In-N-Out Burger: Professionalizing Fast-Food

The regional chain In-N-Out Burger has held its own against giants Burger King and McDonald's by stressing employee retention

Rich Snyder was 24 when he became president of In-N-Out Burger after his father, Harry, died in 1976. He shared Harry's belief that running a successful fast-food business wasn't about cutting corners or using the right equipment. What it boiled down to was the people on the front lines.

Where the two differed, however, was that Harry had hoped his "associates," as he and Esther insisted on calling employees, would work hard, save money, and leave. Rich had another idea: "Why let good people move on when you can use them to help your company grow?" Rich also wanted to establish a much bigger footprint for In-N-Out Burger.

There was another difference between father and son: Rich was a born-again Christian. In the 1980s he began printing biblical references on cups and burger wrappers, and then he went further, commissioning a Christmastime radio commercial that asked listeners to let Jesus into their lives, alongside In-N-Out's jingle. Many stations refused to run the ads, and Californians showered the company with complaints. Rich essentially shrugged off the reaction. The Bible chapter-and-verse references remain to this day, and radio ads commingled with evangelism still crop up.

But on issues of quality, Rich remained his father's son. In 1984, in Baldwin Park, Calif., he set up In-N-Out University, a training facility, with the aim of filling the pipeline with qualified managers and reinforcing the company's focus on quality, cleanliness, and service. About 80% of In-N-Out's store managers started at the very bottom, picking up trash before rising through the ranks. Rich realized that if he wanted to expand, he needed to put a system in place that would professionalize management.

To attend In-N-Out University, an associate usually had to have worked full-time at a store for a year. In that time, she had to demonstrate initiative, strong decision-making ability, and impressive people skills. A cornerstone of In-N-Out's limited growth strategy was to expand only as quickly as the management roster would allow. At the university Rich came up with a number of ideas to hone the training process. For instance, a team of field specialists was deployed to motivate and instruct associates. Inspired by pro sports teams, Rich began producing a series of training films and videotaped trainees to critique their performance.

Although the work could be dreary—imagine a four-hour shift spent cleaning up spilled milk shakes—associates were made to feel part of an important enterprise and given opportunities to advance. On-the-job training was wedged in between mealtime rushes, and everyone was given large helpings of feedback. Rich wanted each associate to understand his job and how he could do it better. The result was that many part-timers came for a summer job and stayed for a career.

INFURIATING ADVICE

Rich thought of his job as the point at the bottom of an inverted triangle. He was there to support everyone in the company. When talking to store managers, he was always careful to refer to the shops as "your stores," hoping this would help instill a sense of ownership.

At one point when Rich was planning the expansion drive, he sought the advice of a food industry consultant. The expert told Rich that if he slashed salaries, In-N-Out could save a "ton of money." This infuriated Rich. Recounting the story, he said it was exactly the kind of advice one would expect "from a guy who wears a suit and who thinks you don't pay a guy who cooks hamburgers that much money."

From its start, In-N-Out paid employees more than the going rate. (Associates always made at least $2 to $3 above minimum wage.) As of February 2008, In-N-Out was paying new part-time associates $10 an hour—just 51 cents less than full-time workers at Wal-Mart (WMT), whose $375 billion in annual sales is about 1,000 times greater than In-N-Out's. Store managers at In-N-Out make at least $100,000 a year and are eligible for monthly bonuses tied to store sales.

Rich also established an expansive set of benefits, including 401(k) plans, paid vacation for part-timers, and health, dental, and vision plans for full-time workers. Each year, he put on companywide picnics and a gala dinner. Managers who met their goals were sent on trips with their spouses, often to Europe in first-class seats. For a Christmas outing to a performance of The Nutcracker, Rich insisted that his managers wear tuxedos. He thought they stood shoulder to shoulder with any blue-chip manager and wanted them to feel that way, too.

The upshot of treating its employees with special care is that In-N-Out boasts one of the lowest turnover rates in the business. Industrywide, only about half of all fast-food workers stay beyond a year. And the numbers plummet to just 25% at two years and 12% at three. In In-N-Out's case, managers' typical tenure is 14 years, while part-time associates remain, on average, for two.

To this day, the corporate culture inspired by Harry and Esther and carved in stone by Rich stands in stark contrast to rivals' systems of low-paid burger flippers and cashiers who don their disposable hats for what society has deemed McJobs. And it never drove up prices or pushed down quality.