How to Create Good Jobs and Thrive as a Business

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Starting point: Competitive advantage comes from continuously improving value for customers
Mental models result in a vicious cycle

**MENTAL MODEL**

Labor = just another cost
Market pay = right pay
Lean and mean = efficient
Vicious cycle leads to interdependent decisions that create a weak system

- **Customer Value**
  - Profitability & Growth

- **Front-line Execution**
  - Low people investment: low pay, unstable schedules, low standards — hiring, training, performance management
  - Unproductive and demotivating work: high complexity, high workload/understaffing, lack of trust/too many controls

- **Strong team set up for success**
It is possible to escape the vicious cycle

<table>
<thead>
<tr>
<th>Turnover decrease</th>
<th>3 years</th>
<th>~18 months</th>
<th>~12 months</th>
<th>2 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>35%</td>
<td>52%</td>
<td>40%</td>
<td>36%</td>
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<table>
<thead>
<tr>
<th>Productivity /cost</th>
<th>13% increase in sales/hr</th>
<th>$2M total savings, $1.3M from front-line ideas</th>
<th>Margin expansion (GM and EBITDA)</th>
<th>Higher profitability despite $160K increase in wages</th>
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<tbody>
<tr>
<td></td>
<td>23% increase in sales/ft²</td>
<td></td>
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<table>
<thead>
<tr>
<th>Customer satisfaction and sales</th>
<th>6.5% to 9.3% average SSS growth</th>
<th>60-second answer rate from 50% to 70%</th>
<th>Customer attrition: down 5pp</th>
<th>25% sales increase (catering up 60%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Transfer rate from 12% to 9.5%</td>
<td>Reservice wait time: ~40%</td>
<td>YoY sales up 30%+</td>
<td></td>
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Escaping the vicious cycle requires seeing connections, imagining possibilities, and courage.
2017: John Furner as Sam’s Club’s 14th CEO

Profitability & Growth
- High price
- Poor NPS

Customer Value
- Lagging in productivity
- Can’t find products
- Inventory data inaccuracy

Front-line Execution

Strong team set up for success
- High turnover
- Too much time to fill manager positions
- A lot of complexity
Weak system with interdependent elements

- **Customer Value**
- **Front-line Execution**
- **Strong team set up for success**

- **Profitability & Growth**

- **Low people investment**: low pay, unstable schedules, low standards — hiring, training, performance management
- **Unproductive and demotivating work**: high complexity, high workload/ understaffing, lack of trust/too many controls
One of the early changes: Raise pay $5-$7/hr from ~$15/hr for key positions

“Don’t do it, last time we raised pay it didn’t reduce turnover.”

“It’s not in the budget.”
Companies can be reduced to component parts and improved by optimizing each piece.

All decisions must be justified by rigorous, historical data analysis.

Prevents imagining new choices, which cannot be uncovered by studying the past or running experiments in isolation.

“Last time we raised pay, it didn’t reduce turnover.”

“We ran a pilot… Added payroll hours to some stores… Didn’t see a sales lift.”
John’s Question: Can we be a great company if we don’t raise pay? Seeing connections and imagining possibilities

- Can’t execute if we don’t reduce turnover
- Can’t reduce turnover if we don’t raise pay — people are leaving for jobs that pay a few dollars an hour more
- Pay alone likely won’t reduce turnover
  - What else do we do to reduce turnover and improve productivity
Imagination and courage to make choices

“All else equal,” data-centric thinking

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“We ran a pilot… Added payroll hours to some stores… Didn’t see a sales lift.”

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• All decisions must be justified by rigorous, historical data analysis
• Prevents imagining new choices, which cannot be uncovered by studying the past or running experiments in isolation

Systems-focused, strategic thinking

“We can’t reduce turnover without raising pay. What else do we need to do to make it work?”

“Physics envy, the common human craving to reduce enormously complex systems to one-size-fits-all Newtonian formulas.” – Charlie Munger

• Companies are complex systems with interrelated elements that create nonlinear input/output relationships
• Data rigor is good in many domains, but companies need to be careful when it comes to choices related to systems, ethics, adaptation/innovation
• Allows imagining new ideas, which is vital for strengthening/maintaining differentiation in ever-changing, hyper-competitive environment
Initial key, interdependent actions to improve productivity, turnover, and NPS

Work & Workload Related Changes

1. **SKU reduction**: reduced category breadth by ~10%-20% to simplify work and improve service

2. **Eliminate overnight shift** to reallocate more labor to customer-facing hours

3. **Cross-training** to improve flexibility and customer service

4. **Major IT investment**: tech tools and apps to improve member experience and productivity

People Investment Changes

1. **Strategic wage investments** to help attract and retain better talent:
   - Phase 1: $5-7/hr raise for “key roles” (supervisors, deli, meat, produce leaders)

2. **Increase FT mix + shift to stable, block schedules** to help stores attract and retain better talent
Within two years, got on a virtuous cycle
John Furner now CEO of Walmart US

- Double digit SSS for 12 quarters
- +25% sales increase without adding new stores

Customer Value
- NPS: up 7%
- Reduced prices

Front-line Execution
- Labor productivity: up 16%

Strong team set up for success
- Hourly turnover: down 25%
- Full-time mix: up 13%
- Time-to-fill manager: down 50%
- Promo of hrly to salaried: up 117%
I saw associates shed tears of gratitude and talk about how we had just changed their lives. That was so gratifying. It’s humbling. It was a privilege to be a part of it. That’s not me saying that we’re perfect everywhere and that we figured out everything. But to have been along on this journey and to have experiences like that — that’s very meaningful.

— Tim Simmons, CPO Sam’s Club

This has become my why. Because the most impact we can have is through our employees. Raising them all up into something where they can love what they do, live it outside of work... And it’s just paying off on the other side of it: I’m not stressed... And that has been a game changer for me.

— Dewey Hasbrouck
I had such a belief in the team that was in the field, specifically... people that work in fulfillment centers. They cut meat. They bake bread. They run registers up front... I had so much belief in the enthusiasm they had, if we could take a bet on them, that they would do everything they could to make it worth it for us.

– John Furner
*Former CEO of Sam’s Club*  
*Current CEO of Walmart U.S.*
Jobs with pay, meaning, and dignity

• Sweep the parking lot
• Wipe down gas pumps
• Restock cooler and freezer
• Sweep and mop floor
• Give fast, friendly customer service
• Clean and stock fountain drink module
• Clean restrooms
• Empty trash containers
• Check in gas delivery
• Pick up outside trash
• Clean sidewalk and parking lot
• ....
Thank you!