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Delivering the Irving Promise

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IT IS IMPERATIVE *that the [Convenience Retail] group execute the Irving Promise well. This is our family tradition. We believe in servicing the customer, and this is what separates us from the competition. We must have the cleanest restrooms, the best organized and lit store, with friendly and smiling faces. This is the Irving way!*

–Kenneth Irving, CEO

THE IRVING PROMISE was created by the founders as an understandable way to express Irving's mission statement and values to both employees and customers. In essence, the Irving Promise is to deliver outstanding service to customers. It is Irving Oil's intent to empower employees to use whatever means they feel necessary to uphold the Irving Promise.

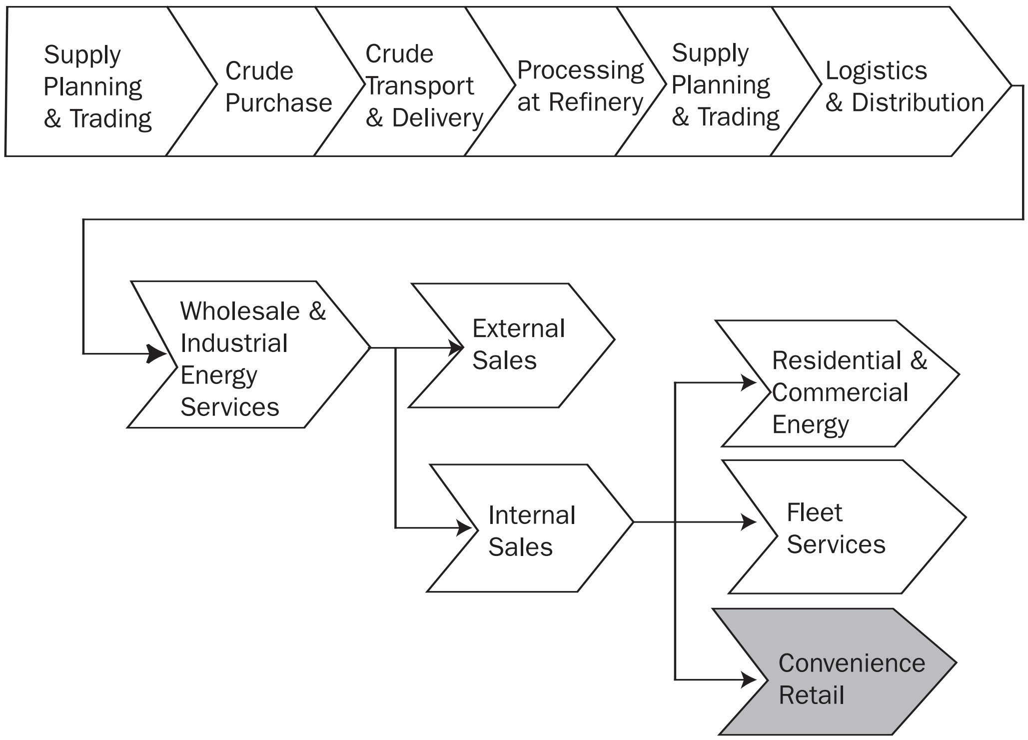
–The Irving Promise

In mid-November 2005, Al Bugbee, Cate Rafferty, and Jesse O'Rourke, members of the scorecard development team, sat at the conference table. Time was not on their side. By January, the team needed to deliver the final version of its dynamic business scorecard (Irving Oil's version of the balanced scorecard) along with a comprehensive summary of preliminary results from a customer service survey pilot. The team needed a solid recommendation for Harry Hadiaris, General Manager of Convenience Retail at Irving Oil. Based on strong company values, Irving's convenience retail strategy was to operate differently than its competition. Irving believed that a clean, well-lit, and well-organized store, operated by friendly and helpful staff, would increase demand and grow sales in the region Irving served. Other convenience retail stores in the area focused on low gas prices and tight cost management inside the store. The challenge for Irving Oil was implementing its differentiation strategy.

In 2003, the team realized that executing its strategy in the convenience retail space required a powerful motivational device that would drive front-line employee behavior. The industry average employee turnover was 100 percent. Typically, convenience retail workers were not exceedingly motivated or talented members of the workforce pool. The team knew a set of meaningful measures would be one of the instruments necessary to influence the behavior of the workforce. Irving was faced with the problem of selecting an appropriate number of proper measures that would, in turn, influence the behavior of convenience retail workers.

The scorecard development team was responsible for delivering results in line with the Irving Promise. In order to deliver these results, the team's members needed to decide which metrics should be collected and evaluated on the final scorecard. Unfortunately, it was difficult to judge the relative strengths of the metrics that had previously been used. With the Irving Promise in full swing and the new Voice of the

Exhibit 1: Value Chain



Customer (VOC) pilot launched in 10 stores, the team felt that analysis of the VOC pilot data would lead it in the right direction. VOC was a customer survey program, deployed in each store, to collect data in an effort to capture customers' perceptions of their shopping experiences.

INDUSTRY BACKGROUND

The oil industry was characterized by a delicate balance between supply and demand. The upstream supply was dominated by state-owned firms that explored and produced oil. Downstream demand came through companies that refined and marketed oil. Five super major companies—Exxon Mobil Corp., BP PLC, Royal Dutch Shell PLC, Chevron Corp., and Total SA—represented 63 percent of the market value of all publicly-owned oil companies. Each super major had over $100 billion in market capitalization.[1]

At the consumer level, oil companies played in two arenas. The first was the branded gas station where consumers fueled their vehicles. The other arena was the convenience store where consumers shopped for candy, chips, soda, beer, and home goods, among other things. Oil companies branded company-owned stations where they operated both the gas station and the convenience store. They also branded independent gas stations where the oil companies supplied branded gas but left the convenience store operation to the independent owner/operator. Any customer intimacy strategy had to be focused on the convenience stores' operations.

IRVING OIL LIMITED

Irving Oil Limited was founded in 1924 by K.C. Irving as a small service station in Bouctouche, New Brunswick, Canada. Right from the beginning, Irving was known for exemplary customer service. K.C. lived in an apartment above the station and would come down—even in the middle of the night—to help customers who honked their horns for service.

Over the years, the business expanded successfully. In 1960, K.C. Irving built the Irving Oil Refinery in Saint John, New Brunswick, on a 780-acre site. The refinery began opera-

1 "Oil & Gas: Production & Marketing Industry Survey," Standard & Poor, October 20, 2005.

Exhibit 2: Irving Oil Business Units

Processing and Transportation	Business-to-Business	Business-to-Consumer
Crude Oil Refinery	Wholesale Sales	Convenience Retail
LNG Terminal	Lube Sales	Big Stops
Power	Fleet Sales	Food Business
Petrochemicals	Specialty & Industrial Sales	Mainway
SPT / L&D	Commercial Sales	Bluecanoe

tions in 1960 with an initial daily capacity of 40,000 barrels. The first refinery expansion took place in 1971, and increased production capacity to 120,000 barrels per day. Several years later, a much larger expansion increased daily capacity to 250,000 barrels. In 2002, Irving became the first ever oil company to be recognized by the U.S. Environmental Protection Agency (EPA) as a winner of the Clean Air Excellence Award. This award was bestowed based on Irving's low-sulfur fuels, which were produced three years ahead of the EPA's required time frame.

Irving was a privately-held, family-owned corporation with over 7,000 employees, 800 retail locations, and refining capacity of 330,000 barrel per day. Irving managed 31 marine terminals, and had a delivery fleet of marine-product tankers and tractor-trailers. It served wholesale, commercial, and retail customers in Eastern Canada, Quebec, and New England.

Irving Oil's approach to value creation was unique among oil companies (Exhibit 1). Typically, oil companies began with crude extraction or refinement operations and added retail capacity at a later stage of company development. In contrast, Irving Oil pursued a marketing-based strategy, beginning with a service station, followed later by a convenience retail presence and, ultimately, vertically integrated into refinery operations. Irving Oil was a large regional player in the industry, but was relatively small compared to the super majors.

COMPANY ORGANIZATION

Irving Oil was comprised of three different business units that ran as profit centers: Processing and Transport, Business-to-Business, and Business-to-Consumer. Exhibit 2 shows the breakdown of each business unit. Processing and Transport produced roughly 80 percent of Irving's profit, while the other two produced the remaining 20 percent. The Convenience Retail (CR) group was part of the Business-to-Consumer business unit and was responsible for the 210 company-owned retail convenience stores.

Convenience Retail was divided into three regions, each managed by a regional manager, one of whom was Al Bugbee. The regional managers were responsible for store operations and business results. In each region there were area managers who helped and coached 8 to 15 stores. Each store had a store manager, assistant manager, shift leader, and associates. Supporting this organization was a corporate marketing department, which provided marketing programs and category managers (food, beverage, dry goods, etc.) for the stores.

COMPANY VALUES

As a third-generation, family-owned and -managed operation, Irving Oil took company values very seriously. Most corporate staff members had worked for the company for over 10 years and exhibited great loyalty to the company. This attitude could be traced back to K.C. Irving's customer service commitment, which helped develop a culture of commitment and respect for employees and customers. The culture could be characterized as polite, inclusive, and friendly, and was captured in paragraph three of the mission statement (see below).

Irving Oil's mission statement was posted prominently at all company operations:

> *"Our purpose is to be the regional market leader in processing, transporting, and marketing finished energy products, as well as offering complementary products and services to consumers.*
>
> *"We will work together to achieve our purpose by focusing on our core competencies of customer service and supply chain management. We will succeed by consistently adding value to our knowledge and physical assets, creating mutual value with our human resources, and for our customers.*

"We are a principled organization in which all stakeholder relationships appreciate over the long term. We are distinguished by our belief in the worth of an individual and in the meaning of a promise."

THE DYNAMIC SCORECARD

In the early years, the Irving family leaders were hands-on managers with great attention to detail. They used their very high energy and personal touch to remain close to operations. There was always very little formal reporting or extensive data collection. Personal trust was the cornerstone of Irving operations. Irving family members spent most of their time in the field visiting stores and operations. This style and process of management became more difficult as the company grew in size and geographical coverage.

During the most recent five years, the company invested significantly in IT and reporting systems. Irving Oil's management recognized the need to provide, to a new generation of managers, tools for operating and growing the firm, but it wanted to preserve its culture and values. First, the store register and fuel pumps were automated. This provided timely operational and financial data at the store level. It helped manage deliveries and store inventory levels. The sales activity helped with staff balancing. Store performance moved from a sales volume assessment and the territory manager's evaluation to a more structured system. Stores were evaluated on three items:

1. Monthly store financial measures,
2. Operational evaluation by the area manager, and
3. Results of a mystery shopper evaluation.

The company launched a firm-wide management development program, Leadership for Results, which focused on building the talent in the organization for senior, middle, and front-line people. It created a common Irving language for coaching, motivating, and collaborating with people throughout the company. It helped move the firm away from a strict focus on operations to a more balanced focus, which now included leadership and front-line motivation. This was a required training program for everyone in the organization at or above the assistant manager level.

The strategy for the B-C (Business-to-Consumer) operation was differentiation through the customer experience. The spirit of this differentiation was captured in the Irving Promise. While location (a corporate strategic decision) was important for convenience stores, repeat business and customer loyalty were driven by exceptional shopping experiences. In turn, exceptional experiences required friendly greetings, clean and bright stores, clean restrooms, fast service, the right items, and expressions of gratitude as people left the stores. The leadership knew the old performance evaluation system was not adequate to measure the sources of what made Irving different in the marketplace. With the assistance of a consultant, Irving adopted the dynamic scorecard process to help focus on the key performance drivers at individual stores.

Exhibit 3: Key Drivers of the Irving Promise

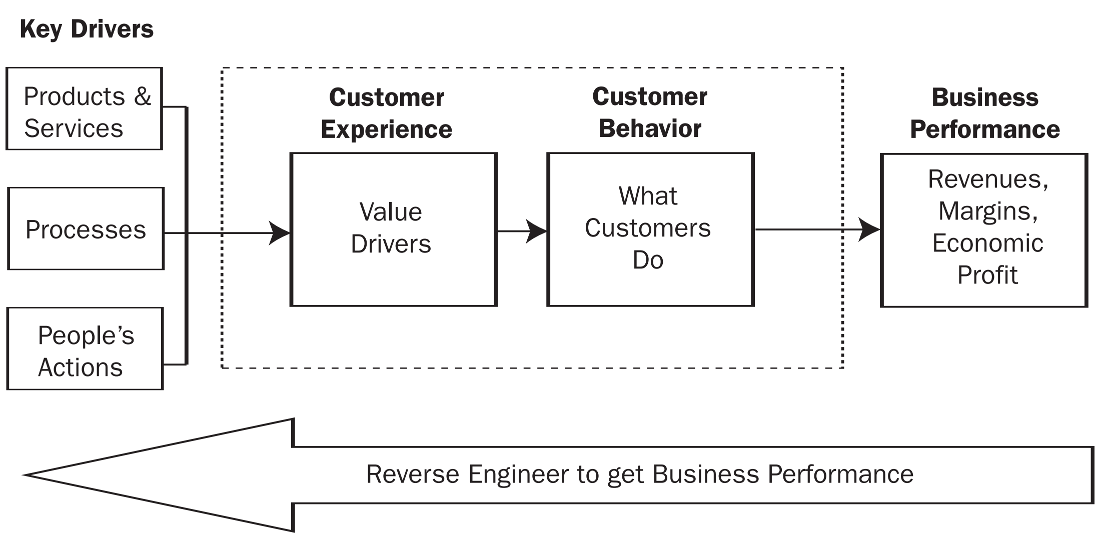
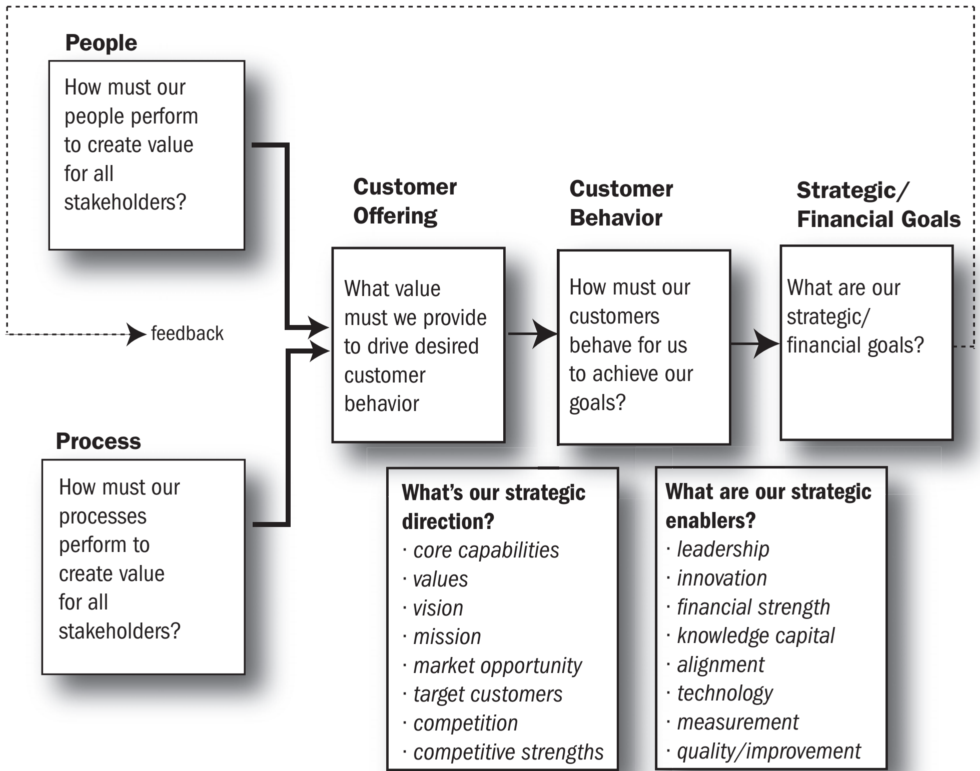


Exhibit 4: The Dynamic Business Scorecard as a Strategic Management System



The dynamic scorecard process is similar to the strategy mapping process promoted by Kaplan and Norton.[2]

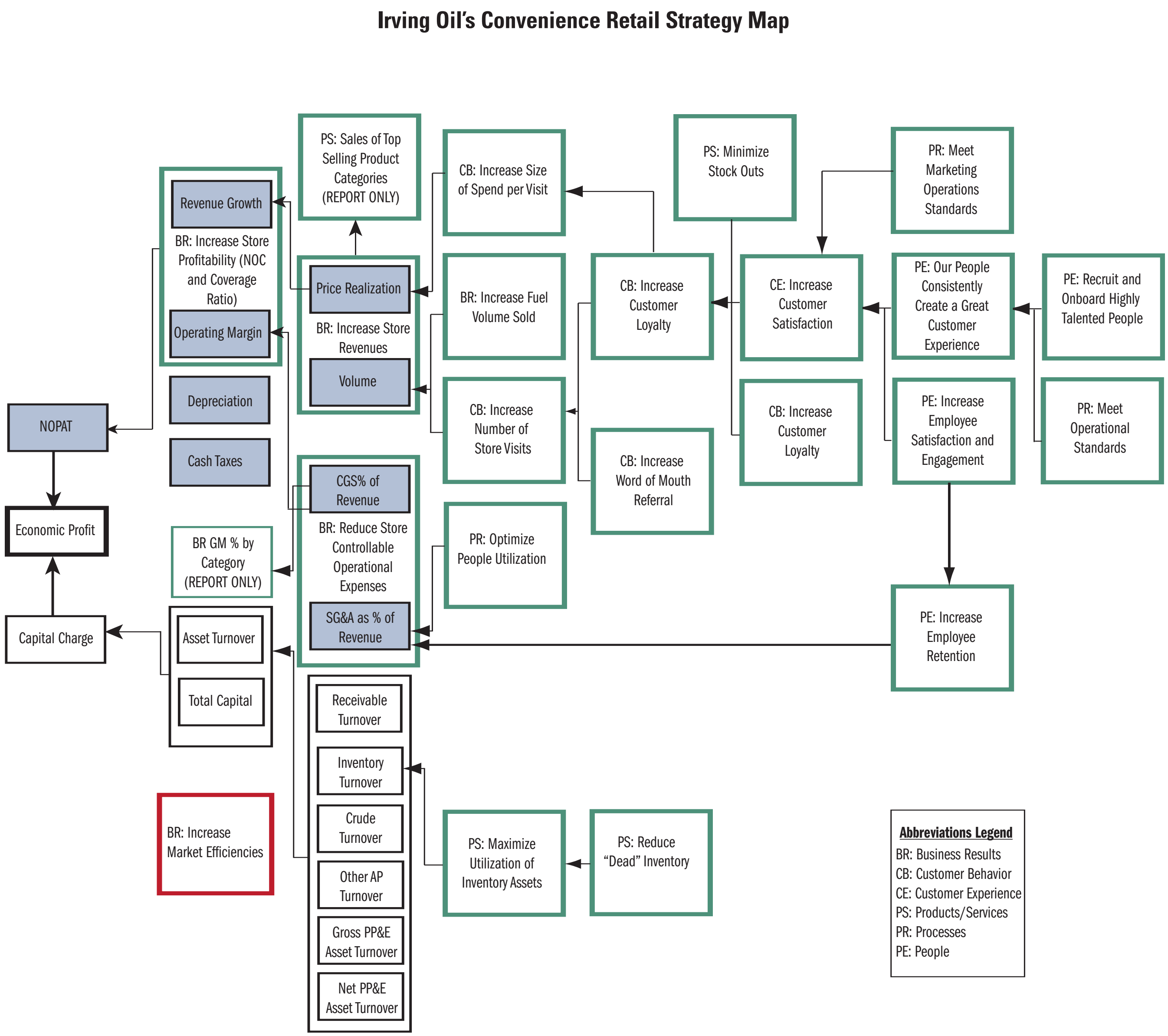
The dynamic scorecard logic uses reverse engineering to determine how to build a scorecard that leads to achieving the desired business results

Exhibits 3 and 4 show the key drivers of economic profit (EP) in the delivery of the Irving Promise. The exhibits outline the logic used by Irving's consultants. Exhibit 3 illustrates how, by reverse engineering the flow from desired business performance, one can understand what customer behavior is desired and how the customer experience drives the customer behavior. The customer experience was created by Irving employees' actions, business processes, and the product/service offered. Irving wanted to find the measures that drove front-line employee behavior to create a superior customer experience. Exhibit 4 illustrates the linkages of a generic dynamic scorecard between people, process, and product/services that create the customer experiences that, in turn, guide customer behavior and produce business results.

The CR team used the Irving Oil Value Map for Convenience Retail (Exhibit 5) as a guide to show how the performance system for the stores linked to the overall corporate measure of economic profit (EP). Senior managers were evaluated and rewarded based on their achievement of positive EP for their business. Exhibit 5 maps how the CR business unit performance linked to the total Irving Oil Value Map. The firm used economic profit as the overall measure of value creation. The family owners of this private company chose EP as the metric by which to evaluate corporate and business unit performance. They felt EP best simulated public market performance.

2 Norton, David P., and Robert S Kaplan. "Having Trouble with Your Strategy? Then Map It." *Harvard Business Review* September/October 2000: 167-176.

Exhibit 5: CR Performance Scorecard and its relationship to the Irving Oil Value Map



Management wanted a way to measure the degree of Irving's perceived differentiation by judging how well the Irving Promise was being delivered. After exhaustive internal discussions, management concluded that the traditional financial number and subjective evaluations were not sufficient to evaluate CR store performance. Management was also driven by the notion that the measures needed to be straightforward and easy to understand by the store managers.

General Manager Harry Hadiaris made it very clear:

> *"We need to make it as simple as possible for our front-line employees. Many do not understand financial measures or the significance of the basic store operational measures."*

Store managers needed a clear, easily understandable connection between how they were measured and the actions they controlled. This requirement led to the use of the dynamic scorecard. Using the dynamic scorecard measures, the Convenience Retail team started the construction of its dynamic business scorecard. With their vision of a balanced scorecard, they wanted to capture the tenets of the Irving Promise that made a difference.

IMPLEMENTING THE IRVING PROMISE

Convenience retail store performance measurements were primarily based on sales data. The area manager visited regularly to work with store personnel, installing posters and signs that featured the various tenets of the Irving promise in the employee area. The assumption was that the values of Irving Oil would influence the behavior of the store employee. Management realized it needed to motivate and improve the performance measurement system with more data and fewer anecdotal stories. Harry Hadiaris, the General Manager of the CR business unit, made the following observation:

> *"We are differentiating ourselves on superior service, friendliness, and clean washrooms. We need to find a way to measure our achievement in this area. I need to know if we are making a difference and if this is helping to drive both store and [gas] sales. We are getting better data from the stores, but it does not capture this key aspect of our performance."*

The consultants helped the team explore sets of operational and customer feedback measures to capture individual store performance. Management was looking for a scorecard to depict each store's progress toward meeting the Irving Promise. At the same time, there were discussions about adding a variable compensation system for store personnel. This was a common retail practice (spiff payments) and employee surveys highlighted the problem with the low level of front-line employee pay. Harry said:

> *"With a good and reliable scorecard we now have the measurement system to link to our variable comp system. We need to make sure the scorecards work, and I will launch the process of getting the variable comp system started."*

The design team went to work on the scorecard. The guiding principles behind the scorecard were that it:

- be easy to understand
- furnish reliable data linked to the key success factors
- directly impact the retail customer
- provide meaningful rewards to employees
- capture the essence of the Irving Promise

The team members looked for key drivers of the business and measures that captured the drivers. After many meetings, they developed a robust list of possible measures (Exhibit 6). The design team looked for any viable measure that would capture some element of the value map (Exhibit 5). The criterion for "actionable" was whether the store manager and his/her team had the ability to influence the score. The "measurable" criterion was based on the existence of a reasonable and practical method to capture the data. A large amount of design time was centered on finding the correct measures and keeping the number of measures relatively small. The first list of measures was much longer. Reducing the number of measures proved to be a very difficult task.

The team developed a value map similar to Exhibit 6 to show how the matrices linked to total Irving Oil performance. The initial list of measures was pared down. After six months of discussion and process review the team felt it was ready to run a pilot in six stores. First, it chose a representative set of stores and took an eight-week baseline of current performance. After the baseline calibration and user familiarization, the pilot study was initiated.

VOICE OF THE CUSTOMER

One of the key components of the balanced scorecard was customer satisfaction as determined by a customer survey Irving called "Voice of the Customer" (VOC). The development of the VOC survey was a change from Irving's previous method of measuring customer satisfaction. Formerly, Irving Oil used a mystery shopper who would visit stores once a month. In the new VOC system, every tenth receipt printed at a store would include a $3 coupon redeemable after customers call a toll-free number and complete a six-minute survey. The survey consisted of a series of questions in which the customer was asked to rate store performance on a scale of 1 to 5, where 5 meant "highly satisfied," 4 meant "satisfied", 3 meant "neither satisfied nor dissatisfied," 2 meant "dissatisfied," and 1 meant "highly dissatisfied." A loyalty question was also asked, and used a 5-point scale where 5 meant "highly likely," 4 meant "likely," 3 meant "somewhat likely," 2 meant "not very likely," and 1 meant "not at all likely" to return to the store.

The results rolled up into three categories: Overall Satisfaction, Friendliness of Staff, and Pride in Property. Customers were also asked to record a voice message with more detailed feedback, which some customers provided.

Exhibit 6: Suggested Performance Measures

Goal	Measure	Actionable?	Measurable?
Increase store revenues	Actual store revenues per month		
Reduce store controllable operational expenses	Action store direct expenses to budget (%)		
Increase store profitability	Enhanced Coverage Ratio (%)		
Increase fuel volume sold	Gal/Ltr. of fuel sold versus budget		
Increase site profitability	Net Operating Cost (NOC)		
Increase market efficiency	Percent market share in relation to percent of locations		
Increase number of store visits	Number of transactions per unit (day or week)		
Increase size of spend per visit	Average size of transaction ($)		
Increase enduring customer loyalty	Customer Loyalty Index survey		
Increase customer satisfaction with store visits	Survey responses to key value drivers of satisfaction 1. Ease of access 2. Shopping experience 3. Personal and helpful staff 4. Seamless shopping 5. Right mix of pleasing products 6. Fresh and appealing food 7. Active in the community		
Maximize fully functional equipment	Uptime for store equipment		
Maximize utilization of inventory assets	Inventory turns – overall store and by category		
Minimize lost sales due to product stock-outs	Inventory stock-outs		
Maximize the sales of key category or products	Revenues by product category		
Reduce dead inventory	Non-selling SKUs versus total SKUs		
Meet store operational standards	Ratings on meeting standards for equipment, safety, facility and operational controls		
Meet marketing standards	Site evaluation with marketing criteria, including local focused Planograms		
Optimize utilization of people	Revenues per employee hour		
Recruit and effectively train new hires	Number of new hires that fully meet 90 day performance eval.		
Increase employee satisfaction and engagement	Overall rating scores and % of Top Box scores on selected items		
Retain desired staff members	Employee turnover rates		
Employees consistently delight customers	Percent of Top Box scores on specific questions in survey		

Exhibit 7: Voice of the Customer Report

Operations Level

Regional Manager	Sample Size	Overall Satisfaction	Friendliness of Staff	Pride in Property
Region 1	1120	63%	68%	69%
Al Bugbee	890	68%	67%	75%
Region 3	987	66%	64%	66%

Area Level

Area Manager	Sample Size	Overall Satisfaction	Friendliness of Staff	Pride in Property
Area 1	119	63%	68%	69%
Area 2	104	68%	66%	68%
Area 3	128	73%	66%	82%
Area 4	91	71%	72%	80%
Area 5	112	67%	65%	78%
Area 6	98	66%	64%	66%
Area 7	84	71%	64%	78%
Area 8	154	69%	70%	76%

Store Level

Store Manager	Sample Size	Overall Satisfaction	Friendliness of Staff	Pride in Property
Store 1	12	68%	66%	80%
Store 2	13	67%	65%	67%
Store 3	16	72%	65%	80%
Store 4	14	70%	71%	78%
Store 5	12	25%	36%	28%
Store 6	22	67%	85%	77%
Store 7	20	62%	83%	73%
Store 8	10	70%	74%	71%

If the pilot turned out to be successful and the VOC surveys proved to be useful, Irving Oil would allocate 800 surveys per store per year for a total annual budget of $2,500 per store. While confident in the ability to collect 800 survey responses per quarter across all stores (which was needed to make the results statistically significant), the team was concerned about how to use the variables for the dynamic scorecard. With buy-in from store managers, Irving piloted the program. The project team was pleased with the initial results.

On a daily basis, store managers accessed the voice messages left by customers and played them for the daily staff "huddle" to provide a direct message to employees. On a weekly basis, Jesse O'Rourke aggregated data for individual stores into reports for each area manager and separate reports for each regional manager. Exhibit 7 shows a sample report.

On the VOC report, Al Bugbee's region scored near the targeted 70 percent satisfaction rate. Targets were set during the baselining process. As he drilled down to the store level, however, he saw some surprising results. One of his stores was rated with only 25 percent satisfaction. Al felt that results so dramatic could be a good source of learning and could provide a good example of using the scorecard and measuring improvements over time. Still, the team had to be sure that the VOC was measuring the right criteria and that it was getting a sufficient amount of valuable feedback. While the 25 percent satisfaction rating was both intriguing and disheartening, Al also realized that only 12 out of 700 eligible customers had contributed to the feedback for that store.

Exhibit 8: The Irving criteria for evaluating the effectiveness of Scorecard Measures:

1. **Clearly defined**—Total agreement on the meaning of the goals and measures, and what actions people need to take in order to succeed.
2. **Links to Strategy**—Directly and positively impacts the CR strategy (total alignment), our desired operating model and desired results.
3. **Quantitative**—Can be expressed numerically.
4. **Accessible**—Can be cost-effectively collected and tracked with an appropriate level of frequency to provide effective feedback and retain focus.
5. **Reliable**—The data on performance are accurate and reliable.
6. **Actionable**—The factors that lead to desired results are clearly within the performers' ability to influence and there are minimal unintended negative consequences.
7. **Balanced**—This measure does not sub-optimize other measures, but helps to create an overall balance that will optimize desired performance.

Al wondered aloud, "Are these VOC reports valuable enough to keep using them on the scorecard? Is this the correct way of measuring? Let's take some time to think about it and meet again this afternoon to discuss it."

A PROBLEM WITH MEASUREMENT

When Jesse O'Rourke, the project leader, took a closer look at the VOC results for the pilot study, he wondered how the team could make the surveys more useful. How could it get more responses? He pulled out his original list of criteria used to create the dynamic scorecard (Exhibit 8). Had the team chosen the wrong metrics? The challenge was to pick measurements that were actionable, timely, and measurable and that would result in a strong return on investment. The notion of actionable measurements was important. Irving needed 800 responses per quarter, but was quarterly measurement frequent enough to provide valuable feedback to the store managers? Was customer satisfaction important at the store level? If so, how could he measure customer satisfaction on a daily or weekly basis in a way that could help storemanagers take action? Were there other measures that were better suited? The project team was very confident in its scorecard. The team knew that it was not a perfect, textbook design, but felt the linkages to the behaviors it needed in the store were very strong. The positive pilot results built the team's confidence.

DISCUSSION QUESTIONS

1. Imagine you are Jesse O'Rourke preparing for the meeting with Al that afternoon. Prepare the following items and any other analysis you think necessary for the meeting:
   a. In your opinion why is the scorecard tool a good device for the CR business? Are the linkages between strategy and key success factors strong?
   b. Looking at Exhibit 6, mark each goal as "actionable" or "measurable" and see if there are better choices for the dynamic scorecard measures than the ones the team chose. What recommendations would you make?
2. How would you reconcile the need for actionable measures with the availability of measurements?
3. In your opinion, is the VOC (Voice of the Customer) data appropriate for a valid scorecard?
4. Do you find that the CR scorecard effort is consistent with the Irving value map (Exhibit 5)? It is correct for them to use this as the company's strategy map?