approach Talent Management in 2010

Retail organizations are clearly aware of the advantage that effective talent management can offer and have jumped on the technology bandwagon in a big way. Although a 2008 survey from human capital industry analysts Bersin & Associates showed that only 39 percent of retail organizations had an intermediate or advanced talent management strategy, the number jumped dramatically to 73 percent in 2009.¹⁴

The reason is clear – talent has the potential to be a force multiplier for retail organizations. The same Bersin & Associates report demonstrated that companies with mature, integrated talent management strategies have lower turnover, higher productivity, higher median revenue per employee and have experienced less downsizing during the current recession.

For the coming year, retail organizations list their top two priorities as performance management and leadership development.¹⁵ From corporate headquarters to distribution centers to location managers and customer-facing employees, the goal is clear – improve individual performance and develop the next generation of leaders. For 2010, the talent management priorities for retail will include:

- **Improving retention:** With a smaller talent pool and education shortfalls to contend with, it will be critical for retailers to identify high performing and high potential employees and concentrate retention effort on these employees. Improving retention will be vital to reducing talent acquisition and training costs, but this will become increasingly difficult as competition for workers becomes more intense.
- **Focusing on employee development:** Because employees connect a retailer to its customers, delivering a great customer experience will increasingly decide between the winners and losers in the years ahead.¹⁶ Developing performance management and learning processes to nurture better performance can move more employees from average to exceptional. That effort is worth it, especially when individual performance is aligned to business goals. Research confirms that top performing employees can exceed the performance of average workers by 25 percent or more.¹⁷
- **Reducing time to competence:** According to industry experts, achieving competence in a position typically requires 12 to 18 months¹⁸, and the average tenure of a retail worker is 2.9 years.¹⁹ Employee performance and learning initiatives that reduce the time in takes to achieve

¹⁴ Bersin & Associates 2009 Talent Management Factbook.

¹⁵ Ibid.

¹⁶ The Importance of Great Customer Experiences and How To Deliver Them. Businessweek. November 27, 2006. http://www.businessweek.com/magazine/content/06_48/b4011429.htm

¹⁷ The True Value of Hiring and Retaining Top Performers. Workforce Management. August 2002. <http://www.workforce.com/archive/article/23/27/12.php>

¹⁸ Defusing The Talent Time Bomb. Talent Management Magazine. January 2007. http://www.talentmgt.com/recruitment_retention/2007/January/217/index.php

¹⁹ U.S. Bureau of Labor Statistics, 2008. <http://www.bls.gov/news.release/tenure.t05.htm>

competence – especially when combined with retention efforts – will allow businesses to increase ROI for employee training expenses.

- **Preventing a talent gap from becoming a leadership gap:** Because store managers are generally groomed and developed from within the ranks of store employees, a high turnover rate means that companies find it harder to fill managerial positions, especially entry-level salaried positions such as store managers. Recognizing high potential employees early can allow retailers to focus both leadership development and retention efforts on promising management prospects.²⁰
- **Linking compensation to performance:** As Deloitte’s report on the current global retail environment points out, higher compensation is critical to attracting and retaining the best people in retail.²¹ However, raising salaries across the board is not sustainable or even desirable. Rewarding superior performance with high compensation is.
- **Improving efficiency and compliance:** Automating manual HR processes such as performance reviews and payroll not only reduces the administrative burden on store managers, it can reduce the potential for human error, lost paperwork and compliance violations that can lead to fines and other penalties.
- **Making technology an essential part of the solution:** Generation Y employees expect more feedback than other generations and a greater level of technology in the workplace. Deloitte research into how retailers can attract, develop and retain Gen Y employees points out that businesses need to invest in and retool the technological infrastructure and approaches used to communicate and train within the workplace.²²

Integrated Talent Management Offers Significant Advantages

One of the key trends in talent management technology today is integration. Research from Bersin & Associates shows that 27 percent of companies in the market for talent management software are seeking a total solution from a single vendor.²³ Why? Organizations are coming to realize that the various aspects of talent management do not exist in the real world as siloed functions.

An integrated approach provides seamless support throughout the entire lifecycle of an employee in a retail organization, from the moment of hiring through promotion/separation/retirement. Furthermore, Bersin & Associates research also found that revenues for companies with an integrated talent management strategy report 26 percent higher revenues than businesses without.²⁴

²⁰ Donnelly, Chris. Driving High Performance in the Retail Industry Through Strategic Talent Management. Accenture.

²¹ Feeling the squeeze: Global Powers of Retailing 2009. Deloitte, 2009.

²² Generation Y: Why this powerhouse generation may hold the key to your retail success: Workforce strategies for attracting and retaining young professionals, Deloitte, 2009

²³ Talent Management Software Market Shows Signs of Life. The Business of Talent Blog. Bersin & Associates. August 3, 2009. <http://www.bersin.com/blog/post.aspx?id=4877977c-b005-4875-8cb0-eb2b74d69d58>

²⁴ Bersin & Associates 2009 Talent Management Factbook.

The Cornerstone OnDemand product for retail organizations covers the lifecycle of an employee at all levels of the retail organization – from the corporate headquarters through store managers, call center employees and hourly front-line workers, including:

- **Onboarding:** An effective onboarding process sets the tone for the employee's tenure with the organization by consistently communicating both the consumer and employment brand. Preparing a new employee with appropriate knowledge and skills from the start can reduce new hire time-to-proficiency. Streamlined onboarding tools can help your store managers bring new hires on quickly and efficiently.
- **Performance management:** As Lindsey Edmonds Wickman, an associate editor for Talent Management magazine wrote in 2008, "A well-rounded performance management process gives retailers a competitive advantage. It offers a map, allowing companies to prepare for roadblocks that may be coming, whether it is a tremendous hike in oil prices or slow economic times. Without it, organizations leave everything to chance."²⁵ Performance management helps identify high performers and high potentials, engage all employees, and match skills to employ talents and aspirations. Building career paths with performance management not only will help retailers aligning individual effort with business strategy, it helps drive retention. Key aspects of the performance process should include:

Goal alignment and management: The corporate strategy designed in the C-Suite needs to cascade down to the individual employees who will execute these plans.

Competency assessment and management: Identifying and tracking the core competencies that drive your business and your specific culture (for example, customer service, communication, leadership, etc.) allows you to consistently develop employees using proven criteria for success in your organization.

Performance evaluation: Automating the performance management process helps managers provide consistent and meaningful feedback to employees. With a performance observation checklist, store managers can keep consistent notes on the performance of store employees – for example, noting customer interactions and levels of service provided in specific interactions with employees.

Pay-for-performance: With clear insight into employee performance levels, it is easier for managers to allocate raises and bonuses to the highest performing employees. It is also easier to legally defend decisions that are based on objective employee performance data, not subjective manager opinions.

- **Training and development:** Your best, most ambitious employees are more likely to stay with an organization provides training and development opportunities. E-Learning strategies drive high impact for low cost with consistent training across large, dispersed audience. Also, training and development makes it easier to develop talent, reinforce brand identity and deliver product knowledge that translate into a better customer experience and higher sales.

²⁵ Performance Management: A Retail Perspective. Talent Management Magazine. July 2008. http://www.talentmgt.com/performance_management/2008/July/680/index.php

- **Communication and collaboration:** Younger employees want access to the type of social networking they enjoy in their personal lives to help them connect and communicate in their work. New enterprise social networking technologies and communities make it possible to engage younger workers, drive informal learning and collaboration and improve consistency of brand messaging. For example, store managers can participate in a company-wide community to share practices that work and advice for new managers. Also, companies can develop internal company communities around brand, products and culture.
- **Succession management:** Even as businesses nurture current talent, they must have an eye on the future. Succession management tools can analyze talent needs and availability, build leadership pipelines and improve retention. High potential programs can provide additional development opportunities and assignments to build the organization's next generation of leaders. Career management opportunities allow employees to exert more control over their development as they designate career interests, plan career paths and access development opportunities. These initiatives also facilitate internal recruiting, allowing a business to fill gaps from within and reduce costs of external recruiting. For example, business can develop new store managers from within and retain your top managers and assistant managers.
- **Compliance:** Automating manual HR processes not only lightens an already administrative burden from store management, it greatly decreases the opportunities for errors and omissions that could result in fines for violation of state / federal laws and regulations.
- **Workforce planning.** Senior business executives want and need employee data that provides insight into the real-time performance of their workforce. Integrated talent management not only provides the information that executives need to make important decisions about the direction of the business, the reporting and dashboards also give store managers a single view of all employees.

RETAIL CASE STUDY: EQUINOX FITNESS



Equinox Fitness is a leader in the North American fitness and lifestyle market with 40 upscale facilities. The company has experienced fast growth over the last few years and has ambitious plans to open six to eight new locations per year and add 4,000 employees to support that growth. As a result,

Equinox needed talent systems that could promptly develop and align the new hires to support their rapid growth, including:

- Create an online training program that would streamline the education process and develop new personal trainers quickly and efficiently
- Communicate with employees in all locations, providing direct access to company information and on-the-job training opportunities
- Achieve business goals in a manner that is aligned with the company's unique culture and drive adoption of the new system company-wide
- Automate and expedite training and performance reviews for all employees
- Optimize personal trainer education strategy, incorporating all instructor-led training, and automate registration, testing and evaluations
- Collect and analyze both club and employee performance metrics

Of particular importance in their technology selection was finding a solution that could support a dispersed workforce and meet the performance and training needs of a workforce that differed from traditional organizations. Although many fitness industry employees are Internet-savvy Gen Y workers, they are mobile and don't have constant access to a computer. Also, as most employees at Equinox devote most of their time to member care, they prefer easy-to-use, intuitive tools and seek incentives for participation.

With Cornerstone OnDemand, Equinox Fitness has been able to successfully revamp their employee education strategy, refining a previously lengthy training and evaluation process. In a very short timeframe, Cornerstone Learning™ and Cornerstone Performance™ have yielded tangible results, including enhanced workforce satisfaction, increased revenue through time savings and streamline performance management. "We cut down our six-week training and approval process to just a few hours, saving us valuable time and resulting in substantial increased revenue," said Sean A. Quimby, Director of Talent Acquisition and Development for Equinox.

Conclusion: Get Started with Integrated Talent Management in 2010

An effective talent management strategy supported by the right technology can offer a significant competitive advantage for retail organizations during the difficult and uncertain transition from recession to recovery. For retailers looking to provide direction for talent initiatives in the current environment, consider the following steps:

- **Create a long-term vision and commitment to building a talent-focused organization:** During the past two years, it is completely understandable that business would be focused intently on survival. However, now is the time to look down the road, decide on talent priorities for the next few years and begin building to meet those goals.
- **Identify goals for talent management with integration in mind:** Identify the critical talent initiatives for your business – such as performance or learning – but solve these problems first while developing a comprehensive, integrated approach to all of your talent management needs.
- **Understand the benefits of a SaaS solution:** Software-as-a-Service (SaaS) is a lower cost and easier to implement solution that allows large, widely dispersed business reach at every location through any computer with an Internet connection. Businesses that need affordable, scalable software solutions are turning to SaaS solutions as the better alternative to complex, difficult to develop add-ons to enterprise software such as SAP.
- **Focus on user adoption:** Software is only a benefit if employees actually use it. An integrated talent management software solution will have a familiar user experience from tool to tool that will increase the likelihood of adoption. Choosing the right technology is a good first step, but don't forget to invest in thorough training and communication initiatives that explain how to use the software and how it will benefit both the end user and the company.
- **Find a partner you can trust:** The right talent management solution will do more than provide software, they will help you overhaul your current strategy and build a bulletproof approach that will prepare you for the future. Choose carefully and find a partner willing to go the extra mile to meet your needs.

About Cornerstone OnDemand

[Cornerstone OnDemand](#) empowers people around the world with on-demand, integrated learning and talent management software and services for connecting, developing and performing in the workplace. Cornerstone's Software-as-a-Service (SaaS)-based solutions span the workforce lifecycle, including onboarding, learning, social networking, compliance, performance, compensation and succession planning. The company also provides extended enterprise solutions to help companies better train and collaborate with customers, vendors and resellers. Available in 16 languages and supported by global, 24x7 client care, Cornerstone is used by more than 3.1 million active subscribers in 141 countries. The company is headquartered in Santa Monica, California and has international offices in London, Paris, Munich and Tel Aviv.