Evaluating Nontraditional Incentive Systems: Howe 2 Ski Stores

The Howe 2 Ski Stores are a chain of three ski and windsurfing shops located in the suburbs of a large eastern city. Maria Howe, a ski enthusiast and business school major, opened a store ten years ago after her college graduation with some financial backing from her family and several friends. From its inception, the Howe 2 store was intended to provide state-of-the-art equipment and clothing for skiers at all skill levels from beginners to champion. It was to be staffed by employees who were themselves advanced skiers and could provide expert advice on the choice of clothing and equipment, and it was intended to have a quick response time that would permit the last-minute purchase of equipment and clothing prior to a ski trip.

Howe originally drew from a pool of skiing friends and fellow students to staff the stores and still prefers to hire part-time employees with skiing expertise who might leave in a year over more stable, full-time employees with less expertise and interest in the sport. Whether administrative staff, cashiers, clerks, or molders (employees who fit bindings to skis), employees were encouraged to keep up on the latest skiing equipment and trends, attend ski vendor shows, try out demo equipment, and give feedback on the store's inventory in order to help provide the highest quality state-of-the-art equipment and advice for the customer. Suggestion boxes were placed in the store and Howe herself regularly collected, read, and acted upon the suggestions made by the clerks and customers. She developed special advertising campaigns to build an image for the nearby slopes in order to increase the market. As the business grew, Howe even added a line of rental equipment in order to lower the costs and encourage people to try the sport.

Although profits grew irregularly due to weather effects and the faddish nature of the sport, Howe's efforts paid off in the long term, and within four years business had grown sufficiently to permit the opening of a second Howe 2 Ski Store in another suburb about ten miles from the first. In order to even out sales across the year, about six years ago Howe took a chance on the growing windsurfing market and the East Coast location and added a line of equipment for this sport. The move turned out to be a very good one. The windsurfing market increased by more than 300 percent in the next four years and continues to experience a slower but stable pattern of growth as families and older adults attempt the sport. This market has enabled her to smooth out the number of sales occurring throughout the year.

Three years ago, Howe was able to open a third store, located within a 15-mile radius from the other two. Although managers have been hired to run each of the stores and the total number of employees has grown to 65, Howe's basic strategy has remained the same—high quality, state-of-the-art products, a knowledgeable staff, and quick response time. Profits from the stores have continued to grow, although at a slower rate. Competition from other ski stores has also increased noticeably within the last two years.

The threat of increased competition has been exacerbated by signs that employee productivity has begun to slide. Last year there were eight occasions where expensive ski orders were not delivered in time for the customer's ski vacation. Although Howe used a variety of maneuvers to retain the customers' patronage (e.g., paying for the customers to rent equipment of equivalent quality, expressing the equipment to the customer as soon as it was delivered, and lowering the price of the equipment), the costs of these late orders were high. She realizes that word of these kinds of incidents could significantly damage the store's reputation. Furthermore, at least 15 percent of all ski orders were more than two days late, even though customers did not miss a trip or vacation because of it.

In an attempt to respond to these difficulties, Howe instituted a merit performance system for the molders (employees who fit the binding to skis). Although productivity seemed to increase for awhile, waves of discontent popped out all over the stores. The molders felt that their merit ratings were inaccurate because the store managers could not observe them much of the time. Further, they argued that their performance would have been much higher had not other employees interrupted them with questions about appropriate bindings or failed to clearly identify the appropriate equipment on the sales tickets. Other employees also complained because they were not given the opportunity for merit pay. The buyers, who visit ski shows, examine catalogs, and talk with sales representatives in order to decide on the inventory, argued that their work was essential for high sales figures and quality equipment. Sales clerks claimed that their in-depth familiarity with an extensive inventory and their sales skills were essential to increasing sales. They also noted their important role in negotiating a delivery date that the molders could meet. Similar arguments were made by the people in the credit office who arranged for short-term financing if necessary and the cashiers who verified costs and checked credit card approvals. Even the stockers noted that the store would be in a bad way if they did not locate the correct equipment in a warehouse full of inventory and deliver it in a timely manner to the molders.

Howe had to concede that the employees were correct on many of these points, so she suspended the merit plan at the end of the ski season and promised to reevaluate its fairness. Even more convincing were several indications that productivity problems were not limited to molder employees. Complaints about customer service increased 20 percent during the year. Several customers noted that they were allowed to stand, merchandise in hand, waiting for a clerk to help them, while clerks engaged in deep conversations among themselves. Although Howe mentioned this to employees in the stores when she visited and asked the store managers to discuss it in

were sold at the end of the season sale because they were damaged in the warehouse, the store, or by the molders. The closing inventory revealed that 20 percent of the rental equipment had been lost or seriously damaged without resulting charges to the renters because records were poorly maintained. Regular checks of the suggestion boxes in the store revealed fewer and fewer comments. Although less extreme, similar problems occurred in windsurfing season. Employees just didn't seem to notice these problems, or worse, didn't seem to care.

Howe was very bothered by all these factors and felt they could not be attributed to the growth of the business alone. She knew it would be impossible to maintain her competitive position with these events occurring. At a recent Small Business Forum meeting, Howe heard the guest speaker, a university professor, suggest that employers consider a group of nontraditional incentive plans in order to increase employee motivation and involvement and reduce the costs of operating. She decided to investigate the topic further to see whether these plans might be appropriate for her stores.

Questions

1. Given the background information about Howe 2 Ski Stores, discuss the feasibility of implementing lump sum bonuses, pay for knowledge, profit sharing, and gainsharing plans in this situation. What plan or plans would you recommend that Howe look at most closely and why?
2. Assuming that she decides that a gainsharing plan is feasible, what could be done to increase the likelihood of success?
3. What negative effects are likely to result from even the successful implementation of a gainsharing plan?