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Competitive Strategies and Worker Outcomes in the US Retail Industry

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The retail industry is both the largest industry in the U.S. in terms of employment, and the largest employer of low-wage workers in the U.S. Though overall, women made up 49% of the retail workforce in 2007, just above the economy-wide proportion of 47%, when we narrow our sights to part-time, frontline retail workers (cashiers and stock clerks), the female percentage jumps to 64%--compared to only 33% in management (Figure 1)[1].

Retail salaries are low, particularly for the many part-time workers. Frontline grocery workers—cashiers and stock clerks—earn 57 percent of the average hourly rate across all private industries. In electronics, frontline workers do a little better at 85 percent of the average wage. Not surprisingly, this is at least in part a gender story. Half of all grocery store workers are female compared with just over a quarter (28%) of electronics workers. Among full-time, frontline workers the gender disparity between grocery and electronics is even greater (see Figure 1).

[1] Throughout this Brief, where not otherwise referenced, Information about the retail industry is drawn from: Carré, F. & Tilly, C. (June 22, 2008), *America's biggest low-wage industry: Continuity and change in retail jobs*. Ford Foundation Economic Development Program and Carré, F., Tilly, C., & Holgate, B. (May 20, 2009), *Competitive strategies in the US retail industry: Consequences for jobs in food and consumer electronics stores*, presented at the Industry Studies Association Annual Conference, Chicago, IL. The research presented here was supported by grants from the Russell Sage Foundation and the Ford Foundation, as well as significant in-kind support from the National Retail Federation. We thank Amanda Enrico, Brandynn Holgate,Michelle Kahan, Gwendelyn Rivera, and Fabián Slonimczyk for research assistance, and Phil Moss for help with fieldwork.

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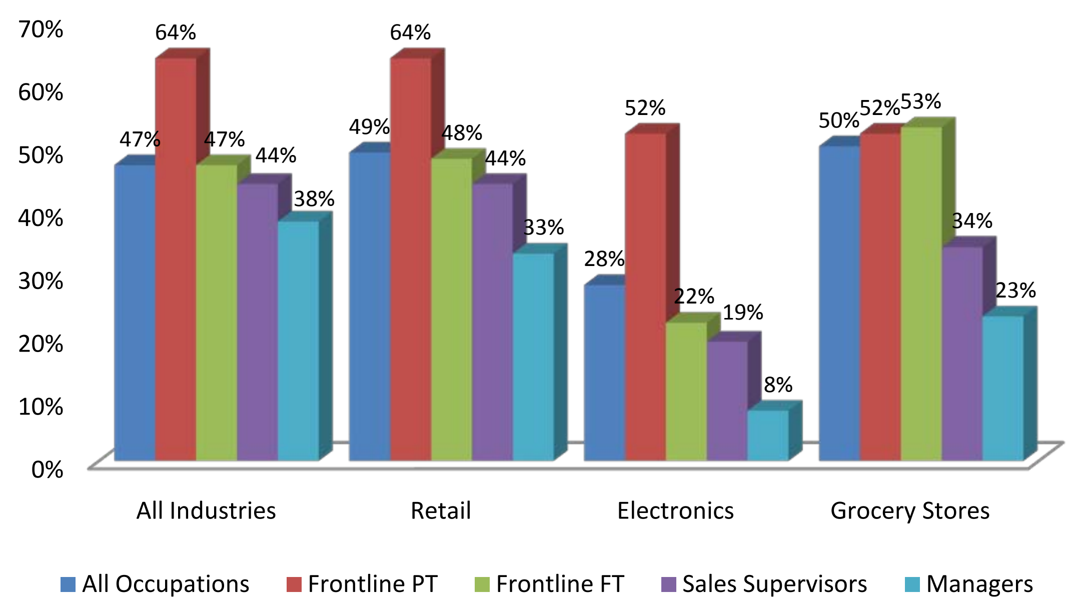
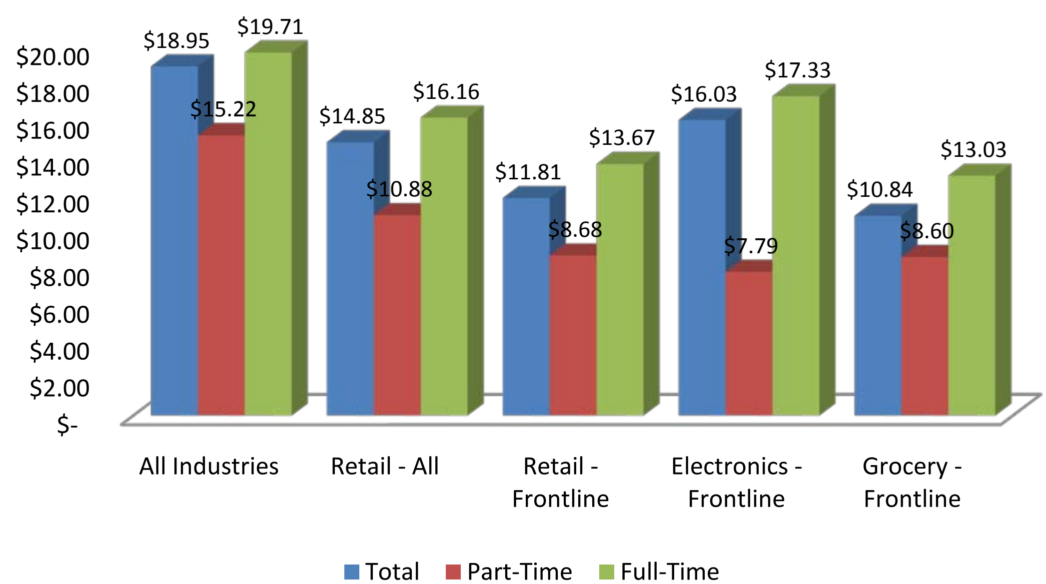
Figure 1. Percent female by occupation and sector, 2007



Source: Carré, F. & Tilly, C. (June 22, 2008). *America's biggest low-wage industry: Continuity and change in retail jobs*. Ford Foundation Economic Development Program.

Figure 2. Average hourly earnings by sector and part-time/full-time status, 2007



Source: Carré, F. & Tilly, C. (June 22, 2008). *America's biggest low-wage industry: Continuity and change in retail jobs*. Ford Foundation Economic Development Program.

The wage gap between full and part-time workers looms large in all retail sectors. Part-time workers in retail earn 33 percent less per hour than do full-time workers. In electronics retail, frontline part-time workers earn 55 percent less than do full-time workers, resulting in wages below that of part-time grocery workers (see Figure 2). Again, at least part of this story is a gendered one, as part-time workers are more likely to be female than full-time workers in both electronics and grocery retail.

Low wages, unpredictable hours, and poor benefits are hallmarks of retail jobs. These "low road" labor strategies make it difficult for women and families to get by. Women are breadwinners (i.e., bringing home 50% or more of the household income) in anywhere from one-quarter to nearly two-thirds of families with children, depending upon the state[1]. This is especially true during the current economic crisis as women, in addition to being primary caretakers, may now also be sole or primary breadwinners for their families, since men's jobs have been particularly hard-hit by unemployment.

This research brief examines the nature of the competitive strategies employers adopt in this industry, and the implications of these strategies for wages and quality of jobs.

Competitive Strategies for Retailers

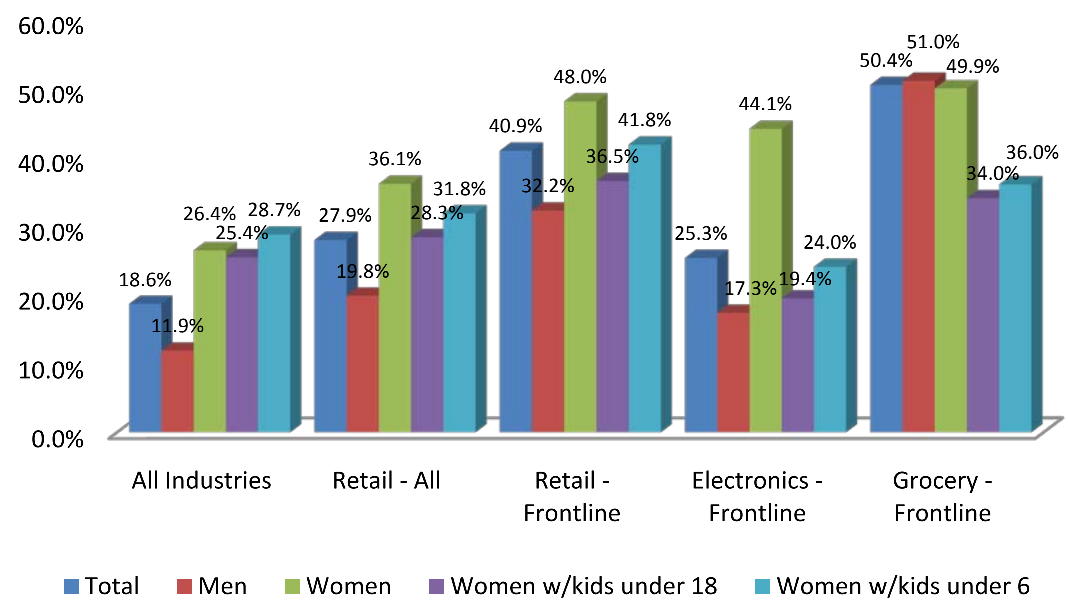
Our research focuses on regional and national chains selling food and electronics, based on case studies of 17 companies as well as analyses of public data sources. All across the country, retailers in these sectors are struggling to muster strategic responses to big box retailers with aggressive practices such as Wal-Mart, Target, and Best Buy. Companies adopt both a product or business strategy (i.e., the strategy employed to increase market share of goods and services) and a labor strategy (i.e., business decisions about recruitment, compensation, retention, etc.). The relationship between the two turns out to play an important role in a company's success. In the majority of cases, companies are scrambling to cut costs, above all labor costs, but are also seeking to enhance service and quality to differentiate themselves from the big-box competition. But cost-cutting undermines attempts to improve service or quality, throwing into question the viability of these combinations of strategies.

Retailers overwhelmingly focus on cutting costs in order to sustain profit margins while responding to competitors' low-price offensives. The primary strategy used for cutting costs is to reduce labor costs. Such reductions in costs are largely created by decreasing hours and cutting compensation. Retail has traditionally had a disproportionate number of part-time employees (see Figure 3). Employees are generally guaranteed a minimum number of hours and then hours are "flexed up" at the employer's discretion each week, up to a maximum of 40 hours as employers want to avoid overtime pay costs. Companies control costs by adjusting staffing over the day and

[1] Boushey, H., Arons, J., & Smith, L. (April 2010). *Families Can't Afford the Gender Wage Gap: Equal Pay Day 2010.* Center for American Progress.

week to match customer flows. These scheduling strategies decrease the need for full-time employees and overtime hours. However, they make it difficult for workers to predict the number of hours and which hours they will work in a week, reducing workers' total income and jeopardizing their ability to manage child care and other family responsibilities. Furthermore, as store opening hours have increased, entry level employees are expected to work at least one weekend day and some evening or early morning hours.

Figure 3. Percent of workers with part-time schedules, by sector, 2007.



Source: Carré, F. & Tilly, C. (June 22, 2008). *America's biggest low-wage industry: Continuity and change in retail jobs*. Ford Foundation Economic Development Program.

Competitive Strategies in Food Retailing

Cost cutting is an important competitive strategy in food retailing. In particular, we find that food retailers have cut costs by failing to provide wage increases matching those in other sectors.

At the same time, the food retailers we studied, confronted by competitors like Wal-Mart whose cost advantage is hard to beat, aim to follow a quality driven product strategy. They rely on higher quality, and higher margin food products (such as fresher produce and meats, prepared meals, or gourmet foods) to attract and retain customers. This quality driven product strategy requires greater service to be successful. Product differentiation requires stocking shelves with multiple choices for any particular product and is labor-intensive. Furthermore, workers need to be aware of and knowledgeable about product freshness and quality. Offerings of prepared food, which may have higher profit margins, are also labor-intensive in preparation and rotation and often require counter services. In order to give supermarkets an attractive appearance, employees must spend a lot of time stocking and restocking shelves and produce areas. Thus, despite their focus on product quality, food retailers also need to use service as a key to competitive advantage.

For quality-driven food retailers, success is more attainable among those stores that always had an emphasis on quality, rather than those that try to change their image later. It is easier to maintain one's reputation as a retailer of higher end products than get customers to see that a store has changed from selling mid-level products to higher end ones. Furthermore, food retailers that are privately held have an easier time implementing a quality-driven strategy than publicly-owned companies. In addition, those stores that operate in a sheltered market, where there is limited competition, are better able to sustain a higher cost, higher quality approach.

Competitive Strategies in Electronics Retailing

In consumer electronics retail, cost cutting has taken the form of removing commission pay in order to compensate for dropping profit margins on electronics products. More part-time positions have been created, with a large gap between full and part-time pay, as noted above. Variable pay schemes, which provide bonuses based on the sale of particular products or on department or store performance, have sometimes been used as a way to avoid awarding significant increases in base pay. In electronics, as in food retail, health care coverage is being reduced as employee contributions for health care coverage are being increased.

Electronics stores generally follow a service driven business strategy. In order to compete, these companies offer services such as in home installation and computer repair, as well as pushing extended warranties and service agreements, all high margin items. Service in the store translates into a requirement for knowledgeable employees who can provide the attention a customer needs to get the desired product or system. However, in many cases retailers can segment service and skill levels within the store, providing high service levels to customers seeking repair and installation, but minimal service to those simply buying a DVD player or game. Interestingly, electronics retailers that focus exclusively on high-end products are actually losing rather than gaining ground. These businesses need to achieve both economies of scale (by purchasing competitors and using broad marketing strategies) and economies of scope (by providing a large range of available products and services) in order to gain market share and profitability.

In short, under the pressure of heightened competition, both food and electronic retailers are pursuing strategies to cut costs while striving to distinguish their offerings from those of their competitors. In electronics, retailers particularly emphasize service. Food chains stress quality and variety of product offerings. These competitive strategies, however, may be difficult to reconcile.

Impact of Labor Cost Reductions on Retailer Success

There is an inherent tension between a product strategy based on improving service and a labor strategy that relies on cutting costs rather than training and retaining workers. This conflict has a negative impact on company success. Thin staffing is a problem both for grocery and electronics retailers. In groceries, scheduling fewer workers makes it harder to maintain fresh and attractive merchandise. In electronics retailers, cultivating a service-oriented image creates an expectation that front-line workers will be able to attend to customers' needs, but reduced labor hours make this sort of attention more difficult to provide. A lack of training also makes it difficult for workers to help out across different jobs and provide employers with flexibility when work backs up. High labor turnover is a problem because it is difficult for a company with mainly inexperienced workers to provide good service.

Furthermore, poor compensation policies associated with cost cutting are a hindrance to motivating workers to do the extra work needed for quality-driven competition. In particular, two-tier pay scales, in which newly hired employees receive a lower wage than longer-term employees, have the effect of reducing upward mobility and company commitment and loyalty. Managers have a difficult time improving service and maintaining quality as they are less able to grant pay raises.

Alternatives to Low Road Labor Strategies

The low pay and other cost cutting strategies adopted by many retailers run against their expressed desire to increase revenues by improving service. It is important to find alternatives to cutting costs at the expense of workers, both for the well-being of the workers and for the success of business. Some companies have been able to increase the proportion of full-time positions and provide some benefits for part-time employees. High wages, benefits, and more predictable hours may benefit both companies and employees. Similarly, investments in training can pay off for both parties via improvements in productivity and service levels—but only if employees value the job enough to stay.

While it should be possible to have a business strategy and a labor strategy that are not in conflict, and indeed, a few chains have succeeded in employing such high road strategies, this is a difficult route for companies to take. The current competitive environment gives the advantage to low-price, low-cost, low-wage strategies. It is very difficult for individual retailers to compete with rivals like Wal-Mart and to succeed with high road labor strategies.

Comparison with Europe suggests other possible institutional approaches with significant implications for the nature of retail jobs. A recent study comparing retail jobs in the United States with those in five European countries[2] finds that the incidence of low-wage work[3] in retail varies widely across countries, from a low of about one-fifth in France and Denmark to more than half of all retail workers in the United Kingdom. Low pay in retail is common in the United States, where two-fifths of retail workers are low-wage workers. In contrast, labor market institutions in France and Denmark have leveled the playing field for employers who adopt high road labor strategies. A

[2] Carré, F., Tilly, C., vanKlaveren, M., & Voss-Dahm, D. (2010). Retail jobs in comparative perspective. In J. Gautié and J. Schmitt (eds.) Low Wage Work in the Wealthy World. New York: Russell Sage Foundation.
[3] The study uses a standard international definition of low-wage work: jobs falling below 2/3 of the median hourly wage.

relatively high minimum wage in France and extensive union coverage in Denmark ensure that the large majority of workers in retail trade in these countries are not low-wage workers. In contrast to Europe, where part-time and full-time workers doing similar jobs must receive the same hourly pay, the lack of pay parity in the United States contributes to the large share of low-wage employment in retail trade. Another important example from Europe is that of Germany, where a remarkable 81% of retail employees have completed a two- or three-year vocational training program through the national system of apprenticeships. Given high skill level, the typical worker can handle a far wider range of tasks, including ordering and adjusting merchandise displays.

In Europe, as in the United States, women are particularly overrepresented among frontline part-time retail workers, and are significantly less likely than men to be managers or even full-time retail employees. Thus, a higher statutory minimum wage or collectively bargained wage, pay parity between part-time and full-time workers, and increased training opportunities, as in Denmark, France, and Germany, also serve to improve the employment situation of women. In addition, less educated workers and young workers, again overrepresented in the worst jobs in retail in all six countries, tend to benefit. In Europe, such improvements help keep families out of poverty and raise their standard of living, *while supporting retail strategies based on service and quality*. We would argue the United States would do well to study these European examples.