



The Economics of Good Jobs

A Good Jobs system carries three types of benefits for companies

	What the benefit includes	Examples	
Cost Mitigation	Existing P&L costs that could be reduced through a stable workforce and improved operational execution	<ul style="list-style-type: none"> Employee turnover Inventory shrink Overtime pay 	Notes on how to quantify <ul style="list-style-type: none"> The relative size of benefits varies by company, but revenue uplift is expected to be the largest Companies should look at productivity gains in both hours & dollars, as it will likely make sense to redeploy some hours to achieve better customer service
Revenue Uplift	Potential increases in revenue stemming from improved operational execution and higher customer satisfaction and loyalty	<ul style="list-style-type: none"> Fewer stockouts Higher basket size and transaction volume due to increased satisfaction and loyalty 	
Labor Productivity Gains	Hours spent on activities that do not add value for customers and frustrate employees, that could be redeployed to higher-value activities	Time managers & employees waste... <ul style="list-style-type: none"> Managing absenteeism Dealing with long delivery windows On no-value display resets 	

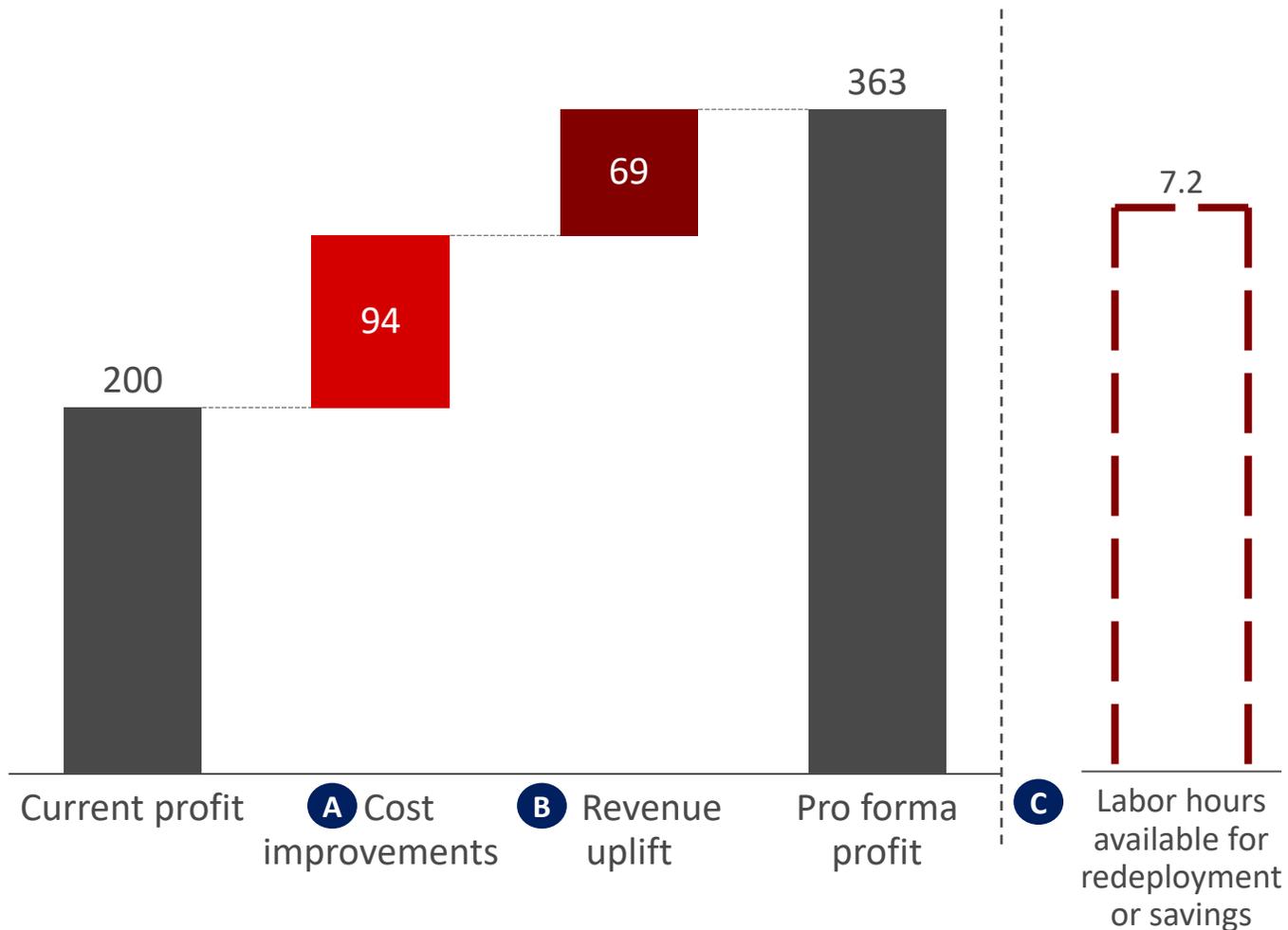
To illustrate these benefits, we created a fictional example of a mid-sized grocery retailer – “GroceryCo”

GroceryCo key summary stats¹

- **# of stores:** 500
- **Top-line revenue:** \$9bn
- **Profit:** \$200m (2.2% profit margin)
- **In-store employees:** 45,000 (40,000 of whom hourly)
- **Average starting wage:** \$10.00 / hour
- **Average overall wage:** \$13.50 / hour
- **Average hours worked per week:** 29 hours
- **Average customer basket size:** \$34.61
- **Employee turnover:** 60%
- **Cost of employee turnover:** \$3000 per employee
- **Shrink:** 3.6% of sales

For GroceryCo, cost improvements and revenue uplift drive a ~\$165 million annual earnings lift; labor savings are captured separately

Potential uplift from Good Jobs System, \$ millions, millions labor hours



A Companies can quantify the cost mitigation opportunity by **summing all major costs driven by the current system** – e.g., the full cost of turnover or shrink – and then **estimating how much we could reduce those costs** with a Good Jobs system

B Companies can estimate potential uplift with **benchmarks**, either external (e.g., general retail) or internal (e.g., poor-performing vs. high-performing doors), and apply a gross margin to assess P&L impact

C Companies can capture **“wasted” labor hours**, which can be redeployed or saved, in terms of hours per store per day, based on a combination of schedule analysis, observations, interviews, and survey data; based on our experience with retailers, **we assume 25% of labor hours are spent non-productively** at GroceryCo

Companies can easily gather the data required for the above analysis

Basic company data

- Number of stores
- Number of selling days
- Wages (average, starting, overtime)
- Labor hours / employee
- Number of employees (frontline, managerial)
- Number of transactions per store per day
- Annual sales from brick & mortar stores
- Gross profit margin

Financial & operational data

Employee Turnover

- Annual rate
- Cost per separation

Shrink

- Annual cost
- % related to store execution

Stockouts

- Stockouts as % sales
- % related to store execution

Misc

- Number abandoned transactions
- Number / size pricing errors
- Avoidable legal fees

Labor estimates

Non-value add labor hours

- This includes hours per week responding to long delivery windows, re-setting up displays, responding to absenteeism, adjusting to last-minute promotion changes, dealing with broken tools, waiting for manager approval, etc.
- It may also include hours spent idle due to lack of cross-training (e.g., cashier time when there are no lines) or inefficient scheduling

A Cost improvements: In order to assess the impact of the cost opportunity, a company first calculates the entire “size of prize”

Total cost opportunity “size of prize” analysis, \$ millions

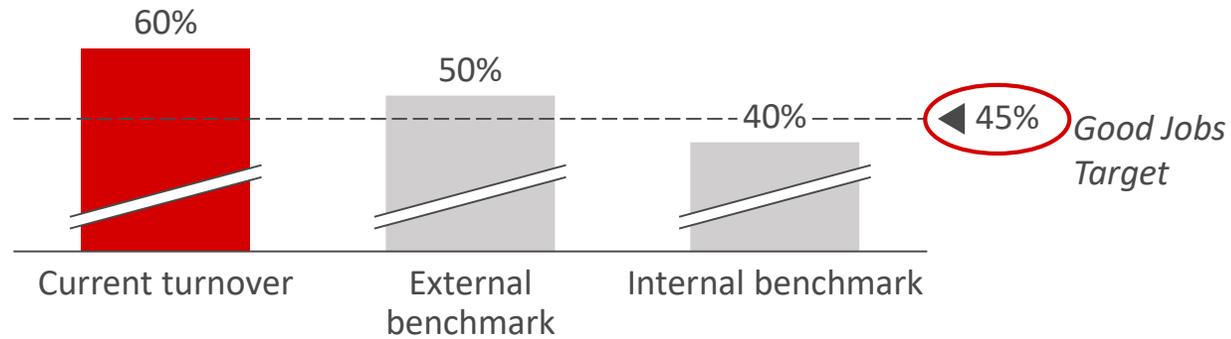
Area	P&L impact	Description
Employee turnover	72	<ul style="list-style-type: none"> Direct hiring costs Direct training costs Low productivity of new hires
Shrink	324	<ul style="list-style-type: none"> Product shrink is exacerbated by poor operational execution
O/T and unplanned labor	0	<ul style="list-style-type: none"> Overtime costs from unplanned absences and staffing changes*
Legal and compliance	10	<ul style="list-style-type: none"> Burden of dissatisfied employees Preventable accidents
Other	0	<ul style="list-style-type: none"> Other costs (e.g., pricing errors)*
Total impact	406	

- The calculations here represent the “**total opportunity size**” and not realizable P&L impact
- Even with best-practices and full implementation of a Good Jobs system, **these costs likely will not go to zero**, as there will always be some amount of shrink, employee turnover, etc.

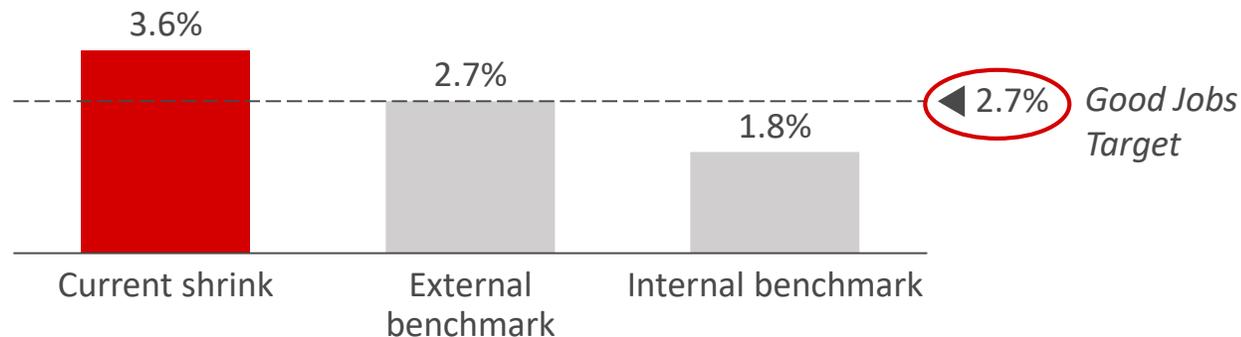
* For simplicity, we assume these costs are zero for GroceryCo; for an actual company, we would incorporate these

Cost improvements: once a company knows the “size of prize”, they can estimate the cost reduction opportunity

Employee turnover vs. benchmarks example, % per annum



Shrink vs. benchmarks example, % sales



How it works

- For **each component** of the cost opportunity (e.g., employee turnover, shrink, pricing errors), a company can set a ‘**Good Jobs Target**’: the number we would expect if a Good Jobs system were in place (e.g., a 45% employee turnover rate, down from 60%)
- The target can be based on both **external and internal benchmarks**, as well as what management thinks is achievable
 - External benchmarks are industry comparisons
 - Internal benchmarks are from top stores (e.g., top 25th percentile)
- Targets are used to **estimate cost savings** (e.g., if 60% turnover costs \$72M annually, reducing turnover to 45% would save ~\$18M)
- Targets can also be used to understand what would have to be true in terms of improvement **to generate a given ROI**

* To calculate the “Good Jobs” value of shrink, companies should use the new sales figure (with higher transactions, basket – see next page)

B Revenue uplift: the revenue opportunity is based on stockout improvements and service-driven transaction and basket gains

Estimated revenue uplift from Good Jobs Strategy, \$ millions

Area	Revenue impact, \$ millions	Approach
Reduction in stockouts Foregone sales caused by inventory mismatch, items mis-shelved, or other preventable causes	84	<ul style="list-style-type: none"> Estimate reduction in stockouts (as % sales) from a Good Jobs system using external & internal benchmarks Apply the new stockouts percentage to the new sales figure (incl. higher transactions & basket), and subtract from old stockouts \$
Increased transaction volume More transactions from higher traffic (new and existing customers) and/or increased conversion (incl. reduced abandonment)	100	<ul style="list-style-type: none"> Estimate abandoned transactions impact in same way as stockouts Estimate potential transaction lift from better customer loyalty and WOM using benchmarks; helpful to run scenarios to understand how much of a lift would be needed to pay for Good Jobs investments
Increased basket size Sales uplift driven by improved customer service	91	<ul style="list-style-type: none"> Estimate potential basket size lift in the same way as transaction lift
Total revenue gain	275	
Total P&L impact Gross margin of revenue	69	<ul style="list-style-type: none"> Apply gross margin to revenue improvement

* The reduction in stockouts and abandoned transactions, if captured as a % of sales, need to take new sales numbers into account

The Good Jobs Institute is a non-profit that was founded in 2017 to help companies thrive by creating good jobs.

Visit us at www.goodjobsinstitute.org for more information, and to learn about our Good Jobs calculator