IN1473

Case Study

Wawa:

Retailing Reinvented Through Blue Ocean Strategy

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This case study was written by Michael Olenick, Institute Executive Fellow of the INSEAD Blue Ocean Strategy Institute, with W. Chan Kim and Renee Mauborgne, Professors at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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The INSEAD Blue Ocean Strategy Institute

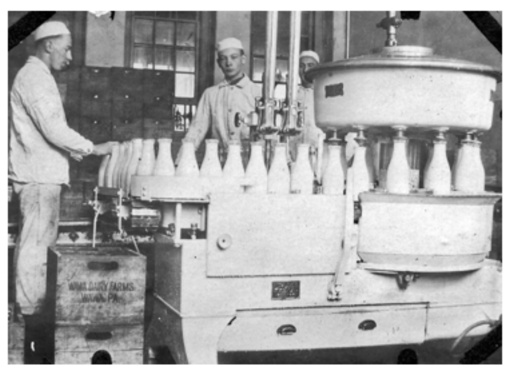
"We don't take success for granted. We've seen too many retailers disappear from this landscape. I grew up in the department store industry and many of the department stores that I worked with don't exist today. That's a very humbling type of situation. We just don't take it for granted. So, we're paranoid when it comes to success and we're always reinventing ourselves. We want to be around for another hundred or two hundred years as the company goes back about two hundred years at this stage of the game. The Blue Ocean approach and tools have been pivotal in helping us realize this aim."

Howard Stoeckel, Former CEO & current Vice-Chairman, Wawa

Wawa is always on the move. Founded in 1803, the fabled American firm began as an iron foundry producing cast iron stove plates and fire backs. Over the next 200 years the company with a funny name outpaced its competitors to continuously create new markets. From the early days as an iron foundry, Wawa evolved from cast iron stove plates, railings and pipes to textiles, to dairy, to groceries, to gas stations, to its current form: a $10.5 billion sensation whose fan base is the envy of the convenience retail and quick service restaurant industries.

The modern incarnation of Wawa began in 1902, when family patriarch George Wood opened a dairy farm in Wawa, Pennsylvania. Most dairies were family farms, and levels of cleanliness were inconsistent. Wood's goal was to sell "doctor certified" milk, a system created by pediatricians and veterinarians that reduced the likelihood of milk passing on tuberculosis and other bacteria. Twenty years before pasteurization was common practice, Wood wanted a modern dairy that sold safe milk. He constructed a dairy processing facility and a distribution service that would control every step of production from the animal, to bottling to home delivery, ensuring sanitary conditions and temperature control.

Typical Dairy



Wawa Dairy

Before pasteurization, Wood's milk (and its other dairy products such as cream, cottage cheese, etc.) was as healthy and safe as was possible, delivered directly to customer's homes[1] using horse-drawn carriages, then stylish trucks. Wawa built a blue ocean of dairy products based on trust, delighting his customers and always doing things right. The Wawa brand, tied to fresh,

1 Doctors examined the cows, followed strict guidelines to determine the herds were tuberculin-tested and disease free. They also inspected the milking barns, procedures, bottling, storage, and other facilities. Similar practices are followed today in places where "certified raw milk" may be sold.

wholesome and trustworthy dairy products, grew along with the company. As a 1905 Wawa brochure claimed, "Man cannot improve Nature's product, so all we do is keep it clean."[2]

Scientific advancements in food safety posed a threat to Wood's growing business. In 1856, French scientist Louis Pasteur had discovered a process to eliminate microbes – his early work focused on wine, destroying a microbe that transforms grape juice to vinegar rather than wine. He patented the process and called it "pasteurization". Three decades later, Robert Koch discovered that tainted milk carried bacteria that caused tuberculosis – that pasteurization killed, rendering milk safe.[3] Its adoption was nonetheless slow; farmers rejected the additional cost and consumers thought pasteurization destroyed taste.[4] In 1899, another new process, homogenization, eliminated much of the variability in the taste of milk, regardless of its source.

Gradually, municipalities started to mandate both milk pasteurization and homogenization, with Chicago being the first US municipality to require milk pasteurization, in 1908. Eventually, Wawa's "doctor certified" unpasteurized milk no longer stood apart.[5]

In 1929, 24 years after Wawa introduced its safe milk and dairy, Pennsylvania enacted laws governing the processing and storage of milk that required all bulk sale milk be pasteurized. In response, the Wood family invested $250,000 ($3.5 million, adjusted for inflation to 2016) in a modern dairy processing plant (still in operation today) to pasteurize their milk.

However, thanks to the trust it had earned over the years, customers to continue buying Wawa milk and other dairy products,[6] either from dairy stores or the Wawa home delivery service. Although the functional features of certified safe milk no longer mattered (by the 1940's all milk

2 Thompson, M. M., & Price, D. H. (2004). *Wawa*. Arcadia Publishing.
3 This discovery won Koch the 1905 Nobel Prize in physiology.
4 This debate carries on to modern day with 28 US states allowing strictly controlled sales of unpasteurized milk under limited specific conditions. However, the overwhelming majority of milk, including all mass market milk, is pasteurized.
5 To this day pasteurization laws vary state-by-state. Some states entirely outlaw unpasteurized milk whereas others allow the sale, often only from farmers directly to consumers.
6 The dairy sold pasteurized products from about 1913 while continuing to sell a full line of certified products. Homogenization, a process to make milk similar, did not enter the marketplace on a wide scale until after WWII. What made the 1920 plant special was that it was really two plants in one: a certified processing facility and a pasteurized facility. There had been two separate plants before but this new "ultra-modern" plant was designed to comply with health board requirements. The plant was featured in the June 1933 issue of *Milk Plant Monthly*.

was safe) the emotional appeal of the brand and the trust Wawa had earned carried the business in an era when consumers bought meat from the butchers, bread at bakeries, and non-perishables at small stores.

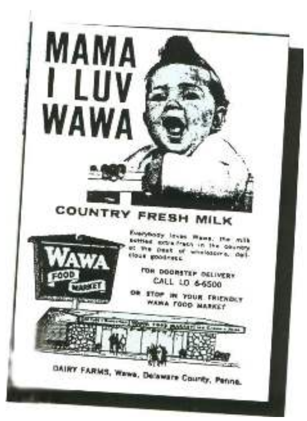
In post-war America, suburbs blossomed outside of city centres, allowing more space for retailers to build “super markets” that brought all products under the same roof. Besides the added convenience, they enjoyed economies of scale that allowed them to offer comparably high quality at lower cost. Wawa’s dairy delivery slumped in the 1960s as consumers preferred to purchase dairy products along with other groceries at supermarkets. Wawa’s milkmen were overtaken by progress.

Wawa Food Markets

Faced with the simultaneous collapse of the milk production and delivery business and also the remaining industrial businesses,[7] Grahame Wood (George Wood’s grandson), President of Wawa Dairy Farms, convinced the board of directors to try something new: retail stores.

Struggling in a red ocean of milk, Wood took out a $50,000 loan to finance three new grocery stores.[8] Wawa sought to differentiate their little grocery stores from larger ones by offering own-brand products which buyers knew and trusted, sold by friendly and authentic employees who cared about their customers. Early advertisements promoted them as an alternative channel (besides delivery) to purchase fresh Wawa products.

Wood opened the first Wawa Food Market, on April 16, 1964, in Folsom, PA.[9] Wawa advertisements from this era included milk, chocolate milk, skim milk, cottage cheese, coffee cream, whipping cream, sour cream, eggs, butter, orange juice, bacon. Only two of the 16 items advertised were non-perishables: syrup and a steak knife.



7 Wawa, at this time, remained a wholly owned subsidiary of the Millville Manufacturing Company, which continued to operate textile mills until the 1950s. Here, the name Wawa describes the corporate entity.

8 At this point in time, the business was financially frail enough they could not self-finance their stores.

9 This store remained open until June 2016, when the company moved to a substantially larger building nearby.

Wawa's commercial outlets leveraged the trust and emotional connection earned by the milk and dairy business. The public went wild for Wawa. In 1972 it opened the 100th store. In 1978 – a dozen years after opening the first store – the firm opened its 200th store.

Wawa's strategy was counterintuitive – to deliberately position stores sub-optimally close to one another. Traditional grocery stores and branded franchises positioned stores with ample space in between to avoid cannibalization and reduce same-store sales. Wawa flipped the narrative. In Wawa's thinking, dense grouping – referred to as "clustering" – unlocked strategic benefits. It gave the appearance that the stores were everywhere, and that Wawa was a much larger company, creating enhanced credibility.[10] At a time when big companies engendered trust, this was important. Additionally, clustered stores could restock one another, share employees and managers, work from one central distribution facility to lower logistical costs, and share best practices. Clustering increased total revenue and market share, even when individual stores poached each other's sales.

Over time, supermarkets grew in size and scope as automation allowed an ever-increasing number of items. On 26 June 1974, the first Universal Product Code (UPC) barcode was scanned at Troy's March Supermarket in Troy, Ohio. Supermarket automation evolved, with front-end barcode scanning systems connected to back-end ordering systems to ensure a constant supply of fresh food delivered to stores on-time with minimal spoilage. These new technologies were expensive to implement and the systems required a high sales volume to operate effectively. As a result, many small stores, including smaller supermarkets, were consolidated or forced out of business.[11]

Wawa's early food marts were popular but the company once again found itself in a red ocean. Unable to compete on price or selection against new-entrant automated supermarkets, Wawa upended the strategic logic. Instead of scaling up to copy their competitors, Wawa *traded down* from small grocery stores to convenience stores. Henceforth, whereas supermarkets would carry a full line of fruits and vegetables, Wawa now had a limited produce offering, often grown on the dairy farm. Whereas grocery stores had a full line of meat and fish, Wawa featured a small delicatessen that sold sliced sandwich meat.[12] With the transition to a convenience store, Wawa dropped "Food Market" from the firm's name.

Wawa did not invent the convenience store. In 1927, 7-Eleven opened its first store in Dallas, Texas. 7-Eleven stores were small and offered a limited selection of (oftentimes lower quality) products but with longer hours than traditional stores (from 7am to 11pm). However, unlike 7-Eleven stores, which were franchised, Wawa's were entirely company owned and operated. Centralized ownership enabled a focus on the stores as a whole, rather than on each individual store as a profit centre competing with the others. Both sold milk, but Wawa sold its own brand milk. Both had clerks, but Wawa's staff were friendly members of the community serving other members of the community. Still, there was some copying: in 1972, Wawa expanded its hours to remain open 24/7.

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10 A strategy Starbucks would later use with great success.

11 On May 9, 2017, Marsh Supermarkets – owner of Troy's where the barcode was first used – declared bankruptcy. Troy's was sold.

12 The Evolution of the Supermarket Industry: From A&P to Walmart. Paul B. Ellickson, University of Rochester (2015). http://paulellickson.com/SMEvolution.pdf

"When we entered the convenience industry, 7-Eleven was already a national chain, but we found an advantage by making all our stores company owned and company operated. Other convenience store chains use a franchise model. That means they're not nearly as consistent as we are and have a much different corporate culture; and their corporate business has always been about selling franchises first, convenience second. Our business is about running each and every store on our own and maintaining consistency throughout the chain," said Howard Stoeckel.[13]

Whereas many convenience stores offered a tepid "Thank you – come again", Wawa's customer service stood apart. With its long history in the Delaware Valley community, friendly atmosphere and high-quality products, locals fell in love with Wawa. Unlike anonymous conglomerates, the company was emotionally invested in the community. Its ubiquitous stores, high-quality private-label brands and friendly atmosphere set Wawa apart from traditional convenience stores. Wawa employees would, for example, check up on an elderly regular customer who failed to show up, and always served customers with a smile. Prompted by the friendly atmosphere, Wawa customers routinely hold doors open for one another.

This cycle of creation, recreation, and eventual imitation by competitors continued, with Wawa moving back and forth between a red and blue ocean business. "Around 1990 business was slow and very sluggish," explained Stoeckel. "Convenience stores at that point went through a very difficult period because supermarkets were expanding hours, discounters were more aggressive, our pricing was out of line, and we didn't have many proprietary brands." Still, at Wawa there was an ongoing focus on speed and friendliness joined with an unwillingness to nickel-and-dime customers through, for example, upcharges for credit-cards.

Over time, Wawa retained an ongoing advantage over both grocery and convenience stores thanks to clustering, refusing to enlarge stores into full-size supermarkets or expand its national footprint, leaving their ever-increasing number of stores near one another. Clustering reduced marketing costs and simplified logistics while allowing the company to focus on the specific communities it served. "Our desire is to be better than to be a national brand," said Stoeckel. "We may wake up someday, in 50 years, and find ourselves a national brand. But that probably would take 50 to 100 years, but that's never been our desire. We want to be the best we can be. We want to fulfil our customers' daily lives. We want to be part of their daily routine. We want to be top-of-mind every single morning when they wake up. And we want greater frequency than any other retailer."

In 1994, Wawa opened a first "superstore", featuring considerably more parking and space, 4,780 square feet (444 square meters). Most older Wawa stores at this time were small, with cramped parking lots.

In 1996, the firm expanded into an entirely new market, adding high-quality, high-efficiency fuelling stations with its own private label: Wawa gas. As Wawa's gas was not a well-known brand, its innovation was to guarantee the gasoline would not damage cars – the same promise it had for milk three generations earlier. Wawa installed high-speed pumps to make the task of filling the tank faster for customers[14] and eliminated charges for credit-cards so people would always get a

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13 Stoeckel, Howard. The Wawa Way: How a Funny Name and Six Core Values Revolutionized Convenience (p. 42). Running Press. Note: all other Stoeckel quotes are from first hand interviews.

14 In at least one market, New Jersey, people are prohibited from filling their own cars: only fuel station attendants may fill cars. Although customers wait more comfortably inside their cars the faster fill-ups still add value.

good price whether they had cash or not. It was usually the lowest cost fuel retailer.[15] The firm also ensured there were many pumps so people wouldn't have to wait to refuel.

Fuel is a low-margin business, but Wawa's offering inspired customers to come to Wawa for fuel, which also brought people into the stores, where it installed automated teller machines (ATMs) that did not charge fees.[16] So, fuel brought customers and free ATMs made stores more appealing – people rewarded Wawa by spending a good portion of the money they withdrew at Wawa.

Like many convenience stores, Wawa offered an underwhelming selection of largely unhealthy pre-packaged snacks. The firm had been selling sliced deli meat and coffee since 1975, but the offering was limited.[17] In the mid-1990s, Wawa experimented by partnering with third-party quick-serve food chains. This move alienated staff (who wanted to work on Wawa brand products) and underwhelmed customers. The branded restaurants were quickly removed.

Convenience goods, fuel, and roadside food are all cut-throat red ocean industries, competing on marketing and price. The US Bureau of Labor Statistics puts gas stations and small grocery stores in the top-ten businesses most likely to fail. Restaurants tend to do better but are still a high-risk industry. “There are so many strong competitors in each of these industries,” said Stoeckel. “It's not like McDonald's against Burger King. It's not like Costco against Sam's Club. You had Subway expanding dramatically. You had the fast casual (food) business: Panera and companies of that nature coming into the marketplace. There were just so many competitors and we recognized at that point, as we have at other times in our history, the need to distance ourselves from other players and stay true to who we are.”

As the financial crisis of 2008 unfolded, Wawa, along with almost all retailers, felt the pinch of constrained consumer spending. In response to the recession, companies began to aggressively copy the Wawa offering. Faster pumps, lower wait times, and no credit-card surcharges became more common. “The marketplace became more and more competitive (in 2009) and we're in three businesses,” said Stoeckel. “We're in the fuel business, we're in the convenience business and we're in the food service business. There are players in all three businesses that have deeper pockets. McDonald's has deeper pockets than we do; Exxon-Mobile has deeper pockets than we do. You had the hypermarkets and supermarkets going into the gasoline business. So, as we looked at the future, particularly 2010 to 2014, we saw things converging. We very consciously said that we needed to distance ourselves from this highly competitive marketplace and create this wave of innovation that would create value for both the company and our customers.”

Before the competitors caught up, Stoeckel convened senior management to study the business strategy in 2009. As he looked at the marketplace, it became clear that its competitors were converging with Wawa. In response, Stoeckel handed out popular business books and asked executives to read them with an open mind. “The more leading business books we read, it became

15 Besides low cost and high quality the firm also has a commitment to honesty that serves as a differentiating factor. For example, in the Orlando market – where they have recently been expanding in – they effectively drove two sham gas stations positioned out of business. Those gas stations were positioned to sell tourists fuel at outlandish prices; Wawa created a third station and made it clear, to foreign tourists unaccustomed to the US's low fuel prices, what normal pricing should be.

16 Wawa does not impose the upfront surcharge fees often imposed by retailers. However, customers' banks may impose fees.

17 Hoagies are sandwiches on a large baguette like bread. In other geographic regions they are called subs, heroes, grinders, or Italian sandwich.

clear to us that the tenets of Chan Kim and Renée Mauborgne's book *Blue Ocean Strategy* fundamentally spoke to who we were and what we aspire. We realized that we are absolutely Blue Ocean," said Chief Operating Officer Cathy Pulos. "We really are Blue Ocean, and it's really about value innovation – pursuing differentiation and low costs, not one or the other - as we looked at the activities and milestones in our history."

Rather than try to compete head-to-head with the industry, Wawa reconstructed the market boundaries to break away from the competition and open new value-cost frontiers. "After team discussions, top management saw that we risked sinking into the red ocean if we didn't rethink Wawa's strategy. That was when the team agreed to move forward and to consciously apply the Blue Ocean approach and its tools to the rising red ocean challenge we confronted," said Pulos.

As Stoeckel explained, "The Blue Ocean approach and tools gave us a *systematic* way to address the challenge we confronted to open a blue ocean of new growth for the company. As we set out to rethink of our strategic plan, we applied the Blue Ocean tools and process as the backdrop for our strategic planning process," explained Stoeckel, "and referred to it as our '*Blue Ocean Strategic Plan*.'"

Blue Ocean Shift

Senior executives drew as-is strategy canvases, a key analytic of Blue Ocean Strategy, to study their current business.[18] They concluded the food service business was the weakest of their three offerings – food, fuel, and convenience – but also the one with the highest potential for growth. Buyers did not believe that a convenience store or gas station could offer high-quality food, but with the blue ocean tools and process, Wawa saw a way to change that. To make a blue ocean shift, Wawa would redefine itself from a convenience store with gas that also sold food, to a quick service restaurant that also sold convenience items and gas.

The company had been serving sliced meat and hoagies, but the bread wasn't baked fresh on the premises and the ingredients were limited and hadn't been creatively rethought to reflect an array of healthy fresh toppings. In the old offering, food counters were stacked high with upsell items: salty snacks and other packaged unhealthy items. This created the impression that cheap-quality products like hotdogs, that been rolling around on an electric cooker for hours, existed only for people with no other options. Checkout counters featured cigarettes and aisles were a maze, designed to route shoppers past impulse buys. Wawa *looked* like a convenience store that also sold uninspiring food (like the rest of the industry).

Transitioning to a quick service restaurant that also sold a limited selection of goods and fuel required a major shift – in the look and feel of stores, the food, and the store layout. To succeed, Wawa eliminated certain amenities that seemed expensive yet added little value: its quick-service restaurants had neither tables nor servers.

18 See W. Chan Kim and Renée Mauborgne, *Blue Ocean Strategy* (Harvard Business Review Press, 2005, 2015) and *Blue Ocean Shift* (Hachette, 2017).

Food

The Blue Ocean shift revealed that food freshness and healthfulness had to be created and quality raised. But to offer a quantum leap in buyer value, Wawa did not stop there. It aimed to couple the new food offering with significantly lower prices – thereby establishing a new value-cost frontier that made traditional quick service restaurants essentially irrelevant.

Americans love comfort food but management appreciated that to do right by customers, and the trend toward healthy alternatives, Wawa had to offer an array of fresh ready-to-go salads, wraps and crudities (not the type that people pick up in sealed containers and scrutinize to determine just how long they've been lying around, or whether they actually contain quality ingredients). The aim was to break the stereotype by creating delicious fresh salads – think kale and quinoa, original customized salads that would surprise, and classics like fresh Caesar salad with grilled chicken breast – made every day with only the highest quality ingredients.

Wawa also needed to create healthy delicious hot alternatives. Breakfast choices not found in many restaurants, much less convenience stores, include egg whites, turkey sausage, and gourmet items like Applewood Smoked Bacon. Lunch choices would be their famous hoagies – but with a fresh, high-quality twist – bread baked on the premises, top-quality meats, and fresh vegetable and cheese accompaniments – plus roast chicken, paninis, flatbreads, quesadillas, and burritos made to order. Dinner items were geared towards complimenting main courses people cook at home, with a variety of soups and traditional side dishes.

Wawa also focused on coffee – up to 12 types, from dark brew to French roast or hazelnut – all at Starbucks quality but far lower price and faster delivery. Almost all were walk up, pour a cup, and leave. Offerings include limited reserve coffee – like Kenyan AA beans – all at $1 per cup regardless of size. At the centre of this effort was a large number of high-quality self-serve coffees kept hot by thermal carafes, accompanied by additional flavourings and other amenities. The new carafes kept coffee fresh, enabling higher quality coffee at lower cost due to less spoilage, and the self-service offering freed staff to focus on customized hot drinks, speeding up that process as well. "If you're a coffee drinker, welcome to Nirvana," wrote one travel blogger.[19]

19 "I Wawa, Wawa, Wonder." *Excessive Excursionist*, 29 Mar. 2011, excessiveexcursionist.wordpress.com/tag/wawa/

Speed

Ordering food in a quick service restaurant was recognized as a perennial pain-point even for restaurants with limited menu choices. Wawa's highly customizable offerings could create mayhem as customers struggled to explain their choices to a person transcribing the order into a computer system. To increase speed while reducing complexity and cost, Wawa was an early pioneer in ordering kiosks that efficiently and accurately accepted orders directly from customers. "Want bacon on that breakfast burrito? How about extra lettuce? Even add a hot soup or side to round off your meal. Most of their food offerings are available Built-to-Order at the touchscreen..."[20] Quoting Stoeckel: "It's a friendly, efficient experience."

Store Look

To create an atmosphere that inspired people, Wawa set out to change the look and layout of its stores. Old stores received an interior overhaul and new stores would be built with food at the core. Gone were the aisles that blocked a near-hidden food counter, the processed snacks and Slim Jim's piled high at the food counter. New Wawa stores looked like takeout restaurants that sell other items (rather than convenience stores that sell food). Stores were airy and uncluttered, with a modern feel. General purpose goods, including cigarettes, were on sale but not the centrepiece. Aisles were spacious and parking abundant. As you walked into the stores, the food counter was straight in front, immediately visible and inviting with modern clear signage with the fast, easy-to-use ordering kiosks so the need to stand in line was significantly reduced.

The Friendliest, Authentic Service

When it comes to service, whether in a quick service restaurant or any place else what most people want is warm authentic service that genuinely feels like people care about you, want to make you happy, and bring joy to your day. Wawa management had long taken great pride that

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20 Wawa was a pioneer in self-serve touch-screen kiosks. Since that time the technology has become more common in quick serve restaurants.

that type of service was precisely what Wawa was known for when it came to its convenience stores. Its 30,000 store Associates take pride in working at Wawa and getting to know and bring joy to their customers. What the blue ocean process made clear was that Wawa management could leverage this capability as they coupled it their new food offering, creating a level of authentic service and customer stewardship that would further set its new value proposition in food apart.

Building a Compelling Profit Proposition for its Shift

With the parameters for its new offering defined, the question was to how to build a compelling profit proposition to make the Blue Ocean shift. Wawa was, after all, aiming for the freshest, high-quality, delicious food, reasonably priced, yet knew little about sourcing fresh ingredients or making the range of foods daily, at the lowest cost, that its new value proposition demanded.

Rather than compromise or attempt a costly and risky effort to build these capabilities in-house, it challenged the key assumptions behind the business model of quick service restaurants. And as it did so, new ideas came into focus.

Executives understood the value of strategic partnering from prior work with McLane, a $50 billion grocery logistics company owned by Berkshire Hathaway, which had been delivering its convenience store goods for years. Wawa's clustering of stores made it possible for McLane to efficiently supply Wawa's stores, allowing McLane to keep its costs low, while Wawa achieved steep economies of scale for convenience items. Couldn't Wawa's clustering be leveraged again - in this case to deliver healthy, fresh, high-quality salads and all other food items on a daily basis?

Wawa management partnered with Taylor Farms – tagline "America's Favorite Salad Maker" – to provide fresh salads to Wawa daily. Its expertise in sourcing the freshest produce at low cost (due to their high volumes as well as facilities and expertise in fresh food preparation) allowed Wawa to achieve salad expertise overnight without the costs of adding purchasing agents or food prep staff to its payroll, not to mention kitchen facilities.

Wawa turned to the Safeway Group, a family-owned leader in pre-made foods like roast chicken, for its premium fresh food delivered daily. The food items from both Taylor Farms and the Safeway Group were delivered every day to all of its stores by the shipping giant Penske, ensuring everything was delivered at the correct temperature.[21] Penske coordinated bundling and delivery from the various food logistics providers to Wawa's clustered stores, a process called "cross-docking".

In Wawa's early days as a food mart, bread was sourced from Philadelphia's acclaimed Amoroso bakery. To replicate the quality and freshness of Amoroso's at scale Wawa now installed bread ovens in every store and delivered ready-to-bake dough supplied by Amoroso, so that sandwich bread was the freshest possible. These companies were willing to work with Wawa due to the fact that its stores were clustered near one another, enabling large scale in a tight geography.

"To shift and break away from the competition, the blue ocean tools and process effectively channelled our efforts to challenge how we could offer a leap in value for our customers while pushing for a radical drop in the costs and speed of making this happen. The idea of partnering

21 Case Study. "Wawa: A Fresh Look at the Northeast's Most Recognized Convenience Store." Penske Logistics, Penske, 2015, www.penskelogistics.com/pdfs/08_wawa_case_study.pdf

with Taylor Farms and the Safeway Group had a tremendous impact on the economics of our business model. It allowed us to eliminate the cost of building and staffing a full-scale restaurant kitchen in every store which also means far less real estate is needed than at other quick-service restaurants," said Stoeckel.

Despite that the stores are large the kitchens are small because almost all food is prepared freshly at centralized facilities. Wawa kitchens, feeding thousands of people per day, are no larger than many home kitchens. The hot food is flash-frozen to lock in freshness at the Safeway Group and delivered daily. "To ensure freshness, our kitchens have thermal heating machines, with each about the size of a large dishwasher," explained Stoeckel. "The thermal heaters use hot water – not microwaves. And as demand for a food item grows in the day, a flash-frozen pack is placed in the heater. To ensure freshness, each item has a specified amount of time the food can remain in the heater before serving. Any food that passes that time is not allowed to be served as a guarantee of freshness." In this way, sanitation of food was also maximized, freshness ensured, and minimal kitchen equipment called for.

Making a strategic shift, and creating effective partnerships was vital but Wawa had to also physically overhaul the look and layout of its stores, oftentimes opting to close older small stores and replace them with larger new one's nearby. Some older convenience stores were not large enough to offer the higher value/low cost throughput of the new strategic offering, and their parking lots were too small. During the Blue Ocean shift, Wawa closed old stores, replacing them with newer ones nearby – but not in one fell swoop. To manage risk and build buy-in, the firm tested its new strategy in select stores to allow kinks to be ironed out, confirm its market appeal, and share customer testimonies with its 30,000 associates of the shift's appeal. When store managers and staff saw and heard testimony of how customers loved the shift, Wawa management appreciated that the new strategy would be more rapidly embraced in the roll-out and that people would embrace the new strategy with 'pushback' minimal.

Involvement

Wawa utilized *fair process* to include the tens of thousands of employees needed for a successful strategic shift. Thanks to an Employee Stock Ownership Plan (ESOP), where employees own about 40 percent of the company and close to 200 cousins own the majority of the remainder, employees were already invested in the long-term success of the company. But Stoeckel also made sure employees were engaged and involved, creating custom videos explaining the transformation, oftentimes visiting stores, and always listening to feedback. "When you think about it when we come to work each and every day we see our shareholders," said Stoeckel. "Our shareholders are in the stores. They're in the main office. They're our friends. They're the people that we work with each and every day. Their lives go as Wawa's success goes."

This use of fair process, combined with the core shift, aligned value, people and profits not only within the stores but also between senior management and store associates. "Most CEO's, most leaders, don't see their shareholders, don't live with their shareholders, don't work with their shareholders,' said Stoeckel, "they're mutual funds, they're investors throughout the world. They have no emotional attachment to the business."

Senior management also follows a longstanding tradition of spending time in stores. Each executive spends a minimum of one full day every month visiting 12 to 15 stores to talk with associates and managers. At Christmas, executives visit stores and thank associates for outstandingly serving customers 365 days per year. On every visit, management is there to listen, thank, learn about associates' concerns, and ask them to share ideas for improving operations.

Blue Ocean Success

The primary benchmark of a blue ocean business is that it does not compete head-to-head but, rather, makes the competition irrelevant. True to form, industry analysts and competitors see Wawa as an irrelevant player in the quick serve restaurant industry despite their size.

QSR 50, the industry standard ranking of convenience stores and fast-casual restaurants, does not classify Wawa in their top 50 brands. "Wawa is not on the list because it is a convenience store, and we only include quick-serve restaurants," explained a QSR magazine analyst. "Generally, if a store offers gasoline and/or packaged goods it's a convenience store." If Wawa was included, it would be ranked first, ahead of industry leaders Chick-fil-A, Panera, and McDonald's in per-store sales and fifteenth in overall revenues, despite a more limited footprint.[22]

Similarly, an executive from fast casual competitor Panera also referred to Wawa as a niche player, dismissing the company outright. Panera has a national footprint but their overall sales are about one-third of Wawa's; Wawa's per store sales are significantly higher.

"If you sell gas, people have traditionally assumed you can't be a high-quality food restaurant," said Stoeckel. "So, we set out to redefine the space by completely changing that very perception. We aimed to create a leap in value, in the quality, freshness and overall health of the food we sold at the best possible price. The result was that we recast Wawa from a convenience store and gas station that also sells food, to a leading quick-service restaurant and leader in the fast-casual-to-go space that also sells gas and convenience items." While industry associations and fast casual players like Panera might not get it, customers certainly do.

Conversely, Wawa's search for noncustomers is central to its Blue Ocean shift. "We wanted customers that shop Starbucks, that shop Panera, that shop Chipotle – along with all those customers who shop McDonald's and Burger King and Wendy's – to feel very comfortable in a Wawa store," said Stoeckel. "People who rarely ate at quick-service restaurants not only became customers of Wawa's new offering, many became frequent customers." (In fact, in writing this case, numerous people volunteered how they, their children, or their friends loved Wawa's food – without prompting).

As prominent Florida restaurant critic Jean Le Boeuf put it, "Kale and quinoa, from a gas station, and it's actually good."[23] Besides its quick-service restaurant offering, Wawa's ever-growing selection of high-quality private label products – especially their line of teas – have an almost cult-like following. Private label goods are also created by outsourced companies.

With the success of its Blue Ocean shift and the worst of the global financial crisis behind it, by 2012 Wawa was ready to lengthen, widen and deepen its blue ocean by expanding into Florida.

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22 "The QSR 50." *QSR Magazine*, 3 Aug. 2015, www.qsrmagazine.com/reports/qsr50-2015-top-50-chart

23 Le Boeuf, Jean. "Jean Le Boeuf: I Binged on Wawa Food." *News-Press*, USA Today, 23 Apr. 2015, newspr.es/1mygwqT

Today the firm has over 800 stores, including more than 150 in Florida, with more in the pipeline. All Florida stores are quick-service restaurant-first Wawa's and have been wildly successful.

As of 2017 Wawa is estimated to be the 34th largest private company in America, serving 625 million customers in 2017, with $10.5 billion in revenue from 789 stores in six states. In the territories they serve, Wawa leads in coffee sales (222 million cups a year), sandwich sales (105 million a year), and its gasoline sales are considerably higher an average station. An average 7-Eleven convenience store brings in $30,000 to $35,000 per week; Wawa averages $116,000.[24]

Wawa's Blue Ocean aligned value, profit, and people. Its food, non-food items, and fuel are all high-quality and low cost. The company is exceptionally profitable. Wawa's people not only write glowing reports about their work environment, even on anonymous internet bulletin-boards, but can retire with six- and even seven-figure savings due to the employee profit-sharing plan, which keeps going up in value with Wawa's passion to break out of red oceans and keep sailing toward open, blue waters.

Epilogue

A decade after the successful Blue Ocean shift Wawa's growth remains strong, with record sales and profits year-after-year. The company continues to open new stores based on the new Blue Ocean model. But, as is usually the case, the red ocean marketers have noticed and are now, a decade later, beginning to copy. Convenience fare food, led by Wawa, is rapidly improving. "When it comes to food offerings, convenience stores can no longer afford to stick to the basics. Leading on fresh, natural food trends will be essential going forward, particularly as other channels have diversified into everything from sushi to gourmet sandwiches—offerings a step above from what they can make easily at home. Being transparent and health conscious—and displaying these attributes—will also be critical," said US analyst firm Nielsen.[25]

So, as they always have, Wawa continues to innovate and has set out to make a new Blue Ocean shift. A December 2017 expansion into Washington, DC, brought a new look and enormous crowds. At over 9,000 square feet (835 square meters) the DC store is the largest Wawa to date. There is ample indoor and outdoor seating, free Wi-Fi, and no fuel pumps. Ordering kiosks still exist but they're joined by mobile phone apps and interactive digital wall panels.

Reviewing the new store the *Washington Post* wrote, "Fans of Wawa – whose logo and mascot Wally the Goose serves as a beacon in the night for famished road trippers and hoagie fans alike – love it for its convenience, variety, food and, likely, the tug of nostalgia. This Jersey girl can't look at a Wawa chocolate-glazed doughnut without remembering how, as a child, she would beg her father to buy her one any time they stopped in."[26]

24 Steinberg, Don. "It's a Wawa World." *Philadelphia*, Philadelphia Magazine, 27 July 2011, www.phillymag.com/articles/wawa-world/
25 "How U.S. Convenience Stores Can Stay Ahead of the Retail Pack." *N Insights*, Nielsen, 17 May 2017, www.nielsen.com/us/en/insights/news/2017/how-us-convenience-stores-can-stay-ahead-of-the-retail-pack.html
26 Simmons, Holley. "The Largest-Ever Wawa Just Opened in D.C. Here's Why It's a Big Deal." The Washington Post, 14 Dec. 2017, www.washingtonpost.com/news/going-out-guide/wp/2017/12/14/the-largest-wawa-ever-just-opened-in-d-c-heres-why-its-such-a-big-deal/


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Questions

- What can struggling retailers learn from Wawa's Blue Ocean shift?
- As they developed their Blue Ocean shift, how might the traditional red ocean practice of benchmarking against competition help or hurt Wawa? Why?
- Restaurants, convenience stores, and gas stations are some of the lowest margin, highest risk business types. Wawa is all three, but the company is thriving, with record revenue and profits year after year. Why?
- If you were a Wawa executive how would you continue to protect and expand your Blue Ocean?
- How does each Wawa business line build upon and reinforce the prior components?