THE FINANCIAL PAGE

THE MORE THE MERRIER

Over the past decade, the Japanese fashion chain Uniqlo has become among the most successful retailers in the world. Its success is due in large part to the fact that it has found a way to sell basic stuff that is not only affordable but also stylish and durable. And there's something else that makes Uniqlo distinctive: it hires a lot of people, and spends a lot of time training them. When the company opened its flagship Fifth Avenue store, last fall, it hired six hundred and fifty people, and pledged to have four hundred people working there at any one time. This is not the way most retailers do business. The general dogma in recent decades has been that, in order to compete on price, you need to keep labor costs down—hiring as few workers as you can get away with and paying them as little as possible. Although leanness is generally a good thing in business, too much cost-cutting turns out to be a bad strategy, not only for workers and customers but also for businesses themselves.

A recent *Harvard Business Review* study by Zeynep Ton, an M.I.T. professor, looked at four low-price retailers: Costco, Trader Joe's, the convenience-store chain QuikTrip, and a Spanish supermarket chain called Mercadona. These companies have much higher labor costs than their competitors. They pay their employees more; they have more full-time workers and more salespeople on the floor; and they invest more in training them. (At QuikTrip, even part-time employees get forty hours of training.) Not surprisingly, these stores are better places to work. What's more surprising is that they are more profitable than most of their competitors and have more sales per employee and per square foot.

The big challenge for any retailer is to make sure that the people coming into the store actually buy stuff, and research suggests that not scrimping on payroll is crucial. In a study published at the Wharton School, Marshall Fisher, Jayanth Krishnan, and Serguei Netessine looked at detailed sales data from a retailer with more than five hundred stores, and found that every dollar in additional payroll led to somewhere between four and twenty-eight dollars in new sales. Stores that were understaffed to begin with benefitted more, stores that were close to fully staffed benefitted less, but, in all cases, spending more on workers led to higher sales. A study last year of a big apparel chain found that increasing the number of people working in stores led to a significant increase in sales at those stores.

The reasons for this aren't hard to divine. As Fisher, Krishnan, and Netessine show, customers' needs are pretty simple: they want to be able to find

products, and helpful salespeople, easily; and they want to avoid long checkout lines. For a well-staffed store, that's no problem, but if you don't have enough people on the floor, or if they aren't well trained, customers can easily lose patience. One of the biggest problems retailers have is what is called a "phantom stock-out." That's when a product is in the store but can't be found. Worker-friendly retailers with more employees have fewer phantom stock-outs, which leads to more sales. And happy workers tend to stick around, which saves the costs associated with employee turnover, like hiring and training.

It's true that, at some point, hiring more people yields diminishing returns. And, of course, if you have a lousy product selection, a bigger payroll won't help much. But there's a strong case to be made that corporate America's fetish for cost-cutting has gone too far. Some of the highest-profile retailers to flop in recent years were companies that made a big deal of slashing payroll costs. In 2007, Circuit City fired more than three thousand of its most experienced salesmen, replacing them with newer workers whom it could pay less. Its sales dropped, and it was bankrupt within a couple of years. When Bob Nardelli took over Home Depot, in 2000, he reduced the number of salespeople on the floor and turned many full-time jobs into part-time ones. In the process, he turned Home Depot stores into cavernous wastelands, with customers wandering around dejectedly trying to find an aproned employee, only to discover that he had no useful advice to offer. The company's customer-service ratings plummeted, and its sales growth stalled.

If investing in employees yields such big dividends, why don't more retailers do it? Partly, it's a matter of incentives: store managers are typically evaluated on their payroll costs. Moreover, the benefits of keeping payroll costs low are immediate and easy to see, whereas the benefits of hiring more people are long-term and harder to track. On top of this, keeping a large staff runs counter to one of the most important trends in retail: making customers do more of the work. We're all familiar with the phenomenon of outsourcing work to foreign companies. But there's also been a great deal of outsourcing work to customers. Often enough, this is a good thing: the self-service layout of a modern supermarket offers more freedom than an old-fashioned grocery counter, where you have to ask for things. It seems easier to pump your own gas at a gas station than to wait for an attendant, and people are increasingly happy to use a self-service kiosk at an airport instead of standing in line for a check-in agent. But you can only outsource so much work before alienating your customers. And in retail stinting on employees doesn't actually save you money. It just gets you less for less.

—*James Surowiecki*

CHRISTOPH NIEMANN