



SUSAN KULP
V.G. NARAYANAN
DENNIS CAMPBELL

Store24

In May 2000, the CEO and CFO of Store 24, Bob Gordon and Paul Doucette, needed to decide whether to abandon their unique “Ban Boredom” strategy. The market research report that they just received for the second half of the year ended April 2000 indicated that the Ban Boredom strategy was not resonating with customers (see **Exhibit 1**). However, Store24’s financial performance had steadily improved from May 1998 until April 2000 (see **Exhibit 2**). Should they rely on hard financial numbers, or should they abandon their unique strategy based on soft market research data? If there was a problem, was it their strategy or how they implemented it?

In May 1998, Store24 adopted a new strategy with the hopes of differentiating its stores from other convenience stores. This strategy aimed to provide a creative, fun, and entertaining in-store atmosphere based on various themes and promotions. Bob Gordon explained that the most recent customer feedback surveys “showed low differentiation of Store24 from our competitors. In particular, the feedback showed that customers were not identifying with the fun, enjoyable shopping experience we were trying to create under Ban Boredom. The survey results showed that customers primarily valued fast service and good product selection.”

While Gordon understood the customer feedback, he wondered if it accurately reflected the strengths of the Ban Boredom strategy. He questioned whether the Ban Boredom strategy was a flawed strategy or whether the strategy had been poorly implemented. Same-store sales grew by approximately the industry average of 6%, compared with the same quarter of the prior fiscal year. Doucette reflected:

Overall, same-store sales were fine. However, we were getting strong negative feedback about the Ban Boredom strategy from in-store comment cards. We traditionally view this source of feedback as biased because customers tend to complain more through comment cards, but our telephone surveys also showed that customers simply were not identifying with the fun, entertaining atmosphere we were trying to create in our stores. Finally, focus groups with our customers suggested overwhelmingly that they valued our traditional strengths of good product selection, quick service, and clean surroundings, and they did not at all value the Ban Boredom experience we were trying to create.

Professors Susan Kulp and V.G. Narayanan and Dennis Campbell (DBA '03) prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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Industry Background

Store24 operated in a mature environment with competition from convenience stores, gasoline retailers, and drug stores. The United States had over 124,500 stores; approximately 10% of these were franchises. Within the United States, the New England states saw the most modest industry growth of approximately 5% over the previous five years. The top New England convenience store companies included Store24, Cumberland Farms, White Hen Pantry, and 7-11. As the convenience store industry matured and competition intensified, marketing, customer service, and brand name emerged as differentiating factors. Gordon explained: "The major tendency in convenience store retailing is to focus on short-term items such as inventory shrink and cash control without the corresponding emphasis on customer service. However, this has changed as the industry has matured."

In accordance with this focus on customer service, the traditional operating strategy in the convenience store industry consisted of fast, efficient, and friendly service, clean surroundings, high product quality, and broad product selection. However, given the high competition, stores were starting to differentiate themselves. Over the previous decade, companies had tried to boost sales through expanded merchandising and co-branding efforts with companies like Dunkin Donuts, Dairy Queen, Subway, and Baskin-Robbins.

Company Background

Store24 was a privately held convenience store retailer in New England with 75 stores located throughout Massachusetts, New Hampshire, Rhode Island, and Connecticut. It was the fourth largest in the region. The company employed 800 people—740 at the store level and 60 in the corporate office. Of the 75 stores, 30 were located in urban areas (e.g., Boston and Providence) and 45 were situated in suburban locations (e.g., Lowell, Newton, and Watertown). The stores were divided into nine geographic divisions; each division had its own manager.

Store24's revenues totaled approximately \$180 million in fiscal year 1998. On average, store sales consisted of 29% cigarette sales, 16% beverage sales, 13% snack sales, 3% sandwich sales, and 2% coffee sales. Lottery tickets, money orders, and other services made up the remaining sales.

The stores were similar with respect to many aspects of their operations, including compensation, technology, management structure, product pricing, and product selection. An average store operated in 2,100 square feet, employed 9.2 people, and paid \$49,000 in rent annually. However, the stores varied in geographic location, market demographics, competition, and employee skills.

Growth via new sites had been difficult for Store24. The company had unsuccessfully attempted to expand into the New York City market. Subsequently, Store24 management halted expansion into markets outside its market core in New England and decided to find ways to differentiate its existing stores. Doucette explained: "Location is the primary driver of store performance. However, we are stymied on the growth front due to lack of acceptable new sites. This has led to a focus on optimizing our existing sites through an increasing emphasis on store-level marketing and operations."

From May 1998 to April 2000, Store24 had sought to further differentiate its stores by creating entertaining in-store atmospheres. They labeled this differentiation strategy "Ban Boredom." Simultaneously, the company continued to focus on the efficiency strategy, "'Cause You Just Can't Wait" (CYJCW).

Ban Boredom

Store24 implemented its innovative “Ban Boredom” strategy in May 1998. While continuing to maintain an emphasis on the traditional components of its strategy, Store24 attempted to differentiate its stores by providing a creative, fun, and entertaining in-store atmosphere based on various themes and promotions. Store-level implementation of this strategy centered on a large display case (i.e., “endcap”) that prominently featured the promotional items for the current theme. For example, endcaps for the old movie theme featured life-size cutouts of movie stars and \$3.99 videos of various old movies.

This strategy aimed to create a stronger sense of loyalty between Store24 and its target customer base of young, urban adults between the ages of 14 and 29. As one senior manager explained: “The Ban Boredom strategy was really playing off of the urban, young adult market. Marketers know that this demographic gets bored easily and needs to be stimulated. We wanted this group to always see new and different things in the store.”

In contrast to the traditional store-level operating strategy (‘Cause You Just Can’t Wait), the Ban Boredom strategy allowed the store managers autonomy in its implementation. Although the corporate office defined a theme and provided the endcaps, store managers possessed considerable flexibility in executing the theme throughout the store.

The physical environment was important to the differentiation strategy. Arguably, the skills of the managers and crew and their interactions with customers were at least equally important to the strategy’s success. Store24’s controller, John O’Connell, explained: “Our best managers really took the strategy to heart. The strategy served as an outlet for manager and crew creativity. However, other managers put minimal effort into this strategy and even stocked traditional items such as chips on the endcaps, saying they need the product space.” Doucette added:

Managers and crew that were already skilled in our core ‘Cause You Just Can’t Wait strategy, and other basic store operations such as cash, labor, and inventory control, were able to devote considerably more time to implementing the Ban Boredom strategy and to tailor this strategy based on knowledge of their customers. These skills made it easier to build the Ban Boredom strategy on top of the basic [one].

The interactions between store employees and customers were key to the strategy’s overall success. Store24’s senior management intended for the innovative displays and promotional items to serve as a point of interaction between employees and customers. The interaction helped Store24 build a relationship with customers and cross-sell high margin products. O’Connell explained:

The endcaps and displays under the Ban Boredom strategy had the dual intention of building a rapport with customers and bumping up the average sales per customer. We expected store management and crew to use the displays as “ice-breakers” in talking with customers. In addition, the margins on the promotional items featured under the Ban Boredom strategy were typically two to four times the margins of our traditional products. When customers were browsing or “window shopping,” we encouraged store crew to direct the customer’s attention to these promotional items.

‘Cause You Just Can’t Wait

Store24 maintained and enforced a detailed set of store-level standards related to providing fast, friendly, and efficient service; maintaining high in-stock positions; preserving store cleanliness; ensuring quality and freshness of food and beverage items; and complying with facilities layout and

merchandising guidelines. Store24 senior management felt that these standards were critical components of its store-level operating strategy and must be upheld to provide value to their target market.

Store24's Performance Measurement System

Store24's Balanced Scorecard

Store24's performance measurement system consisted primarily of a Balanced Scorecard (presented, with metric definitions, in **Exhibit 3**). As part of its Balanced Scorecard, Store24 collected information on a variety of performance measures at various levels of the organization and at various frequencies throughout the year.

Store24 collected store-level financial performance metrics on a quarterly basis. These metrics included sales, margin, controllable contribution, and earnings before interest and taxes. Additionally, customer volume was measured quarterly. Semi-annually, a third-party research firm conducted telephone surveys of self-identified convenience store customers in Store24's major markets. Survey items included the likelihood of shopping at Store24 rather than its competitors, name recognition of Store24 versus its competitors, and for customers that had shopped at Store24 recently, ratings of quality of merchandise, price, and cleanliness of the store. Additionally, Store24 solicited feedback via in-store comment cards from its customers about the product selection and other factors that would persuade them to shop at Store24.

Store24 translated its two strategies into a set of store-level operating standards. Management measured store-level conformance with these standards through detailed walk-through audits. During these announced visits, management evaluated the store's performance on various dimensions, including in-store image, in-stock position, and store appearance. The walk-through audit score quantified the store-level implementation of Store24's operating strategy. Starting in May 1998, the standards reflected both components of the store-level strategy. Senior and division management considered employee skills critical for consistent implementation of the store-level operating strategy. Accordingly, Store24 measured manager and crew skills through bi-annual evaluations.

Finally, Store24 tracked metrics related to its store locations. The measures included the number of competing stores within a half-mile radius, the foot traffic, the population density within a half-mile radius, the population within a half-mile radius (divided into pre-high school students, high school students, and college students), the median household income within a half-mile radius, and the percentage of the population within a half-mile radius that held white-collar jobs.

Uses of the Balanced Scorecard

Through the Balanced Scorecard, management communicated Store24's operating strategy to employees throughout the organization. The measures and the links between these measures illustrated the qualitative impact that improving a given metric would have on overall company performance. The scorecard served as the centerpiece for quarterly meetings of the senior management team (i.e., corporate-level and division managers). Each quarter, overall performance on the different perspectives was given a grade of A+/-, B+/-, C+/-, D+/-, or F based on its relation to target. Deviations from the target, both positive and negative, were discussed during the meeting and areas for improvement were identified.

The scorecard was used to monitor store performance and was a basis for store-level improvements. Gordon and other senior managers visited each store and met with the store manager at least once per year. During the meeting, they discussed the store's performance on various scorecard metrics, including a detailed review of customer feedback forms. The executive team then devised specific action plans. This process facilitated learning within the organization; senior management learned about new products that might sell well in a particular store as well as new product placement ideas, while the store's manager learned how to improve non-financial metrics such as crew retention and walk-through audit scores. Management also used the scorecard, and specifically the walk-through audit scores, to identify specific stores in need of improvement. Tom Hart, chief operating officer of Store24, believed that low performance on these metrics was a leading indicator of other problems; he used these scores to identify potential future problem areas.

Finally, the scorecard was used as a motivational tool. Both store manager and crew compensation were tied to balanced scorecard metrics. The store managers' quarterly compensation consisted of a fixed base salary and a variable portion tied to store operating profits, the walk-through audit score, a separate score related solely to the implementation of Ban Boredom, and crew retention. Specifically, store managers had preset goals on each of these dimensions and could receive up to 20% of their quarterly salary as a bonus, depending on the attainment of these goals. Additionally, each manager received 3.5% of weekly store operating profit as part of their weekly paycheck. Store24 awarded store crew (i.e., non-management) a quarterly bonus of up to \$100 based exclusively on the walk-through audit score and Ban Boredom implementation. Through the scorecard use, management hoped to get employees to identify with Store24's overall strategy. Management created the "President's Club," an annual competition in which store managers were rated on their performance on scorecard metrics. The rankings were posted each quarter and the top four managers at year-end were presented with a certificate at an annual Store24 function and a paid vacation to a mountain resort in New England.

Going Forward

Gordon and Doucette would have to make a recommendation to the Store24 executives regarding the company's strategy going forward. Specifically, they aimed to figure out (a) whether the Ban Boredom was a promising strategy for Store24, and (b) how to improve the strategy implementation. As a starting point, they studied a representative sample of 30 stores for clues about the next step (**Exhibit 4**). Specifically, they looked at stores that varied in Ban Boredom implementation scores as well as crew skill levels, and the relationship of these metrics to financial performance the following quarter. From prior experience, management knew that non-financial performance in a given quarter affected financial performance in the subsequent quarter. Additionally, Bob graphed both manager and crew skills over time (**Exhibit 5**).

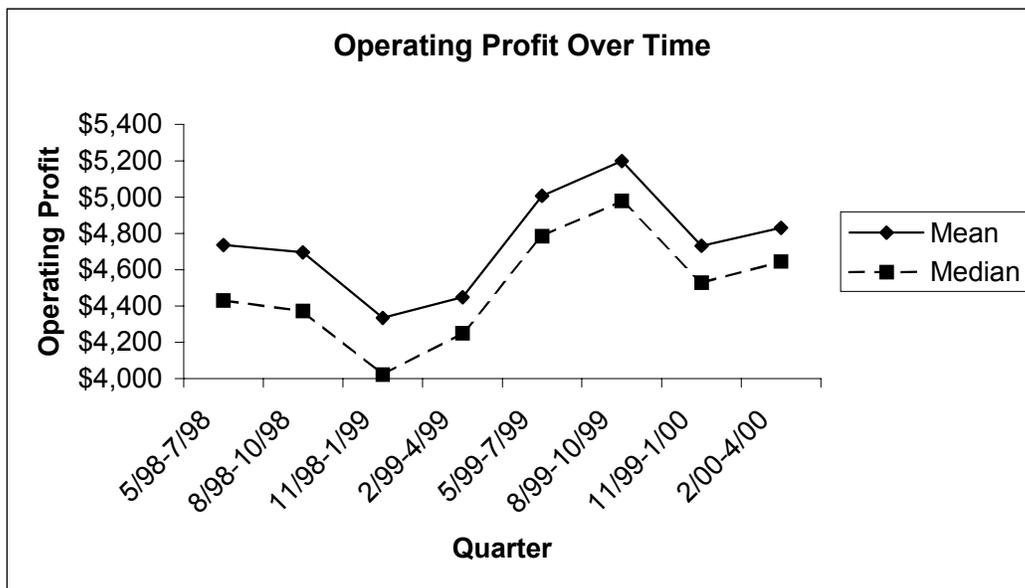
Exhibit 1 Market Research Report, April 30, 2000

On a scale of 1 (poor) to 10 (excellent):

Overall Rating	6.69
Overall Shopping Experience	6.92
Friendliness of Staff	7.09
Helpfulness of Staff	6.91
Cleanliness and Neatness	7.10
Everyday Prices	6.64
Being a Fun or Entertaining Place	5.44
Quality and Freshness of Coffee	6.64
Overall Quality and Freshness	6.85

Source: Company records.

Exhibit 2 Mean and Median Financial Performance for 75 Stores from May 1998 through April 2000^a



Source: Company records.

^aOperating profit is scaled by the number of weeks in each respective quarter. Additionally, operating profit shows strong quarterly seasonality.

Exhibit 3 Store24's Balanced Scorecard

Financial Measures

Sales: Revenues from general merchandise, lottery tickets, money orders, and phone cards

Margin: Sales less expenses related to cost-of-goods sold

Controllable Contribution: Margin less controllable expenses (e.g., utilities and labor)

Earnings before Interest and Taxes: Controllable contribution less rent and corporate SG&A allocation

Customer Measures

Customer Volume: Total number of register transactions during the quarter

In-store Comment Cards

Internal Measures

Ban Boredom: Walk-through audit score (percentage) on items related to implementing the Ban Boredom strategy

'Cause You Just Can't Wait: Walk-through audit score (percentage) on items related to implementing the 'Cause You Just Can't Wait strategy

Learning & Growth Measures

Manager Skills: Rating on a scale of 1 to 5 on a number of dimensions, including ability to retain, train, and interact with crew; customer service; merchandising; time and labor management; maintaining store safety; and technology use

Crew Skills: Average skill rating across all non-management employees across all dimensions

Source: Company records.

Exhibit 4 Performance Metrics for a Sample of Stores During Quarter Ended April 2000^a

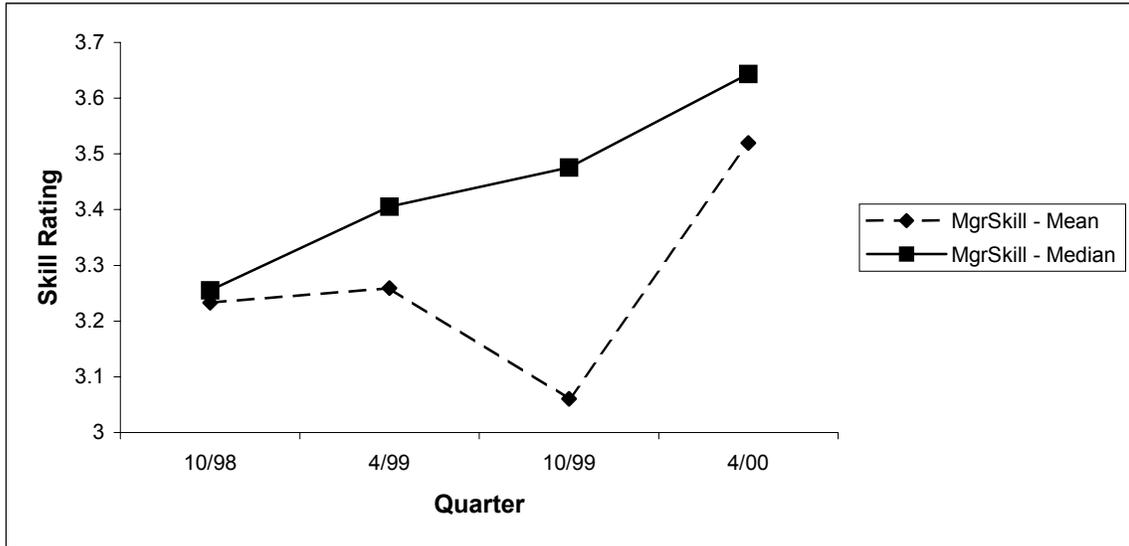
Store #	Future Controllable Contribution	CYJCW Score	Ban Boredom Score	Crew Skills	Manager Skills	Population	Per Capita Income	Number of Competitors
1510	\$ 23,000	84.93	71.43	2.35	2.20	17,754	\$ 27,084	6
1711	25,419	88.80	75.00	2.87	2.52	8,966	47,712	2
1514	21,164	95.41	117.86	2.93	3.85	21,550	22,935	4
1507	24,637	95.42	85.71	3.09	4.23	16,926	25,744	5
1513	22,695	83.28	92.86	3.10	2.41	16,381	38,252	1
1709	23,314	91.37	78.57	3.10	3.63	13,297	17,308	7
1710	23,273	96.36	117.86	3.20	4.16	19,808	34,333	3
1573	22,734	78.63	67.86	3.23	4.04	14,859	8,182	5
1579	18,871	92.85	121.43	2.80	2.59	10,532	8,181	7
1577	18,007	83.93	121.43	2.85	3.28	3,747	18,036	3
1586	17,874	90.59	135.71	2.88	3.12	3,014	22,384	3
1544	20,200	96.56	135.71	2.89	3.07	10,923	32,042	3
1515	17,897	88.93	128.57	3.10	2.81	11,160	14,589	7
1704	20,886	96.65	125.00	3.11	3.52	3,151	18,198	3
1537	21,373	95.86	125.00	3.16	3.95	1,116	23,056	2
1598	38,573	87.14	67.86	3.34	3.21	19,809	23,550	6
1512	44,141	92.20	114.29	3.37	2.85	26,519	29,411	6
1543	43,364	85.91	119.93	3.63	3.57	8,177	10,746	4
1558	40,403	90.58	82.14	3.64	3.43	20,624	18,850	7
1702	43,222	90.14	110.71	4.05	3.71	3,265	18,197	6
1570	46,308	92.19	110.71	4.20	3.17	3,126	55,416	1
1568	40,576	81.74	78.57	4.38	2.69	14,653	52,821	3
1560	47,453	96.19	135.71	3.27	3.60	17,808	21,034	3
1503	42,776	82.14	128.57	3.28	3.40	9,695	15,091	4
1546	44,599	88.75	125.00	3.44	3.55	3,218	18,467	4
1516	45,936	95.48	128.57	3.63	2.91	14,186	14,153	5
1547	44,054	90.63	125.00	3.65	3.33	8,870	15,279	4
1542	42,128	79.67	128.57	3.68	3.07	9,697	12,259	5
1517	45,481	91.28	135.71	3.80	3.66	6,898	15,749	6
1566	46,280	94.79	128.57	4.40	3.42	8,491	12,388	4

Source: Company records.

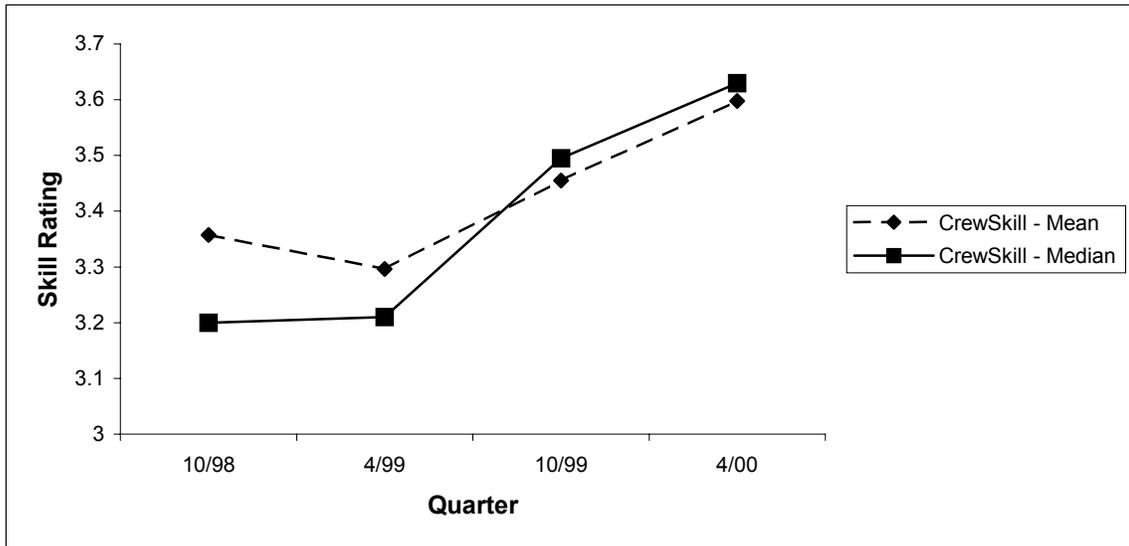
^aData is disguised for confidentiality purposes. Future controllable contribution is for the quarter ended April 2000, while the other columns of data pertain to the quarter ended January 2000.

Exhibit 5 Manager and Crew Skills

Manager Skills over Time



Crew Skills over Time



Source: Company records.