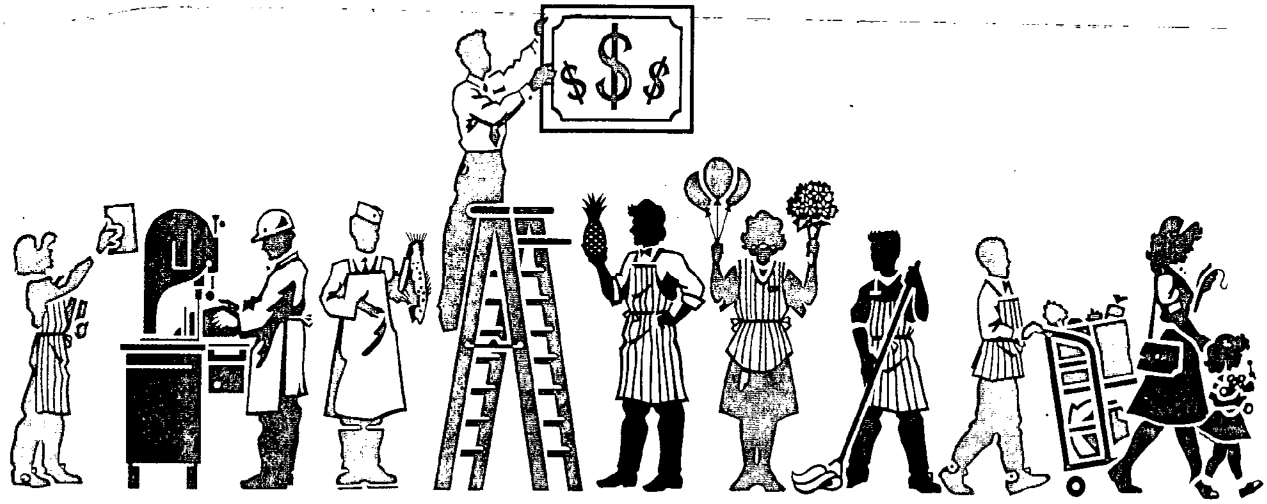

STRENGTHENING YOUR RELATIONSHIPS WITH STORE EMPLOYEES

HOW TO TAP A MAJOR SOURCE OF COMPETITIVE ADVANTAGE

A study conducted for the Coca-Cola Retailing Research Council

by: Robert M. Tomasko

PREFACE

When the Coca-Cola Retailing Research Council commissioned a study of ways to reduce store employee turnover, it quickly discovered there was more to this problem than is frequently assumed.

The study began during a time of economic growth and finished in a recession. Even though some retailers' employee retention improved because of short-term economic uncertainties, the Council realized that the demographic problems behind the labor shortages of the 1980s would be with the industry through most of the next decade.

The Council also discovered that store associate turnover, while a costly problem in itself, was really just the tip of the iceberg. A more serious problem behind the industry's high turnover is its too-frequent inability to get the most benefit from the talents of its store employees.

This study deals with both of these problems because one cannot be completely addressed without considering the other. While it outlines ways to cut turnover, its real mission is to help food retailers achieve a competitive advantage from the talent working in its stores.

The Council's research activities for this report were coordinated by Willard R. Bishop, Jr., President of Willard Bishop Consulting, Ltd.

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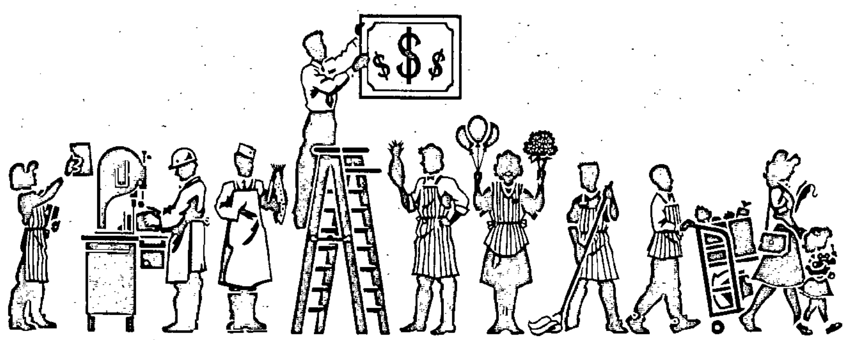


READING TIME: 60 MINUTES

Almost all food retailing top executives feel there is a strong relationship between customer satisfaction and employee satisfaction. Ninety percent of the chief executives and owners answering a survey* done for the Coca-Cola Retailing Research Council said it is very difficult to provide a high level of service to customers when those who staff the stores are unhappy about their jobs.

For these industry leaders, this was not just a theoretical concern. When they were asked what it would take for their stores to achieve a sustainable advantage over the competition, over three quarters said: "superior customer service."

This nation-wide cross-section of the industry felt factors such as the ability to offer everyday low prices and innovative store formats would also be critical to their competitive success. But, looking ahead to the nineties, they rated customer service excellence twice as significant as these traditional ways of competing.

One company president said that in many markets the competitive playing field is leveling out. A company adopts a new promotion program or adds a new format, and soon everyone imitates what is successful. But one form of advantage much harder to copy – believes this executive – is that based on the skills and talents of the store workforce.

Employee-based ways to distinguish a store from its competitors are much easier to aspire to than realize. Many strong barriers exist, preventing food retailers from maximizing the contribution of this resource.

- *Both the quantity and quality of the traditional labor supply has and will continue to diminish.*
- *Some companies are coping with the aftermath of a history of labor conflicts.*

BASIS FOR DEVELOPING SUSTAINABLE COMPETITIVE ADVANTAGE

	% TOP EXECUTIVES*
SUPERIOR CUSTOMER SERVICE	82%
INNOVATIVE STORE FORMAT	35
EVERYDAY LOW PRICES	31
DISCOUNT PRICES	9
OFFERING MORE NON-FOOD ITEMS	8
OTHER FACTORS	19

*Multiple Responses

- *Others are facing the limitations imposed by debt and regional economic downturns.*
- *The industry as a whole has had a tradition of emphasizing cost minimization in its management of store employees, rather than investing in them in ways that enhance sales and profits.*
- *Most of the industry staffs its stores with part-timers and copes with the limited commitments that seem to necessarily accompany their use.*

*In late 1990 a survey was conducted for the Coca-Cola Retailing Research Council of a representative cross-section of supermarket chief executives and owners. 209 questionnaires were sent out, and there was a 50% response rate.

- *And, finally, many food retailers have geared their operations to accommodate high levels of turnover, levels which, over time, they have come to take for granted.*

COMPETING IN THE 1990s

Among the strongest competitors of the 1990s will be those retailers who have overcome these hurdles, who develop close and strong relationships with their store associates, and who use these relationships as a source of advantage in the marketplace.

The purpose of this report is to suggest ways to do this. It is written for the chief executive because without strong direction from the top, it is extremely difficult for a company to stay the required course.

Part One makes a case for strengthening the retailer's relationship with full- and part-time hourly store employees. The need for this is something most industry executives intuitively appreciate, but only a minority of retailers have been able to achieve major success here.

Part Two of the report provides practical suggestions for strengthening these relationships by becoming their "preferred employer." Some retailers may not be able to implement all of these suggestions because of size, staff limitations, union restrictions and the like. But most of these recommendations should be applicable in a wide variety of companies.

ESTABLISHING A BALANCE

The focus here is on employee retention. It is important to stress that this is not an end in itself, even though turnover reduction can provide significant cost savings. But its real significance is in the possibilities that greater workforce stability provides for the company.

Low turnover, itself, is not a guarantee of business success. But it is an important indicator of how well a company is managing a key asset of the business: its human resources.

Turnover is not all bad. Some degree of turnover, both among hourly and management associates, is vital to all businesses. Without it, promotion pipelines will clog, seniority-driven labor costs become unaffordable, and companies will limit their intake of new ideas and skills. The trick is finding and maintaining the right balance of workforce stability and movement.

This is a balance the food industry is still working to achieve.

Almost half the chief executives and owners we surveyed told us turnover was still a major problem for their companies. Only seven percent said it was not an issue for them; the rest rated it as a matter of at least some concern in their operations.

As they have quickly realized, turnover has significant implications for business performance. It affects store operations and marketing. It is not just a "human resources issue," completely delegable to the personnel department. Successful efforts to reduce turnover are usually led from the top of the company and involve the active cooperation of all store managers.

Three quarters of the top executives surveyed felt their companies were spending too much on turnover-driven expenses. Some said they felt as though they had unintentionally diversified into the recruiting and training business; others directly linked high turnover to high shrink. Over half said their store standards deteriorated because of too high turnover. More than two thirds of these companies blamed turnover for reducing the quality of their customer service.

IMPLICATIONS OF EMPLOYEE TURNOVER

	% TOP EXECUTIVES*
HIGH TURNOVER RELATED EXPENSES *(HIRING, TRAINING, SHRINK, ETC.)*	77%
REDUCED QUALITY OF CUSTOMER SERVICES	74
DIFFICULTY MAINTAINING STORE STANDARDS	58
LOW MORALE	19
INCREASED WAGES AND BENEFITS	15
DIFFICULTIES INCREASING REVENUES	14

*Multiple responses

And, over ten percent of these executives were discouraged from making revenue-increasing moves – such as adding new stores and departments, increasing store hours – because they could not count on the store talent they needed to stay with them.

AN UNDERMANAGED COST

It is ironic that in an industry noted for careful management of labor-related costs, control over turnover-driven expenses has eluded many otherwise well-managed businesses.

- *One large, multi-region food retailer carefully calculated these costs. It found that to replace all the employees who had left in one year, it had to spend an amount equivalent to 79% of its after-tax net income!*

- *A recent Cornell University* study draws similar conclusions for a nation-wide group of 30 companies. The study found turnover costs equivalent to almost half their net income.*

Despite studies such as these that dishearten the most numbers-driven food executive, most service industries seem to accept high turnover as an unavoidable fact of life in their businesses.

THE DOWNSIDE OF TOLERATING HIGH TURNOVER

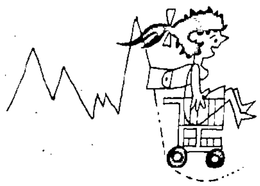
Let's look more closely at the implications of living with high turnover.

The food retailing industry is characterized by low operating margins when compared to other retail and service businesses. This is something taken for granted – even though within the industry there is a reasonable degree of variation in financial performance between the stellar performers and the under-achievers.

Narrow margins lead us to focus on tightly controlling costs, especially employee

*Supermarket/SuperStore Employee Turnover Study 1989 prepared by the Cornell University Home Study Program. Call 607-255-9984 for more information.

expenses, in this labor-intensive business. So, we tend to set store pay rates as low as we can and narrowly design jobs to accommodate the relatively lower levels of talent attracted by these wages.



We want our jobs to be simple and interchangeable to accommodate another key aspect of our operating philosophies – the need to maximize flexibility in matching our levels of store staffing with the peaks and valleys of customer appearances. This leads to common usage of part-time employees whose work schedules must flexibly adapt to our requirements.

These aspects of how we design our store jobs contribute to these positions being less attractive than others in the labor market. As a result, we often do not have the selectivity we would like in staffing our stores.

We try to compensate for this by using technology, when possible, to control our quality. We also tend to supervise closely rather than delegate to many of our employees.

These aspects of our operations have several impacts on our employees. Some are bored by the narrowness of their jobs, others are frustrated by the tight supervision. These factors can lead to job dissatisfaction.

And when other employment alternatives emerge, many leave us. So many, in some stores, that we are, in the course of a year, replacing over three quarters of them (sometimes, more than once).

The costs of doing this further tighten our margins. They also limit our abilities to invest in our associates' skills through training. "Why spend much money in training if the value it imparts is only going to walk out the door?" we ask.

Limited training also constrains advancement prospects – another reason some leave us. Others who stay find it increasingly hard to keep motivated in jobs that do not grow along with them. Retailers are also hurt when, in the wake of the departures of their high-potential talent, they find that the remaining store workforce has a disproportionate number of employees uninterested in bettering their skills.

VICIOUS CYCLES

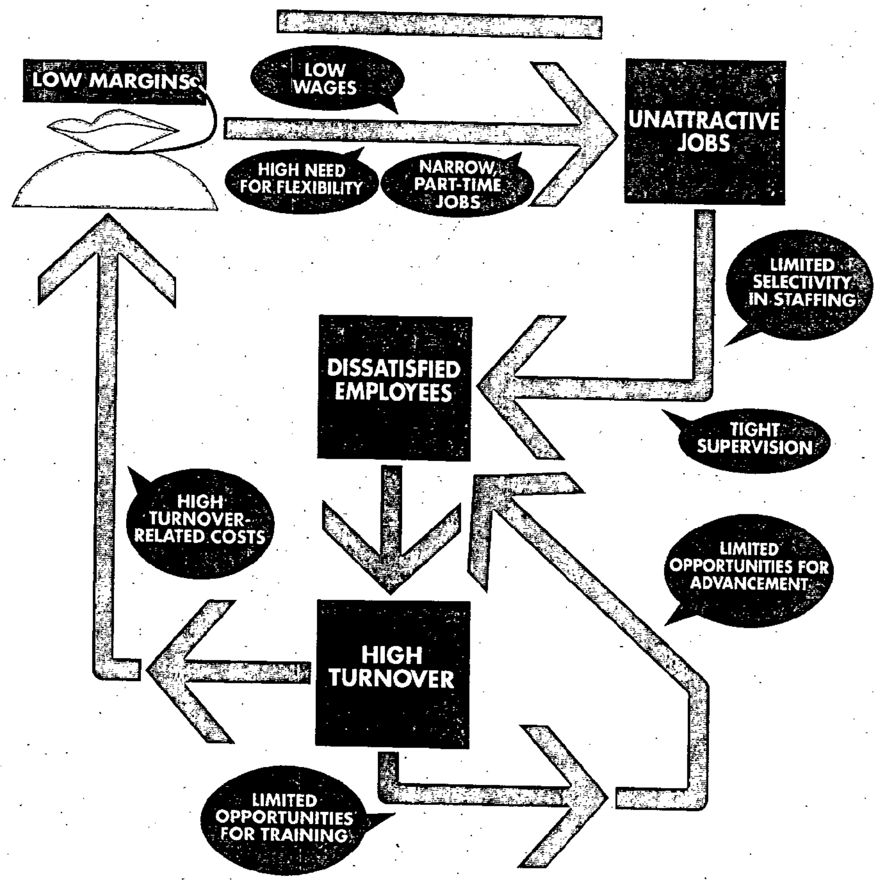
As we see how these factors interrelate, it is obvious they create a cycle that feeds back on itself: a cycle that has had several decades to entrench itself in food retailing.

And a cycle that has implications for the revenue – as well as the cost – side of our businesses.

One president of a Midwestern supermarket chain observed that employees truly dissatisfied with their jobs are more likely to vent their frustrations on customers. It is very hard for an employee dissatisfied and frustrated with his or her job to project to customers an attitude of caring about the quality of service they receive. Some do it, but it is a difficult act to sustain.

And sustaining it is what many industry executives say will be the key basis of competition in their markets in the 1990s.

The Vicious Cycles of Turnover



"In poorly managed organizations a pecking order exists. The boss gets the most respect and receives the widest degree of tolerance for less-than-social behavior. If the top executive treats a middle manager with rudeness and disrespect, then that manager mimics the executive by acting similarly toward his subordinate. This process continues until the last person in the organizational chain has no one to dump on.

And that person is usually the airline ticket agent, the order-taker at the fast food chain, the bank teller or the nurse's aid. Since he has no one to abuse inside the organization, he treats customers as if they were the ones on the next rung down."*

Limited training expenditures – in both the technical aspects of their jobs as well as in how to provide superior service – can limit the extent employees are able to increase their own job satisfaction. They want to have positive relations with customers. Employees want to be seen as knowledgeable and competent by customers. This helps them build their own sense of pride and self esteem. And training in providing customer service can equip them with the skills they need to help the store's image recover, in a customer's eyes, from a valid source of complaint.

High store-associate turnover can directly impact customers. Seeing a new set of faces every third or fifth shopping visit makes it very difficult for the customer to have any feeling of continuity in relationships with store employees. These informal relationships, though usually brief, are a form of glue that can help bind a customer to a store. It is often difficult to appreciate what makes a company different, what it stands for, in the abstract. But, through interactions with store associates, this message can become vividly clear. This lack of continuity, plus dissatisfaction with the limitations in the service quality provided from newcomers, can easily diminish customer loyalty.

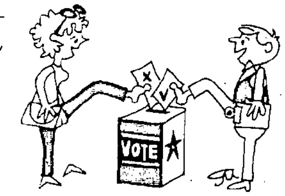
Limited customer loyalty – perhaps coupled with aggressive moves by a competitor – quickly results in the loss of a potential repeat customer.

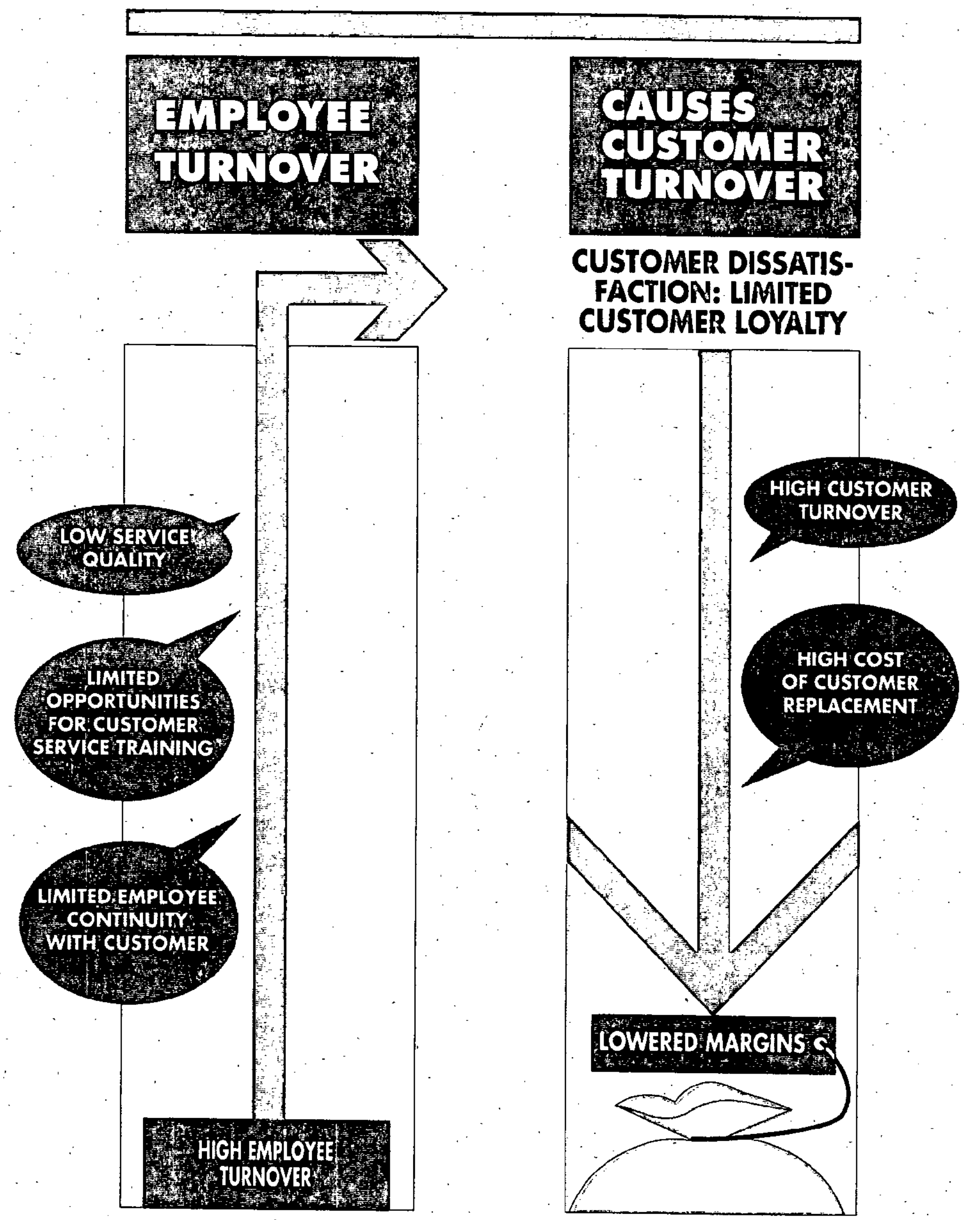
Carrying this logic further, a store with high customer turnover will need to continually spend money to attract new customers, creating another dent in the already narrowing margins.

These patterns can be described as Vicious Cycles; vicious because of their impact on the business and on the employees caught in them. They result in diminished financial performance as both associates and customers vote with their feet.

Food retailing is not the only business facing these problems. They are common in many labor-intensive service industries. Two

*Robert Kelley, Carnegie-Mellon University, quoted in October 12, 1987 *The Wall Street Journal* (page 20)




EMPLOYEE TURNOVER
CAUSES CUSTOMER TURNOVER
CUSTOMER DISSATISFACTION: LIMITED CUSTOMER LOYALTY
LOW SERVICE QUALITY
LIMITED OPPORTUNITIES FOR CUSTOMER SERVICE TRAINING
LIMITED EMPLOYEE CONTINUITY WITH CUSTOMER
HIGH EMPLOYEE TURNOVER
HIGH CUSTOMER TURNOVER
HIGH COST OF CUSTOMER REPLACEMENT
LOWERED MARGINS

Harvard Business School professors, James Heskett and Leonard Schlesinger, have researched them in restaurant and fast-food operations, as well as in banks, department stores and hotels.*

LESSONS FROM OTHER SERVICE-BASED INDUSTRIES

Is there an alternative?

Hopefully, not for your competitors. Perhaps their acceptance of the inevitability of these cycles will offer an opportunity to differentiate your company. But be warned, that for some operators, achieving this kind of differentiation will require a significant rethinking of personnel policies and operating philosophies. Don't expect quick success through a few simple changes.

Where do you start?

One source of ideas is other firms in customer-service-dependent industries.

A hotel and food-service operator, one of the largest employers in the U.S., decided to break the cycles by attacking job dissatisfaction head-on. This company draws from the same labor pools as do many supermarkets, frequently offering lower starting pay. It established an Employee Satisfaction Survey, administers it to all employees, and uses the results to determine a portion of each unit manager's bonus. Managers are also rewarded each time one of their hourly employees is promoted to an entry-management job, usually outside their unit. A career progression was also established for hourly employees, allowing them to advance within the hourly ranks based on their acquisition of key skills.

In one of this company's divisions, regular vacation pay has been replaced by "earned leave." All full-time employees are granted one week of paid leave. They can "earn" up to two additional weeks based on perfect attendance. A system was also put in place to make it easy for customers to evaluate their satisfaction with the division's employees. Customer rating scores are calculated monthly and posted in break rooms. Each quarter, every employee is eligible for a cash bonus of up to 10% of base salary. Half is based on the individual's scores, half on the average scores for the unit.

Net result: significant reductions in this company's hourly turnover rate. It dropped to half the industry norm after these programs were installed.

A few years ago, a restaurant operator in the Northeast had even greater turnover reductions. This operator took the tack of eliminating part-time employees all together. The company only hired associates willing to work 50-60 hour workweeks, and easily found that what was spent in overtime wages was more than made up by reductions in administrative expenses and sales increases.

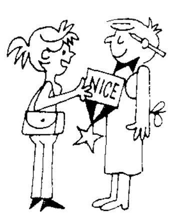
Revenues increased, in part, by increases in repeat customers who enjoyed going to a restaurant where they could always find familiar faces among the servers.

* For more information about management practices in especially effective service companies, read: *Service Breakthroughs* by James Heskett, W. Earl Sasser, Jr., and Christopher Hart. Published in 1990 by The Free Press in New York.

A Philadelphia bank broadened the responsibilities of its customer service representatives by allowing them to resolve all customer problems about amounts less than $1000, without asking for supervisory approval. For the added responsibility, the representatives' pay was increased by over 50%.

Net result: customer satisfaction increased by almost 50%, and the total cost to the bank of resolving these problems was less than before the job upgrade.

Another bank measures each of its customer service departments on how well they do the parts of their jobs that research has shown are key to the bank retaining customers. Results are posted daily and bonuses paid keyed to these results.



Customer retention for this bank is measurably ahead of its competition. So is employee retention. Its workers prefer to work in jobs where they are encouraged to solve customer problems. This allows them to be perceived as "nice" by the customers they deal with, which in turn induces these customers to treat them with more politeness and respect. The positive work environment this contributes to has resulted in this bank receiving over 10,000 applications for fewer than 500 openings – in a year when the local labor market was so tight that one of the bank's nearby competitors had to move some operations out of the region because they could not fill their openings!

VALUE-ADDING CYCLES

What is happening in these companies is they have found ways to break the Vicious, business-defeating, Cycles that have traditionally characterized many service firms. They have replaced them with a series of Value-Adding Cycles by leveraging factors such as:

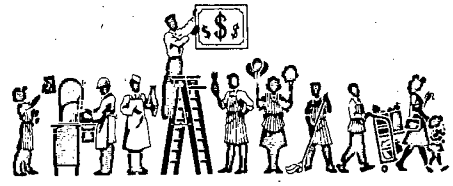
- *broadened responsibility jobs,*
- *advancement opportunities,*
- *above-average compensation,*
- *direct customer feedback,*
- *extensive training, and;*
- *careful employee selection.*

These in turn, help increase employee job satisfaction, lower turnover, and lay the groundwork (upon which training builds) for more positive attitudes toward providing customer service.

These attitudes, coupled with the increased continuity in relationships possible in low employee-turnover stores, help strengthen customer loyalty. This can lead to increased, margin-contributing, repeat business.

Functioning in ways that encourage customers to become repeat customers is one of the most profit-enhancing things your store employees can do. Experience across many service businesses shows that long-established customers are the most profitable. They tend to buy more, have a greater tolerance for higher prices, and are more likely to refer new customers to the store. In one service business, a 2% increase in repeat business was found to have the same impact on margin as a 10% cost reduction.*

*For more information about customer retention and its linkage with employee turnover see: "Zero Defections: Quality Comes to Services" by Frederick Reichheld and W. Earl Sasser in the September-October 1990 issue of *Harvard Business Review.*



Just as Vicious Cycles reinforce each other, so do Value-Adding ones. The difference is, that with Value-Adding Cycles, the impact on the store is a positive one. Says one bank president: "It's much easier to work at a place where customers are happy. I think that our commitment to keeping customers is the overriding reason why our employee turnover is low."

THEORY OR REAL LIFE?

These relationships appear logical, but how much is business school theory and how much is experience-proven?

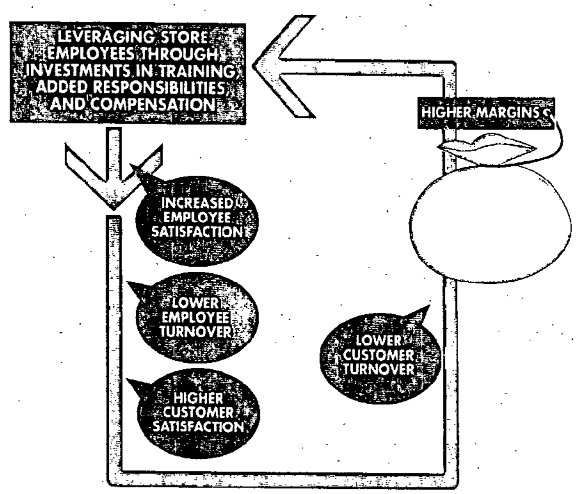
- *When the Marriott Corporation studied the impact of employee turnover on customer loss, they found that every 10% drop in labor turnover resulted in a reduction of "customer nonrepeats" from 1% to 3%.**

- *A study that considered restaurant industry financial results over a ten-year period found that sales levels in restaurants with high turnover average 25% lower than those with more stable workforces.*

- *Home Depot, a retail "category-killer" in the discount do-it-yourself arena, significantly over-invests in training its clerks to be knowledgeable about the uses customers make of its products. The results: a motivated, low-turnover store sales force, and company growth from $22 million to $2.8 billion in ten years.*

INVESTING IN EMPLOYEES REDUCES CUSTOMER TURNOVER

EXAMPLE OF A VALUE-ADDING CYCLE



When the survey conducted for the Coca-Cola Retailing Research Council asked food-retailing chief executives if there were a relation between their employee turnover and their sales or market share gains, over half admitted they had no readily available internal information to help them answer this question.

This was a telling admission that a significant portion of the industry has not yet monitored the key connection between business performance and how store employees are managed.

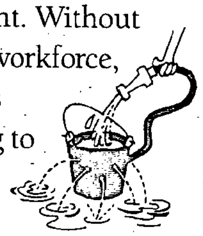
But of those who had this information, more than twice as many company leaders agreed with these statements as did not:

*To find out more about the experiences of the hospitality industry in dealing with turnover, see: "Rx for Turnover: Retention Programs that work" by Robert Woods and James Macaulay, May 1989, *The Cornell H.R.A. Quarterly*.

- *"Our stores with below-company-average employee turnover had greater-than-average revenue growth."*

- *"Our stores with below-company-average employee turnover had greater-than-average market share gains."*

Indicators and examples such as these suggest that moving from Vicious to Value-Adding Cycles can clearly contribute to business success, and that employee retention is the logical starting point of any effort to leverage store-based talent. Without attention to stabilizing the store workforce, efforts to break the Vicious Cycles may have the same result as trying to fill a leaky bucket by adding water faster.



WHAT IS THE INDUSTRY'S CURRENT SITUATION?

Turnover rates vary widely across the supermarket industry. There are few useful national norms to provide quick assessments of how well you are doing. In the short run, rates are often driven by local economic conditions and labor supply. However, longer-term trends are significantly affected by company policies and programs.

For most retailers, part-time turnover is much higher than full-time. Our nation-wide survey of food retailing human resource executives found, in 1990, most companies' part-time turnover was somewhere in the range between 60% and 100%. One was as low as 5%; another as high as 200%.

Full-time employee turnover more commonly varied from 10% to 25%, with some companies as high as 100%.

Within some companies, turnover rates varied as much across their individual stores as they did, nation-wide, across companies.

Retailers use a variety of methods to calculate turnover. Most are variations on simply dividing the total number of employees who leave during a year by the average number of employees on the payroll that year. The result (hopefully a number less than one) is multiplied by 100 to obtain a percentage.

Calculations to determine the cost of this turnover to retailers tend to produce even more widely varying results, depending on how many factors are included in the computation and how much attention is paid to counting only costs that can actually be recovered.

Some companies have estimated the cost of each hourly employee who needs to be replaced at only $200. Others, just as confidently, maintain the correct number is closer to $2000 each. A number of food retailers have found, for quick estimation purposes, that $1000 per individual turning over is a reasonable assumption.

TURNOVER RATES FOR STORE-LEVEL EMPLOYEES*

	1989	1990
PART-TIME EMPLOYEES	98%	82%
FULL-TIME EMPLOYEES	16	17

*Based on a survey of 97 human resource vice presidents in a cross-section of supermarket companies.

When turnover is computed this way, its real magnitude becomes apparent. One retailer's method of turnover calculation ignored counting people who came and left within the year. When he recalculated, using the formula on page 26 of this report, he found his turnover problem was twice as bad as he originally thought. It costs retailers, on average, about $1000 each time an employee quits!

What generally matters more than exact dollar figures or percentages is: what is the trend?

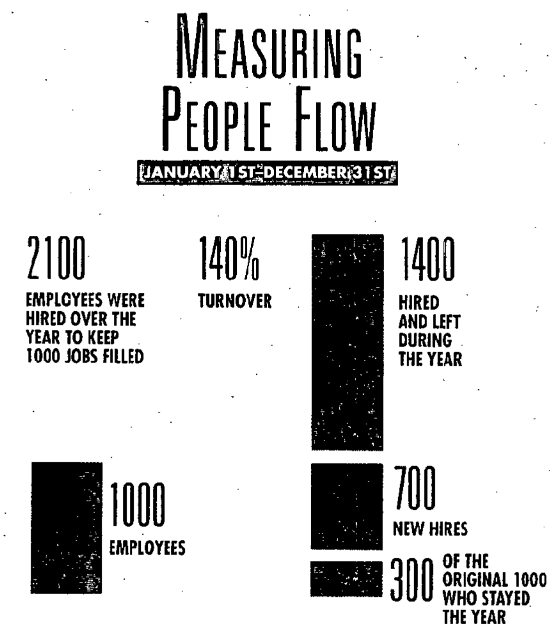
- *Are we getting better or worse?*
- *Which stores are doing much better than the company average?*
- *Which stores much worse?*
- *Why?*
- *What actions do we need to take now to improve?*

MANAGING PEOPLE FLOW

Many food retailers have become especially skilled at cash flow management. Some of this perspective can be usefully applied to understanding employee turnover. Let's take a look at the people-flow pattern of a typical, high-turnover, small chain.

As the diagram of the people flow for a 1000-job company indicates, the number of jobs was fairly constant over the year. At the start of the year, all positions were filled by full- or part-time associates. By the year's end all remained filled – but by only 300 of the original 1000 employees on board January 1st!

And further examination indicates that to keep the other 700 jobs filled, a total of 2100 employees actually "flowed" through the company during the year.



By looking at your turnover situation from this perspective, it is possible to ask questions such as:

- *Why did the 1400 leave?*
- *What is so different about the 300 who stayed the year?*

- *What are we doing differently to increase the likelihood that the 700 new hires with us at year's end will be in place at the end of the next year?*

The second part of this report will lay out some ways for you to answer these questions.

WHY DO STORE EMPLOYEES LEAVE?

Over two-thirds of the 53 human resource executives surveyed for the Coca-Cola Retailing Research Council systematically collect information about why their employees voluntarily quit. The reasons they reported to us for turnover – from the viewpoint of the leaving employees – are generally consistent with those observed in similar, non-food retailing jobs. These include, in rough order of relative importance:

1. Employees' needs for work hours were not honored. Either they were not allowed to work as many hours as they felt they needed, or they did not feel they had adequate influence over when these hours would be worked.

2. Employees felt poorly treated by their managers. They commonly complained of either not being treated with respect, or that their accomplishments were not recognized.

3. Employees felt inadequately trained to do a competent job.

4. Employees felt they were in a job going nowhere.

5. Employees felt they were not integrated into the store team.

Reasons for quitting:

1. **Problems with work hours**
2. **Poor treatment by managers**
3. **Inadequate training**
4. **No advancement possibilities**
5. **Not part of the team**

Each retailer's list will be a little different from this; and frequently there are considerable differences in the relative priorities of these reasons among employees in the same company, but from different stores.

Several immediate observations are possible:

- *Pay levels and benefits are not, generally, the highest priority concerns of many who leave.*

- *Turnover is not a problem that can be solved by just throwing money at it.*

All five of these are preventable!

Management practices can be changed to make progress on all these areas of concern. What is required, most often, is some strong direction from the top of the company to ensure this happens.

LEARNING FROM THE BEST

This study looked closely at the management practices of a dozen companies, primarily

food retailers, who were especially effective at store-employee retention. Some had recently made dramatic reductions in turnover. Others, compared to industry experience, operated in ways so they never had problems to begin with. Some are private companies, some publicly traded, and some employee-owned. They were headquartered throughout the U.S., and had both union and non-union work environments. Some had several hundred stores, others only a handful.

Though their management practices differed considerably, all shared elements of a common philosophy about retention and the importance to the business that can be derived from leveraging store-based talent. In addition to their top management commitments to keeping this issue high on the company's priorities, they also carefully avoided quick fixes.

STAY AWAY FROM QUICK FIXES

The human resource field abounds with packages, gimmicks and quick cures. Most supermarket personnel executives are good at separating the wheat from the chaff. But often the biggest problem with quick-fix approaches (whether they be contests, awards, bonuses, or special training programs) is not how good or bad they are, but that they are one-shot efforts.

Earlier we described a series of cause-and-effect relationships. All contribute to associate turnover; all are interrelated. We have called these Vicious Cycles. It is possible to spend a great deal of money on one part of the problem (on training or better selection, for example), only to find yourself defeated on other aspects of it (such as weak store manager people-handling skills). Breaking these cycles, and the system of failure they represent, requires a multi-pronged approach.

This is a point a number of food retailers have had trouble with. One large and well-respected chain spent tens of thousands of dollars studying the reasons why it has a triple-digit turnover rate – and spent even more on outside consultants to help it analyze the data. But too quickly it came to the conclusion that its primary problem was insufficient employee recognition, and set out to design the perfect recognition program.

While better recognition of employee accomplishments is an area in which many retailers have room for improvement, it is unlikely that action here, by itself, will be sufficient to make a lasting dent in this company's severe problem.

Avoiding gimmicks also means more than just getting back to the basics of good store operations. As you will see from the experiences of the three companies that follow, they have not only moved forward on a broad front, but each has given a special spin to the traditional operational basics.

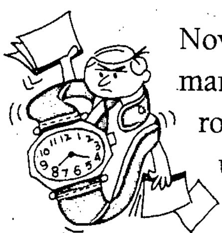
A REGIONAL CHAIN

A good example of a retailer who avoided the temptation to deal with turnover on a piecemeal basis is a rapidly growing, over $1 billion in sales, regionally oriented grocer. Operating in parts of the U.S. hard hit by

labor shortages, this company decided to build into its management practices the idea that, "We treat our associates the way we want them to treat our customers."

To deliver on this aspiration, they soon realized that the potentially weakest link in the chain – from chief executive to hourly employee – was the store manager. Faced with multiple priorities competing for their attention, many of the managers were much better versed in the merchandise – rather than the people – handling aspects of their jobs.

Awareness of this need led to the establishment of a week-long seminar for all managers to teach them the people-management techniques many had failed to learn working their ways up through the ranks.



Now, armed with a new set of skills, many of the managers faced a serious roadblock to their applications: no time to use them when they arrived back at their stores. The company conducted a study to learn where the typical store manager's time was spent. They found that too much was spent on filling out and filing forms, and not enough on coaching, recognizing and otherwise interacting with store personnel. To relieve some of this pressure, the position of store personnel coordinator was created to assume many of the paperwork chores.

Now that the manager's time was freed up, the company decided to add some incentives to ensure that the skills taught were put into practice. People-related goals, keyed to specific problems at each store, were established. Incentive pay for store and department managers was tied – in part – to their achievements.

The jobs of the district managers were also reexamined. Just as it is hard to ask associates to give better treatment to customers than they themselves receive, it was hard to ask store managers to focus on people development when their supervision was myopically store-standard-oriented.

A MULTI-FRONT EFFORT

- Store manager training
- Creation of store personnel coordinator
- Incentive pay for people development
- Changes in district manager jobs
- Rotations of store operations managers through the personnel department

So, a new set of responsibilities was prepared for district managers. The process of assessing human resource needs, and assuring actions were being taken to meet them, was moved from eighth priority to first.

To complete reinforcement of the company's new direction, a plan was put in place to rotate the retail operations managers through the human resources department. At any point in time, at least one personnel manager would be a former district head. And eventually, all division vice presidents would have had – at some stage of their careers –

a multi-year assignment in this critical headquarters function.

AN INDEPENDENT OPERATOR

You know something is different about this company as soon as you walk into the headquarters lobby. A sign on the wall states the corporate mission: "We are here to have fun and make money."

They really mean it. This mini-chain, with fewer than ten stores, lacks the management depth and extensive human resource department of the regional grocer just discussed. But they more than make up for it by the close, spirited involvement the owners take in staying close to their people. They can't avoid it. The walls of the headquarters office corridors are filled with framed, color, portrait-style photographs of dozens of the company's associates. These are hung in the places many retailers proudly display likenesses of the company's latest large stores.

And, the store employees all have many opportunities to see their faces on the walls as they continually go in and out of the two, well-appointed conference rooms in the headquarters suite. They are constantly attending training programs there. This company spends three times the industry average on employee training. Some programs have to do with the traditional supermarket subjects, others are language-oriented (an English course for Spanish speakers, a Spanish course for English speakers), and the most innovative is one aimed at helping employees build their self confidence.

Attended by all levels of management and hourly employees, full- and part-time, this is a customized version of a nationally known, personal improvement course that teaches public speaking, relationship-building and customer-service-providing skills.

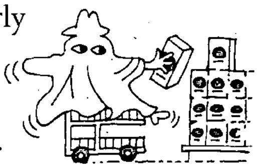
Public speaking? Why train a checker or bagger to be an orator? Because, believes this company's top management, the more confidence employees have in their own abilities, the more likely they are to come out of their shells, acquire other new skills, and become promotion-eligible. And the better the workers feel about themselves, the easier it will be to provide responsive customer service and deal with the substance of customer complaints without feeling their egos are also on the line.

These seven-week, one-session-a-week, courses are offered – on the clock – whenever the company finds it has 30 untrained people. The only eligibility requirement is that employees attending must have worked with the company for at least two months.

To reinforce the material covered at the headquarters seminars, and to provide immediate skill training for new hires, each store has a trainer. They have to. Each inexperienced recruit receives five days training upon starting work.

This company has dealt head-on with employee concerns about the quantity of their work hours. Most jobs are structured so that employees regularly have 30-35 hours each week. This is important, the management feels, if this job is to be their

number-one work priority. Extra hours are made available based on merit. If you want to request overtime, be sure your productivity and customer-service scores are high. Mystery shoppers regularly provide ratings on individual employee's customer-handling skills.



This personal attention is possible, in part, because this company's total number of employees is lower than that found in similarly sized operations. They do not mind paying overtime as much as some other retailers do; they feel it ensures that their better associates are on the floor longer, to optimize quality customer service.

It almost goes without saying that turnover is low here in what is otherwise a very mobile labor market. Revenues have more than doubled in less than five years, but not at the expense of "having fun." At one point, the top management postponed growth from adding an additional store because, they felt, with everything else occurring in the company at that time, the work involved in replicating their high standard of service to customers and new employees would create too much pressure on existing employees.*

A GROUP OF EXEMPLARY STORE MANAGERS

Sometimes company management and headquarters staff are more the problem than the solution. This was clearly the case at a large service provider whose operations covered much of the U.S., and who tapped the same labor sources used by food retailers.

Turnover was extremely high, reaching 200% for part-timers in some stores. The company was one of the most narrowly numbers-driven in the nation; considerable pressure was put on store managers to produce continuous monthly sales increases. That pressure, coupled with the necessity for them to personally fill in for part-timers who quit, turned many managers into turnover statistics. At one point, store manager turnover reached 60% annually.

Many of the company's headquarters-driven systems were stressed to the breaking point because of the large influx and departure of employees. The payroll system repeatedly produced checks that were late and inaccurate – another source of impulse resignations.

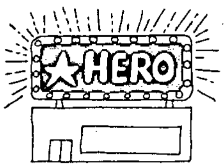
To cope with this store-labor crisis, this company launched a variety of reforms. Some were adaptations of the organization-wide changes the regional chain implemented. But most of these moves take months to put in place and often a year or two to produce results.

To look for more immediate help, the company started by examining its turnover statistics very closely. It looked at them store-by-store and found that while the company-wide picture was bleak, there was still a number of stores that were much better than the average in retention. These "exemplary stores" were identified, and from this list stores were deleted that were not meeting

*For more descriptions of especially effective retention programs see: *Looking for Employees: A Recruitment and Retention Guide*. Available from the Food Marketing Institute (202) 452-8444.

profit targets or other operational standards. The reason for this was that no one in the company management would be willing to single them out as role models if they were below-par economic contributors.

This list was shortened once more, with the help of the stores' district managers, to omit locations that were in geographic areas where turnover was naturally low.



The stores that survived these cuts were the company's "employee retention heroes." They were the lowest-turnover stores in the most turnover-prone locations. There were not many of them, but they were all managed by the company's people-management superstars.

A team of personnel experts was sent from headquarters to look carefully and figure out what made these stores so good.

All of them stood apart because of the abilities of their store managers and, in some cases, the entire management team. What did they do that was so uncommon in that company? These store managers:

1 Were all very selective about who they hired (their tight labor market situations notwithstanding). They were able to be this way because they went to great lengths to identify quality sources of talent. Some were employee referrals, others were from community sources that the managers went to considerable lengths to cultivate. Less exemplary store managers did not bother with any of this. Recruiting and hiring was the personnel department's job, they said.

2 Were flexible about employee scheduling requests. They abandoned the traditional, "Come when I need you, or don't come at all" stance, and replaced it with, "If you come when I'm in a pinch and really need you, I'll bend over backwards to accommodate your special requests." Mutual respect replaced management by prerogative. Managers prided themselves on the creative balancing acts they routinely performed to match labor-hour budgets with customer needs and employee preferences. Stores with soccer team members had the soccer practice schedule hanging over the manager's desk.

MANAGERS OF HIGH RETENTION STORES WERE:

1. **Selective about hiring**
2. **Flexible about scheduling**
3. **Good at orientation and training**
4. **Builders of team spirit**
5. **Knowledgeable about when to break the rules**

3 Ensured that all recruits received an effective orientation and ongoing training. Their labor budgets included time for training. They cloned both the skills and some of the work-related attitudes of their best workers by assigning

them responsibility to get newcomers up to speed.

4 Built team spirit. They made sure their stores were fun places to work. Birthdays, holidays, promotions were celebrated. Contests were always underway, some from headquarters, others invented in the store. They decorated the break rooms and kept them as clean as the front of the store. One store manager paid for a Christmas party at his house. "I look at it as an investment in my next year's bonus," he maintained.

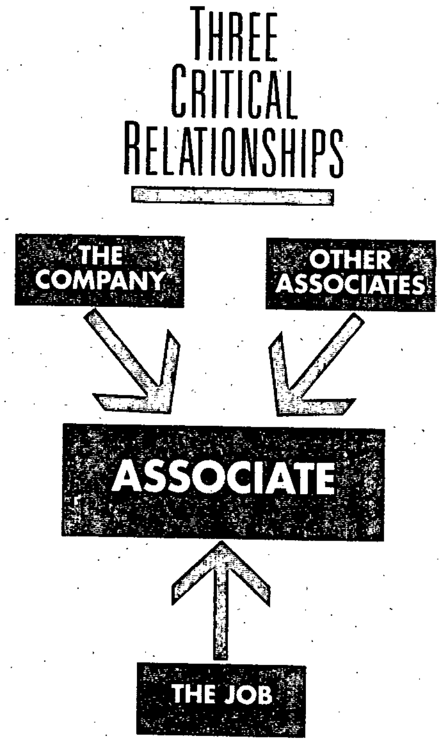
5 Knew when to bend the rules. They were secure, and creative, and assumed they were hired to use their judgment, not just their ability to follow the procedure manual. One said: "Sure I bend standards, but only when it doesn't affect profits, customers or sanitation."

Lists like this of practices of exemplary store managers can form the basis for management selection and training programs. The stories behind them can make great internally produced videos. But often they are not transportable from one company to another. The real secret is to learn from the best of your best. Then distill and bottle it.

IN SUMMARY: THREE KEY RELATIONSHIPS NEED TO BE MANAGED

Each of the three previous company examples illustrates, using varying tactics, a broadened perspective on the key relationships that must go well if an associate is going to be satisfied with your company.

Several years after *The 100 Best Companies to Work for in America* was published, one of its co-authors, Robert Levering, asked just what is it about these companies that really makes them such good places to work in?*



This question launched Levering on a major project to revisit many of them. He found numerous individual reasons behind each company's popularity with employees, but he also found that most had gone to great lengths to manage three key relationships.

- *One is the relation between the employee and the company. It is one that has to go beyond an even exchange of pay for hours.*

*A good source for more detail about these ideas is: *A Great Place to Work* by Robert Levering. Published in 1988 by Random House, New York.

It must have a strong element of mutual confidence, of trust, and a belief that each side will do its utmost to take care of the best interests of the other.

- *Another is the importance of an employee having enjoyable, collegial relations with the other associates. This involves some effort on the company's part to put together a team of compatible co-workers, those who like being around each other. This involves encouraging cooperation, not competition, among team members.*

- *Finally is the relationship the employee has with his work. It is one in which the employee is able to feel a sense of pride in what he is doing; that the company has taken steps to build jobs and recognize accomplishments that reinforce this pride.*

Each of these relationships can reinforce the other's impact. Often only one or two are present in a particular store. But the best stores to work in, those with the greatest possibilities for leveraging associates' talents, have all three in place.

TAKE A FRESH LOOK AT STORE JOBS

Each company considered here has taken steps to set itself apart from standard service industry practices for managing store talent. They all have very systematically broken through a number of self-defeating, Vicious Cycles and replaced them with practices that better leverage this talent. As a result they are seeing costs going down and revenues increasing.

They are also rethinking what a job is. They are searching for ways to take a fresh look at their jobs. Some have found a source for good ideas from what may seem like an unlikely place: the concepts used by successful, consumer-product marketers.

By applying some product-marketing ideas to the retention issue, some retailers are starting to develop a new philosophy about store jobs. It runs along lines like these:

- *It is useful to think about jobs as if they were **products.***

- *These products need to be sold to **customers** (otherwise known as employees or associates).*

- *Recruiting a new employee sets the stage for **product trial.***

- ***Repeat purchase** of products is similar to employee retention.*

- *It is much more expensive, on average, to find a new customer than to **keep an old one.** Ditto to finding a new employee.*

- *Employee turnover is a lot like **product rejection.***

- *Employee satisfaction has many of the attributes of **customer satisfaction.***

- *Customers are most likely to buy products that meet what they perceive as their **needs.** Jobs also need to satisfy employee needs.*

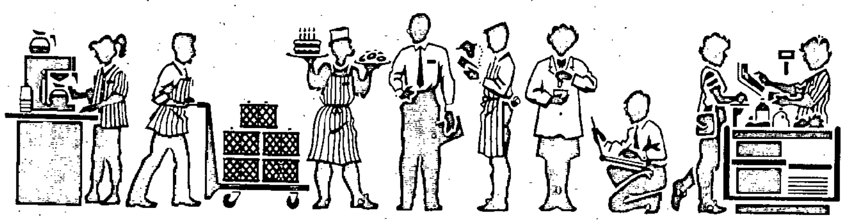
- *Customer needs are increasingly fragmenting; one size doesn't fit all anymore.*

- *The equivalent of* **niche marketing** *in the workplace requires increased customization of jobs to fit employee needs.*

Applying these analogies to the design and management of store-level jobs will move your company toward becoming the employer of choice for those segments of the labor market you target. The second half of this report lays out ways you can become a preferred employer.

PART TWO

BECOMING A PREFERRED EMPLOYER



What steps does a food retailer need to take to become the preferred employer of its store-based talent?

While the path will be different for each company – very few businesses are starting from the same place – there are several general principles that can guide your efforts. They are worth considering in your approach to store operations.

Act on facts. Custom design your preferred employer strategy around accurate and up-to-date information about your workforce and what is on their minds.

Closely manage each new hire's critical first week. Most retention battles are lost or won during the associate's first few days on the job.

Build a strong family team. Use methods that work more like Crazy Glue™ than Post-it™ to pull together your management and hourly employees.

Grow your people-builders. Some store managers strengthen their associates' capabilities; others act in ways that weaken them. Populate your stores with the former; work hard to convert the latter.

Repackage your jobs. Apply the consumer-marketing logic reviewed at the end of Part One to make your store positions magnets for talented associates by repackaging their jobs.

The next few pages will share our ideas about how to get started in each of these areas.

None are silver bullets, or quick fixes. Making things work in the supermarket business requires more hard work and ongoing creativity than faith-healing and magic.

These are not intended as a five-step recipe for every retailer to follow. But to the extent some can be integrated into the ongoing approach you take to managing associates, you will find it easier to keep these employees on board and leverage their skills.

PREFERRED EMPLOYERS:

- Act on facts
- Closely manage the first week
- Build a strong family team
- Grow people-building managers
- Repackage jobs

ACT ON FACTS

Almost all food retailers have tools in place to measure and evaluate financial performance. Most have ways to determine their positions in the marketplace and to judge the effectiveness of marketing and promotional efforts. An increasing number is able to gauge how customers perceive the quality of the service they receive. But relatively few have measures of comparable quality to help top management judge the business' success in managing the store workforce.

Without a set of updated facts, it is difficult to focus resources in a well planned, multi-front approach – the kind needed to break through the self-reinforcing, Vicious Cycles described in Part One.

Without facts, there is another danger: acting on untested assumptions. One strength of the food retailing industry is the number of senior managers who have worked their ways up through the ranks. This can be a disadvantage, however, if it leads to making decisions about today's workforce from the perspective of the workforce of fifteen or twenty years ago. It has changed, significantly for some companies, in both demographic and attitudinal dimensions.

We do not believe it was a coincidence that in several of the retention leaders we examined, the senior executives who guided development of their effective programs were either new to the food industry or to that particular company. This forced them to gather information that might have otherwise been taken for granted, or whose importance may not have been appreciated.

Of course every company can collect and obtain the same information used by these newcomers. Here are the items that seem most useful in evaluating the state of the workplace.

1 **Turnover rates.** When things get bad enough in your company, or good enough elsewhere, employees vote with their feet. Though it is not always a pleasant exercise, be sure to tabulate these votes.

As mentioned in Part One, turnover rates are usually calculated using some variation on the following formula:

$$\text{TURNOVER RATE} = \frac{\text{TOTAL NUMBER OF QUITS}}{\text{AVERAGE NUMBER OF EMPLOYEES}} \times 100\%$$

Decisions need to be made about issues such as:

- *What kind of quits to count: all, only voluntary, exclude those terminations for cause, exclude planned retirements or transfers?*
- *Over what time period to measure?*
- *When to measure the average number of employees?*

What specifically you decide about these issues is of less importance than adhering to a common, company-wide definition. Because there is not a common, industry-wide method for calculating turnover, it is sometimes misleading to compare turnover rates across companies. Compare overall magnitudes instead, and focus on who is getting better or worse.

It is generally useful to individually calculate rates for full- and part-time turnover because of the large differences in these rates.

While average rates for all company employees may be interesting, often the most useful information comes from comparing rates among stores or districts. Differences across divisions can

reflect more variation in regional labor situations than internal management practices. In superstores and hypermarkets, it is especially interesting to compare rates of turnover in a given store across departments.

Some companies make good use of turnover rates by type of job (baggers vs. checkers vs. deli clerks, etc.).

Regardless of the actual rates found, often the most important things for senior management to monitor are the trends occurring over time.

A number of food retailers generate reports several feet high each month that include every possible turnover calculation. These are sometimes useful for headquarters staff analysts but have limited utility for busy executives – or store managers for that matter. Insist on regular, one-page summaries with only the most significant statistics and brief written explanations about why the numbers are what they are.

2 **Exit interviews.** Two thirds of the human resource executives we surveyed had conducted interviews with departing employees. But less than 8% of them felt the information learned in these discussions made a significant contribution to their battles against turnover.

Still, if these are done well (by "neutral" interviewers, not the individual's department or store manager), they can provide some useful clues about the state of the workplace. They are especially helpful if they have never been done before; but their freshness is limited.

As with turnover rates, the most important information these interviews provide is often about changes in reasons for leaving, or differences in reasons among different stores, departments or jobs.

Do them. Don't overinvest in them. There are several other useful approaches equally worth your attention and resources.

3 **Post-exit interviews.** Exit interviews can be useful, but post-exit interviews can be even better.*

A few companies have found a way to significantly increase the quality of what they learn through exit interviews. They do them two or three months after the employee has left – not on the day of departure. By then he or she is settled into the new job and can provide more accurate comparisons between the job you provided and what they are currently doing. The honeymoon period is usually over. Their emotions have probably cooled if they left because of an acute conflict, and their defensiveness may be reduced if all they said when they left was how good a store you ran.

*For more information about exit and post-exit interviews see: "The Art of the Exit Interview" by Walter Kiechel III in the August 13, 1990 issue of *Fortune* (pages 114-115) and "Exit Interviews: How to Turn a File Filler into a Management Tool" by Robert Woods and James Macaulay in the November 1987 issue of *The Cornell H.R.A. Quarterly.*

These interviews are more difficult to conduct; it is often hard to track these people, and you may need to settle for a sampling of the views of those who quit. But often the quality of what is learned warrants the effort.

One company had its recruiters make these calls. Occasionally they would discover an ex-employee who was sufficiently disenchanted with his new job to consider coming back.

STATE OF THE WORKFORCE FACT BASE

1. Turnover rates
2. Exit interviews
3. Post-exit interveiws
4. Turnover costs
5. Employee satisfaction surveys and meetings
6. Upward evaluations
7. Labor market indicators
8. Labor competitiors' actions

4 **Turnover costs.** The real bottom line behind the turnover numbers is what these figures are costing the company. Some of the costs are very intangible (lowered morale, weakened corporate cultures); others are hard to measure (impact on customer service – though, as we have seen in Part One, some of the service industry leaders are putting efforts into measuring this). Still others are numbers an accountant should be able to easily package.

Easiest-to-measure numbers include salaries and expenses related to:

- *terminating the departing employee,*
- *finding his replacement, and;*
- *getting his replacement up to speed.*

In addition to these direct costs, a variety of indirect expenses are turnover-driven. In addition to customer service declines and lost repeat customers, they include items such as:

- *lost productivity (of the one who goes, the newcomer, and anyone else whose work is dependent on them), and;*
- *increased shrink.*

Some companies have found these indirect expenses, when quantified, can range from two to five times the direct employee replacement costs.

It is worth putting some effort into these estimates and then tracking them over time. They provide one simple way to measure the rate of return of any program you put in place to reduce turnover.

5 **Employee satisfaction surveys and meetings.** It is surprising that many companies put a great deal of effort into asking employees why they are leaving, but very little into learning why the others remain.

A critical part of any effort to stay close to store-based employees is a systematic and periodic way of keeping top management informed about what is on employees' minds.

Some large companies do this effectively through well-designed, regularly administered, paper-and-pencil questionnaires.

But the best practices are those done face-to-face.

Some retailers have had very good experiences with meetings of small groups of employees. Run like consumer marketing focus groups, with a skilled facilitator present, these one- to two-hour, "no-holds-barred" sessions can provide a great deal of information about what is on employees' minds:

- *What they like and don't like about their jobs, their stores and the company's policies.*
- *How they would react to proposed changes.*
- *Ideas they have for improving store operations.*
- *Observations they have about changing customer preferences.*
- *Suggestions they have for reducing turnover.*

One company, twice a year, selects 14 non-management employees to attend such a meeting. Their names are posted on the store blackboard in advance of the meeting, and other employees are urged to suggest subjects to them that should be brought up during the meeting.

The chief executive of the independent operator, discussed in Part One, meets monthly with all those designated "employee of the month" for a similar purpose. This also adds a little more significance to a common employee recognition program that can easily grow stale.

6 **Upward evaluations.** One way to formalize the previous practice would be to have store associates periodically – and confidentially – rate the effectiveness of the management they receive, and the quality of the services they receive from other departments of the company. Ask them how well the rest of the company is helping front-line associates serve customers. If done carefully, this can be a useful "early warning" to detect management problems before they lead to severe problems in the store.

What is learned through techniques like these is often key to planning changes, and is often filtered or miscommunicated if left to flow through the normal management hierarchy.

7 **Labor market indicators.** It is also important to look outside the company to track changes in the regional labor market and to anticipate how the

changes you foresee in the local economy will affect it. Economic downturns can sometimes mask the impact of longer-term demographic shifts.

Some retailers have reported significant recent improvements in their turnover – without them having done anything special. However, our survey of 53 industry human resource executives indicated only an 8% drop nationwide in part-time turnover from 1989 to 1990. This is most likely recession-driven. When the economy rebounds, tighter labor markets can be expected to return. This is because the basic demographic trend – a shortage of employees just begining their careers – will continue throughout most of the 1990s.

This implies, strategically, that the lull in the tight labor market is a time for restocking of talent, of upgrading. One New England supermarket executive describes his region's economic slump as providing him with a "stay of execution," knowing he still has to prepare for medium-term talent shortages.

Keep your antennae out to avoid being blind-sided.

8 **Labor competitors' actions.** Finally, identify who your chief labor market competitors are. Which are especially effective at attracting and holding on to the talent you want? Why? How are they changing? Are new sources of competition emerging?

Food retailers are not just competing with other, low-margin, grocers for store talent. In some sections of the U.S., fast-food chains are paying starting wages comparable with unionized supermarkets. Some home delivery operations and video rental stores have built strong esprit de corps among their employees. As office employers – especially banks and insurance companies – expand their customer service operations, they increasingly compete with retailers for workers. And as the labor supply tightens throughout the 1990s, more of these non-traditional competitors will emerge.*

"We're used to competing for customers, but now we'll be faced with a growing need to compete for our work force."*

This is the time to prepare for these challengers. Go out and visit several non-supermarket labor competitors in your market area. See how they design their jobs, do training, lay out advancement paths. Keep especially open for approaches they have taken to increase the value added to their businesses by these jobs. Then take these ideas back to your store operations and human resource managers. Discuss how they can be applied to your stores.

The purpose of building a fact base from information sources such as the eight just

*Food industry chief executive quoted in *Fortune*, June 4, 1990, page 59.

described is, of course, to take action. It should allow you then to:

- *identify problems,*
- *diagnose causes and implications of the remedies you are considering,*
- *set targets for improvement,*
- *pinpoint who should most appropriately be accountable for achieving them, and;*
- *monitor the progress that results.*

Now let's consider the other steps key to becoming a preferred employer.

CLOSELY MANAGE EACH NEW HIRE'S CRITICAL FIRST WEEK

One key fact about turnover is that – industry wide – the period an associate is most likely to quit is sometime within the first three months of employment. One retailer found that over two thirds of the hourly employees resigning in one year had been employed less than three months.

The Cornell University's "1989 Turnover Study" of 30 food retailers found that half of the full-time employees who quit that year did so in the their first three months. For part-timers, over 40% of the resignations came in the first month. The next two months accounted for an additional 30% of the year's departures.

These numbers imply that something is happening very early in the careers of store associates that makes them soon decide to leave. Or maybe the real issue is that something is not happening during those crucial first days.

This is the time when new hires need to:

- *be drawn into the family team,*
- *understand what is expected of them,*
- *and what they can expect of the company,*
- *their co-workers, and;*
- *their managers.*

What happens too often during this crucial period is loosely managed, if at all. Everybody's too busy. A vacuum is created rather than a mindset shaped. Some quick training is provided, a few introductions made, the rules explained, and a lot of forms filled out.

What should happen? First a realization that every new employee coming on board needs some individual planning. It needs to be managed – not just happen.

One retailer starts the new employee's "first day" several weeks before the first paid day of work. This company builds into its hiring decision process a half-day, unpaid, applicant-training program for prospective entry-level associates. They receive instruction in their job responsibilities and an overview of company policies, all reinforced with company-made videos. At the end of the session, they are tested on what they have learned. Their test results, and other

observations, are then factored into the decision of whether to offer them a job.

In addition to giving more information than the traditional employment application and interview hiring process, this applicant training provides potential recruits with a realistic preview of the job and the company. It is better for all concerned that they "wash out" before going on the payroll than during the first few months at work.

Skillfully managing the new hire's first week on the job involves:

- *providing enough orientation (which really begins during the hiring process) and training to ensure the employee is able to perform masterfully – at least some aspects of the new job – by the end of the first week. (One of the retention superstars we visited provided five days of this orientation. Many companies only provide five hours.)*

- *ensuring that some well-deserved recognition is provided for this performance.*

It involves at least enough contact with the store manager to ensure the new recruit knows the manager is aware and cares that he or she is there.

It involves frequent feedback from the recruit's immediate supervisor; feedback of the recognition-rich, ego-building, empathetic nature (because the supervisor remembers how much of a klutz he was on his first day).

It involves an immediate pairing of the newcomer with an old hand: a trusted, solid performer, part of whose job is to be this person's friend and buddy for at least the first three or four months of employment, and someone to help the newcomer build social ties with other associates.

The buddy knows something about the newcomer before his first day and has, possibly, received some training in how to help this person learn the ropes. Some retailers have formalized this into a mentor program. One even uses a written "mutual success pledge" signed by both newcomer and old hand as a way to make the relationship as concrete as possible.

Regardless of how good or thorough the formal orientation program is, new employees really get oriented through their interactions with other employees. This is how they find out how hard you really have to work, what rules count and which can safely be ignored.

This buddy system is one way to try to help the newcomer informally get acclimated.

The object of all this is for the newcomer to go home after the first day and say: "This place is different. I think I'm going to like it." And after the first week: "This is the place for me."

And after the third month, for the store manager to feel some pleasure because the recruit is still there.

BUILD A STRONG FAMILY TEAM

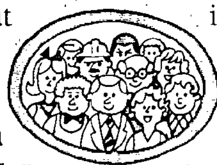
Creating a family-like atmosphere in the workplace is an objective of many retailers. They know it is one of the strongest things they can do to build loyalty and a common bond with their employees – as well as to minimize turnover. Many have found that the hardest aspect of this goal is keeping it fresh. They know they cannot, one day, just announce the establishment of a new, "We care about each other like family" corporate culture, and expect it to stick.

Food retailers who have established and continue to maintain a strong family spirit are a breed apart. The ability to really accomplish this and not just pay lip service to the idea, provides the retailer with a powerful tool to build cohesion and commitment. But it is a hard thing to pull off successfully.

The word "family" can be sometimes misleading. There are all kinds of families; not all are positive places to be. But the hallmarks of what we are talking about here include a workplace where:

- *you feel special about yourself because you work there.*
- *there is a very strong emphasis on employees taking care of each other (and the company).*
- *you know what's going on.*
- *while there is a hierarchy and a pecking order (just as in "real" families), you still feel much closer to those in the "company family" than you do to many outside.*
- *you feel the company clearly stands for something, and it's something that you feel you stand for too.*

These all add up to a sense of being at home when you are at work, which certainly makes it a harder place to leave than just a "job."



For some employees, the "work family" even helps compensate for deficiencies in the one they have at home. A store manager in one of the successful companies we studied spent many hours counseling a checker he feared he would have to fire. Her work skills were fine, but she had frequent absences and received many personal phone calls while working. In talking with her, he learned that she had a number of difficulties in her life outside the store. He told her there was little he could do to help with these problems, but he was able to convince her to use the store – during her working hours – as a buffer between herself and her outside life. He encouraged her to see her job as an "island" on which she could find some temporary refuge; a place where she could count on being treated with respect and get positive recognition for her accomplishments.

FAMILY TEAMS ARE:

- **Fair**
- **Fun**
- **Focused**
- **Frank**
- **Friendly**

The store manager's counseling worked. Phone calls ended, absences decreased, and a potential turnover-with-cause statistic became one of his most loyal employees.

Why did this store manager "go the extra mile?" Because this was exactly what he knew his boss, the owner, expected. How did he know what to do? Simple, he was just treating his checker along the same lines he had been treated earlier in his career.

Family workplaces affect employees in some unique ways. One employee of a retailer, acknowledged to be among the best in the industry in maintaining this spirit, said that when you work for this company you become especially careful how you behave when you are outside the store. "People know where I work, and I think they expect a little more of me because of it. I'm very proud of the company, and I try hard never to do anything that will reflect badly on it."

For some employees this statement could imply a lot of pressure is being imposed on them. But for others, it's just an indication they found the best place in the world for themselves to work.

Companies with these attributes do not just happen. They are carefully crafted.

They have a visible leader, one who understands very carefully the impact of his presence on others in the company; one who does not hog the limelight – his company's advertisements are more likely to feature store associates than him. And one who keeps in close touch with all associates, whether by store visits, video messages, or regular letters home.

RETAILERS BUILD STRONG FAMILY SPIRIT IN THEIR STORES BY:

- **Having a visible leader**
- **Keeping membership standards high**
- **Communicating with compensation**
- **Growing from within**
- **Breaking monotony**
- **Making people-builders out of their managers**

They have an ethic that says: "We will go the extra mile for our people." An officer of one such company said: "Our company has moved mountains to help our employees. And they all know it." When his company needs them to "move mountains," they tend to respond in kind. And not just in crisis situations. They have assimilated and put into practice the customer service training provided to every one of them. And, day in and day out, they provide a much higher level of consistency in delivering customer service than any of their competitors.

The president of a small, Midwestern company that successfullly competes (for customers as well as employees) with some industry giants, reinforces this ethic by periodically reminding his workforce that the "company needs them more than they need

the company." Through messages like this, he lowers the barrier between workers and managers, and also helps build their own self esteem.

Employees in successful companies with a family orientation have the satisfaction that comes with being part of a winning team. Family-oriented does not mean paternalistic. They don't carry poor performers. They try to turn them around before dismissing them, but they don't tolerate standard droppers.

They tie communication with compensation very effectively. They communicate, clearly and regularly, information about how the store and the company is doing – and how each employee's performance affects these results. One East Coast store pays regular bonuses to all employees (store manager through part-time baggers) based on the store's performance. These are not end-of-the-year rewards. They are paid every 13 weeks, in part to reduce turnover by providing an incentive to stay past the three month danger zone, and in part to focus attention, through cash, on near-term results so they can easily be improved upon.

Another rapidly growing company of over 300 stores uses a series of annual meetings (attended by the chairman, president, and division management) with multiple levels of store management to go over last year's results and this year's plans. First they meet with all the store and department managers from several districts together, then a week later repeat the meeting for all the assistant managers in these districts. Videos are made of the key themes of the meetings and shown to all employees shortly thereafter – often at, on-the-clock, store-wide meetings.

This company, and others, also holds well-promoted annual "visitations" to all stores by the chief executive or other senior managers. These are in part question-and-answer sessions, in part contests where top executives rate stores in a district against each other on store standards.

All of these are techniques to help keep the company growing while keeping the "family" from growing apart.

Most of these companies try hard to grow from within. The president of one of the most family-oriented companies takes pride in telling employees how he started as a bagger and how he expects the same of his successor. These retailers fear that if they do not promote from within, they will dilute some of the family spirit or create situations of inequity.

They work hard to break the week-to-week monotony that can occur in any retailer. One company adopts a special objective or theme for its business every year and then carefully communicates it to all employees. This company organizes events around the theme every few weeks throughout the year, and then starts the process over for the next year.

And they all put people management skills high on a pedestal.

Before we consider the details behind these people-management skills, there are two key challenges that family-oriented management poses.

The key challenge for companies that already have a family-team approach is to keep it up. Neglect caused by focusing top management attention on other priorities, business growth, and changes in leadership at the top can threaten this unique form of corporate culture.

Preserving it requires continual vigilance. Don't let up on the employee attitude surveys, focus group-like meetings, exit interviews, etc., just because all seems to be going well. Keep alert for small problems that can turn into family-breakers.

For companies that do not have this family orientation in place, the key challenge is to be very realistic about how much they can achieve and how quickly. Building this sort of corporate culture can be very difficult and may require years – even decades.

They may want to start small and build from there. One retailer is having a degree of success importing the idea of "self-managing teams," already proven and popular in a number of manufacturing plants in the U.S. and Japan. Many of the traditional responsibilities of the department manager are delegated to a group of associates who are expected to function as a closely knit team. They decide who is hired into the team, what their work rules should be, and they are allowed to request whatever information they need from the rest of the company to best do their jobs. They receive considerable cross-training and have specific performance targets they are all held accountable for.

This retailer has used this concept to organize a new distribution center and is now applying it to a department within some stores.

GROW YOUR PEOPLE-BUILDERS

Almost every one of the low turnover companies examined in this study had an important, common characteristic: their store managers were critical in making retention results happen. Or not happen.

Our survey of human resource executives indicated that in more than half of the companies polled, the primary responsibility for turnover reduction was delegated to the individual store managers.

Their people-handling abilities – or lack of them – will be critical to determining your ability to cut turnover and stay close to store associates.

The trick here is not to turn your store managers into personnel professionals – though an assignment in the human resources department might be an increasingly useful ticket to have your prospective store managers punch. But many will need to become more of a teacher and motivator and less a technician and disciplinarian.

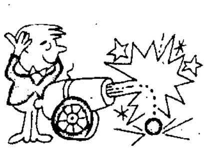
One common skill many of the store managers we interviewed possessed was an almost uncanny ability to know what tasks to do personally and which to delegate to others. One East Coast manager who for many years ran the lowest turnover store in his district, organized his week around three central tasks:

- *preparing the next week's labor schedule,*
- *interviewing and selecting new employees, and;*
- *searching for positive accomplishments of associates he can recognize.*

Almost all his other responsibilities were delegated to his assistant and department managers. He "lets" his assistant manager be the disciplinarian and bearer of bad news.

Successful people-handlers also know how to walk a difficult tightrope. They have learned, through careful training and mentoring, how to delicately rise above their companies' policies and procedures when they conflict with the business' overall mission. They can tell instinctively when a rule can be bent and when it can't. They keep track of the number of times they and other good managers find it necessary to make "adjustments" to company policy. Then, they openly lobby for changes in the policy.

How should a good store manager training program in people skills be designed?



First, it should not be a one-shot effort. Rather, it should be a series of sessions spread over several months, and repeated (refreshened) for each manager every few years.

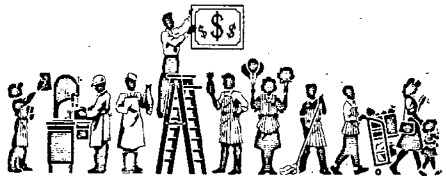
It should avoid too much canned content or watered down psychologizing. Do as the company in the Part One example of exemplary managers did: start with an analysis of what is already working in your operations. Package it into stories and case examples for easy assimilation, and use training as a mechanism to spread them around. As your managers start to improve, put their experiences out on the circuit.

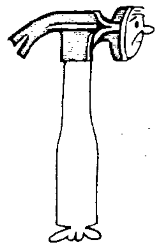
This is also the best way to inject your company's special ways of doing things into the program.

Also, make generous use of what you assemble from your fact base (discussed earlier). Toss some of the data and problems from the last round of turnover studies or focus groups into the manager training program. Get them started solving your real-life problems.

And keep to the basics. Lessons about Theory Z and neurolinguistic programming are fascinating stuff, but hold them back until all managers are well-skilled in topics such as:

- *picking employees who will stay,*
- *performance appraisal,*
- *performance-improvement coaching,*
- *knowing when to counsel and when to refer an employee with a problem to others,*
- *providing recognition generously,*
- *leading small group discussions,*
- *explaining what the company's all about, and;*
- *scheduling flexible labor hours.*





Some supermarket managers have been labeled "hammers." They are your people-destroyers, not builders. They are ignorant of most of the subjects above and take a narrow view of their jobs as limited to delivering financial performance and maintaining store standards. Their treatment of store employees personally drives a reasonable chunk of industry turnover.

But some are, as mentioned, exceptionally good at delivering some of the results you need. What can you do to redirect the rest of their abilities?

"Delta Airlines says respect is what workers crave most, especially those who deal with the public daily."*

One food retailer has had success converting some people-destroying store managers into, at least marginally, better people-handlers. Their straightforward approach involves the following:

- *Let them know exactly what is wrong.*
- *Thank them for their past contributions, but let them know they have reached the end of their career in your company...*
- *...unless they want to work extremely hard to do a better job managing associates.*
- *If not, tell them you will be glad to assist them finding work elsewhere.*
- *If they want to give it a try, assign them to another store – as an assistant manager – run by one of your best people-builders. Tell the builder it's time to show how good he (or she) really is.*
- *The builder spends a lot of time with the destroyer, observing how he interacts with others in the store; providing feedback and coaching, with some suggestions about how to try something different each day.*
- *Keep this up for three to four months.*
- *Then, if the builder thinks the assistant manager is ready, reassign him to a new store as store manager.*
- *If this works, give the builder a substantial bonus. He saved you a lot of money by not having to replace the manager.*
- *Give the former people-destroying manager a raise in pay. After all, he's significantly broadened the kind of performance he can produce for you.*

REPACKAGE YOUR JOBS

Retention programs based on a careful analysis of turnover statistics, employee focus groups, and your labor market competition are the first key steps toward leveraging store-based talent. And programs that are consistently effective are designed to have an impact on the associate's critical start-up period. Many companies that have had sustainable retention results – regardless of how loose or tight the labor supply is – have made good use of the family-team idea to build employee loyalty. Almost all

*From page one of *The Wall Street Journal*, December 29, 1987.

The bottom line of a 1990 study by the Commission on the Skills of the American workforce is "Give workers more say and they will do more." This examination of the practices of 400 employers in the U.S., Europe and Japan recommends a major reorganization of work in America to better emphasize teamwork, rigorous training and high skills.

acknowledge the critical role of the store manager. But sometimes, all these "right" moves are not enough.

In some cases, because of strong external pressures from a shrunken labor pool or a hyperactive labor market competitor, they may not deliver the results needed. And for some companies, while turnover may be sharply cut, these alone will not significantly increase the value added by store-level employees.

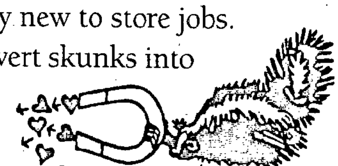
To do this requires bringing out heavier artillery. You need to look not just at the environment in which your employees work, but also at the nature of what they are doing.

It involves going back to the ideas presented at the end of Part One – especially the idea that it is useful to think of a store job as if it were a product; one in which you want to maximize the value it adds.

Treating a job like a product starts by considering closely its product-like attributes, especially, its:

- *size,*
- *weight, and;*
- *feel.*

The idea is to, along each of these dimensions, repackage the job so it adds more value to the person doing it and to the company providing it. Repackaging means job redesign – an activity common in many manufacturing industries but relatively new to store jobs. Its end result is to convert skunks into magnets.



Let's apply this to food retailing.

Size. How do you measure a job's size? Perhaps the simplest way is by looking at how much compensation it receives. Pay is a common characteristic among all jobs.

The main problem most store employees have with their compensation is not with its rate but its magnitude. Increase the number of hours available, make the job their primary source of income, and they will be much more likely to stay. In other words, increase the package's length.

Give employees some more flexibility about when these hours are worked – especially for those you cannot give more total hours to – and they will be even more likely to stay. This also changes the shape of the "product" a little.

One way to do this size-increasing is the tactic adopted by the Northeastern restaurant operator mentioned in Part One. His server jobs were all full-time, with mandatory overtime. The small, independent food retailer who offered most associates a minimum of 30 weekly hours or so, is also moving in this direction.

A Midwestern food retailer has focused on the flexibility dimension. A computer is used to match the preferred work shift of each employee with the shopper traffic patterns of his store, and then to prepare labor schedules that optimize both employee and customer satisfaction.

Re-sizing seems desired and likely. Some food industry experts predict a big increase in the percent of store jobs occupied by full-timers occurring before the end of the decade. Your choice may be to be an early re-sizer, or a laggard. Early movers may get the most advantage in the tightening labor market.

The other way, of course, to upsize the pay received by store personnel is by increasing the rates at which they are paid. Doing this, outside of what is unilaterally imposed by the labor market or union negotiations, requires repackaging another aspect of these jobs.

Weight. A weighty job is one with a lot of responsibility. Adding responsibility to a job, though, is something to do with care. It should not be done for its own sake but in keeping with how much additional value the increased responsibility adds to the business.

What opportunities are available to add additional "weight" to store associates' jobs? One used by a number of retailers is to broaden the variety of jobs each associate is able to perform. Encourage and cross-train as many as possible to be able to move from front-end, to service counter, to shelf stocking, to courtesy desk, as the work load requires. Perhaps pay them more as they learn new skills, with the payoff for the store being increased productivity through labor flexibility. Also, give these "master associates" some other forms of recognition.

One large supermarket operator found that by slightly increasing the "weight" of its customer-service clerk's job, it was able to both improve employee morale and increase customer satisfaction. This company required that when customers returned any item (for any reason), they first go to the customer service booth to obtain a form that they then would take to manager of the department stocking the item. After locating him and obtaining his signature, they would then return to the customer-service clerk to obtain a refund. This procedure bothered customers – already unhappy at the need to return a purchase – and made the clerks feel their job was to pass the buck rather than quickly help the customer.

This operator, when made aware of the problems the procedure was causing, quickly decided to allow the customer-service clerk to handle the return in one step.

Another area to explore which can broaden the contribution of store employees is with

regard to their assuming a more significant role in sales. Our survey of food retailing chief executives found strong support for giving store employees training in skills and knowledge that could pay back in same-store revenue growth.

- Ninety percent of them felt that if a greater percentage of customers were called by name by their employees, a significant improvement in repeat business or customer satisfaction could be achieved.

This view corresponds with the finding of a team of consulting psychologists who noticed that the single most important variable that keeps a customer coming back to a store is whether or not someone in that store knows the customer's name.

- Eighty-eight percent said sales would noticeably increase if their store associates were given additional training in sales techniques (such as suggestive or consultative selling).

- More than three quarters of the chief executives said that noticeable sales increases would also result if associates received more information and training about the products in the stores (regarding their preparation, uses, nutritional value, etc.).

These are just some examples of the seldom-tapped potential many executives feel is available. All of these involve making some investments in employee skills – that is how the weight gets added to the jobs. But the result should be converting what was just an expense category to a tool for revenue generation.

Feel. This is one of the least-tangible attributes of many products. It is also one of the most difficult to deal with head-on. But workplaces clearly have different "feels" about them. How these are experienced by associates and customers significantly impact their levels of commitment to the store.

INCREASE SAME-STORE REVENUE GROWTH BY:

- **Calling customers by their names**
- **Teaching sales techniques to store associates**
- **Providing information and training about products to store associates**

Earlier we considered ways to make the idea of a "family feeling" more tangible in your company. Some other feelings you may want to look for ways to operationalize include those found in many of *The 100 Best Companies To Work for in America.* Make sure:

- *the store is perceived as a friendly place, not one loosely masking hostility and suspicion.*

- *the workplace is not dominated by concerns about back-stabbing, company politics, and position-jockeying. Making sure that loyalty – as a virtue – remains subordinated to performance.*

- *your additions of extra weight to associates' responsibilities provide enough substance to these jobs so that those in them feel they are not just doing a "job," but through their efforts are having an impact.*

This impact, in turn, will build spirit and commitment. You'll know you have this when you hear employees talking about how they look forward to coming to your store to work. That's a nice way to hear customers talking, too. And you know that both feelings are closely related.

Several years ago two successful, people-savvy executives were overheard discussing the reasons behind their stores' successes. Both agreed that having a team of strongly committed associates in their stores was the vital platform on which their other competitive strategies were built.

One noted that in spite of its high value, employee commitment is not a commodity that can be bought.

The other immediately agreed, saying, "Yes. The best we are able to do here is rent it."

We think their observations are on the mark. And hopefully the suggestions this report has made will, at least, give your company a running start at obtaining a long-term lease.

NEXT STEPS

1. If you would like to find out more about some of the subjects covered here, check the footnotes for the names of several useful books and articles. Interested retailers may also contact the Food Marketing Institute Information Services for a package containing many of these reference materials. Contact Barbara McBride at 202-429-8296 for more information.

2. Distribute copies of this report to the members of your management team. Additional copies can be obtained from:

   CCRRC Study,
   P.O. Drawer 1734,
   Atlanta, Georgia 30301.
   1-(800) GET-COKE

3. Ask each member of your management team what two or three ideas in this report would have the biggest impact in your company. Combine these with your ideas, and ask your management team to prepare a plan to implement those you feel are of highest priority.

4. One useful starting point could be the collection of information described in the section on ACT ON FACTS page 25. Ask your human resource manager which of these eight types of information you have and are using, and which would be most beneficial to obtain.

5. Or, get started by sending the memo on the last page of this report to the appropriate people in your organization. For your convenience, it can be torn out of this booklet.

STUDY METHODOLOGY

The research this report is based on included:

- A literature search of over 100 books and articles.

- Discussions with faculty members at Cornell, Harvard and Purdue Universities.

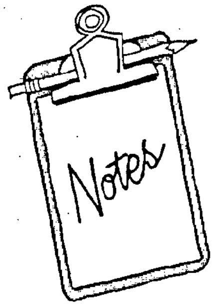
- Interviews with 14 industry associations whose members draw from the labor pool used by food retailers.

- Interviews with 8 non-food retailers.

- Examination of the results of two very large-scale studies of employee turnover: one produced by one of the U.S.' largest employers of service workers, the other by a major East Coast-based supermarket operator.

- Interviews and visits with 12 food retailers known for their excellence in human resource management. These included interviews with chief executives, vice presidents of store operations and personnel, training and recruiting managers, store managers and hourly employees. Many of these companies made available copies of the results of exit interviews, training curriculums, and turnover reports.


Notes



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LITHO IN U.S.A.

MEMORANDUM

TO:

FROM:

To help me better understand how we are managing our store-based employees, please put this information together and get it to me as soon as possible.

1. For the past 12 months, what has been the rate of turnover of our store employees?

   Part-time: ____________

   Full-time: ____________

   Use the formula on page 26 of the Coca-Cola Retailing Research Council report on "Strengthening Your Relationship With Store-Based Employees" to calculate this rate.

2. What has this turnover cost us over the last year?

   $________

   Take into account the factors in the Coca-Cola report on page 28.

3. What are the three most important things we are doing now to improve employee retention and satisfaction with their jobs?
   1) ______________________________
   2) ______________________________
   3) ______________________________

4. What three additional steps should we take to improve in this area?
   1) ______________________________
   2) ______________________________
   3) ______________________________

5. What else should we be doing to make sure our store employees are maximizing their contributions to the company's successful performance?

   ____
   ____
   ____
   ____

The Coca-Cola Retailing Research Council is an independent body of food retailers and wholesalers whose research activities are sponsored by:

Coca-Cola USA
Division of
The Coca-Cola Company

Coca-Cola Foods
A Division of The Coca-Cola Company