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Competitive Strategies in the US Retail Industry: Consequences for Jobs in Food and Consumer Electronics Stores

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COMPETITIVE STRATEGIES IN THE US RETAIL INDUSTRY: CONSEQUENCES FOR JOBS IN FOOD AND CONSUMER ELECTRONICS STORES

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ABSTRACT

US retail markets are characterized by consolidation, globalization, and the spread of big-box discounters. What do these trends mean for job quality and workers? For compensation, skill content of jobs, and opportunities for promotion? What role do institutions—regulatory, or representative—play in shaping company strategies, and outcomes for jobs as well as workers?

Retail generates a large and growing volume of entry-level jobs and is a rare industry with few educational requirements at entry. It is a highly relevant area of the labor market to examine to understand opportunities for low skill and mid level skill workers.

Findings come from case studies in eight food and eight consumer electronics companies; a total of 18 cases because two companies had both lines of products. Food retail is the largest subsector and employs a majority of women while consumer electronics employs a majority of men. Data include 195 interviews with: headquarter managers for human resources and operations; regional managers; store managers; union representatives, and frontline workers—part-time and full-time. These are complemented with company HR numbers and sectoral statistics.

Retail jobs are affected by significant change as companies struggle to survive and grow in an increasingly saturated market. Strategies include seeking to increase service, and product quality or variety (altering the mix of products and services), on one hand, while also cutting costs on the other hand. However, increased demands on workers combined with low compensation undermine service improvements. The paper explores the match between competitive strategy and labor strategy in the cases. It examines market and institutional conditions in which this two-pronged strategy succeeds and others where it encounters major challenges

Introduction[1]

The debate over job quality in the United States has intensified as labor market inequalities have grown. At the core of the debate is not just the matter of describing or quantifying bad jobs, but of seeking *explanations* for change and variation in job quality, with the goal of developing strategies to improve bad jobs and narrow the gap between bad and good jobs. Such explanations have focused on a variety of factors: workforce characteristics (Goldin and Katz 2008, Andersson, Holzer, and Lane 2005), technological change favoring higher skills (Krueger 1993, Levy, Murnane, and Autor 2004), institutions governing the workplace (Vidal and Kusnet 2009, Card and Krueger 1995), as well as business strategy and, in some writings, how it is shaped by institutional context (Andersson, Holzer, and Lane 2005, Appelbaum *et al* 2000, Appelbaum, Bernhardt, and Murnane 2003a, Batt 2000, Bernhardt *et al* 2008, Cappelli and Crocker-Hefter 1996).

Research focusing on strategy raises particularly complex issues, because it points to both the space for business discretion and the ways in which strategy is shaped by all the other factors. The distinction between product strategy (competitive strategy in the market for goods and services) and labor strategy (everything from job design and recruiting to compensation and retention) is a useful one. Analysts have made a case for a number of regularities in labor strategy. In general, researchers have argued, business success depends on some degree of alignment between product and labor strategies (Appelbaum, Bernhardt, and Murnane 2003b). Business strategies and associated labor strategies (and therefore job characteristics) differ by segment within and across businesses (Batt 2000). But even within market segment multiple, distinct labor strategy equilibria are possible, as in the case of FedEx and UPS or Sears and Nordstrom (Appelbaum, Bernhardt, and Murnane 2003a, Cappelli and Crocker-Hefter 1996). A firm's likelihood of adopting a particular labor strategy depends not just on the firm's business strategy, but also on other contextual or external influences (institutional factors and constraints, the state of the external labor market) and internal ones (particularly managerial beliefs) (Grimshaw and Rubery 1998, Moss, Salzman, and Tilly 2008). The relationship between business and labor strategies is most visible when market shifts precipitate a change in product strategy, which then requires adjustment in labor strategy (Cappelli et al 1997, Smith 2001, 1991). In general, the adjustment must be compatible with HR practices already in place and build upon these (Cappelli and Crocker-Hefter 1996).

The retail industry offers promising turf for advancing this line of research. Retail is a large sector (with just under 14 percent of private nonfarm employment in 2008, more than manufacturing). It is a low-wage sector (retail nonsupervisory workers earn 71 percent of the national average) (US Bureau of Labor Statistics 2009a). In terms of

[1] The research on which this paper is based was funded by the Russell Sage Foundation. Additional statistical work was conducted for a project sponsored by the Ford Foundation. We received significant in-kind assistance from the National Retail Federation in obtaining participation in the study from retailers. We also thank company officials and staff who agreed to interviews. The views presented here are those of the authors only and do not represent those of the Russell Sage Foundation, Ford Foundation, or National Retail Federation.

benefits, retail workers fare even worse (Mishel et al 2003, Tables 2.28, 3.13), in part because of retail's high rate of part-time employment (Tilly 1996). Retailers make minimal investments in training for most employees: according to the 1995 Survey of Employer-provided Training, workers in retail trade typically receive 3.7 hours of formal training as compared to an average of 10.7 hours across all sectors (US Bureau of Labor Statistics 1996). Importantly, much of retail has also in recent years experienced a severe market shock, in the form of market invasion by national big-box discount chains such as Wal-Mart,[2] Target, and Costco (Lichtenstein 2005; Davis *et al* forthcoming). Despite recent attention generated by the Wal-Mart phenomenon, the most recent in-depth examination of the job quality implications of varied retail labor strategies remains Thomas Bailey and Annette Bernhardt's important 1997 article. Bailey and Bernhardt found that "high road" product strategies involving high levels of service or investments in advanced technologies rarely involved "high road" labor strategies, a provocative challenge to other findings in the literature on business strategy and job quality. For all of these reasons, in 2005-07 we undertook a set of 16 detailed company case studies in the retail sector, looking at both food and consumer electronics retailers.

We sought to answer a set of questions:

- What different mixes of product and labor strategies are in force in US retail chains? Which mixes function well (in a competitive sense) in what settings? In particular, how so these patterns differ between food and consumer electronics retailing?
- How important does a "fit" or "match" between product and labor strategies turn out to be, and how successful are companies in achieving such a fit?
- How do these mixes translate into job quality (better or worse in a cross-sectional sense, improving or deteriorating in a time series sense).

We entered the study with several expectations. First, despite Bailey and Bernhardt's cautionary finding, we expected to find that competitive success depends on some degree of correspondence, or fit, between product and labor strategies (Wal-Mart's success story itself is an example of such a fit). To endure, such a fit would need to be sustainable beyond the short run. We also expected that certain *settings* are more hospitable to particular business and labor strategies. Within the United States, the timing of competitive change, the structure of regional markets, and the regional regulatory environment may all make a difference. For example, Southern settings with little regulation of land use/zoning, and therefore retail market entry, as well as of job quality may make strategies reliant on higher service, higher compensation, and higher prices difficult to sustain.

To briefly summarize our findings, we find that all companies in our sample espoused cost-cutting strategies, and almost all sought as well to improve services and product quality. Food retailers tended to be more "quality-driven", attempting to distinguish themselves though the quality and variety of goods, whereas "service-driven" electronics

[2] An industry observer noted that Wal-Mart added food to its offerings to get people into its general merchandise stores for weekly shopping as compared to a couple of times a month, thus increasing traffic and potential sales. This shift from the largest US retailer changed the economics of retail. Target has since followed suit.

retailers emphasized the provision of novel and useful services. For virtually all companies, the goals of cost-cutting and improving service and quality are in tension, and at times in conflict. Even in cases where companies are making progress toward both goals, there are questions about the sustainability of such progress. The fact that cost-cutting often undermines job quality—because labor costs are the "number one controllable" cost in stores— is a key dimension of these tensions and conflicts. Many companies are struggling competitively (some have gone out of business), and in many cases jobs are getting worse.

Methodology

The National Retail Federation provided essential help in convincing retailers to take part in this study; we also contacted a number of retailers independently. In all, we completed 18 cases, 10 food retailers and 8 consumer electronics retailers, between mid-2005 and early 2007, before the effects of the current economic crisis began to be felt. This represents site visit interviews in 16 companies, not 18, because two companies are double cases (both food and consumer electronics). It is worth noting that, since the conclusion of field work, two companies have filed for bankruptcy protection and two have been liquidated.

In terms of format, all the exclusively food retailers but one have a regular supermarket format; the exception is a "mini-warehouse" format. One of the companies that carries both food and electronics has a warehouse format, the other has a small store format. Among the consumer electronics companies per se, four have a regular big box format, two have a small store format. Two of the electronics chains sell a broad range of office supplies including electronic equipment; we expanded the sample to include these companies both because there is a small (and diminishing) number of large retail electronics chains and because office supply companies are in fact important sellers of electronics.

Among exclusively food retailers, six are independent regional chains, and two are what we call "cogs," formerly independent regional chains now absorbed into national or multinational holding companies. Among the exclusively electronics retailers, all six are multiregional companies. The two cases that straddle both sectors are multi-regional companies.

In total, 195 interviews were conducted across the 16 companies. They include interviews with headquarter managers for human resources and operations, with regional managers, with store managers and with a sample of frontline workers—part-time and full-time, front end and sales floor workers as well as those in specialized departments (e.g. bakery, deli, copying, and home entertainment). Because interviews were conducted outside of busiest store hours, they tend to include fewer very junior, very short hour workers and more of those who are regularly scheduled, even in part-time. In most, but not all, cases, the visited store was located near headquarters and was considered the "flagship" store. We attempted to factor this fact into our questions, often probing managers and workers with experience in more than one store (as well as in other companies) for contrasts and comparisons. We also asked for summary statistics on a variety of personnel indicators, and received them from about half of the participating companies. All interviews were coded with qualitative software using a coding scheme prepared by the research team.

Findings

Overview

Respondents at all companies pointed to the competitive threat from Wal-Mart and other aggressively growing discounters. Electronics retailers identified online sellers as another threat. As noted, companies are primarily reacting in two ways. First, all companies seek to cut costs. The price cutting pressure some have experienced is extreme and, in some settings, has surged suddenly. Second, retailers seek to distinguish their market offering by providing better service (and in some cases providing *new* services), and/or higher quality or more varied goods. In some cases the second strategy involves extending the boundaries of retailing, for example greatly expanding prepared food offerings to compete with the restaurant/food service industry or vertically integrating into the design and installation of home entertainment systems, thereby significantly altering the mix of offerings away from "off the shelf" hard goods and toward services.

The two companies that sell both food and electronic goods diverged from this generalization. Bargain Mart (all company names are pseudonyms), a warehouse store chain, competes based on strong logistical efficiencies and constant fine-tuning of the product mix based on what is selling. Village Voice, a convenience store chain based in small rural and semi-rural communities too small to support a big box, profits from a geographic oligopoly. Both cases are interesting, but we largely omit them from our discussion because they are less typical.

When discussing service strategies, it is critical to note that the concept of "service" is multi-dimensional. As used by retailers, it encompasses:

- *Attention and pleasant interaction*
- *Product knowledge and problem-solving*
- *Provision of additional services*
- *Convenience* (meaning the ability to get in and out of the store quickly)

Although most media attention tends to focus on the first two (see, for example, Martin 2009), we find that in terms of competitive strategy, the third and fourth are more important—in part because, regardless of avowed goals, most companies appear to fall in a fairly narrow band on the first and second elements of service.

Though both food and electronics stores pursue both service and quality/variety, there is a major difference in emphasis. Consumer electronics retailers follow a strategy we call "service-driven." Here key selling points are the availability of services that a Wal-Mart or Dell doesn't offer, ranging from home installation, to convenient computer repair, to photocopying. Services may be packaged with high-end, specialized electronic components, but the strategy stresses the services themselves. As an increasing slice of consumer electronics goods themselves become commodities, such services are one area where competition is not based on cost, and margins are higher. This approach typically involves segmenting customers to target services to higher-end customers within a store's client population.

Food retailers, on the other hand, more often adopt a "quality-driven" approach. Here the main differentiator is higher quality goods, often including interesting variety. Attractive, fresh, and varied meat, fish, cheese, produce, wine, baked goods, prepared food, and deli offerings are typical. This model incorporates some service, in the form of counter assistance (deli, fish) or product knowledge (wine, cheese), but the principal selling point is quality. Though standard grocery items have become commodities, fresh and attractive produce or meats are *not* universally available, and by offering them grocers seek to defend or carve out a higher income market niche that allows higher margins. Interestingly, the way quality and variety are achieved is partly through changes in purchasing but also through greater labor input (hand placement in display, attention, preparation). Unlike the electronics cases, strong customer segmentation within a store is impractical, though large chains do use multiple banners (store names and formats) to attract distinct segments of customers: for example, Safeway's Pavilions stores target more affluent shoppers.

We use the distinction between service-driven and quality-driven strategies as an organizing principle to guide us through some indicative cases. In what follows, we explore these two product strategies in more depth, and then look at their relation with labor strategies and job quality outcomes.

Different contexts in Consumer Electronics and Food Retail

Importantly, differences in histories and patterns of labor use should be noted at the outset. They play a part in our account because they shape the range of options that retailers in each sector consider for implementation. In short, consumer electronics retail, particularly the big box variety, is a recent development. Partly as a result, it has had 7-day operation and heavy reliance on part-time employment from the start. Historically, the emphasis on knowledge of technological product features has steered the industry toward hiring and promoting men. The sector hires store management readily from outside and even from other parts of retail. Food retail on the other hand exemplifies "old" retail. It has the longest history, and has experienced significant change from exclusive reliance on internal promotion to some outside hiring as well as the move from full-time employment to nearly half part-time employment, particularly for front-line workers. The bulk of employment has been in cashiers and clerks who have tended to be women with a few "craft-like" occupations such as meat cutters that have tended to be male dominated. Also, both sectors rely on part-time arrangements for entry level positions with the first promotion often entailing the move from part-time to full-time work.

Different histories, products sold, and gendered patterns of employment and promotion seem to underlie significant differences in average pay. Consumer electronics retail offers much higher average hourly pay for frontline workers than retail as a whole ($16 in 2007, compared to $11.80 for all of retail) ,while grocery stores pay less ($10.80) (Carre and Tilly 2008)

Finally, an important job characteristic throughout retail, with few exceptional companies, is that hourly pay for part-timers is lower than for full-timers (33% lower, for retail as a whole) (Carre and Tilly 2008). Part-time work is ubiquitous in frontline retail jobs.

Service-driven competitive strategy

What we call service-driven retailers compete with large-scale discounters by *selling* services. This strategy is primarily typical of electronics retailers, though a number of retail food managers commented that "Whoever figures out home delivery is going to own the market." Consumer electronics products are sufficiently complex that there is a market for services related to them (setup, repair). Broad-line mass-marketers like Wal-Mart and Target have not yet occupied that space, and online sellers cannot easily provide such services. This is especially true of more customized services—essentially quasi-luxury "goods" that can nonetheless be purveyed by mass market chains that are willing to adopt a different strategy than simply charging the lowest price. Electronics retailers' goal of expanding services is thus "an escape from low-margin hell" (*Business Week* 2006; see also *Discount Store News* 1998). As a Technology Source store manager remarked, "*We have to be more service oriented. Margins on TVs and computers and actual boxes, product, is always dropping and if we don't get that service piece nailed, then we won't survive.*"

One basic "service" to be sold is service agreements and extended warranties, which every electronics retailer in our sample strove to push as do virtually all other such retailers. Commenting on the financial results of two industry leaders, an industry observer noted that extended warranties were estimated to account for "more than a third of Best Buy's operating profit and all of Circuit City's" in 2005 (Berner 2005). Wal-Mart's 2005 entry into the extended warranty business, with warranties priced at one-half to one-third the level charged by its competitors, cranked up competitive pressure in this once-comfortable corner of electronics sales (marked by 50-60% margins on service agreements, much higher than the 4% margins on sales of goods) (Berner 2005, *Digital Home* 2008). But nearly two years after Wal-Mart forayed into warranties, *Warranty Week* reported that the large electronics retailers were *still* charging rates roughly three times that of Wal-Mart (Goldstein 2007), indicating that this offering is still a significant revenue source.

But beyond this baseline offering, we saw two distinct service-driven strategies in different segments of the market: in broad-line consumer electronics chains on one hand, and in office supply chains on the other. In broad-line consumer electronics, national chain Electronix exemplifies the shift to selling services per se. Electronix sells a wide range of electronics consumer products, having evolved over time from a warehouse format to a more hands-on seller. The chain offers two lines of service beyond extended warranties. On the one hand, for run-of-the-mill customers, the chain offers auto installation and computer repair plus, increasingly, home installation (again, Wal-Mart is attempting to move into the installation and repair business in a pilot joint venture with Dell [Birchall and Allison 2008], so specialized electronics retailers may not retain this beachhead in the long run). On the other end, for high-end customers, Elextronix devised a store-within-a-store formula in which salespeople work with customers to design and install elaborate home entertainment systems that can price out at tens of thousands (and occasionally a couple of hundred of thousands) of dollars. Importantly, except for auto installation, all of these services involve interaction with the customer in his or her home, which escalates the service-intensity of the tasks.

Electronix seeks to expand both lines. *"They wanted to get anywhere from 5-7% of the store sales from services, because the margin is available,"* a Store Service Manager commented. The company emphasizes "hand-tos," in which a salesperson or cashier helping a customer buy a small item calls attention to higher end offerings including the store-within-a-store, ideally introducing the customer directly to a high-end salesperson.

Electronix added key services in this portfolio by acquiring independent companies that specialized in the services. They also in-sourced core elements of home installation, which was formerly subcontracted. Service functions are functionally and spatially segregated from routine selling, sited in distinctive locations within the store, above all in the store-within-a-store. A supervisor explained,

> *You've got a separate divided area, a more intimate area. You know, lights are turned down low. Everything is not so bright. The music is turned down, so it's a little bit more of an atmosphere change. Then there is obviously a different level of professionalism that you get with [store-within-a-store] staff than you would get with the Electronix staff.*

A supervisor saw competitive advantage resting in the connection between the quality of home installation of complex systems and follow-up services, on one hand, and customer loyalty on the other:

> *Home theater systems .. can run into small snags. The wife comes home and hits the wrong button on the remote control and nothing turns on again. It's those kind of things. …You're gonna be the first person they're gonna call and they're gonna want it fixed instantly. Those are the times right there when you either have them come back because you've taken care of their situation right and they're gonna come back and buy things from you or they're gonna send their neighbors, their buddies, their friends to you. Or that's when the name can be dragged through the mud.*

The value proposition does include product quality as well as service. The store-within-a-store also stocks specialized, high-end equipment. The supervisor continued, "*We've got a very, very vast product assortment, things that you would find rivaling your higher places like your Ultimate Electronics, and your kind of mom-and-pop shops, things that [Electronix] really never had their foot in the door before [the store-within-a-store] came along.*" In so doing, Electronix and a few other national chains aim to replicate services offered, until recently, only by specialized, high end, audio/video equipment stores. In short, they aim to displace these stores and, in many regions, have succeeded in doing so.

Other soup-to-nuts consumer electronics retailers in our sample follow similar strategies, though none in our sample are as successful as Electronix. The specifics vary. The strategy at Technology Source, another national chain offering a wide range of electronic goods, has the same elements as that of Electronix, except that Tech Source has attempted to build services within its own organization rather than acquiring specialized companies—a less successful approach at the time we studied these companies. High Fidelity, a smaller, higher end regional chain, runs entirely like Electronix's store-within-a-store. Almost *every* salesperson is trained to assist with system design and installation. Hi Fi also sells off-the-shelf merchandise, but such sales are secondary to core activities. Hi Fi was struggling in the market when we studied them. In recent months, Wal-Mart has begun a shift "up market" (stocking higher end electronics products) to draw customers away from specialized electronics stores (Bustillo 2009). But its efforts, so far, do not include the relatively intensive service contents that specialized stores have devised.

A second service-driven model is more characteristic of office supply chains that include office-related electronic equipment as part of a range of office supply offerings. In this case, margins are *higher* on non-electronics office supplies, but retailers include electronic equipment as part of a full range of offerings. It is precisely the scope of available products that is the service offering. The Office, a nationwide chain, markets itself as a convenient seller of office supplies where customers can find everything they need. The Office has recently added copying, imaging, and printing services, which provides quite a high margin. A regional manager at The Office noted that photocopying "*was a commodity at one time. We're getting to the point now where it has a real magical ability to drive sales because people are so happy with the results that we could deliver for them, that they're very pleased to pay a premium for that.*" In addition, salespeople throughout Office stores seek to identify small business customers in order to speedily meet their needs. As a regional manager (TO9) at The Office put it, "*We know that those users are very loyal. We know that they aren't as dependent on looking only at price to make their purchase decisions.*" He added that the decision to make small businesses a priority target "*shifted everything, from our focus on customer service to our merchandise mix to our marketing mix, primarily at the small business user.*" This translates into a focus on convenience:

> *If you think about what a small business user goes into an Office store for, they don't want to have a lot of time here. They want to get into the store. They want it to be in stock. They want someone to help them and be friendly and helpful and*

help them immediately. They want to be able to find the product in the store and they want to check out quickly.

The other office-focused chain in our sample, Office Express, follows the same strategy, including recent addition of copy centers.

What it takes to succeed in service-driven retailing

To what extent could niche operators capture and hold the market for high-end services in consumer electronics retailing? Our cases do not fully answer this question, but both case evidence and observation of the market suggests that operators exclusively focused on high-end segments are losing ground. Electronix's purchase of strong competitors in entertainment (digital audio/video) systems design points to economies of scale (perhaps in marketing and purchasing) as well as scope (offering a full range of products and services). High Fidelity represents the continuation of the traditional "hi-fi shop" that caters to more sophisticated customers with sales clerks who are all system designers, but this model's market is being usurped by larger, broader-line chains like Electronix; hence Hi Fi's market difficulties. In fact, part of the success of chains over these more specialized stores is that all have moved toward "modular" system designs with a few base designs with a range of options, rather than designing systems "from scratch." This formula is less reliant on technical knowledge and dulls the market edge of specialized firms and their staff.

On the office side, Kinkos represents the most successful example of stand-alone duplicating services, but the acquisition by FedEx (and conversion of Kinkos copy shops to FedEx Kinkos, now FedEx Office, copy-and-delivery outlets) and the addition of a limited range of office supplies for sale, at least in the newer and larger stores, again points to economies of scope.

Stipulating that more broadly integrated retailers are better situated to sell services, making service-driven strategies successful still depends on a number of factors. Employees must successfully identify high-value customers, a process that relies on sales workforce skills and the agility of the customer data management system (though this is less of an issue when customers self-select, as in computer repair or copying services). When sales staff is segmented (as at Electronix), lower end sales clerks in the main part of the store must effectively make the handoff to the higher end staff. Stores must be spatially segregated or customer densities low enough that other customers will not feel envious or entitled to high-end services. Compensation must be structured in a way that rewards high ticket sales but does not simply absorb much of the value captured from high-value customers.

Workforce implications

Service-driven strategies in consumer electronics have weighty implications for job quality. Conversely, as the list of requirements above suggests, success of a service-driven strategy leans heavily on staff capacity, configuration, and to some degree on the form of compensation.

Most fundamentally, shifting to selling more services implies changes in job content. An Entertainment Sales Specialist at Electronix spoke about this change in words worth quoting at length:

> *The biggest thing is it used to be for the people that were here before…was you'd have a guy walking around with a number sheet in front of him all day and was gonna say you need to push X amount of boxes or X amount of dollar amount out the door and then we'll hit revenue and we'll all be happy and we'll give a big cheer and everybody will go home. Now it's not… Obviously, we're here and we're not a nonprofit organization by any means so we're trying to make some money when this is all said and done, but we're trying to do it by making sure we're doing what's right for the customer. So you know, if it's somebody in home theater, it's taking the two hours out of your time to make sure the customer gets the right things, leaves the store with everything they need and making this the one stop solution for them so that when they get home it works exactly the way it worked here in the store and it does what we told them it can do.*

We heard remarkably similar narratives of change at Tech Source and Hi Fi, even though the latter has long been known for selling primarily higher-ticket complex entertainment systems and equipment.

The implications for both job content and compensation are somewhat different in broad-line electronics and office supply stores. For broad-line consumer electronics like Electronix or Technology Source, one powerful impact is workforce segmentation, separating a store's staff into distinct tiers. The criterion for entry into the upper tier is advanced technical skills (computer repair, auto installation) or advanced sales skills plus in some cases managerial skills. Although sales jobs involving systems design and coordination involve some technical skill as well, managers at several chains told us they were shifting away from recruiting and training for advanced technical skill, and instead emphasizing sales ability. An Electronix store manager commented, "*Quite frankly, I've been a very successful salesperson with a very small knowledge base around electronics. Ultimately you're selling yourself and not the product.*" In the case of home installation, an important added overlay is the "general contractor" skills involved in coordinating the work of installers. These management skills are mix of ability to sequence tasks and coordinate services and communication/"people" skills. These are required to smooth out the scheduling of components deliveries, cost estimates for alterations (wall modification for wiring and installation), meshing of physical alteration and electronic work, and proper communication throughout with the customer.

The consequences of segmentation include large differences in job quality, somewhat tempered with variable pay as an important motivational tool for *all* workers even low-level ones. At Electronix, for example, pay differences illustrate the gap in job quality: part-time sales staff in the main part of the store earn from minimum wage up to \$10/hour, whereas in the store-within-a-store part-timers can go up to \$16, computer repair techs can earn \$19 or more, and supervisors earn up to \$26.. It is important to point out the broader context for these wage figures: nonsupervisory workers in electronics retailing averaged \$18.31 in 2007 (when we completed our fieldwork), 43%

more than the average retail worker and 62% more than the average grocery employee (Bureau of Labor Statistics 2009).

To further motivate lower level employees to deliver "hand-tos," Electronix and Tech Source mobilize peppy frontline management including "fun" games and activities, all built around team-building and internalization of sales goals and techniques. Both companies also implement a small variable bonus —taking account of department and store-wide performance—plus "instant bonuses" in the form of gift certificates distributed by managers to recognize outstanding service. Variable pay partly serves to mitigate the significant pressure on even lower-level employees to qualify (profile) customers and send appropriate ones to the store-within-a-store. As one elite sales manager noted:

> *The [store-within-a-store] pros' other job is to, what we do is go out fishing. What that means is they're gonna go out looking for the customers that would have any interest to shop in that area of the store and hopefully catch those customers and bring them back to that room. Also, when they're out fishing, what they're gonna spend their time doing is coaching and training employees on how do we qualify customers to get them into that room.*

High Fidelity only includes the upper segment of services; in this case the line of segmentation separates the entire chain—and other specialist companies like it— from large chains in the sector. Essentially almost the entire staff including most managers consists of high-level salespeople paid on commission.

In the alternative service-driven model of office equipment stores, where spatial and customer base segmentation is limited, segmentation in pay is significant, but not as pronounced. Reviewing senior employee wages at The Office stores, we find a part-time cashier at $9.60, an office equipment salesperson at $13.63, and a copy center supervisor at $15.75. The Office uses other carrots and sticks to motivate employees: significant opportunities for salary growth with longevity (the three employees noted above started at $7-8/hour), a small bonus based on department and company performance, and intense reliance on customer surveys and "mystery shoppers" to monitor employee behavior. These incentives are linked, since *"the weighting of the customer service index[in the bonus] is growing."*

The abandonment of commissions tied to sales of goods appears to be an important correlate, and possible predictor, of success in the service-driven strategy. As margins on consumer electronics goods fell, commissions made less and less economic sense, adding to unit labor costs while contributing little in terms of margin on added sales. Among broad-line electronics retailers, Electronix dropped commissions early, Tech Source eliminated them later, and Hi Fi was still using them when we spoke to them (though it had cut the commission rate as margins shrank). This maps exactly onto the degree of market success of the three companies. Somehow, timely redesign of the compensation system—cuts in effective pay for some while spreading incentives to all workers—may have enabled some companies to best address the tension between cost cutting and worker focus on service provision.

Commissions were never present at the two office supply sellers in our sample, but both at one time used “spiffs,” special cash incentives for selling high-margin items such as extended warranties. Office Express still uses spiffs to induce employees to sell extended warranties, whereas The Office has shifted to a bonus system and dropped spiffs because they motivate *“bad behavior”*—for instance, inducing an employee to discount the sales price of an item in order to sell the service plan. Again, The Office’s no-spiff policy correlates with better performance.

In addition to finding new forms of workforce motivation, the other ubiquitous tension that constantly threatens the service-driven strategy is that all of these companies are trying to cut costs, narrowing the price differences with Wal-Mart and online sellers, at the same time as they increase the service component of their offerings. Results of cost cutting include thin staffing which, when combined with greater expectations from front-line workers to have diffuse attention for customer needs, threaten the service-driven model. At an Office Express store, a middle manager complained of lack of time:

> *“We’re real short handed especially during those peak times. It makes it real hard to help out every single customer that we get in the store, juggling between all of them. Obviously you want to give the customer a great shopping experience. It’s a little hard when you’re running back and forth between customers.”* (OE7)

Cost cutting, where it results fewer resources for training, can undermine the service-driven strategy. At The Office, an office equipment salesman (TO7) noted that *“A lot of the cross training is what hit the floor when they cut the payroll*,” and faulted the precipitous decline in training for reducing workers’ ability to help out across jobs. In turn, this lack of polyvalence in front line workers may undermine key elements of the service-driven strategy which are to qualify potential higher-end customers and having a sales workforce with well rounded skills combining some technical knowledge with coordination and people skills.

Importantly, turnover which is expected to be high in settings with many part-time, often young, workers, seems to have increased in some companies due to increased job requirements and broader job contents. *“There’s a lot more requirements in the jobs these days*,” said a sales supervisor at Technology Source. *“So, therefore, there is a lot more things to mess up on. Therefore, there’s lot more ways to have turnover*.” (TS20) As expected, turnover makes it difficult to instill customer service orientation and those additional skills needed to “qualify” potential customers for higher margin service purchases. Furthermore, turnover and a general concern about workload in full-time supervisory positions seem to deplete the pipeline of those ready to move up to management roles—a trend shared with some other parts of retail, particularly food retail.

Quality-driven competitive strategy

Primarily adopted by food retailers as discussed above, the quality-driven strategy relies primarily on extensive product differentiation rather than service provision. Because customers shop in all parts of the store, from basic dry goods to on-site prepared meals, the tension between cutting labor costs and providing higher end services is not easily isolated in food stores. Unlike in consumer electronics stores, it is not possible to "tier" levels of service provision in the store and segment the customer population, either by spatial segregation of activities or by active customer profiling. Except for the meat, fish, and deli-takeout counters, there are scarce options to isolate time-intensive and knowledge-intensive, costlier, service options from the rest of the store which is low service and requires little product knowledge.[3] Therefore, food retailers avail themselves of the extensive product differentiation, in both variety and quality, afforded by retail food. Grocers implement this differentiation in incremental ways that entail greater labor input (time and attention) and test the boundaries of what is conventionally understood to be a supermarket. The goal of this differentiation is to draw and retain customers with higher purchasing power but also to get everyone who shops in the store to consider buying luxury and/or higher-labor-content products that support higher margins.

The quality-driven strategy entails broadening significantly the range of product offerings in the store, increasing the variety of conventional food products (e.g. multiple kinds of canned vegetable) but also increasing the share of fresh produce, meats, fish, baked goods, and cheese in total offerings. This entails more worker effort for stocking and also demands worker attention and knowledge about freshness and quality. The quality-driven strategy also entails offering gourmet items such as wine or exotic items. Importantly, it includes more labor intensive offerings such as ready meals, meals prepared on order, and ready-to-cook meals that compete in a crowded field with the restaurant industry, gourmet stores, and food prepared at home. These items are higher ticket items with prospects for greater margins. For such items, counter service is often involved (though not always, as in the case of salad bars), but grocers' attempt to differentiate themselves is primarily based on food quality and presentation. This differentiation is partly a result of purchasing decisions but mostly the result of work effort in selection, preparation, presentation, and stock rotation (aimed at freshness).

Consider two successful examples of the quality-driven strategy, Homestyle and The Market, both regional chains that have managed to continue growing. Homestyle defines its competitive advantage as "quality and service" (HS 7). Its market niche is college-educated customers with higher income and a taste for food or wine. It is thus able to offer higher quality products, and indeed is "number one with variety and merchandising" in its market and "the largest purveyor of wine" in its home state, according to an executive (HS 1). A Homestyle produce manager commented that in the early 1980s, when he first started at Homestyle, "all the stores were just pretty standard box stores, standard grocery stores. Since then, Homestyle has gone to a lot bigger, nicer look"; the two stores we visited presented their food (particularly produce and prepared foods) very attractively. Homestyle defines restaurants as a competitor. In the words of the company's VP of HR,

> *We don't want our folks to eat out! Our clients are the ones that like to go to the nice restaurants as well. So when the economy gets tight, people will tend not to*

[3] Though we did not study such cases, it is conceivable for a company to run "convenience", "discount" and "full-service" store formats to tap into distinct customer segments.

> *eat out as much and therefore we need to be able to offer that different solution…. So we have chef-prepared meals that are restaurant quality. A lot of folks instead of eating out will have that at home. Pick up a bottle of wine on your way out. (HS 1)*

Homestyle competes head-to-head with Wal-Mart. Where Wal-Mart has entered a Homestyle market area, stores have seen limited sales losses of about 20 percent (HS 1). A store manager commented that when Wal-Mart opened next door he saw an impact on cleaning and paper products, but "they put their groceries in the store, a few aisles of it, and I really didn't see an impact there" (HS 11). Despite losses to Wal-Mart, Homestyle has been able to continue growing total sales through expansion. Consistent with defining a niche distinct from that of Wal-Mart, Homestyle continues to practice hi-lo pricing (based on weekly sales on selected items) rather than the everyday low prices approach championed by Wal-Mart.

The Market, another regional chain using a hi-lo pricing strategy, also now aims at higher end customers. According to a regional manager, a 36-year veteran, due to The Market's "*quest to be leading edge,… Goods and services has grown and become more complex, much more specialized work being done: …custom cut meats, fresh seafood, scratch bakeries…. People want something that's new and different and unique that their neighbor necessarily doesn't have*." (TM 4) A store manager repeatedly referred to The Market's perishable departments as one key to retaining customers, adding that although he has not had to face Wal-Mart, from what he's heard other The Market stores have prevailed despite Wal-Mart's arrival because of superior perishables and service. (TM 15) The Market has experienced steady, moderate growth while other chains in the region have contracted.

Though we have emphasized quality and variety, service is definitely part of the formula. In fact, interviewees at both Homestyle and The Market would disagree with our characterization of their strategy as quality-driven: Homestyle's VP of HR (HS1) and the one store manager we interviewed at The Market (TM15) pointed to service as their main competitive advantage. Among the dimensions of service, these and other interviewees focused on attention to customers and keeping wait times short. We stand by our "quality-driven" label, since based on their description and our direct observations of service levels, their service does not distinguish them from most other non-warehouse supermarkets in the sample (though it does distinguish them from Wal-Mart). Indeed, a district manager at regional grocer P.A. Smith (which we do not profile in this paper) commented,

> *"Companies will say we're really customer driven, we're customer oriented, customer is number one, all of that, but I think what they deliver to the consumer is far less than that and I think they tolerate far less than that and I don't think P.A. Smith is an exception with that…. To go back to those times [15 or 20 years ago], we had customer driven programs, mystery shoppers and all those type of things, that said okay, how good are you with the consumer? I don't think that's a whole lot different now. The ability to execute might be different because any time you go from managing 75 to 100 people to managing 250 people, you know, that's gonna be very different."*

But Homestyle and The Market respondents are correct in the sense that without an adequate level of service, quality cannot win and hold onto customers. In other words, there is a required threshold of customer interaction and service to uphold (and ideally upgrade). The two companies have taken a number of steps toward this end, for example in the case of Homestyle strengthening training and initiating bonuses for frontline workers, as we will describe below.

Service in the stronger sense of providing information and advice based on product knowledge could potentially complement a quality strategy more directly, helping to develop customer tastes. The VP of HR at The Market gave an example:

> *We have to really teach people about the products because I believe that if people understand the products, they will naturally talk to the customers, because people want to share their knowledge. We did a knowledge-based training in our meat department, and it was the most successful customer service training we did. We taught every single meat associate how to prepare the meat and how to cook it and what you don't do. We think that was one of the most successful training programs for us but what we were teaching them is get excited about the products.* (TM6)

However, this approach to service is the exception rather than the rule. In fact, the context of the HR VP's anecdote was a complaint that this remained an isolated experiment, and that most service training consists of "just telling people to smile."

Though Homestyle and The Market have been most successful in implementing a quality-driven strategy, every supermarket-format food retailer in our sample is pursuing some version of this strategy. Among food retailers, only chains with a warehouse or convenience store format were not emphasizing quality to the same extent.

What it takes to succeed in a quality-driven strategy

We will argue in the following section that the quality-driven strategy has an impact on employment practices, and that employment practices in turn can sustain or undermine a quality-driven approach. Before moving on to that, however, we want to look at elements *outside* the labor dimension that structure the opportunities for competing on quality. Three such things appear to help companies succeed in a quality-driven strategy: starting out with an emphasis on quality, being privately held, and operating in a more sheltered market.

First, it is an advantage to start at the "higher end" of product offering and customer service when competitive pressure ratchets up, either through direct competition from a new, low price, store or through generalized pressure to lower prices. It appears easier to retain a position as a higher end food retailer —to retain an image as well as customers— than it is to transform from a mid-level retailer to a higher end one, in conditions of price cutting competition.[4] Homestyle and The Market represent the former starting point:

[4] Cappelli and Crocker-Hefter (1996) note that a firm's history shapes the tools at its disposal to adapt to rapid change in competitive conditions. "Mature" firms with fairly stable internal labor markets turn into "defenders" of their

both of them had built up a reputation for quality long before the most recent wave of competitive pressure, though to be sure each has taken added steps to cultivate that reputation in the current conjuncture. At Homestyle, for example, a store manager (HS11) declared, *"We've always stood for cleanliness and trying to have a niche out there in the market to try and be a little bit better and also better products than anybody else. That's always been what we stood on."*

Still, it is possible to make the transition up market. Food Chief, a "cog" in a multi-regional holding company, is a unionized regional grocery chain that has responded to low-price competition from Wal-Mart and others by attempting to move up-market to middle and upper-income consumers, emphasizing meat and produce quality, a variety of new fresh and prepared food offerings, cleanliness, and service, as well as its identity as the "hometown market." (Pricing is still "hi-lo.") According to a Regional HR Director at Food Chief (FC1), "*15, 20 years ago, [our appeal] was price…. For many years, our tag line was 'low price leader'. To be perfectly honest, we had to take that back now that we're doing with more Wal-Marts.*" But now, she added, "*we're known in [Food Chief's home region] for our fresh produce. People come to Food Chief for our produce. We just launched a big meat campaign where we have a certain line of beef that you can only get at Food Chief and it's very high quality. You know, freshness, cleanliness, and price*." A store manager (FC10) instead emphasized variety: "*If I were to say there's a Wal-Mart across the street and why would they come to Food Chief versus a Wal-Mart or a Target Super Center, I would probably say the variety, the assortment, the number of SKUs.*"

Second, being privately-held appears to buy food retailers some leeway to implement a quality-driven strategy. It has enabled some retailers, over the years, to make investments with medium- to longer-term horizons, and to use reserves to address recent competitive pressures. Homestyle is privately held (with strong though decreasing family presence in management). The Market is privately held *and* just over 50 percent employee-owned. Management at The Market credits being privately held and majority employee-owned with being able to make investments with mid- to long-term returns.

Being privately-held and historically higher end buy leeway to implement a quality-driven strategy but are insufficient by themselves. Freshland (FL) also is a privately-held, unionized, regional grocery chain with banners ranging from warehouse to upscale, with a strong (but lessening) family presence in management. The company defines its competitive advantage as quality (produce and meats), cleanliness, and customer service and targets customers with above average income. But cost-cutting to narrow the gap with Wal-Mart has undermined a labor strategy built around loyalty, longevity, and commitment, as we will examine further below.

Thirdly, operating in a sheltered regional market allows some companies to take a more deliberate approach to implementing a quality-driven strategy. Operating with enough stores in areas with as yet little or no direct competition enables companies to anticipate

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market. They may experience difficulty moving to a different market segment. The distinction is useful even for retail where "stability" in the workforce is far lower than in other sectors.

competitive changes and learn from the experiences of some of their urban stores that are experiencing competitive pressure as well from other retailers. The extreme case is Village Voice, which operates convenience-store-sized units in rural and semi-rural areas, filling the gaps between Wal-Marts, as it were.

Another market sheltering issue: in regions with more laissez-faire land use policy, new retailers can easily enter, generating more price- and convenience-based competition and making it harder for the quality-driven model to succeed. Consider the example of Value Fresh, another regional grocer, that is struggling with price-cutting competition. Sales have been flat and market share has fallen over the past 10 years on its two main store formats: mid-range supermarket (fresh produce, deli, bakery, and meat)—the bulk of stores—and an "every day price cut"/discount formula with narrower range of offerings targeting mid- and low-income shoppers.[5] In the mid-range supermarket formula, the company aims to differentiate itself from the competition (both Kroger and Wal-Mart) with higher levels of service and better quality fresh produce, meat, bakery, and deli departments. The land-use regulatory environment in Value Fresh's area is relaxed and it is easy to locate a new supermarket (a point also made by another chain, Marketland, with an overlapping market area). All 20 independent grocery stores in the urban area we visited were driven out of business over the past two decades by a mix of direct competition from Wal-Mart and other discounters but also by expansion of larger, multi-regional, chains seeking new markets to remedy *their* losses to discounters in other regions.

Job quality and the quality-driven strategy

Job quality outcomes, in terms of both current job quality and recent changes, look better at the grocers successfully implementing a quality-driven strategy. Clearly, there are two possible directions of causality here. On the one hand, businesses that are struggling financially because their quality strategy is not succeeding can ill afford "high road" employment practices—a significant outcome, but not a surprising one. On the other hand, and more interestingly, HR and compensation policies ill-suited to quality-driven competition may undermine that strategy, in either the short run or the long run. The quality-driven strategy relies upon supervisor focus and worker effort to maintain product display and freshness and worker orientation to the customer experience. Indeed, quality and variety require extra work. A Food Chief store manager with twenty years at the company (FC3)noted that new offerings such as *"the sushi bar, the Asian bar, hot wings, salad bar, things we didn't have in the past"* have required added staffing. Moreover, *"the quality piece"* also escalates work demands: *"You're not stacking bananas six high. You've got a two-hand rule and that's it. You got to fill them five times during the day. That was a major culture shift for Food Chief. Major, major, major."* Increasing variety also requires added effort, he added:

> *We used to be positioned where there might be two kinds of green beans on the shelf. Each kind was three cases wide, three cases deep, four cases high. What's happened over time is that variety, variety, variety. Now maybe there's ten kinds of green beans but all of them are three cans wide going to the back, so they're*

[5] A third formula is a higher end supermarket encompassing a few stores.

> *not case-packed anymore. They're hand-stacked. So we've taken some of our efficiencies out of the system.*

Food retailers that face steep price cutting competition or that choose to implement deep labor cost cuts run into workforce motivation "walls" that store managers find difficult to overcome with the few tools at their disposals to act as incentives to work harder and serve better. The two directions of causality may join in a vicious circle. As we describe job characteristics and how they are changing, we are looking particularly for evidence of the second causal connection and of possible cumulative causation.

Success, but with tensions: Homestyle and The Market

Homestyle and The Market have been relatively successful in building up employment strategies that support a quality-driven approach. Homestyle has bumped up initial training (a newly hired cashier reported eight hours of computer-based training, whereas a cashier hired three years earlier received 30-60 minutes of training before starting on a cash register), and has invested in hiring and training managers who can more successfully motivate frontline workers. Like almost all chains in our sample, Homestyle has shifted toward hiring more managers from outside the company and even from other branches of retail, but a district manager emphasized, "*Towels are a whole lot different than bananas…. Perishable is such a big part of what we do at Homestyle, and do well, that people have to understand that." (HS13)*

Pay at Homestyle is near the top in our sample; pay rates are 5 to 10 percent above union scale, despite the absence of a union. Only 40% of Homestyle's workforce is part-time, by far the lowest rate among conventional grocery stores in our sample, and among the lowest in the industry. Even so, benefits are no more generous than industry standards. The Market, on the other hand, has devised means to improve part-time jobs, the bulk of which are held by frontline workers in direct contact with customers. It provides time and a half for those PT workers working more than 35 hours per week—whereas throughout the industry part-time is used to flex hours up to 40 hours and not beyond so as to avoid incurring FLSA mandated overtime pay. Furthermore The Market has historically provided some health benefits for part-timers. This outstanding practice is under pressure however. The company moved the eligibility from six months to one year because, in the words of management, "*all of our competition is moving further and further out, even our [union] competitors*." (TM6) The Market's 60% rate of part-time employment is closer to the grocery mainstream than Homestyle, but still below Food Chief, Freshland, and Value Fresh.

Successful quality-driven food retailers have sought multiple ways to motivate the frontline workforce and, most notably, gravitate toward incentive pay. Homestyle has implemented a workforce-wide profit-sharing bonus system. In an industry where historically only managers received incentive pay, this approach appears equitable and feeds workforce commitment. Incentive pay is targeted to customer service. "*There is probably no better catalyst to motivate your people than standing in front of them and* *talking about, 'You help us achieve our goals, I'm going to put money in your pocket,'"* a Homestyle district manager (HS13) said. *"A part-time kid can understand that."* Homestyle tries to reward good customer service in smaller ways as well. A store manager (HS15) told us, *"If an associate gets a customer compliment, for example, or something good where a customer says something or calls into corporate with something good about them, I give them two free movie passes."* Similarly, The Market provides cash rewards at managers' discretion.

Homestyle has among the lowest turnover rates in the industry. It brought its turnover down from a range of 90 to 100 percent years ago to 50 percent (2006).[6] The rate had risen somewhat from three years prior as labor markets tightened. This was no great cause for concern, however. Management wants a degree of what it terms "healthy turnover" to renew the workforce (and keep average pay and benefit levels low) and would prefer not to see the separation rate dip below 40 percent. The Market declined to provide overall turnover statistics, but department managers report aiming to schedule their full-timers regularly so they won't turn over when they find jobs that accommodate the hours they want. (TM8)

Despite all of this, delivering the quality-driven strategy at the store level builds in significant tensions. At Homestyle, there has been pressure on staff schedules and total job demands for managers, supervisors, and front-line workers because staffing gets "a little tighter every year" according to a front end manager. A full-time customer service associate has to be available to be scheduled to work anytime (HS11). A customer service manager remarked, "*I think we just do a lot—one person can do a lot in one day*." (HS12) A produce clerk at the same store had a less positive spin: "*If they weren't gonna give any more hours, and they're not going to, they'd have to come up with a better system of being able to get it all done without killing people*." (HS5)

At the Market, as at Homestyle, pressure is significant. In the words of interviewees, including regional managers, there are "incredible" demands on managers; they are expected to be "hands on" and work long hours. To implement goals of quality, product displays and the overall look of the store, have become quite important. Everyone at headquarters and in the store say that they want the store to look attractive—indeed, the visited store looks attractive. This emphasis generates significant workload: one manager said "*People [consumers] do not realize what it takes to make the store look like this*."

From tensions to conflicts: Value Fresh, Freshland, Food Chief

In other retailers, these tensions and others have escalated to the point where they are threatening the quality-driven strategy. Value Fresh avows a commitment to high quality and service. However, at the store level, cost cutting has translated into a squeeze on monthly labor budgets, that is, the ability to have labor hours in the stores. In turn, these cost cutting pressures adversely impact training time and resources as well as the ability to grant pay raises. These in turn threaten to thwart store managers' ability to improve service and maintain quality because of workforce issues. The company has experienced

[6] Turnover is, however, four times higher for short-hour part-timers, those working under 20 weekly hours.

competition in the recruitment of entry level workers. It offers wages pegged at the same level as Target or Wal-Mart, close to the minimum wage, making retention difficult.[7] Changes affecting mid-level management and supervisors have played a part. With more manager recruitment from the outside (with college degrees) those in place see less options for promotion and, one surmises, fewer reasons to adhere to service goals.

Freshland and Food Chief, the two unionized companies in the study, have also cut down staffing, increasing workloads and "doing more with less" in the words of a Freshland manager. (FL3). A Freshland produce clerk spelled out the implications and intimated disaffection: *"The amount of work [has] gone up quite dramatically. But it's just basically they cut labor in order to either make more money or obviously there's competition so they have to trim the fat somewhere in terms of labor. If there's the same amount of work that needs to be done, then obviously we have to take up the slack…. There's just less of us, so it's kind of suck up and do more work."* (FL7)

But the change that has precipitated the most dramatic consequences is the implementation of two-tier pay scales with a lower wage cap for newly hired clerks. At Freshland, management perceived the two-tier structure as inevitable. *"With competition like Wal-Mart,"* said a district HR manager at Freshland, *"it's difficult to pay our employees a higher wage while maintaining competitiveness."* But this change limiting upward mobility clashes with a company strategy based on high commitment and "fierce loyalty." Employee turnover has climbed, and management sees a decline in service levels. At the time we visited, Freshland had just launched a new "engagement" initiative, but the initiative consisted mainly of cheerleading plus coaching based on mystery shoppers. A store manager commented:

> *I think that they didn't know to what extent this last contract would just make it for a deluge [of turnover] because that was never part of our culture and now they've seen it and traditionally we're running behind the curve. They're hoping this engagement piece, having people more aware and conscious or feeling part of, will help that.* (FL8)

At Food Chief, likewise, a newly adopted lower wage cap for entry-level workers raised concerns about worker commitment. *"Only the people at the top of the scale got…progressive increases. People in the lower ranks were frozen. That's a huge, huge, huge change from what they're used to. They're used to seeing a 3, 4% increase every year of the contract."* (FC1) Partly to address workforce motivation concerns, Food Chief recently launched employee rewards programs (small cash bonuses at manager discretion) tied to customer service. But implementing a radical culture shift while having fewer incentives to offer workers seems to constitute a daunting managerial and supervisory challenge. Furthermore, at Food Chief, the implementation of the quality-driven strategy coupled with cost cuts has meant the reallocation of resources toward fresh products and "enhanced" stores (with more offerings) away from other stores *"to try to get to the bottom line."* (FC2) in the words of a regional manager. Overall, therefore, the likely results in product quality and customer service are unclear at best.

[7] Turnover, at 60%, is high by historic standards for the company.

In addition to commitment difficulties, a second potentially problematic consequence of higher turnover, scantier staffing, and increased pressures on managers is the thinning of the internal pipeline for supervisors, store managers and regional managers. On the one hand, fewer employees aspire to move up within the company, as a Freshland cashier explained in the case of the head cashier job:

> *There's not a whole lot of people that want those [head clerk jobs]. The big downside for that is they only make a quarter more an hour but now you have a lot more responsibility. You're now responsible for running that front end. You're responsible for closing the store and making sure things are being taken care of and customers are taken care of.* (FL10)

(Note that the slim 25-cent raise is a consequence of the pay cap for new hires.) On the other hand, managers who are lucky enough to have effective full-timers are reluctant to let go of them, impeding the flow to higher level jobs. At Value Fresh, a human resource official stated:

> *Something that I noticed over the last five years that has changed significantly is the ability to career path individuals into a department manager training program from within the company. My theory as to why that has happened has to do with the relationship of the hours adjustments over the last X period of years and because the hours get down so tight where you have so few key people, the go-to gal or the go-to guy that I know I can ask them to do anything and it will be done, the managers don't want to give them up.* (VF2).

The HR official summed up Value Fresh's situation by wryly commenting, *"Everybody is vying for that food dollar and you have to find a way to make it work. Wages are the easiest thing to control. It gets to a point where you can control yourself right out of a business."*

Summary Conclusions

We have explored the different mixes of product and labor strategies in force in US retail and how they differ in consumer electronics and food retailers. Retailers have devised such mixes in response to market "shock" caused by invasion by big-box store formats often combined with discounting. The main drivers of their responses have been: first, cutting costs, primarily labor costs; and, second, increasing the service (thus labor) contents of products (quality and variety in food), the offering of service-based products (in electronics), as well as enhancing the overall customer experience of service.

We have highlighted two strategies —service-driven in consumer electronics and quality-driven in food—that show promise as means to acquire customers and retain existing ones. These strategies require that there be a fit between product and labor strategy. We, like others, see this fit as key to succeeding.

The paper has focused on examples ranging from successful adaptation to severe challenges, and examined what settings make relative success possible as well as its implications for job quality. By successful adaptation, we mean that companies have retained adequate market share or even increased it, and show internal signs of capacity to sustain the strategies they have adopted. Success opens the possibility for, though does not guarantee, better job quality. We certainly found cases of such adaptation; some but not all of these companies provide better jobs.

By severe challenges, we mean two things. First, we refer to companies that continue to experience a loss of market share. We observed companies in both consumer electronics and food retail in this situation. But we also refer to companies that encounter challenges emanating from their labor strategy which lead us to doubt the sustainability of their approach over the medium term, given the setting in which they operate, their corporate history, and management decisions.

Even success entails tension between the two main drivers of adaptation in retail: cutting labor costs and implementing a quality- or service-driven strategy. We have highlighted conditions in which these tensions can be addressed, and conditions in which they become unmanageable and workforce difficulties undermine business performance. The process of change plays out differently in consumer electronics and food retail.

In consumer electronics retail, market concentration driven by newer, big-box format stores has been underway over the past 20 years.[8] The service-driven strategy has been implemented with more ease by large companies able to have economies of scope as well as scale. (Scope may mean hosting a wide-range of options for combinations of electronic products and services or combining electronic and office products.) It has been most difficult for companies with a narrower market focus to adapt to the combined effects of price wars in "off the shelf" goods (TVs and PCs in particular) and the declining need for technical knowledge on the main sales floor itself driven by digital technology-based audio/video products. What smaller companies offer is neither cheap enough to compete with discounters nor broad enough to draw a large and varied customer base. We did hear about labor strategy as a stumbling block to successful service provision—as cost-cutting trims staffing or training budgets, and added job demands feed turnover rather than promotion. But as determinants of success or failure, these labor-grounded tensions appear secondary to company scale and scope.

In retail food, on the other hand, the impact of labor strategy on retailers' ability to execute a quality-driven strategy appears more decisive. As we have detailed, some food retailers' steep cuts in labor undermine staff's ability to maintain a level of customer interaction sufficient to retain customers they might draw into the store with greater product variety and quality. For some, the tightness of "labor budgets" in stores and the prospect of their further reduction even threaten the business "core" of the quality-driven strategy; workers find it difficult to maintain displays, to replenish in timely fashion, and keep the store straightened out. In effect, they struggle with upholding the quality and variety goals per se. In these places, we see little room for further improvement in product quality and customer service—both of which seem necessary to draw customers and retain their willingness to pay more than rock-bottom prices; supervisors and managers already juggle competing demands and report not being able to retain a front-

[8] The current crisis has further precipitated it, making it difficult for companies other than largest chains (and warehouse-style discounters or online retailers) to survive.

line workforce that will put in the extra effort of attention and care required. In these environments, respondents from full-timer to manager opined they had reached the limit of long hours (for salaried workers) and multi-tasking; they cannot see how to do their job and absorb further labor cuts.[9]

Whether this deeply rooted tension in food retail reaches the point of a critical conflict depends on a combination of internal and external factors. It appears that internal factors such as management know-how play a role. Equally important, and somewhat related, is company history, both its market position at the time it experiences a sharp rise in competition and its long standing practices regarding workforce management[10] that either enable adaptation or require such drastic alteration that change is ill-received by the workforce. Private ownership increases the room for maneuver in this sector, as it does in others. External factors, institutional factors in particular, come into play. Regional differences in land use regulation, the degree of urbanization and mall development, play a role in how rapidly competition increases and, therefore, how much lead time food retailers have to adapt. Thus, in this US-based account, institutional factors at the level of the region play quite an interesting role in food retailers' options.[11]

What might be prospects for job quality in these two sectors of retail? We found that some companies do provide better quality jobs with a greater share of full-time positions and even with some benefits for part-time positions. While the highest paying consumer electronics sales jobs are mostly gone with the removal of commission pay in many companies, the sector remains one of the highest paying subsectors. The practice of "tiering" customers, services, and products adopted by large consumer electronics retailers results in segmentation of the workforce, with a small segment of higher paid workers —"designers" and coordinators of home entertainment systems, as well as technicians—and a large sales workforce on the floor with more limited prospects for advancement. Training, always a scarce commodity in retail, has been ratcheted up but remains insufficient to propel a front-line worker, without a college or technical degree, into the higher pay segment.

Even companies that appear to have successfully adapted have not been spared tensions between product and labor strategies, however. These have consequences for job quality. In most companies, heavy workloads are an issue; they are heaviest for full-time workers, supervisors and managers. Simple full-time workers may be required to be available for work 24-7 to fill staffing gaps in the mostly part-time workforce. Dissatisfaction with the workload and schedules (combined with relatively flat pay gradients) manifests itself with a thinning "bench" of management candidates in some companies.

In summary, electronics and food retailers have adopted related but distinct product strategies in response to price competition: service-driven in electronics, quality-driven in food. These product strategies do interact with labor strategies, generating tensions as

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[9] According to industry observers, the current economic crisis is creating this type of conflict in many retailers. Training and incentives have been cut and staff on the sales floor has thinned (Smith 2009).

[10] See also Cappelli and Crocker-Hefter 1996.

[11] We have explored elsewhere with European colleagues how national institutional factors play a role in retailers strategies and job quality in frontline retail jobs (see Carré, Tilly, vanKlaveren, and Voss-Dahm, forthcoming 2009.)

attempts to cut spending on labor clash with service and quality objectives that demand labor resources, skills, and continuity. But while such tensions are omnipresent, it is only in the grocery sector that they appear to be playing a central role in blocking competitive success for some companies.

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