Case Analysis

CHAPTER: ONE

Background of the Company:

Michael Raleigh and Conor Rosse founded the firm Raleigh and Rosse (R&R) in 1903, which began as a privately held specialty retailer of luxury goods. They open their first store in New York where they sold saddler and equestrian goods. Immediately, the store demonstrated outstanding customer service for its wealthy client base. The importance of the customer service R&R instilled in its employees continued throughout the company's timespan. Throughout the 1920s, 1950s, and 1960s, the company expanded the merchandise it sold to include leathers goods, high-end watches, and designer clothing. Overtime, the firm began gradually expanding throughout the Northeast and Midwest. By the 1970s, R&R had 17 retail locations in the United States. Brian Rosse, grandson of the cofounder Conor Rosse, was the leader of R&R in the 1990s.They launch Ownership of Culture program in 1992-94. The company continued growing rapidly. In 2002 R&R named "Top 100 Employer" by Fortune Magazine. By 2007, The R&R, owned 38 retail locations and their revenue reach $524.2 million .But outside of the United States particularly in Asia growth of luxury goods exploding. However, economic downturn has hit R&R hard compared to other brands by 2008. One major cause is the lawsuits lost by R&R to past employees and also the investigations and settlement done by state labor department due to its practices. R&R recruited Linda in 2007 to succeed Brian Rosse as CEO. She was the first non-family member who was a leader of R&R. The company recruited Watkins to help R&R in its international expansion ambitions, but the 2008 global financial crisis changed these plans.

Main Topic of the Case:

In January 2010, U.S. luxury goods retailer Raleigh & Rosse is being sued by its employees for encouraging "off the clock" hours. At the center of the class action lawsuit, the famous Raleigh & Rosse performance measurement system is previously thought to be the core of the retailer's success. The system uses a sales-per-hour model to reward salespeople for time well spent on the floor. However, in this industry, where strong customer service is essential, many sales representatives feel they are encouraged to spend time off the clock tending to client needs; this issue and others have led to consequences that the company did not envision. The case illustrates how rapid company growth, decentralized management, and unrelenting pressure to perform can distort performance measurement systems and lead to undesirable consequences.

About the Company:

Raleigh and Rosse (R&R) was a privately held specially retailer of luxury goods, including clothing, handbags accessories, footwear, jewelry, fragrances and watches for both men and women. Besides selling luxury goods and items the store established a reputation for customer service among its well-heeled clientele. They used its exceptional customer service to differentiate among other companies. R&R's main competitors were high-end department stores such as Nordstrom, Sakes Fifth Avenue, & Neiman Marcus. Due to European luxury houses opened their own retail outlets in the USA, department stores started to struggle. The recruiting of Linda was the main driving force behind R&R's international expansion until the 2008's financial crisis put these goals to a halt.

❖ R&R's Customer Service:

R&R's impeccable customer service and deep customer loyalty was always a core value. They described customer service as "a calling, vocation to serve the clients at the highest level of devotion. The store managers core function was to hire, train, and continually motivate the sales associates. Because of sales associates, In 2007 R&R earned $63,000 in salary and commission compared to an industry average of $50,000.For R&R's extraordinary customer service, the wealthiest 5% of Americans accounted for 53% of R&R revenue. Sales associates were vital for R&R and in many occasions, they were more than a sales associate.

❖ Ownership Culture:

In the_beginning of 1992, Rosse introduced the firms "Ownership culture" program which was a set of initiatives and policies to create more entrepreneurial and accountable environment. He made this culture for new team members who were going to share company value.

The following were changed the policy:

- R&R were shifted focus from experienced sales professionals to college graduates and company invested heavily in 'R&R University' to train them.
- R&R maintained internal promotion system by improving the experience level of its middle management team.
- They also revamped sales associate's commission system.
- They invested in IT system that provides extensive analysis of their store operations and managers authority use these systems to optimize merchandise mix.
- Greater autonomy on staffing, scheduling and other aspects to their sales manager.

- The strategy of R&R was “Own your business, own customer relationships.”

Procedure and suitability of the SPH system:

Procedure:

- Before sales per hour measurement system, sales associates and store managers used a dashboard of 11 matric which included weekly store revenues, gross margin per square foot, revenue target of different product and customer satisfaction metric based on written customer complaints and compliments.
- The sales associates and store manager was given a target SPH, if the actual SPH was higher than the target ,then the associates would pay 7.35% commission on net sales. If it is lower than the employee would be paid hourly wage.
- The bad side of the SPH system was less hour and termination for the failure who did not meet the target. The good side was meeting the SPH target meant better and busier hours as well as better chance for promotion.

Suitability:

- R&R‘s strict measure that was not accepted by the majority.
- The store managers had created competitive environment by given sales contests, honors called “client all stars. But these employee competitions had created “sharking”.
- Employees were in dilemma because of vague distinguishing between “selling time” and “non-selling hours”.
- The New York State Department found that R&R had violated state wage and hours laws. They also ordered to improve timekeeping systems and ordered to pay back the affected employees.
- The New York time reported that R&R could be liable as much as $50 million. For these allegations, R&R started to lose their earned reputation.
- R&R’s revenue and sales continued to decrease due to loss of brand loyalty, where in recession period every luxury goods industry showed signs of recovery.

Problem Identification

Chapter: Two

Problems in R & R:

- **Sales Per Hour (SPH):**

The Sales per Hour or SPH is known as the heart of the ownership culture in R & R, it is a simple metric which is used to track the performance of each sales associate.

$$\textit{Formula of SPH} = \frac{\textit{The total sales} - \textit{Merchandise returned by clients}}{\textit{Number of hours worked}}$$

So, the SPH tells us that how much sales a sales associate has made in an hour. Each of the associate is given a target SPH. For example if a sales associate who has been given a target SPH of $412, considering the sales associate works for 40 hours a week, then he or she must make a total sales of at least $412 X 40 = $16,480.If the SPH is more than the target SPH, then the sales associate is paid 7.35% commission of the total sales. But if an employee fails to reach the SPH target or is equal to SPH, then he or she is paid according to the hourly rate which is about $14-18 per hour. If an employee fails to achieve their target SPH several times, then he or she is punished with reduced working hours and even termination. This is where the problem begins.

- **System Manipulation by not counting the non-selling hours:**

Being a sales associate in R & R, they are not always on the sales floor selling, they have to do other non-selling tasks such as restocking, merchandising, attending meetings etc. If those non-selling hours are counted in the SPH calculation the employee’s SPH decreases, if the SPH goes below the target the employee has to face the consequences. Hence managers exclude those non-selling hours from the SPH calculation, so that the SPH is not affected. But it also means that the employee won’t be paid for those hours too.

Not counting the non-selling hours improved the earnings of a sales associate in the case when it was a really busy period but this system backfired for when it was not so busy.

Scenario no.1 where excluding non-selling hours resulted in more earnings:

Let’s analyze a situation. Suppose a sales associate 50 hours in a week and generates a weekly sales of $17,000. Suppose 10 hours out of those 50 are non-selling. Let see two situations if those 10 hours are counted in one case and excluded in the other.

	Non-selling hours excluded	Non-selling hours included
Sales	$17,000	$17,000
Hours Reported	40	50
Sales Per Hour	$425	$340
Weekly Earnings	$1250($17,000 x 7.35%)	$721(50 hrs x $14.42)

In this scenario, the sales associate earned more their sales is more than the target.

Scenario no. 2 excluding non-selling hours resulted in less earnings

Now let's see another situation, this is the case for a less busy hour. Suppose a sales associate works 50 hours and generates a weekly sales of $15,000

	Non-selling hours excluded	Non-selling hours included
Sales	$15,000	$15,000
Hours Reported	40	50
Sales Per Hour	$375	$300
Weekly Earnings	(40 hrs x $14.42)	(50 hrs x $14.42)

In this scenario, excluding the non-selling hours decreases the earnings. As the SPH is below target, the sales associate is paid his or her hourly wage.

Though including the non-selling hours means more earnings, but this further decreases the SPH, hence the employee has to face the harsh consequences of R & R culture.

- **Repeated breach of Federal Wage and hour laws leading to Lawsuits:**

During the 2008-2009 recession, the SPH system took a hard blow. The revenue of luxury goods industry dropped by 10% and in US the drop was 14%. As shown in the above calculation, the SPH system does not stand well with low sales.

The sales associates struggled hard to maintain their target SPH, and exclusion of the non-selling hours meant that they were being paid even less. Even though the luxury industry started to improve in 2009, but the revenues of R & R continued to decline.

After not reaching the targeted SPH some sales associates were fired. This caused them to file a class action lawsuit under the Federal Fair Labor Standards Act (FLSA), claiming that R & R repeatedly violated the federal wage and hour laws. These lawsuits hurt the image of R & R causing their sales to decrease even more.

- **Competitive Work Environment leading to unethical behaviors:**

Another problem in R & R was that the store managers created an intense work environment for the sales associates. There were frequent contests such as “dinner for two” for sales associates who sold multiple items in a day. Best performing sales associates were recognized as “Client All Stars”, whose photos were hung above customer service desk and also received discounts on clothing. The pressure for becoming “Client All Stars” led to an unethical behaviors, one such as “sharking”, where sales associates stole other fellow sales associate’s credits.

- **Employee Fatigue in order to maintain exceptional customer service:**

According to their slogan “Own your business, own your customer”, sales associates had to do lot of other out of the clock activities such as calling past customers, hand written thank you cards, delivering products to clients, taking client alterations to an outside tailor etc. These kind of extra activities caused fatigue and low employee satisfaction.

Success due to the Ownership culture:

- **Generous Commissions from SPH attracted bright sales associates:**

Before the recession when the sales were good, this SPH system was responsible for R & R’s rapid growth. Generous commissions an exceptional customer service helped R & R to attract top, bright and ambitious sales associates who helped R & R to expand rapidly. In 2002 R & R was even listed among the “Top 100 Employers to work for” by Fortune magazine.

- **Excellent customer service attracted more wealthy customers:**

The intense work environment, caused ultimate client satisfaction and attracted more clients, it created a client base of ultra-wealthy clients. In 2005 5% of the wealthiest clients accounted for 53% of R & R’s revenue.

Finding Solution

CHAPTER: THREE

Possible solution:

- **Improving the SPH program as per state laws:**

The SPH program should be improved by changing ownership culture and implementing a new performance appraisal system. Clear and precise differentiation between selling and non-selling time. It needs to ensure that only work hours are counted for SPH rates and non-work hours to be documented and recompensed at a standard rate which helps to avoid future threatening lawsuits.

- **Changing the current performance management system:**

A new pay structure should be incorporated that would be structured around 70% base salary and 30% sales incentive. Ensure all employees are fairly paid for their work. The main performance evaluation need to be added by customer satisfaction feedback or survey and on the job performance.

- **Giving more Encouragement than stress:**

The company should look for ways to give employees more control over their schedules, environment and work habits because every person's obligations outside of work are different. So, customized schedules are a great way to improve employee satisfaction. It will help to energize them to the extent that they wouldn't discourage from giving their 100%. A good starting point to do that is to recognize and appreciate their efforts and give rewards for their great work. There is no need for employees to work around the clock. Also, there is no point in being serious all the time since a serious workplace environment is more stress-prone. The company rather should cultivate a fun and interactive atmosphere in workplace because fun and interactive activities at a workplace make employees more innovative and productive.

- **Making them feel respected and important:**

There should be a reward or recognition program implemented to motivate the associate and to let them know that the company does value them. Employees that are doing great work can be the people who need the recognition the most making employees feel appreciated by showing them appreciation which will increase the productivity and also benefits the company reputation.

- **Implementing annual bonus plan:**

An annual bonus plan for store managers should be incorporated based on associate's performance which incorporates not just ratings for achieving personal goals but also relates the performance. It ensures that hard work is not forgotten but will offer a bigger pay-out with continued efforts.

- **Making store managers more accountable:**

By creating balance scorecards regarding the set up areas of responsibility, creating smart, specific performance standards, establishing smart criteria which will make the store managers more accountable for sales associates.

- **Developing an open environment:**

Open environment is one of the essential part of any company. Company should provide enough time to communicate with their employees and workers. Employees could share their opinion and problems in an open environment. Friendly and open environment will increase the productivity.

- **Emerging culture of trust and team building:**

Less competition more team work in an office helps to achieve better and open communication between the employees themselves as well as between the employees and the higher management. It goes a long way in improving professional relations, understanding and co-operation and this is very much reflected in the quality of work being done. Team building in the workplace significantly contributes towards motivation and building trust among the employees, thereby ensuring better productivity.

- **Implementation of training and mentor:**

Retrain the employees with low SPH before terminating and find out the reason behind the low SPH. The company should maintain an atmosphere that values personal development. By setting up formal structures which support learning and create incentives for those who can teach and share knowledge informally. It will help them to gain a competitive advantage over others in market because a united group will likely boost productivity and efficiency, also improves the bottom line along the way.

Limitations of the solutions:

- **Additional responsibilities:**

  Maintaing discipline of workers, solving their problems and the remedy of their stress creates extra responsibilities for the company sometimes more or less and it will be difficult to reach at the estimate level of production.

- **Introducing formal training:**

  It's obviously needed. But if it happens regularly then it may bring more costs and waste of time which can hamper the desired level of the production.

- **Employee empowerment:**

  Sometimes employees abuse the empowerment and they may create unhelpful environment in the office which will decrease the productivity of the company.

- **Giving Managers More Responsibility:**

  When the manager have more responsibility then they have more power which can create an awkward and difficult situation. If the managers misuse their power and hurts employees' performance then the overall productivity will be hurt and also lose quality employees.

Recommendation:

- **Organizational Commitment:**

After reviewing this case, it is clearly focused to us that organizational commitment and support will help the employee to get "affective commitment"-Affection for job, "continuance commitment"- Fear of loss, “normative commitment"- Sense of obligation to stay and this will increase commitment and engagement in team, while also helping people to experience a greater feeling of well-being and job satisfaction.

- **Measuring Job satisfaction:**

If the employee is satisfied with job it will increase the productivity of the company and helps the company to gain its prominence. In this case it is evidently concentrated that for Raleigh and Rosse Company the measuring of the employee’s job satisfaction is highly needed.

- **Motivation:**

The most significant factor for Raleigh and Rosse is that the manager needs to control the relationship with each employee and the second most important factor in a manager's ability to motivate employees which creates a functioning environment and friendly organizational culture that fosters employee inspiration and engagement.

Learning:

The group realizes the importance of effective performance management system in maintaining a corporate culture and learns about the main flaw of this case is the SPH system. This case illustrates rapid growth, decentralized management and unrelenting pressure to perform which can distort performance measurement systems and leads to undesirable consequence. However, it is ethically and legally wrong to not pay or harm employee for putting in more time. So, the company should improve their management policy to get their reputation back.