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#OptOutside: REI Co-op's Employee Wellbeing Programs Align with Positive Financial Outcomes

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November 2020

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(Photo by REI)

REI Co-op (REI), a specialty gear and apparel outdoor retailer and cooperative, is built on the belief that “a life outdoors is a life well lived.” It actively engages all stakeholders in that experience, including employees. As a purpose-based, member-owned co-op, it benefits from a high-performing employee base and reduced turnover compared to its less purpose-driven retail competitors. Working with NYU Stern Center for Sustainable Business, the co-op found its focus on purpose led to approximately \$34mm in net benefits from increased productivity and retention in 2019 -- equivalent to approximately 5% of its total payroll.

This positive finding for REI emerged from a research collaboration with NYU Stern Center for Sustainable Business (CSB). This engagement was part of broader research funded by HSBC that included additional apparel companies such as Eileen Fisher, Reformation, and a major North American retailer. The group worked together to apply CSB's Return on Sustainability Investment (ROSI) methodology to estimate the value of tangible and intangible benefits that apparel companies can accrue by making strategic investments in more sustainable business practices.

As a company with a strong commitment to culture and values, REI sought to better understand whether or not its investments in an embedded sustainability strategy and a strong culture focused on sustainability leads to higher employee engagement, and by extension, higher employee retention and overall higher employee satisfaction. The research set out to uncover more about REI's unique employee experience, and whether an embedded sustainability program leads to higher employee engagement. Additionally, the study sought to uncover any financial impacts because of increased engagement.

Background on REI and The Company's Employee Engagement Activities

REI is the nation's largest consumer co-op, with a growing community of more than 19mm co-op members. The co-op reported \$3.12bn in 2019 sales and invested more than 70 percent of its annual profits back into the outdoor community, supporting employee retirement, helping fund trail work, returning dividends to members and supporting nonprofits that help get people outside. As of October 2020, REI had 167 stores in 39 states and the District of Columbia, and

has an online full price, outlet, and used gear experience as well (www.rei.com, www.rei.com/rei-garage, and www.rei.com/used).

Sustainability - inclusive of environmental and social issues - is core to REI's brand. It is embedded into the new employee hiring process, featured prominently on the career boards, and new candidates are made aware of these commitments before applying and it is consistently messaged and emphasized in employee engagement materials.

In 2019, REI employees received two paid "Yay Days" that allowed them to go out and play (editor's note: in 2020, REI has since reimagined "Yay Days" and now gives employees "Way Days" to put REI's values into action in the community and toward the causes and issues they're most passionate about -- things like community service, advocacy, voting, civil participation, outdoor recreation and stewardship). Since the co-op launched its #OptOutside campaign, in addition to closing for Thanksgiving, REI employees also received an additional paid day off on Black Friday to spend time outdoors with family and friends.



(Photo by REI)

REI employees participating in an environmental stewardship activity on a Yay Day.

Assumptions and Research Approach

Was there something unique about the employee experience (stemming from the company's sustainability program) that led to higher employee engagement? To answer that, the research team outlined a series of assumptions and set out to prove them through statistical analysis and desk research.

Assumption 1: REI's employee engagement is greater than other companies

The NYU Stern CSB research team reviewed REI's employee engagement survey conducted by Glint and found that REI scored above the benchmark of top companies on Overall Engagement as well as five other categories including two of the critical variables for additional analysis, culture and values.

Assumption 2: There is something unique about REI that produces higher employee engagement, and

Assumption 3: REI's commitment to sustainability and culture leads to high employee engagement

NYU Stern Center for Sustainable Business analyzed anonymized results from REI's 2018 employee engagement survey to determine whether high scores for sustainability, culture, and value-related survey questions predicted high scores for employee engagement questions.

First, after preliminary analysis, NYU researchers determined the following three questions could be used to predict greater employee engagement: "REI genuinely strives to make a difference in the world", "People at REI live the company values", and "REI has a great culture." Second, we assessed whether high scores for these three questions led to high scores in overall engagement questions such as "How happy are you working at REI" and "I would recommend REI as a great place to work." When analyzed in isolation, we concluded that each of the three questions was indeed a significant predictor of overall engagement scores and hence, could be deemed a "predictor variable".

Although these three questions were predictor variables independently, we conducted further analyses to determine whether these variables in unison could explain high scores in overall engagement. By implementing several different statistical approaches, we found that two questions ("REI has a great culture" and "REI genuinely strives to make a difference in the world") were predictor variables of high engagement scores whereas one question ("People at REI live the company values") was not deemed a predictor variable.

Based on these analyses, which considered issues surrounding correlation and bias within the dataset, there was sufficient evidence to indicate that REI's approach to sustainability and culture led to greater employee engagement.

Assumption 4: REI's commitment to sustainability and high employee engagement delivers positive financial impact for REI

Taken together, the three assumptions listed above gave the research team confidence that we could proceed with monetizing two core employee wellbeing practices to determine the financial impact to REI.

Monetization Approach

Selected practices had to directly relate to HR (that is, expensed to HR), and serve the sustainability mission of the company. Working with REI we focused on two key employee wellbeing practices - Yay Days and the #OptOutside day off.

Yay Days and #Optoutside were clearly vehicles for REI's sustainability culture. The two programs promote employees going outside and connecting with the environment. Both programs are listed on employee onboarding pages that describe perks and benefits and were communicated as part of new employee orientation.

We concluded that REI improves employee wellbeing by i.) demonstrating company purpose and values through corporate actions (specifically focused on Yay Days and #Optoutside) and by ii.) creating and leveraging effective channels to communicate purpose and values. Using the ROSI framework, we focused on monetizing direct benefits from these employee programs such as productivity increases, reduced cost of turnover and reduced costs of hiring, while also considering the costs associated with granting all employees two additional paid days off.

We used a combination of data from REI as well as assumptions from academic literature to inform our monetization approach.

To quantify **productivity benefits** we looked at the expected increases in productivity from sustainability multiplied by the percent of REI employees considered to be high performing times the average annual salary of REI employees (at HQ, retail and distribution centers) to generate a value of productivity number. We relied on academic studies that cited a 16% expected increase in productivity due to company's sustainability programs and analyzed REI's high performing summary data from its performance review tool. Our analysis found a total benefit from enhanced productivity to be \$11mm in 2018 and \$13mm in 2019.

We also looked at the impact these programs have on **reducing turnover and hiring costs** by comparing industry averages of turnover and hiring costs to REI's actual turnover and hiring costs. Key assumptions used here were from the 2018 World at Work study which found expected turnover rates at HQ to be 21%, and 65% for Retail/DC employees. REI turnover rates were found to be lower than these industry standards. We also used assumptions from SHRM and RetailWire to inform information on standard costs for hiring, including data such as \$4,425 to hire a new HQ employee, and \$3,328 for Retail/DC employees. More information on our monetization approaches and assumptions can be found in the Appendix.

Together, the reduced hiring and turnover costs amount to a benefit of \$19mm in 2018 and \$27mm in 2019.

Finally, we **analyzed the costs** associated with these programs by calculating the total wages for three days of PTO for all HQ, and Retail/DC employees. It cost REI roughly \$5mm in 2018 and \$6mm in 2019 in PTO costs to give these three days off.

After accounting for the benefits and costs associated with REI's employee wellbeing program, our analysis illustrates that **REI yields \$25mm and \$34mm in net benefits for 2018 and 2019 respectively, which represents roughly 5% of REI's total payroll.**

Conclusion

Significant financial benefits accrued to REI by investing in employee wellbeing programs tied to its sustainability culture. Seemingly straightforward engagement programs such as PTO days can help to create deeper employee engagement and connection with the company overall. Using the ROSI method can allow companies to re-allocate excess capital upfront to areas that they've determined will have the greatest impact.

"We work to foster a sustainability-oriented culture because its core to our values as a co-op. This research illustrates that doing what's right for our employees and the environment can also benefit the overall health of the co-op," said Matthew Thurston, REI Director of Sustainability. "We hope this initial application of the ROSI methodology encourages further exploration of sustainability investments in the apparel retail sector."

We would like to thank our REI collaborators, specifically Matt Thurston for invaluable contributions to this project. We also thank Hannah Gotfredson (MBA '20), who assisted meaningfully to the project analysis and case narrative.

APPENDIX

Monetization Approach for REI Employee Wellbeing Program

There are four main categories of data that informed the REI monetization approach, which include increase in employee productivity, reduction in turnover costs, reduction in hiring costs, and accounting for employee wellbeing costs. The first three are benefits stemming from REI's employee wellbeing program, while the fourth is a cost to the company. As stated previously, a combination of internal data from REI as well as assumptions from academic literature informed our monetization results.

Employee Productivity

For monetizing the increase in employee productivity, there are three key variables: 1.) expected increase in productivity from sustainability (at 16%), 2.) percent of REI employees considered high-performers (15%), and 3.) average annual salary of HQ and Retail / DC employees.

To monetize this benefit, we first determined the number of high-performing employees, which is calculated by multiplying 15% by the number of HQ and Retail / DC employees separately. Then, we multiplied the number of high performers by their average annual salary and by the 16% increase in productivity rate. The result is the monetary benefit from an increase in productive employees.

The figure below shows key components that were included in the monetization model.

Productivity	Units	2018	2019
Headquarters Productivity			
Number of High Performers	#		
Annual Increase in Productivity	\$		
Retail & DC Productivity			
Number of High Performers	#		
Annual Increase in Productivity	\$		
Total benefit (cost) from productive employees	\$		

Reduction in Turnover and Hiring Costs

For monetizing the reduction in turnover and hiring costs, there are several key variables to highlight: 1.) differential between REI and industry turnover rates, 2.) reduction in employee turnover, given the turnover differential, 3.) avoided hiring costs, and 4.) avoided turnover costs.

To monetize the reduction in turnover costs, we calculated the REI turnover and industry turnover by multiplying the respective turnover rates by the number of HQ and Retail / DC employees. Then, we took the difference between the REI and industry employee turnover results to achieve the reduction in turnover, given REI's lower turnover rate than the industry average. Lastly, we multiplied this reduction by the annual salary per employee (HQ and Retail / DC) and by turnover cost as a percentage of salary to achieve the reduction in turnover cost.

To monetize the reduction in hiring costs, we simply took the reduction in turnover (which was previously calculated) and multiplied it by the cost of hiring per employee.

The figure below shows key components that were included in the monetization model.

Cost of Hiring & Turnover	Units	2018	2019
Headquarters Turnover			
Total Employees	#		
REI Headquarters Turnover	#		
Expected Turnover (Industry Average)	#		
Reduction in Turnover	#		
Avoided Cost of Hiring	\$		
Avoided Turnover Cost	\$		
Retail & DC Turnover			
Total Employees	#		
REI Retail & DC Turnover	#		
Expected Turnover (Industry Average)	#		
Reduction in Turnover	#		
Avoided Cost of Hiring	\$		
Avoided Turnover Cost	\$		
Total benefit (cost) from reduced turnover	\$		

Employee Wellbeing Costs

To monetize the costs of REI's employee wellbeing program, we focused on the company's paid time-off policy, which includes three holidays per year for sustainability-related activities (two Yay Days and Black Friday). To calculate this cost, we determined the daily wage for HQ and retail / DC employees and multiplied it by the three holidays.

The figure below shows key components that were included in the monetization model.

Cost of Direct Employee Well-being Initiatives	Units	2018	2019
Total Cost of Yay Days and Black Friday	\$		

Total benefit (cost) from direct employee well-being initiatives

Monetization Conclusion

After calculating the benefits and costs previously highlighted, the monetization approach resulted in \$25mm and \$34mm in net benefits for 2018 and 2019 respectively, which represents approximately 5% of REI's total payroll expenses.