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Store labor modernization

Building the adaptive workforce model for the next era of retail

Contents

Executive summary

Labor is often a retailer's most critical consideration for store operations.

Operators that treat store labor management as a multi-year strategic differentiator and build a resilient, adaptive labor model will be better positioned to protect margin and navigate the upcoming wave of AI and operating model change. The labor budget remains the largest controllable operating expense for many retailers, yet it is the least modernized. Addressing that requires more than a new system; it requires a fundamentally different approach to how the store workforce is managed.

The modern approach to store labor management

Over the past decade, retailers have materially improved how store labor is planned and scheduled. Standards-based scheduling and auto-generated schedules are now common among large retailers, enabling quicker, compliant scheduling while unlocking 0.5% to 2.5% labor cost optimization.[1] At the same time, leading retailers are beginning to layer in AI, using real-time task prioritization and labor insights to improve day-of execution and reduce administrative burden. For most retailers, however, this is where the progress stops, and it may not be enough.

Retail labor management has largely been built on a fixed model: a store's own full- and part-time employees scheduled weeks in advance against a predefined set of tasks. That structure is now being disrupted by a fundamental shift in the retail operating model, emerging in two forms:

Challenging the concept of "my team":

Departments needing to pull from alternate labor sources to meet demand

- **Flexible Workers** — Float across departments at scale
- **Store-to-Store Deployment** — Shared capacity across locations
- **Qualified Gig Workers** — On demand coverage for surges

Store labor management implication:
The labor model requires dynamic workload signals to determine where and when to deploy

Striking a new balance with automation:

Associate workload shifting as nature of store tasks changes

- **AI Assistants and Agents** — Absorb repetitive and admin tasks
- **Automation** E.g. RFID, Computer Vision, ESLs, Frictionless Checkout — Eliminate steps from current processes

Store labor management implication:
As solutions mature, the tasks scheduled and time required are changing

Taken together, these shifts change both the labor pool and the nature of store work, breaking the assumptions that underpin today's labor models: fixed teams, predefined tasks, and static schedules. As a result, retail labor management should evolve from planning work in advance to orchestrating it dynamically, continuously aligning the store labor supply to changing workload demands.

The modern approach to store labor management is characterized by a set of capabilities that have stacked over time:

- **The current necessity: Demand-driven**
  Labor allocation based on actual workload drivers rather than top-down budgets, adjusted at the micro level using signals from the store to reflect current demand.
- **The emerging trend: AI orchestrated execution**
  AI-driven direction of store teams that dynamically reprioritizes work, reduces scheduling burden, and surfaces actionable labor insights as conditions change.
- **The new requirement: Flexible, future-ready architecture**
  A flexible foundation that can seamlessly allocate the work to be done among changing labor pools in a cost-effective way to best meet customer demand and reflect the changes in how work is done—and the time it takes—as agentic and automation expand. A modern retail labor model adapts as operating conditions change, all without requiring significant rework.

In a fully connected store, this approach allows labor to be responsive where and when it matters most.

Why this matters now

The challenge is that many retailers are still focused on refining their demand-based labor model, fixing schedules weeks in advance, and adjusting manually when conditions change. That approach is under increasing strain from both growing external pressures and an imperative for a structural shift in retail. Retailers that delay adapting are at risk of operating in a model that was not built for today's environment.

Growing external pressures

The economics of retail labor are becoming less forgiving. Average hourly earnings have grown 3.36% in the past year in nonsupervisory retail roles.[2] This is a necessary competition for talent when warehouse earnings average $31.02 per hour[3] compared to $22.12 in retail stores,[4] and 69% of retail workers actively seeking new employment are considering switching careers or industries.[5] However, as the cost of frontline labor rises, every hour scheduled beyond what customer demand requires hits the bottom line harder than it used to. Yet, how retailers structure and schedule that work can also influence whether frontline workers stay or seek opportunities elsewhere, making smarter labor models not just a cost imperative but a talent retention strategy.

The retail customer is also becoming less forgiving. Failing to meet demand carries risk: 85% of retailers say labor shortages limit their ability to meet customer expectations, and 50% report being understaffed one to three days per week.[6] These gaps on the floor can lead to consequences from lost sales to reputational damage and lost customers. Forty-eight percent of negative reviews stem from in-store experience problems like queues or poor service,[7] and as true loyalty fell 5% in 2025,[8] a shopper who walks out frustrated is already primed to shop somewhere else. Retailers need to put the right labor in the right place at the right time, but most cannot do this consistently.

The regulatory landscape continues to change. Predictive scheduling laws cover upward of 740,000 US retail and frontline workers[9] and have expanded since San Francisco was the first location to enact a predictive scheduling law in 2015.[10] Some states, counties, and cities are enacting fair workweek requirements, including minimum advance notice of schedules and predictability pay for changes made after that window. Fair workweek violations can carry penalties of up to $1,000 per employee, per day, and administrative agencies have recovered millions of dollars in settlements for failure to comply.[11] As these requirements take effect, retailers that continue to rely on informal scheduling practices may face increasing cost exposure and compliance risk.

Imperative for structural shifts

The retail labor pool must evolve to meet variable demand. The fixed labor pool, a store's own full- and part-time employees, which may face restraints in flexible scheduling could pose challenges in the variability of modern store operations. Thirty-six percent of frontline retail associates say staffing schedules consistently align with actual store traffic, while 73% are routinely asked to stay late due to understaffing.[12] That gap reflects a potential challenge between a static labor model and a retail environment where demand shifts faster than traditional scheduling models. Retailers may consider accessing a broader, more flexible labor pool that can be deployed dynamically as conditions change.

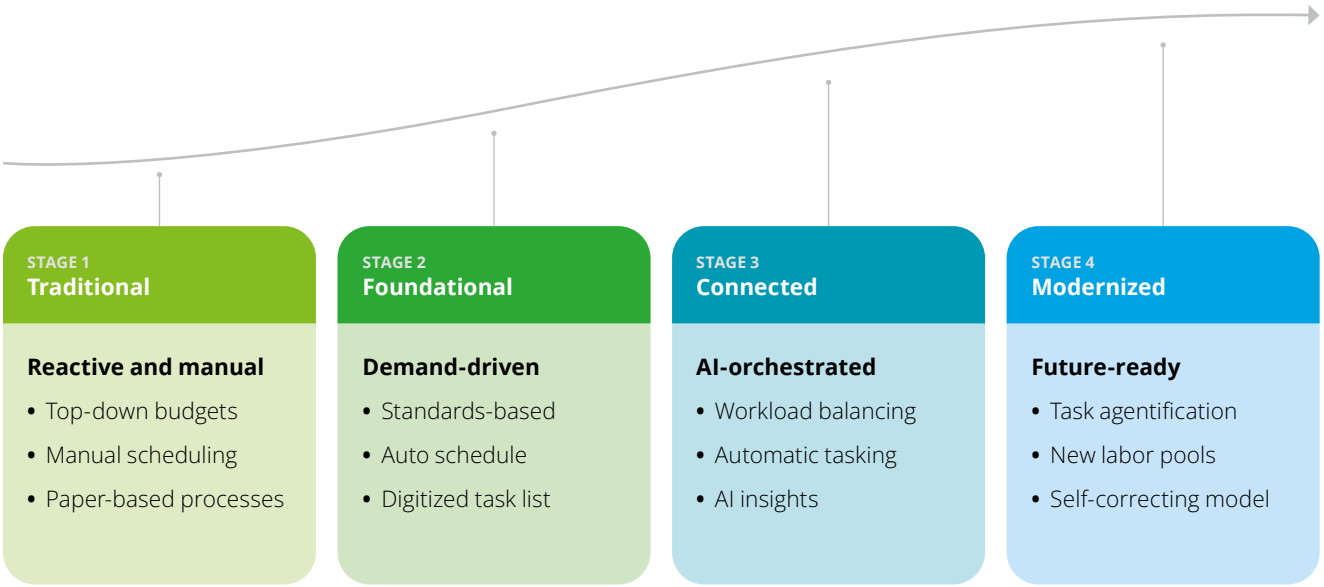
Technology is outpacing the store labor management methods in place. The nature of store work itself is shifting in ways that traditional labor models were not built to absorb. Nine in 10 retailers plan to increase AI budgets in 2026, with investment accelerating across automation, agentic AI, and in-store operations.[13] The global retail automation market stood at $31.8 billion in 2025 and is projected to nearly double to $77.8 billion by 2035 with in-store automation accounting for 61% of this market.[14] As these investments scale inside stores, the tasks that require human labor and the time needed to complete them are shifting in ways that traditional labor standards do not yet reflect. Retailers still planning labor against yesterday's task set are already mis-calibrated and falling further behind with every new capability deployed in stores.

These factors are converging to make traditional store labor management unsustainable. The cost and risk of standing still are increasing, especially as leaders are already multiple years into this journey and beginning to compound their benefits with AI-driven optimization and orchestration.

What good looks like

Modernizing store labor management is not a single investment. It is a progression in how retailers forecast, schedule, balance, and manage their labor in stores. Retailers should move from fixed, manual approaches toward a model that is demand-driven, AI-orchestrated, and flexible enough to absorb the operating model changes already underway. Where retailers sit on that curve today determines how exposed they are to the pressures described above and how quickly they can begin to close the gap.

Store labor management maturity



A retailer that maintains a traditional or foundational approach will be in a materially different position from a retailer who moves further along this maturity curve. One of them builds the ability to sense and respond in real time, while the other remains constrained by manual effort and lagging data. See how their paths have diverged below:

In the near future, operating like Retailer 2 will be a prerequisite for staying competitive, forming the foundation for a strong customer experience and the flexibility to adapt to evolving technologies. In a connected store, labor needs are orchestrated amid changing inventory, demand, and execution signals to prioritize the right activities at the right time.

Retailer 1: Traditional

Retailer made minimal changes to their labor management tools. They rely on **manual processes and store intervention**,leaving them increasingly exposed as costs rise.

- Manual schedules following top-down budgets require leaders to spend hours off the floor
- Growing compliance risk; violations accumulating
- Rising turnover and margin pressure as gap with competitors widens

Retailer 2: Modernized

Retailer invested in optimizing their labor management approach. They **automated, integrated, and enhanced with AI** for a resilient model that adjusts to meet demand.

- Demand-based scheduling with closed-loop integration reduces admin burden
- AI surfaces trends and resolves issues in real time; leaders stay on the floor
- Compliance embedded, labor cost optimized, and turnover declining

Schedule

Traditional
Manager is **limited to the roster at hand** and bakery runs short-staffed through peak demand

Understaffed team
Bakery is understaffed and cannot meet demand

Modernized
A **part-time employee from a peer store** is auto scheduled to provide relief while the department opens requisitions

Execute

Traditional
Corporate makes a **one-time, fixed decision** to change time allocated for order-writing activities

New technology
AI order-writing tool launched

Modernized
As **model matures** and adoption improves the labor model a**djusts task time allocated automatically**

Balance

Traditional
Labor model **misses increase in demand**; store **is under scheduled** and sees sales leakage from out-of-stocks

Traffic increase
A local game was moved and spikes foot traffic

Modernized
Demand signals register the change immediately and **posts gig shifts to add shift coverage** for the new demand

Manage

Traditional
Department labor analysis is **conducted retroactively by manager**, after employees accrued abnormally high overtime

Labor anomaly
Overtime spend in produce is ahead of target

Modernized
Agent **notifies manager** that **overtime is tracking ahead of target**, identifies the at-risk employees and recommends action

The store labor management opportunity at hand

The opportunity in front of retailers is significant. Modernizing store labor management is not just a defensive move to keep up with rising costs, regulation, and retail workforce instability; it is a path to unlock measurable value across the business. The retailers that pull ahead will do so by building capability progressively, taking steps that improve execution today while laying the foundation for more connected operations.

At the foundational stage, retailers building a demand-based labor model see better alignment of schedules to business need, reduced compliance risk and administrative time given back to leadership.

Potential outcomes: From 0.5% to 2.5% labor cost optimization,[15] as a percentage of total payroll, through better alignment of schedules to demand, less manager time spent on schedule writing, and payroll error avoidance.

At the connected stage, retailers embedding AI into labor orchestration from planning to in-store execution have more effective allocation of teams and act proactively to address operational issues.

Potential outcomes: Double-digit increases in productivity; continued labor cost optimization with downtime reduction and machine learning forecast accuracy; and 1% to 3% lift in sales from on-shelf availability and task compliance.

At the modernized stage, retailers must fundamentally change how work gets done, with flexible labor pools, agentic AI sourcing, and automation alongside their core teams to see a significant shift in their labor spend and staffing that moves in lockstep with customer demand.

Potential outcomes: Replace up to 35% to 40% of current operating costs with a fractional marginal cost with agentic AI[16] and improved service levels with associates focused on customer needs over repetitive tasks.

Across this journey, as capabilities mature, store teams spend more time on the floor. Customers experience better in-stock conditions, shorter queues, and more consistent service. At the same time, retailers reduce compliance risk and avoid costly penalties tied to scheduling violations.

Where retailers focus and how quickly they move will vary. Smaller-box stores with fewer employees benefit most from simplifying execution through automation, task prioritization, and reducing administrative burden. In larger formats, the scale and complexity of the retail workforce make precision more critical, requiring deeper investment in forecasting, scheduling, and real-time labor adjustment. As a result, retailers will prioritize different store labor management dimensions and spend varying amounts of time at each stage of the maturity curve based on their operating model and complexity.

Progress does not require a full transformation up front. Retailers that move deliberately by building the foundation, connecting systems, and then layering in advanced capabilities will begin to see value quickly and compound it over time. Those that delay or approach this piecemeal will likely continue to absorb rising costs, operational strain, and execution variability.

The retailers that lead over the next two to three years will be those that treat store labor management as a strategic capability and act with urgency to build that foundation now.

Relative priority of store labor management dimension by retailer size

Dimension ●●●●● = *highest*	**Small Box** 2 - 4 employees in the building	**Medium Box** 5 - 10 employees in the building	**Large Box** 20+ employees in the building
How you forecast	●●●○○	●●●●●	●●●●●
How you schedule	●●●○○	●●●●●	●●●●○
How you execute	●●●●○	●●●●○	●●●●○
How you balance	●●○○○	●●●○○	●●●○○
How you manage	●●●○○	●●●●○	●●●●●
How you adjust	●●○○○	●●●○○	●●●●○

Where to get started

Deloitte's Retail Consulting team can help you build toward a modernized store labor model, wherever you are on the journey:

- An assessment of where your store labor model is misaligned to actual demand, with a targeted pilot to close the gap through dynamic workload balancing or an alternate labor pool
- A practical AI roadmap based on your store operations and strategic goals that identifies the highest-impact use cases, an order in which to pursue them, and total opportunity creation
- Rapid diagnostic of your current WFM platform, store labor model, and scheduling practices to benchmark your performance and opportunities against leading retailers and industry trends

Contacts

Adam York
Principal
Deloitte Consulting LLP
ayork@deloitte.com

Chris Gray
Senior Manager
Deloitte Consulting LLP
chrgray@deloitte.com

Sheema Masood
Senior Manager
Deloitte Consulting LLP
shmasood@deloitte.com

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Endnotes

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