Challenges & Opportunities for Retail in San Diego County

San Diego Workforce Partnership
in collaboration with Aspen Institute
& Corporation for a Skilled Workforce

San Diego Workforce Partnership

THE ASPEN INSTITUTE

CSW Corporation for a Skilled Workforce

OVERVIEW

- Approaches to labor in retail lie on a continuum between *high investment* and *low investment*.

- **Low Investment: Labor is a cost to be minimized**
  - Pay minimum wage with few raises
  - Don't train, or identify advancement opportunities
  - Schedule last minute, avoid paying full-time
  - Don't worry about about race/sex inequality
- **High Investment: Labor is a resource to be optimized**
  - Pay to recruit & retain productive workers
  - Provide training, identify advancement opportunities
  - Schedule in advance, offer new hours to part-timers
  - Attempt to hire & promote a diverse workforce

OVERVIEW

- Approaches to labor in retail lie on a continuum between *high investment* and *low investment*.

- Higher-investment retailers will be more successful navigating the challenges and opportunities of the next five years.

Challenges & Opportunities

1. International Border
2. E-Commerce
3. Regulatory Environment
4. Inequality

OVERVIEW

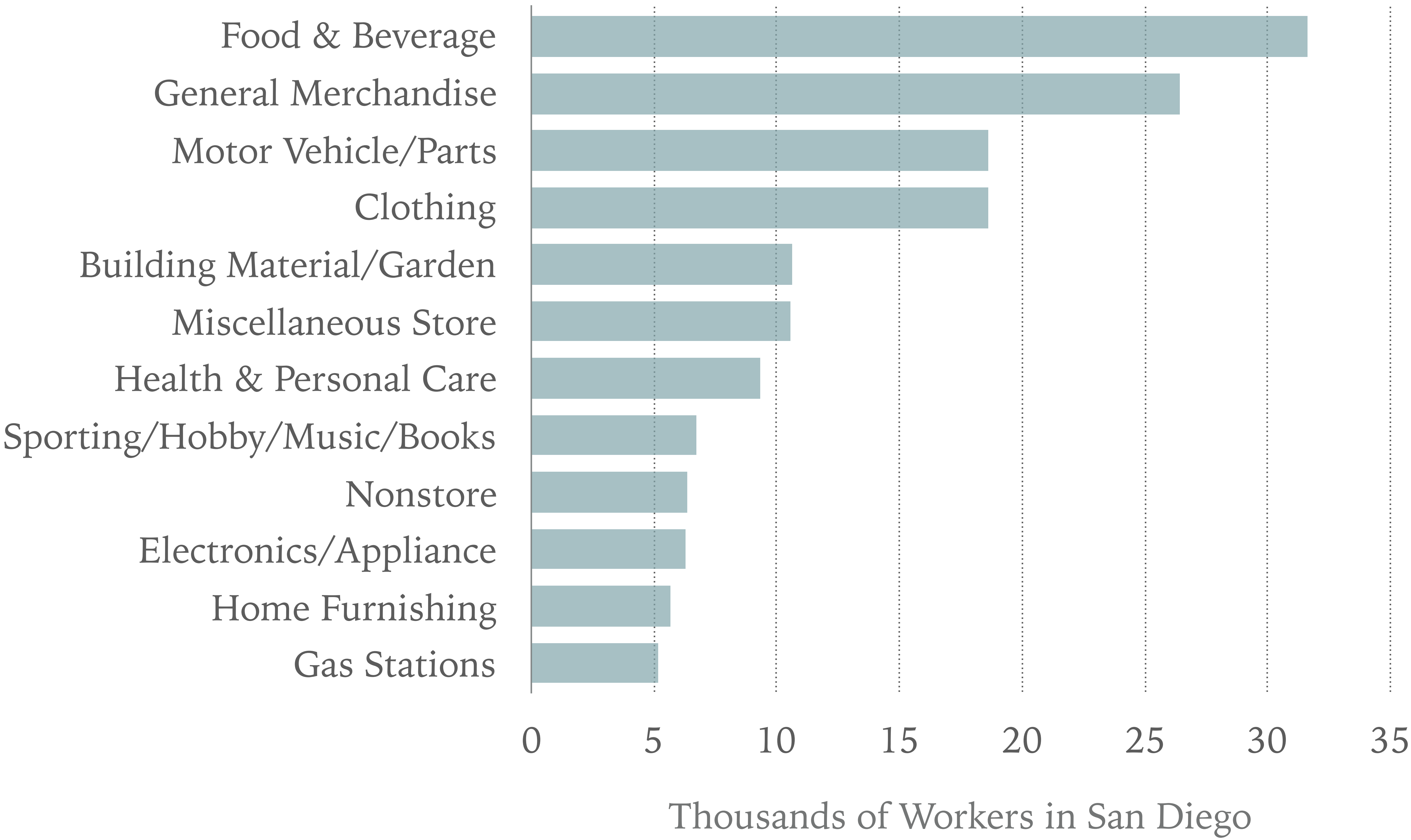
- Approaches to labor in retail lie on a continuum between *high investment* and *low investment*.
- Higher-investment retailers will be more successful navigating the challenges and opportunities of the next five years.
- We want to help workers find higher-investment jobs. We also want to push more retailers toward higher investment, and help them succeed there.

RETAIL OVERVIEW

WHAT IS RETAIL

- In this presentation, retail means the Retail Trade sector of the economy, including all industries in the BLS's 44-45 NAICS codes.
- This does not include food services establishments, transportation, or hospitality industries.

SUB-SECTORS

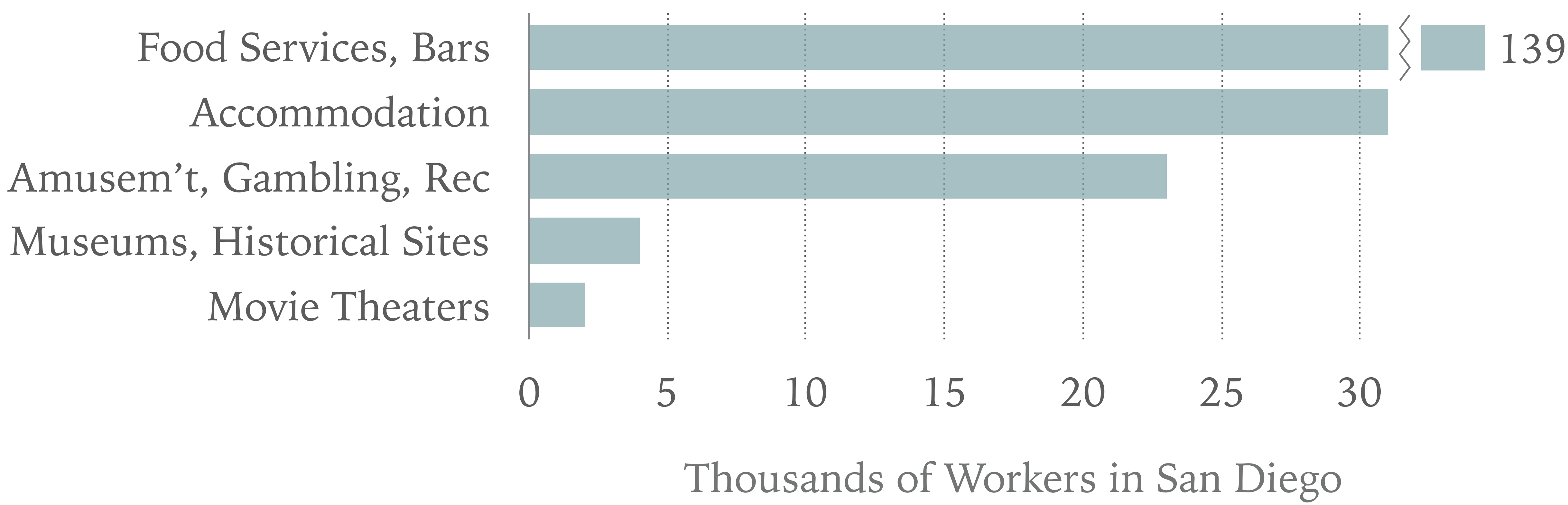


Slide 9 - 2:54

Source: Emsi

NOT RETAIL

- This definition excludes many industries where workers would think of themselves as having retail jobs.
- The industries below account for even more jobs than those in the retail-trade NAICS.



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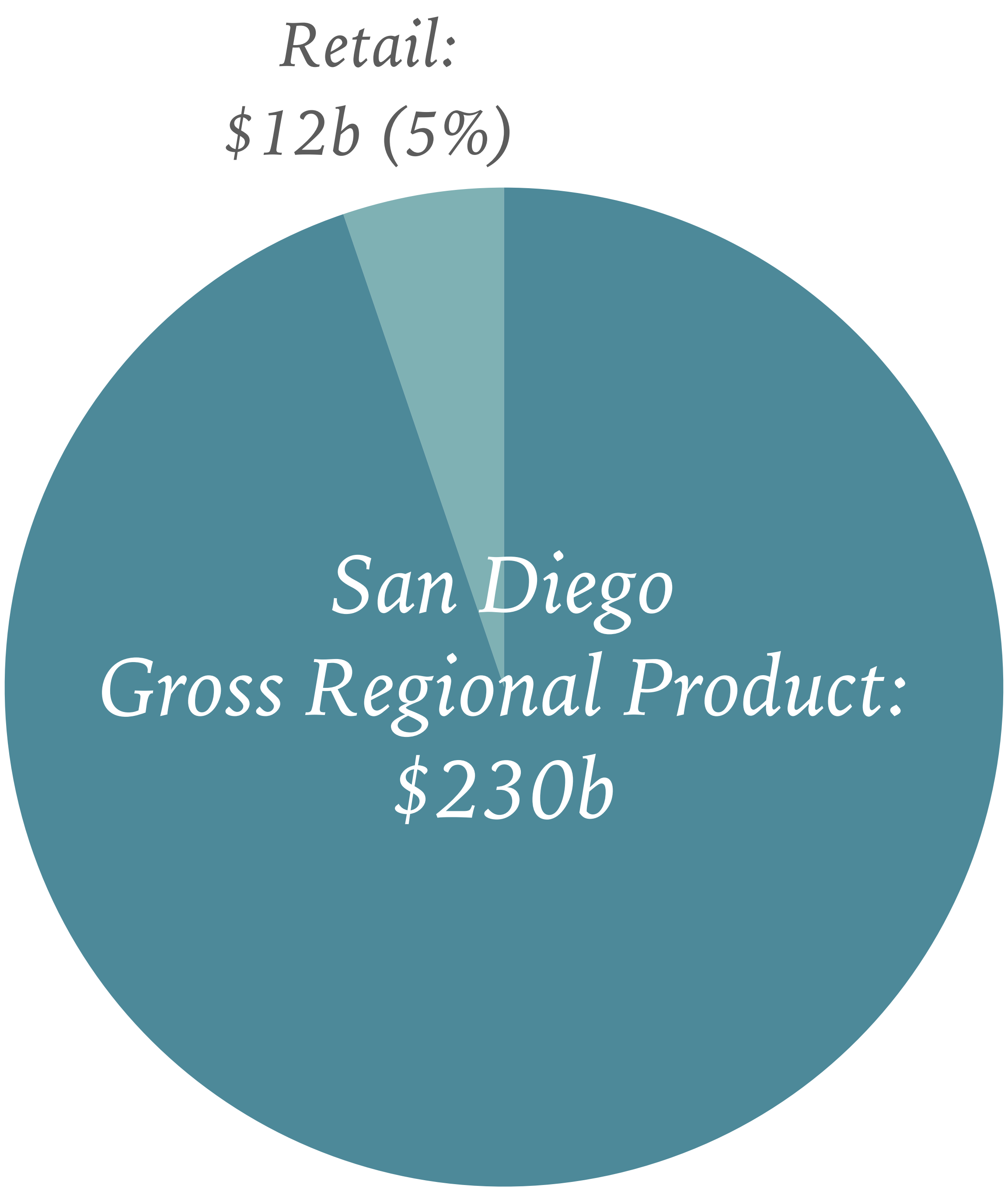
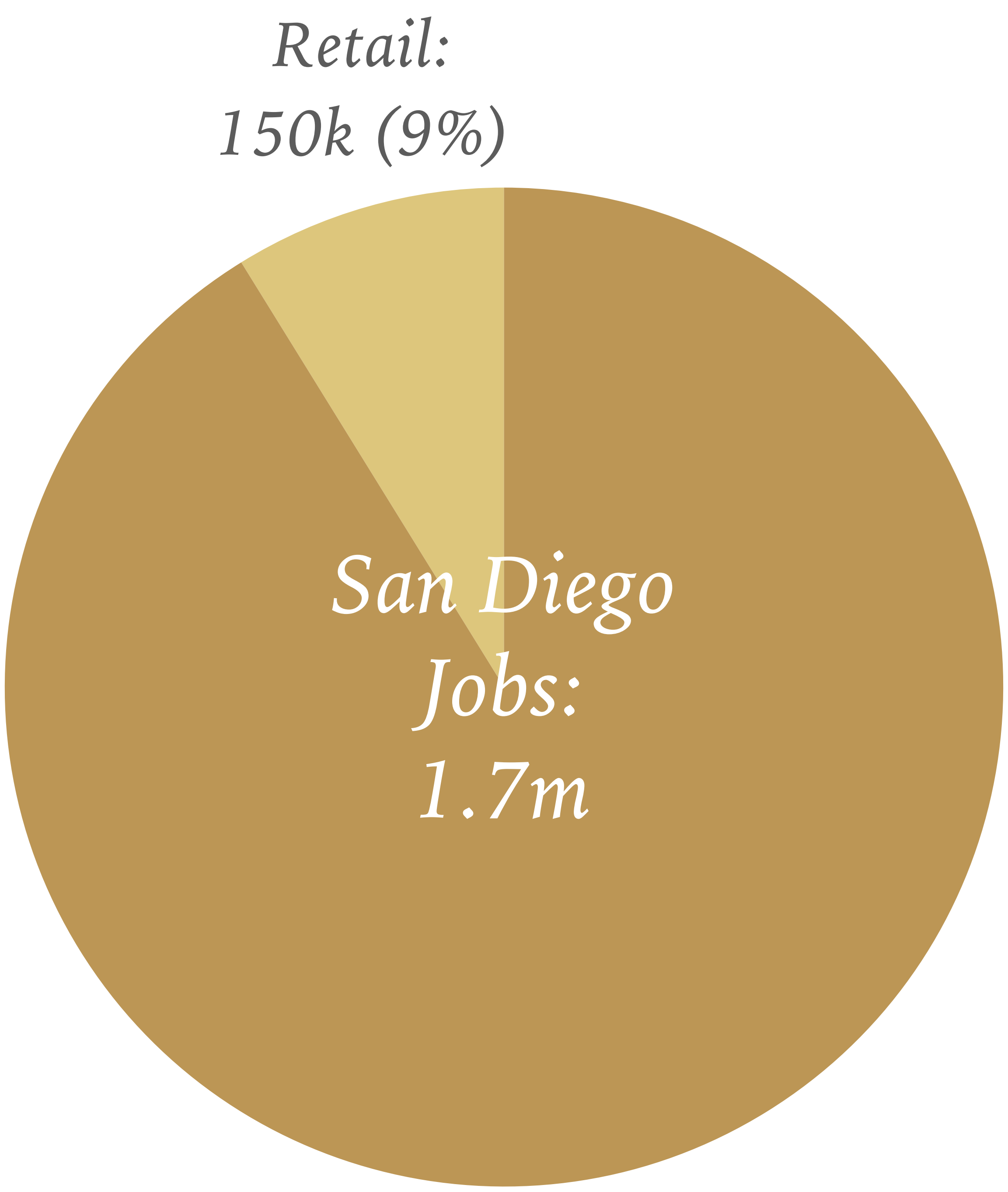
Source: Emsi

RETAIL IS 5–10% OF THE ECONOMY





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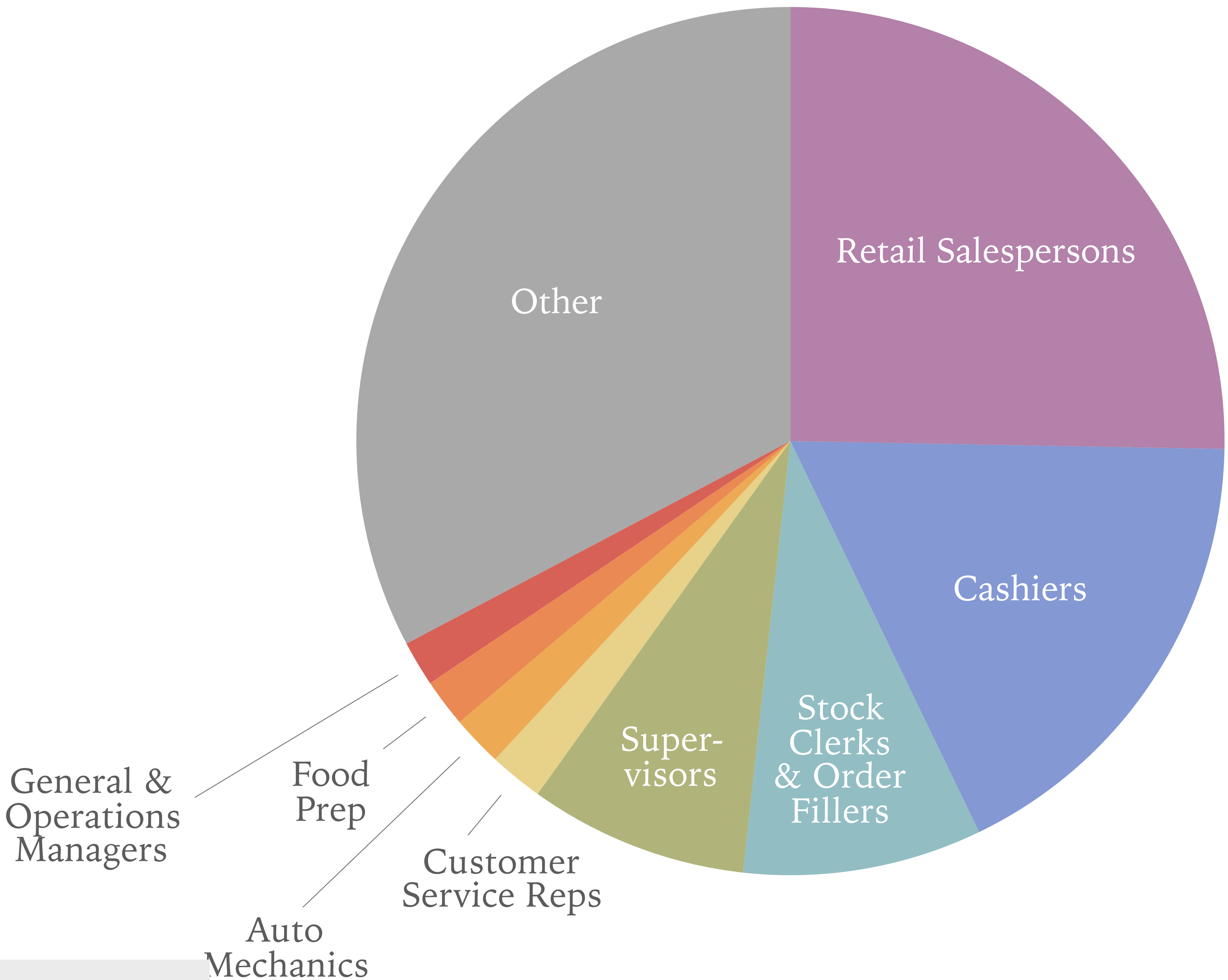
Source: Emsi

MOST COMMON OCCUPATIONS



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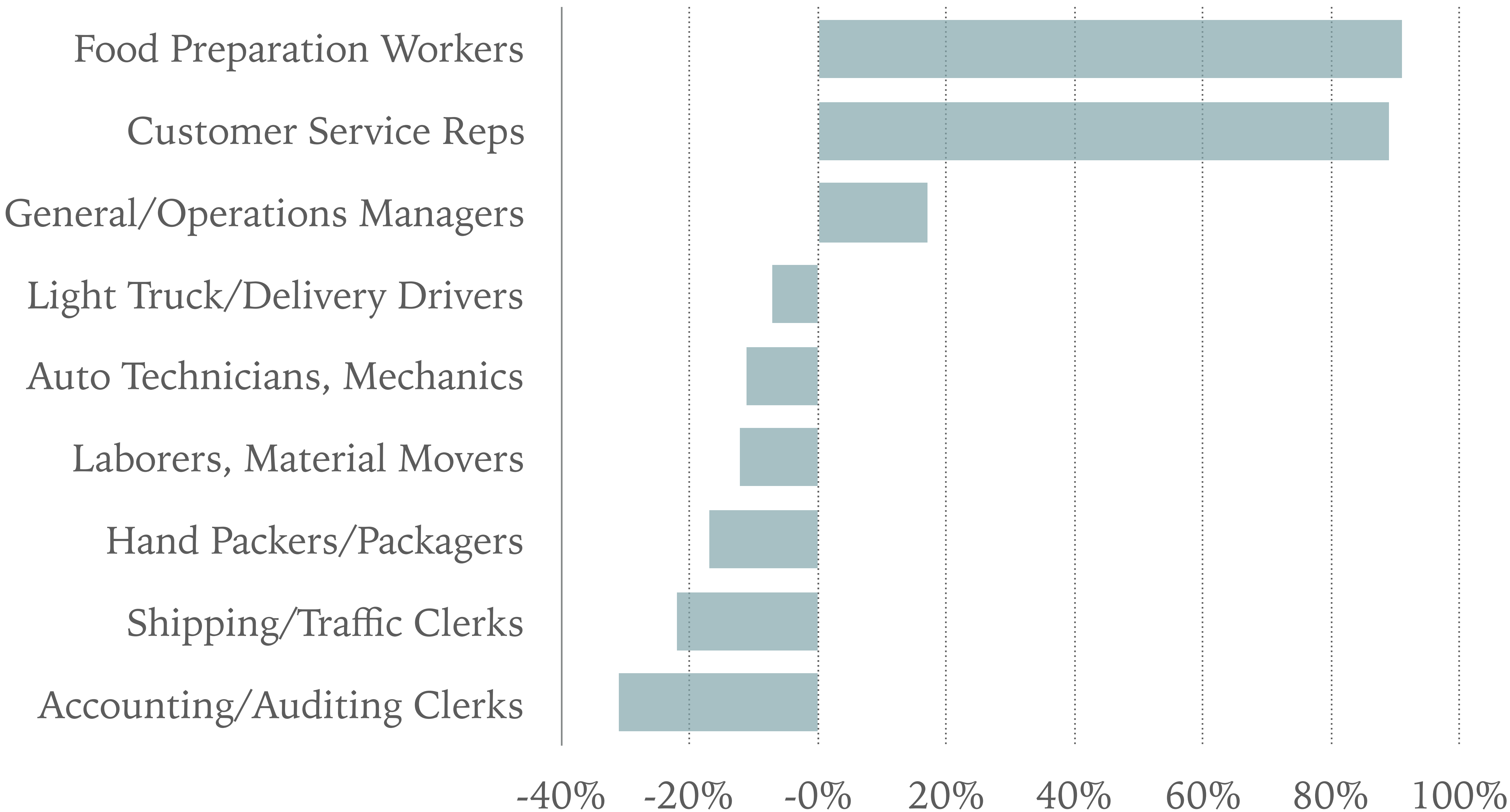
Source: Emsi

JOB GROWTH SINCE 2001



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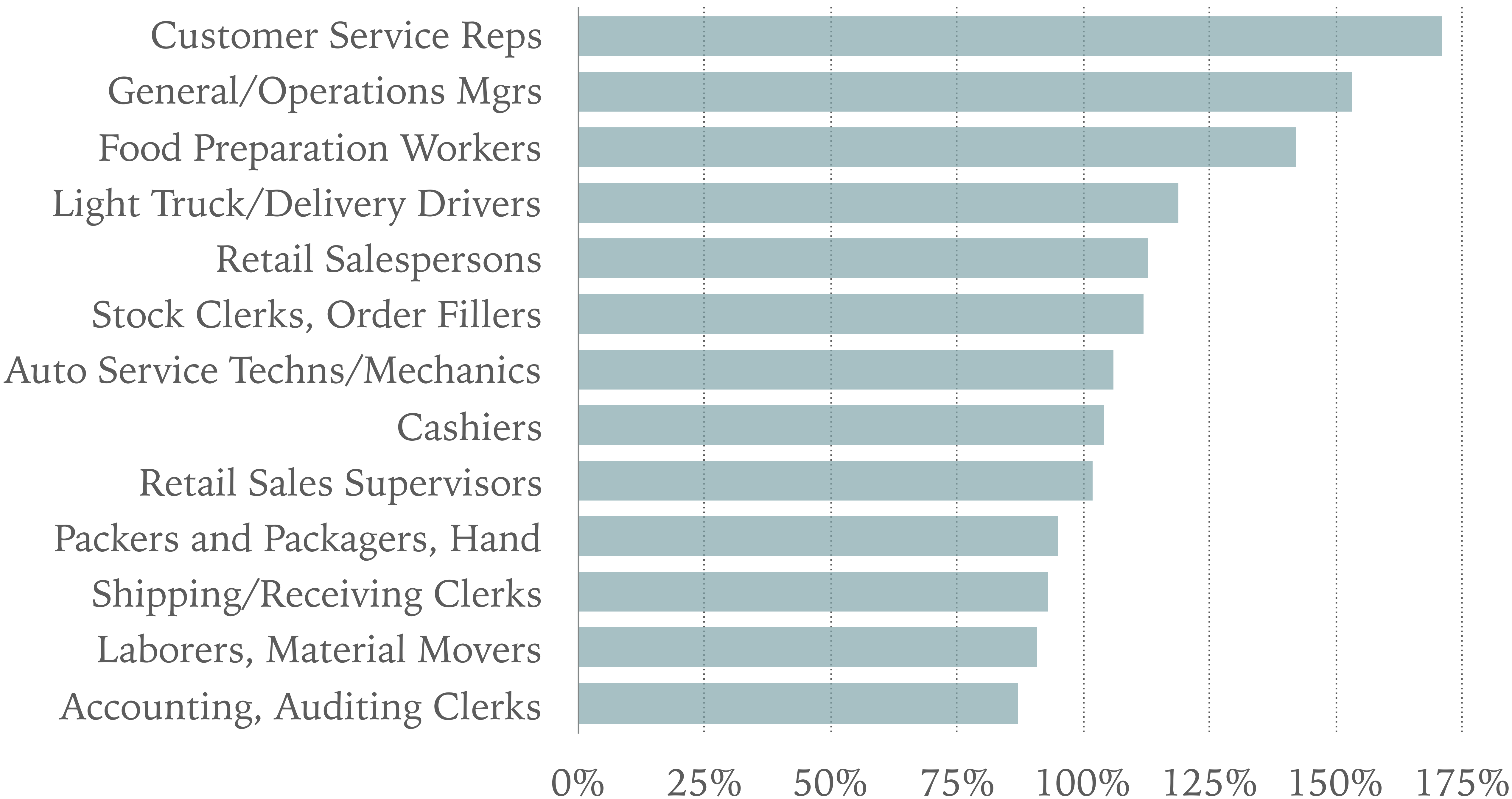
Source: Emsi

JOB GROWTH SINCE GREAT RECESSION



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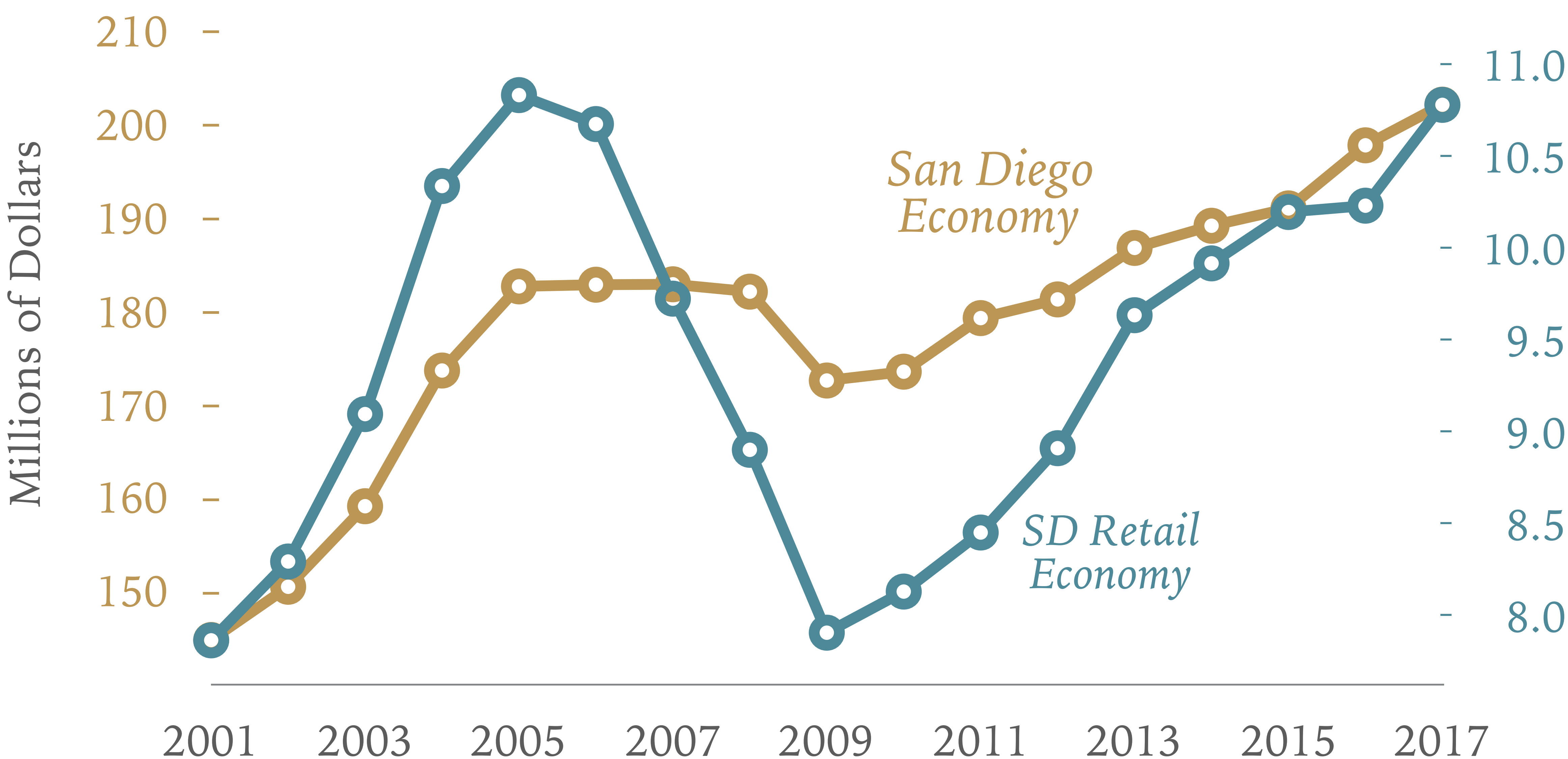
Source: Emsi

RETAIL IS PRO-CYCLICAL



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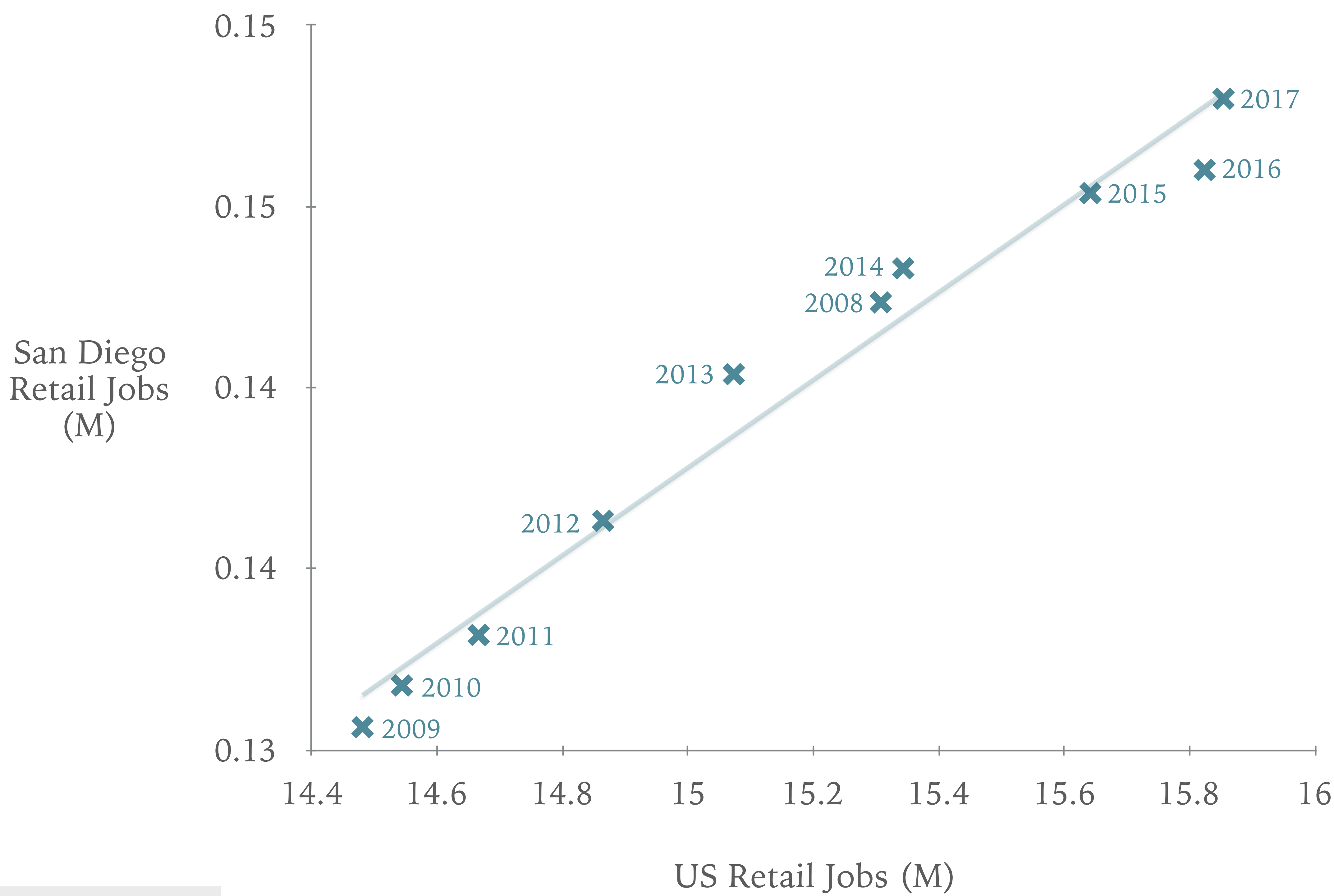
Source: Emsi

SAN DIEGO ALIGNED WITH NATIONAL TRENDS



Slide 16 - 5:48

Source: Emsi

MEDIAN WAGES LAG SAN DIEGO'S COST OF LIVING

- Average US nonsupervisory retail worker:
  30.3 hours/week at $15.47/hour = $24k/year

Source: US Bureau of Labor Statistics

MEDIAN WAGES LAG SAN DIEGO'S COST OF LIVING

SD Cost of Living: +44%

Job	Workers (% of all)	US Wage	SD Wage	% SD above US
Retail Salespeople	38,900 (25%)	$11.29	$12.35	+9%
Cashiers	27,000 (17%)	$10.12	$11.45	+13%
Stock Clerks and Order Fillers	13,700 (9%)	$11.79	$12.29	+4%
Supervisors of Salespeople	12,500 (8%)	$16.99	$17.95	+6%
Customer Service Reps	3,100 (2%)	$15.88	$17.72	+12%
Auto Service Techs, Mechanics	2,900 (2%)	$17.04	$17.56	+3%

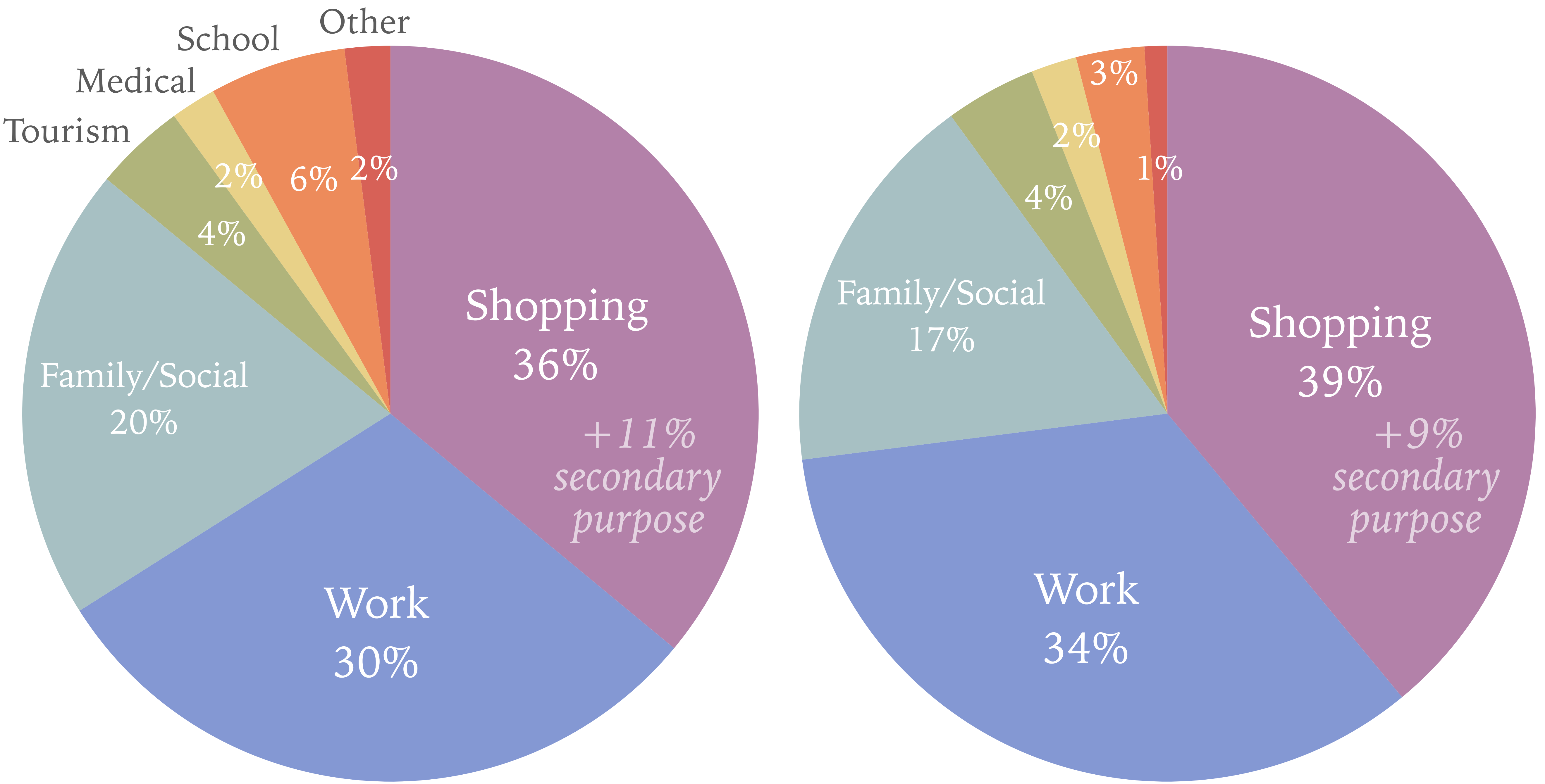
Source: Emsi, coli.org

CROSS-BORDER ISSUES

SAN DIEGO IS UNIQUELY IMPACTED BY ITS BORDER

- San Diego houses three Ports of Entry, two of which are the most used POEs in the western hemisphere.
- Mexico’s buying power is important for retail businesses along the San Ysidro border.
  - Jason Wells, San Ysidro Chamber of Commerce: “95% of our clients [come] from Mexico. Every change in the peso, every minute of wait time, every person that doesn’t cross affects us.”
- Small businesses along the San Ysidro border struggle the most when Mexican clients buy less.
- Mexican Peso has lost 35% of its value in the last 4 years.

PRIMARY PURPOSE OF VISITS FROM MEXICO



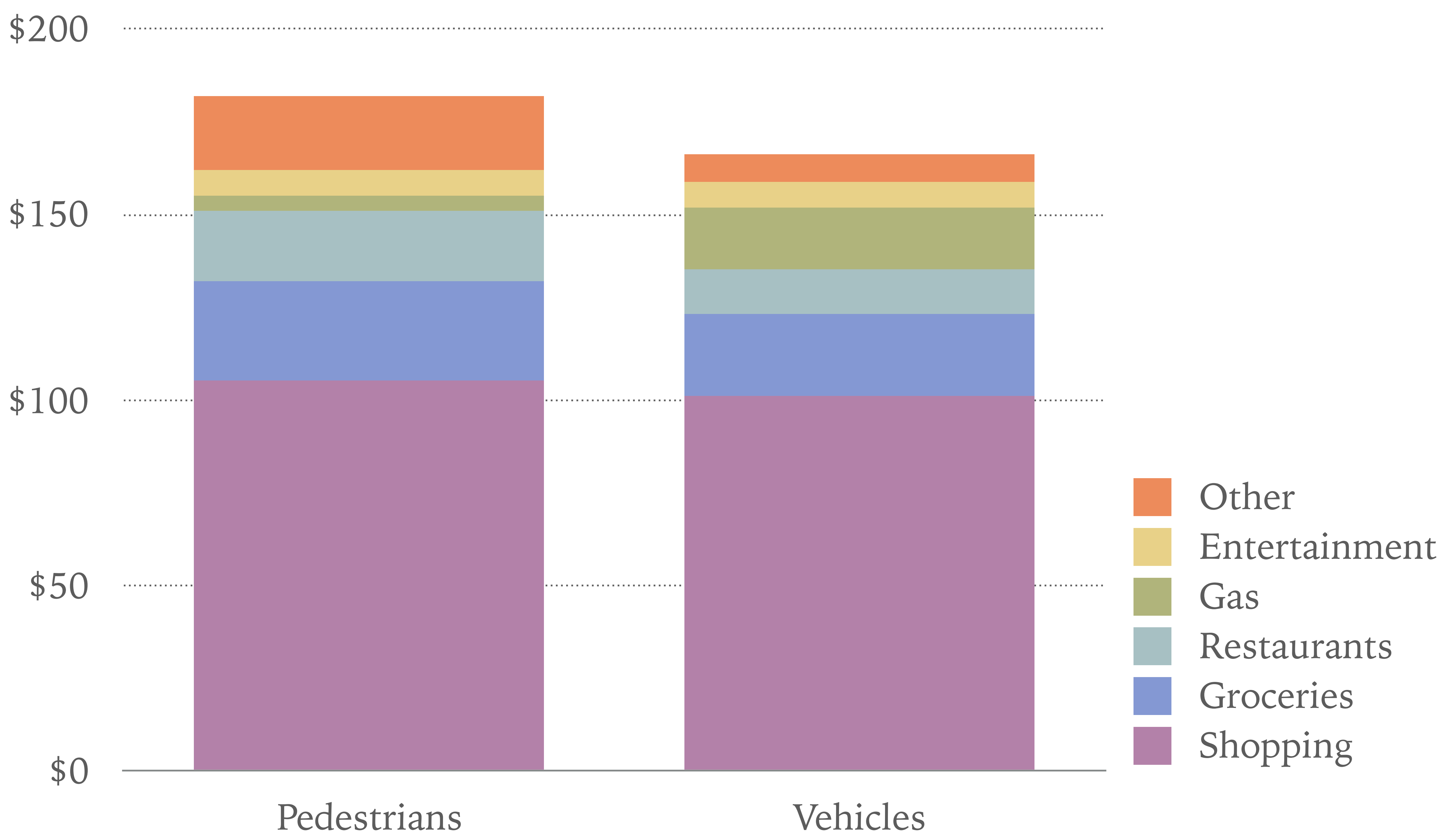
Northbound Pedestrian

Northbound Private Vehicle

Slide 21 - 8:46

Source: SANDAG

AVERAGE SPENDING (SAN YSIDRO CROSSERS)



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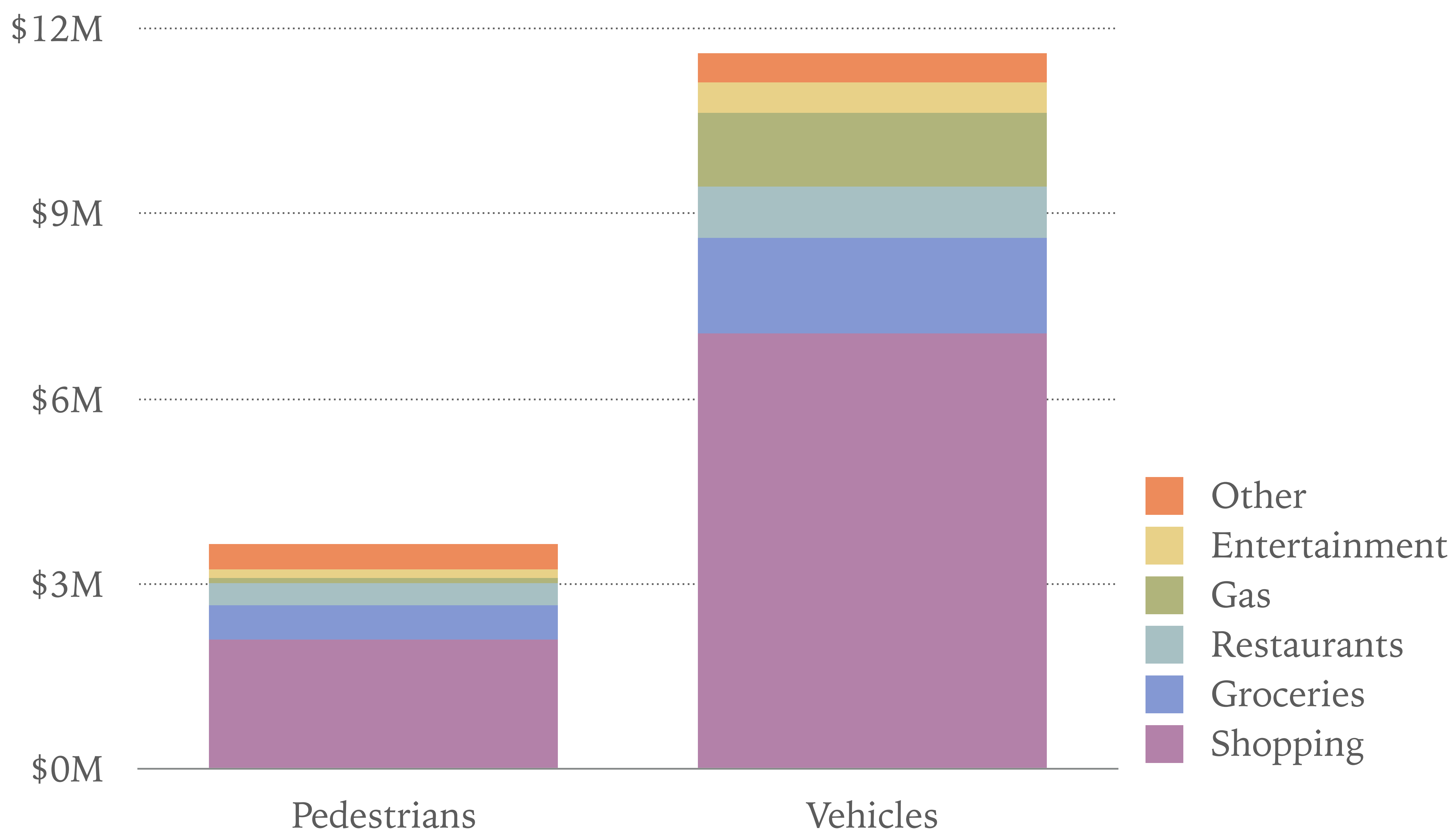
Source: SANDAG

SPENDING PER DAY (SAN YSIDRO CROSSERS)



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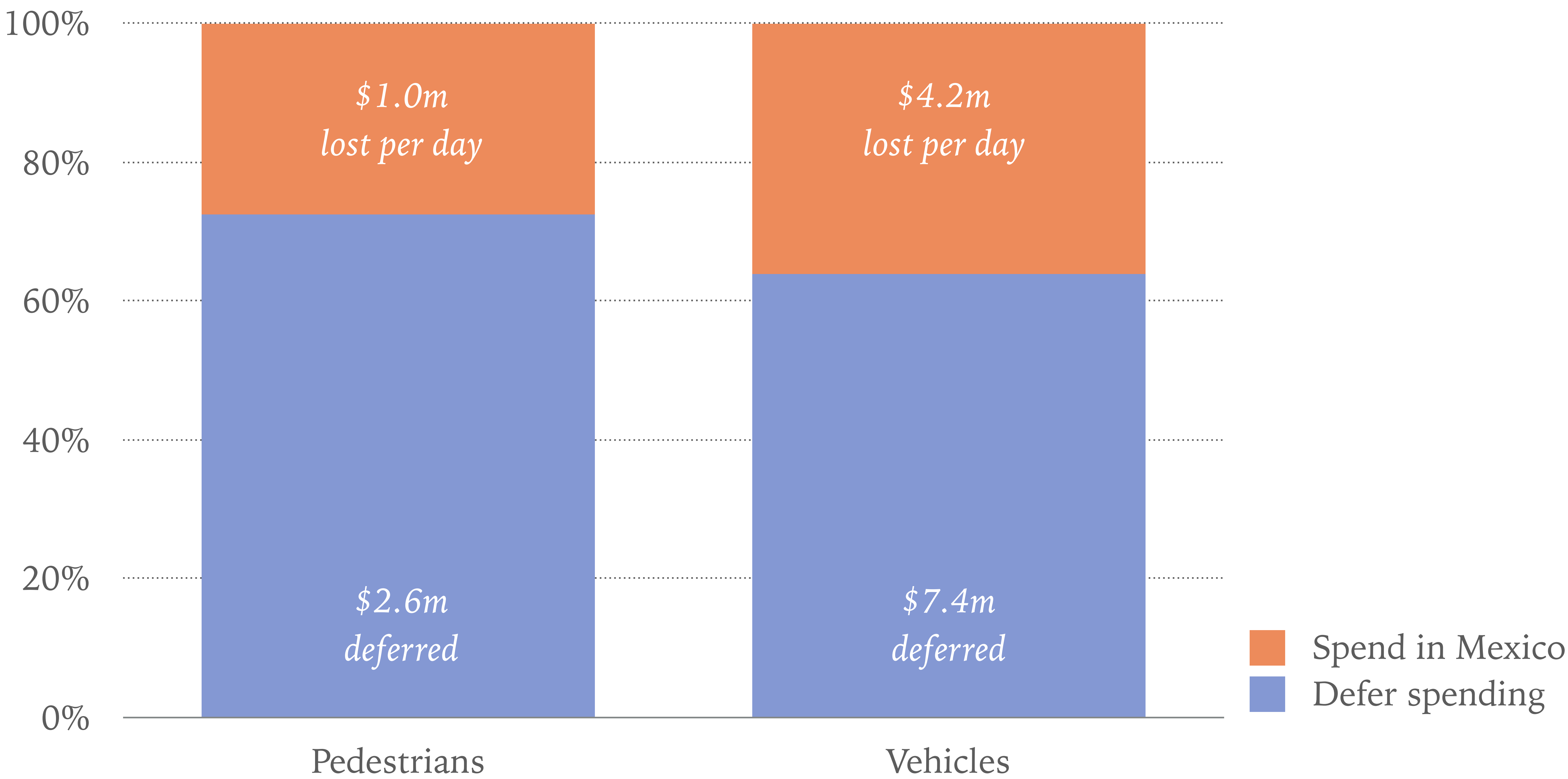
Source: SANDAG, US GSA

WHEN CROSSING IS IMPOSSIBLE (SAN YSIDRO CROSSERS)



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Source: SANDAG, US GSA

WORKERS AND THE BORDER

- Cross-border commuters
  - Many of San Diego's retail workers live in Tijuana
  - Many of them undocumented in Mexico

- As border delays become longer and less predictable,
  - Retail employers lose business
  - Retail workers living in Mexico struggle to get to work
  - Retail jobs on the border may be at risk
  - Air pollution harms workers' health and quality of life

"I've noticed a huge shift [recently]. I noticed a huge reduction in my Hispanic customers. Unfortunately, I think xenophobia has been detrimental, and pushing this whole idea of nationalism has had a big effect on retail."

-Store Manager in South Park

POTENTIAL ESCALATION

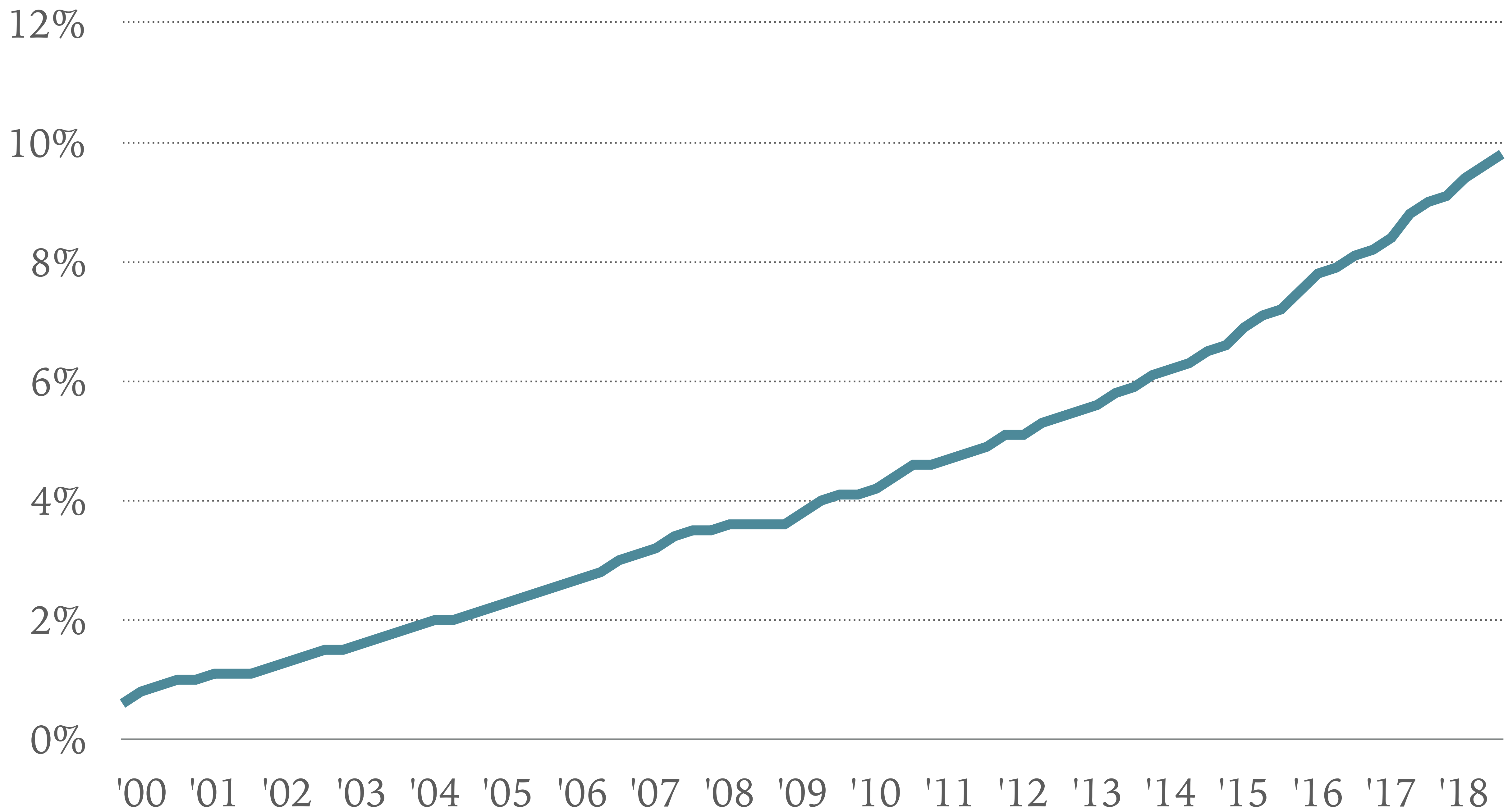
- Recent tear-gas episode at the border resulted in millions of lost revenue
- White House has threatened to close border completely
- "The uncertainty of border closures occurring at any time is a substantial economic threat for our region"
  - Paola Avila, VP of San Diego Chamber of Commerce
  - Workers and shoppers have been stranded on both sides of the border, away from their homes
  - Resentment among Mexican consumers threatens San Diego retailers' business

MARKETING OPPORTUNITIES

- "I've always tried to market to Tijuana. I went down to do market research. I couldn't find any [information]. Do you have any resources so people in SD can market to TJ? Can you recommend some TJ magazines, media, websites that I can market to? That would be really useful to me."
- "We do joint events with Latino groups. And we do joint publicity and joint marketing. Maybe that's something else—that more businesses that are white-owned have no idea how to market to Latinos."
- "At Tilly's we did pop-up shops in Texas and we did it mostly for back-to-school. Did it on the border. People came over to buy school clothes and then cross back over the border. They're not doing it in SD. Missed market."

E-COMMERCE

ONLINE SALES AS % OF TOTAL RETAIL, US



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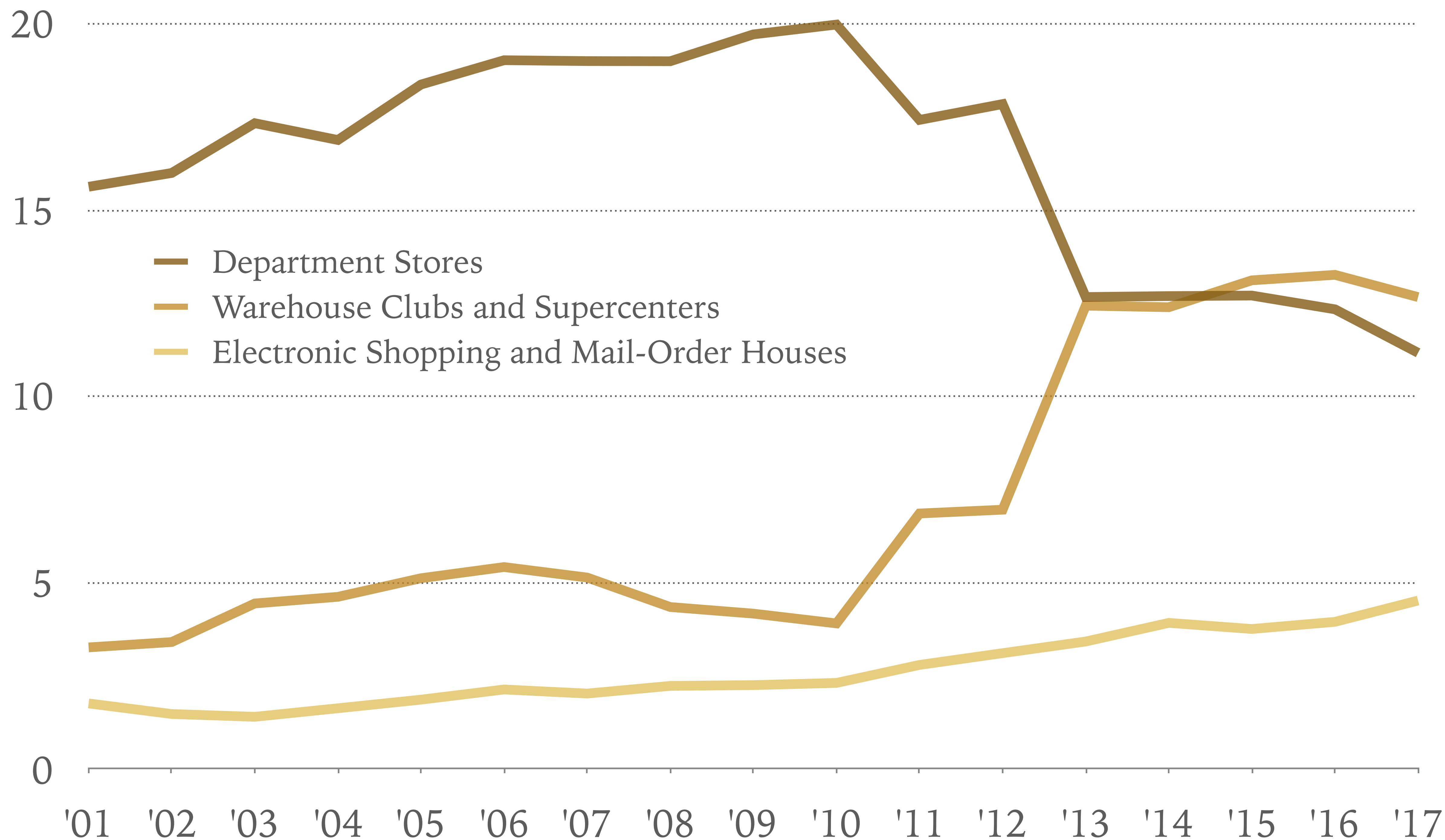
Source: US Fed

SHIFTING EMPLOYMENT, SD



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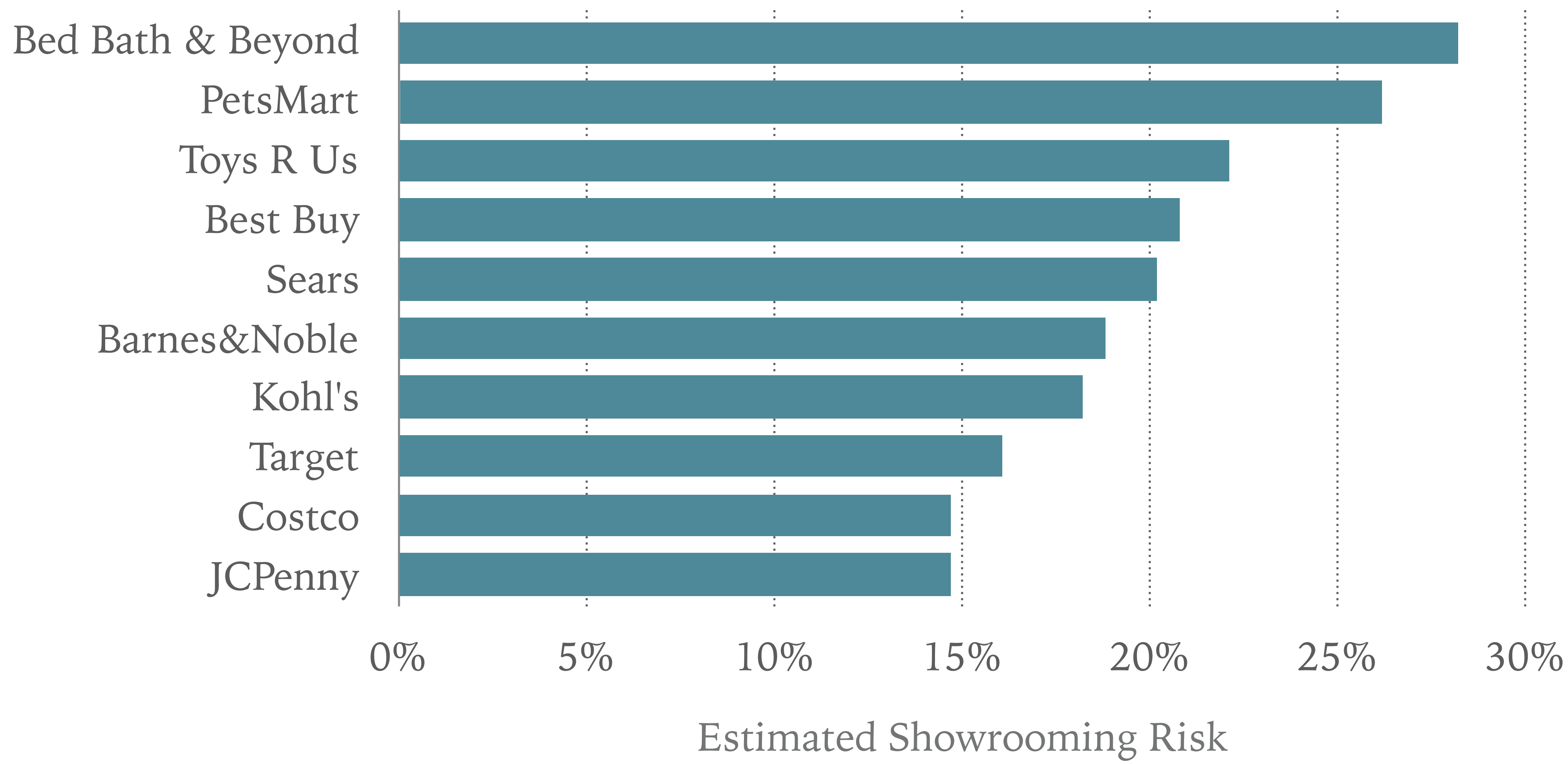
Source: Emsi

SHOWROOMING

- “Research shoppers” investigate products in a store but purchase online, often from competing retailers.
- Industry estimate: showrooming costs retailers $217b/year.



Source: RetailTouchPoints

SOME ARE IMMUNE TO SHOWROOMING

- Some companies like Microsoft or Nike mainly sell their own merchandise. These companies don’t need to worry about showrooming; they make money regardless of the channel through which customers purchase.

- Some companies sell products that can’t easily be obtained online, like artisanal cheese.

SHOWROOMING

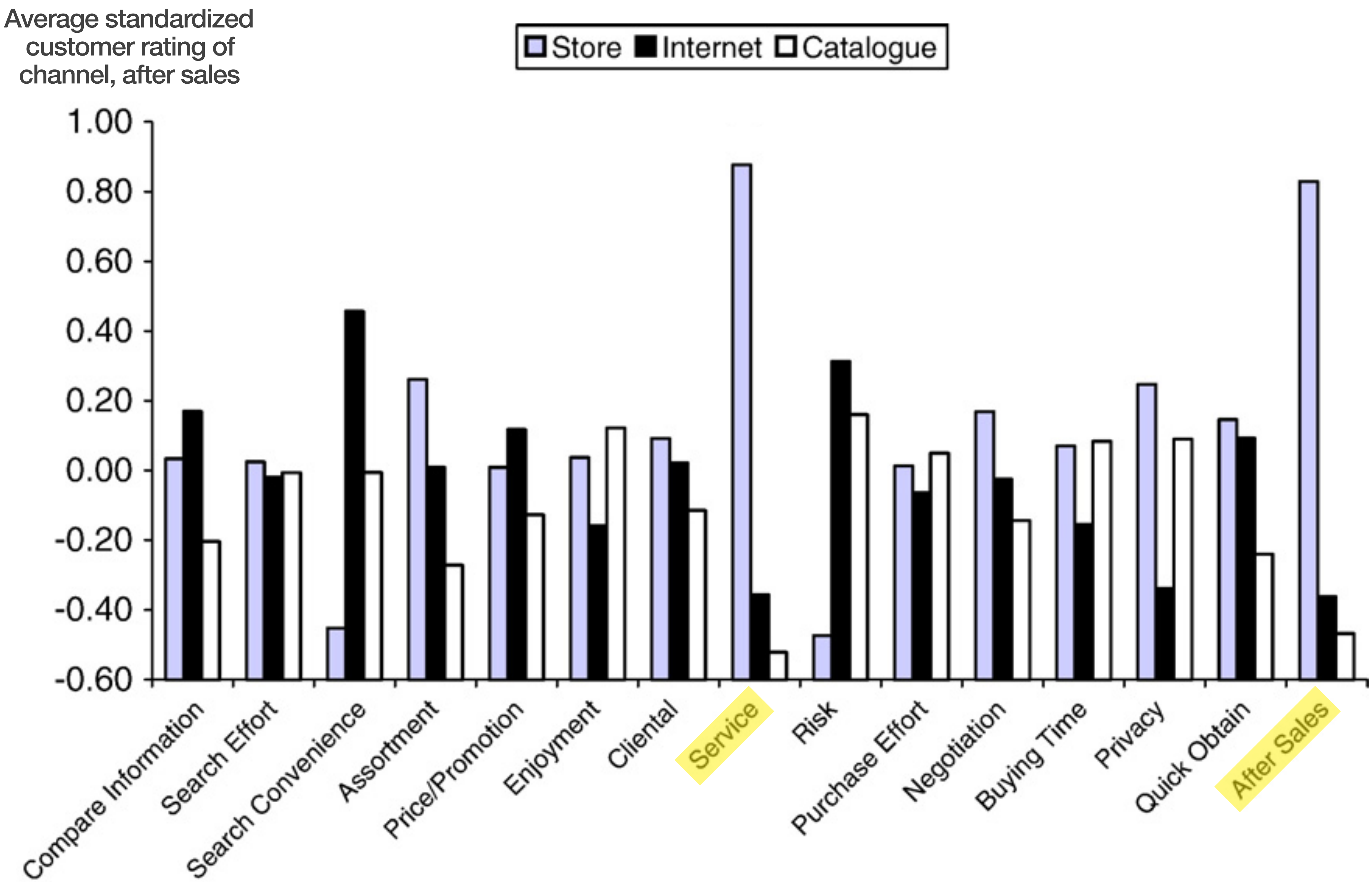
- Strategies for selling to showrooming customers rely on training:
  - Price-matching, requires workers to recognize showrooming and selectively offer to match price
  - Cross-selling is also effective and requires training
  - Bundling multiple goods together can prevent comparison shopping, but salespeople must be trained to promote.
  - Loyalty—driven by customer service

THE OMNI-CHANNEL

- Retailers are pushing to have a unified presence across physical and online channels.
  - Physical stores increase sales for online businesses, and vice versa

- The goal is to maximize the benefits of all channels.
  - Websites excel at search convenience & information comparisons; ***stores excel at service***, after-sales support, and risk reduction (Verhoef et al.)

CUSTOMER RATINGS OF RETAIL CHANNELS



Source: Verhoef, Neslin, & Vroomen

MISSED OPPORTUNITY

- Workers' soft skills are stores' most important asset
  - Knowledgable, helpful, reliable, courteous, problem-solving workers drive shoppers' intent to shop & recommend
  - Positive relationships with retail workers drive consumers' satisfaction, trust, & loyalty
  - Without customer service, there is little benefit to buying in stores—especially as same-day delivery becomes popular

- But customers report lower satisfaction shopping at the top 10 top US stores than shopping at those stores' own websites!

> “In responding to e-commerce, retailers need to think of “experience per square foot,” not “sales per square foot.”

-Anjee Solanki,
National Director
of Retail Services,
Colliers Intl USA

TRAINING IS HARD FOR SMALL RETAILERS

- "Home Depot has 11 PhDs in Atlanta developing training programs. Smaller houses buy off the shelf and make it their own. Some shops create their own but that's with a progressive CEO."

- "It's something we could probably improve on—a more formalized training program."

- "I don't know who we would be able to partner with to provide training. I don't think that's a resource that would be available to us at this time."

GETTING ON BOARD WITH E-COMMERCE

- Some retailers (e.g. Amazon, Warby Parker) started online.
- Some retailers (e.g. Walmart) have the scale required to develop e-commerce sites.
- But small brick-and-mortar retailers struggle with e-commerce
  - "Thank God I didn't build the online store with just me because really it is like having 2 stores."
  - "I know now what it takes and I didn't have the help or didn't know how to get that help."
  - "We set up an online shop. We worked really hard and getting the graphics right and all the pieces together. And month and months of work and we have not had one single order. We've had people for years asking why don't you sell online, why don't you sell online?"

ALTERNATIVES TO FULL E-COMMERCE SITES

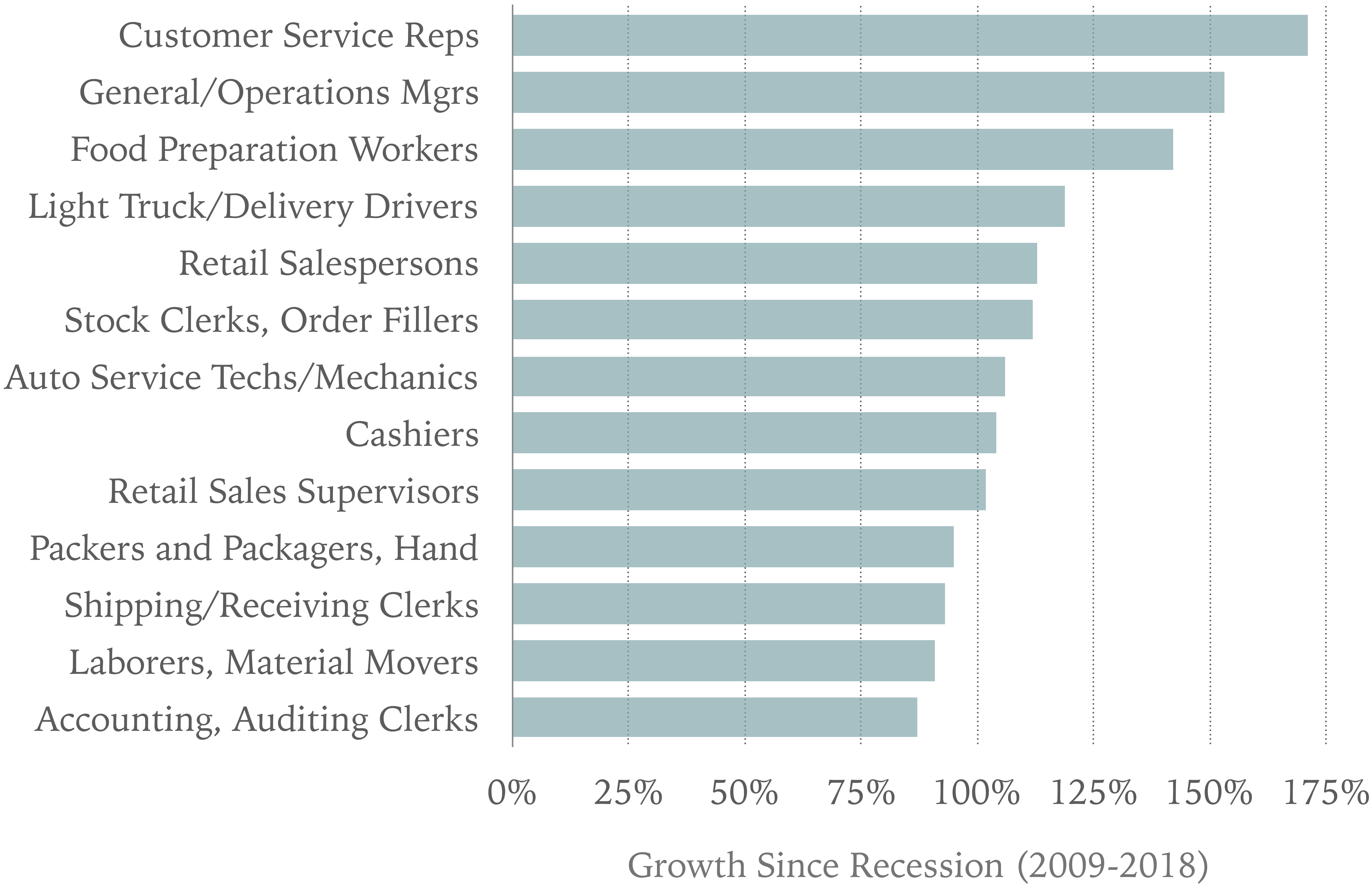
- Selling gift cards
  - "For our first online store we selected a bunch of merchandise that we thought would sell well. Stuff that we sold that's not easy to find out in the marketplace. But far and away, the majority of sales were gift cards to the point that when we went to our second generation of online sales we eliminated merchandise completely."
- Advertising online
  - "If I don't post online I see a dramatic drop in sales. Millennials are so instant and want things quickly. So having that platform reminds them that I am there. I never would've made it if I didn't start using all these platforms."

ALTERNATIVES TO FULL E-COMMERCE SITES

- Selling through existing platforms
  - "I have a high-school student who works 8-10 hours a week and she just does online sales. I handle Instagram personally, she handles Craigslist, Facebook marketplace and offer-up. It's perfect because I'm selling used items."
  - "Lash.live [a San Diego company, sort of like an online QVC] was really cool. Participating customers have their credit card information ahead of time, so they want to see it and are excited about it. For however long I'm on there the items are $60 less than what I usually have in the store, that's the draw and they can click the button and it is literally a one-click buy. With the credit card and the shipping there. Say I have five gray vests to sell in small, it automatically tracks the inventory and updates it."

EFFECT OF E-COMMERCE ON JOBS

- Carré & Tilly (2017): jobs will shift away from sales & cashiering to ware-housing & delivery. Not necessarily bad for job quality, but:
    - Warehouse jobs are often temporary and supplied through intermediaries.
    - Short-haul driving is often misclassified as independent contracting.
        - 2019 SCOTUS decision: long-haul truckers can sue over misclassification, because they are employed in interstate commerce. May not apply to short-haul.



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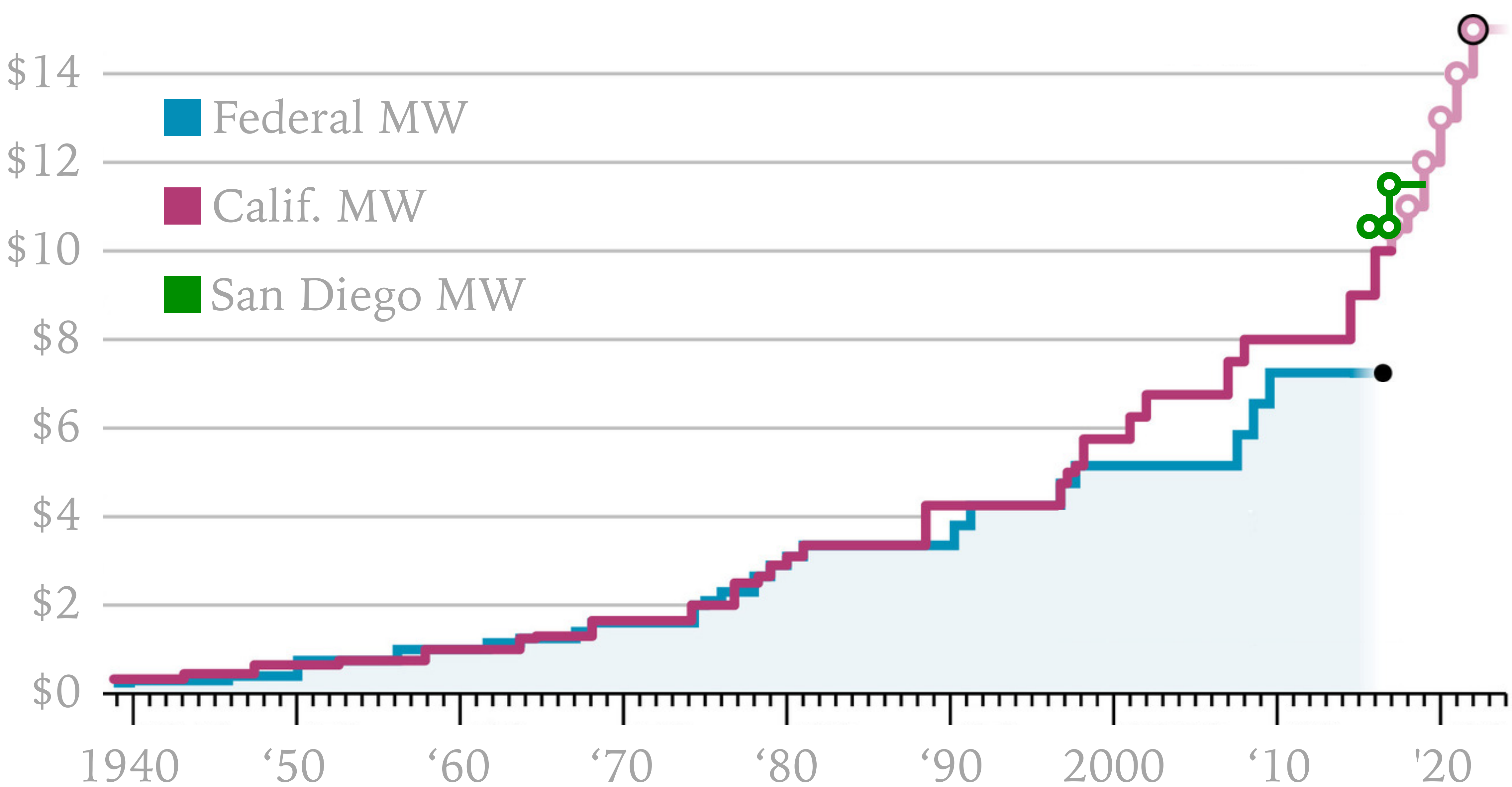
Source: Emsi

REGULATORY ENVIRONMENT

CALIFORNIA MW—NOMINAL



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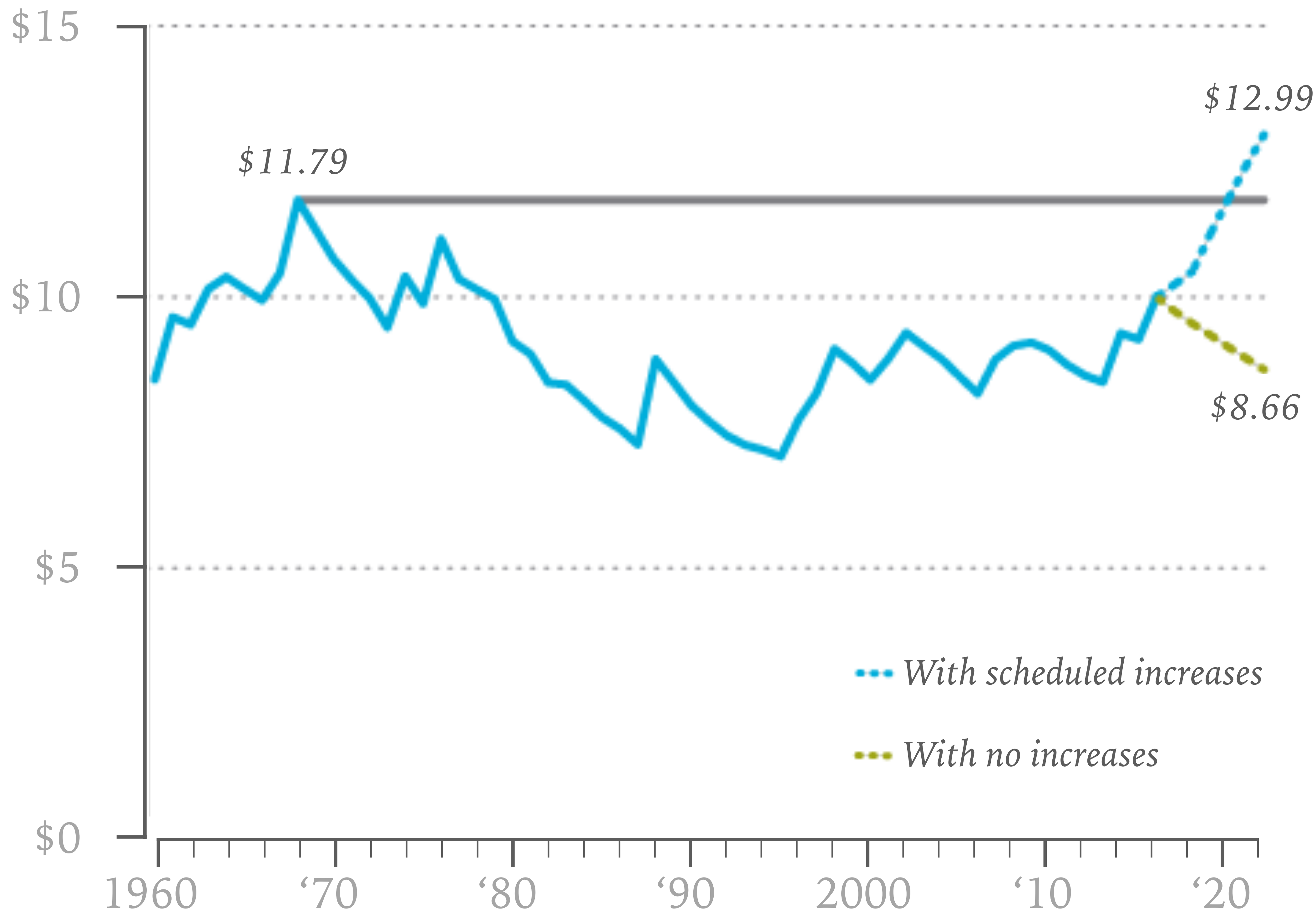
Source: US Labor Dept, CA Industrial Relations Dept, Wall St Journal

CALIFORNIA MW—REAL



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Source: CA Budget & Policy Center

HOW MANY WORKERS EARNED MW IN 2018?

- It's impossible to know how many San Diego County residents earned minimum wages in 2018.
  - The laws are complex!
    - \$11.50 in the City of San Diego
    - \$11.00 (for firms with >25 workers) in rest of County
    - \$10.50 (for firms with ≤25 workers) in rest of County
    - Employers who provide food & lodging or employ certain kinds of workers can reduce wages
  - Census data on hourly wages is <u>not reliable</u> (It's self-reported)

WAGES IN SAN DIEGO COUNTY

MEDIAN WAGES LAG SAN DIEGO'S COST OF LIVING

SD Cost of Living: +44%

Job	Workers (% of all)	US Wage	SD Wage	SD Wage Bonus
Retail Salespeople	38,900 (25%)	$11.29	$12.35	+9%
Cashiers	27,000 (17%)	$10.12	$11.45	+13%
Stock Clerks and Order Fillers	13,700 (9%)	$11.79	$12.29	+4%
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Slide 50 - 23:31

Source: Emsi, coli.org

MEDIAN WAGES LAG SAN DIEGO'S COST OF LIVING

SD Cost of Living: +44%

Job	Workers (% of all)	US Wage	SD Wage	Future SD Wage	Future SD Wage Bonus
Retail Salespeople	38,900 (25%)	$11.29	$12.35	$15.00	+33%
Cashiers	27,000 (17%)	$10.12	$11.45	$15.00	+48%
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Customer Service Reps	3,100 (2%)	$15.88	$17.72	$18.00	+13%
Auto Service Techs, Mechanics	2,900 (2%)	$17.04	$17.56	$18.00	+6%

Slide 51 - 24:03

Source: Emsi, coli.org

MW EFFECTS—FOR WORKERS

- Workers will likely stay in their jobs longer
- The share of San Diegans with incomes below the poverty line will likely decrease.

- A very small portion of workers may lose their jobs
- Workers may (or may not) lose hours
- Low-wage jobs like retail may grow at a slower rate
- Any negative effects are likely to impact teens the most

Citations: Autor, Manning, & Smith 2016; Congressional Budget Office 2014; Doucouliagos & Stanley 2009; Jardim et al. 2017; Hirsch, Kaufman, & Zelenska 2011; Dube, Lester, & Reich 2013; Meer & West 2015; Neumark, Salas, & Wascher; Dube 2013.

MW EFFECTS—FOR EMPLOYERS

- The cost of MW compliance is not just raising sub-MW wages
  - Preserving existing pay-scales
  - Payroll taxes
- MW costs are often <u>not the main driver</u> of cost increases in retail, since labor costs are only 10-20% of revenue
- MW increases partially pay for themselves
  - Lower turnover
  - Higher worker morale/effort
  - Higher applicant quality

EMPLOYER AVENUES OF ADJUSTMENT

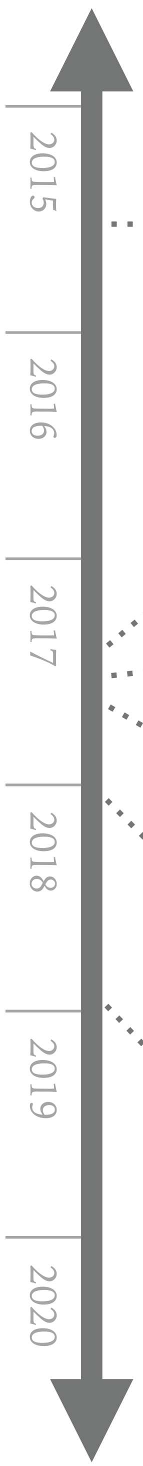
- Increase revenue (prices or volume)
- Decrease labor costs
  - Reduce employment/hours
  - Capital-labor substitution
  - Compress wages (delay/limit pay increases)
  - Reduce turnover and vacancies (hiring, training, separation)
- Decrease non-labor costs (e.g. better inventory control)

- Performance standards can offset 1/4 of MW costs
  - Attendance, more duties, tighter schedules, fire poor performers

EMPLOYER AVENUES OF ADJUSTMENT

- “We were already paying above minimum wage and then with the help of the Workforce Partnership we were able to go to $13.09 per hour. So your grant helped us get to that next step. When the grant left we didn’t go back down. We still maintained that level, so that’s why upping our sales is so important.”

ALSO: PREDICTIVE SCHEDULING LAWS



***All laws:** Employers must schedule 14 days in advance, & provide a good-faith estimate of the worker's schedule on hire.*

***San Francisco:** Employers with 40 stores.*
Premium pay for late changes & failure to call on-call workers.
Current part-time workers offered hours before hiring or using contractors.

***New York City:** Fast-food with 30 stores (7 days at a time). Retail with 20 workers (3 days in advance).*
On-call scheduling prohibited for both. Premium pay for late changes by fast food (but not retail) employers.

***Seattle:** Retail, food-services, restaurant employers with 500 workers, 40 locations for restaurants.*
Premium pay for late changes, failure to call on-call workers, & rest periods <10 hours.

***Oregon:** Retail, hospitality, food-services employers with 500 workers (7 days till 2020).*
Premium pay for late changes, failure to call on-call workers, & rest periods <10 hours.

***Emeryville:** Retail, fast food employers with 56 workers.*
Premium pay for late changes & rest periods <11 hours.

***Philadelphia:** Retail, hospitality, food-services with 250 workers & 30 locations (0 days till 2020, 10 till 2021).*
Premium pay for late changes & rest periods <9 hours.

Source: HRDIVE, Local Laws

GAP'S PREDICTIVE SCHEDULING EXPERIMENT

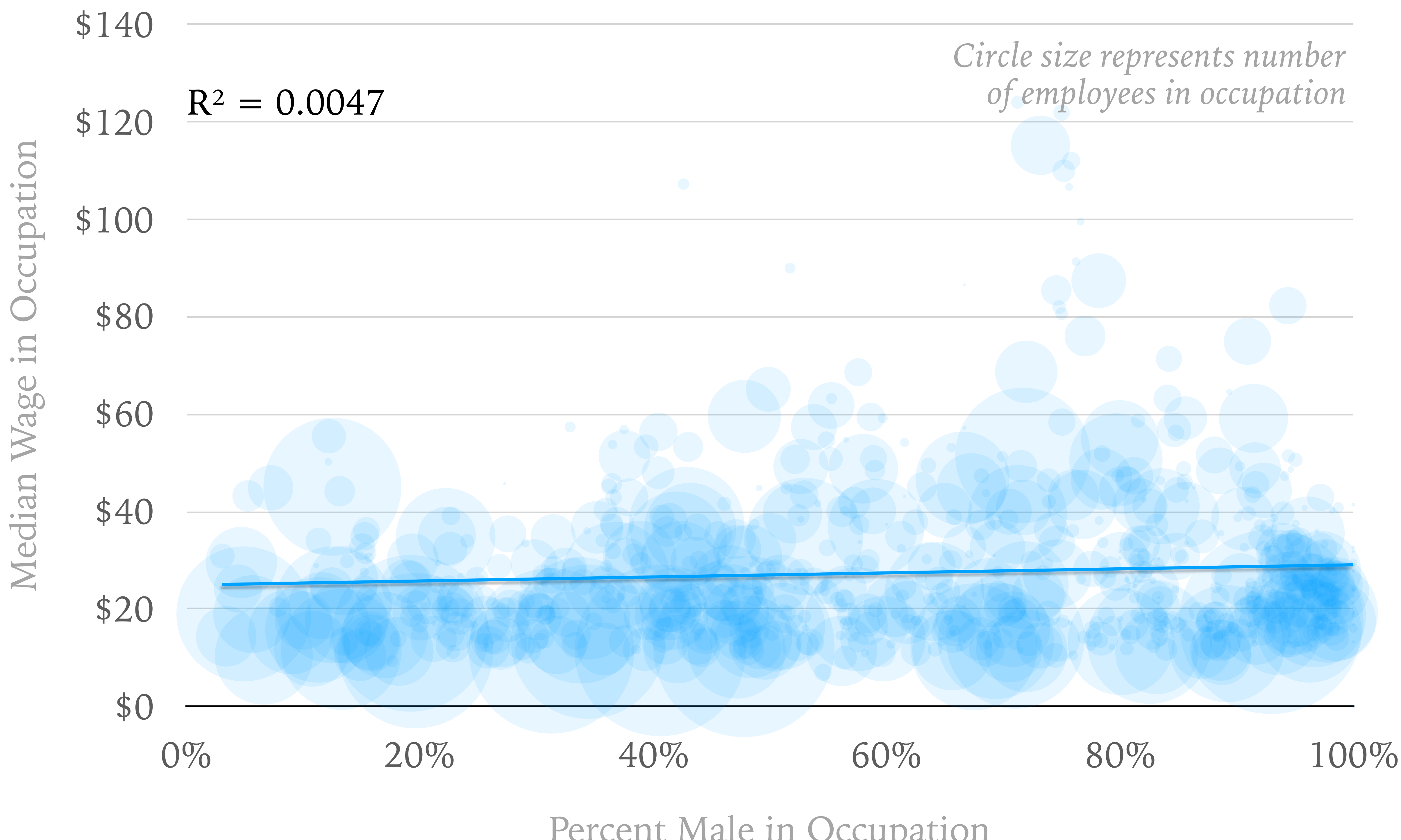
- After a short trial at three stores, GAP (1) adopted two-week advanced scheduling and (2) eliminated on-call shifts.
- They subsequently assigned 19 stores to a new treatment with four parts (while tracking 9 comparison stores):
    - Use of shift-swapping app
    - Urging managers to make workers' shift times consistent day-to-day and week-to-week
    - Promising a core group workers ≥ 20 hours a week
    - Targeted additional staffing designed to increase sales

GAP'S PREDICTIVE SCHEDULING EXPERIMENT

- Only cost to GAP: $31,200 spent on additional staffing
- Median sales up 7% ($2.9m over 35 weeks)
- Labor productivity up 5%, likely driven by higher retention. Workers' revenue/person-hour up $6.20.
- Only 30% of variation in workers' hours was explained by customer traffic. Store managers blamed headquarter-driven instability (inaccurate shipment info, last-minute promotion changes, visits by corporate leaders).

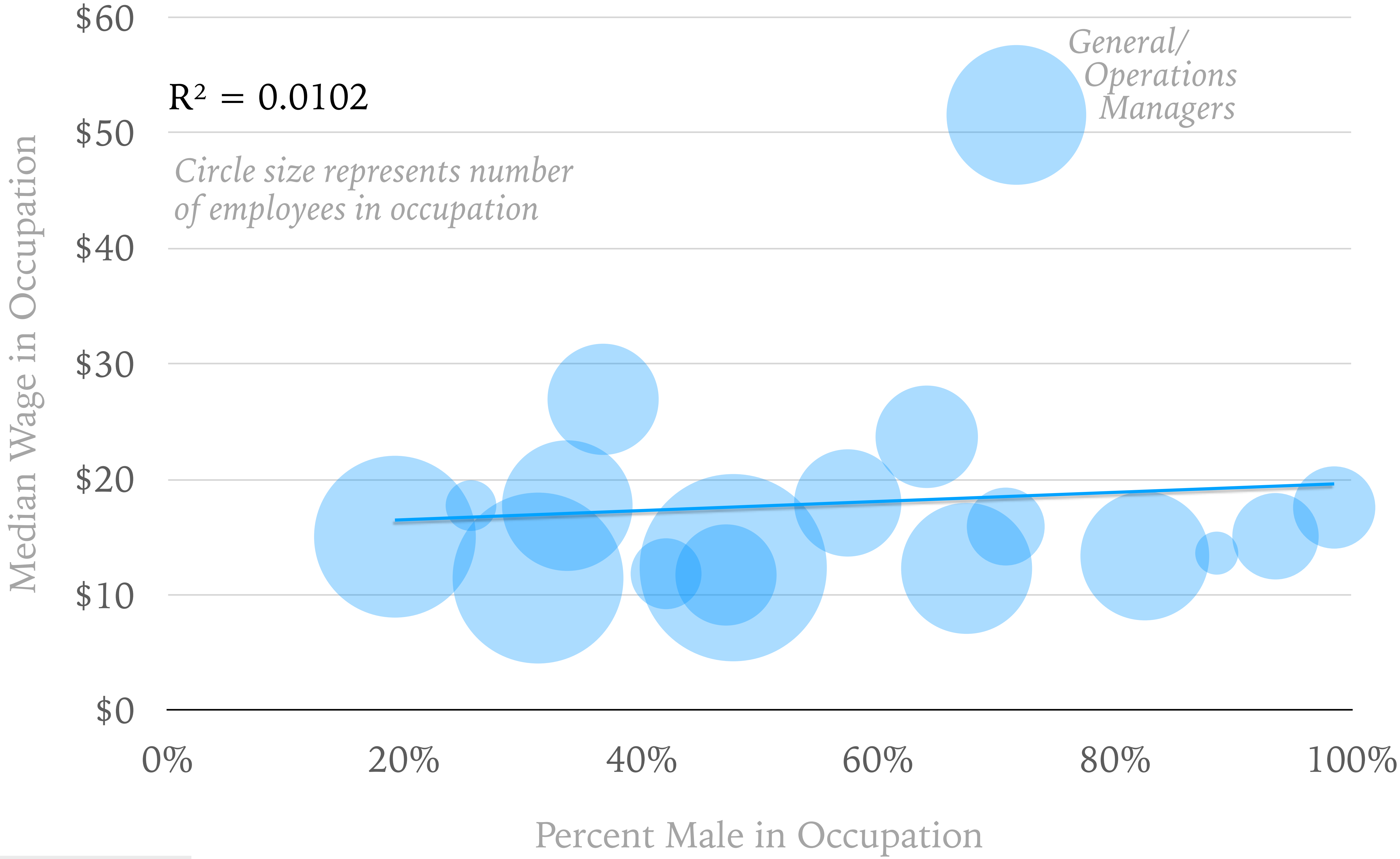
INEQUALITY

OCCUPATION WAGES & SEX (TOTAL ECONOMY, SD)



Source: EMSI

OCCUPATION WAGES & SEX (RETAIL, SD)



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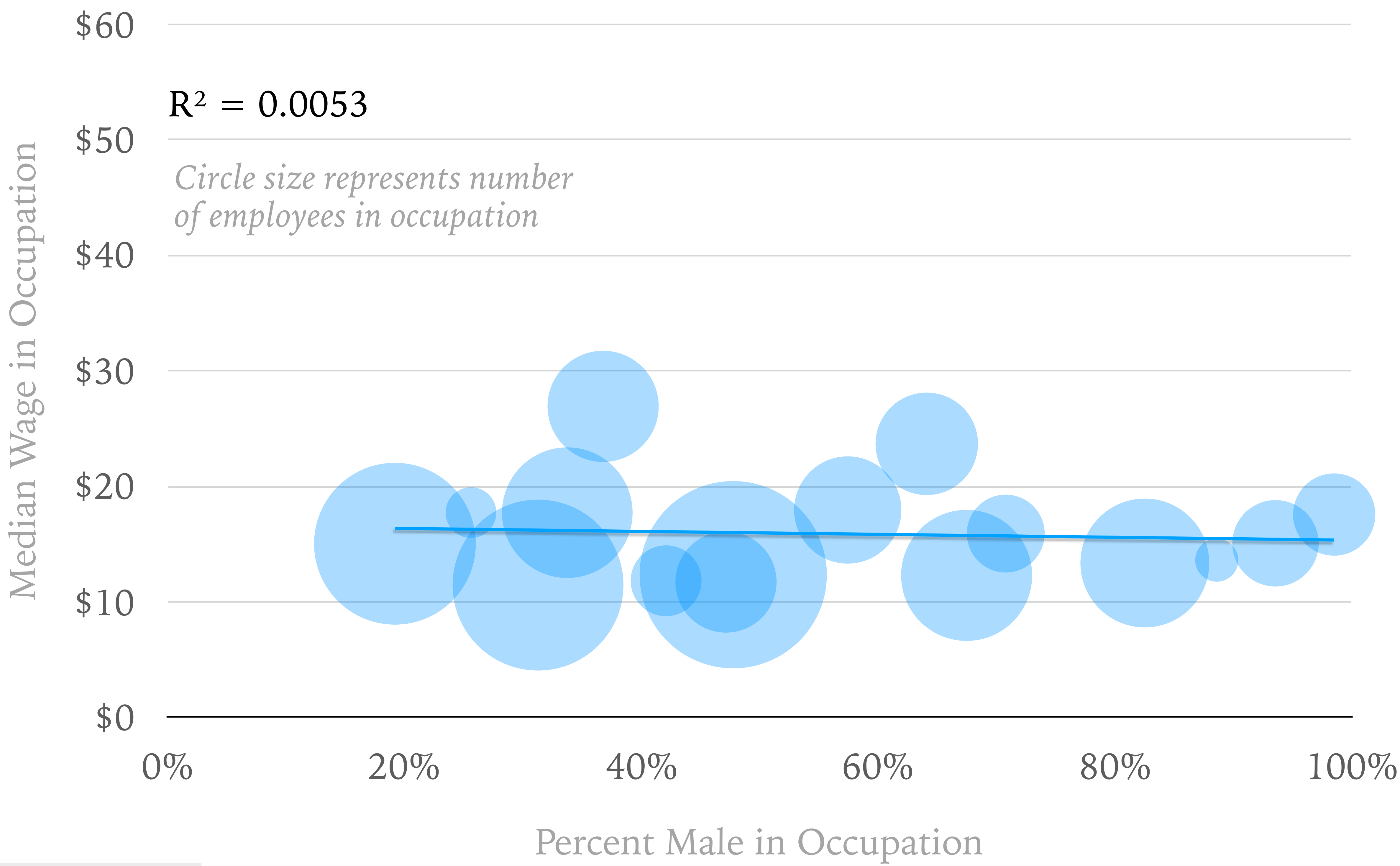
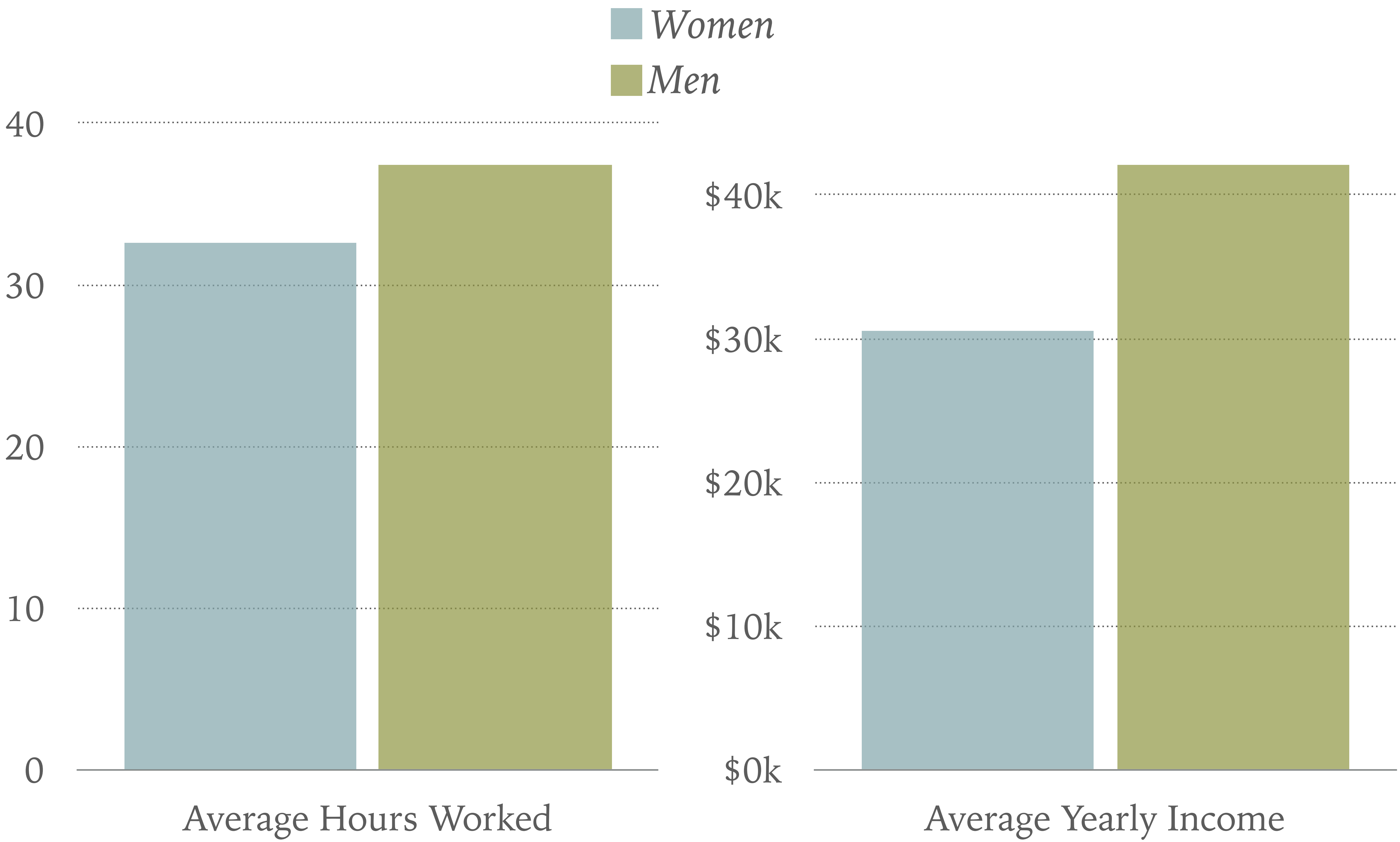
Source: EMSI

OCCUPATION WAGES & SEX (RETAIL, SD)



Source: EMSI

AVERAGE HOURS & INCOME FOR RETAIL-SECTOR WORKERS



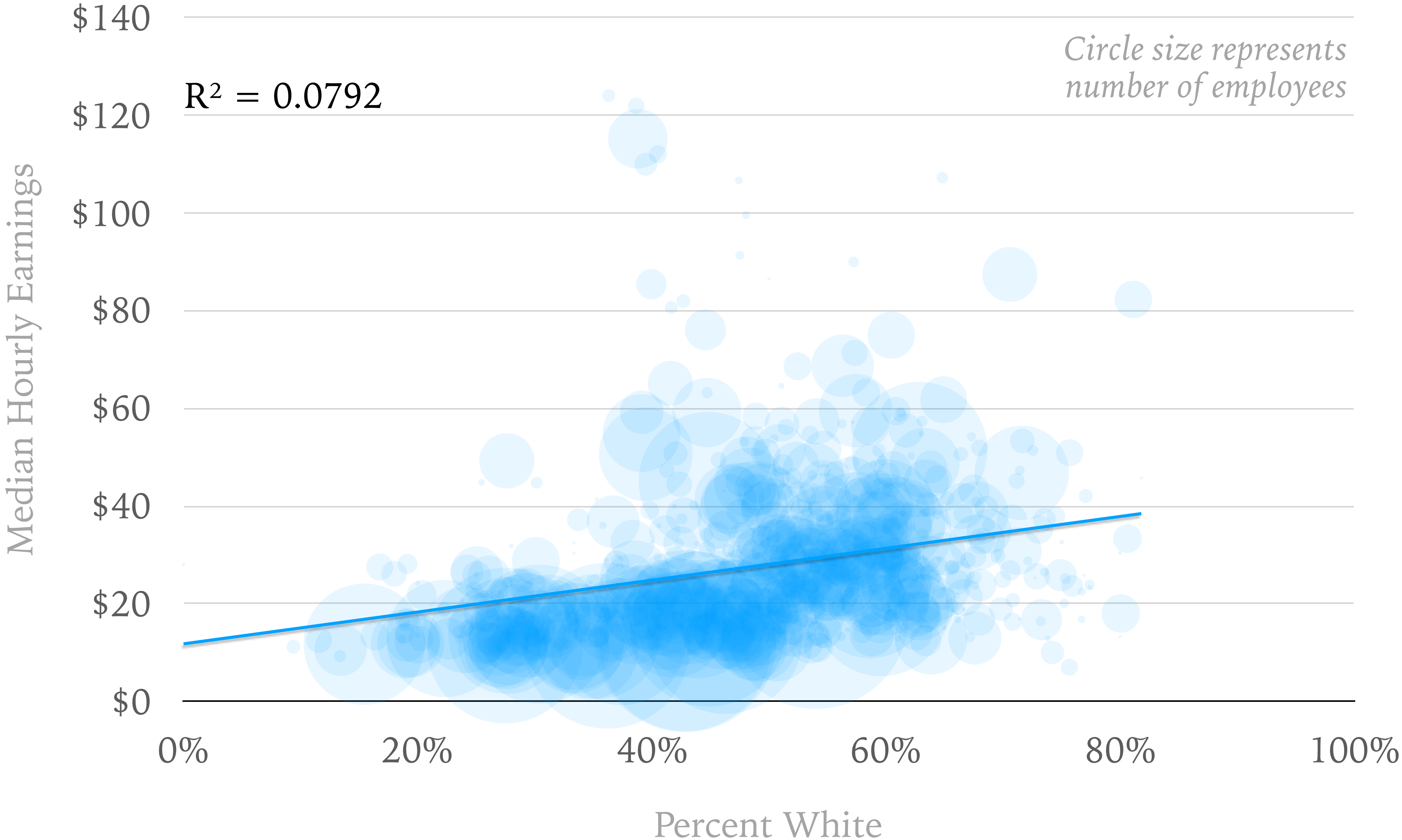
Slide 63 - 34:49

Source: US Census

ARE DIFFERENCES CAUSED BY EMPLOYMENT DISCRIMINATION?

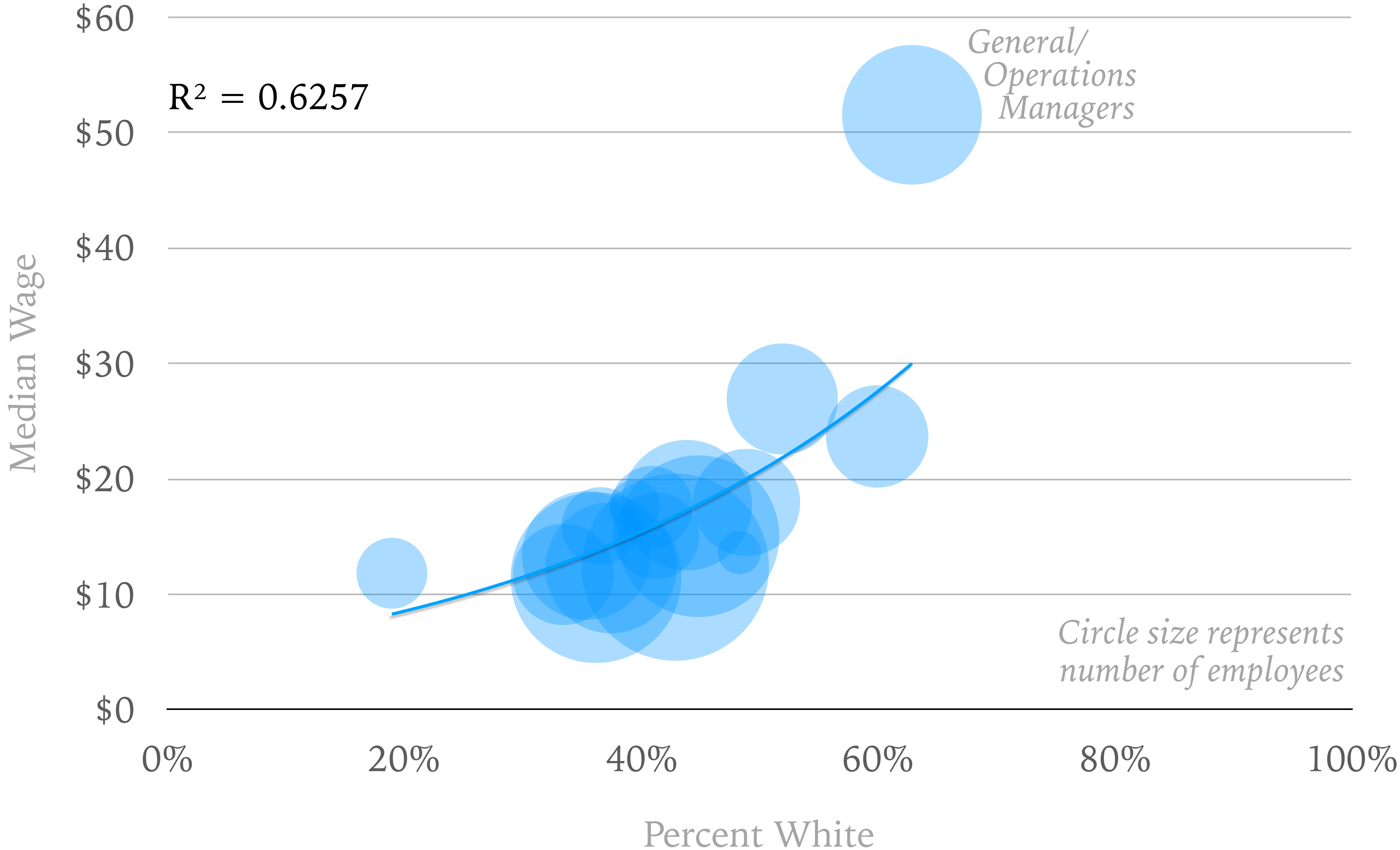
- Retail has the largest portion of part-time and casual workers, and most of them are women.
- But women with families often *prefer* part-time work.
  In "non-career jobs," part-time work is associated with lower work-family conflict and higher life satisfaction.
- Next steps in data collection: interview women working part-time in retail.

ACROSS **ALL** OCCUPATIONS, **8%** OF VARIATION IN PAY IS EXPLAINED BY RACE



Source: EMSI

ACROSS **RETAIL** OCCUPATIONS, **63%** OF VARIATION IN PAY EXPLAINED BY RACE



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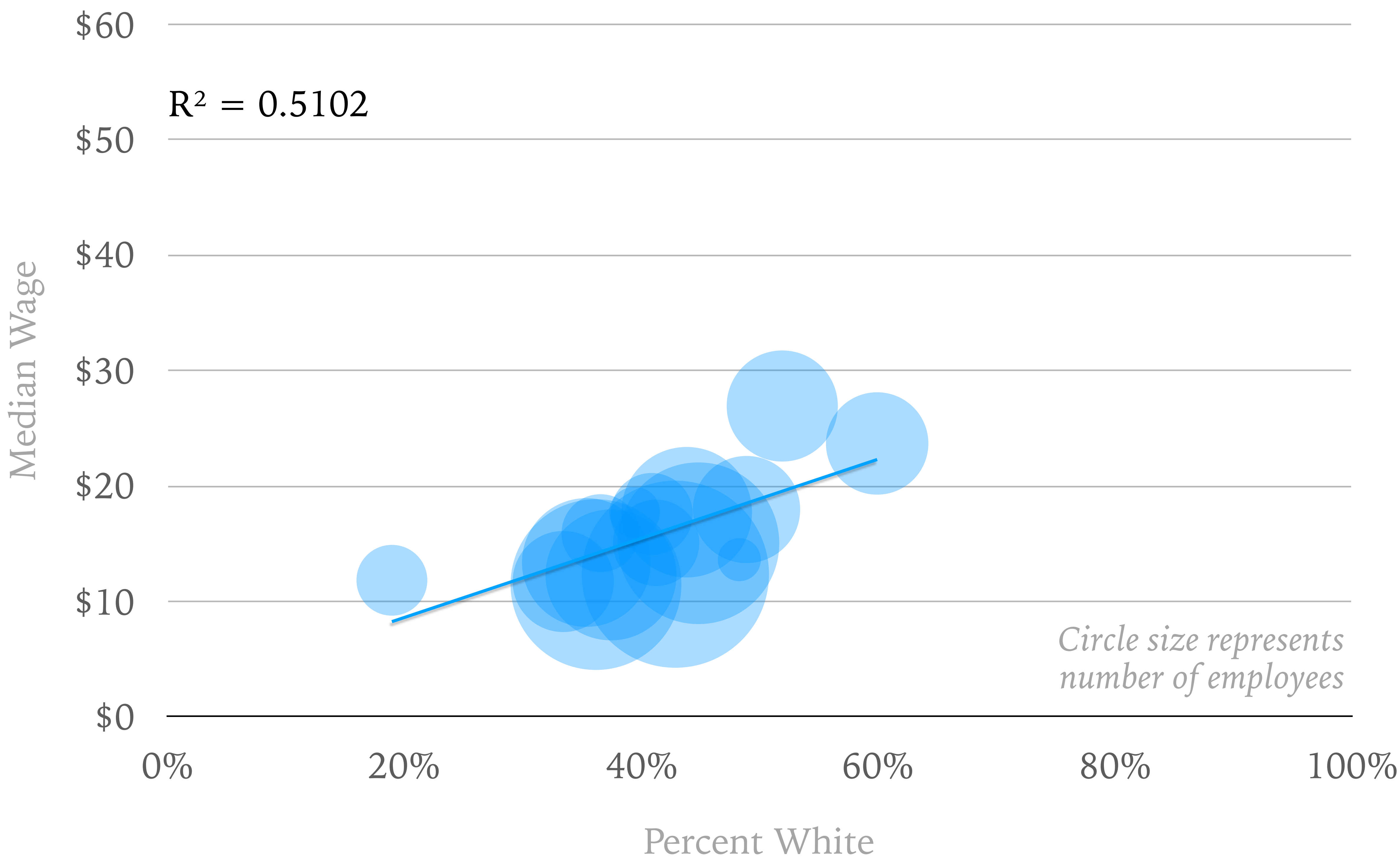
Source: EMSI

ACROSS **RETAIL** OCCUPATIONS, **63%** OF VARIATION IN PAY EXPLAINED BY RACE



Slide 67 - 37:10

Source: EMSI

DIVERSITY

- On challenges specific to the San Diego branch of a store:

  "In San Diego, the racial diversity [is lacking]. You don't get a lot of different languages spoken from our staff members which we would want. And I think that has something to do with San Diego in general. Which is just my personal note that there's not a ton of diversity."

HOW TO RESPOND

IMPLICATIONS

- Employers need to maximize the value of labor investments
  - Recruit & retain productive workers
  - Train & incentivize workers to sell
  - Avoid overtime, turnover, & other unnecessary labor costs
- Workers need to maximize the value of their job
  - Find jobs with "high-investment" employers
  - Seek out training & advancement opportunities
  - Advocate for fair scheduling & pay

NEXT STEPS

- Integrate into existing programs where possible
  - Incorporate emphasis on advancement opportunities in our job-seeker programs
  - Incorporate resources on social media marketing in our employer services
- Prioritize and secure funding for new initiatives where possible:
  - Submitted grant proposal for Retail Jumpstart experiments
  - See more next steps in our Interactive Retail Report, at workforce.org/research/retail

WANT TO KNOW MORE?

- Review the slides & interactive report:
  workforce.org/research/retail
- Ask questions:
  research@workforce.org

San Diego
Workforce
Partnership

THE ASPEN INSTITUTE

CSW
Corporation for a
Skilled Workforce

Walmart
Foundation

With support from the Walmart Foundation, in 2016 the Aspen Institute's Economic Opportunities Program launched *Reimagine Retail*, a project to explore ways to enhance stability and improve mobility for the retail workforce.