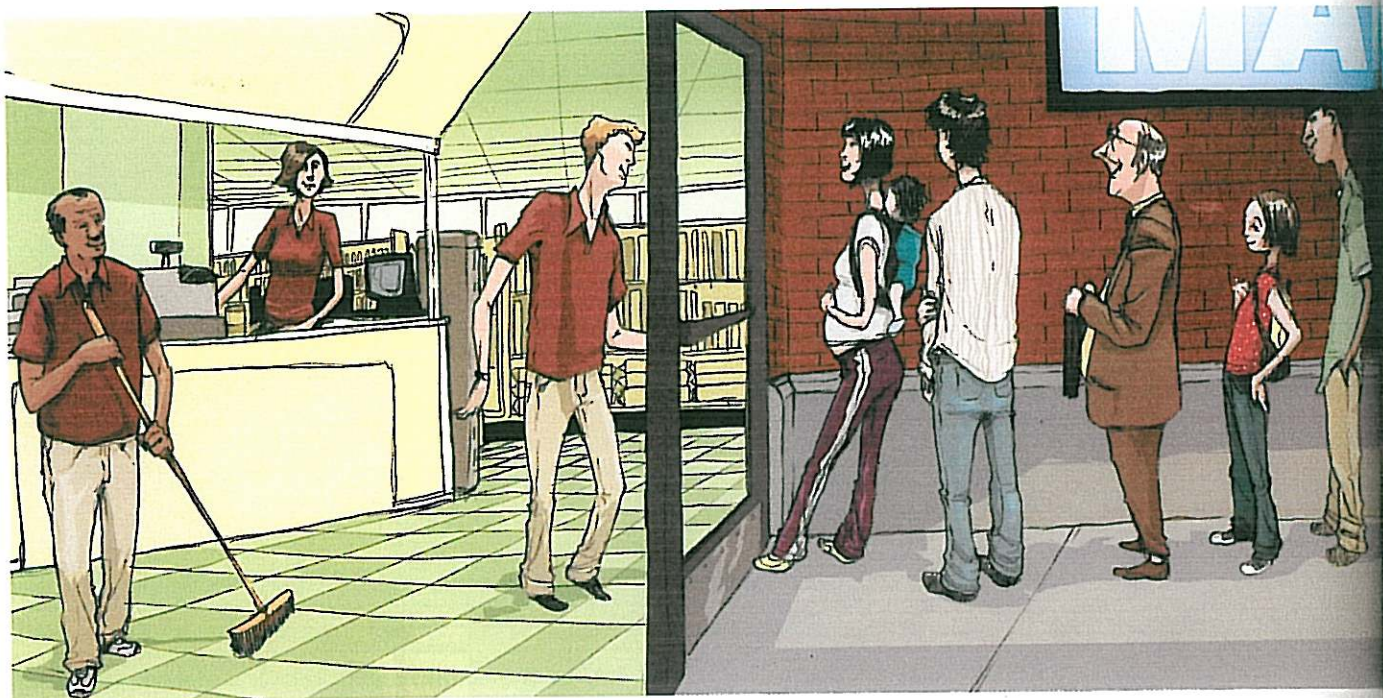


BEST PRACTICE



Creating the Living Brand

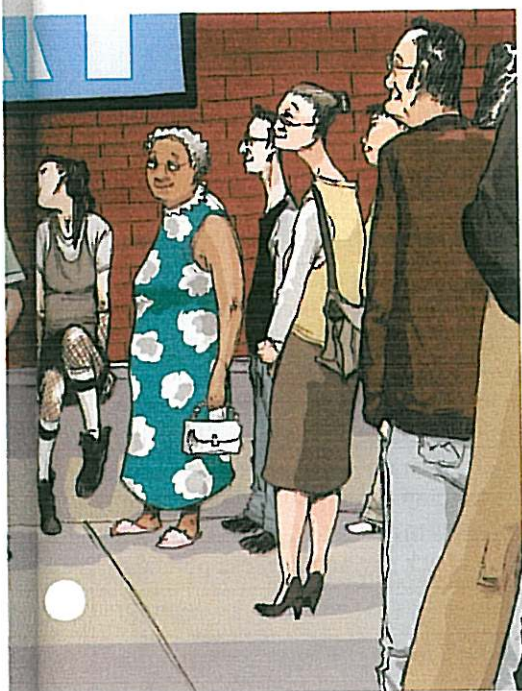
by Neeli Bendapudi and Venkat Bendapudi

Any company can deliver outstanding customer service—even convenience stores, where low pay and high turnover supposedly make service a problem. The secret: generating a bond between employees and the brand.

WHAT COMPANY first comes to mind when you think about outstanding customer service? Most of us would single out Nordstrom or Ritz-Carlton or one of the other luxury companies so often showcased in articles on the subject. In fact, it's easy to conclude from the literature and the lore that top-notch service is the exclusive province of a select few and that any retailer outside that rarefied atmosphere is condemned to offer mediocre service at best.

But even companies that position themselves for the mass market can provide outstanding customer-employee interactions and profit from them. Their secret? They consider employees their living brand and devote a great deal of time and energy to training and developing them so that they reflect the brand's core values. In fact, these companies make as much effort to groom

employees as they do to develop pithy messages about what the brand is and does. Look at two companies in the convenience store industry: QuikTrip (QT), a \$4 billion privately held firm based in Tulsa, Oklahoma, that operates 462 stores in nine central, western, and southern states, and the \$2.8 billion Wawa, a privately held company based in Wawa, Pennsylvania, that operates more than 500 stores in five eastern states. QT has been listed as one of *Fortune's* 100 best places to work three years in a row; in 2005 it was ranked number 19. Turnover rates at QT and Wawa are 14% and 22% respectively, a small fraction of the triple-digit average turnover in the retail sector. Wawa gets a couple of hundred applications for each position, and in 2004 QT received close to 118,580 applications for just 284 new jobs. Customers



are raving fans. There are even blogs and Web sites dedicated to these companies. The "We love Wawa" community on LiveJournal has more than 700 members.

But this is not just a feel-good story. Both companies routinely outperform the market. From 1977 through 2003, Wawa stock has grown at an average annual compounded rate of 17%, nearly twice that of the S&P 500. QT's stock value has risen 19.2% in the past three-year period, more than four times the S&P's rate. (Stock values are determined through an independent appraisal.)

We have studied the convenience store industry in depth during the past two years in conjunction with the National Association of Convenience Stores and conducted detailed case studies of these two companies. We uncovered six principles that both companies embrace to instill the brand and its meaning in their employees—and to create a strong culture of customer service. Both Wawa and QT demonstrate the power, even in minimum-wage businesses, of investment in employees to create a positive customer experience.

Six Lessons of the Living Brand

Know what you're looking for. It may seem a truism that every organization must have a clear vision of the skills and characteristics it wants in its workforce and a plan for getting them. But few companies that hire in the mass market have the discipline to go about doing that rationally and systematically or to think past such vague qualities as "service orientation" and "good work ethic." Even if a company does have a clear wish list of employee behaviors, it needs to go one step further and decide whether to "make or buy." It must decide which skills and qualities can be taught and which must be hired.

QT insists on hiring "nice" people who like people, because that's a tough quality to teach; it's either present or not. Other key qualities for QT hires include the ability to work in teams, the humility to learn from others, and an appreciation for diversity. But while it focuses on these intangibles, QT does not take a subjective approach to hiring. On the contrary, it puts applicants through a rigorous, structured process that includes a personality assessment designed to reveal specifics such as how patient or extroverted candidates are. The personality profiles are based on the qualities of QT's most successful performers across the company and are continually updated and refined.

It's hard for an applicant to game the test, because each question is asked several ways—and recruiters reviewing the answers will notice any results that look too perfect and will flag the applicant for an especially careful follow-up. Interviewers probe for stories to complete the picture. One manager might

ask about past experiences with difficult customers and listen for clues about the candidate's service orientation. Did he blame the customer? Did he find a creative solution? Another might ask what life experience the candidate would like to do over and what he or she would do differently. All of the interviewers have served in the positions for which they're hiring, so they can bring first-hand knowledge to choosing a successful candidate.

Hiring decisions at QT aren't left to store managers, a departure for the industry. Instead, managers in each of the company's eight geographic divisions do all the recruiting and hiring for their regions. There are two reasons for this. First, centralized hiring allows the company to maintain a consistent employee profile so that it can assign workers to positions and locations as needed, though the company makes every effort to place people in the stores closest to their homes. Second, centralized hiring reduces the risk that a store manager who is pressured for time or not skilled in identifying talent will hire weak employees who will bring down a store's brand equity and, by extension, the company's.

A focus on intrinsic traits, rather than on a particular set of work experiences, allows these companies to look past a typical retail background to find people who will naturally bring the right qualities to the job. At Wawa, the must-have is passion, for work and life. Since the late 1980s, Wawa has been "importing" teenagers from Ireland and the UK every year to fill the demand for summer labor on the New Jersey shore. Colleges in Europe break in June and don't start up again until October (many U.S.

colleges break in May and resume in late August). On the Jersey shore, the rush continues well past Labor Day, and the competition for employees is steep, so Wawa hires American students for the start of the season, then brings in the English and Irish recruits to overlap with the Americans and finish out the season. The company has relationships with several schools in Ireland that have food-service programs, so these students view the job not only as an opportunity to spend some time in the United States but also as relevant work experience that will beef up their résumés. And because the recruitment program is more than 20 years old, each new batch of students has heard things about working at Wawa from those who came previously. Their abundant enthusiasm makes them good brand ambassadors.

Make the most of talent. In mass-market retail environments, talent is generally viewed as a commodity, and employees are basically interchangeable. But that outlook becomes a self-fulfilling prophecy. Studies have repeatedly shown that people rise or stoop to the expectations set for them, whether it be schoolchildren achieving more when their teachers are told they're especially bright or employees outperforming their colleagues after being labeled as fast-trackers. Wawa and QT get more from their people because they expect more. One way they communicate expectations is through training.

In most retail environments, training is minimal – seven hours, on average. Training is typically conducted off-site, and if it's done inside a store, it's usually in a low-volume outlet, where the new employee is less likely to be in the way. At QT, the process looks very different. Each new full-time employee is part-

nered with a personal trainer who has previously held the same position (the trainer is, in fact, the person from the regional hiring office who recruited and hired that employee). The two work the same shifts – in the store where the new hire will work – and the trainer acts as a buddy and mentor for two weeks. This allows the new employee to interact with his colleagues and provides the best preview of life after training. That way, the pace of work in a bustling store won't come as a shock.

Such investment in people continues well beyond the initial hire. Wawa encourages its people to pursue degrees in any field of study – philosophy, biology, history – and reimburses tuition at three colleges with which it has relationships. Executives reason that higher

up. The culture fosters teamwork, too – managers have empathy for their employees, and frontline workers have role models to emulate. It is harder for the rank and file to think in terms of “us” versus “them” than it is at other companies.

Another way QT maintains loyalty is with its tailored benefits packages. Full-time employees get regular coverage from day one, and part-time employees are offered a scaled-back plan. The company also has a medical reimbursement plan to allow employees to save for the expenses the plan doesn't cover, such as deductibles and copayments. Flexibility is a hallmark of QT's time-off program. Depending on tenure, employees receive ten to 25 days of vacation, plus ten days of sick pay, and they can purchase

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education benefits individuals, the community, and Wawa by boosting employees' confidence and critical-thinking skills. This is a clear differentiator in the industry. In addition, the company has an in-house curriculum that offers more than 100 courses, in a central training facility, on topics as diverse as safety, inventory management, and people skills. Sometimes a store manager will decide that his entire staff needs education on a particular topic, and Wawa will send the store either internal trainers or teachers from the colleges. The emphasis on learning helps Wawa to be an employer of choice (witness its low turnover), even though its pay is on a par with other companies in its labor market.

People perform at their best if they see a future for themselves at a company. Employees know they can have a career at QT, due to its strong culture of promoting from within. All of its more than 400 store managers and very nearly all of its top executives started at the bottom and worked their way

an extra two weeks of vacation. All full-time employees may request ten additional days off without pay for personal activities such as school plays and graduations. Nearly every employee takes advantage of this benefit, an unusual perk in the retail industry. The arrangement works well for the company, because employees needing to take a day here and there would otherwise call in sick on the morning of the absence, and service would suffer. QT's policy allows managers to get advance notice of such absences and staff accordingly.

Finally, these companies ensure that employees have the support they need, both externally and internally, to do their jobs well. Wawa involves store managers, who have the best information on store operations, in improving the performance of vendors. Twice a year, the managers formally assess selected vendors' delivery accuracy, customer service, and other attributes. The vendors are then given an opportunity to discuss the feedback and determine

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what steps should be taken to improve performance.

The company takes the same hard-nosed approach to analyzing the quality of internal support processes such as marketing and human resources, with the same expectation that performance will be improved. When a survey showed that store managers found it frustrating to get stuck in voice mail when they phoned the marketing people, for example, the department set up a call center so that store managers would always be immediately connected to a live contact. In year-end reviews, Wawa's marketing department won most improved, beating out even its external vendors.

Create pride in the brand. In retail, service is the manifestation of the brand, and service quality depends directly on employees' attachment to the brand. QT and Wawa constantly and consciously invest in maintaining brands that employees can take pride in. Wawa has a devoted following for its private-label offerings, with a brand identity rare in the convenience store industry. Its focus is on simplifying customers' lives, which can mean sacrifices when it comes to

profits. ATMs in the stores carry no surcharge, a benefit prominently labeled on the machines. And when lottery jackpots are huge, there are no long lines of bettors to inconvenience regular customers, because Wawa doesn't carry lottery tickets. QT was the leader in removing adult magazines from its stores – it did so in 1986, resulting in an annual loss of more than \$1 million in profit.

Such is the attachment to Wawa brands that the company's 1994 move to put Taco Bell and Pizza Hut outlets in more than 100 stores, and Dunkin' Donuts outlets in all stores, was met with opposition from customers and employees alike. Wawa had invested a great deal in franchise fees, training costs, facility redesign, and so forth in this effort to meet customers' expressed desire for more variety. But the products didn't sell; customers were used to seeing Wawa-branded items. And associates grumbled about working hard to build other companies' brands – they wanted people to come into the store for Wawa, not for Pizza Hut. In 1996, Wawa began to phase out the brands to make more room for Wawa products. The company openly discussed with as-

sociates the error of the earlier decision and acknowledged the value of employee input.

Build community. While many convenience store chains have focused on speed of transactions and sales volume per store, Wawa and QT have made concerted efforts to build customer loyalty through a sense of community. We interviewed 80 customers, and almost all of them mentioned employee friendliness as one of the reasons they come back to the stores. A Wawa coffee host we observed in Richmond, Virginia, greeted most people by name when they came in and knew their coffee preferences. One Wawa we visited closed its doors for 45 minutes to allow a couple – who had met and become acquainted over daily coffee at the store – to get married at "their" Wawa. We went to the ceremony; the store was decked out like a chapel. Wawa provided coffee and cake, and all the store associates were in attendance.

QT customers reported similar sentiments. "I feel better when I am in QT land," said one. "I can't imagine my life without QT," said another. At both stores, customers remarked upon two things they believed were unique: The people who worked at the stores seemed to be glad to be there, and they seemed to like one another. The perceived sense of community among store associates appears to spill over into a sense of community with customers.

Both companies have strong commitments to local charities and causes. Customers in one area mentioned that Wawa provides coffee and other beverages to families of patients at a local children's hospital. QT allocates 5% of its annual net profits to charity (the same percentage donated by Target, which is sometimes held up as a community-investment model). QT has partnered with Safe Place, a nonprofit that helps get runaways and other troubled youths off the streets. QT's stores are ubiquitous in its market area, so they make great havens. A store employee will offer a young person seeking help something to eat and drink while a Safe Place volunteer is called to pick up the person

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and take him or her to a place to stay or get professional help.

The community spirit is evident internally, too. At Wawa, when a store faces a natural disaster or a personnel difficulty, the manager can count on the Wawa flock to provide support until the store is fully functional. Managers came from hundreds of miles away to help clean storefronts and do whatever else was necessary after Hurricane Isabel smashed into the Virginia area in 2003. ("Wawa" is a Native American word for Canada goose, and employees often point to the cooperative migratory habits of geese as an inspiration for their sense of community.)

At QT, the community feeling extends to the customer-service appraisal system and the reward structure. The emphasis is on the team's performance in satisfying and delighting customers. If a mystery shopper—someone who visits a store anonymously and reports on service—is especially impressed with a particular employee, everyone on staff at the store

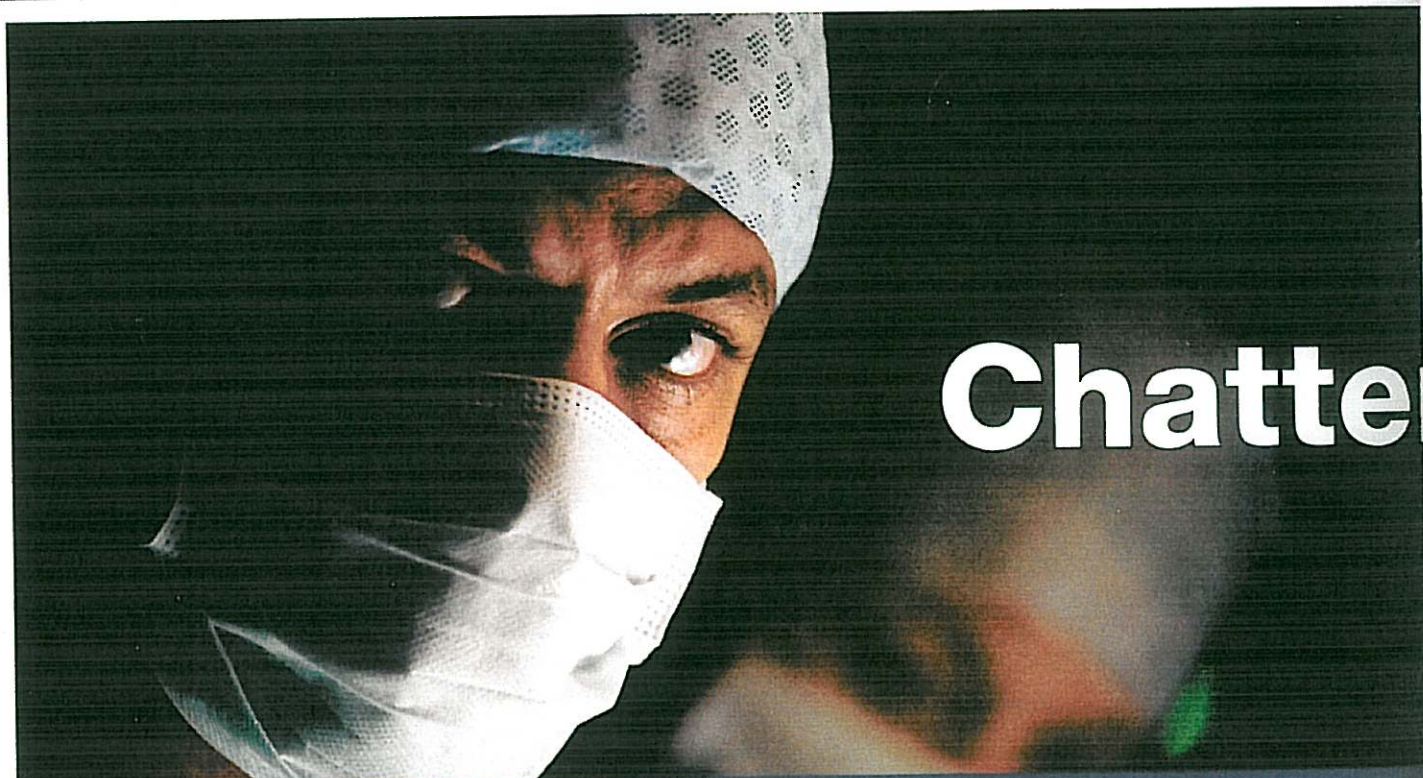
during that shift receives a bonus, because the company believes that individual rewards would undermine the message that all employees contribute to the customer's experience. Outstanding individual contributions are recognized with a note from the CEO.

Share the business context. Employees need a clear understanding of how their company operates—particularly, how it defines success. Wawa considers an employee successful if he or she acts to preserve the level of trust that the company has built up over many years. (In the 1950s and 1960s, when women were entering the workforce and leav-

ing their homes empty during the day, Wawa milkmen were commonly trusted to use hidden keys so they could put deliveries in refrigerators.) Because they understand the company's values, employees don't have to follow a rigid set of rules—they just have to behave in ways that meet customer needs.

Employees also need to know how their work affects companywide financial performance and how the company arrives at its targets. Armed with this information, workers can better understand the decisions of upper management and improve job performance. Both QT and Wawa show a remarkable

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openness in discussing company performance and strategy with associates. At QT, every full-time associate is trained to read the store's monthly financial statements and earns a bonus that is based on the store's operating profit.

QT executives are quick to dissect their mistakes, from the installation of individual gasoline pumps along the sidewalk for drivers' convenience (customers didn't like the arrangement, so QT switched to a more typical pump

setup) to failed products and categories. One of the purposes of this policy of openness is to encourage innovation by conveying the company's tolerance for well-meant mistakes. Chet Cadieux, the CEO, tells employees that as long as the company hires smart and caring people, no employee can make an error that the company cannot recover from. In a recent meeting introducing a new product category, he told employees that there might be missteps along the

way. The point, he emphasized, was to try to minimize them but not to let the fear of a mistake stifle innovation among associates, an important source of new product ideas. Wawa coffee, which has a devoted following, was introduced because a lone employee decided to offer brewed coffee in a store. And as we write this, the company has a contest on its intranet for the best recipe for mixing fountain drinks. The winner will get \$100, and the recipe will be posted in the store.

Satisfy the soul. Researchers suggest that to truly harness an individual's creativity, to get her full passion and engagement, a company must meet her needs for security, esteem, and justice.

Security. QT's employees know that their safety and well-being are of paramount importance to top management, which deploys technology and staffing models to create a sense of security. No employee ever works alone. The stores are brightly lit both inside and out. Every store has a raised checkout

Our Study

To learn how Wawa and QT have become known as both employers of choice and retail stores that are an integral part of customers' lives, we conducted an in-depth study involving observation and interviews with top managers, store associates, and customers. The companies coordinated about half of our visits and informed the store managers that we were coming. During those visits, we got permission from the store teams to talk with customers. The companies gave us store coupons that we offered shoppers to thank them for participating in the study. The rest of the time, we went unannounced so that we could quietly observe such things as the upkeep of the stores and interactions between customers and employees.

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stand and uncluttered front windows to ensure visibility from the street. The company sets the industry standard in the number of sophisticated alarm and video monitoring devices in every store. For several decades, Wawa has staffed stores with more than two associates at a time to increase safety.

Esteem. The emotional and physical demands of a service job can be wearing, so Wawa provides rejuvenation by celebrating successes and milestones. Employees are informed about store performance every month, and each year, the top 20% of store managers and store supervisors, determined by financial performance and improvement over the previous year, are inducted into the President's Club. Induction means a three-night trip with a guest to a resort location for a series of events that culminates in the President's Club ring ceremony, held in some dramatic setting such as a major-league baseball park or ancient ruins. The choreographed extravaganza carries a motivational mes-

sage and is designed to inspire managers to create an atmosphere of excellence at their stores. The President's Club is an important part of a corporate culture that emphasizes celebration and the importance of employees' taking the time to support one another.

Every month, mystery shoppers evaluate Wawa stores along the company's brand standards, which detail expectations for every element of the store experience, from waiting time to the freshness of the food to the cleanliness of the restrooms. High-scoring teams are visited by the "prize patrol," which brings rewards and a party. Every quarter, associates from the prize patrol stores are entered into a drawing for trips to Disney. Even part-timers from the teams get a chance to win vacation trips—one got a trip around the world.

Justice. So that workers will feel they are being treated fairly, Wawa gives eligible employees (people who have been at the company for more than a year and work more than 1,000 hours

a year) a share in about 10% of the company's base profits. It has expanded its employee stock-ownership plan and is offering associates an opportunity to purchase additional shares. A mark of employee confidence in the company: Some 29% of company shares are held by associates.

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At first glance, the investments that Wawa and QT make in their living brands may seem excessive. Executives are quick to agree that both organizations spend more than their competitors, though as private companies they keep the numbers close to the vest. "How can they afford to do that?" is a question we have heard as we have shared these stories of uncommon service quality in a commonplace industry. The leaders of Wawa and QT would most likely reply: "How can you afford not to?"

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"I just found the first Post-it note you ever wrote me."