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Chapter 9 Labor

This article from the May 2005 *Wall Street Journal Classroom Edition* discusses the challenges of maintaining a stable and motivated work force. In “Money Isn’t Everything,” Journal reporter Erin White examines how Domino’s Pizza tackles the costly problem of employee turnover, using better management training and incentives rather than higher wages.

Before reading the article, you may want to look up the following terms: chronic, demographics, commissioned, affluent.

When Rob Cecere became regional manager for eight Domino’s Pizza stores in New Jersey four years ago, his boss gave him a mission: slow down turnover.

Store managers in the region were leaving every three to six months. Without a steady boss, workers there who answered phones, made pizzas and delivered orders had a turnover rate as high as 300% a year.

Turnover is a chronic and costly headache for fast-food businesses, which rely on an army of low-paid workers. A harsh boss, a mean colleague, or a boring day can cause workers who earn around the minimum wage—which is $5.15 an hour nationally but slightly higher in some states—to quit for similar pay elsewhere. Average turnover for most large and midsize companies is about 10% to 15%. But at fast-food chains, rates as high as 200% a year for hourly workers aren’t unusual.

Some companies are tackling the problem with a higher starting wage. But Domino’s has a different view. The company is willing to try all sorts of tactics to retain hourly employees—except paying them significantly more. “If we had increased everybody’s pay 20%, could we have moved the needle a little bit to buy a little loyalty? Maybe, but that’s not a long-term solution,” says Domino’s Chief Executive Officer David A. Brandon.

He says that while pay is a factor, “you can’t overcome a bad culture by paying people a few bucks more.” He believes the way to attack turnover is by focusing on store managers—hiring more selectively, coaching them on how to create better workplaces, and motivating them with the promise of stock options and promotions.

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High turnover hurts the bottom line. It costs money to recruit, hire and train people, and undercuts service when inexperienced employees don’t work as efficiently.

Domino’s turnover crusade started in 1999 when Mr. Brandon was named CEO. His first day at Domino’s, he asked about the company’s turnover rate. He was told it was 158%. “Honest to God, I almost fainted,” he says.

Mr. Brandon vowed to change things. He com-

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missioned research that showed the most important factor in a store's success wasn't neighborhood demographics, packaging or marketing, but the quality of its store manager. "When that position is turning over at a high rate, the ripple effect of that is enormous," he says.

His strategy seems to be working. By last year, the company's overall turnover had declined to 107%.

Domino's has about 15,000 employees; another 135,000 work at its franchisees. Many are part-timers—students or workers with other jobs who need extra income and a flexible schedule. Store managers oversee people in three entry positions: assistant managers (who earn about $8 to $10 an hour); those who answer phones (and earn an average of $6.15 an hour); and drivers, most of whom make minimum wage. Drivers, who provide their own cars and gas, also get tips and an 82-cent reimbursement for each trip they make. All the employees make the food, including managers and drivers.

Workers spend their first 30 days training, learning everything from how to hand-stretch dough to how many pepperonis to put on a large pie (at least 48). To earn a pin designating them a "qualified pizza maker" they must be able to make a pizza in under a minute.

Hoping to pick better managers, Domino's implemented a new test. Those seeking promotion to that job have to take a 30-minute online evaluation of their financial skills and management style. Do they understand terms such as "break even" and "cash flow?" How would they manage a poorly performing employee? Candidates then receive training on their weak points.

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To help managers keep track of their best and worst performers, Domino's rolled out a new in-store computer system. The screens, which everyone in the store can see, constantly update statistics such as the average order size for each employee and how long it's taking to get a pizza out the door.

Better financial incentives helped, too. Mr. Brandon introduced a program that grants stock options to about 15% of store managers, based on criteria such as sales growth and customer service. This is in addition to profit-linked bonuses that Domino's already had. Today store managers' base salaries start at about $32,000.

When Mr. Cecere was promoted to regional manager for eight Domino's stores in New Jersey in 2001, he says his boss told him: "Once you get some stability in the management ranks here, these stores will do much better."

Mr. Cecere, a 14-year Domino's veteran who started as a driver after high school and continued working at the company through college, knew improvements were needed. His stores were averaging $8,500 each in sales a week, about $3,000 less than the chain's current average. He gathered his managers together and gave a pep talk. "How do we get to $15,000? How do we get to $20,000? Where do you start from?" he recalls saying. "It's got to start with people. We've got to hire people and keep people."

He wants people like George Escobar. In August, Mr. Cecere promoted Mr. Escobar to manager of a Domino's in affluent Ramsey, N.J. Local teens shun low-paying jobs because their parents pay more in allowance, Mr. Escobar says, and he quickly realized he couldn't afford to lose current employees.

Seeking a way to discipline employees without alienating them, Mr. Escobar bought a pair of dopey-looking, oversize black-framed glasses. They're called the "mistake glasses" and workers have to wear them when they make errors. The joke is that if you couldn't see what an obvious mistake you were making, you need glasses. "You want to make it like a fun environment but at the

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same time, you get your point across," Mr. Escobar says.

On a recent busy Friday night, Mr. Escobar was training a new driver and was short two phone-answerers. Just as the dinner rush began, a new, 38-year-old driver flubbed: He forgot a pizza. Another driver had to take it out. "I'm going to let you go this time, but next time, you've got to wear the glasses," Mr. Escobar told the man, in a friendly, firm tone. The new driver nodded.

Mr. Cecere, 31, coaches his managers constantly. His stores, he says, are now averaging sales of about $20,000 each week, up from $8,500 four years ago. Often he gives common-sense advice: treat people respectfully, be polite and patient. He hammers home that it's not the pay that makes employees stick around, it's their relationship with their manager. "They can go to McDonald's and make that, they can go to Pizza Hut," he says. "You've got to make sure they are happy to come to work for you."

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QUESTIONS FOR DISCUSSION

1. Why is employee turnover a problem for a business?

2. What are some of the strategies companies employ to limit turnover?

3. How does a business's corporate culture affect employee satisfaction? How does a business's corporate culture affect customer satisfaction?

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