



Total Performance Leadership Series

Rob Andrews, Chairman & CEO, Allen Austin

In 2013, after beginning our own transformation, Allen Austin began a study of what we now call Total Performance Leadership. Because these disciplines are not taught in mainstream business schools, and because we have a burning desire to help our clients become the absolute best, we set out to learn from the best of the best. The things we're learning from incredible leaders who've led their own organizational transformations are astounding. And what's even more amazing is that this group of phenomenal leaders has been willing and eager to share their "**secret sauce**" because they fully support our effort to enhance the lives and effectiveness of the leaders of the world.

The disciplines cited in this case study around QuikTrip, a privately held retailer, can also be observed in our other study group participants including publicly held industrial companies, architectural design partnerships, professional services firms, civil engineering companies, world-class academic institutions and many more.

- 1. Unified Leadership:** A high-performing team, where trust, healthy debate, shared vision, accountability, and results orientation exists. Most leadership teams are not teams at all, rather a collection of individuals who often compete for position, airtime and resources. Transforming a group of talented individuals in to a unified team takes work process, patience, and commitment. The results are well worth the effort. As Dr. Jerry Harvey says, having unified leadership of this ilk, avoids unnecessary trips to Abilene.
- 2. Purpose:** Harnessing the power of purpose, inspiring stakeholders & delivering exceptional returns. While some may call it mission, purpose is separate and overarching in most TPL companies. Less than 5% of organizations overall operate with a clear sense of purpose. TPL companies like Quik Trip, Southwest Airlines, Koch Industries and Nordstrom engage their workforces, especially millennials, with a purpose greater than just making money. Purpose driven organizations outperform their peers. The data is irrefutable.
- 3. Disciplined Hiring:** Using disciplined hiring practices and employment brand building to identify, attract, engage, and retain top talent is key to an organization's ability to assess cultural fit, and deliver exceptional results. Following proven, time and battle-tested TPL Foresight hiring processes at every level ensure screening out B and C players in favor of A players, and align the right candidates around cultural fit, personal and professional attributes and performance expectations.
- 4. Engagement:** Fulfilled, collaborative employees who are committed to the company's objectives. According to Gallup, the American and Global workforces are 70% and 90% disengaged. The best performing organizations in the world have

substantially all their employees working hard toward the organization's objectives. The right values, vision, mission, strategy and big, hairy audacious goals are necessary for workforce engagement. Acknowledge performance, build team spirit & enable shared learning. Ultimate success is not a linear process. Individuals and teams benefit by celebrating the first downs, not just the touchdowns.

5. **Clarity:** All stakeholders, including shareholders, employees and providers, understand the company's strategy, know where the organization is going, how it will get there, and their role in making it happen. Clarity is necessary to perform at optimal levels. In organizations with great clarity, communications are delivered so that constituents believe that their leaders know where they are going, believe what they are saying and are connecting effectively with their needs and desires.
6. **Customer Experience:** Relentless customer commitment, anticipating needs and creating raving fans that tell great stories about you is the objective. Optimal performance requires a relentless focus on the total customer experience, not just reducing defects. It's not necessarily just about what you sell, but what you stand for. Strategies that don't begin with the customer in mind tend to underperform. Those that lose sight of the customer will likely cease to exist.
7. **Measurement:** What matters: Financial performance, leadership effectiveness, employee engagement & customer delight. Maximizing profitability requires more than reading financial statements, which are largely backward looking. Measuring what matters requires measuring all the critical elements of TPL organizations. The quantitative bias promoted by modern day business methods and schools often misses the most important metrics.
8. **Cost Leadership:** Remove it where the customer can't feel it. TPL organizations remove as much cost as possible, being very careful not to affect the customer experience. Southwest Airlines, HEB, Quick Trip and Koch Industries do it extremely well, by removing costs from supply chain, building costs, and employee turnover. Top performing companies do not take cost out of the business by removing service and benefits from customers and stakeholders.
9. **Awareness:** Healthy Paranoia, never take success for granted, always push for improvement. 88% of the Fortune 500 companies in 1955 are extinct. Arrogance, inaction, and unawareness are the three of the biggest killers of modern day businesses. Once an organization's leaders think they've arrived, they've begun their decline. Global business and is moving and changing at a dizzying rate and all who don't pay close attention run the risk of extinction.

A full explanation of the power of TPL is beyond the scope of this piece, so stay tuned for updates and real time examples of companies who are experiencing the power of TPL. If the notion TPL really resonates with you, we encourage you to become involved in this powerful, growing movement.

Each of the extraordinary leaders profiled in this series check each box above. Their leadership is manifested in outstanding financial results, excellent employee engagement, low turnover and exceptional customer loyalty and retention. These folks are definitely in the top 1% and are willing to share their "secret sauce."

Chet Cadieux, Chairman & CEO, QuikTrip Corporation, Tulsa Oklahoma

Chet Cadieux greeted me in the lobby of the QuikTrip corporate headquarters in Tulsa at 10 o'clock on a cool windy Thursday afternoon. He came down the staircase, called me by my first name, greeted me warmly and led me back up the stairs. I was carrying a Styrofoam cup of QuikTrip coffee as we climbed the stairs so Chet asked me if I'd like mine warmed up as we passed a break room where he picked up a cup of his own. Now it's not normal for a CEO of a company with twenty thousand employees to collect his own guests, escort them to his office and personally offer this kind of hospitality; but then Chet Cadieux is no normal CEO.

Chet runs one of the best led organizations on the planet. He says that there is no "secret sauce" behind QuikTrip's wildly successful financial performance, enthusiastic employee engagement, bullet proof retention, consistently stellar store conditions, customer service and loyalty. While QuikTrip's "sauce" may not be secret it is most certainly rare.

QT was founded in 1958 by Chester Cadieux and Burt Holmes with \$15,000. Today QT is #21 on the Forbes list of privately held companies and was listed #24 on America's Best Places to work. QuikTrip has remained privately held since inception. The Cadieux family owns 65% of QT, upper management owns 13%, outside investors own 10% and the remaining 12% of stock is owned by employees through QT's stock- ownership and profit-sharing/401K plans. QT differentiates itself from even the best in its sector by looking far outside its own industry to learn from organizations who practice Total Performance Leadership disciplines.

In 2015, QT posted per store profit double that of the top quartile of its competitors. Its annual rate of return on investment was 19%. QT's 702 convenience stores generate a whopping \$14,800,000 average per store for a total of \$11 billion in total company revenues. By comparison, U.S. supermarkets generated an average of \$16.8 million in revenue during the same year. Revenues per labor hour at QT are \$142.30 vs. \$94.67 in the top quartile of competitors and \$85.50 for the average. Sales per square foot are \$15.50 vs. 10.06 for the average. Motor fuel sales are quadruple the industry average. Measured inventory shrink in well run convenience stores and natural and specialty food stores in the U.S. was 1.52% in 2015, while QT's shrink was 0.6%. These metrics are simply off the chart.

Convenience store retailing is one of the most difficult formats around. I've heard it said that C stores are simple, not rocket science. If they're so simple, why do so few companies run them well? My position is that there are not necessarily fewer complexities in C stores, they're just a different set. The five most important things in convenience retailing, by conventional wisdom

is good curb appeal, clean well-stocked stores, friendly helpful employees, clean restrooms and tight expense controls.

Most C store operators struggle mightily with brand differentiation, staffing, turnover, operations, inventory losses and crime. Most also have a customer base that is comprised predominately of 18 – 35-year-old blue collar male shoppers. Not so with QT. Because QT stores are all located on prime corners, are well lit, have great curb appeal, a phenomenal selection of fresh foods, friendly helpful employees and a coffee bar that would make Howard Schultz proud; QT's customer mix includes plenty of women and white collar men. QT competes very effectively, not only with other retailers in its sector, but quick service restaurants, ice cream shops and food stores.

Some say QT is like a cult. Because QT's purpose is providing opportunity for employees to grow and succeed; they must hire people who want to run hard, grow and succeed. QT's Purpose is proudly displayed on a thirty-foot tall banner in the company's headquarters lobby. Now I know what you're thinking...Yeah, I've heard stuff like that before. No, I mean it. QT's purpose drives EVERYTHING. Store growth is driven by the number of store teams that are ready to advance, which is the total opposite to the way it typically works in this business.

Chet hires great people, period. Their employment brand is so compelling and employee referrals so strong that they hire less than 1% of the people who apply. When it gets to the point where they're hiring 2 or 3%, they hit the proverbial panic button and start making adjustments. 3%? Are you kidding me? When I was in the business, even the very best of us were thrilled if we had three or four choices for every hire. This kind of hiring scenario where you've hiring 1 out of a 100 is nirvana for the vast majority of retailers.

Full time employees start around \$45,000 per year based on a forty-eight-hour week. Full time/Part time mix is about 50/50. Most retailers want a part time to full time ratio of 80/20 or so to minimize average hourly rate and benefits cost. Chet and his team know that stability in the workforce makes for happy employees, lasting relationships and high customer retention. There is always plenty of help in QT stores. At any given time, QT may have as many as 30% more people on hand than they actually need. This allows for a degree of flexibility most retailers can only dream of. If employees have an unexpected illness, a family situation or just want to take a day off because it's sunny, they often can. Part time employees can work pretty much when they want to. Plenty of flexibility is built in and full-timers have set schedules, which is almost unheard of.

Internal advancement was a major driver of employee performance and QT worked hard to develop its employees. Store managers worked with their area supervisors to develop a promotion list of qualified workers. When a supervisory store position becomes available, the store manager travels to the division office to interview candidates from the promotion list selects the new hire. Promotion could be within a store with more responsibility (for example, from second assistant to first assistant) or to a new store that has higher customer traffic and sales and therefore the opportunity for a larger operating-profit bonus.

In established markets, it is not uncommon to find stores whose managers have been in

position for twenty years and whose first assistants had been in position close to ten. QT finds these are some of their best-performing stores because they were run by proven managers who personally know most of their customers. Turnover for these positions is low because store managers and first assistants received high pay, weekends off, and longevity-based bonuses and perks.

Once an employee became a store manager, promotions became more difficult. The specialist positions in each division—training manager, division personnel manager, area supervisors, and division manager—were limited and rarely became available. Although QT filled almost all senior executive positions (including the president/CEO, the chief operations officer, the chief financial officer, the vice presidents of sales, marketing, operations, and store development, the director of construction, and the senior network analyst) with former entry-level store employees, the firm kept its top corporate management lean, so advancement opportunities were rare.

Employees receive frequent feedback, most commonly through anonymous electronic evaluations by their coworkers. QT does "360-degree" evaluations in which employees are evaluated by those directly above and below them to ensure fair and accurate evaluations. Apart from formal reviews, employees consistently give one another feedback. "If someone's performance slips, the first thing we do is to have a conversation to see how we can help.

QT reimburses college tuition up to \$4,400 per year. It has a number of employee development programs in place, including a mentoring program for new supervisors, career counseling services and one-on-one meetings between store managers and employees every six weeks. The company makes it a priority to promote from within. To help employees learn the skills they need to succeed, QuikTrip offers free, onsite college courses in collaboration with a local community college. All of these perks are extremely rare in food retailing and near non-existent in C stores.

I'm amazed when I visit a QT store and the clerks on duty actually know what's going on in the company. They know how many stores the company operates, how many they're about to open and which markets are being opened. Chet communicates everywhere he goes; "Here's the play and here's how we're going to win."

Hard charging QT employees share five core values:

Be the best. We want to be the best at everything we do. we are dead serious about it. If we can't be the best, we won't play. Chet says that at this point, QT IS the best at selecting the right people, choosing the right locations, fuel and fresh food. There are many things they're great at, and are still striving to be the best.

Like Southwest Airlines, QuikTrip takes costs out of the business where the customer can't feel it. Chet's father, Chester, worked like crazy for better than a decade to develop the highest quality fuel products while building the best possible supply chain for his fuel products, pushing their cost of goods down and their ability to be ultracompetitive up. QT's gasoline is now recognized by customers in their eleven major markets as the highest quality, best value fuel available. The net result is a bullet proof brand at the lowest price with very healthy margins.

Everything is systematized. All hiring is centralized but training is customized to the individual store. Every store is near identical. Another parallel to the Southwest Airlines practice of flying one aircraft.

Never be satisfied. We have institutional paranoia. If we aren't scared every day, someone will know our block off. Mostly fear of a competitor we haven't seen yet. Even though QT has the most modern and consistently merchandised store network in the industry, they continue to push the envelope. In 2010, they began experimenting with a third generation store which is 20% bigger than the standard, with expanded coffee bars, premium beverages and fresh foods. The new concept has been wildly successful and incremental premium coffee, smoothie, ice cream sales actually exceed cigarette sales, a category that has been in sharp decline for over a decade.

Chet is constantly in front of large groups of store employees congratulating them for a job well done in one breath and encouraging them to push to be better, to understand and adapt to the present and future needs and desires of their customers.

QT differs from other convenience stores by offering fast and friendly customer service and meticulously clean stores and facilities, compelling many customers to pass multiple competitors and make left hand turns across traffic to shop QT. Store layouts are designed to help customers find products as quickly as possible. All stores have the same layout and the same merchandise, so no matter what QT store customers visit, they find the same products in the same places. Customers have also fallen in love with the absolute faith that regardless of which QT store they visit, whether it's in Tulsa, Dallas, Atlanta, Oklahoma City or wherever, they will have a very pleasant experience while interacting with friendly, enthusiastic store employees.

Consistency in speed, friendliness, product offerings, and cleanliness is another source of differentiation. You can go in to any QT and get the same amazing service. Competitors try. They can copy QT's layouts and products but they can't copy their purpose, culture, commitment and consistency. QT has developed a number of protocols and safeguards to ensure consistency; two of the most effective were its daily activities worksheet (DAW) and its mystery shopper program.

The DAW is a tool that helps managers on each shift ensure that everything gets done. The DAW is divided into three sections: register time, tasks, and upkeeps. For each shift, the manager prints and posts the DAW, which communicates what needs to be done and when. When an employee completes a task or upkeep, he or she initials the worksheet, allowing everyone to see which tasks have been completed. Managers can assign jobs to specific employees or simply post the DAW and trust that employees will complete all jobs at their own pace.

The DAW also helps with staffing. QT tracks how long each type of register transaction, upkeep, and task takes and combined these data with forecasted traffic and sales data to determine staffing requirements in hourly increments. For example, QT knows that each cup of coffee sold takes five seconds of labor to ring up when paid for with cash and ten seconds of labor when paid for with a credit card. Based on these estimates, store managers know how much labor is needed on each shift and construct schedules accordingly.

QT invested in developing its own mystery shopper program to evaluate each store's customer service. Mystery shoppers evaluate every element of customer service—employee appearance, store cleanliness, and merchandise—based on standards developed from customer feedback. An employee's bonus—amounting to approximately 10% of his or her pay—is based on the store team's performance for the mystery shop.

Until 1995, the customer-service standards were set in the boardroom by a board of directors. Now, the standards are based on what thousands of QT's customers say. In 2015, the average mystery shopper score for QT stores was 94%, with a very small standard deviation. QT's mystery shoppers routinely "shopped" a competitive set across many channels. The competitive set included Chick-fil-A and MacDonald's fast-food restaurants, Hy-Vee and Kroger grocery stores, Walgreens and CVS pharmacies, Wal-Mart, and several convenience and gas stores including Shell, Chevron, Exxon, RaceTrac, Casey's, Kum and Go, and 7-Eleven. In 2015, the composite average score for the competitive set was 76.1%. The best score in the competitive set was 85% (Exxon) and the worst was 61% (7-Eleven). Wal-Mart and MacDonald's scored close to average.

1995 began another advancement, as the company was growing rapidly in terms of headcount as well as geography, QT's senior management sensed that a shift in culture and operating standards was necessary. QT had been largely populated with former military personnel and practiced a command and control methodology. Because there were no clear standards, individual managers practiced their own methodology according to their own interpretation. At this point, senior management involved thousands of customers, store managers and frontline employees to establish standards for employee dress and appearance, store cleanliness and in-stock conditions, fuel pad and curb appeal and operating controls. Since store managers were involved in this important transformation, there was huge buy-in and QT made a successful shift toward much more formal standards. The transformation continued as QT involved rank-in-file store employees in improving other processes including hiring, training, on-boarding and employee development. Today, process improvement continues as representatives recommended by division managers and voted on by store managers relentlessly evaluate existing practices and recommend changes for improvement.

Focus Long Term. Examples of QT's focus on the long term include willingness to invest heavily in new geographic markets, spend heavily relocating experienced employees in to new markets (an uncommon practice in the C Store business), lose huge money on fresh food until they were able to generate sufficient volume, and investing \$12 million over three years to renovate their restrooms.

Unlike the vast majority of C Store operators, QT pays close attention to competitive pricing strategy. Just like the smartest supermarket retailers like H-E-B, QT is perfectly fine losing money while building a merchandise category until they achieve sufficient volume to justify upfront investment. Their branded food products carry the most competitive pricing in the C Store sector while products such as soft drinks, beer and gasoline are priced against Wal-Mart.

QT is relentless about serving and delighting customers. They also pay close attention to emerging customer trends. During the 2,000s, food industry experts stated that close to one-fifth of all meals in the U.S. are eaten in a car. This trend caused QT to invest in centralized QuikTrip Kitchens (QTKs) to prepare and deliver fresh, healthy food easily eaten in the car. Along with the decision to enter the fresh food business, came Chet's commitment to be the best at it. The QTK's lost millions of dollars a year while operating below capacity, which was OK with Chet as they were seen as a critical strategic investment in long-term competitive advantage.

Do What's Right for QT. In order for QT's purpose to have meaning, they've had to hire the right people. People who want to grow, succeed and be a part of what QT stands for. QT invested in a rigorous hiring and training process to ensure that the firm brings in only those who will deliver the high-quality customer service it expected. Hiring is done centrally by the division office. To make it more likely that the right type of person applied in the first place, QT studies and utilizes predictors of high performance among its employees, such as level of education, retail experience, and military service. As 40% of its best employees are referrals from existing employees, QT employs a generous referral bonus program.

When a candidate is invited for an interview, he or she first has to pass a 15- to 20-question math test, ranging from mentally calculating a customer's change to determining how much of a certain product to order from the distribution center for the following week based on the previous week's sales. A candidate who passes is then read some literature and watches a video about the work that will be expected of him or her—including the most demanding and unsavory elements of the job, such as cleaning the toilets and fueling stations. This is an opportunity for some candidates to self-select out of the hiring process.

An average store employs 7.2 full-time employees and 8 part-time clerks. The security systems at QuikTrip stores are state-of-the-art and generally considered on par with those of most banks.

The average tenure is fourteen years for store managers, nine years for first assistants, six years for second assistants, four years for relief assistants, three years for night assistants, and two years for part-timers. Full-time employee turnover at QT is 11%, compared to 59% in the top quartile of the industry and 109% in the industry overall. Part-time employee turnover for QT is 36%, compared to 84% in the top quartile of the industry and 157% in the industry overall.

Do the Right Thing. Examples include refusal to sell rolling paraphernalia and pornographic magazines, spending \$10 million every year to add a fulltime employee to every store to allow employees flexibility and time off.

The age old problem with C stores is that most don't do enough volume to justify any more than one or two minimum wage people working on a shift. Because QT's purpose is providing opportunity for employees to succeed, and because they work very hard to provide a great working environment and uber competitive compensation, Chet isn't interested in hearing what's not possible. When Chet became CEO, he realized there were hundreds of employees who had been working for QT for many years and who were working until midnight most days of the week. That made it very difficult to have a normal life with a family. The only way to

change that was to add a full-time person in every store. The cost (investment) has been \$10 million every year since 2002. They've now figured out ways to generate enough revenue to justify this unprecedented investment in people.

Attrition notwithstanding, turnover is virtually non-existent at QT and key employees will not leave. People who want to work in the QuikTrip legal department are willing to work and come up through the stores before they go to law school. QuikTrip is open to hiring talented people from the competition but there is no fast track to the higher levels. Everyone starts on the graveyard shift. It's a culture thing.

Chet spends roughly fifty days per year on the road visiting approximately 275 stores, where he holds employee meetings. Employees are encouraged to speak to Chet or e-mail him with suggestions or questions and a good part of his workday is spent responding to these communications. Chet sees his relationship with his employees as essential: "My family has done well because of their hard work. I want to make sure they're taken care of and know they are appreciated. I don't know how I'd do that sitting in an office in Tulsa. They wouldn't follow me if they didn't know that I respect them. It would be disrespectful to not come and be in front of them at least once a year."

Chet is clearly a pretty humble guy. He's not in to power clothes or ego offices. Their facilities are very nice but very utilitarian, without a hint of ostentatiousness. This company, this CEO and this brand of leadership is so compelling I almost wish I was 21 again, so I could go to work for QuikTrip. Additionally, I can't wait until Chet decides to start building stores in Houston. QT offers an extraordinary shopping experience. It is a real thrill to see the effects of a CEO who "gets it" up close and personal.