

RECOVERING AND REBOUNDED FROM COVID-19

How retailers can emerge stronger with zero-based organization redesign (ZBO)



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Retailers face an existential challenge: balancing a conservative approach to cost while supporting growth to survive the present COVID-19 crisis and beyond. Adding to the complexity are changes in customer preferences prompted by the pandemic, most notably online shopping and e-commerce, which have become the norm for many retail categories. Retailers have been retooling their brick-and-mortar footprint for a long time, but the pandemic is triggering further review of the long-term value of the store. Sanitary concerns brought on by COVID-19 are likely to radically alter customer preferences in terms of store experience and trigger massive changes in retail workforce requirements.

The crisis is driving retailers toward new ways of doing things. One key strategy is organizational redesign — specifically, a bottom-up line of attack. Traditional top-down approaches to organization redesign, typically powered by high-level executives with a focus on cutting costs, often prove ineffective due to the lack of attention paid to the changing customer and how such changes drive innovation. A more effective “first principles, zero-based” approach to organization redesign in the retail space involves a ground-up interaction with key employee stakeholder groups that can provide the most value in addressing rapidly evolving customer needs.

THE ZERO-BASED APPROACH TO ORGANIZATION REDESIGN

A zero-based organization (ZBO) approach emphasizes focusing on the most *productive* resources by assessing what needs to be done and *why*. This method incorporates both employee understanding of the required *input* and understanding of the *output* desired by customers when making reorganization decisions. This approach is quite unlike other, older techniques: Think “cost optimization,” rather than mere cost reduction. ZBO reorients people, operations, and organizations, from the head office to the individual stores, to the most productive activities. (See Exhibit 1). Those activities that fail to produce real value will be reduced or eliminated, while those that pass the value test are likely to increase — if this is what achieving the strategic priorities demands.

What are the key elements of ZBO? Three essential components underlie ZBO: assessing, benchmarking, and evaluating from the bottom-up.

Exhibit 1: Components of ZBO approach and observed impacts

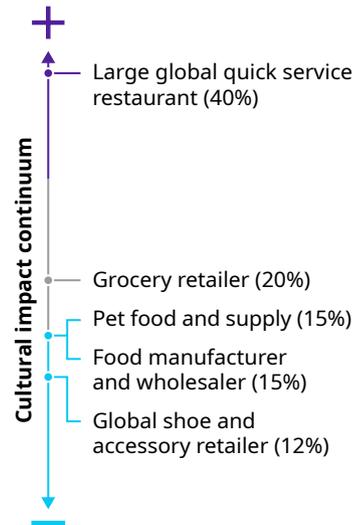
Target state triangulation



Source: Oliver Wyman analysis

Impact of savings on culture

See below examples of projects with impact



Assess the current organizational state and review in-store operations: The initial focus lies on establishing the organization’s baseline state and juxtaposing it against organizational-design best practices. The analysis is carried out by tapping into human resources data, supported by interviews with leadership of the organization to establish the “state of departure.” The process identifies and maps the current organizational design in terms of reporting spans, managerial layers, and number of direct reports. From our experience, most organizations develop anomalies in their organizational structure over time. These quirks tend to arise from leadership changes and the evolution of individual departmental reporting structures. By applying standard organizational design principles, the analysis produces a preliminary list of areas at the corporate and individual store level that can achieve improved efficiency. Many traditional efforts would move straight to implementation at this point, but ZBO does not. It is first important to establish what impact such changes might have on the entire business.

A review of in-store operations is also needed to identify points of inefficiency within each retail process and determine optimization opportunities. These retail processes include ordering and planning, goods reception and restocking, shelving and checkout, and finally cleaning. Once the status quo of the operation is understood, ZBO entails establishing potential solutions to address the inefficiencies, such as poor on-shelf availability, manual labor scheduling, and ineffective training programs. Retail is already plagued with a very high industry turnover rate.

Benchmark against leading practice: Our approach to ZBO exploits benchmarking while remaining cognizant that a given organization varies along different dimensions — sector, scale, areas of business, mix of products and services, culture, and geographical location. Such wide variation produces challenges in creating a relevant data yardstick to measure against. Crude benchmarking ignores such nuances, seeking to imagine uniformity where there is none. In contrast, ZBO introduces a point of comparison that highlights glaring discrepancies, but more often stimulates further thinking and examination. We believe that an organization knows who it is comparable with — or not. In cases where the organization can acquire tailored data from comparable organizations, such data is likely to have greater weight in the ZBO triangulation and be more effective in establishing best practices.

Evaluate ZBO from the bottom-up: A bottom-up evaluation is at the heart of the ZBO methodology. The objective is to establish the right organization for the company based on its ways of working and its culture. The database for this exercise comes from employees. This approach brings the employees within the “circle of trust”: ZBO is not being “done to them;” instead, they are an integral part of the process, helping determine its outcomes.¹ In addition to focusing on people at the head-office level, ZBO also addresses the people within the company’s stores. By identifying areas of inefficiency within store operations and developing solutions to address these issues and streamline in-store processes, ZBO ensures a comprehensive reorganization throughout the entire company.

This bottom-up element analyzes all current routines (recurring tasks completed by employees) and projects (non-recurring tasks addressing one-off needs) to establish exactly what is done and by whom. What comes next differs from top-down approaches to cost reduction: ZBO asks why activities are done the way they are and evaluates the value they create. By leveraging industry expertise and specialist knowledge, this process distinguishes between activities that add real value from those that represent low value. Some activities can be eliminated altogether, while others require further investment to better align with strategic priorities. For example, remote working will likely be a lasting outcome of the pandemic, with many companies expecting to shift some workers permanently to remote work even after the pandemic. The bottom-up approach can be used to help identify which tasks and roles can be done effectively in this fashion going forward.

ZBO is a method not simply to right-size an organization, but to right-shape it too. By comparing data from the bottom-up evaluation with the appropriate benchmark, a company can identify where employees are producing real value and where they are not. Discrepancies between current staffing and actual staffing needs reveal opportunities for cost-reduction and efficiency.

Essentially, our ZBO approach focuses on making people at all levels of the organization more productive — and this fuels growth. Performance is improved with on average 20 percent of cost reduction on the scope covered, *without harming the underlying culture* and its ability to stay in touch with the market environment.

¹ <https://hbr.org/2020/05/in-a-downturn-include-your-employees-in-cost-cutting-decisions>.

THE PATH FORWARD FROM COVID-19

Retailers need to think about the organization they will need after the COVID-19 crisis to drive growth and satisfy customer expectations. ZBO is a powerful tool, but one that demands strong and continued commitment from leadership teams, a high level of data transparency to ensure successful implementations, and a process of continuous review and validation.

High level of organizational commitment. ZBO is a highly collaborative approach, and the customizable nature of its methodology requires leaders to be in the driving seat when adapting the scale and scope of its approach to specific functions. This involvement is critical in enabling the optimization of operations and in ensuring that they are targeted to the strategic priorities.

Data transparency and democratization. Data transparency is essential because of the close connection ZBO establishes between the cost reduction in the current state and the investment in the target state. In shifting toward high value-add activities, the gains from cost reduction power a refocusing of the enterprise on the efforts that matter the most.

Review and validation of ZBO impact regularly by leadership. The transformative nature of ZBO requires steering of the process through choppy waters. This involvement begins with senior leadership agreeing on the range of expected impacts and level of organizational redesign, and continues with determining the desired level of change — and potential for organizational disruption. Such considerations are crucial in guaranteeing that quality standards are not compromised, and the brand of the enterprise is not damaged.

In addition to organizational improvements, retailers must examine opportunities for optimization within store operations, commit to ongoing review of operations to ensure continued efficiency, and review the store portfolio on an ongoing basis and adjust to the evolving penetration of e-commerce.

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