



BRIAN J. HALL

EDWARD LAZEAR (STANFORD)

CARLEEN MADIGAN

Performance Pay at Safelite Auto Glass (A)

"Do the math. It takes an hour to put in a windshield, not including travel time. If installers were on the clock for eight hours, but only putting in windshields for two and a half, what the hell were they doing the rest of the time?"

--- John Barlow, CEO, responding to questions about productivity at Safelite.

The Auto Glass Industry

In 1993, Safelite Auto Glass was the largest nation-wide auto glass company in the United States, with about 500 stores across the country, and more than 3,000 employees, including 1,000 installers (and store managers who installed). It had expanded and grown more than its founders, Bud Glassman and Art Lankin, could have predicted when they gave up their salvage business and opened the first retail auto glass store in 1947.

Working in a traditionally fragmented, localized industry, Safelite maintained around 12% market share, while its closest competitor, Harmon Glass, had around 6%. It had gained such a large presence as a result of a growth strategy initiated by Forstmann Little & Company, the firm that had bought Safelite in 1987. Forstmann's goal was for Safelite to grow by acquiring smaller businesses in new markets, to become the first (and only) national auto glass chain. Many of Safelite's competitors (consisting mainly of small "mom and pop" repair shops, and a few regional glass companies) had begun to think of Safelite as the "evil empire," according to one Safelite executive, because of its history of gaining market share through acquisition.

Between 1987 and 1989, Safelite grew from 250 to 550 stores. In new markets like Chicago and Atlanta, where the company wanted to dramatically increase store presence, lower level managers were given incentives to open as many stores as possible. Current CEO John Barlow remembered a scenario from 1991. "A man from Atlanta said that he was trying to open eleven stores by November (the eleventh month) so that he could get an \$11,000 bonus. That was the focus back then," he said.

Although Safelite offered mobile service from virtually all of its stores by the early 1990s, it historically had a tendency to direct customers to its shops for service. Barlow recognized that Safelite needed to be able to replace windshields "when and where the customer wants it," and that a greater emphasis needed to be placed on mobile service, whereby a Safelite technician (or "installer") would

Professor Brian J. Hall, Professor Edward Lazear (Stanford) and Research Associate Carleen Madigan prepared this case with some assistance from Research Associate Jonathan P. Lim. 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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install the windshield at the home or workplace of the customer.¹ However, mobilizing each store required Safelite to support a large number of mobile trucks because Safelite had so many stores. As the use of mobile repair vehicles expanded a store's service area and put it in competition with other Safelite stores nearby, the fleet of trucks became unable to justify its own cost. "We were seeing maybe one (repair) job per truck per day," Barlow said. "We thought that was a little expensive."

Mobile service proved to be very popular, and Safelite began to see a decrease in demand for store-based service. Part of the reason for popularity of mobile service was the fact that many stores were not easy to get to or find. Because of the expansion craze in the 1980s, stores had been opened simply for the sake of adding more locations, and were not always located in prime service areas. As Barlow said, "You've got to have a seeing eye-dog, a compass, a flashlight, and sometimes a parachute to find a glass store. They're not well located. So why bother? We've got three thousand trucks – why in the world should we worry about maintaining stores that you can't even find, and aren't convenient to the customer?" he commented.

From Stores to Markets

With the increased demand for mobile service, and Safelite's abundance of under-utilized stores, Barlow and his team decided that it was time for a change in strategy to make operations more efficient. As Bill Rapp remembered, "We had a situation where, basically, our own stores were competing with each other. Each store had a manager, a certain number of technicians, a certain number of trucks. They had a P&L, and they had a bonus structure based largely on the profitability of their store. A truck from one store might drive fifty miles past two other stores to replace a windshield. It wasn't very efficient."

Barlow's new strategy was to group stores together into what were called "markets." (E.g. the metropolitan Boston area was one market.) The core of the strategy was the central distribution of windshields from one location in the market. Each market contained a warehouse that housed a Dispatch Command Center (DCC), where several technicians and trucks were based, and a Central Telephone Unit (CTU), where Customer Service Representatives (CSRs) answered calls and scheduled appointments. Having the DCC located inside a warehouse gave technicians easy access to the parts they needed, and provided stores with more timely delivery of windshields. Each DCC generally operated within a 50-mile service radius.

This operating method enabled Safelite as a company to handle more customers. "When you centralize the phones, you realize that maybe all the customers were calling one store instead of another," said Beth Wolszon, Senior VP of Marketing and Strategic Planning. "The manager of the first store had so many calls, he was turning customers away, and the manager of the second store was just sitting around doing nothing. The market approach had everyone call into the same place, so we could see where the excess capacity was. And, if it's a mobile job, the customer doesn't care where the mobile van came from, so we send it right out of the warehouse. That way, we can move our assets around and be more productive."

¹ With mobile service, a technician would be dispatched via a Safelite truck at the appropriate time, and would arrive at the vehicle with all the parts necessary to complete the installation. By 1993, 44% of all repairs and installations at Safelite were done on site by mobile technicians.

Relations with the Insurance Industry

Glass Claims Processing

Traditionally, when an uninsured customer needed to have a windshield replaced, he or she would contact a local repair shop to have the work completed. The shop would replace the windshield and charge the customer directly.² However, a customer with comprehensive insurance was generally given a phone number to call for glass claims, in case he or she ever needed to have a windshield or other piece of glass replaced. The insurance company would process the claim and recommend a repair shop, if the customer had no preference. From that point on, the repair shop dealt directly with the insurance company.

However, insurance companies typically saw auto glass claims as a nuisance – high volume but low severity and low cost. By Safelite estimations, auto glass repair and replacement represented about one-third of all automobile insurance claims each year, but only 5-6% of cost for the insurance company. The hassle and cost of supporting an entire claims management department for glass claims caused some companies in the insurance industry to consider outsourcing this service.

Safelite was one of the first companies to take advantage of this opportunity, and when Garen Staglin and John Barlow came to the company in 1991 (as CEO and COO, respectively), they made it one of their top priorities. They took charge of Safelite's "Total Claim Solution" (or TCS), a program designed to utilize current telephone and data transfer technology to make claims processing more efficient. While TCS had come to the drawing board in 1989, Staglin and Barlow were the team that made it happen, by setting up partnerships with key insurance companies. Now, when a customer called the insurance company to inquire about coverage, the phone call was directly routed to one of Safelite's national call centers. CSRs at Safelite would have access to all of the customer's policy information from the computer at their desk. The CSR could then transfer the customer to a service provider in his or her area to schedule an appointment. If the customer did not have a preference for a particular company or store, the CSR would recommend the nearest Safelite service center or another affiliated repair shop.

From this point forward, Safelite played the role of a third-party administrator of claims through a network of independent shops, in addition to their company-owned stores. For repairs done by Safelite service centers, the claims processing division at Safelite would submit "batch bills" to the insurance company, thereby eliminating the need for each shop to submit individual bills, and reducing the processing costs for the insurers. Aside from paying the batch bills and maintaining some sensible checks and balances, the insurance companies that outsourced this function to Safelite were able to rid themselves of a large burden.³

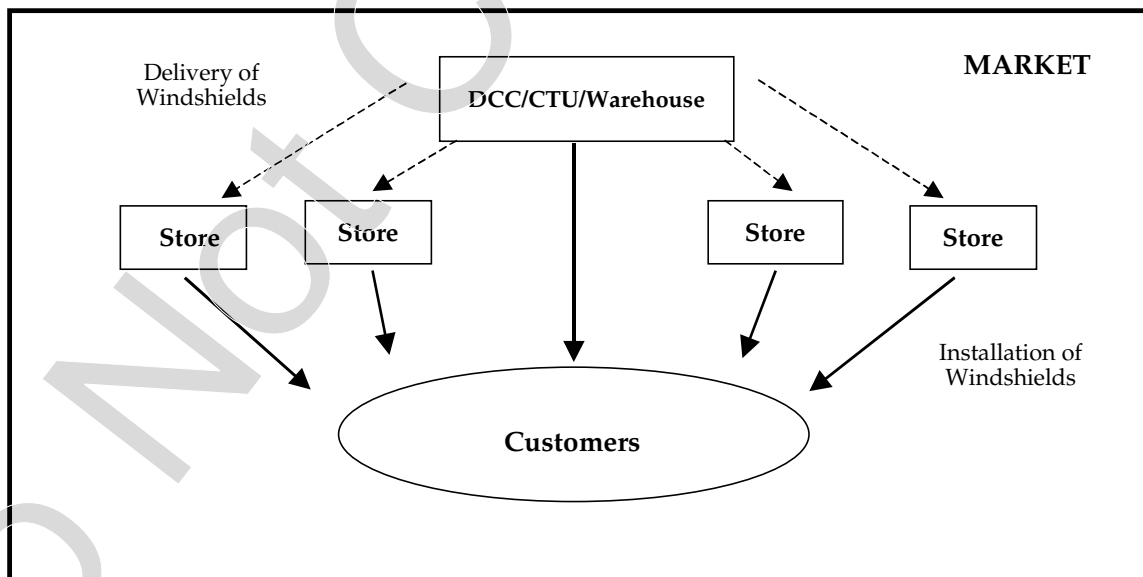
Because of its sophisticated communications network, all Safelite parties, from warehouses and stores, to billing departments and referral centers, were able to access or transfer information about individual claims. A CSR at the national call center in Columbus, Ohio, for instance, could transfer policy information to a service center in New York, and schedule an appointment at the same time. The network made the entire process, from the first call to the installation, fast and almost paperless (See **Figure 1**).

² Different rates were charged, according to whom the job was for. "Retail" customers – cash paying consumers and insurance jobs – were charged the highest rate. "Commercial" jobs – usually involving dealers or companies with a fleet of cars – were charged a lower rate in part because these jobs required less travel time. Car rental agencies were charged the lowest rate, because of the number of cars serviced in a typical job were so high.

³ By 1999, Safelite had entered into such arrangements with 17 of the top 20 national insurance companies.

Figure 1A Safelite's Repair Service, from start to finish

1. Windshield cracked.
2. Customer calls into CTU.
3. CSR takes the call, asks for insurance information, specs the windshield and asks for the customer's preference of mobile or in-store service. The computer system suggests the first available appointment, based on glass and technician availability. After the CSR schedules the job, the system orders the glass from a Safelite warehouse or from a preferred vendor.
4. A technician from the DCC is assigned to complete the job, or a delivery person at the warehouse takes the windshield to the assigned store on the next delivery. (Deliveries were made twice a day.)
5. The DCC manager routes the jobs for technicians and prints out a schedule with directions for each technician dispatched from the DCC.
6. Warehouse support staff pull the appropriate parts for the technicians' next service run (either the night before or the morning of their day of scheduled appointments), check them carefully for scratches or cracks, and load them onto racks for each technician.
7. A technician checks each part to ensure that it is the right one, loads his truck, and drives to each customer to replace his or her windshield.

Figure 1B Example of One Market

The coordination of calls, assignment of jobs, delivery of glass units to stores, and installation of windshields was only made possible by the same information system that centralized the transfer of customer information. The system also enabled executives at the regional and corporate levels to track such specific information as how many windshields were installed per day by each technician.

Low Productivity

When the tracking system was fully in place, Safelite made an astonishing discovery: individual technicians were installing an average of only 2.5 glass units⁴ a day (UAD) – far fewer than they had expected, since the installation of a single windshield generally took less than an hour to complete. “Do the math,” said John Barlow. “It takes an hour to put in a windshield, not including travel time. If they were on the clock for eight hours, but only putting in windshields for two and a half, what the hell were they doing the rest of the time?”

One of the reasons for the low productivity was that some workers simply did not try very hard. “Some of the technicians spend too much time playing pinochle,” said one manager. But in addition to general low effort, there were several specific factors that seemed to be lowering productivity. Finding the correct location of the customer in a timely fashion was one of the main problems. Sometimes a technician could not find the customer because 1) the customer was for some reason not at the stated location when the technician arrived, 2) the technician was given bad directions, or 3) the technician failed to use the manifest (the directions given to him). Another source of inefficiency was the fact that between 10 and 20 percent of the time, the technician would arrive and find that he had been provided the wrong part by the warehouse. Sometimes the technician would realize this error at the time of pick-up before leaving for the job site, but other times he would not check carefully and only discover the mistake when he had reached the customer. This led to costly rescheduling, which dramatically slowed things down. It also caused some customers to simply cancel the order (presumably to get the glass fixed by a competitor), often without notifying Safelite. Finally, technicians complained that some DCC managers “didn’t hustle” and tended to assign jobs “equitably” rather than funneling more jobs to those technicians who worked the fastest.

The Performance Pay Plan (PPP)

Staglin and Barlow each brought different experiences with them when they came to Safelite. While Staglin, a Stanford MBA, had extensive knowledge of the insurance industry, Barlow was the operations man. He started his career selling tires at Sears, and developed his philosophy about compensation from trying to motivate his own employees – the men who put the tires on customers’ cars.

I was on a five or six percent commission at that time, but I was limited on how much money I could make by how many tires those tire busters could put on. We had cars lined up, waiting for these guys to take an hour and a half to put the tires on a car. So, instead of one person on each car, I hired more men, so we could put four on a car, one on each tire. And I used to put my own money in there. If I sold three or four hundred tires in a day, I got a \$200 bonus. So, I figured it was worth it to put fifty bucks in the pot and divide it among these technicians, if they did a good job. And they were excited by that. They’d be working their ‘you know what’ off to make sure that we had a great day.

After several years at Sears, Barlow worked his way up to become president of Western Auto Parts. When he came to Safelite, he thought of his early years selling tires when he planned to have every person in the company on an incentive plan, either in addition to or instead of their regular salary. As he realized just how low the company’s productivity was, introducing an incentive plan that would raise productivity became a top priority.

⁴ The term “glass units” includes both windshields and “curved tempered glass” (all other windows on a car), though the majority of repairs and installations were windshields. Units are also referred to as “UAD” or units per associate per day.

In addition to creating an incentive system to motivate its employees, Safelite had two other major goals: A) to create loyalty among its largely transient workforce, and B) to combat the industry's traditionally high turnover rates. In most cases, turnover rates were so high simply because glass installation was a seasonal business. The spring and summer tended to be the busiest months, and this was the time when competition for new hires was at its peak. In the winter, demand for windshield replacement troughed, so repair shops often found it necessary to lay off many of their workers for the winter, then hire them back again in the spring and summer.

Additionally, technicians were often lured away by other companies promising them just a fraction more than what they were currently getting in salary and benefits. Safelite executives called this the "buck and a truck" phenomenon. Installers would change jobs for only a dollar more an hour and the ability to take the company truck home at night. Safelite also offered truck privileges for a time, but later ended them, because of the liability involved with allowing employees to drive trucks after hours. The loss of the truck privilege caused recruiters in HR to worry about how they could ever get technicians from other companies to come to Safelite.

In early 1993, John Barlow designed a compensation plan he hoped would help the company fulfill its goals. It gave installers an incentive to become more productive. "We seemed to be facing what we called a 'glass ceiling' in terms of productivity. Our strategy of creating an alliance with the insurance companies was working to bring in more insurance units, but we ... needed to give the installers an incentive to take that extra job and find a way to do it," said Beth Wolszon.

PPP for Technicians

The original plan called for technicians to receive a "piece rate" for every windshield they installed. Every week, the number of windshields a technician installed would be accumulated, and his⁵ pay for the week would be based on that number of installations. For the first twelve weeks of the plan, if a technician did not reach a weekly average equal to his previous hourly wage, he would receive the hourly wage as a guarantee rate. If he exceeded his hourly wage, he would be paid the PPP rate. After that first twelve-week period, however, his guarantee rate would be lowered by approximately 30% -- effectively encouraging him to work towards the PPP rate. At the time, experienced Safelite technicians were making between \$10-\$12 an hour. Safelite's executive team used the example in **Table 1** to demonstrate to technicians how much more they could earn with PPP.

⁵ Technicians were almost always men.

Table 1 Performance Pay Plan Worksheet 1993-94

Estimated Earnings Based on a Sample Week	
Glass Units Installed Daily by You	Monetary Value to You
(2) Retail ^a curved tempered parts (@1.5 NAGS ⁶)	2 @ \$19 = \$38
(3) Retail windshields (@3.4 NAGS)	3 @ \$20 = \$60
	1 day = \$98
	X 5 days
	Subtotal = \$490
Other Items Installed by You During the Week	Monetary Value to You
(1) Labor only R&R ^b	1 @ \$45 invoice = \$25.51
(1) Truck slider	\$12
(5) Windshield repairs	5 @ \$15 = \$75
	Subtotal = \$112.51
Items Sold by You During the Week	Monetary Value to You
(1) Truck slider @ \$89	\$89 @ 5% = \$4.45
(2) Sets of wipers	2 @ \$1 = \$2
	Subtotal = \$6.45
BASE PERFORMANCE PAY = \$608.96	\$608.96 divided by 40 hours = \$15.22 per hour

Source: condensed version of actual worksheet distributed to Safelite employees during initial stages of PPP

a - Installers were paid different rates, depending on the area of the country they lived and operated in. In an 'A Market' (a region of the country with a relatively high cost of living - i.e. Atlanta or Chicago), retail glass units were worth \$19 for up to three NAGS, commercial was worth \$15, and rental was worth \$10.

b - R&R= remove and replace. Technicians were sometimes asked to remove a windshield while auto body work was being completed on a vehicle, then come back later to replace it.

PPP for Store Managers

In addition to effectively communicating the goals of PPP to the installers, it was also important that the people managing those installers understand and be able to take part in the new system. Depending on the store size, managers were expected and encouraged to install a certain number of glass units per day, in addition to maintaining and motivating a staff of technicians. The amount of time a manager was expected to spend installing versus managing varied greatly according to the number of installers he was supervising. To make pay and responsibility distinctions more clear, stores were categorized according to size, from the largest (AA) to the smallest (D). (See **Table 2.**) AA-level managers and DCC/CTU managers were not included in the PPP plan, and were paid a straight salary. They were expected to spend all of their time managing the store and the other technicians. Managers of lower volume stores, however, were expected to spend time installing. This, Bill Rapp says, would give them an incentive to hire and manage a smaller number of technicians. "We want them to think, 'If I hire another tech, I'll have less to install myself.'"

⁶ NAGS hours are a method of measuring the level of difficulty for a given installation. For instance, windshields were worth 3.4 NAGS hours and all other glass units were worth 1.5 NAGS hours.

Table 2 Safelite Productivity Standards for Managers

Store Class	Number of Technicians	Average Units Installed per Year in a Store	% of Time Installing	% of Time Managing/ Administrative	Eligible for PPP?
DCC/CTU	Up to 30	4,800+	0%	100%	No
AA	Up to 30	4,800+	0%	100%	No
A	3	3,600-4,800	25%	75%	Yes
B	2	2,400-3,600	40%	60%	Yes
C	2	1,200-2,400	75%	25%	Yes
D	0	Up to 1,200	100%	0%	Yes

The Safelite compensation committee also used this chart as a basis to determine how much administrative pay a manager should receive. The manager of an A-level store, for instance, might not be able to install as many units as a full-time technician, but he would be eligible to earn performance pay on top of his administrative pay. In 1994, an A-level manager could expect to earn \$23,000 in administrative pay, and have a target average of \$14,245 in performance pay.

Making the Pitch

Initial reaction to the introduction of PPP was mixed. Garth Beck, then a DOM⁷ in Salt Lake City, was enthusiastic – mainly because he had worked for another glass company that had an incentive compensation program, and it had been very successful. “I was all for it,” he said. “I was very comfortable with the idea, especially because of my experience with the company that I worked for before Safelite, and how well that program worked.” Many of the installers in his region, Beck said, were also excited about PPP because they, too, had come from companies with similar plans.

Sonny Gassiot, who was a DOM in New Orleans at the time, was supportive of the plan, but was uncertain of its effects on the stability of Safelite’s workforce. He, too, had some experience with a performance pay system – even one that paid on 100% commission. Initially, however, he worried that lowering the guarantee rate, as the PPP plan called for, might result in a huge turnover. Technicians were in high demand, and the multitude of other repair shops in the industry were known to offer the highest hourly rates they could afford, to get experienced technicians from competing shops.

Gassiot also recognized the difficulty of introducing a new pay system in an established industry. “In an industry that has always been based around hourly wages, a change like that is hard,” he said. “It’s just not as simple as thinking, ‘If I pay him a dollar more, he’ll work that much harder.’”

One of the greatest problems facing the program was the fact that there were a number of factors that affected a technician’s productivity, and now his pay, which were out of the technician’s control. Inclement weather, scheduling errors or miscommunications and operational problems (not receiving the right number or type of glass units from the warehouse, etc.) could all keep a technician from installing enough windshields to make the PPP rate. And in the winter, low demand for windshield replacement also threatened to put PPP out of their reach. Additionally, installers would now have to depend on other people who were not on the PPP plan (CSRs, warehouse drivers, employees at the

⁷ District Operations Manager. Each DOM managed operations for an entire market. See **Exhibit 1** for an organizational chart of Safelite Auto Glass.

manufacturing plant) to do a better job. "Realistically, not everything that keeps a technician from being productive is in their control," said Scott McHardy, Safelite's compensation manager. "There are also a lot of technicians with families to support, and they can't take risks with their income."

Since the program hinged on the productivity of the technicians, getting them to accept the new system was key. Barlow made every attempt to convince installers, managers and DOMs that increased productivity would make Safelite a stronger company, and thus offer greater opportunities to its employees. He sent a letter to every person in the company who was to become eligible for the PPP plan, explaining Safelite's goals for the program and the company's reasons for instituting it. (See **Exhibit 2**.)

However, the part of the PPP plan that stuck with technicians was the reduced hourly rate after the initial twelve weeks. "How it came across was, 'We're gonna cut your pay by 30% and you can make up the difference,'" said Gassiot, recounting the sentiments his installers expressed to him at the time. Doug Herron, then CFO, felt that this was perhaps the greatest obstacle for the company to overcome, if PPP were going to succeed. "People really thought that what we were all about here was finding a way to pay them less," he said.

Herron, Barlow and Wolzson all struggled with the decision. The guarantee rate was the most difficult problem. DOMs argued that lowering the guarantee rate after 12 weeks would cause turnover to skyrocket and Safelite wouldn't be able to service their customers effectively. A proposal was on the table to roll PPP out to the rest of the country as it was, with the 30% reduction in the guarantee rate. If the plan worked, productivity would increase, but if it didn't, Safelite could lose a lot of its installers. They had to decide if the risk was worth it.

Exhibit 1 Organization of Safelite Glass Corp.

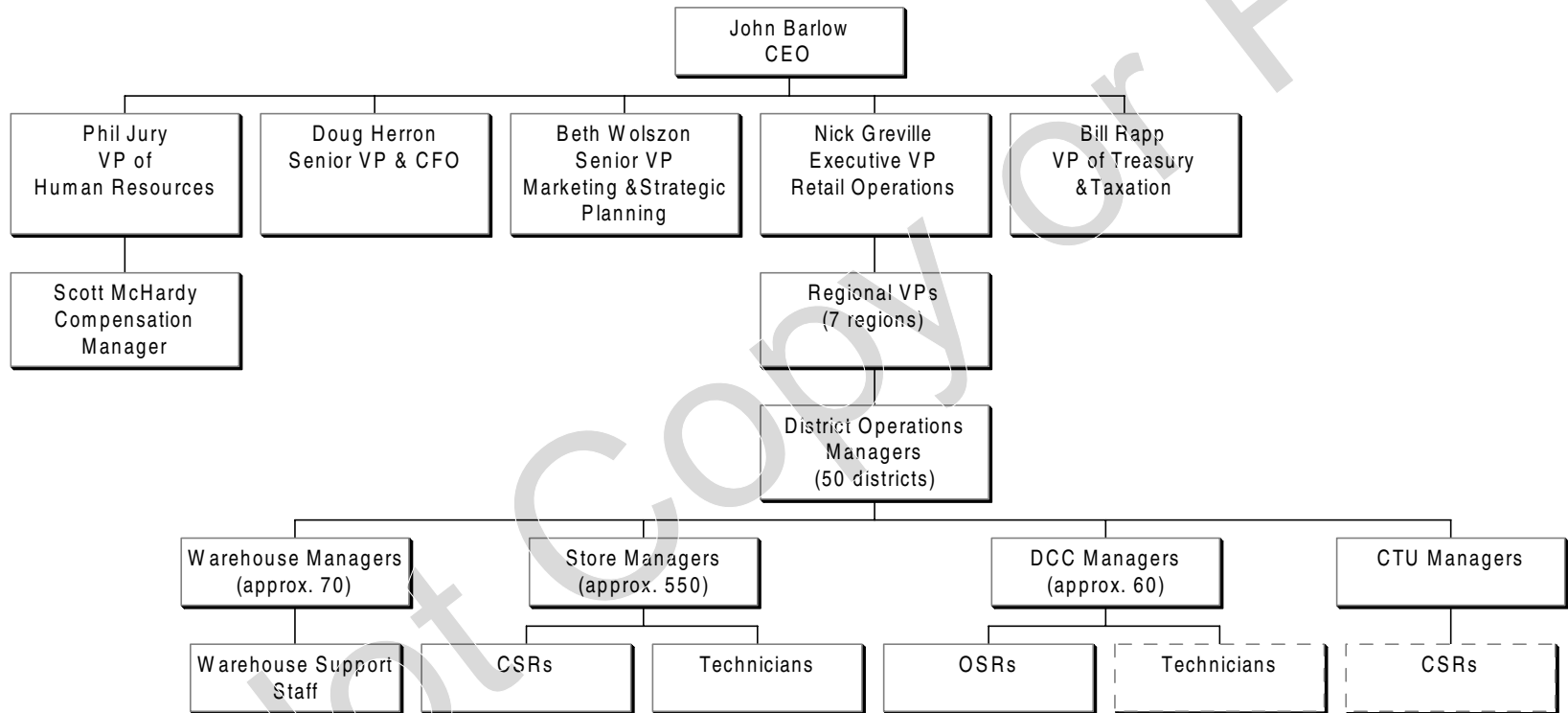


Exhibit 2 PPP Memo to Installers

SAFELITE Glass Corp.

Inter-Office Memorandum

DATE:
TO: _____, Installer # _____
FROM:
RE: Installation Performance Pay Plan

We will be introducing a new Performance Pay Plan in your market, effective _____. We are excited to have you as one of our installers in this plan. We know you will share our excitement as you recognize the potential to increase your income through increased productivity.

I would like to share with you the Safelite goals that led us to this plan:

- Our company has a responsibility to three very important audiences . . . our associates, our customers and our owners. We must balance these responsibilities so that each audience benefits from their affiliation with our company.
- As our Value states, “We Recognize and Reward Results.” Our associates deserve to be rewarded for hard work and increased productivity, for they are the front line of our business. We agree with our associates that there should be a direct correlation between productivity and compensation. Through this plan, our most productive associates will have an opportunity to increase their compensation. **The more Safelite products you install and sell, the more money you earn!**
- Our customers expect excellent quality, service and value. The more we install and sell, the more customers we serve. This plan will reduce installation costs and keep prices low through higher productivity, while maintaining our focus on quality installations.
- The glass replacement industry is highly competitive. The economy, price decreases forced by competitors, and an increase in windshield repairs are variables that are out of our control. We must increase both sales and productivity to maximize company profits and your individual compensation.

A complete package is enclosed, detailing the program and providing worksheets for calculating your compensation potential. Under this plan, your compensation will be determined by your installation and selling abilities.

Your personal compensation will be thoroughly discussed and explained to you in the next several days. Your continued dedication to our company is greatly appreciated.