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Store24 (A): Managing Employee Retention

It was late Friday morning in early May 2001 when President and CEO of Store24¹ Bob Gordon (MBA '62) met with CFO Paul Doucette and COO Tom Hart. The group gathered in preparation for the upcoming Monday morning executive committee meeting. The Friday agenda focussed solely on discussing strategies for increasing store level employees retention. Gordon started:

We will be considering a number of options for increasing store level employee retention ranging from increasing wages and bonuses to training enhancements to career development programs. I think it would be useful to start the meeting with an overview of the relationship between employee tenure and store-level performance. Do we have any research showing the impact of manager and crew tenure on store level operating performance?

Hart recalled that he had recently done a quick analysis to examine differences in employee tenure between the most profitable and least profitable stores (**Exhibit 1**). He explained that his analysis showed that manager and crew tenure in the top ten most profitable stores was almost four times the level of manager and crew tenure in the least profitable stores. Intrigued by this analysis, Doucette remarked:

We have been collecting data on store manager and crew tenure for years, and we have always set very specific goals for increasing manager and crew tenure. For example, our most recent store manager bonus plan provides a quarterly bonus of 3% of the manager's salary for increasing average crew tenure by 1.38 months during the quarter. It would be great if we could use this data to get some estimate of the actual financial impact of a 1.38-month increase in crew tenure.

Doucette recalled that Sarah Jenkins, the intern hired to assist in the development of a new employee-attraction and -retention strategy for the tight New England labor market, mentioned that she had received some training in data analysis as part of her MBA curriculum. Doucette thought that Jenkins would be just the right person to help with this sort of analysis and suggested that they all meet with her after lunch.

¹ Store24 is the fourth largest convenience store retailer in New England with 82 stores located throughout Massachusetts, New Hampshire, Maine, Rhode Island, and Connecticut.

Posing the Questions

Jenkins headed over to Gordon's office curious about the sudden Friday afternoon meeting. After briefing Jenkins, the group began discussing specific questions to be addressed before the Monday morning meeting. Doucette explained:

We are considering many strategies for increasing manager and crew tenure. We would like to use our data to get some estimate of the actual financial impact of increased tenure so that we can make more informed decisions when considering increasing wages and bonuses or how much to spend on training and development programs.

Gordon added:

While site-location factors such as population, number of competitors, and pedestrian access are traditionally considered the primary drivers of store success, I have always been a big believer in the power of 'people factors,' such as employee skill and experience, in optimizing a given site's performance.

Gordon reflected on the analysis that Hart had presented earlier and added "I wonder if you might be able to use our data to help us understand how important manager and crew tenure are relative to site-location factors in determining store level financial performance."

Hart agreed with Gordon's sentiment on the importance of managers and crew at the store level. Having spent a lot of time in the field at various stores prior to becoming the COO, Hart understood that managers and crew affected store performance in a variety of ways including ensuring compliance with Store24 merchandising and operating standards, maintaining in-stock position, and managing shrink and cash control. Hart mentioned:

The relationship between tenure and financial performance might not be that straightforward. Many of our stores have very low levels of tenure. Increasing tenure in these stores may have a relatively large impact on financial performance since managers and crew are developing new skills on a daily basis if we are able to retain them. In stores with our most experienced employees, these skills have already largely been developed and, hence, an increase in tenure may have a relatively small impact on financial performance.

Jenkins understood that Hart was essentially saying that the relationship between tenure and financial performance might vary with the level of tenure. She recalled that this meant there could be a nonlinear relationship between tenure and financial performance; however, she was not sure how she would incorporate this into her analysis. Jenkins knew that she had to find out what the implications of such a relationship would be in determining how bonuses and other incentives should be tied to retention.

Getting the Data

Knowing that time was short, Jenkins headed straight for Controller John O'Connell, who was very familiar with Store24's performance reporting system, and could gather store level operating data quickly. "John, I need a quick favor. I've been asked to analyze the relationship between tenure and financial performance. Can you help me access some data for this project?"

O'Connell remembered a recent report containing fiscal year 2000 store performance results. "I have a file here with financial results and tenure data on 75 of our 82 stores for the 2000 fiscal year

end.” Remembering Gordon’s comment during the meeting, Jenkins added, “I forgot to mention that I also need to control for site location factors in my analysis.” “No problem” added John. “This file contains data on a number of our most important site location factors.” (See **Exhibit 2.**)

A First Cut at the Data

When Jenkins returned to her office, she shut the door and opened the data file on her computer. She knew she had better get started if she was going to complete any analysis by Monday morning. Formatting the data and calculating summary statistics (**Exhibit 3**), Jenkins found that average manager tenure was just under 4 years and average crew tenure was just over 1 year. However, a huge amount of variation existed with manager and crew tenure. She wondered what these seemingly large differences in tenure across stores meant for financial performance.

Jenkins also noticed that the stores in her sample appeared to be widely geographically disbursed, complicating site-location factors. For example, population within a half-mile radius ranged from a low of 1,046 to a high of 26,519. Thinking back to the questions posed by Gordon, Doucette, and Hart Jenkins wondered how to incorporate all of this new information into a single coherent analysis by Monday morning. Jenkins wanted to have an opinion as to whether increasing wages, implementing a bonus program, instituting new training programs, or developing a career development program would be the best course of action for increasing employee tenure. She worried that some of these programs may not achieve the desired results of increased store performance and wanted to learn as much as she could over the weekend.

Exhibit 1 Fiscal Year 2000 Store-Level Profitability (fiscal year 2000 ends April 30, 2001)Top 10 most profitable stores:

Store #	Profit	Manager Tenure	Crew Tenure
74	518,998	171.1	29.5
7	476,355	62.5	7.3
9	474,725	109.0	6.1
6	469,050	149.9	11.4
44	439,781	182.2	114.2
2	424,007	86.2	6.6
45	410,149	47.6	9.2
18	394,039	240.0	33.8
11	389,886	44.8	2.0
47	387,853	12.8	6.6
Mean	438,484	110.6	22.7

Bottom 10 least profitable stores:

Store #	Profit	Manager Tenure	Crew Tenure
37	187,765	23.2	1.3
61	177,046	21.8	13.3
52	169,201	24.1	3.4
54	159,792	6.7	3.9
13	152,513	0.7	1.6
32	149,033	36.1	6.6
55	147,672	6.7	18.4
41	147,327	14.9	11.9
66	146,058	115.2	3.9
57	122,180	24.3	3.0
Mean	155,859	27.4	6.7

Source: Company information.

Exhibit 2 Variable Names and Descriptions

Variable Name	Description
Sales	Fiscal Year 2000 Sales
Profit	Fiscal Year 2000 Profit before corporate overhead allocations, rent, and depreciation
MTenure	Average manager tenure during FY-2000 where tenure is defined as the number of months of experience with Store24
CTenure	Average crew tenure during FY-2000 where tenure is defined as the number of months of experience with Store24
Comp	Number of competitors per 10,000 people within a ½ mile radius
Pop	Population within a ½ mile radius
Visible	5-point rating on visibility of store front with 5 being the highest
PedCount	5-point rating on pedestrian foot traffic volume with 5 being the highest
Hours24	Indicator for open 24 hours or not
Res	Indicator for located in residential vs. industrial area

Source: Company information.

Exhibit 3 Summary Statistics from Sample Stores²

Store	Sales	Profit	MTenure	CTenure	Pop	Comp	Visible	Ped Count	Res	Hours24
1	1,060,294	265,014	0	24.8	7,535	2.80	3	3	1	1
2	1,619,874	424,007	86.2	6.6	8,630	4.24	4	3	1	1
3	1,099,921	222,735	23.9	5.0	9,695	4.49	3	3	1	1
4	1,053,860	210,122	0.0	5.4	2,797	4.25	4	2	1	1
5	1,227,841	300,480	3.9	6.9	20,335	1.65	2	5	0	1
6	1,703,140	469,050	149.9	11.4	16,926	3.18	3	4	1	0
...
74	1,782,957	518,998	171.1	29.5	10,913	2.32	3	4	1	0
75	1,321,870	296,826	2.3	8.7	8,966	1.89	4	4	0	1
Mean	1,205,413	276,314	45.3	13.9	9,826	3.79	3.08	2.96	0.96	0.84
Standard Deviation	304,531	89,404	58	18	5,912	1	1	1		
Minimum	699,306	122,180	0	1	1,046	2	2	1		
Maximum	2,113,089	518,998	278	114	26,519	11	5	5		

Source: Company information.

² For access to the dataset as a text or Data Desk file, email the case author.